Qualitative growth of Japanese medium-sized enterprises

From a survey of interviews with 240 company presidents

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Introduction.

In which section of a bookstore, library, or used bookstore are you currently picking up this book? It is inevitable that the book is placed on the shelf of "small and medium-sized enterprises" because of its title, but its main intention is "management studies. The concept of medium-sized enterprises was introduced by a researcher 60 years ago, and for a while researchers were all over the subject, but it soon fell into disregard. Many medium-sized enterprises still exist today, supporting corporate activities and the lives of citizens. Since research on these companies has been completely neglected, we started anew 20 years ago. It was not until much later, however, that we realized that it was surprisingly difficult to explain the existence of these companies, which had been omitted from studies of large companies.

When we began our research, the Japanese economy was said to be in a "lost decade. Even though the bubble economy had collapsed and factories were moving overseas at an accelerating pace, Japanese products were still abundant in the world and the economy seemed to be vibrant. However, during the past half century, the Japanese government has been aggressively trying to revive the economy by increasing the issuance of government bonds, but the reality is still far from being realized. GDP per capita is overtaking that of other Asian countries. In fact, the long-term loosening of fiscal discipline has obscured the criteria for judging the merits of people's lives, corporate management, and institutions, and the lack of standards and direction has left people uncertain about what they should be responsible for, what they should strive for, and what they should do, leading to a widespread sense of uneasiness akin to resignation.

Essentially, governments, corporations, and individuals are encouraged to act independently and deviant behavior is pointed at. Of course, action requires competence, but at least business administration has emphasized the invisible competence within companies and underestimated action. By overusing comprehensive terms such as competitiveness, profitability, and growth potential, we may be leading people to expect the existence of a packaged structure, but without analyzing the long-lasting, steady behavior inside it, we may be going in circles. Ikejima (1999), who is a direct descendant of a founding family of small- and medium-sized companies, states from his grandfather and father that "real business management is not as simple as it is described in books on business administration." [1]

In an effort to obtain accurate and large amounts of high quality information, we interviewed about 240 mid-sized business owners. Unlike 60 years ago, today's midsize companies are not growing rapidly, and many are maintaining their traditional size. Because

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[1] Masahiro Ikejima (1999), Strategy and R&D Integration Mechanism, Hakuto Shobo, p.211

they were medium-sized companies, they did not set their capabilities in stone, but focused on action for each and every transaction in a power relationship with the buyer. They aimed for quantitative growth as well as qualitative growth based on new actions. New actions are both a hope for the future and at the same time a rational and cold-blooded choice between traditional capabilities and modes of behavior. We learned that due to resource constraints, there were severe conflicts of interest with engineers, salespeople, factory workers, suppliers, banks, etc., relentless competition with competitors, and enormous energy drain and joys and sorrows.

The book consists of three parts. The first part presents a framework for research and analysis of midsize companies, and the second part examines and analyzes the actual situation. The third part summarizes these studies, classifies medium-sized firms and buyers in terms of their origins and power relations, and describes changes in management's goals and objectives. The existence and growth mechanisms of mid-cap companies are then clarified based on past findings, an understanding of the actual situation, and analysis. We hope that this book will interest more people in midsize firms and encourage more researchers to study midsize firms.

Message from the Author

There are many medium-sized firms that support business activities and the lives of citizens. Because research in the area of neither large nor small firms has been completely lacking, we conducted a literature search as well as interviews with about 240 medium-sized firms' managers. They were not conclusive on their capabilities, but focused on their actions for each and every transaction in a power relationship with the buyer. They aimed for quantitative growth as well as qualitative growth based on new actions. New actions are both a hope for the future and a rational and cold-hearted choice between traditional capabilities and modes of behavior. We learned that resource constraints meant that there were severe conflicts of interest with engineers, salespeople, factory workers, suppliers, and banks; that there was relentless competition with rival firms; and that there was enormous energy drain and joys and sorrows. We hope that this book will interest more people in midsize companies and encourage as many researchers as possible to study them.

Part I. Literature review and analytical framework for medium-sized companies

During the 1960s and 1970s, Japan experienced a period of rapid economic growth thanks to the efforts of many people amid global political, economic, technological, and demographic trends. While large corporations expanded their activities overseas and entered many fields, they entrusted their relatively low value-added activities to small and medium-sized enterprises (SMEs), which increased their volume. As the volume of business undertaken by large companies increased, or as previously narrow markets expanded rapidly, companies that exceeded the framework of small and medium-sized enterprises (SMEs), or medium-sized enterprises, began to emerge. Sixty years ago, the concept of the medium-sized enterprise was first presented to the academic community.

The rise of medium-sized companies, their rapid growth, and their transformation into large enterprises has led to a flurry of research on medium-sized companies in Japan, keeping pace with the rapid growth of large companies. However, not as much as in large companies. Similar research is being conducted in other countries, but there are few research books on the subject. Although medium-sized firms continue to exist through environmental changes, after the 1990s, they are rarely studied. The main reason seems to be the inability to explain the unique conditions of existence of medium-sized companies and the difficulty in differentiating them from large company research.

Several research groups at Keio University and elsewhere have focused on large companies as a whole and have explored their trends in a broad and continuous manner.[2] Many other studies of large companies have focused on a small number of very large companies and have attempted to extract only the factors that contribute to their success. A detailed study of the strategy, organization, technology, and other factors that lead to a scale so large that it ranks

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[2] For example, there is an interview survey of large company executives by Ryuun Shimizu, a questionnaire survey of listed manufacturing companies by Hirokuni Tokawa and others, and the "Continued Total Management Performance Index" survey by Daisuke Okamoto and many others.

with the rest of the world would be very useful for management studies that wish to identify the companies that aspire to do so and the mechanisms of their growth. However, not all of the findings and concepts gained from this study can be applied to other companies. There is an order of magnitude difference in scale between the largest company in an industry and the third- or fourth-largest company in the same industry. On the surface, they have similar strategies and organizations, but on the inside, there must be a huge gap, but it is hard to tell. On the other hand, in the case of SME research, the number of SMEs accounts for 99.7% of the total number of companies in Japan, and they are well known as an important infrastructure that supports the economy, employment, and local communities, making them a useful research subject not only in management but also in economic and policy aspects.

Looking at medium-sized companies from a cooler perspective, it seemed difficult for researchers to find a good reason to conduct research on medium-sized companies in the 2000s, when Japan as a whole was experiencing low growth. However, we decided to pursue our research without thinking too much about it, believing that conducting research that no one else was doing could itself be a cause for research. This would later prove to be more painful than we had anticipated.

In Part I, we first review research on medium-sized firms, focusing on domestic and foreign research books, and define medium-sized firms as used in this report. Next, we introduce all of the research conducted on medium-sized firms during Japan's period of rapid economic growth. We will clarify how the medium-sized firms were researched and certain conclusions were reached.

Medium-sized firms are between large and small firms in terms of size, and if one looks around them with a focus on medium-sized firms, they have the potential to compete with and become customers of any size firm in the same market, depending on their capabilities. In other words, they can either cooperate with large firms by supplying parts, live in competition with small and medium-sized firms in special markets to avoid competition with large firms, compete with large firms in the same product markets, or a combination of the above. In either case, medium-sized firms with relatively scarce managerial resources compete indirectly, potentially, and directly with relatively better-off large firms, offering products and services equal to or better than those of the large firms. At the same time, they are fending off challenges from smaller firms with more limited resources. We decided to observe an iterative process in which individual transactions are established, followed by a series of transactions, and then new transactions are initiated when the environment changes. We consider medium-sized firms as sellers, and the purpose of this report is to gain a three-dimensional understanding of the selection of product markets by sellers, the selection of buyers, the corporate objectives that are the basis for these selections, and management decision-making.

Chapter 1: Introduction to Research on Medium-sized Companies

1-1 Purpose of studying medium-sized companies

Up to now, business administration has focused its research on the strategies, organization, management, finance, research and development, and other management behaviors of large companies, and has developed to the point where it can theoretically explain some parts of these behaviors. In Japan alone, although large firms account for only 0.3% of the total number of firms, they employ 35% of all workers. Furthermore, in the manufacturing industry, large firms generate more than half of all firms' value added.[3] The amount of value added per firm and per person is greater for large firms than for small firms. This confirms the importance, necessity, and efficiency of business administration to study large firms and explore their growth factors.

The Small and Medium Enterprise Basic Law defines small and medium-sized enterprises (SMEs) as those with fewer than 300 employees or less than 300 million yen in capital. In SME research, SMEs are considered to exist by concentrating their energies on a specific range of products and markets and being small in size due to low wages, long working hours, hazardous workload, lack of resources, lack of technology, and premodern management (inadequate evaluation and training systems) compared to large enterprises. Business relationships with large firms have been viewed primarily as "subcontracting. And in SMEs, management takes the lead and is responsible for all strategic, managerial, and operational decision-making, from searching for customer needs to solving problems. On the other hand, the study of large companies does not have a comparative perspective to that of SMEs. Because of their size, large companies are predicated on the premise that management must

[3] From the Small and Medium Enterprise Agency, White Paper on Small and Medium Enterprises 2023 (https://www.chusho.meti.go.jp/pamflet/hakusyo/index.html), accompanying statistical data pp. III-32-III-44, 2016. There are approximately 3.59 million total firms, 40.23 million total permanent employees, and 256 trillion yen in total value added. Of these, 11,000 (0.3%) are large firms, 14.38 million (35.7%) have permanent employees, and 121 trillion yen (47.3%) have value added. The value added per small and medium-sized enterprise is 37.73 million yen, and the value added per regular employee is 5.21 million yen. In contrast, the value added by large companies was 11.0 billion yen and 8.41 million yen, respectively. The total value-added of all manufacturing industries was 68 trillion yen. Of this total, large companies accounted for 36 trillion yen (52.9%). Note that the Ministry of Economy, Trade, and Industry's classification by employee size does not include companies with 1,000 or more employees, making it impossible to calculate a figure corresponding to medium-sized companies.

maximize the use of the organization and encourage its learning function. As long as the organization makes and implements decisions more efficiently, accurately, and quickly than management takes the lead in making all decisions, management's role is limited to monitoring environmental changes that occur outside the organization's sphere of influence and preventing problems from occurring within the organization. When the organization functions in the opposite direction, management needs to be proactive in correcting and altering the organization's course, for example.

Companies that do not fall within the scope of the Basic Act on Small and Medium Enterprises are large enterprises. However, among large companies, almost all management studies have focused their research on giant companies with more than 10,000 employees. Even if they are legally in the same category of large companies, it is impossible to equate a company with 301 employees in Japan alone with a company of 350,000 employees with a global talent pool. The invisible barriers that arise from the absolute difference in management resources may be too great to ignore. In addition, the differences in human resource acquisition and sales capabilities that arise from differences in branding and name recognition must be irresistible. Organizational structures also differ. Nevertheless, companies of all sizes will survive. There must surely be differences in management due to size. The primary objective of this report is to identify the differences in management by size by analyzing the management of medium-sized firms, which are defined as capital- and personnel-independent firms with 300 to 2,000 employees. Definitions are detailed in **1-8.** From now on, large firms will refer only to those with more than 2,000 employees, and will not include medium-sized firms.

It has been 60 years since the concept of "medium-sized enterprises" was first proposed. According to the Corporate Statistics (Ministry of Finance, 2021)[4], the number of corporations with capital of 100 million yen or more but less than 1 billion yen (considered equivalent to medium-sized companies) accounts for only 0.90% of all corporations, but they account for 19.52% of sales and 21.99% of operating income of all corporations. Also, with regard to the tax payment status in the Sample Survey of Corporations (National Tax Agency, 2023), of the 2,864,000 total corporations, if corporations with capital of more than 100

[4] Authors' calculations based on the "Survey of Corporate Business Statistics" (2021 annual survey) (https://www.mof.go.jp/pri/reference/ssc/index.htm) conducted by the Policy Research Institute of the Ministry of Finance. If corporations with capital of 1 billion yen or more are considered to be large corporations, large corporations account for 37.55% of all corporations in terms of sales and 64.18% of all corporations in terms of operating income. If corporations with capital of less than 100 million yen are considered to be equivalent to small and medium-sized corporations, small and medium-sized corporations account for 42.94% of all corporations' sales and 13.83% of all corporations' operating income.

million yen and less than 1 billion yen are considered equivalent to medium-sized corporations, the number is only 12,000 or 0.42%, but in terms of corporate tax payment amount, it is 1.7 trillion yen, accounting for 10.35% of the total.[5] In other words, the group of medium-sized firms in between these two groups, which had not been adequately captured by the dichotomy of large and small firms, actually play an important role in the Japanese economy. However, while the trend of management studies based on the behavior of large firms is dynamically changing, research on medium-sized firms has been conducted only sparsely. We do not know exactly why research has been scarce, but here are some possible reasons.

First, there is less primary and secondary information about medium-sized firms than about large and small firms. Certain large firms that are expected to develop groundbreaking end products tend to get an earful. SMEs are generally considered to support the local economy because they employ more people and are the target of government and local government policy support as a group of structurally problematic firms.

Second, medium-sized firms are located between large and small firms, and are perceived by researchers on both sides as being in the middle. Researchers on large firms believe that the management of medium-sized firms is fragile. From researchers targeting small and medium-sized firms, medium-sized firms are no longer subject to policy support and are excluded from research because they have grown by overcoming the problems of small and medium-sized firms through the efforts of managers and firms as a whole, not through policy. We do not see any positive reason for medium-sized firms to be in the middle.

When looking at the industrial structure of the Japanese economy as a whole, large companies do not conduct all of their business in a self-contained manner. Large enterprises, medium-sized enterprises, and small and medium-sized enterprises are interdependent and in competition with each other. Medium-sized companies meet small demands that large companies cannot handle with their advanced technology, while small and medium-sized companies meet large demands that small and medium-sized companies cannot handle with their advanced technology and supply capabilities. Medium-sized firms may cooperate with large firms by supplying parts, avoid competition with large firms and live in special markets,

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[5] Authors' calculations based on the National Tax Agency's "Sample Survey of Corporations" (FY2021 survey) (https://www.nta.go.jp/publication/statistics/kokuzeicho/kaishahyohon2021/kaisya.htm). If corporations with capital of over 1 billion yen are considered to be large corporations, large corporations account for 0.16% of the total number of corporations and pay 5.0 trillion yen, or 29.11% of total corporate tax payments. If corporations with capital of 100 million yen or less are considered small and medium-sized companies, they account for 98.80% of the total number of companies and 6.1 trillion yen, or 35.39%, of corporate tax payments.

compete with large firms in the same product markets, or a combination of the above. Herein lies one positive significance of studying the behavior of medium-sized firms.

1-2 Research on Medium-sized Companies by Shuichiro Nakamura

1-2-1 Nakamura's (H.) research on the concept of medium-sized enterprises and its significance

In the 1960s, Nakamura (Shu) disputed the dual structure theory that there was an insurmountable barrier between large and small firms, and pointed to a group of firms that showed growth beyond the boundaries of small firms as evidence of this.[6] He referred to this "cluster" as medium-sized firms. The purpose of the study was to show the dynamic development process of capitalism through an analysis of medium-sized firms and their social and economic conditions, and to propose a direction and policy vision for solving the problem of SMEs in Japan.

It is important to note that Nakamura (H.) uses the term "medium-sized firms" in two different ways, one with the broad meaning of "clusters" mentioned above, and the other with the narrower meaning of firms as individual management units. In order to present the concept of medium-sized firms to the public in an academic world where the dual structure theory is dominant, Nakamura (Shu) dares to explain the two meanings in a subtle way.

According to the definition by Nakamura (Shu), a medium-sized enterprise in the case of a single enterprise is characterized by the following four points:[7] (1) It is an independent company that is not controlled by capital and has the right to determine its management policies. (2) The company must be listed on the Second Section (similar to today's Standard Market), meaning that it has reached a size that allows it to raise social capital through the securities market. The size of the company depends on the industry to which it belongs, but it is assumed to have a capital of approximately 100 million yen to 1 billion yen. (3) Even if the company is listed, it must still be an individual or family-owned company due to various factors, such as the possibility of shareholders demanding high dividends or the risk of being acquired. (4) The company must have market conditions that are different from those of small and medium-sized companies, such as the ability to compete with large companies by acquiring multiple customers through its unique technology and design capabilities, and to maintain high profit margins. He emphasized that the company is "not merely a small or medium-sized company," but a medium-sized company in terms of both size and quality.

Of course, Nakamura (Shu) does not strictly apply this definition, but acknowledges the

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[6] Nakamura, Shuichiro (1990) "New Theory of Medium-sized Enterprises" Toyo Keizai Inc. pp.165-166

[7] Prev. p.176

real existence of small and medium-sized firms on the verge of becoming medium-sized firms, medium-sized firms that are becoming large firms, and firms that have reached the size of medium-sized firms but dare not go public, and includes these in his analysis.

In addition to the above four points, another condition is implicit in Nakamura's paper, and it flows consistently like subterranean water. It is "rapid growth. Many of the companies that Nakamura (Hideshi) mentions as examples were founded in the postwar period up to the 1950s, i.e., within about 10 years, they reached a capitalization of 100 million yen to 1 billion yen. In order for this to happen, they would have to maintain a considerable growth rate. It can be said that the company has a "venture" character, a term Nakamura (Shu) himself later coined.

Nakamura (Shu) states that "many management theories fail to evaluate the role of entrepreneurs in relation to the historical destiny of Japanese capitalism because they lack a social and industrial positioning of the company, and remain little more than simple success stories[8] ." Therefore, his research approach is to examine social and economic considerations and then use a wealth of case studies to explore the growth factors, or management factors, of individual firms.

First, what are the conditions for the existence of medium-sized firms, as Nakamura (H.) argues?

> (In the process of diversifying the social division of labor due to the sophistication of the industrial structure, many medium-sized firms have developed due to sudden market expansion in sectors that previously had a narrow market, or in new sectors that are newly emerging. (omitted) The medium-sized enterprises that are modernizing are those that have adapted to the dynamic changes in market conditions. Furthermore, the medium-sized enterprises are those that have been blessed with rapid market expansion, have correspondingly expanded their production scale, and have secured a high degree of concentration and monopolistic character. [9]

Also, the same,

> The changes in industrial structure driven by big business not only created conditions for the growth of small and medium-sized enterprises (SMEs) that were either closely related to the giant business sector or located in its product diversification sector, but also created conditions for the development of SMEs that were deepening and diversifying the social division of labor and developing new fields of their own with special products and technologies. The industrial structure was highly advanced. (This process of industrial upgrading itself made it inevitable for certain small and medium-sized

[8] above, p.168.
[9] Prev. pp.185-186

enterprises to increase their level of production capacity, introduce new technologies, specialize and mass produce, raise the minimum capital requirement for their survival, promote the concentration of production, and give rise to medium-sized enterprises. [10]

In other words, "the basis for the creation of medium-sized firms is the rapid quantitative expansion of the market in response to high growth and structural changes, as well as qualitative structural changes in the market" are the conditions for the existence of medium-sized firms, according to Nakamura (Shu).

However, under these conditions, there could have been a situation in which large firms expanded through diversification, affiliated with superior small and medium-sized firms, or disrupted the growth of small and medium-sized firms. Nakamura (H.) tried to understand how medium-sized firms differentiated themselves from large and small firms and grew from small and medium-sized firms to medium-sized firms by analyzing their proactive behavior.[11] Nakamura (H.) here listed just under 90 medium-sized firms, including specialized machinery manufacturers, consumer goods manufacturers, food product manufacturers, and retailers, and detailed their characteristics.

Nakamura (Shu) identified the following three characteristics of mid-sized companies among specialized machinery manufacturers. First, the company should select products that have potential for market expansion and that can secure a high market share, and specialize in those products. Second, to establish a system for their mass production and to eliminate existing or potential competitors through cost reduction. Third, its ability to design or modify its own machines or manufacture its own products, taking advantage of its manufacturing experience. In addition to the three points above, consumer goods manufacturers also emphasize the importance of marketing, citing "market development commensurate with mass production. Of course, there are also examples of success for specialized machinery manufacturers because they have reviewed their existing sales structure and adopted new sales methods that take advantage of the characteristics of their products, pointing out that marketing cannot be overlooked. [12]

He also noted that the factors that contributed to the growth of medium-sized companies were objective social and economic conditions and the proactive behavior of the companies, as well as the qualities of the managers who determine corporate behavior. Among them, he stated that the "common character of medium-sized business managers" is their entrepreneurial spirit. Small and medium business managers "pursue personal wealth as individual capitalists, and seek the source of their profits in low wages and labor

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[10] above, p.196.
[11] Preface pp.216-217
[12] (p.234 above).

intensification," while many medium-sized business managers are either unrelated to such a character from the beginning or have overcome it in the process of growth.[13] To explore product and manufacturing technologies, develop new sales channels, explore new fields, and reexamine existing businesses, all of which invite internal and external resistance, and yet still proceed successfully, one must have a very solid character and certain ethical qualities.

Nakamura (Shu) continued his research on medium-sized enterprises after writing "Theory of Medium-sized Enterprises" in 1964, and in the 1970s, the slowdown and unstable growth of the Japanese economy triggered by the oil shock, the maturation of the heavy chemical industry, and economic friction with foreign countries began to affect the management of companies. Then, they faced the problems of maturing existing products, shorter product life cycles, diversifying consumer needs, and rising labor costs. Nakamura (Shu) states that the growth of medium-sized companies in the past decade was a response to the domesticization of foreign products and the popularization of luxury products, and was less due to the development of proprietary products.[14] Therefore, unlike in the 1960s, companies that either entered new business fields based on the know-how they had built up until then or developed new products in existing fields by introducing technology from other fields, dealt with high-mix, high-volume production rather than mass production using specialized machines and manpower in terms of manufacturing, and grew to become medium-sized companies. [15]The company has grown to become a medium-sized enterprise.

The 1980s saw the transition of industry from heavy industry to light, thin, and short, the development of information technology, the progress of internationalization, the appreciation of the yen after the Plaza Accord, and a shift in consumer needs from goods to services. He states that companies cannot escape the realm of small and medium-sized companies by simply targeting gaps in the market as in the past, and that companies that discover new market openings and develop markets that did not exist before will become medium-sized companies.[16] In this section, many examples of service companies based on information technology as well as manufacturing companies are discussed. In addition, Nakamura (H.) chronologically analyzed three companies, Kyocera, Toyo Sasshi, and Nippon Ham, that went from being established as medium-sized companies to reaching the level of large companies in the 1980s. He also states, "Just as Kyocera's growth into a major corporation would not have been possible without Kazuo Inamori, Toyo Sasshi's growth would not have been possible without Kenjiro Ushioda," and "The establishment of Tokushima Ham as a major corporation,

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[13] Prev. p.303
[14] Prev. p.432
[15] above, p.383.
[16] (see above pp.19-20)

a local latecomer to small business, is a result of Mr. Osha's entrepreneurial abilities. The fact that Tokushima Ham, a local latecomer to the small and medium-sized enterprise, was able to establish itself as a major company is a result of Mr. Osha's entrepreneurial abilities. On the other hand, however, the industrial organization theory perspective that had been central to the analysis of medium-sized companies up to that point was no longer present in the analysis of the 1980s. It is unclear whether he had already taken it as self-evident, but at any rate, he neither emphasized nor denied it. In particular, it is no longer seen at all when explaining the three companies that have grown from medium-sized firms to large firms and featured prominently.

Nakamura's (H. Nakamura) research is significant in that (1) he pointed out the existence of medium-sized firms that fall in the middle of the two-tier structure theory, which had a great impact on later research in the academic world where the dual structure theory was the mainstream, (2) he analyzed the growth factors of firms from the perspective of industrial organization theory in light of objective social and economic conditions, without falling into a mere success story of the managers, and (3) The book is significant in that it provides concrete and detailed examples of numerous companies and explains the existence of medium-sized enterprises in an easy-to-understand manner.

1-2-2 Criticism of Nakamura's (H.) research

In 1964, Nakamura (Shu) wrote "The Theory of Small and Medium Enterprises," which had a great impact on researchers who had been engaged in the study of small and medium-sized enterprises up to that time. It showed, through numerous examples, that there are former small and medium-sized enterprises (SMEs) that have grown to the point where they can compete with monopoly capital on an equal basis with the monopoly capital. Naturally, small business researchers were skeptical and critical of the theoretical basis and the future growth potential of medium-sized enterprises. Sato (1968) was at the vanguard of this movement.[17] He considered Nakamura's (1968) complete disregard or denial of the relationship between monopoly capital and the deprivation of small and medium-sized capital to be the most theoretically unacceptable, and he used this as a breakthrough to add methodological criticism as well. Since we aim to grasp and analyze the management of modern medium-sized firms in this book, we do not refer to issues specific to the theory of small and medium-sized firms, such as the relationship of deprivation, but examine Sato's other criticisms of the concept of medium-sized firms in Nakamura's paper.

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[17] Sato, Yoshio (1968) "A Critique of the 'Modernization' Theory of Small and Medium Enterprises", Gendai Nihon no Chusho Kigyo (Small and Medium Enterprises in Contemporary Japan), Shin Hyoron

As we mentioned at the beginning of this paper, it is very unclear whether Nakamura (Shu) is analyzing medium-sized firms as a "group of firms" or as a "single firm" that is a decision-making entity. This can be read from the fact that Nakamura's reasoning for Sun Wave Industries and Necos, two companies that Nakamura (H.) evaluated as medium-sized firms but went bankrupt one after another in 1966 after the publication of his paper, is puzzling.

> Both Sun Wave Industries and Necos are located in the processing sector related to the steel industry and were the first makers of their respective products, and were successful in promoting their brand images. However, both failed to create barriers to entry for new firms and were unable to prevent their market shares from declining. Both industries themselves still have growth potential and, like the specialty steel industry, have not transformed into a large-scale sector. In other words, there are no objective conditions that make it difficult for medium-sized firms to survive. Therefore, the decisive factor in the bankruptcy of these two companies must be internal management factors. [18]

In addition, in his later book, "New Theory of Midsize Companies," he also describes companies that went bankrupt between the time of his writing of "Theory of Midsize Companies" in the form of an appendix.[19] The common point is that there are no objective conditions that make the existence of medium-sized firms difficult, and that bankruptcy is caused by internal management factors. Sato criticized this point as "unprincipled analysis that adopts the industrial organization theory method," "knee-jerk idealism," and "aggressive image-setting. Certainly, it is uncomfortable to present objective conditions for the existence of medium-sized firms while seeking management as the cause of the same medium-sized firms' demise. However, it is not wrong to seek the objective cause of the existence of a "group of medium-sized firms" from the sudden growth of the market and to attribute the cause of bankruptcy of "individual medium-sized firms" to management problems. Put more positively, any small- to medium-sized company can become a medium-sized company if its management makes the most of objective conditions. For researchers who have long been studying SMEs as problematic entities based on the premise of the dual structure of the Japanese economy, this idea must have been somewhat difficult for them to accept. However, this is the essence of what Nakamura (Shu) wanted to argue.

For this reason, Nakamura (H.) focused on the objective social and economic conditions, the proactive behavior of the company, and the qualities of the management that determine corporate behavior as factors that contributed to the growth of the company into a medium-

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[18] Nakamura, Shuichiro(1990) pp.415-419

[19] Nakamura Shuichiro (1990), p. 289, describes the reasons for the bankruptcy of Midoriya, p. 347, Chukoh Mining, p. 415, Necos, and Sun Wave Industries.

sized company.[20] He stated, "We must evaluate the proactive corporate behavior of small and medium-sized enterprises that do not settle for being the same old small and medium-sized enterprises, but actively adapt to new conditions, and the role played by entrepreneurs in this corporate behavior. In response to this, Sato criticized the book as "a mere description of corporate behavior and competitive structure in terms of management strategy," saying that "the weakness of the theory of medium-sized companies lies in the fact that it emphasizes the subjective factors (ideas and management philosophy) of medium-sized company managers as the basis for the emergence and expansion of medium-sized companies, which suggests that the theory has become a popular one. He harshly criticized it.[21] However, we are in the position of exploring the factors of corporate growth and development from the perspective of management strategy theory by analyzing all aspects of the enterprise, which differs from Sato's position of analyzing the conditions of existence of small and medium-sized enterprises in the category of static economics. Therefore, we basically support Nakamura's research method. However, most of the managers Nakamura (Hideshi) studied were founders, and now that the second and third generations have been replaced, it must be said that the limitations of his research have emerged. It is unreasonable to assume that the entrepreneurial spirit of the founders, who literally built their companies from the ground up, will be passed on in the same way to the second and subsequent generations of managers who take over larger companies.

Nakamura (Shu) says, "As long as there are no managerial shortcomings and its managers succeed in maintaining the innovative character of the firm, a medium-sized firm can remain in that position and even have the potential to develop into a large firm."[22] Finding "a mechanism that enables the sustainability of this innovative character" is the main challenge for today's management studies and mainly for large companies. Nakamura (H.) identified three companies that grew into major corporations from the 1960s to the 1980s. One of them, however, experienced a food fraud case in 2002. It is said that this is because the founder of the company still has a great deal of influence over the company and failed to transform the company from a sole proprietorship to a modern management. If there is a term for quantitative growth of a company, its counterpart would be qualitative growth. In the case of

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[20] According to Nakamura Shuichiro (1990), pp. 216-247 and p. 303, proactive actions mainly include selecting products with future expansion potential, acquiring special expertise, establishing a mass production system, and eliminating competitors through cost reduction, and these "play a major role in determining corporate behavior. The qualities of management play a major role in determining these "corporate behaviors." The report states that "the management qualities play a major role in determining these corporate behaviors.

[21] Sato(1968), above pp.311-313

[22] above, p.366.

this company, it can be said that there was room for improvement in qualitative growth, although quantitative growth was achieved. Qualitative growth is discussed in detail in Chapter 4. While it is undeniable that the entrepreneurial spirit of management is important for a company, Nakamura's discussion does not refer to the strategic aspect of the company, its organization, or its management. More in-depth research is needed on strategy and organization as well as managerial decision-making.

Through many years of research, Nakamura (Shu) has identified a total of 158 medium-sized companies as examples, including those mentioned in the Appendix. These companies are those that grew rapidly and became medium-sized companies in the 1960s, 1970s, and 1980s, respectively. Of those companies, 32 are still in existence as medium-sized companies during the 40-60 years up to August 2021, and 63 were confirmed to have been listed on the former First Section of the Tokyo Stock Exchange[23] . This point is also discussed in detail in Chapter 4. However, it is currently unclear, for example, what factors have allowed these companies that became medium-sized firms in the 1960s to survive to the present day, whether the growth factors have changed with each period, or whether they continued to operate in the same style as they did when they grew rapidly. Sato is harsh, saying, "This is a deception of verification through case studies of growing companies. This is because "blessed with the objective conditions of the rapid increase in demand accompanying the high growth of the Japanese economy after 1955,"[24] an increasing number of companies developed beyond the boundaries of small and medium-sized enterprises and Nakamura (Shu) focused on this point, which determined the research style of using fast-growing companies as case studies thereafter. However, as Sakai (1966) points out, "Many of the firms called medium-sized firms were originally specialized manufacturers, and many of them developed their own technologies and established their own brands outside the subcontracting system and affiliated companies, and seized the opportunity of the high growth period to grow" ([25]), and Nakamura (Seiichi) (1970) points out, "Many of the firms that are called medium-sized firms

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[23] The overall breakdown is as follows: 63 (39.9% of 158 companies) were listed on the First Section of the Tokyo Stock Exchange, 7 (4.4%) were listed on the Second Section of the Tokyo Stock Exchange, 1 company was listed on the Nagoya Second Section, and 32 (20.4%) remained medium-sized companies as defined by Nakamura (Shu). 60 (38.0%) of the managers lost management control. The data is based on the official websites of the companies and bankruptcy information. The divisions of the Tokyo Stock Exchange, such as the First Section and the Second Section, are as of March 31, 2022 or earlier.

[24] Senuma (1966) "On the Actual Conditions of Japanese Medium-sized Firms," Small and Medium Enterprise Finance Corporation Monthly Report, Vol. 13 No. 10, Small and Medium Enterprise Research Association.

[25] Sakai, Yasutaka (1966), "'Tengata-ki' and the Transformation of 'Corporate Series'," Journal of Economics, Vol. 55, No. 1, Osaka City University Economic Research Association

were originally specialized manufacturers, and many of them developed their own technologies and brands outside the subcontracting system and affiliated companies, and seized the opportunity of the high growth period to develop their businesses. (1970) pointed out that "medium-sized enterprises did not suddenly emerge in the 1950s, and it is assumed that they existed even before that time."[26] This indicates that rapid growth was not necessarily the foundation of the medium-sized enterprise cluster at that time. Not all firms that are now classified as medium-sized firms have (or have had) rapid growth with a venture-like character.

If corporate management is affected by the social and economic environment, it is natural to assume that growth factors change with the changing times. While Nakamura (Shu) had the foresight to see that 80% of the companies he studied survived and 50% grew to become major corporations, as Sato pointed out, it can be said that he only praised the fastest-growing companies of the era. Although it was important to present Nakamura's own views and research findings in a short period of time and with impact, it must be said that there were limitations to his presentation. It is necessary to continue our research with the understanding that medium-sized companies have various growth patterns that are not limited to rapid growth.

1-3 Ryuun Shimizu, "Growth Theory of Small and Medium Enterprises"

1-3-1 Definition of Medium-sized Company by Shimizu (Ryu)

In 1986, Shimizu (Ryu) attempted to "find out how medium-sized and small companies can maintain and develop in the information age, when the environment is changing drastically, or how they can grow, mainly through empirical research.[27] He attempted to analyze medium-sized firms, which do not grow as rapidly as venture firms, do not have a large stable market like large firms, and do not have as weak a management base as small and medium-sized firms, solely from the perspective of management science. He defined medium-sized firms as (1) having their own stable market, (2) supporting it with their own technology, (3) having their own decision-making authority regarding fundamental corporate policies, (4) retaining a family-like character, and (5) having a capitalization of between 30 million yen and 1 billion yen.[28] However, it excludes Nakamura's (Shu) condition of being listed on the former Second Section, but does not provide a detailed rationale for all of them.

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[26] Nakamura, Sei (1970), "Growth and Existence Conditions of Medium-sized Firms," Academia Economica, Business Administration (Nanzan University) 79

[27] Shimizu, Tatsuyuki (1986), Chukan, Chusho Kigyo Seigyo Ron (Growth Theory of Small and Medium Enterprises), Chikura Shobo, p.2

[28] above, p.159.

1-3-2 Growth Factors for Medium-sized Companies

Shimizu's (Ryu) research over the years has focused on corporate growth in large firms and the managerial decision-making that has a significant impact on it. From there, to explain the behavior of medium-sized firms as well, he identified the new combination of products, information, and the entrepreneurial and managerial spirit of managers as factors that promote corporate growth regardless of size. A brief description of this relationship follows:[29] .

> Products are the point of contact between the environment and market needs, which fluctuate widely, and internal capabilities, which tend to be fixed. Therefore, corporate management revolves around products. If products no longer match the environment and market needs, corporate growth will be drowned out, even if the company has abundant funds and excellent managers to coordinate the organization. The key here is the new combination of information. Ultimately, the new combination of information depends on human ingenuity. The more distant the new combination of information is, the more innovative the innovation will be. It is essential for corporate growth to create a mechanism that encourages the new combination of information and the continuous production of new information. However, this mechanism depends on the size of the company.

Shimizu (Ryu) argues that within a company, five factors (top management, product, finance, organization, and management relationships (with banks, subcontractors, and parent companies)) are intertwined within a single corporate culture to promote its growth.[30] When a company grows, the equilibrium among the five factors is lost, and when it grows steadily, the equilibrium among the various factors is maintained. Of course, if management does not have a desire to grow, there can be no corporate growth. When trying to grow a company, the manager exhibits aggressive entrepreneurial spirit and dares to break the equilibrium among the five factors to focus on the product. However, the manager's sense of balance, the managerial spirit, is indispensable in determining when to enter a period of growth (imbalance) from a period of stability (equilibrium) and to what extent to allow imbalance. Whether it is one person's sense of balance or the sense of balance of his complementary partners or the management team, including the board members, depends on the size of the company.

He then emphasized the role of management, saying, "In the corporate growth theory of large companies, the central issue is the organization's response to the environment, but in that of small and midsize companies, the central issue is the product and the ability of the

[29] Prev. pp.187-192
[30] above, p.3

managers who make decisions about it to respond to the environment.[31] This is because the productivity of new information in medium-sized firms depends mainly on the ability of the managers themselves due to their relatively small size and limited human resources.

Based on the above discussion, three additional conditions are necessary for (1) having a unique and stable market, which was part of the definition of a medium-sized company.[32] First, the company must have (A) at least one of the following conditions: (1) a market that is different from that of large firms, (2) sufficient competitiveness with large firms through its own technology and sales network, and (3) interdependence with large firms as users; (B) constant deepening of a narrow market by developing new products, including changing specifications to meet market needs; and (C) improvement of manufacturing technology and development of a new market, (C) actively improve manufacturing technology and develop new markets. However, even if the three conditions are satisfied, in order to obtain a "stable market," the company must still face fierce competition from rival companies.

Therefore, Shimizu (Ryu) conducted a questionnaire survey of mid-sized companies, obtaining responses from 282 companies and interviewing 10 presidents. As a result, the following four characteristics of mid-sized companies were derived.

(1) Companies that conduct original technology development and R&D perform better. However, they are biased toward commercialization research because they do not have the resources to focus on basic research as much as larger companies.

(2) Since the technology development firms have weaker product development capabilities and less technology than larger firms, they focus more on manufacturing technology development than product technology development, aiming for lower costs than other firms and trying to prevent entry into the market. However, firms that place more emphasis on new product development perform better than those that focus on manufacturing cost reduction.

(3) They are cultivating a narrow and stable market in depth, while at the same time gradually developing peripheral markets. This is because, compared to large companies, it is easier for managers to combine technical and market information in their minds, and in the process, they search for new information in the gaps and combine it with other information to develop new products.

(4) Unlike venture firms, they are not aggressive in their export and overseas strategies, and primarily target a narrow domestic market.

Shimizu (Ryu) drew the following conclusions through mass observation byquestionnaire

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[31] Prev. p.1

[32] above, p.160.

survey and interviews with presidents:[33] . In other words, medium-sized companies have relatively low technological development capabilities and are not as flexible as generally believed. Management needs to collect and combine information, maintain and sometimes break the balance between managerial and entrepreneurial spirit to promote employee awareness, and change the weight of new product development versus cost reduction of existing core products. As a result, the entire company will be able to respond quickly to changes in the environment.

1-3-3 Significance and Issues of Shimizu (Ryu) Research

Shimizu's (Ryu) study is unique and significant in that it assumes a major change in the environment, it uses aquestionnaire survey as well as a case study, which is generally used for empirical research, to make mass observations and clarify the relationship between qualitative factors and the performance of medium-sized firms, and it is supplemented by an interview survey. The study is unique and significant in that it uses not only case studies but also a questionnaire survey to conduct mass observations and clarify the relationship between qualitative factors and the performance of mid-sized companies.

One problem is that 75% of the companies responding to the survey were small and medium-sized companies with less than 300 employees.[34] In the case of joint research with other organizations, this is not necessarily what the researcher personally intended. He himself seems to have had to name the companies he surveyed as "small and midsize companies. It is questionable whether the conclusions drawn from such a study should have been taken up as a study of medium-sized companies. Empirical research is an opportunity to discover new facts without being bound by hypotheses, but there were some leaps in the interpretation of the results.

1-4 Kuhn "MID-SIZED FIRMS

1-4-1 Kuhn's Definition of a Midsize Company

Kuhn, Robert Lawrence's (1982) study of good midsize American firms aimed to identify their behavior and to understand how they achieve greater success than larger firms in their industry.[35] In other words, whereas many other studies attempt to answer the normative question of "how should they cope?" from a theoretical background, he is committed to answering the descriptive question of "how do good midsize firms actually cope?"[36] . To do

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[33] above, p.192.
[34] Nine of the ten companies interviewed were medium-sized firms. (see above, p.161)
[35] Kuhn, Robert Lawrence(1982) *Mid-sized firms*, Praeger Publishers
[36] Preface p.163-164

this, he paired good performing and poor performing medium-sized firms within the same industry sector, and based on the information contained in the annual reports of both, he decided to conduct a comparative analysis.

He began by defining a midsize company in absolute terms in terms of static size figures such as total assets, sales, and number of employees. The range is $10 million to $500 million in total assets. Sales are also between $10 million and $500 million. The number of employees ranges from 100 to 10,000.[37] The reason for this wide range is that each industry and sector has different company sizes. For example, in the automotive assembly industry, 10,000 employees is the norm, while in the mold and die industry, more than 1,000 employees makes a company the largest. Therefore, it is necessary to select a "medium-sized company" for each industry.

In addition, in order to make "midsize" strict, the emphasis was placed on relative position within the product market. In other words, there must be at least one large firm within the same product market, and the midsize firm must be in competition with the large firm there.[38] The medium-sized firm is not the leader in its industry, but must have a large firm with overwhelming market power in that market. In addition, in a later study[39] , we added dynamic, i.e., growing rapidly.

Of course, since the comparative analysis is based on numerical data and descriptions in annual reports, it is assumed that both good and poor mid-cap companies are publicly traded. In addition, his definition of "good" is in terms of financial performance, specifically, superiority over other companies in terms of profit amount, return on assets, return on sales, return on equity, and other ratios and efficiencies.

1-4-2 Kuhn's Conditions for a Good Medium-sized Company

Kuhn began by presenting various reasons why medium-sized firms are claimed to have an advantage over large firms. The larger size allows executives to be extravagant, staff and personnel to become bloated and bureaucratic, internal coordination costs more, and employees feel more alienated.[40] In addition, it is generally believed that complex and sophisticated research and development requires huge amounts of money and time, and that medium-sized firms are unable to take on this responsibility, but even in this case, firms with smaller market shares may take the lead.

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[37] above, p.23.
[38] above, p.24.
[39] Kuhn, Robert Lawrence (1985) *To Flourish Among Giants, Creative Management for* Mid-Sized *Firms*, John Wiley & Sons Inc. The Age of Mid-Sized Firms: What is Creative Management, TBS Britannica, Inc.)
[40] Kuhn(1982) p.5-6

He wondered if, in examining the success factors of good midsize companies, the researcher might unwittingly be taking the perspective of both the subjective standpoint of the manager and the subjective standpoint of the outside analyst. He did not see anything particularly wrong with that, but examined the statements in the annual report from both perspectives. Management's point of view is to get a sense from the statements in the annual report of what management believes and is proud of. The external analyst's perspective is the extent to which the analyst perceives the matters that management would like to have recognized through the annual report in order to appeal to the outside world for recognition of the company's success factors.

From a management perspective, he found that, beyond his own expectations, managers cited things related to "product" as a factor in their success. These are market dominance, product narrowing, innovation and technology, quality, and brand. Every company believes that its products are the biggest in the industry. This would contradict his original definition of a medium-sized company, i.e., one that has at least one large company in the same industry and is in a competitive relationship. He reasons that this may be because the market assumed by management is different from the market assumed by economics, which takes a very narrow view of markets and products. [41]

From the external analyst's point of view, the most important factor was coherence, which is the relationship between the focus and the goals and strategies. This was followed by "commitment" of all employees to the company, "market dominance," and "distinctiveness" of products, for a total of 12 categories. We then modeled the causal relationships among the categories based on our "intuition" from a vast number of companies and long-term observations (Figure 1−1).

<Insert Figure> Figure 1-1: Kuhn's conceptual model of a good mid-sized company

Based on the above discussion and analysis, Kuhn concludedthe elements of success for mid-sized companies as the "10 Articles of Creative Strategy. (1) Market dominance: segment the market and narrow down the product line. (2) Product Focus: Put the company's products first. (3) Distinctive features and differentiation: Create features that are completely different from those of competitors. (4) Focus and consistency: Set goals, objectives, and strategies consistently. (5)Outstanding management: charismatic, with strong energy. (6)Opportunities open to employees: Satisfy employees and enable them to fulfill their potential. (7)Efficient innovation: efficient R&D and rapid introduction of new products.

[41] above, p.76.

(8)External awareness: Keep an eye on all potential opportunities and threats. (9) Trade-off between growth and profit; (10) Flexibility and expediency: be prepared to react quickly to changes in products and markets.

He himself admits that this conclusion itself is indeed a common one. He also states that creative strategies do not apply only to medium-sized companies, but can be applied to both large and small companies, and that each company must decide which of the ten principles to focus on and which to discard, depending on the problems it faces, its current position, and the industry to which it belongs, leaving the decision to the insight of its management. The decision is left to the insight of management.

1-4-3 Significance and Issues of Kuhn Study

Kuhn's study is significant in that (a) it is the first full-scale study of medium-sized firms in the U.S., where the large-company system has developed; (b) he paired good medium-sized firms with poor medium-sized firms in the same industry, eliminating industry characteristics and focusing only on firm behavior; and (c) he used a large amount of data to significant in that it listed the characteristics of good midsize firms. It is also noteworthy that (d) although the study faithfully limited the meaning of "midsize" and defined it as an entity competing in the same market as large firms, it concluded from the survey results that midsize firms had narrowed their own markets and products and were not in head-to-head competition with large firms.

Kuhn's study of 128 good mid-sized companies in 1982 showed that 22% had grown into large companies, while 13% had gone public as mid-sized companies. In the 128 blue-chip companies listed by Kuhn in 1982, 22% have grown into large companies, and 13% are still publicly traded as medium-sized firms. On the other hand, nearly 40% have either officially dissolved or are unaccounted for.[42] The fact that such a wide gap in performance has emerged over the past 40 years indicates that competition is more dynamic and severe in the U.S. than in Japan.

The first issue is that (1) there is little focus on how to manage the organization. The "10 Articles of Creative Strategies" literally focus on strategy, and only one point, "open opportunities for employees," concerns the organization. Even in the model of a good mid-sized company, it only shows that the fulfillment and dedication of all employees, including

[42] Internet searches, the New York Stock Market, and each company's web site. For publicly traded companies, annual reports were also consulted. Since this is a simple Internet-based survey, it is likely that a small number of companies are no longer traceable due to major changes in company name or business type. In addition, there were 16 companies that were delisted and still exist as independent companies, and 17 companies that were acquired by a major company and became part of it.

top management, influence market dominance, but there is no consideration of how to elicit fulfillment and dedication and why dedication creates differentiation. In order to develop products that can be differentiated from those of other companies, it is necessary for employees to gather information, develop technologies, and improve production processes, and it is necessary to have organizational mechanisms, such as evaluation systems and human resource training, to guide employees to such challenging activities. It also does not clarify how top management can articulate its strategy and achieve consistency and market dominance.

This may be due to the fact that (2) the analysis was based on numerical data and descriptions in annual reports, which are standardized in format and presentation, in order to pairgood mid-cap companies withpoor mid-cap companies in the same industry for comparative analysis. Since the annual report is a place to announce financial adequacy to shareholders and investors and to clarify management's future management policy, the process along the way, i.e., organizational issues, are overlooked. Therefore, it may be limited to an analysis of strategy. As Kuhn admits, it is also a means of publicity to create a good impression among stakeholders, and may be inaccurate in some cases. Even if "being aware of these issues" is used as a safety valve for the analysis[43] , there are still methodological questions.

1-5 Clifford = Cavanagh "Winning Performance

1-5-1 Clifford = Cavanagh's definition of a medium-sized high-growth firm

Donald K. Clifford Jr. and Richard E. Cavanagh (1986), as researchers affiliated with McKinsey & Company, surveyed 101 member firms of the American Business Conferences, an association of midsize firms. billion in sales and had a profit or sales growth rate of more than 15 percent over the preceding five years," making them medium-sized, high-growth companies (Winning Performer, or WP companies for short).[44] Separately, they listed 119 companies with "1983 sales between $25 million and $1 billion and annualized sales and profit growth of at least 20 percent between 1973 and 1983" as the highest-growth medium-sized companies at the end of the volume.[45] The awareness of the issue begins with an exploration

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43 Prev. p.87

44 Strictly speaking, they do not "define" midsize firms. They state that medium-sized high-growth companies belong to the top 1/4 of all medium-sized companies in the United States. Clifford, Donald K.; Cavanagh, Richard E. (1985) The Winning Performance: How America's High-Growth Midsize Companies Succeed, Bantam Books (D. K. Clifford-R. E. Cavanagh, translated by Kenichi Omae (1986) The Winning Performance, President, Inc.)

45 Prev. pp. 459-466 There were 13 firms that overlap with the list of 101 ABC member firms and 119 highest-growth medium-sized firms.

of why the "heretics," as they call themselves, have won Winning Performance. In their book, they describe what makes a small company become a medium-sized company, what makes a medium-sized company leapfrog into a WP company, and what makes a company stop growing and become a "mediocre company" after it has grown in size. In four years, we conducted more than 100 interviews with WP company managers, surveyed relevant personnel, and researched documents. At the same time, the author used statistical analysis of databases, McKinsey's overall experience, and his own personal experience to analyze the mediocre companies in order to argue that the growth factors obtained from the above companies are "common to the best companies and generally not found in mediocre companies.

1-5-2 Factors for Winning Performance

Clifford = Cavanagh rejected the then prevailing positioning approach, i.e., that company growth depends on market growth, and argued that in any market, WP companies grow by segmenting the market (usually that market is small) and meeting the particular demands of customers in a "niche" He argued that[46] . Market-driven innovation provides value to customers beyond price alone, and because it is market-driven, it is important to gradually broaden the scope of both technology and market familiarity, rather than diversifying irrelevantly. In doing so, management emphasizes prioritizing innovation over profit by clearly stating its values, and by explaining to employees the reasons for its value-based business, it tries to minimize bureaucracy that inhibits innovation, and it stays away from new businesses that appear attractive at first glance.[47] In contrast, small businesses, he says, are unable to become medium-sized enterprises due to a number of reasons, including the inability of the business itself to design itself organizationally to scale despite growing demand, the inability of management to understand that raising funds for growth will take time to recoup, and the dampening of management motivation. He emphasizes that as businesses expand, the personal energy and leadership of business owners must be converted into organizational energy, leadership must be institutionalized, employees must be encouraged to think independently, and Kang's techniques must be transferred to the organization.[48] As the size of the enterprise grows, the individual manager's ability to organize must be institutionalized. In an ordinary company, business owners want to do everything themselves and rely on their own hunches and hunches based on their own experience, which leads to extremes of reckless strategy, excessive discipline, meaningless price cutting, and

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[46] above, p.29.
[47] Prev. p.36 and p.77
[48] above, p.141.

disorganized neglect. Large companies can "move by the inertia of size, power, and reputation, but mid-sized growth companies must rely on agility and quick response," concluded .[49]

1-5-3 Significance and Issues of the Clifford = Cavanagh Study

Clifford = Cavanagh differs from other studies in that he attempted to highlight the characteristics of WP firms by interviewing managers of many medium-sized high-growth (WP) firms, collecting and analyzing data, and collecting and contrasting data on mundane firms as well. The findings of the mundane firms are not at the same level as the heavy research conducted on the WP firms. Therefore, strictly speaking, the differences between WP firms and mundane firms may not be accurate, but they are not significantly wrong either. The key point of difference between small and mundane firms and WP firms is that managers of small and mundane firms are ignorant of business management in general and products in particular, while managers of WP firms actively gather information on customer needs. The mediocre firms seem to be regarded as having grown in size due to a combination of favorable conditions, regardless of the talent of their managers.

Of the 207 ABC member firms and highest-growth midsize firms they primarily studied, 25.1%, or 52 firms, are still in existence 40 years later, while 16.4%, or 34 firms, lost control within 10 years of the study.[50] In other words, even the fastest-growing WP companies are rapidly falling into the ranks of mediocre companies. This indicates the strength of the desire of U.S. investors and managers for companies to grow rapidly, and the intensity and intensity of their desire to go public and acquire listing profits. As a result, industrial renewal is active and smooth in the U.S., and companies have a relatively short life span. In contrast, in Japanese companies, the emphasis is on maintaining employment and business succession, and long-lived companies are noted for this alone. The difference in values between Japan and the U.S. is significant.

They argued that WP companies compete on value because "consumers almost always distinguish between different qualities of products and services and will pay extra for higher quality," and introduced the idea that many WP company managers are founded on the notion that all products are sold because of a specific need [51] . Although many readers will not pay attention to this casual statement, and we have also overlooked it, we find that it actually hides

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[49] Prev. p.407

[50] Of the 207 firms, 62.3%, or 129 firms, were either clearly acquired by another company or went bankrupt and lost control. The remaining 12.6%, or 26 companies, other than those currently existing or acquired, are unknown. The companies that lost control within 10 years of the survey were 10 electronics companies, 8 food services/retailers, 4 defense, telecommunications, and energy companies each, 3 banks, and 1 other company.

[51] Prev. pp.34-36

several important clues in the course of our discussion in this book. We have several important clues to follow in our discussion: whether all consumers can tell the difference in quality, whether they are really willing to pay extra if they can tell the difference, whether the market size of specific needs is small, and whether specific needs are not only for quality, but also for price.

1-6 Simon *Hidden Champions*

1-6-1 Simon's Definition of Hidden Champion

Hermann Simon (2012) called these unknown global market leaders "hidden champions" and spent 20 years creating a database of 2,000 companies with the goal of studying their strategies. We then explored the current status of each company through public information in newspapers, magazines, and the Internet, as well as through surveys, interviews, and consulting activities.[52] The hidden champions had to meet the following three criteria: (1) ranked within the top three in the world market or number one in continental Europe, (2) less than $4 billion in sales, and (3) low public profile. The hidden champions have an average of 2,037 employees, with 21.6% having less than 200 employees, 32.0% between 200 and 1,000 employees, 25.6% between 1,000 and 3,000 employees, and 20.8% over 3,000 employees, spread out. [53]

Note that, as Simon himself has noted, hidden champions narrowly define their own product markets, regardless of the boundaries that are customary in the industry.[54] By expanding or limiting the range of applications of the products they offer and the markets they serve, their market position can change dramatically. Therefore, there are no objective figures for market share, and "we must rely on the pronouncements of hidden champions for market and market share. The lack of public attention is also not a condition of being a champion. Rather, it is that they have by far the highest brand recognition in the industry[55] . Therefore, the definition of a hidden champion offered by Simon is not a large company, but rather "a fast-growing medium-sized company that Simon has focused on."

1-6-2 Factors for being a hidden champion

Hidden champions rely on a small number of customers to narrow the range of applications

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[52] Simon (2012), Hidden Champion Companies in Global Business, Chuokeizai-sha, p.20
[53] See above, p. 22 Many of the hidden champions are German-owned companies. In general, German SMEs that are growing particularly fast are called Mittelstand (Mittelstand = directly translated as medium-sized companies), but there is no size definition by official institutions. It is not specifically mentioned in this book.
[54] Prev. p.57 p.80
[55] above, p.15.

and markets for the products they offer, have more regular contact with their customers[56] , and are well versed in their markets. The most important customers are particularly demanding, and meeting their requirements will help the company maintain its market position over time. Customers in the same industry tend to have similar needs across countries, so it is better to expand a narrowly defined market globally than to enter different markets in the same region[57] . In other words, Simon's view of the hidden champion factor is as follows Narrowing down the functions and goals of the strategy, exploring needs in close customer relationships, and expanding them internationally. They demonstrate innovative solutions to problems and achieve business results.

1-6-3 Significance and Issues of Simon Research

Simon takes a reality-based approach to its target companies and does not easily categorize its findings according to a certain framework. The idea of narrowing the scope of one's own products and markets in order to reduce competition, increase market share, and maximize one's presence, while remaining competitive, is very interesting. On the other hand, the company is portraying itself as if it is doing something dramatic that other companies are not, because it is legitimizing itself by defining a hidden champion as "a little-known fast-growing company that has grabbed the largest market share in the world". Although it mentions the fact that the hidden champion is a family member, a woman, and a long-term leader who took office at a young age as its leader, it does not provide any convincing objective evidence for this.

For example, innovation is often thought of as a completely new product or procedure, but in fact it is continuous improvement, Simon said. While he also emphasizes market share at the outset, he cites the example of Rolls-Royce and says that measuring market share is subjective to the parties involved.[58] This leads to the next important implication: the competitive advantage Simon refers to is that it can be increased to some extent by properly limiting one's products and markets. I say "to some extent" because if you limit yourself too

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[56] above, p.140.

[57] (p.114 above).

[58] If Rolls-Royce's market is the existing buyers, the current market share is 100%, but if Rolls-Royce's target market is ultra-luxury cars of the same price (about 50 million Japanese yen), the market share will drop to 10%. If Rolls-Royce expands its target market to the 10 million yen class, the share would fall below the 1% level, and if it targets the entire automobile market, the share would decrease to 0.0001% (see p.56 of the previous report). Drucker, Peter F. (1973) *Management.,* Harperbusiness p.640 (Drucker, Kazuo Noda, Tsuneo Murakami (1974) Management (2), Diamond Inc. p.438)

much, you will fall into the trap of being a "frog in a well," and you will be ousted by others who have developed more attractive products. On the other hand, if we expand the boundaries between our products and the market too much, we will lose sight of where we should concentrate our energy. The essence of Simon's research is that it is important to continuously develop better products while limiting the market. I commend the authors for their honesty in stating that each company is unique if you look closely enough.

