2004
White Paper on Small and Medium Enterprises in Japan
The Limitless Potential of the Diversity of Small and Medium Enterprises
Foreword

Business conditions among small and medium enterprises (SMEs) entered an expansionary phase in 2003 on the back of buoyant private-sector capital investment. Compared with large enterprises, however, the recovery at SMEs continues to lag, and the speed and extent of the recovery also varies according to enterprises' size and industry. Japan's SMEs thus continue to face a severe business climate.

However, despite these difficult economic conditions, SMEs have a leading role to play in the regeneration of the Japanese economy through their varied contribution in areas such as the creation of new business, provision of employment opportunities for women and the elderly, and engagement in community-based business activities.

The Japan Small Business Research Institute (JSBRI) is a specialist think tank under the aegis of the Small and Medium Enterprise Agency of the Ministry of Economy, Trade and Industry that undertakes activities such as research and surveys on SMEs and the provision of support to organizations assisting the development of SMEs at the local level. Because of the importance of fostering international exchange among SMEs, the JSBRI also focuses on activities such as information sharing and personnel exchanges with related organizations in other countries.

This publication is a complete translation, made by the JSBRI with the approval of the SME Agency, of the Agency's annual report on recent trends among SMEs in Japan entitled The 2004 White Paper on Small and Medium Enterprises in Japan: The Limitless Potential of the Diversity of Small and Medium Enterprises.

I hope that this publication will help to improve understanding of the conditions facing Japan's SMEs among researchers and others involved with SMEs overseas who have an interest in SME policies and trends in Japan, and that it also makes its own modest contribution to the development of SMEs around the world.

Nobutaka Kengaku
Chairman
Japan Small Business Research Institute
White Paper on Small and Medium Enterprises in Japan
2004

The Limitless Potential of the Diversity of Small and Medium Enterprises

Edited by the SME Agency
On Publication of the 2004 White Paper on Small and Medium Enterprises in Japan

While there were signs in fiscal 2003, particularly among large enterprises, that the Japanese economy had begun to enjoy a recovery underpinned by exports and capital investment, the pace of recovery appeared to lag among small and medium enterprises (SMEs) in certain industries. Employment conditions also remained as severe as ever, despite an improvement in the unemployment rate to below 5% for the first time since December 2003, and, although the worst seems to be over and the financial environment facing SMEs is settling down, the effects on SMEs of shocks such as the failures of financial institutions make it still too early for optimism.

In order to ensure that amid these conditions this nascent recovery stays firmly on course, the revitalization of SMEs is essential, for it is these enterprises that hold the key to the revival of the economy.

To this end, the Ministry of Economy, Trade and Industry (METI) is committed to taking all necessary steps to support the development of motivated and capable SMEs based on measures in three key areas: financial measures (such as the safety-net loan and guarantee programs and securitization support), support for the recovery of SMEs centered around SME revitalization support councils, and support measures for SMEs entering new fields of business.

This year’s white paper reaffirms the potential of SMEs to act as the driving force for the change and development of the Japanese economy and society, and describes how a diversity of SMEs are working to create new services and products, and in turn new lifestyles and modes of employment for the economy and society. It also analyzes the necessary conditions for successful expansion overseas by SMEs and smooth generational changes in management, and explores ways of developing an economy and society that facilitates comebacks and withdrawals by SME entrepreneurs.

I hope that this white paper will be of use to SME entrepreneurs and others involved with SMEs, and further increases understanding of SMEs among the general public, and my sincere thanks go to the SME entrepreneurs and everyone else whose valuable assistance contributed to its preparation.

Shoichi Nakagawa
Minister of Economy, Trade and Industry
May 2004
Contents

Part I — Business trends among small and medium enterprises in fiscal 2003

Chapter 1 Business trends among small and medium enterprises ..............................................3
  Section 1 Trends in the recovery of the Japanese economy ................................................3
  Section 2 Distinguishing features of the present recovery .................................................6
  Section 3 Trends among SMEs by industry .................................................................11
  Section 4 Trends in capital investment among SMEs .................................................24
  Section 5 Employment conditions among SMEs .......................................................29
  Section 6 Financial environment of SMEs ..............................................................33
  Section 7 SME bankruptcy trends .................................................................37

Chapter 2 Regional trends among SMEs .................................................................................39
  Section 1 Trends among SMEs in Hokkaido .................................................................41
  Section 2 Trends among SMEs in the Tohoku region ...................................................43
  Section 3 Trends among SMEs in the Kanto region .....................................................45
  Section 4 Trends among SMEs in the Chubu region ....................................................47
  Section 5 Trends among SMEs in the Kinki region ......................................................50
  Section 6 Trends among SMEs in the Chugoku region ................................................52
  Section 7 Trends among SMEs in the Shikoku region ................................................55
  Section 8 Trends among SMEs in Kyushu/Okinawa ...................................................56
Part II — The Limitless Potential of the Diversity of Small and Medium Enterprises

Chapter 1 SMEs as the seeds for the development and diversification of the economy and society .........................................................................................................62
Section 1 Diverse activities of SMEs and development of the economy and society ........................................................................................................62
Section 2 Diversification of lifestyles through the creation of new services by SMEs ......................................................................................................64
Section 3 Technical innovation by SMEs .................................................................................................................................76
Section 4 Creation of more diverse lifestyles by SMEs through provision of more flexible work arrangements ..........................................................91
Section 5 Community businesses creating services and employment suited to local conditions ........................................................................108
Section 6 Shopping centers that give visitors pleasure ..............................................................................................................125

Chapter 2 Globalization and SMEs ...................................................................................134
Section 1 Trends in establishment and elimination of overseas operations by SMEs .................................................................................................134
Section 2 Characteristics and factors behind the success of SMEs engaging in FDI ........................................................................................................141
Section 3 Relationship with business in Japan ..........................................................................................................................163

Chapter 3 Problems concerning business successions and exits among SMEs ..........175
Section 1 Aging of proprietors ...................................................................................175
Section 2 Actual state of changes of proprietors at SMEs .....................................................................................................................180
Section 3 Preparations for handover to successor and enterprise growth ..........191
Section 4 Methods of trouble-free withdrawal ..........................................................206

Chapter 4 Financing diversity ..........................................................................................229
Section 1 Features of small business finance ..............................................................................................................................229
Section 2 Avenues of business finance for revitalization ........................................241
Section 3 Features of SMEs using the receivable-backed loan guarantee program .............................................................................................263

Final chapter: New partnerships with a diverse range of partners
 Further increasing the potential of SMEs as sources of diversity ..........268

SME policies planned for fiscal 2004
Appended Notes
Bibliography
Supplementary statistical data
Index of figures
Introductory notes

1. Under the Small and Medium Enterprise Basic Law, the term “small and medium enterprise” (SME) refers in general to enterprises with capital of not in excess of ¥300 million or 300 or fewer regular employees, and sole proprietorships with 300 or fewer employees. However, SMEs in the wholesale industry are defined as enterprises with capital not in excess of ¥100 million or 100 or fewer employees, SMEs in the retail industry are defined as enterprises with capital not in excess of ¥50 million or 50 or fewer employees, and SMEs in the service industry are defined as enterprises with capital not in excess of ¥50 million or 100 or fewer employees.

“Small enterprises” are defined as enterprises with 20 or fewer employees. In the commercial and service industries, however, they are defined as enterprises with five or fewer employees.

In keeping with the terminology used in the Small and Medium Enterprise Basic Law, the term “employee” (jugyoin) is generally used in this report. Where the term “worker” (jugyosha) is used in some statistics, however, this term is used instead.

2. Business establishments are sometimes regarded as enterprises for the purposes of analyses in this report that make use of statistics based on the number of business establishments. In such cases, SMEs are business establishments that satisfy the above conditions regarding number of employees. In some cases, therefore, the business establishments of large enterprises may be treated as SMEs.

3. This report draws largely on statistical data published by the Japanese Government and Bank of Japan (BOJ). However, use is also made of analyses based on these data and studies conducted by various entities in the private sector. Sources, methods of calculation and other relevant information are specified where data are cited. However, the main sources cited in this report are described briefly below. (Unless otherwise noted below or in the main text, the unit of measurement used in statistical data is the enterprise.)

(1) METI, Census of Manufactures
This survey provides statistics on numbers of business establishments. Surveys conducted in years ending in 0, 3, 5 and 8 are of the total number of business establishments, and surveys in other years are of business establishments and similar entities with at least four workers. Analyses based on these statistics are therefore only of business establishments with four or more workers.

In this report, the data on business establishments in each year are concatenated for analysis. It is important to remember, however, that if a business establishment has three workers one year and four the next, it is treated as a new entry in that year. (Conversely, a business establishment that goes from having four workers to three will be treated as having exited.)

(2) METI, Census of Commerce
This survey provides statistics on numbers of business establishments.

(3) METI, Basic Survey of Japanese Business Structure and Activities
As this survey only covers enterprises with 50 or more workers and capital of at least ¥30 million, the results do not cover small enterprises and sole proprietorships.

(4) METI/SME Agency, Basic Survey of Commercial and Manufacturing Structure and Activity
This survey covers enterprises with less than 50 workers and capital of under ¥30 million. Data on enterprises with 50 or more workers and capital of at least ¥30 million covered by METI’s Basic Survey of Japanese Business Structure and Activities are used treating them as though they were covered by the Basic Survey of Commercial and Manufacturing Structure and Activity.

As these statistics do not include sole proprietorships, they do not reveal overall trends among small enterprises. Because of the sample sizes and response rates, moreover, the results concerning small corporations need to be viewed with some latitude. It must also be remembered that the quarterly version does not include corporations with capital of less than ¥10 million.
(6) Ministry of Public Management, Home Affairs, Posts and Telecommunications, Establishment and Enterprise Census of Japan

This census contains statistics on both business establishments and enterprises. In this report, analyses based on enterprises using these statistics also include sole proprietors (sole proprietorships). However, as statistics on sole proprietorships cannot be compiled by the *nayose* method of aggregating all returns from those establishments that belong to the same company, the size of a sole proprietorship is determined based on the number of workers at its head office or principal place of business. A manufacturing sole proprietorship with 100 workers at its head office and 300 workers at branch offices would therefore be treated as an SME.

4. This report includes analyses of the results of questionnaire surveys of SMEs and other entities conducted by the SME Agency. However, as not all enterprises surveyed responded and the response rate appears to be higher the healthier a company is, the results probably paint a better picture than the reality. In addition, totals cited based on the results of these surveys do not always sum to 100% due to rounding to the first decimal place.

5. There are two problems with trying to determine the general situation in the SME sector using only mean values from statistical data on SMEs. These are as follows:

   (1) Unlike large enterprises, SMEs exhibit considerable variation. Mean values are not therefore always representative of the typical SME.

   (2) Statistical data on SMEs may not be distributed symmetrically around the mean, but instead skewed leftwards. In this report, therefore, median, top 25th percentile (first quartile) and bottom 25th percentile (third quartile) as well as mean values are used where necessary to provide a better picture of the typical SME.

6. The universities and institutes of the researchers whose findings (both on Japan and overseas) are cited in this report are those to which the researchers belonged when the results were published.

7. The word “significant” is used in this report to denote a figure considered to be sufficiently meaningful using statistical techniques. The smaller the percentage, the greater the degree of certainty.
PART I

BUSINESS TRENDS AMONG SMALL AND MEDIUM ENTERPRISES IN FISCAL 2003
Chapter 1  Business trends among small and medium enterprises

Despite signs of an improvement centered in manufacturing, business trends among small and medium enterprises (SMEs) remain depressed, and the recovery in business conditions is sluggish. The recovery this cycle, tentatively determined to have troughed in January 2002, has been sustained by the strength of the U.S. economy and growth in exports to China driven by strong growth in domestic demand there, and growth in capital investment in response to the recovery in corporate earnings and progress in capital stock adjustment, exceeding the short-lived previous recovery from January 1999 to October 2000. There has been some variation in the extent of the recovery in business performance between enterprises, industries and regions, however, and statistics on business confidence suggest that many industries have failed to reach the peak achieved during the previous recovery phase.

In this chapter, we provide a broad overview of recent trends in the Japanese economy, and analyze trends in business conditions, production, shipments, capital investment and employment among SMEs in fiscal 2003.

Section 1  Trends in the recovery of the Japanese economy


We begin by looking at trends in the key economic indicators for Japan. Fig. 1-1-1(1) shows the contribution to real GDP of each component of final demand. The Japanese economy peaked in the fourth quarter of 2000 before going into recession and registering four consecutive quarters of negative growth, and was tentatively determined to have hit a trough in the first quarter of 2002. It then began to grow again from the second quarter, entering the present phase of expansion driven by exports and private-sector demand. Private-sector demand, which during the downturn had contributed negatively to GDP growth, temporarily dipped in the latter half of 2002, but thereafter registered positive growth. An examination of the contribution of private-sector demand by component (Fig. 1-1-1(2)) shows that whereas growth in private-sector final consumption expenditure has remained low, private-sector capital investment has grown strongly, fueling the recovery.
2. Business conditions among SMEs

We look next at the business conditions diffusion index (DI) for large enterprises, middle-tier enterprises and SMEs according to the Bank of Japan’s (BOJ) Short-Term Economic Survey of Enterprises in Japan (Tankan) and the Small and Medium Enterprise Agency (SME Agency) and Japan Small and Medium Enterprise Corporation’s (JASMEC) Survey on SME Business Conditions (Fig. 1-1-2). While the business conditions DI for large enterprises remained at a standstill from the latter half of 2002 to the start of 2003, it subsequently steadily improved, and by the end of 2003 the DI for all industries had become positive. The business conditions DI for SMEs, on the other hand, hit bottom in the first quarter of 2002 after declining in 2001, and in the second quarter of 2002 began to rise again. It subsequently leveled off until the first quarter of 2003, and not until the second quarter of 2003 did it began to register a moderate recovery. Despite this, the DI for all industries remains negative, and the speed of the recovery is lagging in comparison with large enterprises, whose DI has become positive.

Looking next at trends by industry, we find that the recovery in business conditions is advancing in manufacturing, and that conditions among SMEs as well as large enterprises have exceeded the peak at the time of the previous recovery. Among SMEs in non-manufacturing industries (apart from in the wholesale industry where conditions are improving), however, the DI remains almost level in retailing and services, and still below the peak reached during the previous recovery. In services, moreover, whereas the business conditions DI for large enterprises is presently rising, the DI for SMEs is level, showing that the lag in the recovery in the SME sector is increasing.

Fig. 1-1-1 Contribution by component to real GDP (private-sector demand)

(2) Strong growth in private-sector capital investment

(% change on previous quarter)

Source: Cabinet Office, National Accounts Statistics.
Fig. 1-1-2 Trends in business conditions DI
Improvement in business conditions DI in manufacturing and wholesaling

Sources: BOJ, Short-Term Economic Survey of Enterprises in Japan (large and middle-tier enterprises); SME Agency and JASMEC, Survey on SME Business Conditions (SMEs).
Notes: “Favorable” minus “unfavorable” for large and middle-tier enterprises.
“Favorable this quarter” minus “unfavorable this quarter” for SMEs.
Section 2  Distinguishing features of the present recovery

1.  Comparison with past recoveries

(1)  Level of business conditions
It was shown in the preceding section how the recovery in business conditions among SMEs is lagging compared with large enterprises. Some might argue that this is always the case during recovery phases, and constitutes nothing new. Fig. 1-1-3 shows the gap in the business conditions DI between large enterprises and SMEs according to the BOJ’s Tankan. From this, it can be seen that the gap during the present recovery is around 20~25%. If we perform a factor analysis of the gap due to the size of the proportion of enterprises that responded “favorable” and the gap due to the size of the proportion of enterprises that responded “unfavorable” in order to determine the factors underlying this gap, we find that the present recovery is distinguished by the fact that the proportion of SMEs that responded “unfavorable” is some 15~20% higher than among large enterprises.

(2)  Change in engine of growth
Fig. 1-1-4 shows a comparison of the contributions of each component of final demand to real GDP from the trough to the peak of past recoveries. During the expansion phase in the 1980s and early 1990s, large contributions were made by private-sector final consumption expenditure and private-sector capital investment, which drove the recovery from two directions. The present recovery, on the other hand, has been characterized by the large positive contribution of net exports and the negative contribution of public fixed capital formation, while private-sector final consumption expenditure, though just about having a positive effect, has not acted as the engine of growth as it has in the past. During the present recovery, then, growth in net exports and private-sector capital investment has been relatively large, while public demand (particularly public investment) has slumped and private-sector final consumption expenditure has tailed off. Next, therefore, we examine the different impacts of these components of final demand on the domestic production of SMEs and large enterprises. Fig. 1-1-5 shows the production inducement effect on large enterprises and SMEs according to Industry Statistics by Size. The production inducement effect expresses the level of production induced in an industry when a given component of final demand increases by one unit. From this it can be seen that while increases in exports and private-sector fixed capital formation have a more positive effect on large enterprises than SMEs, SMEs are more susceptible than large enterprises to the effects of private-sector final consumption expenditure and public fixed capital.
Fig. 1-1-4  Contribution by component to real GDP
(from trough to peak of business cycle)

Components making large positive contributions to growth differ in each phase

(1) Gross domestic expenditure (1Q 1983~2Q 1985)

(2) Gross domestic product (3Q 1986~1Q 1991)

(3) Gross domestic product (4Q 1993~2Q 1997)

(1) Private-sector demand (1Q 1983~2Q 1985)

(2) Private-sector demand (3Q 1986~1Q 1991)

(3) Private-sector demand (4Q 1993~2Q 1997)
formation, putting them in a more difficult situation than large enterprises when these components of demand are static or in decline. A breakdown by industry reveals that while a recovery of the present kind works to the advantage of manufacturers capable of exporting manufacturing products, the benefits of this tend not to spread to the service sector.

2. Decline in retailing as proportion of consumption

The recovery among SMEs is thus lagging in comparison with large enterprises, and in order for there to be a full-fledged recovery in the SME sector, a recovery in retailing, which accounts for over 20% of SMEs and is closely related to private-sector consumption, is critical. As we have seen, private-sector final consumption expenditure is growing slightly, but its contribution to the GDP growth rate is small. Below, therefore, we trace the trends in consumption-related industries (i.e. retailing) and changes in structure of consumption expenditure.

Fig. 1-1-6 depicts changes over time in the value of sales...
of retailers according to the Ministry of Economy, Trade and Industry’s (METI) Survey of Commerce. This shows that, beginning their descent in April 2001, retailers’ sales declined compared with the same month a year earlier for 30 months running until September 2003. Examining the contribution by industry, we find that while hardly any industries made a positive contribution throughout the period from 2001 to 2002, the number of industries contributing to the decline has now fallen and automobile-related industries have lifted growth in the value of retailers’ sales to a positive level.

Breaking down the components of expenditure on the side of the consumer using the Ministry of Public Management, Home Affairs, Posts and Telecommunications’ (MPHPT) Family Income and Expenditure Survey, we find that spending on food...
occupies a still large but declining proportion of total consumption expenditure. Spending on clothing and footwear is likewise declining as a proportion of expenditures. On the other hand, fueled by the large increase in recent years in cellular phone charges, increasing sophistication of medical care and growing out-of-pocket medical expenses, the proportion of expenditures accounted for by transport and communications and by health and medical care is increasing, indicating that the structure of household expenditure is changing. This pattern of private-sector consumption makes growth less likely to feed through to growth in sales of small and medium retailers, providing another reason why small and medium retailers face difficulties (Fig. 1-1-7).

Fig. 1-1-7(1) Trend in proportion of consumption expenditure accounted for by 10 main components of consumption

Increasing proportion of consumption expenditure accounted for by health/medical care and transport/communications

Source: MPHPT, Family Income and Expenditure Survey (households of two or more persons excluding households in agriculture, forestry and fisheries).

Note: “Other consumption expenditures” consists of miscellaneous items such as cigarettes and hairdressing services, entertainment expenses and allowances, etc.

Fig. 1-1-7(2) Rate of growth in consumption expenditure and breakdown by component

Conspicuous growth in proportion of expenditure accounted for by communications expenses

Source: MPHPT, Family Income and Expenditure Survey (households of two or more persons, excluding households in agriculture, forestry and fisheries).

Notes: 1. Rate of growth in consumption expenditure indicates the change compared with the previous year or same month of the previous year.
2. Components of consumption expenditure other than the above are omitted.
Section 3  Trends among SMEs by industry

1. Trends in indices of industry activity by industry

Fig. 1-1-8 shows the contribution of the activity index by industry to the rate of growth in the indices of all industry activity. The indices of industrial production slumped sharply from 2001 following the collapse of the IT bubble to the first half of 2002, making a large negative contribution to the indices of all industry activity. Subsequently, however, it began to follow an upward trend driven by production of electronic components and devices and transport equipment, and began to make a positive contribution from the latter half of 2002. The index of tertiary industry activity contributed negatively to growth in 2002, but positively from the start of 2003. By contrast, the index of construction industry activity has consistently contributed negatively since the second quarter of 2001, reflecting the impact of the squeeze on spending on large construction projects and public investment.

2. Trends among SMEs in manufacturing

(1) Production levels among small and medium manufacturers

The production index for manufacturers of all sizes headed up after hitting bottom in November 2001 and recovered to exceed the level just before the previous trough at the start of 2002. During the first half of 2003, it continued to seesaw, but again began to rise from September underpinned by capital investment and exports. The production index for small and medium manufacturers turned upward at the start of 2002, but continued to seesaw around the 90.0 mark into 2003 without exceeding the level prior to the previous trough in the business cycle (93.1 in December 1998). Despite an upturn to over 4% in September, the average for the year was 91.3, an increase from the previous year of just 0.8% (Fig. 1-1-9). The inventory ratio for manufacturers of all sizes and for small and medium manufacturers

Fig. 1-1-8 Year-on-year change in indices of all industry activity and contributions thereto

Recovery in industrial production and tertiary industry drive recovery


Notes: 1. The index of construction industry activity is produced by METI based on data published by the Ministry of Land, Infrastructure and Transport.
2. The index of agricultural, forestry and fisheries production is excluded as only annual data are available. The contribution of the index of public administration etc. activity is also omitted.
steadily decreased from January 2002, and showed signs of bottoming out at the start of 2003. The average in 2003 fell to 98.0 for manufacturers of all sizes and 103.2 for small and medium manufacturers (Fig. 1-1-10).

An examination of trends in production and inventories among small and medium manufacturing in the key sectors of manufacturing since 2001 (Fig. 1-1-11) reveals not only high levels of production in the non-ferrous metals and transportation equipment industries, which registered strong growth in both domestic shipments and exports, but also a recovery to around the level in 2000 in the iron/steel, general machinery, information/communications equipment, electronic components and chemical industries. Furthermore, accumulation of inventory with the increase in production occurred only in the information/communications equipment industry, and there was hardly any accumulation, despite production increases, in other industries, reflecting enterprises’ cautious stance concerning the economic outlook.

As we have seen, the present recovery has been due in large part to growth in capital investment and exports. Below, therefore, we examine trends in shipments by manufacturers of all sizes and small and medium enterprises.
Fig. 1-1-11 Production and inventory trends among SMEs by key sectors of manufacturing

Continued strong growth in transportation equipment and non-ferrous metals, recovery in iron/steel, general machinery and information/communications equipment, etc.
manufacturers by dividing them into exports and domestic shipments (Fig. 1-1-12). This reveals that, as at the time of the previous recovery phase, direct exports have grown sharply since 2002. A breakdown of exports by small and medium manufacturers according to industry shows that the growth was accounted for by manufacturers of products such as general machinery and metal products, electrical machinery and precision instruments, and transportation equipment (Fig. 1-1-13(1)). Most of the growth in domestic shipments was due to growth in shipments of electrical machinery and precision instruments (Fig. 1-1-13(2)).

Fig. 1-1-12  Shipment trends in manufacturing (change from a year earlier and contributions to growth)

(1) Manufacturing (all enterprises)
Recovery in exports feeds through to recovery in domestic shipments

(2) Manufacturing (SMEs)
Small recovery among small and medium manufacturers compared with size of decrease

Sources: Recompiled from METI, The Indices of Industrial Domestic Shipments and Exports, Census of Manufactures.
Notes: 1. Exports include only direct exports and not indirect exports.
2. Each index was determined by calculating the weighted average of the indices for shipments, domestic shipments and exports according to The Indices of Industrial Domestic Shipments and Exports using a weighting table calculated from the value of shipments by enterprise size in each of the four-digit categories in the 2000 Census of Manufacture.
(2) Export ratio

We look next at the size of the ripple effect on domestic production of exports in manufacturing according to Industry Statistics by Size in terms of the proportion of the value of domestic production accounted for by exports (i.e. the export ratio). What we find is that the export ratio is lower among SMEs (20.3%) than large enterprises (33.9%).

Exports consist both of “direct exports”, i.e. shipments that are exported directly, and “indirect exports”, i.e. products that are shipped domestically for assembly into products that are then exported. The proportion of the former is thought to be relatively lower at SMEs than large enterprises,1) and an examination of the level of direct exports as a proportion of the value of domestic production (i.e. the direct export ratio) shows that the direct export ratio in the case of small and medium manufacturers in 2000 was 9.1%, which is less than half that of large enterprises, which was 20.6% (Fig. 1-1-14). The proportion of the value of production consisting of indirect exports (i.e. the indirect export ratio),2) however, is 11.2% at SMEs, i.e. higher than the direct export ratio.

![Fig. 1-1-13 Shipment trends among SMEs by category (change from a year earlier and contributions to growth)](image-url)

<table>
<thead>
<tr>
<th>Year/quarter</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>II</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>III</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Year/quarter)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Recompiled from METI, The Indices of Industrial Shipments and Exports, Census of Manufactures.

Notes:

1. Exports include only direct exports and not indirect exports.
2. Each index was determined by calculating the weighted average of the indices for shipments, domestic shipments and exports according to The Indices of Industrial Shipments and Exports using a weighting table calculated from the value of shipments by enterprise size in each of the four-digit categories in the 2000 Census of Manufactures.
3. Electrical machinery = electrical machinery industry, information/communications equipment industry, electronic component/device industry.
Fig. 1-1-14 Trends in export ratios in manufacturing
Export ratios rising in manufacturing

Manufacturing (large enterprises)

(Year) | Direct exports | Indirect exports
00    | 20.6          | 13.7          |
95    | 17.4          | 13.1          |
90    | 16.9          | 12.2          |

Iron/steel (large enterprises)

(Year) | Direct exports | Indirect exports
00    | 8.4           | 1.8           |
95    | 8.4           | 1.9           |
90    | 7.2           | 1.4           |

Non-ferrous metals (large enterprises)

(Year) | Direct exports | Indirect exports
00    | 16.8          | 12.1          |
95    | 10.7          | 8.1           |
90    | 8.1           | 6.4           |

Metal products (large enterprises)

(Year) | Direct exports | Indirect exports
00    | 2.5           | 1.3           |
95    | 2.1           | 1.3           |
90    | 2.5           | 1.4           |

General machinery (large enterprises)

(Year) | Direct exports | Indirect exports
00    | 29.0          | 20.8          |
95    | 23.6          | 16.1          |
90    | 20.8          | 12.0          |

Electrical machinery (large enterprises)

(Year) | Direct exports | Indirect exports
00    | 30.0          | 21.4          |
95    | 28.0          | 18.9          |
90    | 25.6          | 16.6          |

Manufacturing (SMEs)

(Year) | Direct exports | Indirect exports
00    | 9.1           | 3.1           |
95    | 6.8           | 3.1           |
90    | 6.3           | 2.8           |

Iron/steel (SMEs)

(Year) | Direct exports | Indirect exports
00    | 6.7           | 3.0           |
95    | 5.2           | 2.6           |
90    | 4.6           | 2.1           |

Non-ferrous metals (SMEs)

(Year) | Direct exports | Indirect exports
00    | 13.3          | 6.9           |
95    | 7.7           | 3.8           |
90    | 5.4           | 2.5           |

Metal products (SMEs)

(Year) | Direct exports | Indirect exports
00    | 3.9           | 1.4           |
95    | 3.5           | 1.3           |
90    | 3.9           | 1.8           |

General machinery (SMEs)

(Year) | Direct exports | Indirect exports
00    | 24.5          | 16.4          |
95    | 20.2          | 12.8          |
90    | 16.1          | 10.4          |

Electrical machinery (SMEs)

(Year) | Direct exports | Indirect exports
00    | 24.0          | 16.6          |
95    | 19.2          | 11.8          |
90    | 15.7          | 10.4          |
If we take export-related industries such as the iron/steel, non-ferrous metal, electrical machinery, transportation equipment and general machinery industries (i.e. industries with a high export ratio), we discover that there is practically no difference in export ratio between large enterprises and SMEs, which contrasts sharply with the difference in export ratios between large enterprises and SMEs in manufacturing as a whole. It is this that gives rise to the variation in the recovery in business conditions between industries catering mainly to domestic demand, in which a large proportion of SMEs are to be found, and certain export-related industries, leading to the differences in recovery among SMEs.

(3) Business conditions among small and medium manufacturers

Looking next at trends in the business conditions DI for small and medium manufacturers according to industry using data from the SME Agency and JASMEC’s Survey on SME Business Conditions (Fig. 1-1-15), it can be seen that in most industries the size of the negative began to decrease after bottoming out in the fourth quarter of 2001, and the DI continued to improve until the fourth quarter of 2003. The improvement in business conditions has been particularly rapid among manufacturers in export-related industries, such as iron/steel and non-ferrous metals, general machinery, electrical machinery,
information/communications equipment, electronic components and transportation equipment. In the domestic-demand oriented industries of furniture and fixtures, printing, and ceramic, stone and clay products, however, the DI remains low, though the size of the negative is following a downward trend.

(4) Trends among small and medium subcontractors

Data from the SME Agency’s Survey of Short-Term Trends among Small and Medium Subcontractors and Manufacturing Production Indices by Size (Fig. 1-1-16) indicate that orders from parent enterprises received by small and medium subcontractors in manufacturing have, while showing signs of recovery as in the case of production among SMEs overall, remained below the previous year’s level, and the value per order received is also lower than last year. Conditions thus remain severe.

3. Trends among SMEs in non-manufacturing

(1) Construction

According to data on the business conditions DI for SMEs in construction from the SME Agency and JASMEC’s Survey on SME Business Conditions (Fig. 1-1-17(1)), the size of the negative in the DI is declining having bottomed out in the third quarter of 2001 in general work, work by trade and equipment work, but failed to recover to the level reached in 2000. The DI is particularly low in the case of general work, where it is still below -30.

This is because, despite the recovery in business conditions due in considerable part to the healthy growth in domestic and overseas demand and expansion of capital investment, the recovery in construction is lagging due to the decline in public works and sluggish growth in new housing starts. The situation remains
particularly severe among SMEs in construction compared with large enterprises and middle-tier enterprises. In order to better understand business conditions among SMEs in the construction industry, we divide SMEs below into those catering mainly to the private sector (under 30% public demand), those catering to both the private sector and the public sector (from 30% to under 70% public demand), and those catering mainly to the public sector (from 70% public demand) (Fig. 1-1-18).

What we find is that the larger the dependence on public demand, the greater the effect on the business conditions of small and medium construction enterprises of an increase or decrease in public investment, and that the recovery in business conditions within this segment lags during the next recovery phase. Among small and medium construction enterprises catering mainly to private sector demand, business conditions bottomed out in the third quarter of 2001 due to factors such as the comparatively small drop in new housing starts during the previous recession, and subsequently held steady before exhibiting a recovery from the third quarter of 2003 due to factors such as the full-fledged spread in capital investment and recovery in the number of new housing starts. In the case of small and medium construction enterprises catering to both the private and public sectors and primarily to the public sector, business conditions recovered slightly from the first half of 2002, but leveled off from the start of 2003. Conditions thus remain severe.

(2) Services
Examining next the business conditions DI for SMEs in the service sector according to the SME Agency and JASMEC’s Survey on SME Business Conditions (Fig. 1-1-17(1)), it becomes apparent that the DI in the food service, hotel, personal services, information/communications and advertising industries (excluding communications) grew increasingly negative even after 2002, when the negative DI in most manufacturing industries had begun to shrink, but began to shrink from the third quarter of 2003. The DI for business services also became increasingly negative in the second quarter of 2003, but shrank two months running from the third quarter. In the case of information/communications and advertising (excluding communications), the DI recovered to around -10, but remains low in other industries at below -20.

(3) Wholesaling
According to the SME Agency and JASMEC’s Survey on SME Business Conditions (Fig. 1-1-17(2)), the business conditions DI for SMEs in wholesaling became less negative in the textile, apparel, accessory, drugs, cosmetics and chemicals, mineral, metal and building materials, machinery and equipment and other wholesaling categories, but in only three industries did the DI exceed -20 in the fourth quarter of 2003, and overall the level was low.

In order to examine this further, below we look at business conditions among SMEs in wholesaling by proportion of exports and proportion of imports. Dividing first of all SMEs in wholesaling according to proportion of exports into those handling mainly goods for export (value of goods for export accounts for 50% or more of total) and those handling mainly goods for the
domestic market (value of goods for export accounts for less than 50%), we find that business conditions among small and medium wholesalers handling primarily export goods deteriorated substantially from the second quarter of 2000, and in the first quarter of 2001 fell below conditions among small and medium wholesalers handling primarily goods for the domestic market (until then in a slump). However, conditions recovered strongly from the second half of 2002, and the business conditions DI became positive in 2003. On the other hand, business conditions among small and medium wholesalers handling primarily goods for the domestic market bottomed out in the fourth quarter of 2001 in parallel with the recovery, and then gradually improved (Fig. 1-1-19).

Next we look at business conditions among small and medium wholesalers divided according to the proportion of imports that they handle, i.e. those that handle primarily imported goods (value of imported goods accounts for 50% or more of the total) and those handling primarily domestically-made goods (value of imported goods accounts for less than 50% of the total). We find that business conditions among SMEs handling primarily imported goods far exceeded the level among those handling primarily domestically-made goods, and the business conditions DI has been positive since the fourth quarter of 2002 (Fig. 1-1-20).

(4) Retailing
According to data from the SME Agency and JASMEC’s Survey on SME Business Conditions, the business conditions DI for SMEs in retailing continues to seesaw between -30 and -50 in all industries (Fig. 1-1-17(3)).
Breaking retailers down into chain affiliates and non-chain affiliates in order to examine the situation among SMEs in retailing, where business conditions remain severe, we discover that although there emerged signs of a slight improvement in business conditions among both chain and non-chain affiliates from the latter half of 2003, business conditions among chain-affiliated SMEs in retailing consistently exceeded those among non-chain-affiliated SMEs in retailing from 2000 onward, indicating that the latter continue to face difficult conditions (Fig. 1-1-21).

4. Trends among small enterprises according to industry

Looking next at the business conditions DI for SMEs broken down by size and industry (Fig. 1-1-22),
according to data from the SME Agency and JASMEC’s *Survey on SME Business Conditions*, business conditions among small enterprises in manufacturing are, as in the case of medium enterprises, improving, but remain poor and the recovery slow.

Business conditions among small enterprises in construction remained sluggish during 2002, but began to recover from the second half of 2003. Conditions among medium enterprises, on the other hand, remained unchanged while small enterprises were experiencing a recovery, reflecting the tardiness of the recovery in this segment.

Business conditions among both small and medium enterprises in wholesaling recovered in approximately similar manner.

In retailing, business conditions among small enterprises have remained severe at a time when those facing medium enterprises have been improving. Business conditions are worst among enterprises in non-manufacturing, where recovery is lagging.
In the case of small enterprises in the service industry, business conditions continued to worsen from the first quarter of 2001, and, though they at last began to improve from the latter half of 2003, they remain better only than in retailing and the recovery is lagging.

Source: SME Agency and JASMEC, Survey on SME Business Conditions.

Note: Medium: 21~300 workers (wholesaling and services: 6~100, retailing: 6~50)
Small: 20 or fewer workers (wholesaling, retailing and services: 5 or fewer)
Section 4 Trends in capital investment among SMEs

1. Trends in production/operating capacity DI

We begin by looking at trends in capital investment in Japan as a whole. Against the backdrop of increased demand for products such as general machinery, electrical machinery, information/communications equipment and transportation equipment, capital investment took an upward turn after bottoming out in the second quarter of 2002. Though lacking vigor, capital investment grew from the beginning of 2003 underpinned by exports and domestic demand for products such as digital home appliances (Fig. 1-1-23). Fig. 1-1-24 shows trends in the production/operating capacity DIs (“excessive” minus “insufficient”) in manufacturing and non-manufacturing by size of enterprise according to the BOJ’s Tankan.

An examination of trends in the production/operating capacity DIs in manufacturing (Fig. 1-1-24(2)) reveals that the DIs for large enterprises, middle-tier enterprises and SMEs alike have moved largely in parallel with business trends, and have followed a downward trend since peaking in the fourth quarter of 2001 or first quarter of 2002. If we examine trends in the sense of production overcapacity according to the SME Agency and JASMEC’s Survey on SME Business Conditions (Fig. 1-1-25), we find that the proportion of enterprises that responded “excessive” steadily declined from 2002, and the proportion answering “insufficient” increased slightly, providing evidence that the sense of production overcapacity among small and medium manufacturers is easing.

Looking next at trends in the production/operating capacity DI in non-manufacturing (Fig. 1-1-24(3)), the DIs for large enterprises, middle-standing enterprises and SMEs moved approximately in parallel with business trends as in manufacturing until the fourth quarter of 2002, although their undulation was modest. During the preceding recession, the DIs leveled off after peaking in the first quarter of 2002, but declined slightly from the second half of 2003.

2. Trends in capital investment among SMEs

Below, we look next at the value of capital investment by SMEs and various breakdowns thereof according to the Japan Finance Corporation for Small Business’s Survey of Capital Investment by Small-Sized Manufacturers and the SME Agency’s Survey of Trends in Capital Investment in the Commercial and Service Sectors (Fig. 1-1-26). What we find is that the value of capital investment among SMEs in manufacturing followed a downward trend from fiscal 1997, but increased 14.6% from a year earlier in fiscal 2000 before again going into decline to decrease by 12.1% in fiscal 2001 and 13.2% in fiscal 2002. In fiscal 2003, investment is projected to grow 10.2%. Broken down by category of investment, investment in land, buildings and structures was curtailed from fiscal 1998, and the proportion in machinery and equipment is increasing in relative terms (Fig. 1-1-26(1)).

The value of capital investment by SMEs in wholesaling declined dramatically for three years running from fiscal 1997, and registered a particularly sharp drop of 37% in fiscal 1998. Although investment bounced back 30.4% in fiscal 2000, it again shrank 6.5% in fiscal 2001 and 3.8%
Fig. 1-1-24 Trends in sense of production/operating overcapacity

(1) All industries

Steady decrease in sense of overcapacity at enterprises of all sizes, with middle-tier enterprises leading the way

Fig. 1-1-25 Trends in sense of production overcapacity DI among SMEs (manufacturing)

Sense of overcapacity steadily declines, sense of insufficiency follows upward trend

Source: BOJ, Short-Term Economic Survey of Enterprises in Japan.
Notes:
1. Production/operating capacity DI = “excessive” – “insufficient”
2. Large enterprises are enterprises with 1,000 or more workers, middle-tier enterprises are enterprises with 300–999 workers (wholesalers: 100–999, retailers/services: 50–999), SMEs are enterprises with 50–299 workers (wholesalers: 20–99, retailers/services: 20–49).

Fig. 1-1-25 Trends in sense of production overcapacity DI among SMEs (manufacturing)

Sense of overcapacity steadily declines, sense of insufficiency follows upward trend

Source: SME Agency and JASMEC, Survey on SME Business Conditions.
in fiscal 2002. Nevertheless, it is expected to begin to grow again by 0.2% in fiscal 2003. Broken down by category, it can be seen that investment has fallen in land, buildings and structures and the proportion in machinery and equipment, vehicles and fixtures has increased since fiscal 1999 (Fig. 1-1-26(2)).

The value of capital investment by SMEs in services increased since fiscal 1999 (Fig. 1-1-26(2)). The proportion of investment in machinery and equipment, vehicles and fixtures has grown again by 0.2% in fiscal 2003. Broken down by category, it can be seen that investment has fallen in land, buildings and structures and the proportion in machinery and equipment, vehicles and fixtures increased (Fig. 1-1-26(3)).

The value of capital investment by SMEs in services dropped three consecutive years from fiscal 1997, and registered a particularly large fall of 39.6% in fiscal 1998. Broken down by category, the proportion of investment in buildings and structures fell from fiscal 1999, while the proportion of investment in machinery and equipment is following an upward path (Fig. 1-1-26(4)).

3. Trends in purpose of capital investment among SMEs

Next we look at capital investment by SMEs according to purpose. Fig. 1-1-27 shows a breakdown of capital investment by SMEs by purpose and industry. From this it can be seen that in manufacturing the proportion of enterprises investing in “capacity building” was relatively small in fiscal 2002 and fiscal 2003 compared with fiscal 2000 (28.4%) and fiscal 2001 (26.9%), while conversely the proportion of investment in “renewal,
maintenance and repair”, which was kept on a tight leash in fiscal 2000 and fiscal 2001, was much higher at over 30%. The proportion of investment in “new products, new business and R&D” is also increasing, while investment in “labor saving and rationalization” is trending downward (Fig. 1-1-27(1)). Among non-manufacturers, on the other hand, the proportion of investment in “increasing sales in existing business”, which declined sharply in fiscal 1999 and thereafter largely leveled off after rising slightly, increased to over 35% in fiscal 2003 (the same level as in fiscal 1998). The proportion of investment in “renewal, maintenance and repair”, meanwhile, which had declined and leveled off following a steep rise in fiscal 1999 to 44.5%, is projected to increase to approximately 41% in fiscal 2003. Conversely, the proportion of investment in “expansion into new business and business conversion, etc.” and “labor saving and rationalization” followed a downward trend in fiscal 2002 and fiscal 2003 (Fig. 1-1-27(2)).

In retailing, the proportion of investment in “renewal, maintenance and repair”, which continued to increase after a large rise in fiscal 1999, retains a large share of overall investment, despite a slight decrease in fiscal 2003. The proportion of investment in “opening of new stores”, which reached 30.8% in fiscal 2000, declined to around 20% in fiscal 2001 and fiscal 2002, but is projected to increase to approximately 28% in fiscal 2003. On the other hand, investment in “expansion into new business and business conversion, etc.”, which had declined sharply from 13.2% to 3.4% in fiscal 1999 and subsequently trended upwards for a while, increased slightly in fiscal 2002 to about 8%. In fiscal 2003, it fell to 4.2%, partly as a result of heavy investment in
“opening of new stores” (Fig. 1-1-27(3)).

In services, the proportion of investment in “renewal, maintenance and repair” fell from 50.1% to 41.6% in fiscal 2000, and investment in “expansion of existing stores and offices” increased from 29.6% to 36%. As a consequence, investment in each increased 52.2% in fiscal 2001, thereafter decreasing to 25.4% and then increasing for a while (Fig. 1-1-27(4)).

4. Trends in capital investment funding among SMEs

We look next at the sources of funding of capital investment among SMEs (Fig. 1-1-28). In both manufacturing and non-manufacturing, the proportion accounted for by borrowing and long-term deferred payment bills from financial institutions, including government-affiliated financial institutions, was high until fiscal 1997 at around 60~70%. From around the time of the financial slump in fiscal 1998, however, the proportion of use of borrowing and long-term deferred payment bills in both manufacturing and non-manufacturing declined, while the proportion of use of internal funding increased.

In manufacturing, the proportion of borrowing and long-term deferred payment bills, which had been around 66% until fiscal 1998, subsequently declined 28%

Fig. 1-1-28 Trends in sources of funding of capital investment by SMEs

<table>
<thead>
<tr>
<th>(1) Manufacturing</th>
<th>(2) Wholesaling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in capital investment due to increase in borrowing and long-term deferred payment bills</td>
<td>Use of borrowing and long-term deferred payment bills increases again in fiscal 2003 after decrease in previous year</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(3) Retailing</th>
<th>(4) Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of borrowing and long-term deferred payment bills increases again after decline for two years running</td>
<td>Temporary downward trend in use of borrowing and long-term deferred payment bills</td>
</tr>
</tbody>
</table>


Notes:
2. Figures in the graphs indicate percentage of total.

to around 63% (Fig. 1-1-28(1)). Within non-manufacturing, the proportion of use of borrowing and long-term deferred payment bills in wholesaling dropped to around 10% from fiscal 1998, putting use of internal funding and borrowing and long-term deferred payment bills on an approximately equal footing (Fig. 1-1-28(2)).

In retailing, the proportion of use of borrowing and long-term deferred payment bills exceeded 65% until fiscal 1998, but subsequently fell to around the 60% mark. The decline was particularly noticeable in fiscal 2002, when the proportion of use of internal funding and of borrowing and long-term deferred payment bills became approximately equal (Fig. 1-1-28(3)).

In services, the proportion of use of borrowing and long-term deferred payment bills was over 70% until fiscal 1996, and was still around 64% in fiscal 1997. In fiscal 1998, however, the figure fell to approximately 61%, and subsequently dipped below 60%, and is projected to fall to around 57% in fiscal 2003 (Fig. 1-1-28(4)). As is apparent from Fig. 1-1-28, there was little change in the value of internal funding used for capital investment by SMEs in either manufacturing or non-manufacturing, and most of the decrease in capital investment by SMEs was accounted for by the decline in borrowing for capital investment from financial institutions.

Unlike large enterprises, therefore, which have access to a variety of means of raising funds other than from financial institutions, such as by capital increases and bond floatations, SMEs are highly dependent on borrowing from financial institutions, and so the lending stance of financial institutions can have a considerable impact on their capital investment.

Section 5 Employment conditions among SMEs

1. Unemployment rate remains high

While Japan’s unemployment rate shows signs of improving in 2003 and fell below 5.0% for the first time in two and a half years in December, it remained historically high at 4.9%, reflecting the continuing severe state of employment conditions.

Furthermore, a breakdown by age shows that the unemployment rate among younger age groups remains high; while the unemployment rate among 15–19-year-olds fell from 2002 to 11.9%, the rate among 20–24-year-olds continued its upward path, increasing 0.5% points compared with the previous year to 9.8% (Figs. 1-1-29–30).

2. Decline in number of employed persons continues

According to MPHPT’s Labor Force Survey, the number of employed persons outside agriculture and forestry continued its downward trend at the beginning of 2003, though the improvements on a year earlier in some months does suggest a recovery is underway. Looking at changes in the number of employed persons according to size, the number of self-employed and family workers followed a downward trend, and there was also a conspicuous decrease in the number of employed persons at small business establishments with 29 or fewer workers. The actual annual average decreases were approximately 150,000 among the self-employed and...
family workers, and approximately 200,000 among employed persons at small-scale enterprises, providing evidence of the fact that, as a consequence of closures among the self-employed and others in the face of the slow recovery in business conditions among large enterprises in particular, and the average number of employed persons over the year as a whole also increased by approximately 200,000 compared with the previous year (Fig. 1-1-31).

3. Increase in mid-career hiring

According to the Ministry of Health, Labour and Welfare (MHLW)’s Report on Employment Services, the rate of growth in the number of new job offers by size of establishment in 2003 (excluding new graduates and part-timers) was higher at establishments of all sizes than in 2002. The monthly figures too show that, with the exception of large business establishments with 500 or more workers, the rate of growth on a year earlier was positive throughout the year. In terms of actual job offers as well, the number of business establishments with 29 or fewer workers exceeded an annual average of over 25,000 for the first time since 1992. The number of job offers excluding new graduates and part-timers is thus currently on the increase (Fig. 1-1-32).

4. Decline in sense of excess employment

According to the BOJ’s Tankan and the SME Agency and JASMEC’s Survey on SME Business Conditions,
there has been a decline in the sense of over-employment, as measured by the employment DI ("excessive" minus "insufficient") at both large enterprises and SMEs since 2002 (Fig. 1-1-33A). Compared by size, the decline in the employment DI at large enterprises appears to be due to the decrease in the proportion of enterprises sensing an excess, while in the case of SMEs there has been not only a decrease in the proportion responding "excessive", but also a slight increase in the proportion responding "insufficient". Breaking the results down by industry, we also find there to be a conspicuous decrease in the proportion responding "excessive" among enterprises in manufacturing, where the recovery in business conditions is more advanced than in non-manufacturing (Fig. 1-1-33B–D).

It is apparent from the above, then, that there has been a decline in the sense of over-employment at SMEs as well as large enterprises as the economy has recovered. But despite this, employment conditions remain severe, with the number of employed persons at SMEs decreasing due to the effects of the closures of self-employed and other businesses, and the unemployment rate also remaining high.

Fig. 1-1-32 Trends in number of new job offers by size (change from previous year and change from same month of previous year)

Number of new job offers increases form previous year

Note: Fresh graduates and part-timers are excluded.
Chapter 1 — Business trends among small and medium enterprises

Fig. 1-1-33 Trends in employment DI

A  Trends in employment DI (large enterprises)

B  Breakdown of responses regarding employment DI (large enterprises in all industries)

C  Breakdown of responses regarding employment DI (large enterprises in manufacturing)

D  Breakdown of responses regarding employment DI (large enterprises in non-manufacturing)

A  Trends in workforce sufficiency DI (SMEs)

B  Breakdown of responses regarding workforce sufficiency DI (SMEs in all industries)

C  Breakdown of responses regarding workforce sufficiency DI (SMEs in manufacturing)

D  Breakdown of responses regarding workforce sufficiency DI (SMEs in non-manufacturing)

Source: BOJ, Short-Term Economic Survey of Enterprises in Japan.
Note: Employment DI = “excessive” - “insufficient”

Source: SME Agency and JASMEC, Survey of Conditions in the Small Business Sector.
Note: Workforce sufficiency DI = “excessive” - “insufficient”
Section 6 Financial environment of SMEs

While the financial environment facing SMEs is showing signs of steadying and the worst appears to be over, the situation remains severe. If we look at trends in the financial position DI according to size of enterprise, for example, we see that although there is something of a trend toward recovery among SMEs, the DI remains negative, and the proportion of enterprises responding “tight” continues to exceed the proportion responding “easy” (Fig. 1-1-34).

1. Liquidity of SMEs

If we look at trends in financing among SMEs according to industry as illustrated by the findings of the SME Agency and JASMEC’s Survey on SME Business Conditions, we find that in manufacturing, where the recovery in business conditions during the present recovery has been most advanced, the financial position DI is improving and reached -15.9 points in the fourth quarter of 2003, exceeding the -18.7 points that marked...
the peak during the previous recovery phase. In non-manufacturing, on the other hand, the DI bounced along the bottom until the second quarter of 2003, but then began to register an albeit weak improvement from the third quarter (Fig. 1-1-35).

Turning next to look at the reasons for the tightness of financing according to the Japan Finance Corporation for Small Business’s (JFC) Survey of Business Conditions among Small and Medium Enterprises, we find the most commonly given reason to be “decrease in sales”, followed by “burden of repayment of existing borrowing”, “no scope for further borrowing” and “deterioration in profitability” (Fig. 1-1-36). While the proportion of enterprises responding “decline in sales” is declining, the proportion giving a reason concerning increased working capital, such as “increase in sales” and “increase in inventory”, is rising, suggesting that the upturn in business conditions is also impacting on financing situation.

2. Changes in lending to SMEs

Examining the lending attitude DI of financial
institutions by size according to the BOJ’s Tankan, we find that the DI for both large enterprises and SMEs fell heavily between the end of 1997 and the financial slump in 1998. Subsequently, however, both large enterprises and SMEs registered improvements. However, whereas the lending attitude DI regarding lending to large enterprises was positive and the proportion of enterprises responding “easy” exceeded the proportion responding “severe”, the lending attitude DI for lending to SMEs was negative after the financial crisis, and more enterprises responded “severe” than “easy” (Fig. 1-1-37).

Next we look at trends in borrowing difficulty by industry according to the SME Agency and JASMEC’s Survey on SME Business Conditions. From this we find that both the long-term borrowing difficulty DI and short-term borrowing difficulty DI are improving considerably in manufacturing. In non-manufacturing, on the other hand, while the trend is improving, the value of the DI is below that attained during the time of the previous recovery, contrasting with the situation in manufacturing, where the DI is in excess of that during the previous recovery (Fig. 1-1-38).

Next we look at trends in borrowing difficulty by industry according to the SME Agency and JASMEC’s Survey on SME Business Conditions. From this we find that both the long-term borrowing difficulty DI and short-term borrowing difficulty DI are improving considerably in manufacturing. In non-manufacturing, on the other hand, while the trend is improving, the value of the DI is below that attained during the time of the previous recovery, contrasting with the situation in manufacturing, where the DI is in excess of that during the previous recovery (Fig. 1-1-38).

Fig. 1-1-38 Trends in ease of borrowing DI
Recovery in manufacturing to level during previous recovery

Source: SME Agency and JASMEC, Survey on SME Business Conditions.
Note: Ease of borrowing DI = “easy” - “difficult”

Fig. 1-1-39 Trends in outstanding lending by size
Downward trend in lending to SMEs continues

Amid these conditions, outstanding lending to SMEs is declining (Fig. 1-1-39). Outstanding lending to SMEs declined 5.0% from ¥274.1 trillion at the beginning of 2003 in March to ¥260.3 trillion in December 2003, a decrease slightly in excess of the decline in outstanding lending to large enterprises (a decrease of 3.6% during the same period).

Looking at trends in outstanding lending to SMEs according to type of financial institution, we find that while outstanding lending by private-sector financial institutions declined substantially up to 2002, the scale of the decline in lending by government-affiliated financial institutions was small, and outstanding lending held firm. In 2003, outstanding lending by government-affiliated financial institutions, credit associations and credit cooperatives increased, albeit only slightly, from the latter half of the year, and there were signs of an upturn among regional banks, but nevertheless the decline in outstanding lending by banks overall continued due, it would seem, to the large impact of the decline in outstanding lending by leading banks (Fig. 1-1-40).

If we examine actual lending by government-affiliated financial institutions starting with the value of lending by type, we find that although lending for capital investment decreased compared with the previous year in 2002, it recovered to its 2001 level in 2003. Safety-net lending, meanwhile, which commenced in December 2000, has steadily increased while the value of lending overall has declined. The number of loans under the safety-net guarantee program established to prevent knock-on bankruptcies and to deal with the failure of financial institutions, has generally trended upward since 2001, and the refinancing guarantee program established in February 2003 had also provided over 80,000 guarantees as of the end of December. Thus while the liquidity of SMEs remains severe, government-affiliated financial institutions and credit guarantee corporations are playing an important role as a safety net (Fig. 1-1-41).

---

Fig. 1-1-40  Trends in outstanding lending to SMEs by type of financial institution

Outstanding lending by credit associations, credit cooperatives and government-affiliated financial institutions holds firm

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic banks</th>
<th>Credit associations and cooperatives</th>
<th>Government-affiliated financial institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Notes:
1. The figures for “domestic banks” indicate the combined lending of domestic city/regional banks, domestic trust banks and overseas branch accounts of domestically licensed banks.

Fig. 1-1-41  Trends in lending by government-affiliated financial institutions according to type

Steady increase in safety-net lending

Source: SME Agency.

Notes:
2. The safety-net lending program is a program designed to ensure the smooth provision of funds to SMEs directly affected by the collapse of enterprises or financial institutions with which they do business, and was established in December 2000.
Section 7 SME bankruptcy trends

1. Number of bankruptcy trends showing signs of settling down

The number of bankruptcies, which has over the past few years exceeded 19,000, dropped sharply to 16,255 in 2003. The number of bankruptcies of SMEs with capital of less than ¥100 million also fell below 16,000 for the first time in four years since 1999 to 15,877, and month to month as well, the number of bankruptcies fell from the same month a year earlier for 16 consecutive months from December 2003. The amount of liabilities left by bankruptcies of SMEs has also fallen approximately 26% since 2002, when the level hit the second highest on record, and fell below the ¥6 trillion mark for the first time since 1997 (Fig. 1-1-42).

Looking at trends in the number of bankruptcies by industry, there has been a marked drop in the number in manufacturing, where there has been a recovery in business conditions (down 22.9% from the previous year from 3,615 to 2,787). At the same time, there has been a decline of over 10% in the number of bankruptcies in construction and retailing, suggesting that the worst of the past few years may be over (Fig. 1-1-43).

2. Number of bankruptcies by type

A distinguishing feature of the trend in bankruptcies by type is the increase in the number of legal bankruptcy petitions and decrease in the number of suspensions of business with banks (Fig. 1-1-44). While the number of bankruptcies decreased approximately 15% from the previous year, the decline in the number of legal bankruptcy petitions was just 1%. And while accounting for a record high proportion of all bankruptcies of 40.1% in 2003, suspensions of business with banks declined approximately 23% to fall below 10,000 cases for the first time in 12 years since 1991, accounting for a record low of 52.9% of the total. The decline in suspensions of business with banks appears to be due to the increase in enterprises not drawing bills payable and the continuing decline in the clearing of bills due to the decrease in settlement by means of bills between enterprises.

Moreover, a breakdown of bankruptcies due to legal bankruptcy petition in 2003 shows that the number increased very slightly from the previous year to 5,436, exceeding the record high set the previous year (Fig. 1-1-45).

Fig. 1-1-42 Trend in number of bankruptcies and total liabilities

Large fall in number of bankruptcies compared with previous year

(Number of bankruptcies)
3. Small-scale bankruptcies and voluntary closures

While the number of bankruptcies appears to have settled down, this number excludes bankruptcies leaving liabilities of less than ¥10 million, as only those leaving total liabilities of ¥10 million or more are included. Voluntary closures not due to bankruptcy are also excluded.

If we look then at changes in the number of self-employed (non-primary industry) in recent years according to MPHPT’s Labor Force Survey, we find that although the scale of the decline fell in 2003, there has been an almost continuous decline in recent years and the number of self-employed has fallen over 10% compared with five years ago (Fig. 1-1-46).

Fig. 1-1-43 Trends in number of bankruptcies by industry
Marked decline in number of bankruptcies in manufacturing

Note: The number of bankruptcies indicates the number of bankruptcies of enterprises with liabilities of at least ¥10 million.

Fig. 1-1-44 Bankruptcy by type and clearing of bills
Decline in both clearing of bills and suspension of business with banks

Note: The number of bankruptcies indicates the number of bankruptcies of enterprises with liabilities of at least ¥10 million.

Fig. 1-1-45 Breakdown of legal petitions
Record number of bankruptcy petitions

Note: The number of bankruptcies indicates the number of bankruptcies of enterprises with liabilities of at least ¥10 million.

Fig. 1-1-46 Trend in number of self-employed
More than 10% decrease in number of self-employed over past five years

Source: MPHPT, Labor Force Survey.
Note: Figures indicate annual averages.
Chapter 2 Regional trends among SMEs

Despite showing signs of improvement after bottoming out in the fourth quarter of 2001, business conditions among SMEs are recovering more slowly than among large enterprises, and a regional disparity in the speed of recovery has also been observed.

In this chapter, therefore, we examine regional differences in business conditions primarily based on the SME Agency and JASMEC’s Survey on SME Business Conditions.

Beginning with business conditions among SMEs in all industries, the data show there to be variation in recovery trends the business conditions DI is higher in the Kanto and Kinki regions, where it reached -25 in the fourth quarter of 2003. While in the Tohoku and Shikoku regions the recovery is lagging and the DI stands at around -30 (Fig. 1-2-1).

Focusing on the recovery in business conditions among SMEs in manufacturing, we find that the recovery lags behind other regions in Hokkaido, Tohoku and Shikoku, and is more advanced in the Kanto, Chugoku and Kyushu/Okinawa regions (Fig. 1-2-2(1)).

Among SMEs in non-manufacturing, the recovery is considerably behind that in manufacturing throughout the country. In the Tohoku region, where the recovery in
construction, retailing and services is lagging, business conditions among SMEs in non-manufacturing as a whole are substantially below those in other regions. The recovery is also lagging in the Chubu and Chugoku regions compared with other regions (Fig. 1-2-2(2)).

Regarding unemployment, there are signs of improvement nationwide, and the worst appears to be over. However, regional variation exists. In Hokkaido and Kinki, where unemployment briefly exceeded 7%, the situation has improved, though the rate remained high at around 6% as of the fourth quarter of 2003. In the Chubu and Chugoku regions, on the other hand, unemployment fell below 4% in the same quarter (Fig. 1-2-3).

**Fig. 1-2-2 Trends in SME business conditions DI by industry and region (4Q 2000 ~ 4Q 2003)**

(1) Manufacturing
Recovery in Tohoku and Shikoku lags behind other regions
(Seasonally adjusted change from previous quarter)

(2) Non-manufacturing
Recovery in Tohoku and Chugoku lags behind other regions amid severe conditions overall
(Seasonally adjusted change from previous quarter)

Notes: 1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The Kanto region includes Niigata, Nagano, Yamanashi and Shizuoka, the Chubu region includes Ishikawa and Toyama, and the Kinki region includes Fukui. The figures for the Kyushu/Okinawa region are the totals for Okinawa and the prefectures of Kyushu.
3. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved”.
Section 1 Trends among SMEs in Hokkaido

1. Small and medium manufacturers in Hokkaido

Focusing on manufacturing in the Hokkaido region in 2003, the indices of industrial production increased in five industries, such as iron/steel, general machinery, electrical machinery and transportation machinery. On the other hand, due to a decline in public works and the effects of the Tokachi-oki earthquake and the unusually cool summer and mild winter, there were declines in eight industries, including metal products, ceramic, stone and clay products, oil and coal products, and food and tobacco. As a result of a decline in the second and third quarters and upturn in the fourth, the average production...
Chapter 2 — Regional trends among SMEs

2. Small and medium non-manufacturers in Hokkaido

On account of the decline in public works, fall in spending per project and slow pace of recovery in capital investment, related industries continued to face severe conditions in non-manufacturing in Hokkaido in 2003. The effects of the Tokachi-oki earthquake and the unusually cool summer and mild winter also confronted related industries with severe conditions. At the same time, there were signs of a resurgence in some industries, such as information services and outsourcing-related business services.

Amid this environment, business conditions among SMEs in non-manufacturing began to improve after bottoming out in the second quarter of 2002 and remained above the national level until the fourth quarter of 2003, when conditions approximately coincided. This is because of the impact from the second half of 2002 to the first half of 2003 of business conditions among SMEs in construction, which, despite recovering to -15 in the first quarter to exceed the national level and push up business conditions in non-manufacturing in Hokkaido, plunged to -45 in the third quarter and dropped below the national level despite becoming less negative again in the fourth quarter.

Among small and medium wholesalers, the DI exceeded -20 in the fourth quarter of 2002, but again deteriorated from the start of 2003 to well below -25. The business conditions DI for small and medium retailers improved to -32 in the third quarter, but again worsened to -36 in the fourth quarter as the severe conditions continued.
Among SMEs in services, the DI became less negative from the start of 2003 after bottoming out at -38 in the fourth quarter of 2002, but there was no sign of an improvement in business conditions and thereafter stayed at around -30 (Fig. 1-2-4).

Section 2 Trends among SMEs in the Tohoku region

1. Small and medium manufacturers in the Tohoku region

An examination of the indices of industrial production for manufacturing in the Tohoku region in 2003 reveals rises in 10 industries due, among other things, to strong growth in the electrical machinery, information/communications equipment, electronic components/devices and transportation machinery industries, which make up a particularly large proportion of manufacturing, as a result of growth in demand in domestic and foreign markets. In seven industries, such as metal products and ceramic, stone and clay products, on the other hand, the production index declined due largely to the effects of a decline in public works and new housing starts, and the unusually cool summer and mild winter. As a result of healthy growth in the third quarter, the production index for manufacturing as a whole grew 9.0% from the previous year in 2003 to 102.8, not only exceeding the national figure of 94.9 but also surpassing the level in 2000 (Fig. 1-2-7).

Reflecting these trends in production, business conditions among SMEs in the Tohoku region in 2003 bottomed out in the second quarter, and improved to -21 in the fourth quarter (Fig. 1-2-6). Broken down by prefecture, improvements are evident in Iwate, Miyagi, Akita and Yamagata. The recovery is particularly marked in Akita Prefecture, where the business conditions DI went from -20 in the first half of the year to over -10 in the second half, substantially better than the national level. In Aomori and Fukushima, on the other hand, improvement is lagging: business conditions in the former range far below the national level at around -35 to -45, providing evidence of the variation in the recovery of business conditions among manufacturers within the Tohoku region (Fig. 1-2-8(1)).

2. Small and medium non-manufacturers in the Tohoku region

In the Tohoku region in 2003, the decline in public works, tardiness of the recovery in capital investment, slump in new housing starts, and effects of the earthquake, unusually cool summer and mild winter confronted related industries in non-manufacturing with continued severe conditions. While the consumer electronics sector saw strong growth in sales of digital consumer electronics products and white goods, sales of personal computers fell, causing sales overall to decline from the previous year. Passenger car sales continued to seesaw. The effects of the launch of the “Hayate” Shinkansen service to Hachinohe, which had led to an increase in passenger numbers, are also waning.

Looking at business conditions among small and medium non-manufacturers in 2003 against this backdrop, we find that conditions among SMEs in construction grew less negative after bottoming out in the first quarter, but remained below -30. Among small and medium wholesalers, the DI improved to -21 in the first quarter, but thereafter deteriorated and fell back to -21 in the fourth quarter. Among small and medium retailers, the DI deteriorated in 2003 to -48 in the third quarter and -40 in the fourth quarter as conditions remained extremely severe. In services, SMEs continued to face severe difficulties, with business conditions worsening from -32 in the first quarter to -38 in the fourth quarter.

As a result, the business conditions DI for SMEs in non-manufacturing ended at -36 in the fourth quarter due to the continued severe conditions in retailing and services.
Fig. 1-2-8 Trends in SME business conditions DI in the Tohoku region (by prefecture)
(4Q 2000 ~ 4Q 2003)

(1) Manufacturing
Recovery in business conditions in Aomori and Fukushima lagging far behind other regions

(2) Non-manufacturing
Business conditions deeply depressed in Aomori, Miyagi, Yamagata and Fukushima

Source: SME Agency and JASMEC, Survey on SME Business Conditions.
Notes: 1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved”.

Fig. 1-2-9 Trends in SME business conditions DI in the Kanto region
(4Q 2000 ~ 4Q 2003)

Underlying upward trend in conditions in manufacturing, but recovery in retailing and services lagging

Source: SME Agency and JASMEC, Survey on SME Business Conditions.
Notes: 1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The Kanto region includes Niigata, Nagano, Yamanashi and Shizuoka.
3. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved”.

especially, despite a decline in the negative after bottoming out in the third quarter of 2001 (Fig. 1-2-6).
Looking next at business conditions among small and medium non-manufacturers by prefecture in 2003, we find that conditions in Iwate (where the negative in construction, retailing and services is relatively small) and Akita (where the negative for construction and wholesaling is comparatively small) ranged between -20 and -30, showing signs of recovery in the fourth quarter and staying above the national trend.
In the prefectures of Aomori, Miyagi, Yamagata and Fukushima, on the other hand, conditions were below the national level. In Aomori, the extension of the Tohoku Shinkansen line to Hachinohe in December 2002 dramatically reduced the size of the negative in the DI in the fourth quarter of that year. Because of the deterioration in business conditions centered in wholesaling, retailing and services, however, the DI worsened from the first quarter, and conditions in the fourth quarter fell below their level before the opening of the Hachinohe line to –46.
In Miyagi and Yamagata, the negative in wholesaling is comparatively small, but the improvement in conditions in retailing, services and construction is lagging, and conditions among small and medium manufacturers overall remain severe at –40.
In Fukushima, business conditions are well below –30 in all industries, and so the DI for small and medium non-manufacturers overall trended between –35 and –40 (Fig. 1-2-8(2)).

Section 3 Trends among SMEs in the Kanto region

1. Small and medium manufacturers in the Kanto region

We look next at manufacturing in the Kanto region (including the prefectures of Niigata, Nagano, Yamanashi and Shizuoka) in 2003, using the indices of industrial production, where there was growth in 11 industries, including strong growth in iron/steel and transportation machinery, and a recovery driven by domestic and overseas demand in the second half of the year in general machinery, electrical machinery and electronic components and devices, where recovery had been lagging. As a result of the decline in public works and the effects of the cool summer, there were also declines in six industries, including metal products and textiles. Owing to a recovery from the third quarter, the production index for manufacturing as a whole increased 3.4% from the previous year to 92.2 in 2003. However, because of the tardiness of the recovery in industries such as non-ferrous metals, metal products and information/communications equipment, and the fact that production of electrical machinery and electronic components and devices, though recovering, was below the national level, the figure for manufacturing as a whole remained below the national figure of 94.9 (Fig. 1-2-10).

Reflecting these trends in production, business conditions among small and medium manufacturers in the Kanto region in 2003 improved in the second half of the year to reach -13 in the fourth quarter, suggesting that a recovery is underway (Fig. 1-2-9).

Overall, business conditions stayed above the national level. Broken down by prefecture, the business conditions DI improved to around -20 between the second through fourth quarters of 2002 in Ibaraki, Tochigi, Gunma, Tokyo, Yamanashi and Nagano, and subsequently generally improved or held steady. In Saitama in the first quarter and Chiba in the second quarter, the DI exceeded -20, then briefly became more negative before beginning to recover again. In Kanagawa and Niigata, conditions improved to just under -20 in the third quarter, then exceeded -20 for the first time in the fourth quarter. In Shizuoka, business conditions bottomed out at -38 in the first quarter before improving to -17 in the fourth quarter. In Ibaraki, Saitama, Yamanashi and Nagano, there was an improvement to around -10 (Fig. 1-2-11(1)).

Fig. 1-2-10 Manufacturing production index for the Kanto region

Though recovering, production in the Kanto remains below the national level

<table>
<thead>
<tr>
<th>Year/Month</th>
<th>Japan</th>
<th>Kanto region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>1999</td>
<td>95</td>
<td>85</td>
</tr>
<tr>
<td>2000</td>
<td>100</td>
<td>90</td>
</tr>
<tr>
<td>2001</td>
<td>105</td>
<td>95</td>
</tr>
<tr>
<td>2002</td>
<td>110</td>
<td>100</td>
</tr>
<tr>
<td>2003</td>
<td>115</td>
<td>105</td>
</tr>
<tr>
<td>2004</td>
<td>120</td>
<td>110</td>
</tr>
</tbody>
</table>

Note: Figures for January 2004 are confirmed figures for Japan and preliminary figures for the Kanto region.
Chapter 2 — Regional trends among SMEs

Fig. 1-2-11 Trends in SME business conditions DI in the Kanto region (by prefecture) (4Q 2000 ~ 4Q 2003)

(1) Manufacturing
Saitama, Yamanashi and Nagano lead recovery in manufacturing

(2) Non-manufacturing
Business conditions flat, and particularly depressed in Ibaraki and Nagano

Source: SME Agency and JASMEC, Survey on SME Business Conditions.
Notes: 1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved”.
2. Small and medium non-manufacturers in the Kanto region

In the Kanto region, the decline in public works and slow recovery in capital investment confronted related industries in non-manufacturing with continued severe conditions in 2003, notwithstanding comparatively strong growth in new housing starts in the metropolitan region (consisting of the prefectures of Saitama, Chiba, Tokyo and Kanagawa). Demand for seasonal goods also ended the year in the doldrums due to the effects of the cool summer and mild winter. Nevertheless, consumer electronics sales and domestic travel exhibited robust growth, and there were signs of a recovery in passenger car sales. Against the backdrop of the recovery in manufacturing, there were also signs of a recovery in some areas of the service industry, such as manpower services.

Examining business conditions among small and medium non-manufacturers in 2003 against this backdrop, business conditions among SMEs in construction improved for two consecutive quarters to -20 after bottoming out at -34 in the first quarter as a result of strong growth in new housing starts in the metropolitan region. Due to a decline in public works, however, conditions ended the year on -26 in the fourth quarter. Among small and medium wholesalers, conditions deteriorated from -26 in the fourth quarter of 2002 to less than -30, though they subsequently recovered again to -22 in the fourth quarter. Business conditions among small and medium retailers approximately leveled at -40 during the first three quarters of 2002 before worsening to -35 in the final quarter. Among SMEs in services, business conditions improved after bottoming out at -37 in the first quarter, and finished the year on -29. As a result of the above, business conditions among small and medium non-manufacturers worsened slightly to -36 in the first quarter, but recovered to reach -30 in the fourth quarter (Fig. 1-2-9).

Looking next at business conditions among SMEs in non-manufacturing in 2003 by prefecture, we find that conditions were above the national level in Tokyo, Kanagawa and Shizuoka, and approximately at or just below the national level in Tochigi, Gunma, Saitama, Chiba, Niigata and Yamanashi (Fig. 1-2-11(2)). In Tokyo and Kanagawa, there were no signs of improvement in retailing or services, but conditions remained in excess of -20 in construction throughout the year in Kanagawa and in the latter half of the year in Tokyo, while conditions in wholesaling kept around the -20 mark. As a consequence, business conditions among SMEs in non-manufacturing as a whole exceeded around -30.

In Gunma, Saitama, Chiba and Yamanashi, there were improvements in wholesaling from the second half of the year and signs of an upturn in construction. However, the slow recovery in services and retailing meant that business conditions among SMEs in non-manufacturing as a whole stayed between -30 and -40 everywhere except Gunma, where the DI exceeded -30 in the fourth quarter.

While in Niigata the negative declined, conditions were severe in all industries, particularly in retailing. As a result, the DI for small and medium non-manufacturers overall stayed between -30 and -40. In Tochigi, conditions remained severe in wholesaling and retailing. Combined with the absence of any major improvements in construction or services, business conditions among SMEs in non-manufacturing overall stayed well below -30.

Business conditions in Ibaraki and Nagano, on the other hand, were well below the national level, and all industries in both prefectures continued to face severe conditions, with the DIs for small and medium non-manufacturers overall staying between around -35 and -45.

Section 4 Trends among SMEs in the Chubu region

1. Small and medium manufacturers in the Chubu region

Looking next at manufacturing in the Chubu region (consisting of the prefectures of Toyama, Ishikawa, Gifu, Aichi and Mie) in 2003, using the indices of industrial production, there were increases in 10 industries, including electrical machinery, electronic components and devices, iron/steel, non-ferrous metals and general machinery, as a result of strong demand in domestic and foreign markets, and strong growth continued in 2003. As well as a 0.3% decline in transportation machinery, however, there were declines in seven industries, such as metal products, ceramic, stone and clay products, and textiles, caused by a decline in public works and new housing starts. The production index for manufacturing as whole stayed firm, growing 5.7% from the previous year in 2003 to 103.3, which not only considerably exceeded the national figure of 94.9, but was also well above the level in 2000 (Fig. 1-2-13).

Reflecting these trends in production, business conditions among small and medium manufacturers in the Chubu region in 2003 grew increasingly negative in the second quarter to sag to -28, but subsequently picked up to reach -17 in the fourth quarter (Fig. 1-2-12). Broken down by prefecture, conditions in Toyama exceeded -5 for two consecutive quarters in the second half of the year, and conditions in Mie also exceeded -20 from the fourth quarter of the year before last. In Ishikawa and Aichi, there were improvements around -20 in the second half of the year and the fourth quarter respectively. In Gifu, meanwhile, conditions grew...
increasingly negative in the fourth quarter to fall below -25 (Fig. 1-2-14(1)).

2. Small and medium non-manufacturers in the Chubu region

Among non-manufacturers in the Chubu region in 2003, there was a spreading recovery in capital investment and continued implementation of large-scale public works projects. However, spending on other public works was weak, and, after a spike in new housing starts due to one-off factors, remained lackluster. As a result, some industries involved in manufacturing and large projects enjoyed comparatively good conditions, while others faced severe conditions. Sales of seasonal goods were also affected by factors including the usually cool summer and mild winter, but sales of digital consumer electronics products grew comparatively strongly. There was also an intensification of competition among retailers as a result of the appearance of a wave of large stores.

Looking at business conditions among SMEs in non-manufacturing in 2003 amid these conditions, we see that although conditions in construction worsened for two quarters running to less than -40 in the third quarter, the negative shrank in the fourth quarter to -28. In wholesaling, conditions deteriorated to -48 in the second quarter, but thereafter improved to reach -26 in the fourth quarter. In retailing, the DI continued to hover around -40 from the start of 2003 as the extremely severe conditions continued. In services, conditions bottomed out at -38 in the second quarter, and then proceeded to improve to -25 in the fourth quarter (Fig. 1-2-12).

We look next at business conditions among small and medium non-manufacturers in 2003 according to prefecture. In Toyama, the DI became less negative in the fourth quarter in construction, wholesaling and services to reach more than -20. As the DI in retailing remained stuck below -30, however, business conditions among SMEs in non-manufacturing as a whole bottomed out in the second quarter and the negative shrank to -24 in the fourth quarter.

Fig. 1-2-12 Trends in SME business conditions DI in the Chubu region (4Q 2000 ~ 4Q 2003)

Business conditions remain depressed among retailers amid general revival

Source: SME Agency and JASMEC, Survey on SME Business Conditions.
Notes: 1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The Chubu region consists of Ishikawa, Toyama, Gifu, Aichi and Mie.
3. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved”.

Fig. 1-2-13 Manufacturing production index for the Chubu region

Production exceeds level in 2000 from second half of 2002 and returns to underlying upward trend from second half of 2003

Sources: METI, Indices of Industrial Production; Chubu Bureau of Economy, Trade and Industry, Indices of Industrial Production for Chubu.
Note: Figures for January 2004 are confirmed figures for Japan and preliminary figures for the Chubu region.
In Ishikawa, business conditions in wholesaling, which had been dramatically deteriorating, registered a marked improvement in the second half of the year. Nevertheless, the slow pace of improvement of construction and retailing resulted in business conditions among SMEs in non-manufacturing as a whole staying well below -40, only exceeding this level in the fourth quarter.

In Gifu, business conditions in construction and services became less negative in the second half of the year, but remained severe. Furthermore, while there were signs of a temporary improvement in wholesaling, conditions again worsened in the fourth quarter, and there were no signs of any improvement in retailing. As a result, business conditions among SMEs in non-manufacturing as a whole bottomed out at -45 in the second quarter, and then hovered around -35 in the second half of the year.

In Aichi, business conditions worsened in either the second or third quarter in all industries, and then proceeded to pick up again in the fourth quarter. Conditions were particularly severe in retailing, and business conditions among SMEs in non-manufacturing as a whole deteriorated mid-year, falling below -40 in the third quarter before improving to -28 in the fourth quarter.

In Mie, there were no signs of an improvement in conditions in construction and retailing, despite the scale of the negative in services shrinking in the fourth quarter, and conditions in wholesaling deteriorated substantially in wholesaling in the fourth quarter. As a consequence, business conditions among SMEs in non-manufacturing as a whole stayed below -40 in the first half of the year, and exceeded -35 in the second half (Fig. 1-2-14(2)).
Section 5 Trends among SMEs in the Kinki region

1. Small and medium manufacturers in the Kinki region

Regarding manufacturing in the Kinki region (including Fukui Prefecture) in 2003, the indices of industrial production show that there were rises in nine industries, including information/communications equipment, electronic components and devices, and general machinery as a result of growth in foreign and domestic demand, and falls in eight industries, including metal products, ceramic, stone and clay products, and textiles, as a result of a slump in public works despite an upturn in the latter half of the year in the number of new housing starts. Notwithstanding a decline in the production index for manufacturing as a whole in the third quarter, a large increase in the fourth quarter resulted in a 3.1% increase on the previous year to 92.5 in 2003, still below the national figure of 94.9 (Fig. 1-2-16).

Reflecting these trends in production, business conditions among small and medium manufacturers in the Kinki region in 2003 stayed below -30 in the first half of the year, but, encouraged by strong growth in automobiles and information/communications equipment, improved markedly in the third quarter to reach -16 in the fourth quarter (Fig. 1-2-15).

