

ETHICS, CORPORATE SOCIAL RESPONSIBILITY AND THE USE OF ADVISORY SERVICES PROVIDED BY SMEs: LESSONS LEARNT FROM JAPAN

Hasnah Haron^{1*}, Ishak Ismail² and Sobei Oda³

¹*Graduate School of Business, Universiti Sains Malaysia, 11800 Pulau Pinang*

²*School of Management, Universiti Sains Malaysia, 11800 Pulau Pinang*

³*Kyoto Sangyo University, Kyoto-City 603-8555, Japan*

*Corresponding author: hhasnah@usm.my

ABSTRACT

Japan has a high-income economy and a high Consumer Price (CPI) index. Because Malaysia desires to have a high-income economy, it has much to learn from SMEs in Japan, which have proven successful. A study was conducted on 17 SMEs in Japan. Data were collected by sending a set of questions to respondents and by interviewing them using the same set of questions if they are willing to be interviewed. Interviews were also conducted at three large companies that were once SMEs. The results indicated that SMEs in Japan emphasise seniority and treat their business like a family. SMEs in Japan value customer satisfaction do not believe in "quick wins" and ensure that the business is expanded progressively, not abruptly. They also believe that it is their responsibility to preserve traditional culture. The challenges that they faced included declines in sales due to the decline in foreign visits to Japan and the decreased demand for traditional products. An additional factor contributing to the success of SMEs in Japan is the Japanese government's ability to "make the blue collars' conditions equal to the white collars conditions", particularly through the expanded application of the monthly payment, lifetime employment and seniority-based payment and promotion systems in SMEs, making them resemble large corporations. The factors that contribute to the success of Japanese SMEs can be emulated in Malaysia.

Keywords: Corporate Social Responsibility (CSR), Small and Medium Enterprises (SMEs), advisory services, Japan, ethics

INTRODUCTION

In 1991, Malaysia committed itself to Vision 2020. The plan states that by 2020, "Malaysia is to be a fully developed country, with a confident society, infused with strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous and in full possession of an economy that is competitive, dynamic, robust and resilient." To achieve Vision 2020, the government has launched, amongst others,

the New Economic Model, the 10th Malaysia Plan (2011–2015), and the Government Transformation Programme. Changes are being made to governmental systems and operations to address economic issues and problems with social performance and the delivery of public services. The New Economic Model (NEM), which is to be achieved through the Economic Transformation Programme (ETP), is designed to achieve three goals: (i) to have a high-income economy with a GNI per capita income between US\$15,000 to US\$20,000 by 2020; (ii) to practice inclusiveness, which enables all communities to fully benefit from the wealth of the country; and (iii) to ensure sustainability by meeting present needs without compromising future generations.

In Malaysia, SMEs provided approximately 59% of the employment opportunities, 32% of the gross domestic product, and 19% of the nation's exports (NSDC, 2012a). For Malaysia to become a high-income nation by 2020, Malaysian SMEs need to provide 41% of the GDP, 62% of the employment opportunities, and 25% of the exports (SME Master-Plan 2012–2020). The government is particularly interested in the growth of SMEs because it strives to achieve Vision 2020. This is because SMEs in Malaysia, as in other countries, play a significant role in the growth of the economy. As of 2012, 98.5% of the establishments in Malaysia were SMEs (NSDC, 2012a). To encourage SMEs to increase productivity and create domestic, regional and global competitors, key measures have been introduced to reduce regulatory costs, promote capacity and capabilities, foster an entrepreneurial culture, and enhance financing and support systems for SMEs.

Japan has a high-income economy; as of July 2013, Japan's GNI per capita income was US\$47,870 and is still listed as such (<http://data.worldbank.org/country/japan>; Retrieved 23 November 2013). There is a greater proportion of SMEs in Japan, which comprise 99.7% of the total establishments and provide 70% of Japan's employment opportunities (Takatoshi, 2013). Japan has supported SMEs because they are believed to create employment opportunities; vitalise regional economies; encourage the growth of regional wholesale, retail and service sectors; create local communities; address environmental problems; improve a region's technology; preserve and develop traditional techniques; and support regional cultures (Small and Medium Enterprise (SME) Agency, 1997). In terms of wages and tax payments, SMEs are treated as large companies rather than as entities of lower socio-economic status. Assistance, including funding, technological expertise, management, and advice, is provided to ensure that SMEs reach their potential.

SMEs in Japan contributed 53% of the GDP in 2007 (SME Corp., 2009); in 2012, SMEs in Malaysia contributed only 32%. SMEs in other middle-income countries like Malaysia contributed to 39% of the GDP; therefore, SMEs in

Malaysia must increase their contribution to the GDP to 41% in 2020 if the country is to reach high-income status (NSDC, 2012b).

Dato' Seri Dr. Mahathir Mohammad, who was serving as Prime Minister of Malaysia at the time, launched the Look East Policy in 1982. This policy proposed that Malaysia learn from other Eastern nations, especially Japan, the work ethics, practices and policies that helped them become developed countries. The Malaysian government sent thousands of students to learn the work ethics and skills that have made Japan a leader in various industry sectors. On the 30th anniversary of the Look East Policy, Malaysian Prime Minister Datuk Seri Najib Tun Razak announced a second wave of the Look East Policy in his speech at the 31st MAJECA-JAMECA conference. One of the sectors emphasised in this second wave is Small and Medium Enterprises. For Malaysian SMEs to learn from Japanese SMEs and move the country's economy forward, the Prime Minister stated that he wants Malaysian companies to begin working with more Japanese small and medium enterprises (SMEs). He hopes to see Japanese SMEs cooperating with Malaysian firms in specialised areas such as green technology, key technical services and other high value-added sectors. These strategic partnerships will contribute towards an innovation- and knowledge-driven economy and will strengthen SMEs, which are the backbone of the economy (Bernama, 10 October 2012). The second wave of the Look East Policy provides opportunities for Malaysian SMEs to learn from Japanese SMEs.