1-7 Coltorti, Resciniti, Tunisini, "Italian Medium-Sized Manufacturing Companies.

1-7-1 Definition of Italian Medium Manufacturing Firms by Coltorti et al.

In Italy, after World War II, many companies began to emerge in areas abandoned by large corporations. As consumer incomes rose and their needs diversified, and the U.S. model of pursuing economies of scale failed in the 1970s, medium-sized companies that were not bound by traditional business models and had flexible production structures for high-mix, low-volume needs emerged in their place. These firms grew by undergoing strategic and organizational changes and by investing new management resources. the 1990s saw the emergence of firms, especially in certain locations in northern and central Italy, that moved from artisanal to small and then to medium scale, carving out profitable niches in a huge market. coltorti,. Resciniti, and Tunisini (2013) did not see these medium-sized manufacturing firms as a transitional stage from small to large firms, or as "accidents" resulting from the exit of large firms from limited markets, but rather that there must be a more positive reason for their existence. In other words, they were organizations with their own identity that distinguished them from large and small companies, and they sought to present a complete picture of their ability to use their "in-between position" to their advantage. [59]

Coltorti et al. analyzed in detail the 23 companies in their case study of medium-sized manufacturing companies according to the criteria of the Italian investment bank Mediobanca (2008), which were defined as follows They were characterized by sales between 13 and 260 million euros ($13-26 billion), sales over the last three years above the average for all companies, between 50 and 499 employees, and an independent ownership structure[60] .

1-7-2 Factors for being a medium-sized Italian manufacturing company

In their analysis, Coltorti et al. argued that Italian medium-sized manufacturing firms have

[59] Coltorti, F., Resciniti, R., Tunisini, A. (2013) *Mid-sized Manufacturing Companies: The New Driver of Italian Competitiveness.,* Springer
[60] Prev. p.5

an international orientation based on three factors: governance, interorganizational networks, and business domain setting.[61] Under stable governance with family and family ownership, managers have the ability to recognize creative business ideas and opportunities, to intuitively anticipate the most important changes in the market and to provide unique answers to customer demands, and to have a strong entrepreneurial spirit to grow the company. At the same time, they have a managerial component that allows them to constantly exercise their "alert" abilities and run their organizations efficiently. The success of Italian medium-sized manufacturing companies lies in the differentiation of their products and the quality of their processes, which has led them to increase exports to fast-growing regions (Asia, Persian Gulf, Latin America, Eastern Europe, etc.), to expand their manufacturing facilities to avoid tariffs, and to strengthen their research functions with foreign institutions as a source of innovation. On the other hand, during the economic recession, the country's economy was in a state of flux. At the same time, during economic downturns, the company has been making efforts to improve efficiency through significant restructuring of its operations (e.g., reviewing its cost structure and supply chain, layoffs, etc.). In other words, it is important to have both stability and dynamism in governance and inter-organizational networks. They are adapting to negative market signals and changes and making quick, short-term corrections, while changing and differentiating their business areas based on their own forecasts.[62] However, for medium-sized firms with weak brands, diversification is more risky and costly than synergies, as they have to manage areas that are too far or too different, and multi-focus strategies (multi-focus strategies) that leverage unique resources and facilities are preferable to diversification. Coltorti et al. concluded[63] .

1-7-3 Significance and Challenges of the Coltorti et al.

The work of Coltorti et al. appears to be the first study published in English translation with respect to Italian midsize manufacturing firms. They focus on mid-sized manufacturing firms that have shown a particularly important vitality between 1990 and 2000 through the development of original products and services, structural and organizational renewal, international positioning and achievement capabilities, and the development of unique experiences and competencies. They pointed out that the origins and dynamics of Italian midsize firms are hardly explained by reference to general theories of management, and they tried to elucidate the peculiarities of the business models of successful Italian midsize firms.

It is significant to explore the peculiarities and positive advantages of being in the middle

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[61] above, p.128.
[62] above, p.125.
[63] above, p.102.

in corporate management and in business administration. Indeed, all medium-sized firms have grown from small firms to the present, and while an academic focus on the dynamic growth process is inevitable, if growth to large firms is expected, it can be negatively perceived as a halfway state in which growth has ceased. Instead, Coltorti et al. hit the nail on the head when they accurately observed Italian medium-sized manufacturing companies and concluded that high-mix low-volume, Italian-made luxury, and a multi-focus strategy backed by technology rather than economies of scale, flexible and stable governance, inter-organizational networks, and an internationalization strategy based on business areas are effective. Although the 23 cases may not be enough to establish a theory of midsize companies, the results of this study will have a very significant impact on other studies of midsize companies.

1-8 Definition of Medium-sized Enterprises in this document

We do not disagree with Nakamura's (H.) basic method of deriving growth patterns from case studies. However, we believe that the narrow definition of "medium-sized firms" as "growing excellent firms" may have led to a failure to grasp some of their characteristics. Therefore, we will reexamine the definition of "medium-sized firms" in this report.

In his "Theory of Medium-sized Firms," Nakamura (Shu) defined a medium-sized firm in four respects: 1) independent, 2) large enough to raise social capital through the stock market, 3) listed, but still characterized as an individual or family firm due to various factors. Nakamura (H.) defined medium-sized firms in his "Theory of Medium-sized Firms" as 1) independent firms, 2) large enough to raise social capital through the stock market, 3) listed, but still individual or family-owned firms due to various factors, and 4) having market conditions different from those of smaller firms to compete with large firms and to maintain high profit margins. In contrast, Nakamura (Sei) says, "The company has the ability to compete with large companies and to maintain high profit margins. On the other hand, Nakamura (Sei) states that "procurement of social capital, separation of ownership and management, research and development capabilities, and high market share are phenomena that occur at the stage of reaching medium-sized companies," and that "a large part of the medium-sized company regulations (by Nakamura (Sei)) is related to this scale. The term "medium-sized company" is used to refer to a company with a capital of 50 million yen to 1 billion yen and a workforce of 300 to 1,000 employees. [64]

First, we examine whether being listed or not can be a definition of a medium-sized firm. Nakamura (H.) includes unlisted firms of similar size other than those listed on the second

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[64] Nakamura (Sei) (1970), above paper, p.31

section of the former Tokyo Stock Exchange in his study, which is strictly speaking a rather broad definition. Unlisted companies are required to pledge even the personal assets of their managers as collateral when borrowing funds from banks, so the management of a company is the very life of the company, and the enthusiasm and sense of urgency are different. Going public makes it easier to obtain funds, human resources, and useful information, but it also creates the possibility of takeovers and the demand for high dividends, which are evaluated superficially in terms of stock prices. The term of office is one year, and if the trust of shareholders is undermined, they are dismissed. Recently, disclosure requirements from stakeholders have been increasing, and the cost of maintaining a listing is enormous and on the rise. Whether or not to list a company is a value judgment made by management, and there is no definitive reason to make it a condition for medium-sized companies.

When looking at size, the absolute amount of capital is susceptible to inflation and deflation over a long period of time. In fact, the Small and Medium Enterprise Basic Law defined small and medium enterprises (industry, etc.) in 1963 as those with capital of 50 million yen or less, and later in 1973 and 1999, when the law was revised, the number of employees provision for the manufacturing industry was raised to 100 million yen or less and 300 million yen or less, respectively, while maintaining the same number of employees provision.[65] In addition, even if the size of the company increases, the capital can be kept small by the intention of the management, and with the agreement of the shareholders, the capital can be reduced. Thus, if the capitalization provisions can be changed according to the intentions of policy makers, and if the company can move in and out of the category of small and medium-sized enterprises according to management's capital policy, it must be said that it is unstable to define a medium-sized enterprise by its capitalization in the conduct of research.

We do not know the threshold of scale at which organizational operations, structure, and communication problems occur within a company. It will vary from industry to industry. Let us call the number of subordinates that can be controlled by one person the management capability, and the number of levels at which a manager can communicate his or her management ideas the leadership capability. Let us assume that all individuals have the same level of individual ability (breadth and proficiency in their work). If we assume now that there are 4 managers and up to the third level of leadership ability, there are 4 people in the first level under the manager, 16 people in the second level, and 64 people in the third level, so that the enterprise consists of the manager and a maximum of 84 employees. The manager

[65] Okada, Satoru (2021), "Definition of Small and Medium Enterprises," Survey and Information, National Diet Library, No. 1155, which organizes in detail the definition of small and medium enterprises in the world as well as the evolution of the Japanese definition.

would prepare and operate jobs for 85 people, including himself.

<Insert Figure> Figure 1-2 Maximum number of employees (cumulative) by management ability and number of hierarchies (leadership ability)

If management wanted to grow the company, they might try to increase the number of employees, considering jobs that would earn more sales and profits. If management now finds itself doing the work of around 1,400 people, how would it think about expanding its capabilities? If the management capacity remains at four employees, and if the manager's leadership capacity is increased by changing work rules and human resource management to convey his/her ideas to the fifth level, the company will have a maximum of 1,365 employees. On the other hand, if the leadership skills remain at the third level, 11 managers would be needed (a company with a maximum of 1,464 employees). As a middle ground between the two, raising the leadership capacity to the fourth tier and the management capacity to six would result in a company with a maximum of 1,555 employees (Figure 1-2). On the other hand, by increasing the individual capabilities of each employee and changing the way they work, a company could reduce the number of employees from 1,400 to, say, 1,200, thus reducing the cost of management and leadership capabilities. Management should consider which approach is less costly for the company.

All of the above are hypothetical. In reality, management, leadership, and individual capabilities are not uniform, and the required capabilities change with changes in the environment. Therefore, it is not a scientific basis for determining the upper limit of the scale of medium-sized companies. However, the absolute number of employees above and below the bold frame in the table differs greatly, and it is thought that some kind of threshold exists between 1,500 and 2,000 employees as an organization. In other words, there is a fault line in management and leadership capacity. Therefore, we believe it is appropriate to define the size of a medium-sized company as 300 to 2,000 employees.

There is no information available at this time to determine whether the family-like nature of the company has been retained. In our interview survey, it is true that in many cases, the descendants of the founders took over the current medium-sized firms. However, of course, there were some cases where this was not the case, and there were also cases where a different person had been president at some time before, even though a descendant of the founder had taken over the reins of the company. It would be difficult to define a medium-sized company based on whether or not it retains a family-like character.

Finally, Nakamura (Shu) emphasized independence because, in the course of his own research on large non-monopolistic companies, he noticed the existence of heterogeneous small and medium-sized companies that were growing rapidly, and through case studies, he came to recognize that management independence was the minimum requirement for medium-sized companies. Shimizu (Ryu) also follows this line of thinking. We, too, exclude from our study companies that are affiliated with another company, even if they are medium-sized in size, as they have significantly impaired the freedom of management decision-making.

Based on the above considerations, the definition of a medium-sized company in this document is a **financially and humanly independent** company **with 300 to 2,000 employees.** By limiting the definition to independence and employee size alone, we intend to minimize confusion in the discussion by omitting qualitative items such as rapid growth, competition with large companies, and family structure, as well as figures such as capitalization, sales, and profits, which are greatly influenced by the times and the economy and can easily be arbitrary by interested parties. Therefore, this report basically covers all companies in this category.

1-9 Summary of this chapter

Six full-scale studies of medium-sized firms were examined by Nakamura (H.), Shimizu (R.), Kuhn Robert Lawrence, Clifford = Cavanagh, Hermann Simon, Coltorti, Resciniti, and Tunisini. Nakamura (H.) analyzed the rapid growth of small to medium-sized firms in the 1960s, 1970s, and 1980s, while Shimizu (T.) obtained an overview of the management behavior of small and medium-sized firms in the 1980s from mass observations. Clifford-Cavanagh focused on high-growth U.S. midsize firms in the 1980s and compared them with small firms that failed to reach midsize status and mediocre firms that became midsize but stopped growing. Coltorti et al. focused on Italian mid-sized manufacturing firms and explored the positive benefits of being in the middle. A simple illustration of the research of Nakamura, Shimizu, Kuhn, Clifford-Cavanagh, Simon, and Coltorti, as well as our position in this paper, is shown in Figure 1-3.

<Insert Figure> <Insert Figure> Figure 1-3 Conceptual diagram of each researcher

A simplified and contrasted definition of medium-sized firms by each of them is shown in Figure 1-4. At first glance, it can be seen that Nakamura (H.) and Shimizu (R.) emphasize the qualitative differences between small and medium-sized firms and large firms, while Kuhn focuses on size. This may be due to the difference in meaning between the Japanese term "mid-sized firms" and the English term "mid-sized firms. Clifford-Cavanagh focuses on sales size and rapid growth, while Simon does not focus on size, except for the definition of sales of $4 billion or less, and uses the term "mid-sized firms" to refer to firms that compete with large firms in the same market and are growing rapidly. Simon did not focus on size, except to define a medium-sized company as competing with large companies in the same market and growing rapidly.

<Insert Figure> Chart 1.4 Contrasting definitions of medium-sized companies

Kuhn strictly stated that medium-sized firms are competitors to large firms in the same product market. There are serious implications for competing with large firms. However, thestudy found that midsize firms segment their products and markets, specialize in one or the other, and try to increase their market share in that area, not necessarily compete with large firms in the same product market. Shimizu (Ryu) also took into account the competitive relationship with large firms in detail, differing from Kuhn in that he confirmed the existence of medium-sized firms that compete with large firms in the same product markets. However, they are still in the minority, and more often than not, they have different markets or are interdependent with the large firms as users.

The definition of a medium-sized company in this document is a financially and humanly independent company with 300 to 2,000 employees. Size is defined only in terms of the number of employees, not in terms of performance figures, which are highly sensitive to the times and the economy. In light of the number of people one person can manage and the number of levels of hierarchy that can convey his or her own ideas about management, we set the upper limit for a medium-sized company at 2,000 employees.

Chapter 2: Prior Research on Growth Factors for Medium-Sized Firms

2-1 Overall picture of previous studies

In Chapter 1, we focus on the domestic and international studies on medium-sized firms and discuss how the concept of medium-sized firms was established and how it is defined. In this chapter, we examine the growth factors of medium-sized firms by reviewing the research studies in Japan over the past 60 years since 1962, when Nakamura (Shu) wrote "Various Issues Concerning 'Medium-sized Firms'" ([66]). As far as we can ascertain, these are as follows. The number of publications is small, and the number of researchers is even smaller, at less than 20. The symbols denote, respectively: * indicates a book, unmarked an article or research report, α a case study, β a case study focusing on a specific theme, γ a mass observation through a questionnaire survey, and μ an adaptation of management theory to medium-sized firms.

Shuichiro Nakamura (1962)$^{\alpha}$ ・ (1964)*$^{\alpha}$ ・ (1968)*$^{\alpha}$ ・ (1976)*$^{\alpha}$ ・ (1977)$^{\alpha}$ ・ (1982)*$^{\alpha}$ ・ (1988)$^{\alpha}$ ・ (1990)*$^{\alpha}$, Yasutaka Sakai (1966)$^{\gamma}$、 Senuma (1966)$^{\gamma}$, Kyoto Association of Corporate Executives (1968)$^{\gamma}$ ・ (1978)$^{\alpha}$, Hirochika Watanabe (1969)$^{\alpha}$, Sei Nakamura (1970)$^{\alpha\gamma}$, Research Department, Long-Term Credit Bank of Japan (1972)$^{\alpha\gamma}$, Shimizu Ryuunichi (1972)$^{\gamma}$ ・ (1974)$^{\gamma}$ ・ (1986)*$^{\gamma}$, Hirokuni Tokawa (1976)$^{\gamma}$, Jinzo Nagahiro (1983)*$^{\alpha}$, Kazuyori Kanai (1983b)$^{\alpha\mu}$, Hideki Yoshihara (1984)*$^{\beta}$, Hiroyuki Yoshida (1992)$^{\alpha}$, Tatsuo Kanahara (1996)*$^{\beta}$, Seiichi Otaki (1996)$^{\alpha\mu}$, Toru Takai (1998)$^{\alpha\mu}$, Kazunori Sunagawa(2002)$^{\alpha}$, Eiji Ogawa, Fumiko Hironaka, Hiroyuki Kumeno, Motonari Yamada(2004)$^{\alpha}$, Shoko Chukin(2004)$^{\gamma}$, 21st Century Policy Institute(2012)$^{\beta}$, Medium Enterprise Research Association(2014)$^{\alpha\mu}$

The number of firms by employee size shows that the number of firms grew rapidly beginning in the 1960s, and the growth continued thereafter until 1972. Papers on medium-sized firms were concentrated in that period. In the 1980s, as more companies sought to expand overseas due to the appreciation of the yen, Yoshihara wrote "The Overseas Expansion of Medium-Sized Companies" and introduced six successful cases of medium-sized companies. Yoshihara wrote "Overseas Expansion of Small and Mid-Sized Companies" and

[66] Nakamura, Shuichiro (1962), "Various Issues on 'Middle Size Companies'," Senshu University Review, No. 30

introduced six successful cases. After that, the number of companies that sought to expand overseas grew sparsely, and full-scale studies waited until 1996, when Kanehara published "Growth Enterprise Technology Development Analysis: Capacity Building of Small and Medium-Sized Enterprises". Furthermore, as far as we have been able to ascertain, there have been almost no papers or publications since 2000. Hereafter, we will examine each paper in detail in chronological order of publication.

2-2 Research in the 1960s

Shuichiro Nakamura (1964)[*α]

Nakamura (Shu) stated that the purpose of studying medium-sized enterprises was "to show the dynamic development process of Japanese capitalism in the 1950s and specifically point out its character as modern capitalism by analyzing the socioeconomic conditions of the medium-sized enterprise cluster"[67] . Here, the socioeconomic conditions refer to the industrial structure becoming more sophisticated and the social division of labor becoming more diversified against the background of high economic growth, i.e., specialization of production and the emergence of new fields.[68] The analysis of 147 companies as case studies shows that they maintained higher profit margins than small and medium-sized companies due to qualitative excellence of products and cost reduction, and that they were able to maintain higher profit margins than small and medium-sized companies due to the acquisition of specialized expertise and the establishment of a mass production system. The analysis pointed out that the 147 companies were able to maintain higher profit margins than SMEs through product quality excellence and cost reduction, and prevented the entry of large companies in advance by acquiring specialized technology and establishing a mass production system, and also pointed out that they were able to achieve the following: [1] selection of unique products or products with growth potential, [2] aggressive capital investment, especially in introducing superior models to reduce costs and eliminate existing or potential competitors, [3] in-house production of facilities through accumulation of production technology, [4] development of new products and technologies, [5] development of new products and technologies, and [6] development of new products and technologies, and [4] the quality of management as "the main factor in the growth of medium-sized firms.

Yasutaka Sakai (1966)[γ]

In contrast, Sakai, although skeptical of the Nakamura (Shu) theory, conducted a questionnaire survey and interviews with medium-sized firms in the form of a study

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67 Nakamura, Shuichiro (1964), "The Theory of Medium-sized Enterprises", p.3
68 above, p.24.

commissioned by the Kinki Finance Bureau.[69] First, he found that growth rates were higher for firms that were dedicated to becoming specialized manufacturers and increased their market share. This supports Nakamura (H.)'s assertion that "specialization of production and the emergence of new fields of business. He also acknowledges and emphasizes the importance of cost reduction in management policies, while declining to say that it is "a matter of course. The most noteworthy aspect of Sakai's findings is that while some companies remained specialized manufacturers, many others shifted their main products or diversified their operations in response to demand. In this case, corporate efforts to develop new products and the timing of their commercialization played a decisive role in the growth of these companies. Unfortunately, Sakai did not go further into specifics, so he is unable to find out the specific reasons why and how these medium-sized firms changed their businesses and diversified their operations. However, it is very interesting to point out that there were some companies that did not concentrate on their specialty in certain fields even when the economy was on the rise. This is also the first time that we have noted the efforts of medium-sized firms [5] to develop new products and the timing of their commercialization, and we can positively evaluate this point.

Senuma (1966)[γ]

At the same time, Senuma also conducted a survey of medium-sized companies and received responses from 87 companies.[70] According to the survey, even under the favorable conditions of increased demand during the period of rapid economic growth, [6] the survey evaluated the willingness of mid-sized company managers to innovate based on their originality and foresight, as well as [7] their positive attitude toward the modernization and rationalization of machinery and equipment. In his 1964 book, Nakamura (Shu) also devotes a chapter to the importance of managers, but he refers only to "a firm character and ethical qualities that overcome various kinds of resistance in order to go against the customs and conventions of the industry," which is different from the abilities of managers as asserted by Senuma.

Y. Watanabe (1969)[α μ]

The first specific description of mid-company managers was written by Watanabe in a short

[69] Yasutaka Sakai, above paper. The number of responding firms was 47.
[70] Senuma (1966) "On the Actual Conditions of Japanese Medium-sized Enterprises", Small and Medium Enterprise Finance Corporation Monthly Report, Vol. 13 No. 10, Japan Small and Medium Enterprise Research Association

11-page paper at[71] . Based on the Cyert & March theory, Watanabe conducted a fact-finding survey of nine medium-sized companies and found the following points. [8] The top management's creativity, conceptual ability, and desire for commercialization are the greatest driving force for the growth of medium-sized companies; the top management often actively gathers information useful for specific goals and makes decisions on their own, which is efficient but also risky due to intuition; and the management has a dogmatic personality and is a one-man operation. On the other hand, he also pointed out that "it is difficult to rely solely on the abilities of top management" in the future of technological innovation and internationalization. The fact that he foresaw the limits of mid-career business managers at a time of continued economic growth is something that can be applied to today's mid-career companies, and I give him the utmost credit for that. Regrettably, perhaps due to the space limitations of the paper, we do not have the details of the fact-finding survey, so we are unable to ascertain from what cases the above-mentioned managers' actions were derived.

Kyoto Keizai Doyukai (1968)$^{\gamma}$

Thus, in the 1960s, a number of researchers made progress in understanding the actual situation of medium-sized companies. At the same time, there were also attempts by mid-company managers to pursue the causes of their own development, to highlight current issues, and to determine how to tackle them. The Kyoto Keizai Doyukai's Research Committee on Medium-sized Enterprises is one such group.[72] The purpose of the committee's research is basically the same as before, but it is "somewhat different" in that it is limited to the Kyoto region and the research is conducted from the standpoint of corporate management. The survey concluded that the following six points are the actual conditions and issues facing medium-sized companies. First, [9] the so-called "midsize" scale is the most suitable in terms of the various conditions of a company, i.e., technological, market, and financial conditions, as well as business management capabilities. [10] The independent efforts of the management to adapt the company to the changing environment should not be overlooked. For example, the company has added value by combining its own technology with other technologies, has made its products more sophisticated and diversified by deepening its proprietary technology, has mass-produced specific products, or has achieved high-mix low-volume production efficiently due to its medium scale. [11]Even if the market share is high, it must be a special

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[71] Watanabe, Norichika (1969), "The Actual Situation of Growth of Medium-sized Firms," Nagoya Gakuin University Review, No. 20, Institute of Industrial Science, Nagoya Gakuin University.

[72] Kyoto Keizai Doyukai (1968), "Growth of medium-sized firms in Kyoto and its challenges," a questionnaire survey of 150 manufacturing firms with capital of 50 million yen to 1 billion yen headquartered in and around Kyoto City, with 82 firms responding.

field in which the company responds to special demand with its unique technology. [12] Even if a company's technology is unique, it is not absolute and unrivaled by other companies, and the challenge is to secure first mover advantage because it will eventually be entered by other companies. [13] The selection and training of competent successors is an issue, regardless of whether the company is family-owned or not. [14] In the unlikely event that profitability declines, it is necessary to make a decisive change in business without sticking to that field or technology.

This survey is distinct from other studies and does not simply look at the proactive growth factors at a single point in time. The survey incorporates ideas that have emerged from the experience of overcoming numerous trials and tribulations as a manager through trial and error, and the data obtained from the survey details the process of calmly analyzing current issues and considering how they should be addressed. It is thought-provoking in that it attempts to take a broader view of things in terms of time and space than corporate research by researchers. For example, the study does not focus only on growing companies, as we researchers tend to do, but rather makes persuasive points that only a practitioner could easily be allowed to make, such as recommending a shift away from that business when earnings have fallen. Also, researchers tend to summarize the range in which a medium-sized company can exist in one word, "niche" or "narrow," but managers say it is "specialized. In other words, if it is specialized, the market size may be narrow, but if the technology is accumulated and applied, it may expand in the future. The fact that the market is narrow does not in itself make it special or support the existence of the company.

2-3 Research in the 1970s

Nakamura Sei (1970) $^{\alpha\ \gamma}$

Nakamura (Sei) conducted a questionnaire survey and interview survey of about 320 companies located in Aichi Prefecture with capital of 50 million yen to 1 billion yen.[73] Based on the aggregate analysis, Nakamura (Sei) stated that the definition of medium-sized firms as claimed by Nakamura (Sei) is mainly focused on rapidly growing former small and medium-sized firms, and rather the basic characteristics of medium-sized firms can be summarized in terms of size. In other words, Nakamura's definition of midsize firms is based on the idea that midsize firms are good midsize firms, and that midsize firms in reality are not only rapidly growing but also heterogeneous and diverse, with a mix of good midsize firms that have long been active in their field or have already increased their market share and weak midsize firms that are exposed to competition from large firms.

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[73] Nakamura, Sei (1970), above paper

Seventy-two firms responded to the survey form conducted by Nakamura (Sei), of which 40 were independent firms and 29 were subcontractor-affiliated firms. Due to the high growth of the automobile industry and its strong influence in Aichi Prefecture, he analyzed that "in the case of subcontractor-affiliated firms, those firms that were able to withstand the mass production enforcement, quality improvement, and price reduction requests of the parent firms were able to grow to medium-sized firms through capital investment. 15] "Even in the case of independent firms, the pace of development has been slower, but firms that are committed to technological improvement amid the general trend of market expansion have achieved growth through expanded capital investment," he said. It is important to note here that the reason for this growth was not simply to expand production, but also to cope with labor shortages and rising wage costs. The survey also concluded that, at least from the results of the survey, the possibility of subcontractor-affiliated firms breaking away to become independent firms is "scarce," contrary to Nakamura (Shu)'s optimism, when considering power relations based on the high volume of transactions with the parent firms. He also pointed out that for both subcontractors and independent firms, [16] the absolute condition for being able to compete with large firms is that the market is of an appropriate size, and on that basis, they develop superior proprietary technology.

Thus, Nakamura (Sei) revises Nakamura (Shu)'s definition of medium-sized firms and takes a broader view of medium-sized firms to create an image of medium-sized firms that is more in line with the actual situation. In particular, his discussion of the development process, future potential, and limitations of subcontracting affiliated firms is interesting. In addition, while the discussion so far has focused on the growth factors from small to medium-sized firms, the author has broadened the perspective to include competition with large firms, and introduced and explained the concept of appropriate size for the first time as a researcher in the field of medium-sized firm research. Regardless of the merits or demerits of the content, it is considered to have had no small influence on later research, and is highly commended.

<u>Research Department, Long-Term Credit Bank of Japan (1972)</u>$^{\alpha\ \gamma}$

The questionnaire survey conducted by the Long-Term Credit Bank of Japan (LTCB) in 1971 was a large-scale survey of 208 responding firms, and the large number of observations made it possible to identify general trends that could not be captured by case studies, and to conduct a statistical analysis of medium-sized firms. The large number of observations made it possible to find general trends that could not be captured by case studies and to conduct a statistical empirical analysis of medium-sized firms. The Chang Bank report[74] first pointed

[74] Long-Term Credit Bank of Japan, Research Department (1972), "Industrial Structural Changes and Growth Factors of Medium-Sized Firms," Chogin Chosa Gyokuho (Long-

out that the objective conditions for the existence of medium-sized firms were the same as in the past in that the rapid growth of the Japanese economy promoted rapid expansion of the economic scale and sophistication of the industrial structure, but also that each industry that developed in the process had its own specific factors.

The first factor was the innovation of materials such as steel, aluminum, various plastics, and synthetic fibers. The main players in these innovations were large companies, but because of the materials, they had to pursue scale, which ensured low prices and stable supply, and small and medium-sized companies began to take charge of processing new materials, with some growing into medium-sized companies. The second factor was the establishment of a full-scale mass production system for durable consumer goods. Mass production, which far exceeded conventional production amounts and quantities, required the development of small and medium-sized parts suppliers into specialized parts manufacturers, as well as the improvement of parts precision, interchangeability, delivery reliability, and cost reductions. Only those companies that continued to accumulate the strength to meet these demands developed into medium-sized firms. Moreover, these specialized component manufacturers could not fully demonstrate their production capacity by relying solely on a particular manufacturer, and they began to deal with multiple manufacturers. Third, this expansion of capital investment led manufacturers of capital goods such as machine tools to develop into medium-sized firms. Fourth, small and medium-sized firms that rapidly accumulated technological capabilities gained recognition from overseas manufacturers and developed into medium-sized firms by increasing their transaction volume.

The results of the questionnaire survey identified 10 main factors contributing to the growth of medium-sized companies, which can be categorized into four major important ones. The main factors can be classified into four major categories: [17] unique R&D system, [18] development and high-mix low-volume production tailored to needs (for consumer goods), [19] shift from specialization to diversification, and [20] entrepreneurial spirit of management, which forms the basis of these factors. To reinforce these factors, we conducted detailed case studies of 15 companies and classified them into six categories: R&D-intensive, design development-intensive, multi-industry development, multi-product, high-mix low-volume production, international development, and system organizer. Each of the six categories was defined as having the following capabilities: research and development, design development, new field exploration, manufacturing technology, production and marketing, and new product development utilizing domestic and foreign technologies. In particular, the research and development, design development, and system organizer types "are

Term Bank of Japan Research Monthly Report), No. 129.

characterized by the entrepreneurial spirit of the managers themselves, their highly specialized skills, and their willingness to bring together talented and creative people to develop new products," while the multi-industry development type "has moved away from subcontracting, but is still active in the automobile, radio, television, and other sectors of the machinery industry," and the system organizer type "has a strong presence in the manufacturing industry," according to the report. The "multi-industry" type "has moved away from subcontracting, but still has vertical relationships with large companies in various sectors of the machinery industry, including automobiles, radios, and televisions. He pointed out that "entry into new areas is achieved when there is a technological gap between the company and its users or between the company and its competitors" (emphasis in original). He stated that this entry into new areas is challenged by the technology and human management resources accumulated through the development and production of the main product, and is made possible by the choice of orders, which effectively differentiates the product by retreating from market share consciousness, and also results in securing profit margins.

Thus, the Changin survey is commendable in that it analyzes the objective conditions for growth of medium-sized firms more deeply than past studies, and in that it is the first time that case study firms have been detailed and classified by characteristics. In particular, 50 years after the classification, it is clear which firms with which characteristics have survived and which firms that were involved in which products have disappeared, and it is likely to yield interesting results in the course of further research. [75]

Shimizu Ryu-Yin (1972) (1974)

Shimizu (Ryu) participated in the above-mentioned survey by the Chohin Bank and attempted to explore more specifically the proactive factors of growth of medium-sized companies from the data.[76] Shimizu's (Ryu) real aim was "to create a management capability evaluation model based on a new corporate growth theory," because he believed that financial indicators, which have traditionally been emphasized, are easily affected by environmental changes, and that it is necessary to understand the qualitative factors underlying financial indicators in order to evaluate corporate management capability. Therefore, we first discuss the objective factors of growth, which overlap in many respects with the Nag Bank report. However, he pointed out that not all objective factors led small and medium-sized firms to

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[75] Of the 15 companies listed as case studies, four are still in existence as small and medium-sized companies, two as medium-sized companies, and three as large companies.

[76] Shimizu, Tatsuyoshi (1972), "Management Power Evaluation Model and Analysis of Growth Factors of Medium-sized Firms," Mita Journal of Commerce, Vol. 15, No. 2

become medium-sized firms, and that "the medium-sized firms that could be affected by these factors were those that had either high technological capabilities or the ability to respond quickly to market changes, or at least one of these conditions.

Next, Shimizu (Ryu) determined that the most important issue for the growth of medium-sized companies is the development of new products. The reason for this is that new products are the point of contact between the company, which unconsciously tries to become rigid, and the market, which is constantly changing. The rigidification of a company can progress when top management, especially the president, loses flexibility in thinking and becomes defensive, specializing in stable products, or when the company as a whole comes to place a high value on not making mistakes. According to the results of the questionnaire survey, compared to medium-sized companies that are not growing steadily, [21] medium-sized companies that are growing steadily have a stronger desire for growth than stability as a management policy and place more emphasis on new product development, [22] new products are not completely innovative from an engineering or technological viewpoint, but are often innovative new products in the sense of new combinations of current technologies, and [23] medium-sized companies that are not growing steadily have a greater tendency to develop new products than those that are not stable. [23] The best performance was found in a relationship of interdependence rather than competition with large firms or, for that matter, no competition at all.

Two years later, Shimizu (Ryu) conducted a joint study with the Japan Development Bank from the perspective of comparing medium-sized companies with large companies. [77] Assuming that there are four main growth factors for companies to maintain and develop: top management, products, organization, and management infrastructure, a questionnaire survey was conducted among large, medium, and medium-sized companies with a total of 86 questions. We received responses from 702 companies, which is more than the number of companies surveyed in the previous Nag Bank survey, and of these, data from 690 valid responses were tabulated and analyzed. [78] The following hypotheses were derived for medium-sized firms based on a list of factors that have a significant impact on growth and profitability. [24] It is essential for the company to set up its own national sales network and

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[77] Shimizu, Tatsuyoshi (1974), "Comparative Analysis of Growth Factors of Large, Medium and Small Firms in Japan," Mita Journal of Commerce, Vol. 17, No. 5

[78] Shimizu (Ryu) defined large firms as first-listed firms and unlisted firms with capital of 1 billion yen or more, medium-sized firms as second-listed firms and unlisted firms with capital of 300 to 1 billion yen, and medium-sized firms as unlisted firms with capital of less than 300 million yen. The number of responding firms was 246, 213, and 231, respectively. Although not directly related to the definition of medium-sized firms in our study, medium-sized firms and medium-sized firms effectively fall into this category.

[25] to take on a handful of production orders from large companies. In order to reduce distribution costs, the company must consider direct sales or the use of sales subsidiaries. [26] High-quality products with strong technological originality are required. [27] Since they are in the process of rapid growth, they must secure sufficient production volume, and capital investment will be aggressive. A common problem of rapidly growing medium-sized enterprises is [28] the skill development system for middle managers. [The top management has a direct view of the entire company, and their leadership can move the company as it is, and the so-called face of the president can also be used in terms of sales. In addition, the impact on business performance differed between large and midsize companies, with top management being a major factor for growth and profitability in large companies, and products being a major factor in midsize companies. The reason for this is that "medium-sized companies do not require strong top management decision-making ability and leadership because their organizations are not so large and changes in management direction can be made relatively easily.

The last point is somewhat puzzling. It is true that medium-sized companies have smaller organizations and less established processes and value standards than large companies, which may make it easier for them to change direction, but top management is responsible for finding that direction, and the importance of this is not mentioned. In addition, the categories of top management used in the survey were mainly demographic variables, such as the age of the president, his/her position, average age of board members, and family background, and the product categories were ironic variables, such as the ratio of new products, characteristics of major products, ratio of new equipment, and sales promotion strategy, and these variables were not considered in the top management's decision-making ability, leadership, and sales promotion strategy. It is doubtful that these variables directly and qualitatively represent the top management's decision-making ability, leadership, and differentiating characteristics of the products.

Shimizu's (Ryu) series of studies had a significant impact on subsequent research in that it clarified the realities of medium-sized firms and their differences from large firms, which had not been fully grasped by previous case studies and small-scale questionnaire surveys, and it was the first study on medium-sized firms to clarify the relationship between qualitative factors and financial data obtained from the questionnaire. This has had a significant impact on subsequent research. Furthermore, it should be noted that he attempted to formulate a new theory of corporate growth from his research on medium-sized firms. It is important to note, however, that at this point, the emphasis was still on the construction of hypotheses, with no intention of statistically testing anything to solidify the theory. It was not until 10 years later, in his writings, that he reached certain conclusions.

Kyoto Keizai Doyukai (1978) α

Ten years have passed since the last survey (1968), and the Kyoto Association of Corporate Executives took the opportunity to conduct another survey[79] to determine how Kyoto's medium-sized companies have developed during this period. However, we were not able to collect as many questionnaires as we would have liked, and the desired goal was not achieved. Therefore, we decided to conduct an interview survey of 11 presidents with the aim of extracting and clearly analyzing the philosophies and principles of mid-sized companies, and to present the results as a commemoration of the 30th anniversary of the association.[80] It is summarized as follows. [30] Dedicated medium-sized firms have an advantage over large firms because of their concentrated investment of human resources. In addition, [31] by partnering with large firms, they are better able to conduct basic research on materials and gather information. However, if the medium-sized firms do not have the ability to do so, they will not be able to maintain an equal position. [32] Management emphasizes basic research, thinking about the product 10 years from now. It is a misconception that it is expensive and risky. What is expensive is the mass production stage, and if you persevere with basic research and continue it for 10 years, something will come out, and the advantages of greater freedom and conversion are greater than the risks. [33] In order to eliminate the researcher's hobbyism, the president himself, as general manager of the sales division, selects information coming in from the sales antenna and passes it on to the development and factory members, and product development decisions are made jointly by the executives in charge of development and sales. [34]The key points of new product development are speed of development, exquisite timing, and reasonable prices for customers. [35] Insight is needed to determine the right timing. [36] Trading across three or more industries within the scope of existing technology increases management complexity, but it also minimizes the impact of boom-bust cycles and provides access to a wide variety of information. [37] Diversification is a solid path to ensuring management independence. [38] Exiting a business also relies on setting agile objectives. [39] It is necessary to have a system that allows employees to feel a sense of purpose in their work itself.

The report states, "This is not the end of our pursuit. Our study of midsize companies is not over." Since then, no midsize company study has been published by the association, and the study group that was involved in the study does not exist. The reason for this may be that the Association believed that it had reached a conclusion on the growth of mid-cap companies

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[79] Kyoto Keizai Doyukai (1977), Interim Report of the Medium-sized Enterprise Research Group.

[80] Kyoto Keizai Doyukai (1978), Entrepreneurship in Medium-sized Enterprises.

through a series of studies. A more decisive reason is that the companies that have been the subject of our research have already grown beyond the realm of medium-sized companies and are now active as large companies, and the significance of continuing "research on medium-sized companies" has diminished. This is supported by the fact that the idea of an appropriate size for a medium-sized company was first mentioned in the previous survey, but was not mentioned this time.

Surveys conducted by management associations are expressed in the managers' own words. They are difficult to explain logically by researchers and difficult to verify scientifically because they cannot be expressed numerically. They are sufficiently convincing to the managers; they are like a common language among managers, so to speak. For example, when exactly is the perfect timing for product development? It can be explained as the moment when the buyer recognizes the function of the product to solve his/her own problem and the desire and amount of money to obtain the seller's product or service at any price reaches its peak. While both parties, the seller and the buyer, can grasp this, it cannot be objectively observed by a third party. Therefore, it is omitted from the researcher's consideration. In our study, we will focus in particular on ideas that have not been the subject of much consideration, such as "equal footing (with large companies)" and "degree of freedom (in management).

2-4 Research in the 1980s

Nichihiro Nagahiro (1983)*α

Changhiro conducted a deep survey of seven mid-sized companies[81] to determine the factors contributing to the growth of mid-sized companies that emphasize technological development. As a result, the following four factors were identified as the main factors behind the growth of medium-sized companies. These are: [40] top management decision-making, [41] market development appropriate to the size of the company, [42] establishment of a core technology system over a long period of time, and [43] aiming for balanced and diversified management as a specialized manufacturer of products applying core technology. In particular, [44] regarding the development of new products, "We will develop products that meet the needs of users by combining the stable core technologies that we currently have. He also emphasizes that the basic strategy should be to focus on the development of products that aim for medium and small hits rather than big hits, and to frequently develop these products one after another and bring them to market, accumulating modest profits. In doing so, he cautions companies not to aim for low-priced products, to avoid making up their minds, to stop if they

81 NAGAHIRO, Hitozo (1983), Management Strategies of Technology Development Type Companies: Requirements for Growth of Medium-sized Companies, Nikkan Kogyo Shimbun, Ltd.

do not seem likely to gain market share, to aim well but not too quickly, and to avoid new businesses that may have difficulty establishing a sales network.

Unlike other genuine researchers, Nagahiro is a researcher who was invited to Tokyo Denki University after graduating from the Faculty of Engineering and working as an agricultural equipment and engine engineer for three major manufacturers. He observes medium-sized companies from the standpoint of an engineer and summarizes his opinions frankly. Based on his many years of experience working for large companies and his survey of seven companies, he makes a wide range of practical recommendations, which we believe hit the nail on the head.

Hideki Yoshihara (1984)*β

Yoshihara focused on medium-sized firms that expanded overseas in the 1980s and explored their success factors from the perspective of firm-specificity of management resources.[82] Yoshihara's definition of medium-sized firms follows Nakamura (Shu), and "success" here is defined in financial terms, such as sales growth and increased profitability. The study concluded that the most important factor is that the company has a competitive edge in product and production technology over its counterparts in the destination country. In other words, low wages, preferential policies of the local government, and low procurement costs are supportive factors, but not success factors.

Only the party concerned can fully utilize these management resources of product and production technology, and the second success factor is to bring the local subsidiary under one's control. Furthermore, the third success factor was for the management to proactively acquire know-how, such as mastering the local language, gathering local information, timing of overseas expansion, and the ability to manage local people, without leaving it to others.

Yoshihara's conclusions, when applied without limitation to overseas expansion, provide ample food for thought for our own research. For medium-sized companies that intend to enter new markets and new product areas, it is important that [45] their existing products and production technology be superior to those of their competitors, [46] they utilize the technology they have accumulated over the years, and [47] management always actively collect information and enhance their own capabilities to determine the direction and timing of their expansion. 47] Management should always strive to actively collect information, enhance their own abilities, and determine the direction and timing of their activities.

Shimizu, Ryuun (1986)*γ

[82] Yoshihara, H. (1984), "Overseas Expansion of Medium-sized Enterprises: A Case Study of Six Successful Companies," Toyo Keizai Inc.

In the 1970s, Shimizu (Ryu) focused on building a hypothesis rather than drawing conclusions about corporate growth, and conducted two surveys of medium-sized companies. Ten years later, he conducted the survey again to substantiate his hypothesis and drew certain conclusions in his "Theory of Growth of Small and Mid-sized Companies.[83] In the past two surveys, we identified new product development as the most important issue for medium-sized firm growth, but this time we focused our discussion on the new combination of information by management in the development of these new products. The study also pointed out the following three factors: having a market that differs from that of large firms, being able to compete with large firms with its own technology and sales network even when competing with them, having an interdependent relationship with large firms as users, having a unique and stable market, and developing new products by changing specifications to meet the needs of the market. The conditions for the existence of a medium-sized company are as follows: to constantly cultivate a narrow market by developing new products with different specifications to meet market needs, and to actively improve manufacturing technology and develop new markets.

Therefore, Shimizu (Ryu) again conducted a questionnaire survey of mid-sized companies and an interview survey of their presidents to examine the relationship between their performance and the company's performance. As a result, the following points were derived as growth factors for medium-sized firms. [48] The more a company engages in original technology development and R&D, the better its performance is. However, they are biased toward commercialization research. [49] Technology development is more focused on manufacturing technology development than product technology development, aiming for lower costs than other companies and trying to prevent entry into the market. However, firms that focus more on new product development perform better than those that focus on manufacturing cost reduction. [50] They mainly target a narrow domestic market.

And as organizational factors that support them, [51] he concluded that management collects and combines information, [52] maintains and sometimes breaks the balance between managerial and entrepreneurial spirit, [53] and encourages employees to change their mindsets.

2-5 Studies since the 1990s

Hiroyuki Yoshida (1992) $^{\alpha}$

Yoshida conducted a case study of six medium-sized companies and observed the process

[83] Shimizu, Tatsuaki (1986), Chukan, Chushoku-kigyo seigyo-ron (Growth Theory of Small and Medium Enterprises), Chikura Shobo.

of redefining each company's business.[84] Each company [54] aimed to systematize its products, create multiple functions, and add value based on its core technologies accumulated over many years, supplementing peripheral technologies in the process. Such technological expansion leads to a new product-market relationship, and the company redefines itself at the timing when the product expansion begins to diverge from the existing market and is recognized as such. In other words, he pointed out that the emergence of a new market brings opportunities and threats, and since the danger of expanding business in the dark increases, "whether we like it or not, we are forced to develop and respond in a new market that is completely different from the existing market," [55] and it is necessary to restructure and reconfirm the definition of business that should serve as a guide for action. Furthermore, he stated that redefinition requires companies to react quickly, [56] and that they "continue to search for organizational forms that will avoid organizational rigidity."

The purpose of this study was to clarify the integration of business definition and marketing functions. We found that as the range of products expands, businesses are redefined according to whether the product-market relationship remains existing or is new, and the specific production, sales channels, pricing structure, and advertising structure are reviewed. It also found that organizational reform is always required to accompany this review, so flexible organizational forms are always needed, but unfortunately, a detailed analysis of this was not conducted. While the Kyoto Keizai Doyukai survey cited the transformation of businesses with declining earnings as a factor in the growth of medium-sized firms, Yoshida pointed out the danger of unilateral spread of products and stated the need for redefinition of business. The significance of this study is enormous.

Seiichi Otaki (1996)[α μ]

Based on a resource based view, Otaki discusses how the innovative capacity of midsize firms is (re)built and expanded.[85] After conducting a brief case study of four companies, the following characteristics were found.

The starting point for the construction of a new business system[86] for mid-sized companies

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[84] Yoshida, Hiroyuki (1992), "Business Definition and Integration of Marketing Functions: Marketing Behavior of Six Medium-sized Firms," The Review of Osaka University of Commerce, No. 92. Note that two of the six firms did not have more than 100 employees, so the reference here is to the case of four firms.

[85] Otaki, Seiichi (1996), "Reconstructing the Organizational Capabilities of Japanese Firms: On the Ability of Medium-sized Firms to Build Business Systems," Journal of Business Administration, Vol. 66, Japan Society of Business Administration, ed.

[86] Otaki defines a business system as "the management resources needed to create value, the mechanism for organizing them, or the chain of activities necessary to deliver products or services to customers that satisfy market expectations.

is a [57] strategic focus that identifies the bases that form their competitive advantage and core competencies, [58] and through a reinterpretation of the constructed business system, an expansion of business scope and domain redefinition beyond value chain integration and coordination are This process is being carried out with the aim of changing consumer needs. In the process, they argue that it is necessary to recognize the importance of the information and communication infrastructure, which plays an important role in responding quickly to changing consumer needs and managing products. In other words, the process of restructuring each company's business system is a process of organizational learning, and the learning model is as follows: strategy focus → formation of new capabilities through prior and ongoing investment → acquisition of differentiated capabilities through prior advantages → sustained competitive advantage → business system restructuring → strategy focus....

The rapid informatization of society increases the breadth and speed of change in consumer needs, so companies must constantly be able to innovate in order to keep pace with or anticipate these changes, and they must also review their businesses more frequently. The four companies used in Otaki's case study deal with products and services that target a relatively large number of unspecified end consumers, so the changes are likely to be particularly dramatic. There is a possibility that the considerations about organizational learning obtained here can be extended to explain the behavior of medium-sized companies in other industries.

Tatsuo Kanehara (1996)*β

A full-scale study of medium-sized enterprises in the 1990s was conducted by Kimwon[87] . Kimbara analyzed the capability formation process of medium and small firms from the perspective of a capability-based approach, based on the idea that "for firms to survive and continue to develop, it is necessary to view the management resources they possess more broadly and dynamically than physical production factors[88] ." Three surveys[89] (total of 385

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[87] Kanehara, Tatsuo (1996), Analysis of Technology Development in Growing Firms: Capacity Building in Small and Medium-Sized Firms, Bunshindo

[88] Prev. p.13

[89] Of the three surveys, the one conducted in 1993 (Heisei 5) is referred to as "Survey 2" and the data from that survey is used as the primary source. An overview follows. The survey covered 336 companies in Chugoku and Shikoku with less than 1,000 employees. Responses were received from 129 manufacturing companies. The collection rate was 38.4%. The average size of responding companies was 300 million yen in capital and 264.9 employees. Companies with 99 or fewer employees numbered 39, or 30.2%; companies with 100 to 299 employees numbered 50, or 38.8%; and companies with 300 to 999 employees numbered 40, or 31.0%. Thus, those with 299 or fewer employees account for 69.0%. From p. 22 of the

companies responded) and a deep survey (total of 5 companies) were conducted. In conducting the three surveys[90] (385 companies responded in total) and a deep survey (5 companies), we categorized the R&D organizations of SMEs into subcontracting, collaborative, and independent types based on the independence of technology development, and clarified how each type of organization forms its core competencies.

Firms that adopt a subcontracting model lack theoretical knowledge and receive direct guidance from the prime contractor to develop their capabilities, mainly for the purpose of improving productivity. Therefore, while development risk is lowered, the ability to develop original products and vision is limited. A company that adopts a collaborative model can compensate for its own lack of management resources and capabilities by working with a partner on an equal footing, thereby increasing the likelihood and speed of development achievement compared to developing independently. However, the prerequisites are that the partner and the company have the samedevelopment objectives and that they have mutually complementary capabilities and a relationship of trust[91] , and the cost of negotiating with the partner will naturally be higher. Companies that adopt the independent model literally conduct R&D independently, under the strong leadership and direction of management. Direction is often chosen based on entrepreneurial principles, goals, and intuitive judgments[92] , which makes the risk that much higher.

From the results of a series of studies, we found that in all firms except subcontractors with fewer than 300 employees, "the new product ratio is no longer necessarily effective for sales growth, influenced by the timing of new product introduction, product mix, market conditions, and other factors. From this, he concluded [59] that "in order for new products to have an effective effect on business performance, it is necessary not only to increase the ratio of new products, but also to develop new products based on the formation ofcore competencies and to build a competitive space.[93] He also showed that even firms that once conducted subcontracted R&D would [60] shift to an independent model with management's willingness to grow and free thinking, [61] and with the unique ability to produce production machinery in-house.

Kambara's study is significant in that it considers the formation of core competencies as the source of new product development and clarifies the process of capacity building in R&D

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previous publication.

[90] The distribution of the 129 responding firms in Survey 2 was 32 subcontracting firms, 6 cooperative firms, and 91 independent firms. The average number of employees was 259.5, 330.0, and 267.7, respectively. From p. 108 of the previous report.

[91] above, p.163.

[92] above, p.164.

[93] above, p.169.

organizations of small and medium-sized firms, which had not been the subject of research before. In particular, the classification of R&D organizations based on their power relationships with partner firms is highly suggestive of the analysis in this book.

Toru Takai (1998) $^{\alpha\ \mu}$

In addition to Kanehara, another study analyzing medium-sized firms based on a capability-based approach is Takai's[94] . He points out that "strong companies decline because they cannot recognize that their strengths are becoming misaligned with their environment," and then states that " existing theories tended to emphasize the particularities of their management resources and lacked the concept of linking management resources to the external environment and the discussion of continuously transforming those resources ." Based on interviews with two medium-sized companies, he called their "ability to transform their core competencies dynamic capabilities," which include [62] constantly developing products one rank higher by anticipating customer requirements through continuous dialogue with customers , [63] expanding their environmental awareness framework and reviewing their strategies methods and resources, [64] and constantly and deliberately creating tensions within the organization.

Eiji Ogawa, Fumiko Hironaka, Hiroyuki Kumeno, Motonari Yamada(2004) $^{\alpha}$

This study by Ogawa et al. is almost the only full-scale, large-scale study of medium-sized firms in the 2000s. Each analyzes the results of 914 firms that responded to a survey of 8,704 non-statutory SMEs, excluding some listed firms, conducted by the Research Institute of Commerce and Industry[95] . Since they are experts in the study of small and medium-sized enterprises (SMEs), they are viewed as a somewhat negative group, saying that, in their view, medium-sized enterprises have a character intermediate between large enterprises and SMEs and that "breaking this evil is the way for medium-sized enterprises to survive" or "vulnerability compared to large enterprises was observed in some cases.[96] Hironaka states that medium-sized companies that have grown quantitatively from small and medium-sized companies will not do well if they continue to intend to grow quantitatively, and that they should aim for a hybrid existence that combines the advantages of both large and small

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[94] Toru Takai (1998), "Building Competitive Advantage by Resource Base: Dynamic Capability of Excellent Medium-sized Firms", Annual Report of the Institute of Industrial Research, J. F. Oberlin University, Vol. 15 & 16

[95] Eiji Ogawa, Fumiko Hironaka, Hiroyuki Kumeno and Motonari Yamada (2004) "Medium-sized Firms in Japan: Their Corporate Characteristics and the Significance of Research", Journal of Commerce, Industry and Finance, Vol. 54, No. 8

[96] Prev. p.13 and p.56

companies, requiring a market appropriate for their size and an organizational structure that is the qualitative aspect of management appropriate for their size. However, there is no specific mention of how to develop such a market or what kind of organizational structure would be "appropriate. After analyzing mid-sized retailers, Yamada states that it is necessary to build a unique business model and continually transform this model. The extensive questionnaire survey and interviews provided significant clues to this study of "management quality," but unfortunately, we did not see constructive suggestions and theoretical conclusions.

2-6 Problems of Previous Studies and Future Issues

The above details 17 major studies on midsize firms over the 60 years since the concept was first presented. Although not necessarily numerous, each of the preceding studies has provided tremendous insight for the study of midsize firms, as each study was conducted from a different angle, and a large number of midsize firms were the subject of case studies and mass observations. We extracted 64 factors of subjective growth of midsize firms from the previous studies. In addition, some of the 64 factors were multiple factors in context, making a total of 85 factors. These factors were organized as follows: 24 (28.2% if 85 factors are counted as 100) for products, 17 (20.0%) for management, 12 (14.1%) for technology, 7 (8.2%) for facilities, and 5 (5.9%) for diversification and exits. A specific breakdown is shown in Figure 2-1. Of the product-related issues, new product development accounted for the largest share at 6 (7.1%). Originality and timing were both cited by 4 (4.7%) respondents. Product selection with growth potential accounted for 3 (3.5%). For management, 6 (7.1%) cited qualities such as entrepreneurship, 5 (5.9%) insight, and 3 (3.5%) information gathering. Technology was specialties 5 (5.9%) and production technology 4 (4.7%). Connecting these together, the results are as follows. **Medium-sized business owners are willing to gather information and gain insight into changes in the environment with an entrepreneurial spirit. The** key growth factor for medium-sized firms is the **timely development of unique products with special technologies not available from other firms.**

<Insert Figure> <Insert Figure> Figure 2-1 Subjective Growth Factors from Prior Studies

Past research on midsize companies has also highlighted some of the challenges.

We fully understand that the three factors of product, management, and technology will have a very significant impact on the maintenance and development of medium-sized firms, but these factors are the same for both large and small firms of any size. Without going beyond the size definition of medium-sized firms and identifying what their characteristics are, it is impossible to mention the factors that enable medium-sized firms to compete and survive with large firms. Differences in size between large and midsize firms, and between midsize and smaller firms, will result in various differences in how they do things. For example, relatively smaller firms will have a narrower scope of operations and geographic area than larger firms and will try to defend their operations to the death. They may choose to defend themselves strongly, or they may choose to fight a messy battle, or they may choose to make the market appear less attractive. If they decide that they cannot defend themselves to the death, they will always explore the possibility of moving into other fields or regions. In any case, at this point, it is a matter of the imagination.

Next, it will be necessary to confirm whether companies that expanded their scale and reached the level of medium-sized companies during the period of high economic growth are still growing with the same management approach half a century later. Nakamura (H.) has argued that the economic background of each period determines the targets that firms pursue, and he has discussed in detail the emerging firms that match these targets. As the overall economy has shifted to lower growth since the 1970s, medium-sized firms have survived and grown in a variety of ways that differ from pursuing economies of scale to ensure that their performance is not affected by the overall economic trends. In other words, there is no longer a common target for all medium-sized companies. We would like to proceed with our research with this in mind.

Nakamura (H.) emphasizes that the rapidly growing venture-like companies he cites as examples have grown because they have adapted to the environment of their times and their corporate policies, as well as the talents of their entrepreneurs. Many medium-sized firms, however, have been in business for a long time and have gone through a number of rough patches, such as structural changes in the economy and individual circumstances. They have not only adapted to their environment at one point in time, but have also adapted everything from corporate policies to product mix, financing methods, and employee work rules in response to changes in the environment. The other studies were limited to a single survey to understand the current situation, and did not consider how the company has dealt with, maintained, and developed in response to changes in the environment from its inception to the present. This is something that this book will explore in the future. This is an issue we will explore further in this report.