Broken down by prefecture, conditions improved dramatically in Shiga and Kyoto from -45 and -25 in the first quarter to -8 and -3 in the fourth quarter respectively. In Fukui, Osaka, Hyogo and Nara, conditions improved to around -15 to -20. In Wakayama, conditions improved from -40 to -20 in the first quarter, but remained below -30 (Fig. 1-2-17(1)).

2. Small and medium non-manufacturers in the Kinki region

Among non-manufacturers in the Kinki region in 2003, growth in capital investment spread and there was an upturn in new housing starts from the second half of the year. But despite these developments, a decline in public works caused conditions to generally remain level in related industries. Further, while there was strong growth in some categories such as digital consumer electronics, sales of seasonal products were hit by the effects of the unusually cool summer and mild winter.

Looking at business conditions among SMEs in non-manufacturing amid these trends in 2003, conditions in construction and wholesaling respectively improved from -40 and -31 in the first quarter to -25 and -18 in the fourth quarter. In retailing, the DI improved from below to over -40 in the fourth quarter, but conditions nevertheless remained severe. In services, the DI improved from around -40 in the first half of the year to -25 in the fourth quarter (Fig. 1-2-15).

Regarding business conditions among SMEs in non-manufacturing in 2003 according to prefecture, improvements in all other industries offset a DI of below -30 in retailing in Fukui, as a result of which the DI for

![Fig. 1-2-15 Trends in SME business conditions DI in the Kinki region (4Q 2000 ~ 4Q 2003)](image)

Business conditions improving in all industries, but still weak in retailing

(Seasonally adjusted change from previous quarter)

Source: SME Agency and JASMEC, Survey on SME Business Conditions.
Notes: 1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The Kinki region includes Fukui Prefecture.
3. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said they had “improved.”
SMEs in non-manufacturing as a whole improved from the third quarter from around -40 in the first half of the year to finish on -24 in the fourth quarter. In Shiga, conditions remained severe in retailing and services despite the DI becoming less negative in construction in the first half of the year. Due to a major deterioration among wholesalers in the fourth quarter, business conditions remained severe among SMEs in non-manufacturing as a whole, with the DI staying below -40. In Kyoto, the improvement in retailing lagged behind that in other industries. As a result of the DI becoming much less negative in construction and services from the second half of the year and wholesaling from the fourth quarter, however, business conditions among SMEs in non-manufacturing as a whole exceeded -20 in the fourth quarter. In Osaka, there was a large improvement in construction and also declines in the size of the negative in wholesaling and services in the second half of the year. Conditions in retailing, however, remained severe. As a result, the business conditions DI for SMEs in non-manufacturing as a whole became less negative in the

---

**Fig. 1-2-16 Manufacturing production index for the Kinki region**

Underlying recovery in production in Kinki, but still below national level

![Graph showing manufacturing production index for the Kinki region](image)


Note: Figures for January 2004 are confirmed figures for Japan and preliminary figures for the Kinki region.

**Fig. 1-2-17 Trends in SME business conditions DI in the Kinki region (by prefecture)** *(4Q 2000 ~ 4Q 2003)*

(1) **Manufacturing**

Business conditions recovering throughout the region, but still sluggish in Wakayama

(Seasonally adjusted change from previous quarter)

(2) **Non-manufacturing**

Business conditions generally poor throughout the region, and particularly weak in Shiga

(Seasonally adjusted change from previous quarter)


Notes:
1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved.”
second half of the year, but was still below -30 in the fourth quarter. In Hyogo, the business conditions DI became less negative for three consecutive quarters in wholesaling and there were signs of a temporary improvement in construction, retailing and services. However, conditions deteriorated across the board in the fourth quarter. As a result, business conditions among SMEs in non-manufacturing as a whole became substantially less negative in the third quarter, but again deteriorated to less than -30 in the fourth quarter. In Nara, conditions in wholesaling briefly improved in the first quarter before subsequently deteriorating, while conditions in retailing became less negative in the fourth quarter. However, conditions in construction, wholesaling and retailing remained severe. In services, on the other hand, an improvement was observed in the fourth quarter. As a result, business conditions among SMEs in non-manufacturing overall stayed well below -35 until a substantial improvement in the fourth quarter to -26.

In Wakayama, a brief improvement was seen in services in the second quarter, but this was followed again by a deterioration. In other industries, conditions became less negative in either the third or fourth quarter, but remained severe. As a result, business conditions among SMEs in non-manufacturing as a whole improved in the fourth quarter, but nevertheless remained less than -30 (Fig. 1-2-17(2)).

Section 6 Trends among SMEs in the Chugoku region

1. Small and medium manufacturers in the Chugoku region

Looking next at manufacturing in the Chugoku region in 2003, using the indices of industrial production, we find that the index rose in nine industries, including electrical components and devices, information/communications equipment and general machinery, due to healthy growth in both foreign and domestic demand, while there were declines in eight industries, including metal products, textiles, and food and tobacco, due to the decline in public works and new housing starts. Thanks to healthy growth from the summer in demand for electronic components and devices, information/communications equipment and transportation machinery, the production index for manufacturing as a whole rose 3.5% from a year earlier to 97.4, surpassing the national figure of 94.9 (Fig. 1-2-19).

Reflecting these trends in production, the business conditions DI for small and medium manufacturers in the Chugoku region in 2003 became less negative in the second quarter, and exceeded -15 in the fourth quarter against the backdrop of healthy growth in industries including iron/steel, information/communications equipment and automobiles (Fig. 1-2-18). Broken down by prefecture, conditions improved dramatically to become positive in Tottori in the fourth quarter. Elsewhere, conditions picked up in Shimane in the second quarter, Okayama in the third quarter, and
Hiroshima in the fourth quarter, with the DI in each prefecture recovering to around -15. In Yamaguchi, conditions improved from the second quarter to finish at over -20 in the fourth quarter (Fig. 1-2-20(1)).

2. Small and medium non-manufacturers in the Chugoku region

Non-manufacturing in the Chugoku region in 2003 witnessed an expansion of capital investment, but a decline in public works and new housing starts meant that related industries continued to face severe conditions. The slump in consumption also continued due to the unusually cool summer and mild winter. However, there was evidence of an improvement in certain industries due to increases in outsourcing.

Looking at business conditions among SMEs in non-manufacturing by industry amid these conditions in 2003, we find that while construction and services began to improve from the second half of the year to go well above -30 in the fourth quarter, conditions in wholesaling and retailing deteriorated or seesawed, and were respectively well below -30 and -40. As a result, the business conditions DI for SMEs in non-manufacturing as a whole trended around the -40 mark in the first half of the year, before becoming less negative in the second half and improving to around -35 in the second half of the year (Fig. 1-2-18).

Looking next at business conditions among SMEs in non-manufacturing in 2003 by prefecture, we find that in Tottori there was a slight improvement in the fourth quarter in construction, where conditions have been severe. Wholesaling and services saw conditions become less negative in the fourth quarter, but, along with retailing, continued to face a severe environment. As a result, business conditions among SMEs in non-manufacturing as a whole improved from below -40 in the second quarter to over -35 in the fourth quarter.

In Shimane, there were signs of an improvement as conditions became less negative from the second quarter in construction and the third quarter in services. In wholesaling, meanwhile, conditions dramatically worsened from the second quarter, while in retailing the DI became less negative in the fourth quarter, but conditions remained severe. As a result, business conditions among SMEs in non-manufacturing as a whole recovered from below -30 in the second quarter to over -35 in the fourth quarter.

In Okayama, wholesaling exhibited temporary signs of improvement in the first quarter, but thereafter deteriorated considerably as conditions remained severe in all industries. As a result, business conditions among SMEs in non-manufacturing as a whole briefly exceeded -30 in the third quarter, before again deteriorating in the fourth quarter to -38.

In Hiroshima, the business conditions DI became less negative in construction in the second half of the year and in services in the third quarter before again deteriorating, while conditions remained severe in both wholesaling and retailing. As a result, business conditions among SMEs in non-manufacturing overall stayed well below -40 in the first half of the year, then became much less negative in the third quarter. In the fourth quarter, conditions again worsened to -34.

In Yamaguchi, conditions remained severe in all industries except wholesaling, where the negative briefly shrank in the second quarter. As a result, business conditions among SMEs in non-manufacturing as a whole improved to break past -40 in the fourth quarter, though conditions remain severe (Fig. 1-2-20(2)).
Chapter 2 — Regional trends among SMEs

**Fig. 1-2-20 Trends in SME business conditions DI in the Chugoku region (by prefecture)**

(4Q 2000 ~ 4Q 2003)

1. **Manufacturing**
   - Business conditions generally improving, with Tottori leading the way
   - (Seasonally adjusted change from previous quarter)

2. **Non-manufacturing**
   - Business conditions generally weak, and particularly depressed in Okayama and Yamaguchi
   - (Seasonally adjusted change from previous quarter)

Source: SME Agency and JASMEC, Survey on SME Business Conditions.

Notes:
1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved”.

**Fig. 1-2-21 Trends in SME business conditions DI in the Shikoku region**

(4Q 2000 ~ 4Q 2003)

- Business conditions generally weak

Source: SME Agency and JASMEC, Survey on SME Business Conditions.

Notes:
1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved”.
Section 7 Trends among SMEs in the Shikoku region

1. Small and medium manufacturers in the Shikoku region

Regarding manufacturing in the Shikoku region in 2003, the indices of industrial production show that there were increases in nine industries, including electrical machinery, general machinery and plastic products, as a result of strong growth in foreign and domestic demand in the second half of the year. Due to declines in public works and new housing starts, however, there were decreases in five industries, such as metal products, ceramic, stone and clay products, and textiles. The production index for manufacturing as a whole in 2003 began to head upward for the first time in three years to rise 2.3% from the previous year to 97.2, exceeding the national figure of 94.9 (Fig. 1-2-22).

Reflecting this production activity, business conditions among small and medium manufacturers in the Shikoku region in 2003 bottomed out at -34 in the third quarter and proceeded to improve to -24 in the fourth quarter thanks to recoveries in electrical machinery and general machinery (Fig. 1-2-21). Broken down by prefecture, conditions worsened in Tokushima in the second quarter, and in Ehime in the third quarter. In the fourth quarter, however, the scale of the negative shrank, while in Kagawa conditions gradually improved from the second quarter and conditions in all three prefectures reached or at least approached -20 in the fourth quarter. In Kochi, there was a considerable worsening in conditions in the second quarter, but the DI improved to reach -35 in the fourth quarter (Fig. 1-2-23(1)).

2. Small and medium non-manufacturers in the Shikoku region

Non-manufacturing in the Shikoku region in 2003 saw SMEs in communications put in a strong showing due in large part to the spread of broadband, while there were also grounds for optimism in some service industries due to an upturn in overseas travel from the second half of the year. Sales of consumer electronics and automobiles were also firm. At the same time, however, a decline in public works and the effects of the cool summer and mild winter meant that related industries continued to face severe conditions.

Looking at business conditions among small and medium non-manufacturers in 2003 amid these conditions, we find that conditions in construction improved from below -35 in the first half of the year to over -30 in the second half, while conditions in wholesaling remained lackluster, reaching -35 in the fourth quarter. Among small and medium retailers, the DI became less negative from the second half of the year, but nevertheless stayed below -30. In services, conditions remained lackluster at below -30. As a result, business conditions among SMEs in non-manufacturing bottomed out in the second quarter, but, despite subsequently improving, remained severe at below -30 (Fig. 1-2-21).

If we break down business conditions among SMEs in non-manufacturing in 2003 by prefecture, we find that in Tokushima, despite glimpses of an improvement in wholesaling, conditions worsened in all other industries from the second quarter, and finished the year well below -35 in the fourth quarter. Among SMEs in non-manufacturing as a whole, therefore, conditions deteriorated again in the second quarter after a slight upturn in the first quarter, and finished well below -35 in the fourth quarter.

In Kagawa, construction showed some signs of a brief recovery in the third quarter, but conditions again deteriorated in the fourth quarter. In wholesaling and services, there was a dramatic deterioration in the fourth quarter. In retailing, conditions remained severe, and as a result business conditions among SMEs in non-manufacturing as a whole ended at -35 in the fourth quarter.

In Ehime, conditions in construction improved after bottoming out in the first quarter. In wholesaling, retailing and services, conditions improved after
worsening in the second or third quarter, but in all cases stayed around -30 in the fourth quarter. As a result, business conditions among SMEs in non-manufacturing as a whole recovered after bottoming out in the second quarter to finish at -27 in the fourth quarter.

In Kochi, construction, wholesaling and services all exhibited improvements in the third quarter, but became considerably more negative again in the fourth quarter. Retailing, meanwhile, saw conditions improve in the fourth quarter after bottoming out in the previous. As a result, business conditions among SMEs in non-manufacturing as a whole stayed around -30 (Fig. 1-2-23(2)).

Section 8 Trends among SMEs in Kyushu/Okinawa

1. Small and medium manufacturers in Kyushu/Okinawa

Looking next at manufacturing in the Kyushu region in 2003, the indices of industrial production show that there were increases in 13 industries, including transportation machinery, electronic components and devices, and food and tobacco, due to healthy growth centered in exports of products such as automobiles, iron/steel and semiconductors. However, there were declines in three industries, including textiles and ceramic, stone and clay products, that centered on domestic demand. The production index for manufacturing overall in 2003 rose 4.9% to go well
beyond the national figure of 94.9 to 99.7 (Fig. 1-2-25). Regarding manufacturing in Okinawa in 2003, the indices of industrial production show that strong growth in demand in domestic and overseas markets led to increases in five industries, including iron/steel, and construction of rental housing. However, there were declines in six industries, including ceramic, stone and clay products, due to factors such as the decline in public works and slump in capital investment in non-manufacturing. The production index for manufacturing as a whole in 2003 dropped 3.5% from the previous year to 95.7 (Fig. 1-2-26).

An examination of movements in business conditions among small and medium manufacturers in Kyushu/Okinawa in 2003 in response to this production activity reveals that the DI was below -20 in the second quarter, but, fueled by strong improvements in transportation machinery, electronic components and devices, etc., recovered in the second half of the year to -15 in the fourth quarter (Fig. 1-2-24).

A breakdown by prefecture reveals upturns in Fukuoka and Kumamoto in the second half of the year, and in the fourth quarter in Saga, and business conditions respectively exceeded -15, -20 and -20 in these three prefectures. In Nagasaki and Miyazaki, the DI kept considerably below -20 from the beginning of the year, while in Oita, Kagoshima and Okinawa, conditions improved in the second half of the year to exceed -5 (Fig. 1-2-27(1)).

2. Small and medium non-manufacturers in the Kyushu/Okinawa region

Non-manufacturers in the Kyushu region in 2003 displayed grounds for optimism in the form of an upturn in capital investment in manufacturing and the partial opening of the Kyushu Shinkansen. Because of the conclusion of the bulk of the work on the region’s Shinkansen line and decline in other public works projects, however, conditions remained severe in related industries. As a result of the severe employment and income environment, moreover, sales of automobiles and consumer electronics were sluggish.

As regards non-manufacturing in Okinawa Prefecture in 2003, robust growth in new housing starts could not prevent a decline in public works from creating severe conditions for related industries. On the other hand, some industries benefited strongly from the effects of the heat wave, and tourism demand during the summer also grew strongly. As a result of the entry of new large supermarkets into the market, competition in retailing also intensified.

Looking at business conditions among SMEs in non-manufacturing by industry amid these conditions in 2003, we find that conditions in construction improved after bottoming out at -35 in the second quarter to reach -26 in the fourth quarter. Small and medium retailers continued to seesaw at around -25, and finished the fourth quarter on -27. As a result of the effects of SARS and other factors, conditions among SMEs in retailing and services deteriorated to -39 and -36 respectively in the second quarter, but improved to reach -33 and -29 in the fourth quarter. As a result, business conditions among SMEs in

---

**Fig. 1-2-24 Trends in SME business conditions DI in the Kyushu/Okinawa region (4Q 2000 ~ 4Q 2003)**

Business conditions generally weak in manufacturing, and particularly depressed in retailing

(Seasonally adjusted change from previous quarter)

- **Manufacturing**
- **Construction**
- **Wholesaling**
- **Services**
- **Retailing**

Source: SME Agency and JASMEC, Survey on SME Business Conditions.

Notes: 1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved”.

---
non-manufacturing improved after bottoming out at -36 in the second quarter to finish at -31 in the fourth quarter (Fig. 1-2-24).

Next we break down business conditions among small and medium non-manufacturers in the Kyushu/Okinawa region in 2003 by prefecture. What we find is that while there were upturns in all industries in Fukuoka in the fourth quarter, continued severe conditions meant that the DI for SMEs in non-manufacturing as a whole, though improved, remained less than -30.

In Saga, construction and wholesaling continued to face severe conditions, while conditions in retailing and services picked up in the second half of the year. As a result, business conditions among SMEs in non-manufacturing as a whole became less negative in the second half of the year to reach -27 in the fourth quarter.

In Nagasaki, a deterioration in conditions in almost all industries in the second half of the year caused the business conditions DI for SMEs in non-manufacturing overall to stay below -30.

In Kumamoto, there was a sharp deterioration in conditions in construction from the second quarter, while conditions also remained severe in other industries, with the exception of wholesaling, which saw a slight recovery in the third quarter. As a consequence, the business conditions DI for SMEs in non-manufacturing as a whole bottomed out in the second quarter, thereafter staying below -30.

In Oita, the business conditions DI temporarily became less negative in construction in the second quarter, and in services in the third quarter, but conditions remained severe. As a result of an upswing in wholesaling in the fourth quarter, meanwhile, the business conditions DI for SMEs in non-manufacturing as a whole bottomed out in the first quarter, recovering to -27 in the fourth quarter.

In Miyazaki, the extremely severe conditions in construction and retailing continued. But while conditions in wholesaling and services picked up slightly in the third quarter, a subsequent deterioration saw the DI for SMEs in non-manufacturing overall stay between -30 and -40.

In Kagoshima, conditions in wholesaling briefly improved in the third quarter, but subsequently worsened again. In other industries, conditions remained generally severe, causing the business conditions DI for SMEs in non-manufacturing as a whole to stay below -30.

In Okinawa, conditions picked up in construction at the start of the year, with the recovery being particularly marked in the second half of the year. In wholesaling, on the other hand, which had been recovering relatively well, conditions deteriorated in the fourth quarter, while retailing, which had shown signs of picking up in the third quarter, deteriorated in the fourth quarter. In services, meanwhile, where conditions had been deteriorating until the third quarter, there were signs of a recovery in the fourth quarter. As a result, the business conditions DI for SMEs in non-manufacturing as a whole began to recover in the third quarter, but then deteriorated again (Fig. 1-2-27(2)).
Fig. 1-2-27 Trends in SME business conditions DI in the Kyushu/Okinawa region (by prefecture) (4Q 2000 ~ 4Q 2003)

(1) Manufacturing
Resurgence in business conditions in Oita, Kagoshima and Okinawa, but recovery lagging in Nagasaki and Miyazaki

(2) Non-manufacturing
Business conditions weak in all prefectures except Okinawa

Source: SME Agency and JASMEC, Survey on SME Business Conditions.
Notes: 1. Prefectures are categorized into regions according to the Bureau of Economy, Trade and Industry within whose jurisdiction they lie.
2. The business conditions DI is calculated by subtracting the proportion of enterprises that said business conditions had “deteriorated” compared with the previous quarter from the proportion that said that they had “improved.”
PART II

THE LIMITLESS POTENTIAL OF THE DIVERSITY OF SMALL AND MEDIUM ENTERPRISES
Chapter 1 SMEs as the seeds for the development and diversification of the economy and society

Section 1 Diverse activities of SMEs and development of the economy and society

This chapter describes new developments among diverse SMEs in their capacity as creators of new business and new lifestyles, leaders of technological innovation, engines of economic development, providers of employment opportunities for the elderly and women, creators of new working arrangements, providers of public services finely tuned to meet the needs of the local community, and active players in a variety of other activities despite the economic stagnation of the past few years.

SMEs are frequently described as being “diverse” in nature. As SMEs make up over 99% of the total number of enterprises in all industries, they include all kinds of enterprises. Indices of performance show there to be more variation among SMEs than large enterprises. Comparing the rate of operating profit on sales, for example, we find that the lower quartile is 0% for SMEs compared with 1.1% for large enterprises, while the upper quartile is higher (9.5% compared with 5.9%). Fig. 2-1-1 shows the proportion in each operating profit rate band according to size of enterprise, demonstrating the variation in performance to be found among SMEs.

Underlying this variation in performance among SMEs are variations in a number of factors, including the abilities of entrepreneurs (the effects of which SMEs are more susceptible to than large enterprises), attributes peculiar to enterprises, and choice of strategy. Among these factors, the most important is an entrepreneur’s approach to business.

The factors leading an entrepreneur to run a business are many and varied, and include not only the profit motive but also motivations such as self-fulfillment, stability of performance, freedom to make own decisions, and desire to contribute to society.

For example, if we look at the emphasis put on various business motivations by enterprise size according to the SME Agency’s Survey of Corporate Management (December 2003)\(^1\) (Fig. 2-1-2), we find that although large enterprises assign a higher score to most motivations than SMEs, the score given to the motivation “entrepreneur’s freedom to make own decisions” increases as size decreases, and there is no clear gap according to size in the case of “entrepreneur’s self-fulfillment”. In this respect, the greater potential at SMEs than large enterprises for strategy and long-term direction to be determined by the president acts as a business incentive.

Regarding “avoidance of business risk”, which concerns avoidance of uncertainty in business, there is no difference according to size of enterprise, while SMEs assigned a lower score than large enterprises to “stabilization of performance” and “lasting survival of company”. This indicates that SMEs, which face greater business uncertainties than large enterprises, respond by placing less rather than more emphasis on its avoidance than large enterprises.

Considered overall, it can be seen that the management of SMEs is more susceptible than that of large enterprises to the effects of decisions by the president himself or herself, and they have a higher tolerance for the risk associated with this form of management.

The responses of individual SMEs to the question of which business motivation is most important exhibit

\[\text{Fig. 2-1-1 Breakdown of enterprises by rate of operating profit on sales (manufacturing)}\]

Also many highly profitable enterprises among SMEs

\[\begin{array}{cccc}
\text{Large enterprises} & \text{SMEs} & \text{Small enterprises} \\
200 & 40 & 60 & 80 & 100 \\
\text{-20% or less} & 0\% - 5\% & 10\% - 15\% & 30\% - 39\% & 6\% - 10\% \\
\text{Less than -10%} & 6\% - 10\% & 10\% - 19\% & 30\% - 39\% & \text{20\% - 29\%} \\
\text{10\% - 0\%} & 0\% - 5\% & 6\% - 10\% & \text{20\% - 29\%} & \text{10\% - 19\%} \\
\text{Less than -10%} & 0\% - 5\% & 6\% - 10\% & \text{20\% - 29\%} & \text{10\% - 19\%} \\
\text{Note:} & \text{METI, Basic Survey of Commercial and Manufacturing Structure and Activity (1998).} \\
\end{array}\]

1) See Appended Note 3 for details.
much greater variety than those of large enterprises. Thus in Fig. 2-1-3, which shows the coefficient of variance of responses to the above question according to size, SMEs exhibit higher coefficients of variance in all categories of emphasis than large enterprises. Regarding in particular “profits of shareholders and investors”, one might expect there to be greater variation among SMEs, which include sole proprietorships and, if they are joint-stock companies, are often entirely owned by family shareholders, than among large enterprises, which are almost always joint-stock companies. However, even regarding “self-fulfillment”, “freedom to make own decisions” and “contribution to society”, there is greater variation in the degree of importance attached to these motivations among SMEs than large enterprises. Even in terms of business philosophy, therefore, SMEs are less easily bundled together than large enterprises, and this could be one factor that explains the off-noted diversity of SMEs. And it is this diversity that may be at the source of the new developments among SMEs described in the following sections.

Figure 2-1-2 Degree of emphasis on business motivations (by size)

In Figure 2-1-2, it is shown that with increasing size of the enterprise, there is an increase in emphasis on all business motivations. The mean number of points for each size of enterprise is shown.

Source: SME Agency, Survey of Corporate Management (December 2003).

Notes: 1. Small enterprises are enterprises with 20 or fewer workers. SMEs are enterprises with 300 or fewer workers excluding small enterprises. 2. Responses are expressed as scores using a Likert five-point scale, and the mean number of points for each size of enterprise shown.

Figure 2-1-3 Variation in emphasis on business motivations (1–5 point scale)

Coefficient of variation expressing variation in points is largest for small enterprises.

Source: SME Agency, Survey of Corporate Management (December 2003).

Notes: 1. Small enterprises are enterprises with 20 or fewer workers. SMEs are enterprises with 300 or fewer workers excluding small enterprises. 2. The coefficient of variation is used to express the degree of variation in figures, and is calculated by dividing the variance by the mean.

2) Responses are expressed as scores using a Likert five-point scale.

3) Used in order to express the extent of the variation in the values by dividing the variance by the mean.
Section 2  Diversification of lifestyles through the creation of new services by SMEs

In the summary of business trends in 2003 in Part I, it was noted that the present recovery is being driven by export growth and that the pace of recovery among SMEs that are dependent on domestic demand and enterprises in non-manufacturing industries is lagging. This may have given the reader the impression that non-manufacturers have been left stranded. Viewed from a long-term perspective, however, non-manufacturing’s importance as a proportion of industry as a whole is increasing, and this trend is being led by the service sector. In this section, therefore, we look at the role being played by SMEs in the service sector in the broad sense in the creation of new business.

1. SMEs creating new industries on the frontline of the shift in industrial structure

(1) Trend toward a service economy and emergence of new services

When changes in the industrial structure of a country’s economy are considered over the long term, the increase in the relative importance of tertiary industry (most obviously the service sector) with the development of the economy is widely known as Petty-Clark’s Law.\[4\]

If we look at Japan’s industrial structure in terms of the proportion of real gross domestic product accounted for by each sector of industry, we find that primary industry, secondary industry and tertiary industry respectively accounted for 16%, 32% and 51% in 1960, and 2%, 32% and 66% in 2000, showing that tertiary industry’s share has increased.

Tertiary industry’s share of the economy has thus steadily increased in Japan too, and it is the growth of the service sector that has led this trend.

Fig. 2-1-4 shows the service sector’s share of real gross domestic product, from which it can be seen that tertiary industry has grown in step with the service sector, and, viewed from a long-term perspective, that the service industry has been the driving force behind the transformation of the industrial structure.

If we examine trends in the number of business establishments and workers by industry classification according to the MPHPT’s Establishment and Enterprise Census of Japan (Fig. 2-1-5), it can be seen that amid the downward trend in non-primary industry overall, the number of business establishments in the service sector is increasing. Regarding number of workers (Fig. 2-1-6), moreover, we find that the number of workers in the service sector has steadily increased despite ups and downs in non-primary industry as a whole.

Using data from the Establishment and Enterprise Census of Japan to determine which industries within the service sector are experiencing growth (Fig. 2-1-7), it becomes apparent that recent years have seen growth in information and research services, social insurance and welfare services and other services related to daily life.

(For details of industries, see Appended Note 2-1-1).

But while the role of service industries in the economy as a whole has thus steadily increased, this has not come about simply as a result of an increase in the absolute number of service users. The Japanese population aged between 15 and 65 peaked at 87.26 million in 1990, and

\[4\] In The Conditions of Economic Progress (1940), the British economist Colin Clark analyzed trends in the labor structure of industries around the world, and demonstrated the shift in employment from primary to secondary industry, and then to tertiary industry, with economic progress. This tendency in the change of industrial structure was also described by William Petty in the 17th century, hence it has been termed “Petty-Clark’s Law”.

---

Fig. 2-1-4  Breakdown of service sector by share of real domestic product (tertiary industry)

Steady increase in service sector’s share of tertiary industry

Source: Cabinet Office, National Accounts Statistics

Note: Figures in parentheses indicate percentages of total.
Fig. 2-1-5  Trend in number of privately managed business establishments by major industry group (non-primary industry)
Upward trend in business establishments in service sector amid overall decline in non-primary industry


Fig. 2-1-6  Trends in number of workers (private sector) by major industry group (non-primary industry)
Increase in number of employees in service sector drives overall growth


Fig. 2-1-7  Rate of growth in number of business establishments in service sector (industry groups) (1999~2001)
Market growth centered on growth in IT and lifestyle-related services

Source: MPHPT, Establishment and Enterprise Census of Japan.
Notes: 1. Industry groups are selected from service industries categorized according to the Japan Standard Industrial Classification system (revised 1993).
2. Examples of asterisked (*) industries are given in Appended Note 2-1-1.
stood at 86.37 million in 2000 according to the latest national census, indicating that the scope for market growth in services is limited if considered simply in terms of the absolute number of consumers. The reason why service industries, which are typically dependent on domestic demand, have grown is due to the unceasing development of markets for services in new fields and constant generation of new types of services.

We begin, then, by looking at the emergence of these new services. One difficulty we immediately encounter is that as new services are always created by an extremely small number of enterprises (and sometimes by just one enterprise), they are difficult to identify using the sub-industry categories under the Japan Standard Industrial Classification system. In order to gain a better understanding of new services, therefore, we look at industries established over the past few years using data from Town Pages, which is a telephone directory published by NTT (Fig. 2-1-8).

From Fig. 2-1-8, it can be seen that even since 2000, when the economy as a whole was in difficulties, there have emerged many new industries. Focusing only on services, we find that these new industries have a close bearing on people’s daily lives, providing services such as those relating to population aging (such as nursing care and senior citizen staffing agencies), and hobby and leisure-related services (such as manga coffee shops where customers can enjoy comic books as well as coffee and pet services). Among these services, we can expect to find some that have been made commercially viable as a result of subtle innovations by SMEs.

### Fig. 2-1-8 New industries established between 2000 and 2003 (as listed in NTT’s Town Pages)

<table>
<thead>
<tr>
<th>Fiscal year of establishment</th>
<th>NTT category name</th>
<th>Total number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newly established in 2000</td>
<td>Maintenance and inspection of lighting equipment and supplies</td>
<td>7,086</td>
</tr>
<tr>
<td></td>
<td>Nursing care services (institutional)</td>
<td>6,687</td>
</tr>
<tr>
<td></td>
<td>Transportation equipment and supplies</td>
<td>4,152</td>
</tr>
<tr>
<td></td>
<td>Used car backup</td>
<td>6,530</td>
</tr>
<tr>
<td></td>
<td>Electrical control units</td>
<td>1,882</td>
</tr>
<tr>
<td></td>
<td>Automatic control units</td>
<td>2,312</td>
</tr>
<tr>
<td></td>
<td>Financial planners</td>
<td>2,746</td>
</tr>
<tr>
<td></td>
<td>Toy wholesalers</td>
<td>1,168</td>
</tr>
<tr>
<td></td>
<td>Sushi restaurants (conveyor-belt)</td>
<td>9,112</td>
</tr>
<tr>
<td></td>
<td>Seamless tank-managing and cleaning</td>
<td>1,132</td>
</tr>
<tr>
<td></td>
<td>Technical safety control</td>
<td>1,067</td>
</tr>
<tr>
<td></td>
<td>Medical checkups</td>
<td>1,052</td>
</tr>
<tr>
<td></td>
<td>Motion photography shops</td>
<td>288</td>
</tr>
<tr>
<td></td>
<td>Advice services</td>
<td>230</td>
</tr>
<tr>
<td></td>
<td>Installation</td>
<td>289</td>
</tr>
<tr>
<td></td>
<td>Kitting</td>
<td>726</td>
</tr>
<tr>
<td></td>
<td>Synthetic rubber</td>
<td>546</td>
</tr>
<tr>
<td></td>
<td>Sewage facility management and management</td>
<td>525</td>
</tr>
<tr>
<td></td>
<td>Internet cafes</td>
<td>525</td>
</tr>
<tr>
<td></td>
<td>Compensation consultants</td>
<td>434</td>
</tr>
<tr>
<td></td>
<td>Minimum surface painting</td>
<td>418</td>
</tr>
<tr>
<td></td>
<td>Kitchen refuse disposal units</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>Pollution treatment work</td>
<td>315</td>
</tr>
<tr>
<td></td>
<td>Testing services</td>
<td>335</td>
</tr>
<tr>
<td></td>
<td>Non-destructive testing</td>
<td>316</td>
</tr>
<tr>
<td></td>
<td>Car window repair</td>
<td>297</td>
</tr>
<tr>
<td></td>
<td>Food hygiene</td>
<td>226</td>
</tr>
<tr>
<td></td>
<td>Package printing</td>
<td>227</td>
</tr>
<tr>
<td></td>
<td>Ice unloading</td>
<td>221</td>
</tr>
<tr>
<td></td>
<td>Package unloading</td>
<td>217</td>
</tr>
<tr>
<td></td>
<td>Domestic waste transport</td>
<td>186</td>
</tr>
<tr>
<td></td>
<td>Balloons</td>
<td>151</td>
</tr>
<tr>
<td></td>
<td>CD, DVD and video wholesaling</td>
<td>143</td>
</tr>
<tr>
<td></td>
<td>Picture rental</td>
<td>114</td>
</tr>
<tr>
<td></td>
<td>Bear tanning</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>Meat and meat wholesale</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>Aquaculture resources</td>
<td>56</td>
</tr>
<tr>
<td></td>
<td>Bike rental</td>
<td>58</td>
</tr>
</tbody>
</table>


Notes: Total numbers (number of businesses that registered telephone numbers) are as of May 2003.

5) The industries given in Town Pages are specified by applicants when registering their telephone number based on industries listed in an “Industry Classification List”. New types of business that do not fit into existing categories, however, are recognized and listed as a new industry if after around a year the number of businesses of this type has increased.
PART II — THE LIMITLESS POTENTIAL OF THE DIVERSITY OF SMALL AND MEDIUM ENTERPRISES

Case 1-1 Recent new services in outline

DNA analysis
DNA analysis is one industry that has become well known in recent years as a result of its use in areas such as identification of the remains of war dead and victims of 9/11 terrorist atrocities in the United States. The vast majority of cases involve the investigation of parent-child relations for personal or court purposes, due to demand for use of DNA analysis in court because of the “300 days” issue (resulting from the fact that under Family Registration Law, a child born within 300 days of a woman’s divorce is automatically treated as the child of the former husband). As a result of the ease of automation of DNA analysis procedures, services that a few years ago cost between ¥200,000 and ¥300,000 are now available for less than ¥100,000.

DNA analysis has also been increasingly used for identifying brands of agricultural produce. There are increasing concerns about mislabeling of produce, such as counterfeit brands of rice appearing on the market because of poor harvests, and businesses in the private sector as well as the agricultural authorities are being inundated with orders. As the trend toward traceability increases, demand is likely to expand for DNA identification of not only agricultural produce, but also meat and marine produce, with some volume retailers, for example, now interested in entering long-term contracts for periodic identification of rice supplies.

Pet services
The pet industry is expanding beyond just retailing (i.e. the sale of pets and related goods) into services driven by the effects of the declining birthrate and increase in consumers seeking the companionship of pets, and a diversity of services are now available. Pet funeral providers and cemeteries arrange and perform actual funerals for beloved pets like those offered for humans, while pet “kindergartens” train dogs for their owners and offer counseling to owners. Pet sitting services, where owners give sitters the keys to their home so that their pets can be looked after in familiar surroundings while they are out, are also reportedly popular with busy owners. Other services include pet insurance (covering the injury, illness and death of pets, and paying out claims of up to ¥50 million in the event of a pet’s death as well as “consolation” payments to owners), and pet detectives who search for lost pets. There are also now emerging training schools for training staff for work in the pet business, and these are expected to become widespread in the future.

Balloons
Balloons for commercial purposes include decorative balloons for events and other functions, and balloons for use as corporate advertising displays. Balloons for the consumer market include products for weddings, parties, balloon stands (for example, to celebrate the opening of a store), message balloons for retail use (bearing birthday and commemorative messages), and balloons featuring well-known cartoon characters (both Japanese and foreign). As a result of the growth of the wedding market, demand from personal consumers too is growing.
(2) SMEs and new enterprises creating new services and their background

Even in recent years with economic activity in the doldrums, there have emerged wave upon wave of new services that would have been inconceivable a decade ago, underpinning new consumer lifestyles. So what kinds of enterprises bring these new services into the world?

Fig. 2-1-9 shows the responses of businesses (both enterprises and sole proprietorships) that created new services and considered themselves to be the first into the market regarding the size of their enterprises when they entered that industry.

As can be seen, the businesses encountered by early entrants at the time of their entry were “mostly SMEs” (54.4%). While 30% said that they encountered “no competition”, i.e. they enjoyed a de facto monopoly of the market, the fact that most of the respondents (98.8%) were at the time of entry SMEs (with an average workforce of 11.2) suggests that SMEs are swift to move into emerging markets for new services.

This contrasts with the current situation, where a large number of enterprises say that a considerable of proportion of competitors are now large enterprises, indicating that changes in consumer lifestyles are a major factor (Fig. 2-1-10).

If we consider the other hand businesses providing products and services for business establishments and enterprises, we see that institutional factors constraining the market activities of client businesses and enterprises have been an important factor. These include factors such as “spread of IT”, “tightening of regulation” and “easing of regulation” (Fig. 2-1-11).

According to METI’s Basic Survey of Japanese Business Structure and Activities (2002), the proportion of

6) These results are from a survey entitled Survey of the Actual Conditions of the Creation of New Business conducted by the Applied Research Institute, Inc. in January 2004. Questionnaires were mailed to approximately 10,000 companies in new service industries established between 2000 and 2002 and listed in NTT’s Town Pages. The questionnaire asked respondents about the background of the creation of their line of business and details of their activities. Valid responses had received from 674 companies.
enterprises outsourcing operations has been rising in recent years, and increased 3% from the previous year to 74.7% in fiscal 2001. Fig. 2-1-12 shows that in fields in which enterprises are considering outsourcing business in the future, there is expected to be growth centered around services such as data processing, employee training and research as providers of new services play their part in raising enterprises’ business efficiency. The new service providers succeeding against this background include accountancy centers and providers of editing production, patent consultation, electrical safety and management, and food hygiene services. Entrepreneurs active in markets for new services are swift to detect subtle new trends in the economy and society. As can be seen from Fig. 2-1-13, new entrants not only “do what one can”, but are also guided in their choice of market by what they feel is “necessary to society”, engaging in activities in response to people’s diverse and changing needs. However, it is not possible to create new industries just by detecting minute changes in demand, as it is difficult to enter an actual market unless the form of services satisfying users based on detected developments in demand is viable from a business point of view. We look next, therefore, at the factors required for new services to be successful in the marketplace. Looking first of all at the factors enabling market entry.

Fig. 2-1-11 Background to emergence of new services (for business establishments and enterprises)

Factors such as the spread of IT and tightening of regulation accelerating change in industrial structure underlie the emergence of services for business establishments and enterprises

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spread of IT</td>
<td>27.7%</td>
</tr>
<tr>
<td>Tightening of regulation</td>
<td>24.1%</td>
</tr>
<tr>
<td>Easing of regulation</td>
<td>21.6%</td>
</tr>
<tr>
<td>Population aging</td>
<td>19.8%</td>
</tr>
<tr>
<td>Regional development and regional dispersion</td>
<td>19.4%</td>
</tr>
<tr>
<td>Increase in environmental awareness</td>
<td>19.1%</td>
</tr>
<tr>
<td>Increasing interest in hobbies and leisure</td>
<td>15.8%</td>
</tr>
<tr>
<td>Increase in health consciousness</td>
<td>12.9%</td>
</tr>
<tr>
<td>Globalization</td>
<td>11.2%</td>
</tr>
</tbody>
</table>


Note: Totals exceed 100 due to multiple responses.

Fig. 2-1-12 Present state of outsourcing and future potential for use

Growth expected centered on information processing, employee training, research and other services

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Enterprises currently outsourcing</th>
<th>Enterprises considering expanding outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information processing</td>
<td>67.0%</td>
<td>87.0%</td>
</tr>
<tr>
<td>Research and marketing</td>
<td>45.2%</td>
<td>57.7%</td>
</tr>
<tr>
<td>Design and product planning</td>
<td>34.6%</td>
<td>30.8%</td>
</tr>
<tr>
<td>General clerical services</td>
<td>20.5%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Welfare</td>
<td>10.5%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Tax accounting and other specialist fields</td>
<td>8.7%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Employee training</td>
<td>6.7%</td>
<td></td>
</tr>
<tr>
<td>External operations</td>
<td>6.0%</td>
<td></td>
</tr>
<tr>
<td>Logistics</td>
<td>5.0%</td>
<td></td>
</tr>
<tr>
<td>Environment and crime prevention</td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>3.0%</td>
<td></td>
</tr>
</tbody>
</table>


Notes: 1. The percentages indicate the proportions of enterprises engaged in outsourcing and considering expanding outsourcing.

Fig. 2-1-13 Reasons for choice of new field of business

Small new entrants provide society with necessary services

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Necessary to society</td>
<td>87.0%</td>
</tr>
<tr>
<td>Expected to grow</td>
<td>45.2%</td>
</tr>
<tr>
<td>Application of information and knowledge acquired through job</td>
<td>57.7%</td>
</tr>
<tr>
<td>Result of narrowing down to work that one could do</td>
<td>34.6%</td>
</tr>
<tr>
<td>Like the work</td>
<td>30.8%</td>
</tr>
<tr>
<td>Personal hobby</td>
<td>20.5%</td>
</tr>
<tr>
<td>Actualized customer's request</td>
<td>12.6%</td>
</tr>
<tr>
<td>Work was unrealizable at previous workplace</td>
<td>8.9%</td>
</tr>
<tr>
<td>Idea from everyday life</td>
<td>7.3%</td>
</tr>
</tbody>
</table>


Note: Totals exceed 100 due to multiple responses.
shown in Fig. 2-1-14, it can be seen that personal factors play an important role, with “had specialist skills and knowledge” given by 61.7% of respondents and “able to use personal contracts from before startup” given by 34.8%.

The next three commonest factors, however, i.e. “few similar businesses” (31.2%), “able to provide better quality than similar businesses” (29.7%) and “provided different products/services to similar businesses” (27.0%), are indicative that efforts at the level of business management are also relatively important. It can be seen from this that SMEs strive to commercialize and rapidly bring their products or services to market (i.e. strive to secure “lead time”) and produce products and services that are differentiated (in terms of quality or nature) from those of competitors.

Conversely, the factors obstructing entry tend to be intangible in nature, such as “securing customers” (56.2%) and “securing human resources” (42.2%) (Fig. 2-1-15). In terms of the importance of cultivating markets, this suggests that when providing new services it is important to enter the market after securing a solid market, as this is not only an issue at startup.

SMEs thus support lifestyle changes while entering new markets and creating new industries. But what are the effects of their activities? From Fig. 2-1-16, it can be

**Fig. 2-1-14 Factors behind successful market entry by new service providers**

*Market competitiveness as well as personal factors important*

| Factor                                                                 | (%)
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Had specialist skills and knowledge</td>
<td>61.7</td>
</tr>
<tr>
<td>Able to use personal contracts from before startup</td>
<td>34.8</td>
</tr>
<tr>
<td>Few similar businesses</td>
<td>31.2</td>
</tr>
<tr>
<td>Able to provide better quality than similar businesses</td>
<td>29.7</td>
</tr>
<tr>
<td>Provided different products/services to similar businesses</td>
<td>27.0</td>
</tr>
<tr>
<td>Required little funding</td>
<td>26.4</td>
</tr>
<tr>
<td>Enthusiastic about entering field of personal interest</td>
<td>21.0</td>
</tr>
<tr>
<td>Able to provide cheaper products/services than similar businesses</td>
<td>15.0</td>
</tr>
<tr>
<td>Higher ability of supply than similar businesses</td>
<td>12.3</td>
</tr>
<tr>
<td>Succeeded in concealing skills/know-how</td>
<td>8.3</td>
</tr>
<tr>
<td>Outstanding business model</td>
<td>7.9</td>
</tr>
<tr>
<td>Acquired intellectual property</td>
<td>7.6</td>
</tr>
<tr>
<td>Developed new markets</td>
<td>7.0</td>
</tr>
<tr>
<td>Able to secure advantages of first mover</td>
<td>7.0</td>
</tr>
<tr>
<td>Achieved intellectual property</td>
<td>2.5</td>
</tr>
</tbody>
</table>


Note: Totals exceed 100 due to multiple responses.
seen that the commonest response given by businesses that said that they were in emerging markets (i.e. newly established or growing markets) to the question of what effects they had on markets was “increased quality and functions of existing goods and services”. Broken down according to whether respondents were among the first to enter a market, a higher proportion of early entrants than non-early entrants responded “accelerated improvement of existing techniques and know-how” (30.9%), “reduced conventional supply costs” (8.7%) and “increased types and categories of goods and services” (21.7%). The conventional wisdom is that there is less potential for late entrants to achieve these effects. It is easy to imagine that once early entrants have introduced new supply methods, reduced conventional supply costs and created new categories of goods and services, the options open to later entrants are the development of lower cost strategies and the modification of existing products.

Fig. 2-1-16 Effects on market of new entrants

<table>
<thead>
<tr>
<th>Effect</th>
<th>Early entrants</th>
<th>Later entrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accelerated improvement of existing techniques and know-how</td>
<td>30.9</td>
<td>21.7</td>
</tr>
<tr>
<td>Reduced conventional supply costs</td>
<td>8.7</td>
<td>3.6</td>
</tr>
<tr>
<td>Increased types and categories of goods and services</td>
<td>21.7</td>
<td>16.4</td>
</tr>
<tr>
<td>Reducing selling price</td>
<td>4.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Increased quality and functions of existing goods and services</td>
<td>18.6</td>
<td>50.0</td>
</tr>
</tbody>
</table>


Fig. 2-1-15 Barriers at time of entry

<table>
<thead>
<tr>
<th>Barrier</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securing customers</td>
<td>56.2</td>
</tr>
<tr>
<td>Securing human resources</td>
<td>42.9</td>
</tr>
<tr>
<td>Understanding regulations</td>
<td>42.2</td>
</tr>
<tr>
<td>Securing new markets</td>
<td>27.2</td>
</tr>
<tr>
<td>Too many similar businesses</td>
<td>24.1</td>
</tr>
<tr>
<td>Difficulty of commercialization</td>
<td>22.6</td>
</tr>
<tr>
<td>Acceptance of laws</td>
<td>22.4</td>
</tr>
<tr>
<td>Difficulties of intellectual assets</td>
<td>18.6</td>
</tr>
<tr>
<td>Acquisition of site</td>
<td>15.2</td>
</tr>
<tr>
<td>Acquisition of intellectual assets</td>
<td>5.5</td>
</tr>
<tr>
<td>Security of materials</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Note: Totals exceed 100 due to multiple responses.
Case 1-2  Combating the decline in reading among children by developing a new business model

Based in Mie Prefecture and with a workforce of 25 employees, A Ltd. is an all-round provider of services for libraries that develops systems and provides library services under contract. The president, B, was involved in library services at prefectural high schools, during which time he became constantly aware of the fact that children read little and that libraries are inconvenient to use. He therefore resolved to reform the way libraries worked from a private sector perspective in order to increase children’s love of books, and so retired in March 2001 and, after nine months of preparations, established A Ltd. in January 2002.

New business model
While there were already providers marketing systems and providing outsourced services for public libraries, A Ltd. was the first company to provide services for school libraries. Its forte was the provision of comprehensive services combining library services and library software, and, as testimony to the pioneering nature of its work, is in the process of patenting its business model. This enables books to be obtained from other libraries and expands the scope of searches, setting it clearly apart from stand-alone software (currently patent pending). This network-based software is already being used in one project (involving one public library and five school libraries), and an order has also been received for a system linking 79 high schools in the prefecture, which is scheduled to enter operation shortly. Entrusting the operation of school libraries to the private sector increases efficiency due to increased cost awareness. The school library services provided under contract to two junior high schools in two towns since 2002 are now provided at 72 elementary and junior high schools in the prefecture. In the future, the company plans to enroll school libraries as members of a new system for providing online consultations four times a year. The company has already established a track record for provision of services from the establishment to the opening of public libraries, and is now being asked to provide long-term consultations that also include library operations after launch. The best thing about this line of business, according to the president, is that the company is able to help create an environment that brings children and books together. The company’s software expands the range of books used, search software is designed to resemble a computer game to make it more enjoyable for children to use, and the president makes full use of his experience in designing library interiors by, for example, using cartoon characters as signs to indicate the location of books.

Prospects and challenges
As a result of the amendment of the School Library Law to require that schools with 12 classes or more have a qualified librarian, there is growing impetus for improving school libraries. At the same time, the trend toward outsourcing the operation of public libraries to the private sector is strengthening. A Ltd. has only just begun providing school library services under contract and only has experience dealing with schools within the prefecture, making the size of the market an unknown quantity. If the company also turns its sights beyond the boundaries of the prefecture, however, the prospects for growth are good. The company’s forte is the provision of comprehensive services combining outsourced library services with the provision of library software, and, as software in particular has the potential to be a powerful sales tool for expanding nationally, the company is presently looking into new ways of promoting sales of its software. Still being a fresh startup, it has few sales staff and its sales systems are undeveloped. In order to widely publicize the features of its software and characteristics of its network system, however, it must urgently develop sound marketing methods.
(3) Development of new services and transformation of industrial structure

So far in this section, we have looked at the advent of new services and their providers. We turn next to look at how the resulting newly born industries subsequently develop using data from the MPHPT’s Establishment and Enterprise Census of Japan.

The question we first consider is: How do entries and withdrawals to and from a new industry change during the process of its birth and development? At the “moment” of birth of a new industry, the business establishment active in that industry should by definition be singular. Consequently, the entry rate in that industry should be infinitely great. In due course, other companies enter the industry and the entry rate continues to be high and the number of business establishments increases. However, this stage does not continue forever. Not only is demand for the goods and services provided by the increasing number of business establishments finite, but there is the possibility of the advent of similar industries providing substitute goods and services. As a consequence, the conditions of entry become tighter, and the entry rate declines at a certain point in time. Judging from the past history of established industries, the process does not end there. Not only does the entry rate decline, but there is an increase in the exit rate. In other words, some existing business establishments are squeezed out.7)

Fig. 2-1-17 provides an illustration of this point taking one Japanese industry—the home TV game software industry8)—as an example. From this it can be seen that the number of entries was well above the number of withdrawals from the moment of the industry’s birth in 1983 to 1991. From around 1992, however, the number of withdrawals steadily increased, and in 1998 withdrawals from the moment of the industry’s birth in 1983.

Fig. 2-1-17 Trend in number of enterprises in a new industry (Japanese home TV game software)

SMEs accelerate entries and withdrawals, playing leading role in formation of industry

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of enterprises in operation (left-hand scale)</th>
<th>No. of entries (right-hand scale)</th>
<th>No. of withdrawals (right-hand scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>83</td>
<td>50</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>84</td>
<td>100</td>
<td>70</td>
<td>50</td>
</tr>
<tr>
<td>85</td>
<td>170</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>86</td>
<td>250</td>
<td>220</td>
<td>180</td>
</tr>
<tr>
<td>87</td>
<td>300</td>
<td>280</td>
<td>220</td>
</tr>
<tr>
<td>88</td>
<td>350</td>
<td>320</td>
<td>250</td>
</tr>
<tr>
<td>89</td>
<td>400</td>
<td>380</td>
<td>300</td>
</tr>
<tr>
<td>90</td>
<td>450</td>
<td>420</td>
<td>350</td>
</tr>
<tr>
<td>91</td>
<td>500</td>
<td>480</td>
<td>400</td>
</tr>
<tr>
<td>92</td>
<td>550</td>
<td>530</td>
<td>450</td>
</tr>
<tr>
<td>93</td>
<td>600</td>
<td>580</td>
<td>500</td>
</tr>
<tr>
<td>94</td>
<td>650</td>
<td>630</td>
<td>550</td>
</tr>
<tr>
<td>95</td>
<td>700</td>
<td>680</td>
<td>600</td>
</tr>
<tr>
<td>96</td>
<td>750</td>
<td>730</td>
<td>650</td>
</tr>
<tr>
<td>97</td>
<td>800</td>
<td>780</td>
<td>700</td>
</tr>
<tr>
<td>98</td>
<td>850</td>
<td>830</td>
<td>750</td>
</tr>
<tr>
<td>99</td>
<td>900</td>
<td>880</td>
<td>800</td>
</tr>
</tbody>
</table>

Source: Junjiro Shintaku et al. (eds.), An Economic Analysis of the Game Industry, Toyo Keizai Shinposha (March 2003).

Note: The home TV game software market was created by the launch of home TV game consoles in 1983.

7) Taking the American automobile industry as an example, there was a high level of entry activity until the mid-1920s. From the later 1920s, however, there was an increase in the number of withdrawals and decline in the number of startups (Fabris (1966)). A similar pattern of industrial development can be observed in many other industries.

8) Examining an industry from its birth to decline requires various statistical data gathered over a long period of time, making it difficult to provide a general overview. However, Japan’s home TV game software industry is an exception: the number of entrants increased rapidly within a few years of the birth of the market, the market exploded overseas, and information on launch of titles has been accumulated in the industry, making it possible to determine the timing of entries and withdrawals and providing useful statistics for gaining an overall picture of how the industry formed.

9) Because they are not yet classified under the Japan Standard Industry Classification system (i.e. not recognized as industries), newly emerged industries are classified as “other” or not recognized as new “industries” despite being recognized as a sub-category of existing industry categories.
Many of these industries fall under manufacturing. Among them can be found industries that used to be among Japan’s leading industries, which in the past had enjoyed conspicuous growth in number of business establishments.

The result of this transition in industrial structure from conventional industries to new industries is the shift in the industrial structure of the Japanese economy as a whole described at the start of this section, and it is SMEs that have played the leading role in this process. As a result of this development of the service sector, there has been an increase in businesses gaining support from customers by engaging in the fusion of “things” (products) and services, one example of which is described in Case 1-3.

**Fig. 2-1-18** Industries where there is a large gap between the entry and exit rates (in favor of entries), 1999–2001: industries with high growth rates Industries formed by entry of new service providers consisting primarily of SMEs

<table>
<thead>
<tr>
<th>Industry and growth rate</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications-related services</td>
<td>40.0</td>
</tr>
<tr>
<td>Welfare services for the elderly</td>
<td>19.3</td>
</tr>
<tr>
<td>Software</td>
<td>13.5</td>
</tr>
<tr>
<td>Secondhand retail (not otherwise classified)</td>
<td>11.5</td>
</tr>
<tr>
<td>Not otherwise classified lifestyle-related services</td>
<td>9.6</td>
</tr>
<tr>
<td>Food retailing</td>
<td>6.9</td>
</tr>
<tr>
<td>Other professional services</td>
<td>5.1</td>
</tr>
<tr>
<td>Not otherwise classified business services</td>
<td>4.6</td>
</tr>
<tr>
<td>Law and patent offices</td>
<td>4.2</td>
</tr>
<tr>
<td>Heating services</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Source: Recompiled from MPHPT, Establishment and Enterprise Census of Japan.
Notes: 1. Annual average entry and exit rates for the period from 1999 to 2001.
2. Only industries with at least 10,000 business establishments in 2001.

**Fig. 2-1-19** Industries where there is a large gap between the entry and exit rates (in favor of exits), 1999–2001: industries with high rates of decline

Entries and withdrawals of enterprises cause change in industrial structure

Source: Recompiled from MPHPT, Establishment and Enterprise Census of Japan.
Notes: 1. Annual average entry and exit rates for the period from 1999 to 2001.
2. Only industries with at least 10,000 business establishments in 2001.
## Case 1-3  Responding to new consumer demands through the fusion of things and services

<table>
<thead>
<tr>
<th>Case 1</th>
<th>Case 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>C Ltd. is an assistive services provider that develops and markets wireless monitors for detecting when a person gets out of bed. Falls most often occur when getting out of bed to go to the toilet, so this system makes use of a sensor to give an audio alert to a carer when a person gets out of bed if they are not in the vicinity. The company also develops and markets sensors to prevent “wandering” by providing an audio alert to a carer when a person in their care moves around on a mat.</td>
<td>D Ltd. is a software developer and provider of services using IT that develops and markets online remote control and communication systems for pet owners. Owners can see video of their pets at any time via the Internet, and give them food and call to them by remote control.</td>
</tr>
</tbody>
</table>
Section 3  Technical innovation by SMEs

Up to this point, we have focused on the changes in lifestyle generated as a socioeconomic effect of the diversity of SMEs. In this section, we look next at technical innovation and touch upon the economic effects generated by SMEs.

Economic growth is due not only to increased inputs of economic resources, such as capital and labor, but also increases in total factor productivity, which signifies the effects of technological innovation and various improvements in efficiency. As Fig. 2-1-20 shows, total factor productivity has a large impact on the rate of economic growth in Japan too.

An examination of the rate of growth in total factor productivity in present-day Japanese manufacturing by size reveals that growth is on average higher at SMEs than large enterprises. From this it may be surmised that SMEs are playing an active role in technological progress and other forms of technological innovation (Fig. 2-1-21).

In the United States, it has been reported that half of all technological innovation in manufacturing is produced by SMEs. In Japan, however, a considerable proportion of initial technologies have been introduced from overseas, and so there have been no similar case studies of the situation. However, if we take as an example an industry in which most of the top-selling titles in North America and other regions are produced by Japanese enterprises that are recognized as being innovative and internationally competitive in markets overseas, i.e. the Japanese home TV game software industry, and examine the number of innovations produced by this industry, it can be estimated that 33% of the titles (i.e. game software) regarded as "epoch making" within the industry are produced by SMEs (Fig. 2-1-22).

This industry is highly R&D intensive in nature, and

Footnotes:
10) Total factor productivity is a measure of the extent of growth in production that cannot be explained by growth in factors of production such as labor and capital, and is normally interpreted as indicating the rate of technological progress.
11) See The State of Small Business: A Report of the President (1996), which describes how in extremely innovative industries in 1982 (computer equipment and electronic components, etc.), SMEs created approximately the same proportion of technological innovation as large enterprises.
12) According to The CESA Games White Paper (2003) by the Computer Entertainment Supplier’s Association, the cost of development of one title averaged ¥123 million (taking titles launched in 2002 as an example). This was for the platform with the highest development costs, which vary depending on the platform. Titles for this platform incidentally accounted for the largest proportion of sales in the domestic market (51.7%, i.e. approximately half).
(2) Genres where proportion of development by SMEs is high

<table>
<thead>
<tr>
<th>Genre</th>
<th>Developed by SMEs</th>
<th>Developed by large enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action</td>
<td>30</td>
<td>64</td>
</tr>
<tr>
<td>Adventure</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Simulation</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>Shooting</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Role-playing</td>
<td>2</td>
<td>14</td>
</tr>
<tr>
<td>Puzzles, board games, etc.</td>
<td>1</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Compiled by the SME Agency from Shûkan Famitsû (published by Enter-Brain).

Notes: 1. 168 titles rated extremely highly in the “New Game Cross Review” published in the above publication (a section in which industry experts rate the content of game software) classified according to the size of their distributor.
2. The genre categories used are from The CESA Games White Paper produced by the Computer Entertainment Supplier’s Association (under the jurisdiction of METI).

The speed of technological innovation is exceedingly rapid. Around 1,000 titles are launched per year, and a market that emerged in 1983 had expanded to be worth ¥474.7 billion in 2002. In this type of market as well, it can be seen that SMEs have played a role in promoting innovation in the form of technological innovation. Of the activities by SMEs to generate technological innovation, we turn next to focus on activities to develop and improve new products, and examine the distinguishing features and factors for success of SMEs actively engaging in such activities.

1. Distinguishing features and factors underlying the success of SMEs engaged in new product development and improvement

(1) Characteristics of technological innovation by SMEs

SMEs may be said to generate more technological innovation than large enterprises. What then are the features of technological innovation by SMEs, and how is it generated? Before answering this question, we look at what kinds of enterprises engage in technological innovation and in what kind of activity according to size of enterprise. What we find is that, as Fig. 2-1-23 shows, the proportion engaging in the development and improvement of products and services increases with size.

On the other hand, it can be seen from Fig. 2-1-24 that SMEs make use of newer technologies when they engage in the development and improvement of new products and services.

As Fig. 2-1-25 shows, SMEs are also more likely to engage in business conversion and diversification.

Naturally, it is not necessarily true that only ambitious-looking activities undertaken by SMEs, such as business conversion and diversification, result in innovation. Faced by various constraints, it is common for SMEs to make a stream of minor innovations—such as improvements to new products and design refinements—that would be indiscernible to large enterprises, and it was shown in the 2003 White Paper on Small and Medium Enterprises in Japan that such activities lead to major growth (in terms of the rate of growth in number of workers) at SMEs in particular.

Fig. 2-1-23 State of product development and improvement activities according to size

![Graph showing the state of product development and improvement activities according to size](image)

Source: SME Agency, Survey of Corporate Management (December 2003).

Notes: 1. Totals exceed 100 due to multiple responses.
2. Breakdown of specific activities of enterprises that engaged in development and improvement of products in the past five years.

---

14) Value of shipments of software by type of game according to The CESA Games White Paper (including both domestic and overseas shipments).
15) In Part II, Chapter 1, Section 2 “2. Mechanism of growth of SMEs” in 2003 White Paper on Small and Medium Enterprises in Japan, it was noted on the basis of Fig. 2-1-18 that enterprises that engaged in the development of new products enjoyed higher rates of growth in the number of workers.
Direction of technological innovation by SMEs and use of data

In the development and improvement of products leading to technological innovation, what do SMEs put most emphasis on and do these factors lead to success?

In determining the direction of the development and improvement of products, various kinds of information are integrated, such as information on users, information on past sales, and trends in social tastes. Below we look at how SMEs use these types of information, how they make use of them in the development of products, and how the incorporation of information leads to the success or failure of new product development and improvement activities.

Accurately measuring the concrete outcomes of activities such as product development is somewhat problematic. Here, we use enterprises’ own assessment of outcomes after the development and improvement of products and rates of growth in sales as measures, and look at what kinds of information the enterprises that achieve them put the most emphasis on.

As use of information might be expected to differ according to the type of market that enterprises face, we categorize the goods produced into goods for business use and goods for personal use (and, in the case of goods for business use, further into active capital goods and end-use goods) for analysis.

Before proceeding with the analysis, let us look at how various types of information, such as information on users, information on past sales patterns, and information on social tastes, are used in the development and improvement of products. Fig. 2-1-26 shows the score given by enterprises to indicate the extent of use of what kinds of information in the development and improvement of new products and services.

The results of an analysis of the impact of the emphasis on these types of information on the degree of success of development by enterprises are shown in Appended Notes 2-1-2 and 2-1-3. Looking firstly at active capital and end-use goods for businesses, we find that enterprises placing a greater emphasis on “accumulation of technologies and know-how”, “specific demands of clients and customers” and “knowledge and experience of characteristics of own saleable products and own market” registered a higher self-assessment of the outcomes of development and improvement of products and services.

Accurately measuring the concrete outcomes of activities such as product development is somewhat problematic. Here, we use enterprises’ own assessment of outcomes after the development and improvement of products and rates of growth in sales as measures, and look at what kinds of information the enterprises that achieve them put the most emphasis on.

As use of information might be expected to differ according to the type of market that enterprises face, we categorize the goods produced into goods for business use and goods for personal use (and, in the case of goods for business use, further into active capital goods and end-use goods) for analysis.

Before proceeding with the analysis, let us look at how various types of information, such as information on users, information on past sales patterns, and information on social tastes, are used in the development and improvement of products. Fig. 2-1-26 shows the score given by enterprises to indicate the extent of use of what kinds of information in the development and improvement of new products and services.

The results of an analysis of the impact of the emphasis on these types of information on the degree of success of development by enterprises are shown in Appended Notes 2-1-2 and 2-1-3. Looking firstly at active capital and end-use goods for businesses, we find that enterprises placing a greater emphasis on “accumulation of technologies and know-how”, “specific demands of clients and customers” and “knowledge and experience of characteristics of own saleable products and own market” registered a higher self-assessment of the outcomes of development and improvement of products and services.

Regarding the actual rate of growth in sales, on the other hand, there was less of a correlation with these types of information, and instead “changes in tastes of users not yet catered to by the market” was correlated. In the case of goods for personal consumers, identifying “changes in of users tastes not yet catered to by the market” was positively correlated with rate of growth in sales (Fig. 2-1-27).
**Fig. 2-1-26 Development and improvement concepts for new products and services**

_Increase in extent of incorporation with size_

![Graph showing development and improvement concepts for new products and services](image)

*Source: SME Agency, Survey of Corporate Management (December 2003).*

_Notes:_
1. Responses are expressed as scores using a Likert five-point scale, and the mean number of points for each size of enterprise shown.
2. Figures are for enterprises that responded regarding all five items (information used in new product development and improvement activities).

**Fig. 2-1-27 Incorporation of “changes in tastes of users not yet catered to by the market” and impact on rate of growth in sales**

_EmpHASIS ON ANTICIPATING DEMAND IS IMPORTANT TO DEVELOPMENT OF HIT PRODUCTS AND SERVICES_

![Graph showing incorporation of changes in tastes](image)

*For business establishments and enterprises (industrial goods)*

*For personal consumers*

*Note:_ Only factors that were found to be significantly correlated with “changes in taste of users not yet catered to by the market” in Appended Note 2-1-3 are shown.

**Fig. 2-1-28 Outcomes of prior securement of market and development/improvement of products**

_SMEs that secure outlets in advance enjoy better outcomes of development_

![Graph showing outcomes of prior securement](image)

*Source: SME Agency, Survey of Corporate Management (December 2003).*

*Note:_ Figures indicate the proportion of SMEs whose development of new products yielded results as a percentage of all SMEs that developed new products in the previous five years.
From these results it can be seen that the extent to which the users of products can be concretely pictured is of key importance in new activities such as the development of new products.\(^{16}\)

Fig. 2-1-28 shows the relationship between securement of prospective customers at the stage before product development and the outcomes of product development, from which it can be seen that securing customers in advance is important to ensuring the success of product development. In other words, it is necessary to produce what customers need within the context of relations with customers (consumers) rather than sell what one can make; and, where needs cannot easily be identified, it is necessary to conduct a detailed study of what kinds of customers goods and services are to be supplied to.

In this respect, SMEs place a high value on face-to-face communication and consider their adaptability and speed of decision-making as advantages, and the strength of their relations with customers lie at the source of technological innovation by SMEs.

Regarding the specific content of the product and service development and improvement activities shown in Fig. 2-1-23, positive correlations with the rate of growth in sales were exhibited by “improvement of production processes” in the case of goods and services for business establishments and enterprises (end-use goods), and “improvement of design” in the case of goods and services for consumers (Appended Note 2-1-4), indicating that perspectives such as these also constitute effective approaches.

According to the Survey on Alliance Activities of SMEs (November 2002), around 40% of all SMEs engage in produce development and improvement in collaboration with other enterprises. Fig. 2-1-29 shows that a change is underway from collaboration with “company in the same industry”, which used to predominate, to collaboration with “enterprises in other industries”, from which it can be seen that there exist clusters of SMEs that increase the value added of their produce and services through various forms of collaboration with other distinctive SMEs.

On the following pages, we look at the situation regarding university ventures, which specialize in particular in technological innovation.

---

\(^{16}\) Fujimoto and Yasumoto (1998) offer an analysis of the key sources of concepts for product development by type of good. They argue that while “direct opinion of clients” and “specification by clients” are important in the case of industrial goods and intermediate goods due to higher client knowledge compared with consumable goods, market research and anticipation of market needs are important in the case of consumer goods, suggesting that maximization of value within relationships (with clients, rivals and partners) is important.
Case 1-4 Transformation of prefectural produce into national brand through development in collaboration with customers using IT (development of products for personal consumers)

Based in Nagasaki Prefecture and with a workforce of eight, E Ltd. is a food and drink manufacturer and retailer specializing in nigari (bittern) products. The company’s 36-year-old president, F, started up as a sole proprietorship in 1993, then registered as a corporation in 2003 in order to develop a national brand of local produce produced in his prefecture.

Supplying local produce nationwide
F had worked in management at a number of companies, where he not only acquired business know-how, but also became aware of the need to somehow revitalize the local economy. Seeing that several kinds of produce for which Nagasaki was well known were branded under other prefectures and companies’ names, he decided to set up in business in order to do something about it.

Having heard of nigari, which at the time was almost completely unknown, he decided to market this nationally under the prefecture’s own brand name, and commenced sales via the Internet. While the collapse of the IT bubble had cast some doubt on the usefulness and potential of the Internet, F realized that, with some modifications to make it more convenient to use, the Internet could be an indispensable sales tool for local enterprises marketing their wares on the national stage.

The nigari extracted as a byproduct in the production of salt is used to make tofu. However, as it is rich in elements such as magnesium, potassium and calcium, it has gained a reputation through word of mouth as being effective for combating atopic conditions, hay fever, skin discoloration and wrinkling, and being useful for dieting. The company has absolute confidence in the quality of its nigari, as dioxins and heavy metals are removed by a method of ion replacement membrane dialysis using an electrode-based filter system. Sales during busy months are around ¥100 million, and the company’s website receives around 1,200 hits per day.

Market and product development in partnership with customers
Everyday at the morning meeting, employees are reminded that the company’s mission is “to create fans, not to sell things”. These days, a company must provide services as well as just physical products. At E Ltd., this is seen as meaning reassuring and wowing customers regarding products. In order to achieve this, the company engages in activities such as: 1) assigning two full-time Internet staff and eight staff to handle telephone inquiries (toll free), including one dietitian, in order to respond immediately to queries and inquiries from consumers regarding products, 2) providing videos and handbooks explaining products and accessories free of charge, 3) organizing the inquiries from customers for publication into a “Q&A” section on the company’s website, 4) product development in collaboration with customers using the company’s online forum, and 5) also accepting payment for goods on delivery. In order to ensure the longevity of products as a brand, it is essential that consumers have confidence in products and the industry as a whole. For example, even if later entrants to the industry produce similar products, the company believes that the appearance of imitations that harm the reputation of the industry can be prevented if the effects of products are accurately assessed without exaggeration or fabrication by the industry.

The company has therefore established a nigari research institute to conduct surveys and research, and is assiduous about disclosure of information based on information such as that regarding use of products by customers, and works with customers via the Internet to assess the effects and deal with problems regarding products. In this way, it is working hard to carve out a market with the participation of customers.

Pointers on use of the Internet by SMEs
Right from the startup stage, the founder felt it necessary to make certain innovations in order to successfully market goods via the Internet. He met with a company providing website support on a number of occasions, and began with a questionnaire survey offering prizes for respondents in order to increase the number of website hits received. As a result, the number of hits increased and even major search sites began to give the company as the top response to search queries for nigari. It was from this point that sales began to take off. The company also made use of the questionnaire findings in order to send out individualized e-mails dealing with customers’ concerns in order to promote sales.

When using IT, it is important to carefully consider whose convenience it is supposed to assist. In other words, if the target market is personal consumers, systems must be designed for ease of use by individual customers, not the convenience of the company. While sending out the same e-mail message to large numbers of customers may be efficient, this does not necessarily convey to customers exactly what a company wants. The convenience of IT lies not in the fact that it enables mass marketing from one to 1,000 customers, but rather that it enables one-to-one communication with 1,000 customers. Taking advantage of this, E Ltd. uses questionnaires to determine customers’
reasons for their purchases when they buy an item, and based on the results it sends out advice and messages tailored to address the concerns of individual customers (10 days, one month, three months and half a year after purchase). In the case of customers who found products effective, the company asks them by e-mail to describe their experience for publication on its bulletin board. This serves as a means of screening product quality, and potential customers who read these stories are reportedly reassured as to the safety and efficacy of products.

A community has thus developed around the company’s own website, and customer opinions submitted there are used in product development. The company also seeks customers’ views during the course of development, and invites customers to come up with names for final products. Consumers can check up on the product development process in real time and see their views incorporated into the end product, ensuring that consumers too take an interest in their purchases.

**Contributing to the local economy by providing employment**

In order to market a prefectural brand nationally, the people who make the products should really be drawn from the local community. Through its business, therefore, E Ltd. aims to provide local employment opportunities. While much of the wrapping, enclosing and sending of products can be performed automatically, this simply results in an outflow of funds to the companies that make the machinery required for automation. The company therefore seeks to use human labor where operations can be performed efficiently by humans so as to create employment. By doing so, it believes that this will convince local residents of the merits of promoting the prefecture’s own brands. Initially, the company hired six part-timers for such work. Now, however, it employs 80 part-timers so that it can meet orders immediately, thus creating local employment. Through an acquaintance at a local center for the disabled, the president also found out about the need for opportunities to allow disabled people to play an active part in the community, and so he decided to contract out wrapping work to the center and thus give it a share in the profits as well. Some 120 people at a number of facilities are now involved in such work every day.

F says that one of the attractions of his present business is knowing that customers are truly delighted with products, broadening knowledge of his own prefecture’s brands, and as a result increasing employment in the local community. Because the business is currently generating profits, F feels that this is just the right time to invest in a proper TV advertising campaign and other advertising to ensure that the prefecture’s brands become firmly established.
Case 1-5 Developing high value-added products through collaboration with SMEs in other industries with unique technologies

G Ltd. is a Tokyo-based company with a workforce of 70 specializing in precision processing (such as cutting and welding work) using lasers and electronic beams. Expanding its network with other companies developed through business partnerships in the past, G Ltd. has entered partnerships with other SMEs in remote regions and is now receiving requests for various forms of cooperation from many large enterprises.

Development of business partnerships to respond to client needs
G Ltd. first became involved in collaboration with other companies as a result of a request from a certain client. Despite the extremely high level of precision of its welding work, there were frequent problems with various defects occurring at subsequent stages, decreases in the precision of finished products, and delays in delivery. Losing patience with this situation, the client requested that G Ltd. take responsibility for the entire process—from procurement of materials to processing—as well as specialist welding work. G Ltd.’s president, H, felt that while his company would be unable to perform all processes in-house, it would be able to take end-to-end orders if it enlisted the aid of other SMEs with outstanding technical capabilities, i.e. if it entered business partnerships. He therefore set about finding companies in the surrounding area that could assist with processing. Suitable partners were found, and the company was able to win the confidence of its client. As a result of this experience, H became convinced that turning G Ltd. into a collaboration coordinator would open up new business opportunities.

Overcoming problems of distance to enter collaboration with remote SMEs
As a result of the above activities, G Ltd. succeeded in building a network of companies within the surrounding area. However, as orders increased, so too did technological demands, and the local network found itself no longer able to fully meet client needs. Making use of the company’s existing network of partners, therefore, H got in touch with various SMEs around the country and went to check up on what they could offer technologically. Crucial to business collaboration is a coordinating company that can oversee the collaborating companies. H wanted G Ltd. to play this role, but there were some dissenting voices from within the company initially. This was because of the risk that, in the event of problems or claims from clients, the company would be held fully liable. However, H persuaded those who opposed the idea that the company should actively take on a position of responsibility in order to be able to do business on equal terms with large enterprises, and a consensus was achieved.

Provided that it had something to offer technologically, the company was not worried how far away a potential partner might be. To reduce the psychological and physical distance, it considers close liaison (discussion and consultations) with a partner to be of the utmost importance. The members in areas of collaboration that the company is presently focusing on are varied, and include material developers, grinders, polishers and fabricators located in areas all over the country, such as Tochigi, Osaka and Shiga. Despite this, members frequently meet up for discussion, and through plant inspections and similar activities they become thoroughly familiar with each other’s strengths and how their technologies can be used, thus building trusting relationships. Also important to smooth collaboration is close communication between employees.

Through this network, the company has been able to develop and deliver to clients precision parts for semiconductor manufacturing equipment.

Development of proprietary brand through collaboration
The strength of this network is that it enables the provision of high quality, high value-added products by allocating processes to the companies with skill in those areas. In order to make the most of this strength, the company intends to publicize its ability to provide high-quality products through the preparation of joint brochures and development of its own proprietary brand.
2. Potential of R&D-oriented university ventures and future issues

(1) Characteristics of university ventures
According to METI, there were 531 university ventures as of March 2003, and around another 470 startups are required in the next two years in order to achieve the target figure of 1,000 startups (Fig. 2-1-30). Broken down by industry, 30.9% are in IT and software, and 24.7% are in biotechnology and medicine. Identifying the features of these university ventures contributes not only to examining the startup and provision of business support to university ventures, but also helps us understand the technological innovation activities of R&D-oriented SMEs.

The results of the Basic Survey of University Ventures conducted by Nikkei BP Consulting, Inc. in March 2004 (referred to below as the University Venture Survey) show the main characteristics of university ventures to be as follows:
1) R&D is in many cases still ongoing at the time of startup, and even now many have yet to reach the commercialization stage (i.e. actual sale of products and services).
2) Startup funds are comparatively small and their capital is high.
3) Management personnel come from a diversity of backgrounds.
4) Markets are potentially large.

The first characteristic cited is that many university ventures have yet to reach the commercialization stage at startup. As can be seen from Fig. 2-1-31, approximately 60% of university ventures start up while at the R&D stage.

Fig. 2-1-32 shows a breakdown according to number of years until commercialization. Around 50% of ventures have yet to achieve commercialization even after four years, showing that commercialization takes time. A comparison of the length of time from start of development to commercialization shows that while 60% of manufacturers engaged in R&D complete product development within one year, university ventures that have completed commercialization but had not at the time of startup currently take an average of 2.5 years to achieve commercialization (with 48.1% of all ventures still not having achieved commercialization) (Fig. 2-1-33). If the total period actually devoted to development (i.e. the period of research at a university) is also taken into account, it can be seen that commercialization takes considerable time.

This suggests that business based on the results of research at universities takes a fairly long time to reach the commercialization stage due to the highly advanced nature of the technology involved.

Thus most university ventures appear at present to have as their primary business goal efforts to commercialize...
the fruits of university research. Bearing this business environment in mind, an examination of the business funds of university ventures at present reveals that startup funds are low, and less than that generally required by entrepreneurs in recent years (Fig. 2-1-34). If we look at the amount of capital that ventures have, on the other hand, we find that, despite some variation, the level is comparatively high (Fig. 2-1-35). The average

![Fig. 2-1-32 Proportion of university ventures that have achieved commercialization](image)

Commercialization takes time, and only around 50% of all enterprises have achieved commercialization even after four years.

Note: The figures indicate the percentage of enterprises that commercialized (i.e., had begun commercial sale of products or services) the products or services comprising their core business after the number of years shown.

![Fig. 2-1-33 Period of development of new products or technologies in manufacturing](image)

60% or more complete development and launch commercially within one year.

Note: Tabulated results regarding the period from start of development of new products and technologies to completion of commercialization by 2,624 manufacturers engaging in development of new products or technologies.

![Fig. 2-1-34 Breakdown of university ventures by scale of startup funding](image)

About 50% of ventures use no more than ¥5 million, less than ordinary startups.

Note: The figures for manufacturers (at startup) were calculated based on the responses regarding startup funding given by a sample of 860 manufacturers surveyed for the Survey of the Environment for Startups.

![Fig. 2-1-35 Breakdown of university ventures by scale of capital](image)

Around 30% of university ventures have capital of at least ¥50 million.

number of workers of a university venture is 11.4, and the level of capital is considerably above even that of manufacturers with 10~20 workers. The comparatively low startup costs may be due to the fact that university ventures that have yet to reach the commercialization stage do not need the facilities that a startup normally requires, such as a factory for production, warehouse for storage and inventory, and store-related assets such as merchandise display stands. The readying of a large amount of capital, on the other hand, may be because of the need to bankroll R&D and personnel expenses in order to commercialize the fruits of R&D, which is, as we have seen, difficult.

The third characteristic cited is the diversity of management personnel. University ventures not only have university researchers, but also often have managers brought in from the private sector specifically because of their management expertise. Examining the academic background of management personnel shown in Fig. 2-1-36, we find that many have master’s or doctoral degrees. If we look at the previous occupation of representative directors from the private sector, we find management personnel to be characterized by a high level of diversity, with managers being drawn from services, banking, venture capital businesses, trading companies and consultancy firms as well as...
manufacturing (Appended Note 2-1-5). Further, if the functions of representatives at the time of establishment are broken down by previous occupation, (Fig. 2-1-37), we find that around one in two of those from universities were responsible for R&D, while those from the private sector were responsible for a range of duties, including sales and marketing in addition to just R&D.