Good corporate governance, proper accountability, transparency and business ethics are the hallmarks of respected businesses. A significant body of evidence shows that businesses with high ethical codes of conduct and a commitment to enhancing integrity are not only profitable but more likely to succeed in a commercially competitive world. Managers of SMEs in Japan are usually said to be able to "transit management decisions to employees swiftly", to be "aware of actual abilities and sentiments of employees" and to be "directly involved in business" (SME Agency, 1997). SMEs therefore need to reinforce their strengths in these areas. Good leaders create a healthy corporate culture that is supportive of change and practice the principles they teach. Successfully innovative enterprises have top management who have actual managerial control and are supportive of change. It is important that entrepreneurs seek to create the conditions in which employees can actively make proposals by demonstrating to employees, through their actions, a positive approach to innovation and by communicating closely with employees regarding the enterprise's direction (JASME, 2004; as cited in JSBRI, 2005).

Ahmad (2009) found that the ethical practices of SMEs were positively related to their performance. Thus, the corporate culture created by managers of SMEs should also include good values. Japan has consistently been ranked among the

top 20 countries considered "clean" according to the corruption perception index (CPI, 2010–2012). This indirectly supports the importance of emphasising ethics in SMEs to ensure their continued growth and performance (Vyakarnam, Bailey, Myers, & Burnett, 1997). Japan has also found that addressing environmental concerns by promoting energy saving strategies and offering personal services that include medical services for its aging population and day care centres that improve employees' work-life balance improve the performance of SMEs.

SMEs in Japan also demonstrate that understanding the enterprise's financial position is important to planning the direction of the business; thus, SMES with little financial knowledge who have sought proper advice from consultants such as accountants perform better (JSBRI, 1997). Knowledge of accounting is important if SMEs are to innovate and expand their business overseas or locally. More than 80% of both recovering and deteriorating enterprises "compare and are aware of trends in past sales and profits", indicating that comparisons over time are commonly performed using financial statements.

Thus, the objectives of this study are to examine the Ethical Leadership and Corporate Social Responsibility practices of SMEs in Japan. It also seeks to understand the challenges that these SMEs have faced and the actions being taken to ensure the sustainability of the businesses. The findings could help Malaysia and other countries better understand the practices of SMEs in a high-income economy such as Japan, allowing them to emulate their practices and values in their business operations.

BACKGROUND OF SMEs IN JAPAN

The Japanese government defines SMEs as establishments capitalised at 300 million yen or less and employing less than 300 people. In the wholesale sector, SMEs are defined as establishments capitalised at no more than 100 million yen whose workforce does not exceed 100. SMEs in the retail sector are establishments capitalised at less than 50 million yen whose workforce numbers less than 50. Finally, SMEs in the service sector are establishments capitalised at less than 50 million yen whose workforce numbers less than 100. Table 1 shows the definition of SMEs in Japan by sector.

Small enterprises are defined as establishments with fewer than 20 employees. In the commercial and service sectors, however, they are defined as establishments with fewer than six employees.

Table 1
Definition of SMEs in Japan

Industry	SMEs (meet one or more of the following conditions)		Small enterprises/ microenterprises
	Capital	No of regular employees	No of regular employees
Manufacturing, construction, transport, other industries	Up to 300 million yen	Up to 300 workers	Up to 20 workers
Wholesale	Up to 100 million yen	Up to 100 workers	Up to 5 workers
Retail	Up to 50 million yen	Up to 50 workers	Up to 5 workers
Service	Up to 50 million yen	Up to 50 workers	Up to 5 workers

Source: JSBRI (2006)¹

The manufacturing sector includes primary industries (mining), construction, and utilities (electricity, gas, and water).

SMEs account for 99.7% of Japan's 4.21 million enterprises, 70% of all Japanese employees and more than 50% of added value (manufacturing industry). SMEs form the basis of the Japanese economy. Toyota, Honda and Sony began as small backstreet factories, and their success indicates how SMEs can assist Japan's economy when given the appropriate assistance. The majority of the products produced by large corporations include components made by SME subcontractors. Thus, it is the hidden strength of SMEs that underpins trust in Japanese products. Microenterprises account for approximately 90% of all Japanese SMEs, and the government revised the SME Basic Act in 2013 to revitalise these microenterprises. Microenterprises that have contributed to the economy include Hokkyoku Shirokumado, whose 7 employees manufacture and sell baby slings and other baby carriers. Futaba Inc., which has only 12 employees, has developed new products, such as scarves, using dyeing techniques passed down from the Edo period. It has managed to introduce marketing channels to approximately 20 countries, primarily in Europe (Small and Medium Enterprise Agency (SME Agency) and Ministry of Economy Trade and Industry (METI), 2013).

SMEs are most numerous in the retail services and restaurant/lodging industries, though SMEs in the manufacturing sector are among the most productive, as shown in Table 2.

Table 2
Composition of SME Sector in Japan (% of enterprises)

Sector	Composition (%)
Retail	20%
Service industry	18%
Restaurant and lodging industry	15%
Construction	12%
Manufacturing	11%
Real estate industry	7%
Wholesale	6%
Health and welfare	4%
Education and learning support	3%
Transportation	2%
ICT industry	1%
Finance and insurance	1%

Source: Derived from Ministry of Internal Affairs and Communications (Japan), 2006. "Establishment and Enterprise Census" (cited in Economist Intelligence Unit, 2010)

Governmental Policies for SMEs in Japan

In Japan, SMEs are regarded as the nation's treasure. They are said to support and drive the economy and citizens' daily lives, provide employment, contribute to communities and help maintain Japan's traditional skills and culture. Many Japanese SMEs are family-run entities. The policies governing SMEs are inextricable from their historical development, as shown in Table 3 (Organization of Small & Medium Enterprise and Regional Integration Japan, SMRJ, 2007).

