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Identification of success factors for sustainability in family businesses

Case study method and exploratory research in Japan

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Abstract

Purpose – The purpose of this paper is to identify the important factors for sustainability in Japanese family businesses. Family businesses in Japan are well prepared in succession planning and have the greatest longevity of any in the world.

Design/methodology/approach – In this study, 15 family businesses in Japan were explored in the food and beverage, confectionary, services, handicraft, pharmaceuticals and manufacturing sectors.

Findings – The important sustainability factors identified in this study, innovation, competitive advantage, leadership and team management, and establishing good relationships with the local community are the key steps for achieving family business succession.

Originality/value – Startups and new family businesses in other countries can learn how to run a company successfully based on the Japanese model by applying the keys to success.

Keywords Family business, Competitive advantage, Strategy, Innovation, Strategic planning, Succession planning

Paper type Research paper

Introduction

New family businesses are started in a great variety of industries and locations worldwide, but only a few manage to remain successful from generation to generation. There are challenges, which if not met can result in business succession failure, as occurs in many Asian family businesses, including those in Japan. Small-to-medium enterprises (SMEs), a category that includes most family businesses, play an important role in the Japanese economy, accounting for 70 percent of national employment. A decline in SMEs succession could be a key factor affecting the nation's employment. The succession of the family business to the next generation of family members, as well as transferring the core business values, is a great challenge especially when there is death of a family leader. The potential successors are often not interested in taking over the family business (Ryall, 2018). The intention of the family owners is to transfer control from one generation to the next, but this process is often difficult and uncertain given today's volatile markets. For those reasons, this study aims to elucidate the main strategies Japanese family businesses employ to ensure successful continuation of their enterprise. The succession process also results in the continuation of family sociology between generations (Sharma *et al.*, 2003a). Various conditions, such as family business environment and leadership and management styles, can play important roles in the success or failure of sustainability of a family business. The findings of the current study are expected to be useful as guidelines for strategic planning with regard to business succession. Chrisman and Patel (2012) noted that family-run businesses have different structures and environments compared to nonfamily businesses. Family businesses put much less money into research and development activities than conventional stakeholder businesses where continuous innovation is considered the main driver.

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The Japanese family business model has been followed by others who wish help in transferring their principles and practices from one generation to the next; however, only a few businesses are successful at this. The efficient transfer of family assets and management policies does not take place in every family business and success is not guaranteed. The difficulties of family business succession are also experienced in others part of the world. According to a survey of Australian family businesses by PriceWaterhouseCoopers (2016), only 15 percent of family businesses have a succession plan for passing governance and ownership of the company to the next in line family members. More than 60 percent agree that business strategies, both corporate and management need to be well established along with a well thought-out succession plan to improve chances of the family business' success. Family business challenges should address the problems of separating family and work, family employment policies, fitting jobs to family members' skills, fair compensation, and planning for the future (Donnelly, 1964). Family-run companies also need to focus on establishing a realistic governance framework and regular reporting of planning results, to create stakeholders trust (Deloitte, 2012). According to the Family Firm Institute (2016), well-coordinated family businesses have a higher profitability over time than conventional corporations. They are less likely to lay people off and more likely to hire despite the possibility of an economic downturn. In addition, they contribute more to their communities and have a long-term strategic outlook due to their main motivation, consisting of creating a legacy for generations to come. Although one-third of the world's economy is driven by family businesses, most of them (95 percent) fail to survive into the third generation (Cater and Justis, 2010; Hamilton, 2011). The perception of the importance of family businesses is evident worldwide, but understanding and applying the best strategies for survival is significantly low. Therefore, there is a need to determine the key factors in achieving successful family business succession.

According to Schwartz and Bergfeld (2017), the average lifetime of an American family business is 24 years. However, the world does have 5,586 companies that are older than 200 years. Japan is number one among the world's countries in this regard, with 3,146 firms or 56 percent; followed by Germany with 837 or 15 percent; the Netherlands with 222; and France with 196 companies. Moreover, Japan has seven out of the ten oldest companies in the world and the highest concentration of old family businesses by any measure such as GDP, population or landmass.

This study aims to elucidate the practices that result in successful succession of Japanese family firms that could be lessons for the rest of the world. Most Japanese family business continue for at least three generations, more than 60 years, and the average CEO tenure in Asia is the longest at 5.7 years (compared to 3.9 years in North America). People who work for family businesses tend to stay in their companies longer (Botha, 2018). This study does not explore a new theory, but mainly focuses on extending an established theory. This study was conducted an extensive review of previous studies, to pinpoint the key factors related to the governance and bequeathing of family businesses in various contexts. One important study of management control systems, strategy and performance measures involved a cross-section of Brazilian family businesses (Oro and Lavardar, 2017). In addition to the study of succession and sustainability of family businesses, there is a need to understand the importance of transferring the accumulated socioemotional wealth associated with human capital (Makó *et al.*, 2016). In this study, Japan is the selected country used to identify the sustainable factors of family businesses, management, and succession, and the research questions were designed to highlight the strengths and strategies that enabled the businesses to remain profitable as well as family-run.