One of the most exciting characteristics of university ventures is “market size”, as this is indicative of the size of their potential. Fig. 2-1-38 shows that the domestic markets for the core products of university ventures are projected to be worth over ¥10 billion in 10 years’ time at over half of enterprises with capital of ¥5 million or over, and the overseas markets of 40% of enterprises with capital of at least ¥10 million are projected to be worth over ¥100 billion after 10 years (Fig. 2-1-39). The potential size of their overseas markets in particular is thus a distinguishing feature of university ventures.

As can be seen from Fig. 2-1-40, the fact that almost 40% of all university ventures were started up based on university patents suggests there is a strong likelihood that their technologies are more attractive and advanced than the norm.

The market size of university ventures is thus likely to be large, which contrasts with normal ventures, which typically seek to cater to niche markets.19 University ventures have the capacity to create large markets, and this may be regarded as one of their characteristics.

(2) Conditions for success of university ventures

As we have seen, university ventures are a relatively new phenomenon in Japan, which makes it difficult to make reliable quantitative statements about their performance and the requirements for their success. 28.2% of the total have yet to go into the black even once after startup, and even those that have entered the marketing stage are rarely earning income from the sale of their core products. At the present stage, therefore, it is extremely difficult to tell who is succeeding and to determine the criteria by which to gauge success, and a little more time is needed before proper empirical studies can be made of the success or otherwise of university ventures. That said, an examination of whether the research results that formed the basis for a startup were successfully commercialized and, if so, what factors underlay this might enable us to discover some means of ensuring that university ventures get off the ground.

We therefore look next at whether or not enterprises that were still at the R&D stage at startup have now reached the commercialization stage20, and examine the

---

19) Kutsuna (1999), Japan’s Venture Businesses.
20) For this survey, respondents were asked whether the products or services that formed the core of their business at the time of establishment were 1) at the R&D stage, 2) at the stage of completion or trial sale of production prototypes, 3) launched as a product or service (including outsourcing and licensing of technology), or 4) at another stage at the time of establishment and the time of the survey.
relationship with 1) content of support at time of establishment, and 2) the duties for which the representative was responsible at the time of establishment (Fig. 2-1-41) (Appended Notes 2-1-6, 2-1-7). What we find is that enterprises that have achieved commercialization are more likely to i) have received marketing support at the time of their establishment, and ii) have had a representative who at the time of establishment was responsible for sales and marketing.

Based on the results regarding i) content of support at time of establishment and ii) duties of representative at time of establishment, we may conclude that university ventures with strong technology-based core competences need support with sales in order to supplement their capabilities, which accords with the results of prior research regarding the complementary assets of typical high-tech ventures.21) What kind of customer products are made for is an important consideration for R&D-oriented enterprises as well, and it appears that making a clear division between research and management roles enables the complementary functions of the two to act effectively.

As well as the factors examined above, successful commercialization also requires access to human resources (employees). The categories of worker that university ventures lack according to Fig. 2-1-42 are “R&D” (53.6%), “sales” (50.8%), “marketing” (29.6%), “accounting and finance” (26.8%), and “business planning and president’s assistant” (24.0%). As Fig. 2-1-43 shows, the types of human resource required differ depending on the stage of commercialization. When the commercialization stage has not been reached and R&D is still in progress, “R&D” and “accounting and finance” resources are required. Conversely, once commercialization has been completed and sales activities have commenced, an enterprise requires “sales” resources. Support regarding human resources to facilitate commercialization therefore needs to be considered from this point of view.

21) Oakey, Rothwell and Cooper (1988) identify sales capability as being a complementary asset of critical importance to high-tech ventures because “relations with customers have a strong positive effect on the outcomes of technological innovation”.

---

**Fig. 2-1-42** Types of employee in short supply

<table>
<thead>
<tr>
<th>Important to hire human resources in R&amp;D and sales fields</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D</td>
</tr>
<tr>
<td>Marketing</td>
</tr>
<tr>
<td>Business planning and president’s assistant</td>
</tr>
<tr>
<td>Intellectual property management</td>
</tr>
<tr>
<td>Legal affairs</td>
</tr>
<tr>
<td>Information systems</td>
</tr>
</tbody>
</table>

**Fig. 2-1-43** Types of employee in short supply at university ventures (by stage of commercialization)

Breakdown by stage of commercialization reveals change in types of employees required at each stage


Note: Totals exceed 100 due to multiple responses.
I Ltd. is a company based in Tokyo with 31 employees and capital of ¥580 million. It was established in 1999 to commercialize the results of R&D undertaken independently by J, a professor emeritus at a certain university, when he retired. The company’s core business at startup was the development and discovery of anti-cancer and anti-allergy drugs using a process of “chemotaxis” (i.e. the phenomenon by which cells are drawn by certain substances and proteins) discovered by J, and the company is presently still at the R&D stage.

**Business strategy revolves around how “commercialization” is interpreted**

The invention and discovery of a single potential type of drug is a lengthy and costly process, requiring 10 years and around ¥100 billion in R&D expenditures in order to bring to market. This makes it an extremely difficult business for small, newly established enterprises to undertake. It is also dangerous to set commercialization targets without careful consideration. If an enterprise enters a business partnership while still a long way from completion, it runs the risk of being bought up cheaply by a large investor, and there is also the risk of commercializing technologies without maximizing the potential of an invention or patent. In order to overcome this dilemma, it is crucial to carefully consider what form commercialization should take, and to manage the content and timetable of research accordingly. In I Ltd.’s case, a plan was drawn up to undertake everything independently right up to the point of drug production, and then to contract out actual production and marketing to other companies. The commercialization stage is scheduled to take around seven years, and subsequent stages from the formation of a production alliance to development and launch of new drugs is set to take a total of around 10 years.

**“Necessity is the mother of invention”**

However, the company would not be able to support itself if it relied only on its core R&D work. The company earns revenues by patenting and commercializes the results of various R&D required in the course of commercializing its core business. Without advanced facilities and equipment, it is impossible to create anything new out of cutting-edge research. If a company attempts to commercialize its core business once at a more advanced level, this results in the generation of all kinds of systems and patents as byproducts. The systems created by I Ltd. are in many cases highly advanced pieces of hardware not found anywhere else in the world. Projects for which a sound market can be found and a sales target can be established can generate profits through their successive commercialization. And during this time, the company can set about finding partners for joint R&D and obtaining government support. As a result, it is possible to determine whether the business itself has any value, thus helping to evaluate the company’s research and business. In this way, how R&D in core and subsidiary areas of business is balanced and managed is important to the survival of university ventures and can generate crucial revenue streams.

**Importance of stable supply of funds**

University ventures are in many cases started up by academics and other university staff for the purpose of commercializing the fruits of university research. As a consequence, there is a tendency to place too much stress on R&D activities and in many instances to fail to develop a business model. In I Ltd.’s case as well, shareholders seeking rapid commercialization and listing were involved in management, and there was practically no control over management. J therefore invited K, a management consultant, to be vice president, and sought to stabilize management by increasing the number of business-related shareholders. A commercialization model was developed, and an environment created in which researchers could devote themselves to research without anxiety.

**Creation of opportunities for self-fulfillment**

Thus armed with a proper commercialization model and having stabilized management, the company’s strengths are blooming. While the outstanding nature of its own technologies has of course played a major role, the research network extending out from J’s wide range of personal contacts has also created numerous potential “seeds” for future business. And with people such as top medical graduates seeking to work at the company, it does not suffer the frequently encountered problem of a shortage of researchers. Stable business foundations like this are just what university ventures need to provide researchers with opportunities for self-fulfillment and make the most of their functions.
(3) Strengths and raison d’être of university ventures

Judging from their distinguishing features, the strengths of university ventures would appear to include the variety of their management personnel and the “name value” of the university or academic associated with them as well as their advanced technological capabilities. Given these strengths, what then is the social significance of university ventures?

Fig. 2-1-44 shows the results of asking university ventures to rate the importance of various startup motivations on a five-point scale. If we look at the means, we find the highest to be “to commercialize idea” with 4.42 points, following by “to contribute to society” with 4.21 points.

While ventures in general are strongly associated with rapid growth and high returns, university ventures are also characterized by a strong desire to contribute to society. This can take various forms, such as contributing to the economy through the commercialization of new technologies, application of university research in industry, advocating of the importance of R&D, and training of researchers. These characteristics and strengths of university ventures form their social raison d’être. Among super high-tech university ventures as well, the powerful vision of those involved in startups is

Fig. 2-1-44 Motivation behind startup of university ventures

Many ventures motivated by desire to contribute to society as well as business reasons

Note: Responses are expressed as scores using a Likert five-point scale, and the mean number of points for each size of enterprise shown.

Fig. 2-1-45 State of contracting out by university ventures

University ventures generate economic effects through contracting out of operations such as manufacturing and production

Note: Percentages indicate the proportion of university ventures surveyed that contract out operations.

22) According to the Basic Survey of University Ventures conducted by Japan Research Institute, Limited in March 2003, 63.9% of respondents gave “ability to make use of the name value of a university or academic” as a strength of university ventures.
reflected to a large extent in the stance of a company, and SMEs function as a place where people can achieve self-fulfillment is of considerable significance. Turning next to focus on the economic effects of university ventures on the surrounding area, one might expect university ventures to produce and market products and services by contracting work out to other companies after startup and completion of commercialization, and that is indeed what we find: around 40% of the total outsource in one way or another, and the operations outsourced span a variety of fields, including production and research, as shown in Fig. 2-1-45.

As can be seen from Fig. 2-1-46, the contractor in the case of manufacturing activities, where the proportion of outsourcing is highest, is in approximately 70% of cases an SME. Regarding location, around 40% of contractors are located in the same prefecture, and around 50% are located in other prefectures in Japan, indicating that university ventures have an effect on sales and employment through their outsourcing of operations to SMEs in the surrounding area.

As already noted, university ventures are a relatively new phenomenon in Japan, and it is important that support be provided to develop an environment that takes best advantage of their social raison d’être and characteristics.

Section 4 Creation of more diverse lifestyles by SMEs through provision of more flexible work arrangements

1. SMEs as providers of employment opportunities for the elderly and women

As described in Section 2, SMEs are generating a greater diversity of consumer lifestyles through their provision of new services. At the same time, they have enabled the diversification of work arrangements through their provision of employment opportunities to a variety of types of workers.

(1) SMEs as providers of employment opportunities for women

The rapidly dwindling number of children and aging of the population in Japan in recent years have led to concerns of a labor shortage (Fig. 2-1-47). The decline in the birth rate, which is the direct cause of the decline in the number of children, is widely ascribed to changes in attitudes toward marriage and birth, along with the

---

23) According to a study on research by ventures in Japan by Kutsuna (1999), high-tech ventures have relatively fewer resources than large enterprises, and it is a struggle for most high-tech ventures to even acquire the core technological resources that they need. It is therefore quite natural for them to depend on outside sources to provide complementary assets to complete the "value chain" (Porter (1985)). “Complementary assets” are capabilities relating to activities such as marketing, manufacturing and after-sales services required for technological innovation to commercially succeed, in addition to core technological know-how.
impact of the increase in the opportunity cost of child care with the increasing presence of women in the workplace.\textsuperscript{24} In order to avoid a shortage of labor in the future, it is essential that avenues of employment be provided to enable women to re-enter the workforce after marriage and childbirth.

A breakdown of the labor force according to age to determine the labor force ratio of each age group reveals a sharp plunge in employment of women aged between 30–40 years to create a broadly M-shaped pattern (Fig. 2-1-48). This is due to a substantial decrease in the number of women in employment with marriage and childbirth, and their subsequent return to the workforce once children have reached a certain age.

We consider next the actual proportion of employment compared with the proportion of persons desiring employment. Fig. 2-1-49 shows a breakdown according to age group by the proportion of employed persons in relation to the total number of persons seeking employment. It can be seen that although the proportion increases after dipping slightly in the sixties for both men and women, it is almost stable in the case of men up to their fifties, but in the case of women plunges in the thirties.

The question to be asked is thus: What kind of enterprise can provide employment opportunities for women in their thirties and enable them to subsequently return to the workforce? To answer this question, we begin by looking at a breakdown of male and female workers according to size of enterprise in terms of number of workers, as shown in Fig. 2-1-50. What we find is that the proportion of women increases as the size of an enterprise becomes smaller, showing that smaller enterprises are an important source of employment opportunities for women as a whole. Next, we consider the situation according to age group. Fig. 2-1-51 shows the proportion of women in employment by age shown

---

that in the 30–34-year-old age group which forms the trough of the M-shape, the ratios of the two cross over. Dividing enterprises up further by size, we also find that small-scale enterprises with 1–4 workers play a particularly important role as employers of women (Fig. 2-1-52). When the ratio dips in the thirties and also when women subsequently reenter the workforce in their forties, SMEs, and small-scale enterprises with 1–4 workers in particular, play a highly important role as sources of employment for women.

Given this decline in the ratio of women in employment from the late twenties to the early thirties, we look next at women’s reasons for leaving their jobs in this age group. These are shown broken down according to size of enterprise in Fig. 2-1-53, which compares the proportion of women who have resigned from a job at some time in the past giving each reason according to size of enterprise. What we find is that, with just some variation, “marriage” and “childcare” are proportionately the most commonly given reasons. We may conclude from this that changes in working conditions with women’s marriage and childbirth generate a shift in women’s employment from larger to smaller enterprises. In other words, the trough in the M-shape is caused by women leaving employment at both large enterprises and SMEs, but that it is largely smaller enterprises that provide women with the opportunity to subsequently return to the workforce.
Chapter 1 — SMEs as the seeds for the development and diversification of the economy and society

Fig. 2-1-53 Reasons given by women in their thirties for leaving their jobs (only non-employed persons desiring employment by previous occupation)

Many women quit jobs at enterprises of all sizes due to “childcare” and “marriage”

Note: Proportion of total number of non-employed persons desiring employment who left their job in or after 1973 by number of workers of former place of employment.

(2) SMEs as providers of employment opportunities for the elderly

As the population has aged and activity in the field of welfare for the elderly has grown, attention has also turned to the importance of the independence of older persons as the true objective of welfare services and the need to provide employment opportunities in order to give older people this independence. However, the prevalence of seniority-based pay structures makes younger workers, with their potential to acquire new knowledge and skills, cheaper and more attractive to enterprises than older workers, and employment of older workers is particularly difficult at large enterprises.25) According to the MHLW’s Survey of Working for Old-Age People (2000), the proportion of all business establishments that responded that they encountered some kind of problem when employing workers in the early sixties was 42.3%. Fig. 2-1-54 shows the problems encountered in the case of employment of such workers given by business establishments that responded that problems were encountered.

So what kinds of enterprises actually serve to provide employment opportunities for the elderly? Fig. 2-1-55 divides male persons in employment up according to size of workforce, showing that extremely small enterprises with 1–4 workers are an important source of employment of older male workers as well as women (as shown in Fig. 2-1-52).

What features make smaller enterprises better suited for providing employment of older persons and women returning to the workforce? Asked their views on work, older persons tend to seek short working hours rather than full-time employment (Fig. 2-1-56). Furthermore, a comparison of the types of work sought by men and women in their thirties seeking employment shows that most women would prefer work offering requiring shorter working hours, such as part-time and temporary employment (Fig. 2-1-57).

If we therefore examine a breakdown of workers in each size category by number of working hours, we find that there tend to be more workers working shorter working hours at smaller enterprises (Fig. 2-1-58). There is a strong possibility that women also working as housewives in the home and older persons not seeking full-time employment deliberately choose to work at SMEs.

(3) Use of OBs of enterprises, etc.

For SMEs that are often not blessed with an overabundance of human management resources, use of

25) From Kita (2001). The fact that SMEs are more dependent than large enterprises on “personal” abilities is also identified as one reason why SMEs are an important source of employment opportunities for older workers.
Fig. 2-1-54 Problems regarding employment of workers in early sixties

Generally large proportion of business establishments give “decline in working ability hinders work” as a problem

Notes: 1. Figures indicate the proportion of respondents as a percentage of business establishments employing workers in the above job categories that responded that “problems arise”.
2. Totals exceed 100 due to multiple responses.
3. “Other work” consists of work in field excluding the above three fields, such as sales, services, security, agriculture/forestry/fisheries, transportation and communications, production processes and labor affairs.

Fig. 2-1-55 Employed persons as a proportion of the total number of employed persons and persons desiring employment (men by number of workers)

Smaller enterprises act as a source of employment for older men too

Chapter 1 — SMEs as the seeds for the development and diversification of the economy and society

Fig. 2-1-56 Working arrangement desired by people aged 55–69 years
People aged 60 or over prefer shorter working hours to full-time employment

Fig. 2-1-57 Form of work sought by employed persons aged 30–59 (by gender)
Women aged 30–59 prefer part-time and temporary work to regular employment

Fig. 2-1-58 Working hours per week by number of workers
Enterprises with fewer workers provide source of employment working shorter hours

Note: Percentage of people desiring employment but who found no suitable work.

Note: Regular workers working 200 hours per year.
external resources as the occasion demands offers an effective strategy. Traditionally used outside human resources include specialists with official qualifications, such as chartered accountants and SME management consultants, and other experts and consultants. In addition to these, recent years have seen an increase in interest in “OBs” (old boys, i.e. former employees) of enterprises and other organizations because of their considerable knowledge and experience, and employment of such resources also provides older persons with a worthwhile outlet for their abilities.

Fig. 2-1-59 shows the types of human resources used by enterprises. It can be seen from this that while many enterprises make use of traditional types of human resources, such as qualified professionals and consultants, 40% of enterprises also make use of OBs. A breakdown by size shows that comparatively larger enterprises make use of such resources (Fig. 2-1-60), while a breakdown by industry reveals that use of such OBs is particularly common in the construction industry (Fig. 2-1-61).

Let us look, then, at the fields in which these OBs are used. Fig. 2-1-62 shows a comparison of the fields, and shows that they tend to be found in fields where experience is more important than skills and qualifications. OBs are thus not necessarily used instead of chartered accountants and consultants, but in fields where experience itself is important but unavailable from traditional types of human resources. In all fields of use, moreover, enterprises are generally satisfied with the abilities of OBs (Fig. 2-1-63), and demand for such human resources is likely to grow further in the future. Because of this demand, the SME Agency has a program to promote use of OBs by enterprises. “Local Enterprise OB Matching Associations” are established at chambers of commerce and industry around the country, and there suitable human resources are sought out and registered in databases in order to help match enterprises with OBs. A “National Enterprise OB Matching Association” has in addition been set up in the Japan Chamber of Commerce and Industry, and this is involved in supporting databasing by local associations, raising public awareness, and various research activities.

Work not only serves as a means of earning an income, but also helps make life more fulfilling. In order to respond to the demands of an aging society, it is crucially important to provide the elderly with opportunities to lead more fulfilling lives as well as to enhance welfare services, and the role of SMEs in this respect is likely to grow in importance in the years ahead.

---

26) The 2003 White Paper on Small and Medium Enterprises in Japan, for example, reports the finding that appointment of people from outside the enterprise as directors has a positive effect on the rate of growth in the number of workers that an enterprise has.
Chapter 1 — SMEs as the seeds for the development and diversification of the economy and society

**Fig. 2-1-61 State of use of OBs (by industry)**

Use of OBs particularly widespread in construction.

- **All Industries**: 39.0%
- **Manufacturing**: 25.8%
- **Wholesaling**: 33.4%
- **Retailing**: 26.9%
- **Construction**: 40.1%
- **Services**: 27.9%


Notes:
1. Proportion of enterprises that have used outside human resources that used OBs.
2. Totals exceed 100 due to multiple responses. Non-responses are excluded.

**Fig. 2-1-63 Satisfaction with abilities of OBs (by field of use)**

High level of satisfaction in legal affairs and patent management, despite low use in these areas.

- **All fields**: Dissatisfied: 27.9%, Satisfied: 72.1%
- **Business planning and strategy**: Dissatisfied: 24.6%, Satisfied: 75.4%
- **Overseas expansion and globalization**: Dissatisfied: 26.1%, Satisfied: 73.9%
- **Use of IT**: Dissatisfied: 28.6%, Satisfied: 71.4%
- **Sales and marketing**: Dissatisfied: 30.1%, Satisfied: 69.9%
- **Technology and product development**: Dissatisfied: 31.5%, Satisfied: 68.5%
- **Production control**: Dissatisfied: 32.4%, Satisfied: 67.6%
- **Logistics**: Dissatisfied: 31.5%, Satisfied: 68.5%
- **Accounting and financial management**: Dissatisfied: 32.4%, Satisfied: 67.6%
- **Personnel and labor management**: Dissatisfied: 31.5%, Satisfied: 68.5%
- **Legal affairs and patents**: Dissatisfied: 30.1%, Satisfied: 69.9%
- **Other**: Dissatisfied: 22.6%, Satisfied: 77.4%


**Fig. 2-1-62 Fields of use of outside human resources and OBs**

OBs used in fields outside expertise of conventional outside human resources.

- **All outside human resources**: Dissatisfied: 12.1%, Satisfied: 87.9%
- **OBs**: Dissatisfied: 12.4%, Satisfied: 87.6%


Note: Totals exceed 100 due to multiple responses.
L Ltd. is a building material wholesaler in Hyogo Prefecture with 30 employees. About a year ago, it launched a decorative graphics division to specialize in film advertising as a new line of business.

**With few direct orders from end users, company struggles to expand its market**

The decorative graphics division takes orders from advertisers for production and use of Scotchprints. Scotchprints are used as an advertising medium, and are displayed using adhesive seals in locations such as the sides and rear of buses. Most of the orders for such work are placed through advertising agencies, and very few come directly from end users. Even where end users are located in the Kansai region, however, most advertising agencies are concentrated around Tokyo. This puts L Ltd., which is located in Hyogo Prefecture in the Kansai region, at a major disadvantage, as its employees had to make trips to Tokyo in order to do business. This they continued to do, but sales failed to pick up as well as had been anticipated, and the company sought to make connections with advertising agencies in Tokyo.

**Support from advertising OB introduced by NPO**

Reading in the newspaper one day about an NPO, M, that puts companies in touch with OB human resources, L Ltd. enlisted NPO M’s help. It was introduced to N, who used to work in public relations at a major enterprise, and decided to use his help. Having connections in the advertising industry, N visited a number of advertising agencies in Tokyo in person together with L Ltd.’s managing director, and introduced them to L Ltd.

**Success in winning orders through advertising agencies**

Three months’ later, the company received an order for advertising sheets for train bodies from a private railway company in the Kansai region, which was introduced to the company via an advertising agency in Tokyo. This was followed by orders for advertising sheets for the bodies of buses operated by the same company. In expanding from the building material wholesale business into advertising, the company succeeded in quickly winning orders by making use of a former executive’s personal connections. L Ltd. has subsequently continued seeking out more orders, and even now is taking orders from private railway operators in the Kansai region.
2. SOHO and teleworking

As we have seen, SMEs are able to make use of their organizational flexibility to offer work opportunities suited to the circumstances of the individual. One work arrangement that is particularly adaptable to the lifestyle of the individual and has attracted growing attention in recent years is small office/home office (SOHO) work. Working at home used to conjure up images of housewives doing piecework. Now, however, the spread of information technology (IT) has made it possible to do high value-added work from home. Below, then, we examine the current situation regarding SOHO work and its significance.

(1) What is SOHO?
While there is no formal definition of SOHO, the Japan SOHO Association defines it thus: “businesses with around 10 or fewer employees undertaking business activities using IT (information technology)”. Another definition is offered in the Ministry of Posts and Telecommunications’ Communications White Paper (2000): “an independent self-employed style of work at home or a small office using telecommunications networks and IT equipment performed by sole proprietors, the self-employed and others not belonging to an enterprise”.

Although there are not present any accurate statistics on the number of SOHO businesses, estimates are calculated by SOHO-related bodies and support organizations; the Japan Institute of Labor estimates there to be 174,000 teleworkers (people performing work such as data inputting under contract at home), and the Digital Open Networking Enterprise estimates there to be approximately 381,000.

(2) Position of work of SOHO businesses and work arrangements
Fig. 2-1-64 shows a breakdown of the respondents to the Survey of the Work Style of SOHO Businesses conducted by Japan Small Business Research Institute (JSBRI) through related SOHO-related organizations.

Fig. 2-1-64 Breakdown of types of SOHO business
Self-employed make up over 80%


SOHO work is full-time work in approximately 60% of cases, and part-time in 40% of cases. Operators of SOHO businesses include persons running their own business such as self-employed persons and directors of companies and similar entities (including managers). They also include around 10% who are employed persons. “Employed persons” are generally people working at home whose homes function as a “satellite office” of enterprises. As the definition of SOHO sometimes includes employed persons and sometimes does not, we use the aforementioned definition provided by the Ministry of Posts and Telecommunications and consider only independent self-employed persons and company managers in this analysis.

(3) Large difference in nature between full-time and part-time SOHO workers
Below we look at SOHO workers according to whether they are full-time or part-time SOHO workers. Fig. 2-1-65 shows a breakdown of male and female SOHO workers (self-employed persons only). Although only around 30% of women workers are full-time, the proportion of women is still greater than among self-employed persons in general. Among part-time SOHO workers, on the other hand, the proportion of women was 54.9%, which is high in comparison with both the self-employed in general and the proportion of full-time female SOHO workers. Comparing next the motivations...
of both for entering business, we find by far the commonest motivations are “to increase freedom in work” in the case of full-time SOHO workers and “to increase income” in the case of part-time SOHO workers (Fig. 2–1–66).

Fig. 2–1–67 shows a breakdown of the number of workers of SOHO businesses according to whether they are full-time or part-time. As the term “small office” suggests, many are extremely small, and over half consist only of their representative. Among full-time SOHO businesses, however, 43.3% have employees. A breakdown of the type of work engaged in shows full-time businesses to be active in a diversity of fields, ranging from highly specialized occupations, such as systems design and programming, to lower-level tasks such as document and data input and tape transcription services. Part-time SOHO workers, on the other hand, provide mainly lower-level services (Fig. 2–1–68).

Furthermore, while full-time SOHO workers tend to obtain orders by actively seeking out work independently themselves, part-time SOHO workers are more likely to adopt a more passive stance by using SOHO-related sites and agencies (Fig. 2–1–69).

From the above, it can be seen that full-time and part-time SOHO businesses differ markedly in terms of attributes, motivations for startup and approach to business. There are thus varied work patterns to be found even within the SOHO sector.
(4) People working SOHO as a sideline
Next, we look in more detail at part-time SOHO workers, i.e. the people who work SOHO as a sideline. Fig. 2-1-70 shows a breakdown of the main occupations of people involved in SOHO as a sideline by gender. This shows that whereas most men who work SOHO have a main occupation, whether as workers employed by enterprises or self-employed entrepreneurs, more than one in two women is a full-time housewife. Regarding whether SOHO workers with work experience continue their most recent job, only the proportion of men working SOHO as a sideline who remain in their main job is high (Fig. 2-1-71). If we look also at the reasons given by SOHO workers for leaving their last job (Fig. 2-1-72), we find a spike in the proportion of women working SOHO as a sideline saying “child care”. As over 80% of SOHO workers who are full-time housewives were formerly employed as regular employees (Fig. 2-1-73), it appears that most of them quit work in order to care for a child and subsequently began working SOHO as a sideline.

Fig. 2-1-67 Number of workers of full-time and part-time SOHO businesses
Although most SOHO businesses consist only of a representative, 43.3% of full-time SOHO businesses also employ people

![Bar chart showing the number of workers in full-time and part-time SOHO businesses](chart)


Fig. 2-1-68 Content of SOHO work
Work ranges from highly specialized to lower-level work, but preponderance of lower-level work in the case of part-time SOHO businesses

![Bar chart showing the content of SOHO work](chart)

**PART II — THE LIMITLESS POTENTIAL OF THE DIVERSITY OF SMALL AND MEDIUM ENTERPRISES**

**Fig. 2-1-69 Routes by which orders are most frequently received**
Full-time SOHO businesses actively seek out work, and part-time businesses take more passive approach.


**Fig. 2-1-70 Main occupation of part-time SOHO workers**
Men tend to work at companies and women tend to be full-time housewives.


**Fig. 2-1-71 State of continuation in most recent job**
Only part-time male SOHO workers tend to stay in most recent job.


Note: SOHO workers who had previously worked as self-employed, company directors, employees, part-time or temporary employees, employees placed by temporary staffing agencies or fixed-term employees were asked whether they were still at or had quit their most recent job.
This would suggest that there are basically two types of people who work SOHO as a sideline: men who work SOHO in their free time in addition to being employed by a company or being self-employed in order to earn a supplementary income, and housewives who leave their job to care for a child or because of marriage and work SOHO at home besides doing housework in order to earn an income.

31) Some companies’ regulations prohibit employees from working a second job, while SOHO work may also hinder the performance of a person’s main job. Working SOHO as a sideline should therefore only be commenced after careful consideration.
Case 1-8  SOHO web design at the weekend to supplement full-time job at publishing company

O is a 28-year-old living in Tokyo who works at a publishing company where he mainly edits business books. After normal working hours and at the weekend, he also runs a SOHO business providing web production, systems design and systems consulting services.

**Hobby as a student develops into a business**
Having done similar work as a student, O felt as soon as he joined the company that he would have some free time on his hands. He therefore began to run an information website for students as a hobby one year after joining the publisher. The site received many hits, and companies providing services for students frequently requested to place advertisements on his site. Not knowing anything about the financial side, however, he turned them all down. Despite being just a hobby, he took the site quite seriously, and even went so far as to rent a room with a friend especially to run it. As the site would not pay for itself if it remained just a hobby, and also to find out whether his skills were sufficient to actually go into business, however, he set about taking orders from the end of 2002 “to generate sales, even if only one yen”.

**Uses connections in job to win orders**
O’s editing work at a publishing company gave him plenty of opportunities to come into contact with managers and entrepreneurs. At meetings on editing matters, for example, he began to mention that he produced websites in his spare time and would be glad to provide any help that he could. As a result, he achieved sales of over ¥2 million in his first year (January to December 2003). Not only did this cover the cost of running his site for students, which until then he had funded out of his salary, but it also provided him with a pool of funds for future expansion.

**Active use of SOHO network**
O made active use of his network of contacts with SOHO businesses by, for example, passing on suitable orders for work to other SOHO businesses that he had come across through running his site and to university friends. He had around 10 associates that he could count on to help him if they were free, and another 20–30 whom he could also call upon. Work that would have been beyond his ability in terms of quality or quantity was made possible through his network of SOHO contacts, and he was able to coordinate the human resources required so that he had to turn away as little work as possible.

**Connection with main job**
While the media involved were different—paper as opposed to the web—his main line of work and SOHO work are quite similar, and he is able to apply experience gained in his main job to his SOHO business. Coordination of human resources is important in editing work at publishers, and this resembled the way he allocated work to his associates. Although he has not yet informed his employer of his SOHO work, he takes on absolutely no editing work outside his main job, thus ensuring that there is no conflict between his main and subsidiary lines of work. He also does not intend to expand into publishing in the future.

**Future policy**
Although presently a sideline, O intends in the future to make his SOHO work his main line of business. His associates who help him with his work presently have come together in the hope of forming a startup in the future, and he feels that he should start taking concrete steps toward starting up in business so as not to betray their trust. At the moment, however, he is not confident that he would be able to win enough orders to support his associates as well as himself. While up until this point he has relied entirely on contacts made through his main job, he needs to find new channels through which to obtain orders, and is currently looking into this. He is also looking for a way of starting up in business that enables him to stay on good terms with his present employer, which helps in finding customers.
(5) Spread of IT and SOHO
As we have seen, SOHO businesses include businesses run as a main line of work and as a sideline, and include everyone from office workers to housewives. How they are run therefore varies according to the personal circumstances of the entrepreneur behind them. SOHO work thus enables people to lead a greater diversity of lifestyles, and what has made this possible is the spread of IT and the Internet into the home. Fig. 2-1-74 shows the rate of ownership of personal computers and rate of Internet access in the home; as can be seen, both have followed a constant upward trend.

How then do SOHO businesses make use of this information technology? Fig. 2-1-75 shows their use of e-mail and the Internet, from which it can be seen that communication with customers, such as “receipt of inquiries from customers”, “communication of plans and other data” and “receipt of orders and sales”, predominate. Fig. 2-1-76 compares the effects of use of IT with those of ordinary enterprises. In both cases, the commonest effect is “improvement of information gathering ability”. The next commonest, however, is “internal rationalization and improvement of efficiency of operations” in the case of ordinary enterprises, and “reduction of communication and distribution costs” in the case of SOHO businesses. We can conclude from this that SOHO businesses make especially good use of IT in fundamental areas of their operations, such as communication with clients regarding receipt and placement of orders, and delivery to clients.

Fig. 2-1-74 Rates of ownership of personal computers and Internet access in the home
Surge in PC ownership and Internet access in recent years

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of home PC ownership (%)</th>
<th>Rate of home Internet access (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>96</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>97</td>
<td>45</td>
<td>25</td>
</tr>
<tr>
<td>98</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>99</td>
<td>55</td>
<td>35</td>
</tr>
<tr>
<td>00</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>01</td>
<td>65</td>
<td>45</td>
</tr>
<tr>
<td>02</td>
<td>70</td>
<td>50</td>
</tr>
</tbody>
</table>

Notes: 1. Internet use includes use of personal computers, cellular phones, mobile information terminals, Internet-compatible TV game consoles, TVs and similar devices.
2. The age range of the population for which the Internet diffusion rate is calculated is constantly increasing (from 15~69 years until the end of 1999 to 15~79 years at the end of 2000 and from six years from the end of 2001) as use among senior citizens and elementary and junior high school children increases. This makes accurate comparisons with data up to the end of 2000 difficult.

Fig. 2-1-75 Methods of use of the Internet and e-mail
Internet and e-mail used mainly for communication with customers, such as receipt of inquiries, orders and sales

<table>
<thead>
<tr>
<th>Method</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipt of inquiries from customers</td>
<td>56.4</td>
</tr>
<tr>
<td>Communication of orders and data</td>
<td>50.9</td>
</tr>
<tr>
<td>Collection of information on products and industry</td>
<td>50.6</td>
</tr>
<tr>
<td>Internet banking</td>
<td>38.5</td>
</tr>
<tr>
<td>Procurement and placement of orders</td>
<td>24.6</td>
</tr>
<tr>
<td>Introduction of own products</td>
<td>17.8</td>
</tr>
<tr>
<td>Internal information exchange and sharing</td>
<td>9.1</td>
</tr>
<tr>
<td>Confirmation of delivery of goods</td>
<td>8.8</td>
</tr>
<tr>
<td>Electronic bidding</td>
<td>8.4</td>
</tr>
<tr>
<td>Notifications to government agencies</td>
<td>4.1</td>
</tr>
<tr>
<td>Application to government and development</td>
<td>3.1</td>
</tr>
<tr>
<td>Other</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Note: Totals exceed 100 due to multiple responses.
Social significance of SOHO-style working arrangements

There are two significant things about the working arrangements that SOHO allows. The first is the greater flexibility of working hours in comparison with ordinary enterprises and the ability to tailor work to suit one’s lifestyle. Fig. 2-1-77 shows a comparison of the working hours of SOHO workers and ordinary self-employed persons, from which it can be seen that full-time SOHO workers work a greater variety of working hours than the ordinarily self-employed, and an extremely large proportion of part-time SOHO workers work shorter hours. This is important not only, as we have seen, in that it allows women doing housework to work, but it also provides expanded working opportunities for older workers who find longer working hours burdensome or would prefer to work shorter hours. It also offers advantages for disabled people who cannot easily commute, and contributes to creating a barrier-free world in the field of employment.

The second significance of SOHO-style working arrangements is that it enables people to participate more in the local community while working, as it allows people to work either at or very near home. Among the community businesses described in the following chapter as well, we find SOHO businesses playing an important role.

32) Karami (2003), for example, describes one of the advantages of the clustering of SOHO businesses as follows: “Working near or at home results in large numbers of businesses with roots in the community. Establishment in the local area and participation in the community can be achieved simultaneously.”
Section 5 Community businesses creating services and employment suited to local conditions

The preceding section examined the roles played by SMEs in creating diverse services and working arrangements. Through their role in offering a greater diversity of working arrangements suited to women’s social advancement, population aging and normalization, SMEs are playing a crucially important role.

Within this context, community businesses are now the subject of growing interest. Community businesses are entities mainly formed by local residents in order to respond closely to local problems that cannot be solved within the conventional framework of public administration (the public sector) and private-sector profit-making enterprises. As well as the goal of contributing to society, a strong emphasis in community businesses is on continuation as a business, setting them apart from volunteer organizations. SMEs in many cases use local human and physical resources, and the goods and services that they provide are also closely tied to the area in which they are located, unlike in the case of large enterprises. Community businesses, however, make advanced use of their distinctive community-based nature, and are in a sense an evolution of one of the diverse aspects of SMEs in terms of their creation of new industries, employment and outlets in life.

Case 1-9 describes a community business that provides cheap services to the local community while providing former office workers forced to retire due to having reached mandatory retirement age with a meaningful outlet in life.

P is an NPO with 46 members located in Kita-ku, Osaka. It dispatches former white-collar workers with knowledge and experience of fields such as social education, environmental protection, disaster relief, international cooperation and organizational support cheaply to SMEs and various other types of organization, thereby providing services that contribute to the good of society as a whole.

Provision of work opportunities for white-collar OBs

P’s parent body, Q, is a voluntary association established in October 1987 against the backdrop of the increasing number of white-collar workers being forced to retire due to restructuring and the feared collapse of the pension system. R, who had recently retired from a leading construction machinery manufacturer in the Kansai region and had established a clerical services provider for SMEs, wanted to provide a pleasant place for middle and old-aged retired white-collar workers to work and make use of their experience and knowledge, and so launched the business with S and others who were interested in the employment problems of retired employees and were former employees of a leading shipbuilder. Work required by SMEs was divided up and assigned to groups of former white-collar workers with expertise in that area, enabling work to be undertaken work more cheaply than ordinary temporary staffing companies.

Establishment of NPO

In December 1999, 12 years after the establishment of voluntary association Q, P was established as an NPO to undertake mainly Q’s non-profit activities. This is because it was felt necessary to establish a legally recognized setup to further promote revitalization in cooperation with the administration.
and to increase social recognition. NPO P’s president was S and the executive director was R, and the two made use of their experience working at major enterprises in organizational matters and negotiations with local government and clients. Almost all the members were former white-collar workers, and many also held qualifications. Most members wanted “to contribute to society rather than earn an income” or were happy with earning “just a little extra pocket money”. Either 80% of the income from clients is paid to individual members as compensation for actual costs, and the remainder is treated as the corporation’s “business revenue” with fixed-rate payments paid by individual members to the corporation treated as “other revenues”, or contract fees are received in full by the corporation as “business revenues” to pay a fixed rate to individual members as compensation for actual costs. The NPO is presently slightly in the black.

Targeting greater cooperation with local government

The corporation is presently developing two welfare and environmental projects with the support of subsidies from the Osaka prefectural government. R believes, “There is no way that community business can succeed without the cooperation of local government. I’d like to see local government actively contract work out to NPOs. I’d also like to see indirect support provided in the form of information services and official designation of NPO activities.” In the future, the corporation plans to expand its business focusing basically on cooperation with local government, and intends to build partnerships with other organizations such as JASMEC, small business investment and consultation companies, and chambers of commerce and industry.

In this section, we focus on community businesses and how they create a diversity of services and work arrangements.

1. What are community businesses?

(1) Origins of community businesses

The origins of community businesses can be traced back to the community cooperatives that appeared in Scotland in the 1980s. The Thatcher government that came to power in 1979 actively set about fiscal and economic reform in the interests of “small government”. During this time, depopulated rural villages encountered a shortage of basic services required by the local community, such as post offices and local stores, as well as a lack of jobs. Local governments therefore established “community cooperatives” made up of local residents to create employment at the same time as providing necessary services to the local community.35

In Japan, the term “community business” first began to be used from around 1994. Although there was no recognition of “community businesses” as such before then, there did exist entities engaged in similar activities. A well-known example of such an entity is the Regional Revitalization Project in the city of Nagahama in Shiga Prefecture.36 Following the Kobe earthquake in January 1995, awareness of the importance of the local community increased, and community business activity was further stimulated by the increased ease of acquisition of NPO status under Law on the Promotion of Specific Nonprofit Activities (“NPO Law”) introduced in December 1998 (Fig. 2-1-78). With the population aging, securing a niche for oneself in the local community has grown in importance, and community businesses have a leading role to play in this area.

(2) Definition of community business

Because of the diversity of forms of organization and fields of business in which community businesses are engaged, defining community businesses is difficult. Based on the distinguishing characteristics described in the literature to date, however, they appear to share the following main points: (1) the main actors are local residents, (2) they do not have maximization of profits as their objective, (3) they provide goods and services to meet the needs of residents and problems of the community, (4) they provide places of work for local residents, (5) they are continuous businesses or entities, and (6) they are independent from local government both financially and in terms of personnel.

Next we examine what kinds of organizations actually exist using the results of the Survey of the Actual Conditions of Social Entrepreneurs conducted by the Japan Research Institute, Limited (JRI) in 2003.37 Looking firstly at their form of organization, a survey of


36) Nagahama City was stagnating following the establishment of a number of suburban shopping centers. The demolition of a bank building built in the 19th century that was a local landmark prompted action by local residents to preserve buildings. Through a semi-public joint venture formed with Nagahama City (Kurokabe Co., Ltd.), local residents bought historic Kurokabe (black walled) buildings and started a glass handicraft business. The success of this local revitalization project led to a dramatic increase in the number of visitors to the city.

37) This was a survey of a total of 16,655 organizations, including 3,124 organizations “recognized as community businesses” according to prefectures, municipalities, commerce and industry associations, and chambers of commerce and industry, as well as specified nonprofit corporations approved under the NPO Law (NPOs). For details of the survey, see Appendix Note 2-1-8.
all NPOs as of September 2003 reveals that approximately 80% of community businesses were NPOs, and that there were also large numbers of voluntary associations (including sole proprietorships). On the other hand, there were a few joint-stock and private limited companies (Fig. 2-1-79). Looking next at their fields of activity, we find the largest proportion to be involved in either “welfare for the elderly” or “welfare for the disabled” (Fig. 2-1-80). While these are fields in which community business

**Fig. 2-1-78 Trends in NPO applications and certifications**
Upward trend in both NPO applications and certifications

![Graph showing trends in NPO applications and certifications](image)

Source: Cabinet Office

**Fig. 2-1-79 Forms of organization**
NPOs make up 80% of sample

![Diagram showing forms of organization](image)

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

**Fig. 2-1-80 Present fields of business**
Active in wide range of fields

![Diagram showing present fields of business](image)

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

Note: Totals exceed 100 due to multiple responses.
activity is well known, many organizations are also active in “vitalization of local exchange”, “education” and, as a result of the spread of the Internet in recent years, “promotion of information exchange”. The specific activities undertaken are highly diverse in nature, ranging from “nursing care services” (the market for which has expanded continuously since the introduction of the Long-term Care Insurance System in 2000) to “information transmission”, “event planning”, “skill and knowledge training support”, and “assistive services” (Figs. 2-1-81, 2-1-82).

2. The birth of community businesses

(1) The people behind the launch of community businesses

An examination of some actual examples of community businesses reveals that, almost without exception, they have at their core representatives or key members who display powerful leadership while nursing an ambition to contribute to the local community. So what backgrounds are these people from? To answer this question, we begin by looking at the differences between community businesses on the one hand, and ordinary profit-making enterprises and volunteers on the other.

Let us start by comparing the attributes of the representatives of community businesses with those of ordinary profit-making enterprises and voluntary bodies. Fig. 2-1-83 shows a breakdown of the ages of representatives. From this it can be seen that while the proportion of representatives aged 60 years or over is extremely high among voluntary bodies, there is little difference between ordinary profit-making enterprises and community businesses. Fig. 2-1-84 shows representatives by gender, from which it can be seen that while community businesses have slightly more women representatives than ordinary profit-making enterprises, the proportion is far less than that among voluntary bodies.

In the same vein, an examination of representatives according to background (Fig. 2-1-85) reveals that, as well as volunteers and full-time...
housewives, there also as many representatives who used to work at enterprises in the private sector as among founders of profit-making enterprises.\(^{40}\) It may be concluded from the above that the attributes of the representatives of community businesses resemble those of ordinary profit-making enterprises more than voluntary bodies.

Next we examine the background to the establishment of community businesses by representatives. Fig. 2-1-86 shows the motivations leading to the commencement of activities. By far the commonest motivation was “to contribute to society”. An examination of numerous surveys of the startup motivations of ordinary entrepreneurs, on the other hand, reveals that contributing to society is comparatively less important as a motivation than self-fulfillment and freedom to make one’s own decisions,\(^{41}\) indicating that the desire to contribute to society is an extremely important factor in the establishment of community businesses.

As well as just friends and acquaintances living locally, an extremely large proportion of members who started up activities with the representative are friends and acquaintances who participated together in some form of local activity (Fig. 2-1-87). This would suggest that there are quite a large number of organizations started up by a representative in collaboration with associates who have become aware of a local issue through their participation in local activities. From the above, it appears that the desire to contribute to society that is one of the motivations for starting up a community business is in

---

\(^{40}\) According to the National Life Finance Corporation’s Survey on Business Startups in Japan, for example, the backgrounds of founders obtaining loans were as follows: “full-time executive of company or organization” (12.0%), “employee (management)” (42.1%), “employee (non-management)” (30.4%) (single responses only). A similar question asked as part of the Survey of the Environment for Startups (November 2001) organized by the SME Agency based on the Tokyo Shoko Research database found that a total of 45.1% of respondents were “company directors” or “company managers”, and 51.7% were “company employees”.

\(^{41}\) For example, asked what their most important motivation was starting up in business as part of the National Life Finance Corporation’s Survey on Business Startups in Japan, many respondents gave personal motivations such as “to apply work experience, knowledge and qualifications” (29.7%) and “to have greater freedom in work” (17.5%), but far fewer chose “to do work of use to society” (4.6%).
fact a desire to contribute to the local community. To summarize, community businesses during the initial stages are started up for reasons similar to voluntary bodies, but in terms of the background of their representatives they more closely resemble ordinary profit-making enterprises.

(2) The people supporting the activities of community businesses

Next we look at members other than representatives working at community businesses by dividing them into the following three types: (1) full-time staff (permanent employees and people working four or more days per week for pay), (2) part-time staff (of those not covered by (1), persons working regularly for three days or less per week for pay), and (3) volunteers (persons working irregularly, regardless of whether they are paid or unpaid).

In terms of numbers, over two in three community businesses employ full-time and part-time staff for pay (Fig. 2-1-88).

Looking next at a breakdown of members by age, we find that full-time staff, part-time staff and volunteers all tend to be older than ordinary employed persons (Fig. 2-1-89). An examination of the attributes of members shows in addition a high proportion to be housewives (Fig. 2-1-90), indicating that community businesses serve a role in providing employment opportunities for women.

**Fig. 2-1-86 Most important motivation for commencing activity**

“To contribute to society” is commonest motivation

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>To contribute to society</td>
<td>30.0</td>
</tr>
<tr>
<td>Sensed inadequacy in government-provided services</td>
<td>17.9</td>
</tr>
<tr>
<td>To participate in local activities</td>
<td>13.6</td>
</tr>
<tr>
<td>To make use of own skills and knowledge</td>
<td>11.1</td>
</tr>
<tr>
<td>Sensed potential of business</td>
<td>9.8</td>
</tr>
<tr>
<td>To work regardless of age</td>
<td>2.1</td>
</tr>
<tr>
<td>To earn social recognition</td>
<td>1.1</td>
</tr>
<tr>
<td>Wanted change in life</td>
<td>1.0</td>
</tr>
<tr>
<td>To earn income</td>
<td>0.8</td>
</tr>
<tr>
<td>Poor outlook of previous work</td>
<td>0.7</td>
</tr>
<tr>
<td>To have more time and leisure</td>
<td>0.3</td>
</tr>
<tr>
<td>Other</td>
<td>12.5</td>
</tr>
</tbody>
</table>

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

**Fig. 2-1-87 Other core members involved in commencement of activities**

Acquaintances involved in local activities together are commonest core members

<table>
<thead>
<tr>
<th>Type of Core Member</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends and acquaintances involved in civic activities, etc. together</td>
<td>21.3</td>
</tr>
<tr>
<td>Friends and acquaintances living nearby</td>
<td>10.2</td>
</tr>
<tr>
<td>Co-workers</td>
<td>15.9</td>
</tr>
<tr>
<td>Former student friends and acquaintances who co-managed a business</td>
<td>9.9</td>
</tr>
<tr>
<td>Friends and acquaintances who made online</td>
<td>8.6</td>
</tr>
<tr>
<td>Friends and acquaintances involved in same hobby group</td>
<td>6.8</td>
</tr>
<tr>
<td>Friends and acquaintances made online</td>
<td>2.1</td>
</tr>
<tr>
<td>Other friends and acquaintances</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

Note: Totals exceed 100 due to multiple responses.

**Fig. 2-1-88 Number of members of organization**

Majority of organizations employ paid staff

<table>
<thead>
<tr>
<th>Type of Staff</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time staff</td>
<td>33.3</td>
</tr>
<tr>
<td>Part-time staff</td>
<td>36.1</td>
</tr>
<tr>
<td>Volunteers</td>
<td>29.4</td>
</tr>
</tbody>
</table>

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).
Fig. 2-1-89  Age makeup of members
Community businesses provide employment opportunities for senior citizens

![Age makeup of members](image1)

Fig. 2-1-90  Attributes of members
Community businesses provide employment opportunities for women

![Attributes of members](image2)

Fig. 2-1-91  Issues regarding management of business
Major problems alongside slump in revenues related to shortage of human resources, such as staff shortages and excessive burden on certain staff

![Issues regarding management of business](image3)

Sources: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003); MPHPT, Employment Status Survey (2002).

Note: “Ordinary employees” are the sum total of “regular staff and employees”, “part-timers”, “temporary workers”, "employees placed by temporary staffing agencies", and “fixed-term and short-term employees”, etc.

senior citizens and housewives who find it difficult to work full-time at normal profit-making enterprises. On the other hand, the fact that so many community businesses identify “staff shortage” and “excessive burden on certain staff” as management problems suggests that the number of people supporting their activities is not sufficient (Fig. 2-1-91).

---

42) Storey (1994) finds that providing public funding to local community enterprises is a more effective way of creating employment for the long-term unemployed, who are at an extreme economic, physical and social disadvantage, than to incubation facilities.
3. Evolution of community businesses

(1) Earnings performance of community businesses
As we have seen, community businesses create local employment and provide people with useful outlets in life. However, how successful are they as businesses? In other words, what is their earnings performance like? Community businesses’ core “mission” is the continued engagement in activities contributing to the local community regardless of scale of profits. Fig. 2-1-92 shows the proportion of community businesses whose mission business is in the black. From this, it can be seen that more than half of such businesses are not registering a profit.

(2) Measures to increase earnings
The “business” side to community businesses derives from the sustainability of their operations. Thus rather than ceasing activities and being dissolved in the event that mission business is not profitable, community businesses may embark on business whose primary aim is to generate profits (i.e. profit-making business) in order to use the profits from that business to continue their mission business. For example, Fig. 2-1-93 shows that 54.1% of community businesses whose mission business is not profitable engage in profit-making business. Approximately 60% of community businesses have some kind of profit-making business that is in the black, indicating that such business contributes to the earnings of such businesses overall (Fig. 2-1-94).

The engagement in such profit-making business is an outgrowth of the strong desire to sustain their mission business, and is underpinned by the desire of representatives and other participants to contribute to the improvement of their own region. Among community businesses, therefore, can be found some highly profit-oriented businesses whose activities are guided by this desire. At the same time, there exist some community businesses with no profit-making business despite their mission business not being in the black. Such businesses are more voluntaristic in nature. Below, we define organizations with a mission business whose mission business is in the black or else have a profit-making business as “profit-oriented” community businesses, and business without a profitable mission business and also lacking any other profit-making business as “voluntaristic” community businesses.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{fig2192.png}
\caption{Earnings performance of mission business}
\end{figure}

More than one in two community businesses not making a profit in their mission business

\begin{figure}
\centering
\includegraphics[width=\textwidth]{fig2193.png}
\caption{Profit-making business}
\end{figure}

54% of community businesses without profitable mission business have profit-making business

\begin{figure}
\centering
\includegraphics[width=\textwidth]{fig2194.png}
\caption{Earnings performance of profit-making businesses of community businesses with a profit-making business}
\end{figure}

Around 60% turning a profit

Sources: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

Note: “Mission business in profit” means community businesses with at least one mission business that is turning a profit.
business as “voluntaristic” community businesses, and compare the characteristic features of each (Fig. 2-1-95). The approaches of each type of organization regarding earnings and income are reflected in the factors emphasized\(^{43}\) in business operations (Fig. 2-1-96). Profit-oriented bodies registered significantly higher levels of emphasis in all categories. Among the earnings-related factors, however, particularly strong emphasis was placed on “increase of business income”, “stabilization of performance” and “securing of staff pay”. These stances toward earnings also have a positive effect on continuing in business. Fig. 2-1-97 shows the timing of when it became apparent that business will be sustainable. In the case of voluntaristic bodies, one in three still “cannot tell”. In the case of profit-oriented bodies, on the other hand, business stabilizes comparatively quickly.

Turning next to consider trends in income from business overall of both types of bodies, we find that whereas more than half (53.3%) of profit-oriented bodies say that income “increased compared with the previous fiscal year”, the figure for voluntaristic bodies was just 34.3% (Fig. 2-1-98). It is thus apparent that profit-oriented bodies, which place a stronger emphasis on increasing business income and stabilizing performance, succeed in developing firmer business foundations from the point of view of increased income as well.

But what about indicators of performance other than income and earnings? To answer this question, we begin by comparing the present content of business, which shows that profit-oriented bodies are engaged in a wider range of business (Fig. 2-1-99). Comparing next the proportion of bodies whose business content is currently greater than when they first entered activities, we find the proportion to be higher among profit-oriented bodies (Fig. 2-1-100). From this it can be seen that profit-oriented bodies not only simply increase their income and earnings, but also enhance the content of services provided to local residents.

If we compare next the rate of growth in the number of staff and volunteers involved in activities, we find that although there is hardly any difference in the rate of growth of volunteers between the two types of body, growth in staff numbers is higher at profit-oriented enterprises. The rate of growth in the combined number of staff and volunteers is also greater at profit-oriented bodies (Fig. 2-1-101). From this, it can be surmised that profit-oriented enterprises play an active role in creating employment as well.

Profit-oriented bodies thus tend to grow more and engage in a broadening range of fields than voluntaristic bodies. While it is not possible to say that one is necessarily better than the other, it does appear that profit-oriented bodies develop their businesses more actively, and so have a greater impact on the local community.

---

**Fig. 2-1-95 Breakdown of business-oriented and voluntaristic community businesses**

- Profit-oriented businesses make up 75% of total
- 591 voluntaristic businesses (24.2%)
- 1,850 profit-oriented businesses (75.8%)

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

**Fig. 2-1-96 Emphases in management of business (means of scores on five-point scale)**

Conspicuous difference in emphases regarding “increase of business income” and “securing staff pay”

---

43) Responses are expressed as scores using a Likert five-point scale.
Cooperation with other agencies

As we have seen, community businesses are generally founded on a strong desire to contribute to society, and continuously provide finely tailored services to the community using networks with local residents and other interested parties. These activities of community businesses serve areas of demand that cannot be met by the administrative services provided by local authorities. Amid the debate on the contracting out of public

![Fig. 2-1-97 Timing of when it becomes apparent that a business is sustainable]

**Business of profit-oriented community businesses stabilizes sooner**

- Up to 1 year
- After more than 3–4 years
- After more than 7–10 years
- After more than 1–2 years
- After more than 4–5 years
- After more than 5–7 years
- After 10 years or more
- Not yet stabilized

---

**Fig. 2-1-98 Trends in business income in present fiscal year**

More profit-oriented community businesses register growth in business income from previous year

![Fig. 2-1-99 Present content of business]

**Profit-oriented community businesses engaged in wider range of business**

- Nursing care services (covered by long-term care insurance)
- Nursing care services (not covered by long-term care insurance)
- Production and processing
- Sale of goods and products
- Assistive services
- Childcare services
- Management and operation of facilities
- Regional finance
- Event planning
- Information transmission
- Management and operation of forums for information exchange
- Townscape development
- Recycling
- Skill and knowledge training support
- Other

---

Note: See Appended Note 2-1-10 for a detailed analysis.

---

(3) Cooperation with other agencies

As we have seen, community businesses are generally founded on a strong desire to contribute to society, and continuously provide finely tailored services to the community using networks with local residents and other interested parties. These activities of community businesses serve areas of demand that cannot be met by the administrative services provided by local authorities. Amid the debate on the contracting out of public
services, local governments too are increasingly turning to community businesses to take advantage of their capabilities.  

From the point of view of community businesses, these developments on the side of government mean new business opportunities. Cooperation of this kind from

---

**Fig. 2-1-100** Change in number of lines of business

Profit-oriented community businesses more likely to expand lines of business

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>No change</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit-oriented community businesses</td>
<td>49.3</td>
<td>43.9</td>
<td>6.8</td>
</tr>
<tr>
<td>Voluntaristic community businesses</td>
<td>27.4</td>
<td>54.7</td>
<td>18.9</td>
</tr>
</tbody>
</table>


**Fig. 2-1-101** Annual average rate of increase in number of staff and volunteers

Community businesses show higher growth in overall size

<table>
<thead>
<tr>
<th></th>
<th>Staff</th>
<th>Volunteers</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit-oriented community businesses</td>
<td>1.28</td>
<td>1.04</td>
<td>1.32</td>
</tr>
<tr>
<td>Voluntaristic community businesses</td>
<td>0.83</td>
<td>1.08</td>
<td>1.06</td>
</tr>
</tbody>
</table>


Notes: 1. Average annual rate of increase for each type of community business.
2. See Appended Note 2-1-13 for a detailed analysis.

**Fig. 2-1-102** Cooperation with administrative agencies and profit status of business

Community businesses cooperating with administrative agencies more likely to turn a profit in both mission and profit-making businesses

<table>
<thead>
<tr>
<th></th>
<th>Cooperating</th>
<th>Not cooperating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission business</td>
<td>48.3</td>
<td>41.3</td>
</tr>
<tr>
<td>Profit-making business</td>
<td>61.8</td>
<td>47.8</td>
</tr>
</tbody>
</table>


Note: See Appended Note 2-1-14 for a detailed analysis.

---

44) As both government and NPOs have as their objective achieving the common good, there are cases in certain regions and administrative fields in which NPOs and government can cooperate. The interim report of METI’s NPO Committee, which is part of the Industrial Structure Council, described one advantage of government/NPO partnerships and support for NPOs by government as being that it enabled the provision of high-quality services through the contracting out to NPOs of government-provided services. A likely development in the future will be the provision by government of public services demanding universality and fairness, and the provision by NPOs and similar entities of services suited to regional characteristics and diversifying values.
government agencies strengthens the business foundations of community businesses by generating profitable business, both in relation to mission business and profit-making business. Fig. 2-1-102 shows the profitability of business according to whether or not community businesses receive the cooperation of government agencies; from this, it can be seen that businesses receiving the cooperation of administrative agencies are more likely to have business in the black than those that do not. An examination of what forms of cooperation have a positive impact on profitable business (Fig. 2-1-103) reveals that cooperation relating to the development of business, such as “provision of contracted-out work” and “introduction of customers”, makes a major contribution, and differences in the proportion of profitable enterprises show this effect to be greater than the effect of assistance in the form of grants and subsidies. Rather than uniform support through the provision of grants and subsidies, therefore, cooperation born of a collaborative approach offers a more effective means by which administrative agencies can provide assistance. From the point of view of local governments, with their limited financial and human resources, community businesses have the potential to be important partners for providing finely-tailored services to local residents at low cost.

Fig. 2-1-103 Type of cooperation with administrative agencies and proportion of community businesses with business turning a profit

Provision of contracted-out work and introduction of customers especially contribute to stabilization of earnings

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

Note: See Appended Note 2-1-15 for a detailed analysis.
Chapter 1 — SMEs as the seeds for the development and diversification of the economy and society

Case 1-10 Development of community business through fathers’ involvement in the community

T is an NPO with 40 members located in a commuter town in Tokyo. It provides residential-related services, such as housing complex management consulting services, as well as managing and operating a natural history museum (with hands-on learning facilities) in a municipal park under contract to the local government.

Local activities of father’s participation starting from volunteer events
In order to give their children a summer to remember, U and two other white-collar fathers working in the center of Tokyo organized an animated film show in 1995, which turned to be success. The story of the film made them think, however. This was the story of some raccoon dogs (tanuki) that opposed the development of a satellite town by humans; unable to resist, though, they lose their homes and their habitat. Coming in the wake of the Kobe earthquake in January of the same year, which made people more aware of the need for communal solidarity, this struck a chord with the fathers, and they decided to try to build a new and friendlier local community. In concrete terms, they organized activities that allowed the participation of fathers who would not normally have the opportunity to become involved in the community. These activities included softball competitions, street cleaning, developing a mailing-list-based online ‘gossip’ board, and offering an advice service for local people provided by IT professionals.

Establishment of NPO
In response to the introduction of the NPO Law, an NPO, T, was formed in 1999. U, who became the organization’s representative, took this as the occasion to quit his job and concentrate on the NPO’s activities. The organization’s first activity as an NPO was to gather 1,700 signatures from 2,300 households in nine housing complexes in the area that wanted broadband Internet access. This it used as a potential customer list when it approached a number of providers, one of which showed interest in the project and 500 lines were laid. NPO T held explanatory meetings for local residents and gathered 500 applications. As a result of this activity, NPO T was awarded the MPHPT Kanto Bureau Director’s Award for General Communications for its contribution to the spread of broadband.

Contract to operate natural history museum in municipal park
In 2001, NPO T won a contract from the city to manage and operate a newly established natural history museum in the city’s park. This was a profit-making business that generated a stable income, enabling the representative, U, to earn enough to make a living for the first time. NPO T was originally told by the city that it only needed to attract around 500 visitors per month. As a result of its positive approach, however, it has succeeded in keeping the number of visitors at around the 5,000 mark ever since opening.

Since 2003, NPO has focused on the museum’s management and operation, and a new NPO, V, was established to provide other community support services. Its “business” division and “volunteer” division have thus been divided up. NPO V provides residential consulting services in cooperation with neighboring cities. In the future, it intends to maintain an equal emphasis on these business and voluntary elements to its operations. It also hopes to develop an “assistance” fund using community funds.
METI and its regional bureaus of economy, trade and industry undertake a variety of measures to promote community businesses and help them fulfill their social mission and form part of the economic foundations of the community.

METI
Since fiscal 2002, METI has had a program to vitalize civic activities in order to create employment and respond better to the needs of an aging society. Support is focused on supporting and encouraging civic activities and corporatization of such activities lead by women and senior citizens making effective use of IT in fields such as community building and lifelong learning, as well as the publicizing of successful cases to other regions to encourage their spread.

In fiscal 2003, METI also launched an environmental community business program in order to uncover and support the development of “environmental community businesses” involving enterprises, NPOs, citizens and others working in partnership to solve environmental problems and improve the quality of the local environment from a business standpoint. This program covers the costs of a proposed business or the cost of launch of a business model and project costs, evaluates the results and problems encountered, and publishes the results to raise public awareness.


Hokkaido Bureau of Economy, Trade and Industry
The Hokkaido Bureau of Economy, Trade and Industry has established a regional economic promotion office, staff from which are loaned around Hokkaido to discover and support active measures by NPOs and local governments in the region.

Concrete activities include the identification of local grassroots activities, such as Internet-related activities undertaken by NPOs and environmental-related programs organized by shopping areas, and end-to-end support for community businesses, including support regarding the startup and implementation of projects.

Kanto Bureau of Economy, Trade and Industry
The Kanto Bureau of Economy, Trade and Industry established Community Business and NPO Activity Promotion Office in 2001, as well as instituting the Greater Kanto Community Business Promotion Association and developing a network of businesses, supporters and administrative agencies.

This network functions as a platform for community businesses, and creates new business opportunities for participating community businesses. In March 2004, the bureau also drew up a community business startup manual, developed a community business startup development program, and launched model programs. In order to promote wider use of these support tools throughout the region, the bureau also hosts symposiums and seminars.

Chubu Bureau of Economy, Trade and Industry
The Chubu Bureau of Economy, Trade and Industry has an NPO entrepreneur support network that provides integrated support to small-scale local businesses involving women and senior citizens that are oriented more toward self-fulfillment and meeting local needs than simply growth and profits. This support includes the development and creation of education programs and provision of education and consultation services, as well as measures to promote cooperation and networking among these individual businesses. Around 15,000 people have been through this program, of whom some 700 have started up their own ventures. The bureau provides various forms of support to these businesses, including “startup contest” support (consisting of subsidies to support the development of new fields of business) and support for the “launch of helper station and after-school child education projects” (subsidies to support coordinating activities) to create and promote community businesses. Through model projects to stimulate civic activities, the bureau also promotes civic activities undertaken by citizens such as “community-based restaurants using a ‘one-day chef’ system” and “citizen lecturers to create learning opportunities”.

Kinki Bureau of Economy, Trade and Industry
In response to the emergence of community businesses in the process of reconstruction after the Kobe Earthquake, the most well-known example of which being Community Support Kobe, the Kinki Bureau of Economy, Trade and Industry is studying concrete support measures for NPOs and researching the actual state of community businesses’ activities. Two of the main programs in these areas are the fiscal 2000 survey into the development of “self-cycling” regional economic systems, and a survey in fiscal 2002 into the formation of commercial clusters with community service center functions. Since fiscal 2001, the bureau has also run a workshop for the study of NPOs in order to
Chapter 1 — SMEs as the seeds for the development and diversification of the economy and society

promote the fusion of NPO policy and industries of regional economies, providing a forum for dialogue with local governments and NPO bodies. Other activities include the publication of a community business handbook (in fiscal 2001) and collection of case studies based on interviews with NPOs involved in regional economic revitalization (fiscal 2003), and efforts to raise social awareness of NPOs involved in community businesses and promote central government measures of support for NPOs and similar organizations.

As well as the above activities, the bureau is engaged in PR and support measures to enable community businesses to develop roots in the community. These include the hosting of forums to promote collaboration between NPOs, enterprises and government (March 2003), and publication in the bureau’s monthly journal of details of the activities of organizations engaged in community business using METI’s civic activity vitalization model program (such as Es Bureau and the Osaka NPO Center) (in the March 2004 issue).

Chugoku Bureau of Economy, Trade and Industry

The Chugoku Bureau of Economy, Trade and Industry provides support for innovative local activities, using the regional promotion revitalization program, which provides support to municipalities. These include support for the launch of community businesses providing assistive services under the “Hakusen General Lifestyle Support Program” in Yonago, and the trial of a joint delivery service system for senior citizens led by an NPO established primarily by the youth section of the local association of commerce and industry under a program to make it easier for senior citizens to go shopping (in Iwami in Tottori Prefecture). From fiscal 2004, the bureau has also worked closely with local governments to create, support and raise awareness of community businesses to solve local issues and make use of local resources.

Shikoku Bureau of Economy, Trade and Industry

In fiscal 2003, the Shikoku Bureau of Economy, Trade and Industry undertook a survey of the management methods of community businesses making a major contribution to the revitalization of their regions. This study resulted in the formulation of measures to promote community businesses, and also the publication of a handbook on community business startups as one concrete means of promoting such businesses. So as to promote greater public awareness of community businesses, the bureau has also been actively involved in the Shikoku NPO Forum and community business seminars throughout the region. Based on the recommendations arising from the above survey, the bureau plans to start providing community business support by, among other things, strengthening the functions of intermediate support agencies and developing a support network.

Kyushu Bureau of Economy, Trade and Industry

Following the recommendations of a report into community businesses in the Kyushu region published in fiscal 2001, the Kyushu Bureau of Economy, Trade and Industry is working to promote community businesses in cooperation with the Kyushu Industrial Advancement Center (KIAC). In June 2002, a “community business forum” was added to the bureau’s website to serve as a source of information. The bureau also established an investigative committee to pave the way for the establishment of the “Kyushu Community Business Information Exchange Plaza” as a forum for information sharing and transmission using IT, and the specific functions of the plaza are currently being examined. In order to promote and raise awareness of its programs, forums are also held in each of the seven prefectures of Kyushu. In fiscal 2003, the “Kyushu Community Business Promotion Council” was established to facilitate exchanges with community business entrepreneurs in Kyushu. In the same year, community business schools were established in two locations to provide financial support in the form of subsidies to cover the cost of business startup and also assistance with human resources.
4. Impact of community businesses on local communities

We look finally at the contribution to local communities of community businesses, which is perhaps their primary purpose. Fig. 2-1-104 shows the responses of representatives to the question of what effects their organizations’ activities had. Their responses indicate that a large proportion of representatives consider their activities to contribute directly to society. As well as “raising of understanding of own business”, for example, many respondents said that their activities have non-quantifiable effects such as “stimulation of exchange among local residents”, “improvement of convenience of life of local residents” and “source of local employment opportunities”.

One of the most typical roles of community businesses is to create employment and avenues for personal fulfillment. This is reflected by the fact that many organizations consciously seek the participation of people seeking local outlets for their abilities, such as housewives, people forced into mandatory retirement, and senior citizens (Fig. 2-1-105).

From the point of view of regional revitalization, promotion of regional industry is absolutely crucial. Case 1-11 describes the case of a cake shop in a town whose main industries are agriculture and fishing. This shop was established by women from a strawberry farm to create a market for sub-standard strawberries, and served to increase 40,000 tourists a year to the town. 470,000 tourists per year visit this store and many other attractions, making a major contribution to employment.

Fig. 2-1-105 People whose participation in activities is especially sought
Activities undertaken out of awareness of need for local outlets for abilities of housewives and retired workers

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).
Note: Totals exceed 100 due to multiple responses.

Fig. 2-1-104 Impact of community businesses’ activities on region
Activities have a major impact on the surrounding area and stimulate exchanges among local residents

Source: The Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).
Note: Totals exceed 100 due to multiple responses.
Case 1-11  Community business with annual turnover of ¥80 million created as a result of event involving local government and volunteers, resulting in a major contribution to regional revitalization

Town W in Kochi Prefecture is a fishing town well known for its bonito pole-and-line fishing. In an effort to halt the increasing problem of depopulation, it has organized various events to revitalize the region, including a “bonito festival”, for the past 14 years. In 1994, the decision was made to build a hotel, X, whose three selling points were “sea, hot springs and bonito”. The town also set about developing agricultural produce other than bonito as another means of revitalization.

Adding value to sub-standard strawberries
At around the same time, women from a commercial farm that sold jam and jelly made from sub-standard strawberries at the bonito festival began looking into the development of products that could be marketed on a more permanent basis, and they put their idea to town W. Making use of the prefectural government’s program to support startups producing local specialties to develop strawberry products, the women led efforts to develop commercial jam and jelly products. Following market research, however, they concluded that they would not be able to compete with leading manufacturers engaged in mass production and large-scale distribution. They therefore changed course to sell handmade cakes. Eight of the women learnt how to make cakes from a professional, and in the year after the establishment of hotel X in 1996 a cake shop, Y, was launched.

Roaring success right from the start, drawing more tourists to the town
Despite concerns about likely demand at the start, the strawberry cakes proved so popular that queues formed at the weekend. From the first year, the project achieved sales of ¥80 million, approximately four times its initial target, and in 1999 it was incorporated as an agricultural producers’ cooperative corporation. Around 40,000 visitors flocked to shop Y, which had become a tourist attraction, and visitors to the town were in turn drawn to hotel X and other tourist attractions in the area. Centered around hotel X and cake shop Y, a network of tourist spots, such as a cheap fresh fish market, formed, drawing 470,000 tourists a year. This created new employment opportunities in addition to the seven full-time and part-time jobs at shop Y.

From the point of view of the women from the strawberry farm running Shop Y, the venture allowed them to see customers actually enjoy their products, as before their products were just shipped to an agricultural cooperative, and this motivated them to put even more effort into growing strawberries.

Success of cake shop triggers new startups
The success of cake shop Y stimulated business in other fields in the town. In 1999, women belonging to a fishing cooperative began selling seared bonito and dried products. Then in 2003, a group of businesses opened an eatery in the center of a shopping district using a program run by the prefectural government to support businesses in intermediate and mountainous areas. Thus growing numbers of people have become involved in town development efforts, providing a prime example of how collaboration between local residents and government can result in successful regional development.

Operation of the store is currently left to full-time and part-time employees. However, the members involved at the start are still entirely in charge of supplies. Dealing with the problem of aging is therefore a pressing issue. A member who launched cake shop Y says that they hope to “act as the trigger for sales of local product in the future as well”.
As the preceding pages have demonstrated, community businesses combine both economic and non-economic effects. Their economic effects include the promotion of regional industries, development of various community-based services and the creation of employment. Their non-economic effects include the revival of the community and generation of meaningful outlets in life for local residents.

Against the background of the financial difficulties of local governments, diversification of local residents' needs, aging of society and so on, community businesses' ability to add value to the resources of the local community and make effective use of latent resources will make them of increasing importance to local communities in the future.

Section 6 Shopping centers that give visitors pleasure

The preceding sections demonstrated the leading role played in the development of the economy and society by SMEs through technological innovation and the creation of services in response to structural socioeconomic changes. In this section, we examine the way forward for shopping centers.

1. Measures undertaken by shopping centers

Small and medium retailers make up around 20% of all business establishments and employ 16% of workers. The shopping centers formed by clusters of these retailers tend to be regarded as lacking in vitality, which contrasts with the picture of SMEs painted so far. It is certainly true that, as demonstrated in Part I, business conditions among small and medium retailers are lagging during the present recovery phase. As also described in Part I, behind this lies the structural move away from retailing in consumption. Nevertheless, quite a number of shopping centers are succeeding in drawing increasing numbers of shoppers through business innovation despite the severe business environment.

This section looks at the measures being taken by shopping districts according to the Survey of Shopping Districts. The “major problems” recognized by shopping districts themselves are, in descending order, “difficulty of finding successor due to aging of proprietors” (67.1%), “lack of appealing stores” (66.3%), “poor awareness among proprietors of need to participate in shopping district activities” (55.7%), and “no core store” (51.8%) (Fig. 2-1-106). Is the answer to problems such as these to increase the number of visitors to shopping centers?

The most commonly given problem, i.e. the problem of

45) This was a survey conducted in November 2003 by the National Federation of Shopping Center Promotion Associations based on a sample of 8,000 shopping center promotion associations, business cooperatives and voluntary body shopping centers around Japan. 3,455 valid responses were received, and the valid response rate was 43.2%.

46) This was a survey conducted in December 2002 by the Shoko Research Institute of 2,181 shopping center promotion associations affiliated to the National Federation of Shopping Center Promotion Associations. 721 valid responses were received, and the valid response rate was 33.1%.
successors, is considered in detail in Chapter 3. For the time being though, it may be noted that there is a certain correlation between generational changeover and the business conditions of individual stores that make up shopping centers among retailers as well. Thus an examination of the earnings performance of the stores in shopping centers according to the age of their proprietor using data from the Survey of Shopping Center Stores reveals a large number of enterprises with declining profits among stores with proprietors aged 40 or over. Among stores with proprietors aged 30 years or less, however, a large proportion have increasing (27.6%) or stable (17.1%) profits (Fig. 2-1-107). From this, we may conclude that the generational changeover at stores in shopping centers is necessary to the overall revitalization of shopping centers overall.

(2) Shopping centers as clusters of appealing stores

The second problem confronting shopping centers is the “lack of appealing stores”. Individual stores are taking various steps to combat this problem, and next we look at what steps contribute effectively to the formation of appealing shopping centers.

We begin by looking at the state of activities undertaken by stores at shopping centers attracting growing visitor numbers according to the Survey of Shopping Districts. We find that the proportion of shopping centers that responded that “all stores” or “most stores” are involved in activities such as “extending of opening hours”, “store refurbishment”, “development or change of type of business” and “business conversion” is greater than the proportion that responded “most do not” (Fig. 2-1-108). The development of appealing stores through cumulative efforts of this kind leads to the revitalization of shopping centers as a whole.
Shopping center A in Shimane Prefecture has 60 stores, and is located in a central urban area neighboring public offices and tourist facilities. With the hollowing out of urban areas in recent years, the department store, which was necessary to draw customers, closed down, spurring on the decline. Because of the large number of older people in the area, however, the community and local TMO are working together on an urban revitalization project to create an “elderly friendly” commercial district. As part of these efforts, a free shopping bus service serving the station, shopping center and large stores has been launched. This has been a hit with senior citizens and shoppers with children, and use has exceeded initial expectations. Access to neighboring tourist facilities has also been improved, resulting in increased numbers of visitors from outside the area. Other activities include the development of “challenge” and “antenna” shops using vacant stores in the shopping center, provision of demonstration and sales incubation facilities, and organization of events. All these activities reflect an emphasis on non-tangible support. These have contributed to drawing increasing numbers of visitors, and have also had an important impact in terms of increasing the opportunities for stores to work together to vitalize activity in the area as a whole.

Shopping center promotion association B was established in Tokyo in 1969, and with its 65 members has long been active in promoting the center’s development. In 1990, a metropolitan hospital was established nearby, which the association heard was seeking an operator to run the cafeteria and kiosks. It therefore established a joint-stock company, C Ltd., financed by the association’s members. By sourcing foodstuffs used in the cafeteria from the shopping center, it is contributing to the shopping center’s own development. C Ltd. believes that improving the area will translate into growth in the shopping center. It is therefore actively engaged in activities contributing to the lives of local residents. These include the leasing by the company of a store and employment of a fishmonger in order to continue a fishmonger’s store that closed down, and the free lease of equipment to a disabled group making and selling bread to enable them to manage a bakery in the shopping center. Although these are not very profitable activities, they are undertaken because the association believes that the lack of a fish seller and bakery in the shopping district would inconvenience residents. Other activities include delivery of packed lunches to senior citizens living alone, building cleaning services to create employment, and general advice services for local residents.
(3) Coexistence with large stores

Regarding the problem of “no core store”, it is important to note the changing recognition among shopping centers concerning the impact of large stores that have the potential to act as core stores. Traditionally, large stores have tended to be regarded as rivals to shopping centers; in the previous Survey of Shopping Districts in 2000, 72% of respondents described large stores thus. In the fiscal 2003 Survey of Shopping Districts, however, the proportion of shopping centers regarding “competition with large stores” as a problem dropped dramatically to 36.9% (Fig. 2-1-106). “No core store”, on the other hand, was regarded as a problem by a large proportion. This change in the pattern of responses is likely to be a product of an increase in localities that have begun to see large stores as being a core, rather than a competitive, presence as growing numbers of shopping centers have experienced declines following the closure of large stores. In fact, if we look at the change in the number of visitors to shopping centers with large stores in recent years according to the Survey of Shopping Districts (Fig. 2-1-109), a larger proportion of shopping centers where a large store opened in the past three years responded that visitor numbers had “increased” than shopping centers where a large store had not opened. If we look at the change in visitor numbers to shopping centers where a large store had closed in the previous three years, on the other hand, we find that a slightly large proportion than shopping centers where a large store did not close down said visitor numbers had declined (Fig. 2-1-110). From this it can be seen that as large stores have shifted to the outskirts of cities, competition between the central and outlying areas of cities has superseded the competition between large stores and shopping centers. This has led in turn to an increased recognition of the relationship of coexistence between large stores and shopping centers in central urban areas. In this sense, revitalization of regional commercial clusters through partnerships between large stores and shopping centers will become increasingly important in the future. However, some large stores present in shopping centers do not cooperate actively enough in activities to revitalize their local areas (e.g. through the maintenance and management of arcades and street lighting, and participation in local festivals). Collaboration with shopping centers thus does not always go smoothly. Hence in order for shopping centers to make themselves more attractive to consumers in the future, there are many issues that they will have to address.