Meiji modernisation to World War II

Japan's SME sector is considered to have emerged in the late Meiji modernisation era, specifically during the economic boom that occurred after the Japanese-Russian War. Policies regulating SMEs may have emerged during this time with the formation of the SME sector. During this period, competition was intense and product quality was low. Vertical networks (supply chains between SMEs and large companies) were formed during this period. Financial assistance in the form of soft loans was also offered. A central credit corporation for commercial and industrial associations (Shoko Chukin Bank) was formed in 1936. SMEs were integrated into war supply production during this period. The policies were typically interventionist during this period.

Post-war period of economic recovery, including the reconstruction period (1945–1954)

During the reconstruction period, the Anti-Monopoly Law was introduced in 1947 to correct the distorted competition conditions that existed. This law became the basis of SME policy. The SME Agency was established in 1948, leading to a shift towards an integrated SME policy that included (i) the creation of institutions to provide SME support, (ii) financial assistance, (iii) organisation, and (iv) rationalisation. A budget was allocated to support SMEs, and financial institutions were also established to assist them. A law on SME Cooperatives was formulated in 1949. However, after the Korean War, the government revised the Anti-Monopoly Law to allow government interventions that would secure the welfare of SMEs. This was the first of many more controlling governmental policies.

High economic growth: Days of industrial policy, including the high growth period (1st stage and 2nd stage: 1955–1972)

During this period, known as the Industrial Policy Period, a large gap became apparent between large companies and SMEs in terms of productivity, wages and financing. Industrial policy slogans such as "modernisation and rationalisation", "strengthening international competitiveness in response to trade and capital liberalisation", and/or "sophistication of the industrial structure" emerged. The "SME Modernisation Promotion Law" and the "SME Basic Law" were introduced in 1963. The optimisation of sub-contracting relations between large companies and SMEs was emphasised. Major policy measures were enacted to achieve these tasks, including the provision of financial support, tax incentives, and the establishment of the cooperative system within common industries. The Association for SME Promotion was also formed. During this period, modernisation policy was heavily emphasised.

Post-high growth: Days of policy guidance, including the stable growth period, transition stage and the present (1973–present)

The Japanese economy suffered as a result of pollution, the rise of crude oil prices, yen inflation and economic recession. Dependence on exports created through the skilful processing of imported materials, once a successful strategy, was no longer viable. Slogans such as "internationalisation", "integration" "intellectual concentrations" were introduced.

SME policy decisions were made by top-level policy-makers such as the Council of SME Policies/Industrial Structure. These policies trickled down to the SME sector through various channels, including industrial associations. The

government encouraged the formation of industrial networks that featured the sub-contracting relationship between large companies and SMEs. Through this relationship, SMEs provided a stable supply of parts to large companies, who used them to produce and sell products. However, these large companies sometimes abused their power at the expense of SMEs, forcing SMEs to sell their products at prices set by the large companies. Currently, the formation of vertical relationships between large retailers has resulted in the passage of several laws.

SMEs were advised to diversify their sources of financing. Currently, the government is more focused on developing service sectors such as healthcare and personal services. Energy sectors are also being emphasised. A succession plan is also needed to ensure the sustainability of SMEs' intellectual capital and know-how. The government has recently begun to use experienced elderly people as expert counsellors to help SMEs resolve their problems. Japan is also encouraging women to join the workforce. In 2012, the SME Business Capabilities Enhancement Support Act was introduced to strengthen the business capabilities of SMEs facing the increasing complexity of business challenges. SMEs need to formulate business plans to resolve such issues. Experts such as financial institutions and CPA-certified tax accountants (auditing firms) are being certified by the government to assist SMEs. The SMRJ (Organisation for SMEs and Regional Innovation of Japan) will also assist in this effort. The overseas expansion of companies involved in manufacturing and high value-added industries such as local industrial resources and agriculture will also be supported. The government is also allocating a budget to develop microenterprises. In June 2013, the SME Basic Law was revised to include assistance for microenterprises.

Microenterprises make significant contributions to the stability of local economies and the development of Japan's economy and society. Measures implemented to assist microenterprises include the promotion of projects using IT and the facilitation of financing and sourcing for customers (SME Agency & METI, 2013).

The SME Charter was approved on 18 June 2010. It outlined new growth strategies for SMEs that would allow them to overcome economic challenges. The action plans include helping SMEs develop overseas markets, creating a system to improve SMEs' contributions to their communities and helping SMEs find financing and develop and secure human resources. In 2013, the Small Enterprises Revitalisation Act was introduced to revitalise the business activities of microenterprises. The Act promoted overseas expansion and IT usage.

The SME Charter is based on five fundamental principles: (i) Supporting SMEs as a source of economic vitality and making full use of their capabilities; (ii)

Encouraging the establishment of new SMEs; (iii) Encouraging SMEs to enter and develop new markets through creativity and ingenuity; (iv) Enhancing fairness in markets; and (v) Providing a safety net to ensure worry-free business operations (facilitate business restarts), reduce the need for collateral, emphasise managerial aptitude and intellectual assets and help SMEs develop accounting systems.

Other initiatives have been undertaken to create a system to enhance SMEs' contributions to communities and society. The government aids in the development of shopping streets and local business associations and helps strengthen relationships within local communities. SME policies are also planned comprehensively by taking into consideration how they will impact SMEs and encouraging SMEs to participate in policy evaluation. The Small and Medium Enterprise Agency and all other ministries and agencies concerned work in unity to develop and implement SME policies that encompass industry, employment, social security, education, finance, public finance, and the taxation system while considering input from the SMEs themselves.

Major SME policies

The basic principles of SME policy are revised to accommodate current needs. The Japanese government has instituted support measures that are framed within policies on finance, human policy, promotion and guidance.