Literature review

Family business

Family businesses have been an important topic for management research for several decades The findings on family businesses began to be published in the *Harvard Business Review* in 1964

(Donnelly, 1964). A family business is defined as an enterprise that contains more than two family members who have ownership and commit to continuing the organization (Sharma *et al.*, 2006; Miller *et al.*, 2007). The studies of family businesses have mainly focused on relationships among family members and which key factors were most important in succession from generation to generation (Zachary, 2011). Chua *et al.* (1999) categorized the businesses by family ownership and management, according to those which are family owned and family managed, family owned but not family managed and family managed but not family owned, and found that: the more family members involved in business, the more complicated the succession process; the more potential successors, the larger the problem of choosing a successor; and the question of gender in succession has to be dealt with in today's progressive society. Additionally, the findings suggested that family involvement in business operations was not necessarily an indicator of successful performance of the family business, as it could have both advantages and disadvantages. To extend the involvement of family members in a family firm categorizes family involvement in ownership and family involvement in management (Sciascia and Mazzola, 2008). The European Union (2009) categorized family businesses according to four main aspects. First, the decision-making rights of the firms were in the hands of persons who were major shareholders, their spouses, parents or children. Second, such decision makers had indirect or direct rights. Third, at least one family member was involved in governing the firm. Lastly, a family member must hold at least 25 percent of the shares in the listed company, and be able to exercise managerial decision-making rights. However, Gomez-Mejia *et al.* (2003) defined family business's ownership structure as owning 5 percent or more of a company's stock. Similarly, Chrisman and Patel (2012) and Miller *et al.* (2007), categorized a family business as one in which the family had 5 percent of the voting rights. In addition to the definition of being a family-focused business, strategies are taken into account, since they lead to the sustainability of family businesses. The success of a family business results from five capital strategies that focus on the elements of human and social interaction, financial responsibility, long-term survivability and reducing governance costs (Sirmon and Hitt, 2003).

Family business succession

Succession planning is one specific goal of a family business that is not part of a conventional company (Hamilton, 2011). Family-run companies wish to pass on their businesses to the next generation but the chances of success are low if they have not planned well for the succession. Sharma *et al.* (2003a) explored how a lack of planning could lead to a failure in succession, which could affect the economy. Company managers have to identify potential successors, choose the most likely candidates, notify them and keep them on track for taking over the running of the firm. It is necessarily a complex and sometimes-messy process, influenced by the owners' goals, family structure, ability and ambitions of the potential successors, and legal and financial issues (De Massis *et al.*, 2008). Succession planning in a family business involves behavioral approaches because it seeks to influence the incumbent leader's attitudes and the family's commitment to run the business, including trust in the capability of the successors. The incumbent leader of the family business is the one who must initiate and control the succession process and success depends on their ability to command agreement among other family members (Sharma *et al.*, 2003a).

About one third of family businesses survive into the second generation, but only 10–15 percent make it to the third generation (Briley, 1986). This failure to survive beyond the first generation because of poor planning could lead to serious economic problems (Le Breton-Miller *et al.*, 2004) as well as cause stress among family members and shareholders (Le Breton-Miller *et al.*, 2004; Daspit *et al.*, 2016). Two key elements of good succession planning are the development of human capital in terms of social relationships, knowledge and skills exchange. Establishing company sustainability requires planning and has to be coordinated with the transfer of management from one generation to the successors. There are several factors that explain the sustainability of a family business: family and management systems; conflict resolution; comprehensive planning; transfer of authority; management of professional executives; transition planning; and corporate governance. These factors relate to how family (structure, personal management) and management (age of business, extent of assets) relate to achievement and building the necessary balance between business and family (Olson *et al.*, 2003). How conflicts are dealt with clearly shows the roles of family members in management and for developing plans for contingencies, long-term goals and ultimate succession. The larger the number of family members involved the greater likelihood of potential complications in the transfer process. Yukselen and Yildiz (2014) found that strong corporate governance was needed to sustain family businesses and reduce emotional conflicts.

In the United Arab Emirates, the seven factors used to determine large- and medium-sized family business sustainability included comprehensive succession planning, strategizing at all levels, well-informed corporate governance, inspired leadership, attention to family business values, careful use of capital and resources, and good information transfer. The findings showed that succession planning was most important for sustainability, followed by strategic planning. In particular, large family businesses were aware of the potential for transition failure and had long-term strategies in place incorporating family values and assets (Oudah, *et al.*, 2018).