Fig. 2-1-109 Opening of large stores and increase in number of shoppers

Larger proportion of shopping centers where a large store opened than those where one did not experienced increase in shoppers

Source: Recompiled from National Federation of Shopping Center Promotion Associations, Survey of Shopping Districts (November 2003).
Notes: “Store opened” refers to shopping centers where a large store opened within the previous three years.
“Store did not open” refers to shopping centers where no large store opened within the previous three years.

Fig. 2-1-110 Closing of large stores and decrease in number of shoppers

Larger proportion of shopping centers where a large store closed down than those where one did not experienced decline in shoppers

Source: Recompiled from National Federation of Shopping Center Promotion Associations, Survey of Shopping Districts (November 2003).
Notes: “Store closed” refers to shopping centers where a large store closed within the previous three years.
“Store did not close” refers to shopping centers where a large store did not close within the previous three years.
### Case 1-14 Coexistence and utilization of strengths of large stores and shopping district in center of regional hub city

City D is a regional hub city, and its central shopping district is made up of nine shopping centers (made up of a total of 500 stores), one department store and one large supermarket. Following the establishment of a large shopping center on the outskirts of the city in December 2000 targeting family shoppers, one of the original two department stores closed down in December 2002, dealing a major blow to the city center as a whole. However, cooperation between large stores and shopping centers in the center has enabled them to leverage their strengths, limiting the slump in business and attracting customers back to the city center.

**Attracting customers by offering a selection tailored to suit customers drawn to large stores while avoiding direct competition**

The department store and large supermarket located at the center of the shopping district are members of the shopping center association. They are on friendly terms with the shopping center, and participate in its events. The department store has sales on a par with the large stores opening on the outskirts, and has considerable customer drawing power. Its target market is women in their twenties and fifties, and core merchandise consists of department store brands of clothing. It is also bolstering its basement food section. The shopping center’s strategy, on the other hand, is to develop a product lineup tailored to meet the needs of customers attracted to the department store. Thus rather than competing directly, it is developing a slightly different appeal by changing its brand and product lineup to focus on older women. Whereas the department store’s focus is on “middle-of-the-road” items with hardly any distinctive brands, the shopping center has many slightly higher end brand-name boutiques and volume apparel retailers covering the lower end. Individual stores thus engage in a customer-oriented approach that places a high priority on the tastes of individual customers and the purchasing cycle. In the food field as well, many shoppers visit both the department store and the shopping center. This, combined with the presence of a neighboring major supermarket, other large stores and shopping centers, has enabled the center to increase consumer satisfaction.

**Nine shopping centers form a distinctive area attractive to a wide range of shoppers**

The shopping district consists of a number of shopping areas with their own distinctive characters between which shoppers can easily go to and fro. These include an area of boutiques neighboring the department store, a tourist area filled with local restaurants and souvenir shops targeted at tourists, a neighborhood known as the “kitchen of the city” where there can be found a number of, fishmongers, butchers, greengrocers, over 60 stores selling foodstuffs, and open spaces where customers can eat food bought at these stores. There are also a monthly flea market, an open mall with crèche facilities targeted at younger shoppers, a restaurant section popular in the evenings, and a relaxing, wooden arcade. Overall, the shopping area skillfully combines the ordinary and the extraordinary to attract visitors, with the area as a whole organizing events, and individual shopping centers also organizing their own more distinctive events. Another project involves cooperation between a local TMO and female college students. Every Sunday, for example, around five female students engage in cleanups, act as guides around the shopping areas, and provide information.

**Responding to visitors by offering a variety of services**

Despite some variation in fortunes, the nine shopping centers that form the central shopping area are working to expand their market from a user perspective. These innovations include providing free streetcar and bus coupons and taxi vouchers to customers who spend ¥3,000 or more, bicycle parking facilities, shuttle buses (subsidized by the shopping centers and costing ¥100), and 4,000 parking spaces, more than the amount provided even by large suburban store.

**Measures to deal with vacant stores**

Because of strong consumer demand for childcare facilities, a crèche for younger shoppers was established in the shopping center in fiscal 2002. This was established under a central government program for making use of vacant stores, a grant from which was used to cover the cost of refurbishment, rental fees paid to a childcare service provider. Efforts are being made to increase use of the crèche and improve the convenience of the shopping center by, for example, introducing a discount service for users who receive special discount stamps when shopping at any of the shopping centers in the center of the city, including the two large stores. As other ways of combating store vacancies, a system of tying rent entirely to sales has been introduced. Under this system, the rent for leased stores is entirely proportional to sales, which means that landowners and leaseholders too bear some of the risk regarding sales. Another program under which businesses wishing to open stores are allowed to rent stores free of charge and only pay rent once their business has begun to generate profit is also being tried. This enables tenants who would not otherwise be able to afford the normal minimum compensation required to open a store to do so. Landowners and leaseholders too consider it better to have tenants using their properties, rather than letting them stand empty and not generate income because of the importance to the area of the atmosphere created by their presence.
2. Revitalization of central urban areas and shopping districts

TMOs around the country are active in revitalizing central urban areas from a variety of angles. As the basic policy established by TMO Law indicates, it is important that measures be undertaken from a broad perspective. If we examine what is “necessary to town management projects” in such community building activities based on the results of the Survey on the Activities of TMOs, we find factors such as “acquisition of human resources able to display specialist skills in implementation of project” mentioned alongside the more fundamental “establishment of TMO’s management base” and “sustained execution of project for number of years” (Fig. 2-1-111). Reasons given for the failure of revitalization of central urban areas to proceed, on the other hand, included “no collaboration with shopping centers and proprietors”, “no human resources to lead project”, “sporadic projects due to inability to continue project looking several years ahead”, “change in environment other than at time of development of TMO scheme (e.g. withdrawal of large store)”, and “insufficient analysis of situation and assessment of effects of project after formulation of TMO scheme” (Fig. 2-1-112). These survey results reflect the importance of (1) TMOs leading the way alongside shopping centers and businesses in narrowing down targets based on a shared awareness while analyzing the situation in each area, and (2) securing human resources capable of displaying leadership in consensus building and concrete implementation of projects.

There is a tendency for TMO projects to be regarded as being largely tangible in nature. However, an examination of the actual content of measures undertaken under town management projects (Fig. 2-1-113) reveals a high proportion of TMOs engaging in “action through events and other intangible projects” (25.6%) and “consensus-building activities” (14.2%). This indicates that intangible activities are a frequent

![Fig. 2-1-111 Requirements of town management projects](image)

“Acquisition of human resources able to display specialist skills in implementation of project” important as well as “establishment of TMO’s management base” and “sustained execution of project for number of years”

Source: Soft Creation, Survey on the Activities of TMOs (February 2003).
Note: Totals do not sum to 100 due to multiple responses.

---

47) Town management organizations. These are businesses approved under the Law Regarding Integrated Promotion of the Development and Improvement and Revitalization of Commerce in Central Urban Areas (known for short as the TMO Law) to pursue approved schemes. Treating commercial clusters in central urban areas as forming a single unit, TMOs provide comprehensive support to assist with their composition, arrangement of stores, development of basic commercial facilities and other intangible programs, and plan, coordinate and implement the integrated and planned development of commercial clusters in central urban areas.

48) A survey of 254 TMOs by Soft Creation in February 2003. The response rate was 99.6%.
Fig. 2-1-112 Reasons for failure of central urban areas to develop
Revitalization depends on surmounting problems such as “no collaboration with shopping centers and proprietors”, “no human resources to lead project” and “sporadic rather than sustained projects”

- No collaboration with shopping centers and proprietors
- No human resources to lead project inside or outside the TMO
- Sporadic projects due to inability to continue project looking several years ahead
- Change in environment other than at time of development of TMO scheme (e.g. withdrawal of large store)
- Insufficient analysis of situation and assessment of effects of project after formulation of TMO scheme
- Lack of organization impetus due to unclear role of TMO
- No collaboration with municipalities or associations/chambers of commerce and industry
- No linkage with other projects (e.g. municipal revitalization projects)
- Attraction of attractive tenants and enterprises did not go as planned
- Other

Note: Totals do not sum to 100 due to multiple responses.

Fig. 2-1-113 Activities undertaken as part of town management projects
Intangible activities such as “action through events and other intangible projects” important

- Action through events and other intangible projects
- Action to create attractive commercial district
- Consensus-building activities
- Action to develop facilities to draw customers
- Action to use vacant stores
- Promotion of joint action by proprietors, NPOs and local residents, etc.
- Promotion of use of IT
- Revitalization activities using local resources
- Development of TMO’s management base
- Activities using specialists and town managers, etc.

Note: Adjustments were made for multiple responses so that the total sums to 100.
form of action to revitalize central urban areas. If we look at the content of concrete measures taken as part of intangible projects (Fig. 2-1-114), moreover, we find that a high proportion of TMOs engage in “event programs” (20.7%) and “vacant store programs” (20.3%). It is thus apparent that TMOs are taking action across a diverse range of fields. The success of efforts to revitalize central urban areas depends on TMOs working to develop schemes and plans to meet the needs of neighborhoods, use of the knowledge and experience of experts, and consensus building among those concerned to create a neighborhood for local consumers to enjoy. Such activities hold the key to revitalization of shopping centers.

Fig. 2-1-114 Engagement in “intangible” activities by field of TMO project

Large proportion of “intangible” TMO activities are “event programs” and “vacant store programs”

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Event programs</td>
<td>20.7%</td>
</tr>
<tr>
<td>Vacant store programs</td>
<td>20.3%</td>
</tr>
<tr>
<td>IT-related programs</td>
<td>12.8%</td>
</tr>
<tr>
<td>Consensus-building programs</td>
<td>12.5%</td>
</tr>
<tr>
<td>Human resource development</td>
<td>5.9%</td>
</tr>
<tr>
<td>Welfare and community business</td>
<td>2.8%</td>
</tr>
<tr>
<td>Other intangible programs</td>
<td>25.0%</td>
</tr>
</tbody>
</table>

Source: Soft Creation, Survey on the Activities of TMOs (February 2003).
Notes: 1. Adjustments were made for multiple responses so that the total sums to 100.
2. “Other intangible programs” consist of the following: (1) publication of information magazine, etc., (2) stamp program, (3) city shuttle bus service, (4) development of shared parking system, (5) tenant mix (not including vacant stores), (6) hanging floral baskets, (7) surveys and research, (8) one outstanding product at every store, (9) ecological action, (10) community currency, (11) volunteer guides.
Shopping center F is located in the center of a prefectural capital, city E, and has 162 members. The opening of two large commercial facilities on the outskirts of the city and the failure of a large store located on the central street running through the main high street have put it in a severe situation. In response, people in the area have worked in unison to actively and boldly revitalize their neighborhood.

Urban development through collaboration based on city government’s “compact city” initiative
The revitalization of the center of city E is distinguished, among other things, by the development of Japan’s first “compact city initiative” in 1991, development of leased municipal housing, condominiums for the elderly in a redeveloped building near a station, and construction of a nursing home. An analysis by the city of the causes of hollowing out undertaken prior to taking action to revitalize the center of the city identified the following three factors: (1) the move to the outskirts of the prefectural hospital, (2) the shift to the suburbs of housing, and (3) the fall in visitors to the center of the city due to the development of surrounding road works. Significantly, this formed the basis for subsequent steps to develop a “compact city” under the city development master plan.

Adopting as its slogans the development of a “walkable” town and creation of a people and environmentally friendly urban environment, action was also taken through collaboration between local government, a TMO (chamber of commerce and industry), shopping center and NPO. A rich selection of services and intangible programs were undertaken, including the development of barrier-free roads around the station with wider sidewalks by narrowing the roadway, publication and publicizing around the shopping center of a manual on how to cater to older and disabled persons, free lending of electric scooters to the elderly as part of a town mobility program, and delivery services for the elderly.

Another focus is on the provision of support to startups; in a forum established by the city office, “challenge shops” are established and operated as a TMO program in order to help new entrepreneurs get underway. Thorough guidance for up-and-coming entrepreneurs in shopping centers is also provided through city government-run retail support centers and similar bodies as part of enthusiastic efforts to increase the appeal of individual stores.

In order to revitalize the center of the city, action is required in three key areas: measures to increase the number of people living in central areas under the city development master plan, targeted commercial cluster management, and measures to improve the appeal of individual stores. In all three areas, the area has a reputation as a pioneer.

---

49) This is an initiative forming part of city E’s urban master plan. Because of the increased cost of snow removal, sewerage and other services with the hollowing out of the city and movement of commercial activity to the outskirts, city E, which covers an area of 692 square kilometers and is the only prefectural capital with very heavy snowfall, is concentrating its limited resources on its central area and on snow and population aging countermeasures.

50) The purpose of this program is to lend electric scooters to the mobility impaired, such as the elderly and disabled persons, to give them greater mobility around town so that they can enjoy shopping and going out for walks, etc. Local governments, NPOs, local volunteers and others have scooter centers in shopping centers, car parks and other central locations where, as a rule, users can borrow scooters free of charge. Modeled on “Shop Mobility” in the United Kingdom, it is called “Town Mobility” in Japan to reflect the emphasis on enjoying town amenities in general as well as just shopping.
Chapter 2 — Globalization and SMEs

Section 1 Trends in establishment and elimination of overseas operations by SMEs

Rapid economic globalization is confronting SMEs with a new challenge – that of competition with enterprises overseas. At the same time, it is giving SMEs the new option of expanding into other countries endowed with different factors of production, market structures and social and legal systems from Japan, and establishing production operations there. Even where they do not move their own production operations offshore, globalization provides SMEs with the opportunity of contracting out production and other work to foreign enterprises.

In this section, we focus on SMEs that are responding to economic globalization through action such as overseas expansion, and seek to identify the keys to the success of these activities.

We also look at the division of labor in Japan and overseas by examining SMEs that have assigned different roles to their domestic and overseas production operations, and map out the way forward to help SMEs in Japan respond to economic globalization and its flip side, economic hollowing out.

Fig. 2-2-1 Trends in rate of overseas production

Accelerating growth in overseas production by manufacturers

Fig. 2-2-2 Proportion of enterprises with overseas subsidiaries

Gradual upward trend in SMEs with overseas subsidiaries

1. Upward trend in overseas expansion by SMEs

(1) State of overseas expansion by SMEs

According to the results of METI’s Basic Survey on Overseas Business Activities, the rate of overseas production in manufacturing has risen by the year, increasing from 6.2% in fiscal 1992 to 16.7% in fiscal 2001. From this it can be seen that production in manufacturing industries is increasingly being shifted overseas (Fig. 2-2-1). Looking at the state of overseas expansion by SMEs themselves amid this trend using the results of METI’s Basic Survey of Japanese Business Structure and Activities, we find that the proportion of SMEs with overseas subsidiaries at the time of the 2002 survey was 9.3%, as opposed to 28.5% in the case of large enterprises (Fig. 2-2-2). Overseas expansion by SMEs has thus gradually increased compared with the situation at the time of the 1992 survey. This upward trend has been slightly more marked among small and medium manufacturers, among whom the proportion...
with overseas subsidiaries increased from 7.1% in 1992 to 13.0% in 2002. It is therefore apparent that the globalization of business activities has proceeded particularly rapidly among small and medium manufacturers.

Next we look at the number of overseas subsidiaries established by year according to the results of METI’s Basic Survey on Overseas Business Activities. These show that there were more establishments by both large enterprises and SMEs from fiscal 1994 to fiscal 1996, and fewer establishments from fiscal 1998, when the Asian currency crisis erupted\(^2\) (Fig. 2-2-3). On the other hand, there are some enterprises that eliminate their overseas subsidiaries. This generally takes two forms: elimination by legal procedure, and elimination by non-legal procedure (Fig. 2-2-4). Looking at trends in the number of eliminations of overseas subsidiaries by size of enterprise\(^3\) (Fig. 2-2-5), we find that the number of eliminations began to increase among large enterprises from the late nineties, slightly after the boom in expansion overseas in the mid-nineties, reaching 621 in fiscal 2000 and 349 in fiscal 2001. In the case of SMEs, eliminations have increased modestly, though not as conspicuously as with large enterprises.

\(^2\) The change in the number of establishments due to differing levels of response to surveys needs to be borne in mind. The valid response rate for this survey based on responses by parent companies was 55.9%.

\(^3\) “Elimination” is here defined as “liquidation (including dissolution and bankruptcy, etc.)”, “sell-off or merger of overseas subsidiary resulting in the Japanese partner having a total share of 0%”, “reduction of share (total share of Japanese partner is more than 0% and less than 10%)”, and “mothballing or suspension of operations”.

---

**Fig. 2-2-3 Number of overseas subsidiaries by year of establishment or investment**

Rapid decline from fiscal 1998 among both large enterprises and SMEs

<table>
<thead>
<tr>
<th>Year (Fiscal)</th>
<th>Number of overseas subsidiaries of Japanese SMEs</th>
<th>Number of overseas subsidiaries of Japanese large enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>92</td>
<td>150</td>
<td>500</td>
</tr>
<tr>
<td>93</td>
<td>110</td>
<td>450</td>
</tr>
<tr>
<td>94</td>
<td>90</td>
<td>400</td>
</tr>
<tr>
<td>95</td>
<td>70</td>
<td>350</td>
</tr>
<tr>
<td>96</td>
<td>60</td>
<td>300</td>
</tr>
<tr>
<td>97</td>
<td>50</td>
<td>250</td>
</tr>
<tr>
<td>98</td>
<td>40</td>
<td>200</td>
</tr>
<tr>
<td>99</td>
<td>30</td>
<td>150</td>
</tr>
<tr>
<td>00</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>01</td>
<td>10</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Recompiled from METI, Basic Survey on Overseas Business Activities (2002).

Note: Japanese parent companies with capital of no more than ¥300 million or 300 or fewer regular workers are treated as SMEs.

---

**Fig. 2-2-4 Forms of elimination**

<table>
<thead>
<tr>
<th>Use of legal procedure</th>
<th>Elimination by legal procedure</th>
<th>Elimination by means other than legal procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method of elimination</td>
<td>Share sell-off or transfer</td>
<td>Liquidation or dissolution</td>
</tr>
<tr>
<td>Features</td>
<td>Shareholdings are sold or transferred to a joint venture partner or third party. Sometimes this is restricted and/or requires the permission or approval of central or local government. There may also not be any legislation concerning withdrawals.</td>
<td>In the case that a buyer or recipient for sale or transfer of shareholdings cannot be found, the company is liquidated under bankruptcy procedure. As with share sell-offs and transfers, this may be restricted and/or require the approval or permission of central or local government. There may also not be any legislation concerning withdrawals.</td>
</tr>
</tbody>
</table>

(2) State of establishment of operations by region

We look next at the regions in which SMEs invest directly. In terms of number, 29.3% of SMEs overseas subsidiaries in fiscal 2001 were in North America and Europe, 24.8% were in Southeast Asia, and 17.7% were in China (Fig. 2-2-6). Looked at by year, there was an increase in establishment of operations in China up to 1995, and thereafter a decline in all regions, including China, until 1999 (Fig. 2-2-7).

Next we consider the purpose of foreign direct investment (FDI) by SMEs by region based on the results of the Survey of Overseas Business Activities of Small and Medium Enterprises, a questionnaire survey conducted by Japan Small Business Research Institute (JSBRI) and the Research Institute of Economy, Trade and Industry (RIETI) in November 2003. This shows that whereas the objective of a large proportion of investment in North America and Europe was “to expand outlets in overseas markets” (67.9%), much of the FDI in China and the NIEs was intended “to import cheap products and cut costs” (66.7% in China and 61.8% in the NIEs). In Southeast Asia, a popular objective of investment was “to meet demands of key customers” (50.8%) (Fig. 2-2-8, Appended Note 2-2-1).

A breakdown of the main outlets for overseas subsidiaries’ products by region reveals that whereas the most important outlet in North America and Europe is “mainly sale of manufactured products to local non-Japanese-affiliated enterprises” (46.9%), the main outlet in Southeast Asia is “mainly sale of products to local Japanese affiliates” (52.3%). In China and the NIEs, the commonest main outlet is “mainly export of products to Japan” (47.8% and 41.9% respectively) (Fig. 2-2-9).

(3) Method of overseas expansion by region and period

FDI can be undertaken independently, giving a company a 100% share in its subsidiary, or as a joint venture in collaboration with a number of investors. The advantage of the joint venture approach is that it allows the

Fig. 2-2-6 Regional breakdown of number of overseas subsidiaries of SMEs (fiscal 2001)

Asia accounts for around 60% of overseas subsidiaries of SMEs

North America/Europe 29.3%
Southeast Asia 24.8%
China 17.7%
NIEs 14.9%
Other regions 13.4%

Source: Recomplied from METI, Basic Survey on Overseas Business Activities (2002).
Notes: 1. Japanese parent companies with capital of no more than ¥300 million or 300 or fewer regular workers are treated as SMEs.
2. The NIEs (newly industrializing economies) are defined here as Hong Kong, Taiwan and the Republic of Korea. (Singapore is included in Southeast Asia.) Hong Kong is not included in China. Hereinafter, China and the NIEs are classified as above.

4) The Survey of Overseas Business Activities of Small and Medium Enterprises conducted by JSBRI and RIETI, a questionnaire survey conducted in November 2003 of SMEs (enterprises with capital of no more than ¥300 million or no more than 300 regular workers) with overseas subsidiaries in 1998. Questions concerned the continuation and elimination of overseas subsidiaries between 1998 and 2003, trends in changes in sales and profits of continuing overseas subsidiaries between 1998 and 2003, and activities undertaken at overseas subsidiaries. Questionnaires were sent to 5,338 companies. The number of valid responses was 983, and the number of overseas subsidiaries was 804. Questions regarding 2003 concerned the situation as of October 2003.

Enterprises with more than one overseas subsidiary were asked about the attributes of the overseas subsidiary that they had established most recently, the overseas subsidiary with the most local workers, and overseas subsidiaries from which they had withdrawn. 46.0% of overseas subsidiaries were located in China, 28.6% in Southeast Asia, 12.9% in NIEs, 11.1% in North America and Europe, and 1.4% in other regions.

5) The NIEs are defined here as Hong Kong, Taiwan and the Republic of Korea. Singapore is included in Southeast Asia.
absorption of knowledge of business practices and other arrangements different from Japan from the partner company in another country. However, there also exists the possibility of problems arising with partners, and also the leakage of a company’s own business resources, such as technologies and know-how, to a partner. A major

6) In March 2003, METI published a set of guidelines for enterprises, entitled Guidelines on Prevention of Outflows of Technology, to help prevent the unintentional outflow of technologies from business partners and customers in the event of expansion overseas.
demerit is consequently the difficulty of FDI, given that it entails the transfer of technologies and know-how that are valuable to enterprises.

Let us therefore look at the proportions of FDI by SMEs taking the form of independent and joint ventures according to region. Whereas independent ventures account for 67.8% of FDI in North America and Europe, the proportion is lower in China (52.7%), the NIEs (45.8%) and Southeast Asia (43.6%) (Fig. 2-2-10). This is probably due to the fact that in parts of the Asia region such as China and Southeast Asia, investment in joint ventures is the only form of FDI allowed under legal and other restrictions, and also the existence of large differences in business practices between Japan and the host country. Consequently, joint ventures with local enterprises are chosen. Looking next at the forms of overseas expansion adopted by the year of establishment of overseas subsidiaries, we see a much more marked upward trend in FDI in independent ventures in China compared with other regions in recent years. This is due in large part to the increased transparency of FDI-related regulations following deregulation in the area of inward investment ahead of China’s accession to the WTO in 2001 (Figs. 2-2-11, 2-2-12).

(4) Size of initial investment in terms of number of workers and value of investment

Let us look next at the number of workers and amount of investment required in the host country when a direct investment is first made. An examination of the sizes of overseas subsidiaries in terms of number of local workers (Fig. 2-2-13) reveals that most ventures start with around 40~50 workers, regardless of the size of the parent company. A breakdown by region shows that overseas subsidiaries start out with fewer workers in North America and taking the form of independent and joint ventures according to region. Whereas independent ventures account for 67.8% of FDI in North America and Europe, the proportion is lower in China (52.7%), the NIEs (45.8%) and Southeast Asia (43.6%) (Fig. 2-2-10). This is probably due to the fact that in parts of the Asia region such as China and Southeast Asia, investment in joint ventures is the only form of FDI allowed under legal and other restrictions, and also the existence of large differences in business practices between Japan and the host country. Consequently, joint ventures with local enterprises are chosen. Looking next at the forms of overseas expansion adopted by the year of establishment of overseas subsidiaries, we see a much more marked upward trend in FDI in independent ventures in China compared with other regions in recent years. This is due in large part to the increased transparency of FDI-related regulations following deregulation in the area of inward investment ahead of China’s accession to the WTO in 2001 (Figs. 2-2-11, 2-2-12).

(4) Size of initial investment in terms of number of workers and value of investment

Let us look next at the number of workers and amount of investment required in the host country when a direct investment is first made. An examination of the sizes of overseas subsidiaries in terms of number of local workers (Fig. 2-2-13) reveals that most ventures start with around 40~50 workers, regardless of the size of the parent company. A breakdown by region shows that overseas subsidiaries start out with fewer workers in North America and
Europe (median of 19) than Southeast Asia and China (medians of 40–50) (Fig. 2-2-14). This is probably because FDI in Asia differs from that in North America and Europe in that, as we have seen, it tends to take advantage of the region’s cheap labor.

In terms of the value of initial investments, however, there is a large gap depending on the size of the parent company. Where the parent company has 100 or fewer workers, initial investments come to around ¥40 million (median), and this figure increases further to ¥160 million (median) in the case of enterprises with 301 workers or more (Fig. 2-2-15). Broken down by region, the value of initial investments increases from a median of ¥30 million in the NIEs to ¥51 million in China, ¥89 million in North America and Europe, and ¥100 million in Southeast Asia (Fig. 2-2-16).

(5) Average number of overseas subsidiaries
We look next at the number of overseas subsidiaries per enterprise with overseas operations. According to Fig. 2-2-17, even parent companies with 101–300 workers only have a median of one overseas subsidiary. In the main, then, SMEs tend to establish just one operation overseas.

2. State of elimination of overseas operations
So far we have looked at the present state of overseas expansion. As indicated in 1., however, there are also

Fig. 2-2-14 Number of local workers at time of initial investment by SMEs (by region)
More local workers at startup in China and Southeast Asia, where labor costs are lower

Fig. 2-2-13 Number of local workers at time of initial investment by SMEs (by size of parent company)
Overseas subsidiaries generally start with around 40 workers regardless of size of parent company

Fig. 2-2-15 Value of FDIs by SMEs (by size of parent company)
Parent companies with 100 or fewer workers tend to invest less than ¥50 million

Notes:
1. The number of local workers at the time of initial investment is defined as the number of workers (paid directors and regular employees) entering employment contracts in the host country at the time of FDI.
2. It should be noted that in the case of FDI by means such as capital participation, some ventures are already in operation.
many enterprises that withdraw from their overseas operations. Below, therefore, we consider the recent situation regarding the elimination of overseas subsidiaries.

We begin by examining the regions from which SMEs are withdrawing. According to METI’s Basic Survey on Overseas Business Activities of Small and Medium Enterprises (1995-2001), the number of eliminations by SMEs in fiscal 2001 was 40 in North

Fig. 2-2-16 Value of FDIs by SMEs (by region)
Comparatively larger direct investments in Southeast Asia and North America/Europe

![Graph showing value of FDIs by SMEs by region](image)


Note: The value of an initial investment is defined as the amount remitted from Japan (including investments and loans) at the time of FDI.

Fig. 2-2-17 Number of overseas subsidiaries of SMEs
Most SMEs with overseas operations have only one overseas subsidiary

![Graph showing number of overseas subsidiaries](image)


Note: Mean and median numbers of overseas subsidiaries of only SMEs with overseas subsidiaries.

8) See Fig. 2-2-4 regarding the definition of “eliminations”.

Fig. 2-2-18 Number of eliminated overseas subsidiaries of SMEs (by region)
General gradual upward trend in all regions

![Graph showing number of eliminated overseas subsidiaries by region](image)


Note: Withdrawals from overseas subsidiaries by parent companies with capital of no more than ¥300 million or 300 or fewer regular workers.

many enterprises that withdraw from their overseas operations. Below, therefore, we consider the recent situation regarding the elimination of overseas subsidiaries.

We begin by examining the regions from which SMEs are withdrawing. According to METI’s Basic Survey on Overseas Business Activities, the number of eliminations by SMEs in fiscal 2001 was 40 in North
America and Europe, and approximately 10 in China, the NIEs and Southeast Asia (Fig. 2-2-18). Despite some variation, the general trend over time has been moderately upward in all regions. An important point to remember here, however, is that the elimination of overseas subsidiaries does not always mean the abandonment of overseas business activities. Unlike bankruptcies resulting from a deterioration in performance, eliminations include cases where an enterprise relocates or consolidates its operations in another region outside the host country, rather than withdrawal from overseas production activities. On this point, the Survey of Overseas Business Activities of Small and Medium Enterprises indicates that 25.6% of eliminations of overseas subsidiaries in the previous five years were due to the relocation of operations to another region (Fig. 2-2-19).

Section 2 Characteristics and factors behind the success of SMEs engaging in FDI

The previous section examined trends in FDI by SMEs, and modes of FDI in recent years. The question we consider in this section is: What distinguishes enterprises that engage in FDI from those that do not, and what kinds of enterprises that do engage in FDI succeed? We begin this section, therefore, by identifying the attributes of enterprises that engage in FDI, and examine the factors behind the success of FDI.

1. Characteristics of enterprises engaging in FDI

(1) Relationship between size of enterprise and FDI

Theory on FDI holds that a direct investment is made when an enterprise projects that “the profit acquirable through the use of available business resources (e.g. knowledge and experience of business management, a broad range of technical and specialist knowledge of marketing methods, market position in relation to sales, purchase of raw materials and financing, trade marks (brands) and goodwill, organizational structures for information gathering and R&D, and so on) is greater in new fields and other countries than in conventional fields or the same country.” 9) FDI is thus not the movement of capital, but rather the movement of business resources. So what characteristics distinguish enterprises that engage in FDI (which we define here as the act of establishing an overseas subsidiary) from enterprises that do not? Looking first of all at the relationship between the size of the parent company and engagement in FDI using data from METI’s Basic Survey of Japanese Business Structure and Activities, it appears that larger enterprises are more likely to engage in FDI (Fig. 2-2-20, Appended Note 2-2-2). Applying the previously described theory on FDI, there is a strong likelihood that larger enterprises have more business resources.

Fig. 2-2-20 Proportion of enterprises with overseas subsidiaries by size of enterprise

According to the Survey of Overseas Business Activities of Small and Medium Enterprises, it can be seen that a higher proportion of enterprises with smaller parent companies “mainly export products to Japan”, while a higher proportion of enterprises with larger parent companies “mainly sell to local Japanese affiliates” or “mainly sell to local enterprises” (i.e. cater to the local market) (Fig. 2-2-19).

9) Two well-known studies on direct investment are Komiya (1967) and Komiya and Amano (1972). Much of the theory described in this section is derived from Komiya and Amano (1972).
(2) Relationship between equity ratio and FDI

Next, we compare enterprises that do and do not engage in FDI according to the level of their equity ratios using data from METI’s Basic Survey of Japanese Business Structure and Activities. This reveals that enterprises that do engage in FDI have a higher median equity ratio than those that do not (Fig. 2-2-22, Appended Note 2-2-2).

Equity ratio is an indicator of the financial stability of an enterprise; enterprises with a lower equity ratio have less freedom to invest capital, are less able to cope with failure, and have less borrowing capacity. Accordingly, enterprises with a low equity ratio tend to steer clear of high-risk direct investments.

(3) Relationship between labor productivity and FDI

Next, let us compare the labor productivity (value added per regular worker) of enterprises that do and do not engage in FDI. As can be seen from Fig. 2-2-23, enterprises that do engage in FDI tend to have higher labor productivity than those that do not.

High labor productivity is a result of having business resources such as proprietary production technologies and know-how. Enterprises with high labor productivity probably therefore seek to reap greater profits by applying their know-how overseas as well. Where the target of FDI is a developing country, low productivity operations in the parent company’s country are transferred overseas, leaving only high productivity operations.

10) This is noted in the financial analysis in Chapter 4.
operations, which results in higher labor productivity. These factors may well combine to produce the results shown in Fig. 2-2-23 (Appended Note 2-2-2).

(4) Relationship between labor share and FDI
Next, we look at the differences in the labor share of enterprises that engage in FDI and those that do not in manufacturing. Labor share is a measure of the labor cost burden as a proportion of the value added generated by an enterprise. The higher labor share is, the greater is the burden of labor costs at an enterprise. As the validity of these measures is affected by the wage gap with the host country, below we compare enterprises engaging in FDI in North America and Europe, enterprises engaging in FDI in Asia, and enterprises not engaging in FDI (Appended Note 2-2-3).

According to Fig. 2-2-24, a comparison of the labor share of direct investors in North America and Europe, direct investors in Asia, and enterprises not engaging in FDI reveals that direct investors in Asia tend to have a higher labor share than enterprises not engaging in FDI (Appended Note 2-2-4). In other words, enterprises with proportionately higher labor costs are more likely to take steps to enjoy the cost advantages of establishing operations in the Asia region, where wages per person are relatively lower.11)

(5) Relationship between R&D intensity and advertising intensity, and FDI
As previously noted, FDI entails the transfer of business resources overseas. Two particular measures of business resources are R&D intensity,12) which is a measure of technological advantage, and advertising intensity,13) which is a measure of the extent of product differentiation. As in (4), let us compare these measures

![Fig. 2-2-24 Labor share of enterprises with overseas operations (small and medium manufacturers)](image1)

Notes: 1. Enterprises with 300 or fewer regular workers only.
2. Labor share = gross pay / value added
3. There is a statistically significant difference between enterprises with subsidiaries in Asia and enterprises with no overseas subsidiaries.
4. See Appended Note 2-2-4 for the results of analysis.

![Fig. 2-2-25 R&D intensity and advertising intensity of enterprises with overseas operations (small and medium manufacturers)](image2)

Notes: 1. Comparison of means of manufacturers with 300 or fewer regular workers.
2. R&D intensity = (internal R&D expenditure + contracted-out R&D expenditure) / sales
Advertising intensity = advertising expenditure / sales
3. There is a statistically significant difference in R&D intensity between enterprises with overseas subsidiaries and enterprises without overseas subsidiaries. Regarding advertising intensity, there is a statistically significant difference between enterprises with subsidiaries in North America/Europe and enterprises with no overseas subsidiaries.
4. See Appended Note 2-2-4 for the results of analysis.

11) No significant correlation was observed in the case of enterprises engaged and not engaged in FDI in North America and Europe.
12) R&D intensity = (internal R&D expenditure + contracted-out R&D expenditure) / sales
13) Advertising intensity = advertising expenditure / sales
for enterprises that do and do not engage in FDI in manufacturing. As the validity of these measures differs according to the maturity of markets in the host country compared with Japan, below we compare enterprises engaging in FDI in North America and Europe, enterprises engaged in FDI in Asia, and enterprises not engaged in FDI.

Looking firstly at the means for R&D intensity, we find that whereas enterprises not engaging in FDI have a mean of 0.6%, direct investors in North America and Europe have a mean of 2.4% and direct investors in Asia have a mean of 1.3%. In both regions, therefore, direct investors have higher means than enterprises not engaging in FDI. It is also apparent that direct investors in North America and Europe have a higher research intensity than direct investors in Asia (Fig. 2-2-25, Appended Note 2-2-4). This is most likely due to enterprises engaging in FDI having advanced technological capabilities, and FDI in North America and Europe requiring a higher level of technological capability than investment in Asia.

If we look at the means for advertising intensity, on the other hand, we find that whereas enterprises not engaging in FDI have a mean of 0.3%, enterprises engaging in FDI in North America and Europe have a mean of 0.7%, and enterprises engaging in FDI in Asia have a mean of 0.4%. While this is the same pattern as with R&D intensity, a significant difference was observed between enterprises engaging and not engaging in FDI in North America and Europe (Appended Note 2-2-4). In other words, FDI in North America and Europe appears to depend on the ability of an enterprise to differentiate its products.

### 2. Comparison of FDI and business collaboration by SMEs

We looked above at the characteristics of enterprises engaged in FDI. However, one way of making use of the different economic environment in a country with cheaper factors of production (such as lower wages and wider markets) is to engage in overseas production through business collaboration without FDI. So to what extent are such means used?

An examination of the proportion of enterprises engaged in business collaboration with overseas enterprises by size of parent company based on data from METI’s Basic Survey of Japanese Business Structure and Activities shows that, as in the case of FDI, larger enterprises are more likely to engage in business collaboration with overseas enterprises (Fig. 2-2-26).

Expansion overseas can thus be pursued through either FDI or business collaboration. What, then, are the differences between the two? According to the Survey of Overseas Business Activities of Small and Medium Enterprises, the top reasons given by enterprises engaging in business collaboration for doing so rather than engaging in FDI were, in descending order, “high cost of initial investment” (27.2%), “no need for involvement in management” (25.2%), and “high risk” (23.6%). Together, these three reasons were chosen by the majority of respondents (Fig. 2-2-27).

Next we consider the differences between enterprises engaging in business collaboration and those engaging in FDI other than in terms of the views expressed above. A comparison of enterprises engaging only in business collaboration and enterprises engaging only in FDI as in 1. reveals no significant difference with respect to size of enterprise, R&D intensity and labor productivity. However, a lower equity ratio does tend to be exhibited by enterprises engaging only in business collaboration (Fig. 2-2-28, Appended Note 2-2-5). As previously noted, equity ratio is a measure of the financial stability of an enterprise. Considering that enterprises with a lower equity ratio tend to have less ability to withstand failure and less borrowing capacity, there seems to be a greater tendency to use business collaboration rather than FDI where (1) an enterprise has less financial leeway, and (2) the risks associated with overseas production are higher.

### Fig. 2-2-26 State of business collaboration by size of enterprise

Larger enterprises more likely to engage in business collaboration with overseas enterprises

<table>
<thead>
<tr>
<th>(No. of workers at parent company)</th>
<th>Proportion of enterprises engaging in business collaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,001+</td>
<td>15.7%</td>
</tr>
<tr>
<td>301~1,000</td>
<td>7.8%</td>
</tr>
<tr>
<td>101~300</td>
<td>5.8%</td>
</tr>
<tr>
<td>-100</td>
<td>2.8%</td>
</tr>
</tbody>
</table>


Note: Business collaboration is here defined as contracting out of production to overseas enterprises and joint production with overseas enterprises.

---

14) No significant correlation was observed with enterprises engaged and not engaged in direct investment in Asia.
15) Defined here as the development of relations of cooperation in production systems through, for example, contracting out of production, lease of production facilities and joint production under an agreement or contract with an overseas enterprise that is not a target of direct investment.
Business collaboration of this kind offers the advantage that it brings with it less risk than FDI. The downside, however, is that the transfer of technologies and know-how to partners brings with it the risk of leaks. If FDI and business collaboration are grouped together as “overseas expansion”, then a greater proportion of enterprises with own brands establish operations overseas (Fig. 2-2-29). This is perhaps evidence that enterprises that expand overseas must differentiate themselves from the many and varied competitors that they face overseas by such means as developing their own brands.

Fig. 2-2-27 Reasons for choice of business collaboration instead of FDI

- Business collaboration regarded as being cheaper than FDI in terms of initial investment cost
- High cost of initial investment
- No need for involvement in management
- High risk
- High management cost
- Legal restrictions
- Other


Notes:
1. Business collaboration is here defined as the “development of relation of cooperation in production system through e.g. contracting out of production, lease of production facilities and joint production under agreements or contracts with overseas enterprises that are not the target of FDI”.
2. Enterprises engaged in business collaboration were asked their “reasons for choice of business collaboration instead of FDI”.

Fig. 2-2-28 Comparison of equity ratios of direct investors and enterprises engaged in business collaboration

- Overseas production through business collaboration is one option for enterprises facing funding constraints
- Equity ratio (median)


Notes:
1. Direct investors are defined here as enterprises engaged in FDI only and not business collaboration. Enterprises engaged in business collaboration are enterprises engaged only in business collaboration.
2. Only factors for which a statistical significant difference was found in the analysis described in Appended Note 2-2-5 are shown.

Fig. 2-2-29 Proportion of enterprises with own brands establishing operations overseas

- Brands that raise competitiveness assist overseas expansion


Note: Enterprises with overseas operations are here defined as enterprises with affiliates engaged in business activities overseas, enterprises engaged in business collaboration with overseas enterprises, and enterprises that have established their own branches or representative offices in their own name overseas.

---

16) An “own brand” is defined here as that which is recognized by customers and has a beneficial effect on business activities, regardless of whether it is patented or trademarked.
### Case 2-1 Overseas production requiring no funding through outsourcing of production

A Ltd. is a company in Tokyo with 79 employees that manufactures various kinds of light bulbs, kotatsu heater units and LED-related products. It used to manufacture only in Japan. In 1995, however, it began outsourcing production of light bulbs to a Chinese company, B Ltd. (In 2001, it also began contracting out kotatsu heater unit production to Malaysia.) Almost 90% of products that were produced domestically are now produced overseas. Meanwhile, the domestic plant now handles the manufacture of products such as special-purpose light bulbs and high-mix low-volume production of heater units, and also product planning and development.

**Reason for choosing outsourcing rather than FDI**
The appreciation of the yen and spreading global standardization in the mid-nineties caused unit delivery prices for lights used inside appliances such as refrigerators to plunge, making domestic production unprofitable. It therefore became necessary to switch production to cheaper locations overseas. Being an SME with limited business resources, however, A Ltd. chose to outsource production rather than invest directly, which would have entailed investment risk and also imposed a higher burden in terms of funding and human resource requirements. Another reason why outsourcing was adopted is that the markets for its light bulbs and heaters are mature and unlikely to grow much in the future, meaning that the technological capabilities offered by existing overseas enterprises are sufficient even without risky FDI. A third reason for choosing to outsource production was that where there are large seasonal variations in production, companies have to make personnel adjustments and manage working hours themselves if they invest directly. With outsourcing, however, all such adjustments can be left to the discretion of the contractor.

**Minimization of initial investment**
A Ltd. began looking for a partner through a ziangzhen company in China. Focusing on finding a company with (1) reliable management and (2) the necessary production technology to produce light bulbs, it searched for a partner using the connections of overseas students introduced to it by customers. As A Ltd. made no investment in the company that was selected as a result and lent it machinery used at its plant in Japan, the cost to A Ltd. was negligible.

**Stabilization of quality of products made under contract**
During the first two years of outsourcing, the quality of products was not up to initial expectations. Both the contractor and local suppliers of parts considered quality to be sufficient for China, and failed to understand that higher quality levels were required in Japan.

A Ltd. therefore showed its contractor some actual products and parts made in Japan to make clear what level of quality and precision was required. It also sent three of its own employees from Japan to provide technical guidance; a production system just like that at its own Japanese plant and managed by A Ltd. was established, and cost and quality control on a par with Japan were implemented. As the contractor was originally a light bulb manufacturer and so was armed with the necessary basic technologies and know-how, it was quite capable of producing products up to domestic Japanese standards provided that the same machinery as in Japan were used and it was given technical guidance. Hence quality soon improved. Guidance regarding production control is still provided in order to maintain quality, but A Ltd. has no other input in management.

**Maintenance of good relations with contractor**
Having got overseas production off the ground by outsourcing, A Ltd.’s business results are now improving dramatically, providing an excellent example of a company that has succeeded in producing overseas at little cost. In order to continue producing overseas, it is maintaining good relations with its contractor and ensuring that both sides enjoy the following merits of the relationship.

Regarding the distribution of profits from the business, both sides are entirely open with each about information disclosure. This ensures that A Ltd.’s Chinese contractor, B Ltd., understands that it will not lose out if it produces for A Ltd., and that each party can trust the other to play its part. As well as A Ltd.’s outsourced work, B Ltd. also produces its own products for sale in China and Europe. Its work for a Japanese company, however, has particularly enhanced its reputation, and its business results are steadily improving. B Ltd. thus feels the benefits of working with A Ltd.

As B Ltd. currently takes no orders from competitors to A Ltd. in Japan, there are no demerits to the arrangement for A Ltd. Business alliances of this kind are founded on mutual trust. Contracts are consequently formalistic and contain no detailed provisions. Accordingly, while B Ltd. could theoretically take orders from other Japanese enterprises, A Ltd. could if that situation arose take back the machinery that it had loaned to B Ltd. and change its contractor.
3. Success and failure of FDI by SMEs

So far we have examined the characteristics of enterprises engaged in FDI. This has revealed that there is a strong tendency for enterprises that are larger and have a higher equity ratio, higher labor productivity and higher R&D intensity to engage in FDI. The next question we consider is as follows. Of those enterprises that engage in FDI, what kinds survive in the face of local competition? To answer this question, we conduct an analysis focusing on the relationship with the attributes and strategies of parent companies and their overseas subsidiaries.

(1) Impact of indicators of performance, length of time after FDI and size

The first things to consider in examining the success or failure of FDI are (1) how to measure the success or failure of FDI according to differences in the attributes and strategy of parent companies and their overseas subsidiaries, (2) at what point in time to measure success or failure, and (3) how to look at the size of initial investments.

1) Indicators of performance

The first measure of success or failure that presents itself is the continuation or elimination of overseas subsidiaries. However, continuing overseas subsidiaries are not always necessarily successful. For example, subsidiaries that receive additional injections of capital from Japan due to business going badly could hardly be described as being successful. We therefore analyze success or failure in terms of the continuation or elimination of overseas operations that are the target of FDI, and then proceed to determine the success of failure of continuing overseas subsidiaries according to whether their profits and sales are rising or falling (Fig. 2-2-30).

2) Impact of length of time after FDI and size

To judge the success or failure of FDI using these indicators, the impact of the length of time after FDI must be taken into consideration. This is because operations established overseas do not immediately get off the ground, as it takes time for overseas subsidiaries to achieve the level of production initially planned by their management. Of the overseas subsidiaries established in or before 2000 among the approximately 800 respondents to the Survey of Overseas Business Activities of Small and Medium Enterprises, approximately 40% achieved the planned level of production within one or two years of establishment (Fig. 2-2-31). Whether or not a direct investment is judged a success or a failure will therefore depend to an extent on the period of time that has elapsed since an investment was made. The relationship with size of initial investment is also of importance to judging the success or failure of direct investments. According to Fig. 2-2-32, continuing overseas subsidiaries are larger than eliminated overseas subsidiaries both in terms of value of initial investment and number of local workers immediately after FDI (Appended Note 2-2-6). This is probably due to the following: (1) some enterprises limit the size of their investment to reduce the risk due to the possibility right from the

Fig. 2-2-31 Period until attainment of initially planned level of production

Approximately 40% of overseas subsidiaries attain planned level of production in one to two years

<table>
<thead>
<tr>
<th>Period until attainment of initially planned level of production</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 6 months</td>
<td>5.8</td>
</tr>
<tr>
<td>In 6~12 months</td>
<td>16.2</td>
</tr>
<tr>
<td>In 1~2 years</td>
<td>18.1</td>
</tr>
<tr>
<td>In 2~3 years</td>
<td>21.6</td>
</tr>
<tr>
<td>Over 3 years</td>
<td>23.6</td>
</tr>
<tr>
<td>Not attained</td>
<td>14.7</td>
</tr>
</tbody>
</table>


Note: Only overseas subsidiaries established in or before 2000 are included.

Fig. 2-2-30 Outline of successes and failures of FDI

Considered simultaneously

FDI

Success

Failure

Continuation

Upward trend in profits (or sales)

Failure

Elimination

Considered simultaneously

Source: Prepared by the SME Agency.
start of withdrawal, and (2) enterprises that make larger initial investments cannot easily abandon their overseas subsidiaries, even if they perform badly, due to the greater scale of their loss in the event of withdrawal. Because of this, the time that has elapsed since a direct investment was made and the number of local workers at the time of a direct investment (as an indicator of the size of an investment) were taken into consideration in the analysis upon which the findings described below are based.

(2) Success or failure of FDI and performance of parent company

Let us look firstly at the relationship between the success or failure of overseas subsidiaries and the profit status and financial position of the Japanese parent companies that engage in investment. A comparison of the size of the parent company, equity ratio and operating profit ratio in 1998 of SMEs that eliminated overseas subsidiaries at least once in or after 1998 and SMEs that did not eliminate any overseas subsidiaries during the same period based on data from the Survey of Overseas Business Activities of Small and Medium Enterprises reveals no significant differences for these indicators (Appended Note 2-2-7). In other words, while the financial status of the parent company is closely correlated with the decision to establish operations overseas, it is not correlated with the success or failure of overseas subsidiaries. If the key to the success or failure of FDI is how business resources in the host region are or are not used, then almost by definition it follows that the performance of the parent company should be unrelated. Below, therefore, let us examine the impact on success or

---

**Fig. 2-2-32** Difference between continuing and eliminated overseas subsidiaries according to size of initial investment

Overseas subsidiaries established with smaller initial investments are more likely to be eliminated.

![Graph showing the difference between continuing and eliminated overseas subsidiaries](image)

**Source:** JSBRI and RIETI, Survey of Overseas Business Activities of Small and Medium Enterprises (November 2003).

**Notes:**
1. “Eliminated overseas subsidiaries” are overseas enterprises that were eliminated between 1998 and 2003.
2. See Appended Note 2-2-6 for the results of analysis.

---

**Fig. 2-2-33** Emphases at time of FDI (by size of parent company)

Greater emphasis on market size where parent company is larger.

![Graph showing emphases at time of FDI](image)

**Source:** JSBRI and RIETI, Survey of Overseas Business Activities of Small and Medium Enterprises (November 2003).

**Note:** Totals exceed 100 due to multiple responses.

---

17) “Eliminated” is defined here as the sell-off, liquidation or mothballing of a corporation established overseas through direct investment.
failure of research undertaken prior to FDI, attributes, and actions taken in the host country.

(3) Success or failure of FDI and prior emphases
As previously noted, FDI is the transfer of business resources overseas. Unless these resources are effectively used at the end location, however, an investment will not be successful. What, then, are factors emphasized when an SME makes a direct investment? Looking at the emphases at the time of a direct investment by size of parent company in terms of number of workers (Fig. 2-2-33), it is apparent that direct investors emphasizing “access to cheap labor” account for around 50% of enterprises in all size categories. In addition, the proportion of enterprises emphasizing “size of market” increases with size of parent company.

So what factors are emphasized in successful direct investments? To answer this question, we divide overseas subsidiaries in existence in 1998 that were created through FDI by SMEs into overseas subsidiaries still continuing in 2003 ("continuing subsidiaries") and overseas subsidiaries that were eliminated in or after 1998 ("eliminated subsidiaries"), and look at the differences in emphases of each. We then divide the continuing subsidiaries into subsidiaries whose profits followed an upward trend in the previous five years, and subsidiaries whose profits trended downward (or remained unchanged) over the same period, and examine the differences in emphasis between these two groups. We find as a result that: (1) regarding continuation and elimination, overseas subsidiaries that emphasized “access to cheap labor” tended to continue; and (2) regarding trends in profits, overseas subsidiaries that emphasized “size of market” and “development of legal and tax systems” tended to have increasing profits (Fig. 2-2-34, Appended Note 2-2-8).

In other words, there is a strong probability that FDI by SMEs is undertaken emphasizing cheap labor, and overseas subsidiaries created as a result of such FDI continue in existence. That alone, however, does not enable them to generate sufficient profits in the face of competition from the many other enterprises that expand overseas with the same aim. In order for overseas subsidiaries to generate increasing profits, it also appears to be necessary to bear in mind factors such as the size of the market and legal and tax arrangements in the host country, and to make inroads into the host country’s market.

(4) Prior information gathering
FDI is the act of establishing a corporation in a region other than Japan. Unlike in Japan, therefore, there can arise information shortages due to difficulty acquiring information or problems with the accuracy of information acquired. This is a particular problem for SMEs given their lesser information gathering abilities. There is a possibility that enterprises that proceed with FDI without sufficient information may encounter unforeseen problems. Business in the host country may therefore not go smoothly, and in a worst-case scenario it may have to abandon its subsidiary. We therefore look

**Fig. 2-2-34 Emphases at time of FDI and subsequent performance**

![Graph showing emphases at time of FDI and subsequent performance.](image)

**Important to consider market size too**

**Source:** JSBRI and RIETI, *Survey of Overseas Business Activities of Small and Medium Enterprises* (November 2003).

**Notes:**
1. Totals exceed 100 due to multiple responses.
2. The proportion of overseas subsidiaries with rising profits is the proportion of overseas subsidiaries responding to the questionnaire whose profits were higher in 2003 than 1998.
3. The cross-hatched bars indicate factors for which statistically significant differences were observed.
4. A higher proportion of continuing overseas subsidiaries than eliminated overseas subsidiaries emphasized “access to cheap labor”.
5. See Appended Note 2-2-8 for the results of analysis.

18) As of the end of October 2003.
next at what agencies (or enterprises) enterprises use to gather information before making a direct investment. Fig. 2-2-35 shows the sources of information used before direct investment broken down according to the number of workers of the parent company. From this it can be seen that a large proportion of enterprises with parent companies of all sizes used “Japanese enterprises with experience of FDI in the host country” and “financial institution of account” as sources of information. This is probably a reflection of the use of people with experience of the host country and of financial institutions, with their many customers with similar experience, as sources of information because of the difficulty of acquiring raw data on overseas in Japan.

Next we look at the impact on subsequent performance of the sources of information used. As in (3), we divide overseas subsidiaries existing in 1998 that were the targets of FDI by SMEs into continuing subsidiaries and eliminated subsidiaries, and look at changes in the profits of continuing subsidiaries over the previous five years. This reveals that a high proportion of overseas subsidiaries that gathered information from “Japanese industry associations” and “Japanese public agencies” continued in existence, while a large proportion of overseas subsidiaries that gathered information from “Japanese enterprises with experience of FDI in same region”, “financial institution of account” or “government agencies in the host country” had rising profits (Fig. 2-2-36, Appended Note 2-2-9).

In other words, use of information from Japanese public agencies and Japanese industry associations is an effective means of avoiding serious failures that could lead to the elimination of overseas operations. On the other hand, absorption of know-how (concerning, for example, conditions in the host country and points to watch out for regarding FDI) and receipt of objective advice from financial institutions of account that have considerable depth of information on FDI have a positive effect on subsequent performance in terms of increased profits. An additional point to note is that use of government agencies in the host country as a source of information can subsequently lead to government assistance in that country. This may be another reason for the better performance of enterprises that come into contact with government agencies in the host country.

(5) Forms of FDI
FDI can take two forms: independent ventures and joint

---

**Fig. 2-2-35 Sources of information before FDI (by size of parent company)**

Larger parent companies more likely to gather information from variety of agencies (or enterprises)

![Chart showing sources of information before FDI by size of parent company.]


Notes:
1. Totals exceed 100 due to multiple responses.
2. “Japanese customers” do not include “Japanese enterprises with experience of FDI in same region”.

19) The Manual on Support for Globalization of Small and Medium Enterprises published by the SME Agency contains details of support for the establishment of operations overseas provided by various public agencies.

20) However, an examination of the attributes of enterprises that responded “financial institution of account” reveals them to be larger and have higher equity ratios. This bias in the behavior of financial institutions must therefore be borne in mind (see Appended Note 2-2-10).
ventures. But which form tends to be more successful? And, given the high proportion of investment in independent ventures in China especially in recent years, as shown in Figs. 2-2-11 and 2-2-12, how is the form of an investment correlated with the success or failure of a direct investment?

We begin by looking at the proportions of each form of investment by size of enterprise, shown in Fig. 2-2-37. A slightly higher proportion of parent companies with 50 or fewer workers invest in joint ventures. If we examine the proportion of continuing subsidiaries and eliminated subsidiaries (Fig. 2-2-38), it can also be seen that a high proportion of joint ventures in which the Japanese partner has a small share are eliminated (Appended Note 2-2-11). We have already described the merits and demerits of independent and joint ventures in Section 11.3, and these results suggest that the potential for problems with partners, which is a demerit of joint ventures, is correlated with the higher proportion of withdrawals compared with independent ventures.

An examination of the relationship between the continuation or elimination of joint overseas ventures with a non-Japanese partner and the existence of differences in the business policy of the local partner shows that whereas the proportion of eliminations where there is no difference in business policy with local partners is 12.4%, the proportion where there is a difference is 34.4% (Fig. 2-2-39, Appendix Note 2-2-12). In other words, alignment of business policy with local partners is an important requirement for the continuation of joint overseas ventures.

(6) CEO of FDI target Next, let us consider what kinds of people are appointed CEOs of overseas subsidiaries. For this we use the Survey of Overseas Business Activities of Small and Medium Enterprises, which asked recipients about the background of local CEOs. Broken down by the size of parent companies, the largest proportion (36.3%) of enterprises with a parent company with 50 or fewer workers had a local CEO who was the "representative of parent company". This was followed by "director or worker of joint venture partner" (Fig. 2-2-40). As the size of the parent company increases, the proportion of overseas subsidiaries having a "worker of parent company" as CEO increases, and the proportion with a "representative of parent company" or "person of local nationality chosen by parent company" as CEO decreases.

We look next at the impact on continuation or elimination of overseas subsidiaries of the type of person appointed as local CEO. As Fig. 2-2-41

---

Fig. 2-2-36 Sources of information at time of FDI and subsequent performance
Importance of access to first-hand information

| Notes: 1. Totals exceed 100 due to multiple responses. 2. The proportion of overseas subsidiaries with rising profits is the proportion of overseas subsidiaries responding to the questionnaire whose profits were higher in 2003 than 1998. 3. The cross-hatched bars indicate factors for which statistically significant differences were observed. 4. A higher proportion of continuing overseas subsidiaries than eliminated overseas subsidiaries emphasized "Japanese public agencies" and "Japanese industry associations". 5. See Appendix Note 2-2-9 for the results of analysis. |

---

21) See Section 11.3 for a definition.
22) The CEO, or chief executive officer, of the target of direct investment means the representative director of an overseas subsidiary. In the case of China, for example, this is the position known as zhongjingli, which is the equivalent of "president".
23) See Section 2 (1) for the definition of continuing and eliminated subsidiaries.
demonstrates, a larger proportion of overseas subsidiaries whose CEO is Japanese survive where this person is someone from the parent company other than the “representative of parent company”. Furthermore, in the case that a person of local nationality is appointed CEO, there is a tendency for overseas subsidiaries with a “person of local nationality chosen by parent company” to continue than overseas subsidiaries with a “director or worker of joint venture partner” (Appended Note 2-2-13).

Behind the lower proportion of eliminations where a parent company’s worker or person of local nationality, rather than the parent company’s representative, is appointed as CEO appears to be the problem of the time required for decision-making. For example, whereas decisions on what action should be taken can be made quickly if a worker from the parent company who is capable of taking command of overseas operations is on the spot should problems arise, it may take longer to respond to such problems if the CEO is the parent company’s representative due to the demands of the parent company’s business on his or her time.

The next question to consider is: What abilities are required of workers sent overseas in the case that the CEO of an overseas subsidiary is Japanese? To answer this question, we use data from the MHLW’s 2001
Fig. 2-2-40 Attributes of CEOs of overseas subsidiaries (by size of parent company)
Increasing tendency for CEO of overseas subsidiary to be representative of parent company as size of parent company decreases

Notes: 1. Respondents were asked about the attributes of the CEOs of their overseas subsidiaries.
   2. "Worker of parent company" does not include "relative of parent company’s representative".

Fig. 2-2-41 Relationship between attributes of CEO of overseas subsidiary and continuation/elimination
Overseas subsidiaries headed by employee from Japan or person appointed by parent company more likely to continue than subsidiaries headed by the parent company’s representative

Notes: 1. The proportion of continuing overseas subsidiaries indicates the proportion of overseas subsidiaries (including eliminated overseas subsidiaries) that responded to the survey and continue in existence.
   2. "Worker of parent company" does not include "relative of parent company’s representative".
   3. The cross-hatched bars indicate factors for which statistically significant differences were observed.
   4. See Appended Note 2-2-13 for the results of analysis.
Industrial Labour Situation Survey, which asked enterprises that had and had not established operations overseas about the “abilities required of human resources with economic globalization”. According to this survey, a higher proportion of enterprises that have expanded overseas than those have not had identified the need for “strategy making ability”, “language ability” and “communication ability” (Fig. 2-2-42). In other words, enterprises need to send employees who have the ability to respond independently to problems overseas, and sufficient language and communication ability to communicate overseas, to manage their operations in the host country.

SMEs, however, rarely possess such human resources. One option for companies lacking such resources is thus to select, in Japan, a “person of local nationality” from a relevant organization in the host country, and to make this person responsible for management. As already observed, if the CEO is of local nationality, a greater proportion of subsidiaries whose CEO is a “person of local nationality chosen by the parent company” than subsidiaries whose CEO is a “director or worker of a joint venture partner” continue in existence (Fig. 2-2-41).

What gives rise to this difference? In answer to this question, Fig. 2-2-43 depicts a comparison of the experience in Japan of directors or workers of a joint venture partner and persons of local nationality selected by parent companies. As this shows, whereas almost one in two CEOs who are directors or workers of a joint venture partner have no experience of Japan, many CEOs who are persons of local nationality selected by the parent company have experience of working or studying in Japan. In other words, experience of Japan appears to be an important factor in the case that a person of local nationality is appointed as CEO.

It may be concluded from the above (1) that an overseas subsidiary is more likely to continue in existence if a Japanese worker with strategy making and communication abilities who is capable of leading an overseas subsidiary is appointed rather than the representative of the parent company himself or herself acting as CEO, and (2) that in the case that a person of local nationality is appointed the local CEO, it is better to choose someone who has worked in Japan and is capable of acting as a bridge between the parent company and its subsidiary.

---


Notes:
1. Totals exceed 100 due to multiple responses.
2. Overseas expansion is defined here as FDI ("wholly owned" and "joint venture with foreign enterprise") and collaboration with overseas enterprises.
3. Respondents were asked their emphases regarding the abilities required of human resources due to economic globalization.

---

24) This survey investigated the activities of enterprises and response regarding labor matters in relation to economic globalization.
Fig. 2-2-43 Japanese experience of local CEOs
CEOs of local nationality chosen by the parent company are more likely to have worked previously in Japan

Notes: 1. Totals exceed 100 due to multiple responses.
2. Only results for CEOs of overseas subsidiaries who are of local nationality are shown.
3. “Resided in Japan” does not include “worked in Japan” or “studied in Japan”.

(7) Measures after FDI (production control)
So far we have looked at the differences in performance arising from differences in preparations prior to FDI and the form of investment. Below, however, we examine the impact of measures taken after FDI in the area of production control and local sales management.

As part of the Survey of Overseas Business Activities of Small and Medium Enterprises, continuing and eliminated overseas subsidiaries were asked about “problems arising after FDI that had not been anticipated prior to investment”. According to this survey, many overseas subsidiaries identified “difficulty of quality control” (38.1%) as a problem in relation to production control. Among overseas enterprises that reported that problems arose, moreover, there was a smaller proportion of enterprises whose profits increased in the previous five years than enterprises whose profits decreased (or remained unchanged) (Fig. 2-2-44, Appended Note 2-2-14). This suggests that the occurrence of challenges or problems regarding quality control has a negative impact on trends in profits.26

On the other hand, no significant correlation was observed between profit trends and the problems of “insufficient technology of contractors in host country” and “low skill level of workers in host country”. This may be because even if, for instance, the problem of “insufficient technology of contractors in host country” were to arise, it can be dealt with internally by an overseas subsidiary or within Japan. Regarding also the problem of the “low skill level of workers in host country”, the production control measures described below may make them solvable, preventing them from having a direct impact on trends in profits.

Among overseas subsidiaries, then, what kind of production control is practiced by enterprises that exhibit healthy performances? Fig. 2-2-45 shows what production control was practiced at overseas subsidiaries. From this it can be seen that “preparation of work manual”, “preparation of production plans” and “tidiness and orderliness” were measures adopted at many overseas subsidiaries in production control. In addition, a breakdown by the number of workers of parent companies reveals that a higher proportion of overseas subsidiaries of smaller parent companies engaged in “training of skilled labor”, with other actions generally being more likely to be taken by enterprises with larger parent companies.

If we look at the relationship between various actions in production activities and trends in profits in the previous five years to determine whether such production control measures positively impact on production performance, we discover a significant correlation with rising profits in the case of “tidiness and orderliness”, “implementation of TQC” activities and “introduction of production facilities not requiring complex operation”. Conversely, there is no significant correlation with “promotion of multi-process handling” or “training of skilled workers” (Fig. 2-2-46, Appended Note 2-2-15). We can conclude, therefore, that basic production control activities, such as tidiness and orderliness, and TQC activities, and the introduction of facilities that are not complex to operate to create organized production systems rather than production systems relying on the skills of individuals (such as multi-process handling and skilled operatives) are requirements for success in that they increase the profits of overseas subsidiaries.

25) No difference according to size of parent company was observed in the proportion of enterprises reporting that problems arose.
26) Although no correlation was found at the 10% significance level regarding the occurrence of problems regarding delivery date management, there was found to be a high positive correlation coefficient (0.48) for problems with quality control and delivery date control. The correlation with quality and delivery should therefore be borne in mind (Appended Note 2-2-14).
27) Total quality control: continuous improvement through the involvement of the entire workforce rather than just particular sections responsible for product control.
**Fig. 2-2-44 Profit trends and problems encountered by overseas subsidiaries**

"Difficulty of quality control" has downward effect on earnings of overseas subsidiaries


Notes: 1. Totals exceed 100 due to multiple responses.
2. The proportion of overseas subsidiaries with rising profits is the proportion of overseas subsidiaries whose profits were higher in 2003 than 1998.
3. The cross-hatched bars indicate factors for which statistically significant differences were observed. See Appended Note 2-2-14 for the results of analysis.

---

**Fig. 2-2-45 Production control activities undertaken at overseas subsidiaries (by size of parent company)**

Higher proportion of enterprises with smaller parent companies provide skills training


Note: Totals exceed 100 due to multiple responses.
Fig. 2-2-46  Methods of production control introduced at overseas subsidiaries

Importance of basic production control

<table>
<thead>
<tr>
<th>Activity</th>
<th>Proportion of overseas subsidiaries taking such action (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation of work manual</td>
<td>65.0</td>
</tr>
<tr>
<td>Preparation of production plans</td>
<td>52.2</td>
</tr>
<tr>
<td>Tidiness and orderliness</td>
<td>46.1</td>
</tr>
<tr>
<td>Skills training</td>
<td>30.6</td>
</tr>
<tr>
<td>TQC activities</td>
<td>22.7</td>
</tr>
<tr>
<td>Promotion of multi-process handling</td>
<td>16.1</td>
</tr>
<tr>
<td>Introduction of production facilities not requiring complex operation</td>
<td>7.8</td>
</tr>
</tbody>
</table>

Proportion of overseas subsidiaries with rising profits (deviation from mean) (%)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Proportion with rising profits (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation of work manual</td>
<td>2.6</td>
</tr>
<tr>
<td>Preparation of production plans</td>
<td>-0.5</td>
</tr>
<tr>
<td>Tidiness and orderliness</td>
<td>3.1</td>
</tr>
<tr>
<td>Skills training</td>
<td>6.6</td>
</tr>
<tr>
<td>TQC activities</td>
<td>9.1</td>
</tr>
<tr>
<td>Promotion of multi-process handling</td>
<td>9.9</td>
</tr>
<tr>
<td>Introduction of production facilities not requiring complex operation</td>
<td>11.9</td>
</tr>
</tbody>
</table>


Notes:
1. Totals exceed 100 due to multiple responses.
2. The proportion of overseas subsidiaries with rising profits is the proportion of overseas subsidiaries responding to the questionnaire whose profits were higher in 2003 than 1998.
3. The cross-hatched bars indicate factors for which statistically significant differences were observed. While the graph shows a higher proportion of overseas subsidiaries with rising profits to promote multi-process handling compared with other items, no statistically significant difference was found.
4. See Appended Note 2-2-15 for the results of analysis.
Chapter 2 — Globalization and SMEs

Establishment of operations due to local availability of raw materials
Neodymium magnets are known as the strongest permanent magnets in the world. As well as being used in medical equipment such as magnetic resonance imaging (MRI) systems, they also play an important part in the miniaturization of electronic devices such as motors and Walkman speakers.

China has rich reserves of the raw materials to make neodymium magnets. Adopting as a clear objective the use of a subsidiary in China to produce and market this new product in order to expand its business, C Ltd. therefore decided to establish a presence in China.

Lax production control revealed
The venture commenced with the Japanese partner, C Ltd., acquiring a 68% stake (paid for mainly in cash), and the Chinese partner, D Ltd., providing the facilities and buildings. As D Ltd. had considerable production expertise (including its own patented manufacturing technologies), only important matters requiring settlement authority were dealt with by the president (the representative director of the Japanese parent company) visiting from Japan, and other matters, such as production control and customer management, were initially left mostly to D Ltd. However, the quality of products was too variable by Japanese standards, and there were numerous missing parts due to lax inspection of finished products, rendering products unmarketable in Japan unless the situation was remedied. C Ltd. complained to the managers on the spot, but the initial lack of any concept of putting the customer first meant that it was almost completely ignored.

Start of reform of production control
This exposure of lax production control and inexperience in responding to market and customer needs soon led C Ltd. to embark upon management reforms under its own direction. In order first of all to enforce strict quality control, engineers were sent from Japan to head the inspection division, inspections were expanded to match those at the company’s plant in Japan, and the number of local employees performing inspections was increased. Clerical workers and sales staff were also made more aware of the importance of quality control through TQC activities (see main text), and training was provided to inculcate a greater emphasis on the needs of the user.

Advantage of Japanese employees stationed permanently
In order to implement these production reforms, four Japanese personnel, including the eldest son of the Japanese parent company’s president, were stationed permanently in China. This was because the absence of people with authority on the spot led to wastage of time waiting for decisions from the parent company, and also made it difficult to determine the situation on the ground. C Ltd. therefore decided it was necessary to permanently station employees with the authority to make decisions on payment-related matters. This authority was invested in the president’s son, and all matters concerning sales activities and production control were left to those on the spot to decide. In addition, increasing the number of C Ltd.’s employees stationed in China ensured that every aspect of the Chinese plant was kept under scrutiny, making it easier to eliminate waste in manufacturing processes and to make adjustments in labor management. From a sales perspective as well, the presence of Japanese personnel was enormously advantageous when dealing with customers.

Improved production control has positive effect on sales operations
Since implementing these management reforms, local workers’ attitudes have been vastly transformed, as had been hoped, and the many problems that arose when C Ltd. first established a presence in China have been eliminated. Because of the venture’s high technological expertise from the outset, proper production control has also had a beneficial impact on the sales side. It is capable of providing quality unrivalled by other enterprises in China, and it enjoys a strong reputation for its emphasis on the customer. As well as sales to Japan, therefore, its sales in the Chinese market too are increasing by the year. Although no products were initially sold in China, the Chinese market now accounts for around 50% of the venture’s sales. The company is now expanding its business in order to expand its capacity for increase sales in the future, and its expansion overseas is generating better than expected results.
(8) Measures after FDI (sales management in host country)

Even if production gets off on the right track once a direct investment has been made, that investment will not be successful unless a market for the products produced is secured. For the Survey of Overseas Business Activities of Small and Medium Enterprises, respondents were asked about previously unanticipated sales-related problems that arose after FDI. This revealed that problems were encountered by a large proportion of overseas subsidiaries, with 18.5% choosing “deterioration of profits due to intensification of local competition”, 18.1% choosing “difficulty achieving projected sales in host country”, and 8.9% choosing “difficulty achieving projected sales in Japan”.\(^{(28)}\)

Furthermore, the proportion of overseas subsidiaries encountering such problems that were eliminated was significantly greater than among overseas subsidiaries that did not encounter any (Fig. 2-2-47, Appended Note 2-2-16). In other words, enterprises that expand overseas without securing markets or forecasting demand are ultimately more likely to withdraw from their overseas operations.

Given the existence of such problems, let us turn next to consider the steps being taken in relation to sales management by overseas subsidiaries marketing in overseas markets where business practices differ markedly from those in Japan. What we find is a large proportion of overseas subsidiaries engaging in “local market research” and “training and education of sales personnel”. A breakdown according to the number of workers at the parent company reveals that enterprises with larger parent companies are more likely to engage in such activities (Fig. 2-2-48). In other words, enterprises with larger parent companies appear to engage more actively in sales activities in the host country.

Next, in order to examine whether sales management-related activities have a positive impact on the performance of overseas subsidiaries in terms of increasing sales, we look at the relationship between sales management measures and trends in sales over the previous five years, as in (7). This reveals that overseas subsidiaries that engage in “local market research”, “training and education of sales personnel” and “after-sales service” are more likely to have rising sales (Fig. 2-2-49, Appended Note 2-2-17). A more effective method of increasing sales in the local market thus appears to be for enterprises themselves to engage actively in sales activities, rather than to rely on working through intermediaries, such as sales agents and trading companies. The conclusion to be drawn from this is that while SMEs find it more difficult to gather local market data and develop sales networks than large enterprises, with their greater information gathering abilities, it is important to the development of local sales that they themselves make inroads into the local market and establish local roots, in addition to carrying out local market research to overcome these problems.

Fig. 2-2-47  Relationship between sales problems of overseas subsidiaries and eliminations

Inability to secure market tends to lead to elimination

Proportion of overseas subsidiaries that encountered problems

<table>
<thead>
<tr>
<th>Problem</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deterioration of profits due to intensification of local competition</td>
<td>18.5%</td>
</tr>
<tr>
<td>Difficulty achieving projected sales in host country</td>
<td>18.1%</td>
</tr>
<tr>
<td>Difficulty achieving projected sales in Japan</td>
<td>8.9%</td>
</tr>
<tr>
<td>Elimination or relocation of local Japanese affiliates that were customers</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Proportion of continuing overseas subsidiaries

<table>
<thead>
<tr>
<th>Problem</th>
<th>Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deterioration of profits due to intensification of local competition</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Difficulty achieving projected sales in host country</td>
<td>-8.6%</td>
</tr>
<tr>
<td>Difficulty achieving projected sales in Japan</td>
<td>-9.6%</td>
</tr>
<tr>
<td>Elimination or relocation of local Japanese affiliates that were customers</td>
<td>-9.0%</td>
</tr>
</tbody>
</table>


Notes:
1. Totals exceed 100 due to multiple responses.
2. The proportion of continuing overseas subsidiaries is the proportion of overseas subsidiaries responding to the questionnaire (including eliminated overseas subsidiaries) that continued in existence.
3. The cross-hatched bars indicate factors for which statistically significant differences were observed.
4. See Appended Note 2-2-16 for the results of analysis.

\(^{(28)}\) No difference according to size was found in the proportion of enterprises encountering problems.
Fig. 2-2-48 Action taken regarding local sales management (by size of parent company)

Enterprises with larger parent companies take more positive action regarding market research and training of sales personnel.


Notes: 1. Totals exceed 100 due to multiple responses.
2. Only overseas subsidiaries marketing in the host market are included.

Fig. 2-2-49 Methods of sales management used in local marketing

Importance of own positive sales activities


Notes: 1. Totals exceed 100 due to multiple responses.
2. Only overseas subsidiaries marketing in the host market are included.
3. The proportion of overseas subsidiaries with rising sales is the proportion of overseas subsidiaries that responded to the questionnaire that had higher sales in 2003 than 1998.
4. The cross-hatched bars indicate factors for which statistically significant differences were observed.
5. See Appended Note 2-2-17 for the results of analysis.
Case 2-3 Training of overseas subsidiary's sales personnel

E Ltd. is a Tokyo-based manufacturer of powder-related equipment with a workforce of 85. Its core products are systems for supplying, weighing and mixing powders, which are all developed in-house. The company's products are used in almost all lines of business where powder is used in manufacturing processes.

Switch from exports to sales in host market through FDI

Originally, around 25% of E Ltd.'s products were exported. Following the appreciation of the yen and consequent deterioration of exports, however, it set about establishing operations overseas. In 1995, it formed a joint venture in Beijing with F Ltd., a Chinese company that was an end user of its products, and commenced production and sale of powder-related equipment for the Chinese market. The strategy of investing in a joint venture was chosen because the plan from the outset was to market products in China. It was therefore considered that a joint rather than independent investment would allow better use of Chinese human and physical resources (facilities) and sales networks, enabling differences in business practices to be overcome. Regarding the determination of their respective shares in the joint venture, F Ltd. had indicated to E Ltd. that as the venture was to produce products using Japanese technology under Japanese management, it wanted the Japanese side to have the leading role. E Ltd. therefore acquired a 60% stake, and F Ltd. acquired the remainder.

Sales activities targeted at local enterprises

Continuous flowmeter-type powder feeders are still the only products made by the Chinese subsidiary, and users are limited to certain specialized industries. All of the subsidiary's products are marketed to local Chinese enterprises; hardly any are sold to local Japanese or other foreign affiliates, and output has also yet to be exported to Japan. Regarding equipment not made by the Chinese subsidiary, products made by E Ltd. (in Japan) are sold by the venture's own sales personnel. While the subsidiary currently only makes a limited range of products, the intention is to expand into other lines of business in addition to making powder producing equipment in the future if the Chinese market grows and the joint venture's own capabilities expand.

Training of sales personnel

Until the third year after startup, the venture failed to achieve sales of ¥100 million, and it remained in the red. Hardly any problems arose regarding production, due in large part to the fact that local engineers underwent training in Japan. Instead, a major cause of the deficit until the third year was problems with sales activities, which were left entirely to Chinese employees. Initially, sales grew only sluggishly when no attempt was made to make sales personnel conversant with the qualities and characteristics of the product's products. Keenly aware of the need to train its sales personnel in China, therefore, the company embarked on the following:

1) Measures to give sales personnel a better technical knowledge of the company's products (such as through tours to show employees products in actual use as well as technical training in Japan)

2) Measures to make employees proud of the company's products (such as by making employees aware that their products were the best in the world, and not inferior to the Japanese parent company's, through field tests)

As part of sales activities, the company also instituted a system of training courses to enable employees to explain about products and learn about their methods of use after delivery. As a consequence, sales personnel began to engage in sales activities with greater confidence from around the third year, and sales too started to grow. From the fourth year after establishment, the Chinese subsidiary began to register a profit, and in the fifth year it wiped out its cumulative loss.

Benefiting local workers as well as its partner and self

Nine years after the establishment of its overseas subsidiary, E Ltd. earns more royalties and dividends in one year than it invested originally, and its combined royalties and dividends to date are already many times greater than the value of its original investment.

F Ltd. too earns plenty of dividends, and the Chinese venture itself has large internal reserves. Local employees are also given a share of the profits unmatched by other local corporations, thus ensuring that all three pillars of Japanese management—the shareholders, workers and company—are properly satisfied. Not only has E Ltd. recovered its investment, it also prides itself in playing its own small part in contributing to Sino-Japanese friendship and cooperation between the two countries. Given the difficulty of achieving such results just by exporting from Japan, this joint venture provides an excellent example of a successful direct investment.
(9) Training of local middle-management personnel

In the preceding section, we looked at production and sales management. For such action to be implemented smoothly, however, it is important that management of local personnel be properly undertaken. Because of the differences in business practices and employment practices between Japan and other countries, however, many enterprises cannot introduce Japanese methods of personnel management straight into the workplace overseas. In fact, if we look at the methods of personnel management used by Japanese affiliates in China according to the Survey of Establishment of Operations in China by Small and Medium Enterprises conducted by the Japan-China Economic Association, we find that a large proportion of enterprises use “disciplinary arrangements” and “payment according to ability or performance of individual” suited to local employment practices as well as adopting “training systems used at Japanese parent companies” and “clarification of content of employment contracts” (Fig. 2-2-50).