SME policies are primarily coordinated by the SME Agency and implemented by a number of related organisations working in partnership.

The SME Support Centre is a comprehensive, centralised resource established by the government. It provides consultation and guidance for SMEs, whose problems are diagnosed and whose representatives are subsequently directed to various public services, such as finance, technology, management and marketing based on the diagnosis. Experts are sent to offer further advice and consultation. The Centre also holds seminars and training for SMEs.

BARRIERS AND CHALLENGES OF SMEs

SMEs across the globe encounter similar problems, including the inability to form linkages among enterprises, the lack of regional development to support SME growth and the lack of management resources within the SMEs themselves. The lack of management resources within individual enterprises may include lack of managerial and technical know-how, including lack of human resources, lack of market information and lack of funds.

Japan has developed a two-pronged strategy to assist and promote SMEs. The strategy is designed to create a business environment conducive to the growth of SMEs and to assist SMEs to overcome internal issues. The Ministry of Economy, Trade and Industry (METI) and the SME Agency have provided the following support measures:

Financing Support

To ensure that SMEs, which lack creditworthiness and adequate collateral, receive the necessary financing, Credit Guarantee corporations (52 nationwide) provide private sector financial institutions with guarantees for the debt obligations of SMEs. If the guaranteed debt is not repaid, the Credit Guarantee corporation repays it in subrogation. To support efforts to improve the management of microenterprises, which lack management resources and have lower productivity than other SMEs, the Japan Finance Corporation provides unsecured loans that do not require a guarantor.

Support to Ensure Fair Trade

SME subcontractors have little bargaining power. If the main contractor abuses its superior bargaining position, e.g., by delaying or reducing payments, this can affect SMEs' business. To ensure fair trade, the government conducts investigations to prevent such acts. If they occur, the large enterprises that commit these abuses are punished. In 2012, approximately 260,000 companies were investigated. As a result, approximately 1.3 billion yen was returned to SMEs that had been unfairly charged. Consultations were held with SMEs to help resolve the disputes.

Tax Support

In 2011, the tax rate for SMEs (capitalised at 100 million yen or less) whose revenue did not exceed 8 million a year was reduced from 18% to 15%. The tax rate of SMEs whose revenue exceeded 8 million yen was reduced by 5%. There are also tax systems in place that account for capital investment, experimental research costs and business succession.

Support through the SME Portal Site

A comprehensive portal site was established where SMEs can obtain the latest information about the support available to meet their needs. SMEs can use the portal to seek advice from experts and more experienced managers and exchange information with other companies as needed.

Support for SME Management

A total of 9 SME universities affiliated with the SMRJ have been established nationwide to support the development of SME personnel. The courses offered aim to improve the knowledge level among SME managers and change their approach to management. The courses are designed to be convenient for participants and to address their needs. Online courses are also offered.

Support to Revitalise SMEs

Under the Industrial Revitalisation Act, Business Support Councils for SMEs were established in each prefecture to support the revitalisation of SMEs.

Support for Business Succession

The average age of SME managers has risen to 60, increasing the need for the smooth transfer of businesses to the next generation. Business transfer support centres and transfer advice desks have been established to offer advice about business transfers and provide assistance to overcome transfer-related issues.

LITERATURE REVIEW

Ethics

Ethical practices within a commercial context govern "what ought to be done or what ought not to be done" in managing a business (Kuratko, Hornsby, & Naffziger, 1997). Vyakarnam et al. (1997) found that the ethical issues experienced by smaller firms in the UK typically involved conflicts of interest among the stakeholders, protection of knowledge and information, legal and moral obligations, and conflicts between personal and business decisions.

Morals and morality refer to the rules, explicit or perceived, that guide ethical practices and are ideally derived from values or a shared value system. Relational ethics refers to the creation of right and good relationships between human beings, what they mean and how they are practiced and sustained. Simply stated,

ethics refers to standards of behaviour that guide human action in many situations, defining which acts are right and which wrong. In Islamic thought, Allah states in the Qur'an, "You are the best of peoples, evolved for mankind, enjoining what is right, forbidding what is wrong, and believing in Allah" (Qur'an 3:110). From another perspective, the Institute of Business Ethics believes that businesses and all organisations should "do the right thing" because it is the right thing to do. It further defines business ethics as the application of ethical values such as fairness, honesty, openness, and integrity to all business behaviour. Knowledge of such values is important because entrepreneurs typically need to recognise the importance of ethics and social responsibility in their decision-making processes before they can actually apply them in business settings (Hunt & Vitell, 1986).

Ahmad and Seet (2009) found that business owners perceived a need to demonstrate ethical practices in their business dealings; honesty and integrity; willingness to admit mistakes and to tell the truth; a commitment to social obligation and social welfare; willingness to give extra service; and willingness to take responsibility and accountability for one's own actions. Ahmad (2009) also found that those managing SMEs in Malaysia demonstrated an interest in ethical business practices when managing their businesses. Behaviours associated with maintaining honesty and integrity, being trustworthy, engaging in fair commercial practices, and taking responsibility and being accountable for one's own actions were considered important by the respondents.

Corporate Social Responsibility (CSR)

Bursa Malaysia defines CSR as "*open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders. It is designed to deliver sustainable value to society at large*". Ahmad (2009) found that SMEs expressed greater concern for the welfare of their employees. Interestingly, the participants noted that being socially responsible, especially towards customers, resulted in long-term benefits for their business.

Ma (2012) observed that stakeholder relationships are increasingly becoming an important factor differentiating SMEs. SMEs are likely to forge individual stakeholder relationships with particular stakeholders, which distinguishes their stakeholder management orientation from that of MNCs. According to Freeman (1984), there are six stakeholders in a firm: (i) suppliers, (ii) shareholders (iii) the environment, (iv) employees, (v) the community and (vi) customers. CSR is important for SMEs because SMEs are also responsible for CO₂ emission and pollution (Parker, Redmond, & Simpson, 2009).