In the future, we would like to identify internal and qualitative differences between large and medium-sized firms. Since we distinguish small and medium-sized firms along the lines of 300 employees by definition, we may be able to find qualitative differences with small and medium-sized firms by including organizational issues in our analysis of medium-sized firms.

Even if there are outwardly obvious differences from large firms, how they differ qualitatively also remains unexplored. New approaches must be sought to explain how they compete with large firms in the face of absolute inferiority in resources.

2-7 Summary of this chapter

This chapter selected 17 studies from 60 years of surveys and research on medium-sized companies and extracted the proactive growth factors. As a result, it was found that the key factor for the growth of medium-sized firms is that "medium-sized firm managers have an entrepreneurial spirit and are willing to collect information and gain insight into changes in the environment, and then develop unique products that have never been seen before with special technologies not available from other companies in a timely manner. In other words, it became clear that the three factors of **product, management, and** technology have an extremely significant impact on the maintenance and development of medium-sized firms.

However, this conclusion may be universal and independent of firm size. There is no material here for us to determine for ourselves whether this conclusion is correct as a factor for growth of midsize firms or whether there are other factors specific to midsize firms. If we are satisfied, this study is over for now. However, our intuition tells us that there may be differences in management due to differences in size, even though we have no hard evidence at this point. We will continue to search for factors that contribute to the growth of medium-sized firms. In the process, we would like to examine other factors, if any, and make a final decision. It is worthwhile to conduct further research to determine the factors that contribute to the growth of medium-sized firms.

Chapter 3: Presentation of Analytical Framework

3-1 Why Midsize Companies Need a New Analytical Framework

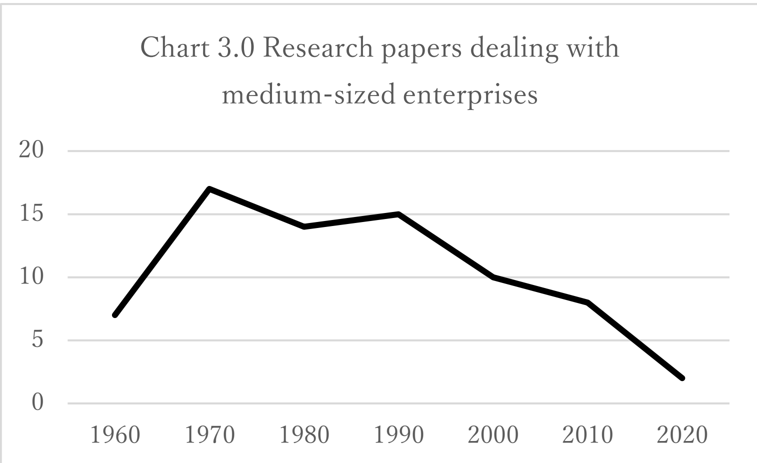
In the previous chapters, we have negotiated the major research studies on medium-sized companies from the birth of the medium-sized company concept to the present day. We concluded that each midsize company has defined some unique business area, has unique strengths, and is differentiated from its competitors as a specialized manufacturer in a narrow area, which has enabled it to generate profits and maintain, develop, and grow through wise management decision making.

Of course, a company's performance is greatly influenced by its own current capabilities, past history, decisions made by management, strategy, and organization, as well as by the environment over which it has no control. In the 1960s, a period of rapid economic growth, the entire market expanded rapidly, and large companies had their hands full dealing with the product markets related to their own heavy industries, and the social division of labor progressed, resulting in the processing of new materials, parts supply, and production goods supply to support heavy industries that were beyond the reach of large companies, as well as in the mass production of durable consumer goods, food and textiles. Companies have emerged that have grown from small and medium-sized enterprises to medium-sized enterprises. The selection of products with high growth rates, the introduction of production facilities sufficient to handle them (establishment of mass production systems), and the elimination of competitors through cost reductions were considered to be factors in the growth of medium-sized firms. The growth factors also changed with the changing times: in the 1970s, when growth slowed somewhat, companies responded by producing a wide variety of products in small quantities; in the 1980s, a period of low growth, companies diversified; and in the 1990s, when globalization progressed, companies restructured their businesses. In addition, management awareness, the development of special expertise, and new product development have been consistently advocated in every period.

It is important to note that as economic growth slowed down after the 1970s, large companies began to enter the product markets of medium-sized companies, which had expanded rapidly, or large companies began to produce parts and production goods in-house, which they had purchased from medium-sized companies. In other words, for medium-sized firms that grew during the period of rapid economic growth, large firms were good buyers (cooperative relationship) for their products and services as long as they met certain requirements, but as the economy slowed down, they began to compete directly with them. Since then, medium-sized firms have been marked by a way of life of competing with large firms, cooperating with them, niche themselves, or a combination of the two. At the same time, this has meant that for medium-sized firms, which are sandwiched between large and small firms, they can compete with or be buyers for any size firm in the same market, depending on their capabilities.

On the other hand, research on Japanese medium-sized firms, which emerged in the 1960s and was actively pursued in the 1970s, has been in decline since the 1990s.[97] The first possible reason for this is that many researchers, bank-affiliated think tanks, and regional economic organizations began to study medium-sized firms in the 1960s and 1970s, when they first emerged and grew rapidly. Many of these firms grew to become large companies, and one might have thought that a break had been reached, with some conclusions and results regarding the growth of midsize firms. Also, many researchers may have included "growth" in the definition of midsize firms, and thus lost motivation to study them because there were fewer midsize firms growing over time. It is difficult, both financially and mentally, to continuously research a subject that has lost general interest. The inclusion of "growth" in the definition may have emphasized the difference from small and medium-sized firms, but it instead led to overlooking the positive reasons and challenges of being "in the middle," which is unique to medium-sized firms, instead of considering firms that simply exist between large firms and small firms as medium-sized firms. The growth factors of medium-sized firms since the 1970s, such as high-mix low-volume production, diversification, and business restructuring, have also become indistinguishable from those of large firms. However, these factors are no longer distinguishable from those of large companies. The example of high-mix low-volume production is completely different from that of large companies. 桁違いの品番があり、いつ受注するか分からない部品を一つひとつ在庫に持ち、受注すればその日のうちに全世界に発送し、それに見合った代金を回収できる体制を維持するのは、資金はあっても

[97] Number of research books on medium-sized firms, based on searches in Cinii.



在庫を持つことを嫌う賃金の高い大企業では発想できないことである。 At least not Just In Time.

Large business researchers explore a concept that can be generalized as a source of competitive advantage for firms: absolute resources and capabilities. As sellers with overwhelmingly greater technological expertise than buyers, they develop arguments based on absolute resources and capabilities. In contrast, medium-sized firms have a lower probability than large firms of acquiring advanced resources and capabilities to their advantage, but they have a higher probability than small firms. Under this premise, they must continue to win against the in-house production and bargaining power of large firms and the low-priced, small-scale offensives of small and medium-sized firms to maintain their operations. In other words, the key is not absolute resources or capabilities, but rather a mechanism and efforts to constantly produce relative differences.

To understand medium-sized firms, one must understand the reality of medium-sized firms, and then the analytical framework must be clarified. The reason why medium-sized firms that supply parts in a situation where they are competing with large firms and where large firms may produce parts in-house survive is that in the short term, each transaction with large firms (and of course with small and medium-sized firms and end consumers) is established, in the medium term they are continuous, and in the long term, even if technology, needs, and rules change, they continue to establish transactions. In the medium term, these transactions are continuous, and in the long term, even if technologies, needs, and rules change, the transactions continue to be established. There are situations where large companies give up internal production, give up entry into the market, and lose out in competition with medium-sized companies. First of all, it is necessary to observe the moment when the transaction itself takes place, or to use a ball game analogy, the moment when the ball is taken and the offense and defense are switched.

This chapter describes a model in which medium-sized firms are viewed primarily as sellers of products and services, and how they try to select buyers (customers) and develop themselves. Why are medium-sized and small firms able to do business with large firms when large firms supposedly have more resources and a higher level of technology than medium-sized and small firms? The reason is not only the resources and technology, but also the product functionality that the medium-sized firms produce from them, which is higher than that produced by the large firms themselves. We begin by presenting the analytical framework of our study.

3-2 Transaction process

In general, a transaction "means the delivery of goods or services from A to B (or from B to

A) under some condition."[98] And it is concluded when the selling price offered by the seller and the buying price within the willingness-to-pay limit range held by the buyer match. The seller should be able to provide a product or service with a function that solves the buyer's problem. The buyer agrees to the transaction based on the value of obtaining and utilizing the function, and the seller agrees to the transaction based on the value of obtaining reasonable and just compensation. Thus, if one cuts superficially through the final phase of the transaction, it appears simple. In reality, however, a single transaction is laminated with countless detailed decisions by both the seller and the buyer. [99]

Nobeoka (2008) attributes the decline in profitability of Japanese companies to their inability to create value[100] . He refers to objective value that can be expressed numerically as functional value and value that can be interpreted subjectively by customers as semantic value, and describes management to maximize the latter. Thus, products and services are considered to be the means by which sellers provide value to buyers[101] . Value refers to the nature and degree to which things are useful. When a subject comes into contact with something completely new and unprecedented, he or she evaluates whether it is useful in light of his or her own knowledge (information) and sense of value. Newness and value are determined by the subjectivity of each person. If a product or service can be developed that is acceptable to many buyers, it can be seen as having created objective value, but it is doubtful that this implies the existence of true objective value. Do many independent buyers have enough information to accurately evaluate the function of the seller's product or service? I suspect that there are more than a few buyers who, not knowing how to evaluate the product

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98 Manri Asanuma (1983) "Choice of Transaction Style and Bargaining Power," The Economic Review, Kyoto University Economic Association, Vol. 131, No. 3 p.1

99 The origins of the manufacturing trade can be found in the festival stall. The seller borrows the right to sell, location, equipment, and materials, opens a stall at a place and time that attracts people, and when orders are received, produces the product on the spot, making sales and keeping no inventory or unsold products. Sellers are not required to be highly skilled, and transactions are concluded even if they do not have a trade name and business continuity. Buyers usually scrutinize quality and price when shopping at supermarkets, but not in the festival space, and even if the line is long, they take their time to make a transaction. When the festival is over, the sellers return their equipment and leave, and the buyers do not clearly remember the taste of the food they ate at the stalls. At the next festival, however, the sellers will set up their stalls again, and the buyers will again line up at the stalls to trade. Various factors are working together in a complex manner under special circumstances to make a transaction, which cannot be explained by economic rationality alone.

100 Kentaro Nobeoka (2008) "Value Creation Technology Management: Creation and Management of Semantic Value" working paper#08-05 Center for Innovation Research, Hitotsubashi University

101 Use value and exchange value have been examined in economics, but our research only touches on them and does not examine them in depth.

themselves, assume that because other buyers say it is good, it is so too.[102] Furthermore, if we assume that information is incomplete among many buyers, we should likewise assume that there are differences in the amount of information among many sellers as well. Are sellers proposing features based on an accurate understanding of the needs and values of buyers with a variety of information? Isn't it an everyday occurrence that predictions are off, for better or worse? Moreover, the buyer may have more relevant information than the seller and may even take the initiative in price negotiations.

Generally, many people describe the development and sale of a product or service by a seller as "the seller creates value," "the buyer provides value," and "the buyer purchases value. I believe this expression is accurate and I do not feel uncomfortable with it because I believe I understand it. However, based on our previous discussions, this representation does not accurately describe the relationship between the seller and the buyer and does not understand the essence of the transaction. Strictly speaking, "the seller obtains information about the buyer's needs," "creates a function that he predicts the buyer is likely to find valuable," "appeals the function to the buyer," "those among the buyers who find high value from the function buy at a high price, those who find only low value buy at a low price, those who find no value at all Those who do not find any value in the function will not buy it." "The value of the seller is to earn a fair profit as a seller. We believe that function and value are different. If a function can be provided that meets the needs of the buyer, the seller can claim a legitimate profit, obtain a higher profit amount and profit margin, and get closer to achieving the objectives of the seller's survival, development, and improvement of the lives of the seller's employees. That is the value to the seller. The function offered by the seller and the function received by the buyer may be identical, but the value to both parties arising from the transaction is different. This may sound quite obvious and wordy, but it is very important for the analytical framework of our research, so we emphasize it here.

Under certain limited conditions, function and value can be considered the same, and the explanation that "the subject creates the value" is valid. This is the case when the developer and the user of the function are the same entity (in-house production), or if they are different entities, they have the same sense of value and the same level of related knowledge. If an entity creates a function on its own, and if it is of great value, it should not be used by others, but

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[102] Rogers (2003) has long studied the various factors that influence extension agencies' attempts to disseminate new measures to their extension targets. He says that extension agents often lack information about the new measures they offer, and even when they are given information, they do not trust much of it, and often adopt it through communication with other extension agents they trust who have adopted it before them. 2003) Diffusion of *innovations,* New York Free Press (Rogers, translated by Toshio Santo (2007) Diffusion of innovations, Shoei, Inc.)

should be monopolized within the company. An example of this is when an entity develops a function called a production process in-house and keeps it out of the public domain. If the management decides that it is more valuable for the company to sell the production process itself to outside suppliers than to produce and sell products using that production process, the company will convert from a parts supplier to a machine manufacturer. In order to continue to acquire the needs of the parts supplier and reflect them in the machines (in order to obtain useful information), the company may not convert, and both businesses may coexist.

Aoshima and Kusunoki (2008) view a product as "a system made up of a combination of various elements" and state that it "has a three-layered structure: a layer of value that customers extract in the context of use, a layer of functions that realize that value, and a layer of physics necessary to realize those functions.[103] If only the customer can extract value from the context of use of a product or service, then the seller can provide the buyer through the product or service, not the value itself, but the physical object and even the functions associated with it.

Of course, buyers do not go through a complex decision-making process for every purchase. If the product has a low unit price for the buyer, is not very important to the buyer, is a repeat purchase, or the buyer likes the product, the decision is relatively simple, and may be a relatively simple or complex process, depending on the buyer's mindset and personality.

The agreement of the seller and the buyer is necessary for a transaction to be concluded. No matter how great a product the seller thinks he or she has developed, a transaction is concluded only when the buyer is willing to buy. The seller cannot completely control the buyer's behavior and cannot force the buyer to buy. On the other hand, the seller is not completely controlled by the buyer. They will not sell to a buyer who does not want to sell. Sellers also have a need for security and growth, and they do not want to do business with buyers who do not provide sufficient benefits and information to create security and growth. Buyers need to be able to properly evaluate the seller's efforts. And especially in business-to-business (BtoB) transactions, since the products and services purchased by the buyer determine the success or failure of the buyer's own business, the relationship is often based on trust for the purpose of unconscious, long-term mutual assistance.

Throughout our study, we assume a particular medium-sized company as a seller and analyze it from its subjective point of view. We name this particular medium-sized firm "S Manufacturing," which will decline and go bankrupt if its products and services do not sell above a certain level and over a long period of time. However, many buyers may be able to survive without purchasing similar products from S. Seisakusho's competitors, especially if

[103] Aoshima, Yaichi and Ken Kusunoki (2008), "Innovation as System Redefinition," Hitotsubashi Business Review, 2008 SPR pp. 58-77

they provide functions that satisfy their needs. Name one particular buyer "K Industries"[104] . The key point is that a transaction between a certain seller, S Manufacturing, and a certain buyer, K Industry, must take place.

3-2-1 Transaction from the viewpoint of S Manufacturing (seller)

First, let us consider the transaction from the viewpoint of S MANUFACTURING (Figure 3-1): S MANUFACTURING develops and produces products and services using its own management resources and skills to realize functions (quality, price, delivery time, reliability, and other factors that cannot be expressed numerically) that the buyer may require. We call this the "realized function. In this case, the functions (generation of needs), resources, and skills that the buyer wants are not clearly visible (the darker gradations in the figure). Then, we would like to know the willingness-to-pay limit M, which is how much the buyer would be willing to pay if the function could be provided, but it is only an estimate by S Manufacturing, which may be accurate or inaccurate. If it is determined that a justifiable profit is likely to be obtained if the product or service is developed with the appropriate amount of money and time, and the sales volume and suggested sales price P are set, then the decision-making process continues to development, production, and sales. One of S MANUFACTURING's key points is to set the desired sales price P exactly to the upper limit of the buyer's willingness to pay M and sell the product at the same price until the end of the process. In this process, the seller appeals for realized functions (advertising, promotion, training, education, etc.), emphasizes the importance and urgency of the product to the buyer, and justifies P to the seller. Here, skill is defined as the totality of technical expertise and know-how, its proficiency, and operations that enable accurate, efficient, and rapid transcription[105] of the buyer's needs information into the medium.

From the seller's perspective, the buyer's resources and skills are difficult to see. If the seller believes that there is no difference or inferiority in resources to the buyer, the seller tries to create a functional difference by improving skills somehow. However, if the evaluation axis of function and the goal to be achieved are clear, there will be a lot of competition, and the functional difference cannot be increased in the short term, so the buyer will set M low in order to purchase from the seller with the lowest price, and the seller will be forced to lower P. Conversely, if the seller's resources and skills are considered superior, P is set higher. If the buyer buys the product as per the seller's suggested selling price P, it can be judged that the

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[104] Although a particular buyer may be an individual, our study does not need to distinguish between buyers as firms or individuals, and we unify the term "K-Industries".

[105] Fujimoto, T. (2003), "Capability Building Competition: Why Japan's Automotive Industry is Strong", Chuko Shinsho, p.28

realized function meets his/her needs, to a point. However, if P is set too low compared to M, the seller loses the profit that it could have legitimately received, but the seller is not easily aware of this. The buyer does not say "too cheap".

The seller is always pressured by the buyer to lower P. If, after negotiations, the deal does not close, the seller needs to search for reasons and rationale: if P > M, it may be that a competitor offers the same functionality at a lower price, or the buyer intends to buy more; if P < M, it may be political gamesmanship, not exactly matching the needs in the first place, or the buyer's intention to manufacture in-house. intent to manufacture, and whether these possibilities are present or not and whether they are large or small. M and P are determined based on the number of buyers, skill level, functional difference from the buyer, and functional difference from competitors.

<Insert Figure> <Insert Figure> Figure 3-1 Transactions from the perspective of S. Seisakusho Co.

3-2-2 Transaction from the viewpoint of K industry (buyer)

On the other hand, what about transactions from the viewpoint of K-Kogyo (Figure 3-2)? The need for a new functionality is felt (need emergence). So-called needs can be of the following types A function that is completely unanticipated by the buyer. A function that the buyer is aware of but has given up as unfeasible.[106] A function that the buyer is aware of but cannot precisely express (quantify) in words (e.g., ease of use or vague dissatisfaction with the product or service in use). A function that the buyer can accurately express (quantify) in words (i.e., a function for which the evaluation axis and achievement criteria are clear). The buyer will decide whether to solve the new function with its own internal management resources and skills, outsource the solution to another company, postpone the solution for now, or give up on the solution itself altogether. Whether the function is critical or urgent for the company, whether it can be solved by the company's own capabilities (in-house production) or outsourced (outsourcing), and whether in-house or outsourced production will be profitable. How much time and cost will be involved will be the basis for the decision.

Here, the function (quality, cost, delivery time, security, and other factors) that would be obtained if K industry were to develop and produce the product or service using the resources and skills it possesses is called the "hypothetical function. The virtual function is formed by how much of the buyer's own management resources it will use to obtain the function, and

[106] Manga, anime, and science fiction novels contain bizarre products that can transcend space-time and physical principles that are impossible to achieve with today's technology, and some managers try to take inspiration from them.

how much of its own technology and skills it will demonstrate. The buyer allocates its limited resources and time to the acquisition of functions that are core to its survival and cannot afford or does not intend to allocate its resources and skills to other peripheral functions. Therefore, they either give up acquiring peripheral functions or procure functions from outside.

Then, K-Kogyo (the buyer) decides what and at what level it expects from the seller when deciding whether to manufacture in-house or outsource. This is called the "expected function," which is the function (quality, price, delivery, security, and other factors) that K industry expects to obtain by selecting and purchasing one of the seller's products or services, and is formed based on K industry's technical knowledge and proficiency and experience with the functions it has enjoyed through past purchases. Then, the amount that K-Industry is willing to pay for the functional difference between the needs (necessary functions), the hypothetical functions, and the expected functions, i.e., the willingness-to-pay limit, M, is set.

The "function" we use is an inclusive concept, the final form that the seller can offer to the buyer. It is the bundle of benefits and inconveniences that the buyer enjoys in return for paying the seller. Unless otherwise specified, we will refer to the totality of the benefits received by the buyer as a "function" and to individual functions as "a particular function. Although it is not necessary for the buyer K-kogyo to recognize its own virtual function at the time before starting a transaction, no transaction is concluded unless K-kogyo eventually perceives the functional difference between what it can do itself (virtual function) and what the seller (S-manufacturer) expects it to be able to do (expected function). And the virtual function and the expected function, which are based solely on the resources and skills of K industry (buyer), arise from the buyer's subjectivity. The buyer's expected function is formed from the buyer's current situation, past experiences, appeals by the seller, and others' evaluation of the function (brand, etc.). The detailed individual functions of products and services are superior or inferior among the products of various sellers. Buyers prioritize the individual functions they value and consider hypothetical functions, while at the same time forming their expected functions based on their exposure to the claims of many sellers. Buyers evaluate sellers' products and services accordingly.

First, we would like to outline the criteria for determining whether in-house or outsourced production is more economically beneficial to the buyer, based on functional differences in needs, hypothetical functions, and expected functions.

In-house (1)

When virtual functions exceed needs, or when virtual functions and needs are equal, buyers unconsciously use their own resources and skills to resolve their own needs (Figure 3-3 (1)). In other words, if they can confirm that they can solve the needed function by themselves without incurring special costs, they will produce the product or service in-house without considering the function of an outside seller's product or service.

Outsourcing search (2)

If the needs exceed the hypothetical functionality (Figure 3-3 (2)), they will either take the time and effort to fill the functional gap themselves, or if they recognize that they cannot solve the problem themselves, they will begin to search for sellers who might be able to fill it and explore the possibility of outsourcing.

<Insert Figure> <Insert Figure> Figure 3-2 Transactions from the buyer's perspective

<Insert Figure> <Insert Figure> Chart 3.3: Buyers' In-House Production and Outsourcing Seeking

In-house or give up after seeking (3)

K industry (buyer) forms the expected function that is closest to its own needs from the information on all the sellers' realized functions that can be explored. However, the seller's realized function and the management resources and skills that support it are difficult to see (the darker part of the gradient in Chart 3.2). If the expected function is lower than the hypothetical function ((3) in Chart 3.4), K-Industries will not purchase from the seller, at least not from K-Industries, which will either develop the function in-house or give up on acquiring the function and do nothing. This decision ranges from active comparison and examination of many sellers' functions, to passive giving up on a seller's function from the beginning or not noticing a seller's function. When the buyer is particularly reluctant, it is difficult for the seller to grasp the nature of the buyer's needs, and the cost of grasping such needs is relatively high. For the seller, if it can provide a function that matches the buyer's needs at that cost and appeals to the buyer's sense of seriousness and urgency, it may reap significant benefits.

Outsourcing (4)

Although there is a strong relationship between the realized function that the seller actually provides and the expected function that the buyer has for the seller's product, strictly speaking, the consideration of a transaction begins in earnest according to the high or low expected function between the hypothetical function when the buyer develops the product himself and the expected function just before purchasing from the seller. If, among a number of sellers, the expected function of S Seisakusho's product service is not likely to fully satisfy K Industry's needs, but it seems to exceed the hypothetical function (Figure 3-4 (4)), then K Industry, in light of the relationship between the willingness-to-pay limit M and the suggested selling price P s product (subcontracting).

The willingness-to-pay limit M is set based on the functional difference among needs, hypothetical functions, and expected functions. compared to M, a transaction is concluded only when the suggested selling price P offered by S mfg. (seller) is the same amount (M = P) or lower. The expected function is estimated by K Industry before purchasing S Seisakusho's product or service, i.e., before actually experiencing the latest realized function, and cannot be determined. If P is too high, the buyer will not be willing to buy, and if P is too low, the buyer will doubt the seller's claim of realized functionality. M and P are a matter of balance and can range from strictly calculated to those that include expectations.

<Insert Figure> <Insert Figure> Chart 3.4: Transaction Failure and Conclusion (Outsourcing)

Long-term in-house/outsourcing decisions

The above discussion is limited to the case in which K Industry makes decisions about in-house or outsourcing solely by comparing the respective heights of short-term needs, virtual functions, and expected functions. The high immediate hypothetical function results from current resources and current skills. If management decides that this function is critical to K-Industries and wants to develop it in-house at time and cost (at all costs), even if the needs greatly exceed the virtual function now, and even if the seller's expected function exceeds the virtual function, then it will be developed in-house. For the buyer, apart from the various conditions that are clear to everyone, this is a higher-level value judgment regarding long-term independence and significance of existence, based on management's consideration of its own philosophy and future prospects. There are a complex number of conditions and factors, such as the long-term outflow of funds to the seller (loss of resources), the seller's response to K-Industries (whether it will seriously respond to K-Industries' needs), requests from K-Industries' customers, acquisition of its own technology, and regulatory changes, and how management will make these judgments. How will the management judge these factors? "If we continue with our current resources and skills, we will be in danger in the future and need to acquire new resources and skills."[107] Third

[107] Tadahiro Yoshida, YKK advisor, explains this complicated decision as follows: YKK's founder had promoted a policy of in-house production of materials and machines to improve the quality of products, but Mr. Yoshida, the second-generation founder, compared the extruders developed by the company with those of five other companies for aluminum sash production and decided to buy one of each. He decided to buy one extruder at a time. In other words, he used a combination of in-house and outsourced production, although the virtual function was lower than the realized function in the most recent case, and there was a

parties, such as researchers, cannot observe detailed conditions and cannot easily evaluate them.

Various conditions may change over time, and the functions that you require may become critical to your company's survival. Conversely, functions that were previously considered important and produced in-house may become less important and be outsourced.[108] The timing of the decision to produce in-house or outsource may be made immediately after a need arises within the company, or it may be based on the company's resources and skills, the existence of the seller and the expected function, negotiations with the seller and confirmation of motivation, purchase of the seller's function and then confirmation of the function to be realized, and so on.

Functions depend on skills, and skills are based on resources. It should be noted, however, that the resources, skills, and functions of the seller and buyer, respectively, are not necessarily simply linked. Medium-sized firms concentrate their limited resources and energy to develop their skills and improve the level of knowledge involved so that one specific function is higher than the hypothetical function of the buyer. The large firm does not intend to improve the skills necessary to produce that specific function in-house, but only to improve its skills enough to correctly evaluate outsourcing. The seller needs intent and strategy to determine which functions to specialize in and which resources and skills are needed and should be enhanced to do so (Figure 3–5).

<Insert Figure> <Insert Figure> Figure 3-5 Relationship between S Manufacturing and the buyer

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possibility that both machines would be outsourced. Naturally, he was criticized by those who thought he would buy both units from in-house, but he said, "I did not deny the passion and effort that goes into in-house production. However, the condition should be to win the competition with outside companies. I believe we left a good case study." In addition, one comparator in the deal withdrew from the deal for fear of leaking technical information when it learned that YKK had already developed its own extruder. From "My Resume, Mr. Tadahiro Yoshida," Nihon Keizai Shimbun, April 14, 2023.

[108] On September 7, 2021, Toyota Motor Corporation announced that it will invest approximately 1.5 trillion yen in the production and R&D of batteries for electric vehicles by 2030. The company plans to switch to outsourcing of body and engine parts that have been manufactured in-house at its domestic plants to free up space and introduce battery production lines there. from https://global.toyota/jp/newsroom/corporate/35971587.html (viewed December 2021). (viewed December 2021). Since the car body and engine parts that were originally manufactured in-house are not profitable when transported long distances, a medium-sized company that had been working on accessory parts for engines among a group of neighboring companies with factory space of equivalent size will be contracted to produce them. Furthermore, the medium-sized company will transfer part or all of its existing business to its own separate plant or to a partner company.

The fact that transactions continue to be concluded even at a higher price P can be understood to mean that many buyers currently value highly the specific functionality offered by S mfg. However, this is a preference for a specific function, and if another seller presents a product with a function that meets the needs of another dimension, the buyer will notice the new function and the functional difference, and the "preference for a specific function of a specific seller of a specific dimension" that the buyer has built up within himself may disappear in a relatively short period of time. The "preference for a particular seller's function in a particular dimension" that buyers have built up within themselves may disappear in a relatively short time.

In addition, a higher seller's price P may increase profit margins, but is not necessarily synonymous with higher profit margins. In order to maintain and improve the functions preferred by buyers at a high level, sellers may spend a lot of money and time and effort in development, production, and sales from their limited resources. Of course, sellers need to make efforts to reduce costs and should consider what to do in case buyers change their preferences. Conversely, if P is kept low in order to sell a large volume of product to many buyers, and the profit margin is low, how should this be evaluated? It should depend on the price range of the product/service, the frequency of purchases, and the philosophy and approach of the manager as to how to make a profit in a single transaction, whether the profit is high or low in one of a series of transactions, or whether the company makes a profit in the long run even if there is a loss. While a high profit margin is desirable, we should still be cautious about allowing third parties to judge whether a company is good or bad based solely on publicly available figures.

The point that the buyer has the final say in whether a seller's function has a competitive advantage and not the seller or a third party, and that a buyer's purchase of a product at a higher seller's suggested selling price P is not necessarily synonymous with a higher profit margin, assumes that the buyer has the ability to accurately and dispassionately identify his own hypothetical function and many seller's functions. This is based on the assumption that the buyer has the ability to accurately and dispassionately assess his or her own hypothetical function and the functions of many sellers. With that ability, the basis for a preference for a particular seller's functional difference becomes clear. If we overestimate the expected function, we will overestimate M. We equate the expected function with the amount of money P offered by the seller and believe that if P is high, the seller's realized function will be high. This is gratifying to the seller because the transaction is completed without further cost to the seller. Conversely, the buyer may underestimate the expected function and estimate M low, and demand that the seller's indicated P be lowered.

3-3 Post-transaction

So far, we have discussed the process of transaction execution. For the buyer, just as important as the decision to outsource is the process of confirming the realized functions by using the product or service obtained from the seller after the transaction is concluded. In addition, if both the seller S and the buyer K do not change their conventional behavior patterns when a transaction is not successful, the possibility of another transaction will be reduced.

<Insert Figure> Figure 3-6 Relationship between seller's realized function and buyer's expected function

Expected functions match realized functions (5)

Since S MANUFACTURING repeatedly appealed for functions that could be realized and K INDUSTRY repeatedly expressed the type and level of functions it required, the functions realized by S MANUFACTURING and the functions expected by the buyer finally matched, and S MANUFACTURING obtained a just profit and K INDUSTRY enjoyed the functions it expected in the transaction (Figure 3-6 (5)). In order to continue the transaction, both parties must be willing to pursue expectations and feasibility, and in the process, it becomes a serious game in which both parties spare no effort to confirm each other's degree of achievement in development. The competition is not won by one side or the other, but rather, the deal is "won" when both parties' expectations and realizations are met. K Kogyo recognizes S Seisakusho as a partner that makes efforts to develop products and services that meet its needs, and S Seisakusho recognizes K Kogyo as a partner that recognizes the value of the products and services it has developed and pays fair prices for them. This creates a relationship of mutual trust.

Exceeds expectations (6)

Since the seller's pre-transaction appeal was not accurately conveyed and K Industry did not expect much from the seller's functions, the willingness-to-pay limit M is set low. At any rate, the transaction was concluded because S MANUFACTURING's functions were considered to be the best within the scope of K MANUFACTURING's search (Figure 3-6 (6)). The functionality that was not expected was enjoyed more than expected after the use of the product. If we look at this transaction alone, S MANUFACTURING did not gain a just profit and lost money. However, S MANUFACTURING could not realize that it had lost money unless it knew how much of a gap K KOGYO had in its perception before the transaction and how much it felt it exceeded its expectations after the transaction. If K kogyo finds that S mfg. has exceeded its expectations, S mfg. may be able to increase its profit by raising its suggested selling price P, or it may be able to increase its sales volume by keeping P unchanged and appealing to other buyers. S mfg.

Disappointment (7)

The seller's pre-transaction appeal was not accurately conveyed, and K Industry set the willingness-to-pay limit M high because it had excessive expectations of the seller's functionality; the deal was concluded because S Manufacturing's functionality was considered the highest within the scope of K Industry's search. The excessive expectation resulted in disappointment after use; S-manufacturer made more money than it tried to make.

If the realized function is higher than K Industry's hypothetical function (Figure 3-7 (7-1)), even if it is disappointing, K Industry has no choice but to re-set the willingness-to-pay limit M lower than the previous one in the short term and accept S Manufacturing's realized function to continue buying. If the realized function is lower than K Industry's hypothetical function ((7-2) in Figure 3-7), it will not buy again. The buyer will actively invest its own resources and skills over time to acquire the function in question (in-house production). Or, it will reduce the willingness-to-pay limit M to the minimum and provide technical guidance, etc. to the S-factory to bring the realized function up to the same level as the hypothetical function.

<Insert Figure> <Insert Figure> Chart 3.7 Buyers' Disappointment

Price P is too high or willingness-to-pay limit M is too low and unsuccessful

A transaction that fails because there is no overlap between the seller's price P and the buyer's willingness-to-pay limit M. There were discrepancies in various aspects, such as whether the seller overestimated the functional difference between the realized function and the buyer's virtual function, whether the buyer underestimated the functional difference between the seller's realized function and the virtual function, and whether both parties were serious about selling or serious about buying. For S Manufacturing, there was a discrepancy between K As long as Kogyo does not contact S MANUFACTURING, it is impossible to manifest the latent needs of how much the buyers have needs, embrace hypothetical functions, and are seriously willing to buy (high willingness-to-pay limit M). K Industry may have set the willingness-to-pay limit M low because it could not accurately evaluate the functional difference with S Mfg. even though there was a real functional difference. If both parties resume from the point of improving each other's evaluation capability and correcting their perceptions, it will lead to the next transaction.

<Insert Figure> <Insert Figure> Figure 3-8 Transactions between S Manufacturing and K Industry

3-4 Self-awareness

As described above, we believe that "the success or failure of a transaction is determined by the seller's appeal to the buyer of the function of the product/service along with the desired sales price, and the buyer's evaluation of that appeal, his own needs, hypothetical function, and expected function from the seller, and determination of the willingness-to-pay limit. The seller estimates the buyer's resources and skills, and appeals to the buyer so that the buyer judges that there is a clear functional difference between the function of the seller's product or service and the buyer's hypothetical function and that it is valuable. Sellers need to have the ability to calmly analyze the functions of their products and services and the buyer's hypothetical functions. It is the ability to be self-aware[109] (Figure 3-8).

In many cases of transactions, just because it is the buyer who makes the decision does not mean that the seller is powerless against it; rather, the seller can actively appeal so that "many buyers will always expect the seller's functionality. One ideal form for a seller would be to raise the functionality of a certain dimension to the highest limit where buyers can accurately grasp the seller's functionality, so that it is unrivaled by competitors and many buyers will recognize "this functionality of S Manufacturing is the best". Of course, this is only until the buyers continue to give priority to the current dimensional functions and eventually seek other dimensional functions. At that time, S Manufacturing has limited resources, and it is necessary to consider which buyers to target, which skills to strengthen, and which functional differences to make in order to efficiently gain profits and sales.

Self-awareness is, in a narrow sense, "the ability to accurately understand the current resources, skills, and functions of one's own company. It is the ability required primarily of management to understand the company's production facilities, the capabilities of individual employees, and the functions that the company's products and services provide to the buyer. Of course, as the size of a company increases, it is ideal for the management team, including executives, and their subordinate middle-level employees to have this ability, and it is important to make sure that the entire organization, including the employees at the end of the line, are always aware of their own abilities. Since our study targets medium-sized companies,

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[109] Hirokuni Tokawa (2002), New Strategic Management: The Changing Role of the Middle, Bunshindo

we will first focus on the abilities required of managers.

As mentioned earlier, there are many buyers and sellers of different skill levels and functional levels with different resources in the market. And every firm is under competition, and as they increase their own knowledge and sophistication, there is pressure in the long run to constantly degrade (obsolescence) their resources and in the short run their skills and functions. It is like going up the stairs of a down escalator. In other words, the skills and functions of the company, the buyer, and other sellers are relative, not absolute, and therefore, strictly speaking, some kind of comparison is necessary. The object of comparison is the buyer's needs, the buyer's skills, the skills of competitors, the company's past status, and the company's future capabilities (skills). Ultimately, self-awareness is a very broad concept that means "to accurately grasp one's current resources, skills, and capabilities relative to those being compared," "to confirm one's position," and "to know one's place in the world.

In any case, the seller can do business with the buyer if he has some idea of the functions (needs) that the buyer is seeking. If he can grasp the skills and functions of his competitors, he can refuse if the buyer is ignorant of said functions or politically pressured to discount more than expected, thereby securing a legitimate profit. Instead of vaguely believing in your company's technology, you need to keep track of it relative to your specifics.

Some needs can be accurately expressed (quantified) in words, but require a high level of technology to solve.[110] If you try to satisfy needs that do not require much technology and can be easily quantified by anyone, you will have many competitors, and you will have to engage in a price war. Of course, it is good if you can survive the price war, but competition with only one dimension can turn a one-time winner into a loser in the next moment. If a company is to be an organization that seeks long-term maintenance and development, it must have the structure and capabilities to grow over the long term. It is important not only to understand the skills and functions of the buyer and competitors, but also to predict the skills and functions needed to meet future needs, to understand the company's current skills and functions relative to these, and to determine which parts of the company are superior and which are inferior to them, and which parts need to be strengthened. It is important to identify which skills and functions are superior and which are inferior and which need to be strengthened. The key is to clearly define your "position" in the market and your vision for the future. If you can make predictions, you can be even half a step ahead of your competitors in the functions (needs) of future buyers. The issues to be solved will become clear, and the energies of employees can be focused on them. If the buyer has the ability to be self-aware, it may be easier for the seller to negotiate and do business.

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[110] For example, the development of a therapeutic drug for a certain symptom. Masahiro Ikejima (1999), Strategy and R&D Integration Mechanism, Hakuto Shobo

3-5 Summary of this chapter

In general, large companies have more resources and a higher level of technology than medium and small companies. However, they are not linked. Medium-sized firms make use of their limited resources to improve their skills and product capabilities more cheaply and quickly than large firms can produce on their own, so that transactions are viable. This chapter presents this analytical framework. A transaction is concluded when the selling price offered by the seller and the buying price within the willingness-to-pay limit held by the buyer match. However, a single transaction is laminated with countless detailed decisions by both the seller and the buyer. In order to make the best deal possible, both the seller and the buyer must be able to correctly recognize the functions they create for each other. However, correct recognition is not always possible before the transaction, which can lead to the perception that the price is too high or the expectations are too high, thereby influencing post-transaction behavior.

To simplify the transaction for consideration, we divided it into sellers and buyers. The seller offers a function to the buyer and hopes that as many buyers as possible will understand the function and pay a lot of money for it. Buyers want to pay as little as possible by accurately identifying the functionality offered by the seller and setting a willingness-to-pay limit in light of the seriousness and urgency with which it will affect their company. The act of finding that drop-off point and bringing it to an agreement is the negotiation and transaction.

Part II: Actual Conditions of Medium-sized Companies

In Part I, we waded through previous studies and noted that many researchers have identified **products, managers, and** technology as growth factors for medium-sized firms. On the other hand, none of the previous studies on midsize firms theorized qualitative differences between them and small and large firms. We have not been able to explain how they can be on an equal or near-equal footing with large firms in the face of absolute inferiority in resources. Therefore, we present a new analytical framework of seller and buyer decision making in transactions and describe how relatively resource-poor medium-sized firms can do business with relatively resource-rich large firms.

In this second part of the study, we will look at the reality of today's mid-cap companies. Three methods were used: a comparative survey of past data on mid-sized companies and their current status, a questionnaire survey of manufacturing companies listed on the Japanese stock exchanges, and an interview survey of mid-sized company managers. In the comparative survey with the past, we examine the factors that have divided the growth and recession of mid-cap companies. In the questionnaire survey, a questionnaire focusing mainly on the organizational characteristics of the firms will be developed, and the same questions will be asked of large and medium-sized firms to see if there are any differences between them. Interviews with management will be conducted to ascertain what they consider to be the challenges they face in management and how they are working to establish business areas and acquire proprietary technologies.

Chapter 4: Comparative Survey of Past and Current Employee Size of Mid-Size Companies

4-1 Methodological Limitations of Studies Around Midsize Companies

Interest in medium-sized enterprises continues to be directed in its own right. The Ministry of Economy, Trade and Industry's GNT (Global Niche Top) company certification project[111] , "Recommendations for Entrepreneurial Studies" edited by the Entrepreneurial Research Forum, a report by the 21st Century Policy Research Institute[112] , and a report by the Medium-sized Company Study Group are examples. However, a close examination of these reports reveals that they are biased in terms of certified companies, research subjects, research themes, and methodologies. The Ministry of Economy, Trade and Industry (METI) publicly solicited applications from companies that met this definition, and 100 companies were selected from among more than 200 companies that applied to the survey through a screening process by an external selection committee.[113] The 21st Century Policy Institute selected companies for the interview and questionnaire surveys as part of the "300 Vigorous Manufacturing SMEs" certified by the Small and Medium Enterprise Agency (SMEA). The companies were selected from the 2006 and 2007 editions of the "300 Vigorous Manufacturing SMEs" certified by the Small and Medium Enterprise Agency. In both surveys, the interests of the government agencies and the companies that applied are aligned, and it is difficult to verify whether reliable and objective growth factors have been extracted. The managers in "Recommendations for Entrepreneurial Studies" and the medium-sized companies[114] featured in the report of the Study Group on Medium-sized Companies[115] are

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[111] From the Ministry of Economy, Trade and Industry website:
http://warp.da.ndl.go.jp/info:ndljp/pid/9516313/www.chubu.meti.go.jp/c31seizo/monosesaku/gnt/index.html (2015, as saved by the National Diet Library) page as of October 2, 2015)

[112] 21st Century Policy Institute (2012), Toward Strengthening External Collaboration: New Possibilities for the Japanese Economy as Seen by Medium-Sized Firms.

[113] (From the HP of the Institute for Future Engineering
http://www.ifeng.or.jp/wordpress/wp-content/uploads/2013/10/gnt100.pdf
From the Ministry of Economy, Trade and Industry website:
https://www.meti.go.jp/policy/mono_info_service/mono/gnt100/index.html

[114] The 12 case studies are Tanita Corporation, Lifenet Insurance Company, Chuo Taxi, A-Z (Makio Co., Ltd.), Yamamoto Kogaku, Eagle Bus, Andersen, Rokkatei Seika, Airwave, Hard Rock Industry, Ina Food Industries, and Suruga Bank, Ltd. Seven of the 12 companies were interviewed in the "Kigyo Keiei" magazine of the Institute of Corporate Management, headed by Takehiko Isobe (donated by Suruga Bank, Ltd.).

[115] The Study Group on Medium-sized Companies was established in 2014 under the

also well-known in the first place. One of the conclusions of the Study Group on Medium-sized Companies is that "strong medium-sized companies have an outstanding ability to disseminate information.[116] However, this is because 11 of the 12 companies mentioned in the case studies are BtoC companies that provide products and services used by end consumers, focus on public relations and advertising to an unspecified number of buyers, and are well known to the public through various media. It is thought that this is because they are well known to the public through various media. This is a clear synonym. The overwhelming majority of medium-sized firms are providers of capital goods rather than products and services for end consumers.

Only methods widely employed in business administration, such as following in the footsteps of companies with established reputations or managers who have already achieved spectacular results, create a halo effect in which all the various decisions are viewed in a positive light. In particular, focusing only on easily understandable past successes creates the illusion that the company and its managers have great capabilities and that many of their decisions have resulted in positive outcomes. Similarly, the case of the managers of the firms that lost control, discussed in Chapter 6, is preconceived because of prior information about the loss of control, and most of their decisions are seen as having been mistakes. Without comparing them with the incumbent companies, it is impossible to determine whether they really lost management control because of them.

As a methodology in business administration, it is inevitable that we will often judge the skillfulness of a manager's business judgment or managerial ability based on his or her performance. Since the researcher interprets the judgment of management, there can be no analysis without bias, but we would like to consider ways to minimize that bias. For example, to analyze the firms in the database discussed in this chapter, it seems reasonable to compare the managers of firms that have grown, those that have maintained their size, and those that have lost control with those that were at comparable levels during the same period in the past. Strictly speaking, it would be ideal if a survey could be conducted that would provide a thorough picture of the behavior of managers from one point in time to the present. In reality, however, no such investigation has been conducted. Furthermore, it is nearly impossible to

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auspices of GE Capital with Takehiko Isobe (Professor, Graduate School of Business Administration, Keio University) as the chair, Chisato Tanida (President, Tanita Corporation), Haruaki Deguchi (Chairman and CEO, Lifenet Insurance Company), Yasuo Hayashi (Former Director General, Small and Medium Enterprise Agency), After three meetings, the report "The Shape of Strong Medium-sized Companies" was published as a pdf file on the website of the Medium-sized Companies Forum (http://midmarketforum.org/) (the website itself does not exist).

[116] Report of the Medium Enterprise Study Group (2014), p. 78

locate and contact managers who have caused companies to fail in the past, ask them to reflect on their behavior at the time, and get an accurate account of their actions.[117] In the end, only managers of newly listed or rapidly growing companies would be investigated. This makes it impossible to compare the behavior of managers who grew with that of managers in general and managers who lost control of their companies, and it makes it impossible to distinguish between the real growth factors and the managerial behavior common to both the companies that grew and those in general and those that went bankrupt.

How, then, can we overcome the limitations of this methodology? One way is to start now with a survey to closely monitor the behavior of managers and analyze the causes of any differences in performance five or ten years from now. This is a long-lasting field research. There are so many writings on today's great managers that there seems to be no need for entrepreneurial researchers to conduct interviews and surveys again. However, if experienced and accomplished researchers are to analyze them from their own perspectives, we would like them to be surveyed again to elicit ideas and words that are different from those in other sources. Even managers who have gained fame must have tried various things under various constraints inside and outside of their companies, struggled with human and financial management, experienced unforgivable failures and bitterness, and sometimes made last-minute decisions while acting in ways that were incompatible with the social consensus of the time. In the secondary data, the true feelings of the managers are hidden behind rhetoric, and their anguish is drowned out by later success stories. There is no sense of life and breath in them. As we will discuss in detail in Chapter 6, this is the true purpose of our interview survey of mid-cap executives.

4-2 Pros and Cons of Various Survey Methods

As researchers, we want to obtain primary data. There are several methods for obtaining primary data, including questionnaires, interviews, and full contact surveys, all of which have their own advantages and disadvantages in terms of cost, sample size, and bias.

Questionnaire surveys are powerful when the hypothesis of the research subject (researcher) is converted into questions and a large amount of information is to be collected

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[117] Shimizu (1985), together with Teikoku Databank, interviewed 174 small and medium-sized enterprises (SMEs) that had gone bankrupt "by searching for the former managers themselves, or by interviewing financial institution officials and business partners who had been in close contact with the former managers and had witnessed their bankruptcy. In order to identify the causes of bankruptcy, the study compared 149 ordinary small and medium-sized enterprises (SMEs) in the same region, in the same industry, and of the same size. An Analysis of Structural Factors in Small Business Bankruptcy: Focusing on a Survey of 174 Bankrupt Small Businesses," Mita Journal of Commerce and Business Administration, Vol. 28, No. 2.

in a short period of time while keeping costs low.[118] By statistically processing this large volume of data, it is possible to observe overall trends from various perspectives, and by merging it with performance data, it is possible to analyze the determinants of corporate performance. On the other hand, even if the survey subject specifies the respondents (departments), it is not possible to confirm that those who actually responded to the survey are in fact the persons (departments) specified by the survey subject. In addition, the intent of the survey subject's questions may not always be accurately conveyed to the respondents, the choice of words depends on the ability of the survey subject, and the interpretation of the words depends on the ability of the respondents. Even if there are contradictions or questions within the responses, they cannot be easily heard back. Because survey items are determined based on the survey subject's hypothesis, new findings outside of the hypothesis are rarely possible.[119] Companies are thought to earn revenue by differentiating themselves from other companies, but survey surveys tend to eliminate differentiated behavior as an outlier. Merging survey data with recent performance data may not explain the direct relationship between

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[118] For example, our research group conducted a questionnaire survey of more than 1,300 former first- and second-listed manufacturing firms using a mail survey form. The cost of the survey was about 200 yen for round-trip postage, and the total cost of printing and envelopes was about 300,000 yen. The total cost of printing, envelopes, etc. was about 300,000 yen. The response rate for our survey was about 20%, so if we divide the cost by the number of responding companies, the cost would be about 1,200 yen per company. All members of the group did all the work, including survey form preparation and printing, address label preparation and pasting, stamp pasting, folding and bagging of the request forms and questionnaires, shipping, collection, inputting, and tabulation. If outsourced, the cost would have been even higher. Hirokuni Tokawa, Tadamasa Imaguchi, Mikiki Aoki, Daisuke Okamoto, Kazuo Kobe, Kenya Endo, Sugio Biba, Kato Lee, Fumiko Kurokawa, Zhong-Hwa Han, Kaoru Shimizu (1995), "Questionnaire Survey on 'Management in an Unforeseen Environmental Age'," Mita Journal of Commerce, Vol. 38, No. 3 and many others.

[119] Mishina (2006) criticizes one-time questionnaire surveys as "one-shot surveys. Mishina, Kazuhiro (2006), "Part and Whole," Field Research in Business Administration, p.71. In general, in surveys using questionnaires or researchers, questions must be formulated in terms that can be easily understood by the respondents or researchers. If the language is unintelligible, it is impossible to obtain correct answers. However, if the answers to easily understood questions are tabulated and analyzed using conventional statistical methods, there is a possibility that some concepts are ambiguous, some concepts are broad and some are narrow, and some concepts overlap, leading to erroneous conclusions. On the other hand, to avoid such erroneous inferences, questions can be formulated in academic or specialized language with precise conceptual definitions, which may not be understood or answered by the survey respondents or survey takers. Therefore, in this survey, in which a large number of surveyors were used, we used ordinary language that was easy to understand by both the respondents and the surveyors, and we devised a new method that differed from conventional statistical methods in the analysis stage."

decision making and performance because of the time lag between the two. [120]

Compared to a questionnaire survey, an interview survey is more costly and time-consuming in gathering information, and places a certain burden on the respondent. In principle, a survey of a specific person is limited to one time, and the respondent concentrates on that one time and speaks without omission of the main points, and the researcher listens to the respondent with an open mind so as not to omit anything. The historical background of each company, the conditions of the region where it is located, the relationship between the company and the characteristics of the industry to which it belongs, the relationship between its products and services and its customers, the key management points of the company, and internal factors can be grasped as a three-dimensional image. The skills required are to find out the essence from these factors, and to elicit the true feelings of the respondents in a flexible manner in addition to the standard questions based on hypotheses. Confronting the respondents, it is highly possible to capture what they really want to say, what they want to emphasize, their way of thinking, and their values not only by their words but also by their facial expressions, voice inflections, mouth and eye movements, body gestures, and clothing. While the survey entity can pinpoint the respondent, the reality is that it is limited to the time and positive person who really wants to respond. There is a bias toward those who perform well, have a lot to say, are good at speaking, are accustomed to speaking, or have a strong service mentality, etc., which are fun to listen to but bias the information obtained.

A full contact survey is very costly and time consuming, and the number of respondents (companies) that will allow it is extremely limited. If you can observe managers at management meetings, attend training sessions, and contact ordinary employees at the plant, you can get to know the governance structure of the company, how decisions are made, the most recent opportunities, challenges, policies, and goals, what people do, say, enthusiasm, feelings, and abilities, and every other move you make in the survey, including the confidentiality of the company. You can get to the bottom of even the most dense information. It is possible to understand path-dependent, contradictory, organic, three-dimensional, fluid

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[120] In order to eliminate the time lag, we merged the data from the questionnaire survey with annual performance data from one to five years before and after the year in which the survey was conducted and analyzed the relationship. Shimizu, K. (2005), "Verification of the causal relationship between corporate management and business performance: Through an analysis of questionnaire data of 2,048 firms in the manufacturing industry listed in the First and Second Section and their business performance data for 10 years," Chiba University Economic Research, Vol. 20, No. 1, pp. 51-81 (2007). (2007) "The Relationship between Corporate Management and Business Performance: An Analysis of Questionnaire Data from 1,320 Companies in the First and Second Section Listed Manufacturing Industry and 11 Years of Performance Data," Mita Journal of Commerce, Vol. 50, No. 3, pp. 295-311.

activities that are not revealed in a well-reasoned management text. Naturally, there is a wealth of information to be gained, but confidentiality limits the information that can be presented as research, and the small sample size makes it difficult to generalize.

Which of the above methods will be employed depends on the objectives of the study. We are exploring the growth factors of medium-sized firms. Are the external environment of the firms decisive for the growth factors, or are internal factors such as organizational management and technological development important? What are the decisive internal factors? Are there any differences from larger firms? In order to examine the external factors, it is necessary to check how medium-sized companies in the past are doing now, and to investigate whether the external environment has changed or not, large or small, by period and industry. To examine internal factors, it would be good to collect a certain amount of data, and to examine dissimilarities with large firms, it would be necessary to conduct a survey using the same methodology targeting both medium-sized and large firms at the same time.

4-3 Present of companies that were medium-sized companies in the past

In this chapter, we compare the number of employees of medium-sized companies in the past database with the number of employees at present, and determine whether they have grown or retreated based on the increase or decrease in the number of employees. We will attempt to capture the characteristics of growth and regression by industry, but since we only have data on the number of employees at the time the database was created and at the present time, and since we do not know the number of employees or the background and history of individual companies, we will limit ourselves to stating facts. The following four databases were used. (1) The 158 companies listed in Nakamura's books "Theory of Medium-sizedCompanies" and "New Theory of Medium-sized Companies. These companies have been in business for 40 to 60 years from the time of publication to 2021. (2) 136 medium-sized companies (excluding duplicates and companies with more than 2,000 employees at the time) introduced at the end of each of the three parts of[121] , which were researched and analyzed by the Small and Medium Enterprise Center of the Industrial Bank of Japan. Forty years have passed since their publication. (3) 625 companies with 250 to 2,000 employees classified as machinery, electrical equipment, transportation equipment, precision equipment, food products, textile products, chemicals, pharmaceuticals, and retailers in "Kaisha Sokan: Unlisted Company Edition 1994" edited by Nikkei Inc.[122] (1995). These companies have

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[121] (1977) "Product Development of Medium-sized Enterprises: Exploring Success Factors of 67 Companies," Diamond, Inc. -(1979) "Customer Creation in Medium-sized Enterprises: A Practical Report of 69 Companies," Diamond Inc.
[122] Nihon Keizai Shimbun (1995) Kaisha Sokan: Unlisted Company Edition 1994, ed.

been listed for 30 years from the time of publication to the present. (3) Of the medium-sized companies we interviewed, 96 had been in business for more than 20 years and had between 250 and 2,000 employees at the time of the survey.

We search the Internet for the names of medium-sized companies in our database and extract the number of employees from the company's most recent employee count on its official website or from its annual securities report to see if it has grown into a large company, maintained its medium-sized status, or fallen back to a small or medium-sized company. If there is such a fact, it is assumed that the previous management lost management rights at least once. If, as of 2021, the company's official website cannot be found by searching under the old company name, even if it has a new name, it can be inferred that there was something wrong with the company, and it is assumed that the company has lost its management rights as well.

Chart 4.1 summarizes the increase or decrease between the number of employees at that time and the current number of employees in all databases. This chart is basically a single horizontal column (100%). For example, (1) Nakamura (Shu) shows that there were 34 medium-sized firms in the electrical equipment industry, of which 3 (8.8%) lost management control, 2 (5.9%) became small and medium-sized firms, 7 (20.6%) maintained their status as medium-sized firms, and 22 (64.7%) grew to become large firms as of 2021. Not surprisingly, the companies in (4), whose original database was created 10 to 15 years ago, have not experienced such a large change in the number of employees. On the other hand, the companies in (i), whose creation date was 60 years ago, show a marked polarization between those that have grown huge and those that have lost management control.

〈Insert Figure〉 Figure 4-1 Change in number of employees in each database
Note: Industries with a small number of firms are omitted. Also, the total number of firms is off because some firms are still unknown as of 2021.

4-4 Considerations from the Database

After World War II, Japanese companies introduced technology from Europe and the U.S., and Japanese companies, especially large ones, grew significantly driven by exports. In the field of management studies, Japan's unique management system, or Japanese-style management, attracted worldwide attention. However, economic growth and management systems were not brought about solely through the efforts of the Japanese government and corporations. From the Korean War in 1950 to Russia's invasion of Ukraine in 2022, the U.S. government has been trying to use Japan as a political and economic bargaining chip in its growing conflict with the communist and socialist Soviet Union. From the Korean War in

1950 to the Russian invasion of Ukraine in 2022, the nature of the US system of protecting the Japanese government and corporations has not changed.