Given the differing employment practices in countries outside Japan, there is an important role to be played by local middle-management personnel as a bridge between management and local employees in personnel management at overseas subsidiaries. If we use the results of the Survey of Overseas Business Activities of Small and Medium Enterprises to look at the relationship between whether or not early training was provided for local middle-management personnel on the one hand, and continuation, elimination and trends in sales and profits in the previous five year on the other, we discover the following: overseas subsidiaries that provide early training for middle-management are more likely to continue than those that do not, and a higher proportion have rising sales and rising profits (Fig. 2-2-51). If we look in greater detail at overseas subsidiaries according to whether their CEO is Japanese or a person of local nationality, we find that “early training of local middle-management” is more effective where the CEO is Japanese (Appended Note 2-2-18). In other words, where decision-making regarding the management of an overseas subsidiary takes place in Japan, provision of early training for local middle-management personnel has a greater impact on subsequent performance. This may indicate that where the CEO is Japanese, local middle-management personnel have a particularly important role to play in conciliating differences in values and culture between management and local workers.

Fig. 2-2-50 Methods of personnel management used in China

Many overseas subsidiaries provide training at Japanese parent company to overcome differences in employment practices from Japan

![Graph showing methods of personnel management used in China]

Note: Responses regarding areas of personnel management of Japanese subsidiaries in China.

Fig. 2-2-51 Relationship between early training of local middle-management personnel and subsequent performance

Early training of local middle-management personnel crucial to success of FDI

![Graph showing relationship between early training and performance]

Note: See Appended Note 2-2-18 for the results of analysis.

29) No difference according to size of parent company was observed in the proportion of enterprises engaging in “early training of local middle-management personnel”.
Section 3  Relationship with business in Japan

The establishment of operations overseas by SMEs engaged in domestic production would be expected to affect the activities of existing plants in Japan. In this section, we explore the division of labor with the domestic plants of enterprises that expand overseas, and consider how manufacturing can survive overseas and what SMEs need to do in order to continue their activities in Japan.

1. Domestic impact

(1) Relationship between increase in overseas production and domestic activities

As direct investment gets underway, overseas production increases. While conditions may vary depending on whether the objective of FDI is the production of products for sale in Japan or the targeting of overseas markets, the full-scale entry into operation of overseas production operations should have some kind of impact on the activities of production operations in Japan. Below, then, we examine this impact.

We consider first of all the impact of FDI on domestic production operations according to the number of workers of the parent company. If we examine the impact of increases in the volume of production at overseas operations in the past five years on changes in the number of domestic production operations and changes in the domestic volume of production based on the results of the Survey of Overseas Business Activities of Small and Medium Enterprises, it can be seen that the proportion of enterprises reducing the number of domestic production operations and volume of domestic production following an upward trend is 16.3% and the proportion of enterprises increasing the number of domestic production operations and volume of production is 18.3%.

![Fig. 2-2-52 Impact on domestic production operations of increase in overseas production (by size of parent company)](image)

**Fig. 2-2-52 Impact on domestic production operations of increase in overseas production (by size of parent company)**

Increase in volume of overseas production more likely to lead to reduction in number of domestic operations and volume of production at smaller enterprises

<table>
<thead>
<tr>
<th>No. of domestic production operations</th>
<th>No. of workers at parent company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising trend</td>
<td>Upward trend in volume of domestic production</td>
</tr>
<tr>
<td>No change</td>
<td>No change in volume of domestic production</td>
</tr>
<tr>
<td>Downward trend</td>
<td>Downward trend in volume of domestic production</td>
</tr>
</tbody>
</table>


Notes: 1. Enterprises whose volume of overseas production followed an upward trend between 1998 and 2003 were asked about changes in the number of domestic production operations and volume of production.
2. See Appended Note 2-2-19 for the results of analysis.

30) The number of workers of the parent company is the total number of all workers at operations in Japan.
(2) Impact on sales and profit ratio

As describe in (1), the domestic production operations of enterprises that engage in FDI are in many cases affected in terms of number and production activities. So does this lead directly to a decline in the sales of domestic production operations and the profit ratio of domestic enterprises? Fig. 2-2-54 divides enterprises into two groups according to whether the volume of production of overseas production operations increased or decreased (or remained unchanged) over the previous five years, and shows the difference between these enterprises in the change in sales and ratio of gross profit to net sales\(^3\) of the Japanese parent company over the same period.

From this it can be seen that enterprises whose volume of overseas production is increasing tend to register greater growth in sales than enterprises whose overseas production is decreasing (Appended Note 2-2-20). On the other hand, there is practically no difference in the ratio of gross profit to net sales of the Japanese parent company according to changes in the number of overseas production operations. In other words, while it is possible that an increase in the volume of production of overseas operations may lead to a reduction in the volume of production of domestic productions and cuts in production operations themselves, an increase in sales is observed, and there appears to be no change in ratio of gross profit to net sales.\(^3\)

What then are the factors underlying the differences in trends in sales and ratio of gross profit to net sales, and volume of overseas production? To answer this question, let us look at the advantages to the parent company arising from factors other than the sales and earnings of overseas subsidiaries, i.e. the indirect effects of FDI.

If we look first of all at the impact on the Japanese parent company of the activities of overseas subsidiaries, shown in Fig. 2-2-55, we find that it is quite common for parent companies to enjoy the benefits of overseas subsidiaries’ activities indirectly. For example, 33.3% of enterprises responded “contribution to increase in exports from parent company to host country”, 30.0% responded “contribution to expansion of market in Japan due to expansion of sales network between local enterprises”\(^3\) (see Case 2-4), and 50.4% responded “contribution to reduction in parent company’s procurement costs”.

What do enterprises in Japan think of the advantages arising from this linkage between domestic operations and overseas subsidiaries?

Picking out “increase in exports from parent company to host country” from among the indirect benefits to Japanese parent companies of the activities of overseas subsidiaries, Fig. 2-2-56 compares the effects on enterprises whose

---

31) Ratio of gross profit to net sales = (sales – sales cost) / sales
32) These observations concern only domestic enterprises with overseas operations, and are not indicative of any effect on other companies such as subcontractors. Regarding the effects of an increase in overseas production due to direct investment on the domestic economy as a whole, estimates are provided in the fiscal 2001 Annual Report on Trends among Small and Medium Enterprises (2002 White Paper on Small and Medium Enterprises in Japan), p. 42 (Fig. 1-3-9, etc.).
33) As business overseas is not constrained by the keiretsu (group business ties) that exist in Japan, business can be conducted with enterprises that would not have been possible in Japan. Transactions of this kind between overseas Japanese affiliates leads in turn to transactions between their respective parent companies in Japan.
volume of overseas production rose between 1998 and 2003, and those whose overseas production did not. This demonstrates that a higher proportion of enterprises with rising overseas production than enterprises with falling overseas production responded that this contributed to an increase in exports from the parent company to the host country. There is thus a strong probability that the expansion of overseas production by overseas subsidiaries has the effect of increasing parent companies’ sales through generating exports of parts from the Japanese parent company to the host country.

Of the above merits, Fig. 2-2-57 focuses on “expansion of market in Japan through expansion of sales network between local enterprises”. Again, the comparison is between enterprises whose volume of overseas production increased between 1998 and 2003, and enterprises whose overseas production did not. From this it can be seen that a higher proportion of enterprises with rising overseas production than enterprises with declining overseas production report a contribution to expansion of their market in Japan. In other words, it appears highly likely that the increase in the number of companies with which overseas subsidiaries do business due to the expansion of overseas production at overseas subsidiaries leads to the commencement of new business in Japan. It has already been shown that enterprises with rising production also exhibit increased sales at their parent company in Japan (Fig. 2-2-54). Behind this, it may be possible that in addition to increases in exports to overseas production operations, domestic sales are also being affected by increased business opportunities for the Japanese parent company as well.

**Fig. 2-2-55 Contribution to Japanese parent company of activities of overseas subsidiaries**

Benefits to Japanese parent company of overseas activities vary according to enterprise

<table>
<thead>
<tr>
<th>Benefits to Japanese parent company of overseas activities</th>
<th>Proportion of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in exports from parent company to host country</td>
<td>33.3%</td>
</tr>
<tr>
<td>Reduction in parent company’s procurement costs</td>
<td>58.4%</td>
</tr>
<tr>
<td>Expansion of marketing outlets in Japan due to expansion of sales network between local enterprises</td>
<td>33.0%</td>
</tr>
</tbody>
</table>


Note: Respondents were asked to choose from “contribute”, “cannot say” or “do not contribute” regarding the contribution of their overseas subsidiaries’ activities in each category.

**Fig. 2-2-56 Impact on Japanese parent company of increase in overseas production (exports)**

Increase in overseas production leads to increase in exports from Japanese parent company

<table>
<thead>
<tr>
<th>Enterprises with increasing overseas production</th>
<th>Enterprises with decreasing (or unchanged) overseas production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of enterprises responding “contribute to increase in exports from parent company to host country”</td>
<td>37.8%</td>
</tr>
</tbody>
</table>


Note: Figures indicate the proportion of enterprises that responded that the activities of overseas subsidiaries “contribute to increase in exports from Japanese parent company to host country”.

**Fig. 2-2-57 Impact on Japanese parent company of increase in overseas production (expansion of marketing outlets in Japan)**

Increase in overseas production leads to expansion of marketing outlets in Japan too

<table>
<thead>
<tr>
<th>Enterprises with increasing overseas production</th>
<th>Enterprises with decreasing (or unchanged) overseas production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of enterprises that responded “contribute to expansion of marketing outlets in Japan too”</td>
<td>40.1%</td>
</tr>
</tbody>
</table>


Note: Figures indicate the proportion of enterprises that responded that the activities of overseas subsidiaries led to an “expansion of marketing outlets by Japanese parent company to enterprises in Japan due to expansion of sales network between local enterprises”.
Case 2-4  Expansion of market in Japan through leveraging of network of overseas operations

G Ltd. is a Nagano-based manufacturer of springs for electronic components and precision devices with a workforce of 52 employees. Two major manufacturers, H Ltd. and I Ltd., have plants in the same region, and G Ltd. originally used to supply these companies with camera springs.

G Ltd. notices shift overseas in sales market
Owing to a transition in design to electronic cameras from around 1985, G Ltd. experienced a decline in orders for camera springs, which were its core products. With leading manufacturers in Japan following one another in moving their production operations from Japan to Asia, G Ltd. began to take a closer look at Malaysia, where around 60% of the world’s TVs were made at the time, and in 1990 it established a subsidiary there to produce springs for remote controls. At the time, few parts manufacturers affiliated to leading companies were expanding overseas, and G Ltd. was able to win business in Malaysia from enterprises affiliated to other groups. Its Malaysian subsidiary’s business consequently enjoyed generally good growth. From around the mid-nineties, orders from Japanese affiliates in China began to increase, and exports from G Ltd.’s plants in Japan and Malaysia rose. G Ltd. responded by establishing independent ventures in Shanghai in 1997, and Dalian in 2001.

Production system integrating Japanese and overseas operations
G Ltd.’s basic policy in both Malaysia and China was to produce and market its products in the host country. (As production at its plant in China cannot keep pace with demand, some products are also presently exported from G Ltd.’s Japanese and Malaysian plants.) As G Ltd. uses a round-the-clock, fully automated NC machine tool system, wage differences between Japan, China and Malaysia have no impact. Thus production costs are practically the same whether products are made in Japan or these countries with camera springs.

Secondary effects of establishment of operations overseas
Overseas, there is hardly any emphasis on corporate affiliations and past business relations, which are valued so highly in Japan, and orders tend to be won more on the basis of a company’s ability to provide the necessary technologies, solutions and price requirements. There is therefore scope for expanded business opportunities. (Conversely, there is the possibility of a company losing its business immediately if it cannot demonstrate that it has what it takes.) Setting aside the question of how lasting business relations turn out to be, it is therefore easier to find new market outlets overseas than in Japan.

One secondary effect of establishing operations overseas is that it is possible to win new orders in Japan as well as a result of doing business with a company overseas. This can happen in one of two ways:

1) As a result of doing new business overseas, a customer is impressed by a company’s products, and requests to order products from the Japanese parent company too.

2) G Ltd.’s production system, which gives it the ability to respond to customer needs at any of its three operations in China, Southeast Asia and Japan, is rated highly by customers, which start to do business with the Japanese parent company as a result of having started to do business overseas.

Before it expanded overseas, more than half of its Japanese sales were to H Ltd. and I Ltd. Now, however, sales to these manufacturers have fallen to around 5%, and their place has been taken by sales to the Japanese production operations of Japanese affiliates that began doing business with it overseas. This trend has become particularly conspicuous of late; in 1998, the Japanese parent company’s sales slumped to approximately 60% of their peak, but thereafter customers began to increase as a result of the aforementioned effect, and sales have now grown to exceed their previous peak.

Fiercely competitive overseas environment
Leveraging its own ability to develop high-precision products and its network of overseas subsidiaries, G Ltd. has been able to maintain both its domestic and overseas operations in harmony. One factor behind this has been the ability of its overseas subsidiaries to survive in the face of severe competition overseas (primarily from Japanese-affiliated parts manufacturers). As noted, as the environment overseas tests an enterprise’s true abilities, G Ltd.’s overseas subsidiaries have had to have the technologies and know-how to beat off competition from other local companies, and the acquisition of such technologies and know-how is crucial to successful adaptation to globalization.
Finally, we look at the “reduction in procurement costs of parent company” arising from the aforementioned indirect benefits to Japanese parent companies of the activities of overseas subsidiaries. As before, we divide enterprises into those whose overseas volume of production increased and those whose overseas production did not. This reveals that a greater proportion of enterprises whose overseas production rose than those whose overseas production did not find that overseas production contributes to a reduction in the procurement costs of the parent company. Overseas production thus appears to have some impact on reducing procurement costs as well (Fig. 2-2-58).

(3) Impact on employment

In (2), we examined the positive effect of an increase in overseas production on the sales of Japanese parent companies. The next question we consider is the impact on employment. As in (2), we again classify enterprises with overseas production operations into those whose volume of overseas production at overseas subsidiaries followed an upward trend and those whose production did not. We then examine the relationship with the rate of growth in the number of workers (total number of workers, workers in manufacturing divisions, and workers in non-manufacturing divisions) from 1998 to 2002.

Fig. 2-2-58 Impact on Japanese parent company of increase in overseas production (procurement costs)

Increase in overseas production leads to reduction in procurement costs of Japanese parent companies

![Graph showing the impact of increased overseas production on the procurement costs of Japanese parent companies.]


Note: The figures indicate the proportion of enterprises that responded that the activities of overseas subsidiaries “contribute to reduction in procurement costs of Japanese parent company”.

Fig. 2-2-59 Impact of increase in volume of overseas production on employment

Increase in overseas production of import-oriented enterprises has negative effect on manufacturing divisions but positive effect on non-manufacturing divisions

![Graph showing the impact of increased overseas production on employment.]


Notes:
1. The coefficients indicate the change in employment numbers from 1998 to 2002.
2. Only enterprises mainly exporting products to Japan are included.
3. Regarding enterprises selling mainly in the host market, no significant correlation was observed between changes in volume of overseas production and domestic employment.
4. See Appended Note 2-2-21 for the results of analysis.
If we look at enterprises that mainly export products made at their operations overseas to Japan (Fig. 2-2-59), we find that the rate of growth in the number of workers in manufacturing divisions is negative among enterprises with rising overseas production, and more negative than among enterprises with declining (or unchanged) overseas production (Appended Note 2-2-21). Unlike in the case of workers in manufacturing divisions, on the other hand, the rate of growth in the number of workers in non-manufacturing divisions is positive among enterprises with rising overseas production, and more positive than among enterprises with declining (or unchanged) overseas production. It is also apparent that the rate of growth in the total number of workers is almost zero at both enterprises where overseas production is rising and enterprises where overseas production is decreasing (or unchanged). This suggests that the increase in overseas production at enterprises exporting products made overseas to Japan has an impact in increasing the number of workers outside manufacturing divisions. It is also likely, however, that enterprises that increase overseas production strengthen their domestic sales operations by, for example, increasing the numbers of sales operations and sales personnel to facilitate the sale of products in the domestic market, and also taking steps to maintain employment to ensure that increased imports do not lead directly to layoffs.

2. Systems of division of labor

The focus up to this point has been on the impact on production, employment and earnings of enterprises that engaged in FDI. Below, we move on to analyze enterprises whose volume of production is increasing both at operations overseas and in Japan. This is because enterprises that are simultaneously increasing production overseas and in Japan are engaging in a division of labor—both in regard to products and processes—between domestic and overseas production operations. Examining the systems of division of labor between their domestic and overseas operations of such enterprises can help us determine the requirements for continuation of domestic production and so point to ways in which domestic manufacturing can survive.

(1) Comparison according to use of own brand

As shown in Section 2, a large proportion of enterprises that expand overseas use own brands. Using the results of the Survey of Overseas Business Activities of Small and Medium Enterprises, therefore, let us look at the impact on changes in the volume of domestic production of enterprises whose volume of production by overseas operations followed an upward trend over the previous five years (1998–2003) according to whether or not they used own brands. What we find is that whereas 30.9% of enterprises using own brands increased domestic production, the figure for enterprises that did not use own brands was 16.9% (Fig. 2-2-60, Appendix Note 2-2-22). In other words, having a proprietary brand appears to be a key point for maintaining domestic production. How then do enterprises that use own brands achieve a division of labor between their domestic and overseas production?

Fig. 2-2-60 Impact of development of own brands on domestic production

Use of own brands increases domestic production

<table>
<thead>
<tr>
<th>Proportion of enterprises increasing domestic production</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.9</td>
</tr>
</tbody>
</table>


Notes:
1. Enterprises making use of own brands overseas too are regarded as "using own brands".
2. Comparison of enterprises with increasing overseas production between 1998 and 2003 that also registered an increase in domestic production during the same period.
3. See Appendix Note 2-2-22 for the results of analysis.

34) “Negative” here means that the number of workers is decreasing. “Positive” means that the number of workers is increasing, and “zero” indicates no change. For details, see Appendix Note 2-2-21.
35) In the analysis in Appendix Note 2-2-21, no significant correlation with employment trends is observed regarding enterprises that mainly sell products overseas in the host country and enterprises that export to third countries.
36) These observations concern only enterprises in Japan with overseas operations. Estimates on the effects of increases in overseas production due to direct investment on the domestic economy as a whole are provided in the Fiscal 2001 Annual Report on Trends among Small and Medium Enterprises (2002 White Paper on Small and Medium Enterprises in Japan), p.43 (Fig. 1-3-11).
Fig. 2-2-61 shows the division of labor between domestic and foreign operations for “quick-delivery products”, 37) “small-lot products”, 38) “high-precision products”, 39) and “custom-made products” 40) according to use of own brand. This demonstrates that enterprises using own brands are more likely than enterprises not using own brands to produce mainly products emphasizing quality—i.e. “high-precision products” and “custom-made products”—in Japan. On the other hand, a higher proportion of enterprises not using own brands produce “small-lot products” and “quick-delivery products” (Appended Note 2-2-23). In other words, many enterprises using own brands to maintain the quality of their brands by focusing on “high-precision products” and “custom-made products” so as to differentiate themselves quality-wise.

### Notes

1. “Own brands” are enterprises using their own brands overseas too.
2. Only categories of products that a high proportion of enterprises responded that they “produce mainly in Japan” are shown.
3. See Appended Note 2-2-23 for the results of analysis.

#### Source


37) Products that are supplied to customers soon after receipt of an order.
38) Products that are ordered in small lots.
39) Products requiring a high level of precision.
40) Products that are made to special order.
Chapter 2 — Globalization and SMEs

J Ltd. is an Ehime-based manufacturer and distributor of towel products with a workforce of 260 employees. It has an integrated production plant in China, and a number of its own brands. It markets through retail as well as wholesale channels, and boasts one of the top business lineups of any of Japan’s towel manufacturers.

**Resisting cheap imports**

The appreciation of the yen in the mid-nineties led to a rapidly growing influx of cheap imports, putting the towel industry under severe pressure. In order to resist the tide of cheap imports, J Ltd. decided to establish a presence overseas, and established an independent venture in China in 1994. When this subsidiary entered operation, it was envisaged that it would meet only around 5~8% of J Ltd.’s production needs. The situation subsequently changed dramatically, however; capacity was steadily increased, and the Chinese subsidiary has now grown to account for 70% of J Ltd.’s shipments in value terms.

**Maintenance of domestic production**

The company’s products made overseas are virtually on a par with its domestically-made products in terms of quality. However, it has continued its research in Japan into dye technologies and the development of integrated manufacturing systems and new products, and is accumulating production technologies. Even though it has increased overseas production, the company has no plans to scale down its domestic production capacity. Its domestic plants are all equipped with cutting-edge facilities and automated as much as possible so as to reduce labor costs and maintain domestic production.

**Development of own brands**

As well as providing low-priced products, J Ltd. is actively developing its own brands as a part of its marketing activities. By developing brands that appeal to consumers, it can differentiate its products from cheaper alternatives, and avoid engaging in endless price competition. The primary emphasis in the design of own brands is on the needs of consumers. This means, for example, developing designs, colors and a feel that make the consumer want to buy a product on sight. J Ltd. pays particular attention to ensuring that its products are suited to the types of shoppers who visit stores and the environment in which its products are used. For instance, if a high-end department store undergoes refurbishment, J Ltd. seeks to give its products a more luxurious feel to mirror the department store’s new image. The consumer needs targeted are latent needs that reflect consumer tastes, and an emphasis is placed on themed-brand development to tap into new veins of demand.

This brand planning is undertaken by the company’s Tokyo and Osaka offices. Designs produced there are sent to head office, where they are analyzed using a special-purpose computer to determine whether towel fabric can be woven in accordance with the design, thereby integrating brand planning and production. Rather than developing its own brands entirely in-house, J Ltd. also makes use of outside human resources by, among other things, employing outside artists and designers in design work.

**Customer recognition of own brands**

In order to develop customer recognition of these consciously developed own brands, J Ltd. built a “Towel Art Museum” next to its main domestic plant in 2000. This museum provides tourists with tours of towel manufacturing processes, towel art and other aspects of the towel industry, which is a notable local industry, and is also used for exhibition of products. The “Towel Art Museum” is in addition registered as one of J Ltd.’s brands.

On the sales front, J Ltd. established a distributor subsidiary to market its own products, and entered the retail market with the establishment of an “antenna” shop six years ago. It now has a total of 26 stores including branches in department stores, and these serve both to raise customer resignation of its own brands and contribute considerably to J Ltd.’s sales. The development of its own retail outlets has enabled J Ltd. to hear from customers directly, and the information thus gleaned is used in the development of its own brands.

**Promoting its own brands in overseas markets**

By establishing its own brands in addition to importing cheap Chinese-made products, J Ltd. has succeeded in expanding its business in Japan. Now, however, it is also turning its sights on overseas markets. While sales by its overseas subsidiary still only come to around 5% of total sales, it is opening retail stores of around 15 to 35 square meters in size around its Chinese plant to sell its own-brand products in the Chinese market. For J Ltd., making inroads into overseas markets represents the next big challenge.

---

**Case 2-5 Expansion of line of business through overseas production and use of own brand**

J Ltd. is an Ehime-based manufacturer and distributor of towel products with a workforce of 260 employees. It has an integrated production plant in China, and a number of its own brands. It markets through retail as well as wholesale channels, and boasts one of the top business lineups of any of Japan’s towel manufacturers.

**Resisting cheap imports**

The appreciation of the yen in the mid-nineties led to a rapidly growing influx of cheap imports, putting the towel industry under severe pressure. In order to resist the tide of cheap imports, J Ltd. decided to establish a presence overseas, and established an independent venture in China in 1994. When this subsidiary entered operation, it was envisaged that it would meet only around 5~8% of J Ltd.’s production needs. The situation subsequently changed dramatically, however; capacity was steadily increased, and the Chinese subsidiary has now grown to account for 70% of J Ltd.’s shipments in value terms.

**Maintenance of domestic production**

The company’s products made overseas are virtually on a par with its domestically-made products in terms of quality. However, it has continued its research in Japan into dye technologies and the development of integrated manufacturing systems and new products, and is accumulating production technologies. Even though it has increased overseas production, the company has no plans to scale down its domestic production capacity. Its domestic plants are all equipped with cutting-edge facilities and automated as much as possible so as to reduce labor costs and maintain domestic production.

**Development of own brands**

As well as providing low-priced products, J Ltd. is actively developing its own brands as a part of its marketing activities. By developing brands that appeal to consumers, it can differentiate its products from cheaper alternatives, and avoid engaging in endless price competition. The primary emphasis in the design of own brands is on the needs of consumers. This means, for example, developing designs, colors and a feel that make the consumer want to buy a product on sight. J Ltd. pays particular attention to ensuring that its products are suited to the types of shoppers who visit stores and the environment in which its products are used. For instance, if a high-end department store undergoes refurbishment, J Ltd. seeks to give its products a more luxurious feel to mirror the department store’s new image. The consumer needs targeted are latent needs that reflect consumer tastes, and an emphasis is placed on themed-brand development to tap into new veins of demand.

This brand planning is undertaken by the company’s Tokyo and Osaka offices. Designs produced there are sent to head office, where they are analyzed using a special-purpose computer to determine whether towel fabric can be woven in accordance with the design, thereby integrating brand planning and production. Rather than developing its own brands entirely in-house, J Ltd. also makes use of outside human resources by, among other things, employing outside artists and designers in design work.

**Customer recognition of own brands**

In order to develop customer recognition of these consciously developed own brands, J Ltd. built a “Towel Art Museum” next to its main domestic plant in 2000. This museum provides tourists with tours of towel manufacturing processes, towel art and other aspects of the towel industry, which is a notable local industry, and is also used for exhibition of products. The “Towel Art Museum” is in addition registered as one of J Ltd.’s brands.

On the sales front, J Ltd. established a distributor subsidiary to market its own products, and entered the retail market with the establishment of an “antenna” shop six years ago. It now has a total of 26 stores including branches in department stores, and these serve both to raise customer resignation of its own brands and contribute considerably to J Ltd.’s sales. The development of its own retail outlets has enabled J Ltd. to hear from customers directly, and the information thus gleaned is used in the development of its own brands.

**Promoting its own brands in overseas markets**

By establishing its own brands in addition to importing cheap Chinese-made products, J Ltd. has succeeded in expanding its business in Japan. Now, however, it is also turning its sights on overseas markets. While sales by its overseas subsidiary still only come to around 5% of total sales, it is opening retail stores of around 15 to 35 square meters in size around its Chinese plant to sell its own-brand products in the Chinese market. For J Ltd., making inroads into overseas markets represents the next big challenge.
(2) Comparison according to R&D action

Section 2 described how enterprises that have established operations overseas have a high R&D intensity. As in (1), therefore, let us look at the impact on changes in the volume of production at domestic operations of enterprises whose volume of overseas production rose over the previous five years according to whether R&D measures were undertaken. This reveals that whereas 20.1% of enterprises engaged in R&D have seen their domestic production increase, the figure of enterprises not so engaged is 14.8% (Fig. 2-2-62, Appended Note 2-2-22). It may be concluded from this that there is a high probability that enterprises with higher technology levels due to R&D are capable of maintaining production at their domestic operations.

Next we examine how the division of labor between domestic and overseas operations of enterprises thus engaged in R&D differs from that of enterprises not engaged in R&D. Fig. 2-2-63 shows a comparison of the division of labor between Japan and overseas of enterprises engaged and not engaged in R&D. It can be seen from this that whereas there is hardly any difference between the two in the proportion of enterprises producing “small-lot products” and “custom-made products” (i.e. general high value-added products), a statistically significantly higher proportion of enterprises engaged in R&D than enterprises not engaged in R&D produce products considered low value added, i.e. “mass-produced products” and “general-purpose products” (Appended Note 2-2-23). In other words, the high technology resulting from R&D allows enterprises to continue producing “mass-produced products” and “general-purpose products” whose production in Japan is not normally considered sustainable.

(3) Comparison according to labor share

As also seen in Section 2, labor share is a measure of the burden of labor costs. Assuming the labor productivity of domestic and overseas production operations to be equal, enterprises with a lower labor share should be less affected by wage differentials between Japan and other countries.

As in (1) and (2), therefore, let us examine the difference in labor share among enterprises whose volume of overseas production is on the increase according to whether their domestic production is increasing or decreasing. According to Fig. 2-2-64, the labor share of enterprises increasing domestic production is lower than...
the labor share of enterprises reducing it (Appended Note 2-2-22). It therefore appears that while enterprises with lower labor costs are more likely to maintain domestic production, enterprises with higher labor costs use production in countries with lower wage costs to replace domestic production and reduce labor costs.

The question we next consider is whether the division of labor between overseas and domestic operations differs according to the level of labor share. Comparing the domestic and overseas division of labor according to the level of labor share (Fig. 2-2-65), it can be seen that whereas there is hardly any difference in the proportion of enterprises producing mainly “high-precision products” and “custom-made products” domestically according to labor share, the proportion of enterprises producing mainly “quick-delivery products” and “small-lot products” is statistically significantly higher among enterprises with a high labor share than those with a low labor share. It therefore appears that enterprises with relatively higher labor costs tend to seek to differentiate themselves by focusing on the production of “quick-delivery products” and “small-lot products” leveraging the locational advantages of doing so in Japan as opposed to overseas (primarily in Asia), and by developing flexible systems of production (Appended Note 2-2-23).

From (1), (2) and (3), the requirements for maintaining domestic production may be concluded to be: (1) differentiation by focusing on quality (i.e. the production of high-precision and custom-made products) through the development of own brands, and (2) the development of competitiveness of domestic production operations in the field of production of mass-produced and general-purpose products as well through the maintenance of technical superiority that cannot be matched overseas. A further requirement in the case of enterprises with high labor costs whose domestic production is following a downward trend is (3) the maintenance of domestic production through differentiation by means of flexible production of small-lot and quick-delivery products.
As we have seen in this section, there are starting to emerge SMEs that are aggressively pushing ahead with overseas expansion as economic globalization progresses. But while overseas markets provide SMEs with new avenues of activity, there are also several restrictions on trade for the purpose of national and international security that SMEs’ must observe in their expansion overseas. Below, we examine the present situation in regard to these regulations.

(1) Introduction of “catch-all” regulation to tighten export control
In keeping with international consensus, Japan requires that export permits be obtained from the Minister of Economy, Trade and Industry under the Foreign Exchange and Foreign Trade Law for exports of specified goods that may be used for purposes including the development of military hardware and weapons of mass destruction (WMDs). In the interests of stricter export control, a system of “catch-all” regulation was introduced in April 2002 that requires that an export permit be obtained for almost all industrial products where the purpose of use of goods or a customer is related to or involved in the development of WMDs.

(2) Growing sophistication of activities by countries of concern to procure WMD-related materials
Activities by countries of concern that pose a possible threat to international peace and security to acquire WMD-related materials are growing increasingly sophisticated. A prime example of this is the discovery of the illegal export of electrical equipment to North Korea via countries in Asia. When Japanese enterprises export their own products and other goods, therefore, proactive measures must be taken to prevent their use in the development of WMDs.

(3) Important points regarding security export control when expanding overseas
With economic globalization has come an increase in expansion overseas and overseas trade by Japanese enterprises seeking to maintain and strengthen their competitiveness. When doing business with overseas enterprises and also when transferring production facilities from Japan in order to start up their own plants overseas, Japanese enterprises must decide whether it is necessary to apply for a permit after confirming the purpose of use and customer.

Under the Foreign Exchange and Foreign Trade Law, goods requiring an export permit application includes general-purpose goods that could be used to develop WMDs as well as specialist goods used almost exclusively to develop WMDs.

Examples of general-purpose goods that could be used to develop WMDs include the following:

i) Machine tools that are industrial machinery
ii) Carbon fiber also used for golf club shafts, etc.
iii) Valves and pumps, etc. with superior resistance to corrosion

As products of these kinds are all commonly used for consumer purposes, particular care is required.

(4) Development of export control systems
There have recently emerged a number of enterprises that have repeatedly exported illegally due to inadequacies in their export control systems. In the case that an enterprise is involved in illegal exports, it may be subject to severe penalties. If its name appears in the press, it may also suffer damage to its image. In order to proactively prevent such a situation, systems should be developed to enable enterprises to control exports appropriately. What this means is the development of internal regulations on export control laying down rules regarding, among other things, export control organizations and export examination procedures.

Note: Internal export control regulations are also known as “compliance programs” (CP). They consist of rules designed to ensure compliance with the Foreign Exchange and Foreign Trade Law and other laws and ordinances concerning export regulation, and to proactively prevent their infringement. Matters covered include trade and shipment examinations, education and supervision.

(For details, see METI’s security export control website at http://www.meti.go.jp/policy/anpo/index.html.)
Chapter 2 — Globalization and SMEs

Measures in fiscal 2003

Support of security export control

In order to support reliable internal export control by SMEs engaged in foreign trade and overseas expansion and so ensure proper security export control, METI is providing support in the following two ways. (For details, see METI’s security export control website at http://www.meti.go.jp/policy/anpo/index.html.)

1) In order to assist the development of export control systems covering local SMEs and other ventures, briefings on security export control are being held in cooperation with chambers of commerce and industry and JETRO.

2) Support is being provided to assist the development and implementation of compliance programs by SMEs and other ventures.
Chapter 3 Problems concerning business successions and exits among SMEs

Section 1 Aging of proprietors

Japan has long been described as an aging society. However, the aging of business proprietors is proceeding even more rapidly than in society at large. The age structure of the self-employed is 10 years older than that of employed persons in general, which means in effect that the problems of aging are hitting this sub-population 10 years earlier than Japan as a whole. For many SMEs, therefore, the question of what course to take after the retirement of their proprietor is an important one. In this section, we examine the issue of business succession at SMEs from this standpoint.

1. Aging of SME proprietors

Let us begin by looking at changes in the age structure of the self-employed based on the results of the MPHPT’s Employment Status Survey. This paints a picture of an aging population, with the proportion of self-employed persons aged 70 years or over approximately tripling from 6.3% in 1979 to 17.5% in 2002 (Fig. 2-3-1).

According to Teikoku Databank’s annual Survey of the Proportion of Presidents Changed conducted since 1978, business proprietors too can be seen to be aging, with the average age of proprietors increasing from 52 years and 7 months in 1982 to 58 years and 2 months in 2003 (Fig. 2-3-2). Broken down by size of capital, the average age of proprietors of enterprises with capital of at least ¥50 million has not changed greatly over the past 20 years, but the average age of proprietors of enterprises with capital of less than ¥50 million is increasing at a similar rate to the average age of proprietors of all enterprises. Underlying the aging of proprietors of enterprises, then, is the aging of proprietors of SMEs.

2. Adverse effects of aging

The aging of SME proprietors is a problem that cannot be ignored considering the impact of proprietors on business decision-making at SMEs. This is because the performance of enterprises is affected by three factors—the attributes of proprietors, attributes of the enterprise itself, and strategy—all of which are considerably more affected by entrepreneurs at SMEs than at large enterprises. For instance, an examination of

Fig. 2-3-1 Age composition of self-employed

Self-employed are aging

<table>
<thead>
<tr>
<th>Year</th>
<th>(Year)</th>
<th>Aged up to 29</th>
<th>30-39</th>
<th>40-49</th>
<th>70 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>79</td>
<td>2.0</td>
<td>2.2</td>
<td>4.5</td>
<td>11.6</td>
<td>5.3</td>
</tr>
<tr>
<td>82</td>
<td>3.0</td>
<td>3.5</td>
<td>5.8</td>
<td>14.9</td>
<td>7.4</td>
</tr>
<tr>
<td>87</td>
<td>4.0</td>
<td>4.5</td>
<td>6.5</td>
<td>15.1</td>
<td>8.8</td>
</tr>
<tr>
<td>90</td>
<td>5.0</td>
<td>5.5</td>
<td>7.2</td>
<td>15.2</td>
<td>9.3</td>
</tr>
<tr>
<td>97</td>
<td>6.0</td>
<td>6.5</td>
<td>8.0</td>
<td>25.3</td>
<td>14.3</td>
</tr>
<tr>
<td>02</td>
<td>7.0</td>
<td>7.5</td>
<td>8.8</td>
<td>25.4</td>
<td>15.6</td>
</tr>
</tbody>
</table>

Source: Recompiled from MPHPT, Employment Status Survey.

1) A survey of company presidents selected from Teikoku Databank’s database of enterprises at the time of the survey. For the 2003 survey, 1,203,429 presidents were polled.
2) Storey (1994) identifies “entrepreneur and management resources”, “enterprise” and “business strategy” as the three primary factors behind the rapid growth of SMEs after startup.
decision-making processes using the results of the SME Agency’s Fact-finding Survey on Business Management Strategy (November 2002) shows that emphasis was placed on the opinion of the representative rather than harmonization of views at 20.1% of small enterprises with five or fewer workers, a higher rate than at enterprises of other sizes (Fig. 2-3-3). In other words, an enterprise’s direction is more likely to be determined independently by the proprietor at SMEs.

48.5% of small enterprises with five or fewer workers are also without anyone to act as an “aide” to the proprietor (i.e. a “right-hand man”) (Fig. 2-3-4). This too indicates that proprietors play a more important role in the management of smaller enterprises.

Generally speaking, people are more able to take on fresh and unknown challenges when they are younger and stronger both mentally and physically. As they grow older, they decline physically, and become more conservative in approach. Business proprietors are the same. When the business environment changes and business policy has to be rethought, older proprietors may not notice the need or, even if they do, may no longer know how to or have the energy to push through the necessary changes. Because the proprietors of SMEs are less likely than large enterprises to have a “right-hand man”, a decline in the proprietor’s abilities can in turn affect the chances of an enterprise’s survival. If we look at the rate of growth in the number of workers of enterprises according to age of proprietor, we do indeed find that the rate of growth is lower for enterprises with older proprietors, and negative at enterprises with proprietors aged over 60 (Fig. 2-3-5, Appended Note 2-3-1).

Enterprises that are thus no longer able to adapt ultimately withdraw from the market due either to bankruptcy or exit. The only real problem, however, is the decline in the proprietor’s ability to adapt, as the enterprise’s business resources can often still be put to good use. The waste of such valuable resources simply due to a proprietor’s unsuitability represents a major loss to the Japanese economy, and needs to be dealt with somehow. For the employees who work at such enterprises as well, the continued survival of the enterprise is a matter of enormous concern. For this reason, proper action needs to be taken to help enterprises whose proprietors are aging.

Fig. 2-3-2 Trends in average age of representatives by size of capital
Aging more advanced at smaller enterprises

![Chart showing average age of representatives by size of capital.](chart.png)

Source: Teikoku Databank, Survey of the Proportion of Presidents Changed.
Note: Numerals after the decimal point indicate the number of months.

Fig. 2-3-3 Decision-making processes of proprietors
Greater emphasis on representative’s views and less on harmonization of views at smaller enterprises

![Chart showing decision-making processes of proprietors.](chart2.png)

3. Responding to aging

The aging of proprietors is inevitable. They must therefore decide in advance what to do about their enterprises when they reach retirement age. If they vacillate, they will end up continuing to manage their enterprises past when they should have retired. Unable to respond to changes in the environment, their enterprises may consequently be forced out of the market.

There are three possible responses to choose from when a proprietor reaches retirement age. The commonest response is to hand over management to a successor. Unlike large enterprises, however, which usually have a number of candidates to choose from, many SMEs have no successors lined up. According to the results of Tokyo Shoko Research’s Fact-finding Survey on the Education of Successors (abbreviated below as the Successor Education Survey), 19.2% of enterprises considering handing over management to a successor reported that they had yet to find a successor (Fig. 2-3-6).

If a successor cannot be found, another option is the sale or transfer of an enterprise. The sale of an enterprise was formerly construed negatively as a “sell-out”, and few proprietors actively sought to sell or transfer their businesses. For enterprises facing extinction due to being unable to find a successor, however, sell-off or transfer is undoubtedly an attractive solution, and, as we shall see in Chapter 4, business transfers are no longer uncommon. Indeed, several chambers of commerce and industry, such as the Osaka Chamber of Commerce and Industry, now provide intermediary services for enterprises interested in M&As (mergers and acquisitions) (Fig. 2-3-7).

---

3) This survey was of a sample of 15,000 SMEs that had been in business for at least 10 years. These consisted of 9,000 enterprises whose representative changed between January 1997 and December 2001, 1,000 enterprises whose representative was the founder, and 5,000 enterprises whose representative had changed at least once but not since January 1996. Valid responses were received from 2,804 enterprises, and the response rate was 18.7%.

4) M&As (mergers and acquisitions) is translated literally into Japanese as gappêi and baishû. As well as the merger and sale of entire enterprises, however, M&As also normally include partial business transfers and capital tie-ups. M&As are therefore “business collaboration” in a wider sense.
Chapter 3 — Problems concerning business successions and exits among SMEs

**Fig. 2-3-6** Presence of successor

Approximately 20% of enterprises have no successor

![Pie chart showing 80.8% Yes and 19.2% No]


Note: Based on enterprises responding that they wanted to hand on their business.

---

**Fig. 2-3-7** M&A matches by Osaka Chamber of Commerce and Industry

Major reason for sale of enterprises is lack of successor

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inquiries (inc. telephone inquiries)</td>
<td>98</td>
<td>73</td>
<td>68</td>
<td>93</td>
<td>93</td>
<td>58</td>
<td>62</td>
<td>545</td>
</tr>
<tr>
<td>Formal applications</td>
<td>34</td>
<td>20</td>
<td>21</td>
<td>13</td>
<td>20</td>
<td>9</td>
<td>12</td>
<td>129</td>
</tr>
<tr>
<td>Applications passing screening</td>
<td>13</td>
<td>12</td>
<td>9</td>
<td>8</td>
<td>10</td>
<td>5</td>
<td>8</td>
<td>65</td>
</tr>
<tr>
<td>Successful matches</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>Withdrawals due to exceedance of time limit, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>35</td>
</tr>
<tr>
<td>Cases currently on market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reasons for application</th>
<th>Formal applicants</th>
<th>Enterprises passing screening</th>
<th>Successfully matched enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of enterprises</td>
<td>Percentage</td>
<td>No. of enterprises</td>
<td>Percentage</td>
</tr>
<tr>
<td>Lack of successor (including due to health reasons)</td>
<td>54</td>
<td>41.9%</td>
<td>37</td>
</tr>
<tr>
<td>Poor business performance, restructuring</td>
<td>38</td>
<td>29.5%</td>
<td>11</td>
</tr>
<tr>
<td>Improvement of business structure</td>
<td>17</td>
<td>13.2%</td>
<td>8</td>
</tr>
<tr>
<td>To expand into other business</td>
<td>9</td>
<td>7.0%</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>8.5%</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>129</td>
<td>100%</td>
<td>65</td>
</tr>
</tbody>
</table>

Source: Compiled by the SME Agency from the Osaka Chamber of Commerce and Industry’s website and other sources.

Note: The number of “successfully matched enterprises” does not match the number of “successful matches” in the upper table as 16 successful matches were due to inquiries from prospective sellers, and two were due to inquiries from prospective buyers.
PART II — THE LIMITLESS POTENTIAL OF THE DIVERSITY OF SMALL AND MEDIUM ENTERPRISES

Case 3-1 Action taken by Nagano Chamber of Commerce and Industry

Visits to all business establishments in the area engender sense of crisis
The Nagano Chamber of Commerce and Industry in Nagano City has been conducting individual visits to all 14,000 or so business establishments in its area—both members and non-members—since 2001 in order to determine what businesses want from chambers of commerce and industry. This is an extremely laborious project requiring that each member of the staff visit around 600 business establishments. However, it has enabled the chamber of commerce and industry to determine the needs of all the business establishments in its area, with the exception of the 10% that could not be polled due, for example, to the manager’s absence.

These visits revealed that approximately 4,000 business establishments (equivalent to just under 30% of the establishments in the area) were considering exiting due to not being able to find a successor. Considering that the number of startup entrepreneurs under existing startup support measures is around 50 to 70 a year, the number of entrepreneurs apparently considering exit is staggering. Left unchecked, the chamber of commerce and industry feared that this could not only lead to a fall in its membership, but also cause the regional economy to shrink due to a decline in business establishments and employment, resulting in the loss of the culture of the Shinshu region due to the lack of successors to take over traditional businesses.

Establishment of business succession support center
In response, therefore, the Nagano Chamber of Commerce and Industry launched a business succession support center in fiscal 2002 to stem the decline in the number of business establishments. The purpose of this center is to support trouble-free business successions and startups by matching proprietors unable to find successors despite their valuable business resources (such as customers, facilities, technologies, skills and know-how) with new developers and entrepreneurs seeking to enter new fields but finding it difficult to secure business resources due to problems regarding funding, human resources and marketing outlets. While some chambers of commerce and industry and similar organizations have in the past acted as intermediaries for M&As, such deals have until now been an expensive and unfamiliar option for small enterprises to use. However, the support center is also targeted at businesses that are not usually involved in M&As, such as sole proprietorships and small enterprises. From the point of view of proprietors handing over their businesses, the activities by the support center provide the funds that they need in retirement, and for the acquiring company they remove some of the obstacles to starting up in business by allowing the use of existing business resources. The support center thus has something to offer for both sides.

Future challenges
The center has so far made seven matches (as of the end of March 2004) since entering operation in April 2002. Behind the lack of growth seems to be the continued reluctance of proprietors to seek help, with psychological resistance to the idea of business transfers still considerable and the tendency in the provinces in particular for rumors to spread like wildfire. Of the matches so far, the number of entrepreneurs wanting to cede their operations is just one third of those wanting to take over operations, indicating that there is a shortage of supply. To remedy this shortage, the center intends to step up its PR work to publicize its activities more widely and reach proprietors wanting to transfer their businesses. However, attitudes among entrepreneurs cannot be changed overnight. The most important thing, therefore, is to steadily make matches and demonstrate the benefits of business transfers.

One area requiring work is the improvement of support to help transferors of businesses to resolve problems that arise at the time of business transfers, such as inheritance issues, it can sometimes be difficult to convince relatives of the wisdom of transfers. Acquirers are also often unfamiliar with business management, and can face management problems after startup. Improving advice regarding these points therefore offers one means of raising confidence in the center’s matching services.
When the above responses cannot be taken—i.e. when for various reasons an enterprise lacks a successor and cannot be sold off—the result is an enterprise’s exit. If it cannot adapt to changes, the writing is on the wall. Exiting when the time is right is therefore another option, and exits are considered in more detail in Section 4. Those then are the three responses that can be taken when a proprietor enters old age. But whichever response is adopted, it cannot be translated immediately into effect unless thought is given beforehand to making the necessary preparations. In the case that a successor inherits an enterprise, the proprietor must make sure that his or her successor is ready, and this is not something that can be achieved overnight. It is also not always the case that a buyer will be found straightaway when a proprietor decides to sell or transfer an enterprise. In the case of exits, too, thought must be given to explaining things properly to employees, customers and suppliers to minimize the frictions caused by exit.

Proprietors may be caught up in their everyday work and not be able to give thought to their own retirement. The aging of proprietors is unavoidable, however, and is a determinant of an enterprise’s future. Its importance must therefore be recognized, and swift action taken. From the next section, we examine the commonest response—the transfer of business rights to a successor—and look at the actual state of changes of proprietors at enterprises.

Section 2 Actual state of changes of proprietors at SMEs

1. Gradual decrease in the rate of change of proprietors

If we look at trends in changes in proprietors using the results of Teikoku Databank’s Survey of the Proportion of Presidents Changed, we find that, despite some ups and downs, the rate of change over the past 20 years has generally followed a gradual downward trend. According to the latest survey in 2003, the rate had fallen to 3.54%, its lowest since the survey was first conducted (Fig. 2-3-8).

There are two possible reasons for the declining replacement of proprietors. One is the decline in changeovers due to the previous proprietor being unable to continue as proprietor, regardless of his or her own wishes, on account of illness or death.

Looking at the results of the Successor Education Survey, a change in the reasons for the retirement of the preceding proprietor now and in the past is apparent. Among proprietors that succeeded to a business 20 or more years ago, approximately 40% responded that the “retirement” of their predecessor was due to the “death of previous proprietor”. In the case of proprietors who have succeeded to a business more recently, however, the proportion of retirements due to death is down to about 15%. In its place, there has been an increase in retirements due to “aging of previous proprietor” (Fig. 2-3-9).

On the other hand, an examination of the average age of predecessors according to reason for retirement shows proprietors who retire due to “death of previous

![Fig. 2-3-8 Trends in rate of change of presidents](image-url)

Gradual decline in rate of change of proprietors

Source: Teikoku Databank, Survey of the Proportion of Presidents Changed.

Notes: 1. Rate of change of presidents = number of enterprises whose representative changed in the past year / total number of enterprises
2. The total number of enterprises serving as the denominator above is the total number of enterprises on which Teikoku Databank held data.
proprietor” or “failing health of previous proprietor” are younger than those who retire due to “aging of previous proprietor”. It can be seen from this that the decline in business successions due to “death of previous proprietor” and “failing health of previous proprietor”, and increase due to “aging of previous proprietor”, are delaying changes in proprietors (Fig. 2-3-10).

The second reason for the decline in replacement of proprietors is simply the lack of a successor. Examining the relationship between proprietors and their predecessors, we find that more than 20 years ago, 79.7% of proprietors were the “son/daughter” of their predecessor, and only 6.4% were unrelated. Now, however, the proportion who are a “son/daughter” has fallen to 41.6%, while the proportion of “non-relatives” has increased to 38.0% (Fig. 2-3-11).

Possibly because of changing attitudes toward succession among the children of proprietors, it appears that people are less willing now to succeed to a business simply because it was their parent’s. As a result, it now takes time to find a successor, thus delaying changes in proprietors.

2. Reasons for business succession

What are successors’ reasons for succeeding to a business? Below, we seek to answer this question using the results of the Successor Education Survey.

We look first at the reasons for succession given by successors overall, shown in Fig. 2-3-12, from which it can be seen that whereas the reason for succession in the majority of cases 20 or more years ago was “family business”, this figure has declined to 26.2%. As Fig. 2-3-11 demonstrated, behind this decline is the fall in the proportion of children of proprietors succeeding to their parents’ businesses.

How then have the reasons for succession by children of proprietors changed? If we look at the reasons given for succession (multiple responses allowed), we find that whereas 76.0% of proprietors who succeeded to a business 20 or more years ago answered that they did so...
Chapter 3 — Problems concerning business successions and exits among SMEs

Fig. 2-3-12 Primary reasons for business succession
Decline in successors succeeding due to being family business

(Time of succession) 20 or more years ago 10-19 years ago 5-9 years ago 0-4 years ago

Attracted by idea of managing a company Family business To fulfill responsibilities to employees and customers More efficient than starting up own new business Company with good future prospects Persuaded by previous proprietor Dissatisfied with previous company or job Other


Fig. 2-3-13 Reasons for succession of child of previous proprietor by time of succession
Slight decline compared with 20 or more years ago in proportion of proprietors succeeding on the grounds of being a family business


Note: Totals exceed 100 due to multiple responses.
because it was a “family business”, the proportion among proprietors appointed less than 20 years ago has stayed level at around 70% (Fig. 2-3-13). On the other hand, the proportion of proprietors answering “to fulfill responsibilities to employees and customers” and “attracted by idea of managing a company” has increased. Children of proprietors seem no longer willing to succeed to a business because it is a “family business” unless there are other reasons to do so.

So how have the succession reasons of proprietors who are not relatives changed?

Fig. 2-3-14 shows that the proportion giving “to fulfill responsibilities to employees and customers” as a reason has increased compared with 20 years ago. This is probably a reflection of the recent slump. It can also be seen that the proportion responding “persuaded by previous proprietor” and “attracted by idea of managing a company” has stayed around 30~40% in all periods. In this respect, there has been no major change in the succession reasons of proprietors unrelated to their predecessors.

3. Trouble-free business succession

(1) Views of founders and successors toward business management

What are the differences between starting up a business oneself and succeeding to an enterprise? While there are similarities between the two in that both cases a person who was not previously a proprietor starts managing a business, a major difference is that in only one case is there already an enterprise in existence engaged in business activity. This difference is an important one to consider when examining the question of trouble-free business succession.

Where an entrepreneur starts up an enterprise personally, that enterprise is formed in accordance with his or her own management concepts and business strategy. Startups, one might say, are tailor-made to the founder’s specifications.

Where a proprietor succeeds to a business, on the other hand, he or she becomes the proprietor of an existing enterprise rather than, as in the case of a startup, building an enterprise from the ground up. This offers major benefits in comparison with startups in that it allows the use of resources such as existing business resources, and in particular the goodwill of outside organizations toward the enterprise. However, there can also be various demerits depending on the successor’s approach to business. Where a proprietor succeeds to a business, on the other hand, he or she becomes the proprietor of an existing enterprise rather than, as in the case of a startup, building an enterprise from the ground up. This offers major benefits in comparison with startups in that it allows the use of resources such as existing business resources, and in particular the goodwill of outside organizations toward the enterprise. However, there can also be various demerits depending on the successor’s approach to business. Hence where the impact on the inherited enterprise of the preceding proprietor remains strong, resistance to the new proprietor and his or her business strategy may be encountered unless the systems put in place by the predecessor are closely adhered to.

Bearing these points in mind, let us examine the differences in business motivations of successors and founders of companies.

We have already looked at the reasons for succession to
a business of the children of proprietors and non-relatives, revealing that in both groups approximately 30% were “attracted by idea of managing a company”. This reason for succession is thus a general one, unrelated to a proprietor’s relationship to his or her predecessor. So what exactly is the “attraction” of managing a company? According to Fig. 2-3-15, 78.3% of entrepreneurs say it is “freedom to make own decisions”, followed by “thrill of doing business” and “self-fulfillment”. “Social recognition” and “good income”, on the other hand, are mentioned by relatively few. From these results, it can be seen that proprietors seek the satisfaction that can be obtained only by managing a company, rather than direct paybacks in the form of income or social recognition.

This resembles founders’ motivations for starting up in business. According to the 2002 White Paper on Small and Medium Enterprises in Japan, founders’ main motivations are “to have a free hand in work” (44.2%) and “to achieve self-fulfillment” (39.6%). On the other hand, fewer proprietors are motivated by “to earn higher income” (20.9%) or “to earn social recognition as entrepreneur” (10.4%) (Appended Note 2-3-2). In the case of both startups and successions, then, entrepreneurs’ management aspirations are the same. In this sense, startups and successions exhibit a similar side.

(2) Relationship between proprietors and enterprises

There is thus no difference in terms of “aspirations” between those who start an enterprise from scratch, i.e. founders, and those who inherit such an enterprise. However, whereas founders can ensure that their enterprises embody their ideals and intentions, the same does not apply to successors. In order to reconcile their own ideas with arrangements at an existing enterprise, proprietors who succeed to a business need to either change their enterprise or change their own style of management to suit the enterprise. Following succession, therefore, a certain “breaking-in” period is required to enable the proprietor and his or her enterprise to get used to working together. So how long does it take for a business succession to be really completed?

Fig. 2-3-16 and Appended Note 2-3-3 estimate the impact of the number of years since the appointment of a proprietor on the rate of growth in the number of employees since succession. According to these estimates, the presence of a new proprietor has a negative impact on the rate of growth up to the third year after appointment. From the fourth year, however, a significant correlation between the period since appointment and rate of growth can no longer be observed. Regarding the strength of the impact up to the third year after appointment, the effect is strongest in the first year, and gradually declines in the second and third years. This suggests that it generally takes about three years for management to get back on track after a business succession.

This contrasts with the situation in the case of startups. If we look at the strength of the impact on the rate of growth in the number of employees according to the number of years since startup, we find that the effect is...
strongest immediately after startup, and thereafter gradually declines (Fig. 2-3-17, Appended Note 2-3-4). This difference between startups and business successions supports the view that there is a difference between startups, where the founder designs an enterprise and its “identity” becomes most apparent immediately after startup, and business successions, where a “breaking-in” period for the enterprise and successor to adapt to one another is required. Next, we look at what can actually occur during this “breaking-in” period.

(3) Problems due to proprietors’ attributes
During the process of transition of an enterprise to suit a new proprietor, there can arise resistance from within the enterprise. As an enterprise is a collection of people, a better way of putting this may be that resistance can be encountered from directors and employees. From their perspective, changes in business strategy resulting from a change of proprietor have the potential to change the existing atmosphere of the company and the way work is done. On an emotional level as well, directors and employees may not take to a new proprietor. If these changes are difficult to accept, this may manifest itself as tangible or intangible resistance to a new proprietor.

Friction between the enterprise as it was previously run and the new proprietor or business strategy can thus lead to resistance and problems concerning business successions.

So what form can these problems take? According to the Successor Education Survey, a major source of problems is relations with employees, with large proportions of respondents giving “exercising leadership” (38.1%) and “building trust with employees” (37.9%) as difficulties. On the other hand, 27.8% of proprietors answered that “no particular difficulties” were encountered (Fig. 2-3-18).

These then are the sorts of problems encountered by proprietors in general after succession. But how do these problems vary according to proprietors’ attributes? In considering this point, it is important to recognize once again that personal relations are crucial to the performance of work. Accordingly, relations with employees are likely to differ according to the age of a new proprietor, relations with the preceding proprietor, and whether a proprietor was promoted to the position from within the company. We start by looking at problems arising according to age at time of succession. This suggests that problems regarding “building trust with employees” and

---

6) According to Storey (1994), the more rapid growth of new startups than older enterprises is a finding that generally applies in both the United States and United Kingdom.
Chapter 3 — Problems concerning business successions and exits among SMEs

Promotion based on seniority appears to be one particular factor that reduces problems with employees. On the other hand, while there is not much difference regarding non-relatives employed since graduation or recruited mid-career, a particularly high proportion of problems occur regarding the development of trust with employees where an outside person is invited to become the new proprietor (Fig. 2-3-20).

The second point we look at is the development of trusting relations with customers and suppliers, and financial institutions (i.e. trust outside the company). In the case of successors employed since graduation, children of predecessors appear less likely to encounter problems than non-relatives, and similar results were obtained for mid-career appointees (Fig. 2-3-21). On the other hand, in the case of appointments from outside the company, non-relatives find it markedly easier than children to develop trust with financial institutions. This may be because there may be some suspicion that children of predecessors brought in from outside who know nothing about the company may not be up to the task, while non-relatives are accepted due, for example, to being sent in by a financial institution to take charge of restructuring, or being chosen for their outstanding ability.

Regarding thirdly exercising leadership and eliminating the influence of the preceding proprietor (i.e. the exercise of leadership as proprietor), the most problems are faced by proprietors who are hired mid-career (Fig. 2-3-22). As in the case of the development of trust within the company, this is probably due to the continuing survival of promotion based on seniority. However, even proprietors brought in from outside do not often encounter problems exercising leadership if not a relative of the predecessor (28.1%). When proprietors are appointed from outside, they are often brought in from a financial institution, customer or other business contact due to the lack of a suitable successor or anyone within the company capable of restructuring. Within the company as well, therefore, there may emerge a feeling that there is no choice but to go along with the new proprietor, thus ensuring that problems are relatively scarce.

### (4) Commencement of new actions

We look next at the relationship between business strategy and the success of successions. Starting by looking at the proportion of enterprises that commenced new actions according to whether or not they underwent a change of proprietor, we find that enterprises that did were more likely to commence most of the actions

---

7) Enterprises whose proprietor was appointed within the previous five years. No special category was provided for proprietors appointed for less than one year, during which time the effects of succession are still slight. “Commencement of action” means the commencement of activities that were not taken five years previously but are now being taken. The same definitions of change in proprietor and commencement of actions are used hereinafter.
Fig. 2-3-19 Age at succession and types of difficulties encountered
Younger proprietors more likely to encounter difficulty exercising leadership over employees

![Chart](chart.png)

Note: Totals exceed 100 due to multiple responses.

Fig. 2-3-20 Difficulties building trust within company
High proportion of children of previous proprietors employed mid-career encounter difficulty in building trust with employees

![Chart](chart.png)


Fig. 2-3-21 Difficulties building trust outside company
Proprietors employed since graduation find it easier to build trust outside the company

![Chart](chart.png)

have only recently succeeded to a business are managerially highly motivated and seek to engage in new activities to improve their enterprises and raise sales.

How then do these activities by new proprietors affect the success of successions? To answer this question, let us look at the proportion of proprietors that said that succession was successful according to whether or not actions were commenced. What we find is that enterprises commencing actions in all categories were more likely to report successful succession than enterprises that did not, but that there existed some differences according to the type of action engaged upon (Fig. 2-3-24). This difference is most apparent in the case of “expansion of employee training” (19.1%), and to a lesser extent “reorganization of internal structure” (13.8%) and “reform of personnel system” (12.9%).

Common to all three of these activities is that they involve internal changes to an enterprise. Thus being able to take action to adapt an enterprise to its proprietor in the process of “breaking-in” are important to the success of successions.

It should also be noted, however, that even where such actions are taken by newly installed proprietors, they may not be understood by employees and customers, and so prove ineffective. While the successful implementation of actions should lead to the success of successions as well, unsuccessful implementation could conversely create problems and lead to the failure of a business succession. Let us therefore look at the differences in the effects of actions according to whether or not a succession took place. This shows that a greater proportion of enterprises report “diversification of business” and “use of experienced retirees” and “business collaboration” to be more
effective when implemented a little while after succession when the proprietor has become used to business, rather than immediately after succession (Fig. 2-3-25).

The fact that while internal reforms are effective but outside collaboration is not always seems to indicate that the first step that needs to be taken after succession is to organize and adapt an enterprise to match his or her own way of thinking. Unless a firm framework is established, an enterprise may be unwilling to follow its proprietor despite all manner of business strategies being developed.

Fig. 2-3-24 Commencement of new actions and proportion of successful successions

High proportion of enterprises commencing new actions have successful successions

Note: “Successful successions” are enterprises that responded “went well” when asked how well their change of proprietor went.

Fig. 2-3-25 Change of proprietor and proportion of enterprises registering an increase in ratio of ordinary profit to net sales

Although most measures are more effective undertaken after succession, “diversification of business”, “use of experienced retirees” and “business collaboration” are better undertaken by veteran proprietors

Note: Enterprises whose ratio of ordinary profit to net sales increased are enterprises ratio of ordinary profit to net sales increased between 1997 (1996 if the ratio in 1997 is unknown) and 2003.
Chapter 3 — Problems concerning business successions and exits among SMEs

Based in Tochigi Prefecture and with a workforce of 92 employees, A Ltd. is a scrap iron processor, wholesaler and casting manufacturer. It started out in 1931 as a wholesaler of bric-a-brac in general, then in the late fifties to early sixties established a scrap iron wholesaling system. It adopted an aggressive business stance that led to the steady expansion of its business. In 1970, it built a state-of-the-art scrap processing facility, followed by a larger shredding plant in 1975. In 1980, it then began manufacturing counterweights for construction and industrial machinery.

Situation before business succession
From the bubble period, however, this active business expansion backfired. Its attempts to enter new fields, such as the production of machine tool parts and molds and the distribution sector, ended in failure, leaving it with large debts (equal to almost three times its annual turnover) and non-performing loans. The deterioration to this extent in its fortunes was due to its attempts to recover by investing in new fields despite failure, and the evolution of a one-man style of management under which no one was able to oppose the president. The situation was worsened still further in 1998 when the president, then aged 67, was admitted to hospital for an extended period due to deteriorating health, and a number of veteran executives resigned due to poor business results, plunging the company into crisis. It was under these circumstances that the current president, then aged 37, was appointed president in July 1999.

Actions by new president
The new president married the previous president’s oldest daughter and joined the company in 1990 in readiness to succeed to the business. The original plan was for him to take over in the 21st century. Because of the company’s critical condition, however, the changeover was brought forward two years in order to shake up management.

He started by looking at the failure of diversification efforts by his predecessor, and determining what the company’s strengths were and what comprised its core business. He then produced a management policy based on “integrated recycling systems”, in accordance with which various steps have been taken, including acquisition of ISO14001 certification, promotion of R&D on environmental technologies, establishment of a new automobile recycling division, and the lease to leading recyclers of space created by the elimination of unprofitable operations.

By appointing younger executives and expanding new recruitment, the president has also succeeded in reducing the average age of its employees from 43 in 1998 to 39 in 2003. Steps are in addition being taken to improve internal communication, increase the emphasis in management on the promotion of growth through self-initiative, and improve employee morale.

Putting its metal material recycling division at the core of its operations so as to leverage its strengths, A Ltd. has switched emphasis to make use of the various business resources that it has accumulated to develop environmental technologies and undertake work in collaboration with a network of related companies. The president himself devotes his time to coordinating each division, and leaves alone work that is best left to subordinates. This consistent approach has led to increased confidence from both directors and employees.

Approach of previous president
The previous president currently occupies the position of chairman and still has the right to represent the company. Following his retirement, however, he has left management entirely to the new president, playing no part himself and not even going to the company. If he were to go, he says, employees would start worrying about what he thought and loosen the new president’s grip on the workforce – the new president considers getting a quick grip on the company and its employees to be the most important priority.

Future prospects
As a result of the steps taken by the new president, sales have grown 220% from what they were before the handover, and decreases have also been achieved in borrowing (down to 80% of annual turnover) and non-performing loans. The company’s financial balance is improving dramatically. Based on its business policy, it has developed a system for efficiently recycling general metal materials and is focusing on the development of its own unique environmental technologies. In another five years, it intends to bring borrowing down to 50% of annual turnover, and aims then to achieve its ambition of dramatic growth.
Section 3 Preparations for handover to successor and enterprise growth

Proprietors who have just taken over the reins of a business are highly motivated and eager to manage their enterprise in the best possible manner. Their predecessors, however, have learnt the hard way how difficult it is to manage an enterprise, filling them with uncertainty as to whether it was really a good idea to hand over the reins to their successor. This is because even though a successor’s capabilities as an employee or director may be known, his or her abilities as a proprietor, who constantly bears heavy responsibilities, are an unknown quantity.

In order to help assuage these concerns, this section examines who should be chosen as a successor, what actions should be taken, and at what age businesses should be handed over in order to ensure an enterprise’s growth.

1. Selection of successor and growth

Who should be chosen as a successor? This is a question that troubles proprietors when choosing a successor. It is not an easy question to answer, for even if in their heart they would really like their own child to inherit the business, it may be better to choose an employee rather than a child in order to ensure an enterprise’s growth. However, enterprises that have experienced several changes of proprietor may have acquired the know-how to choose suitable successors. If we look at the relationship with the previous proprietor at enterprises that have experienced several succession and those that have not, we find that a higher proportion of non-relatives than children of the previous proprietor are chosen at the former (Fig. 2-3-26).

So is there any difference in the subsequent performances of enterprises that appoint a non-relative and those that choose a child as their proprietor? Below, we examine this point by looking at the growth of enterprises following succession. Fig. 2-3-27 shows the relationship between the proprietor and predecessor, and the growth of enterprises after business succession. As the figure shows, enterprises headed by a non-relative enjoy higher growth than those headed by a child of the previous proprietor. The finding that enterprises headed by a non-relative of the previous proprietor (non-family enterprises) perform better is described in the 2003 White Paper on Small and Medium Enterprises in Japan, and probably arises from the fact this allows more able human resources to be appointed.

![Figure 2-3-26: Generation of proprietor and relationship to previous proprietor](chart)

The more proprietors an enterprise has had, the more likely it is that a non-relative will be appointed proprietor.

![Figure 2-3-27: Relationship to previous proprietor and rate of growth in number of employees after succession](chart)

Non-relatives of previous proprietor exhibit higher growth


Notes:
1. The rate of growth in the number of employees is the change from 1997 (1996 if the number of employees in 1997 is unknown) to 2003.
2. Only enterprises that underwent a change of proprietor in the past five years are included. Enterprises whose proprietors were appointed within the past year are excluded due to their still small impact.
3. Deviation from the mean rate of growth in the number of employees of all the enterprises specified in 2. above.
Nevertheless, it is natural for a parent to want to respect the feelings of a child who takes pride in his or her parent’s work and seeks to inherit the business. Considered from the perspective of ensuring an enterprise’s growth, how then should a proprietor prepare a child to succeed him or her? As Fig. 2-3-28 shows, growth rates are higher where the child of a proprietor has employment experience at another company. From this point of view, employment experience at another company is key.

2. Employment at other companies

(1) Employer

As part of their education, future successors are often sent to other companies in order to acquire broader experience. What do potential successors learn in the process, and to what extent is this effective? Before considering these questions in detail, we examine first the kinds of enterprise at which potential successors are “trained” or “pay their dues”.

Before doing so, however, let us establish what kind of enterprises successors-in-waiting go to for their “training”. Here we regard “training” as the employment at another company of the child of a proprietor who expressed a desire to inherit his or her parent’s business upon entering the workforce after graduation. Let us consider first of all the proportion of children of proprietors who want to inherit their parent’s business when they get a job.

Fig. 2-3-28 Experience of employment at another company and rate of growth in number of employees after succession

Higher growth at enterprises whose proprietor has experience at another company

<table>
<thead>
<tr>
<th>Deviation from mean</th>
<th>Employed at other company</th>
<th>Not employed at other company</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.7</td>
<td>0.0</td>
<td>-1.1</td>
</tr>
</tbody>
</table>


Notes: 1. The rate of growth in the number of employees is the change from 1997 (1996 if the number of employees in 1997 is unknown) to 2003.
2. Only enterprises whose proprietor changed in the previous five years and is the child of the previous proprietor are included. Enterprises whose proprietors were appointed within the past year are excluded due to their still small impact.
3. Deviation from the mean rate of growth in the number of employees of all the enterprises specified in 2. above.

Fig. 2-3-29 Intention to succeed to business at time of employment

Almost 60% of proprietors decide to succeed to business at time of employment

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>57.6%</td>
<td>10.2%</td>
</tr>
</tbody>
</table>


Notes: Only enterprises whose proprietor is the child of the previous proprietor are included.

Fig. 2-3-30 Intention to succeed to business at time of employment and experience of employment at other companies

Large proportion of proprietors employed at other companies despite intention to succeed to business

<table>
<thead>
<tr>
<th>(Intention to succeed)</th>
<th>Employed at other company</th>
<th>Not employed at other company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes 72.1%</td>
<td>0.0%</td>
<td>27.9%</td>
</tr>
<tr>
<td>No 89.9%</td>
<td>100.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Undetermined</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>


Note: Only enterprises whose proprietor is the child of the previous proprietor are included.
Education Survey, 57.6% of respondents expressed a desire to inherit their parent’s business, of which 72.1% were employed at other companies (Figs. 2-3-29, 2-3-30). The industry, size and relationship of successors’ employers with their own companies are shown in Figs. 2-3-31~2-3-33. Regarding the relationship with employer and industry, it can be seen that a large proportion of proprietors go to enterprises that are related in some way with their own. Regarding the size of their employer, on the other hand, there appears to be no correlation with a son or daughter’s desire to inherit a business. If we look next at the period of employment and position at an employer, we find that approximately 80% complete their employment within five years, which means that few reach management positions at their employers (Figs. 2-3-34, 2-3-35).

(2) Skills acquired through employment at another company

From the above, we may surmise that one objective of employment at other companies is to learn about conditions in the industry by working at an enterprise related to their own. If the only objective is to learn about the industry, however, it should be possible to do this at one’s own company. The children of proprietors are therefore probably also learning something else. Let us therefore look at what they learn through their employment at other companies.

We begin by looking at all proprietors to see whether their employment experience at another company is of use in their present work. This reveals that most proprietors find their experience to be beneficial (Fig. 2-3-36). If we then look at how this experience is useful,
we discover its effects to be multifarious (Fig. 2-3-37).
In the case of the children of proprietors, then, how is employment experience at another company useful? Dividing proprietors into those who are the child of the predecessor and those who are unrelated, one finds a larger proportion of children report their experience to be useful in that it gives them an expanded perspective (Fig. 2-3-38).
The high proportion of children of predecessors reporting “expansion of perspective” is probably due to the fact that it provides an opportunity for them to compare their company—with which they have become familiar from a young age—with other companies and put their own company into perspective.

(3) Results of employment at another company
Differences in performance (in terms of the rate of growth in number of employees) depending on the employment or otherwise of the children of proprietors were shown in Fig. 2-3-28. What then is it more beneficial for these successors to learn at other companies?
If we look at the rate of growth in number of employees according to content of learning, we can see that there
exist differences according to content, with acquisition of direct management know-how, such as “external negotiation” and “internal management” being shown to be effective (Fig. 2-3-39). In addition, “expansion of perspective” is also shown to be effective. While not direct management know-how, it appears that many acquire a useful background in the skills and experience needed to make actual management decisions. Regarding “personal networks” and “information gathering”, on the other hand, employment at another company does not appear to have any effect. This is possibly because while these are valuable tools when managing an enterprise, they do not provide concrete methods of successfully managing an enterprise in practice.

As noted, on the other hand, children of proprietors frequently acquire an expanded perspective through their employment at other companies. In the case of children of proprietors, therefore, the benefits of employment at another company would seem to tend to manifest themselves through the acquisition of an expanded perspective. However, employment at another company does not always yield results. Unless a proprietor has the commitment to apply what he or she learned elsewhere, then that experience is meaningless. An examination of the results of employment at another company according to whether the child of a proprietor wanted to succeed to his or her parent’s business upon entering the workforce makes it clear that proprietors who did not want to succeed to a business are not able to apply their experience, no matter what they learn (Fig. 2-3-40). The important thing is thus the motivation of the individual finding employment.

**Fig. 2-3-39  Skills acquired at other company and rate of growth in number of employees**

Acquisition of external negotiation, internal management skills and wider perspective effective

![Graph showing the effectiveness of different skills acquired at other company and rate of growth in number of employees.](195)


Notes: 1. The rate of change in the number of employees is the change from 1997 (1996 if the number of employees in 1997 is unknown) and 2003.
2. Only enterprises that underwent a change in proprietor in the past five years and whose proprietor is the child of the previous proprietor are included. Enterprises whose proprietor was appointed within the past year are excluded due to their still small impact.
3. The deviation indicates the deviation from the mean rate of growth in the number of all employees for all enterprises specified in 2. above.

**Fig. 2-3-40  Intention to succeed to business upon employment by other company and rate of growth in number of employees after succession**

Employment at another company not effective without intention to succeed to business

![Graph showing the effectiveness of different skills acquired at other company and rate of growth in number of employees.](195)


Notes: 1. The rate of change in the number of employees is the change from 1997 (1996 if the number of employees in 1997 is unknown) and 2003.
2. Only enterprises that underwent a change in proprietor in the past five years and whose proprietor is the child of the previous proprietor are included. Enterprises whose proprietor was appointed within the past year are excluded due to their still small impact.
3. The deviation indicates the deviation from the mean rate of growth in the number of all employees for all enterprises specified in 2. above.
(4) Effective places of “training” and length of employment

As described in (1), a large proportion of future proprietors are employed as part of their “training” at enterprises related to their own. Working at such enterprises gives them the opportunity to learn how to negotiate with external parties and apply this knowledge when they later become proprietors. As can be seen from Fig. 2-3-41, more proprietors employed at customers than non-customers report acquiring experience negotiating with external parties.

Looking next at the type of experience acquired according to industry of employer reveals that employment in a different industry from one’s own company makes it easier to acquire an expansion of perspective (Fig. 2-3-42).

Regarding size of employer, the proportion of proprietors reporting the acquisition of experience regarding “negotiation with external parties”, “personal networks” and “information gathering” increases with size of place of employment compared with that of one’s own company (Fig. 2-3-43).

Finally, let us see whether differences in length of employment at other companies are correlated with the experience acquired. What we find is that the longer the period of employment at another company is, the more likely experience in “external negotiation” and “internal management” is to be gained. Regarding “expansion of perspective”, however, there is little difference according to length of employment (Fig. 2-3-44).

These findings indicate that the short-term employment
at larger enterprises in the same industry actually undergone by children of proprietors is likely to be generally effective. Without proper motivation, however, future proprietors will acquire only a veneer of knowledge that is of little practical use in management. The preparation of successors therefore appears to depend not only on the provision of a suitable environment—i.e. employment at another company—but also on the individual and his or her awareness of his or her role as a future successor.

**Case 3-3 Employment of an aspiring successor at another company**

B Ltd. is a pressed metal product manufacturer in Okayama Prefecture with 108 employees, and was founded in 1970 by the current president. It has a standard lineup of 500 products, and has delivered 3,000 types of order ranging from the design and manufacture of molds and jigs, to sheet metal processing of prototypes and manufacture of mass-produced components. In May 2002, it acquired ISO14001 certification, and seeks to become ISO9001 certified in June 2004. It has also been commended by customers for its outstanding quality and proposals for the construction and design of parts. It is thus an enterprise with excellent environmental credentials and a strong reputation for quality.

**Employment of successor at another company**

Since childhood, the present president’s oldest son has been proud of and longed to play a part in the business started up by his father, and so naturally chose to study mechanical engineering when he went to university. Having in mind his role as a future successor when choosing a job, he sought advice regarding where best to work in order to learn about his father’s business. It was suggested that he get a job at an affiliate of one of the company’s main customers, and this he did. Although B Ltd. did not do any business with this customer’s subsidiary, it was recommended as a suitable employer as the customer was organizationally too large to gain a grasp of business overall. Initially, he was told by his father to gain experience at this outside company for a period of 15 years. However, he was recalled by his father, and ultimately was employed there for four years. His main field of responsibility there was mold design. However, he was involved in all fields of work, including line layout, production and development, and also gained experience of starting up plant lines.

**Actions at B Ltd.**

After joining B Ltd. following four years at the above company, the president’s son worked two years each in the general affairs and manufacturing departments, and is now a director and general manager of the business department. In each department, he embarked on reorganization and operational reforms. He abolished conventional practices that had become ingrained for no good reason, and set about establishing rules and systematization. In this, his experience at his previous place of employment of management through figures (as used in budgeting, process control and divisional accounts management) was enormously helpful, and the changes he made were highly effective.

**Preparation for succession**

The president’s son now has a grasp of almost all the company’s operations. Although he has basically been given almost all the powers of president, he works in close liaison with the current president, with whom he confers in advance and reports to. While there are sometimes differences of opinion with the president, who has always put technology first in management, these are solved by having the manufacturing division make adjustments. Although he is not receiving any special training to groom him for succession, the delegation of powers to him and his role in making the above operational improvements ensure that the corporate culture and nature of the company are gradually being changed to suit its successor.
3. Influence of actions of previous proprietor

Business successions do not always go smoothly. Serious problems can arise between a successor and employees that, in a worst-case scenario, can threaten an enterprise’s survival. In order to prevent such a situation arising, what can current proprietors do to assist their successors?

Beginning by looking at the actions taken before succession, approximately 30% of entrepreneurs “sound out directors” or “transfer some powers to successor” (Fig. 2-3-45). On the other hand, 33.3% of proprietors take “no special action”. What impact do these preparatory moves have on succession? According to Fig. 2-3-46, a high proportion of proprietors say that succession goes smoothly if some kind of action is taken by predecessors. From this, it can be seen that it is important that the conditions be created beforehand to make life easier for successors after succession.

Next, let us look at conditions after business succession. Veteran proprietors who have been involved in taking new steps in business for many years tend to worry that novice proprietors are still unaccustomed to management, and so are prone to give their successors advice. But is such advice really beneficial to successors? If we look at the impact on succession according to the state of provision of advice, we find that a smaller proportion of respondents reported that succession was “successful” where advice was given “constantly” or “frequently” rather than “sometimes” or “rarely” (Fig. 2-3-47). Excessive advice does not appear to have a very positive impact. Why this should be so is obvious from Fig. 2-3-48. As the figure shows, frequent advice makes it more difficult to build trust with directors and employees, and to exercise leadership.

When the previous proprietor continues to poke his or her nose into business despite handing over the reins to a successor, the people working at a company can become confused as to who the real proprietor is supposed to be. Once a succession has taken place, it appears that business management proceeds more smoothly where the previous proprietor is not involved too much in management (Fig. 2-3-49).