Japanese family business succession

In Japanese family firms 97 percent of the CEOs are family members compared to 77 percent for the USA and Canada, 75 percent in Europe, and 31 percent in Brazil, Russia, and India. According to Chua (1991), succession models in Japanese family businesses are focused on corporate longevity. The Japanese follow four rules regarding family businesses: succession must be planned from the successors' early childhood; fathers must know when to retire; successors may sometimes be sought outside the family; and a major goal is to preserve tradition and continue with the mission. Currently, it is a challenge for family-run companies to choose qualified sons as successors to continue the business (Nikkei Asian Review, 2018) although father-to-son transfers are usually more successful (Kamei and Dana, 2012). In some cases, successors have had to be nonfamily members in order to resolve conflict and avert business disruption (Brenes *et al.*, 2006). However, the typical outsider is usually a son-in-law and sometimes a daughter is persuaded to marry an exceptionally talented man so, as son-in-law, he can be chosen to succeed to the running of the family business (Dazai *et al.*, 2016).

Methods

The qualitative approach of person-to-person interviews was adopted for an in-depth understanding of family business structures and the succession process. Snowball sampling, a non-random sampling method, was used in this study because of the nature of the data sources and frequent difficulty in getting subjects to volunteer information. Foreign interviewers attempting to communicate with Japanese family business managers are often put off, so businesses that met the study's criteria and were willing to volunteer information were used as the samples. The criteria included: working in the services or manufacturing sector; having at least three generations of family involvement in the business; continuing in business for more than 60 years; the firm's goods or services are available in the domestic and/or global market; the brand is well-recognized domestically and/or globally; and family members are both owners and managers of the business.

The research was conducted according to the following procedure (Figure 1).

Methodology

This study followed the current research norm by utilizing a qualitative method (Nordqvist *et al.*, 2009). The qualitative approach has the advantage of obtaining in-depth information

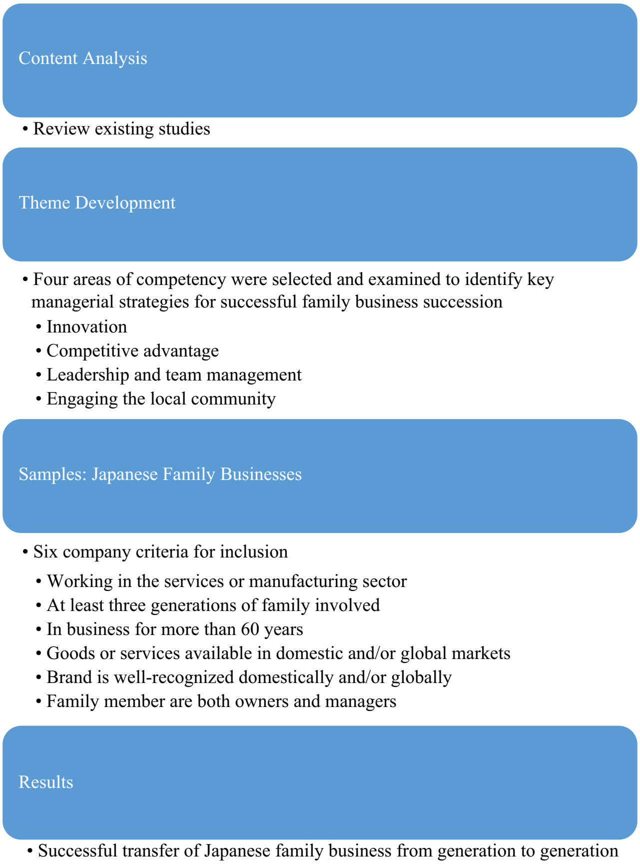

Figure 1.
Research procedure

to fit the research questions and objectives of this study; however, it has the weakness of generalizing its findings. This study employed in-depth interviews to obtain data from the respondents. Data saturation was reached due to no new information was found from the interviews. Therefore the interview process was stopped and data collection was completed. Content analysis of the data was conducted to create the key themes of the findings as presented in the following section. In a similar study that used qualitative methodology, Makó *et al.* (2016) interviewed ten European family businesses involved in engineering, real estate, construction, manufacturing, retail and logistics; thus, in this study that procedure was followed, but enlarged the number of samples and industry diversity. In this study, the key success factors needed to be identified, and were devised in specific criteria (see above) for selecting samples, such as restricting them to family businesses that involved at least three generations and have been in existence for more than 60 years.