Nejati and Amran (2009) and Lee, Mak and Pang (2012) found that SMEs engage in CSR practices because of their own beliefs, values and religious beliefs. Sweeney (2007) argued that SMEs are perceived to be in a better position and are more equipped to design appropriate CSR strategies that address the needs of local communities and the environment.

Tantalo, Caroli and Vanevenhoven (2012) identified several CSR practices found among SMEs: (i) employees: employee care, employee direct involvement, employee health and safety/working environment care and safety, employee training, involvement of disabled people as employees, social employee involvement, special activities for employees and their families, and work-life balance policies; (ii) customers: customer care, customer satisfaction and sustainable products/productivity processes; and (iii) community: co-operation with local organisations/institutions (schools, organisations for the disabled) and support of and involvement in the local community. Amran and Nejati (2012) conducted a study to examine SMEs' CSR practices, which they measured in six dimensions:

1. Responsibility to the environment
2. Responsibility to community
3. Responsibility to employees
4. Responsibility to customers
5. Responsibility to suppliers
6. Responsibility to shareholder

Their findings showed that the highest mean scores were found for responsibility to customers and Suppliers, followed by employees and Shareholders. The lowest mean scores were found for responsibility towards community and the environment. In Singapore, Lee et al. (2012) found that the CSR activities that SMEs engaged in included offering quality products and/or services, ensuring safety standards, providing training and/or retraining opportunities, providing truthful information, providing enhanced benefits for staff, helping local communities, ensuring anti-discriminatory work practices, respecting individuals' rights, employee empowerment and caring for the environment.

In Japan, the most important feature of the SMEs' communal corporation concept is its emphasis on the people in the company. The whole corporation resembles a large family, and each employee is regarded as a family member. Ohmae (1982) further observed that members of Japanese companies seek the wellbeing of their people rather than that of the shareholders and stakeholders, as in Western models. Furthermore, all members are absolutely equal. Even managers are frequently changed so that everyone has the opportunity to hold this position. In addition, Japan's technology, innovation and work values are worthy of

emulation. The motto of the nation is, "since Japan is a small country without resources, we must work harder than any other nation" (Motoshige & Shujiro, 2002). Ohmae (1982) noted that the Japanese work ethic is the direct result of education. "Everyone is told since his childhood that the only way out for Japanese economy is to import raw material, add value to them and export, thus earning the wealth needed to buy food from outside; otherwise the nation starves" (Chimushu, 2001). One crucial principle that defines the Japanese work ethic is sustainability. According to the Japanese, business is not about quick wins, and the ultimate objective is not solely a matter of profit and loss. The most important feature of SMEs' communal corporation concept is its emphasis on the people in the company. The whole corporation resembles a large family in which each employee is regarded as a family member.

SMEs in Japan began to engage in CSR practices, particularly energy-saving initiatives, beginning in 2008. CO₂ emissions from SME energy consumption account for 12.6% of the Japanese total (JSBRI, 2010). Noda (2009) conducted a study on family businesses in Japan, primarily examining SMEs. The corporate philosophy or the responsibility or focus of these Japanese family businesses can be divided into the following categories:

1. Customers: achievement of customer satisfaction, provision of high quality goods and services, provision of goods or services at fair prices, provision of goods or services at low prices
2. Employees: happiness of employees
3. Society/Community: contribution to society
4. Company: longevity of one's company, focus on core business, expansion and growth of business, technological innovation, globalisation of business
5. Suppliers and other businesses: good relations with other business, stakeholders' interests

The highest-ranked category was responsibility towards customers, including ensuring their satisfaction and providing high quality goods and services, followed by contribution to society and the longevity or sustainability of the business. The study also found a clear correlation between corporate philosophy and performance of FBs, indicating that it is important to instil corporate values and engage in inclusive practices with employees. Companies that altered the corporate philosophy to remain current were found to perform better. It was found that many established FB companies advocate a "tradition of continuous innovation" that leads them to develop new products/services.

METHODOLOGY

Sample Selection

This study sampled SMEs and microenterprises from Kyoto. For the purposes of this study, two business sites were selected: Osaka and Kyoto. A convenience sample was obtained through personal contacts. The final sample comprised 17 participants, three of whom were interviewed. Personnel from three large companies that were once SMEs were also interviewed to determine how the companies grew from small into large companies.

Data Collection Method

Data were collected through structured questions. The same set of questions used for the interviews was distributed to the SME employees who were not willing to be interviewed. A trip was also made to an SME Expo Fair in Kyoto to better understand the profiles of SME businesses. One interview was conducted at the fair.

The interview questions were sent to those not willing to be questioned and were later collected. The name of a contact person who could answer participants' questions was clearly provided. The interview sessions lasted between an hour and an hour and a half. The interview sessions were recorded and later transcribed. During the interviews, participants' responses to the questions were probed to elicit in-depth answers. Notes were taken that were later compared with the transcription to confirm the findings and to ensure the consistency of the responses. The data were collected over a one-month period.

Data were collected using convenience sampling. Interview questionnaires were also distributed to SMEs in the Kyoto and Osaka areas. Participants were given a week to complete the survey.

Finally, data were collected from eight SMEs and nine microenterprises. A total of 17 respondents participated in the study. Three of the 17 respondents agreed to be interviewed.

Interviews were also conducted among the personnel of three large companies that were once SMEs. One of the companies has gone public. The purpose of these interviews was to determine whether ethics, CSR and accounting issues were seen from a different perspective by members of the large companies, which can be considered successful SMEs.