---

**Fig. 2-3-45 Measures taken by previous proprietor to assist succession**

30% of proprietors sound out directors and transfer some powers to successor as preparation for succession

![Bar graph showing measures taken by previous proprietor to assist succession](chart)


Notes:
1. Present proprietors were asked about measures taken by their predecessors, and so there were some “don’t knows”.
2. Totals exceed 100 due to multiple responses.

8) Regarding Fig. 2-3-47, one possible interpretation is that there exists an inverse causal relationship in that advice is given precisely because succession is not going well. Considered in conjunction with Fig. 2-3-48, however, a more likely explanation is that advice given to successors creates a situation that impedes the development of trust with internal staff and the exercising of leadership, and as a consequence causes business to deteriorate.

9) The rate of growth in the number of employees where “no advice” was given was lower than where advice was given “constantly” or “frequently”. Various problems arise when managing an enterprise, some of which are encountered only after becoming a proprietor. There is a strong probability that methods of avoiding and solving these problems can be acquired by listening to the views of the previous proprietor. Where no advice at all is received from the previous proprietor, this opportunity is lost. This consequently does not have a positive effect on performance as it takes longer to solve problems when they occur.
Fig. 2-3-46 Measures taken before succession by previous proprietor and proportion of enterprises with successful successions

Action by previous proprietor improves chances of success of succession

Note: "Successful successions" are enterprises that responded "went well" when asked how well their change of proprietor went.

Fig. 2-3-47 Provision of advice by previous proprietor and proportion of successful successions

Frequent advice tends to hinder successions

Note: "Successful successions" are enterprises that responded "went well" when asked how well their change of proprietor went.
4. Preparations for succession and timing

When a person is chosen to be a successor, he or she might be expected to prepare to be a proprietor to avoid difficulties after succession. So what kinds of preparations are made? Fig. 2-3-50 reveals there to be considerable differences depending on whether a successor is the child or a non-relative of the previous proprietor. Where the successor is a predecessor’s child, work at the company is widely regarding as preparation for succession. In other categories as well, however, more steps are taken to prepare for succession by children rather than non-relatives of proprietors. One in three non-relatives, on the other hand, becomes proprietor without any special preparations having being made at all.

One possible reason for the lack of preparation by non-relatives is that succession by a non-relative is often determined immediately before succession takes place. As Fig. 2-3-51 indicates, over 50% of proprietors who were the son or daughter of their predecessor had been designated to succeed to the business 10 or more years previously. In contrast, almost 60% of non-relatives succeeded less than one year after being chosen, allowing no time for preparations to be made.

As can be seen from Fig. 2-3-52, enterprises at which a proprietor prepared for succession performed better after succession. Preparations to “develop contacts in industry” and “acquire related knowledge and skills” result in particularly marked differences in performance, indicating that time does seem to be needed for preparations to be made once a decision on succession has been made. In other words, where a candidate is...
available, it is better to appoint him or her as a successor in good time so as to provide the time to groom him or her to become a proprietor.

However, this does not mean to say that the longer that a person is a successor-in-waiting, the better it is. From the successor’s standpoint, being chosen too early can make one the object of envy or jealousy, and excessive expectations may also be placed on one’s shoulders. Not

Fig. 2-3-50  Relationship to previous proprietor and preparation for succession
Larger proportion of children of proprietors prepare for succession

Note: Totals exceed 100 due to multiple responses.

Fig. 2-3-51  Relationship to previous proprietor and period of preparation for succession
Higher proportion of non-relatives succeed immediately after being chosen as successor

Note: Period of preparation for succession = age at succession – age when first aspired to succeed to business

Fig. 2-3-52  Preparation for succession and rate of growth in number of employees after succession
Higher growth where proprietor develops industry contacts and acquires related knowledge and skills before succession

Notes: 1. The rate of growth in the number of employees is the change from 1997 (1996 if the number of employees in 1997 is unknown) to 2003.
2. Only enterprises that underwent a change of proprietor in the past five years are included. Enterprises whose proprietors were appointed within the past year are excluded due to their still small impact.
3. Deviation from the mean rate of growth in the number of employees of all the enterprises specified in 2. above.
knowing when one will become a proprietor can also result in a decline of motivation to prepare for that day, and there are also many things that cannot be learnt until one actually becomes a proprietor. While it is natural for a successor to appear unreliable from the point of view of the present proprietor, delaying succession because a successor has not reached an acceptable level can destroy his or her enthusiasm. As the successor ages, he or she may also lose the dynamism required of a proprietor, with the risk that he or she will end up being unable to achieve anything at all.

If we look at the relationship between length of time as a successor-in-waiting and rate of growth in the number of employees, we find that growth is highest where a succession occurs six to nine years after the original decision in the case of children of proprietors, and after one to two years in the case of non-relatives (Fig. 2-3-53). As children of proprietors tend to be chosen as successors while still young, they require time to study. By contrast, making non-relatives wait too long to succeed can result in a decline in motivation.

Another important factor to consider is whether the age at which a person actually succeeds to a business is a suitable age at which to manage a business. Proprietors who say that they were of a suitable age when they succeeded have higher rates of growth in employees (Fig. 2-3-54). Thus when a successor-in-waiting reaches a suitable age, the reins of management should be swiftly handed over.

So what age is a “suitable” age at which to succeed to a business? Looking firstly at the age at which succession occurs, it can be seen that 90% of children of proprietors succeeded aged 35~39 years, 40~44 years or 45~49 years. In the case of non-relatives, on the other hand, the proportion was particularly high (75.9%) among proprietors who succeeded aged 40~44 years. It would seem that whereas when the successor is a child of the proprietor they are likely to be accepted to a certain extent even if young, non-relatives chosen to be successors tend to be veterans promoted based on seniority in order to avoid creating any more problems than necessary. As a consequence, non-relatives are necessarily older than children of proprietors when they succeed to a business.

Looking next at the attitudes of succeeding proprietors to age at succession, we find that more than one in two proprietors who are children of predecessors who succeeded aged 35~39 years, 40~44 years or 45~49 years considered this to have been a “suitable age” (Fig. 2-3-55). This proportion was particularly high (75.9%) among proprietors who succeeded aged 40~44 years. In the case of non-relatives, on the other hand, the

---

10) Because of the small proportion of children of proprietors who succeeded aged 55 years or over, they are included in the 50~54-years old group.
11) Because of the small proportion of non-relatives of proprietors who succeeded aged 30 years or under, they are included in the 40~44 years old group.
The majority of proprietors who succeeded aged “up to 44 years”, “45~49 years” or “50~54 years” reported that this was a “suitable age” (Fig. 2-3-57). It thus appears that non-relatives of proprietors consider a “suitable age” for succession to be some five years older than that considered suitable by children of proprietors. However, 62.0% of proprietors also considered “up to 44 years” to be a suitable age.

Regarding management performance too, the rate of growth in the number of workers is highest (14.5%) where succession occurred by age 39, and the growth rates in the forties and fifties are not so high (Fig. 2-3-5). Bearing in mind that, as observed in the preceding section, it takes around three years for business succession to be completed, it would appear from the above that succession in the late thirties or early forties is best from the point of view of proprietor performance.

Looking at the actual age of succession in this light, it can be seen that a high proportion of children of proprietors succeed by the age of 50, indicating that successions generally occur at a suitable age. Among non-relatives, however, 70% of proprietors succeed aged 50 or over, which the above evidence suggests is too old. While the frequent choice of veterans as successors inevitably means a higher age of succession, it is necessary for proprietors to consider handing over their businesses to a likely looking successor at an appropriate age as if they were handing on their business to their own child.
5. Education of present successor-in-waiting

In the preceding pages, we focused on proprietors who have only recently succeeded to their business. Below, we turn to consider the education of present successors-in-waiting.

We began by examining the proportion of enterprises where there is a successor-in-waiting by age of proprietor. This shows that a smaller proportion of enterprises with younger proprietors have a designated successor-in-waiting, but that the proportion among enterprises with a proprietor aged over 50 is over 80% (Fig. 2-3-58). Nevertheless, the fact that nowhere is the rate above 90% suggests that there are also some enterprises that are facing difficulties finding a successor.

Broken down according to relationship to successor, the proportion of non-relatives increases with age. After the age of 70, however, the proportion of children of proprietors again increases (Fig. 2-3-59). The stronger tendency for succession by children at younger ages is likely due to the preponderance of proprietors essentially seeking to hand over their businesses to their own children. In other words, whereas many may consider a child to be a potential successor when young, they end up considering a non-relative as their successor when they approach actual retirement because their child does not agree to succeed to the business. The increase in the proportion of children from the age of 70, meanwhile,
appears to be due to the fact that whereas non-relatives chosen as successors succeed immediately when a proprietor reaches retirement age, many proprietors whose successors are their children decide to continue managing their business as long as their health permits. If we look next at the content of successors’ education, we find differences in the type of education that proprietors want to give to successors according to the age of the proprietor. Whereas the proportion responding “work at own company” increases with age, the proportion choosing “work at other company” is higher in the case of proprietors aged 40 or under. There also appears to be a higher proportion of proprietors aged 40 or under who want successors to enter university or study overseas (Fig. 2-3-60).

A common feature of the types of education that younger as opposed to older proprietors want their successors to undergo is that they consist of learning outside the company. In the present severe economic environment, many proprietors may be sensitive to the difficulty of grooming a successor up to the necessary standard simply through experience within the company. As the impact on the growth of an enterprise of employment at another company indicates, the hope seems to be that successors will gain ideas from their outside experience that will they then be able to apply at their own companies.

6. Responsibilities of proprietors

While a generational change in proprietor can trigger renewed dynamism at an enterprise, whether or not this opportunity can be grasped depends on the present proprietor. As has been observed, enterprises’ fortunes differ considerably according to who is chosen as a successor, what preparations are made, and when succession takes place. The most important thing, however, is to motivate the successor himself or herself. A proprietor who is always complaining about work will convey only the troubles and worries of the job, making the work of a proprietor sound entirely unattractive. While it is of course vital to create an enterprise that a successor will want to inherit, it is even more necessary to convey to a successor the attractions of being a proprietor.

**Fig. 2-3-60  Age of proprietor and actions sought of successors**

Younger proprietors want successors to gain experience outside the enterprise


Note: Totals exceed 100 due to multiple responses.
Section 4 Methods of trouble-free withdrawal

In the preceding sections, we focused on some of the main points regarding business successions at a time when proprietors are aging. Where business succession does not occur, however, an enterprise exits. But even in such cases, the situation is much the same as with successions in that the self-employed and proprietors of micro-enterprises want to be able to live in comfort after their retirement. This is just the same as employees who have reached mandatory retirement age. In the case of salaried workers, however, it is very unusual to have to take on debt, i.e. to suffer negative consequences, in order to dispose of business liabilities. Proprietors, by contrast, face the risk of suffering such negative consequences in that, depending on the state of a business, they may personally remain indebted even after its termination due to having provided personal guarantees. In this sense, the timing of withdrawal from business might be expected to have a major effect on a proprietor’s subsequent life and employment status.

A further difference is that employees’ retirement tends to be determined more by external factors, such as the age of mandatory retirement, instead of personal circumstances. Proprietors, on the other hand, must decide the timing of their retirement for themselves. As described in Section 1, aging among proprietors is advancing even more rapidly than among the Japanese population as a whole. As a consequence, there will be many proprietors terminating their businesses when they retire, as well as enterprises undergoing a change of proprietor.

Regarding this point, the 2003 White Paper on Small and Medium Enterprises in Japan noted that some proprietors may continue in business against their wishes due to problems repaying debt if they were to quit. However, no analysis was made of the situation of former proprietors who exited business and the difficulties encountered by proprietors at the time of exit. In this section, therefore, we examine the current situation of entrepreneurs who exited rather than handing on the reins of management to another, and the difficulties encountered when they exited. We then clarify the measures required to facilitate proprietors’ withdrawal and minimize the impact on all those involved with an enterprise in addition to the proprietor.

1. Classification of “exiters”

Exiting from business tends to be associated with rather negative images. However, exits are not always due to misfortune. Considering the proprietor as an individual, for example, he or she may want to wind up a business in order to lead a quiet life in retirement. There are also proprietors whose businesses have come to a standstill and who have exited without successfully repaying their debts. The 2003 White Paper on Small and Medium Enterprises in Japan focused on the desire to continue in business and actual continuation in business, and classified proprietors according to whether they continued or did not continue in business, as shown in Fig. 2-3-61. This section, however, concerns those who actually exited business, i.e. the “withdrawers” shown in the bottom half of the figure.

According to the classification shown in Fig. 2-3-61, withdrawers are further divided into two types: trouble-free exits due to voluntary retirement, and exits that more closely resemble bankruptcies. Below, we analyze (1) where the dividing line lies between the two types of exit, (2) how near-bankruptcy exits can be avoided and made more trouble-free, and (3) what steps should be taken to ensure that exits due to management failure do not hinder entrepreneurs who want to start up in business again.

2. About the Fact-finding Survey on the Retirement of Small-Enterprise Entrepreneurs

(1) Outline of the Fact-finding Survey on the Retirement of Small-Enterprise Entrepreneurs

By analyzing the results of the Fact-finding Survey on the Retirement of Small-Enterprise Entrepreneurs, we can broadly classify into four categories based on desire to continue in business and actual withdrawal.

Fig. 2-3-61 Classification according to desire and actual continuation in business

Continuation

E.g. those who must continue in business for some reason

Continuation

E.g. those ordinarily continuing in business

Withdrawal

E.g. voluntary exit

E.g. bankruptcy

Source: Compiled by the SME Agency.
(abbreviated below as the Retirement Survey), conducted in December 2003 by JASMEC, it is possible to obtain a more detailed picture of the situation of withdrawers who have given up trying to continue in business. This survey was conducted by JASMEC in order to provide the basic data for promoting business activity, and consisted of a sample of 15,000 entrepreneurs who had received mutual aid money from the Small Enterprise Mutual Aid Plan between fiscal 2000 and fiscal 2002 due to “abolition of sole proprietorship”, “dissolution of corporation” or “transfer of personal business”. 3,958 valid responses were received, and the response rate was 26.4%.

In interpreting the results of this survey, it is necessary to bear in mind that the respondents may have been in a better economic position than exiters in general given that the sample was limited to (1) those who could continue to pay mutual fund contributions, and (2) proprietors who received mutual aid money when they quit.

---

The Small Enterprise Mutual Aid Plan is a mutual aid program established under the Small Enterprise Mutual Aid Law (Law No. 102, 1965), and is operated by JASMEC, a wholly government-financed organization that is scheduled to be reorganized to form the Organization for Small and Medium Enterprises and Regional Innovation on July 1, 2004.

**Steady increase in membership since establishment**

Under the plan, members pay monthly contributions, and are in turn eligible to receive mutual aid money provided that they meet certain conditions. Between the plan’s establishment in 1965 and the end of March 2003, 4,396,105 small enterprise proprietors joined to receive retirement payments, and 2,544,260 left the program. The plan currently has 1,851,845 members. As existing members who open additional accounts in order to increase their benefits are counted more than once, the number of members does not exactly match the number of accounts. Nevertheless, these figures demonstrate that the plan is used by an exceedingly large number of small enterprise proprietors.

The number of payouts due to the abolition of sole proprietorships or the death of a sole proprietor in fiscal 2002 was 51,163. Although these do not necessarily translate into exits of business establishments, this number is equivalent to 33.1% of the average annual number of exits of sole proprietorships (i.e. payouts in fiscal 2002 / annual average number of exiting enterprises between 1999 and 2001 (MPHPT, 2003 Establishment and Enterprise Census of Japan)).

**Numerous advantages**

Being government backed, the plan offers a variety of advantages not offered by other programs. These include: (1) contributions are deductible in full from taxable income as “Small Enterprise Mutual Aid Plan contributions”, (2) tax breaks including treatment of mutual aid money received as a lump sum as “retirement income” or “miscellaneous income (public pension, etc.)” if received in installments, (3) protection of mutual aid money from seizure, and (4) eligibility for loans for business funds, etc. up to the total value of contributions paid.
(2) Attributes of respondents

Before proceeding to analyze the Retirement Survey, let us examine the profile of respondents. We begin with a breakdown of respondents by age, shown in Fig. 2-3-62. From this, it can be seen that those in their sixties and seventies make up a large proportion of the total. Compared with the makeup of the 15-and-over population, which is the typical population upon which labor force statistics are based, the large proportion of those aged 50 or older is apparent. This is as one would expect given that the Small Enterprise Mutual Aid Plan is designed to provide retirement payments to small enterprise proprietors, and one would expect the results of the survey to be affected by this age structure.

Next, let us look at the position of respondents when they stopped being proprietors. As Fig. 2-3-63 shows, sole proprietors account for the large majority (77.2%, or 2,961 respondents). According the MPHPT’s Employment Status Survey (2002), the number of self-employed who quit in the year previous to the date of the survey was 281,800. The number of respondents is therefore equivalent to 0.35% of the number of self-employed who quit in one year. A breakdown of the sizes of enterprises managed by respondents is shown in Fig. 2-3-64. Approximately 90% of the respondents managed enterprises with five or fewer employees, meaning that most were proprietors of small or micro-enterprises. However, some were also proprietors of somewhat larger enterprises.

If we look at the industrial makeup of the respondents when they retired, we can see that they came from a diversity of industries (Fig. 2-3-65). With the exception of manufacturers, who are slightly over-represented, their composition is approximately the same as that of small enterprises according to the MPHPT’s 2001 Establishment and Enterprise Census of Japan. In terms of industrial makeup by number of employees (Fig. 2-3-66), enterprises with five or fewer employees make up over 80% of the total in all industries, and there is no major difference in size according to industry.

The respondents to this survey did not consist solely of those winding up their businesses on their retirement. 18.1% said that “they transferred their business to another person or enterprise” after quitting as proprietor (Fig. 2-3-67). In this section, however, we limit our analysis to those who closed down their business.

3. State of business immediately before exit

In the introduction to this section, it was noted that proprietors must determine the timing of their withdrawal themselves. If this is mishandled, then typically a business can fall into bankruptcy. Even if the situation does not deteriorate to this extent, withdrawal may in practice closely resemble bankruptcy. However, defining these near-bankruptcy exits and trouble-free exits (which can be further classified into two types: exits guaranteeing a comfortable retirement, and exits guaranteeing a comfortable retirement)

---

12) (2,961 / 3 years) / 281,800 ≅ 0.35% (as the sample used for the Retirement Survey spans a period of three years).

13) Although there are limits on the number of employees that an enterprise is allowed to have when a proprietor enrolls, members are not required to leave the plan if their enterprises subsequently grow larger.
Fig. 2-3-64  Number of employees at time of quitting as proprietor
Majority of respondents were at enterprises with five or fewer employees


Fig. 2-3-65  Industry at time of quitting as proprietor
More manufacturers and fewer catering establishments than among small enterprises overall, but no major bias in industry makeup of respondents


Notes:
1. Based on respondents who “exited or liquidated” instead of handing their business on to another are shown.
2. Only industries for which 100 or more valid responses were received are shown.

Fig. 2-3-66  Number of employees at exit (by industry)
Most respondents managed enterprises with five or fewer employees, regardless of industry


Notes:
1. The number of small enterprises according to the Establishment and Enterprise Census of Japan is the number of enterprises (number of companies and sole proprietorships (independent business establishments and head offices in the case of sole proprietorships) with 20 or fewer regular employees (five or fewer in the case of wholesaling, retailing, food services and services).
2. Industries for the Fact-finding Survey on the Retirement of Small-Enterprise Entrepreneurs are as given by respondents.

Fig. 2-3-67  Method of disposal of business upon quitting as proprietor
While around 80% of respondents “exited or liquidated” their business, about 20% handed it on to another person or enterprise

leading to fresh startups despite being due to management failure)—or in other words identifying the differences between exits that are smooth and exits that are not—is no easy matter.14)

However, given that bankruptcies (i.e. exits encountering extreme difficulties) are exceedingly closely related to the financial problems of enterprises, it may be surmised that how trouble-free an exit is will depend to a large extent on that enterprise’s financial situation. We begin, therefore, by classifying exits according to their financial status in order to examine the features of exits falling into each category.

An enterprise’s finances can be measured either in terms of its profit status or asset status. We must therefore consider whether the differences in these two situations affect the status of an enterprise at the time of exit. For example, if a proprietor does not abandon a business in good time when it is in the red, will this make trouble-free exit more difficult? Or will trouble-free exit still be possible even if it stays in the red provided that it does not have more liabilities than assets?

Answering this question should enable us to identify the point of no return for smooth exit, or in other words the baseline for determining when a business should be abandoned.

We look then at the financial status of enterprises when respondents to the survey decided to quit being proprietors, beginning with a comparison of exiters and bankrupts.

Regarding the situation of bankrupts, a detailed picture is provided by the Fact-finding Survey of Business Rechallenge (abbreviated below as the Rechallenge Survey) conducted by the Small Business Institute Japan in December 2002. The Rechallenge Survey was a survey of unprecedented scope: questionnaires were sent to 23,718 entrepreneurs whose enterprises went bankrupt between January 2000 and December 2001 and whose address at the time of bankruptcy could be determined, and from these 1,508 responses were received.15) A comparison of the profit and asset statuses of exiters and bankrupts when they decided to quit as proprietors are shown in Figs. 2-3-68 and Fig. 2-3-69. Regarding firstly profit status, it can be seen that a majority of exiters who responded to the Retirement Survey had registered an ordinary loss for two consecutive terms. Similarly, bankrupts who responded to the Rechallenge Survey had experienced a considerable deterioration in their profit status. Regarding asset status, on the other hand, while 36.5% of exiters still had more assets than liabilities after disposing of all their business assets and liabilities, 24.7% had more liabilities than assets (which is considered to make it comparatively difficult to wind

---

14) This is because many parties are involved in a variety of ways with a business, and it is difficult to grasp the many and varied objectives and situations of enterprises in a single uniform manner. See Part II, Chapter 1 regarding the diversity of SMEs.

up a business). This contrasts with the situation of the respondents to the Rechallenge Survey, 79.5% of whom had more liabilities than assets. While the fact that respondents to the Retirement Survey were able to continue making contributions to the Small Enterprise Mutual Aid Plan suggests that their enterprises were likely to have been able to withdraw smoothly from the market, these results indicate that they differed from bankrupt enterprises which were forced to withdraw in terms of their financial status, and in particular in their asset status.

Working on this basis, let us look next in greater detail at the impact of an enterprise’s situation before and at the time of exit on the situation after exit, focusing on profit status and asset status before exit.

4. Current situation of exiters

What is the situation of proprietors after their exit? We answer this question by looking primarily at the state of disposal of liabilities, employment status and satisfaction with current situation.

(1) State of disposal of liabilities

Quitting business activities does not necessarily mean that liquidation of a business has been completed. Even if a business does not have any loans from financial institutions, it normally has debts and credits with customers and suppliers that need to be disposed of. Fig. 2-3-70 therefore shows whether the disposal of liabilities of a discontinued business had been completed at the time of the survey. According to the figure, the majority of the respondents (89.6%) said that disposal of liabilities had been “completed”, and 10.4% said that disposal was “not completed”.

As the state of disposal of liabilities should be heavily influenced by the financial status of a business, the state of disposal of liabilities taking into account both profit and asset status simultaneously is shown in Fig. 2-3-71. According to this, disposal of liabilities after exit is more strongly affected by asset status than profit status. In other words, even among enterprises that made an ordinary loss for two consecutive terms when the decision was taken to exit, 95.4% of respondents whose assets exceeded liabilities reported that disposal of liabilities had been completed. Among respondents whose enterprises made an ordinary profit in the preceding term but whose liabilities exceeded assets, however, only 67.9% reported that disposal of liabilities had been completed. Among respondents whose enterprises made an ordinary profit in the preceding term but whose liabilities exceeded assets, however, only 67.9% reported that disposal of liabilities had been completed. This means that it is asset status that has a direct impact on disposal of liabilities. In other words, if a proprietor exits once financial status (especially asset status) has deteriorated and liabilities have grown to exceed assets, it frequently more difficult to dispose of liabilities.

An examination of the impact of age on the state of disposal of liabilities after taking into consideration asset status reveals also that comparatively younger respondents aged under 60 tend to be relatively behind in disposing of liabilities (Fig. 2-3-72).

(2) Current employment status

The next question we consider is the current employment status of former proprietors who have exited from business, shown in Fig. 2-3-73. While “not working for income” accounts for the majority of the responses, there is considerable variation in employment status according to age. Present employment status is shown according to age group in Fig. 2-3-74, from which it can be seen that “working for income” accounts for a large proportion of responses in younger age groups, and “not working for income” is commoner among older age groups. (It should be noted, however, that this tendency is evidenced by persons leaving their jobs in the past year according to the Employment Status Survey, and not just by proprietors of exited enterprises.)

Is there then any relationship between factors other than age and exits, and in particular between the financial status of a discontinued business and present employment status. Considered in simple terms, if liabilities exceed assets at exit, then a former proprietor should have to earn some form of income to repay these liabilities.

Fig. 2-3-70 State of disposal of liabilities by exited proprietors

10.4% of exiters have not finished disposing of liabilities

Disposal of liabilities completed
89.6%

Disposal of liabilities not completed
10.4%


Notes:
1. Only respondents who “exited or liquidated” instead of transferring their business to another are shown.
2. “Disposal of liabilities completed” includes cases where repayment was no longer required due to reduction or exemption from liabilities under bankruptcy procedure, as well as cases where liabilities had been completely repaid.
Chapter 3 — Problems concerning business successions and exits among SMEs

Fig. 2-3-71 Business status before exit and state of disposal of liabilities
Disposal of liabilities after exit affected more by asset status than profit status

<table>
<thead>
<tr>
<th>Asset status before exit</th>
<th>Ordinary profit in previous term</th>
<th>Ordinary loss in previous term</th>
<th>Ordinary loss for two consecutive years</th>
</tr>
</thead>
<tbody>
<tr>
<td>More assets than liabilities</td>
<td>95.3</td>
<td>67.9</td>
<td>95.4</td>
</tr>
<tr>
<td>Assets equal liabilities</td>
<td>89.6</td>
<td>94.6</td>
<td>92.5</td>
</tr>
<tr>
<td>More liabilities than assets</td>
<td>67.9</td>
<td>61.0</td>
<td>71.9</td>
</tr>
</tbody>
</table>

Notes: 1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. “Disposal of liabilities completed” includes cases where repayment was no longer required due to reduction or exemption from liabilities under bankruptcy procedure, as well as cases where liabilities had been completely repaid.

Fig. 2-3-72 Asset status before exit and state of disposal of liabilities (by age)
Proportion who have not finished disposing of liabilities increases among younger age groups

<table>
<thead>
<tr>
<th>Age group</th>
<th>Overall</th>
<th>More assets than liabilities</th>
<th>Assets equal liabilities</th>
<th>More liabilities than assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aged up to 49</td>
<td>16.4</td>
<td>7.3</td>
<td>11.1</td>
<td>8.0</td>
</tr>
<tr>
<td>50–59</td>
<td>14.8</td>
<td>6.9</td>
<td>11.0</td>
<td>8.8</td>
</tr>
<tr>
<td>60 and over</td>
<td>26.0</td>
<td>12.0</td>
<td>17.9</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Notes: 1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. Based on age at time of quitting as proprietor.
3. “Disposal of liabilities completed” includes cases where repayment was no longer required due to reduction or exemption from liabilities under bankruptcy procedure, as well as cases where liabilities had been completely repaid.

Fig. 2-3-73 Present employment status of exited proprietors
Majority of respondents “not working for income”

Note: Only respondents who “exited or liquidated” instead of transferring their business to another are included.
liabilities, resulting in a higher level of employment among former proprietors. As previously described, present employment status differs considerably according to age group, and so we conduct a more detailed analysis after eliminating the effects of age differences by focusing on a particular age group. The specific age group we look at is the 60~69-years-old age group, as this is the age at which differences in employment status due to the personal circumstances of the exiter tend to be greatest. This is because it is both an age at which most people are still physically capable of work, and also an age at which it is possible to support oneself without working due to having reached pensionable age and which, as the existence of mandatory retirement at 60 at many enterprises indicates, is perceived as an age when people consider retirement. It is therefore an age at which employment status is comparatively more susceptible to economic status than other ages. In this survey, the 60~69-year-old age group also contained the most respondents. First, we look at the employment status of former proprietors in their sixties according to profit status at exit (Fig. 2-3-75). From this, it can be seen that the combined proportion of respondents “mainly working for income” and “mainly engaged in non-work activities, but also working for income” is 39.1% in both the groups with the best profit status (ordinary profit in previous term) and worst profit status (ordinary loss for two consecutive terms), indicating that there is no clear relationship between profit status and present employment status. The relationship between asset status when the decision was taken to exit and current employment status, on the other hand, is shown in Fig. 2-3-76. This shows that as asset status deteriorates, the proportion of former proprietors working for an income increases, albeit gradually. This suggests that there is a relationship between asset status before exit and employment status, which is probably because where a business’s liabilities exceed assets, liabilities cannot be disposed of simply by selling off business assets. A former proprietor consequently has to earn an income in order to continue repayment. We therefore look next at the employment status of respondents in their sixties according to state of disposal.
of liabilities, shown in Fig. 2-3-77. From this, it can be seen that exiters that have not completely disposed of liabilities are markedly more likely to be employed. Exiters that have not completed disposal of liabilities and those that have resemble one another in that they have both discontinued businesses, and there should be no major influence on their desire to work other than for economic reasons. Even at higher ages, therefore, one would expect there to be former proprietors who must continue to work in order to repay debt despite their age.

According to the results of the then Ministry of Labour’s 2000 Survey of Employment Status of the Elderly, the fact that approximately half of the 65–69-year-old age group (the oldest group covered by the survey) work “to support self and family” (55.9% of men and 45.5% of women) makes it almost certain that economic reasons are a major cause of the continued employment of the elderly.

---

16) Completion of disposal of liabilities here means that liabilities have been completely repaid or the obligation to repay has been eliminated by legal procedures, etc.
(3) Satisfaction with present situation
Up to this point, we have examined the state of disposal of liabilities and employment status. However, it is difficult to judge whether an exit was good or bad from a proprietor’s perspective simply on the basis of these factors. If, for example, a proprietor is able somehow to escape from a business facing poor conditions despite not fully disposing of liabilities, he or she may be more satisfied with life than before exit. Furthermore, even though those around a proprietor may consider an exit to have been “successful”, proprietors may in many cases not really have wanted to exit. Similarly, the reverse may also be true.

Next, therefore, we divide satisfaction with present situation into satisfaction with life and satisfaction with income, and look at each in relation to financial status before exit. We look firstly at satisfaction taking into account asset status and profit status simultaneously, shown in Fig. 2-3-78. From this, we can see that satisfaction with present life is more strongly influenced by asset status than profit status.

Satisfaction with present income is shown in Fig. 2-3-79, which indicates the trend to be approximately the same as in the case of satisfaction with life. It thus appears highly likely that situation at exit have a major impact on both subsequent life and income.

Underlying this possibility is the strong relationship shown in Fig. 2-3-71 between asset status prior to exit and subsequent state of disposal of liabilities. That is to say, exits where liabilities exceed assets delay subsequent disposal of liabilities, resulting naturally in reduced satisfaction with subsequent life and income.

Incidentally, the relationship between present state of disposal of liabilities and present satisfaction with income and life is shown in Figs. 2-3-80, 2-3-81. In the group that has completed disposal of liabilities, the proportion either “very” or “somewhat” dissatisfied is smaller than among former proprietors with more liabilities than assets overall. In this sense, the point at which liabilities exceed assets is a key turning point that can shape a proprietor’s life and income after exit.

However, the above results may be interpreted in another way. That is, if liabilities can still be disposed of even though they may exceed assets, it should then be possible

---

**Fig. 2-3-78 State of business quitted by proprietor and satisfaction with present life**

Satisfaction with present life affected more by asset status than profit status of business quitted

---

**Fig. 2-3-79 Status of business quitted by proprietor and satisfaction with present income**

Satisfaction with present income affected more by asset status than profit status of business

---


Notes:
1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. Proportion of respondents that said they were “very satisfied” or “fairly satisfied” with their present lives in each category of financial status.


Notes:
1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. Proportion of respondents that said they were “very satisfied” or “fairly satisfied” with their present income in each category of financial status.
to lessen the effects on subsequent life. Assuming this to be the case, then it is important to devise an effective way of disposing of liabilities after exit. Below, therefore, we turn to consider methods of disposal of liabilities.

5. Method of disposal of liabilities

In the case that liabilities exceed assets, what method of disposal should be chosen in order to best facilitate disposal of liabilities? Fig. 2-3-82 shows the results of asking former proprietors whose liabilities exceeded assets about their methods of debt disposal and present state of disposal of liabilities. From this, it can be seen that disposal of liabilities is most advanced among those that answered that they “decided to repay under initial terms”. As the members of this group finished disposing

---

**Fig. 2-3-80** State of disposal of liabilities and satisfaction with present income

Large variation in proportion satisfied with present income depending on state of disposal of liabilities

![Graph showing state of disposal of liabilities and satisfaction with present income](image)


Notes: 1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. “Completed” includes cases where repayment was no longer required due to reduction or exemption from liabilities under bankruptcy procedure, as well as cases where liabilities had been completely repaid.

---

**Fig. 2-3-81** State of disposal of liabilities and satisfaction with present life

Large variation in proportion satisfied with present life depending on state of disposal of liabilities

![Graph showing state of disposal of liabilities and satisfaction with present life](image)


Notes: 1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. “Completed” includes cases where repayment was no longer required due to reduction or exemption from liabilities under bankruptcy procedure, as well as cases where liabilities had been completely repaid.

---

**Fig. 2-3-82** Method of disposal of liabilities by former proprietors with more liabilities than assets and proportion of completion of disposal of liabilities

Former proprietors who repay under initial terms or use legal procedures make more progress in disposing of liabilities

![Graph showing proportion of disposal completion](image)


Notes: 1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. “Completed” includes cases where repayment was no longer required due to reduction or exemption from liabilities under bankruptcy procedure, as well as cases where liabilities had been completely repaid.
3. Only respondents who said that they had more liabilities than assets at the time of deciding to quit as proprietor are included.
of liabilities by repaying under the initial terms by the time of the survey just a few years after exit, there is a possibility that, though their liabilities exceeded assets, their level of borrowing was low and they had sufficient non-business assets.

The former proprietors among whom disposal of liabilities is next most advanced are those that “changed repayment terms and reduced or obtained exemption from debts using legal procedures”. As this group should have been able to dispose of liabilities comparatively swiftly due to the involvement of the courts, their more advanced disposal of liabilities is to be expected. The former proprietors making least progress are those that “changed repayment terms and reduced or obtained exemption from debts through negotiation with creditors”. This approach is complex, as negotiations have to be conducted with individual creditors, and so disposal of liabilities takes somewhat more time.

Interestingly, however, an examination of the relationship between method of disposal of liabilities and satisfaction with present life and income reveals satisfaction to be lowest in the group that used legal procedures (Figs. 2-3-83, 2-3-84). It may be surmised from this that while progress in disposing of liabilities is certainly important, there are various other factors that need to be taken into consideration when choosing the method of disposal.

6. Costs incurred at time of exit

In the 2003 White Paper on Small and Medium Enterprises in Japan, it was described how costs are incurred in disposing of redundant facilities and so on in the event of bankruptcy. This is naturally likely to apply not just to bankruptcies, but also exits. Assuming this to be so, this would provide one reason why progress is not made in disposing of liabilities despite having net assets. The question we must consider then is: In the event that the decision is taken to exit, are special costs incurred? And if so, how much?

---

**Fig. 2-3-83 Method of disposal of liabilities and satisfaction with present life**

Higher proportion of former proprietors who disposed of liabilities by legal procedure are dissatisfied with present life

<table>
<thead>
<tr>
<th>Method of disposal of liabilities after termination of business</th>
<th>Very satisfied</th>
<th>Somewhat satisfied</th>
<th>Somewhat dissatisfied</th>
<th>Very dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decided to repay under initial terms</td>
<td>2.4</td>
<td>3.0</td>
<td>7.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Changed repayment terms and reduced or obtained exemption from debts using legal procedures (including where still in progress)</td>
<td>6.5</td>
<td>13.5</td>
<td>12.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Notes:
1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. Only respondents who said that they had more liabilities than assets at the time of deciding to quit as proprietor are included.

**Fig. 2-3-84 Method of disposal of liabilities and satisfaction with present income**

Higher proportion of former proprietors who disposed of liabilities by legal procedure are dissatisfied with present income

<table>
<thead>
<tr>
<th>Method of disposal of liabilities after termination of business</th>
<th>Very satisfied</th>
<th>Somewhat satisfied</th>
<th>Somewhat dissatisfied</th>
<th>Very dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decided to repay under initial terms</td>
<td>3.0</td>
<td>3.7</td>
<td>19.4</td>
<td>19.4</td>
</tr>
<tr>
<td>Changed repayment terms and reduced or obtained exemption from debts using legal procedures (including where still in progress)</td>
<td>6.7</td>
<td>13.0</td>
<td>13.0</td>
<td>24.1</td>
</tr>
</tbody>
</table>

Notes:
1. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
2. Only respondents who said that they had more liabilities than assets at the time of deciding to quit as proprietor are included.
Regarding this point, we look firstly at what expenditures are required, shown in Fig. 2-3-85. Setting aside the question of the size of costs, the figure shows that the largest proportion of respondents saying that expenditures were required in order to exit said “expenditure on registration and legal procedure”. This is because even exits of sole proprietorships require that various agencies be notified, in addition to which use may also be made of tax attorneys, administrative scriveners and judicial scriveners in completing related procedures, in which case they will need to be compensated for their services. Where a business employs employees and is covered by social insurance, such as employment insurance and health insurance, social insurance-related procedures will also have to be completed, in which case use may be made of a social insurance labor consultant.\(^\text{17}\) In the case of corporations, spending on the prescribed dissolution registration and liquidation completion registration costs is required,\(^\text{18}\) plus additional costs if a judicial scrivener is used for these procedures.\(^\text{19}\) If a lawyer is hired to arrange debts, then he or she will also need to be reimbursed.\(^\text{20}\) It is therefore to be expected that “expenditure on registration and legal procedures” should be the commonest response.

The next commonest category of expenditure was “expenditure on disposal of facilities”. Where there exists a market for used facilities, then it should be possible for a business’s facilities to be sold off. However, facilities for which there is no used market, highly specialized equipment that cannot easily be adapted to other uses and superannuated equipment have to be disposed of, and this costs money. Many respondents also noted the cost of “sale of inventory at below cost”, the most obvious example of this genre being closing-down sales.

Exiting thus requires various expenditures not otherwise required until a business closes down. So what factors affect the scale of exit costs?

The first factor that presents itself is the size of a business. As larger businesses might be expected to use more facilities and also have greater inventories and other assets, exit costs should differ considerably according to the size of a business. Let us therefore look at total exit costs according to the number of employees at the time of exit, shown in Fig. 2-3-86. According to this, exit costs tend to increase with number of employees, which means that the larger an enterprise is, the higher are the cost hurdles that must be overcome in order to withdraw.

The next factor we consider is the impact of the category of industry to which a business belongs. As the size of

---

\(^\text{17}\) Remuneration of administrative scriveners and social insurance labor consultants used to be determined in accordance with standards laid down by their respective professional bodies. However, this system has now been abolished. Prior to the system’s abolition, for instance, the standard charge laid down by a Certified Social Insurance Labour Consultant Associations for labor and social insurance discontinuation procedures was ¥80,000 for a business establishment with less than 10 insured persons (health insurance, employees’ pension insurance, workers’ accident compensation insurance and employment insurance), and an additional ¥3,000 per person in excess of nine.

\(^\text{18}\) In the case of joint-stock corporations, there is a license tax of ¥30,000 for registration of company dissolution, ¥9,000 for registration of a liquidator, and ¥2,000 for registration of completion of liquidation.

\(^\text{19}\) Although compensation standards have been abolished, as in the case of administrative scriveners and social insurance labor consultants, the cost is generally around ¥50,000, plus or minus an additional amount depending on the size of the company and complexity of the procedures involved.

\(^\text{20}\) Compensation standards laid down by the Japan Federation of Bar Associations require an advance of ¥500,000 plus additional compensation according to the amount of capital divided up at the end in the case of voluntary rearrangement of a business. (See the Japan Federation of Bar Associations’ website.)
facilities and inventories differ according to industry, we might expect total exit costs also to vary. Exit costs are therefore shown by industry in Fig. 2-3-87. From this, it can be seen that exit costs are markedly lower in construction than in other industries. One likely reason for this is that it is common in the construction industry for enterprises to rent equipment for short periods only when required. For example, data on the value of domestic shipments of construction equipment in fiscal 2002 indicate that 31.9% was destined for lease and rental use, indicating that a large proportion of construction machinery is used through lease or rental channels. The *Survey of Selected Service Industries (Summary of the Rental and Leasing Business)* published by METI in 2002 show that of these two, particularly wide use is made of rental in the construction industry. Thus whereas civil engineering and construction equipment accounted for just 2.7% of the total value of lease contracts (contracts for long-term loan) in 2002, they accounted for 57.1% of rental (short-term loan) sales.

Rental has the potential to reduce the cost of entry and withdrawal. This is because it allows facilities to be procured only when necessary at low cost, reduces the amount of initial investment required, and enables equipment to be returned when no longer required.

---

21) From the website of Japan Construction Equipment Manufacturers’ Association.
7. Impact of exit on employees

In 6., we examined the costs borne directly by business proprietors. From the wider perspective of society, however, exits have other effects as well. Regarding this point, let us look first at the impact on workers.

The demise of a business establishment due to exit leads to the loss of employment by that business establishment. As most of the respondents to the survey were former proprietors of small enterprises, the average number of employees (excluding proprietor) per exited enterprise among the respondent enterprises is just 2.2. Nevertheless, their exit and liquidation still results in the loss of employment. According to METI’s Employment Status Survey (2002), 7.7% left their previous jobs between October 2001 and October 1, 2002 (survey date) due to “company bankruptcy or closure of business establishment”, and this proportion increases as the size of former employer decreases (Fig. 2-3-88). Thus of the 574,800 people who left their jobs due to “company bankruptcy or closure of business establishment”, and this proportion increases as the size of former employer decreases (Fig. 2-3-88). Thus of the 574,800 people who left their jobs due to “company bankruptcy or closure of business establishment” in the previous year, 92,600, or 16.1%, were employed at the smallest sized enterprises, i.e. those with one to four workers. Despite the small impact on employment per enterprise, then, exits of small enterprises nevertheless have an impact on employment that certainly should not be ignored. In particular, the proportion employed at small enterprises increases with age (Fig. 2-3-89). Given that they provide employment opportunities for senior citizens, the loss of employment due to the exit of small enterprises is a matter of some concern.

If a business stalls, this would be expected to impact on payment of wages. According to the results of the Retirement Survey, 3.1% of the respondents employing employees reported “arrears in wages” in regard to payment of monthly pay (Fig. 2-3-90).

What then was the financial situation of enterprises where arrears in wages arose? Fig. 2-3-91 shows the state of occurrence of arrears in wages taking into account profit status and asset status simultaneously. It can be seen from this that even among enterprises registering an ordinary loss for two consecutive terms, no arrears in wages occurred at most as long as liabilities did not exceed assets. In contrast, arrears in wages occurred at a high proportion of enterprises where liabilities exceeded assets even where they registered an ordinary profit in the last term. It may be concluded from this that it is asset status, rather than profit status, that has the greater impact on arrears in wages.

### Table 2-3-88

<table>
<thead>
<tr>
<th>No. of workers at previous employer</th>
<th>Proportion leaving previous job due to bankruptcy of company or closure of business establishment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number</td>
<td></td>
</tr>
<tr>
<td>1~4</td>
<td>7.7</td>
</tr>
<tr>
<td>5~9</td>
<td>10.5</td>
</tr>
<tr>
<td>10~19</td>
<td>11.6</td>
</tr>
<tr>
<td>20~29</td>
<td>12.2</td>
</tr>
<tr>
<td>30~49</td>
<td>12.6</td>
</tr>
<tr>
<td>50~99</td>
<td>12.7</td>
</tr>
<tr>
<td>100~499</td>
<td>13.6</td>
</tr>
<tr>
<td>500~999</td>
<td>13.8</td>
</tr>
<tr>
<td>1,000 or more</td>
<td>14.1</td>
</tr>
</tbody>
</table>


Notes:
1. Persons who left previous job between October 2001 and October 1, 2002 (survey date).
2. Number of workers includes proprietor.

### Table 2-3-89

<table>
<thead>
<tr>
<th>Age (Years)</th>
<th>15~19</th>
<th>20~29</th>
<th>30~39</th>
<th>40~59</th>
<th>50~59</th>
<th>60~69</th>
<th>70 or over</th>
</tr>
</thead>
<tbody>
<tr>
<td>1~4</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>5~9</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>10~19</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>20~29</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>30~49</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>50~99</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>100~299</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>300~499</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>500~999</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>1,000 or more</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Recompiled from MPHPT, Employment Status Survey (October 2002).

Note: Only “employees” (employed persons excluding self-employed) are included.
8. Economic resources lost due to exits

Two potential major effects of exit on customers and suppliers are (1) the loss of products and technologies previously supplied by an exiting enterprise, and (2) the decline in income from business due to the disappearance of orders from the exited business.

Regarding the loss of products and technologies, the responses to the Retirement Survey show that 14.9% of proprietors reported that some customers made business cut-backs due to difficulty obtaining goods and technologies (though it should be noted that these results represent the view of former proprietors and not the businesses affected).

Again based on the responses of former proprietors, 43.6% of enterprises reported that they thought that they had strengths compared with competitors and other businesses in terms of, for example, their suppliers, method of display of goods, technologies and know-how. However, only 38.0% responded that these strengths were passed on, and it appears in most cases that these are lost when an enterprise exits (Fig. 2-3-92).

“Strengths” is used here in an extremely wide sense, and includes not just the individual strengths of an enterprise that are individually patented and generate large profits. Assuming, however, that it is these accumulated strengths that are at the root of the development and dynamism of the economy, then their loss due to exits must result in a loss of economic resources.
9. Reduction of losses due to early withdrawal and facilitation of reentries

So far, we have examined the various potential losses that can result from exits by analyzing the results of the Retirement Survey. As this survey was of recipients of mutual aid money under the Small Enterprise Mutual Aid Plan, the exit of one company tends not to have such a great and wide-ranging impact as the exits of comparatively larger enterprises, which are what reports of “bankruptcies” normally concern.22) The proportion of enterprises at which arrears in wages occur among enterprises that registered an ordinary loss for two consecutive terms and have net liabilities is approximately half that of enterprises that went bankrupt and had net assets, and the proportion where proprietors went bankrupt was also far lower.23) Overall, the proportion of proprietors withdrawing comparatively peacefully is higher among older age groups, and the number of employees per enterprise is low. Exiting of such enterprises therefore tends not to be recognized as an employment problem. However, it is clear that among former proprietors in particular there are some who have not finished disposing of liabilities after terminating their businesses or who have no alternative but to work in spite of their age. In particular, there are clearly some former proprietors with more liabilities than assets who have no choice but to deal with their liabilities through legal measures. There must consequently be some former proprietors facing difficult circumstances closely resembling those faced by bankrupt proprietors. These we may dub “bankrupt-like” exitors. It is also apparent that some exitors have just the same impact as bankruptcies, resulting in some cases, for example, in unpaid wages to employees. Thus many exits due to liabilities in excess of assets closely resemble bankruptcies in practice. Among exitors with more liabilities than assets, those with “more liabilities than assets and ordinary loss for two consecutive terms” when they decided to quit as proprietors, i.e. those in the worst business position in this group, accounted for 18.0% of exitors as a whole (Fig. 2-3-93).

Our analysis has so far revealed that it is asset status rather than profit status (and in particular having more

---

22) Bankruptcies reported by private-sector credit agencies consist mainly of enterprises leaving combined debts of at least ¥10 million.
23) Whereas 43.4% of the proprietors of bankrupt enterprises went bankrupt, the proportion of proprietors of exited enterprises with net liabilities that took legal measures was just 9.7%.
liabilities than assets) that is more strongly correlated with effects at and after exit. Put the other way around, whether assets can be kept in excess of liabilities is one of the key factors by which the timing of withdrawals should be determined.

Needless to say, the decision to exit is an extremely serious one for a proprietor to take. In particular, wavering by proprietors with a strong desire to continue in business can delay exit to the point that a business is eventually forced out of the market through bankruptcy. As was observed in the 2003 White Paper on Small and Medium Enterprises in Japan, most proprietors of bankrupt enterprises seeking to start up in business again encounter difficulties, and the reentry rate is around 10%. The importance of swift withdrawal before bankruptcy, i.e. the voluntary withdrawal through exit as a means of facilitating reentry, has consequently been widely commented upon.

Is it really true, then, that swift withdrawal through exit facilitates reentry? Using the results of the Retirement Survey and Rechallenge Survey, let us consider this question.

Fig. 2-3-94 compares the state of reentry by bankrupts and exiters by age. According to this, there is a large difference between the two. Particularly noticeable at all age groups is that (1) a higher proportion of bankrupts than exiters seek to reenter business, and (2) a smaller proportion of bankrupts than exiters actually succeed in reentering business. Of these, (2) means that exiting business before bankruptcy has a positive effect on reentry. “Swift withdrawal” thus seems to be one way of facilitating starting up in business again.

As we have seen, it is comparatively easier to reenter business by swiftly exiting rather than going bankrupt. However, is there any difference in reentries according to earnings and asset status before exit? Let us look, therefore, at the percentages of former proprietors seeking to reenter business and the percentage that actually achieve this aim according to financial status at the time of exit.

Figs. 2-3-95~2-3-100 show the state of reentries taking into account financial status and age at exit simultaneously. From these, it can be seen that the proportion of former proprietors seeking to reenter business is not greatly affected by asset status. In the case of the actual reentry rate, however, there is a large

---

**Fig. 2-3-94 Would-be reentry rate and actual reentry rate (according to bankruptcy or exit)**

Large gap in actual reentry rates between proprietors of exits and proprietors of bankrupt enterprises


Notes:
1. Based on age at time of bankruptcy or exit.
2. Would-be reentry rate = (actual reentrants + would-be reentrants) / entrepreneurs who previously suspended or exited business
3. Actual reentry rate = actual reentrants / (actual reentrants + would be reentrants)

---

24) A likely reason for this is that many bankrupts seek to reenter business driven by the desire for a second chance.
difference between proprietors who had more liabilities than assets and those who did not. Thus proprietors who exited with more liabilities than assets have an actual reentry rate that is 20 points lower than proprietors who did not in all age groups. In contrast, profit status does not have as obvious an impact on the actual reentry rate as asset status.

From the results thus far, it can be seen that swift withdrawal when the state of a business has deteriorated, and in particular withdrawal before liabilities exceed assets, is of considerable significance to subsequent reentry. Profit status not infrequently changes from year to year. Asset status, on the other hand, does not change year in and year out. Accordingly, asset status—i.e. whether liabilities exceed assets—is a valuable and clear criterion by which a SME can determine when to withdraw from business.

**Fig. 2-3-95** Relationship between profit status before exit and reentry (up to 49-year-olds)

No clear correlation between profit status before exit and actual reentry rate

![Graph](image1)


Notes: 1. Based on age at time of exit.
2. Only respondents who “exited or liquidated” instead of transferring their business to another are included.

**Fig. 2-3-96** Relationship between profit status before exit and reentry (50–59-year-olds)

No clear correlation between profit status before exit and actual reentry rate

![Graph](image2)


Notes: 1. Based on age at time of exit.
2. Only respondents who “exited or liquidated” instead of transferring their business to another are included.

**Fig. 2-3-97** Relationship between profit status before exit and reentry (60-year-olds and over)

No clear correlation between profit status before exit and actual reentry rate

![Graph](image3)


Notes: 1. Based on age at time of exit.
2. Only respondents who “exited or liquidated” instead of transferring their business to another are included.
Fig. 2-3-98 Relationship between asset status before exit and reentry (up to 49-year-olds)
Asset status before exit has large impact on actual reentry rate

Notes: 1. Based on age at time of exit.
2. Only respondents who "exited or liquidated" instead of transferring their business to another are included.

Fig. 2-3-99 Relationship between asset status before exit and reentry (50–59-year-olds)
Asset status before exit has large impact on actual reentry rate

Notes: 1. Based on age at time of exit.
2. Only respondents who "exited or liquidated" instead of transferring their business to another are included.

Fig. 2-3-100 Relationship between asset status before exit and reentry (60-year-olds and over)
Asset status before exit has large impact on actual reentry rate

Notes: 1. Based on age at time of exit.
2. Only respondents who "exited or liquidated" instead of transferring their business to another are included.
10. Impediments to early withdrawal

(1) Factors that cause proprietors to hesitate whether to exit

The importance of early withdrawal has been widely commented upon. However, the literature on “early withdrawal” has not advanced beyond the realm of the abstract, and it is not at all clear when “early” is. Regarding this point, it is clear from the preceding analysis that it is the state of having liabilities in excess of assets, rather than deteriorating profits, that creates various problems, and it is highly likely that exits in some cases in fact more closely resemble bankruptcies.

Regarding reentry after failing in business on one occasion, it is also apparent that having more liabilities than assets imposes greater constraints than exits where liabilities do not exceed assets.

Naturally, proprietors should themselves be aware to a certain extent of the effects of exit with greater liabilities than assets through their own experience as proprietors. In practice, however, it is not unusual for proprietors to exit once liabilities have exceeded assets.

Why then do proprietors continue in business until conditions become so serious that, for example, liabilities outweigh assets?

A report compiled by the Japan Small and Medium Enterprise Management Consultants’ Association (J-SMECA) and commission by the SME Agency, published in February 1998 and entitled *A Report on the Development of a Guidance Manual on Business Transfers and Exits by Small and Medium Enterprises in the Construction and Manufacturing Industries*, identified the following four reasons (or excuses) shared by proprietors hesitating whether to exit:

1. **Pride**
   This is the desire not to be the one who brings down the curtain on a business inherited from one’s parent or built up through many years of struggle. Having established a considerable position in the industry, appearances make it difficult to bow out of business.

2. **Unfounded expectation of improvement in business cycle**
   This is the view that business is not simply a matter of numbers, and the groundless belief that conditions will soon improve.

3. **Assets (collateral) still remaining**
   This is a result of the tendency among owner-managers to mix company and personal assets. In many cases, an enterprise’s asset status can become unbalanced without a proprietor realizing the scale of his or her borrowing.

4. **Concern over livelihood after exit**
   This is the strategy of letting business takes its course in the short-term belief that one will be able somehow to support oneself provided that a business continues, even if it is making a loss.

These factors are internal to enterprise proprietors, and are difficult to measure quantitatively using the results of the present survey. However, by examining the characteristics of entrepreneurs who exit after liabilities have exceeded assets, it should be possible to forecast to an extent the factors leading to exit when liabilities exceed assets. Furthermore, identifying these factors should in turn enable us to identify the enterprises requiring particular attention in order to assist their smooth withdrawal.

(2) Characteristics of exiters with excess debts

The first possible reason for hesitation over early withdrawal is the continuation of business until liabilities exceed assets out of consideration for the employment of employees. Looking at Fig. 2-3-101, it can be seen that the proportion of enterprises exiting when liabilities exceed assets increases with the number of employees, which suggests that early withdrawal becomes more difficult as the size of an enterprise increases. As we have already seen, exit costs tend to increase with size of workforce. In light of this, it appears certain that larger enterprises find early withdrawal more difficult.

![Fig. 2-3-101 Number of employees at time of decision to exit and asset status](image)

Proportion deciding to exit when liabilities exceed assets increases with number of employees

<table>
<thead>
<tr>
<th>Asset status at time of decision to exit</th>
<th>More liabilities than assets</th>
<th>Assets equal liabilities</th>
<th>More assets than liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>17.9</td>
<td>24.5</td>
<td>35.4</td>
</tr>
<tr>
<td>1-5</td>
<td>32.7</td>
<td>40.1</td>
<td>35.5</td>
</tr>
<tr>
<td>6 or over</td>
<td>41.8</td>
<td>35.4</td>
<td>32.7</td>
</tr>
</tbody>
</table>


Note: Only respondents who “exited or liquidated” instead of transferring their business to another are included.

---

Next, we look at whether there exist any differences according to age. If a proprietor is young, he or she would be expected to have greater opportunities to reenter business at the right time even after exiting business when things do not go well. Re-employment is also comparatively easier to find. One might therefore expect younger entrepreneurs to withdraw from business in good time. On the other, there is also the possibility that younger entrepreneurs might continue too long and delay withdrawal. The actual relationship between age at exit and asset status when the decision to exit is made is shown in Fig. 2-3-102. According to the figure, a slightly higher proportion of entrepreneurs aged 60 or over tend to decide to exit when assets exceed liabilities, but there is statistically no significant difference. There thus does not appear to be any change in proportion exiting when liabilities exceed assets according to age. Based on the above, it can be seen that the size of an enterprise is one impediment to early withdrawal before liabilities exceed assets.

### Fig. 2-3-102  Age at time of quitting as proprietor and asset status of business

No conspicuous differences in asset status of business according to age

<table>
<thead>
<tr>
<th>Age at time of quitting as proprietor</th>
<th>More liabilities than assets</th>
<th>Assets equal liabilities</th>
<th>More assets than liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aged up to 49</td>
<td>26.1</td>
<td>38.7</td>
<td>35.2</td>
</tr>
<tr>
<td>50~59</td>
<td>26.7</td>
<td>38.0</td>
<td>35.3</td>
</tr>
<tr>
<td>60 and over</td>
<td>23.3</td>
<td>38.0</td>
<td>38.7</td>
</tr>
</tbody>
</table>


Note: Only respondents who “exited or liquidated” instead of transferring their business to another are included.

26) A chi-square test indicated no significant difference even at the 10% confidence level.


described. A climate that does not accept failure delays early withdrawal and increases the adverse effects. This may very well further foster an unforgiving climate toward failure.

What is needed therefore is for entrepreneurs to have the courage to take the decision to make an early withdrawal, and for a climate that is more accepting of failure to be developed.

In order to facilitate withdrawal, it is also important to lighten the cost of withdrawal. This is because the high costs incurred in order to withdraw lead to an equivalent loss in economic resources. As described above, high levels of entry are closely correlated with high levels of withdrawal. Even were there to be considerable entry activity resulting in the creation of new economic resources, the benefits of such entries would be consumed and so reduced by the cost of withdrawal. In order to somehow reduce this loss due to withdrawals, it is important that arrangements be put in place to enable the effective use of withdrawers’ economic resources by entries. This may as a result reduce the cost of investment required for entry, and in turn stimulate entry activity. Entries and withdrawals need to be seen as two sides of the same coin, and measures taken that take into account entry as well as exit routes.


30) According to Mankiw (1998), the size of sunk costs in the event of withdrawal vary according to whether or not entrepreneurship activity increases the welfare of society, and the size of exit costs have an impact on the significance of startup support measures.
Chapter 4  Financing diversity

It was described in Part I how despite the signs of recovery in some sectors of the Japanese economy as a whole, business conditions among SMEs are recovering more slowly than among large enterprises. The financing conditions faced by SMEs also remain severe. Amid these conditions, smooth financing is absolutely essential to enable SMEs to display their diversity and play an active role in the economy and society. However, changes are occurring in the financial system. For almost half a century, it was believed that land prices would never fall, and this belief formed the basis of indirect financing from banks secured by land. As a result of the collapse of this “myth” that prices would never fall, though, maintaining the financing system has become difficult.

In this environment, it is important to the Japanese economy, as well as SMEs, that smooth financing be provided to motivated and capable SMEs, such as SMEs keen to undertake new business activities and SMEs currently facing business difficulties but actively seeking to rebuild themselves. It is from this angle that we explore in this chapter the state of financing by enterprises initiating new business activities and enterprises seeking to rapidly recover from a deterioration of their financial position. We begin in Section 1 by first determining the main features of small business finance, and then identifying the characteristics of enterprises involved in new business activities. In Section 2, we look at methods of early reconstruction. Then in Section 3, we look at inter-enterprise credit as an alternative to conventional borrowing from banks, focusing in particular on enterprises using the receivable-backed loan guarantee program introduced in December 2001.

Section 1  Features of small business finance

Before exploring the features of financing of enterprises engaging in new business and early reconstruction, it is necessary to identify the features of SME financing. Below, therefore, we describe the structure and terms of SME financing, and the features of the financial institutions that do business with SMEs, i.e. SMEs’ suppliers of funds. We also identify the features of enterprises that engage in new business.

1. Features of the structure of SME financing

(1) Dependence of SMEs on borrowing for funds
What are the main features of the financing structure of SMEs in comparison with large enterprises? Let us start by looking at the financing structure of enterprises according to number of employees. Fig. 2-4-1 depicts the financing structure of enterprises in the fiscal year ending March 2003 according to number of employees. This shows that whereas 25.4% of the financing of enterprises with 20 or fewer employees in fiscal 2002 consisted of equity capital, borrowing accounted for 53.4%. Among enterprises with 301 or more employees, on the other hand, the proportion of equity capital was 33.9%, and the proportion of borrowing was 23.9%. As the number of employees increases, therefore, so too does the proportion of equity capital used, while the proportion of borrowing decreases, which indicates that smaller enterprises are more dependent on borrowing for the greater part of their financing.

In addition, a breakdown by fiscal year reveals that the proportion of borrowing at enterprises of all sizes over the past three years has declined, and the proportion of equity capital has risen. This suggests that the borrowing-dependent structure of financing may be changing (Appended Note 2-4-1).

2. Features of the terms of SME financing

(1) SMEs unable to obtain desired lending
While the above indicates that many SMEs are dependent on borrowing for the greater part of their financing, this does not mean that SMEs are more able than large enterprises to borrow as they wish. To illustrate this, let us look at Fig. 2-4-2, which shows the proportion by number of employees of enterprises that said the commonest response of their main bank was “I want to borrow.”

---

1) “Banks” here refers to all depositary financial institutions, including credit associations and credit cooperatives as well as ordinary commercial banks, long-term credit banks and trust banks. City banks, long-term credit banks and trust banks we call “leading banks”, regional banks and second-tier regional banks we call “regional/second-tier regional banks”, and credit associations and credit cooperatives we call “credit associations/coops”.

2) “Main bank” is here defined as the financial institution that an enterprise regards as its main bank, regardless of the proportion of outstanding borrowing accounted for by that bank.
when they applied for a loan was “application refused” or “amount applied for reduced”, i.e. their main bank did not lend them as much as they desired. From this, it can be seen that the fewer employees an enterprise has, the less likely it is to be able to obtain the amount of lending that it desires.

In this respect as well, there are signs that the structure of financing is changing, with the proportion of enterprises unable to borrow the desired amount declining in all size groups over time.

(2) Smaller enterprises face more disadvantageous financing terms

A greater proportion of SMEs than large enterprises are thus unable to obtain the lending that they desire. Let us therefore look at what differences exist regarding the terms of borrowing. Below, we look at short-term borrowing rates and whether or not guarantees (personal security) are required by number of employees.

Fig. 2-4-3 shows short-term borrowing rates by number of employees. From this, it can be seen that the fewer employees an enterprise has, the higher the short-term borrowing rate it has to pay.

However, this does not mean that such enterprises always borrow at higher rates than large enterprises simply on account of being SMEs. The borrowing rate of the lower 25th percentile of enterprises with 21–100 employees is around the 1.5% mark in all three years, indicating that among SMEs there are some enterprises borrowing at rates on a par with those of large enterprises. In other words, although SMEs viewed as a whole borrow at higher rates than large enterprises, SMEs that borrow at rates similar to those of large enterprises are not unusual.

Next, we examine the provision of guarantees (personal security). Fig. 2-4-4 shows the proportion of enterprises providing guarantees (personal security) according to number of employees. This reveals that the fewer employees an enterprise has, the more likely it is to provide a guarantee (personal security) to its main bank. These most commonly take the form of personal guarantees provided by the representative director, followed by guarantees provided by relatives of the representative (Fig. 2-4-5).
Fig. 2-4-2 Proportion of enterprises unable to obtain desired lending from main bank (by number of employees)
Declining proportion of enterprises of all sizes unable to obtain desired lending


Note: Enterprises “unable to obtain desired lending” are those that answered “application refused” or “amount applied for was reduced” to the question “What has been the commonest response to loan applications to your main bank in the past year?”

Fig. 2-4-3 Short-term borrowing rates of main banks (by number of employees)
Smaller enterprises charged higher rates


Notes:
1. Short-term borrowing rates of main banks as of the end of October of each year.
2. Latest short-term borrowing rate where there was no borrowing at the end of October, and highest borrowing rate where there was more than one.
3. The short-term prime rate used by the largest number of city banks at the end of October 2001, October 2002 and October 2003 was 1.375%.
3. Providers of funds to SMEs

Below, we turn to look at the financial institutions that provide funds to SMEs, and in particular main banks. Fig. 2-4-6 depicts the dependence on borrowing from main banks according to number of employees. From this, it can be seen that smaller enterprises are more dependent on main banks, indicating that main banks occupy an important position in SME financing. Looking next at the type of financial institution playing the role of main bank according to number of employees, we find that a higher proportion of larger enterprises have a leading bank as their main bank. Conversely, smaller enterprises tend to have a local financial institution as their main bank (Fig. 2-4-7).

A breakdown by year reveals that the proportion of enterprises having a local financial institution as their main bank is increasing, irrespective of number of employees (Appended Note 2-4-2). Next we examine the relationship with an enterprise’s main bank based on the length (in years) of that relationship (Fig. 2-4-8). From the figure, it can be seen that as the number of employees increases, the length of relationship with a main bank increases. A likely reason for this is that still-growing SMEs switch from using a local financial institution to a leading bank as their main bank as their workforce grows, as a consequence of which their relationship with their main bank is shorter.

Fig. 2-4-4  Proportion of enterprises providing security to main banks (by number of employees)

Higher proportion of smaller enterprises provide guarantees to main banks

Fig. 2-4-5  Types of guarantor providing guarantees to main banks (by number of employees)

More smaller enterprises provide personal guarantees given by the representative

**Fig. 2-4-4**

Proportion of enterprises providing security to main banks (by number of employees)

<table>
<thead>
<tr>
<th>(No. of employees)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>~20</td>
<td>88.0</td>
</tr>
<tr>
<td>21~100</td>
<td>86.0</td>
</tr>
<tr>
<td>101~300</td>
<td>69.5</td>
</tr>
<tr>
<td>301~</td>
<td>38.3</td>
</tr>
</tbody>
</table>

Note: Only enterprises with borrowing are included.

**Fig. 2-4-5**

Types of guarantor providing guarantees to main banks (by number of employees)

<table>
<thead>
<tr>
<th>(No. of employees)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>~20</td>
<td>54.1</td>
</tr>
<tr>
<td>21~100</td>
<td>36.5</td>
</tr>
<tr>
<td>101~300</td>
<td>37.8</td>
</tr>
<tr>
<td>301~</td>
<td>22.4</td>
</tr>
</tbody>
</table>

Notes: 1. Only enterprises with borrowing are included. The population is therefore the same as for Fig. 2-4-4.
2. Totals exceed 100 due to multiple responses.

3) Hereinafter, regional banks, second-tier regional banks, credit associations and credit cooperatives are collectively referred to as "local financial institutions".
PART II — THE LIMITLESS POTENTIAL OF THE DIVERSITY OF SMALL AND MEDIUM ENTERPRISES

Fig. 2-4-6 Dependence on borrowing from main banks (by number of employees)

Smaller enterprises more dependent on main banks for borrowing


Note: Dependence on borrowing from main bank = borrowing from main bank / total long-term and short-term borrowing

Fig. 2-4-7 Types of main bank (by number of employees)

Main banks tend to be leading banks at large enterprises, and local financial institutions at smaller enterprises


Notes:
1. “Main bank” is here defined as the financial institution that an enterprise regards as its main bank, regardless of the proportion of outstanding borrowing from that institution.
2. “Leading banks” are city banks, long-term credit banks and trust banks.
3. “Regional/second-tier regional banks” are regional banks and second-tier regional banks. “Credit associations/coops” are credit associations and credit cooperatives.
4. “Government-affiliated SME financial institutions” are the Shoko Chukin Bank, Japan Finance Corporation for Small Business and National Life Finance Corporation.
than that of large enterprises. On the other hand, there are also many SMEs that have done business with their main bank for 30 years or more.

If we look next at the number of banks with which enterprises do business according to number of employees, we find that the proportion of enterprises using a greater number of banks of account increases with size of workforce (Fig. 2-4-9).

To summarize, SME financing is characterized by (1) a high level of dependence on borrowing, (2) a large proportion of enterprises unable to obtain the lending that they desire, (3) poorer terms of borrowing compared with large enterprises (such as higher interest rates and a high proportion of enterprises providing guarantees (personal security)), (4) a high level of dependence on borrowing from main banks, and (5) the importance of the role played by local financial institutions. Over the past three years, however, these tendencies have waned.

4. Financing by enterprises undertaking new business activities

As seen in Chapter 1 of Part II, SMEs are at the root of the creation of new products and services. In order to respond to the hollowing out of industries and employment as economic globalization proceeds and international competition intensifies, increasing the value added by existing industries is naturally crucial. Also absolutely needed, though, are activities to create new industries and other new business activities. Below, we describe the main features of financing of motivated and capable enterprises undertaking such new business activities.

(1) Features of enterprises undertaking new business activities

Before looking at the relationship between engagement in new business activities and financing, let us first look at what kinds of enterprises undertook new business activities in the past three years.

Fig. 2-4-10 depicts business measures undertaken in the past three years that could be described as “new” business activities according to the number of employees of an enterprise. This shows that enterprises with larger workforces three years ago are generally more likely to have undertaken new business activities during the previous three years. Regarding the number of activities undertaken, larger enterprises tend to undertake more

---

**Fig. 2-4-9 Number of banks of account (by number of employees)**

<table>
<thead>
<tr>
<th>(No. of banks)</th>
<th>1</th>
<th>2</th>
<th>4-5</th>
<th>6-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>(No. of employees)</td>
<td>~20</td>
<td>30.4</td>
<td>47.6</td>
<td>52.4</td>
</tr>
<tr>
<td>21~100</td>
<td>25.1</td>
<td>26.6</td>
<td>32.4</td>
<td>39.0</td>
</tr>
<tr>
<td>101~300</td>
<td>21.9</td>
<td>30.4</td>
<td>47.6</td>
<td>52.4</td>
</tr>
<tr>
<td>301~</td>
<td>60.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Note: The number of banks of account is the total number of city bank, long-term credit banks, trust banks, regional banks, second-tier regional banks, credit associations and credit cooperatives with which an enterprise was doing business as of the end of the latest fiscal year.

---

4) “New business activities” here refer to the “development and improvement of products, services and technologies”, “expansion into new fields and new business”, “business conversion” and “diversification”. 
new business activities (Fig. 2-4-11).

Further, a breakdown by industry reveals that a high proportion of enterprises in manufacturing undertake new business activities (Fig. 2-4-12). From the point of view of the number of activities as well, manufacturers tend to engage in a greater number of new business activities (Fig. 2-4-13).

Do enterprises undertaking new business activities encounter any kinds of problems? According to the Survey on Enterprise Business Innovation conducted by the SME Agency in fiscal 2001, the commonest problem encountered when undertaking new business activities is “procurement of suitably skilled human resources”, followed by “procurement of necessary funds”. Among enterprises with 20 or fewer employees, however, the commonest problem is “procurement of necessary funds” (Fig. 2-4-14), indicating that the main problem areas for SMEs are procurement of human resources and financing.

(2) Financing structure of enterprises seeking to undertake new business activities

As financing is thus one of the main problems encountered by SMEs (especially small enterprises) undertaking new business activities, below we examine

Fig. 2-4-11 Number of new business activities undertaken in the last three years (by number of employees in 2001)

Larger enterprises undertake more new business activities

(No. of employees) (No. of new business activities)

| -20 | 1 |
| 21-100 | 2 |
| 101-300 | 3 |
| 301- | 4 |

Fig. 2-4-12 Proportion of enterprises undertaking new business activities in the last three years (by industry in 2001)

Comparatively more manufacturers engaged in new business activities

Manufacturing

Wholesaling

Construction

Retailing

Services

Fig. 2-4-13 Number of new business activities undertaken in the last three years (by industry in 2001)

Comparatively large proportion of manufacturers engaged in new business activities

(No. of new business activities)

Manufacturing

Wholesaling

Construction

Retailing

Services


Note: “No. of new business activities” is based on the number of enterprises responding that they undertook “development and improvement of products and services” and/or “expansion into new field” to the question “What new business measures has your enterprise taken in the last three years?”

Note: “No. of new business activities” is based on the number of enterprises responding that they undertook “development and improvement of products and services” and/or “expansion into new field” to the question “What new business measures has your enterprise taken in the last three years?”

Note: 1. Totals exceed 100 due to multiple responses.
2. “New business activities” here means “development and improvement of products and services” and “expansion into new fields”.

Note: “No. of new business activities” is based on the number of enterprises responding that they undertook “development and improvement of products and services” and/or “expansion into new field” to the question “What new business measures has your enterprise taken in the last three years?”
the financing situation faced by enterprises undertaking new business activities.

We start by looking at the financing structure of enterprises intending to engage in new business activities. Figs. 2-4-15 and 2-4-16 show the financing structure of enterprises intending to undertake new business activities based on the results of the 89th Survey of Capital Investment by Small Sized Manufacturers, conducted in September 2003 by the Japan Finance Corporation for Small Business, and the Survey on Plant and Equipment Trends in the Commerce and Service Industries, conducted by the SME Agency in October 2003. These show the financing structure of enterprises with capital investment plans according to number of employees and whether or not they plan to expand into new business (and similar activities). From these, it can be seen that the proportion of borrowing is greater in all size groups among enterprises planning to expand into new business. Enterprises planning to invest in new business activities are thus more dependent on borrowing as a means of procuring funds. This subject is addressed in greater detail by the SME Agency’s Survey on Plant and Equipment Trends in the Commerce and Service Industries, which further divides borrowing into borrowing from private-sector financial institutions and borrowing from government-affiliated financial institutions. It can be seen from this that among enterprises planning to expand into new business, the proportion of borrowing from government-affiliated financial institutions is 9.0% at enterprises with 51 or more employees, compared with 28.4% at enterprises with 20 or fewer employees. A higher proportion of smaller enterprises thus seek to fund their investment through borrowing from government-affiliated financial institutions, indicating that SMEs intending to undertake new business activities place considerable faith in being able to obtain funding from government-affiliated financial institutions.

---

**Fig. 2-4-14 Problems encountered when undertaking new business activities (by number of employees)**

Biggest constraint after acquisition of human resources is financing

<table>
<thead>
<tr>
<th>(No. of employees)</th>
<th>0</th>
<th>10</th>
<th>20</th>
<th>30</th>
<th>40</th>
<th>50</th>
<th>60</th>
<th>70</th>
<th>80</th>
<th>90</th>
</tr>
</thead>
<tbody>
<tr>
<td>~20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21~100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>101~300</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>301~</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Totals exceed 100 due to multiple responses.
**Fig. 2-4-15** Financing structure according to intention to engage in new business activities (by number of employees)

Enterprises intending to undertake new business activities are more likely to plan to raise funds by borrowing.


Notes:
1. New business activities are defined here as “expansion into new fields”.
2. “Borrowing” includes bonds.
3. “Other” is the total amount of long-term deferred bills and capital increases.

**Fig. 2-4-16** Financing structure according to intention to undertake new business activities (by number of employees)

Enterprises intending to undertake new business activities tend to be dependent on borrowing, and smaller enterprises are more likely to hope to borrow from government-affiliated institutions.


Notes:
1. New business activities are here defined as “expansion into new business, business conversion, strengthening of business operations and other diversification”.
2. “Borrowing” includes bonds.
3. “Other” is the total amount of long-term deferred bills and capital increases.
Intended and actual methods of financing used by enterprises undertaking new business activities

Next, we examine the desired methods of financing by enterprises undertaking new business activities, and the methods actually used. Fig. 2-4-17 shows the desired methods of financing of enterprises undertaking new business activities by number of employees. This shows that the most popular desired external source of funding, regardless of size of enterprise, is borrowing from financial institutions. Among enterprises that sought to borrow from financial institutions, a higher proportion of larger enterprises were able to actually obtain borrowing from such sources, while a lower proportion of smaller enterprises were able to borrow from financial institutions despite wanting to do so to fund their new business activities (Fig. 2-4-18).

Response of main banks to enterprises undertaking new business activities

We look now at the relationship between enterprises undertaking new business activities and their main bank. Fig. 2-4-19 depicts the relationship between the response to loan applications of main banks three years previously and enterprises undertaking new business activities in the past three years. From this, it can be seen that a higher proportion of enterprises that were able to obtain lending from their main bank as desired than those that did not commenced development or improvement of products and services. Regarding the number of new activities initiated, enterprises that obtained the desired lending engaged in more new business activities (Fig. 2-4-20).
For enterprises undertaking new business activities, then, whether or not they are able to obtain the lending that they desire from their main bank is a crucial concern. To summarize the analysis so far, enterprises undertaking new business activities display the following features: (1) they are concentrated in manufacturing, (2) a high proportion of larger enterprises undertake new business activities, (3) among enterprises seeking to undertake new business activities, high hopes are placed in government-affiliated financial institutions by smaller enterprises, (4) the most popular desired source of outside finance is borrowing from financial institutions, but only a small proportion of smaller enterprises succeed in securing borrowing from financial institutions, and (5) whether or not an enterprise is able to obtain the lending it desires from its main bank affects whether it undertakes new business activity (Appended Note 2-4-3).

In view of the above circumstances, a special fund called the “Ganbare! Chushokigyo Fund” was established in April 2004 to provide financial support to SMEs entering new business activities (such as entrants to new areas of business and reentrants) and business support (e.g. to help enterprises develop their marketing outlets). Under this program, financed jointly by the government and private sectors, JASMEC (reorganized to form the Organization for Small and Medium Enterprises and Regional Innovation on July 1, 2004) provides loans up to half the total amount in the fund in order to support SMEs, and this is expected to play a major role in the future in facilitating expansion into new business and provision of funding to SMEs seeking to engage in new business activities (Appended Note 2-4-4).

**Fig. 2-4-19** Proportion of enterprises undertaking new business activities (by response of main bank in 2001)

Higher proportion of enterprises that managed to obtain desired lending from main bank undertook new business activities

![Graph showing proportion of enterprises undertaking new business activities](image)


Note: Totals exceed 100 due to multiple responses.

**Fig. 2-4-20** Number of new business activities undertaken in the last three years (by response of main bank in 2001)

Enterprises that managed to obtain desired lending from main bank undertook more new business activities

![Graph showing number of new business activities](image)


Note: “No. of new business activities” is based on the number of enterprises responding that they undertook “development and improvement of products and services” and/or “expansion into new field” to the question “What new business measures has your enterprise taken in the last three years?”
Chapter 4 — Financing diversity

Case 4-1 Successful expansion into new field through smooth financing

A Ltd. is a Hyogo-based company with approximately 150 employees and capital of ¥100 million that succeeded in entering a new field of business through smooth financing.

Action by A Ltd.
A Ltd. is a dyer and finisher established in 1943, and handles mainly yarn-dyed fabrics. Yarn-dyed fabrics basically go through four processes: dyeing, sizing, weaving and finishing. Of these four processes, A Ltd. handled dyeing, sizing and finishing. The area in which A Ltd. is located is a cloth manufacturing area where a division of labor has traditionally been practiced, and A Ltd. made use of this system to leave the weaving process to other companies.

On account of the slump in domestic demand and rising competition from Chinese products, however, sales began to stagnate. The increasing presence of cheap products was particularly threatening. In order to overcome this situation, A Ltd. devised an end-to-end dyeing, sizing, weaving and finishing system by which it could perform the weaving stage itself. The main advantages of this system were threefold:

1. Higher value-added: Involvement in more processes increased the value added.
2. Quicker delivery: A track could be kept of all processes, leading to reduced delivery times.
3. Response to diverse needs: Direct links with consumers ensured that details of customers’ orders were communicated to all processes, allowing greater flexibility in responding to diverse needs.