Sampling

The interviews took place at 15 family businesses in Japan, well known in their cities (especially Kanto and Kansai areas) covering various industries: food and beverage (F&B), confectionary, services, handicraft, pharmaceutical and manufacturing. Some businesses have received national awards and have expanded overseas for global marketing. Table I

Type of business	Number	No. of generations	Number	No. of years	Number
Food	4	3	6	60–100	4
Beverage	2	4–10	5	101–300	7
Confectionary	2	More than 11 generations	4	More than 301 years	4
Service	2	Total	15	Total	15
Handicraft	1				
Pharmaceutical	2				
Manufacturing	2				
Total	15				
Marketing channel	Number	Target customers	Number		
Domestic	12	Domestic	12		
Domestic + Overseas	3	Domestic + Overseas	3		
Total	15	Total	15		
Company location	Number	Well-recognized	Number		
Domestic	13	Domestic	10		
Domestic + Overseas	2	Domestic + Overseas	5		
Total	15	Total	15		

Table I. Characteristics of selected samples

shows the characteristics of the samples. Over 60 percent of the samples have been run by more than four generations and are 60–300 years old. The interview questions are listed in Appendix.

Results and discussion

To summarize the results, Figure 2 indicated the relationship among key factors leading to the sustainability or business succession for the Japanese family businesses.

Results

The following themes were created as the key points of the study based on a consensus of answers from the data collected. A conceptual model was presented to summarize the relationships among these key themes.

Family business succession

The results showed that these Japanese family businesses have planned well beginning at an early age to pass on their businesses to the next generation of family members. Most of

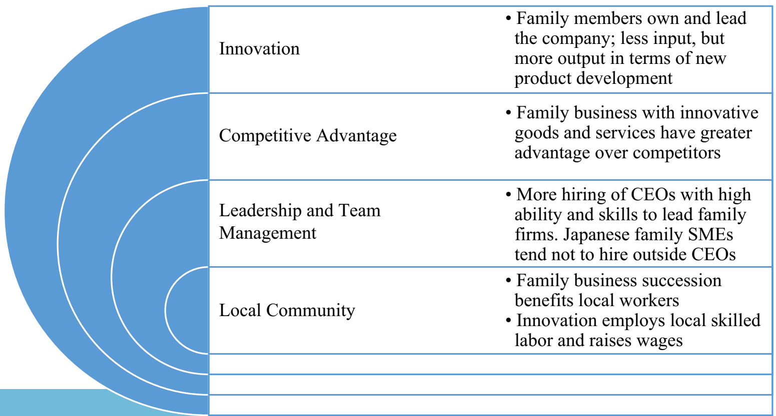

Figure 2. Result summary from theme development

them have assigned one family member per generation to join the business (beverage and confectionary companies) to avoid conflict among members. Although they prefer to pass the businesses on to their first son (pharmaceutical, manufacturer), one manufacturing company passed the business to the second son as the first did not want to join the business. Interestingly, the second son mentioned that he had not expected to join the business as he had thought his elder brother would do so. Once he knew that his elder brother would not take over his father's business, he felt that it was his responsibility to join the business and pass it down to the next generation. Some families passed their businesses on to a daughter and son-in-law (beverage and food), and one of the food companies stated that, passing the business to the son-in-law in some generations can provide fresh ideas and make the business grow since outsiders often have novel insights. Some family businesses are able to change their strategy to adapt to a changing environment, as well as maintain their competitive advantage. A lack of successors that necessitates hiring non-family members tends to increase the uncertainty in sustainability in Japanese family firms. It is estimated that by 2027, more than half of family SMEs will not have successors as about 2.45m CEOs of SMEs are 70 years of age or older. For this reason, it is crucial to ensure as early as possible that the families have an effective process for planning, recruiting and preparing for the next leadership of the family businesses for continuity of succession.

Family business environments

The interviews showed that not every firm avoided business crises amidst a changing environment. Family firms also need to be adaptable to survive and to compete with their rivals. From generation to generation, changing business environments have led to changes in family business strategies, specifically with regard to customer behavior and lifestyle, regardless of whether the family business is in services such as hotel and transportation, or manufacturing such as pharmaceutical and F&B. External factors, including customer behavior and lifestyle, new technology, new laws and regulations, and economic crises result in family business changes. Those external factors change internal factors, including product/service development and launch, strategic management and pooling resources. One prime example is in the pharmaceutical industry where laws and regulations have changed drastically, necessitating that firms adapt themselves to comply with new guidelines. The impact of the internet and globalization has forced family businesses to create online websites and expand into new markets. In response to changing customer lifestyles, food, beverage and confectionary industries have switched from stand-alone retail shops to having branches in department stores, cafés and restaurants, and even expanding overseas.