Structured Questionnaire

The questionnaire consisted of open-ended questions. Respondents were allowed to freely respond to each question. Each questionnaire consisted of three sections:

(A) General questions about the ethical issues faced in the running of the business. In this section, the researchers asked questions such as:

1. What is the nature of the business?
2. Could you explain the history of the development of the business?
3. Describe the sales/turnover over the past three years.
4. How many persons have been employed over the past three years?
5. Has there been any change in turnover, revenue, employees, etc.? If there have been changes, what has changed and by what percentage?
6. Do you have any accreditation certificates, such as ISO certifications?
7. What institutions are involved with SMEs? From your experience, are they helpful?
8. Where do you get information about SMEs? What is the most useful resource, from your experience?
9. Is your firm family-owned?

(B) Questions about business ethics and corporate social responsibility provided insight into businesses' ethical and corporate social responsibility practices. These questions were designed to better understand the corporate philosophy of the SMEs.

In this section, the researchers asked questions such as:

1. What do you understand by business ethics?
2. What concerns do you have regarding business ethics? You can discuss what you think is important to your firm, to the industry to which it belongs or to business in general.
3. Have you faced any ethical issues in the running of your business? If yes, what are they? How do (have) you overcome business ethical issues in your firm?
4. What does corporate social responsibility mean to you?
5. Do you think companies should participate in corporate social responsibility?
6. Do you or your firm undertake corporate social responsibility initiatives? If yes, please describe some of them.

7. What problems are involved in implementing corporate social responsibility initiatives?
8. Do you think corporate social responsibility improves performance?

(C) Questions about the challenges facing the business and the measures taken to ensure the sustainability of the business. These questions provide insight into the challenges of running the business and the future plans to sustain the business.

In this section, the researchers asked questions such as,

1. What are the challenges of running your business?
2. Who are your present/future business competitors?
3. What measures will you take to sustain your business in the future? If your firm is family-owned, do you want to keep your business in the family? Why?
4. Do you think it is more difficult to keep the business in the family? Why?

The three sections could be answered by one person or by two or more persons, depending on their knowledge with respect to the questions asked. However, in each case, only one person representing the company answered the questionnaire, whether in an interview or by completing a copy sent to them. The respondents were all owners or managing directors of their respective companies.

FINDINGS

Sample Profile

As seen in Table 3, the sample consists of eight SMEs, nine microenterprises and three large companies.

Table 3
Profile of companies

Classification of business	Nature of business	Years in business	No. of employees	Total
SMEs	Retail – confectionery (Family business)	130 years (1883–2013), 5th generation	50	1
	Wholesale – kimono accessories (Family business)	57 years (1956–2013), 4th generation	60	1
	Retail – confectionery (Family business)	150 years (1863–2013), 4th generation	8	1
	Service (Tourism)	43 years (1969–2013)	12	1
	Service – restaurant	2 years (2012–2013)	15	1
	Service (Event & show management)	2 years (2012–2013)	8	1
	Service (Spa & massage)	15 years (1998–2013)	8	1
	Service (Automotive)	5 years (2009–2013)	7	1
Total SMEs				8
Micro-enterprises	Service – Barber shop	21 years(1992–2013), shop close at 1996–1997	4	1
	Wholesale – Flour	2 years (2012–2013)	2	1
	Service – Real estate	2 year (2012–2013)	2	1
	Retail – Textile	7 years (2006–2013)	4	1
	Service – Indian restaurant	7 years (2006–2013)	5	1
	Service – Japanese restaurant/Bar	8 years (2005–2013)	4	1
	Retail (Food item)	2 years (2012–2013)	3	1
	Service – Malaysian restaurant	18 years (1995–2013)	3	1
	Service – Thailand restaurant	10 years (2003–2013)	5	1
Total Microenterprise				9
Total SMEs and Microenterprises				17

(continued on next page)

Table 3 (continued)

Classification of business	Nature of business	Years in business	No. of employees	Total
Large company	Wholesale and retail – confectionery (Family business)	324 years (1689–2013), 3rd generation Suzuka family that took over the original business in 1943 (70 years)	220	2
	Wholesale and retail – confectionery (Family business)	378 years (1635–2013) 17th generation	800	1
	Wholesale – textile	170 years(1843–2013), Started out as a family business but after 4th generation, decided to go public in 1949	1,000	1
Total large companies				4
Total sampled companies				20

Eight SMEs were included in the study sample. Each employed between 7 and 50 people. Most of the SMEs were in the confectionery and restaurant sector. Three of the SMEs were family-owned business that had existed for more than 100 years. The owners were either 4th or 5th generation family members, and the number of employees varied from 8 to 60. One of the SMEs has completed a market trial to export products overseas but has not yet begun to do so.

Nine microenterprises were included in the study. These entities had between two and five employees. They had been established for between 2 and 21 years.

The three large companies sampled each had between 220–1,000 employees. Two of the three large companies were family businesses that had been established more than 300 years ago. The other company was once a family business but decided to go public 64 years ago because it wanted to expand its business. Two of the large companies have expanded their business overseas. The SME respondents from family businesses described their businesses as full of tradition, which informed the work culture because it was part of a heritage that at times exceeding more than 100 years.

Findings

Table 4 summarises the findings on ethics and CSR.