However, implementing this plan was not something that just anybody could have achieved. The investment in machinery alone came to ¥450 million, completely beyond anything that an SME could afford from its own funds. By necessity, therefore, the company had to consider borrowing from a bank.

In order to secure the necessary funds, A Ltd. consulted a bank at an early stage in its plans. Its bank was remarkably positive in its response, and displayed no reservations. In fact, A Ltd. was even able to obtain advice on matters such as institutional credit under the Law on Supporting Business Innovation of Small and Medium Enterprises. It was able as a result to both smoothly secure borrowing and raise funds on advantageous terms using institutional credit.

Reasons for smooth financing

One reason for A Ltd.’s ability to smoothly raise funds when it entered the weaving business was that it briefed its bank in advance from an early stage in its plans. From the bank’s point of view, this gave it a greater insight into the ability of the enterprise to implement its plans, its approach, and the strength of its motivation to implement its plans by allowing it to see how implementation progressed, making it easier to determine whether to provide lending. The other most important factor was that A Ltd. had built close everyday relations with its bank. As well as providing the bank with its regular financial reports, A Ltd. also always reported on the state of its business when bank staff made their monthly visits to the company. This enabled the bank to build up knowledge of A Ltd.’s business policy, strengths and weaknesses, and other non-financial knowledge, as well as data on A Ltd.’s financial status according to its financial reports, thereby giving it a better idea of A Ltd.’s various features. As a result, A Ltd. was able to smoothly raise the funds needed to enter a new field of business requiring a high level of investment.
Section 2 Avenues of business finance for revitalization

The 2003 White Paper on Small and Medium Enterprises in Japan analyzed in detail the situation of enterprises forced to take legal steps or whose business with banks had been suspended, and described how the collapse of a single enterprise could cause extensive losses to other interested parties as well as the proprietor of the enterprise concerned. It also noted the importance of steady efforts in an enterprise’s core business and early reconstruction measures in order to avoid a failure having such a major impact on interested parties.

With so much attention now being focused on the importance of corporate revitalization, measures are being rapidly put in place to assist corporate revitalization. These include the establishment of SME Revitalization Support Councils and the Industrial Revitalization Corporation of Japan in the public sector, and the widespread establishment of revitalization funds in the private sector. Nevertheless, there are still enterprises that fail to rebuild and so collapse, as well as enterprises that do successfully rebuild.

Relying only on their own funds, ailing enterprises become cash-strapped and so seek to borrow from financial institutions in order to solve their financial difficulties. Because of their parlous situation, however, financial institutions have to be cautious about whether to provide fresh loans. For enterprises seeking to recover from business difficulties, however, the availability of funds to see them through until their revitalization efforts bear fruit can determine whether or not an enterprise survives.

In this section, therefore, we begin by examining what factors enabled enterprises that fell into financial difficulties to recover. We then investigate the financing environment of enterprises that have fallen into financial difficulties, and explore measures that could help enterprises attempting to revitalize to raise funds at least a little more smoothly from financial institutions.

1. Features of enterprises that recovered from financial difficulties according to the CRD

What factors enable enterprises that have fallen into financial difficulties to recover? To answer this question, we compare enterprises that registered a recovery in performance and those that did not between 1997 and 2001 using the "Credit Risk Database for Small and Medium Enterprises (CRD)" maintained by the Credit Risk Database for Small and Medium Enterprise Management Council (the CRD Management Council).5)

(1) Definition of “recovering enterprises” and “stagnant enterprises”

Before analyzing “recovering enterprises” using the CRD, there is the problem of how to define “recovering enterprises” to consider. The CRD is a database consisting mainly of accumulated financial data, and here too our analysis will be primarily financial in focus. Focusing in particular on ordinary profit and asset status, enterprises can be classified as shown in Fig. 2-4-21.

Using this classification, we proceed with our analysis by defining the 2,013 enterprises that were in the “net liabilities and ordinary loss” group in 1997 and the “net assets and ordinary profit” group in 2001 as “recovering enterprises”, and the 5,824 enterprises that were in the “net liabilities and ordinary loss” group in 1997 and the “net liabilities and ordinary loss” group in 2001 as “stagnant enterprises”.

(2) Relationship between sales growth rate and recovery in business performance

In extremely simple terms, profit is the difference between sales and costs. Increasing profits therefore requires increasing sales or reducing costs. The focus of our analysis will therefore be on the sales and costs of recovering enterprises and stagnant enterprises.

We consider first of all the relationship between growth in sales and recovery in business performance. Fig. 2-4-22 shows the proportion of enterprises that had net liabilities and made an ordinary loss in 1997 that were

5) The method of analysis used was based on that described in the CRD Management Council’s Survey of Small Business Management Based on an Analysis of CRD (2003).
recovering enterprises and stagnant enterprises according to sales growth rate. According to this, the higher sales growth brackets contained proportionately more recovering enterprises, and the lower sales growth brackets consisted more of stagnant enterprises. It may be concluded from this that increasing sales offers a shortcut to business recovery. Sales are at the root source of profits, and the two are intimately related. This finding is therefore to be expected.

As Fig. 2-4-22 shows, however, some of the enterprises with declining sales were recovering enterprises, while there were also stagnant enterprises among the enterprises with growing sales. Growth in sales is thus not a necessary and sufficient condition for business recovery.

(3) Relation between change in costs and recovery in business performance
The analysis so far has shown that some enterprises with declining sales were also recovering enterprises. Among enterprises with declining sales, then, how do enterprises whose business performance recovers differ from stagnant enterprises? Given that sales are declining, it is self-evident that costs, which are the other determinant of profits, must be a factor. Below, therefore, we examine in greater detail how costs are cut, narrowing our focus to enterprises with declining sales.

Broadly speaking, costs consist of fixed costs, which do not change regardless of changes in sales, and variable costs, which fluctuate according to changes in sales. We begin by examining changes in the proportion of

---

6) Among enterprises with net liabilities and making an ordinary loss in 1997, 9.0% of those with negative growth in sales up to 2001 were recovering enterprises, and 43.4% of recovering enterprises had declining sales.
variable costs\(^7\) to sales.\(^8\) A comparison of changes in the variable cost ratios of recovering enterprises and stagnant enterprises with declining sales is shown in Fig. 2-4-23. From this, it can be seen that whereas enterprises with a declining rate of variable costs to sales make up the largest proportion of recovering enterprises, enterprises with level or slightly increasing variable cost ratios make up the largest proportion of stagnant enterprises. We turn next to look at fixed costs.\(^9\) While fixed costs by their nature do not change, regardless of changes in sales, this is not to say that there is no scope for cuts.\(^10\) As in the case of variable cost ratio, Fig. 2-4-24 shows the changes in fixed costs of recovering enterprises and stagnant enterprises with declining sales. As can be seen from this, recovering enterprises and stagnant enterprises exhibit the same bias toward negative rates of change, indicating that many recovering and stagnant enterprises are taking steps to reduce fixed costs. However, no major difference can be observed between recovering enterprises and stagnant enterprises.

What then of reductions in personnel costs? As the fact that restructuring is generally taken to mean personnel cuts would indicate, cuts in personnel costs are regarded as an important element of business recovery. If we look

---

7) Variable costs are defined here as: sales – fixed costs – ordinary profit.
8) Variable costs are characterized by the fact that they change in aggregate. However, virtually no costs are absolutely variable in they always change by a fixed ratio according to capacity utilization. Generally, the fixed rate is only maintained within certain limits. (National Association of Accountants (1949), Measuring the Variation of Costs with Volume, p.6).
9) Fixed costs are defined here as: personnel costs + labor costs + interest costs + depreciation costs + rental expenses + taxes and public charges.
10) Fixed costs are characterized by the fact that they do not change in aggregate. However, there are virtually no costs that are absolutely fixed in that they are always invariable in total regardless of level of capacity utilization. Generally, they are no more than an element of costs that is invariable in aggregate within certain limits (National Association of Accountants (1949), Measuring the Variation of Costs with Volume, pp.2–3).
At Fig. 2-4-25, however, we find that about half of both recovering enterprises and stagnant enterprises with declining sales have approximately level rates of change in number of employees, and no clear difference is apparent between the two.

As costs can be cut by reducing per capita personnel costs even if employee numbers are not reduced, thus contributing to business recovery, one possible explanation is that recovering enterprises are more active than stagnant enterprises in pursuing steps such as cutting pay. However, Fig. 2-4-26 paints a different picture: if we look at the rate of change in per capita personnel costs of recovering enterprises and stagnant enterprises with declining sales, we find that recovering enterprises tend to have an even higher rate of growth in personnel costs per employee than stagnant enterprises. Viewed in this way, it can be seen that as far as enterprises with declining sales are concerned, the most obvious difference between recovering enterprises and stagnant enterprises is in variable costs rather than fixed costs. Thus while both groups cut fixed costs to approximately the same level and there is no major difference between the two, one determinant of success in achieving a recovery in business performance is whether it can achieve further cuts in variable costs arising as production and sales occur through steady improvements in operating efficiency.

---

**Fig. 2-4-25 Rate of increase in number of employees of enterprises with declining sales**

No difference in rate of increase in number of employees between recovering enterprises and stagnant enterprises

![Graph showing no difference in rate of increase in number of employees between recovering and stagnant enterprises.](image1)

**Source:** Compiled by the SME Agency from Credit Risk Database for Small and Medium Enterprises (CRD) data.

**Notes:**
1. See Fig. 2-4-21 for the definitions of “recovering enterprises” and “stagnant enterprises”.
2. Rate of increase in number of employees = (number of employees in 2001 - number of employees in 1997) / number of employees in 1997
3. The graph indicates the proportion of “recovering enterprises” and “stagnant enterprises” whose sales declined belonging to each category of rate of increase in number of employees.

**Fig. 2-4-26 Rate of change in per capita personnel costs of enterprises with declining sales**

Recovering enterprises tend to exhibit greater rate of change in per capita personnel costs than stagnant enterprises

![Graph showing higher rate of change in per capita personnel costs for recovering enterprises.](image2)

**Source:** Compiled by the SME Agency from Credit Risk Database for Small and Medium Enterprises (CRD) data.

**Notes:**
1. See Fig. 2-4-21 for the definitions of “recovering enterprises” and “stagnant enterprises”.
2. Rate of change in per capita personnel costs = (per capita personnel costs in 2001 - per capita personnel costs in 1997) / per capita costs in 1997
(4) Possibility of improvement of equity ratio through capital increase
Up to this point, we have analyzed the factors associated with enterprises that did and did not achieve a recovery in business performance, focusing in particular on enterprises with declining sales in order to determine what kinds of enterprises registered recoveries, and what kinds of enterprises remained in the doldrums. If management efforts, such as steps to increase sales and cut costs, bear fruit and profits can be generated and sustained, then the excess of liabilities over assets too will eventually be eliminated. However, increasing profits is not the only way of eliminating net liabilities. It is also possible to increase equity capital through capital increases, thus eliminating net liabilities. It may therefore be possible that enterprises that achieve business recoveries use capital increases in combination with improvements in business earnings.
Let us therefore look at changes in capital between 1997 and 2001, shown in Fig. 2-4-27. According to the figure, a higher proportion of recovering enterprises than stagnant enterprises conducted capital increases, indicating that there are some enterprises that undertake capital increases in conjunction with improving profitability. Nevertheless, the proportion of recovering enterprises undertaking capital increases is just 16.5%, indicating that the majority of enterprises achieved their recovery in business performance by improving business profits.

Fig. 2-4-27 Trends in capital of recovering enterprises and stagnant enterprises
More recovering enterprises than stagnant enterprises undertook capital increases

(5) Determinants of recovering enterprises and stagnant enterprises
So far, our analysis has shown that there are two main means by which enterprises in financial difficulties can achieve a recovery in business performance. One is to increase sales. As noted, however, increasing sales is not a necessary and sufficient condition for business recovery. Furthermore, where an enterprise seeks to recover by increasing sales, this increase in sales must be sufficiently robust.
The other method of recovery is by primarily reducing costs despite declining sales. Where this method is used, however, hardly any difference is observed between recovering enterprises and stagnant enterprises in reduction of fixed costs. There is a difference between the two, however, in the proportions in each group reducing variable costs. This indicates that the success of steady efforts to reduce the variable component of costs is the key.
Although a minority, some enterprises also sought the cooperation of other interested parties to increase their capital in combination with efforts to improve their earnings structure, and thereby eliminate their excess liabilities. If the only action taken is to increase capital, then an enterprise may again stagnate if losses continue unchecked. If used in conjunction with measures to improve an enterprise’s business structure, however, capital increases are an effective means of business recovery.
So far, we have looked at the determinants of recovering enterprises and stagnant enterprises. But what of the financing of recovering enterprises? Fig. 2-4-28 shows how the asset status of enterprises that had more liabilities than assets and were unable to obtain the desired lending from financial institutions at the time of the survey in 2001 had changed in 2003. According to the figure, 82.5% of enterprises continued to have more liabilities than assets, but 17.5% of enterprises saw assets overtake liabilities. This means that financial institutions were wrong around 20% of the time in that they failed to foresee such enterprises’ potential for business recovery. Below, therefore, let us explore what enterprises currently in financial difficulties but with the potential to recover should do to communicate their potential to financial institutions and so facilitate their financing.

2. Financing and relationships of ailing enterprises
Ailing enterprises often over-borrow and suffer a decline in their equity ratio. Excessive borrowing increases the burden of interest payments and puts pressure on earnings. It also reduces leeway in financing dependent on external sources of finance, in turn leading to reduced business freedom. This makes it necessary to cut the amount of borrowing in the future to bring it in line with
Fig. 2-4-28 Change in business conditions of enterprises unable to obtain desired lending in 2001 (only enterprises with more liabilities than assets in 2001)

Even among enterprises with net liabilities and unable to obtain desired lending from financial institutions in 2001, approximately 20% had net assets in 2003


Note: Enterprises that were “unable to obtain desired lending” are those that answered “application refused” or “amount applied for reduced” to the question “What has been the commonest response to loan applications to your main bank in the past year?”

Fig. 2-4-29 Proportion of enterprises unable to obtain desired loan (by equity ratio)

Even among enterprises with net liabilities, enterprises with a lower equity ratio find it harder to obtain lending


Notes:
1. Equity ratio = equity capital (total capital account) / total capital
2. Enterprises that were “unable to obtain desired loan” are those that answered “application refused” or “amount applied for reduced” to the question “What has been the commonest response to loan application of your main bank in the past year?”

(1) Financing environment of ailing enterprises

So what is the financing environment faced by ailing enterprises like? This subject is described in detail in the 2003 White Paper on Small and Medium Enterprises in Japan.

Fig. 2-4-29 shows the responses of main banks over the past year according to equity ratio. Apparent from this is that around 30–40% of enterprises with deteriorating negative equity ratios were unable to obtain lending as they desired, indicating that enterprises with a poor asset status find it particularly difficult to borrow from financial institutions.

An examination of short-term borrowing rates, as one of the terms of borrowing, similarly reveals that borrowing rates are higher for enterprises with lower equity ratios even among enterprises with negative equity ratios (Fig. 2-4-30).

From this, it can be seen that a deterioration in business and fall in the equity ratio make it more difficult for enterprises to procure funds from financial institutions. Even if they are able to obtain borrowing, they have to borrow under disadvantageous terms, such as higher interest rates.

In themselves, these findings are what we would expect given that financial institutions would adopt a more cautious lending stance toward enterprises with poor asset status due to concerns regarding their repayment capacity, and so establish lending rates commensurate with the risk. However, these severe conditions for ailing enterprises make it difficult for them to procure fresh funding, thus accelerating the deterioration in their financial position and considerably hindering revitalization measures. So are there any methods by which ailing enterprises can borrow the funds that they desire from financial institutions? To answer this...
question, we investigate whether there are any means by which ailing enterprises seeking to recover can obtain at least some of the borrowing that they desire. We do this by analyzing in detail enterprises in particular business difficulties that have more liabilities than assets (i.e. a negative equity ratio).

(2) Disclosure facilitates borrowing by ailing enterprises

The 2003 White Paper on Small and Medium Enterprises in Japan described the importance of “relationships”, i.e. close relations between enterprises and financial institutions in order for SMEs to be able to procure funds smoothly from financial institutions. It also noted the consequent importance of positive and independent action by enterprises to communicate information about themselves, such as by information disclosure. Is it then effective for enterprises whose business situation has deteriorated (such as enterprises whose liabilities have grown to outweigh their assets) to build relationships as described in the 2003 White Paper on

Fig. 2-4-30 Average short-term borrowing rate (by equity ratio)

Enterprises with lower equity ratios face higher borrowing rates

<table>
<thead>
<tr>
<th>Equity ratio</th>
<th>Average short-term borrowing rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to -20%</td>
<td>3.250</td>
</tr>
<tr>
<td>Over -20% to -10%</td>
<td>3.072</td>
</tr>
<tr>
<td>Over -10% to -5%</td>
<td>2.797</td>
</tr>
<tr>
<td>0% to 5%</td>
<td>2.881</td>
</tr>
<tr>
<td>Over 5% to 10%</td>
<td>2.451</td>
</tr>
<tr>
<td>10% to 20%</td>
<td>2.354</td>
</tr>
<tr>
<td>Over 20% to 40%</td>
<td>1.403</td>
</tr>
<tr>
<td>Over 40%</td>
<td>1.858</td>
</tr>
</tbody>
</table>

Notes: 1. Equity ratio = equity capital (total capital account) / total capital
2. Short-term borrowing rate of main bank as of the end of October 2002.
3. Latest short-term borrowing rate where there was no borrowing at the end of October, and highest borrowing rate where there was more than one rate.

Fig. 2-4-31 Proportion of enterprises unable to obtain desired lending from main bank (according to provision of data)

Provision of data has greater impact on success of loan applications to main banks where equity ratio is deteriorating

<table>
<thead>
<tr>
<th>Equity ratio</th>
<th>Data provided</th>
<th>Data not provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to -20%</td>
<td>40.8%</td>
<td>59.2%</td>
</tr>
<tr>
<td>Over -20% to -10%</td>
<td>46.2%</td>
<td>53.8%</td>
</tr>
<tr>
<td>Over -10% to -5%</td>
<td>35.5%</td>
<td>64.5%</td>
</tr>
<tr>
<td>Over -5% to under 0%</td>
<td>35.6%</td>
<td>64.4%</td>
</tr>
</tbody>
</table>

Notes: 1. Only enterprises with more liabilities than assets are included.
2. Enterprises that were “unable to obtain desired lending” are those that answered “application refused” or “amount applied for reduced” to the question “What has been the commonest response to loan applications to your main bank in the past year?”

Small and Medium Enterprises in Japan? To answer this question, we examine whether the development of relationships leads to smoother borrowing from financial institutions, focusing on enterprises that have fallen into a state of excess liabilities. Regarding firstly disclosure through the provision of data,\(^\text{11}\) is this an effective means of obtaining the lending desired? Fig. 2-4-31 shows the relationship between the provision of data to main banks and ability to obtain desired lending from main banks. This shows that enterprises providing data are more likely to be able to obtain the desired lending from main banks. It can also be seen that this tendency grows more pronounced as the equity ratio of an enterprise deteriorates. This indicates that disclosure of information to financial institutions through the provision of data is effective for ailing enterprises too.

\(^{11}\) Defined as the provision of “financial statements, trial balance sheets and statements of cash receipts and disbursements, etc.” in SME Agency, Survey of the Financial Environment of Enterprises (December 2003).
(3) Long-term transactions do not help ailing enterprises obtain borrowing

Is there any difference according to length of relationship (in years) with main bank? In the 2003 White Paper on Small and Medium Enterprises in Japan, it was noted that transactions extending over a long period of time help facilitate borrowing (Fig. 2-4-32), but does this tendency apply also to ailing enterprises? Fig. 2-4-33 shows whether enterprises with net liabilities were able to obtain the lending they desired from their main bank according to length of relationship in years. According to this figure at least, there is no clear relationship between length of relationship and ease of borrowing if liabilities exceed assets. From the viewpoint of the hypothesis that longer relationships facilitate the communication of “soft” (i.e. qualitative) information, this might seem counter-intuitive. What does this mean? A likely reason is that financial institutions prefer to have information on the present and future of an enterprise, rather than information on an enterprise’s past, which in the case of an enterprise whose liabilities have grown to exceed assets serves only to summarize why it has failed.

In other words, information accumulated in the course of a relationship has little effect on a financial institution’s decision on whether to lend to an enterprise with net liabilities. Rather, the provision of data that communicate to a financial institution what an enterprise’s situation is should have more of an effect in terms of facilitating financing from a main bank.

3. Financing and preparation of business plans by ailing enterprises

Thus far, we have seen that even in the case of enterprises that have fallen into a state of excess liabilities, the development of relationships through disclosure (such as the provision of data) facilitates financing. On the other hand, we have also seen that past relations—i.e. the length of relationship—may not necessarily facilitate financing by enterprises with net liabilities. As noted above, this may be because financial institutions place a greater emphasis on the present state of an enterprise than its past background; at the present time, when the economic environment is changing dramatically, financial institutions may place a higher value on information enabling them to determine future risk than information on the past.

But while it thus appears that it may be possible to communicate to financial institutions an enterprise’s current situation to a certain extent by disclosing
information on the present, how should information on future risk be communicated? Below, we focus our analysis on business plans as one means of providing an indication of an enterprise’s future.

(1) Role of business plans in facilitating financing of ailing enterprises

To provide a picture of its future, an enterprise needs to show what measures it will be taking and what outcomes it seeks to achieve. Such a picture is provided in concrete detail by business plans; if a financial institution were to want to know about an enterprise’s future when deciding whether to provide a loan, then preparation of a business plan should theoretically facilitate financing. Let us therefore examine whether the development of business plans by ailing enterprises is really an effective means of facilitating business financing.

We begin by looking at the relationship between development of business plans and the responses of main banks according to level of equity ratio, illustrated in Fig. 2-4-34. This shows that among enterprises with a particularly low equity ratio, a higher proportion of enterprises that developed business plans than those that did not were unable to obtain the lending they desired from financial institutions. It is thus not necessarily true that business plans facilitate borrowing.

So are business plans really meaningless as a means of facilitating borrowing? One would normally expect an enterprise that develops a business plan to be regarded more highly by a financial institution for having provided a picture of its future, so why the above finding? One possibility is that the content of the plan itself is problematic. For example, a business plan might just vaguely state, “efforts will be made to increase sales and reduce costs”. Where management accounting is used and profits and losses accruing to individual products have been determined, however, a business plan might say something such as the following: “The ordinary profit target this financial year will be ¥xx. Measures to achieve this will include suspension of production of product A, sales of which have declined and become unprofitable, and which are not projected to recover. Regarding product B, which entered production in the previous financial year and which is selling strongly, production will be ramped up using spare capacity resulting from the suspension of production of product A in order to achieve an xx% increase in sales in expanded markets limited by current production capacity.” Business plans can thus be entirely different in content. (Regarding actual revitalization measures taken see the Cases in this chapter.)

In other words, plans need to include targets and concrete means of attaining these targets. Regarding this point, Fig. 2-4-35 shows the results of a questionnaire asking enterprises that prepared business plans whether their plans contained concrete figures.

Apparent from this is that approximately two in three enterprises answered that their plans contained “concrete figures for all items” or “concrete figures for most items”, while the remaining one third said that their plans contained “concrete figures for some items” or “hardly any concrete figures”. There thus appears to be variation between enterprises even where they produce business plans.

What, then, is the relationship between the development of highly specific business plans and facilitation of financing. Fig. 2-4-36 shows the relationship between “concreteness” of plans and the response of main banks in the case of enterprises that development business plans.

This seems to suggest that among enterprises whose asset status is particularly poor, those that develop business plans giving concrete figures are more able to obtain the lending that they desire from their main bank than those whose plans are lacking in concrete figures. We may conclude from this that an effective means of facilitating procurement of funds from main banks by enterprises whose asset status is poor is to develop concrete business plans that provide a clear picture of their future and the specific steps that they intend to take.

![Fig. 2-4-34 Development of business plans and proportion of enterprises whose loan applications were refused or reduced (by equity ratio)](image)

Simply developing business plans does not in itself facilitate borrowing.

<table>
<thead>
<tr>
<th>Equity ratio</th>
<th>Proportion of enterprises unable to obtain desired lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 40%</td>
<td>16.0</td>
</tr>
<tr>
<td>Over 20% to 40%</td>
<td>23.5</td>
</tr>
<tr>
<td>Over 10% to 20%</td>
<td>35.2</td>
</tr>
<tr>
<td>Over 0% to 10%</td>
<td>47.1</td>
</tr>
<tr>
<td>Up to 0%</td>
<td>51.0</td>
</tr>
</tbody>
</table>


Notes: Enterprises that were “unable to obtain desired lending” are those that answered “application refused” or “amount applied for reduced” to the question “What has been the commonest response to loan applications to your main bank in the past year?”

PART II — THE LIMITLESS POTENTIAL OF THE DIVERSITY OF SMALL AND MEDIUM ENTERPRISES
(2) Highly concrete business plans highly likely to be achieved

Financial institutions thus set considerable store by the provision of highly concrete plans in deciding whether to lend to enterprises whose asset status is particularly poor. While highly specific business plans are thus valued by financial institutions, is their only contribution to financing? Even if a plan is detailed, it will not serve as anything more than a means of financing unless it is actually realized. The real purpose of business plans is to be pursued and attained.

We look next, then, at the relationship between the concreteness of plans and whether or not they are actually achieved, illustrated in Fig. 2-4-37. This shows that a higher proportion of enterprises that prepare more concrete plans tend to achieve those plans. Thus whereas only around 60% of enterprises whose plans contained “hardly any concrete figures” or “concrete figures for some items” said that they “hardly attained” or “attained somewhat” their plans, the figure for enterprises whose plans contained “concrete figures for all items” or “concrete figures for most items” was around 80%. This tendency for a greater proportion of enterprises that produce more concrete plans to have a higher level of attainment applies even in the case of enterprises with low equity ratios whose asset status is dire (Fig. 2-4-38).

The reason for this is likely to be that the specification of concrete figures in the preparation of business plans ensures that such plans are based in reality and clarify obstacles to attainment of targets, thus resulting in greater feasibility. We may conclude from this that the preparation of precise business plans provides not just a means of financing, but is also of crucial importance to business revitalization.

An examination of the completed revitalization plans of the SME Revitalization Support Councils progressively established in prefectures throughout Japan since February 2003 shows plans to be characterized by selection and concentration through the introduction of management accounting according to product and customer, etc. (34 enterprises out of 68), and the indication of concrete measures to raise earnings, thus...
providing evidence of the importance of business management based on concrete figures.\(^{12}\)

When developing feasible plans, however, there may occasionally be times when no method of reconstruction can be outlined. For example, where sales cannot be expanded and there is no prospect of generating profits and going into the black by cutting costs, an enterprise will sometimes have to give up the idea of recovering through its own independent efforts. Inability to develop a roadmap to revitalization means that there is a high probability of bankruptcy, which could have a wide-ranging and serious impact on employees and parties outside the enterprise, as well as the proprietor himself or herself.

\(^{12}\) See Appended Note 2-4-5 regarding the performance of SME Revitalization Support Councils.

**Fig. 2-4-37 Establishment of concrete targets and state of attainment**

The more concrete a plan, the higher the proportion of attainment


Note: Only enterprises that responded regarding both the content and state of attainment of plans are shown.
Chapter 4 — Financing diversity

Case 4-2 Revitalization with the assistance of an SME Revitalization Support Council

B Ltd. is a local long-established enterprise with 401 employees and capital of ¥10 million. Its core business is its food supermarket business.

Background to financial difficulties
B Ltd. started as a fresh fish store, and its core business is now its supermarket division, which operates three food supermarkets. Its other operations also revolve around food: a franchise chain division, business catering division, and an eating establishment. Because of the economic slump and intensification of competition, however, sales were following a downward path. At the same time, the reconstruction of a food services affiliate run by a relative and acquired in order to provide business support ran into difficulties. As the company depended on borrowing to provide financial support worth some ¥2.2 billion during this time, borrowing became locked-in, putting pressure on B Ltd.’s own business. As its bank assessed the financial support provided to the food services affiliate to be a “possible non-performing loan”, B Ltd. in effect fell into a state of having more liabilities than assets.

On account of this, the company’s main bank, a city bank, sold and transferred control of the approximately ¥1,200 million loan to B Ltd. to a debt-collection company in March 2003. This prompted the president of B Ltd. to give up trying to reconstrcut its affiliate. In April 2003, it asked a local regional bank to help find a transferee, sold off the affiliate, settled its credits and liabilities, and recorded an extraordinary loss (of ¥1,371 million), revealing in the term ending June 2003 that it had more liabilities than assets. Following a suggestion from the debt-collection company that took control of the debt from the bank that it would waive payment of the remainder and back interest if B Ltd. repaid a certain amount (¥600 million), the president grasped this golden opportunity to revitalize the company, and decided to embark on reconstruction measures.

Revitalization measures using an SME Revitalization Support Council
In order to raise the funds to repay the ¥600 million, the president himself, moreover, the fact that all the parties met together for talks expedited the lengthy process of having to negotiate individually with each financial institution regarding the business plan in order to reach a consensus, ensuring that conclusions were reached more quickly and making the process of development of a reconstruction plan much smoother.

Reconstruction was thus made possible, saving the jobs of the company’s employees and also avoiding the negative impact that would have been felt by local customers and the other 100 or so companies with which B Ltd. did business.
(3) Features of enterprises that develop concrete business plans

It has been shown in the preceding paragraphs that highly specific business plans not only facilitate financing, but are also more likely to be attained. The question we next consider is: What kinds of enterprises prepare such highly specific business plans? Fig. 2-4-39 shows the relationship between number of employees and the development of concrete plans. A correlation between number of employees and preparation of concrete plans can be observed, with small enterprises being particularly less likely to draw up concrete plans. One probable reason for this is that the need for concrete business plans for organizational control increases with size. As preparing a concrete business plan complete with figures takes considerable time and effort, this correlation with size may also be related to the fact that smaller enterprises cannot spare the manpower to develop business plans, and find it more difficult to secure the necessary human resources to prepare plans internally.

In addition, enterprises that are dependent for the majority of their sales on a single product or that are susceptible to the vagaries of the weather are subject to increased uncertainty about the future, making planning more difficult. As Fig. 2-4-40 shows, however, the tendency for more concrete business plans to have a higher level of attainment applies to smaller as well as larger enterprises. For smaller enterprises too, therefore, there are major advantages to the development of business plans.

(4) Background to development of business plans

Having seen that highly specific business plans make it easier for even ailing enterprises to obtain borrowing

---

13) An analysis was also performed of the relationship between equity ratio and development of business plans. However, no clear relationship was observed.

14) For example, the strengthening of management through figures through the adoption of management accounting techniques—such as the determination of detailed manufacturing costs, cost management based on standard cost accounting, and activity-based costing (ABC)—requires a certain degree of specialist knowledge.
from financial institutions, we look next at what factors lead enterprises to produce such plans. Fig. 2-4-41 shows the reasons for the development of business plans according to equity ratio. From the figure, it is apparent that enterprises with a low equity ratio (i.e. enterprises in a poor business situation) are conspicuously more likely to prepare business plans as a result of being “requested by main bank”. Put the other way around, financial institutions want enterprises to indicate specifically how they intend to go about reconstruction through, for example, the development of business plans. One reason for this is the recommendation in the Supplement to the Financial Inspection Manual (Treatment of Classifications Regarding Credits to Small and Medium-sized Enterprises) that “factors such as the appropriateness of business improvement plans” should be “comprehensively considered in categorizing borrowers”. Asked what factors apart from financial status they consider in particular in thus classifying borrowers, more than 80% of financial institutions answered “development of concrete business plan”, indicating that financial institutions place a strong emphasis on such plans (Fig. 2-4-42).

(5) Business revitalization through transfer of business

As noted above, an enterprise may have to abandon trying to rebuild itself through its own independent efforts in the course of drawing up a more feasible business plan. Even where independent reconstruction is unfeasible, however, this does not mean that immediate exit is the only option. Even where reconstruction might be difficult relying on an enterprise’s internal resources alone, reconstruction may well be possible where use is made of other enterprises’ resources as well.

For example, a manufacturer wanting to produce in-house products that are currently outsourced might find it more efficient to acquire the necessary resources from an existing enterprise with the necessary skills and facilities, rather than by establishing its own production line and training its own employees in the skills needed from scratch. Business transfers can also offer advantages to enterprises seeking to expand production capacity and diversify. Where these needs of enterprises seeking to acquire operations and enterprises unable to reconstruct their businesses through their own efforts coincide, some of an ailing enterprise’s business may survive. This too may be described as a form of revitalization.

**Fig. 2-4-40  Concreteness of plans and level of attainment (up to 20 employees)**

More enterprises with concrete plans achieve them even among smaller enterprises

**Fig. 2-4-41  Background to preparation of business plan (by equity ratio)**

Enterprises with lower equity ratios prepare business plans in response to request by main bank

<table>
<thead>
<tr>
<th>Equity ratio</th>
<th>Hardly attained</th>
<th>Attained a little</th>
<th>Attained somewhat</th>
<th>Almost entirely attained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 0%</td>
<td>16.7%</td>
<td>10.7%</td>
<td>5.5%</td>
<td>12.4%</td>
</tr>
<tr>
<td>0% to 5%</td>
<td>10.1%</td>
<td>8.7%</td>
<td>5.1%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Over 5% to 10%</td>
<td>7.6%</td>
<td>7.1%</td>
<td>5.9%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Over 10% to 20%</td>
<td>6.0%</td>
<td>6.6%</td>
<td>5.7%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Over 20% to 40%</td>
<td>4.5%</td>
<td>5.2%</td>
<td>5.5%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Over 40%</td>
<td>3.8%</td>
<td>4.2%</td>
<td>5.1%</td>
<td>10.1%</td>
</tr>
</tbody>
</table>

Note: Only enterprises with 20 or fewer employees are included.
For the transferor, this secures its employees’ jobs and, if it is compensated for the transfer, may also reduce its debts. As a consequence, the damage may be less than in the case of bankruptcy.

In what circumstances, then, is reconstruction through transfer of business a possibility? We can gain a certain amount of insight into this question by analyzing the results of JASMEC’s Fact-finding Survey on the Retirement of Small-Enterprise Entrepreneurs (2003), cited earlier in Section 4 of Part II, Chapter 3.

Although this survey was of people who had quit as proprietors, respondents were also asked what happened to their businesses when they quit. The responses to this question are summarized in Fig. 2-4-43. This shows that although 81.9% of respondents answered “exited or liquidated”, the remaining 18.1% answered “transferred to another person or enterprise”. Of this 18.1%, 43.7% said that the transferee was a “customer or supplier” or “other enterprise or individual” other than a relative or employee of the enterprise, i.e. a party outside the enterprise. Let us therefore analyze in detail this segment and focus on business transfers to parties outside the enterprise.

We start by examining the state of the business transferred. As Fig. 2-4-44 shows, enterprises with more assets than liabilities and registering an ordinary profit in the previous term accounted for a large proportion (40%) of enterprises that transferred business to an outside party, indicating that enterprises in good financial condition find it comparatively easy to execute business transfers. If the focus is on business transfers as a means of reconstruction, however, the fact that enterprises in healthy financial condition will not be the ones involved in transfers means that their experience will not provide many useful lessons on transfers for ailing enterprises. Focusing therefore on enterprises that have fallen into financial difficulties—i.e. enterprises with more liabilities than assets and registering an ordinary loss for two consecutive terms—we find that such enterprises account for 7.5% of transfers to outside parties. It is thus not necessarily the case that reconstruction through business transfers is impossible simply because an enterprise’s financial status is not good.

However, what kinds of enterprises are capable of business transfers despite not being in a healthy financial state? It goes without saying that business transfers will only occur if they suit the interests of both parties. In particular, where business transfers are used as a method of reconstruction, it is important that the transfer should offer some benefit to the transferee. Facilitation of the introduction of new processes, as described above, is one such advantage. Absorption of strengths not possessed by the transferee is another possible objective. While the...
attractions of a transfer to the transferee can in reality take all manner of forms, below we examine whether the existence of business strengths is related to business transfers.

Among respondents with more liabilities than assets that said that they had “business strengths”, 6.8% transferred their business to customers, suppliers and third parties outside the enterprise. In contrast, the proportion of respondents without “business strengths” was 4.0% (Fig. 2-4-45). Based on this, we may conclude that there is a comparatively high probability that enterprises will be able to use business transfers as a means of reconstruction, even if they are in a poor financial situation, provided that they have business strengths.

### Fig. 2-4-44 Financial status before transfer of businesses acquired by transferees other than relatives, directors and employees

Some enterprises transfer business to outside parties despite having net liabilities and making an ordinary loss for two consecutive terms.

- More assets than liabilities and ordinary profit in previous term
- More assets than liabilities and ordinary loss in previous term only
- More assets than liabilities and ordinary loss for two consecutive terms
- Assets equal liabilities and ordinary profit in previous term
- Assets equal liabilities and ordinary loss in previous term only
- Assets equal liabilities and ordinary loss for two consecutive terms
- More liabilities than assets and ordinary profit in previous term
- More liabilities than assets and ordinary loss in previous term only
- More liabilities than assets and ordinary loss for two consecutive terms

Enterprises with more liabilities than assets 14.0%

### Fig. 2-4-45 External business transfers and strengths of enterprises with net liabilities

Enterprises with business strengths may be able to transfer business to external parties even if they have net liabilities.


Notes:
1. “Proprietors who transferred to business connections or third parties” are former proprietors who responded that they transferred their business to a party other than a “relative” or “director or employee” within the enterprise.
2. Only respondents who had more liabilities than assets when they decided to quit as proprietors are included.
4. **Attitude of financial institutions to ailing enterprises**

**Advantages of business improvement measures to financial institutions**

We have examined so far the potential of concrete and feasible business plans to facilitate financing and act as one means by which ailing enterprises can rebuild themselves. What, then, of measures by financial institutions to assist business reconstruction? Below, therefore, we turn our attention to financial institutions to look at the measures toward business reconstruction taken by financial institutions.

For financial institutions, if a borrower falls into financial difficulties and defaults on its liabilities (e.g. due to bankruptcy), it runs the risk of being unable to recover its loans. Even where an enterprise does not actually go bankrupt, loans to enterprises in low borrower categories require that steps be taken, such as the provision of large reserves in case of loans becoming irrecoverable, putting pressure on bank profits. Conversely, there are advantages for financial institutions even where an ailing enterprise rebuilds itself and enters a higher borrower category, as even this alone means a financial institution no longer needs to set aside so much in reserves. If that enterprise can then go into profit and achieve fresh growth, this may translate into increased earnings for a financial institution through its dealings with that enterprise.

The “Action Plan Concerning Enhancement of Relationship Banking Functions” released in March 2003 by the Financial Services Agency also called on financial institutions to further step up their efforts “for upward transition of loans from ‘need attention’ to ‘normal’ category”¹ and preventing the fresh occurrence of non-performing loans. Increased action to improve the management of SMEs is thus a major business priority for financial institutions as well, and an increasing

---

**Case 4-3 Expansion of business through acquisition of business from ailing enterprise**

C Ltd. (256 employees) is a subcontractor to D Ltd., a leading manufacturer of heavy industrial equipment. It played an important role as D Ltd.’s primary contractor since before the Second World War, and with its strong personal and technological networks and connections, its business steadily grew.

**Background to M&A**

C Ltd. recently started taking more orders as D Ltd. started to outsource more of its business. As its existing capacity was insufficient, it began looking into a suitable solution. It was at this point that it was approached by a sub-main bank regarding acquiring E Ltd., a manufacturer of pressed parts for electrical equipment that was one of its borrowers. E Ltd. had been a subcontractor for a leading electrical appliance maker. The closure of operations by this manufacturer, however, caused orders to crash and led to the proposal that C Ltd. acquire its business rights, site, plant, facilities and even workforce in their entirety.

C Ltd. consulted its main bank, which confirmed that it had loans to E Ltd. and would provide full support for C Ltd.’s acquisition of E Ltd.

**Reasons for choice of M&A**

As C Ltd. had used E Ltd. as a contractor in the past, and E Ltd. had comparatively new plant facilities and was well located not too far from C Ltd., the president made the decision to acquire E Ltd. just two months after the idea was first proposed. Because of the way in which the proposal first emerged, both the sub-main and main banks were supportive and agreed to provide joint financial backup. There was thus little concern regarding the funding side of the project.

Regarding the employees, C Ltd. inherited the entire workforce, including executives up to the rank of executive managing director.

**Points considered at time of acquisition**

As C Ltd. inherited E Ltd.’s business relations when it acquired the company, it took care not to inconvenience its customers. However, it also reexamined the profitability of these accounts based on its own standards, and gradually replaced them. Each and every one of E Ltd.’s employees was also met individually in advance to assuage their concerns about the takeover. After the takeover, differences in attitudes concerning delivery times and quality issues were eliminated and awareness improved by transferring employees between the two companies to accelerate interaction between the two.

One year after the acquisition, E Ltd.’s former employees are getting used to work at C Ltd., and capacity utilization is steadily growing.

---

¹ The text seems to refer to a category scale used in financial assessments, where 'need attention' is a lower category than 'normal', suggesting a progression in creditworthiness or risk assessment.
number of financial institutions are taking measures to improve the management of their business customers.

(2) Criteria used by financial institutions
In actually providing support, what aspects of enterprises do financial institutions focus upon in order to decide whether to provide support to that enterprise?

Fig. 2-4-46 depicts the factors that financial institutions place particular emphasis upon when decided whether to provide support, shown according to type of financial institution. According to this, a high proportion of financial institutions of all types place particular emphasis on the eagerness of the proprietor to improve management and whether or not the proprietor has a correct perception of his or her company’s actual situation. What financial institutions want above all else, therefore, is some indication of the proprietor’s recognition of the problems faced and desire to correct these problems.

Whether or not the bank concerned is the borrower’s main bank is also an important factor, particularly among larger institutions. This may be due to a number of reasons. One may be that main banks have comparatively stronger ties with enterprises and so are able to acquire a variety of information more easily. Another is that if a bank is not an enterprise’s main bank, management improvements may not be feasible unless that enterprise’s main bank, which has extended the largest loans, also provides support.

A high proportion of larger financial institutions especially also place particular emphasis on disclosure of business information, suggesting that financial institutions require information in order to decide whether improvements in business will really be achieved if support is provided.

As we have seen, financial institutions place a particularly strong emphasis on proprietors’ motivation. From this, we may conclude that the development of business plans is extremely significant in that they provide concrete expressions of a proprietor’s motivation and an enterprise’s course of reconstruction.

![Fig. 2-4-46 Criteria used by financial institutions when deciding whether to support management improvements at SMEs (by type of financial institution)](image-url)

Another important criterion in addition to motivation of proprietor and disclosure of business data is whether or not a bank is the borrower’s main bank.


Note: Totals exceed 100 due to multiple responses.
Case 4-4  Company on verge of eliminating excess of liabilities over assets as independent reconstruction efforts bear fruit

F Ltd. is an SME with 65 employees whose main line of business is the precision forging of transportation equipment. The present company was established by four brothers based on the company originally founded by their father, and the business expanded centered on the press forging of automobile components for a major automaker, G Ltd., a key customer since their father’s time.

Background to financial difficulties
With performance growing at a healthy pace, F Ltd. established the third plant in June 1989 to complete its three-plant structure. It invested too much in the new plant, however, on top of which sales plummeted as the bubble economy collapsed. The company’s finances and earnings position deteriorated, and it was pushed to the verge of bankruptcy.

To escape these difficulties, the fourth son in charge of sales and technology acceded to the other three brothers’ request and became president in August 2000. While outwardly he was appointed as president to pursue reconstruction, the real objective was corporate consolidation with a view to bankruptcy. However, the new president resolved to do all in his power to avoid hurting employees, customers, suppliers, banks and other business connections as far as possible, and set about measures to revitalize the company.

The president began by seeking the support of G Ltd., which accounted for around 50% of the company’s sales. As he had little knowledge of financial matters, he had G Ltd. send in one of their accounting experts to conduct a financial assessment of F Ltd. The decision as to whether or not reconstruction was possible was left to G Ltd., and F Ltd.’s president resolved to put the company into bankruptcy if it was concluded that reconstruction would not be possible.

Having surveyed F Ltd.’s financial position, G Ltd. concluded that it could be rebuilt provided that appropriate action was taken, and that F Ltd.’s existence was absolutely essential to the procurement of parts required by G Ltd. An accounts manager was then sent in. Because of its cash-strapped position, F Ltd. made a request to G Ltd. for funds to provide the operating capital that it required, but was refused, and instead received support in the form of one month’s prepayment of accounts receivable (¥20~25 million). (This support continued until December 2002.)

Stalled negotiations with main bank
While business conditions were good, F Ltd.’s relations with its main bank (a city bank with which it had done business for some 40 years) and other banks of account were friendly. When conditions deteriorated, however, they become much less accommodative. Despite requesting assistance from the various banks with which it did business, it met with a stern response, and was told that no further loans would be forthcoming even with a change of president. In particular, its main bank pulled out of providing a promised additional loan of ¥5 million at the last minute.

Having been refused additional loans by its banks of account, it was like manna from heaven when a local financial institution on the hunt for new business gave it a loan of ¥20 million. Even now, the president feels indebted for this loan. The president felt that as a result of this incident, relations with its main bank were irreparable, and decided to apply for operating funds from a government-affiliated financial institution introduced by an acquaintance. It was thereafter able to gradually repay its borrowing from its main bank, after which it ceased to do business with it.

Reconstruction measures
The president set about developing a reconstruction plan. Not having any accounting experience, however, he encountered great difficulties, as he knew nothing about accounting or how to go about negotiating with banks. Development of an overall reconstruction plan was therefore led by a former employee of G Ltd., while the leading figure in developing financial data was a former employee of H Ltd., a leading construction equipment manufacturer that was one of F Ltd.’s customers, who together worked alongside F Ltd.’s own staff. The president asked those engaged in drawing up the plan about anything that he did not understand, and adopted their views when they coincided. Where opinions diverged on important matters, experts were consulted. Regarding financial matters, the president frequently consulted a friend working at a trading company. This advice from various sources was enormously useful when the president had to decide the company’s basic business policy. As a result, a reconstruction plan consisting of the following key points was drawn up:
- Sale of one plant (sold off in March 2001 for ¥200 million)
- Reduction of personnel expenses (30% cut in base pay for six months from August 2001, and a 15% cut thereafter)
- Improvement of profitability through centralization of manufacturing operations
- Improvement of each division’s productivity through the injection of human resources from key customers
- Compilation of information using the president's broad personal contacts
Regarding funding, which was a problem for the company on account of being unable to obtain additional loans from its banks of account, F Ltd. sought advice on borrowing of operating capital from a government-affiliated financial institution recommended by the chairman of an informal association of suppliers, customers and subcontractors of H Ltd. The company was consequently visited for inspection the following month, and obtained a loan of ¥130 million for operating capital in February 2001 on condition that the reconstruction plan developed should be pursued and security provided. As a result of obtaining this borrowing, the president grew more confident that the company could be successfully rebuilt.

Even now, the president says that he does not really know why the government-affiliated financial institution helped his company. A likely major reason, however, is that it decided to lend to the company on account of factors including F Ltd.’s technological expertise in precision forging, the support of a major automaker (i.e. G Ltd.), and the provision of sufficiently safe security. The president also later heard from the branch manager that a loan was provided because “the president just seemed so enthusiastic about reconstruction”.

**Progress toward reconstruction**

After registering an ordinary loss for two consecutive years in fiscal 2000 and fiscal 2001, F Ltd. managed to go into the black with an ordinary profit in fiscal 2002. Against the backdrop of healthy growth in earnings, the company is on the verge now of eliminating its excess of liabilities, and its reconstruction efforts are steadily bearing fruit. One reason for the success of these efforts is the president’s bold negotiating strategy, backed by the company’s technological expertise in precision forging and the high quality of its molds.

It also goes without saying that when these were translated into action, the president’s “do or die” approach to negotiations, strong desire to reconstruct the company and leadership were also essential.

---

(3) Methods of support used by financial institutions

What methods of supporting management improvements at SMEs are used by financial institutions? Fig. 2-4-47 depicts the proportion of financial institutions that said that they used the methods shown “very frequently” or “frequently” to support management improvements at SMEs according to type of financial institutions. According to the figure, considerable use is made of intangible forms of support, such as advice on management, and easing of terms of repayment (without reducing or exempting from payment of interest or waiving principal), which has the effect of temporarily easing an enterprise’s financial position. On the other hand, hardly any use is made of methods that inflict direct losses on financial institutions, such as reduction or exemption from payment of interest, and waiving of principal. This is probably due in the main to a combination of two factors: (1) a judgment that it does not make economic sense to support an enterprise to the extent that some of the principal of a loan is abandoned, and (2) the risk of “moral hazard”, i.e. the concern that abandoning one enterprise’s debt could lead to a financial institution being besieged by other enterprises wanting similar treatment.

Even where support is obtained, however, whether or not that support can be sustained is another matter. Fig. 2-4-48 shows the results of a questionnaire asking financial institutions about the obstacles to continuing support after its commencement. According to this, all types of financial institution except leading banks consider the poor motivation of proprietors to be a particular obstacle. Even where support is obtained from a financial institution, this represents only the beginning of reconstruction. With the real work still to come, a proprietor cannot afford to relax at this stage.
Fig. 2-4-47 Methods used by financial institutions to support SMEs
While all types of financial institution provide advice and suggestions, few reduce or exempt from interest or waive principal

Notes: 1. Percentage of valid responses accounted for by “use very frequently” and “use frequently” regarding each method. 2. Totals exceed 100 due to multiple responses.

Fig. 2-4-48 Particular obstacles to continuation of support after commencement (by type of financial institution)
Even if support is received, poor motivation of proprietors makes continuation by financial institutions difficult

Note: Totals exceed 100 due to multiple responses.
Chapter 4 — Financing diversity

Case 4-5 One local financial institution’s positive action to improve its borrowers’ management

Bank I, a regional bank, is actively engaged in improving the management of its customers in line with its stance that revitalizing the regional economy secures its own existence and is the role that regional banks should first and foremost play.

Background to efforts to improve management of customers
The region that forms the basis of Bank I’s business is home primarily to a number of key local industries, including automobile-related industries, shipbuilding and textiles. Due mainly to the slump in domestic demand with the prolonged recession from the 1990s and the shift in production overseas, especially to China, the manufacturing-dominated local economy ran into severe conditions. As a result, customers that had posted stable results, such as local enterprise formerly considered to rank in a good standing and primary contractors to listed enterprises, were unable to keep up with rapid changes in the external environment; sales slumped and financial positions deteriorated, forcing action to tackle business problems of unprecedented severity. These circumstances prompted Bank I to rethink its own role, given its close relations with the local economy as a regional financial institution. It therefore revamped its thinking, adopting the view that the core purpose of local banks is to help customers to solve their business problems and contribute to the prosperity of the regional economy and, in turn, their own prosperity. This approach was translated into reality by the establishment of the “CF Group” and the “Automobile Industry Support Office”.

Measures undertaken by the CF Group and results
CF is an abbreviation for “corporate finance”, and the purpose of the CF Group is to play an active part in the improvement of management at customer enterprises and support improvements in their finances. The CF Group took charge of loans to 186 borrowers, selected mainly from borrowers classified as “need attention” with outstanding loans of at least ¥100 million provided by Bank I as a main bank or sub-main bank. These loans came to a total of ¥171 billion. Believing in the importance of an enterprise’s own desire to improve its management, the group began by meeting borrowers’ proprietors and ensuring that they were committed to pursuing improvements. At the time, few borrowers knew the term “borrower category”, and many were unable to rid themselves of the belief that things would get better sometime. There was thus considerable resistance from proprietors to pressure from a financial institution to undertake management improvements. In particular, it was not uncommon for proprietors to respond to the suggestion by a financial institution that it improve its management by asking what the financial institution itself would be doing, i.e. by making an implicit request for a loan. To this, the group responded by explaining frankly that the job of a financial institution was not just to lend money. Where borrowers expressed a willingness to engage in management improvements, the group worked alongside them to develop improvement plans and introduced consultants where specialist knowledge was required, thus providing active support for action taken by borrowers to improve their management.

As a result of such support, the group produced excellent results, with the proportion of “normal” borrowers for which the group was responsible rising from 13.4% in April 1999, when it was established, to over 40% in the space of two years. Reflecting these results and changes in the bank’s internal structure, the group’s borrowers were re-selected in 2001. In 2003, the CF Group was reorganized into two teams in charge of CF with strengthened functions, and the number of borrowers for which it was responsible was increased to around 500 (with outstanding loans worth ¥400 billion). The restriction of borrowers to that using Bank I as their main bank or sub-main bank was also eliminated, further strengthening support for enterprises.

Support for local industries
In 2001, Bank I launched an “Automobile Industry Support Office” in order to focus on the local automobile-related manufacturers that comprised an important local industry. (A similar office specializing in the local shipbuilding, marine transport and textile industries was also later established.) This emerged from a separate initiative to the CF Group in order to find a way in which the bank could assist the local automobile-related industries. The bank selected a broad variety of enterprises regardless of performance—ranging from parts manufacturers to sales outlets—that all had one thing in common: their involvement in the automobile industry. Regarding what it could do for these enterprises, however, the bank began with a blank sheet of paper.

The office started by acquiring the specialist knowledge it lacked by bringing in a former sales manager at a leading automaker, and began reviewing its borrowers’ technological capabilities and strengths and weaknesses in order to assess their technological level. In order to help borrowers expand their marketing outlets, it then embarked on measures such as organizing business meetings with a number of leading automakers in collaboration with local government. At first, not a
5. Smooth reconstruction and finance

Essential to the reconstruction of ailing enterprises are concrete and feasible business plans. As enterprises that have fallen into financial difficulties have funding problems, the reconstruction options open to them are inevitably limited. In order to make the most of these limited means and successfully rebuild themselves, it hardly needs to be said that the efforts of the enterprise itself are the most important thing. Also essential, however, is the cooperation of other related parties working in collaboration with the enterprise.

In order to obtain this cooperation, however, an enterprise must indicate how it intends to go about reconstruction and explain in concrete detail why it requires cooperation. In this sense, business plans not only serve to identify challenges that an enterprise should itself tackle, but are also an essential means of gaining the cooperation of other parties. Especially essential is the cooperation of financial institutions, which are a crucial financial component of the reconstruction process. This because no matter how feasible a business plan might be, an enterprise will go bankrupt there and then if it has no cash reserves. For this reason as well, financial institutions need to be flexible in their responses when they judge that an enterprise is capable of reconstruction by, for example, temporarily reducing the amount for repayment.

Section 3 Features of SMEs using the receivable-backed loan guarantee program

In this section, we identify the features of enterprises that raise funds by using accounts receivable as security under the receivable-backed loan guarantee program introduced in December 2001 (Appended Note 2-4-6) as an alternative method of financing to traditional borrowing from banks depending on real estate security.

1. Significance of accounts receivable for SMEs

Fig. 2-4-49 shows the proportion of accounts receivable by number of employees and year. According to this, the proportion of accounts receivable is more stable at larger

---

15) The receivable-backed loan guarantee program here referred to is a program under which guarantees are provided by credit guarantee corporations using accounts receivable from customers as security for loans from financial institutions.
enterprises. On the other hand, there is considerable fluctuation at enterprises with fewer employees. There is a particularly conspicuous blip in fiscal 1998 at the time of the financial crisis. This was due to a number of factors, including changes in the terms of receipt in response to requests from customers.

Accounts receivable are essentially accounts due from business arising from ordinary business transactions with customers. They arise when products are sold, and payment is received at a later date rather than immediately. To put it another way, they are a form of credit provided to a customer from the time of sale to when payment is collected.

From the customer’s point of view, accounts receivable are one means of short-term financing until payment. For SMEs that are less able than large enterprises to obtain the lending that they desire, they are also an important means of financing. Below, therefore, we identify the characteristics of enterprises that engage in transactions using accounts receivable from this viewpoint.

2. Features of enterprises doing business using accounts receivable

We start by looking at just what kinds of enterprises do business using accounts receivable. Fig. 2-4-50 shows the proportion of enterprises doing business using accounts receivable according to number of employees. From this, it can be seen that, overall, an extremely large proportion of enterprises do business using accounts receivable.

If we next break down enterprises according to industry, we find that in the vast majority of industries (with the exception of the real estate and food service industries), practically all enterprises use accounts receivable. The lower percentages in real estate and food services are most likely due to the prevalence of “cash business” in these industries on account of the need for speed in the
purchase of real estate (because the opportunity to purchase a property can be lost unless a deposit is paid within a week), and the provision of goods in exchange for cash in food services (Fig. 2-4-51). Looking at the relationship with the response of main banks to loan applications, we see that a higher proportion of enterprises able to obtain the lending that they desired do business using accounts receivable than other enterprises (Fig. 2-4-52). If we look finally at short-term borrowing rates, we find that hardly any difference is apparent in rates between enterprises engaging and not engaging in transactions using accounts receivable (Fig. 2-4-53).

As selling using accounts receivable means extending credit to customers, enterprises that use accounts receivable are generally those with a certain degree of financial leeway. On the other hand, there may also be

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig2-4-52.png}
\caption{Proportion of enterprises engaging in transactions using accounts receivable (by response of main bank)}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig2-4-53.png}
\caption{Short-term borrowing rates (according to engagement in transactions using accounts receivable)}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{fig2-4-54.png}
\caption{Use of the receivable-backed loan guarantee program}
\end{figure}
some enterprises that can sell only on credit rather than for cash\(^{16}\) (Appended Note 2-4-7).

### 3. Use of the receivable-backed loan guarantee program

The receivable-backed loan guarantee program was established in December 2001 to overcome excessive dependence on use of real estate as security and facilitate SME financing. It offers a new means of financing using accounts receivable arising out of ordinary business transactions, rather than land and buildings. Use has steadily grown, with the number of guarantees provided breaking the 10,000 mark in November 2003 (Fig. 2-4-54). For SMEs that are less able than large enterprises to obtain the loans that they desire, this program is likely to offer an important new means of financing. Below, we look at the features of enterprises using the receivable-backed loan guarantee program by dividing them into three categories according to their use of guarantee corporations: enterprises that are using credit corporations but are not using the receivable-backed loan guarantee program (“enterprises not using the receivable-backed loan guarantee program”), enterprises that are using credit corporations and are using the receivable-backed loan guarantee program (“enterprises using the receivable-backed loan guarantee program”) and enterprises not using credit corporations.

Fig. 2-4-55 depicts the state of use of guarantee corporations according to number of employees. This shows that a higher proportion of smaller enterprises are enterprises not using the receivable-backed loan guarantee program and enterprises using the receivable-backed loan program. Next, we look at use according to equity ratio (Fig. 2-4-56). This shows that the lower the equity ratio is, the higher is the proportion of enterprises not using the receivable-backed loan guarantee program and enterprises using the receivable-backed loan guarantee program.

What this means is that both the ordinary guarantee system and the receivable-backed guarantee program are assisting the financing of SMEs that are small in size and dependent on borrowing. The receivable-backed guarantee program differs from the ordinary guarantee system in that partial rather than full guarantees are provided, which means the lender must bear only part of the risk. From the standpoint of the banks, therefore, enterprises that use the receivable-backed guarantee program may be regarded as representing a lesser risk than enterprises that use ordinary guarantees.

In short, it is a system that facilitates the provision of funds to dynamic and capable SMEs by providing a means of financing other than conventional bank borrowing that uses as security accounts receivable backed by business transactions in the case that an enterprise experiences fund shortages when expanding marketing outlets or is unable to obtain borrowing due to lack of security.

\(^{16}\) In the U.S., as well as borrowed money repayable as a fixed amount by the due date, there are also trade payables where the amount payable is discounted if paid by a predetermined time before the due date. For example, “2/10 net 30” means that a buyer must pay the invoice price within 30 days, but receives a 2% discount if payment is made within 10 days.
Case 4-6  One enterprise’s use of the receivable-backed guarantee program

J Ltd. is a Kanagawa-based electrical contractor with capital of ¥30 million that used the receivable-backed guarantee program to smoothly raise funds.

Trigger for use of receivable-backed guarantee program
In 2003, the lending attitude of J Ltd.’s bank of account, Bank K, changed, making it difficult to acquire borrowing as in the past. While J Ltd. had not been hugely dependent on Bank K for financing, smooth borrowing is important to SMEs, and so it needed to find an alternative method of borrowing from Bank K. Searching for a method of raising funds other than from Bank K, it learnt from the prefectural government of the receivable-backed guarantee program, and decided to make use of it.

Hurdles to use of the program
The greatest hurdle to use of the program was obtaining the understanding of interested parties. This included the understanding of financial institutions, as well as customers with accounts receivable. Customers in some cases did not want their accounts to be used as security, and J Ltd. even encountered banks that, when consulted about the receivable-backed guarantee program, refused to even consider it, as they had never used it and so knew nothing about it. This experience prompted J Ltd. to investigate the program itself and explain it to financial institutions.

It was able as a result to obtain their understanding and raise around ¥30 million, providing an important new means of financing. Now it even receives requests from acquaintances and other banks of account wanting to know how it went about receivable-backed financing.

J Ltd.’s position on the receivable-backed guarantee program
J Ltd. values the program highly, explaining that “the spread of the program will provide a useful new means of financing for SMEs that are less able to borrow smoothly than large enterprises”. However, it also points out that knowledge of the program is still limited: “There is admittedly a lack of understanding of the program among enterprises and financial institutions. Knowledge about it is so low that when we talked about using it at a meeting of other businesses in the industry, most of the proprietors hadn’t heard of it.” Regarding this situation, explains the company, “The proprietors of can-do SMEs are always learning about things other than means of financing. Even if this system is a bit more complicated than conventional bank borrowing, such can-do proprietors will make the effort to understand it. We look forward to the further spread of this system as a means of helping the enterprises that make such efforts, not those that do not.”
Final chapter
New partnerships with a diverse range of partners
Further increasing the potential of SMEs as sources of diversity

Thus we conclude the 2004 White Paper on Small and Medium Enterprises in Japan. We have seen how the existence of a diverse range of SMEs is driving changes in the industrial structure, generating a variety of new services, for example, even during the past few years of recession.

We have also seen how SMEs not only make a major contribution to the creation of employment, but also play a particularly important role in providing jobs for women and older people, who find employment harder to come by.

We have confirmed that SMEs play a major role in creating new working arrangements, enabling local residents to provide services uniquely tailored to the needs of the local community, and generating innovative new technologies, and described new forms of SMEs such as SOHO businesses, community businesses and university ventures.

Viewed from this standpoint, SMEs can be seen to act more as an innovative force generating new solutions for the economy and society, rather than just entities responding passively to external changes in the environment.

There are of course several challenges that SMEs must respond to in the future. Two that we have described in this white paper are economic globalization and the aging of entrepreneurs.

Regarding the former issue of globalization, this is not something that Japan can halt, and it is important that SMEs (1) see globalization as providing new business opportunities and actively expand their operations overseas, or (2) respond by increasing the value added by their domestic operations. Regarding option (1), we have seen in the text that performance varies according to factors such as the way in which overseas operations are established and the production control methods used in the host country. Regarding the second option of working to make domestic operations more competitive, we have seen from the cases of enterprises engaging in both domestic and overseas production activities that R&D and the development of own brands are valuable tools.

The second issue of aging is an unavoidable one for Japan, and we have examined in this white paper the issues of business successions and exits, which are growing increasingly important as proprietors age.

Regarding business succession, we have seen how, despite various “frictions” between the original enterprise and the new proprietor in the early stages, successions can succeed by serving as an opportunity for new initiatives.

In the case of exits where a successor cannot be found, it was demonstrated that withdrawal while assets still exceed liabilities ensures a better life after exit than withdrawal when liabilities exceed assets.

Regarding finally finance, we examined the financing difficulties encountered by enterprises entering new fields, and the importance to corporate reconstruction of business plans containing concrete figures.

SMEs face a variety of challenges, both during times of strong economic growth and recession. As we saw at the start, however, SMEs are filled with the potential to constantly create and innovate. If this potential can be realized, SMEs have the ability to overcome numerous problems and serve in the vanguard of the economy and society.

In the future, SMEs’ creativity will be further increased by the formation of diverse partnerships with SMEs in geographically distant regions, and new forms of collaboration with enterprises in other industries, research institutes, NPOs, and a variety of other players.

In the future, as in the past and the present, SMEs will continue to act as pacesetters in the economy and society. And on that final note, we conclude the 2004 White Paper on Small and Medium Enterprises in Japan.
SME POLICIES PLANNED
FOR FISCAL 2004
This section gives only a broad outline of program content and spending.
Details are subject to change.
Contents

Chapter 1  Introduction ............................................................................................................ 272
Chapter 2  Facilitation and diversification of SME financing .................................................. 272
Chapter 3  Support for revitalization of SMEs ........................................................................ 273
Section 1  Promotion of support for reconstruction of SMEs under the Law on Special Measures for Industrial Revitalization ......................................................... 274
Section 2  Facilitation of financing for revitalization of SMEs .................................................. 274
Section 3  Support for formation of business roadmaps ............................................................ 274
Section 4  Support for finding successors and M&A matching ................................................... 275
Chapter 4  Support for startups, new business ventures and business innovation .................... 275
Section 1  Support for new business ventures by SMEs .............................................................. 275
Section 2  Facilitation of financing of startups, new business ventures and business innovation ... 275
Section 3  Support for enhancement and development of human resources .............................. 276
Section 4  Support for development of markets ...................................................................... 277
Section 5  Legislative support for startups and business innovation ........................................ 277
Section 6  Support for IT-based systematization in SMEs ........................................................ 278
Section 7  Development of business incubators ...................................................................... 279
Section 8  Support for regional industrial clusters and local industries .................................... 279
Chapter 5  Development of SME support structure ................................................................ 280
Section 1  Business support provided by support centers for SMEs, etc. ................................. 280
Section 2  Support for development of human resources by the Institute for Small Business Management and Technology ................................................................. 281
Section 3  Integrated implementation of measures by the Organization for Small and Medium Enterprises and Regional Innovation ......................................................... 281
Chapter 6  Measures for SMEs in commerce ......................................................................... 282
Section 1  Measures for small and medium retailers ................................................................. 282
Section 2  Measures to improve the logistical efficiency of SMEs .............................................. 283
Chapter 7  Promotion of technological development .................................................................. 284
Section 1  Promotion of technological innovation .................................................................. 284
Section 2  Promotion of collaboration between industry, universities and government .......... 286
Chapter 8  Promotion of support for small enterprises .............................................................. 287
Section 1  Enhancement of small enterprise support programs ................................................. 287
Section 2  Loans for managerial improvement funds of small enterprises, etc. (“Marukei”) ....... 288
Section 3  Small enterprise mutual aid projects ...................................................................... 288
Section 4  Small enterprise plant funding programs ................................................................. 289
Chapter 9  Promotion of collaborative organizations of SMEs .................................................. 289
Chapter 10 Promotion of measures for small and medium subcontractors and public demand measures ............................................................................................................ 290
Section 1  Measures for small and medium subcontractors ...................................................... 290
Section 2  Pursuit of measures to ensure access to public demand .......................................... 291
Chapter 11 SME business stability .......................................................................................... 291
Section 1  Support for business stability of SMEs ................................................................. 291
Section 2  SME disaster relief .............................................................................................. 292
Section 3  Corporate pension measures for SMEs .................................................................. 292
Chapter 12 SME taxation ....................................................................................................... 292
Section 1  SME-related taxation ............................................................................................ 292
Section 2  Measures to facilitate SMEs’ compliance with revision of consumption tax exemptions ... 293
Chapter 13 SME globalization .................................................................................................. 293
Chapter 14 Promotion of employment and welfare measures .................................................. 294
Section 1  Promotion of labor measures ................................................................................. 294
Section 2  Promotion of welfare programs ............................................................................. 295
Chapter 15 Special measures .................................................................................................. 296
Section 1  Special measures for specific industries ................................................................. 296
Section 2  Response to energy and environmental issues ....................................................... 302
Section 3  Promotion of human rights awareness ................................................................. 303
Section 4  Measures for SMEs in Okinawa ............................................................................ 303
Chapter 16 Promotion of surveys and public information activities ......................................... 303
Section 1  Surveys .............................................................................................................. 303
Section 2  Publicizing of measures .......................................................................................... 303

SME POLICIES PLANNED FOR FISCAL 2004
Chapter 1  Introduction

The Japanese economy continued to steadily recover from the start of 2004, with large enterprises, which are strongly affected by growth in capital investment and exports, leading the way. SMEs, on the other hand, are affected more by private consumption, and so their recovery has lagged behind their larger brethren and they continue to face severe economic conditions. SMEs hold the key to the revitalization of the Japanese economy and maintenance and generation of employment, and it is crucial that they overcome their present severe circumstances to blaze new trails in the future.

In recognition of this, the focus of SME policy in fiscal 2004 will be on the following three priorities.

Firstly, priority will be placed on financial measures for SMEs. Amid concerns that the accelerating disposal of non-performing loans by financial institutions could negatively affect SMEs, a secure financial safety net will be developed to help avoid the collapse of motivated and capable SMEs. At the same time, the diversification of SME financing will be promoted by such means as promoting methods of financing that do not depend excessively on real estate security and guarantors.

Secondly, priority will be placed on supporting the revitalization of SMEs. SMEs are at the core of regional economies, and are highly diverse and local in character. Finely tailored and flexible support mobilizing local resources will therefore be provided for the revitalization of SMEs working in collaboration with regional financial institutions and specialists such as SME management consultants and certified public accountants, with the lead role played by the SME revitalization support councils established in prefectures throughout Japan.

Thirdly, priority will be placed on support for startups and SMEs entering new fields of business. With SMEs continuing to face severe financial circumstances, it is critical that startups and new business initiatives by SMEs be boosted and translated into economic revitalization and the creation of jobs. Strong backing will therefore be provided to SMEs undertaking new initiatives in the form of assistance in areas such as funding, human resources, technological development and market cultivation.

Chapter 2  Facilitation and diversification of SME financing

Despite the steady recovery in business conditions since the start of 2004, the recovery among SMEs lags behind that of large enterprises. In order to ensure that financing of motivated and capable SMEs is not impeded amid these conditions, a secure financial safety net will be developed for SMEs, and efforts will be made to expand new means of financing to diversify the financing of SMEs.

1. Enhancement of financial safety net for SMEs

1) Expansion of safety net guarantee and loan programs and use of refinancing guarantee program

The minimum total liabilities required to qualify for a safety net type 1 guarantee (for business affected by large-scale bankruptcies) from credit guarantee corporations will be lowered from ¥3 billion to ¥1.5 billion.

Regarding safety-net loans by government-affiliated financial institutions, eligibility will be expanded to include businesses at risk of being affected by social factors such as BSE.

In addition, in order to alleviate the burden of repayment of existing loans and facilitate the financing of SMEs, a financing facilitation refinancing guarantee program was launched on February 10, 2003 to promote refinancing of borrowing guaranteed by credit guarantee corporations, and active use of this program will continue to be promoted.

2) Strengthening of financial basis of credit insurance system

The financial bases of JASMEC and credit guarantee corporations will be further strengthened.

<table>
<thead>
<tr>
<th>(Unit: ¥100 million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2003 budget</td>
</tr>
<tr>
<td>Capital investment in JASMEC credit insurance division</td>
</tr>
<tr>
<td>Credit guarantee corporations fund subsidy</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses indicate investment or subsidy under the supplementary budget.
3) Lending plans of government-affiliated financial institutions

<table>
<thead>
<tr>
<th>Japan Finance Corporation for Small Business</th>
<th>FY2003 budget</th>
<th>FY2004 budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>19,000</td>
<td>19,000</td>
<td></td>
</tr>
</tbody>
</table>

| National Life Finance Corporation ² | 31,500         | 31,500         |
|-------------------------------------|----------------|
| Shoko Chukin Bank                   | 18,500         | 18,500         |

Notes: ¹) As the limit on bonds and borrowing under the Fiscal Investment and Loan Program can be increased by 50% where the planned amount is expected to be insufficient due to unforeseeable changes in economic conditions or other unavoidable circumstances (“flexibility clause”), a maximum of up to ¥2,650.9 billion in lending can be made available.
²) Ordinary loans for the National Life Finance Corporation.
³) Under the above flexibility clause, a maximum of ¥4,645.0 billion can be provided in loans if the effects of flexibility are directed entirely towards ordinary lending.
⁴) The Shoko Chukin Bank can ensure the necessary scale of lending by raising the exact funds needed through bond issues corresponding to real demand.

### 2. Expansion of lending not reliant on security or guarantees

1) Support for securitization of loans to SMEs
   Unsecured lending to SMEs will be expanded by adding support for the securitization of loans to SMEs by private-sector financial institutions etc. to the activities of the Japan Finance Corporation for Small Business (to be implemented from July 2004 based on legal amendments).

2) In order to promote greater startup activity and create employment, the limit on loans under the “New Startup Loan Program” to provide unsecured and unguaranteed loans (loans not requiring entrepreneurs’ personal guarantees) to startup entrepreneurs and persons planning startups, subject to detailed examination of business plans, will be raised from ¥5.5 million to ¥7.5 million so as to meet the broad funding demands of startups.

3) Expansion of special measures providing exemption from third-party guarantor requirements of People’s Finance Corporation
   The upper limit for special measures exempting businesses from third-party guarantor requirements for loans will be raised from the present ¥10 million to ¥15 million on condition that interest rates are raised by an amount commensurate with the risk.

4) Establishment of program of lending by government-affiliated financial institutions not requiring entrepreneurs to provide personal guarantees
   A system exempting entrepreneurs from providing personal guarantees on condition that a special agreement (restrictive financial covenant) is concluded (including the maintenance of net assets) will be established under the new business loan programs of the Japan Finance Corporation for Small Business and Shoko Chukin Bank.

5) Active use of receivable-backed loan guarantee program
   Regarding the receivable-backed loan guarantee program, interested parties will be requested to cancel special agreements prohibiting the transfer of receivables, and active publicity activities will be undertaken to publicize the program through media such as public service announcements.

### Chapter 3 Support for revitalization of SMEs

There are concerns that the accelerating disposal of non-performing loans by financial institutions may impact on SMEs. SMEs are many and diverse, and their lines of business and the problems that they face are highly regional in nature.

Given these conditions and features of SMEs, measures will be taken to revitalize SMEs by mobilizing all the resources of the region, with the SME revitalization support councils established in prefectures throughout Japan leading the way to provide flexible and finely tailored support to SMEs.
Chapter 3 — Support for revitalization of SMEs

Section 1 Promotion of support for reconstruction of SMEs under the Law on Special Measures for Industrial Revitalization

1. Support provided by SME revitalization support councils

Under the Law on Special Measures for Industrial Revitalization, support will be provided for measures finely tailored to local conditions to revitalize SMEs implemented by the SME revitalization support councils established in prefectures throughout Japan. In fiscal 2004, the organization of SME revitalization support councils will be reinforced (to provide over-the-counter consultations, strengthen support for the development of reconstruction plans and enhance follow-up after the development of reconstruction plans) in order to further accelerate the revitalization of SMEs. (¥2,667 million budget)

2. Revitalization support provided by regional SME revitalization funds

Under the Law on Special Measures for Industrial Revitalization, the Organization for Small and Medium Enterprises and Regional Innovation (JASMEC until June 2004; the same hereinafter except in Chapter 4, Section 7) will provide financial support for the revitalization of SMEs by investing in regional SME revitalization funds organized by limited partnerships for venture capital investment together with local financial institutions. Local SME revitalization funds will work in collaboration with SME revitalization councils to provide sustained business support to SMEs that are recipients of investment through medium-term holding of stock and credits until full-fledged revitalization, rather than the acquisition of short-term profits.

Section 2 Facilitation of financing for revitalization of SMEs

1) Enhancement of loan programs of government-affiliated financial institutions

Regarding “enterprise reconstruction loans” provided to SMEs needing to take action to improve or revitalize their management, eligibility will be expanded to include businesses undertaking revitalization with the support of SME revitalization support councils from April 2004, and the upper limit on the value of loans of working capital will be increased.

Active use will also be made of DIP finance and DIP guarantees for SMEs in the midst of revitalization using legal reconstruction procedures.

2) Amendment of the Venture Fund Law

The Venture Fund Law (Limited Partnership Act for Venture Capital Investment) enacted in 1998 will be amended to add lending functions to funds and expand the scope of investment by funds (to enter effect immediately after enactment during the ordinary session of the Diet). This will enable funds to provide short-term bridge loans to ventures, loans for business innovation by middle-tier enterprises, and loans to enterprises in the midst of turning their businesses around (DIP finance). It will also enable funds to take the initiative in business reconstruction by acquiring the debts of enterprises in which they are investing or plan to invest and converting them to stock (debt-equity swaps). Funds will in addition be enabled to invest in middle-tier enterprises requiring funding for growth as well as unlisted SMEs.

Section 3 Support for formation of business roadmaps

The Organization for Small and Medium Enterprises and Regional Innovation will operate a “Business Tracking Support Site” for objective financial analysis of enterprises’ business situation using the CRD (Credit Risk Database for Small and Medium Enterprises) hosted at J-Net21 to enable SMEs to swiftly and objectively determine the state of their businesses at no cost. (Portion of ¥22,918 million budget)
Section 4  Support for finding successors and M&A matching

1. Successor matching programs

The Central Federation of Societies of Commerce and Industry will establish a “successor recruitment” site in order to provide a virtual plaza where entrepreneurs looking for successors and those interested in becoming successors can publish information online. Prefectural federations of commerce and industry associations, commerce and industry associations and chambers of commerce and industry will also organize local exchange meetings and accumulate know-how and information on cases of entrepreneurs who find successors. (¥116 million budget)

2. M&A matching support program

The Organization for Small and Medium Enterprises and Regional Innovation will develop an M&A database accessible via J-Net21 to facilitate smooth access at the national level to information on M&As held by some public and private institutions. (Portion of ¥22,918 million budget)

Chapter 4 Support for startups, new business ventures and business innovation

There are concerns that the “metabolism” of the Japanese economy is slowing and losing its vitality on account of factors such as the exit rate overtaking the entry rate. To overcome this situation in order to revitalize the Japanese economy and create new jobs, it is critical that active support be provided for startups, business innovation and new business ventures. Multifaceted support in areas such as funding, human resources and market development will therefore be provided for startups and existing SMEs seeking to engage in business innovation and new business ventures.

Section 1 Support for new business ventures by SMEs

1. Promotion of formation of “Ganbare! Chushokigyo Fund”

Firm support for expansion into new business ventures by SMEs will be provided through the formation of a “Ganbare! Chushokigyo Fund” by the Organization for Small and Medium Enterprises and Regional Innovation in collaboration with private-sector entities able to offer expert insight into businesses and equipped with sales networks in order to provide funding and finely tailored support for activities such as the expansion of market outlets to SMEs encountering difficulties in undertaking new business ventures despite having outstanding technologies and ideas.

2. Support for SMEs and ventures

In order to help bring highly innovative but high-risk technology “seeds” and business ideas of SMEs and other businesses to market, subsidies will be provided to cover part of the cost of R&D on commercialization, market cultivation and similar activities undertaken by SMEs. Integrated consulting services to help give shape to business plans and support for startups and new business ventures will also be provided. (¥3,387 million budget)

Section 2 Facilitation of financing of startups, new business ventures and business innovation

(1) New startup loan program

In order to promote greater startup activity and create employment, the limit on loans under the “New Startup Loan Program” to provide unsecured and unguaranteed
loans (loans not requiring entrepreneurs’ personal guarantees) to startup entrepreneurs and persons planning startups subject to detailed examination of business plans will be raised from ¥5.5 million to ¥7.5 million so as to meet the broad funding demands of startups.

(2) Investment in venture funds
In order to promote investment in domestic ventures in the early stages of growth, the Organization for Small and Medium Enterprises and Regional Innovation will implement a system for investment in limited partnerships for venture capital investment.