Innovation

Regarding the longevity of family businesses in Japan, the results can be grouped into four dimensions of family business innovation: production cost reduction; product development; technology; and logistics. Success in those areas can help family businesses gain higher competitive advantage, through cost leadership and differentiation. Logistics is a leading factor in cost leadership, but it also supports local market development and/or international expansion. Technology exists in many dimensions of family businesses, including product development, production at a lower cost, and delivering raw materials and finished products efficiently. Companies in the F&B and confectionery industries are at the forefront in applying new technology and machinery for mass production and cost reduction. One manufacturer in this study explained how research and development helped the company to increase market share. One pharmaceutical company used R&D to create new food supplement product lines, while a manufacturer developed an innovative logistics process to achieve greater efficiency and cut costs.

Competitive advantage

Family businesses emphasize building core competencies in order to create a competitive advantage in the local and/or international markets. There are two main strategies to strengthen the family business' competitiveness: cost leadership and differentiation through continued new product development. This study found that more than 80 percent of Japanese family businesses relied on differentiation. Japanese family businesses concentrate on three main strategies to boost competitive advantages, including products/ services that represent traditional uniqueness and maintaining the highest quality in materials and workmanship. It seems that uncompromising quality and uniqueness have been emphasized from the original founder in the first generation and passed on from generation to generation. For example, Japanese F&B businesses continue to use the highest quality ingredients and strive to develop unique features that set their products apart and allow them to charge premium prices.

Leadership and team management

Enhancing human capital is essential for competitive business advantages and Japanese family businesses have focused on this by providing training, hiring younger employees and local people, and securing employee welfare. The companies in the F&B, and confectionary industries in this study adopted a policy of hiring local people, which helped maintaining strong relationships with local communities. Having family members as managers helped to speed up decision-making and some companies mentioned that one key factor which facilitated the passing on of the business to the next generation was that senior staff coached the successor in learning the policies and values of the organization. Businesses where there was not a son in that generation sometimes adopted sons-in-law to run the business, and often found that bringing in new talent produced innovation and new ideas to run the business better and ensure the preservation of family ownership.

Engaging the local community

Building a connection with the local community is another focus of family businesses. This is not only about creating an environmentally friendly workplace, but also presenting the firm as a responsible and active member of society in the local community. The local community is a likely source of current and future customers for the businesses and acting in a socially responsible way allows family businesses to strengthen their competitive advantage. Most family businesses in Japan believe that the community will help them if their business is in crisis, and they attempt to cement good relations by hiring local people and developing long-term CSR programs that benefit their local community. Some family businesses in the F&B and service industries in this study have built schools for the local community or joined the Chamber of Commerce. In addition, some companies in the handicraft and service industries in this study have built museums or kept the original office to foster local identity and increase customer experiences.

Strategic management implementation

Family businesses have had to change their strategies to adapt to changing environment in order to survive and pass their business on to the next generation. For example, a market development strategy was used by family businesses in F&B, handicraft, confectionary, pharmaceutical and manufacturing firms. They focused not only on Japanese customers but on worldwide markets. Some generational firms in service and pharmaceutical industries have implemented a mergers and acquisition strategy to expand the business line or penetrate new markets. Furthermore, the expansion of their products or services to local and/or international markets, through both offline and online channels, was designed to reach more target customers and gain competitiveness in marketing. Most companies have also adopted a diversification strategy as customer lifestyles have changed.

The factors that were identified as affecting successful business succession included innovation, competitive advantage, leadership and team management, and local community involvement. Innovation is naturally related to human resources (top-operating levels) as developing new ideas for products and services as well as business processes are essential for growth. Novel creative approaches move businesses forward, particularly in the areas of sustainable growth and profitability. A company's competitive advantage is built on differentiation of products and services and reasonable pricing related to target customers. It also relies on the effectiveness of business processes, resulting in cost reduction, which increase profits. Enlightened leadership and team management encourage innovation that promotes competitive advantages in the workplace. Furthermore, good leadership and team management benefit the local economy and all stakeholders. By integrating both macro and micro-environmental factors, a strategic management plan can be developed, but the success of the business depends on the implementation of all activities in the strategic management plan.

In summary, a combination of all these factors helps Japanese family businesses to achieve their objectives in business survival, qualified performance and continuity. Optimum business environments have to include innovation (how to improve products or services), competitive advantage (efficiency and effectiveness of business processes), leadership and team management (professional practices of both nonfamily and family human resources) and engaging the local community (connecting business to community). This results in strategic management implementation and ensures that the business will remain in the family for many more generations as a sustainable operation (Figure 3).