At the same time, China, which was part of the communist and socialist camp, pursued a reform and open-door policy and actively accepted investment and technology from abroad. In the 1990s, China's economic and political rise became more pronounced, and Japan has had a difficult time staying afloat in the 30 years since the bursting of its bubble economy. Against a background of numerous difficulties, including the oil shock, the Plaza Accord, the bursting of the bubble economy, the Lehman Shock, the Great East Japan Earthquake and nuclear power plant accident, and the global coronavirus epidemic, we will check how the medium-sized companies featured in each database are doing today.

Database ①.

Nakamura (Shu) listed the names of 158 companies that have grown rapidly to a medium-sized company in his works from around 1964 to 1980 in order to provide a broad understanding of the new medium-sized company concept. As of August 2021, 110 of these companies (69.6%) are still in existence, and 48 (30.4%) have either been absorbed by other companies, gone bankrupt, or disappeared and lost their management rights. 128 of the 158 companies are listed in the book with their capitalization and number of employees at that time. 33.3% of the companies had more than doubled in number of employees, and 12% had grown tenfold or more in number of employees. All of these companies were only medium-sized enterprises at the time, but today they are global giants that are well-known to everyone.

On the other hand, some of the 48 non-existing firms went bankrupt during the short period of time that Nakamura (Shu) continued his series of studies, while others remained in existence until recently. Nakamura himself stated that the companies that went bankrupt in a short period of time did not do so because of the bankruptcy of the medium-sized company concept, but rather because the managers of those companies made poor business decisions. He pointed out that the reason for the bankruptcy of Midoriya, a monthly installment sales retailer, was that it "failed to follow the trend toward larger stores due to the failure of its store opening policy and the decentralized opening of small and medium-sized stores in local areas," although the factors that helped it become a medium-sized company were lower purchase costs, purchasing on behalf of other retailers, and securing fixed customers. He emphasized that Marui, a competitor in the same industry, is moving from a medium-sized company to a large one based on "a policy of concentrating store openings in the Tokyo metropolitan area, a strict adherence to first-class products, the rationalization of contract collection operations by introducing computers, and the development of in-house human resources through a meritocracy"[123] . Regarding Chukoh Mining, a coal mining company, he attributes this to management's disunity over diversification and whether to rely on coal or break away from it. Since that time, everyone recognized that it was a declining industry, and while the company made large investments in the coal mining business to save labor, it invested the profits coming from the coal mining business in the start-up of more than 20 businesses without paying dividends to shareholders. This was probably the right business decision in terms of maintaining employment and promoting regional development. However, Chukoh Mining went bankrupt before profits could be generated from the new businesses.[124]

By industry, 22 of the 34 electrical equipment companies (64.7%), which were most frequently mentioned by Nakamura (Shu), have grown into large companies, 7 are still in existence as medium-sized companies, and only 3 have lost control of their operations. In machinery, 4 of the 17 firms grew into large firms, 4 remained medium-sized firms, and 7 became small and medium-sized firms. 2 firms lost management control. In transportation equipment, 8 of the 15 firms grew into large firms, while 7 lost control and none remained as medium-sized or small firms. Of the 19 retailers, 15 (78.9%) lost control, which is remarkable. In all industries except chemicals, more firms changed their size to large or small firms or lost management control than maintained their size as medium-sized firms.

Database (2)

The trilogy edited by the Small and Medium Enterprise Center of the Industrial Bank of Japan conducted a "Survey on the Actual Conditions of Product and Technology Development" (questionnaire survey) from the end of 1975 to the beginning of 1976, selecting 620 companies that were business partners of the Industrial Bank of Japan and manufacturing companies located in the Tokyo, Kinki and Chubu regions with capital of 50 million yen to about 1 billion yen. There were 412 valid responses to that survey. A summary of the questionnaire survey and a summary of the 60 or so companies visited are included as reference materials at the end of each volume. Of the total 203 companies listed in the endnotes, 136 are included in the database, excluding duplicates and companies with more than 2,000 employees at the time. Although the report does not describe the details of the methodology and the subjects of the on-site survey, it is assumed that the companies were selected from a wide range of industries, including machinery (19 companies), retail (18 companies), electrical machinery (15 companies), food products, metals, chemicals, and textiles, and that the companies were sampled evenly.

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[123] Nakamura, Shuichiro (1990) p.289

[124] Although all of the diversified businesses failed, the only one that survived was Chukoh Kasei Kogyo Co.

Overall, 62 (45.6%) of the 136 companies remained medium-sized firms, 37 (27.2%) became large firms, and 27 (19.9%) lost management control. Looking at industries with higher numbers, in electrical equipment, 6 (40.0%) became large firms while 4 (26.7%) lost control. Seven (38.9%) retailers became large companies, a different result from (1), where 80% of the companies lost management control. Precision equipment, textiles, and food products were notable in that 4 (50.0%), 5 (45.5%), and 6 (42.9%) firms lost management control, respectively. In all other industries, the firms remained mostly medium-sized.

Database ③.

Nikkei Research Inc. (1995) "Kaisha Sokan: Unlisted Companies Edition 1994" is an annual database of unlisted companies with capital of 30 million yen or more and sales of 500 million yen or more, which is compiled by Nikkei Research Inc. by asking for the latest capital and financial statements. Therefore, the database is not arbitrary in its selection, is comprehensive, and is large in number. As of 1994, there were 625 medium-sized firms classified as machinery, food products, electrical equipment, retail trade, transportation equipment, textile products, chemicals, precision instruments, and pharmaceuticals.

Overall, 67 (10.7%) grew into large companies, 283 (45.3%) are still in existence as medium-sized companies, and 126 (20.2%) lost their management rights. By industry, machinery accounted for the largest number of companies (133), with 10 (7.5%) of the machinery companies growing into large companies, and 64 (48.1%), or about half, remaining as medium-sized companies. Only 11 (8.3%) of the companies lost management control. In other words, machinery survived, albeit on a somewhat reduced scale. Foods had 100 firms, and the trend here was similar to the overall trend. Electrical equipment had 94 firms, and while 11 firms (11.7%) grew into larger firms, 25 firms (26.6%) lost control of their operations. This is at least significantly different from the result in Database 1), where 2/3 of the same electrical equipment companies became large companies and less than 10% lost management control. Rather, there are 33 medium-sized firms in the precision instruments sector, which Nakamura (Shu) did not focus on, and six of these firms (18.2%) became large firms. However, an equal number of six companies lost management control. There are 64 medium-sized companies in the transportation equipment sector, 80% of which are automotive-related. 9 (14.1%) have grown into large companies, while 15 (23.4%) have lost control of their operations. Three of these companies were shipbuilding-related.

Database ④

We have been researching managers of medium-sized companies and have surveyed managers with active representative authority who have yet to be evaluated. Of these, 96 companies surveyed between 2000 and 2011, which were medium-sized companies at the time, were selected and compared to the number of employees 10 to 15 years later. Due to the short time span of 15 years since the survey, 60 (62.5%) were in the medium-sized company range; 11 (11.5%) have grown into large companies, while 12 (12.5%) have lost control of their operations. Twenty-five of the 96 total firms were electrical equipment, of which six (24.0%) retreated to smaller firms and seven (28.0%) lost control of their operations. Compared to the other machinery and transportation equipment sectors, the decline in electrical equipment was more pronounced. A detailed analysis of the one company in the electrical equipment sector that lost management control is left for Chapter 6.

As described above, medium-sized firms looked very different 60, 40, 30, and 10 years later. The background of each period was different, and the characteristics of medium-sized firms may have differed depending on the period. It may be that the detailed environmental changes differed depending on the industry to which they belonged, even though they were in the same environment from a macro perspective. While medium-sized machinery firms supplied capital goods to firms of all sizes, most medium-sized electrical equipment and transportation equipment firms supplied parts to large finished goods manufacturers.

(1) First, we discuss the differences between the databases. Strictly speaking, databases (1) and (2) are highly arbitrary, as they extract samples that the survey entity considers to have prominent characteristics of "rapid growth" and "product development, human resource development, and customer creation," respectively. In contrast, there is no arbitrariness in (3), and in (4), arbitrariness was eliminated as much as possible. In addition, in database (1), there was a polarization between firms that became large firms and those that lost management control, compared to (2), (3), and (4). In databases (2), (3), and (4), many firms maintained their size as medium-sized firms. It may be that as they went through various environmental changes, they accumulated a degree of skill in responding to the changes, resulting in a decisive difference in results. Or it is not clear whether there were differences among the companies themselves. It is also possible that the impact of industry restructuring, decisive technological innovation, etc. may have differed from industry to industry. Whenever possible, we will try to estimate the trends by industry as a premise to determine the causes for individual firms.

(2) Machinery is easily affected by changes in the macroeconomic environment and has traditionally gone through periods of several years of stagnation followed by periods of climax lasting less than a year, with large swings in these changes. As a company, it tends to maintain without desiring significant growth. Of the companies in the machinery industry that were medium-sized companies in (1), 40% had downsized to small and medium-sized companies,

while 57.9%, 48.1%, and 80.0% remained medium-sized companies in (2), (3), and (4), respectively. Because of the high added value, it is possible for them to expand their business partners from Japan to overseas, and even if transportation costs are incurred, they can handle the costs at their domestic bases. Of course, there are former medium-sized companies that have grown into large companies and established overseas offices. In addition, the machinery industry has a wide range of customers and can absorb to some extent the effects of boom and bust in each industry.

(3) Electrical equipment is much more susceptible to the economic environment and to rapid technological innovation than machinery. We obtained different results from the database ① and the others ②, ③, and ④. In (1), 64.7% of the medium-sized firms that supplied parts and materials to the domestic giants made rapid progress during the period of high economic growth, and 64.7% of the medium-sized firms that supplied parts and materials to them grew to become large firms. In ②, ③, and ④, 26.7%, 26.6%, and 28.0% of the firms that grew into medium-sized firms lost management control for the same reasons. Rapid technological innovation, the rise of firms in emerging countries, the overseas expansion, decline, and restructuring of major firms with which they do business, the globalization of the production bases of medium-sized firms themselves, and the shift of semiconductors from industrial goods to consumer goods and changes in their functions have resulted in the relatively weak technological base of firms that had expanded their business through low wages and manpower, while highly technologically advanced semiconductor related firms were likely to be significantly affected. They were unable to withstand huge investments and delayed decision-making, and thus fell behind U.S. firms and firms in emerging economies.

(4) Textile products were examined for medium-sized companies in databases (2) and (3), both of which have now lost around 40% of their management control. According to the Economic Planning Agency's 1955 Annual Economic Report ([125]), "Japan was still a major supplier of textiles to the world as a whole," but at the same time, "it is almost clear that Japan's dominance in textile exports will soon be replaced by that of less developed countries. However, it is also clear that Japan's dominance in textile exports would soon be replaced by less developed countries," and the management must have known that structural changes were occurring. Morimoto (1979), describing the historical background of the Japanese textile industry, pointed out that "there are no methods or facilities conceived independently in Japan.[126] In other words, the Japanese textile industry actively introduced technology from

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[125] Economic Planning Agency (1955), Annual Economic Report 1955, from https://www5.cao.go.jp/keizai3/keizaiwp/wp-je55/wp-je55-020106.html. Viewed October 2021.

[126] Morimoto, S. (1979) "The Progress and Prospects of the Japanese Textile Industry for

overseas, and while it prospered by utilizing cheap labor such as female and juvenile laborers to meet increased demand during World War I and World War II, it had excessive production facilities and excess inventory during the subsequent adjustment period, and did nothing but wait for the price collapse to stabilize by shortening and streamlining operations. In response to the price collapse, they simply waited for the situation to stabilize by shortening and streamlining their operations. The industry as a whole seems to have declined without any technological development.

(5) In transportation equipment, the medium-sized firms in database (1) were polarized into two groups: those that had been catapulted into large firms by the growth of finished vehicle manufacturers over the years and those that lost their management rights due to capital participation by finished vehicle manufacturers. As the finished car manufacturers repeatedly restructured, those on the surviving side grew and expanded, and some mid-sized companies that had supplied parts to them expanded their scale to become large companies. On the other hand, the medium-sized companies that supplied parts to the acquired automakers were eliminated. Even those that survived were sometimes absorbed by the finished vehicle manufacturers because they could not manage, control, or invest in a way that would allow them to keep pace with the expansion of production. In any case, it is clear that medium-sized companies in the transportation equipment industry, whose main business is the supply of parts, are heavily dependent on the technologies of specific finished vehicle manufacturers.

(6) The fact that 14 of the 19 retailers in database (1) lost their management rights indicates that even if medium-sized retailers can build temporary prosperity through the unique ideas of their managers, they have little room to systematically accumulate sufficient technology and know-how to survive over the long term and are easily imitated by competitors. The growth of the private car, the Internet, and the use of roads and the Internet have made it easier for companies to compete. In response to the spread of private automobiles and the Internet, the development of road and telecommunications infrastructure, logistics, changing consumer lifestyles, demographics, and investments in payment systems, retailers may have been faced with a choice between responding through quantitative expansion and surviving by differentiating themselves.

(7) In precision instruments in database ②half of the firms lost management control. In contrast, in ③half of the firms remained medium-sized firms, and there was little difference in the proportion of firms in other industries. The development of semiconductors and the emergence of new products such as smartphones had a major impact on camera manufacturers, which had been one of the fields in which precision instruments excelled,

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the Past 100 Years", Journal of the Society of Fiber Science and Technology, Vol.35, No.11 pp.350-354 The Society of Fiber Science and Technology, Japan while some medium-sized companies grew in tandem with the development of semiconductors and smartphones.

(8) 33.3% and 42.9% lost management control in foods in databases (1) and ②respectively. No difference from the overall trend was found in ③②①and ②many firms related to bread, cake, and ham, which have emerged due to changes in the Japanese diet, were mentioned, but the number of firms was large relative to the size of the market, suggesting that they were eliminated. In (③medium-sized companies in beverages and traditional Japanese foods (confectionery and brewing) were included, which they still maintain today.

Electric equipment, transportation equipment, and retailing are prone to economies of scale. As a result, industry restructuring occurs on a daily basis. In addition, technological innovation in electrical equipment and precision instruments is rapid and significant, so there is a constant rise and fall of new players. In transportation equipment, there were no major technological changes until the 2010s, but the shift to electronics and electrification has been significant since the latter half of the 2010s. Compared to them, machinery is more easily differentiated and, therefore, incentives to expand in scale are likely to be low. The disparity between companies within each industry may then be interpreted as follows: if the direction of environmental change is in line with the company's efforts, it can ride the flow and grow, but if its efforts are not in line with the direction of environmental change, it will immediately face a difficult situation. In order for individual companies to survive, management must not only be aware of changes in technology, buyer needs, and competitor trends, but also direct the company's ability and energy toward the changing destination, pulling and pushing it along. Whether the growth or decline of medium-sized firms was caused by good or bad management decisions, differences in organizational capacity, or a combination of coincidences other than their own efforts, or whether it was one or the other, or a combination of the two, cannot be derived from the analysis so far in this chapter, at least.

4-5 Quantitative and Qualitative Growth

The survey did not corroborate whether the number of employees on the companies' official websites is accurate or not. Some companies, which can be confirmed in their annual securities reports, recorded part-time employees on an 8-hour basis and combined them with regular employees. Some unlisted companies are not sure whether to include part-time employees, temporary employees, employees of overseas offices, etc., or whether to consolidate or to consolidate on a non-consolidated basis. Also, the figures in the original databases (1) and (2) were not corroborated at the time the books were published. Although we have tried to be as accurate as possible, we do not deny the possibility that there are errors or omissions. It is also possible that the decrease in the number of employees was caused not only by management failure but also by efforts to save labor, withdrawal from domestic production business, or switching to overseas production business. Rather, the business itself expanded, so much so that some SMEs[127] employed more than 10,000 people at any one time in their overseas production operations.

Medium-sized firms have not been and need not be medium-sized firms in the past or in the future. Some have grown into large companies, while others haveshrunk to the category of small and medium-sized enterprises. Others have been acquired or even disappeared. We have used the term "growth" up to this point without examining it in particular, but when we look at growth and regression, we find that growth must not only refer to quantitative growth, but rather to qualitative growth as well. In our study, midsize firms is a quantitative concept and does not include a qualitative meaning.

Quantitative growth refers to a state in which **a company's sales, profits, capital, number of employees, and other objective figures increase, regardless of whether or not the environment has changed.** The process is not questioned, only the results are evaluated. Because it is expressed in numerical values, it is easy for anyone to understand, making it easy to compare the company's past, competitors, etc., and very useful in evaluating the performance of an organization and individuals. In addition, quantitative growth is often directly linked to the joy of members, and if incorporated into one of the criteria for personnel evaluation, it would be effective in motivating employees. If the management desires and the employees are happy about the increase in sales and profits, there is no need for a third party to evaluate the pros and cons of the results.

On the other hand, there is the detrimental effect of being overconfident that needs, technology, and the competitive environment will remain unchanged in the pursuit of quantitative growth, and failing to notice, or intentionally silencing, small changes or signs that could lead to major changes in the future. There are cases in which a company cannot refuse a request from a client to increase the volume of a product. Once specifications, materials, and production methods have been decided, suppliers are strongly demanding that existing methods be used without allowing changes, and if the company can grow quantitatively by doing so, it will inevitably reinforce the awareness of maintaining the status quo and make it difficult to come up with new ideas. Furthermore, if the company becomes obsessed with the idea that higher numbers are a good thing, achieving numerical targets becomes the goal in itself, and the company may end up in a situation where it is considered to have achieved its goals by selling at a reduced price at the end of the fiscal year, or by pretending that it has sold to the sales company on its books. Naturally, the profit margin will

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[127] This company was a medium-sized firm at the time of our research, but later went bankrupt.

fall, and sales will drop at the beginning of the next fiscal year. The discussion never gets to the essential question of why the target was not met. The crisis within the company is covered up as if it had been resolved spontaneously.

Temporary rapid growth enjoys economies of scale, and new company buildings and facilities are an unconditional pleasure. Third parties pay attention to find out the cause of the rapid expansion and are happy because it attracts even more public attention, which causes them to expend even more resources and energy on the expansion, which disillusion not only the employees at the end of the line but also the management. Inexperienced managers either tolerate or overlook the company-wide challenges that quantitative growth brings (more managers with subordinates without improved skills, chronic labor shortages, free-rider hiring, reduced communication, heightened sectionalism, lack of coordination, dampened sense of crisis, and increased pride). Combined with the rapidity with which buyers become bored, they push forward without realizing the possibility of losing trust as well.

What, then, is qualitative growth? Penrose (2010) refers to qualitative growth, albeit indirectly, by stating that as scale expands, efficiency can be maintained by better adapting management to the size of the job, such as "decentralized management, control of operations through budget and accounting methods, and extensive introduction of machinery for management.[128] Greiner's growth model also argues that as a company expands in size and over time, it alternates between periods of growth and crises, and that by overcoming these crises, it can rise to a new stage.[129] Quality" has been pointed out from a very early stage among studies of small and medium-sized enterprises. For example, Suematsu (1961) states that "changes in firm size cannot be realized without changes in quality.[130] He then stated that "growing firms are (omitted) firms that are expanding their scale by conducting management activities appropriate to their respective stages of development. The management activities appropriate to the stage of development refer to improvements in production, development, sales, quality, organization, productivity, and costs. Shimizu (Ryu) (1984) said that top management and products are the driving force of a company's (quantitative) growth, especially when it grows rapidly and is out of balance with other management factors, financial and organizational. Eventually, management may run out of steam, organizational inefficiencies, and information bias may occur, leading to a business crisis, and therefore, the company must promote the refinement of finance, employee

[128] Penrose, Edith T. (1980) *The theory* of the *growth of the firm,* Oxford : Blackwell p.204 (Penrose, Chikage Hidaka (2010) Theory of Corporate Growth, Diamond Inc. p.284)
[129] Greiner, Larry E. (1972) *Evolution and revolution as organizations grow,* HBR July-August 1972, pp.37-46
[130] Genroku Suematsu (1961), Small and Medium Enterprise Growth Theory, Diamond, p.201

management, and the systematic execution of strategy to achieve equilibrium. On the other hand, the company will try to break the equilibrium again, looking for the next opportunity for growth.[131] The process toward equilibrium may correspond to qualitative growth.

In each case, however, the reference is to some kind of change required in conjunction with quantitative growth, and not to qualitative growth alone. This may be because the research was conducted against the backdrop of the overall economic growth of the time, when quantitative growth of companies was a prerequisite. In today's Japan, where economic growth is not expected to come easily, is qualitative growth unnecessary without quantitative growth?

Indeed, it is difficult to define qualitative growth as opposed to quantitative growth. Since quality refers to the important characteristics and actual contents that determine whether something is good or bad, qualitative growth of a company is a change in important characteristics and actual contents that support the company's long-term maintenance and development, if the company's objective were to be long-term maintenance and development, and its "importance" depends on the subjective judgment of the seller in light of the company's objectives. Simply put, the change is aimed at how well the seller can meet the buyer's needs. In other words, it is an activity to keep improving the "matching accuracy" of the functions provided by the seller's products and services with respect to the degree of functions (needs) demanded by the buyer. If the buyer's needs are met by the product/service of the S-product (seller) with a high degree of precision, he will pay a high price.

What sellers can do is to find buyers who match the level of functionality of the product or service they are developing, offer it to them, and listen to their reactions. If the reactions are positive, they should strengthen their existing practices (e.g., methods and design concepts that use technical expertise and skills), and if they are negative, they should reexamine their existing practices and seek new ways of doing things. If the response is negative, the company should prepare for the next need that may arise by reexamining its traditional approach and exploring new ways of doing things. Note that the "newness" is subjectively perceived by the buyer at the point of receiving the functionality of the product or service, and is not necessarily strictly newness as an objective fact for both the seller and the buyer.[132] The seller predicts the buyer's subjective novelty, its change, and the direction of change. Or they hear it directly from the buyer. If they find that the buyer has a new need, they examine whether or not they can solve it, and if they think they can, they do their best to address it. The process is repetitive and continuous. The means to achieve this is generally referred to by corporate researchers as "innovation. Schumpeter pointed out the importance of new products, new production

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[131] Shimizu, Tatsuyoshi(1984) pp.57-61

[132] Rogers, Everett M. (2003) p.12 (translated by Rogers, Toshio Mito (2007) p.16)

methods, new markets, new sources of raw materials and semi-finished products, and the creation or destruction of monopolistic positions (industry restructuring).[133] The contents of these activities range from new business development, groundbreaking new products, and technological innovation, which are the higher-level responsibilities of management, to routine process improvements that are the responsibility of front-line employees. If the buyer's positive reaction is strong and long-lasting, the seller's management will demand that the employees become highly and deeply proficient in the way of doing things, and they will be evaluated by the management according to their proficiency level. The way of doing things itself is formed as a capability.

The question is how to respond when negative reactions occur. The most frightening situation for a company is when management does not notice, underestimates, or is obstinate, and this is literally out of the question in our research. It is a prerequisite that the management notices and tries to adopt some new measures if things are not going to continue as they are. In reality, some managers are unable to give specific instructions to their employees because they do not know what to do even if they notice a negative change. The act of responding to different needs is highly uncertain, and while it is challenging, it is also prone to psychological resistance. The stronger the dependence on and attachment to the traditional way of doing things, the more energy, time, and money will be required to make the transition (change of mindset, disposal of old equipment and introduction of new equipment) and secure profits from the new way of doing things.

Assuming that the exact same functions can be provided by both large, medium, and small firms, medium-sized firms are in a pincer position. And if they are more widely advanced in technical expertise and skills than the buyer, they should be able to lead the transaction and be more profitable, and if they are less advanced than the buyer, their profit margins should be lower. However, if the seller has much more advanced knowledge and skills than the buyer, the profit margin will be lower because of the cost of advertising the product or service to that buyer, educational guidance, etc. Conversely, if the buyer has more knowledge and skills than the seller, the buyer may be forced to take on a contract at a lower unit price or even at a loss in exchange for useful information about the technology and the market from the buyer. Profit margins are higher for transactions with moderate buyers who are at the same level as the company's capabilities, while transactions with strong buyers bring information. In this light,

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[133]Schumpeter, Joseph A. (1952), *Theorie der wirtschaftlichen Entwicklung : eine Untersuchung über Unternehmergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus*, Berlin : Duncker & Humblot, pp.100-101 (Schumpeter, I. (1941), Theory of Economic Development : A Study on Profit, Capital, Credit, Interest and Economic Change, Iwanami Shoten, pp.166- 167) Iwanami Shoten, pp.166- 167)

all sellers, regardless of size, will focus on the relative difference in capability between them and the buyer rather than pursuing absolute capability.

Herein lies the reason for the coexistence of so many sellers and buyers with different resources, skills, and values. Not all buyers are looking for exactly the same and highest level of functionality, and different buyers have different levels of requirements. And no single seller has the resources and skills to address all levels of functionality for all buyers. They are not willing to provide functions and levels that are outside of what they can provide, because to do so would be detrimental to their profits. Thus, there will be a large number of sellers.

In other words, **qualitative growth is** defined as a **series of actions that are based on the assumption of a changing environment, responding with greater precision to solve the problems of existing needs, thereby gaining legitimate benefits and useful information, making employees happy, and continuing to actively work to solve the problems of the next new needs and make proposals.** Qualitative growth does not mean the achievement of increased competence at a given point in time. There are three main reasons for explaining qualitative growth in terms of actions rather than abilities.

(1) Overconfidence in the causal relationship between ability and results

Firms and individuals have or do not have, high or low, capabilities, and "capability" is a very important and useful word to use in the discussion. However, there is also the difficulty that the presence or absence of capability and high or low capability can only be evaluated based on the results of actions taken to meet needs. Capability and results are a two-way relationship, not a one-way relationship, and factors other than capability also influence results. In addition, between ability and results, there is always an intervening intentional action to obtain the desired result. We believe that adding the specific "actions" of the seller to the discussion, in which the seller tries to find functions that meet the buyer's needs and meet expectations, may be a more flexible and accurate way of expressing qualitative growth than discussing only capabilities. Of course, taking action requires resources and capabilities. However, it becomes impossible to explain the existence of existing capabilities and resources alone when new actions are taken. New actions open up the possibility of acquiring and accumulating new resources and capabilities.

(2) Changes in the environment will change the content of capabilities evaluated.

If the environment remains constant and existing capabilities continue to be valued, their enhancement will be directly linked to the company's performance. The upgrading of existing capabilities is necessary for the quantitative growth of the existing business. However, if the environment changes, and the capabilities expected by the buyer's needs change, then the newly required capabilities will be the focus of attention, and some of the capabilities that have been evaluated up to now will no longer be considered capabilities. This is similar to the relationship between the sun (the buyer), a fixed star that emits the light of needs, and the moon (the seller), a planet that shines with the light of needs. We third parties may only be looking at it from a different position from the sun and moon, say from the earth, and pointing out whether the sun, moon, and earth move separately and whether the moon has the ability to do so according to the phases in which the moon appears to shine within the range of visible light. The actual moon may have some "power" that is not illuminated by the light of needs, or it may be illuminated by light outside the range of visible light, but since we cannot see it from the earth (third party), we end up examining only the ability that we can see (which we presume has resulted). Only by observing the moon as a whole can we grasp its power. Force is the action of changing one state of things to another, and no value judgment enters into the change from the original state to the new state. If the power of the firm and its constituent individuals can change the state of the evaluator (often the buyer) to a state that is better than the current state for the evaluator, then the power of the seller's firm and its constituent individuals is positively evaluated as competence.

If qualitative growth simply indicates an increase in competence, it could be taken as synonymous with an increase in the level of existing competence. Environmental changes change changes the weighting of capabilities and replaces their contents. In other words, capabilities that are no longer needed are converted to mere capabilities, and "mere capabilities" that are needed are converted to capabilities. If new capabilities are needed to smoothly solve the challenges of new needs, the logic goes, "Anticipate and secure in advance the capabilities that are not expected now and of which you are not currently aware. While the words may be true, it is not difficult to imagine the difficulties involved in putting these ideas into practice in the field. In reality, it is the very action of managers and employees, based on the assumption that environmental changes of various sizes will occur one after another, gathering information, seeking new functions that buyers will recognize as valuable, preparing a variety of drawers of power, and continuing to create and propose solutions by testing their power on the spot and on each occasion, in other words, the following actions are required In other words, dynamic, continuous, and limitless action is what is important. The abilities of employees are not fixed, but rather they are constantly acquiring new information, gaining new experience, and developing new abilities. We will build up our strength. And the action, unfortunately, cannot be a permanent institution. Management must be the main driving pump of the action, with smaller pumps at key points to constantly check that it is running properly.

(3) Validity and limitations of the term "~power

The presence or absence, high or low, of a seller's ability to provide products and services has a significant impact on business performance. Since the ironclad rule and starting point of business is to purchase the same thing at a low price and sell it quickly and at a high price, the ability to achieve accuracy, speed, and efficiency in purchasing, development, technology, production, and sales is highly valued. Gradually, as a company possesses resources and grows in size, the number of stakeholders increases, the number of resource and capability adjustments increases, and the time horizon becomes longer. The ability to coordinate itself also becomes an object of evaluation. Management studies has tried to promote our understanding by using a more abstract, comprehensive, and polysemic concept of capability, but it seems that this effort has in fact hindered our understanding. The most obvious examples are "competitiveness" and "profitability.

For example, Shintaku et al. (2014) state, "Competitiveness fluctuates not only due to factors within the organization, but also due to the environment. (omitted) A strong yen can cause a company to lose cost competitiveness."[134] This expression is so widespread that many people do not feel uncomfortable with it, but it is strange to describe a company's ability to rise or fall depending on changes in the environment. If competitiveness fluctuates depending on the environment, at least that competitiveness does not include "ability to respond to changes in the environment. If the expression "competitiveness changes depending on the environment, including competitors" is interpreted honestly, then competitiveness means "the relative position of a company's products and services to those of its competitors. Since the relative position of a company relative to its competitors can be objectified in terms of revenue, it makes sense to replace competitiveness in Shintaku et al.'s sentence with revenue and say that "revenue may vary not only due to factors within the organization but also due to the environment.

Although results should be affected by various factors other than ability, researchers are biased toward thinking that all causes of results are attributed to ability. In an attempt to estimate the capability that produced the result, they even incorporate the subject, means, and result, which are not originally capabilities, into the capability in an overly vigorous manner, giving rise to coined terms such as "subject + capability," "means + capability," and "result + capability. Words such as "field power," "competitiveness," and "profitability" have given many people the illusion that there is a "packaged system to win competition and earn profits in the field," and that if they could acquire such a system, their companies would be able to grow again. However, if we calmly open our words, it ultimately comes down to

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[134] Junjiro Shintaku, Nobuyuki Inamizu, Mitsuhiro Fukuzawa, Nobutaka Suzuki, and Kimimichi Yokozawa (2014), "Investigation of on-site strength of the electric industry: Workplace supporting competitiveness of Japanese workplaces", Akamon Management Review, Vol. 13, No. 10 p. 374

individual competence and steady actions regarding the accuracy, speed, and efficiency of the flow of information on needs in each department both inside and outside the company. Shintaku et al. analyze specific behaviors in the field, but ultimately attempt to conceptualize them by rounding them into the term "~ability. Management decides on policies that cannot be decided by the field, and encourages the field to improve its capabilities and take action, or even dares to break them. This seems to be the added value of management. Many managers say that 80% of their performance is due to luck, while humble managers say that 80% of their success is also due to luck and do not mention their own abilities. Based on the above considerations, we have concluded that it is not sufficient to discuss the ability, which can be estimated only by past performance (results), as a factor for sellers to grow based on environmental changes, but rather the behavior itself to tackle new things.

Recent management studies have attempted to explore mechanisms for high-impact innovation, but in our survey, detailed in Chapter 6, few managers of medium-sized firms were aware of the grandiose innovations undertaken by so-called large firms. They are making decisions and taking actions to secure long-term sales and profits, while putting long-term ideals into short-term issues and dealing with immediate problems. They may be innovating as a result, but they are not conscious of whether it is innovation or not. It all depends on the inner consciousness and purpose of the management ideal, which will be discussed in Chapter 9. However, it is also not something that they are thinking about in their minds in minute detail, but it is just an unconscious action. Rather, they are simply and vaguely thinking, "I want to make my company bigger than it is now, and I want to make decisions more freely than I do now," and as researchers, we would like to respect this feeling. Even though competition is adding pressure, if there is no desire for quantitative growth, the company will shrink, and the employees' feelings will wane.

At the same time, managers also want their companies to last as long as possible. In the back of their minds, managers know that if they continue to do the same thing they have been doing and only hope for quantitative growth, the company will soon come to a standstill. If they want to grow in size and survive over the long term, they need to grow qualitatively, acquiring the necessary resources and capabilities while gathering information and taking action to start new things and propose them to buyers. However, if one advocates only qualitative growth, which is difficult to see the results and takes time to produce results, this will not bring out the energy of the employees. Since the results are not visible, it is hard for the managers themselves, and they may become complacent, give up, or even forget before the fulfillment of their great aspirations. Therefore, it is sterile to discuss whether quantitative or qualitative growth is more important or correct. If one or the other is lost, one will not be able to fully display one's characteristics, skills, and talents, and will end up being a king of the mountain, settling for a safe, satisfactory, and compromised result.

Both quantitative and qualitative are important. To put it another way, quantitative growth is also desired unconsciously. The challenge is to make qualitative growth, which cannot be acted upon without awareness, permeate the organization and make it unconscious by incorporating it into the daily structure as much as possible. Qualitative growth can lead to quantitative growth. Conversely, quantitative growth rarely leads automatically to qualitative growth. Recognizing the negative effects of quantitative growth (reverse function), qualitative growth is planned by consciously changing various internal mechanisms. Therefore, we must always be aware of both types of growth, look for opportunities, and set numerical targets for a certain period of time, while at the same time focusing the energy of our employees on qualitative growth, that is, how we can continue to create products, technologies, materials, sales channels, and organizations that can meet new needs never heard of before. One of the abilities required of managers is the ability to judge whether sales and profits have improved through qualitative growth, or whether it is just a coincidence that the workload has increased. Companies that pursue both quantitative and qualitative growth are the ones that will be able to sustain mid-sized companies.

4-6 Summary of this chapter

In this chapter, we compared the number of employees of medium-sized firms in the past database with the current number of employees, and determined whether the medium-sized firms have grown or retreated according to the increase or decrease in the number of employees. The database consists of (1) 158 companies listed by Nakamura (H.) in his book, (2) 136 companies introduced at the end of the trilogy (1977, 1978, 1979) edited by the Small and Medium Enterprise Center of the Industrial Bank of Japan, (3) 625 companies in "Kaisha Sokan: Unlisted Companies Edition 1994" edited by Nikkei Shimbun (1995), and (4) 96 medium-sized companies for which we conducted interviews with their managers. (4) 96 medium-sized firms that we interviewed for our management survey. The database was created 60, 40, 30, and 10 years ago, respectively, and we found that the companies were greatly influenced by the industries they belonged to. On the other hand, among the companies in the same category, some have achieved quantitative growth, some have regressed, and some have maintained the size they were at that time. Proactive efforts cannot, of course, be overlooked. We have used the term "growth" up to this point without any particular scrutiny, but in order to pursue corporate growth rigorously, we must refer not only to quantitative growth but also to qualitative growth. Quantitative growth refers to the state of objective numerical growth, while qualitative growth is the series of actions themselves that continue to actively address and propose solutions to the challenges of new needs. Actions require resources and capabilities, but new actions cannot be explained by existing resources and existing capabilities alone. He pointed out the importance of focusing on intervening actions, rather than being caught in a one-way causal relationship between capabilities and results alone. He also confirmed the need for managers to understand the long and short sides of quantitative and qualitative growth, and to set goals that allow both to be compatible.

Chapter 5: Management Comparison between Medium and Large Companies

-Based on a survey of 1,136 listed manufacturing companies.

5-1 Significance and Purpose of Comparison with Large Companies

This chapter investigates the internal elements of the growth factors of medium-sized firms. In the 1960s and 1970s, there were many surveys of medium-sized firms. However, there are still various problems with these surveys, such as the fact that they only targeted medium-sized firms, the fact that they included small and medium-sized firms in their scope, and the fact that they did not capture the true management of medium-sized firms because they were constructed based on hypotheses derived from research on large firms. Until now, business administration research has focused on large companies and has not examined whether the findings and methods of such research can be applied directly to medium-sized companies. Studies of medium-sized companies have emphasized the superiority of medium-sized companies by listing the disadvantages of large companies, and have not necessarily analyzed them from a neutral perspective. Comparisons between large and small firms have been accumulated mainly by researchers of small and medium-sized firms from a weak perspective. In contrast, when researchers of large companies look at SMEs, they still tend to equate them with a department of a large company's organization or a function of a single factory. In order to justify their research, researchers generally tend to state that firms of their size have the ability to create revolutionary new products, create markets, and maintain an efficient organizational scale, as if such firms are more likely to develop. In reality, however, while there are rises and falls regardless of the size of the company, there seem to be differences in management depending on the size of the company.

To set the stage for our study of midsize firms, in Chapter 3, we have waded through past representative studies to explore the definition, characteristics, and growth factors of midsize firms and to present an analytical framework. In this chapter, we construct a hypothesis on the management behavior of midsize firms based on the previous studies, and test the hypothesis based on a questionnaire survey of the manufacturing industry.

5-2 Hypothesis Building

We participated in the Keio Strategic Management Research Group (headed by Professor Emeritus Hirokuni Tokawa of Keio University) from 1995 to 2012. We conducted a questionnaire survey of publicly listed manufacturing companies 17 times to investigate the factors behind corporate growth. As a result, we have come to the conclusion that the following is approximately valid for companies in this era.[135]

The management of a good company has a strong entrepreneurial spirit and develops a vision of the company's future, which describes where the company should be in 10 to 20 years and the strategic direction it should take. Because these visions, which include innovative elements, require a change in thinking and awareness, many employees often resist them, fearing that their current knowledge and position will be compromised. Nevertheless, managers repeatedly explain the need for innovation and their dreams for the future to everyone from middle managers to ordinary employees, dispelling their fears and deepening their understanding, thereby eliminating their resistance. Furthermore, a vision of the future encourages the willingness to try new things. Of course, new challenges can lead to failure, and punishing employees harshly for this will discourage them from taking on the next challenge. It is necessary to have a system in which failures are positively evaluated and utilized. The role of middle managers is shifting from a superiors-intent type to a network-forming and idea-promoting type. The importance of communicating ideas from the bottom up to the top is becoming even more important in Japanese companies. When middle managers actively encourage communication between the top and bottom, left and right, overall corporate morale improves (Figure 5-1).

<Insert Figure> <Insert Figure> Figure 5-1: Survey Hypothesis

In this chapter, we will clarify how medium-sized firms with relatively scarce resources build organizational capacity to build equal relationships with large firms, and when and under what circumstances managers of medium-sized firms demonstrate entrepreneurial spirit and engage in building such capacity. The two questions are.

The definition of a medium-sized firm in this document is a capital and humanly independent company with 300 to 2,000 employees. The growth factors, according to past literature review, were **product, management, and technology.** The ability to be on an equal footing with large firms is defined as either having a different market than the large firms, being able to compete with the large firms with its own technology and sales network, or being a user and interdependent with the large firms. In order not to easily create an incentive for large firms to enter the markets that medium-sized firms have secured, medium-sized firms

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[135] Keio Strategic Management Research Group (2002) "Management of 'Organizational Power': Is Japanese Management Effective?

should have their own knowledge and skills. Specifically, this knowledge and skills should include product technology to enhance product functionality, new products that accurately, quickly, and efficiently meet the detailed needs of the market and customers, proposals to customers that include market or design know-how, and manufacturing technology to produce products at low cost to anticipate cost reduction requirements.

By narrowing down their products and markets and specializing, medium-sized firms are able to maintain and improve their unique knowledge and skills by concentrating the investment of scarce management resources. Because they specialize without multiple businesses, there is no need to divide the organization, and a top-down, centralized organizational structure is adopted. Drucker (1973) describes medium-sized firms as having fewer employees than large firms, so they know each other well, teamwork occurs by itself, and they have sufficient resources to maintain their core activities and make the small firm manageable. He is positive and optimistic that it is sufficient to adhere to simple principles that make a small enterprise manageable. [136]

On the other hand, Tosukawa (1976) stated that medium-sized firms are unable to manage from a long-term perspective due to their small absolute amount of management resources and their inferiority.[137] Shimizu (Ryu) (1986) also argued that, because of the intensive investment of scarce management resources, the amount of information that can be obtained is reduced by focusing only on that information, resulting in a rigid organization, which makes it difficult for new information to be transmitted, or innovation to take place.[138] Since medium-sized firms rely heavily on the ability of managers themselves, in order to avoid organizational rigidity, it is necessary to motivate managers to grow and gather information, as well as to promote awareness among employees. If these motivations decline, the company will immediately begin to decline. In other words, they argue that "medium-sized companies' technological development capabilities are weak, their employees' awareness is rigid, and they are not as flexible as is generally believed. [139]

Thus, we have seen a study of the organizational characteristics of medium-sized firms, which can be viewed either positively, focusing on the advantage of concentration of management resources, or pessimistically, stemming from their inferiority in terms of

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[136] Drucker (1973, p.654) uses the term "The Fair-Sized Business," meaning a relatively large or moderately large company. (Drucker, Kazuo Noda, Tsuneo Murakami (1974), Management (2), Diamond, p.459)

[137] Hirokuni TSUGAWA (1976) "A Comparative Analysis of Corporate Behavior of Large, Medium and Large-Sized Firms in Japan : A Survey of 607 Manufacturing Firms in Japan", Mita Journal of Commerce, Vol.18 No.6 pp.23-47

[138] Shimizu, Tatsuyoshi(1986) p.190

[139] above, p.192.

management resources. As mentioned earlier, this chapter aims to explore the characteristics of medium-sized firms through comparisons with large firms, but only from a neutral standpoint, i.e., without making a value judgment that one or the other is superior to large firms or medium-sized firms.

From the above discussion, we developed the following hypotheses regarding the comparison of large and medium-sized firms.

Hypothesis 1) Due to the small number of employees, it is easier for management's vision for the future to penetrate to the end employees in medium-sized companies than in large companies. Hypothesis 2) Due to the small number of businesses, middle managers are not necessarily active in building internal networks. Hypothesis 3) As in large firms, if the future vision permeates the company and awareness changes, and even if a company fails at doing something new, if it is evaluated more positively than if it does nothing (called "evaluation for failure"), resistance to change will decrease and willingness to try will increase, which will ultimately lead to higher morale. (Hypothesis 5) And this will have a positive impact on the ratio of new product development, product technology, and manufacturing technology. However, since medium-sized firms have limited management resources and weak information-gathering capabilities, Hypothesis 6) Management will actively take the lead in product development, etc., and this will affect the ratio of technology development and new product development.

In the next section, we will examine the results from the survey to test these six hypotheses.

5-3 Verification of hypothesis

Unless otherwise noted, the data used in this chapter are based on a survey conducted in August 2002 of 1,364 manufacturing firms listed on the first and second sections at that time.[140] The number of responding companies was 208 (15.2% response rate), of which 5 companies responded anonymously, so the data used in this analysis are for 203 companies. Of these, 132 (65.0%) were listed on the first section, with an average capitalization of approximately 39.3 billion yen and an average number of employees of approximately 4,500. In contrast, 71 (35.0%) of the firms listed on the second section responded, with an average capital of 2.5 billion yen and an average number of employees of 460. In addition, data obtained from only one survey could be contaminated by very unstable elements. Therefore, we will analyze data from 17 surveys conducted between 1995 and 2011, including responses

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140 For details, see Hirokuni Tokawa, Mikiki Aoki, Kenya Endo, Sugio Baba, Kaoru Shimizu, Yoshifumi Konno, Yoshikazu Sakamoto, Hideo Yamazaki, Toshiyuki Yamada, Hyeonso Zhou, Hiromichi Yokoo, Ichiro Ozawa, and Mitsuhiro Tsunoda (2003a), "A Survey on 'Future Creative Management'," Mita Journal of Business Administration, Vol. 45, No. 6.

in 1995, 1997, 1999, and 2005, for a total of 1,136 companies. The difference in capitalization and number of employees between the first- and second-listed firms that responded to our survey is more than 15 times and less than 10 times, respectively. Although this is slightly different from the definition of medium-sized firms in this book, we consider first-listed firms to be large firms and second-listed firms to be medium-sized firms in this chapter.

Before we begin to examine the hypotheses constructed in the previous section, let us examine the basic characteristics and strategies of large and medium-sized firms using the 2002 survey data. Under the recent severe business environment, 31.3% of large firms take "intensifying competition from domestic and foreign competitors" very seriously. Medium-sized companies are even more serious, with 42.8% of them citing "intensifying competition. While 22.9% of large companies were concerned about the "diversification of consumer needs," only 14.9% of medium-sized companies were concerned about this issue. This may be because many large companies produce final consumer goods, while many medium-sized companies manufacture intermediate goods and capital goods, and thus the maturation of their main products and intensifying competition are more problematic than the diversification of consumer needs.

Next, we examined the number of businesses, and found that large companies had an average of 5.5 businesses, while medium-sized companies had 3.7 businesses. We had assumed that medium-sized companies specialize in a specialized business, but we found that they consciously separate their businesses. On the other hand, large companies seem to have divided their businesses into broad categories to avoid fragmentation of communication and to avoid having too many businesses in proportion to their size. Dividing the number of employees per business by the number of businesses, the number of employees for large companies was 818, while the number of employees for medium-sized companies was 124.

As a long-term strategy, 51.5% of large companies and 32.4% of medium-sized companies answered that they would emphasize "new product development" without further expansion of business, while 20.8% of large companies and 36.8% of medium-sized companies thought they would promote "diversification and new business development" without settling for their current business. Half of the large companies are aiming to secure earnings by developing new products without further expansion, while 30% each of the medium-sized companies are either specializing in their existing lines of business or expanding their business. While large companies already involved in a relatively large number of businesses tended to diversify further, there was no general trend in the relationship between the number of businesses and long-term strategy among medium-sized companies.

Reflecting the intensifying competition with competitors, 45.0% and 41.2% of large and midsize companies, respectively, cited "Expanding market share of existing products" as a short-term strategy, with many companies both concentrating on securing market share and maintaining profitability. Next, 22.1% of large companies and 29.4% of medium-sized companies cited "rationalization and labor saving" and 29.4% of medium-sized companies cited "rationalization and labor saving.

Since we assumed that medium-sized firms specialize in a specialized business, we also assumed that their organizational structure would be centrally organized by function. The survey results showed that 52.9% of medium-sized firms were organized by function (26.7% of large firms), even if they were engaged in multiple businesses. One view of this is that the organizational structure from when they were specialized businesses remains intact, but another view is that there are active reasons or constraints that prevent them from shifting to a divisional organization even though they have an average of 3.7 businesses. One aspect of the divisional organization is that it can respond flexibly and quickly to market needs as the company grows in size and when each business has different markets and production lines. While an independent accounting system is introduced for each business, and company-wide human resource development is expected through the management of each business, it has the disadvantage of enclosing management resources in the business in question and inhibiting communication between business units, causing unnecessary conflicts in the company. Medium-sized companies, although they have multiple businesses, have only 1/10th the number of employees of large companies, and their markets and production lines do not differ as much as those of large companies, so there is little merit in dividing the organization. It is believed that the company maintains a centralized organizational structure.

Indeed, medium-sized firms are weak in their ability to gather information in an organized manner. They are not as active in strategic alliances as large firms (from the 2005 survey, 14.3% of large firms and 29.5% of midsize firms have not formed strategic alliances), which is also evident. However, large firms often form alliances with competitors in order to control manufacturing costs, whereas medium-sized firms often form alliances with customers for the purpose of technological complementarity. In fact, when developing new product concepts, midsize firms place a much greater emphasis on market needs than large firms do on technological seeds. In other words, midsize firms compensate for their lack of information-gathering capabilities by obtaining accurate market needs information from their customers.

The above clarified the basic characteristics of medium-sized firms compared to large firms. We now turn to testing the hypotheses constructed in the previous section. In the questionnaire survey, we used the SD method from 1 to 6, unless otherwise noted. For example, respondents were asked to select their vision for the future by including the intermediate scores of 2, 3, 4, and 5, with 1 representing "most do not understand" and 6 representing "most understand," to obtain the mean values for large and medium-sized firms and test the difference between the two.

Hypothesis 1) Because they have fewer employees, medium-sized firms are more likely than large firms to have management's vision for the future permeate down to the lowest level of employees.

First, we asked the extent to which managers' innovation-seeking attitude, or entrepreneurial spirit, has received attention in past studies of midsize firms. The results showed that, by a significant margin, the entrepreneurial spirit of managers of medium-sized firms was stronger than that of managers of large firms in the 1995-1999 survey. However, in 2002 and 2005, the degree of managerial spirit increased, and conversely, entrepreneurial spirit was higher in large firms than in medium-sized firms. Thus, while the correlation between the degree of entrepreneurial spirit and the degree of penetration of future vision was strong in the 1995-1999 survey, no correlation was observed in the 2002 survey. This is consistent with the fact that 42.8% of medium-sized firms are concerned about the recent intensification of competition, indicating that they are facing fierce competition to secure profits while sales are not growing and unit prices are declining. The fact that the average number of employees in the medium-sized firms responding to the 1995 survey was 720, compared to 460 in 2002, indicates that managers are becoming more managerial-minded as they are caught up in the cost competition.

Next, we asked what percentage of middle managers and end-level general employees understood the vision for the future as presented by management. In the 1997 survey, the average understanding of the vision was 4.29 for large firms and 3.99 for medium-sized firms (statistically significant at the 5% level), indicating that employees in large firms understood the vision better than employees in medium-sized firms. (The results of the 1997 survey also showed that the employees of large firms understood the future vision better than those of medium-sized firms, with an average of 4.29 for large firms and 3.99 for medium-sized firms (significant at the 5% level). In other words, the medium-sized firms were not more likely to understand the vision than the large firms, and hypothesis 1 was rejected.

There are several possible reasons for this. First, it was simply the belief that medium-sized firms, by virtue of having fewer employees, would have an easier time understanding the vision for the future than larger firms. The "reaching" of management's voice is different from the "understanding" of the individual. There is room to consider whether management is aware of this and explains the vision clearly and repeatedly, and whether employees have the background to "understand" the vision. When asked, "When middle managers present management policies to their subordinates, do they explain them in a way that conveys their intentions?" the average score for large firms was 4.31, while the average score for medium-sized firms was 3.99 (significant at the 10% level). Thus, it can be seen that middle managers in medium-sized firms are less likely to add their department's own intentions regarding the management policy indicated by management to their subordinates.

Hypothesis 2) Intermediate managers are not necessarily active in building internal networks because of the small number of businesses in mid-sized companies.

First, in the 1997 survey, when asked whether they share information informally among coworkers, the average scores were 4.08 for large firms and 3.80 for medium-sized firms (significant at the 5% level), and 4.32 for large firms and 3.96 for medium-sized firms (significant at the 1% level) in terms of informal information sharing with supervisors and subordinates. The results were significant at the 1% level. When asked in the 2002 survey whether middle managers encourage their supervisors and subordinates to actively communicate with them, the average scores were 4.35 for large firms and 3.88 for midsize firms (significant at the 1% level). Similar results were found in the 1999 survey. Thus, hypothesis 2 was supported.

This indicates that in large companies with multiple businesses, middle managers actively communicate with other divisions and direct reports to obtain information and resources that are useful to their own divisions and make it easier to get the job done, or else they would not get the job done. 2005 survey Data show that large companies believe that organizational culture differs significantly among business units and companies compared to midsize companies (4.07 for large companies and 3.67 for midsize companies). It would not be surprising that middle managers in midsize firms would believe that if the cultures of the various divisions are not so different, there is no need to devote much effort to communication. Combined with the discussion in Hypothesis 1), the importance of middle managers may be relatively lower in midsize firms than in large firms because the number of businesses and organizational hierarchies are both smaller in midsize firms.

Hypothesis 3) Similar to large companies, medium-sized companies will be less resistant to change and more willing to take on challenges if their vision for the future becomes more widespread, their awareness is improved, and they are positively evaluated for failure.
Hypothesis 4) (If Hypothesis 3 is valid) will ultimately lead to improved morale.

As we saw in Hypothesis 1, management's vision for the future not only points the direction of strategy, but also defines a code of conduct, which, if understood and instilled in employees, will dispel their sense of insecurity. This is extremely important for all companies, regardless of size. When we examined the correlation between the degree of penetration of the future vision and the level of resistance to change, we found a high correlation (significant at the 1%

level) in both large and medium-sized companies, and in all surveys from 1995 to 2002. In addition, when we examined the correlation between positive evaluation of failure and willingness to try, the correlation was also high (significant at the 1% level for large firms and at the 5% level for medium-sized firms), so we believe that Hypothesis 3 is supported.

That morale improves when there is no resistance to change was confirmed by high correlations in both large and midsize companies. In addition, both large and midsize companies, where middle managers proactively build internal networks, showed a significant effect on morale improvement. However, the tendency for morale to increase in large firms through willingness to take on challenges and positive evaluation of failures varied among the years studied and was not necessarily a constant effect. On the other hand, for medium-sized firms, the effects on morale were large for head office employees, laboratory researchers, and factory employees in all years. This may arise from the fact that in large firms, due to the size of the firms, the evaluation system differs by department and type of job. Therefore, hypothesis 4, although a general trend was observed, cannot be said to be strictly supported.

Hypothesis 5) Evaluation of failure, resistance to change, and willingness to take on challenges will have a positive impact on the ratio of new product development, product technology, and manufacturing technology.
Hypothesis 6) Because medium-sized firms lack management resources and information-gathering capabilities, their managers themselves will actively take the lead, and this will affect their technology and product development ratios.

In all years of the survey, large firms confirmed that their appreciation of failure, resistance to change, and willingness to challenge had a significant impact on the development of product and manufacturing technologies, and product development combining multiple core technologies (all significant at the 1% level). In the case of medium-sized firms, those with more employees who were willing to take on challenges had some success in technology development and product development with multiple technologies. However, medium-sized firms that valued people who tried new things and failed more highly than those who did nothing new did not necessarily develop innovative products and manufacturing technologies. This trend was true in both the 1995-1999 surveys. In the 2005 survey, midsize firms were more likely than large firms to have management providing detailed direction at both the idea and post-idea development stages of product development, The data from the 2005 survey showed that medium-sized firms were more likely than large firms to have management give detailed instructions at both stages of product development (2.82 for large firms and 3.26 for medium-sized firms).

In large companies, management can build technological development capabilities by presenting only a general framework and leaving it to the laboratory researchers and motivating them to work on it. On the other hand, medium-sized firms generally tend to be unable to focus on R&D and technology development from a long-term perspective due to constraints on management resources such as market dominance, technological capabilities, and financial resources, and are forced to inject resources and be aggressive in developing improved new products with short life cycles. When asked whether they are able to develop new products that combine several core technologies, large firms are significantly more likely to do so (1995 and 1999 surveys). All surveys also confirmed that the ratio of R&D expenditures to sales of medium-sized firms is significantly lower than that of large firms (3.97 for large firms and 3.40 for medium-sized firms in the 2002 survey, with the mean statistically significant at the 10% level).

Medium-sized firms are focusing on matching improved new products to the needs of their clients. This is evidenced by the fact that medium-sized firms place more emphasis on market needs rather than technological seeds in their new product concepts compared to large firms (2005 survey). However, since simply responding to customer demands is unlikely to lead to the accumulation of systematic technology, it is necessary for management to keep a close eye on long-term prospects and changes in short-term needs, and to give detailed instructions to promote R&D and technological development.

In medium-sized firms, the evaluation of failure and lack of resistance to change had no effect on technological development and product development combining multiple technologies, but had some effect on new product development, partially supporting hypothesis 5. In addition, management's active participation in the development of technology and new products was found to have an effect on the ratio of technology development and new product development, thus supporting hypothesis 6.

5-4 Summary of this chapter

The purpose of this chapter was to compare medium-sized firms with large firms with respect to factors inside relatively resource-poor medium-sized firms in order to determine how medium-sized firms organizationally build the capacity to be on par with large firms and how the managers of medium-sized firms are involved in building that capacity. It was to Hypotheses were developed regarding basic characteristics, strategies, and organization, and were verified through a questionnaire survey of formerly listed first- and second-part manufacturing firms. In addition, some further considerations are added.

We assumed that medium-sized firms would be more likely than large firms to understand the future vision because they had fewer employees, but the results showed the opposite: medium-sized firms were more likely than large firms to understand the future vision because they had fewer employees, but the results showed the opposite. The idea that we did not distinguish between reaching and understanding was simplistic and did not capture the specific behavior of managers and employees. In addition, the study did not examine whether the future vision of large companies is the same as that of medium-sized companies.

Regarding other organizational factors, both large and medium-sized companies confirmed that resistance to change decreases and willingness to take on challenges increases if a vision for the future permeates the organization, awareness is raised, and positive recognition is given even in the case of failure. This is a general trend that leads to higher morale. However, in the case of large companies, whether the willingness to try and the evaluation of failure lead to higher morale varied depending on the year of the survey.