Table 4
Findings on ethics and CSR

Classification/ Type of business	Ethics	CSR			
		Customer	Employee	Community	Environment
SMEs/ Family business	Maintain quality, taste, colour and texture for confectionery producers	Good quality and taste to ensure customers are satisfied	One third of profit will be shared with the employee annually	Organise events for the community and offer free gifts	Use of LED lights
	Focus in area that the company is expert in	Customer satisfaction is of top priority	Employees are treated as one family	Donation to temples	
	Specialised in product that is being produced		Long-term employment	Provide employment	
	Produce just the right amount to prevent wastage			Paying taxes is part of social responsibility	
	Honesty			Offer free/minimal charge	
	Focus to customer			Kimono lessons	
				Maintain tradition and culture	
SMEs/ Non family business	Maintain health and hygiene			Participate in social work	Use of organic products and zero chemicals in food preparation
	Maintain taste				
	Ensure employees follow rules of behaviour				
	Honest and friendly to customers				
	Strict to Japanes philosophy				

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Table 4 (continued)

Classification/ Type of Business	Ethics	CSR			
		Customer	Employee	Community	Environment
Microenter- prises/ Non family business ²	Meet deadlines Produce products with right specification Do not produce products that are harmful to customers Honest Protecting confidential information	Customers' satisfaction is important	Pay appropriate wages to employees	Trust and respect with business associates To sustain economy of Kyoto by providing employment	
Large Company/ Family Business	Do good Maintain quality (taste, texture) and precision Introduction of one product lines to be studied carefully and done in moderation Carry only own brand in stores Don't be overly concerned on price and speed Not to focus on mass production Not to rush to make changes	Customer satisfaction is important	Annual get together with employee	Maintain tradition/ Japanese culture finest ingredients used and produced carefully Meet request of imperial family Cleaning city Donations to temples Contributes to the schools for the blind Provide employment	Plantation of trees Leftovers of products are changed into fertilisers and also used as animal feeds Saving the tigers (part of symbolic of product produced)

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Table 4 (continued)

Classification/ Type of Business	Ethics	CSR			
		Customer	Employee	Community	Environment
Large company/ Non family business ³	Quality products for customers Employee book to be observed by all employees "Ethics is company's personality" and thus should be maintained			Contribution to locals; use of company premises for baseball games Employ disabled persons Maintenance of Textile School to uphold culture and tradition through the textile museum 70% of work is outsourced to small business as a result improving the SMEs' livelihood	Sale of carpet tiles which has carbon offset system Recycle used curtains Energy savings through new air conditioner

Findings on ethics

With regard to ethics, Table 4 shows that SMEs pay particular attention to precision and maintaining quality. They also do not want to expand too fast, focusing instead on their core activities and specialisations. They want to produce products in just the right quantity to prevent waste. One interviewee said,

We do not believe in mass production as it does not cater to customers' specific needs. This will lead to wastage. If wastage is not handled carefully, it might harm the environment and society.

They also want to maintain the health of their customers and want their employees to follow the established rules.

The large family businesses, similar to the SME family businesses, seem to focus on maintaining quality. They are also cautious about introducing new products and focus on their core specialisation. They prefer to sell products associated with their identity rather than carry other products whose purpose is simply to provide variety to the customers visiting their store. They are also inclined to produce products in measured quantities rather than produce in bulk.

As a representative from one company claimed, ethics is the "personality" of the company. The results showed that, for both the family business and microenterprises, ethical principles are not enforced but self-regulated. However, various methods were used to ensure enforcement. Some of the SMEs distributed a small employee handbook or rulebook to which the employees were required to adhere. Through education and Japan's bitter experience during the war, they were conscious of and desired to follow ethical practices. They were especially concerned with empowering people and creating a culture of trust, quality and excellence. Ethics were also house rules—not principles, but policies to adhere to. In Japanese culture, ethical behaviour is about discipline, and the economy comes second. This discipline is exerted to gain and return the trust of their customers, those in the supply chain, their partners and their communities. This allows them to enjoy sufficient legitimacy to conduct business. One family business interviewee remarked, "In Japan business is not only to make money but should ultimately go beyond and serve the greatest purpose and wellbeing of the society. Because this is the greatest concern, their priority is about the development of the community." Ethical principles also motivated participants to keep the business place clean because health and hygiene was an important issue. The use of organic products rather than those with chemicals and additives was also practiced to safeguard the health of customers.

As seen in Table 4, most of family businesses in the study have survived for hundreds of years. The secret of their success and longevity may be their attitude of commitment, dedication, continuous improvement and hard work as they seek to produce the finest products and to safeguard the environment, humanity and the sustainability of the business. Japanese business philosophies are informed by religious beliefs. Shinto, Confucian and Buddhist ethics prioritise the community and the environment. Commitment to producing the finest products has given rise to the popular concepts of *makoto* (sincerity), *keiei* (effort to develop harmonious societies and improve people's well-being), *kantan* (then and there), *kaizen* (little by little) and *monozurki* (the art and joy of making things as perfectly as possible while respecting nature in both the material used and the environment), which are instrumental to the success of Japanese companies. Interestingly, their expansion

strategy is not aggressive. Their main concern is for the sustainability of the business and upholding their traditional values and culture.

Findings on CSR

The SMEs' primary focus is on satisfying customers' needs. Serving the community is a secondary consideration. Community service is provided by organising events for the community, offering free gifts to school children and the community, and making donations to temples. One SME that produces kimono accessories offers lessons on how to wear a kimono. Most of the SMEs in the retail and wholesale sectors mention that preserving tradition and culture is their contribution to community and society. One SME shares one third of its profits with employees each year, and the representative participant said that the employees are treated as "part of the family". Not much attention has been paid to the environment, but some SMEs are using LED lights to conserve energy and others use organic products and no chemicals during food preparation.

The ethical values of the microenterprises, which were not family businesses, are expressed through attention to meeting deadlines and producing products with the correct specifications and that will not harm the customers. Customer satisfaction is of utmost importance to them. Participants expressed the opinion that their business contributes to the community by providing work for community members and gaining trust and respect from the community.

Similar to SMEs, large companies focus on customer satisfaction and serve the community by helping keep the city clean, employing disabled workers, donating to temples and contributing to the school for the blind. Similar to family business SMEs, they take pride in preserving the traditions and culture of Japan. They also take pride in producing confections from the finest ingredients and that have a good taste and are "fit for a king". Indeed, their confections were once among those served at the imperial palace during the tea ceremony. Their concern for the environment is expressed in their tree-planting activities. They also turn the waste from their products, which cannot be reused to make other products (this is against the law in Japan) into fertilisers and animal feeds. One company member also participated in a programme dedicated to saving tigers.