This study proposed certain factors that differed from previous studies, such as the sample size, increasing the success factors to four elements, including innovation, competitive advantage, leadership and team management, and engaging the local community. Unlike some previous studies which focused on certain success factors, for example, solely studying management control in family business, the intention of this study was to extend the key success factors in this model and apply them in a variety of contexts, not only in Japanese family businesses.

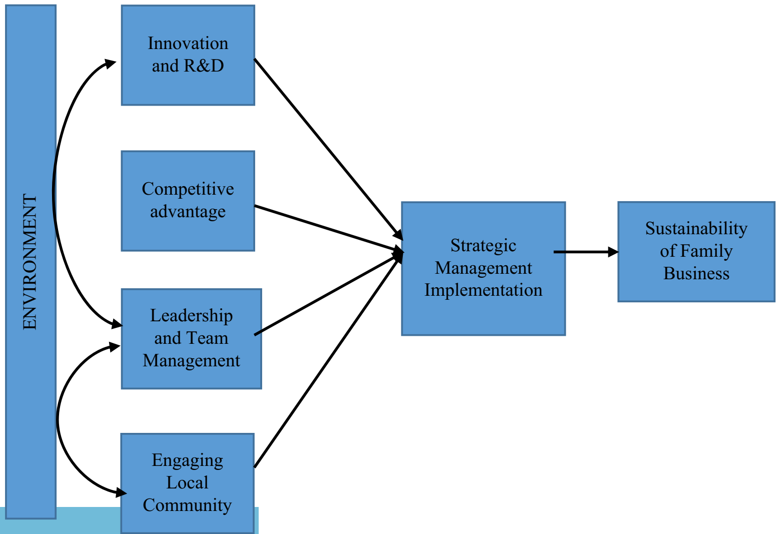

Figure 3. Identification of success factors for sustainability in family businesses

To sum up, this study differs from previous studies as shown in Table II.

To sum up the results, this study focused on factors responsible for the sustainability of Japanese family businesses. The subjects in this study included 15 family businesses in the F&B, confectionary, services, handicraft, pharmaceutical and manufacturing sectors (Table III). The results showed that Japanese family businesses focused on leading the business sustainably, tried to gain competitive advantage through cost leadership, quality and brand differentiation, drove business changes by innovation, managed human resources well and engaged with local community leaders.

Discussion

Preserving the succession of successful Japanese family businesses is highly important because they constitute a major part of the Japanese economy. Prediction models for the Japanese economy out to 2027 show family-run firms suffering even more from a lack of successors. A loss of viability in these SMEs could spell disaster for the whole economy and probably ruin the labor market as in the next six years, roughly 6.5m jobs will have been lost, and growth of the GDP of Japan – about ¥22 trillion or $197.47 bn (Botha, 2018) will be stifled. The facts show that continued business succession substantially benefits local employment through hiring of local skilled laborers, payment of higher wages and provision of liberal benefits.

In this study, Japanese family businesses were seen to be successful in passing on their business to the next generation through application of strategic management decisions to adapt to a changing corporate environment. They focused on innovation, improving competitive advantage, wise leadership and team management, and reaching out to the local community. The rapidly changing and complex business environment has pushed family-run companies even harder to come up with innovations through R&D in order to remain successful and competitive while still preserving their traditional hand-made quality. Evidence from Gedajlovic and Carney (2012) clearly showed that innovation drives growth in family businesses, particularly SME family businesses. (Gedajlovic and Carney, 2012). The marketing of unique products and services is what sets these family businesses apart from conventional firms and they must strive to maintain that differentiation through renewed creativity (Dawson and Hjorth, 2012). Chrisman and Patel (2012) also found that family businesses were naturally oriented toward long-term investment especially in their R&D programs. However, it is still important for family businesses to remain agile and responsive to their competitors

Previous studies	The focus of this study
Family involvement in ownership and management (Sciascia and Mazzola, 2008)	Factors of sustainability in Japanese family businesses
A sampling of ten European family businesses in engineering, real estate, construction, manufacturing, retail, logistics (Makó *et al.*, 2016)	A sampling of 15 family businesses in Japan in the food and beverage; confectionary, services, handicraft, pharmaceutical, and manufacturing industries
Corporate governance is needed in family businesses for sustainability and to reduce emotional conflicts (Yukselen and Yildiz, 2014)	Japanese family businesses focus on sustainability to gain competitive advantage through brand differentiation cost reduction, innovation, increasing human capital and engage with the local community
Succession in Japanese family businesses: (1) must be planned from the successors' early childhood; (2) fathers must know when to retire; (3) successors may be sought outside the family, and (4) family traditions are to be preserved along with the company's mission (Chua, 1991)	Key factors linked to achieving continued succession are innovation, competitive advantage, strategic leadership and team management, and liaisons with local community leaders