The relationship was confirmed for large firms, as the evaluation of failure, lack of resistance to change, and willingness to challenge have a positive impact on the ratio of new product development, product technology, and manufacturing technology (Figure 5–2). In medium-sized companies, company-wide morale would be significantly higher if there is no resistance to change, willingness to challenge, and if failure is positively evaluated. On the other hand, they do not show much effect on the development of manufacturing technology and product development with multiple technologies, except for the willingness to challenge, which affects the development of improved new products. Rather, good results are obtained in R&D and technology development when management gives detailed instructions rather than outlines the general framework in conceiving development (Figure 5–3). This suggests that medium-sized firms are having difficulty in finding the human resources necessary for research and technological development, i.e., those who willingly set goals and issues and work to solve them, and that management itself does not trust such employees and believes that direct, detailed instructions are more likely to produce good results than leaving the task to the employees. This is a situation that comes to mind.

Based on the above five surveys of listed manufacturing firms, we have examined the characteristics of medium-sized firms by comparing them with large firms. We have been able to clarify, albeit briefly, the process by which medium-sized firms with scarce management resources acquire the ability to establish equal relationships with large firms.

〈Insert Figure〉 Figure 5-2: Relationships among organizational factors in large companies

〈Insert Figure〉 Figure 5-3: Relationships among organizational factors in medium-sized firms

Chapter 6: Interview Survey of Mid-Size Company Managers

6-1 Significance of the interview survey

We explore the growth factors of medium-sized firms, examining factors in the firm's external environment in Chapter 4 and internal organizational factors related to valuation and technology in Chapter 5, and discussing the differences between these factors in medium-sized firms and those in large firms. In this chapter, we interview current managers in order to examine how managers make decisions in light of environmental changes, the historical and technological background of the firm, and the current organization. Then, among the managers we surveyed, we divide them into two groups: those who have maintained management since then and those who have lost management control, and examine whether there are differences among them. We will also examine whether there is a difference between the growth factors in our study and those in past studies of medium-sized firms.

Mikuriya (2002), a political scientist who has long used oral history to reveal the decision-making process of Japanese policy, describes politicians and bureaucrats as people who play with words.[141] Therefore, he states that it is relatively easy to hear and understand what politicians and bureaucrats have to say, while artists, who express themselves through their works, are difficult to understand because they speak with sensitivity. Managers, like politicians, do not compete only with words. They need a sensitivity similar to that of an artist, who tries to please customers by matching their own seeds with the needs of customers in a new way better than anyone else. However, management does not do all of this on its own; rather, it assigns the various functions necessary for management to its employees and asks them to achieve partial optimization within the scope of their authority. Management makes political decisions to ensure the long-term maintenance and development of the company as a whole, so that what is partially optimized will eventually become the company's overall optimization. In doing so, it is necessary to persuade employees with words and, to some extent, to convince them, and inevitably, the problem of words will always be present. On the other hand, if the company waits to implement the plan until all employees are convinced, it will miss a business opportunity. Interview surveys are also effective in the sense that they can determine whether management's ideas are easy for employees to understand.

Our interview survey covered "managers with representation rights in independent

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[141] Mikuriya, Takashi (2002) Oral History, Chuko Shinsho, p.116

companies in the manufacturing industry, primarily in the electrical machinery, machinery, precision machinery, and transportation equipment industries, with 300 or more employees and 2,000 or fewer employees. We also surveyed a wide range of other manufacturing industries such as metals, textiles, medical equipment, and light industry, as well as transportation, retail, and construction industries, if they were related to us. We compiled lists from commercially available information magazines on unlisted companies, directories of local chambers of commerce and industry, and exhibitors at large trade shows, and sent survey request letters by mail or in person to the companies to be surveyed to obtain their consent for the survey itself. Approximately 30% of the 240 companies, or 240 companies, have agreed to be surveyed.[142] The location of the survey will be at the company's headquarters as much as possible. After arranging the date and location, we will study the company information posted on the company's website, but we will not read carefully the surveys conducted by others. We will not present any particular hypotheses to the target managers regarding the content of the interviews, but will simply ask them about current problems and how they are coping with them, asking them to speak quite freely. This is considered to be somewhere between semi-structured and unstructured.

The reason for limiting the target audience to management with representative authority and the location to the headquarters and not presenting hypotheses when asking questions is solely to increase the quality of the information available. The manager with representative authority is the final decision-maker, assumes full responsibility for corporate activities, and must have the skill and determination to sublimate the partial optimization obtained by assigning it to employees into the overall optimization without knowing whether it will be accepted by all employees. If there is a difference in the resolve and sense of responsibility between a manager with representative authority and a director without it, and a difference in the resolve and sense of responsibility between a director and an ordinary employee who

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[142] Whether or not we have surveyed 240 companies over the past 20 years is a large number or not is subjective. A survey is only complete when the other party accepts it. I know from experience that conducting surveys too frequently drains energy and makes each survey less intense, and that the process from survey request to schedule adjustment, concentration on the day of the survey, compilation of the information we have gathered, and communication on revisions of the information can become a chore. Unlike large companies whose headquarters are concentrated in Tokyo, medium-sized companies are scattered across the country, which requires travel expenses and travel time. Initially, we focused on companies in the Tokyo metropolitan area and the Kanto region, but gradually expanded our coverage by making use of night buses, local buses, the Seishun 18 Ticket, and rental bicycles. And in the last decade, with the rise of LCCs and cheap rental cars, it has become possible to go to distant places for a day trip and for less than 20,000 yen. In order to make effective use of limited and precious research funds and time, it is preferable to limit the number of trips to some extent.

does not hold a special position, the former is probably much greater. In other words, they are responsible for telling us about their company in their own words. The reason we go to the headquarters is that the managers can speak freely without unnecessary tension. After the survey, if the client has a proposal, we go to the factory to see and understand the product and manufacturing process in detail. On the way there and back, we can understand the characteristics of the area. The reason we do not present hypotheses and do not conduct in-depth preliminary studies is to obtain information that is broader than the existing framework we assume. When managers talk about the current status of their company, they inevitably talk about the major flow of events from the founding of the business to the present. We then ask a series of questions about specific business activities, the structure and background of business transactions in the industry as a whole, the characteristics of customers, how themes for new product development are set and evaluated, personnel evaluation, the approach to training, the decision-making process of management, and management's vision for the future, to elicit what the manager thinks the company should be and what he or she sees in a manager. Because the environment and challenges faced by each company are different, the volume, time, and depth of content of the answers will vary from respondent to respondent. The survey ends when the managers have finished speaking, which averages about 90 minutes. Some managers spoke for only 30 minutes, while others spoke for two full days. The average amount of data is about 4,000 words. For the managers, the process of talking about their company and the various dimensions of events related to their company in clear terms helps them to organize their minds and gives them an opportunity to generate new ideas. Therefore, our survey is not without methodological and ethical problems, since we not only listen but also influence the behavior of our subjects through dialogue.

We publish all of the information we receive in the university bulletin with the president's approval and after making corrections. When they revise, they hide proper names of clients, add industry-specific customs and terminology, correct what we have misinterpreted, and delete what we have overstated, but otherwise leave nothing out. We take responsibility for our words. We are responsible for our own words. We never have zero subjectivity, and our data may become secondary data for other researchers, but we have tried to eliminate as much subjectivity as possible, so we hope that you will use our data as a 1.5 source. One cultural anthropologist pointed out to me that "generally, no researcher discloses his or her field research data," but considering the fact that we receive research funds from our institution, and in the hope that other researchers will emerge to compensate for the limitations of our abilities, we have decided to disclose the data rather than to keep it secret. We have decided to disclose our research rather than to keep it secret. We believe that the almost uncensored publication of the stories of business executives will contribute to the development of many future researchers.

While they are focused on a single victory, once it is decided, they are not lingering and thinking about what to do next. Human abilities vary from person to person, and not everyone is as logical or as programmed as a robot. If we customize our products to meet the needs of our customers, the price will be too high and other companies will flee, and if we standardize our products and make them cheaper, they will flee because they do not meet the detailed needs of their customers. In the midst of the complex intertwining of various conditions in the course of business dealings over the years, the manager, using wide-angle, standard, and telephoto lenses in light of his own code of conduct, sniffs out the importance, urgency, and profitability of the customer, checks his wallet, considers what he can do today, predicts the future several years from now, and searches for a compromise or a drop-off point. This is the intuition of management, and it is difficult for a third party to understand why they make the decisions they do, even after observing and verbalizing them.

6-2 Extraction of regression factors

Interviews are conducted at times when management is in a good enough business condition that they feel it is "okay to talk to younow."[143] In addition, management may talk about past events, but not so much about threats or opportunities they may face in the future. Therefore, at the time of the survey, we, the research subjects, cannot foresee what the company will do in the future. The purpose of the survey is to identify growth factors. Growth factors can only be extracted by comparing firms that have grown since the time of the survey with those that have remained the same or have fallen back. Therefore, we checked how firms are doing now that a certain amount of time has passed since the time of the survey. An analysis of quantitative growth and recession is presented in Chapter 4. While eight of the firms we studied have already lost control, few have grown significantly, suggesting that the past 20 years have been a difficult time for mid-sized firms. Therefore, we will compare the receding firms with the surviving firms. First, we examine the five companies that lost management control.

The previous owner of Montblanc Industries (pseudonym) introduced cutting-edge technology from overseas and entered the field of electronic components using the technology of the founding business. As the market for electronic products in which these components are incorporated emerged and flourished, they became important components for major

[143] The survey depends on the business condition of the company, the timing of the president's term of office, the president's physical condition on the day of the survey, various external troubles, sudden accidents, mourning, and other factors. Lehman shock, earthquake, and pandemics can also make it impossible to conduct a survey at all.

Japanese weak electrical appliance manufacturers, and the company rapidly increased its business volume and production, becoming a medium-sized enterprise. In the process, the son of the previous owner, who had led the introduction of the technology, took over the business but passed away suddenly, and his spouse took over. The spouse was the subject of our interview. At the time of the interview, she was concerned that she would lose control of the company due to her lack of technical expertise following the sudden change. Ultimately, it is fair to say that this was the main reason why the company lost control of its operations. The company continued to perform well for several years after the interview survey, and I had the opportunity to meet with him several times. The company had built a new head office that also served as a factory for its founding business, and nothing seemed to be going wrong. However, the major Japanese consumer electronics manufacturer that had been their main business partner was weakening, and the management felt threatened and distrustful of the newly emerging foreign company, and became reluctant to do business with them. They were puzzled by the significant differences between the business practices of Japanese firms and those of foreign firms. For example, when the foreign company asked Montblanc to disclose its technical information, blueprints, materials, and suppliers, the management refused, claiming that the request was unreasonable. For a time, Montblanc was the largest company in the industry, holding 70% of the Japanese market share for electronic components, but prices plummeted due to the entry of other companies and in-house production by suppliers, and the Great East Japan Earthquake disrupted the power supply to the factory and the procurement of components. In the meantime, the company rushed to lay off personnel but could not do so in time, and its huge investment turned into bad debt. The company suddenly found itself at a financial standstill, involving its founding business. In the process of entering and expanding into the field of electronic components, Montblanc had hired many engineers and managers from major electronics manufacturers, equipment manufacturers, and construction companies in mid-career. They must have had not only technical expertise but also a thorough knowledge of the ins and outs of large corporate organizations, and it was originally hoped that the company would utilize their experience and knowledge to strengthen its own organizational structure. However, because the management gave priority to personal resentment, they were practically abandoned by the engineers and managers and lost control of the company. Many of them were taken over by the new company, but management independence could not be ensured.

Next, we will present the case of Millefeuille (pseudonym), a company that deals with products for individual consumers. Before the company was founded, this manager felt uncomfortable with the fact that large corporate manufacturers and retailers were developing and selling products with an emphasis on fashion without responding to the real needs of consumers. Therefore, he introduced a door-to-door sales method that emphasizes product functionality, bases product development on maintaining model numbers for repeated purchases, and eliminates storefront costs. Instead of direct sales, he concluded distributor contracts with many individuals and set a fairly large profit margin for distributors, which enabled him to build a strong sales structure. The manager had no technical expertise in the product and stated, "It was rather a business opportunity that I realized because I was a novice myself. However, as times change, consumer lifestyles change, and with the rise of the Internet, the door-to-door sales method no longer works as well as it used to. Competitors also began to pursue product functionality, and differentiation was no longer possible. In response to the changes in the buyer's buying space, Millefeuille was unable to fundamentally rethink the sales system it had established because of its superiority and robustness, and was thus swallowed up by the onslaught of competitors.

Neo Lagoon Institute, Inc. (pseudonym), whose main business is consulting, was growing its sales by 10% or more every year at the time of our interview, and was flying high. When we asked him about the company's challenges, he replied emphatically, "There is nothing wrong with it. He explained that he had developed a new business model for the client's business expansion, which was unique in the world. We were impressed by the insight and foresight of the management. A few years later, however, the company's performance took a nosedive and it collapsed. Looking back dispassionately, it is possible to interpret the clients who grew rapidly with Neo's help as having originally had excellent business models that had affinity and synergy with Neo's consulting policies and played a catalytic role. On the other hand, clients that did not grow may not have had a good business model from the beginning. Therefore, many of the clients who followed Neo's advice and forced rapid expansion of their businesses rapidly became heavily indebted, leading to lawsuits against Neo and defections. This is also a case where the management did not realize that it takes time to train Neo's employees who guide clients, and the company itself could not catch up with the business model that emphasizes speed.

Avalon Chemical Corporation (a pseudonym) has wreaked havoc on society due to more than 40 years of intentional violations of laws and regulations and the tacit approval of its management team. Immediately after our interview, the company became a consolidated subsidiary of another company, and the president of the founding family resigned. At the time of our investigation, we did not detect any such signs of wrongdoing, and even now, we cannot think of anything that could have been said or done that would lead to a serious error. If anything, in a room in the beautiful new headquarters building, management stated that there was a shortage of employees in the age group to fill middle management positions. It can be pointed out after the fact that the company made a mistake in allocating resources in favor of efficiency and physical appearance in the midst of the Japanese government's policy push and resulting rapid growth, while putting off long-term, hard-to-see results in measures to clean up the fraud and in education. However, the company was a well-known and well-established company in the region, and it may have been very difficult for it to disclose its own long-standing fraudulent activities and to make drastic reforms. We can glimpse the strong sense of loyalty and closure that is unique to Avalon, where management fears detection and justifies fraud. However, after Avalon's fraud was discovered, many of its competitors were also caught cheating. This is not a problem of the company alone, but rather a major issue that cannot be captured from a business management perspective, involving the licensing system and vested interests, including regulatory authorities and distribution.

Alpini (a pseudonym), a manufacturer and seller of machinery and equipment, was a small company that did not fall into the category of a medium-sized enterprise, but we were able to interview the same manager three times: once when the company was doing well, once after it filed for civil rehabilitation, and once after it transferred its business to a larger company. According to his reflections, different types of problems arose in various situations, and we believe that he tried to solve them by outsourcing or paying for equipment and tools, which made it difficult to generate profits. This was not simply the fault of outsourcing, but rather an imbalance between technological improvement, productivity improvement, and sales increase in the core profitable areas, and outsourcing of peripheral areas that do not generate profit, and the number of units produced (= number of units sold) that would increase total profit. In the years prior to the transfer of the business, the company stated that it had specialized in the production of the heart part, which led to an increase in the number of units produced and stabilized profits.

Thus, the researcher's one-sided explanation of the factors that led to the recession of the recessionary firms, including the post-investigation history, literally cannot escape the charge of second-guessing. Certainly the managers who went bankrupt must have been desperate, and perhaps they just happened to be unlucky. Natural disasters, the sudden death of a manager, the decline of a major business partner, a sharp drop in the price of a major product, or a change in policy are all examples. Like us, there are studies that analyze the causes of corporate bankruptcy focusing mainly on managerial problems.[144] Takamura and Takano (2017) analyzed 76 firms from bankruptcy articles published in two Nikkei BP journals that were found to have "organizational internal factor problems related to managerial problems

[144] Seigo Takamura and Kenichi Takano (2017), "Extraction of Common Root Causes Related to Organizational Climate of Bankrupt Firms: Causal Analysis Based on Cases of 76 Bankrupt Firms," Journal of the Japanese Society of Business Diagnosis, Vol. 17 pp. 75-81

that belonged to management activities that suggest inappropriate business management." Before reaching their conclusions, however, we must point out the limitations of their research methodology. The words extracted by the research entity from the article about the bankrupt company are clearly biased, as they are judged to be "improper business management" in light of the outcome of the bankruptcy. It is also a double bias, one of the authors of the original article and the researcher who analyzed it based on the original article. For example, as examples of inappropriate business management, the authors cite such factors as aggressive strategy, adherence, ad hoc, dogmatic, and lack of know-how, experience, and ability (Figure 6-1). Adherence, ad hoc, and dogmatic could be replaced by positive terms such as focused, flexible, and strong leadership, respectively. There are countless stories of executives who, based on their own sources and forecasts, have tried new things and succeeded in the end, despite fierce opposition from other executives. It is natural that everyone is anxious to try new things without know-how, information, or experience, and it is normal to lack the ability to do so.

<Insert Figure> <Insert Figure> Chart 6.1 Managerial Issues of Bankrupt Companies

Looking at the middle and sub-items in Figure 6-1, it is clear that there are clearly inappropriate management factors, such as old-fashioned, sloppy management, and high-handed business, while there are also characteristics and habits that any manager can have, to a greater or lesser extent, that are hidden and suppressed while the company is growing and profitable, and are even praised by those around them. However, some characteristics and habits that any manager can have to a large extent are hidden from the public while the company is growing and profitable, and are suppressed and blamed when the company's performance deteriorates. It would be more natural to assume that in a surviving company, the management itself makes attempts to overcome and transcend such characteristics and habits on a regular basis, and that a system in which these attempts are routinely made is in place. The system is not a packaged one that can be easily taken over, sold, or traded, but one that is meaningful only if it is consciously repeated. More specifically, it includes periodic inventory taking, inventory control, and meetings to discuss the causes of products and services that did not sell well, training of middle management, and securing diverse sources of information. In other words, it is an objective view and self-awareness of management and the company.

Returning to our analysis of the recession-stricken companies, our honest impression is that, at the time of our interviews, while they were passionate about their survival, they had a stronger sense of duty and humanity and a somewhat self-absorbed belief in their management methods than other surviving companies. Transactions that had been established through human relationships were transformed into delusions of faith by environmental changes, and this appears to have been a stumbling block in the escape from the crisis. It seems that it was not the decisive difference in a few elements, but the difference in the degree of many elements, which was a combination of bad luck, and the fact that there were numerous chances to notice them but missed them without a mechanism to seize them, that made the difference between survival and regression greater.

6-3 Extraction of Survival Factors

We try to present examples of growing companies to contrast them with those in retreat, but it is actually very unclear which are the growth factors. Since many companies are privately held, it is difficult to determine their exact performance trends, and it is impossible to clearly distinguish between growing companies and non-growing companies. Therefore, it is not possible to cite specific cases of particular companies, so we will summarize what the managers of surviving medium-sized companies were trying to do at the time of the interview survey and general trends that have stood out since the time of the survey.

The first reason for the company's survival, which is very obvious, was the growth in sales of its core products. Management and employees work hard to match their core products to the needs of buyers and sell them hard. As one president once said, "If your products don't sell, no matter how good your strategy, plan, or organization is, or how good your employees are, it's all just a bunch of pie in the sky. Behind the success of a product, there must be some method or force that connects the buyer's needs and technological seeds, and it varied from company to company. Once the decision is made, the person in charge concentrates his/her energy on converting the buyer's voice into a technological element, adds it to the product, and continues to appeal to the buyer, saying, "This is what we have made. They add it to the product and keep appealing to the buyer, saying, "Here is what we have made, how do you like it? As far as the management was concerned, they did not always have a splendid research department to create a succession of groundbreaking new products. However, since they develop products after exploring the needs, there was no story of a company that created a completely misguided product that caused a great deal of trouble. Nor was it the case that a single manager had thought through and elaborated an ideal, one-of-a-kind business model. Rather, they were simultaneously experimenting with several different models, each containing several different ideas, and trying to come up with the next model. It was a repetitive process.

The second reason for the company's survival is related to the above-mentioned product sales, but it is also related to the fact that the company selects and retains profitable work, eliminates work that is unlikely to be profitable from the start, and withdraws from work that has become unprofitable. Even if they do not make a profit, they continue to do work that provides them with technical and market information that is beneficial to their company. In other words, they do not get involved in simple price competition[145] . The company's products and services are the crystallization of self-expression and brand pride for management and employees. Their pricing is also a quantification of their own realized function in light of the buyer's willingness and ability to pay. Even for the same product, there are buyers who recognize the benefits obtained from the product as valuable and buyers who do not recognize the value of the product. Selling only to buyers who recognize the value of the product will generate a profit, while selling in volume, including buyers who do not recognize the value of the product, will lower the cost per product and ensure a reasonable profit. Moderate price competition is also an excellent opportunity to review one's own cost structure. However, once a certain line is crossed, it becomes a war of attrition to the point where one loses sight of the value of one's own existence. Because the capabilities of buyers and other sellers are constantly changing, management needs to constantly monitor and understand whether its capabilities and product capabilities and prices are justified compared to the capabilities expected by buyers and realized by the competition. It is also management's role to stop doing business with buyers who are not interested in anything other than price, who are not willing to find value in their products or services, or who cannot determine value.

Finally, surviving companies have faced one or more business crises that shook the very foundations of their business to the same degree that recessionary companies have experienced, and have learned how to survive from them. Survival means rationally reassessing priorities such as values and attitudes other than corporate survival. When there is room, the emphasis is on consistency with the past and consistency of strategy, such as strengthening various fundamental elements of the business and emphasizing good relationships with many stakeholders. Ideally, once management perceives some significant opportunities and threats, it would analyze the factors, review the consistency to date with employees, and change values and behaviors. However, only a minority of managers and companies will actually be able to do so. Only when the situation becomes so extreme that the company's survival is in jeopardy will they finally cut ties with their long-standing business partners, parts supply responsibilities, employment security, and other interests, starting with

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[145] Price competition occurs when buyers compare the value (expected function) of a product with its price and find that the price is high (expected function is low) or, to put it another way, that the product is not worth the price, and demand a price reduction, while sellers, fearing a loss of sales to other sellers, agree to lower their prices. Price competition will not occur unless the conditions of buyers and sellers are aligned.

those with the lowest priorities. This is because stakeholders are more likely to understand the situation in an emergency than in a normal situation. You can't turn your back on the situation. We are forced to make a hard choice. The employees who remain in the end and die together will also change their mindset. Management must always have a multifaceted and flexible view and mindset, and be resolute in its resolve to deal with the various conflicts and clashes necessary for survival. This point will be discussed in detail in Chapter 9.

The survival factors can be summarized from the above examples and analysis as follows. All firms are working on product development by gathering necessary information from various sources. If possible, they continue to work with high profit margins, improve products so that profit margins can be maintained, and abandon the continuation of businesses that have become unprofitable. Nevertheless, as a result of years of efforts to improve efficiency, they have narrowed their vision because they have narrowed the sources and information filters that they search for and acquire, and they face some kind of business crisis. There are also various environmental changes that are beyond their control through their own efforts, such as the decline of the industry to which the major buyers belong, the decline of the buyers themselves, the entry of other sellers, technological innovation, and deregulation. The most pressing issue becomes how to escape from that crisis. All of the managers we interviewed were obsessed with the survival of their companies in the face of a crisis, and there were signs that they cut jobs and made money regardless of what they had to do. Some companies endured unreasonable demands in order to gain new customers, and were envied by the managers of other companies in the same industry that had been forced out of business, so they hid the signboard with their company name on it and survived in secret.

As a manager, the following roles were required before and after facing a crisis. Recognize environmental changes at an early stage; determine whether the change is a serious or urgent threat to the company; if it is serious but time-sensitive, sit down and work on it; if it is urgent but minor, contact the relevant departments and let them handle it; if it is serious and urgent, issue an alert and concentrate all employees' energy. In any case, the only way seems to be to recognize and respond quickly. Once a crisis has been averted, it will be necessary to examine why the crisis was faced and whether the method of averting it was correct. To this end, managers need to have multiple sources of information, always be flexible in their thinking, flexible in their judgments, and flexible in their actions.

Now, if we look back calmly, we realize that exactly the opposite of the above can happen. The prosperity of the industry to which a major buyer belongs, the rise of the buyer itself, the hostility or withdrawal of other sellers, the return of a company's own technology that was thought to have no future, policy changes, tighter regulations, etc., can cause the market for a company's products to expand through something other than its own efforts. Many of the managers we interviewed modestly claim to have been "lucky," but in fact, in some cases they have been. Even if there is a slight delay, the opportunity makes it easier for employees to naturally look forward. After benefiting to a certain extent from this fortuitous opportunity, it is necessary to examine how the opportunity came about and whether the response to the opportunity was correct, rather than attributing the reason for the opportunity solely to the efforts of the company.

Many managers say they do not want to be the king of the naked[146] . They allow employees to speak freely about things in order to objectify their thinking, devise ways to help buyers understand the value of their products and services and evaluate them freely, and strive to understand their own capabilities. Learning from threats, benefiting from opportunities, having a multifaceted and flexible value system, multiple sources of information, diversified sources of income, etc. Whether management is aware of these things and implements them, whether it has built an organizational structure that can do so, and whether it has created an atmosphere in which people can speak freely may be the difference between survival and setback for a company. The difference between survival and setback may lie in whether management is aware of these issues and implements them.

6-4 Comparison of Attitudes of Firm Managers with Growth Factors in the Literature

Can we present more convincing data to show what we have discussed in the previous

[146] The essence of the "naked king" is the obsession with power and honor (an invisible false robe), the fear of discovering one's own powerlessness and incompetence, and the escape from responsibility of all interests, from the king down to the junior officers. The con man merely serves as a catalyst to increase people's obsession, fear, and evasion of responsibility. The higher ups are more attached to the power and honor that comes with their position, and fear that they will be ousted when the lower downs point out their inability to live up to their position. The higher ranks use their power to intimidate the lower ranks, while the lower ranks only provide information that makes the higher ranks think that they are competent, and do not provide inconvenient information that could lead to them being held accountable. The upper class accepts the intimidation because they are promised a little power and honor as long as they do not point out incompetence, and a chain of intimidation and evasion of responsibility from top to bottom and status order are easily maintained. However, when the lower ranks lose patience with intimidation, they immediately begin to point out the incompetence of their superiors. The immediate superior will then fire both the superior who has pointed out the incompetence and the subordinate who has pointed it out, and the immediate superior will then try to save his or her job. Therefore, the higher-ranking person is able to maintain his or her position, and the lower-ranking person is unable to recognize his or her own incompetence because of the delay in realizing that the lower-ranking person thinks he or she is incompetent. Since the king is unable to recognize himself until the end, he is forced to take full responsibility from the subordinates when some major mistake is discovered and he cannot be restrained by intimidation (revolution).

section? Therefore, we extracted 834 words from a survey of interviews with presidents of medium-sized firms, classified them in the same way as the growth factors from previous literature done in Chapter 2, and compared them.[147] 147 (17.6% if the 834 factors are set to 100, the same applies below) for matters related to management, 138 (16.5%) for matters related to products, 64 (7.7%) for technology, and 7 (0.8%) for equipment. Specifically, the largest number of respondents (49 (5.9%)) chose "information gathering" among matters related to management. 24 (2.9%) and 17 (2.0%) cited "presentation of direction," 17 (2.0%) "insight," and 11 (1.3%) both "qualities such as entrepreneurial spirit" and "refusal to make unreasonable business transactions. For products, new product development was 20 (2.4%), originality 15 (1.8%), fair price 14 (1.7%), and development speed 13 (1.6%). Technology accounted for 26 (3.1%) for uniqueness, 18 (2.2%) for production technology, and 17 (2.0%) for basic research. Comparing these to the growth factors from the past literature in Chapter 2, Chart 6.2 shows.

What can be said from this is that there is a discrepancy between what researchers have found to be a factor in the growth of midsize companies and the actual attitudes of midsize company managers. To go further, they are different. Basically, it is not that one is right and the other is wrong, but that it is constructive and appropriate to consider the two as complementary to each other in thinking about midsize companies. One difference between the past study and our interview survey is that there is no difference in the percentage of "general management factors," but a detailed look at the specific breakdown reveals a significant difference (Figure 6-3). While past studies (dashed line in the figure) show large values for managers' entrepreneurial spirit and insight, the interview survey (solid line) shows low values for entrepreneurial spirit. Managers are not aware of their own entrepreneurship. They may not be aware of it. Rather, they think it is important to gather information and provide direction. As for "products," while past studies have mentioned new product development, uniqueness, timing, growth potential, and many other factors, the interviewees were only aware of new product development. Special technology" was highly cited in both the past studies and the interview survey, suggesting that it is strongly considered by many manufacturing firms. In "technology," basic research and production technology were considered important in the past studies.

Not included in past studies, and notably higher in the interviews, were "employee development," "employee livelihood (job retention)," and "information exchange with customers." Managers are less conscious of entrepreneurship and less willing to rely on their

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[147] Shimizu, K. (2004), "Growth Factors of Medium-sized Firms: A Survey of Studies on Medium-sized Firms", Chiba University Economic Research Journal, Vol.19, No.1 pp.95-124

own insights into the relatively distant future. Rather, it can be read that they **gather fresh information themselves and through their employees, and strive to quickly develop products that incorporate needs related to the relatively near future and bring them to market so that they can secure profits.** In order for the process of converting needs information into products in a medium-sized company to take place without stagnation, it is necessary not only for management to issue orders, but also for employees who fully understand management's intentions to skillfully manage the employees further down the line. This is the development of management skills, or middle managers, discussed in Chapter 1.

Since large firms hire employees at all levels and assume lifetime employment, skill development and job retention have been taken for granted in business administration. On the other hand, medium-sized companies cannot easily hire employees with the same level of skills, and as pointed out in Chapter 5, they lack human resources in middle management positions. It is thought that by consciously developing their employees, they are trying to make their organizations function as medium-sized firms. However, there is a detrimental effect of not being satisfied with the difference between the company's growth as envisioned by management and the actual quality and speed of middle managers' execution of their duties, which prevents them from nurturing middle managers by overruling or ruining their decision-making. This is the reason why some companies are said to retain a "personal store" or "one-man" character even as they grow in size. The number of employees is so large that it is difficult to remember faces and names, and it is impossible to treat employees like family, as is the case in small and medium-sized businesses, and the employees do not want that. There are employees who work for medium-sized companies in rural areas with various circumstances, and they are forced to provide something that generates loyalty and pride in the company, as well as financial backing and emotional support that guarantees the employee's competence and livelihood security in the context of local relationships.

We do not know whether a single manager will focus on solving short-term problems during his/her term as president, whether he/she will focus on long-term forecasts, or whether he/she will shift his/her focus from time to time, or whether he/she will do both at the same time. Is the overall market growing? Or is it a niche where no one else is doing it? Even if the market is not growing, is it because of the functional differences in their products that they are able to secure market share?

In our interviews, some had been in management for a long time, had confidence and firm words based on their various experiences, and were able to explain themselves in a familiar manner and with aplomb. On the other hand, there were those who had just assumed the position of president and were searching for their own style of management with a sense of awe and conflict with their predecessors, and they chose their words carefully as they explained. It is difficult to capture the entrepreneurial spirit and insight of managers from this kind of research. Past studies have extracted such insights not only from interviews but also from questionnaires, literature review, deep surveys, and case studies, but they did not specifically state what constitutes entrepreneurship or insight, or the criteria for its definition. It is possible that trends in business administration at the time of the survey may have influenced the results.

<Insert Figure> <Insert Figure> Figure 6-2: Differences in Growth Factors between Interview Survey and Literature (Summary)

<Insert Figure> <Insert Figure> Figure 6-3: Differences in Growth Factors between Interview Survey and Literature (Details)

6-5 Summary of this chapter

Recent case studies in the field of neighborhoods of medium-sized firms have the limitation that their methods lack objectivity and that firms are arbitrarily selected. While bias cannot be reduced to zero, we decided to interview a wide range of mid-cap executives, regardless of their performance, in order to overcome this limitation as much as possible.

The differences became clear when we were able to compare the surviving medium-sized firms with those that lost management control in later years due to bankruptcy or acquisition. The reasons for the loss of management control were the failure to respond flexibly to the decline and transformation of existing buyers, and the inability to objectively assess their own capabilities and to expand beyond the speed at which they could improve their capabilities. We believe that the difference was not the decisive difference of a few factors, but a combination of varying degrees of many factors and bad luck, which increased the difference between survival and regression due to the lack of a regular mechanism to perceive the situation at an early stage.

We also found a difference between what was considered a growth factor in past studies of medium-sized firms and the perceptions of managers in our interviews. In order to survive, medium-sized firms seem to gather fresh information both from management themselves and through their employees, and strive to quickly develop and market products that incorporate needs related to the near future so that they can remain profitable. In order to seek higher growth, managers would have to demonstrate entrepreneurial spirit and insightful business transformation into products with high growth potential, as past literature studies have shown. Previous analyses have dimly revealed that managers of medium-sized firms give detailed instructions to their organizations, which then accurately, quickly, and efficiently extract useful information from their buyers and incorporate it into their products and services.

Medium-sized firms have a variety of options: they can compete with large firms for the same products, or they can cooperate with them, or they can gain ground in a narrow market that is difficult for large firms to penetrate. The conditions for existence will be that they must be comparable to the large companies in size, technology, geography, and organization. How do they select buyers and extract useful information from their different positions? It will be necessary to categorize and examine these issues in detail. In addition, what kind of thinking do the managers of medium-sized companies have in their minds when they want to grow their companies? Are they consistent or do they change their thinking from time to time? We will attempt to analyze them from Chapter 7 onward.

Part III New Perspectives

For medium-sized companies to survive and grow, they need profits from providing products and services, as well as useful information that will bring those profits. For transactions through products and services to be successful, sellers must continue to provide the needs and functions demanded by buyers more cheaply, quickly, and accurately than buyers can develop them on their own. In particular, we would like to further clarify the mechanism by which medium-sized firms with relatively scarce management resources compete indirectly, potentially, and directly with large firms with relatively better resources to provide product and service functions that are equal to or better than those of large firms.

The analytical framework was presented after wading through past literature in Part I. In summing up the past literature, it was stated that "mid-cap managers have an entrepreneurial spirit and are willing to gather information and gain insight into changes in the environment. They then develop unique products at the right time with special technologies that other companies do not have" is important for the growth factors of medium-sized firms.

On the other hand, in the second part of our study, we conducted a questionnaire survey of large and medium-sized companies (in the manufacturing industry) and an interview with the presidents of medium-sized companies to understand the current status of the companies listed as case studies in past literature. As a result, we found that medium-sized companies have been greatly affected by environmental changes over time and in some industries, with some having grown into large companies and not a few having lost management control. There were also managers who attempted to expand beyond their own capabilities, and in doing so, destroyed their companies. The managers of medium-sized firms that have managed to stay afloat seem to "gather fresh information through their own management and employees, develop and market products that incorporate needs in the relatively near future quickly, and strive to secure profits," providing a different perspective from past studies of medium-sized firms.

Many management studies based on studies of medium-sized firms and large firms have assumed or emphasized the *absolute* capability of sellers. In contrast, our research shows that managers of medium-sized firms determined the scope of buyers after first calmly grasping their own capabilities and the functions they would provide through the products and services they would develop. In other words, sellers limited the functions they offered, measured the difference in *relative capabilities* between them and buyers within that range, and decided not to do business with buyers who demanded functions that were too far removed from those offered by the company, or to discontinue business even if it was ongoing. If the seller has absolute capacity, there is no positive reason to select a buyer as long as it is profitable. If the buyer does not have absolute capability, management will know the expected functions of the buyer and take into consideration the possibility of meeting those expected functions, the development cost, production capacity, time, personnel allocation, possibility of obtaining profit, possibility of obtaining useful information, and other factors. Based on the available information, management prioritizes these complex factors and makes a final overall decision on whether or not to make the transaction. Management has the criteria and basis for its decision, i.e., the purpose, goals, and personal philosophy of the business, and it is only when these are presented to the employees and their energy is elicited that the management of the company can take place.

Here in Part III, we would like to take a new look at how mid-sized companies, which rarely have absolute competence, grow and how the goals and objectives held by the management and the company in doing so are related. The results of our analysis may differ depending on whether we look at mid-sized company transactions from a third-party perspective from a bird's-eye view or from a horizontal perspective from the standpoint of the mid-sized company's management (at the same height as both the seller and the buyer). We would also like to mention that as managers become freer, the importance of objectives and goals to govern their own actions increases.

Chapter 7: Classification of Medium-sized Companies

7-1 Our remarks on our discussion

In the absence of any research on medium-sized firms, Yuhui Lin (2020) provided a careful and detailed critique of our paper[148] . Lin's main points are as follows.

Our discussion (1) has ambiguous boundary conditions that define medium-sized firms, (2) lacks relativization with existing theories, (3) assumes the existence of medium-sized firms and therefore has no proof of their specific logic, is weakly theory-oriented, and has methodological problems , and for these reasons (4) cannot be a pillar that holds other studies together and does not respond to the needs of those who need a theoretical basis. For these reasons, (4) it cannot be a pillar to unite other research, and it cannot meet the needs of those who need a theoretical basis, and as a result, midsize company research falls into the same bedrock and disintegrates naturally as a research area.　I hereby express my utmost respect and gratitude to Hayashi and attempt to make a modest excuse in this order.

First, (1) Regarding the suggestion that the boundary condition that defines medium-sized firms is ambiguous, we believe the following. Since small and medium-sized enterprises and large enterprises are defined and dichotomized by the Small and Medium Enterprise Basic Act, all researchers, including ourselves, do not consider this boundary condition. By relying on the existence of a legal basis, we, as enterprise researchers, are spared the work and cost of examining the upper boundary condition for small and medium-sized enterprises and the lower boundary condition for large enterprises. Since there is no legal basis for the definition of medium-sized enterprises, the discussants must use their own judgment to set the upper boundary condition, and it is to be expected that the upper boundary condition will vary from one discussant to another. If we point out that it is ambiguous, then the definition of medium-sized firms cannot be the subject of research unless the definition of medium-sized firms is legislated and agreed upon by society. We believe that the reason why the upper boundary condition of SMEs is expanded and changed every time the law is revised is ambiguous. SME researchers should reexamine the upper boundary condition itself, facing the existence of "large SMEs" that do not want to grow or that avoid taxation by holding back their capital. With regard to the lower boundary conditions for large corporations, many business

148 Hayashi, Yuki (2020), "Research on Medium-sized Firms Toward Natural Dismantling: A Reexamination from the Perspective of Business Administration," Journal of Economic Theory, No. 401, Wakayama University Economic Association pp.19-36

administration researchers are uncomfortable with the fact that they lump together and discuss on the same footing corporations with 301 employees and ¥301 million in capital and super-giant corporations with up to 350,000 employees and ¥600 billion in capital. We argue that it is better to discuss independent companies with 300 to 2,000 employees and no financial or human control from other companies separately as medium-sized companies.

Second, we have to accept the biggest point of Hayashi's criticism (2) the lack of relativization with existing theories. Rather, we learned a great deal from his translation into clear academic language of the outline of the capability curve (detailed in Chapter 8), which we arrived at after many twists and turns. We arrived at this point by minimizing the work of relativization and focusing on collecting the stories and ideas of mid-career executives without a theoretical cognitive map as much as possible. Having a strong cognitive map can lead to a perversion, whereby we find managerial statements and corporate actions that do not fit into that map trivial or even wrong at times. We attempt to understand the range of their thoughts and perspectives and the points they emphasize from the stories of managers, and then recreate and conceptualize their cognitive maps by characterizing and connecting them as faithfully as possible. Originally, management science has not been able to establish a theory that actively evaluates the "middle. In the case of a large company, the argument can be advanced on the assumption that the organization has a certain level of resources and capabilities, and in the case of a small or medium-sized company, it can be made more persuasive by emphasizing the quick decision-making of management and the low wages of employees. The middle can't do that. Although we believe that a balance between theory and practice is important in business administration, the different objectives of researchers and practitioners with respect to management have led to a disconnect between theory and practice. One manager of a large publicly listed company wrote to us, "In my daily life in the field of management, I hardly think about academics, and I am honestly making frustrating efforts to improve my practice. We believe that if there is such a thing as business administration that contributes to the practice of practitioners, it is permissible to use plain language and concepts from the perspective of the practitioner, i.e., the manager.

And (3) they do not have a clear answer to the point that there is no proof of the logic inherent in medium-sized firms. Small business researchers argue that the condition of existence of small firms is to emphasize their overwhelmingly small resources relative to large firms and their aggressive response to businesses that are not profitable for large firms. The researchers discuss the business challenges that SMEs are likely to face under these conditions and their countermeasures, but it is questionable whether they provide any evidence of inherent logic in doing so. The same can be said about medium-sized enterprises. We will discuss the management issues that medium-sized firms are most likely to face and their countermeasures for the overlap between businesses that large firms do not do and businesses that small and medium-sized firms cannot do. We cannot claim that the challenges and solutions do not apply to SMEs or large firms, but only that they are probabilistic. If we raise the level of abstraction, we can explain them without feeling the itch, while ignoring the scale and space-time conditions of individual companies, but if we go too far, we lose balance with practice and end up playing with theoretical theories.

Lastly, (4) we have never dreamed that we would be a pillar to unite other studies, that we cannot be a pillar to unite other studies, that we cannot meet the needs of those who need a theoretical basis, and that as a result, the study of midsize companies will fall into the same dream and naturally disintegrate as a field of study. We are not the only ones who have the privilege of talking about medium-sized companies, and to begin with, no one else is continuously researching medium-sized companies. We don't think they are well established enough to be dismantled. We would be very happy to have someone who would be willing to be a pillar of our research.

As a theorist, Hayashi hit the nail on the head with his points, and he has given us a direction for our future research. Although we have made a number of embarrassing excuses, we intend to work earnestly on this issue. In doing so, it will be necessary to address the taboo subjects of the personal abilities of employees and managers, the lack of managers and the inefficiency of SMEs, the legal definition and classification of SMEs that are out of step with the reality that they account for 99.7% of all companies, and the harmful effects of these factors that have in fact discouraged managers. The legal definition and classification of SMEs are at odds with the reality that they account for 99.7% of all companies.

On the other hand, Hayashi did not mention our interview survey. At this point in time, when there are absolutely few researchers who focus on medium-sized firms, we are very grateful that you are interested in our research and discuss it calmly with us. However, in order to restore the balance between theory and practice and to expand our findings to be more effective, we would like many researchers to conduct their research directly on actual medium-sized companies themselves. We believe that a wider range of research would be more profound than the world of text alone if researchers went to a greater number of workplaces and carefully observed the lives of managers, their joys and pains, and the moments when employees are at work.

7-2 Purpose and cut-off points for classifying medium-sized enterprises

We corporate researchers simplify and abstract in order to present a clear analytical framework and to accurately understand real corporate activities. On the other hand, excessive pursuit tends to lead to dichotomies and choices. In the process of simplification, the background of the company, its culture, its way of thinking, the merits or demerits of its products, the social needs of the time, the needs of the buyer, timing, etc. are omitted. In reality, it is not that simple, as some companies succeed in doing something similar, while others fail, and the same thing that succeeded in one company may fail in another in another time and space. As far as our research has shown, reality is complex with many variables, and it is necessary to explore simplification and abstraction for analysis while retaining as much of that complexity as possible, and the balance between the two is important. One tool to simplify reality while preserving its complexity is to classify reality into several categories. A meaningful classification is one that allows us to distinguish as many characteristics as possible of a miscellaneous object with as few classification frameworks as possible, and one that can be applied in the future. The main theme of our research, medium-sized firms, is the classification of all firms by size.

By the definition of the Basic Law on Small and Medium Enterprises, 0.3% of all enterprises are large enterprises and the remaining 99.7% are small and medium enterprises.[149] We define medium-sized firms as independent firms between 300 and 2,000 employees, which fall in between. In sober reflection, we would have to say that a policy that lumps together 99.7% of small businesses is biased.[150] Through our interviews, we have seen many business owners who are conscious of receiving preferential treatment and intentionally try to stay within the SME range, as well as those who dare to go against the SME range by reducing their capital. Policies that are supposed to promote corporate growth and nurture world-class companies and allocate a portion of profits to government services are still tied up in domestic discussions of a two-tier structure. This may be leading mid-career business executives astray and distorting their management philosophies. In addition, almost all researchers in academia have long indulged in the classification of 0.3 vs. 99.7, despite the fact that Nakamura (Shu) pointed out the limitations of the dual structure theory in the 1960s. We would like to request that a more detailed and accurate analysis of the classification method and indicators for classification be re-examined after ascertaining the actual status of the entire group of firms.

Thus, the classification of large and small firms is legal and policy-based and is an artificial classification, and our classification of medium-sized firms is also artificial. Since living organisms evolve through the reproduction of genes by alternating generations, biology can

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[149] Small and Medium Enterprise Agency (2019), "White Paper on Small and Medium Enterprises," p. xii

[150] David Atkinson (2019) states that Japan's urgent need to increase productivity is the only way to maintain GDP, given the inevitable rapid population decline, but that the main cause of low productivity is small and medium-sized enterprises (SMEs), stating that "there are too many small and medium-sized enterprises. The main cause of low productivity is too many small and medium-sized enterprises (SMEs).

naturally classify them phylogenetically based on the process of evolution and relatedness. On the other hand, companies sometimes change continuously and sometimes discontinuously as a result of human-initiated policy changes in response to environmental changes. Therefore, it is difficult to trace the path of change retrospectively. They also change in the future. Therefore, we are forced to classify companies based on easily discernible traits.

The term "midsize companies" is widely distributed across a variety of industries, and the types of products and services they offer and the technologies they possess are diverse. While we are well aware that each midsize company is unique, we believe it is useful to first classify and organize midsize companies into several categories in order to understand the ability of management and the organizational structure necessary for midsize companies to grow. There are various possible approaches and frameworks for classification. Each category is important and has its own advantages and disadvantages, such as industry, conglomerate, affiliate, market, time of establishment (period of operation), location, ownership, management, size (number of employees, capital, sales), growth rate, organizational structure, whether the company is technology-oriented, market-oriented, or innovative, and so on.

For example, in Chapter 4, we analyzed the actual situation of mid-sized companies 60, 40, and 30 years from now by classifying them according to the industry they belong to. We believe that we have indeed been able to grasp the characteristics of each industry. However, 65% of the medium-sized firms that belonged to electrical equipment 60 years ago made great strides and became large firms, while 26% of the medium-sized firms that belonged to the same electrical equipment 30 years ago became small and medium-sized firms, and 26% lost their management rights. Even within the same industry, the competitive environment differed from era to era, and the circumstances of individual companies were different. In the first place, many medium-sized companies are BtoB, and the industry to which they belong and the industry to which the buyer belongs are often different. It would be useful to examine medium-sized firms by industry under conditions of intense innovation in the dominant technology within that industry. This is because competition among firms within an industry has a significant impact. On the other hand, if the dominant technology in the industry is stable, it will be affected by the trend of the buyer alone and the industry to which the buyer belongs, rather than by competition within the industry. In other words, apart from the classification of the industry to which a firm belongs, the speed of technological innovation (or the frequency of impactful technological change) is also likely to have a significant impact on medium-sized firms.

The location area cannot be ignored when considering medium-sized companies. Urban areas have a concentration of contact points and functions for all industries and services, and a well-developed social infrastructure. They attract diverse human resources, such as lawyers, accountants, and patent attorneys, who are indispensable for corporate activities, and have high employee wages and mobility. Therefore, headquarters functions and important operations (e.g., sales, highly confidential development, and production with very short delivery times) are often left in urban areas, while relatively unspecialized production and other operations are established in suburban, regional, and overseas locations, or outsourced to outside companies. In contrast, rural areas offer fewer employment opportunities and lower wages and liquidity than urban areas. Nevertheless, after local governments and financial institutions, wages are high for medium-sized companies headquartered in rural areas. It is easy to attract a reasonable number of people who return or stay in rural areas to receive employment and to take care of their parents. If there are no companies nearby to outsource the work, low-skilled processes must also be done in-house, which provides a large number of jobs. Some medium-sized companies are even responsible for important local social infrastructure (hospitals and schools). Therefore, the way managers think about employment and the region in general is different from that of urban areas. Since it is not easy to move a company to a remote area or establish a new company, the first step is to consider how to survive in the area. Since the future of a region is directly related to the development of a company, the company is considering how to build a long-term foundation for the region and how it should be in that context. Of course, we must also consider the speed of technological innovation of the product, the profit margin of the product, the size and weight of the product, the geographical distance from the buyer, the associated logistics costs, the cost of obtaining information, the accessibility of raw materials, labor, production facilities, and industrial concentration. It will be the values, attitudes, and priorities of management that will determine which of these are important.[151]

There are studies that have used the "number of buyers" with whom a company currently transacts as a cutoff for classifying companies. These are the discussions by Kanehara (1996)[152] , Asanuma (1997)[153] , and Nobeoka (1996)[154] . Kanehara divided the R&D systems

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151 Katsuhiro Suzuki et al. (2012) discuss the growth process of local firms as they develop from in-region purchasing to out-of-region purchasing and from in-region sales to out-of-region sales by the number of patent applications per employee. Suzuki, Katsuhiro, Sakata, Jun-ichi, Hosoya, Jun, and Nakanishi, Hotaka (2012), "Regional Medium-sized Firms: A Typology and Analysis of Growth Factors," National Research and Presentation Conference Abstracts, pp. 143-146 Japan Society for Management Information

152 Kanehara, Tatsuo (1996), Analysis of Technology Development in Growing Firms: Capacity Building in Small and Medium-Sized Firms, Bunshindo

153 Asanuma, Mari (1997), Nihon no Kigyo Kigyo Soshiki Innovative Adaptation Mechanisms, Toyo Keizai Inc.

154 Nobeoka, Kentaro (1996), "Customer Range Economy: Customer Network Strategy and Firm Performance of an Automobile Parts Supplier," Kokumin Keizai Zasshi, Vol. 173, No.

of small and medium-sized firms into subcontracting type and independent development type according to the degree of dependence on transactions, and analyzed the process of technological capability improvement of these firms. Based on the relationship between the degree of dependence on transactions and the rate of new product development, he concluded that the subcontracting type, which is more dependent on specific suppliers, i.e., has fewer buyers, has a higher rate of new product development, and therefore has more technological capability than the subcontracting type. [155]

Asanuma called the groups of companies generally referred to as prime contractors and subcontractors as core companies and suppliers, respectively, and argued that their interaction itself is the mechanism by which Japanese business organizations have innovatively adapted to environmental changes over the years.[156] The first company to become a supplier of some kind does not have even low-level skills, so it first depends on a single buyer, the core company, for information on production processes, production management, quality control, etc., and under its aegis, it develops and grows in a variety of resources and skills. As the core company grows, suppliers with sufficient advanced resources and skills to meet the core company's requirements will be able to sell somewhat standardized products to multiple buyers outside the specific core company.

Nobuoka argued that suppliers can achieve higher outcomes by increasing the number of buyers. The rationale for this is that suppliers can enjoy economies of scope in component development and production by supplying similar component parts of existing parts to multiple buyers while using existing facilities; suppliers can obtain a variety of information from multiple buyers and thus gain learning opportunities, add value to their products, and reduce costs compared to suppliers who deal with a single buyer; and suppliers who have

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6 Kobe University Economic and Management Association

[155] However, as Kanehara himself points out, the definition of a new product may differ among survey respondents, and the rate of new product development does not necessarily reflect technological capabilities, and independent development types may not need to develop new products frequently because they are not encouraged to do so by the prime contractor. Some products are long-selling and standard products. For example, Yamazaki Mazak Corporation's NC lathe, Model M4, has been on the market for 40 years, but is still in production and sale as of 2020, with repeated improvements.

[156] Subcontracting is established when there is a difference in capitalization between the parent and subcontractor (from the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors). On the other hand, in the case of automobiles and electrical machinery, it is not necessarily the case that only companies with small capital are manufacturing and supplying parts, so the term "supplier" is used to include "subcontracting" to companies with large capital. A similar reference is made in Asanuma (1997, p.170). Note that the term "core company" used by Asanuma and the term "medium-sized company," which is the subject of our study, are very similar visually and in pronunciation, and readers are advised to be careful not to misinterpret or misunderstand.

gained competence can improve their bargaining power over buyers. Suppliers who have gained competence in these areas can improve their bargaining power with buyers. Thus, we believe that medium-sized firms can also be classified according to their resources and skill levels relative to their target buyers, and that there is an incentive to increase the number of buyers.

Do we increase production and total value while narrowing the number of buyers and reducing the volume of work related to sales, or do we expand the number of buyers and increase the volume of work related to sales while reducing production and aiming for profit margins? The Global Niche Top (GNT) argument gives us a hint as to the extent to which this is the case. Literally, the market is global and the number of end-product buyers and service users increases accordingly, but the economic scale of the overall market is extremely small, and the GNT targets firms that have the top market share in that market. For example, Namba et al. (2013) defined a GNT as "a company that occupies the top group position in the world in a specific product or technology," and cited the case of nine companies in the Kyushu region. Eight of the companies were of a size that would be classified as SMEs.[157] Hosoya (2014) interviewed 40 companies and presented them in detail, as they "have several niche-top products, at least one of which has secured market share in overseas markets as well."[158] Thirty-four of these companies are small and medium-sized enterprises. It is difficult to imagine that a company of that size taking charge of all product development, production, sales, and distribution on its own and expanding globally, and it must have outsourced one or more of these tasks to an outside company. Given this, the volume of transactions and operations supporting a medium-sized company with 300 to 2,000 employees, which is the target of this study, must be at least larger than that of GNT. Medium-sized companies cannot survive by specializing in the development, production, and sale of functions for which the overall market size is extremely small, maintaining their market share and transaction volume there, and supplying the entire world. [159]

Among the books that survey and discuss the actual status of medium-sized companies are the Small and Medium Enterprise Center of the Industrial Bank of Japan (1977),[160] , used as

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[157] Namba, Masanori, Fukutani, Masanobu, and Suzuki, Kanichiro (2013), Management Strategies of Global Niche Top Companies, Toshindo, p.7

[158] Yuji Hosoya (2014), Global Niche Top Companies, Hakuto Shobo p.14 and pp.16-19

[159] Simon, introduced in Chapter 1, notes that hidden champion companies also prefer to expand their narrowly defined markets globally rather than enter different markets in the same region. However, the number of employees is quite large, averaging 2,037. Since there are no objective criteria for evaluating "narrowly" and "globally," it is probably left to the judgment of management.

[160] The Industrial Bank of Japan, Small and Medium Enterprise Center (ed.) (1977), Product Development of Medium-sized Enterprises: Exploring the Success Factors of 67

a database in Chapter 4, and Nomura (1979),[161] , based on survey data from the Nomura Research Institute, Ltd. While neither of these is an academic book, they have an equivalent amount of information and findings and should not be overlooked. At the beginning of its work, the Small and Medium Enterprise Center of the Industrial Bank of Japan classifies medium-sized enterprises into the following seven categories based on the key points of product development. Those specializing in production technology, which are mainly involved in mass production of automobiles, home appliances, etc., and strictly pursue quality and cost. Those that develop original products based on specialized technologies and do not compete on price in new fields. Specialized in specialized markets and technologies, where they are leaders in special markets where they do not compete with large companies. Design and development-intensive companies in the fashion and interior design industries. R&D-intensive companies that specialize in development. A system organizer that oversees the development of equipment for large-scale projects. International expansion type that leverages domestic capabilities. The classification is for "reference only," and it should be noted that medium-sized companies "have several of the above types in common. No mention is made in the editorial that follows. The criteria for determining how each company falls into those types or which type it fits into are not made clear. Rather than classifying medium-sized companies according to traditional capital size and industry categories, Nomura attempted a new approach, classifying them into the following five categories based on growth potential, relationship with large companies, industry characteristics, industry characteristics, and company characteristics. Large-company-dependent firms that grew as parts manufacturers under the umbrella of automobiles and home appliances. Coexistence/competition type, where the company does not have technological disparities with large companies and plans to differentiate its products from those of large companies. Large-scale growth potential type that can grow to become a large company in food service, retail, leisure, etc. Local industry type, where there are no large enterprises and they compete with small and medium-sized enterprises in traditional industries, etc. The optimal scale type, which competes on the basis of extremely specialized technology and creative ideas. Nomura, however, did not use the classifications in his subsequent discussion, and the results were not beyond the scope of an experiment.

Companies, Diamond Inc.

[161] Nomura, Tatsuo (1979), Chukan Kigyo no Katsudo Keiei Keiei (Dynamic Management of Medium-sized Firms), Nihon Keizai Shimbun Inc. The underlying data is likely based on a survey by the Nomura Research Institute, but no mention is made of it.