Large companies focused on ensuring a healthy environment and the well-being of society, suppliers, workers and local inhabitants. They want their projects to spur the growth of the local economy. One large company, for example, turns its waste products into animal feed, makes donations to temples and gives donations to programmes for the conservation of tigers. Another employs disabled people, donates to the school for the blind and supports the preservation of temples.

However, one interviewee stated, "We employ the disabled not out of empathy but because of their talent and out of concern for Kyoto's economy".

One microenterprise, because it prioritised the health of its customers, refrained from using chemicals and preservatives in its food production and instead used organic food. The SMEs focused primarily on satisfying customers' needs. Their next priority was serving the community and safeguarding the environment. Overall, CSR priorities fell in the following sequence: (i) customer, (ii) community, (iii) employees, and (iv) the environment. Family businesses believed that they contributed to the community through their products and their preservation of culture and tradition. Other CSR practices included sharing profits, using LED lights, giving kimono-wearing lessons and providing employment opportunities for the community.

Findings on challenges

The greatest challenge faced by all of the businesses is declining sales due to the dwindling number of tourists visiting Japan. This problem is exacerbated by the declining demand for traditional products among young Japanese citizens. The greatest challenge these companies must tackle is therefore ensuring the sustainability of the business while preserving tradition and culture. For microenterprises, financing and human resource issues were also significant.

CONCLUSIONS AND LESSONS LEARNT

Based on the findings, several lessons can be learned from Japanese SMEs.

Concept of the Corporation

The most important feature of the SMEs' communal corporation concept is the strong emphasis on the people in the company. The whole corporation resembles a large family, and each employee is regarded as a family member.

People and Relationship Issues in Management

The Japanese management style is strongly influenced by Japan's two major religions: Shinto, which includes ancestor worship, and Buddhism, which teaches co-existence and harmony in daily life. The seniority principle traditionally practiced in Japanese management derives from Shinto belief. For example, a member often prefers to stay in the company even if he is overqualified for his position because he can help the company adjust more quickly to environmental changes, which reduces the possibility of company failure. Moreover, in Japan, only by staying with one company can a worker obtain certain privileges, and

such a choice is seen as a main criterion for personal success. These cultural norms provide important incentives for members to stay in a single company.

Education

Japan is now the second-richest nation in the world. The country is mountainous and has limited natural resources. Its affluence depends solely on its hardworking people and their wisdom. The motto of the nation is,

Since Japan is a small country without resources, we must work harder than any other nation.

(Motoshige & Shujiro, 2002)

Ohmea (1982) noted that the Japanese work ethic is the direct result of education.

Everyone is told since his childhood that the only way out for Japanese economy is to import raw material, add value to them and export, thus earning the wealth needed to buy food from outside; otherwise the nation starves.

(Chimushu, 2001)

Another direct outcome of Japanese education is resource-consciousness. Every resource must be used in the most productive sector. Education does not emphasise individualism, as Western education does. It discourages heroes and super-performers and encourages group harmony and conflict-free interpersonal relationships, qualities that characterise successful Japanese businessmen.

Treating SMEs the Same as Large Companies

The success of SMEs in Japan is due in large part to the ability of Japan to "make the blue collars' conditions equal to the white collars'", especially through the expanded application of monthly payment, lifetime employment and seniority-based payment and promotion systems in SMEs, which are in this way treated like large corporations. These changes have made SME workers stay longer and have allowed them to improve their abilities to promote the success of the employer, who is the source of their life-long stable payments and promotions.

In summary, as this research demonstrate, SMEs in Japan value integrity, ethics and social responsibility. Successful Japanese SMEs that have now grown into large companies do not abandon the ethical principle of always satisfying their customers' needs. They do not believe in "quick wins" and ensure that the business is expanded progressively, not abruptly. SMEs in Japan emphasise the preservation of traditional culture, contribute to society and value expert advice about how to improve their business. These values should be emulated by SMEs

in other countries. However, it should be noted that the findings of this study are based on the information provided by participants who were willing to participate in the study. Their SMEs have good records, and the results might therefore be biased toward this group.

IMPLICATIONS OF THE STUDY

The results of this SME research in Japan indicate that SMEs highly value integrity, ethics and social responsibility. Successful SME companies in Japan that have now grown into large companies do not abandon the ethical principle of always prioritising the needs of the customer. They do not believe in "quick wins" and ensure that business expansion occurs progressively, not abruptly. SMEs in Japan emphasise the preservation of traditional culture, contribute to society and value expert advice about how to improve their business. These values should be adopted by SMEs in Malaysia.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The limitations of the study include the small sample size and that the sample was selected through networking. The SMEs recruited have good records, and the results might therefore be biased to this group.

However, the coverage is extensive and includes family businesses and non-family businesses and both medium and small enterprises. Another limitation is that the samples were taken from Kyoto and Osaka, and the results might not be generalisable to all SMEs in Japan.

Future studies should attempt to gather a more representative sample and increase the sample size by administering questionnaires. A comparison study of SMEs in Malaysia and Japan could also be conducted to determine how ethics, CSR and accounting/audit issues differ between a high-income growth country and a developed country.

NOTES

1. This study of SMEs in Japan will use these definitions to categorise SMEs into Micro enterprises (five and less workers;) SMEs (more than 5 and less than 50 workers for retail and service, 100 for wholesale;) and Large enterprise (more than 50 for retail and service, and 100 for wholesale).
2. Some are not aware of what CSR is.

3. Presence of a declaration to strictly conform to all laws and regulations regarding the environment, and accept responsibility for conserving the global environment as a member of society by promoting administrative policies that take the environment into consideration.

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