Table II.
Comparison between this study and previous reports

Table III. Summary of sustainability factors from interviews of family business members

Case study	Business	Environment	Strategic management implementation	Innovation and R&D	Competitive advantage (uniqueness and differentiation)	Leadership and team management	Community and others
1.	Confectionaries	Customer preferences and lifestyle Technology	Market development (domestic and overseas) Channeling enhancement and diversification	Cost reduction Logistics	Traditional taste and quality	Training and service	Community One family member per generation (may have adopted son for succession)
2.	Handicraft	Changes in customer preferences	Market development (domestic and overseas) Retail	Special techniques and know-how	Quality	Hire new designers Never lay off employees during economic crises Extend retirement age	Community CEM
3.	Pharmaceutical	Customer behavior Changes in laws and regulations	Change business model from traditional (use first, pay later) to online channels and convenience stores Strategic alliances Market development (domestic and overseas)	New product development R&D (focusing on treatment change to prevention: anti- aging)	Product differentiation	Training HR recruitment with some international experience	Community
4.	Pharmaceutical	Customer behavior Changes in laws and regulations Technology	New product development (supplements) Diversification Market development Growth strategies Mergers and acquisition	R&D Logistics Technology and computerization in warehousing and inventory management	Product uniqueness	Seniority	Community
5.	Food	Customer behavior	Market development (domestics and overseas); from local to Japan, and from Japan to the world	Continuous improvement	Hand-made ingredients	Motivation for local people	Community CEM Father-to-son

(continued)

Case study	Business	Environment	Strategic management implementation	Innovation and R&D	Competitive advantage (uniqueness and differentiation)	Leadership and team management	Community and others
6.	Service	Customer behavior	Business development to restaurants Diversification Growth strategy Mergers and acquisitions	Cost reduction	Oriented toward local community	Training	Community
7.	Confectionaries	Economic crises Customer behavior	Online channels Product variety Growth strategies Market development	R&D Cost reduction	Oriented toward local community Product quality	Treat all employees as family members	Community
8.	Food	Customer behavior	Product development Growth strategies Cost leadership Online and retail channels	Cost reduction R&D New production technology Enhanced productivity	Technology Quality	Seniority	Community CEM
9.	Beverage	Customer behavior and lifestyle	Product development Market development (expansion to overseas) Online channels Diversification	R&D	Ingredients Quality Uniqueness	Motivation for younger generation	Community CEM
10.	Service	Economic crises Competitors Customer behavior and lifestyle	Online channels	Technology: renovation and service	Traditional	Seniority	Family constitution
11.	Manufacturing	Product preferences	Product development Market development	R&D	Product quality	Training Family	

(*continued*)

Table III.

Table III.

Case study	Business	Environment	Strategic management implementation	Innovation and R&D	Competitive advantage (uniqueness and differentiation)	Leadership and team management	Community and others
12.	Food	Customer behavior and lifestyle	Market development Diversification Growth strategies	Logistics Low cost production Process improvement	Product quality Brand	New inputs from son-in- law as successor	Community
13.	Beverage	Customer behavior and lifestyle	Business model Market development Online channels	Cost reduction New production technology Offshoring	Quality	One family per generation	Community
14.	Manufacturing	Customer behavior and lifestyle	Branding Market development Market penetration	R&D Logistics New technology in warehousing and inventory management	Quality	Seniority Coaching the next generation	Community
15.	Food	Customer behavior and lifestyle	Product development Market development	R&D Continuous improvement Lean management	Uniqueness	Seniority Young blood, new ideas	Community

in order to respond quickly to changing and uncertain markets (Zahra, 2005; Wang and Poutziouris, 2010).

Second, developing realistic strategies to gain competitive advantage was key to targeting new consumers and markets. Family businesses have been quite successful in differentiating their products and services from those of competitors in order to gain market share (Douglas, *et al.*, 2010). Businesses have to invest in main competitive differentiation to be able to confront growing competition: price wars, new players and changes in technology. Differentiation is used by family businesses in either the services or production sector, as found in the study by Dawson and Hjorth (2012). The key initiatives driving a firm's revenues and growth were competitive advantage and business transformation. Porter (1985) described competitive advantage strategies as a way to efficiently reduce competition (lower cost) or create higher value with a premium price (differentiation). In this study, specifically, older and larger family businesses focusing on innovation and networking were more likely to reach a sustainable international market position.