7-3 Classification of medium-sized companies according to their origins and relationship with large companies

From the literature wading so far, we have not been able to find a definitive cut-off point for classifying medium-sized firms. However, in light of the size and position of medium-sized firms, it has become clear that it is necessary to consider something dynamic rather than static criteria, something relative rather than absolute numbers, and a composite rather than a single perspective. Medium-sized firms, with respect to functions for which overall demand is reasonably high, decide whether to improve the accessibility of their products and services by establishing their own offices worldwide or by limiting them to regional locations, depending on the technological level of the function, the volume and frequency of transactions per transaction, and so on. By using the three axes of regional expansion and contraction, volume and frequency of transactions per transaction, and the breadth of specific functions offered, we feel that it is possible to imagine the boundary between medium-sized firms and large and small firms, and to explain the distribution of medium-sized firms. In other words, we believe that the origins of medium-sized firms (i.e., their transition from SMEs) and their relationship with large firms are decisive as a starting point for classification.

Chart 7.1 paints a picture of this image. Small and medium-sized enterprises (SMEs), when they are called ventures in the early years of their establishment, are extremely limited in production, development, and many parts of the region, while gaining profits by capturing the small demand that exists within their scope. In this context, managers who want to grow climb up through small and medium-sized companies toward a mountain with a high peak at its center, i.e., a large company. There are three main trailheads: production (pursuit of quantity), development (pursuit of function), and regional (pursuit of accessibility). SMEs climb from one of these trailheads while acquiring equipment in the form of technology. Among SMEs, there are GNTs that have thoroughly expanded their geographic region, niche tops that specialize in the development of specific domestic functions while meeting needs ranging from low to high functionality, and leading subcontractors that can improve their production capacity to supply large volumes to Japanese-affiliated firms. Sellers begin their climb in search of sales and profits, but as their functions are selected and transactions with buyers are concluded, they are required to at least maintain and improve their current volume, functions, and accessibility. A different kind of responsibility seems to arise than for the company and other sellers before that. Once up there, the view will be different, but they will need to be prepared not to turn back easily and not to betray the trust they once gained in quantity, function, and accessibility. Basically, large companies are trying to make a profit by selling a large volume of products to the global market. They offer a wide range of products, from low-priced products with basic functions to high-priced products with high-end features.

In between the small and large firms are the medium-sized firms, the shaded area in the figure.

<Insert Figure> Figure 7-1: Positioning of medium-sized companies

From the beginning of this book, it has been stated that "medium-sized firms are between large and small firms in terms of size, and therefore, if we focus on medium-sized firms, they have the potential to compete with and become buyers for any size of firm in the same market, depending on their capabilities. Based on these development paths, we can divide medium-sized firms into three types: **primary suppliers**, which directly supply parts (cooperation) to large firms worldwide; **multi-industry connections, which** avoid direct competition with large firms and specialize in specialized functions and contribute to multiple industries; and **competition with large firms, which** develop and mass-produce products similar to those of large firms and compete on an all-out basis with them. The medium-sized firms that develop and mass-produce products similar to those of large firms and compete on all fronts against large firms are **divided into two types**. We will explain each type, keeping in mind that the commonly fixed images of suppliers, niches, and competitors are slightly different from the reality of midsize companies. In particular, the market size that was thought to be a niche in the field in which medium-sized firms operate is surprisingly large and has access to many sectors, so we call it the multi-industry connection type.[162] In addition, the capabilities of medium-sized firms are not only price negotiation skills, but also broadly include past new functionality proposals, feasibility, technical expertise, proficiency, and trust and credibility based on actual performance.

Primary supplier type (relatively low resource levels)

A large company with a higher level of resources than the company's own resources will be the direct buyer. The medium-sized firm (the seller) has the know-how to produce and supply customized products in multiple countries, both in Japan and overseas, in bulk quantities to meet the requirements of individual buyers. The buyer decides that it is cheaper overall to procure the necessary functions using the seller's resources and skills by providing the seller with technical knowledge (information) and needs information, rather than producing certain functions in-house. For the seller, there are fewer buyers.

Multi-industry connected (equal resources)

[162] Initially, the corridor was designed to connect several large markets to a niche market, but this was changed when it was pointed out that it was reminiscent of the restaurant district closest to Kasumigaseki.

Medium-sized companies (sellers) that deal with buyers that have the same level of resources as their own companies fall into this category. Sellers specialize in enhancing their skills to develop and provide specific functions (advancement of proprietary technologies), and have an assortment of functions ranging from standard functions to advanced functions and attached functions. Therefore, they can respond to a wide range of individual needs, from customized products to standard products. Unlike a primary supplier, the company collects information from around the world on the detailed and differing needs of buyers in a wide range of fields, and by providing one-stop service, it avoids the risks associated with narrowing down buyers.

Competitive with large companies (relatively high resource levels)

Medium-sized companies (sellers) that deal with buyers that have only a lower level of resources than their own resources fall into this category. While there is a functional difference with the buyer, the functional difference with competitors, including large companies, is small. While targeting a very large number of buyers, the seller targets buyers who have a high level of knowledge and a high willingness-to-pay limit to recognize the functional difference between the functions realized by the company and those of other companies. However, the functions demanded by buyers here are complex and varied in terms of price, design, fashion, availability (sales channels), and other factors in addition to technology, so sellers must have advanced marketing capabilities and high volume production capacity. The main response is not customization, but standard products.

The seller uses its existing resources to enhance its realized functionality with skill, and closes the deal by providing a higher functionality than the buyer's hypothetical functionality. The focus is on how to enhance the skills of the supplier. The primary supplier type will be described in a multi-layered manner, adding the criterion of whether it is a supplier of a lending diagram or a supplier of an approval diagram. We will then consider what skills and capabilities each of these types needs in order to survive and develop as a mid-sized company, and how they make decisions as managers.

7-4 Response to each type

7-4-1 Primary supplier type

7-4-1-1Birth of the supplier of the loan chart

Asanuma's research focuses primarily on the inter-firm relationship between core companies and component suppliers in the automotive industry, but he believes it is applicable to a broader scope. He points out that in the particular relationship between a parts supplier and a core company, the degree of initiative that can be exerted in the development and manufacturing stages varies depending on the level of technical expertise and proficiency in a particular component that both parties have.[163] He called this the "degree of technological initiative." If a component supplier has no expertise at all, it can only play a very passive role. However, if they can do business with the core company, they can gain information on production processes, production control, quality control, etc. Conversely, if the core company lags behind the component supplier in technology, the development process becomes a black box, and the company is forced to choose from a catalog of commercial products shown by the component supplier at a fixed price. In reality, somewhere along the line between the above two cases as the poles, there is a difference in knowledge and proficiency between the parts supplier and the core company. The suppliers are classified as suppliers in the loan diagram and suppliers in the approval diagram according to their skill level (competence) relative to the core company.[164] It is important to note that the designations subcontractor and supplier arise from the perspective of one core firm.

Small and medium-sized enterprises (SMEs) that have just started doing business with the core company have few resources and even low-level skills, so they receive specific instructions to undertake tasks that are not very profitable, dangerous, or troublesome to the core company. Core companies use different suppliers for different functions. If the core company wants to enjoy the lower of the cost of producing the product in-house (hypothetical function) or the unit cost of outsourcing to a supplier (expected function), it will either deal with a supplier that can negotiate with many sellers and offer the lowest price P or produce the product in-house.

In reality, the decision-making process is considerably more complex because price is not the only function that core firms expect from suppliers. Asanuma called the capabilities that the core firms (buyers) primarily seek from suppliers (sellers) "relational skills."[165] It refers to the ability of a supplier as an organization to be able to efficiently respond to the needs or requests of a specific customer for supply. Specifically, these skills, listed in order from the

[163] Asanuma (1997) pp.214-215
[164] Asanuma called suppliers who produce parts based on blueprints designed by finished vehicle manufacturers on loan as "suppliers of loaned blueprints" and suppliers who produce parts based on blueprints prepared based on rough specifications indicated by finished vehicle manufacturers and approved by finished vehicle manufacturers as "suppliers of approved blueprints. The supplier who produces the product after receiving approval from the finished car manufacturer is called an approved-drawing supplier.
[165] Asanuma (1997) p.12 and pp.222-225

lowest dimension, include cost reduction at the manufacturing stage, quality assurance, delivery assurance, manufacturing process development, cost reduction at the design stage, product development, and product improvement proposals. By having suppliers acquire these skills with a high degree of precision[166] , core companies can benefit from functions such as unit cost reduction, quality improvement, delivery time assurance, and process improvement. Suppliers were required to focus their energies on responding to buyers' requirements in detail, acquiring low-level skills at first and gradually acquiring and demonstrating higher-level skills. The rapid development of the industrial sector to which the buyer belongs may lead to growth of the buyer and an increase in the volume of transactions. As the buyer expands its production network overseas, the seller is forced to respond by expanding its production facilities. As they respond to the buyer's demands, they are recognized as suppliers of mass-produced parts, and they receive a variety of technical and market information from the buyer. In other words, the company stepped up from a leading subcontractor to a primary supplier-type medium-sized company. In addition, only suppliers who met the higher level of skills were allowed to evolve from suppliers of loaned drawings to suppliers of approved drawings .[167]

7-4-1-2Long and short term suppliers of loan charts

Suppliers who have the ability to develop and design their own products are recognized by the core company as approved diagram suppliers. If they can meet the new requirements of the core company, they can maintain their status, but if they cannot, they revert back to being a supplier with a loan diagram. For the core company, if competition among suppliers is eliminated, the relatively superior supplier will have more bargaining power in terms of price (P will increase), and the core company will want to remain competitive. Therefore, when the production technology and relational skills of the relatively inferior supplier begin to decline, they enter into technical and production guidance with that supplier. In other words, the suppliers in the loan diagram are increasingly treated as if they were a department of the core company, even though they are financially and humanly independent and meet the conditions of a medium-sized company in terms of size. [168]

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[166] In order to continue to accurately meet the core company's requirements, suppliers are required to have a very sophisticated and detailed organizational design and operation. Because mid-sized companies have limited human resources compared to core companies, they are less likely to understand and coordinate the nature of organizational design and operations, and often find themselves with multiple conflicting regulations, rules, and language.

[167] Evolution" is the term used by Asanuma (1997) and encompasses the supplier's intent.

[168] Such a relationship between suppliers and core firms is generally referred to as quasi-vertical integration. Nakamura, Sei (1983), Small and Large Enterprises, Toyo Keizai Inc.

The advantages of being a supplier of a lending figure among primary supplier types (hereinafter abbreviated as "lending suppliers") are (lending suppliers' advantages 1) As long as the core company intends to enjoy long-term functions from the lending supplier, the lending supplier is protected in terms of technology, finance, and other aspects. Capital investment is basically provided by the supplier, but if funds are insufficient, the core company will provide or finance the capital investment. Therefore, (Loan Supplier Advantage 2) as long as the supplier continues to adhere to the quality, quantity, and delivery dates required by the core company, it receives information on technology, markets, and new products, and does not incur the costs of market forecasting, sales, development, and accounts receivable collection. Therefore, they have learned how to wait for instructions from the core company and meet deadlines, develop technologies, and clear cost reductions by force, even if the instructions come suddenly and unreasonably, the so-called firebrand's stupidity. This instantaneous demonstration of ability by strong pressure from the outside is referred to here as "external force instantaneous force. Core companies may also be looking for suppliers who can follow their instructions obediently, and since the development process becomes more complicated with suppliers of approval drawings, they may value suppliers of loan drawings who specialize in mass production only. As is the case with all suppliers (Advantage 3), the core company assumes product liability for the end user.

In contrast, the disadvantages for suppliers in the lending diagram are (lending supp disadvantage 1) In return for the core company guaranteeing a certain volume of transactions for a certain period of time, the core company is strongly required to reduce costs in the mass production process and is forced to set P lower, or the supplier is forced to deal with other potential buyers in order to prevent technology outflow In addition, suppliers are restricted from doing business with other potential buyers in order to prevent technology outflows. As a result, profit margins are low and suppliers are forced to compete on price with other suppliers in the lending diagram. (Disadvantage 2) Because engineers from the core company are dispatched to the supplier side in a high position to provide technical guidance, in some cases, engineers from the supplier side develop a sense of inferiority and are unable to learn in a systematic and active manner. Technical guidance does not necessarily lead to the accumulation of skills, and quality and delivery problems occur as soon as the guidance is no longer provided. (Loan Supplier Disadvantage 3) Since the company is so occupied with meeting the core company's requirements within its current resources and capabilities, it does not have time to think proactively about other things (capacity building, finding new buyers, new business development, etc.). Even if it is obvious that this transaction itself has limited

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p.38

freedom, managers who depend on the core company for their main information channel will lose their perspective, lose their willingness to challenge, and view the transaction as a "lack of management freedom. (Lending disadvantage 4) The core company is greatly affected by policy changes of the core company and the rise and fall of the core company in its main battlefield. Even if something should happen to the core company, suppliers, especially those in the lending chart, are limited in their ability to deal with the situation on their own. (Lending Supplement Demerit 5) In Lending Supplement Merit 3, it was mentioned that the core company bears product liability to the end user, but this is a double-edged sword for suppliers, and they develop the mindset that even if a defect should occur, they will not suffer significant damage (so-called subcontractor mentality). This prevents them from developing their own technology and establishing a revenue source other than the supplier business by developing their own products. Combined with the lending-subsidy merit 2, this means that they will try to do anything by force if they receive instructions, but if they do not receive instructions, they will do nothing, will not do anything unnecessary, will not think about anything or take any responsibility, and will be more comfortable that way. This is the so-called altruistic attitude.

Because of this, many managers believe that it is undesirable for a company to remain a supplier of lending figures. However, it is not easy to get out of being a supplier of rental diagrams unless the management has a strong will, for example, if orders increase from core companies, they will be short of manpower and busy without profit, if orders decrease, they will be occupied with cash flow and excess manpower, and when they finally become stable and can afford it, they will take a break and say, "Oh well. It is not easy to get out of being a supplier of rental figures unless the management has a strong will.

There are also managers of suppliers who understand that suppliers in the loan diagram are in a disadvantaged position compared to suppliers in the approved diagram, and who grasp trends in the end-product market and respond more quickly and accurately than the core company anticipates or directs by increasing production, reducing production, and investing in facilities to ensure cost reductions. There are also managers who not only serve the core company, but also pursue spiritual and material wealth for themselves, pursuing wisdom to balance the core company's gain with their own pleasure. It is also true that there are some managers who, with such a way of life, intend to continue to exist as suppliers of lending figures in the future. Even if one core company is a supplier of a chart for rent, it does not necessarily mean that other core companies will treat it as a supplier of a chart for rent in the same way. Rather than appealing that "we will do anything," it is necessary for supplier managers to objectively grasp their own skills, explore the needs of other core companies, and consider efficient measures to match their skills with lower functions compared to their own skills. This is discussed in more detail in Chapter 8.

7-4-1-3Length of supplier for approval drawings

There are some mid-sized companies that are classified as approval chart suppliers while specializing in certain industries and certain core companies. The benefits of approval chart suppliers are the same and different in some respects from those of loan chart suppliers. First, the advantages of suppliers of approval drawings are listed below (hereinafter referred to as "approval drawing advantages"). (Sustaining Merit 1) The core company is protected in terms of technology, finance, etc. for as long as it needs them, but the protection is not as generous as that of a chart supplier. (Advantage 2) Like chartered suppliers, they receive important information from the core company and do not incur the costs of market forecasting, sales, and accounts receivable collection. (Supplemental Benefit 3) The supplier becomes involved in the development stage of the core company, and is responsible for the core company's development costs because the supplier's design proposals, which can reduce unit costs, are accepted and profit margins are higher. While exchanging opinions on an equal footing with the core company's engineers, if proposals for performance improvement or cost reductions based on their own proprietary technologies are accepted, morale is expected to increase and profit margins are naturally expected to rise. (Sap Merit 4) By acquiring design skills, the core company can learn about the skills of the core company and objectively know the difference between its own skills and those of the core company. In addition, they will receive more inquiries[169] from other core companies and will be able to estimate their skills as well as capture market trends. (Sap Merit 5) The core companies will be able to improve their own process production equipment on their own initiative. Each core company has its own way of working, and the end-product markets in which the core companies produce have specific quirks, such as product life cycles, product sizes, unit prices, accuracy requirements, and consumer preferences. Suppliers have an advantage over those that do not because they have longstanding dealings with the core companies and are familiar with the detailed, unspoken know-how and design philosophies of the core companies, such as relational skills, how they think, how they work, how they make decisions, and when they make decisions. Because they are deeply embedded in the core company, they can quickly and informally receive detailed information on the core company's direction of travel, policy changes, etc., and can respond

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[169] A quotation is a request from an existing or new buyer who wants to add a new function to his/her product or service, or to enhance the current function, to a specific seller who can provide the most useful information about the function, to see if he/she can develop a higher function or a new function (an expression of expected function). This is done prior to a formal order and supply contract.

earlier than other potential competitors, depending on the judgment of the supplier's management.

This may make it seem that suppliers of approved drawings are better in all aspects compared to suppliers of loan drawings, but the reality is not that simple. Indeed, Asanuma argues that if suppliers' technical capabilities increase, they will become more independent as a company, moving from suppliers of loan drawings to suppliers of approval drawings. However, there are a number of studies that argue that "it is precisely for manufacturers of approved drawings of important key components that capital control, dispatch of directors, and technical support by the core companies are strengthened.[170] The core companies are promoting in-house production of key axis components, and are devising and checking to prevent suppliers of approval drawings from gaining an advantage.[171] There are also studies that show that even if suppliers of approval charts can participate in the upstream stages of the core company's product development process, as mentioned earlier, they rather take out development costs, which is not financially positive.[172] To the extent that we have studied, we have also found that the more leading core firms in the end-product market have more control over their approval-diagram suppliers, to a lesser extent. This is consistent with the finding in Chapter 4 that half of the medium-sized firms in the automotive industry in the 1960s became large firms, while the other half lost control. (Cheng supp. disadvantage 1) When a company has been co-developing with a particular core company for many years as a supplier of approval drawings, it unconsciously acquires, becomes familiar with, and fixates on that design concept, and becomes unable to understand the design concepts of other core

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170 Nawa, Takao (2004), "The Role of Suppliers in Product Development: A Case Study of the Auto Parts Industry," Rikkyo Journal of Economics, Vol. 57, No. 4

171 Toyota Motor Corporation, which is considered to be the largest core company in Japan at this time, when incorporating new technology from outside the group, has established a system to "prevent technology from becoming a black box and to ensure that when similar parts are procured from outside, the suppliers' proposals are properly understood and evaluated to ensure appropriate cost and quality" in the spirit that "technology cannot be acquired unless it is designed with hands and produced through hard work. In order to "prevent technology from becoming a black box and to correctly understand and evaluate the proposals of suppliers when procuring similar parts from outside, and to ensure appropriate cost and quality," the company established a development and production system for electronic and semiconductor parts in particular. This in-house production was later referred to as "technology internalization. With regard to electronic components, Toyota concluded a basic agreement with Toshiba in March 1987 for the introduction of technology. Section 1: Development of various models and expansion of domestic sales Section 3: Expansion of production system and response to small-lot production of various types of products.

172 Yoshinori Chikanno (2017), "Customer Relationships and Supplier Outcomes: The Case of the Japanese Auto Parts Industry," Hitotsubashi Business Review, Vol. 65, No. 1

companies (buyers) or the simplified design concepts of emerging buyers. (Sap Demerit 2) The supplier of the approved drawings has design responsibility, and if a component defect is discovered after mass production, the supplier is required to bear a share of the cost of repairing the defect. (Soprano disadvantage 3) The core company is required to provide daily technical guidance to secondary and lower level suppliers and to provide financial support in case of emergency. This is because of political governance for business continuity of the core company that transcends economic rationality. If suppliers are forced to seek extensive support from the core company because they cannot keep up with rapid changes in the core company's market and technology policies, they effectively hand over management control to the core company and cannot operate as an independent company. **Suppliers who wish to be an integral part of the core company, who have mastered the relevant skills and technologies as required by the core company, and who wish to expand the core company's business performance, face the dilemma that they are no longer independent of the core company's decisions, strategies, organization, and technologies and** are **greatly influenced by them when this becomes a reality. They** face a dilemma.

The rapid geographical and quantitative expansion of suppliers in line with the core company's internationalization has resulted in huge capital investment costs, while the labor management, taxation, and legal affairs of overseas subsidiaries have taken a back seat, making it difficult to reduce costs as much as desired. Direct competition with overseas parts suppliers, the rise of emerging countries, technological innovation, lack of successors, shortage of skilled workers, bulk purchasing of raw materials by core companies (which leads to only wage processing), common design (which leads to less added value in design), and the decline of core companies, etc., are constantly threatening the degree of management freedom of primary supplier-type medium-sized firms. The core company is declining. When we survey them, we sometimes hear resentful comments such as, "The core companies make sophisticated and complex demands, but why don't the core companies come up with simple designs? However, their raison d'etre is to meet the advanced and complex demands of the core companies, without which they would easily invite other companies to enter the market.

The relationship between the supplier and the core company is, at best, mutually complementary, but it is an unequal one that can be unilaterally changed at the convenience of the core company. The relational skills and the set of skills associated with them are only from the perspective of the core company. Although the survival of suppliers leads to the improvement of functional differences in the core company's finished products through competition among suppliers, the survival of the suppliers themselves is not absolute for the core company. The perspective of the management of the suppliers in the approval chart is broader than that of the suppliers in the loan chart, and while they listen to the demands of a specific core company, they always search for work from outside that core company, and sometimes they even try to enter new work from suppliers in the loan chart if it is new work. While obtaining useful information from specific core companies, they consciously try to increase the number of buyers, increase their sources of information, and reduce risk.

7-4-2 Multi-industry connection type

7-4-2-1 Growth Process to Multi-industry Connected

The multi-industry connection type targets markets characterized by special factors that discourage large companies from entering, such as small markets, handling of hazardous materials, complex trade practices, ultra-high-mix, ultra-low-volume production, and ultra-short delivery times. They mainly provide specialized capital goods and intermediate goods such as machinery and materials, as well as wage processing and ancillary services to large companies and small and medium-sized enterprises (SMEs), and prevent competitors from entering their markets through specialized and proprietary product technologies, diversified inventory management, and a sales system that can respond immediately around the world. As pointed out in the Kyoto Keizai Doyukai (Kyoto Association of Corporate Executives) report mentioned in Chapter 2, the markets targeted by medium-sized companies are not necessarily "niche" or "narrow," but rather "specialized," and although each market is small, they are multiple and widespread. In other words, they have a product line based on their own expertise, which serves as a connection to many industries and hedges risks.

There are many growth processes (paths of attainment) to multi-industry connectivity. (1) A company that was engaged only in subcontracting at the time of its establishment but later developed its own products and became a medium-sized company; (2) a niche leader that specialized in a certain field of business and gained market share and became a medium-sized company as the industrial structure became more sophisticated and the global market for that field expanded; and (3) a company that became a medium-sized company after receiving a business or market transfer from another company. (3) a company becomes a medium-sized company after receiving a transfer of business or market from another company. Even within (1), there are two types of cases: (1a) companies that became multi-industry connected while continuing their subcontracting business, and (1b) companies that became multi-industry connected after completely closing their subcontracting business (Figure 7-2).

<Insert Figure> <Insert Figure> Figure 7-2: Growth process to a medium-sized company

(1a) Firms that continued to engage in subcontracting while their own product business became the main business

Many of the multi-industry connected firms were founded in the subcontracting business and have shifted to their own product business. Suppliers that are close to the core company will grow into primary supplier-type medium-sized companies in response to the core company's demands, while those that do not reach this level will start their own product business and gradually expand, as they no longer see the significance of subcontracting due to low profit margins for the energy and responsibility invested in the subcontracting business. However, while the in-house product business offers the potential to gather information and build a unique knowledge base, it is also economically uncertain. The subcontracting business is essential in some aspects to make ends meet, and the company will stabilize its performance by conducting the subcontracting business and the in-house product business in parallel. Aggressively withdraw from subcontracting business in the event that the core company stops accepting orders, changes its policies, restructures the industry, or transfers processes overseas.

(1b) Firms transformed from subcontracting to multi-industry connections

As a subcontractor becomes more capable of meeting the requirements of the core company, the supplier will receive more inquiries from other core companies and will have to choose between being a primary supplier type or a multi-industry connection type. When production capacity is available or product life cycles are short, there is less need to focus on a specific core company. They will then deal with multiple international firms and the end product will span multiple industries. Therefore, they participate in new product co-development projects with the buyer, bearing the development costs, without any support or protection from a specific core company. The company is perceived by the buyer as a well-known and branded company and becomes the first seller considered when the buyer perceives a need. The company will be less significant as a supplier and more as a multi-industry connected company, supplying packaged functions developed in-house.

(2) Companies that have been developing their own products since their establishment

In-house product development is supposed to be more highly functional than if the buyer produces the product in-house. The business will continue by increasing the technology and skill level and functionality at its own will and responsibility, accumulating resources, and gradually building up its brand. Compared to suppliers, they have a greater scope for proactive decision-making. In the process, they can identify their own technical expertise and business areas to determine the scope of their efforts and efficiently enhance their own capabilities. The scope of effort includes not only the tangible aspects of strategy and market, but also qualitative factors such as how thorough they should be in meeting the standards they have set for themselves.

(3) Companies that have received business or market transfers from other companies

In rare cases, a change in the core company's strategy results in the transfer of a specific business to a trusted supplier based on past business performance, and the supplier who takes over the business has its own products, resulting in a multi-industry connection. In such cases, the core company may transfer the entire organization of the business unit, or only the products and customer list. Especially in the latter case, the successor company suddenly requires a higher level of sales, marketing, and maintenance, even if production remains the same, and considerable effort is required to acquire these skills and change their mindset.

7-4-2-2 Capability to develop own products

Selling a company's products to buyers outside the core company requires a variety of capabilities and actions. These include: searching for the functions (needs) desired by the buyer; translating the needs so that they can be understood by the company's own skills; determining whether the needs can be solved by the company's own skills; establishing short- and long-term development themes; selecting themes as the development progresses; accurately transferring the needs to blueprints; and accurately transferring blueprint information to Transcribe blueprint information accurately into materials[173] , and so on. As discussed in Chapter 3, needs have various knowledge levels, quantity levels, and delivery times. We can step forward if we determine in advance when any of these can be solved, how much the buyer is willing to pay if we solve the problem, and whether another buyer is willing to buy the product (i.e., whether there is a market expansion). It is difficult for a medium-sized company to develop something that the buyer has never thought of in terms of technology. It is dangerous to focus and invest limited resources on a highly uncertain topic with a low probability of success. No matter how excellent the research results are, if they do not sell, it is complacency. It is still necessary to notice and extract latent dissatisfactions, problems, things that buyers are vaguely aware of, things they have almost given up on, and things they have completely forgotten about, better and earlier than competitors in the process of closely exchanging information with buyers (i.e., find hints of hypothetical functions that are low on the buyer's list from the seller's perspective), and then to proceed with development quietly at an early stage. If you can proceed with the development of a solution (functional difference) earlier than the competition, the buyer will surely pay for it. If we do not start before the buyer is clearly aware, he or she will notice and will tell other sellers about their needs in detail. When that happens, the dimensions of functionality will become clear, and the competition for time and price will be fierce.

[173] Fujimoto, Takahiro (2003), "Capability Building Competition," Chuko Shinsho

Underpinning the ability to develop one's own company is the proactive and early "self-awareness ability" pointed out in Chapter 3, **3-4,** and the strong will and perseverance of management. In addition, supporting management's actions are the goals and objectives of management itself and the company. This point will be emphasized again in Chapter 9. The primary supplier type is also self-aware, but suppliers in the loan diagram are only self-aware in an altruistic way because incoming information and goal setting come from the core company. To recognize themselves relative to buyers with higher skills than themselves means that they are constantly reminded of their "low skills," which discourages them from initiating transactions with other firms. As they become suppliers in the approval chart, they are exposed to multiple sources of buyer information and gradually come to understand their own skills and capabilities as relative to buyers and competitors from multiple evaluation axes. The common goal set by multiple core companies (buyers) becomes the "thing to do," and they try to respond to it voluntarily.

This self-awareness ability is difficult to acquire while focusing on subcontracting, even though it is needed when subcontractors try to develop their own products. This is because there is a strong demand from the core company to improve external force instantaneous and relational skills, with explicit targets, and resources and energy are at a premium just to meet these targets. While this is easy to write on paper, our research shows that in reality it takes at least 10 years for suppliers to get their self-developed product business off the ground from the time they aspire to it, and as long as 20 to 30 years for it to make a real contribution to the company's performance.

It is almost entirely dependent on the strong will of management to develop capabilities that are not clearly required by the customer in front of them. It is a sense of crisis that they cannot continue as they are and a desire to break away from being suppliers at all costs. This becomes more important when the company continues to develop its own products once it is no longer a supplier. The need to understand the functions required by buyers and competitors before they do, and the need to provide solutions to them, requires first recognizing one's own capabilities, and then determining which buyers' functions and expectations should be met, and to what extent. The company will have to set its own goals and objectives. Then, they will gather various bits and pieces of information on the latest technological trends and competitors' movements. As management gathers information, it will anticipate the skills needed for new functions that buyers and competitors are unaware of. They also determine how far (technologically and time-wise) their company's current skills are ahead of or behind those of their competitors, and they keep track of the overall situation, giving directions and checking progress. Achieving the vector (direction and magnitude) of "current skills -> skills needed" is the immediate energy-intensive goal. If there is insight that demand can be expected further down the road, achieving that goal can become a vision for the future. Sometimes it is necessary to change the traditional allocation of resources, put them into new areas, organize a project team for the start-up, be patient and continue to invest until the business takes off, and continue to encourage the managers and employees who are apt to give up.

7-4-2-3 Significance of having your own products

The significance of owning one's own products is that, compared to a primary supplier, one can freely decide the above-mentioned matters on one's own responsibility and without interference from anyone else. This can be translated as the overwhelmingly wide range of decisions that can be made by the company itself, and the securing of managerial autonomy. Many managers find joy and pleasure in this aspect of management. They also want to be evaluated correctly by buyers, do not want to do business with buyers who do not evaluate them correctly, and do not want to be in a field that is not evaluated correctly. The president of a multi-industry connected company in the Hokuriku region stated the following. A multi-industry connected president in the Hokuriku region stated, "If a manufacturer has its own brand, it can become the price leader in the market and can freely flap its wings around the world. If you are a small company, you have to forecast the market and create your own strategies for what to make and where to sell it, and you have responsibility to your customers, but above all, you have fun. You can become a pioneer and be the only one. I think it's very good to have a brand and be proud of it." For primary supplier-types, if their own transaction volume increases more than the core company's sales growth rate, that is one positive evaluation. However, for the primary supplier type, since the core company is not the end consumer, it is difficult for them to feel a sense of responsibility to the end consumer, and there is a big difference in terms of employee confidence and morale.

Furthermore, when the seller S Seisakusho enhances a particular function and becomes unrivaled by competitors, many buyers will recognize that this function of S Seisakusho is strong. In the multi-industry connection type, many buyers have enough knowledge to understand the true value of a specific function of S Seisakusho. Buyers seeking that functionality will approach S MANUFACTURING first among multiple seller options, making it more likely that S MANUFACTURING will expand its customer base to the wider world. The number of inquiries increases as development requests and bits and pieces of information are received from a variety of industries and sectors. From there, the urgency, criticality, and willingness-to-pay limit M of the functions sought by many buyers can be determined, and those that match or closely resemble the functions offered by S Seisakusho can be selected.

The functionality that the buyer expects does not necessarily have to match the functionality that the seller wants to provide. Rather, it need not be the product of the market for which it was originally aimed. The seller predicts the future market based on self-perception and past information obtained to a limited extent, and does not deny the function sought by the buyer in front of him. Thus, as long as the product is not obviously far removed from one's own resources and skills, it will be addressed.

The reason why companies narrow down their business areas (markets, technologies, functions, etc.) and focus on being the best in them is that the speed, quantity, and quality of information they can obtain is clearly different from that of the second best, and the growth potential increases exponentially. These lines of business cannot be drawn by front-line employees, and require high-level judgments by management, such as "do we want to do this, should we do this, or should we not do this? Basically, the functions related to the company's area of expertise are the ones that generate profits, and because they are profitable, the company further advances its areas of expertise, while outsourcing other functions. Although conceptually there is a clear distinction between specialty and non-specialty, in reality the distinction is not a fault line, but rather a gradient of specialty, sub-specialty, complement, and non-specialty. To what extent do we rely on outsourcing? If there are no sellers who can carry out the non-specialized part at a high level, you have to do it yourself. If the non-specialized and complementary parts are outsourced, information related to the specialty must also be disclosed to some extent, and the risk of confidentiality leaks and business obstructions must be considered. By gathering information in a multifaceted manner and being aware of the company's objectives and goals, but also by thinking about them in a somewhat abstract manner, managers can maintain flexibility, develop the habit of thinking about things in an abstract manner, and easily connect the functions sought by the buyer with their own skills and abilities.

7-4-2-4 Multi-industry connected issues

The challenge for medium-sized enterprises with multi-industry connections is that they have created an environment in which they can freely make decisions on a variety of matters, which in turn can be detrimental. The biggest cause of stumbling blocks for midsize companies with their own products is the lack of self-awareness and strong will of the management.

The multi-industry connection type relies heavily on technology. They anticipate the direction and magnitude of needs with the intention of being technologically far ahead of the buyer's needs, but the shock of being off the mark is so great that they make various decisions by checking what their competitors are doing and getting a little ahead of them. If managers become accustomed to being able to survive by responding after the fact without being ahead of the curve, their sense of urgency will diminish, information gathering and insight into the future will be neglected, and this could lead to the preservation of pre-modern management. For example, primary suppliers are subject to strict cost-cutting demands from their core companies, while multi-industry connected companies tend to be less cost-conscious because they do not have strong demands from their direct buyers, but rather watch competitors' trends. In the multi-industry connected type, however, there is no strong demand from the buyer directly, and the company tends to be less cost-conscious because it sees what its competitors are doing. In each of these cases, managers realize that they are in trouble, but their willpower is weak, and they give up on seeking a major change in mindset for fear of employee resistance.

7-4-3 Competitive with large companies

7-4-3-1 Significance of targeting a wide range of buyers

Medium-sized companies competing against large companies are often in the equipment and fashion-related fields, known as light industry, where the buyers are end consumers. For large companies, these fields are incidental to their core business. For medium-sized companies, however, they are their core business, and they cannot afford to lose. The president of a company in the Kanto region that competes with large companies told us the following. The president of a large competitor in the Kanto region told us, "Look at your competitors' products, make them better, and take one step or half a step ahead of them. The major competing weak electrical appliance manufacturers handle a wide range of equipment, and their individual products are of a high technical level, and their combined products as a whole are highly complete. The major manufacturers would be more than happy to sell a complete set of equipment, and they are not putting all their efforts into low-priced products. We concentrate on specific products, so we are not technologically inferior to them on a stand-alone basis."

There is no indication that the company has moved from a multi-industry connected model, and few managers are considering moving to a multi-industry connected model. The company has been targeting a very large number of customers since its inception and has gradually grown to become a mid-sized company. Competitors range from large companies with strong brands to small and medium-sized companies and emerging economies that attack with low prices. Large companies have the ability to mass-produce technologically advanced and complex products while managing suppliers. Small and medium-sized firms and emerging economies have the ability to mass-produce low-priced products that are not inferior in functionality at the point of purchase, taking advantage of relatively low wages and the ability to pinpoint and develop products as soon as they know they will sell well because they are latecomers to the market. In contrast, medium-sized firms competing against large firms offer a reasonable volume of products in the mid- to high-priced range that focus on the essential functions required by the high-end market[174] and on functions that can only be understood after use, to the exclusion of other functions. The functionality demanded by buyers is complex and includes factors such as price, design, fashion, and availability (sales channels), as well as technology. Buyers in the high-end market are mainly individuals or small and medium-sized companies, who certainly do not have the skills to make the product themselves, and the functional gap with sellers is significant. They are either professional craftsmen who make their own business by directly using the products or semi-professionals who are trying to satisfy their own self-fulfillment needs.[175] Therefore, they have a considerable amount of knowledge about the functions they seek, and when selecting products, they strictly examine the functions that clearly differentiate them from large corporate brand products. If the product satisfies essential functions at a high level, the willingness-to-pay limit M will remain high, and they will purchase the product even if the price P is high. At the same time, the brand is built from the evaluation of buyers who have enough knowledge to understand the specific functions of the S production facility and penetrate buyers who appreciate medium functions and a medium price range. They will refer to the evaluation of buyers in the high-end market. By expanding such a customer base, the company will enjoy economies of scale that could not be reached in the high-end market alone. Make the market less attractive and less time-consuming for large companies to produce, inventory control, and sell a very small quantity of many different products as their main battleground.

The significance of the large-competitor model is that it targets a very large number of buyers, thereby stabilizing the business. Moreover, buyers are quite knowledgeable and have clear preferences, so once they recognize that a product has good features, they are likely to become repeat buyers. Therefore, instead of developing multi-functional products at great expense and advertising them to the general public through numerous media, demand can be stimulated by regularly promoting function-specific products in media that attract a certain number of repeat buyers. A medium-sized company is large enough to generate revenue even

[174] For example, high image quality with proprietary image sensors for digital cameras, high sound quality and noise reduction for microphones and headphones, grip and torque for drivers, and stores and design for clothing....

[175] Amateurs seeking low-priced products are not confident in their skills and believe that they are responsible for any problems they encounter when working with the tools and materials. Professional craftsmen and semi-professionals who seek mid- to high-priced products believe in their own skills and suspect defects in tools and materials, so that even if the product itself is not as expensive as the low-priced version, the "guarantee" function of quality and service stability is important to the seller.

with that level of demand.

7-4-3-2 Challenges of competing with large companies

The lack of movement between the multi-industry connected type and the large-competitor type is due to the decisive difference in the basis of their respective operations. Multi-industry connected products are heavily dependent on the company's own technology, and buyers seek functional differences in technology, and negotiations are conducted through direct dialogue between the seller and the buyer. In contrast, products that compete with large companies are mass-produced, and factors other than technology, such as design and sales channels (distributors)[176] , are relatively important. There is less direct interaction, and buyers choose products based on their own preferences. Therefore, while buyers can become repeat customers, they will switch sellers if they no longer have features that clearly differentiate their products from the branded products of large companies. While always maintaining opportunities for direct contact with fixed customers and potential buyers through exhibitions, product information sessions, product use training sessions, etc., it is necessary to upgrade their technical expertise and make them aware of the value of product features, and at the same time, elements of marketing that are sensitive to new needs are necessary.

In addition, medium-sized companies competing against large companies dare to ride the trend and create their own boom. At the very least, if they can catch the trend of a growing industry, they can survive even if management makes some poor decisions or the organization is shaped differently than ideal. We are thinking of a system that sells when it sells and does not run out of product . [177] Unlike the multi-industry connected model, there is not a significant technological difference between the two types of competitors, so in the medium

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[176] Since distributors such as mass merchandisers, wholesalers, and agents are involved, if the distributors are not capable of evaluating the functionality of the seller's (vs. large corporate competitor) product, they will demand price reductions or lower functionality. If they comply, the brand will gradually collapse from products with medium functions and in the medium price range. As discussed in Chapter 4, retailers rise and fall rapidly because it is difficult to accumulate enough technology and know-how to differentiate themselves. No matter how good the relationship was in the past and how good the product wholesaler was in the past, the buying opportunities for new buyers are constantly changing, and sellers have no control over them except to change their selling points.

[177] It is often seen as an attempt to imitate the second loach of another company's hit product, but after the functional dimension has been clarified, there is no cost for trial and error and development lead time is short. However, they are subject to severe price competition from competitors, buyers, and distributors, and profit margins are extremely low. Only sellers who have the development and production systems, product price points, employee wages, and pride to withstand such competition will be able to adopt this approach. If a seller with an established brand to the buyer imitates another company's product, the existing brand may be destroyed.

term, they are likely to be supplanted by companies from emerging countries. The key for sellers will be how to avoid price competition and maintain functional differences and brands while considering the relationship with distributors.

7-5 Summary of this chapter

Our research on midsize companies had been stagnant for some time, but careful criticism by Hayashi (2020), including "the scope of midsize companies, the relativization of research, the evidence that midsize companies are unique, methodological issues, and the lack of theoretical support," has given our research a new direction.

In this chapter, we look at SMEs as sellers of products and examine which SMEs are trying to grow themselves by doing business with which buyers, based on our past research. Each company acquires various technologies from its inception and tries to gain sales and profits while focusing on one of the three areas: production (pursuit of quantity), development (pursuit of function), and region (pursuit of availability), and then moves through small, special small, and medium-sized firms to large firms. We have attempted to highlight the characteristics and challenges of each of these three types of firms, as well as the differences in the capabilities required to maintain and develop them.

In order to deal with core firms that are clearly higher level than their own resources, primary supplier-type medium-sized firms specialize in strengthening skills that produce specific functional differences and supply parts in large quantities and on a global scale. While effective external force instantaneous force and relational skills are required to deal with core firms, they are limited to information from core firms, so their self-awareness is low. The scope of decision-making is narrow and inconvenient, and it is altruistic.

The multi-industry connected type has the ability to be self-aware of its own resources, skills, and functions, and its resources and skills with the buyer are often equal to or better than those of the buyer. They are able to identify the buyer's needs, predict how well they can meet those needs before the buyer tells them to buy, set goals from there, and develop independently against those goals.

Medium-sized companies competing against large companies sell their products to small and medium-sized companies, artisans and semi-professionals. Naturally, their resources and skill levels are higher than those of their business partners, and because they have many competitors, they basically develop products that focus on their own areas of expertise and essential functions, while keeping costs low.

Many of the managers who responded to our interview survey were aware of their own resources, skills, and functions, and were tirelessly trying to improve them, while at the same time trying to secure management leadership within those limits. To be precise, medium-sized companies cannot catch up in the short term with the technological innovations that large companies are rolling out. Therefore, the means to secure proactive management does not necessarily include winning the market competition, but also withdrawing from the market, and by doing so, they can maintain themselves as independent companies. The freedom of management decision-making is also likely to put the company at risk and requires a framework that does not deviate from the norm. This would be a goal or philosophy.

In the 1960s, when medium-sized companies were first observed, rapid growth was considered one of their characteristics; looking back in 2020, many of them have been growing for quite some time. In some cases, the seeds were planted and built upon by previous generations, and it is only now that the flowers have finally bloomed. On the other hand, there are also companies that have deviated from the definition of a medium-sized company and are in decline. Multi-industry connected firms and firms competing with large firms have a very wide range of decision making and can easily detect a downturn in business performance. Self-awareness is undeniably high. They are responsible for their own performance. In contrast, primary suppliers are influenced by the core company's policies and requirements and by the core company's performance, making it difficult for them to recognize their true position. In response to the core company's requirements, a primary supplier may improve its skills, expand its production facilities, and grow to become a medium-sized company, only to be effectively incorporated into the core company and lose its management rights. It may be that the initial proactive and aggressive behavior of the managers of primary supplier-type medium-sized enterprises faded away in the process of their being replaced, that they became adept at following the policies of the core company and lost their initiative, or that they intentionally wanted to secure their management position by becoming more autonomous. These are not easily grasped by the survey respondents. As much as possible, we would like to avoid short-term evaluations of management decisions, keeping in mind the long-term perspective and not being swayed by performance.

Chapter 8: Power Relationships with Buyers and Profit Margins

8-1 Significance of buyer classification

In Chapter 7, we attempted to analyze the three categories of primary supplier type, multi-industry connection type, and large-competitor type as those in which sellers prioritize and focus on production, function, and region, and develop from small and medium-sized enterprises to special small and medium-sized enterprises, and then to medium-sized enterprises. On the other hand, based on our previous approach, transactions are concluded based on the difference between the seller's ability and the buyer's ability, or strictly speaking, on the difference in certain specific functions. **Sellers also have needs to make a living by earning profits, to grow by acquiring information, and to build long-term relationships of trust with buyers to stabilize transactions and perpetuate themselves as a company**. The seller should be choosing a buyer who can provide the money, useful information, and trust that he needs. Buyers who cannot deal with that seller will look for another seller to do business with. In the world, not only the best seller of a certain function and the buyer who can use that function survive, but there are many sellers and buyers of various abilities. From this fact, it can be inferred that **sellers tend to do business with buyers who have expected functions at a level close to the range of functions they can provide themselves.** Therefore, we must analyze the "power relationship" between seller medium-sized firms and buyers. In this chapter, we, the researchers, will analyze how medium-sized firms (sellers) select and deal with buyers, and how they try to build a relationship of trust while obtaining information and gaining profits, by classifying buyers from the standpoint of sellers and from the perspective of sellers' managers. It is similar in method and content to our classification of sellers in Chapter 7, and there is some overlap in explanation.

8-2 Selection of Buyer by Seller

As a result of decisions based on individual values, management thinking, and self-perceptions built up in the process from inception to the present, a company becomes a primary supplier type, a multi-industry connection type, or a competitor to large companies, or a composite of the three types. We believe that medium-sized seller firms choose to be one of the three types, or a composite of the three types, because they have chosen buyers who bring money and information within the scope of the seller's current resources, skills, and capabilities. Sellers are making decisions about the direction of their firms based on the position they are in and the thinking of their managers.

Porter (1982) cited the buyer's purchase and the company's (seller's) ability to meet it, the buyer's ability to grow, and the buyer's status as criteria for determining the quality of the buyer for the seller.[178] For sellers, the buyer's purchase of a product or service is the start of everything. No matter how much technology you have, how capable your organization is, or how great your product is, it is meaningless if there is no one to buy it. And the higher the buyer's position in its core market, the greater the volume, and the more likely it is to grow in the future. Porter says that the buyer is strong in the following cases. When the buyer buys in large volumes, when the product represents a large percentage of the buyer's costs, when the product has a small impact on the quality of the buyer's product, when the cost of changing sellers is low, when the buyer is experiencing low profitability, when the buyer retains in-house manufacturing capacity for the product, and when the buyer is well-informed. However, all of these are conditions under which the buyer is strong. But are these all conditions under which the buyer is strong?

We note that Porter's argument has several assumptions. As Fujimoto (2003) points out, based on the standard ideas of modern economics, competition basically means price competition[179] , and the buyer that Porter assumes consciously negotiates prices with the seller. Thus, the buyer who consciously tries to lower the seller's profit margin is "stronger". The strength of the buyer determines the seller's profit margin in a linear relationship, and all sellers have the same amount of capacity and energy to give 100%. Hence, the emphasis on the trade-off between cost leadership or differentiation.

Porter's premise is unreasonable in light of reality. Porter himself states that sellers "have to choose the best buyer[180] in light of their own capabilities in the industry," acknowledging that both sellers and buyers have varying levels of capabilities and that there are multiple sellers and buyers at the same time. He also recommends that, "Ideally, companies should be encouraged to abandon price as a criterion for selection, and to select in a way that takes advantage of their unique capabilities[181] ." Thus, Porter also suggests that competition is not only about price, but also about competence. In other words, of the several cases of "strong buyer power" that Porter mentioned, those based on capability, i.e., having in-house manufacturing capability, followed by the buyer being well informed, are the cases where buyer power is truly strong. In other cases, for example, when the product in question has a

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178 Michael E. Porter (1982), The Strategy of Competition, Diamond, p.155
179 Takahiro Fujimoto (2003), above p.42
180 Porter (1982), above p.168
181 Porter (1982), above p.170

small impact on the quality of the buyer's product, or when the buyer suffers from low profitability, it cannot necessarily be determined that the buyer is strong. The seller selects the buyer by assessing the existence of the buyer's in-house manufacturing capability and the amount of information available.

8-3 Force relations

In general, a power relationship is a relationship in which the ability of two parties to influence each other's decisions and actions. The seller wants to control the buyer as much as possible. He wants to sell the features of his product or service to more buyers at a price much higher than the cost. They want to increase their profit margins and profit margins. This may result in a company's longer-term viability, higher employee satisfaction, and higher shareholder value. In many cases, however, there are competitors in the marketplace, and buyers will select and purchase from among the various sellers' product lines the products that best meet their needs and ability to pay for the features they need and the price they can afford. In other words, sellers cannot directly control competitors or buyers. The seller's direct control is limited to the development of its own products and services, its production activities, and the operation of its own organization. Profit amounts and profit margins are indirectly influenced by competitors' products and services and buyers' decisions. The seller will decide how to secure the profit amount and profit margin, and whether to recover the invested capital in the short term or in the long term, in accordance with the buyer.

Minato (2011) has the following to say about the power of core firms and suppliers. We believe that the strong control (dominance) of the parent firm over its subcontractors in the Japanese subcontracting production system is due to the fact that the development of subcontractors has been dependent on the strategic management resources possessed by the parent firm, and the degree of control of the parent firm over its subcontractors is relatively defined by the degree of dependence on its strategic management resources[182] " . Strategic management resources here are sales channels (markets), capital, technology, and a combination of these. Power relationships arise when a supplier (seller) depends on the resources of a core company (buyer), which the port represents by the term parent company. On the other hand, Asanuma (1997) argued that as suppliers develop, they become less economically, technologically, and psychologically dependent on the core firm, and this power relationship changes. If the supplier has no expertise at all, or if the core firm lags behind the component supplier in technology, somewhere on the line between the two poles is the difference in knowledge and proficiency between the component supplier and the core firm.

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[182] Minato, Tetsuo (2011), "Nihon no monodzukuri kyoryoku kiban no hensen" [Transition of Japan's Manufacturing Competitiveness Base], Nikkei Publishing Inc. p.333

We classified the suppliers into two groups according to their skill level (ability) relative to the core firms: suppliers in the loan diagram and suppliers in the approval diagram.

It is interesting to note that the classification of sellers within a given component category differs for individual buyers,[183] . That is, whether a given supplier is plotted in the direction of a supplier in the lending diagram or in the direction of a supplier in the approval diagram differs among core firms. It reflects differences in the degree of technical expertise and proficiency that individual CORE firms have accumulated with respect to particular purchases. If the individual COREs themselves achieve greater technical expertise and proficiency than the suppliers have in relation to their current state of technology, there will be a shift in the COREs' positioning of this item toward the lending chart, and conversely, if they lag behind the suppliers, there will be a shift toward the approval chart. If, on the other hand, they lag behind their suppliers, a shift toward the approval chart will occur. The differences in capabilities resulting from the efforts of the seller and the buyer result in different positioning of the seller and a shift in initiative.

Here again we review our analytical framework. The buyer perceives the functions required for his activity and considers the hypothetical functions of in-house production and the expected functions of outsourcing. The difference between the hypothetical function of in-house production and the expected function of outsourcing gives rise to the transaction initiative. If the difference between the hypothetical function and the expected function is very small and the buyer can immediately produce the product in-house, the buyer takes the initiative in the transaction. Conversely, if the difference between the hypothetical function and the expected function is large and the realized function exceeds the expected function after the buyer purchases the product, the buyer has no choice but to accept the seller's suggested selling price P. Asanuma's discussion is a detailed analysis of the relationship between the seller (supplier) and the buyer (core firm), which is located exactly in this neighborhood.

Applying these ideas more broadly, a power relationship arises when both the seller and the buyer have a functional difference compared to a particular counterparty and the degree of dependence is stronger. Limited to the seller's position, if the company does not have the ability to sell its products and a particular buyer is willing to buy all of its products, the seller will be completely dependent on the buyer for its sales channels. Furthermore, once the seller is dependent on the buyer in terms of finance and technology, the buyer's control becomes absolute, and while the risk of remaining unsold disappears, the profit margin is kept low. Conversely, if you offer a product or service that all buyers want to buy, many buyers will

[183] Asanuma (1997) p.215

depend on only one seller. As Porter argued, the seller should be able to monopolize the market and control the buying behavior of the buyers more easily, and profit margins should be the highest. This "should" is discussed below.

The actual transaction exists on a line segment that includes both ends of this complete subcontracting and complete monopoly. That is, the **power relationship** here is determined by **subtracting the degree to which the seller depends on the buyer's resources, i.e., money and information, from the degree to which the buyer depends on the functions that the seller enjoys from the seller's product or service.** Depending on this power relationship, when a seller deals with a certain buyer, he either takes the initiative in the transaction himself or is taken over by the buyer. This is a subjective perception of the seller.

8-4 Capability Curve

As mentioned earlier, Porter assumed that the strength of the buyer and the profit margin of the seller are determined by a uniquely linear relationship, and that the buyer is strong enough to consciously lower the profit margin of the seller (Figure 8-1). He also stated that if there were only one seller, the profit margin should be the highest. In reality, however, this is not the case. The buyers envisioned by Porter are limited to a range from buyers who are interested in the functionality offered by the seller to buyers who already use the functionality and know the enabling functionality. All buyers are assumed to possess a certain level of knowledge. It does not take into account "weak" buyers who are unaware of or have little interest in that seller's functionality.[184] A weak buyer is less capable than the seller, has no knowledge of the product in question, and therefore has no willingness to pay and no intention of relying on the seller. And they have no intention of reducing the seller's profit margin. If the seller wants to increase the amount of profit and encourage such indifferent buyers to purchase its products and services, it will have to spend money on sales promotion, such as advertising to make them aware of the functions of the product and training to make them acquire knowledge of the product, and the profit margin will decrease. Thus, from the seller's perspective, extremely weak buyers have low profit margins. Also, the profit margin is low when competition is strong and buyers can choose as many sellers as they want. The profit margin of a seller is not naturally determined by a linear relationship between the strength

[184] The Clifford = Cavanagh study presented in Chapter 1 also stated that "consumers almost always distinguish between the quality of products and services and will pay extra for higher quality ones. This is a different story depending on whether the actual sellers are restricting themselves to such buyers or whether, as researchers, we are discarding other buyers as meaningless in our research.

and weakness of buyers due to functional differences alone. [185]

<Insert Figure> <Insert Figure> Figure 8-1 Linear Relationships

Can we plot all sellers and buyers who want to buy or sell a certain function on a two-dimensional plane in a simple way? The horizontal axis is an axis indicating the level of achievement (technical expertise and proficiency) for a certain function. In other words, it represents the realized function of the seller, including its own S-manufacturing company, and the hypothetical function of the buyer (as estimated by S-manufacturing company). The vertical axis indicates the amount of money. It represents the production cost per unit of the seller's realized function (product/service incorporating the function), the desired sales price, and the maximum amount the buyer is willing to pay per unit for it. The origin is the point at which the function of S production is zero and the desired selling price and cost are zero before the start of development of the function in question. After the start of development, the realized function level is increased and the cost is set (point S) (● in Chart 8.2) S-factory estimates the level of realized function, production capacity, and sales price of the competitor, and the level of hypothetical function and quantity demanded by the buyer, and plots the

[185] Even if the seller has a monopoly on the market, if the buyer is not solvent, the profit margin will be kept low, and if there are no buyers willing to buy, the seller will lose a lot of money. A good example is the sale of water in the desert. An extreme example is the rakugo story "Senryo Mikan. The following is a rough story. The young master of an O-dana (big store) tells his boss, "I want to eat mandarin oranges, or I will die. The banto, who had no idea that there were no mandarin oranges available in midsummer, after much hard work, finds an intact one in the storehouse of the mandarin oranges wholesaler. However, the owner of the citrus wholesaler quoted him a price of "1,000 ryo per kumquat. Too expensive! the owner replies. We do not do business in such a way as to look at our customers' feet. We are the only citrus wholesaler in the whole of Edo. The number of customers who want to buy tangerines in the middle of this hot season may come once every 10 years or so. We are wasting one storehouse and letting it rot for a customer who may or may not show up anytime soon. If a customer asks for it, we will spend all the money we have spent so far. Do you understand my logic in saying that even a thousand ryo is cheap for this one tangerine? When the watchman returned to the store and explained the reason, the owner said, "It's cheap. A human life cannot be bought with a thousand or ten thousand ryo. And it is the life of my son." He offered him 1,000 ryo. In this story, the owner of the citrus wholesaler is the exclusive seller. The exasperated Banto and the owner of the big store are both equally eager buyers of tangerines, but Banto is unable to pay the 1,000 ryo, while the owner has the ability and the will to pay, and they agree on the function of saving the life of his son and the amount of 1,000 ryo, so the deal is concluded. The young master was overjoyed and ate seven of the ten bags in one grain. He gave the rest to his father and mother, one bag each, and gave one bag to the banto for the banto to eat. The watchman mistakenly thought it was worth 300 ryo, and fled from the big store with three bags.

buyer (○ in the same chart) and competitor on the function level and quantity plane (○) are plotted. The size of the △ and ○ represent the amount of demand and production capacity, respectively, and accuracy is required in recognizing the level, willingness to pay, cost, and production capacity of S-manufacturing's self and other companies (buyers and competitors). If it is grossly misjudged, the following discussion is not valid.

<Insert Figure> <Insert Figure> Figure 8-2 S Manufacturing Company and other sellers and buyers

<Insert Figure> <Insert Figure> Figure 8-3 Possible buyers

Currently, it is possible to do business with a buyer in the upper left event rather than point S (gray area in Figure 8-3). This is because the hypothetical function of the buyer in the upper left event is lower than the realized function of S-manufacturing and offers a higher willingness-to-pay limit than S-manufacturing's current cost, allowing S-manufacturing to secure the initiative in the development, production, and sales stages. This difference in height represents the amount of profit per unit: buyers to the right of S Manufacturing are presumed to have too high a virtual function and expected function, while buyers below S Manufacturing are not cost-effective.

However, even if all of the buyers on the upper left are potential transaction partners, S MANUFACTURING's resources (capacity of production facilities, number of people in the sales department, etc.) and capabilities are limited, so it is necessary to narrow down the list. This narrowing down is done by selecting buyers who are willing to buy products and services without any special requirements, and buyers who are willing to provide either the money necessary for their own future survival or useful information, or both, for the provision of functions through the "current" and familiar methods (unique technologies, skills, and sales channels). The choice is to select buyers who are willing to buy products and services without special requirements and who are willing to provide the money or useful information, or both, necessary for their own future survival. Since doing business with buyers who are geographically, technologically, and cost-effectively distant from the company will cost extra, the company will also examine whether it can obtain useful information and whether it can compete with its competitors. We want to choose the buyer who can sell for the largest profit amount possible or who brings useful information, and we want to maintain the transaction in as large a volume and over as long a period of time as possible. This may be metaphorically explained by territorial behavior in ecology, which will be discussed later.

A buyer who has no significant difference in technical expertise from S. Seisakusho and has the possibility of in-house production would have a lower profit per unit because the difference between the expected function and the hypothetical function (functional difference) is smaller and the willingness-to-pay limit M is set lower. For S-manufacturing, it can be presumed that other buyers in the same business field as that particular buyer, K-Industries, have similar needs, and the profit per unit will be higher than for other sellers who do not have that useful information. The amount of profit per unit will be greater. However, if the difference in technical expertise is so great that the buyer cannot correctly evaluate both the expected function and the realized function of the S-factory, the profit per unit will conversely fall because the S-factory will have to take various measures to make the buyer aware of the functional difference. Therefore, for a certain function offered by the seller, the relationship between the strength of the buyer from the seller's viewpoint and the desired sales price approximates an inverse U shape. We call this the "**capability curve**" (Figure 8-4).

<Insert Figure> <Insert Figure> Chart 8.4 Capability Curve

8-5 From S Manufacturing Buyer Classification

The buyer with no special requirements is the one with the lowest costs and the highest recent profit per unit, but there are many medium-sized companies that do thin-margin business as a parts supplier to a particular large company. They can increase profit per unit, increase sales, explore new functions, acquire new technology and knowledge at a cost, aim for a low volume but high profit per unit job, or aim for a low profit per unit but continuous job. Rather, it is often the case that several ideas and approaches are being implemented simultaneously. Which buyer is ideal and which way of doing things is ideal or not is left to the situation at the time, the ability of the seller, and the values of the manager, and is not something that we, researchers, analysts, and other third parties can normatively state.

Here, we apply the aforementioned Asanuma's (1997) classification of parts suppliers by replacing sellers and buyers. In other words, within the range of functions that a certain seller, S Manufacturing, can basically provide at present while making a profit, we classify the buyers into groups A to D based on the power relationship from the viewpoint of S Manufacturing (Figures 8-5 and 8-6). Identify which of the buyers correspond to groups A to D by checking how much technical expertise the buyer K Industry in front of you has (potential for useful information) and how much you are willing to pay to buy S Seisakusho's products (willingness-to-pay limit M). The purpose is to determine whether the buyer wants to initiate a transaction, continue a transaction, or not continue further transactions.

<Insert Figure>> Figure 8-5 and Figure 8-6

Group A Champion type

feature

A company or individual that possesses information (technical expertise) of overwhelmingly higher quality and greater quantity than either the Seller S Manufacturing or other buyers. In the case of a company, the company is skilled in the product technology and production technology related to the function in question, and has the skills to manufacture a product with a function similar to that of S. Seisakusho at any time. The individual has a high interest in the parts (services) provided by S. Manufacturing, and although he/she is willing to pay for them, the maximum amount he/she is willing to pay per unit is low. In the case of an individual, for example, a professional sports player who enters into a contract with S. Seisakusho for the development of tools to be used in his sport, S. Seisakusho is the seller of the tools, but it also possesses the buyer's information at the cost of money.

Advantages and disadvantages for S Manufacturing

In general, the possibility of obtaining a deal is relatively low due to the small number of individuals in the A group. The main reason for this is to provide customized products with high functionality and low price in large quantities, and to be able to meet the needs of medium-sized firms that are primary suppliers. Individuals in Group A are not mass consumers, but rather one-off products. Group A has high name recognition among other buyers (Groups B, C, and D) who are looking for this functionality, and if they can acquire the latest information from Group A and brand their products, they can influence the purchasing behavior of other buyers even if the total profit and profit per unit are low when doing business with Group A. If the company is well known to Group B, C, and D, and can acquire the latest information from Group A and brand its products, it can influence the purchasing behavior of other buyers, even if the total profit or profit per unit from transactions with Group A is low.

Group B Friendly competition type

feature

Companies and sole proprietors who feel that the seller's products and services improve the quality of the products and services they offer. Unlike Group A, they cannot clearly characterize their needs. They do not currently possess the same level of resources and skills as the seller S Manufacturing, but if they find it difficult to obtain the function from the seller, they intend to produce it in-house over time rather than give up on obtaining it. Basically, they try to obtain the function by themselves, but they cannot solve the core problem and ask the seller to provide the function. Therefore, they are familiar with the relevant functions and actively seek higher and additional functions (expected functions) for their own business. If the function is realized, they correctly evaluate the seller's realized function and pay the suggested sales price P without discounting.

Advantages and disadvantages for S Manufacturing

A specialized development team responds to the advanced functional requirements of Group B companies and customizes the product. Employees are pleased to do business with Group B companies because their own efforts are duly recognized. In addition, newly developed functions based on the needs information from Group B are sold, after a confidentiality period, to other buyers (mainly
(Groups C and D) will have an increased possibility of offering this service. The company must be highly capable and forward-looking in its efforts to propose functions and solutions to the unspoken needs of the buyer, based on an understanding of the various characteristics, technologies, and trends of the industry to which the buyer belongs. Since the results are linked to the buyer's benefits, the two companies are in a friendly competition, constantly checking each other's contributions. The main type of buyers we would like to have as customers are medium-sized companies with multi-industry connections.

Group C Ardent support type

feature

Companies, sole proprietors, semi-professionals, and enthusiasts who believe that the seller's products and services will enable the buyer to expand its business and achieve self-fulfillment. They have less technical expertise and their power relations are weaker than those of S Manufacturing. They do not have the same resources and skills as the seller S Manufacturing, and currently have no intention of acquiring them. Therefore, it is entirely dependent on the seller to obtain the relevant functions. They do not have the ability to technically and accurately grasp the functions offered by Seller S Manufacturing, and cannot express their expected functions as actively and accurately as Group B. They evaluate the offered functions via the brands resulting from the purchasing behavior of Groups A and B. Therefore, if Groups A and B do not change their purchasing behavior and cannot perceive the functions they require differentially from other sellers, they are not particularly dissatisfied with the existing products of S Manufacturing. Set the willingness-to-pay limit M high and allocate enough funds to continue to buy enthusiastically. They think that they can solve the problem quickly (obtain the functionality) and catch up with competitors and others by paying for it, without acting constructively and systematically on their own issues.

Advantages and disadvantages for S Manufacturing

They are good buyers who will buy standardized products developed for Group A and B needs without bargaining. New information and stimuli are hard to obtain. If they take advantage of their high reputation and specialize in specific functions, they will be less willing to improve functions, reduce costs, and respond to changes in the environment; if companies in Group C acquire technical expertise and move to Group B, or if the market in Group C expands and transaction volume increases, they may move to Group A in one fell swoop. Conversely, they may move to Group D if their business performance deteriorates and they are unable to continue their traditional trading activities, and we will miss such signs. Mainly, multi-industry connected and medium-sized companies competing against large companies are the buyers that want to become customers.

Group D Low involvement type

feature

The buyer has not purchased or used much of the seller S Manufacturing's products until now. They have no technical expertise and their power relationship is much weaker than that of S-manufacturers. Individuals who are novices in the field, or companies that are trying to enter a certain market by using the function. Basically, they have little interest in and knowledge of the function in question. Since the willingness-to-pay limit M is low, the minimum functionality is all that is required, and they are price-sensitive. They are easily influenced by the past purchasing behavior (so-called branding) and trends of other buyers in groups A, B, and C. Once they feel that the product is indispensable, they will continue to buy it repeatedly because they have no other knowledge of the product, but if other sellers' products are clearly cheaper, they will go there because they cannot perceive the difference in functionality.

Advantages and disadvantages for S Manufacturing

Since they are price-sensitive, sellers will be able to acquire low-cost production techniques and lower production costs for other groups A, B, and C. In addition, there is a possibility that new ideas and hints (information) about new expected functions that do not exist in the existing A, B, and C groups can be obtained from the trends in Group D. The number of individuals in Group D is very large. The number of individuals in

Group D is extremely large, and if the function is recognized and if the function of Group S can be differentiated, it may become Group C. Medium-sized firms competing against large firms will want to secure this group. In particular, it is important to take advantage of the increased demand arising from the rapid growth of companies in emerging countries, legal regulations, and technological innovations. Of course, if Group D becomes completely indifferent to the function in question, it will easily fall out of the buyer's target group.

<Insert Figure> <Insert Figure> Figure 8-7 Money and information brought by buyers
<Insert Figure> <Insert Figure> Figure 8-8 Relationship between sellers and buyers

We stated that the power relationship is determined by subtracting "the degree to which the seller depends on the buyer's resources, i.e., money and information," and "the degree to which the buyer depends on the seller's products and services, i.e., functions. Therefore, **for the seller S Manufacturing, the degree of dependence on the buyer and the power relationship are determined by how much useful information and money the buyer provides to S Manufacturing.** The positional relationship of groups A to D regarding a certain function, with useful information and money as the two axes, is shown in Figure 8-7. The correspondence between seller classification and buyer classification is shown in Chart 8.8.

8-6 Qualitative growth of sellers

We defined qualitative growth in Chapter 4 as **a series of actions that are based on the assumption of a changing environment, responding with greater precision to solving problems of existing needs, thereby gaining legitimate profits and useful information, making employees happy, and continuing to actively work on solving problems of the next new need and making proposals. The** management of medium-sized companies desire both quantitative and qualitative growth, and while quantitative growth is strongly emphasized, qualitative growth ranges from high level innovation to process improvement in the field, and organizational review and employee awareness reform are avoided because they are time consuming and difficult to see the results due to resistance. In addition, organizational reviews and changes in employee awareness take time, are met with resistance, and the results are difficult to see, so they tend to be avoided and forgotten. In Chapter 7, he classified medium-sized companies into three types: primary supplier type, multi-industry connected type, and large company competitor type. In addition, when acting independently, they need to have objectives and goals that limit their actions, rather than total freedom. Based on our discussion so far in this chapter, we argue that managers of medium-sized firms should always be aware of and aim for qualitative growth, which will result in quantitative growth and the maintenance and development of their firms.

Mid-sized business owners want to grow over the long term through transactions by recognizing their own capability curve and selecting the buyer they believe is best suited. If possible, they would like to reduce their dependence on a specific buyer, and decide for themselves what to make, how to make it, where to buy it from, and when to sell it to whom and at what price, without being interrupted by anyone. Therefore, on the two-dimensional plane that we have presented, the buyer's hypothetical function, the seller's realized function, the buyer's willingness-to-pay limit, the seller's production cost, and the suggested sales price, we have divided the process of how the seller's manufacturing plant should act and choose the buyer to acquire money and information, leading to quantitative growth and qualitative growth, into several routes. The following section details these routes with examples. These routes are not one-by-one, but can be pursued concurrently as long as management has the will and resources to do so. And the easiest way for S Manufacturing to do this without direct influence from buyers and other sellers is to reduce costs and improve technical expertise, which is the starting point for all routes (Figure 8-9).

<Insert Figure> Chart 8.9 Qualitative Growth of Sellers

8-6-1 Cost reduction; strengthen transactions with buyer group A, expand transactions with buyer group D, and increase profit margins with all buyers.

<Insert chart> > Chart 8.10 Cost Reduction

The cost reduction shifts point S downward to point S'. If the capacity curve is shifted downward as it is, transactions with buyer A' group will be strengthened and transactions with new buyer D' group will be expanded. Alternatively, if the capacity curve is left unchanged, profit margins with all buyers will increase, providing funds for the development of next-generation products (Chart 8.10).

However, it concentrates on the production process, which is easy to show in the numbers and has a short-term effect, while productivity improvement in the indirect departments (accounting, general affairs, human resources, etc.), which are often thought to have low productivity and little repetitive work, is not often taken into account. Cost reductions in indirect departments, such as business improvement and labor saving, require management's perseverance and determination, as well as long-term efforts to develop employees' skills and raise their awareness. A primary supplier-type company in the Chubu region of Japan is working to reform inefficient indirect departments by rotating production process managers to the indirect departments and applying production process cost reduction methods. The company is beginning to see reductions in setup time and overtime hours from overall work hours.

Accurate cost calculation is indispensable for cost reduction, which requires man-hours and time to improve accuracy. It also requires investment in equipment and training. Cost reduction also involves new apparent and latent costs, and it is important to set how much cost will be incurred to achieve a certain level of cost reduction. Strictly speaking, it may be the original form to concentrate on cutting wasteful expenses and unnecessary operations and facilities. Qualitative growth is to determine, based on a deep and deliberate analysis, whether the operations currently being carried out and the facilities currently in operation are truly necessary or unnecessary for the company, its strategy, and its organization now and in the future, and to continue to search for better ways to do so. If too much emphasis is placed on cost reduction, there is a danger of falling into shortsightedness without making judgments about what is necessary or unnecessary.

8-6-2 Improve enabling capabilities through enhanced technical expertise; expand transaction initiative for all buyers

<Insert Figure> <Insert Figure> Figure 8-11 Improvements in Realization Functions

Increased technical expertise and improved realization capabilities will move point S right to point S'. Sellers have more opportunities to deal with more buyers and become less dependent on a particular buyer. By obtaining a variety of information, the seller is able to objectively grasp its capabilities, negotiate better prices with buyers, and increase its profit margin in transactions with existing buyers. In other words, it is possible to convert the buyers of group A to group B' and some buyers of group B to group C'. The possibility will arise that buyers who could not trade with the virtual functionality of the S-Corp because it was higher than the realized functionality of the S-Corp will trade with them as the A' group (Figure 8-11).

On the other hand, buyers do not easily realize that the relationship of power has changed as the seller has become more capable. The buyer will always think that the seller is an entity that can be controlled as it wishes, and will continue to make unreasonable demands for price reductions. The president of a medium-sized company in the Hokuriku region, a primary supplier and multi-industry connection type, described in detail the moment when the power relationship with a major assembly manufacturer (buyer former Group A) changed to Group B'. The purchasing manager of the major assembly manufacturer tried to force us to bargain down the price of our products. Negotiations, which were gentle at first, gradually clashed violently, and (the) talks broke down. Many parts manufacturers succumbed to pressure from their suppliers and drank the unit price cut. Then word would spread, and other suppliers would demand unit price reductions as well, and eventually profits would disappear. However, I knew the technological and cost advantages of our products over those of other companies, so I stubbornly refused to accept the cut. I called the company on the spot and instructed them to discontinue production of the parts in question, dispose of the work-in-process, turn back the parts in transit, and stop transporting the parts to the destination country. The purchasing manager asked, "Are you really going to stop?" I replied, "You just said you were going to subcontract the work," to which he turned pale and apologized, but I could not undo the action. In the end, the parts were not discounted by a single yen, and the assembly manufacturer was to pay all the costs of switching from sea to air for the delay."

Furthermore, if they try to increase sales to new buyers, they will be less closely connected to existing buyers and will not be able to obtain useful information, and at the same time, the expectations from buyers will diminish, which may undermine employee confidence and morale. For buyers who have changed from the old B group to the C' group, it would not be interesting if sellers who used to respond to customizations stop responding only to standard products after a certain point (the point at which S-manufacturers recognize that their realized functions have become more sophisticated). The incentive to look for new sellers who will respond to customization will be activated.

While standardization is superficially thought to be a measure taken by sellers aiming for quantitative growth, since it contributes to sales and profits, in reality, it requires a qualitative response. In this regard, the president of a multi-industry connected company in Kyushu stated the following. One time, different sales offices of our customers told us that they wanted different products, and our salesmen listened to their requests separately and delivered the products to the sales offices of each customer. Later, the customers compared the products and noticed that the specifications and options were different. Even though the applications were the same, the product specifications varied depending on the experience and knowledge of the sales person who asked, and the experience and knowledge of the design department. If there is one need, the specifications must be the same no matter who asks. This is internal standardization. We said we were going custom-made without standardizing our products, and we just made and delivered products as our customers told us to."

Standardization and customization have both the benefit of improving skills and capabilities and accumulating revenue through transactions with existing buyers and the risk of existing buyers declining, disappearing, or ceasing to do business. As the needs of buyers change, it is necessary to constantly reassess whether they are in Group B or Group C and whether the company's capabilities are effectively meeting the needs of buyers. At the same time, sellers must constantly seek out buyers with new information and a strong position in the buyer's product market.

Note that cost reduction and improvement of realized functions are each strictly achieved by paralleling the capacity curve on a plane while maintaining the current production capacity (capacity). If costs are reduced, profit margins with existing suppliers will increase. If we improve the realization capability, we can do business with group 'A' buyers with technical expertise that we could not do business with before, and we can stop doing business with group D, the former group with low profit margins to begin with. If the management wants to maintain limited production capacity, it will unilaterally suspend relations with existing suppliers and give priority to relations with new suppliers. The relationship of trust with the existing suppliers may be broken, and a third party may make a value judgment that it is rational, but it does not tell us anything about the history of the company or the depth of management's thinking. If management desires quantitative growth, it will seek new transactions while maintaining existing ones, thus shifting the capacity curve upward to the right in expansion rather than simply parallel to it (Figure 8-12).

<Insert Figure> <Insert Figure> Figure 8-12 Combination of cost reduction and improvement of realized functions

8-6-3 Buyer Selection; Resource Concentration on Buyers Group B and Group C

<Insert Figure> <Insert Figure> Figure 8-13: Resource Concentration

When doing business with a wide range of buyers, buyer group A provides useful information but strongly requests a reduction in the unit price, while buyer group D provides little information and little profit. Therefore, the company plans to increase its profit margin by specializing in functions that take advantage of its proprietary technology, and stops doing business with buyers A and D and focuses on buyers B and C (Figure 8-13). As a good example, the president of a primary supplier-type company in the Chubu region stated the following. The president of a primary supplier in the Chubu region stated, "We had been producing automobile parts, machine tool parts, and aircraft parts, but we narrowed our focus to the production of specific functional parts. Until then, we had been accepting orders whether we liked it or not. However, our location is inconvenient in terms of transportation, and it takes time and costs a lot to get anywhere. We need small, high value-added products that do not incur logistics costs in order to make a profit. Also, there have been cases where a major manufacturer asked us to produce a part, and other companies tried hard but couldn't produce it, but we were approached and we were the only one able to produce it." The president of a multi-industry connection company in the Kanto region added, "Of the 600 companies we sell to annually, 30 to 50 companies account for 40% of our sales. If we have 10 more companies in 10 years, it will lead to a huge increase in sales. And he supports that approach.

On the other hand, the president of a multi-industry connected company in the Hokuriku region pointed out the downside of focusing on Group A buyers. He said, "We received an order for a very large number of machines from a major manufacturer, but we turned it down because it was equivalent to three months of our production capacity. If we had accepted the order, we would have been at the mercy of the major manufacturer and become a subcontractor. Since we had historically transitioned from a subcontractor to a general manufacturer, it would be meaningless for us as a company to go back to being a subcontractor. It was a tough decision at the time, but in retrospect, I am glad we made it. We took the path of independence and self-reliance as a manufacturer." If we narrowed our focus to buyer group A, transactions would be more stable, factory utilization rates would improve, and the risk of collecting payment would be lower, but on the other hand, the buyer would take the initiative in transactions and force us to reduce costs and specify quantity and delivery dates, and we could lose trust with buyers groups B and C, who had previously been our buyers, because transactions would be delayed.

When transactions with buyers A and D are suspended, the information that had been available until then is cut off, and useful information is obtained from buyers B and C to compensate for this. The concentrated investment shows the "seriousness" of the company both inside and outside the company, and leads to the buyers' B and C group's trust in S Seisakusho's functions. By continuing to deal with multiple buyers in the category of buyer B and C groups, the company can spread risk, maintain power relationships, and secure information and profit margins regarding this function.

8-6-4 Market expansion through creation of new functions; new information and first-mover advantage

<Insert Figure> <Insert Figure> Figure 8-14 Creation of new functions

When new functions are offered, they range from the significant development of new business development, which requires a very large amount of money and time to develop advanced technology, to the extent that new functions are noticed in the process of improving existing functions and existing technology is simply used as is. In such cases, sellers are not able to clearly recognize their own capability curve, the buyer's willingness to pay, and the trends of other sellers from the beginning (Figure 8-14). When starting with an inquiry from a buyer, the seller determines the urgency and seriousness of the buyer's need for the function in question, and confirms the willingness-to-pay limit. Certainty is high because the buyer expresses an expected function, and such a buyer falls into Group B.

Instead of inquiries, sellers may observe buyers' behavior to determine new functions based on buyers' defects (usability, cost, heavy, loud, noisy, fragile, dangerous) and estimate quantity and willingness-to-pay limits. If sales, profit amount, and profit margin are expected to be high, a development theme, period, and cost are set and development begins. The seller explores, acquires, and analogizes the buyer's expected functions, and based on them, develops, proposes, and sells (disseminates information about) products that are close to their requirements. In this case, since development proceeds based on the seller's estimation, it is more uncertain than a quotation, and not so much resources can be spent. They will combine existing technologies and appeal to buyers for functional differences.

Based on inquiries and observations, the seller S-manufacturer tentatively plots its expertise and costs on the biaxial plane of the buyer's hypothetical function and willingness-to-pay limit. Only in the process of repeated transactions, i.e., provision of functions, collection of payment, and exchange of information, can S Seisakusho grasp its own capabilities more objectively and plot an accurate positioning (self-recognition). It grasps the possibility of expanding its business to other buyers. In the process, it is prompted to redefine its own capabilities and the functions (products) it offers.

The president of a company in the Kanto region that competes with large companies stated, "There are parts that 'everyone knows' and parts that 'only we know. There are two types of parts: parts that 'everyone knows' and parts that 'only we know. We are the first in the world to develop them," said a president of a large-company competitor in the Kanto region. We start out with a very small market. So large competing companies don't know about them, or if they do know about them, they don't pay attention to them. As we continue to do this, eventually we will catch the attention of the big boys, and they will come after us. What we can do is to continue to produce and sell our products until they reach a scale that even large companies can afford. After that, it is better to leave it to the big companies, as it will be cheaper and more beneficial to the world. After that, it will be cheaper and better for the world to leave it to the big companies. The 'everybody knows' parts will continue to be subject to quality and cost competition."

The manager of a multi-industry-connected, primary supplier-type precision equipment manufacturer in the Kinki region said the following. We have been asked by an automobile manufacturer to make a special product for in-vehicle use, which is a first for our company and a great learning experience for us. They set a target price and ask us to keep the cost of the product to this level. We are doing our best, but if we are asked to lower the price further in the future and it is impossible to do so, we must be prepared for a breakdown in business. Even if we were to surrender the market to another company, it would make sense to absorb the manufacturing know-how and development methods of the world's No. 1 Japanese automaker and apply them in other areas."

Automobiles are rapidly shifting from internal combustion engines to electric motors, and there is a major change in the structure of the car itself, which some mid-sized companies see as an opportunity. The president of a multi-industry connected machinery manufacturer in the Kyushu region stated the following. There are not many companies in the world that can provide certain functions for electric vehicles, and our technology and product quality are highly regarded, especially by our customers in Europe and the United States. We have been able to develop sales activities that are distinctly different from price competition, despite the fact that some companies with little experience in electric vehicles enter the market at a low price."

8-6-5 Entering a different function; new information availability and latecomer benefits

〈Insert Figure〉 Chart 8.15 Demand Decline

So far, we have discussed active measures that sellers can directly control. In contrast, external technological innovations, functional improvements by competitors, virtual functional improvements by buyers, and changes in needs cannot be directly controlled. Sellers will respond with a variety of indirect measures. Sellers who believe that demand for existing functions has declined (Figure 8-15) or that existing functions can no longer meet their technological needs will look for opportunities to enter into other functions. This also applies to medium-sized firms that have been supplying finished products to core firms on an OEM basis and whose business is transferred from the core firms, or to firms that have no successors. Since there is already a predecessor, it is easy to get an overview of market and technology characteristics, but it takes time to acquire technical expertise and detailed skills in sales, management, etc., and a long-term response is required in terms of funds and personnel. Businesses with predecessors, businesses from which core companies are withdrawing, and businesses with no successors all have low profit margins, and it is up to management to enter these businesses and nurture them over time. A multi-industry connected machine tool manufacturer in the Chugoku region, which had specialized in buyer group B, began doing business with subcontracting work, i.e., buyer group A. He started anew in an attempt to compensate for the effects of the "mountain valley" of machine tools. However, the mountains and valleys, speed, and cost requirements of the new business are more intense than those of machine tools, and we are learning a lot more than we initially intended. From small and simple jobs, the business gradually began to include work that required high-precision positioning, and we began to take on work until we built a dedicated factory with clean facilities. You can't start something new or get new information unless you create an opportunity for everything. Right now, as a subcontractor, we are comfortable without sales and service functions, but our goal is to eventually have our own products."

8-6-6 Aggressive Withdrawal; Stop Outflow of Funds

<Insert Figure> <Insert Figure> Chart 8.16 Aggressive Withdrawal

When funds are expected to flow out due to various environmental changes, aggressive withdrawal from the function in question is an effective means for medium-sized firms (Figure 8-16). From the viewpoint of the capacity curve in the current function, this is the case when the buyer B and C groups have moved to A and D for the seller S-manufacturing firm, further cost reduction is not possible, and new B and C groups are not expected to emerge. If they withdraw from the market, it is difficult to obtain information on the function of the product. However, unlike entry, withdrawal is based on the premise that profits are generated from another function, and requires explanation and persuasion of employees who have devoted themselves to improving that function, and requires a calm decision by management based on economic rationality. If the outflow of funds is negligible for the S manufacturing company, and if it is meaningful to obtain information by continuing to operate, then there is no need to withdraw from the business. However, if the outflow of funds is serious and no useful information can be obtained, it is in no one's interest to continue the business without any reason that does not lead to qualitative growth, such as because it is a founder's business (a business that has been continued since the foundation of the company by his ancestors) or because the buyer will be inconvenienced if the business is stopped due to supply responsibilities. Rather, medium-sized companies that cannot compete with the magnitude and speed of technological innovation brought about by large companies must frankly admit that their realized functions are below their expected functions, and it is vital that they aggressively withdraw from current functions and repeatedly enter new functions.

For example, the president of a multi-industry connected company in the Kanto region stated I knew I had to change the direction and target of the company as soon as possible. First, we changed the names of the business units. For example, where we were making the old products, we called it the Communication Device Division. The basic core remains the same, but by changing the name, the perspective changes and the company turns its attention in that direction. Many companies that were involved in the old products went bankrupt because they could not keep up with the conversion from analog to digital because they could not change their mentality, even though they had good technology. Our company has responded by moving into the semiconductor, medical, and telecommunications fields. The machines in our factories haven't changed much."

8-6-7 Rapid increase in functional demand; capital inflows

<Insert Figure> <Insert Figure> Figure 8-17: Rapid increase in functional demand

Having discussed above how to secure useful information and necessary funds through the efforts of sellers, we will now discuss the rapid increase and rapid decrease in the demand for functions, which is not a direct effort of sellers. First, with regard to the rapid increase in demand for functions, the expansion of the buyer's business[186] , the prosperity of the industry as a whole[187] , or the emergence of a revolutionary new product[188] can cause a rapid and continuous increase in demand for the functions offered by the company (Figure 8-17). Because demand is strong and massive, the company is required to respond to both cost reduction and capital investment, which is also rather capital-intensive. Because they are so busy with quantitative growth that they are not aware of qualitative growth, once quantitative growth stops, they find that their organizations are not functioning, and new invisible costs are very high despite the increase in scale. The president of a multi-industry connected company in the Chugoku region stated the following. The larger the scale gets, the more you lose sight of the throes of small and medium-sized enterprises. Many people think, 'Oh, companies are just going through the motions. ' In reality, they are struggling with people

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[186] For example, Toyota Motor Corporation's sales expanded from 300 billion yen to 12 trillion yen over the 40 years from 1968, an average annual growth rate of 10%. Parts suppliers are also expected to have grown at roughly the same rate.

[187] The global semiconductor industry, for example, has been growing at an annual rate of 7-15% from 1970 to the present. As the number of end products in which semiconductors are used has increased, medium-sized companies in the machinery and electronics industries involved in semiconductor manufacturing continue to be forced to respond.

[188] The smartphone market, for example, has grown to sell 1.5 billion units a year in the 10 years since they were first sold in 2007. Demand for accompanying apps, cables, headphones, etc. also grew rapidly.

problems, money problems, and technology problems, but they don't understand it because they feel as if it's all been solved on the surface." Furthermore, the manager of a multi-industry connected machine tool manufacturer in the Koshinetsu region, which deals with overseas buyers Group A and B, stated the following. The strain has been on us, as sales have skyrocketed four-fold over the past few years. Until now, we have been able to turn things around based on the know-how of one particular person, but now that we have more people, more customers, and more products, we need smoother communication, but we are not able to do it. Every department has its own purpose and specializes in that purpose, but there is no good connection between departments. The atmosphere is becoming less open. However, during the period of rapid sales growth, the objective of increasing production was clear, and there were not enough people to handle production, delivery, installation, start-up, operation checks, and initial follow-up. This year sales will settle down somewhat, and next year they will drop a bit. We are on the dance floor as a company. This time of year, when employees are no longer so busy, is the perfect opportunity to make some internal changes."

8-6-8 Latecomers; Acquire information by taking immediate action

<Insert Figure> <Insert Figure> Chart 8.18: Behind the Scenes

Finally, we discuss the rapid decline in functional demand. The experience, knowledge, and performance of buyers and other sellers outweigh the normal efforts of S Manufacturing, and although sales from buyer groups A, B, and C increase at first, they become unprofitable. Gradually, sales begin to decline. Perhaps the buyers start doing business with other sellers (subcontracting), or perhaps they are producing in-house. In Chart 8.18, the △ changes to ○, indicating that the buyer has started in-house production, i.e., competing with the company. However, S-manufacturers often do not easily notice the change in the power relationship with the buyer. If left unchecked, it will have to withdraw from this function, but it happens often with all sellers, and if management is always aware and notices even small changes, even if a little late, it can be an opportunity to acquire information and learn rather than a delay. Noticing changes in power relations and making more than the usual efforts, i.e., reviewing methods (proprietary technologies, skills, and sales channels) that are familiar to the seller and developing methods and products that better meet the buyer's requirements, can lead to qualitative growth. Specifically, companies in buyer group C will move into group B, which requires a long-term effort to explore and incorporate buyer requirements and learn technical and market information.

The president of a medium-sized company in the Chugoku region, which is a multi-industry connected company and a competitor of large companies, described how a company he thought was a Group C buyer was transformed into Group B due to the entry of a large company and a delay in the development of new functions, which led to the company's products being ruined as follows. For a long time, we had been told that we were good at what we did, so it was honestly a big shock to have it pointed out to us that we were inefficient (compared to our large corporate competitors). Why can't they do what we can't do? For one thing, new entrants focus on development tailored to their customers' specifications, so they are able to create products that are just as good as the original. We have standardized our specifications to some extent based on our various past experiences, and then we present a product that meets the customer's specifications, which are not necessarily an exact match."

Demand may suddenly decline due to a sudden change in policy or acquisition of a major supplier, or a change in global technological trends. The president of a primary supplier-type company in the Chubu region stated, "While a particular company in Buyer Group A is rapidly increasing its sales, it is unable to keep up with the technical and price demands of the buyer in terms of capacity, and is no longer profitable, and the reason for this is not understood. Buyers will continue to do business with existing suppliers because they have determined that the cost of developing an existing supplier is cheaper than the cost of finding a new supplier and developing the relevant skills from scratch in the face of rapid expansion, but if they do not find a way to overcome the further decline in profit margins, they will have no choice but to exit the market sooner or later. However, if they do not find a way to overcome the further decline in profit margins, they will have no choice but to withdraw from the market sooner or later. In fact, the company is losing orders to its competitors on an increasing number of occasions, and it is under pressure to review its strategy as soon as possible.

A multi-industry connected manager of an electronic components manufacturer in the Kinki region of Japan, who lost business with a Japanese weak electrical manufacturer that had been his main customer, stated, "The acquisition of that weak electrical manufacturer X by a foreign company was a bolt from the blue. The acquisition of X, a weak electrical manufacturer, by a foreign company was a bolt from the blue. X had nurtured our company for 50 years with its technical and capital capabilities. Thanks to that, even though sales dropped 30%, we were able to recover without having to restructure our full-time employees, and we are now working with different customers and doing different jobs. 50 years of what was considered right in our dealings with Company X was completely negated. The position and relationship has changed. Company X was very strict, and compared to other manufacturers, they did not take offense and did not pretend to be anything other than what they were. We thought they would not protect us from the beginning, so we naturally acquired the awareness and know-how to protect ourselves."

8-7 Territorial behavior and trust

If there is an overwhelming difference in realized functions between S mfg. and competing sellers, that is good, but if there is little difference, S mfg. will adopt behaviors such as appealing to its own product functions to prevent buyers from initiating transactions with competitors. In this section, we will briefly touch on this behavior, as we believe it can be approximated by the territorial behavior of ecology. In addition, since many of the managers in our interview survey of mid-sized corporate executives referred to "a relationship of trust with customers," we will discuss the possibility that this relationship of trust may be a form of territorial behavior.

A territory is "an area or space in which an animal defends itself by excluding other individuals of the same species[189] ". In the case of living organisms, the owner of a territory has exclusive access to resources such as food and breeding partners within the territory. Because they take the time to understand the characteristics of the territory, they are familiar with nesting, resting, hiding, food-rich, watering, and dangerous areas and are more willing to secure those areas, making them more likely to defend their territory than other individuals that invade[190] . A territory can monopolize resources if it defends its range, but on the other hand, it must defend itself against other individuals that invade, leading to costs such as not being able to engage in other activities during that time, physical exhaustion, being attacked because of its prominence, and injury to oneself.[191] If resources are uniformly distributed or in large quantities, there is little advantage to monopolizing them. Conversely, if there are too few resources, there will be fierce competition for those resources and no time to claim territory. If there are too many individuals other than oneself and too many invasions, defense costs will be high. Thus, the relative size of the number of individuals with conflicting interests, the benefits to be gained by defending a territory, and the cost of defense will determine whether or not a territory is formed.

Thus, it can be seen that territory is a state that is established under limited conditions, "when multiple solids mutually recognize that they can coexist by avoiding unnecessary competition, given a certain number of individuals and a certain amount of resources. The territorial behavior of many organisms is determined by the benefits and costs within a short period of time to maintain (dissolve), expand (shrink), or move, because the life span (cycle)

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[189] Y. Iwasa, K. Kikuzawa, T. Matsumoto, Ecological Society of Japan (2003), Encyclopedia of Ecology, Kyoritsu Publishing Co. p.443

[190] Kohara, Yoshiaki (2003), "Monsoon Chicken: Animal Behavior in a Cabbage Field," Chukoh Shinsho

[191] The Ecological Society of Japan (2004), Introduction to Ecology, Tokyo Kagaku Doujin, p.105

of an individual is shorter than that of humans. In contrast, for corporate territorial behavior, maintenance, expansion, and movement are determined by longer-term benefits and costs because the life span of a company is longer and the life span of a human is longer than the life span of individual organisms observed in studies of territorial behavior. However, when product life spans are short and when individuals are highly mobile, more short-term decisions are made repeatedly, which may diverge from the overall corporate behavior.

Trust, on the other hand, is "a relationship in which there is an expectation that the firm will be able to rely and cooperate because it acts altruistically, even when opportunistic behavior is possible.[192] In a transaction between a core company and a component supplier, in order to provide a customized product to the buyer, it takes several months to several years between the inquiry for a function and the actual development, mass production, and collection of payment, and furthermore, the transaction continues afterwards. The more technologically advanced the product is, the more expensive it is for the seller to design, prototype, and invest in equipment. In order for the seller to accurately, quickly, and efficiently perform the sequence of actions of obtaining (needs) information from the buyer, providing a product that includes features that satisfy those needs, and collecting payment that includes costs and profits, there must be an expectation that both the seller and buyer will not engage in opportunity-based behavior. Specifically, the expectation that the other party will remain the same and maintain stable transactions, the expectation that the other party will not change the rules of the transaction, the expectation that the other party will not make unreasonable demands, and the expectation that the other party will maintain the ability and integrity to act in its own best interest.

When both the seller and the buyer have such expectations, they will exclude any third party who tries to intrude into their relationship. The buyer, K Industry, actively discloses information about its needs so that S Manufacturing can develop and sell a product that meets its expectations, and re-sets the willingness-to-pay limit, M. Maintaining a relationship of trust is a serious matter for both parties. It is not an exaggeration to say that it is not only the seller's territorial behavior but also the buyer's territorial behavior, which corresponds to a symbiotic relationship between different organisms in the same space.

However, even if you expect the other party to take advantage of you, it is difficult to communicate your needs to them, and your needs change. The work and cost of communicating your needs to the other party and confirming each other's capabilities is inevitably necessary. While it is gratifying to expect higher-order functions from the other

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[192] Wakabayashi, N. (2006), "Nihon Kigyo no Network to Shinrai (Network and Trust in Japanese Firms): A New Economic Sociological Analysis of Inter-firm Relations," Yuhikaku, p.22

party and for them to fulfill our needs, it is not clear whether this directly leads to mutual trust on both sides. As long as buyers leave that much to the seller, the buyer must continue to win in the main battlefield of their product. Furthermore, since trust is a psychological state of an individual, it cannot be observed directly from the outside. We observe whether or not the other party has the ability and sincerity to benefit us in the process of some action, and we judge whether or not we trust them based on the degree to which they have done so. Both parties define the time and space, clearly present the content of the needs (tasks) of both parties they wish to accomplish there, the level of accomplishment, the acceptable range of levels, and so on, and compete earnestly to accomplish them by agreement. As a result, both parties can estimate the ability and sincerity of the other based on the degree of achievement of each other's needs, and recognize whether or not they can be trusted the next time around. In our general view, a true relationship of trust tends to occur in transactions with buyer group B, where the power relationship is close to that of equals.

A series of tasks to confirm the capability and sincerity of the other party is a considerable cost for both parties, and omitting these tasks on the assumption that the environment is constant is considered to be "trust". Furthermore, branding is the change from a two-way relationship to a one-way relationship from a part of buyers C and D to the seller, or from the seller to buyer A. As the needs of both parties change, the process of confirming the ability and sincerity of the other party will take a long time. As long as the needs of both parties change, if they neglect the confirmation process for a long time, they will only have delusions of the other party's ability and sincerity, and they will lose the ability to confirm the other party themselves, resulting in "familiarity," in which they follow each other's laziness; "unconscious exploitation," in which one party has lost the psychological state of trust in the other, but the other mistakenly believes there is a trust relationship, and the other party is not aware of it. The relationship degenerates into "exploitation of the other party," "intimidation" and "lethargy/thoughtlessness" in the name of trust. In the study of business-to-business relationships, trust in the presence of clear power relations has been discussed. Although this is not our impression based on our interview survey, we believe that this is essentially different from a relationship of equals. In dealing with buyer group A, it used to be close to the feeling of "one mind, one heart, one soul," but now it is closer to the feeling of "same bed, different dreams.

In order to curb the other party's opportunistic behavior without trust or brand, they will have to sign a huge and strict contract. As transactions among mid-sized companies become more internationalized, business practices such as vague verbal promises among Japanese companies, transactions based on past business performance, and the provision of free services on the assumption that the transaction is a genuine transaction, are being reevaluated.

In particular, sellers in a weak position are reluctant to offer free services to Japanese companies for a fee, and if they seek a contract, they may be excluded by the buyer as "damaging the relationship of trust. However, foreign companies do not have the concept of free services, and if they start a transaction without a contract while offering free services without knowing it, only information will be extracted without reaching a final contract. There were also many cases of being cheated, such as not being able to collect payment or failing to fulfill expectations, even though the product was delivered. It is no longer unusual for major Japanese companies to imitate these practices, and mid-sized business owners who have been forced to cry themselves to sleep were very upset when we conducted our survey.

Buyers in the Japanese transportation equipment sector demand strict product (component) safety and cost from sellers. The life of a single product is long, including the planning stage, the start of mass production (roughly 6 years), the production period, and the repair parts warranty period (roughly 10 years). For product technology, low-cost mature technology with a proven track record of safety will take over rather than high-cost cutting-edge technology. As for production technology, components are more complex and larger than those of electrical equipment, and although changes in core technology may be gradual, once a capital investment is made, the payback period, including depreciation, will be extremely long. The equipment, molds, jigs, and skills must be maintained during the warranty period. Based on the core company's long-term forecast (production volume), many parts suppliers are involved in planning, development, prototyping, equipment installation, and mass production simultaneously and without a stitch of interruption, even in the midst of fierce competition for orders. For this reason, the company emphasizes not only strict standards for each detailed product standard, but also past business experience, relational skills, and relationships that do not require explanation and understanding of technical terms, technical terms, and codes from the beginning. They do not act in an opportunistic manner, assuming that transactions will be established and continued once inquiries have progressed to a certain degree. On the other hand, in electrical equipment, products have a relatively short life span, and cutting-edge, precisely quantified technology and thorough cost reductions are required rather than past performance, leaving little room for trust and no attempt to build long-term relationships. There have always been Japanese buyers who actively seek to take in the seller's confidential information and ultimately manufacture in-house to get ahead of the seller.[193] As with the aforementioned conditions for the

[193] For example, in the mid-1980s, Company α (the seller) was working with Company β (which Company α believed to be the buyer) as part of a joint development effort to finalize issues related to the practical application of Function X. Company α, which had no doubt that Company β was a user and not a developer of Function X, probably disclosed

establishment of territorial behavior, the idea of continuity, reciprocity, and trust in previous transactions was only possible because there were a certain number of individuals and a certain amount of resources within Japan. Now that the possibility of trade has expanded overseas, the preconditions are completely different in an industry with huge populations and vast resources.

A medium-sized business manager used the term "right wife and mistress" to describe a situation in which an apparent relationship of trust is broken down and then restored. When the "rightful wife" offers a highly functional product at a high price, the buyers gradually dislike the high price and seek cheaper parts with the same functionality, and move on to other sellers (mistresses). However, the cheap parts purchased with the expectation that they will provide the same functionality actually fail to fulfill the expected functionality, and the buyer becomes disenchanted and asks us again for mass production and the development of the next part. Will we allow this to happen or not? If it is a weak righteous wife, she will allow it, and the buyer will demand the same price as the other seller's cheap parts and drink it. If the buyer rejects the entire transaction in order to show that he has a strong wife, the transaction stops and that is the end of it. If she is truly a strong righteous wife, she will forgive the shifty partner and resume the transaction. However, the price will be set higher. We will do so. We will continue to repeat this dilemma in the future," he said. Whether this is what we call a relationship of trust or not, we are at a loss to decide. Since the resources, capabilities, and skills of both the seller and the buyer are constantly changing, it may be sufficient to describe

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material confidential information, and Company β would have disclosed its plans to develop a product incorporating Function X. The details of the contract are not known to the third party. The details of the agreement are not known to a third party. However, in 1991, without notice to α, β commercialized (and competed with) Function X. The material was the same for one part that α had developed after years of trial and error, and the composition was different for another part. For the researchers of Function X, we had expected that it would be a little longer before we could put it to practical use. I was shocked. We were shocked and could not believe it when we heard that it was Beta. We were also incredulous to hear that it was Beta, because they had been a close partner of ours in evaluating the performance of Function X." From "My Resume, Akira Yoshino," Nihon Keizai Shimbun, October 20 and 21, 2021.

The seller intended to recover the cost of R&D through commercialization, and thought that the buyer would understand this and buy the product. However, the buyer may have rushed to produce the product in-house, believing that if it waited for the seller to commercialize Function X, it would fall behind the competition in the final product market. It is true that the seller expected the buyer to do so, whereas the buyer took advantage of the seller's expectation and decided that commercializing the same function as the seller without permission before the seller did was not a breach of contract but legal and stepped forward. It does not appear that this buyer thought, judged, and acted altruistically. An objective relationship of trust was not maintained until the end, or did not exist from the beginning. To the seller, this buyer was different from any other buyer they had ever dealt with.

this as a medium-term mutually beneficial relationship in which the expectation function and the realization function happen to coincide, rather than implicitly seeking a long-term relationship of trust.

8-8 Summary of this chapter

This chapter reveals how medium-sized firms (sellers) select and transact with buyers, and how they try to gain profits while gaining new information. Sellers are ultimately always dependent on buyers. Even if the seller monopolizes in some scope, the seller cannot survive unless the buyer realizes the effectiveness of the seller's function and purchases it. Furthermore, if the seller depends on the market, technology, or funds, there will be a power relationship. If it is a monopoly, the opposite is true, and since costs are involved, the power relationship between the seller and the buyer and the amount of profit per unit are not linear, and an inverted U-shaped curve is drawn. This is called the capability curve. [194]

From the interviews with the presidents of medium-sized companies, we were able to observe how sellers obtain profits and information (including technology and know-how) through transactions with buyers, and how they apply and deploy them. We classified buyers into four groups based on their power relationship with sellers: Group A (champion type), Group B (friendly competition type), Group C (enthusiastic support type), and Group D (low involvement type). Group B has technical expertise, actively seeks higher and additional functions (expected functions) for its own business, correctly evaluates the functions realized by the seller, and pays the suggested selling price P without discounting. Group C has less technical expertise and evaluates the functions offered through the brand resulting from the purchasing behavior of Groups A and B. Group D has a huge number of units, has no technical expertise, and prefers low-priced products with minimum functions. Sellers select these four buyers to acquire money and information.

Both the seller and the buyer want to continue to do business without replacing the other party as much as possible while the environment and power relations remain constant in order to stabilize the business. The seller wants to focus on the development of its own strong functionality to keep the buyer in the loop, and the buyer wants to continue to obtain the

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[194] According to Hayashi (2020), introduced in Chapter 7, our discussion in this chapter "can be paraphrased using existing terminology as follows. "By exercising moderately strong power over buyers, sellers can increase their oligopoly (profit margin). However, the seller's high degree of oligopoly and the buyer's willingness to pay based on competitive use value (perceived value) are non-linearly linked due to bounded rationality, so if the critical point is exceeded, the seller will not be able to recover the expenditure spent on the exercise of power. As a result, excessive exercise of power depresses the seller's average profit margin. In addition to the above, options to "shift" or "deform" the profit curve are discussed.

seller's realized functionality in order to maintain the expected functionality. Therefore, they form a territory for each other, preventing others from entering and at the same time making sure that both the seller and the buyer do not act in an opportunistic manner. This was what was called a relationship of trust, but the power relationship is always in flux, with subtle misalignments because it arises from the difference in effort of both the seller and the buyer.

So far this is normal, but one company can be a buyer to obtain materials and a seller to provide its products and services to other companies using the functions it has obtained. To increase profits in the short term, the main principle is to make more money coming in and less money going out, and we want more buyers to pay generously without discounting or complaining about details, but when we purchase our own raw materials and parts, we should examine the functions and prices carefully and pay generously. should not be. Furthermore, if a seller refuses to do other work because a particular buyer will buy in large quantities, he or she is at the mercy of that buyer. The buyer, too, will be drained of funds if it continues to buy at the seller's price, and will either demand a reduction in price or, if this is not accepted, will consider in-house production of the function in question and act to acquire skills. In this way, it was confirmed once again that there are healthy and normal contradictions and shields at various levels of management decision-making and in various situations. This is not a "contradiction" that occurs and conflicts at the same time. There are contradictions and shields in different directions and misalignments in time and space, and management is about dealing with, overcoming, and transcending these in a constructive and economical manner.

Chapter 9: Management Objectives of Medium-Sized Enterprises

9-1 Positioning of Objectives in a Medium-Sized Company

In general, the clearer an organization is about the direction it should go or the image it should have, the more efficiently it can mobilize and deploy its resources and energy. Management principles, objectives, and future vision have the function of pointing the organization in the direction it should go and are important management tools for any company, regardless of its size.[195] For this reason, much of the management literature discusses matters related to management objectives much earlier in the literature, in some cases at the very beginning. In summarizing our study of medium-sized firms, we considered where to state them, their position, and their logical development. However, for several reasons, we decided that it would be better to discuss them in this chapter, at least at the end of the book.

The reason for this is that in previous discussions, we have not found any evidence that the management objective is more important than the functional difference between the seller and the buyer for the transaction to be concluded. As long as the functional difference exists where the seller is higher than the targeted buyer, the seller can live. It does not matter if there is no objective consciously or truly present there. However, this is not at all to say that management philosophy and purpose are not important.

In our survey of medium-sized firms, we cannot ignore the fact that some managers emphasize management principles, objectives, and visions for the future, while others focus only on numerical targets, and a few pay no attention to either of these. The differences in attitude toward objectives among the managers were partly due to the temperament of the individual managers, but also to the environment they faced and the position and capabilities of the companies they were working for.

At least when it comes to future visions related to business and strategy, in Chapter 5, we thought that medium-sized firms would have an easier time understanding future visions than large firms because they have fewer employees, but we found the opposite to be true. In addition, we found that when managers give detailed instructions, rather than just outlining the general framework for development, it leads to better results in R&D and technological development. The discussion in Chapter 6 and beyond revealed that primary supplier-type

[195] Shimizu, K. (1996), "The Role of Management Philosophy in Corporate Reform," Mita Journal of Commerce, Vol. 39, No. 2, pp. 87-101.

and multi-industry connected medium-sized firms have grown quantitatively and qualitatively by providing parts, materials, machinery manufacturing, and wage processing services to large firms, compared to large firms. Based on these findings, we can infer that medium-sized firms are more likely to accurately understand and respond to the future visions of the large firms they do business with and the trends in the industries to which they belong, and to develop parts and machinery with the advanced specifications demanded by the large firms, rather than to develop their own visions for the future, because of forecasting costs, costs of persuasion to employees, and costs of adjusting interests, It can be inferred that they believe that forecasting costs, persuading employees, coordinating interests, and the risk of failure are lower. They rely on external sources for the basis of their own strategic decisions.

Then, when does a seller's management need a management philosophy and purpose? It is when there is a need to re-state the company's raison d'etre, which has been self-contained within the individual manager, or which has become ambiguous due to changes in the environment or changes in the company's policies, so that it can be clarified and understood by stakeholders. The company will review its past self-perceptions and external perceptions and confirm its raison d'etre by planning a policy change that requires a major change in internal resource allocation, such as a decrease or disappearance of functional differences, a shift from a primary supplier type to a multi-industry connection type, a switch from a champion type to a friendly competitor type, a change of president, or an increase in the number of interested parties. and confirm the significance of the company's existence.

The changing needs of buyers and the efforts of competitors are routine, and employees are focused on maintaining and expanding functional differences and improving productivity by routinizing the tasks associated with them. If management is maintaining a particular functional difference but seeks another new functional difference or plans a change in policy due to a sense of urgency about the future of the existing difference, it will allocate some of its employees and funds to developing a new functional difference. In such a case, since there are still resources and time available, it is relatively easy to coordinate interests among employees and businesses, as long as the old ways of doing things are reviewed and criteria can be presented as a basis for starting a new initiative. However, if the results of new functional development are immediate, the decision can be made based on economic indicators, but if the results are not immediate or failure is acceptable, a higher level of criteria, i.e., management philosophy and objectives, will be necessary. Management must realize that qualitative growth is indispensable for future quantitative growth, and must calmly ask themselves, "What is the purpose of management?

Relatively stable periods of time exist during which business decisions can be made without awareness of management philosophy and objectives, and these periods are generally long.

Low dimensional objectives set in response to minor changes in buyer needs, the gradual advancement of existing technology, or the rise of competing sellers can be checked to see if they have been achieved in a short period of time, and changed accordingly. If the dimension is gradually increased, those at higher levels in the position will judge the suitability of the goals and objectives and the status of their achievement. Furthermore, if they become management principles and objectives, they will become the basis for management's decision-making when choosing corporate actions under uncertain circumstances. Unless something goes wrong, management must adhere firmly to them. However, any of the higher-level objectives must be reviewed at management's discretion if the company faces difficulties that jeopardize its survival, i.e., drastic changes in buyer needs, technological innovation, disappearance of buyers, or changes in employees' awareness. The highest level of judgment is left to management, whether to adhere to the philosophy and objectives that are the criteria for judgment, or to fundamentally review the philosophy and objectives themselves and create new criteria for judgment. Furthermore, the highest level of decision-making is a very difficult task for management, as it is something that occurs only once or twice during their term of office and cannot be patterned within the company, nor can it be done by copying the actions of other companies.

Objectives, capabilities, actions, and outcomes can be drawn linearly, but in reality there are interactions as well as cause and effect, and a single action can be influenced and constrained or released from the past. Environmental influences are also significant. While cyclical theories with extremely short pathways should be avoided[196] , large cycles, or spirals in which assumptions change gradually, do exist. For this reason, managers learn and remember high-frequency cycles and use them to forecast and prevent problems. On the other hand, there are indeed changes that are infrequent, but have a significant impact on companies and cannot be excused or ignored because they are infrequent[197] . The aim of this

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196 Duncan J.Watts(2012) *Everything is obvious-How common sense fails-,* Atlantic Books, p.59 (Duncan Watts, Hajime Aoki, trans.

197 I will now add a few words about uncertainty. Uncertainties can be divided into four main categories: 1) Events that the parties concerned believe occur frequently. (1) Events that the parties concerned expect to occur frequently. By learning and reinforcing (virtual training) or decompressing from one's own past experiences and the experiences of others, one can acquire the ability to minimize adverse effects and maximize positive effects to some extent. While events do not occur, we gradually underestimate (wolf-boy), overestimate (fixation on successful experiences), and unanticipate (forgetting and ignoring) the severity and urgency of the event. The process of daily learning reinforcement and thawing for events that rarely occur is costly in the short term, and is not continued and intentionally made unexpected because it is not felt to be rewarding at a later date. (3) An event that is known to a third party but that the person concerned thinks was "unexpected" after the fact (something that cannot be assumed to affect him or her in advance). 4) An

chapter is to reveal the process of forming and changing the objectives of managers of medium-sized companies as they really are.

9-2 Corporate objective research

These 9-2 to **9-4** sections describe general discussions of corporate objectives that are not related to the size of the company.

Business Administration is a discipline that seeks to scientifically analyze and systematize the factors that contribute to the success of a company. What, then, is the success of a company? Hatamura (2000), a well-known scholar of failure studies, defined failure as "the inability of an action involving human beings to achieve the objectives set forth in the beginning.[198] In reference to this, the **success of a company is the achievement of the company's initial corporate objectives**, and if the company ends without achieving them, it is considered to be unsuccessful or a failure.

An organization cannot operate without individual constraints and a unified purpose of activity[199] . Then, when researchers analyze the success factors of a company, they must know the company's purpose. Economics assumed that the corporate objective is "profit maximization." The search for variables to maximize profit and the search for weights for each variable are the trajectory of the search for success factors. Although this hypothesis has long been a basic premise in the study of corporations, it has gradually been questioned by many researchers. The main reasons for this are that the microeconomics on which it is based is a static theory, which assumes that equilibrium conditions are continuous, that it cannot distinguish between short-term and long-term, and that it cannot distinguish between investment for profit at the present time and investment for future profit[200] , among others. [201]Drucker (1973) notes that "an enterprise cannot be defined or described in terms of profit" and that "'profit maximization' cannot be defined or described in terms of profit." and asserts

event that no one knows anything about (unknown, both objectively and subjectively unknowable in advance). (4) An event that no one knows anything about (unknown, objectively or subjectively invisible in advance). When this happens, the event can be said to be "truly unexpected," and from then on it is classified as either 2) or 3).