Third, family owners sustain their businesses by investing in human capital with strong leadership, and an emphasis on seniority, human resources and team management (Dawson, 2012). Family businesses face more complexity in HR management compared to nonfamily businesses because the integration of family values and emotions may conflict with the needs of business governance (Gudmunson and Danes, 2013). Effective handling of human resource issues requires knowledge, skills and abilities but also an understanding of individual attitudes and motivation among family and nonfamily employees. In order to achieve family business goals and sustain human capital, the resources depend on a static or dynamic external environment and investing in human capital can give them a competitive advantage (Dawson, 2012). Leaders in family businesses often implement more formal, professional HR practices in order to level up company goals and international trust (Steijvers *et al.*, 2017; De Kok *et al.*, 2006). The family firm's status and profitability are positively related to employee retention and exceptional performance (Pittino *et al.*, 2016).

Fourth, good relationships with the local community are another key factor in family business success. Providing services to the community is a common practice for family businesses, although the number of SME family businesses (with 500 or fewer employees) significantly involved in the community is less than for large firms (501 to 5,000 or more employees). Family businesses in Japan, France and South Korea were significantly focused on financial return in supporting the community (EY, 2016).

On average, Japanese family businesses have been operating for more than 52 years (Schwartz and Bergfeld, 2017) with the company ownership being passed in succession from one family member to the next (Chua, 1991). The preferred mode of transfer is from father to son (Kamei and Dana, 2012), but conflicts can lead to the successor being a son-in-law or other non-direct family member (Brenes *et al.*, 2006). This study came to certain conclusions that differed from previous studies (Hamilton, 2011; Oro and Lavardar, 2017). Unlike some previous studies that only considered management of the family-owned company, this study focused on four elements: innovation, competitive advantage, leadership and team management, and engaging the local community, Thus, extending the key success factors produced a model that applies in a variety of contexts, not just to Japanese family businesses. SME owners and managers elsewhere should be able to apply the data from this study in their own business world.

Conclusions and recommendations

Family-owned and -operated businesses comprise the foundation of the Japanese economy and their success or failure is of great importance to business and government leaders. From this study, a number of factors were identified that underlie the success and sustainability of Japanese family businesses. One of the most crucial is strategic management implementation in order to adapt to a changing market environment. Maintaining competitiveness is also of paramount importance and family CEOs must develop effective strategies to increase demand by differentiating their product or service from that of their competitors. Driving business change through innovation, managing human resources and establishing meaningful connections with the local community are also highly desirable. Lastly, developing and implementing a viable successor plan ensures that the family business will continue to exist as a private entity.

These findings explained the key success factors to operate and continue a sustainable family business, specifically in the Japanese context. There are both successful and unsuccessful cases from which much can be learned. The management styles resulted from local cultures and family traditions, so when adapting these study findings each company should consider its individual business environment in achieving family business success.

Startups and new family businesses in other countries can learn how to run a company successfully based on the Japanese model by applying the keys to success including innovation, competitive advantage, leadership and team management, and the local community. Those key success factors not only benefit the company itself but also help increase a country's advantages by attracting foreign entrepreneurs to invest or partner with those family businesses. In some circumstances, it is advantageous for the government and the private sector (commercial banks) to support family businesses with both expertise and financial aid in order to strengthen the business and make it more of an economic powerhouse.

Limitations

The authors attempted to include as many sectors as possible in the study; however, family businesses in the high technology sector, which is a well-established industry in Japan, were not a part of this study because of obstacles such as intellectual property secrecy. As this was a cross-sectional study, the model could be run as a longitudinal study, which might produce other interesting results. Lastly, this study focused on Japanese family businesses, which may limit the transferability of the results to other countries, especially with different cultural settings.

Further research

This study emphasized the qualitative method, providing an in-depth understanding of the success factors for sustainability in family business and effective family business succession. Regarding the directions for other researchers in related areas, further study could include financial indicators that would represent both qualitative and quantitative approaches. A comparison between family businesses in Japan and other countries could be done to identify the key success factors in a different location and with different business strategies. Focusing the study on one particular industry, such as F&B, might provide a more in-depth understanding of the problems and solutions and result in more specific guidelines and recommendations for the business community.

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Further reading

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Appendix. Interview questions

(1) How many years has your company been established, and for how many generations has this family business existed?

(2) What is the turning point of the business history?

(3) What is your corporate strategy/vision?

(4) What is your company's competitive advantage?

(5) What is the decision point for long-term investment or initial investment?

(6) Have you ever faced any crises?

(7) How did you overcome them?

(8) In what ways are innovation and R and D important to your company?

(9) What do you think about the strengths of your family business regarding innovation and R and D?

(10) What kind of contribution does your businesses make to the local community?

(11) How does the local community and CSR affect your business?

(12) Could you tell me about your career and memories of your childhood?

(13) Have your parents given you advice?

(14) How will you pass on the business to the next generation?

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