[198] Hatamura, Yotaro (2000), "Failure Studies", Kodansha, p.21

[199] Barnard, C.I. (1938), *The Functions* of *the Executive,* Harvard University Press p.23 (Barnard, Yasujiro Yamamoto, Yasujiro Tasugi, Kai Tasugi, Haruki Iino, Translation (1968), A New Translation of The Role of Management, Diamond, p.23)

[200] Ansoff, H. Igor. (1965), *Corporate Strategy,* McGraw-Hill, p.50 (Ansoff, H., translated by Jusuke Hirota (1969), Theory of Corporate Strategy, Sanno Junior College of Business Administration Press, p.42)

[201] Schmidt Ralf-Bodo(1969) *Wirtschaftslehre der Unternehmung*, c. e. Poeschel (Schmidt, translated by Nobuchika Kaido(1974) "Corporate Economics" Chikura Shobo p.144)

that "the concept of 'profit maximization' is meaningless." [202]

The limitations of the profit maximization hypothesis led American corporate researchers to shift their focus from the traditional single-purpose hypothesis to the multiple-goal hypothesis. In other words, while leaving the corporate objective vague without further exploration, they shifted their attention to how to set and clear the multiple realistic goals that are subordinate to the corporate objective. For example, Cyert-March (1963) listed five goals: production, inventory, sales, market share, and profit goals, and stated that their order of importance is vaguely determined by the environment and the rate of change in goal levels.[203] They argue that sometimes there are multiple conflicting goals because "companies are, in fact, coalitions of participants with a variety of demands, constantly shifting attentional focus, and limited ability to focus attention on all organizational issues simultaneously," and that conflicts between goals can be resolved by decentralizing decision making and coordinating organizational slack. They argued that contradictions between goals can be resolved by decentralization of decision-making, coordination of organizational slack [204] . The participants in their argument are members of the management team. Therefore, the goals listed are goals as a function of the company, and therefore, the conflict and resolution of contradictions between goals can only be done within the management team.

Ansoff is similar in limiting the stakeholders involved in the objectives to management. However, he defined the central objective of the corporation as "long-term profitability (maximizing return on equity).[205] He differed significantly from other studies in that he clarified in detail the relationship between the upper and lower goals with this as the pinnacle, clearly separated long-term from short-term goals, and expanded the scope beyond economic goals to include the noneconomic goals of individuals participating in the enterprise.

Japanese corporate researchers have pointed out that Japanese firms do not have a single goal theory[206] that is extremely inclined toward ROI and stock price, as is the case with American firms. Rather, because of their intense institutional maintenance orientation, which requires the coordination of multiple interests, their goals must also be multiple. In fact, he says, goals and means are mixed[207] and their mutual objectives and goals cause conflicts of

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[202] Drucker, Peter F. (1973) *Management,* Harperbusiness, p.59 (Drucker, Kazuo Noda, Tsuneo Murakami (1974) Management (Upper & Lower), Diamond, p.90)
[203] Cyert, Richard M. and March, James G. (1963) *A behavioral theory of the firm,* Englewood Cliffs, N.J.: Prentice-Hall p.40 (Cyert-March, translated by Takehiko Matsuda and Tsuneo Inoue, 1967) The Behavioral Theory of the Firm, Diamond, Inc. p.61)
[204] Cyert and March, Ibid. p.43 (Cyert-March, above, p.64)
[205] Ansoff, Ibid. p.53 (Ansoff, ante, p.48)
[206] Morimoto, M. (1986), "Management Goals and Reality," Organization Science, Vol. 20. No. 2 pp. 2-12
[207] Fujimori, M. (1979), "Corporate Goals in Business Analysis," Mita Journal of

interest. For this reason, the term "long-term maintenance and development of the company" has been used to summarize the multiple objectives of Japanese companies, and it has been assumed that this is the ultimate corporate objective.[208] In other words, if a company is maintaining and developing over the long term, the contradictions between objectives and goals are eliminated or underestimated to some extent, and the company is considered to be successful. Certainly, the desirability of long-term maintenance and development of an enterprise is universal and unquestionable. However, "long-term maintenance and development" is a maximally common goal that can be agreed upon by all stakeholders in corporate management who can participate in the management of the company, even if only a little, and it is difficult to judge the success or failure of the company in front of us now. Since the group of broken-down goals includes some that conflict with each other, how are they reconciled? What is the relationship between long-term goals and short-term goals? The relationship between economic and non-economic goals and, furthermore, the relationship between goals and the period of achievement must also be examined as it should be. In corporate research, as companies became huge, the number of stakeholders expanded, and the main objective of research was how to coordinate these stakeholders.

9-3 Superior and subordinate objectives

This section discusses the process by which the upper-level objectives are broken down and structured into a bundle of lower-level objectives. Firms check to see if actions have achieved their objectives. If there is a space-time gap between the actual action and the achievement of the objective, it is difficult to determine whether a single action, and its outcome, contributed to the achievement of the objective. A company establishes a relatively short-term goal, a sub-objective, in order to achieve its initial objective, i.e., a relatively long-term, high-level objective. Meeting that sub-objective becomes the subordinate objective, the short-term objective.

The achievement of an objective can be confirmed only when the length of time of the short-term objective coincides with the length of time it takes for a specific series of actions to manifest themselves as results. According to this criterion, the objectives are subdivided from higher-level objectives to lower-level objectives. At the same time, since the evaluation of the achievement of objectives must be consistent with the evaluation of the organization, team, or individual carrying out the specific series of actions to achieve the objectives, the unit (organization) in which the actions are carried out is also subdivided. Those who have been given the responsibility and authority to achieve short-term objectives choose actions to

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Commerce, Vol. 21, No. 6, p. 49

[208] Shimizu, Tatsuyoshi (1984), "Theory of Corporate Growth", Chuokeizai-sha, p.4

achieve them, and check whether the results meet the objectives or come close to achieving the higher-level objectives. If they believe that the objective or goal remains appropriate, they select the next action, and if they determine that the objective or goal is inappropriate, they reestablish it and select actions to achieve it. As long as the firm determines that the higher-level objective is appropriate, it will continue to check and sometimes revise the status of achievement of the lower-level objectives until that objective is achieved. If the higher-level objective is achieved or determined to be inappropriate, the higher-level objective will also be modified.

However, the relationship between higher and lower objectives is not so simple, and there are some problems. First of all, as mentioned above, in research, the corporate objective was initially assumed to be "profit maximization," and only one of them. Once the sub-objectives were subdivided along with the single higher objective, the organizations and individuals that were subdivided to achieve that objective should be evaluated based on their contribution to the achievement of the single higher objective. However, as subsequent research has progressed, it has come to be understood that companies are pursuing multiple objectives simultaneously, rather than simply maximizing profits. The main reason for this is the problem that, if one focuses only on the inside of a company, the achievement of subdivided subordinate objectives is not enough to achieve the higher-level objectives. Organizations and individuals who are ordered to achieve subordinate objectives become indifferent to the achievement of higher-level objectives as long as they are evaluated according to the success or failure of their achievement, and they focus on achieving their own subordinate objectives regardless of the interests of other organizations and individuals. Furthermore, the achievement of subdivided subordinate objectives becomes unclear as to how much it contributes to the achievement of higher-level objectives, and organizations and individuals who are ordered to achieve subordinate objectives become increasingly indifferent to higher-level objectives. So-called stove-piping or sectionalism arises.

Even in the field of corporate research, corporate success factors and elements have been subdivided, going from quantitative to qualitative, from visible corporate behavior to invisible behavior and thinking, and "success" has also been subdivided into lower "successes" that lead to higher "successes" and replaced by something that is not measurable. It has become difficult to verify whether the fragmented factors and successes are truly leading to the ultimate goal that the company is pursuing. By eliminating stove-piping and sectionalism, acknowledging diversity[209] and interacting with other divisions and different departments[210] , the idea of

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209 Hirokuni Tokawa (2010) "Collaboration and Creative Management: The Significance of Tolerating Diversity", Mita Journal of Commerce and Management, Vol.53, No.5 pp.1-15
210 Endo, K. (2007) "Innovation and Organizational Capability in Japanese Firms", Mita

inducing awareness, achieving higher quality higher-level objectives, and innovation has emerged. Can we really reach the ultimate goal by accumulating small cause-and-effect relationships?

9-4 Role of management in corporate objectives

The objective of "long-term maintenance and development" set by the researcher may have been, in a sense, tailor-made for real companies and can be a cover for managers to explain their recent performance. Long-term maintenance and development is not a mistake, and everyone agrees that it is the greatest common denominator, but at the same time, it cannot be further subdivided in research. How long does long term indicate, and what does maintenance and development mean: productivity, size, sales, or profit? Or capacity? What will be the means to achieve this? The researcher stopped short of leaving the setting and implementation of those criteria to management. Management functions as the supreme arbiter of the economic value creation of the enterprise and the alignment of interests among stakeholders[211] . The main stakeholders for a firm are buyers, employees, suppliers, financial institutions, shareholders, communities, governments, analysts, and management. Stakeholders have different wants and objectives and do not always maintain the same goals and demands. They change their objectives and demands in response to environmental changes and company conditions. How does management reconcile the interests of stakeholders?

We would like to distinguish here between the terms corporate purpose, management objectives, and management philosophy to be precise. The corporate purpose that we have been using is the maximally common goal that all stakeholders of the company can agree on, which is "long-term maintenance and development. Since the corporate purpose is vague, as mentioned above, management coordinates the individual purposes and demands of the stakeholders related to management based on its own thinking and philosophy. The demands of management's stakeholders become issues for management to resolve. From the various and sundry management issues that are recognized on a daily basis, management selects those that are urgent and critical and works with employees to solve them. The mass of management issues that management organizes and arranges are called management objectives. The management philosophy is the personal purpose of the manager in running the company, and is the part of his or her true feelings and private thoughts that may or may not be made public and need not be disclosed. It can be the root in organizing and arranging the management

Journal of Commerce, Vol.50, No.3 pp.265-283

[211] Hirokuni Tokawa (2005), Essence of CSR, Chuokeizai-sha, p.172

objectives (Figure 9-1).

<Insert Figure> Figure 9-1 Corporate objectives, management objectives, and management philosophy

The top-level objectives are subdivided into lower-level objectives on which each organization and individual can easily focus their energies. In this process, since it is not possible to satisfy all stakeholders at the same time due to resource constraints, the subordinate objectives are prioritized while considering what is important now in order to achieve the higher-level objectives. This must be a painful process. There will always be stakeholders who will be disadvantaged. If we ignore long-term interests in pursuit of short-term gains or become opportunistic in order to escape from the pain of not achieving results, we will lose credibility. The most important point of interest alignment is the high-minded management philosophy by management and the improvement of business performance and corporate growth through new product development.[212] This will convince and reassure many stakeholders, and draw out their energy for the next challenge. It is also important to strike a balance between long-term and short-term objectives, depending on the situation. This can minimize frustration by convincing stakeholders who are disadvantaged in the short term that they will be rewarded by the long-term objectives. The philosophy and principles of the manager are the basis for decision-making until results are achieved.

Only those who understand their objectives can accurately judge the success or failure of their actions. In other words, it is management that can judge the success or failure of its own company in light of its own management objectives and the results of its strategy implementation, and it is from this feedback that subsequent strategies and organizations need to be considered. Each manager has his or her own goals and evaluation criteria. In other words, it is difficult for third parties outside the company, such as researchers, to see whether management has achieved its subjective management objectives. In order to consider the success and failure of a company, it may be necessary to start by analyzing the management objectives of the managers and their personal management philosophy.

9-5 Management Objectives

From here on, based on the results of our interviews with the presidents of 240 medium-sized companies, we will discuss the nature of management objectives, whether they are single-objective or multi-objective, and if they are multi-objective, what structure each

[212] Shimizu, Tatsuyoshi (2000), "President's Leadership: Managerial Functions that Cannot be Left to Others", Mita Journal of Commerce and Management, Vol.43, No.1, p.116

dimension has, and how they change. This section describes the following.

In general conclusion, management has its own philosophy and desires, and determines its business objectives in light of trends in environmental change (direction and speed). Management has its own time horizon, and based on an objective understanding of its own situation, it sets goals for what it wants to do and what it can do by when (Figure 9-2). management has a dim picture of what its company will look like in 10 years, and what it will do over the next year to reach its goals in 5 years, human and financial resources. The company then considers how it will allocate its human and financial resources to the next 10 years, 5 years, and 1 year, and how it will improve the technology, production, and sales necessary by that time, as well as the human capacity and funds to support those activities. The company continues to revise its goals, plans, and decisions while checking the detailed results. In the very long term, even the management objectives may be changed.

Changes in the environment, such as changing buyer needs, the rise of competing sellers, and technological innovation, will cause relative changes in technical expertise, proficiency, and performance, and managers will decide whether to focus on the long term or the short term (Figure 9-3). In most cases, if nothing is done, technical expertise, proficiency, and track record will become obsolete through the efforts of buyers and competitors (headwind). If a company has technical expertise in the functions it considers to be its target, it will have goals based on a longer-term perspective. Conversely, if it lacks technical expertise and is in an environmentally decisive situation that is driven by the environment, the company's survival will be threatened and it will be left scratching its head over how to finance its operations tomorrow. In other words, the overall capability of a company in terms of technical expertise, proficiency, and performance, as well as the time horizon of management's future-oriented goals, correlate to a certain extent. The power of the company and management's ability to foresee the future will determine whether the goal is long-term or short-term. In Figure 9-3, the lower part of the bold line is the area where management has "free control over the company," while the area above that line is the environmentally critical area. While technical expertise generally becomes obsolete, it can also be driven by tailwinds. A product market or technology that had little to do with the company's business may emerge, and the company's technical expertise suddenly attracts attention. In other cases, a rapid turnaround in the economic environment may lead to a concentration of orders because of a decline in the number of competitors during a recessionary period. For better or worse, a company cannot change the direction of the wind by its own efforts. However, even companies that at first glance appear to be changing their business by simply letting the wind blow in their face are in fact constantly checking for changes in the external environment, preparing in advance for whatever winds may blow next, and continually searching for buyers and timing that suits their own strength.

The reason I said "general" at the beginning is that not all managers do all of the above in a balanced manner, and there are many different ways of thinking and doing things, depending on the current situation of the company, the buyer, the environment, technological innovation, competing sellers, and the limits of the manager's own abilities, and there are many managers who either keep the balance or deliberately break it. The reason is that there are many managers who break it.

<Insert Figure> <Insert Figure> Figure 9-5 Corporate objectives and current status

9-6 Management Philosophy

Textbooks portray the ideal manager. He or she is selfless and disciplined, possesses a strong entrepreneurial spirit and accurate foresight, creates a vision, formulates orderly strategies, builds a lean organization, and wins the hearts of his or her employees and draws out their energy. However, merely asserting an idealistic vision in a normative manner is a kind of thought stopping. It expects too much of management. When we actually meet mid-career business owners, we find that while some are close to that, even those who are not are running their businesses in a normal way. Not all mid-cap managers have a philosophy that includes a high moral compass, nor do they have a particularly advanced education and outstanding abilities. In the case of unlisted companies, there is no check from outside shareholders compared to listed companies, and the bank is the only check, but this is also not the case in the case of debt-free management. Even if an outsider is invited to join the board of directors, the owner has tremendous authority, and there is a high likelihood of a sudden turnaround in business performance. This determines a medium-sized company, for better or worse.

One of the limitations of the interview surveys we conduct is that managers are often interviewed during periods of relatively good performance, so even if we ask them about their admirable management philosophy and grand long-term vision, we have no way to confirm how well they are putting them into practice or whether they are telling the truth in terms of content. Nevertheless, we can understand most of the truth or falsity of the philosophy by asking about the background of its birth. There are countless stories of veteran business leaders who have risen again from past hardships and learned lessons from them. Many founders, in particular, have fought their own battles and built up their companies to the size of medium-sized enterprises in a single generation, and the thought processes, ethics, and competitive instincts they have acquired in the process of their successful experiences are unique. However, when he started his business, he did so with the awareness that his livelihood was directly connected to the survival of the company and the maintenance of his own livelihood. Because of this direct connection to his livelihood, he strives for the success and survival of his business with ambition and persistence. Even if the prospects for the business are not good, he will immediately change direction and consider starting another business to maintain his livelihood.

When a business becomes stable, the business objectives become multifaceted. This is because there are already employees there to support the business, and there are buyers and potential buyers who are willing to do business with the business on a stable basis. Since the company employs many employees, it cannot simply be dissolved if the business deteriorates due to the manager's personal or business desires. The second and third generations are greatly influenced by the thinking of their predecessors and take into consideration the relationship with their relatives who are shareholders. The unique philosophy of the founder when there were few employees has faded, and there is no sense of trying to revive the company from the bare bones. As much as possible, the focus will shift to keeping the business alive, diversifying risks, and perpetuating it as a company.

Just because there are more stakeholders does not mean that managers lose their management philosophies. However, as mentioned above, compared to the founders, the philosophies of the managers who succeed them are generally vague, their ambitions and obsessions are generally dampened, and their personal abilities are different. Even when the founder is still in charge of management, the environment changes, employees change, and the technical expertise required is different. The difference in awareness between employees who joined the company when it was small and those who joined after it had grown to a certain degree is significant. Of course, their abilities are also different. To compensate for this and manage the company as an organization, it is necessary to elicit various kinds of cooperation from stakeholders and formulate a comprehensive corporate objective and philosophy of a higher dimension that they can accept.

Management may continue to try to satisfy personal desires for money, honor, self-aggrandizement, and control, but if management puts them front and center, it will not win the approval of many employees. Rather than losing their management philosophy, managers will gradually try to suppress or hide it, or satisfy themselves by satisfying the demands of their stakeholders. Abandoning self-interest can become a management philosophy itself. However, it takes a great deal to reach such a state of enlightenment, and it may be difficult for employees, who are ordinary people, to understand it. If it is not good enough to put one's personal interests at the forefront, it is also not good enough to talk about a lofty dimension that is too unselfish and far removed from the world. There must be a balance between the employee's point of view and the ideal.

However, this is a point that we repeatedly emphasize: managers are human beings, and not only do they need to have strong motivations and reasons to run their companies, but they cannot continue to do so without the satisfaction and joy they derive from their accomplishments. If you are the second or third generation, whose predecessors were your father or grandfather, you have seen the back of the manager and the twists and turns of the company since you were a child. Although it is not until they themselves become managers that they learn the true meaning of management, they are different from founders and salaried presidents in that they grew up seeing and hearing about it on a daily basis. What makes a manager happy? It is a theory of happiness that is unique to each individual and cannot be determined unambiguously by a third party. As far as we have observed, managers are dedicated to "expanding their control over strategic areas. This is the so-called degree of management freedom. The degree of freedom is defined by the "time margin" until the company comes to a standstill with no results, the "range of options" (number of options) of strategies that management can assume, and management's "management objectives. As a company, we aim to be "responsible free men" and do our best to ensure the scope for self-determination in this area. Self-determination means that we buy our own materials, analyze our own needs, design our own products, manufacture our own products, set our own prices, and sell our own products. This is where responsibility for the quality of products and services arises, and a strong sense of responsibility to sell their own products and services is created.

9-7 Hierarchy of Management Objectives

Management is responsible for continuing to achieve the corporate objective of long-term maintenance and development of the company. They are constantly thinking about the management issues that need to be addressed in light of their company's capabilities, its environment, and what they want to do. They are the first to open our survey and say, "We are full of challenges. On the other hand, they also say, "If I can no longer find challenges, I am finished as a manager. As our abilities, environment, and what we want to do change, challenges will always arise and we will always need to solve them. We have to determine which issues are critical, urgent, or postponed before we can deal with them. In other words, depending on the **severity and urgency of the issues, they are hierarchized based on priorities in the minds of managers, with a time range of whether to tackle them in the short or long term** (Figure 9-4).

The priorities in the minds of managers, as summarized in Chapter 6, were, in descending order from highest to lowest: management information gathering, employee skill development, information exchange with customers, special technology, profit focus, employee livelihood, new product development.... Roughly, the categories were broadly divided into management, employees, buyers, and corporate performance. Since this is what was said in the interview survey, it is likely that each manager's ranking of the stable period is in line with his or her general theory, or management philosophy. We will look at how they change their priorities in the event of small and large environmental changes, using examples.

<Insert Figure> Figure 9-3 Management Objectives and Philosophy

9-7-1 Intra-hierarchical changes

Intra-hierarchical change of management objectives means that in the hierarchy of each management issue, such as management satisfaction, employee satisfaction and competence, functional improvement of products and services, buyer satisfaction, and corporate performance and development, there is a range from short-term objectives to long-term objectives, and the center of gravity changes from short-term objectives to long-term objectives and from long-term objectives to short-term objectives depending on circumstances. The situation is to change the center of gravity from short-term objectives to long-term objectives, and from long-term objectives to short-term objectives, depending on the situation. The circumstances are management philosophy, the company's technical expertise, proficiency, and track record, and changes in the environment, including technology, buyers, and other sellers. If the company is performing well, it will gain management resources and more management freedom. If management believes that the situation will not change within a certain period of time, it can turn its attention to its long-term objectives and goals within that period of time. If performance declines, they must focus on short-term objectives and goals for its recovery. Unless we know exactly how our company is doing, we cannot set the next goal. And since it is relative, the situation will change as the environment changes. On the other hand, the way in which the current situation is perceived differs depending on the management philosophy. The combinationof these factors will change the detailed goals within the hierarchy (Figure 9-5). Some managers do not have long-term goals and objectives because of the rapidly changing environment, even if they are performing well.

<Insert Figure> <Insert Figure> Figure 9-4 Intra-hierarchical and inter-hierarchical changes

9-7-1-1 Employee satisfaction

Employees' long-term objective is security and stability in their lives. In the short term, the immediate hope is to pay salaries and maintain employment. If short-term goals are met and the company's numerical performance improves, employees will demand long-term goals such as higher pay, shorter working hours, higher bonuses, better benefits, fair evaluation, promotion, personal relationships, health maintenance, and achievement of self-fulfillment. Conversely, poor performance will cause employees to lower their goal levels. This is because they believe that it is easier to secure security and stability in their own lives by accepting bonus and salary cuts while maintaining employment, rather than jeopardizing the survival of the company by continuing to demand salary increases. There have been scattered cases of companies that have continued to grow steadily over a long period of time, but once growth stops, employees are not satisfied with the sudden drop in target levels, and management is unable to manage the company successfully. Basically, management shows employees that performance has declined, and gets them to understand the drop in target levels by encouraging a sense of crisis among employees. [213]

The president of a multi-industry connected machinery manufacturer in the Kinki region has made a decision to lower the target level of employee satisfaction in response to deteriorating business performance. He explained the situation at that time as follows. We had decided not to cut people, and since our goal was to become a leading mid-sized company in Japan in this milestone year, we were determined to compete with large companies again. I told my employees, 'Times are tough, but we will not cut people. Instead, I want you to take fewer days off and go talk to more customers, because it is impossible to do the same thing as the big companies. If we lose the competition, every day will become a Sunday.'"

9-7-1-2 Demonstration of employee ability and creativity

Management asks employees to demonstrate competence and creativity that will improve the functionality of the product or service desired by the buyer in exchange for a promise of salary and employment. In the short term, medium-sized business managers cite the retention of competent personnel as their primary goal. As discussed in Chapters 5 and 6, the human resources of large firms differ from those of midsize firms. In urban areas, due to high mobility, mid-career managers actively recruit people who have left large firms in order to maintain and improve employee capabilities. In rural areas, they try to secure human resources by regularly recruiting from local technical high schools, improving benefits, and actively recruiting people who have left the metropolitan area and are returning to their hometowns. After joining a company, the key to success is extensive human resource training, from greeting new employees to training and skill acquisition for each position, as well as a thorough understanding of the company's approach to business.

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[213] For more information on discontinuous change by management, see Yokoo, Yōdō (2010). Organizational Change Process and Corporate Culture," Hokusei Gakuen University, Faculty of Economics, Hokusei Review, Vol. 49, No. 2.

Other factors regarding employee competence range from short-term business improvement activities, to improving the evaluation system, to changing attitudes, to motivating employees to take on long-term challenges. Although it is not meaningful to specify the cause-and-effect relationship between employee satisfaction and improvement of employee capabilities, at least from the standpoint of management, as long as buyers are looking for something new and valuable, the only way is to set higher goals than the current ones and have them take up the challenge. Some employees will be motivated by the pressure to achieve them, while others will be anxious and frustrated. Show them longer-term goals and objectives, reward them with pay and employment if they achieve their short-term goals, and minimize their short-term anxiety and frustration. In reality, the priority is often placed on improving the efficiency of day-to-day job performance, reassuring employees who are overly proficient in their existing jobs and losing the opportunity to improve their long-term skills. Management wants people who can deliver the expected results in a given job and needs to continue to provide goals, jobs, pay, and employment commensurate with those people's contributions. Conversely, there were scattered cases where management was having trouble retaining talented new graduates and mid-career workers because they were not able to keep their abilities.

Many managers noted that the trigger for employees to produce results is for them to "notice" some issues on their own. The president of a multi-industry connected machinery manufacturer in the Koshinetsu region stated that the challenge is to raise the level of how employees notice and do things. He said, ″If you give them difficult tasks that are challenging to some degree, that they are motivated to do, that they get on board with, and that they focus their energy on, the employees' level will go up. Let them try frequently, so that employees gain experience and experience of 'I tried it, and I did it,' and when presented with a goal one rank higher, they will be motivated to take on the challenge of 'Let's try it first. This is the only way.″

The president of a multi-industry connected machinery manufacturer in the Tohoku region also says that he has accepted several students each year under his internship program and has found that "there are kids who notice and kids who don't notice. He says, "The ones who notice are the ones who can articulate exactly what they felt during the day's work and talk about it. They have clear goals and think carefully about what they need to focus on. The kids who don't notice, no matter what we ask them, they just say, 'It was normal.'" Therefore, that president included "noticing" in the evaluation at the department head level and above, so that employees would be trained to notice everything. Other company presidents were also stressed about noticing on more than one occasion.

9-7-1-3 Improvement of product and service functionality

Functional improvement of products and services is aimed at knowing and improving the expected functions demanded by the buyer. In the short term, it starts with imitation of other companies' products, followed by simple cost reduction; in the medium term, it includes development of differentiated products, process innovation and introduction of new equipment, and reduction of lead time through factory relocation. In the mid- to long-term, the goal is to improve functions and create new functions by developing, introducing, and combining new technologies.

Product development for medium-sized companies is a short- to medium-term goal that they embark on after discovering needs before they emerge and examining whether they can compete with those needs, since they will be competing on price once the demand for functionality becomes apparent. On the other hand, as long as their technology is not strong enough to take an immense lead in the field, they cannot go against the overall technological trend, nor can they concentrate their absolutely scarce resources on development far from the trend. In the case of intermediate goods, the company will develop its own products while keeping an eye on the technological progress of the front-end and back-end processes. In addition, if we focus only on the needs of the buyer, we will not be able to differentiate our products from those of other companies, so our products can become unique products depending on how we combine our own technology with the needs of the buyer. There are medium- to long-term initiatives, such as entering another function with current technical expertise, creating a new function, or withdrawing from trading in the current function any longer.

9-7-1-4 Buyer satisfaction

Buyer satisfaction is aimed at improving the functionality of the product or service over the competition to satisfy the buyer and facilitate the closing of the next transaction. By continuing to conduct information gathering activities to scratch the buyer's itch and make design and product suggestions in small increments, the company will gain long-term customer satisfaction and build a relationship of trust. It is desirable to maintain and develop existing buyers in the main market, but if this is not enough to achieve the goal, then further development of new buyers is also required.

The department in charge of existing buyers and the department in charge of developing new ones will have conflicting interests, and management will be responsible for coordinating these interests. Changing sales channels is a major decision. A manager in the Koshinetsu region who competes with large companies explains how a distribution revolution forced him to sell his products to chain stores, instead of wholesaling them to wholesalers and selling them in small stores in town. The trend of decline in the city was obvious, and wholesalers' power was therefore waning, and the reality was that they handled only a fraction of our products. We had no intention of quitting sales to chain stores. That is the way of the times. Other manufacturers also sell to chain stores. Wholesalers could get mad at us for our past contributions as being against their faith, but they themselves couldn't do anything about it already." While it is important to pursue buyer satisfaction, the decline of existing buyers cannot be controlled. For the sake of their own development, they must reasonably stop doing business with buyers who no longer bring them the money or information they need.

9-7-1-5 Corporate performance

It refers to performance-related action goals, ranging from short-term goals to earn cash to pay salaries to long-term goals ranging from single-year surplus, cumulative surplus, sales growth, and profit growth. They include a variety of associated numerical targets (e.g., number of products sold, number of buyers, number of stores, etc.). However, there are cases where the causal relationship between actions and business performance is clear and there is no time lag, and cases where the causal relationship is not clear, or even if it is, there is a time lag several months or years in the future. The relationship between decision making and business performance is very distant and difficult to understand, but this is why management's never-give-up attitude and continuous action are necessary.

<Insert Figure> <Insert Figure> Figure 9-5 Management Objectives

9-7-2 Hierarchical change

The order of this hierarchy of employee satisfaction and competence, product and service function improvement, buyer satisfaction, and corporate performance and survival depends on the philosophy of management. It may depend on the importance of each hierarchy as perceived by management, the magnitude of its impact on corporate management, and the strength of management's own ability to control it.

Management may interchange the hierarchy of management objectives depending on the situation. This is referred to as inter-hierarchy change. Under normal circumstances, small-scale interchanges are flexibly made regarding employee satisfaction and capacity building, functional improvement and buyer satisfaction, and so on. For example, suppose a supplier in the loan diagram has a long-term goal of developing a new in-house product and selling it directly to the buyer on its own. Until then, it only had to produce the product according to the specifications, quantity, and price as instructed anyway, even though the core company may have forced it to change from the traditional process it was in charge of to another type of business at its will. Satisfying the buyer was a higher priority than improving the functionality of the company's products and services. However, when it comes to developing new products in-house, it is not possible to directly ask potential buyers B and C about their specific needs, nor do they have as strong instructions as group A. As long as they do not know exactly what their needs are, they will not be able to satisfy their own will. Since we do not know exactly what their needs are, we have no choice but to set and solve problems on our own initiative and make proposals to a large number of potential buyers. Unless one can objectively assess one's own technical expertise, proficiency, and performance among buyers and other competing sellers, it is difficult to develop and sell one's own products. For the time being, management will shift its focus to improving product and service functions rather than buyer satisfaction.

On the other hand, although it does not happen often, if a company faces an existential crisis or, more strictly speaking, a situation that threatens its corporate governance, it will drastically reshuffle its hierarchy to maintain the current system and concentrate on achieving its ultra-short-term goals. In medium-sized listed companies, shareholders have become more powerful, and meeting their short-term demands (higher stock prices and higher dividends) is becoming a higher-level goal than employees and buyers. The question is how to balance the role of a listed company, the philosophy it wants to realize as a company, the benefits of being listed, and the demands of shareholders. For some multi-industry connected medium-sized firms located far from urban areas, the weight of a listing is very different from that in urban areas, and at times it seems to have been a burden. As a result, the company delisted in the late 2000s after more than a decade of continuous listing. The president of the company stated that the purpose was to defend the company, avoid the rising disclosure costs associated with International Financial Reporting Standards (IFRS), and to raise the awareness of employees, whose sense of urgency had diminished. He said, "I am a provincial person and I live here. If companies in Tokyo proceed with difficult tasks, the gap between Tokyo and the provinces will widen further. This is not good. I decided to take on the challenge of completing all the work related to delisting by a company in this region," he said, showing his determination and resolve. A multi-industry connected machine tool manufacturer in the Kanto region also delisted in the early 2000s, and with the support of a foreign fund, re-listed on the former First Section of the Tokyo Stock Exchange in the late 2000s. During that time, the company was able to get back on track after undergoing a major revamp, including the sale of its business, the sale of its building, and the reform of its production system. The president stated the following. The introduction of foreign capital and a change in ownership was quite a big change for us. It is not to say that there was not some upheaval and confusion, but the employees were convinced of the process, including how the managers managed the company, how seriously they thought about it, and how they made decisions for the benefit of the company. More than numbers, it was extremely important to improve the morale of the employees. This was a company that had the courage to abandon the present for the future, a company with that kind of corporate culture. Conversely, we were driven to that point."

While there are not many examples of ownership changes, attrition is more common than we assume. Even if the contribution of employees is primary to achieving corporate objectives, if performance deteriorates to the point that they are no longer paid their salaries, the company will eventually face bankruptcy. Management will be forced to give priority to minimizing damage and maintaining the corporate structure (inter-hierarchical change) rather than guaranteeing employee employment. The president of a multi-industry company in the Kanto region shared his own military experience. If there are 100 employees and 80 survive, then 20 will work hard in other places. (If you have 100 people and you don't restructure (without changing the hierarchy of objectives), you are not fulfilling your responsibility as a manager to put 100 people out on the street. Instead, I think it is better to save 80 people. I believe this is true on the battlefield as well." At first glance, this sounds like a priority for the employment of the 80 employees, but it is a priority for maintaining the system.

There have been more extreme examples. In some cases, a company suddenly loses its existing management base due to a disaster, and is forced to simultaneously accept an undeniable reduction in the level of objectives (intra-hierarchy change) and a change in the priorities of its stakeholders (inter-hierarchy change). The following is a later interview with the president of a medium-sized firm that competes with large firms and was unable to continue operations due to the tsunami and nuclear power plant accident following the March 11, 2011 Tohoku earthquake.

> Immediately after the earthquake, operations were suspended, but management continued to run the company. Immediately after the earthquake, I assessed the damage to my company, but the subsequent nuclear accident caused me to dive into the very short-term objective of ensuring my own physical safety. Not only employees but also executives were scattered across the country from neighboring prefectures, and I myself moved from one evacuation center to another every day. After that, the situation calmed down, and the company shifted its objectives from ultra-short-term to short-term, from confirming the safety of employees to securing livelihood security, including salary payments and unemployment benefit procedures (intra-hierarchical change). In addition, they will work with banks, suppliers, and consultants to find a way to the medium-term

objective of resuming operations through new businesses. The company does not have to deal with buyers (customers) who have been evacuated, even if only for a moment (inter-tier change). Full-scale refund procedures for buyers with accounts payable and the redemption of service coupons will only begin after the temporary office is set up. At this point, I recognized that our company's capabilities had dropped to a relative extreme because we (sellers) were selling to buyers before the environmental change and we were purchasing from others after the environmental change, and I was thinking of giving up the existing business, reducing the workforce (inter-hierarchy change), and changing direction to a new business. In fact, some employees did leave the company. However, they could not ignore the desire of many employees to work for the company and their existing capabilities, and one year after the earthquake, they restarted their existing business, albeit on a small scale, in an area far from the disaster area with the cooperation of other companies in the same industry. However, the buyers have changed. Whereas previously the main buyers were full-time employees and their families working for nuclear power-related companies, which had more stable and higher income than other industries, the buyers have changed to workers engaged in nuclear power decommissioning work and their families. Their income is unstable and subject to turnover, as their working hours and income vary depending on their daily exposure to radiation, and they are forced to leave the area once their cumulative exposure exceeds a certain limit. The relative power of this company remains low, but they are still groping in the dark about various possibilities while concentrating on reopening for business anyway and acquiring new capacity for new buyers.

9-8 Summary of this chapter

This chapter discusses the purpose of the firm. The "maximization of profit," as assumed by economics, is considered inappropriate for a number of reasons, including the assumption of a continuous state of equilibrium. Long-term maintenance and development" has been established as a reasonable corporate objective for Japanese companies. However, this is also a maximally common objective of all corporate stakeholders and is not a practical criterion for managers to make decisions in managing their companies. This is because resources and time are finite, and it is impossible to satisfy all stakeholders at the same time. Management has its own management philosophy. In management, the manager resolves or postpones issues that are considered to be critical or urgent not for the company's stakeholders but for his or her own stakeholders. In other words, issues are divided into priorities, those to be solved in the short term, those to be solved in the long term, and those to be waited for or ignored. We call them management objectives, and attempted to explain, based on a survey of mid-sized companies, that the objectives for solving individual issues change with changes in the environment and that the weights of short-term and long-term change.

Medium-sized companies are able to be medium-sized because each company has its own historical background, has unique capabilities built up in the process, and has managed to meet the needs of buyers in the face of major environmental changes, and has grown qualitatively and survived by changing its internal structure and other measures. Therefore, the business challenges are different, the solutions are different, and the management approach and perspective as well as the capabilities are different. If we were to pinpoint any certain pattern, it would be that the managers constantly change their goals and objectives. Close observation reveals that management has both short-term and long-term objectives at the same time, and combines them to motivate employees while flexibly changing priorities. Just like whack-a-mole, the environment changes and more and more issues emerge, but they cannot whack them all, so for the time being they whack the short-term mole in front and ignore the long-term mole in the back. By doing so, the short-term issues will be resolved little by little, and the focus will turn to the long-term issues. When we are distracted by the long-term, the environment changes and the short-term issues keep coming up, so we focus on the short-term again. It seems to be a repetitive process, but our research has not been able to reveal their exquisite methods and tricks of how managers change the weighting of short-term and long-term objectives.

Chapter 10: Continuing to Choose Good Trading Partners

10-1 Summary and Conclusion

Medium-sized firms, which exist between large and small firms, are inevitably associated with the image of being in the middle of the pack. However, if being in the middle were a bad thing, they would have been eliminated long ago and either regressed to small and medium-sized enterprises or become large enterprises. Indeed, half of the companies that were mid-sized suppliers in the automotive industry 60 years ago are now large companies, and half have lost control of their operations. It is thought that the existing key technologies in automobiles have matured to the point where they can no longer be handled on the scale of medium-sized firms. However, the fact that some firms in the automotive industry have since grown into medium-sized firms, and that medium-sized firms are still clustered in other industries, indicates that there is positive significance in the middle. The purpose of studying midsize firms was not to be bound by the conventional wisdom, preconceptions, and prejudices of business administration and small business theory, but rather to wade through the past literature and conduct new research to form a freer picture of the firm and to explore new growth factors theoretically and empirically. By interviewing the presidents of more than 240 companies, we have discovered that the reality of medium-sized companies is much richer in strategy and organization than the image that is generally spread.

Part I of the book is a comprehensive review of previous studies, in particular, the factors that have contributed to the growth of medium-sized firms over the past 60 years, which differ from the present-day context due to changing economic, political, and technological backgrounds, but we dared to critically review them in order to highlight the universal issues facing medium-sized firms. As a result, we focused on the transactions themselves and framed our analysis in terms of the conditions under which they are concluded and the characteristics of transactions between medium-sized firms and (especially) large firms.

In Chapter 1, we examine six serious studies of medium-sized firms: Nakamura (H.), Shimizu (Ryu), Kuhn Robert Lawrence, Clifford = Cavanagh, Hermann Simon, Coltorti, Resciniti, and Tunisini. Looking at the definitions of each, Nakamura and Shimizu (Ryu) emphasize qualitative differences between small and large firms, while Kuhn focuses on size; Clifford = Cavanagh is a fast-growing firm with sales between $25 million and $1 billion; Simon is a firm with sales below $4 billion, but Coltorti et al. followed the criteria of the Investment Bank of Italy: sales between 13 and 260 million euros ($1.3-26 billion), rapid growth, 50-499 employees, and independent ownership structure. After examining these factors, the definition of medium-sized firms in this study was taken only as a concept of size, and was defined as independent firms with 300 to 2,000 regular employees. Shimizu (Ryu) took the competitive relationship with large firms into account in detail, and defined mid-sized firms as having either a different market from that of large firms, or the same but with unique technology and sales network that could compete with them, or interdependence with large firms as their users.

In Chapter 2, in addition to the researchers listed in Chapter 1, we selected 17 studies from the 60-odd years of research on medium-sized firms to extract the proactive growth factors. Although it was not easy to find the overall growth factors because of the different perspectives of each researcher, the following can be said to be true. The following can be said: "Mid-cap managers have an entrepreneurial spirit and are willing to gather information and gain insight into changes in the business environment. They then develop unique products that have never been seen before with special technologies that other companies do not have, and do so in a timely manner. It is clear that as long as a company is in the manufacturing industry, the three elements of product, management, and technology have an extremely significant impact on the maintenance and development of medium-sized companies. At the same time, it has emerged as a challenge to clarify what essential differences there are between medium-sized firms and large firms.

At the very least, medium-sized firms are in some form of competition while doing business with large firms. To illustrate this comprehensively, we present an analytical framework in Chapter 3. Medium-sized firms are in business because they use their limited resources and skills to improve their product functionality cheaply and quickly, and they outperform the functionality that large firms produce themselves. If the functions that the large firms produce themselves are superior to the functions that they can obtain by purchasing the products of other firms, then the large firms will produce the products in-house and no transaction will take place. And each transaction is laced with countless detailed decisions by both the seller and the buyer. In order to make the best deal possible for both parties, both the seller and the buyer need to be able to recognize the functions they create for each other, but the buyer does not necessarily have this ability in sufficient quantities. Sometimes it is precisely because they do not have this ability that transactions are concluded. This may be the reason why sellers have the upper hand in transactions. In addition, decisions are not made solely on the basis of short-term functional differences; buyers may produce in-house to improve their own skills, and sellers may stop trading to defend their own skills.

In Part II, we focused on determining the actual number of medium-sized firms. In Chapter IV, we compared the number of employees of medium-sized firms in our historical database with the number of employees today, and determined whether medium-sized firms have grown or retreated, depending on the increase or decrease in the number of employees. In the short term, aiming for quantitative growth is not a problem. However, aiming only for quantitative growth assumes an existing framework in which needs, technology, and the competitive environment do not change significantly, and if faced with major environmental changes, quantitative growth cannot be an extension of what has been achieved so far. In order for a company to survive, it must intentionally aim for qualitative growth.

In Chapter 5, we constructed hypotheses about the basic characteristics, strategies, and organization of medium-sized firms, and tested them by conducting a questionnaire survey of the first and second section manufacturing firms listed on the former Tokyo Stock Exchange. As a result, we found common and different characteristics among large and midsize companies.

The common features were that the management instilled in employees a vision for the future that included innovative elements, actively evaluated failures to reduce resistance to change and motivate employees to take on new challenges, and stimulated communication among middle managers from top to bottom and left to right to improve morale. The difference was that in the large companies, these organizational efforts were linked to technological and product development, but not in the medium-sized companies. Rather, the top management provided detailed direction in initiating development, which led to positive results in R&D and technological development. This suggests that medium-sized firms have difficulty in recruiting the human resources necessary for research and technological development, i.e., people who willingly set goals and issues and work to solve them, and that management itself does not trust such employees (and is unable to do so), which is a better result than leaving them to their own devices.

Research methods that arbitrarily select and analyze blue-chip companies have a very large bias. To overcome this limitation as much as possible, in Chapter 6, we interviewed managers of a wide range of medium-sized firms, regardless of their business performance, to get a closer look at the actual situation. After the interview survey, we examined medium-sized firms that lost management control due to bankruptcy or acquisition, and clarified the differences from surviving firms. The reasons for the loss of management control were the failure to respond flexibly to the decline or transformation of existing buyers, and the inability to objectively assess one's own capabilities and to pursue quantitative growth that exceeded the speed of capability improvement.

Our interviews also revealed a discrepancy between what were considered "growth factors" in past studies of midsize companies and the perceptions of managers of existing companies in our interviews. We found that managers of medium-sized firms give detailed instructions to their organizations, which then use those instructions to accurately, quickly, and efficiently extract useful information from buyers and incorporate it into their products and services.

Medium-sized companies had various ways of life: they could compete with large companies for the same products, or they could cooperate with them, or they could gain ground in a narrow market that was difficult for large companies to enter. The differences in their positions made it necessary to categorize and examine specifically how they chose buyers and extracted useful information from them. Therefore, in Part III, we presented a new angle of analysis.

In Chapter 7, we looked at medium-sized firms as sellers of products and classified the types of medium-sized firms trying to deal with buyers and grow themselves into three types: primary suppliers, multi-industry connections, and competitors to large firms, and discussed the characteristics and challenges of each type and the different capabilities needed to maintain and develop them. The report is based on the following three categories.

Primary supplier-type medium-sized firms, which deal with buyers that are higher than their own resource level, are suppliers that specialize in enhancing skills that make a specific functional difference and supply parts exclusively on a global basis. They have low self-awareness because external forces and relational skills are required and information sources are biased toward the buyer. The multi-industry connection type includes firms that have developed development capabilities from leading subcontractors and firms that were originally self-developed product manufacturers. They are self-aware of their own resources, skills, and functions, and their resources and skills are often at the same or higher level than those of their business partners. Medium-sized firms competing against large firms are highly skilled and sell their products to firms and individuals. The managers of all medium-sized firms were aware of their own resources, skills, and functions, and were continually challenging themselves to improve them and to secure managerial autonomy within these limits. At the same time, the freedom of management decision-making is likely to put the company at risk and requires a framework that is not out of the ordinary. That would be something like goals and philosophy.

The traditional view is that sellers can make a profit if they can create a specific functional difference over buyers, and if they have more skill than other sellers, they can monopolize the market and profits. In practice, however, it is very difficult to objectively define the extent of the market and the likelihood that a transaction will be successful if the buyer is competent enough to correctly evaluate the seller's function. Therefore, the extent of the market and which buyers to deal with is a subjective decision for the seller's management. In Chapter 8, we classified buyers into four categories from the viewpoint of managers of medium-sized companies (sellers), based on how much useful information and money they can bring to the table. We then clarified that, based on the power relationship with the buyers, they grow qualitatively by circulating money and information using temporal, spatial, and dimensional differences.

In Chapter 9, the last part of this study, we discuss the management philosophy and objectives of companies. Generally, the objective of a company is "maximization of profit," which is positioned as an important issue in corporate management as well as management philosophy, and is stated at the beginning of many research books. However, since sellers will continue to exist as long as they have functional differences that exceed those of buyers, management principles and objectives are the means to that end. We believed that management principles and objectives will become necessary in the process where the functional differences of sellers disappear, quantitative growth to date comes to a halt, and qualitative growth is determined to be necessary. We also hypothesized in the final chapter that the objectives of medium-sized companies may not be uniquely determined because each medium-sized company has its own historical background, unique capabilities built up in the process, different management issues, different solutions, and different management philosophies and perspectives. The fact that the purpose of solving individual issues faced by companies changes with changes in the environment and that the weighting of short-term and long-term changes was explained based on an actual survey of mid-sized companies.

Having observed a wide variety of medium-sized firms, it is our honest impression that it is difficult to find any certain pattern of growth factors. If we were to conclude by assuming that we can generalize, it would be to state the conclusion of our study.

The overall conclusions of this study can be summarized in four main points.

(1) Differences between conventional research on medium-sized firms and managers' attitudes

The growth factors of midsize companies found by previous researchers differed from the actual attitudes of midsize company managers. The researchers emphasized the entrepreneurial spirit and insight of managers, but in the interview survey, managers were not aware of their own entrepreneurial spirit, but thought that information gathering and direction presentation were important. Also, not mentioned in past studies, but notably high in the interview survey, were "employee skill development" and "employee livelihood (job retention)," and "information exchange with customers. In other words, managers **gather fresh information through themselves and their employees, and strive to quickly develop and market products that incorporate needs related to the relatively near future, so that they can secure profits**. Mid-sized companies must consciously train middle managers and provide them with something that generates loyalty and pride in the company, economic backing and emotional support that guarantees the development of employees' skills and the stability of their lives.

(2) Nature of qualitative growth

The reason for the difference between what was considered to be a growth factor in past research on medium-sized companies and the attitudes of the managers of the existing companies in our interviews cannot be attributed to superficial factors such as the difference between the period of high economic growth in the past and the current period of low economic growth, or to differences in research methodologies. At the time of high economic growth, corporate growth meant quantitative growth, and if a company could not meet quantitative demands from inside and outside the company, it would be subject to elimination. However, that period was relatively stable in terms of buyer needs, product technology, and production technology, and it can be said that it was a special period when the volume of transactions grew rapidly. Therefore, qualitative growth should have been implemented simultaneously with quantitative growth, but I would like to point out that in practice, the momentum and joy of quantitative growth may have outweighed the difficulties of qualitative growth and unconsciously achieved it, and in academia, the importance of qualitative growth came to be overlooked because it was overshadowed by quantitative growth. **Qualitative growth is** a **series of actions that are based on the premise of environmental changes, responding with greater precision to solve the challenges of existing needs, thereby gaining legitimate profits and useful information, making employees happy, and continuing to actively work on and propose solutions to the challenges of the next new need.** More specifically, there is the improvement of the functionality of products and services, the selection of buyers based on the amount of information and money that can be obtained as a result, and the revision of objectives and goals by management when information and money cannot be obtained even with these actions.

(3) Classification of buyers from the seller's standpoint

Business administration generally took the stance of pursuing the competitive advantage of the dominant top firm. The focus was on the ability of sellers to meet the needs of buyers, and the argument was based on the premise that a large difference in ability would increase profits and occupy the market. However, there are many sellers and buyers with different types and levels of capabilities in the market, and it is not the case that only the top firms (sellers) occupy all the buyers and the remaining sellers are eliminated. Rather, excessive differences in capabilities create costs. **Sellers have a need to grow with profit and information, and they have a need to stabilize long-term transactions with buyers and to perpetuate themselves as a company**. The seller selects a buyer who brings the money, useful information, and trust necessary to meet those needs. The seller's medium-sized firms were divided into primary supplier type, multi-industry connection type, and large company competitor type based on their development path, and the buyers were divided into group A, champion type, group B, friendly competition type, group C, ardent support type, group D, and low involvement type based on the degree of money and useful information provided, assuming that the buyer is viewed from the seller's side. The "champion" type provides technical information to sellers and places large orders, although the unit price is low. The "friendly competition" type gives strict orders for functions and pays a reasonable price if they can be achieved. Enthusiastic supporters buy without being too strict. The low-involvement type is not interested in the product and has little willingness to pay, but the potential number of units is huge. Thus, the classification of both sellers and buyers gave us a new perspective. It is believed that both sellers and buyers continue to select good transaction partners that suit them.

(4) Offense and defense

When the seller S Manufacturing is in the position of a buyer purchasing raw materials, parts, and production equipment, it is important to protect information and money without giving up the intellectual work as a buyer. The company should not take the seller's word for it, but rather gain knowledge of the raw materials, parts, and equipment so that it does not buy at the price it is being asked to pay. If the raw materials, parts, and equipment do not meet the company's expected functions, it should increase the virtual functions and develop the raw materials, parts, and equipment in-house. The starting point for qualitative growth is the attitude of being a friendly competitor with clear standards for internal and external production based on one's own sense of values. Those who thoroughly implement this are a very small minority and are hidden, and therefore do not attract much attention. It is also pointed out that excessive self-made-ism and poor dexterity reduce the speed of development, but these are merely excuses for those who do not seriously try to improve their virtual functions. This is the relationship between a contradiction (offense) and a shield (defense). It is not a "contradiction" because there is no simultaneous fight between the contradiction and the shield inside the seller's S-manufacturing facility. It is essential to be careful not to become a good customer who only provides money and information while choosing a good customer who provides money and useful information.

10-2 Remaining Research Issues

Numerous research issues still remain for mid-sized companies. We will list a few and look ahead to the future.

(1) Changes in transaction and decision-making assumptions

We have considered each transaction and its associated decisions as independent and coherent. In reality, transactions often involve the same buyer in a series of transactions, and each transaction is likely to influence the next and subsequent transactions between the parties, changing the conditions under which a particular transaction, which is complex and involves many factors, is concluded. Similarly, in some cases, major decisions made under certain assumptions created new opportunities and problems that were not empirical and could not be predicted, requiring additional organizational, financial, and other decisions. Changes in external factors such as natural disasters, wars, technological innovations, the world economy, laws and regulations, and people's attitudes, as well as their magnitude, direction, and speed, also affect assumptions, and also force management to reevaluate their objectives and attitudes. Chronological and qualitative changes in various factors have a significant impact on the next decision, resulting in the simultaneous existence of projects and mechanisms within a company that are not necessarily coherent or consistent, even if the company thinks it has made decisions in a continuous manner. Although each transaction and decision is a serious matter, we would like to view each transaction and decision as a long-term continuum and clarify the organic and three-dimensional relationship between each element, especially the objectives of management.

(2) Shortage of human resources and second-best response

Large companies are the first to be affected by public scrutiny, such as during growth or scandals, and by laws and regulations. Medium-sized firms, like second sons and second daughters, hide behind their elders (large firms) to observe and learn from their behavior, and are adept at utilizing scarce resources and implementing only best practices with minimal trial and error in areas where they are not proficient. This is a critical theme that cannot be avoided when studying medium-sized firms, but we have not been able to build a sufficient foundation to plunge into and discuss it in this study.

(3) Management utilizing words

Many managers emphasized that the most effective way to motivate all employees to understand their own ideas was to use words. Attempts to prevent accidents from happening by putting up signs in factories with the initial letters of the company's name are seen everywhere, but the workers passing by every morning did not pay attention to them. The president of a medium-sized company said that he tries to avoid using negative or prohibited words as much as possible. For example, instead of a salesman saying to a customer, "I won't know the delivery date unless you ask the factory," he would say, "Ask the factory and you will know the delivery date," which, although the meaning is the same, clarifies the subject of the statement, makes the subject responsible and positive, shortens the processing time of the job, makes back-end processes happy, and shortens the delivery date. He said. In response, this book also changed unnecessary double negatives and normative statements. We believe that the use of language is effective, and we would like to make this an issue for future consideration.

(4) Limitations of the interview survey method

The one-time interview survey of managers was like the slope of a contact point obtained by differentiating decisions and actions at a single point in time on a curve that plotted successive decisions and actions that we might later look back on and call a strategy. The findings there were very informative and showed that managers were using their limited resources to shift functions slightly to obtain the next benefit and information. On the other hand, it was not possible in a single survey to pursue in detail how historical background, technological transitions, and contingencies affected the growth and decline of mid-sized firms. The contributions of management may be overestimated and the harmful effects underestimated. A more in-depth study of the companies would require a historical survey based on primary sources such as internal company newsletters, company histories, and actual product changes, as well as participation in management meetings to observe and confirm the effectiveness of management decisions and actions for the uncertain future over a long period of time and in great detail.

Conclusion

It has been more than 20 years since I began researching medium-sized companies. At first, I was attracted to the idea of studying a group of firms that were neither large nor small, and I embarked on it with great enthusiasm. Along the way, however, I realized that this field was a tremendous area. Just as in the practical world, where medium-sized companies are caught between large companies and small companies, in the research field as well, medium-sized company research is unintentionally caught between small and medium-sized company research and general management studies, and the significance of its academic existence has always been severely questioned. With little foundation on which to stand, we are lost in a sea of trees with no companions, competitors, or adversaries, and we cannot deny the feeling that we have been walking around in solitude without knowing which direction to turn. Of course, he is still wandering around without being able to escape from the sea of trees.

This book is unique in that it focuses once again on the neglected medium-sized companies that attracted attention 60 years ago, describes in detail their actual management status, and constructs a systematic hypothesis from a new perspective. Until now, business administration has focused on elucidating the mechanism by which sellers respond to buyers' needs with their capabilities. The logic of large companies is that the higher the ability of the seller, the better. On the other hand, small and medium-sized firms are considered strong due to low wages and small decision-making. If all of these were the case, medium-sized companies would not exist, but the reality is that many medium-sized companies do exist. Since the only way to find out what we do not know is to ask the parties concerned, we began a survey of medium-sized firms by interviewing their presidents.

The first thing we noticed from the survey was that sellers have needs and buyers have abilities, high and low. Thereby, both sellers and buyers choose their partners to maximize their utility and minimize their costs. We classified and analyzed the sellers by their development paths and at the same time classified and analyzed the buyers from the perspective of the sellers' management. The most important observation to note was that, from a long-term perspective, environmental changes in corporate management are natural, and that it is important to act not only in response to temporary capabilities, but also to unprecedented changes, i.e., when some of the resources and capabilities accumulated in the past become worthless. Therefore, a balance between quantitative and qualitative growth is important, and management needs to be conscious of qualitative growth and continuously work on it.

I am puzzled by how little I have discovered in the 20 years I have wandered around, but I am encouraged by the words of Professor Yukichi Fukuzawa: "As a scholar, do not be afraid of the clamor of public opinion, and do not be afraid of the ridicule of heretical theories, but be courageous and speak out what you think[214] ". If this book can contribute in any way to the academic community, industry, and policy makers as a starting point, it will not be through my own efforts alone.

First of all, I am indebted to the late Professor Hirokuni Tokawa, Professor Emeritus of Keio University. From undergraduate seminars to graduate school and up to the present, he has provided me with a wide range of guidance, from how to read books to the flow and details of questionnaire surveys, as well as his personality. Not only was he strict in avoiding falsifications in his discussions, but he also knew the ins and outs of practical business, realistic responses, and manners, as he came from a family of business managers. With such deep knowledge of both theory and practice, he was always asking himself and the members of his research projects what a corporation is. Thanks to the opportunity I was given to participate in the research project, I was able to compile Chapter 5 of this book. When I asked him if he would be interested in conducting research on medium-sized companies, he grinned and said, "It's not easy," which I now fully understand.

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[214] Yukichi Fukuzawa (1875) "Bunmei ron no yakui" (The Outline of Civilization). The quotation is from Yukichi Fukuzawa (1995), Bunmei ron no iki [Outline of Civilization], Iwanami Bunko, p.22 *The lower part of the 1875 version's "yoshi" shi is long and earthy.

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Any errors that may exist in this book, despite various advice and assistance, are entirely my responsibility. In response to the criticisms and suggestions of readers, I intend to pursue mid-cap companies from even more diverse angles in the future.

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November 2023 in Yayoi-cho, Chiba City
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