Section 3 Support for enhancement and development of human resources

Mechanisms and networks will be developed to match the business know-how and skills of former employees of enterprises and entities such as national research institutes to the needs of startups and business ventures and SMEs, and support provided for the development of human resources to expand the range of startup and business innovation activities.

1. Development of human resources (matching support)

(1) Support for SMEs using former employees of SMEs, etc.
The Organization for Small and Medium Enterprises and Regional Innovation and the Japan Chamber of Commerce and Industry will identify and develop a database of human resources (former employees of enterprises, etc.) able to provide advice in areas such as business strategy that expanding SMEs and ventures tend to lack. Information on experienced former employees and SMEs seeking to engage in new business ventures using such human resources will be disclosed online (at the Organization for Small and Medium Enterprises and Regional Innovation’s “J-net21” site) in order to help match each side with suitable partners. (¥574 million budget)
Target: Registration of 10,000 experienced former employees in three years from fiscal 2003
Target region: All prefectures in three years from fiscal 2003

(2) Successor matching support program (see Chapter 3, Section 4.1)

2. Support for development of human resources

Support for development of business management skills will be provided for would-be entrepreneurs, and human resource development activities will be enhanced to assist the development of enterprises undertaking pioneering business innovation.

(1) Program to raise awareness of startups
In order to raise social recognition of startups and ventures, cultivate entrepreneurship among the wider public and create conditions conducive to producing large numbers of entrepreneurs, experienced entrepreneurs and other experts will be brought together to form a “National Startup and Venture Forum” for a nationwide awareness-raising campaign designed to showcase and raise entrepreneurship. Locally oriented programs to stimulate entrepreneurial activity will also be undertaken by Regional Bureaus of Economy, Trade and Industry. (¥307 million budget)

(2) Startup classes and startup seminars
The Central Federation of Societies of Commerce and Industry and the Japan Chamber of Commerce and Industry will hold “startup classes” (30 hours of classes over a period of 10 days providing training in practical skills required for startup).
A new “second startup course” will also be established for entrepreneurs seeking to engage in new business ventures.
In addition, prefectural support centers for SMEs will organize “startup seminars” to help people acquire basic knowledge about startups. (¥1.298 million budget for startup classes, portion of ¥164 million budget for startup seminars)

(3) Business innovation seminars
Prefectural support centers for SMEs will organize “business innovation seminars” to develop the basic abilities required to embark on business innovation for SME entrepreneurs wanting to engage in business innovation. (¥200 million budget for business innovation courses, portion of ¥164 million budget for business innovation seminars)

(4) Business classes and business planning seminars
The Organization for Small and Medium Enterprises and Regional Innovation will organize practical business seminars for startups and venture businesses concerning business strategy and every stage from the preparation of business plans to going public. (Portion of ¥22,918 million budget)
(5) **New startup support training**

The Organization for Small and Medium Enterprises and Regional Innovation will provide training for people planning to establish new startups to equip them with the requisite knowledge, etc. (Portion of ¥22,918 million budget)

### Section 4  Support for development of markets

1. **Support for development of Brand Japan**

   In order to boost the brand strength of products and services utilizing regional features and develop their reputation in domestic and overseas markets, comprehensive support leading up to overseas expansion will be provided in areas such as design, quality and marketing. (¥930 million budget)

2. **Sponsorship of new partnership measures**

   The cost of identifying enterprises and universities for partnerships and developing partnership organizations will be subsidized in order to assist measures to raise the value added of products and services by distinctive SMEs and other organizations with specialist knowledge and advanced technology and similar resources. (¥546 million budget)

3. **Organization of fairs for startups and development of new business**

   (1) **New market startup support program**
   
   In order to support startups in new markets by SMEs taking on new challenges, trade fairs will be organized focusing on specific fields in which there exists the potential for the creation of new markets by SMEs (robotics, medical and welfare services, content), and support provided to bring together a wide range of pioneering SMEs, users and buyers from Japan and overseas to open up new markets and expand business. (Portion of ¥22,918 million budget)

   (2) **General fairs for SMEs**

   The development of networks between exhibitors and visitors and business matches between the two will be assisted by expanding the business fairs held up to fiscal 2003 and providing a venue for the showcasing of new products and technologies developed independently by SMEs recognized under the Business Innovation Law. Action will also be taken to publicize and raise awareness of business innovation among both exhibitors and visitors in order to encourage concrete action to innovate in business. (¥237 million budget)

   (3) **Venture matching support**

   A “Venture Fair” will be held in Tokyo, where there are many investors and enterprises with strong demand for new technologies and ideas, in order to exhibit and showcase on a large scale stringently selected outstanding services and prototype products, and so help ventures to raise funds and develop their markets. “Venture Plazas” will also be organized throughout Japan in order to provide matching opportunities for ventures and sources of financing to enterprises nationwide. (Portion of ¥22,918 million budget)

   (4) **Innovation Japan 2004 (trade fair for exhibition of university “knowledge”)**

   In addition to showcasing (exhibiting) the intellectual property of universities and other institutes in cutting-edge fields of technology, briefings on new technologies will be held by university exhibitors, and seminars will be held to provide essential business support to university ventures. This will be the first time that support for matching universities’ technology “seeds” and the needs of industry has been conducted on a nationwide scale.

### Section 5  Legislative support for startups and business innovation

1. **SME Innovation Promotion Law**

   (Temporary Law Concerning Measures for the Promotion of the Creative Business Activities of Small and Medium Enterprises)

   In order to support startups and SMEs seeking to engage in the development of new lines of business through R&D and commercial application of technologies, the following support measures will be provided for SMEs and other ventures engaging in business in accordance with R&D business plans approved by the local prefectural governor under the SME Innovation Promotion Law:

   1) Measures to reduce patent fees and related costs
Section 6 — Support for IT-based systematization in SMEs

1. Promotion of acquisition of IT skills at SMEs

(1) Implementation of seminars and training programs
Using experts in the introduction of IT, prefectural support centers for SMEs will organize seminars for SME entrepreneurs, and provide practical training in IT in order to enable participation in e-commerce. (Portion of ¥164 million budget for seminars, portion of ¥94 million budget for training)

(2) Dispatch of IT experts
1) Dispatch of IT advisers
The Organization for Small and Medium Enterprises and Regional Innovation will dispatch experts to advise on the introduction of IT at the request of SMEs. (Portion of ¥22,918 million budget)
2) Project to stimulate strategic investment in IT (ITSSP – IT Solution Square Project)
Use will be made of experts in both business strategy and IT (IT coordinators, etc.) to promote investment in IT and generate business models for SMEs. (Portion of ¥22,918 million budget)

2. Support for business innovation using IT

(1) IT-based business innovation models
In order to promote business innovation using IT by SMEs in the regional areas, support will be provided for the development and introduction of collaborative network systems between enterprises capable of serving as regional models. (Portion of ¥22,918 million budget)

(2) Fusion of manufacturing and IT
The adoption of IT by small and medium manufacturers (“Digital Meister Project”) will be promoted and the
manufacturing base strengthened through the promotion of efforts to objectify, develop in manual form and digitize the skills of experienced skilled workers in manufacturing, and the development of software systems (platforms) to assist in design and production. (¥149 million budget)

3. Promotion of information provision using IT

(1) e-SME Agency and network project (see Chapter 16, Section 2.1)

Section 7 Development of business incubators

(1) Support for development of business incubators
In order to create new businesses and expand employment in the provinces, support will be provided for local governments and similar entities establishing facilities such as business incubators in regions of high new business potential (advanced technology industrial zones and advanced research zones under the Law for Facilitating the Creation of New Business, specific city centers under the Law on Improvement and Vitalization in City Centers, and infrastructure industry revitalization zones under the Regional Agglomeration Revitalization Law). (¥790 million budget)

(2) Establishment of business incubator by the Organization for Small and Medium Enterprises and Regional Innovation
The Organization for Small and Medium Enterprises and Regional Innovation (the Japan Regional Development Corporation until June 2004; the same on the following page) will establish a business incubator in an advanced research zone or advanced technology industrial zone under the Law for Facilitating the Creation of New Business. (¥2,300 million budget (special industrial investment account))

(3) Establishment of university-affiliated business incubator facilities by the Organization for Small and Medium Enterprises and Regional Innovation
The Organization for Small and Medium Enterprises and Regional Innovation will establish university-affiliated business incubator facilities adjacent to or on university campuses in order to promote the establishment of new ventures emanating from universities and new business ventures by SMEs utilizing the technological “seeds” and knowledge of universities. (¥1,520 million budget)

Section 8 Support for regional industrial clusters and local industries

1. Support measures under the Regional Agglomeration Revitalization Law
The following measures will be undertaken in order to revitalize industrial clusters:

(1) Subsidization of the establishment of small rented offices and factories and test and research facilities for local SMEs by entities such as local governments and commerce and industry associations. (¥36 million budget)

(2) Subsidization of projects to develop new products, etc. undertaken by SMEs whose plans for entry into new fields have been approved by the prefectural governor. (¥311 million budget)

(3) Subsidization of operations to support local SMEs by support organizations listed in revitalization plans. (¥286 million budget)
2. Measures to promote local industries

In order to promote local industries, the following programs will be implemented:

(1) Subsidization of projects to develop new products undertaken by entities such as associations to revitalize local industries. (¥527 million budget)

(2) Subsidization of projects to cultivate markets undertaken by entities such as associations to revitalize local industries. (¥469 million budget)

(3) Subsidization of projects to develop human resources undertaken by entities such as associations to revitalize local industries. (¥221 million budget)

Chapter 5 Development of SME support structure

Support will be provided to give efficient access to business resources required by SMEs to strengthen their business base by providing information and advice on the improvement of SME management methods and offering training for SMEs and staff working with SMEs in order to help solve the business challenges faced by SMEs and contribute to their diverse and dynamic growth and development.

In order to implement these programs and other SME measures efficiently and effectively, the Organization for Small and Medium Enterprises and Regional Innovation will be established as an independent administrative agency.

Section 1 Business support provided by support centers for SMEs, etc.

1. Business support provided by national support centers for SMEs

The National Support Center for SMEs established by the Organization for SMEs and Regional Innovation will work in collaboration with prefectural support centers for SMEs, local support centers for SMEs and other SME support agencies as the hub of a system of support for SMEs in implementing the following programs meeting a wide variety of demands for advice and consultations to solve the various business problems faced by SMEs (¥22,918 million budget):

1) Advisory services
2) Dispatch of experts
3) Organization of business support courses, etc.
4) Support for startup and business innovation
5) Administration of general support centers
6) Dispatch of experienced former employees of enterprises, etc.

An advice hotline (“Nandemo Advice Hotline”) will also be established to offer easily accessible, detailed business advice to SMEs (0570-009111).

2. Support provided by prefectural support centers for SMEs

The prefectural support centers for SMEs designated under the Small and Medium Enterprise Support Law, which are at the core of the system for implementing SME support programs undertaken by prefectures, will undertake the following programs in order to help SMEs secure business resources (¥2,982 million budget):

1) Development of support structure (improved training for support staff such as project managers)
2) Advisory services
3) Dispatch of experts
4) Human resource development and information services (training and seminars, etc.)
3. Support provided by local support centers for SMEs

Local support centers for SMEs, which are established to provide a nearby source of support where would-be entrepreneurs and local SMEs can easily obtain advice about matters such as business innovation, will undertake the following programs, finely tailored to help solve business issues faced by local SMEs, etc. (¥1,087 million budget):

1) Advisory services
2) Expert consultations with legal advisers, etc.
3) Information services, etc.

4. Support provided by regional platforms

In order to promote the development of regional platforms established by prefectures, etc. under the Law for Facilitating the Creation of New Business (organizations providing integrated and comprehensive support for the creation of new businesses, from R&D through to commercialization, utilizing regional potential), support will be provided for programs such as the identification of regional resources in regional platforms, exchanges between support organizations, ventures and SMEs, etc., and the formation of support networks through cooperation. (Portion of ¥8,043 million budget)

Programs conducted by the Japan Association of New Business Incubation Organizations (JANBO), a national network of regional platforms, at the national level that cross regional boundaries, such as the development of information networks, development of human support resources and international cooperation, will be enhanced and strengthened.

Section 2 Support for development of human resources by the Institute for Small Business Management and Technology

Advanced practical training that is difficult for prefectures to provide, such as training for startup entrepreneurs, training in specific subjects such as financial affairs and business strategy, and training for persons responsible for SME support such as SME management consultants, will be provided by the Institute for Small Business Management and Technology. External training in provincial cities and distance training via the Internet will also be provided in order to make it more convenient for SME entrepreneurs to participate in training. (Portion of ¥22,918 million budget)

Section 3 Integrated implementation of measures by the Organization for Small and Medium Enterprises and Regional Innovation

(1) Establishment of Organization
The Organization for Small and Medium Enterprises and Regional Innovation will be established in July 2004 through the integration of the functions of JASMEC, the Japan Regional Development Corporation and the Industrial Structure Improvement Fund.

(2) Basic philosophy on operations of the Organization
The Organization will bring together the human resources and assets built up by the present three corporations and the specialist knowledge accumulated through these corporations’ operations to date. These specialist capabilities will be further strengthened and operations implemented in a more integrated manner. Taking advantage of key features of the independent administrative agency system—namely, the establishment of medium-term targets for a period of approximately five years up to March 2009, thorough ex post facto review of their attainment, and greater flexibility in terms of budgeting and organization—the Organization will implement measures more efficiently and effectively.

(3) Programs implemented by the Organization
The Organization will implement the following concrete programs:

1) Activities to assist the procurement of business resources such as human resources, facilities, funds and technologies and activities by the private sector to assist new business ventures will be promoted in order to promote startup ventures and new business ventures by existing SMEs.

2) In order to reinforce the business bases of SMEs and other businesses engaging in activities with close local ties, training will be provided, consultation structures enhanced and industrial clusters revitalized to enable individual entrepreneurs to
respond to business challenges in their everyday activities.

3) In order to facilitate adaptation to changes in the business environment, a mutual aid system will be appropriately administered to support the revitalization of SMEs that would find it difficult to do so acting alone, prevent domino bankruptcies, and facilitate the termination of businesses by the proprietors of small-scale businesses.

4) In addition to the above, the Organization will strengthen arrangements for the provision of information on various measures to enable their use by individual businesses in conjunction with the functions of other related support agencies. Regarding operations undertaken for a fixed period, programs will be smoothly terminated through appropriate process control and operational management.

In order to promote the autonomous development of regional economies through these programs, the Organization will also identify the industrial resources of regions and promote the formation of distinctive regional industrial clusters using these resources in response to the challenges faced by each region. Activities such as investment and debt guarantee activities will also be steadily provided for businesses responding to policy issues.

(4) Reinforcement of program implementation structure

So that the Organization can carry out its functions properly, a high priority will be placed on strengthening contacts with users (such as by establishing regional organizations that bring together operations involved in activities putting them in direct contact with users of measures in the hub cities of each regional block) and implementing measures while promoting their use and monitoring needs. Regarding human resources, staff capable of highly specialized work will be hired and trained by, among other things, developing career paths for staff, making use of outside human resources, developing a highly objective system of appraisal of staff performance, and outsourcing management work. By such means, mechanisms for monitoring needs will be enhanced and the information produced as a result used to improve measures, thereby raising the quality of measures provided.

In implementing programs at the local level, the Organization needs to work in partnership with regional branches and offices of the central government and local governments. A particular focus will therefore be placed on the promotion of revitalization policies utilizing regional features (such as industrial cluster plans), and proper cooperation and collaboration provided for measures undertaken by Regional Bureaus of Economy, Trade and Industry working to develop broad networks between industries, universities and government.

Chapter 6 — Measures for SMEs in commerce

Section 1 Measures for small and medium retailers

As a result of growing motorization and the relocation of housing and public facilities such as hospitals and schools from central urban areas to the suburbs, small and medium retailers in central urban areas and shopping areas face severe conditions.

In order to revitalize small and medium retailers in central urban areas and shopping areas, support will be provided regarding training and access to human resources. Comprehensive support will also be provided for measures undertaken by TMOs and shopping center promotion associations, including assistance with the development of core commercial facilities (such as arcades), intangible support regarding, for example, the operation of “challenge shops” and community facilities, and support for the use of large vacant stores.

1. Startup and revitalization support for small and medium retailers (retailing courses)

In combination with classroom courses and hands-on training using vacant stores and prosperous stores organized by organizations such as commerce and industry associations, chambers of commerce and industry and shopping center promotion associations, support will be provided as necessary for the reconstruction of store management in partnership with students, NPOs and local residents, etc. (¥110 million budget)
2. Support for use of large vacant stores

Because of the rapid increase in withdrawals by large stores previously forming the core of central urban areas, support will be provided for a maximum of three years for measures to use large vacant stores undertaken by TMOs (town management organizations) and programs to use adjunct facilities implemented in conjunction with the use of large vacant stores in order to restore customer drawing power. From fiscal 2004, support will be expanded to include adjunct facilities, such as parking facilities, established in shopping districts adjacent to large vacant stores. (¥350 million budget)

3. Support for establishment of commercial infrastructure facilities and revitalization programs

Subsidies will be provided toward the necessary cost of the establishment of basic commercial facilities, such as the operation of arcades and laying of colored paving, by associations and organizations in city center shopping districts, etc., and programs to revitalize shopping districts through, for example, measures to find tenants for vacant stores and the introduction of IT. (¥4,695 million budget)

4. Development of plans for central urban areas and TMO revitalization activities

Support will be provided for the development of basic plans, TMO initiatives and TMO plans under the Law on Improvement and Vitalization in City Centers. In order to promote the activities of TMOs, support will also be provided for forums, activities undertaken by TMOs to help revitalize central urban areas to develop their business bases, and improvement of access to specialist human resources. (¥339 million budget)

5. Activities to promote public awareness of the revitalization of central urban areas

In order to further promote the activities of TMOs, awareness of the revitalization of central urban areas will be raised by providing and analyzing information on the activities of TMOs, and symposiums will be held throughout Japan to foster information exchange. (¥159 million budget)

6. City center and shopping center revitalization advice service

The Organization for Small and Medium Enterprises and Regional Innovation will dispatch experts to give advice and provide analyses, assessments and advice regarding, among other things, the content, organizational structure and business fundamentals of TMO activities in response to the requests of organizations such as TMOs and shopping district development associations. (Portion of ¥22,918 million budget)

7. Support for development of business models by small and medium retailers

In order to support the development of new business models by small and medium retailers in response to social needs in recent years, support will be provided for necessary research and piloting of such models. (¥264 billion budget)

Section 2 Measures to improve the logistical efficiency of SMEs

The environment facing distributors has been changing in recent years. Physical distribution patterns are shifting, and demand is growing for more frequent deliveries of smaller quantities of merchandise and other more sophisticated distribution services. However, small and medium distributors have been slow to invest in improving logistical efficiency, and the steep rise in distribution costs presents a serious business problem. Centered around support measures under the Law Concerning the Promotion of Efficient Distribution Systems in Small and Medium Enterprises enacted in October 1992, therefore, comprehensive support will be provided for action undertaken jointly by SMEs to promote the efficiency of distribution operations.

1. Dispatch of expert advisers to improve logistical efficiency

The Organization of Small and Medium Enterprises and Regional Innovation will dispatch experts to provide appropriate advice when SMEs investigate ways of improving logistical efficiency, and will organize workshops based on case studies of activities to improve
motivated and capable SMEs play a leading role in Japanese manufacturing, and their revitalization is essential to economic revitalization and strengthening international competitiveness. Firm support will therefore be provided for the development of technologies by SMEs boldly tackling new challenges and entering new fields in order to generate large numbers of SMEs whose outstanding technologies put them at the world forefront in their fields.

### Section 1 Promotion of technological innovation

1. **Small business innovation research (SBIR)**

Under the Law for Facilitating the Creation of New Business, the relevant ministries and agencies will cooperate to designate subsidies and contracting fees for the development of new technologies leading to the creation of new industries as special subsidies, and set targets for expenditures on grants such as special subsidies for SMEs in order to increase opportunities for spending on SMEs. Furthermore, in order to ensure that the technologies developed are successfully commercialized, support will be provided by reducing and exempting SMEs from patent fees and related charges, providing special loans, and providing exemptions from credit guarantee requirements.

2. **Support for SMEs and ventures (see Chapter 4, Section 1.2)**

In order to help bring highly innovative but high-risk technology “seeds” and business ideas of SMEs and other businesses to market, subsidies will be provided to cover part of the cost of R&D on commercialization, market cultivation and similar activities undertaken by SMEs. Integrated consulting services to help give shape to business plans and support for startups and new business ventures will also be provided. (¥3,387 million budget)

3. **Activities to strengthen strategic core technologies**

In core fields in which SMEs have a leading role to play and which are considered instrumental in strengthening the competitiveness of Japanese manufacturing and
revitalizing the economy, technological themes particularly deserving of strategic support will be selected, and joint research entities consisting of SMEs, user enterprises (such as automobile and electrical machinery manufacturers) and universities, etc. will be commissioned by the Organization for Small and Medium Enterprises and Regional Innovation to conduct joint research on these themes. From fiscal 2003, intensive research is being conducted on technologies in the die and robot parts fields. (Portion of ¥22,918 million budget)

4. Subsidies for creative technology R&D and regional revitalization creative technology R&D

In order to promote R&D on new products and technologies undertaken by SMEs themselves and to raise the value added of typical SME products, the cost of obtaining the raw materials, machinery and equipment, and technical guidance required for R&D will be subsidized by one half where obtained directly from the Government (creative technology R&D subsidies) and by two thirds where obtained through prefectures (regional revitalization creative technology R&D subsidies). (¥4,162 million budget)

5. Promotion of technological innovation on specified issues

In order to promote the creation of new businesses and jobs and to create a dynamic Japanese economy, it is essential to create new technologies to form the core of industry and to pursue the development of technologies more vigorously. The related ministries and agencies will therefore cooperate in indicating to SMEs and ventures areas of technological development meeting social and economic needs, and publicly inviting proposals. R&D on the best proposals will be commissioned by the Organization for Small and Medium Enterprises and Regional Innovation. (Portion of ¥22,918 million budget)

6. Tax measures to strengthen the technological base of SMEs (see Chapter 12, Section 1.1(2))

7. Support for intellectual property strategy of regional SMEs

Support will be provided by experts in intellectual property to assist SMEs possessing unique technologies and pursuing intellectual property strategies with the development of intellectual property strategies in order to make strategic use of their intellectual property. Helpful information will also be provided. (Total budget for (1) and (2) of ¥300 million)

(1) Support for development of intellectual property strategy
Prefectural support centers for SMEs will work in collaboration with intellectual property centers to support the development of business plans and intellectual property strategy for the use of intellectual property by dispatching specialists in intellectual property for intensive fixed periods to local SMEs and ventures.

(2) Models of use of intellectual property
The Organization for Small and Medium Enterprises and Regional Innovation will widely publicize and raise awareness of successful model SMEs bringing products and services to market through the strategic use of intellectual property by using project managers active in the provinces and experts in intellectual property.

(3) Support for surveys of prior arts by SMEs, etc. (¥240 million budget)
SMEs and other businesses unable to perform prior arts searches will be assisted by private research institutes commissioned by the Patent Agency to perform upon request such searches for patent applications before claims for examination to help SMEs determine whether to submit a claim for examination.

8. Subsidization of commercial development of industrial technologies

The New Energy and Industrial Technology Development Organization will advertise widely for proposals from private enterprises and other entities involved in the commercial development of technologies in strategic or priority fields designated under the Science and Technology Basic Plan, and provide subsidies worth two thirds or one half of the cost of technological development for outstanding proposals. In selecting proposals, priority will be given to subsidization of spin-off ventures and university ventures. (¥7,010 million budget)
Section 2  Promotion of collaboration between industry, universities and government

The development and commercialization of technologies through collaboration between industry, universities and the government will be vigorously promoted through the following programs.

1. R&D by regional regeneration consortiums (SME category)

In order to promote the creation of new industries and new businesses in the provinces and regional economic revitalization, strong industry-university-government consortiums led by SMEs utilizing the technology “seeds” and knowledge of universities, etc. (“regional regeneration consortiums”) will conduct advanced R&D leading to the commercialization of technologies. (¥1,945 million budget)

2. Promotion of collaboration between industry, universities and government on development of SME technologies

In order to solve technological issues faced by local SMEs forming the backbone of manufacturing, the ability of local SMEs to develop technologies will be promoted and propagation of the results of technology results will be pursued through industry-university-government collaboration centered around public research institutes. (¥246 million budget)

3. R&D on innovative SME technologies by the National Institute of Advanced Industrial Science and Technology

The National Institute of Advanced Industrial Science and Technology will work in collaboration with universities and public research institutes to provide comprehensive support for SMEs, including R&D to support and foster dynamic SMEs, joint research with SMEs, and technology licensing to SMEs. (¥960 million budget)

4. Subsidization of commercial R&D by university business startups

Part of the cost of R&D undertaken jointly by enterprises and universities to commercialize the results of research by universities will be subsidized through TLOs managing R&D provided that SMEs contribute research funds and that there are clear commercialization plans. (¥2,602 million budget)

5. University venture business support

Specialists in law, finance and management will be dispatched via technology coordinators such as TLOs to university ventures that have outstanding technologies but tend to lack business know-how. (¥200 million budget)

6. Subsidization of cost of promotion of technology licensing from universities

In order to facilitate the licensing of the results of university research, subsidies will be provided to TLOs with approved plans for implementation (“approved TLOs”) to cover part of the cost of technology licensing under the Law Promoting Technology Transfer from Universities to Industry, which entered effect in 1998. (¥896 million budget)

7. Startup support for university ventures

Necessary financial support will be provided for R&D conducted by university researchers and others expected to result in technologies leading to venture startups. (¥4,331 million budget)

8. Optimal transfer of research findings

New technical concepts of R&D-oriented middle-tier enterprises and SMEs (ideas for technologies and product concepts with the potential to give rise to new industries based on research at universities, independent administrative agencies and similar bodies) will be cultivated by enterprises, universities and other institutes working in collaboration to realize them in the form of concrete prototypes and to conduct feasibility testing and trials necessary for commercialization. (Portion of ¥1,184 million budget)

SMEs and other businesses will also be commissioned to undertake development work to commercialize the results of university research.
**Chapter 8 Promotion of support for small enterprises**

Small enterprises not only serve as the driving force behind the development of the Japanese economy, but also play a particularly important role at the level of local communities and economies through their community-based activities, which make use of local resources and technologies and provide local employment opportunities. Because of their size, however, they also face a number of business handicaps, such as their more fragile business bases than SMEs in general, and this leads to gaps in areas such as productivity. Support will therefore be provided to develop competitive conditions (such as by facilitating access to business resources) and assist positive self-help efforts to improve management in keeping with the actual state of the business infrastructure and forms of management of small enterprises.

**Section 1 Enhancement of small enterprise support programs**

1. **Amendment of the Chamber of Commerce and Industry Law and Commerce and Industry Association Law**

   Amid the accelerating moves toward municipal mergers, necessary measures will be taken to establish provisions on the merger of chambers of commerce and industry to enable chambers of commerce and industry and commerce and industry associations providing support to SMEs in their areas to smoothly reorganize in line with the state of commerce and industry. Necessary measures will also be taken to expand special exemptions regarding the areas of chambers of commerce and industry and commerce and industry associations to facilitate their merger.

2. **Enhancement of support for startups and business innovation**

   (1) Organization of startup classes (see Chapter 4, Section 3.2(2)).

   (2) New startup loan program (see Chapter 4, Section 2(1)).

   (3) Local support centers for SMEs (see Chapter 5, Section 1.3).

3. **Support for development of Brand Japan**

   (See Chapter 4, Section 4.1)

4. **Successor matching support**

   (See Chapter 3, Section 4.1)

5. **Model programs for matching neighborhood entrepreneurs with sources of finance**

   Because of the importance of furthering the diversification of means of financing open to SMEs, prefectural federations of commerce and industry associations, commerce and industry associations and chambers of commerce and industry will organize model programs providing opportunities for procuring funds without depending on indirect finance, and will work to accumulate know-how and information on actual cases. Know-how will be used to produce manuals and case compilations for wide publication. (¥76 million budget)

6. **Revitalization of regional economies and setup for wide-area projects**

   (1) Regional development and revitalization

   Commerce and industry associations and chambers of commerce and industry will undertake publicly tendered regional revitalization projects to meet the needs of local small businesses, etc. (¥49 million budget)

   (2) Development of young successors, etc.

   Prefectural federations of commerce and industry associations and managing chambers of commerce and industry will organize advanced activities, such as training courses, over a wide geographical area in order to provide practical training in business know-how, etc.,
support the development of entrepreneurs, support business successions, and improve abilities. (¥987 million budget)

(3) Wide-area cooperation by commerce and industry associations and other regional development measures
In order to develop the environment for mergers of commerce and industry associations and similar bodies, subsidies will be provided to assist with the cost of improvements and relocation due to mergers. (¥19 million budget)

(4) Rural development programs and other regional revitalization programs
Prefectural federations of commerce and industry associations and commerce and industry associations will provide support for the development of basic plans on the merger and wide-area collaboration of commerce and industry associations and similar bodies, development and propagation of specialty products, organization of startup and business innovation workshops, and wide-area activities undertaken collectively by small business entrepreneurs. (¥368 million budget)

7. Expert bank program (support for strengthening management and technology)
Working in cooperation with organizations such as prefectural support centers for SMEs, prefectural federations of commerce and industry associations will provide appropriate advice on specific, practical matters when requested by small businesses dispatch experts to do so. (¥184 million budget)

8. Improvement of ability of business advisers
Business innovation support training will be provided for business advisers by prefectural federations of commerce and industry associations and managing chambers of commerce and industry, and spending on sending business advisers to take one-year SME consultant courses at the Institute for Small Business Management and Technology will be subsidized.

9. Promotion of guidance environment of commerce and industry associations, etc.
In order to promote activities by commerce and industry associations, etc. to propagate business improvements, the necessary cost of appointing secretaries-general will be subsidized (¥5,779 million budget)

10. Promotion of development of information networks to strengthen support structure
Sharing of data needed by business advisers, etc. to provide business support to small businesses will be promoted, and the business support structure will be enhanced using information networks to, e.g., collect up-to-date market data using various databases. (¥48 million budget)

Section 2 Loans for managerial improvement funds of small enterprises, etc. (“Marukei”)
Because of the poor state of the economy and severe employment conditions, necessary funds (¥550 billion) will be provided for the National Life Finance Corporation to provide unsecured, non-personal-guaranteed loans to small enterprises that have received business advice from business advisers at associations and chambers of commerce and industry so as to facilitate financing by small enterprises that lack collateral and credit. Special measures regarding lending limits and loan periods will also be continued.

Section 3 Small enterprise mutual aid projects
Small enterprise mutual aid projects will be continued under the Small Enterprise Mutual Relief Projects Law, the purpose of which is to contribute to the establishment of mutual aid programs for the discontinuation of business by small enterprises through the contribution of such enterprises in a spirit of reciprocal support between small enterprises and so increase the welfare of small enterprises. Activities to promote the spread and membership of such programs will also be vigorously pursued. Subsidies will be provided to the executing entity, JASMEC, to enable it to smoothly execute its duties. (¥5,482 million budget)
Section 4  Small enterprise plant funding programs

In order to promote the introduction of facilities necessary to establish small enterprises and strengthen their business fundamentals, the Plant Fund Loan Program and the Plant Lending Program will be continued. Under these programs, the lending capital created by transfers from loans from the State and transfers from the general accounts of prefectures are managed in the special accounts of prefectures, and interest-free loans made from these special accounts to lending institutions (foundations wholly owned by prefectures) to provide them with the necessary funds to enable them, as the implementers of the program, to supply small enterprises with interest-free loans for plant funds and with the equipment that they require under lease or purchase by installment contracts. Scale of lending: ¥25 billion for Plant Fund Loan Program, ¥42 billion for Plant Lending Program.

Chapter 9  Promotion of collaborative organizations of SMEs

Due to factors such as their insufficient size and poor creditworthiness, SMEs are generally at a disadvantage compared with large enterprise as players in the marketplace. One effective means of enabling SMEs to overcome this disadvantageous position and develop is through organization and the formation of partnerships in order to gain access to business resources that they lack and so allow them to fulfill their potential. Support for collaboration by such means as the SME partnership system will therefore be strengthened.

In recent years, support for the formation of partnerships between SMEs and other bodies with distinctive technologies, business know-how, intellectual property and similar resources to increase the value added of products and services has increased in importance as a means of promoting the creation of new markets, and support for such new partnerships will be provided.

1. Strengthening of support for new partnerships designed to commercialize technologies (contracted-out new partnership measures)

In order to support activities by distinctive SMEs and other entities with specialist knowledge and advanced technologies working in collaboration to increase the value added of products and services, support will be provided to help cover the cost of identification of partner enterprises and universities, and the development of collaborative organizations. (¥546 million budget)

2. Further use of enterprise partnership program

Due to the lack of minimum capital requirements and ease of obtaining limited-liability corporation status, an increasing number of people, such as retired employees of enterprises, senior citizens and housewives, have been making use of SME partnerships in recent years as a means of starting up in business more easily. Increasing numbers of SMEs are also pooling their different technologies, human resources and other business resources to cooperate on R&D. Particular emphasis will therefore be placed on promoting the wider use of the enterprise partnership system as a means of promoting startups.

3. Improvement of efficiency of the National Federation of Small Business Associations

Support will continue to be provided through the National Federation of Small Business Associations for activities undertaken by SMEs to improve productivity using collaborative organizations such as partnerships. The activities of prefectural and national federations will be streamlined and consolidated to raise their efficiency. (¥1,856 million budget)
As the service sector's contribution to the economy has grown, subcontracting relations in service-related industries have developed. In manufacturing as well, the economic slump and globalization of procurement practices have created a severe business environment for small and medium subcontractors. Given these circumstances, the following measures will be taken to strengthen the business fundamentals of small and medium subcontractors (including those in service-related industries) while at the same time improving subcontracting relations.

1. Fairness of subcontracting relations

In order to promote the fairness of subcontracting relations, the Fair Trade Commission, SME Agency and related ministries and agencies will work in close cooperation to conduct written investigations of parent companies and subcontractors and on-the-spot investigations of parent companies involved in subcontracting of manufacturing and repair work (as in the past) and the contracting out of the production of information deliverables and provision of services (newly added) under the revised Law on the Prevention of the Delay in the Payment of Subcontracting Charges and Related Matters (hereinafter referred to as the “Subcontracting Charges Law”), and to direct the implementation of remedies in the event that a violation of the Subcontracting Charges Law is discovered.

(1) Subcontracting business improvement workshops

In order to further promote the prevention of violations of the Subcontracting Charges Law and other subcontracting-related laws and ordinances by ensuring that all relevant parties are fully informed of such legislation, the development of subcontracting arrangements within companies will be promoted by organizing workshops for entrepreneurs and outsourcing managers at parent companies. (¥34 million budget)

(2) Subcontracting business improvement seminars

Awareness of the need for ensuring the fairness of subcontracting relations in parent enterprises will be raised and arrangements for ensuring that subcontracting relations are fair will be developed by organizing a seminar program for staff responsible for outsourcing at parent enterprises unable to participate in the above courses to enable them to obtain information on subcontracting-related legislation in a comparatively short time. (¥10 million budget)

2. Support for self-help efforts of small and medium subcontractors

(1) Support with finding markets through business intermediary services and trade fairs, etc.

1) Business intermediary services

Enterprises seeking to place orders meeting the necessary requirements (e.g. enterprises’ situation, industry, facilities and technologies) will be looked for both within and outside the same prefecture and introduced to small and medium subcontractors seeking new customers. Making maximum use of the Internet, information on the facilities and technological specialties of registered enterprises and information on receipt and placement of orders will be provided via a business matching system known as “Match Net” (www.matchnet.zenkyo.or.jp) to small and medium subcontractors that lack marketing resources and find it difficult to broaden their markets. (¥326 million budget)

2) Emergency wide-area business conventions

Emergency wide-area business conventions will be held to enable subcontractors to obtain orders and find new markets to counter the sharp decline in subcontracting work in venue regions and neighboring regions as a result of large-scale restructuring by large enterprises. (¥30 million budget)

(2) Training for SMEs seeking to cease subcontracting

Short intensive training will be launched for entrepreneurs and managers at small and medium subcontractors seeking to cease subcontracting to equip them with the know-how required to become independent (i.e. the necessary product development skills, marketing and business strategy, etc.). (¥20 million budget)
3. **Support for cooperation with parent companies**

The necessary measures will be taken under the Law on the Promotion of Subcontracting Small and Medium Enterprises to efficiently promote the strengthening of the business fundamentals of small and medium subcontractors.

(1) **Advice and guidance under the Promotion Standards**

The competent minister will provide advice and guidance in accordance with the “Promotion Standards” laid down under the Law on the Promotion of Subcontracting Small and Medium Enterprises to be followed by parent companies and subcontractors.

(2) **Support regarding promotion project plans**

Measures such as financial assistance will be provided for business undertaken in accordance with promotion projection plans approved by the competent minister.

---

**Section 2 Pursuit of measures to ensure access to public demand**

1. **Access to public demand**

The “Policy on State Contracts with Small and Medium Enterprises” will be passed by the Cabinet pursuant to the Law on Ensuring the Receipt of Orders from the Government and Other Public Agencies by Small and Medium Enterprises, and efforts will be made to further increase opportunities for SMEs to win orders. At the same time, the Small and Medium Enterprise Public Demand Securement Measures Promotion Council will take steps to ensure compliance with the policy by both those placing and receiving orders.

2. **Fair business opportunities**

(1) Efforts will be made to ensure the proper provision of business opportunities for small and medium retailers through the administration of the Law on Special Measures for the Adjustment of Retail Business.

(2) Efforts will be made to ensure the proper provision of business opportunities for SMEs through the administration of the Law on Securing Business Opportunities for Small and Medium Enterprises by Adjusting the Business Activities of Large Enterprises.

3. **Regulation of unfair business methods under the Antimonopoly Law**

The Antimonopoly Law will be actively and strictly administered, and unfair business methods regulated in order to promote free and fair competition and to enable businesses to engage in business activities freely. Positive action will also be taken to deal with unfair methods of business that are unreasonably disadvantageous to SMEs, such as unfair price competition and the abuse of an enterprise’s superior position.

---

**Chapter 11 SME business stability**

In order to support the business stability of SMEs affected economically by external factors such as changes in the economic environment and natural disasters, the necessary measures will be taken and the migration of corporate pensions required due to system amendments will be promoted.

**Section 1 Support for business stability of SMEs**

Special advice on business stability will continue to be provided to SMEs in financial difficulties by commerce and industry arbitrators (such as business proprietors, tax attorneys and lawyers) and other specialist staff at the 279 “special business stability advice centers” established by major chambers of commerce and
industry and prefectural federations of commerce and industry associations throughout Japan. (¥216 million budget)

Further, in order to stabilize the position of SMEs in financial difficulties due to the bankruptcy of customers or changes in the economic environment, funding will continue to be provided through safety-net loans (loans separate from ordinary loans of emergency working capital) by government-affiliated financial institutions and safety-net guarantees (separate from ordinary guarantees) provided by credit guarantee corporations.

In addition to the continuation of mutual aid programs to prevent SMEs bankruptcies by providing loans of working capital in the event of the bankruptcy of customers, activities to encourage use and expand membership will be pursued. The smooth execution of operations by the Organization for Small and Medium Enterprises and Regional Innovation will therefore be pursued. (Portion of ¥22,918 million budget)

Section 2  SME disaster relief

In order to facilitate the recovery of SMEs affected by disasters such as torrential rain and typhoons, advice centers will be established and disaster recovery loans will be provided by government-affiliated financial institutions for SMEs in regions where the Disaster Relief Law has been imposed. In addition, safety-net guarantees (separate from ordinary guarantees) will be provided to SMEs in regions affected by disasters whose sales fall by a certain amount. In the event of major disasters meeting certain criteria laid down by the Law Concerning Special Fiscal Aid for Coping with Disasters and are designated as disaster-stricken zones under said law, special measures will be implemented.

Section 3  Corporate pension measures for SMEs

In order to promote concrete action to migrate corporate pension programs to comply with system amendments, information will be provided regarding situations where there are insufficient pension asset reserves and the costs and procedures involved in migration from tax-qualified pension schemes to other corporate pension schemes (such as defined benefit and defined contribution schemes). (¥29 million budget)

Chapter 12  SME taxation

In order to support the diverse and dynamic growth and development of SMEs, which form the foundations of the Japanese economy, finely tuned taxation support will be provided to promote capital investment, enhance internal reserves, and facilitate business successions.

Section 1  SME-related taxation

In view of recent economic conditions, the following amendments will be made to the tax system in fiscal 2004 in order to facilitate business successions and strengthen the financial fundamentals of SMEs, which are key to their revitalization.

1. Facilitation of business successions at SMEs

   (1) Expansion of business succession tax system
   The upper limit on stock, etc. covered by measures to reduce the value for inheritance tax purposes of SMEs’ own stock will be raised from ¥300 million to ¥1,000 million.

   (2) Special tax exemption for the sale of inherited stock to own company
   In the case that an individual who inherits unlisted stock sells inherited stock to the issuing company within three years from the due date of the inheritance tax return, the sale will be subject to capital gains tax (separately taxed at 20%) rather than taxation on deemed dividends (progressively taxed up to a maximum of 50%).
3. Reduction of capital gains taxation of unlisted stock

The rate of capital gains taxation in the event of sale by an individual of unlisted stock will be lowered from 26% to 20%.

2. Revision of arrangements regarding losses

The carry-over period for carry-over of losses occurring in or after fiscal 2001 for all corporations (including small and medium corporations) will be increased from five years to seven years.

3. Extension of tax measures to promote SME investment

Regarding the system permitting a 7% tax deductible on the acquisition price or 30% special depreciation for SME machinery and equipment (the 7% tax deductible applies only to corporations with capital of no more than ¥30 million; a 60% deductible of the total lease cost is permitted in the case of leased equipment), the period of application will be extended two years after revision of the acquisition price requirements for nine categories of specified appliances and fixtures covered by the system.

4. Expansion of angel tax system

The coverage of the angel tax system will be expanded to include ventures that are the recipients of investment through securities companies (classified as “green sheet emerging” investments) and investment funds as well as the specified small and medium companies presently covered. Regarding these newly added ventures, the requirements of targets of investment (regarding e.g. testing and research costs) will be eased. In addition, M&As and other transfers meeting certain requirements will be eligible for special reduction of gains on sale even while still unlisted.

Section 2 Measures to facilitate SMEs’ compliance with revision of consumption tax exemptions

In order to make it easier for small businesses, small and medium retailers and subcontractors to comply with the revised special consumption tax exemption system for small and medium businesses (regarding the tax exemption points system and simplified tax system) and the requirement that businesses indicate the full price of goods inclusive of consumption tax to consumers, close support will continue to be provided by, among other things, organizing workshops and providing tax advice and bookkeeping guidance. (¥3,063 million budget)

Chapter 13 SME globalization

As globalization proceeds, the internationalization of business, such as through the establishment of overseas operations, provides Japan’s SMEs with a valuable business option. Given that SMEs are handicapped in areas such as access to information and human resources, facilitating the internationalization of their operations is crucial to strengthening their business bases. In recognition of this, a variety of support measures will be implemented.

In addition, bilateral and multilateral policy dialogue regarding SME measures and other related issues will be pursued with a view to developing and improving the business environment for Japanese SMEs overseas.

1. Facilitation of overseas expansion

Organizations including the Organization for Small and Medium Enterprises and Regional Innovation, Japan Chamber of Commerce and Industry, and the Japan External Trade Organization (JETRO) will conduct surveys and provide information regarding the establishment of overseas operations by SMEs, organize seminars, provide advice, and undertake similar activities. In addition, the Association for Overseas Technical Scholarship and Interchange Association will provide training for local engineers and managers and Japanese staff and instructors posted overseas, while the Japan Overseas Development Corporation will dispatch specialists to overseas subsidiaries and arrange internships.
2. Facilitation of trade

JETRO will provide support for participation in international trade fairs and exhibitions held overseas and help match businesses with promising enterprises overseas and support individual business talks of individual enterprises using coordinators based overseas to promote exports by SMEs.

3. International cooperation

The Government will participate in international forums such as APEC and the OECD to engage in dialogue regarding the development of the business environment for SMEs.

Chapter 14 — Promotion of employment and welfare measures

Section 1 Promotion of labor measures

1. Stabilization and promotion of employment

(1) Support for the creation of new employment opportunities utilizing the dynamism of SMEs

In accordance with the Small and Medium Enterprise Labor Force Recruitment Law, active support will be provided for activities to recruit and train the human resources of dynamic SMEs (such as startups and enterprises expanding into other industries) and the development of appealing workplaces. In order to encourage the creation of new employment opportunities in new growth fields and to facilitate the smooth movement of labor into these fields, comprehensive support, such as the provision of detailed information and advice, will be provided through various seminars and interviews with job seekers for enterprises in new and growth fields.

(2) Maintenance of employment of workers

In order to prevent unemployment due to unavoidable retrenchment arising from changes in business conditions or other economic grounds and to ensure the stability of employment in other areas, employment adjustment subsidies will be provided to employers that maintain employment of workers by suspending operations or seconding employees.

(3) Employment of construction workers

In order to improve the employment conditions of construction workers, develop and improve vocational skills and advance their welfare, comprehensive measures to improve employment, including subsidization of improvements in construction employment, will be pursued. In addition, comprehensive support to improve the labor mobility of construction workers (under the "Total Plan for Construction Employment Revitalization") will be developed. (¥7,243 million budget)

(4) Employment of the elderly

1) Securement of employment to age 65 through raising the mandatory retirement age and establishing a program for continuing in employment.
2) Provision of subsidies for the employment of elderly workers.

(5) Employment of the disabled

1) Promotion of measures to achieve statutory employment rate.
2) Provision of subsidies for recruitment and continued employment of disabled workers.

2. Development of human resources

(1) Promotion of employers' skills development programs

1) Support will be provided for the promotion of skills development within enterprises through activities including courses for those responsible for vocational skills development and the Convention on National Vocational Ability Development Promotion.
2) Subsidization of the cost of occupational skills development within enterprises under the career formation subsidy program.
3) Establishment and operation of local occupation training centers and provision of information, advice and assistance regarding the development of occupational skills for SMEs.
4) Subsidies for SMEs organizing training in licensed occupations and employers that encourage their employees to take licensed occupation courses organized by licensed occupation training facilities.

(2) Promotion of public occupational training

Promotion of occupational training for SME workers and persons changing or leaving jobs at SMEs.
Section 2  Promotion of welfare programs

1. Promotion of measures to reduce working hours and improve health and safety

   (1) Measures to reduce working hours
   1) Encouragement of employees to take annual paid leave
   2) Reduction of overtime

   (2) Measures to ensure health and safety of workers
   1) Promotion of voluntary health and safety supervision at SMEs
   2) Promotion of health measures at small-scale establishments

   (3) Measures to improve other working conditions
   1) Promotion of measures to ensure payment of wages, etc.
   2) Promotion of minimum wage
   3) Promotion of measures to improve wage and retirement allowance schemes

2. Development of conditions to enable workers to balance the demands of work and family and to enable women to make use of their abilities

   (1) Promotion of support for combining work and family demands
   1) Smooth enforcement of the Law for Measures to Support the Development of the Next Generation and the Law Concerning the Welfare of Workers Who Take Care of Children or Other Family Members Including Child Care and Family Care Leave (unofficial translation)
   2) Development of the environment to enable workers to continue in employment while caring for children or family members and the Law for Measures to Support the Development of the Next Generation.

   (2) Creation of equal opportunities and treatment of men and women
   1) Promotion of measures to ensure equal opportunities and treatment for men and women (¥245 million budget)

2) Promotion of positive action (¥243 million budget)
3) Promotion of measures to combat sexual harassment (¥167 million budget)

(3) Promotion of comprehensive measures to support part-time employment
Efforts will be made to ensure wider compliance with the Law Concerning the Improvement of Employment Management, etc. of Part-Time Workers and the guidelines laid down under it, and the following programs will be implemented:
1) Provision of subsidies for the improvement of employment management of part-time employees by SME employers and SME employers’ associations (¥489 million budget)
2) Enhancement of mechanisms for adjustment of labor supply and demand in relation to part-time labor

3. Comprehensive measures to promote employee welfare, etc.

   (1) Promotion of spread of employee asset formation promotion schemes

   (2) Promotion of spread of SME retirement benefit mutual aid schemes

   (3) Promotion of activities of SME employee welfare service centers

   (4) Promotion of welfare measures for young employees (¥44 million budget)

   (5) Promotion of measures to support varied lifestyles of workers
Development of infrastructure to enable workers to take part in voluntary activities

   (6) SME welfare programs, etc.
Subsidies provided for activities undertaken by prefectures to improve personnel and labor management. (¥256 million budget)

4. Measures to deal with increasingly individualized and complex labor relations
Promotion of individual labor dispute resolution systems
Chapter 15 Special measures

Section 1 Special measures for specific industries

1. Measures for the textile industry

Due to the extreme severity of conditions in the Japanese textile industry caused by the slump in domestic demand for textiles (particularly in the apparel industry) and the increasing quantitative share of the market accounted for by cheap imports from countries such as China, the following measures will be taken:

(1) Enhancement of measures to revitalize the textile producing regions from a consumer perspective
   1) Promotion of development of local industries, etc.
   2) Support for revitalization of SMEs in the textile industry
   3) Development of human resources in areas of production and development of new markets
   4) Use of Fund for Revitalization of Areas of Textile Production

(2) Further promotion of BPR (business process reengineering) in textiles
   1) Strengthening of support for introduction of IT

(3) Bolstering of international competitiveness of the fashion industry
   1) Strengthening of development of human resources
   2) Textile human resource development fund

2. Measures for the development of traditional craft industries

There are throughout Japan many areas of production where traditional craft products are manufactured using traditional skills and techniques. The development of these industries has long been promoted because of their contribution to the quality of life and distinctive character of local communities. Nevertheless, these industries now face a number of problems, such as the stagnation of demand for traditional craft products, declining numbers of employees, and a shortage of successors.

The following measures will therefore be implemented centered around the Law Concerning the Promotion of Traditional Craft Industries:

(1) Designation of traditional craft products in consultation with the Industrial Structure Council after investigation and consideration of craft products for which applications for designation as traditional craft products have been made under the above law.

(2) Subsidization of the following activities (¥1,025 million budget):
   1) Activities undertaken in regions of traditional craft production
      a. Programs to train successors and develop demand undertaken under development plans
      b. Joint programs to develop demand undertaken under joint development programs
      c. New production region revitalization programs undertaken under revitalization plans and cooperative revitalization programs
      d. Local human resource training and exchange support programs and production region producer programs undertaken under support plans
   2) Activities undertaken by traditional craft industry development associations
      a. Exhibition of traditional craft products
      b. Human resource recruitment and training programs (registration of producers in areas of production, business matching, introductory hands-on craftwork courses and exchange programs)
      c. Demand development programs
      d. National traditional craft product center programs
      e. Traditional craft production region surveys and consultations, and education on traditional craft products for children and school pupils, etc.

(3) The following promotional and public information campaigns will be undertaken to raise public awareness of traditional craft products in November each year, which will be designated as “Traditional Craft Month”:
   1) Traditional Craft Month national conference and regional conferences in eight regional blocks
   2) Traditional craft plaza
   3) Traditional Craft Month art and essay contests, etc.

(4) Survey of the development of the traditional craft industry infrastructure (¥21 million budget)

In order to develop the production infrastructure of traditional craft industries, a survey will be made of the equipment and materials required for the production of traditional craft products, and studies will be made of substitute materials and new production technologies.
3. Measures for the tortoiseshell industry

Subsidies will be provided for the following activities undertaken by the Japan Bekko Association in order to ensure supplies of raw materials for small and medium tortoiseshell businesses hit hard by the prohibition by the Government at the end of 1992 of imports of hawksbill shell, this being such businesses’ sole raw material (¥115 million subsidy):

1) Preservation, breeding and cultivation of hawksbills in Japan
2) Resource protection surveys of producer countries
3) Visits to the Washington Convention Consultative Committee and related international organizations

4. Measures for the small and medium general merchandise industry (design preservation activities)

In order to promote the development of Japanese manufacturers of everyday necessities ("general merchandise"), the bulk of which are SMEs and small enterprises, subsidies will be provided by the National Federation of Small Business Associations to organizations undertaking design preservation programs:

(1) Improvement of internal and external data access
Collection and provision of design-related books, magazines, catalogs and industrial property gazettes, etc. for internal and external access.

(2) Development of system for protection of designs
Advice centers will be established, manuals on countermeasures drawn up, awareness-raising programs conducted, and support provided for the acquisition of designs and trademarks overseas in order to enhance the system of protection for designs and trademarks.

(3) Support for elimination of imitation designs
Support will be provided for activities to prevent the distribution of imitation goods and to drive them off the market through the establishment of an industry design protection system.

(4) Countermeasures against the rapid growth in imports of counterfeit products
The state of imports of counterfeit Japanese products from overseas will be investigated, countermeasures examined, and seminars for domestic manufacturers and other interested parties held to prevent the influx of counterfeit products.

5. Measures for the environmental sanitation business

(1) Measures for the environmental sanitation business
As in fiscal 2003, support will continue to be given in fiscal 2004 for the advancement of environmental sanitation services suited to contemporary needs by environmental health business guidance centers, which were established in order to maintain and raise hygiene levels and protect the interests of users and consumers by improving the soundness of management of environmental sanitation businesses. To achieve this, the following measures will be implemented:

1) Establishment of study groups under business base support programs to consider issues such as succession, protection of the environment, and collaborative and cooperative activities (¥4 million budget)
2) Programs for using consumer monitors and holding discussion meetings between consumers and environmental sanitation businesses to monitor and provide information on the state of environmental sanitation and services (¥5 million budget)
3) Urban development programs involving, e.g., the establishment of study groups to support the development of work and residential zones (such as shopping districts), conduct of opinion surveys, and sanitation mapping (¥9 million budget)
4) Special advice centers will be established to assist the revitalization of environmental sanitation services. Training will also be provided for operators to train human resources capable of accurately assessing the future potential of business and technological capabilities. (¥39 million budget)
5) In order to promote food recycling at local eating establishments, hotels and similar businesses, local councils to promote food recycling will be established at prefectural environmental health business guidance centers in order to promote planned and efficient food recycling in a systematized and efficient manner. (¥5 million budget)

In addition, in order to foster the dynamic development of the environmental hygiene industry, subsidies will be provided for voluntary development activities undertaken by organizations such as federations of environmental sanitation cooperatives. (¥200 million budget)

(2) Loans for environmental sanitation-related business

¥230 billion will be made available for environmental sanitation fund loans by the National Life Finance Corporation. In Okinawa Prefecture, the Okinawa Development Finance Corporation will provide loans worth a total of up to ¥4 billion.

1) Addition of items covered by special development interest rates
a. Addition of hair and scalp counseling-related equipment (barber shops)
b. Addition of construction, extension and reconstruction for new entries, independent entries and branch establishments to coverage of special interest rates for development loans.

2) Improvement of special exemption loans
Special measures will be implemented regarding "passive smoking prevention facilities" operated by environmental health-related businesses (excluding meat distributors, poultry distributors, ice and snow distributors, and cleaning businesses)

3) Other measures
Regarding the acquisition of existing stores, etc., the establishment of branches and new entries not entailing remodeling will also be made eligible for loans.

6. Measures for SMEs in the agriculture, forestry and fishing industries

(1) Modernization of SMEs in the agriculture, forestry and fishing industries

1) Subsidies, etc. for enterprises in the agriculture, forestry and fishing industries
a. In order to strengthen the role and functions of regional food industries, support will be provided for the commercial development of healthy foods and distinctive foods in collaboration with local agriculture to meet diverse consumer needs in accordance with new proposals for action utilizing the innovativeness of the food industry. Collaboration with local agriculture engaged in the production of "Brand Nippon" agricultural products and the development of platforms for joint research in the food industry through collaboration between local entities with industrial needs and technology "seeds" will also be promoted. (¥321 million budget)
b. Support will be provided for the development of technologies relating to the improvement of the processability and investigation of the functionality of domestically produced agricultural products to encourage their use in domestically produced foods in the food manufacturing industry. Support will also be provided for the development of production technologies for producing by fermentation food ingredients with new functions, and technologies for improving the quality and productivity of fermented food products in order to promote technological innovation in the food industry, such as through the development and introduction of cutting-edge technologies. In addition, support will be provided through the organization of training courses for human resource development and the provision of technological information in order to further improve the level of management of food manufacturing processes (through hazard analysis and critical control point (HACCP) procedures) for small and medium manufacturers. (¥804 million budget)
c. Action will be taken to ensure that food businesses are made fully aware of the purpose of the Law on Promoting the Use of Recycled Food Resources, and model food recycling facilities will be established. (¥1.114 million budget)
In order to promote the high-level use of food residues at eating establishments, a study will also be made on expanding use of primary treated waste and development of store-type recycling systems for store use will be promoted. (¥9 million budget)
A system for efficient collection of waste cooking oil generated by households will be established, and awareness-raising activities will be undertaken to make consumers aware of appropriate methods of using cooking oil. (¥10 million)
With regard to promoting the recycling of waste containers and packaging, measures will be taken to raise awareness and ensure widespread use of systems under the Container and Packaging Recycling Law among food manufacturers and distributors that are responsible for recycling under said law. (¥29 million budget)
In order to promote comprehensive action to protect the environment in the food industry, support will be provided for action taken independently by the food industry to protect the environment, such as through the promotion of voluntary environmental action plans. (¥10 million budget)
d. In order to promote the modernization of the food services industry, subsidies will be provided for research undertaken by organizations such as the Food Service Industry Research Center, the promotion of IT, and the promotion of food recycling. (¥66 million budget)
e. Research on the commercialization and industrialization of the results of decoding the rice genome will be pursued through collaboration between industry, universities and government in line with the Basic Biotechnology Strategy. (¥1,000 million budget)
In order to generate new industries in
agriculture, forestry and fishery-related fields and stimulate agribusiness, support will be provided for the development of technologies with commercial applications by enterprises in the private sector. (¥560 million budget)

Joint research by researchers in different fields utilizing ground-breaking technologies and local resources will also be promoted. Comprehensive support will in addition be provided for the launch of ventures (enterprises with creative or innovative business based on new technologies) through the provision of research funding, personnel exchanges and individual consultation services provided by experts. (¥1,760 million budget)

f. In order to promote the use of wood, action will be taken to develop innovative new technologies and products by calling for ideas from private enterprises, develop environmentally friendly wood preserving technologies, and develop technologies for making effective use of lumber from thinning. (¥349 million)

g. In order to promote business innovation in the wood industry, necessary removal costs for the disposal of facilities resulting from the rationalization of operations will be subsidized, and the development of facilities required to protect the environment and rationalize processing and distribution operations will be promoted. (¥106 million budget)

h. In order to promote the use of local lumber in housing, action will be taken to encourage housing construction using lumber from traceable sources and the development of interior materials suitable for home renovation through collaboration between interested parties ranging from forest owners to home builders. (Portion of 340 million budget)

i. Steps will be taken to promote the introduction of HACCP procedures at marine product processing plants to provide consumers with safe and reliable marine produce. Comprehensive measures will also be taken to establish concrete standards to raise hygiene control at markets in areas of production, provide support to ensure their adoption, and draw up new manuals for the production of low salt, high water content marine products.

In addition, in order to develop the conditions suitable for the introduction of HACCP, “HACCP Sanitation Level Standards” will be developed to provide a benchmark by which to assess the hygiene level of individual businesses, and assessments in accordance with said standards will be promoted. (¥167 million budget)

j. In order to increase the efficiency of marine product processing and distribution processes, subsidies (¥9 million budget) will be provided for the development of techniques for rationalizing marine product processing and distribution, including the development of marine product distribution and processing techniques. Subsidies for the development of fishery resource recycling techniques to improve the efficiency of use of fishery resources will also be provided (¥18 million budget). Recycling technologies and systems for recovering in a very fresh condition and recycling and reusing in a more advanced manner leftovers from marine product processing that deteriorate particularly easily will also be developed. (¥8 million budget)

2) Loans for enterprises in the agriculture, forestry and fishing industries

a. Funds will be loaned by institutions such as the Agriculture, Forestry and Fisheries Finance Corporation to enable specific agricultural producers affected by the liberalization of the agricultural produce market to make business improvements in accordance with the Law on Temporary Measures to Improve the Business of Specific Agricultural Product Processors.

b. Loans will be provided by the Agriculture, Forestry and Fisheries Finance Corporation for the development of facilities required for the upgrading of control and manufacturing processes of food enterprises in order to promote the introduction of HACCP methods in accordance with the Law on Temporary Measures on Upgrading the Control of Food Manufacturing Processes.

c. Funds will be loaned by the Agriculture, Forestry and Fisheries Finance Corporation to promote the adoption of new uses for specific agricultural, forestry and marine produce and new varieties for processed raw materials.

d. Food manufacturers and businesses in the agriculture, forestry and fishing industries will build stable business relations, and the Agriculture, Forestry and Fisheries Finance Corporation will loan the funds for the development of the necessary agriculture, forestry and fishery facilities.

e. Institutions such as the Agriculture, Forestry and Fisheries Finance Corporation will provide loans to dairy farmers to improve their dairy facilities.

f. In order to rationalize the production and distribution of wood, loans will be provided by the Wood Industry Upgrading Promotion Fund, and loans of the necessary funds for improving management in the forestry and wood industries
will be provided under the Forestry and Wood Industry Improvement Fund Subsidization Law (unofficial translation).

g. In order to maintain and improve the use of peripheral resources and strengthen the structure of the marine produce processing industry in response to changes in the conditions faced by the industry, loans will be provided from marine produce processing funds and marine product business improvement promotion funds.

7. Measures for SMEs in the transport industry

(1) Outline of measures for SMEs in the transport industry
Support will be provided for SMEs in the transport industry by, among other things, supporting the enhancement of business fundamentals and business innovation.

(2) Measures to support business innovation
Guidance and support will be provided for the enhancement of business fundamentals and business innovation under the Law on Supporting Business Innovation of Small and Medium Enterprises.

(3) Measures to improve logistical efficiency
Activities will be pursued to raise the efficiency of logistics operations through, for example, the development of shared delivery facilities by small and medium truck operators under the Law Concerning the Promotion of Efficient Distribution Systems in Small and Medium Enterprises.

(4) Measures for local SMEs
Support will be provided for the advancement and revitalization of shipbuilding-related industries concentrated in regions centered around shipbuilding under the Law on Temporary Measures for Activation of Specific Regional Industrial Agglomerations.

(5) Measures for specific industries
1) Warehousing industry
The modernization of facilities, upgrading of logistics functions, and development of joint warehousing operations will be promoted in order to meet more complex logistics needs created by changes in the social and economic environment.

2) Automobile wrecking and maintenance business
In order to facilitate the raising of funds required for the modernization of automobile wrecking and maintenance operations, loan guarantees will be provided and interest covered by making appropriate use of the automobile maintenance modernization fund program.

3) Coastal shipping business
Coastal shipping will be revitalized through the use of the joint shipbuilding operations of the Japan Railway Construction, Transport and Technology Agency to promote the construction of vessels.
contributing to the upgrading of maritime distribution (advanced distribution vessels) (¥186 million government subsidy)
In addition, the limit on government guarantees for funds required under the Cinderella Project (a temporary coastal shipping measure designed to promote the construction of vessels to replace old and inefficient vessels by not providing grants-in-aid for the dismantling from April 2003 of vessels that are more than 15 years old) will be increased in response to the large volume of pending grants-in-aid as a result of the sharp rise in applications for subsidies under the project in order to facilitate its implementation. (¥53,000 million government guarantee budget)

4) Port transport business
Continuing from fiscal 2003, loans and other support measures will be provided by the Port Modernization Promotion Council in order to promote international inter-modal transport (establishment of logistics centers), improvements in efficiency and rationalization of operations, the development of logistics information systems, measures to strengthen the business infrastructure, and support for terminal operators.

5) Small and medium shipbuilding and ship industries
In order to support activities undertaken by small and medium shipbuilders and ship machinery manufacturers to strengthen their business bases, the necessary tax and financial measures will be applied to activities undertaken by businesses in accordance with business base reinforcement plans drawn up by industry associations in these industries under the Law on Supporting Business Innovation of Small and Medium Enterprises.
In conjunction with these measures, measures will be taken to strengthen credit insurance measures, secure employment and establish a safety net to ensure business stability.

8. Measures for small and medium building contractors

(1) Securement and training of human resources
The Minister of Land, Infrastructure and Transport’s Award for Outstanding Engineering will be awarded to outstanding construction engineers, and measures to secure and train human resources will be pursued by the Fund for Construction Industry Promotion and the Construction Industry Education Center.

(2) Organization and cooperation
Measures will be taken to promote greater organization among business cooperatives of small and medium building contractors, and guidance will be provided on the rational management of joint business operations.

(3) Business innovation and rationalization
1) The use of support measures under the Law on Supporting Business Innovation of Small and Medium Enterprises will be promoted, and guidance and information provided to promote business innovation by small and medium building contractors.
2) In order to promote the spread of expertise in the unique bookkeeping and accounting practices of the construction industry, improve accounting skills, and contribute to the rationalization and modernization of business, construction business accountancy examinations will be held on a trial basis by the Fund for Construction Industry Promotion.
3) Measures will be taken to raise awareness of the Guidelines on the Preparation of Business Improvement Principles in Each Industry formulated in September 1990, and support and guidance will be provided concerning independent action to improve management (e.g., subsidies by the Fund for Construction Industry Promotion).
4) In order to strengthen the business fundamentals of small and medium building contractors, the Fund for Construction Industry Promotion will provide financial consultation services and programs to train successors in the construction industry.

(4) Facilitation of finance
Steps will be taken to promote the use of loans provided by government-affiliated financial institutions and deposit loans provided by advance guarantee providers. Measures will also be taken to promote further uptake of the subcontractor safety-net loan guarantee scheme in order to prevent the deterioration of the financial position and domino bankruptcy of small, medium and middle-tier building contractors.

(5) Surveys and research
The Research Institute of Construction and Economy (RICE) and the Fund for Construction Industry Promotion will undertake surveys and research on issues facing the construction industry, and the Fund for Construction Industry Promotion will consider the expansion of the construction expert business strength index (proposed “step-up” index) and the industries covered.

(6) Rationalization of construction production systems
Action will be taken to further raise awareness of the “Principles for the Rationalization of Production Systems in the Construction Industry”. At the same time, the expert basic policy committee established under the Central Construction Production System Rationalization Promotion Council will actively consider rationalization of the diverse production systems currently in existence.
(7) Modernization of local small and medium homebuilders

In order to further the modernization of local small and medium homebuilders, activities to promote the structural reform of the homebuilding industry will be pursued, and support will be provided to promote business guidance, use of information technology in design and calculations, and training of skilled workers. Particular support will be given for the development of skilled workers as successors in order to help strengthen systems for production of wooden housing using traditional construction methods.

9. Measures for small and medium realtors

(1) Development of the real estate market

In order to promote cooperation among small and medium realtors and contribute to the development of the real estate market, the functions of designated transaction organizations will be enhanced and their use promoted. Regarding the Real Estate Information Network System (REINS), it is necessary to raise interest among consumers as well as small and medium realtors and to raise consumer confidence in the system. Uptake of the system will therefore also be promoted.

(2) Financial measures for small and medium realtors

Loan guarantees and interest coverage will be provided for equipment fund loans to small and medium realtors by government-affiliated financial institutions for SMEs, and joint facility funds and funds for cooperation among business associations will be provided by the Real Estate Transaction Modernization Center.

Section 2 Response to energy and environmental issues

1. Support for rationalization of energy use by SMEs

(1) Subsidization of cost of rationalization of energy use and other technological improvements (promotion of technological innovation in priority fields)

The relevant ministries and agencies will collaborate to identify technological priorities pertaining to oil alternatives and rationalization of energy use to meet economic and social needs, and publicly invite research proposals in these areas from SMEs and ventures. The Organization for Small and Medium Enterprises and Regional Innovation will then commission research and development work on the best proposals. (¥400 million budget)

(2) Subsidization of cost of rationalization of energy use and other technological improvements (support for new initiatives by SMEs and ventures)

In order to promote startups and new ventures created through the commercialization of the outstanding technology “seeds” of SMEs contributing to the rationalization of energy use, subsidies will be provided to cover part of the cost of commercial R&D undertaken by SMEs and other businesses, evaluation of technologies required for commercialization activities, and acquisition of intellectual property. Consultations and other activities to promote the realization of business plans will also be executed in an integrated manner. (¥600 million budget)

(3) Measures to rationalize energy use and improve logistical efficiency

Surveys and research, system design and trial operation of systems leading to the construction of joint logistics systems operated by associations formed by small and medium wholesalers will be supported, and experts will be dispatched when small and medium wholesalers investigate ways of improving logistical efficiency. (¥450 million budget)

2. Provision of information to SMEs on environmental and safety issues

The Organization for Small and Medium Enterprises and Regional Innovation will collaborate with prefectural support centers for SMEs to provide information to SMEs through activities such as workshops on environmental and safety issues (such as information on creating an environmentally sustainable society, control of chemical substances, and environmental auditing and management). Using environmental management techniques, diagnoses will also be made of the production processes of SMEs and the various industries to which they belong, and model programs will be undertaken in order to demonstrate how to improve the efficiency of use of raw materials, curb waste emissions, develop remedies and forecast effects, and action will be taken to encourage the spread of environmentally friendly management systems. (Portion of ¥22.918 million budget)
Section 3 Promotion of human rights awareness

In order to propagate the idea of respect for human rights and cultivate awareness of human rights among SMEs, prefectures will be commissioned to organize activities such as lectures to raise awareness of human rights.

Section 4 Measures for SMEs in Okinawa

With regard to measures for SMEs in Okinawa, ¥70 billion will be allocated for loans to SMEs by the Okinawa Development Finance Corporation. The special loan program will also be expanded, and the terms of loans improved.

Chapter 16 Promotion of surveys and public information activities

Section 1 Surveys

Statistics such as data from the Census of Manufactures, Bank of Japan Corporate Goods Price Indices and the Indices of Industrial Production will be recompiled by size of enterprise to calculate enterprise price indices by size and statistics such as manufacturing production, shipment and inventory indices by size. In addition, the following surveys and studies will be conducted:

(1) Surveys of business conditions among SMEs, trends in capital investment by SMEs in the wholesaling, retailing and service industries, and bankruptcies among SMEs, etc.

(2) Preparation of input-output tables by size of enterprise for industries such as manufacturing

(3) Dynamic analysis of financing and business innovation among SMEs, etc.

(4) Surveys concerning the assessment of SME policies

Section 2 Publicizing of measures

In order to provide effective support for SMEs, SMEs must be made aware of the complex and wide-ranging menu of measures offered. Information on SME measures will therefore be provided via a variety of media, including television, the Internet and pamphlets, in order to improve access to measures and promote their use.

1. Publicizing of measures via media such as television and the Internet

In order to help solve the problems faced by SMEs, tips on management and how to succeed will be introduced in an easy to understand manner, and television programs and other productions will be produced to provide up-to-date information on measures of use to SMEs. In addition, working in collaboration with SME support agencies, up-to-date information on SME measures will be provided via the “e-SME Net Magazine” e-mail newsletter, information on SME measures will be introduced on the SME Agency’s website, and the “e-SME Agency & Network Project” will be promoted to allow SMEs and others to give their views and suggestions regarding measures and obtain business advice.

2. Publicizing of measures via print media

In order to promote the spread and use of SME measures, publications explaining SME measures in concise and concrete terms will be produced, and these will be widely distributed to SMEs through local governments and other organizations working with SMEs.

3. “SME Agency for a Day” event

In order to directly determine the public’s views and wishes concerning SME measures for incorporation into and enhancement of future measures, an “SME Agency for a Day” event will be held.
APPENDED NOTES
Contents

Part II, Chapter 1
Appended Note 2-1-1 Main types of business in the service sector by industry group (see note to Fig. 2-1-7) .................................................................308
Appended Note 2-1-2 Impact of direction of technological innovation and use of information by SMEs on outcomes of development and improvement of products ........308
Appended Note 2-1-3 Impact of direction of technological innovation and use of information by SMEs on sales growth rate ....................................................310
Appended Note 2-1-4 Correlation between specific type of technological innovation by SMEs and sales growth rate ..............................................................311
Appended Note 2-1-5 Former jobs (private sector only) of representatives of university ventures at time of establishment and now ...........................................312
Appended Note 2-1-6 Impact of type of external support received at startup on attainment of commercialization stage by university ventures ..................................................313
Appended Note 2-1-7 Impact of operations in which representative at startup is strongly involved at practical level on attainment of commercialization stage by university ventures ............................314
Appended Note 2-1-8 Summary of the Survey of the Actual Conditions of Social Entrepreneurs ........................314
Appended Note 2-1-9 Emphases in management of business ..................................................................................315
Appended Note 2-1-10 Timing of when it becomes apparent that a business is sustainable ...........................................316
Appended Note 2-1-11 Trend in business income in present fiscal year ......................................................................316
Appended Note 2-1-12 Change in number of lines of business .................................................................................317
Appended Note 2-1-13 Annual average rate of increase in number of staff and volunteers .......................................317
Appended Note 2-1-14 Cooperation with administrative agencies and profit status of business ........................318
Appended Note 2-1-15 Cooperation with administrative agencies and profit status of business .......................318

Part II, Chapter 2
Appended Note 2-2-1 Purpose of establishment of operations overseas by region ..................................................319
Appended Note 2-2-2 Characteristics of enterprises that establish operations overseas (all enterprises) ..................................................................................320
Appended Note 2-2-3 International comparison of workers’ wages in manufacturing ........................................321
Appended Note 2-2-4 Characteristics of enterprises with overseas operations (manufacturers) .........................322
Appended Note 2-2-5 Comparison of business collaboration and FDI ..................................................................................322
Appended Note 2-2-6 Size, continuation and elimination of overseas operations .................................................323
Appended Note 2-2-7 Performance of parent company and continuation/elimination of overseas subsidiary ..................................................................................324
Appended Note 2-2-8 Emphases at time of FDI and subsequent performance ...........................................................325
Appended Note 2-2-9 Sources of information before FDI and subsequent performance ...........................................326
Appended Note 2-2-10 Comparison of enterprises gathering information from financial institution of account and enterprises gathering information from experienced source ........................................327
Appended Note 2-2-11 Relationship between form of investment in overseas subsidiary and continuation/elimination ..................................................................................327
Appended Note 2-2-12 Relationship between differences in business policy with joint venture partner and continuation/elimination ...........................................328
Appended Note 2-2-13 Relationship between attributes of CEOs of overseas subsidiaries and continuation/elimination ..................................................................................329
Appended Note 2-2-14 Impact of production control problems on profit trends ..........................................................330
Appended Note 2-2-15 Impact of production control measures on profits ..............................................................331
Appended Note 2-2-16  Impact of sales problems on continuation/elimination ........................................331
Appended Note 2-2-17  Sales management measures and impact on trends in sales..............................332
Appended Note 2-2-18  Impact of early training of local middle-management personnel on performance .........................................................................................................333
Appended Note 2-2-19  Impact of growth in overseas production on domestic production operations and output ........................................................................................................334
Appended Note 2-2-20  Impact of increase in overseas production on sales and ratio of gross profit to sales ........................................................................................................335
Appended Note 2-2-21  Impact of increase in overseas production on employment ................................335
Appended Note 2-2-22  Characteristics of enterprises that increase domestic and overseas production simultaneously........................................................................................................336
Appended Note 2-2-23  Comparison of domestic and overseas division of labor by product category ......337

Part II, Chapter 3
Appended Note 2-3-1  Age of proprietor and rate of growth in number of workers..................................339
Appended Note 2-3-2  Motives for startup in business ............................................................................340
Appended Note 2-3-3  Impact of length of time since business succession on rate of growth in number of employees ........................................................................................................340
Appended Note 2-3-4  Impact of length of time since startup on rate of growth in number of employees ........................................................................................................341
Appended Note 2-3-5  Effects of employment experience at another company according to differences in employer ........................................................................................................342
Appended Note 2-3-6  Preparations for succession made by previous proprietor and success of succession ........................................................................................................343
Appended Note 2-3-7  Provision of advice by previous proprietor and success of succession ..............344
Appended Note 2-3-8  Relationship between state of business before exit and satisfaction with present life ........................................................................................................345
Appended Note 2-3-9  Attribute analysis of would-be reentrants ............................................................346
Appended Note 2-3-10 Attribute analysis of would-be reentrants who actually reenter business............347

Part II, Chapter 4
Appended Note 2-4-1  Financing structure .......................................................................................348
Appended Note 2-4-2  Type of main bank ..........................................................................................349
Appended Note 2-4-3  Characteristics of enterprises undertaking new business activities ................350
Appended Note 2-4-4  “Ganbare! Chushokigyo Fund” ..........................................................................351
Appended Note 2-4-5  Performance of revitalization support councils ..............................................352
Appended Note 2-4-6  Structure of the receivable-backed loan guarantee program .........................353
Appended Note 2-4-7  Characteristics of enterprises doing business using accounts receivable ..........353
Appended Note 3  Summary of main surveys used .............................................................................355
**Appended Note 2-1-1  Main types of business in the service sector by industry group (see note to Fig. 2-1-7)**

<table>
<thead>
<tr>
<th>Industry group</th>
<th>Main types of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information and research services</td>
<td>Software, data processing, information provision (database services, digital libraries), other information services (market research, opinion polling), news services, private investigation agencies (credit agencies, private detective agencies)</td>
</tr>
<tr>
<td>Other services related to daily life</td>
<td>Photography, tailoring/repair services, temporary storage services (coin-operated lockers, etc.), cremation and cemetery management, ceremonial functions, marriage halls, funeral industry, ceremonial function mutual-aid associations, not otherwise classified lifestyle-related services (outsourced food processors, marriage agencies, chauffeur services, fortune-telling, etc.)</td>
</tr>
<tr>
<td>Other business services</td>
<td>Stenographers/copyists/duplicators, merchandise inspection, measuring certification, building services, private job-placement services, security services, not otherwise classified business services (display services, sign painting, party contractors, mailing services, packaging services)</td>
</tr>
<tr>
<td>Professional services</td>
<td>Law offices, patent offices, notary offices, judicial scriveners, chartered accountants, tax attorneys, veterinarians, civil engineering services, design services, authors/artists, cram schools, fitness clubs, personal sport and fitness coaching, personal ikebana/tea ceremony instruction, abacus tuition, music tuition, calligraphy tuition, other individual tuition (Japanese/Western dressmaking, go, art, etc.), other professional services (certified social insurance labor consultants, translators, business consultants, appraisal services, copywriting, interpreting, etc.)</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Cinemas, theaters, performance halls, performing companies (theatrical companies, show business productions), race grounds (for bicycle and horse racing, etc.), racing teams (for bicycle and horse racing, etc.), sports facility providers, golf courses, bowling alleys, amusement parks, mahjong clubs, pachinko halls, other amusement centers (game arcades, go/shogi clubs, etc.), other entertainment services (dance classes, karaoke boxes, etc.)</td>
</tr>
<tr>
<td>Other services</td>
<td>Assembly halls, abattoirs, not otherwise classified services (central wholesale markets, animal quarantine stations, etc.)</td>
</tr>
</tbody>
</table>


**Appended Note 2-1-2  Impact of direction of technological innovation and use of information by SMEs on outcomes of development and improvement of products**

1. **Model**
   - **Dependent variable:** Activities to develop and improve products lead to initially expected outcomes (target unit sales or volume of sales) (yes = 1)
   - **Explanatory variables:**
     1) Natural log of age of enterprise in fiscal 2003 (2003 - year of establishment + 1)
     2) Natural log of number of full-time workers in fiscal 2003
     3) Very strong emphasis on “technology and know-how accumulated to date” (yes = 1)
     4) Very strong emphasis on “specific demands of clients and customers” (yes = 1)
     5) Very strong emphasis on “accumulation of knowledge and experience of characteristics of own best-selling products or market” (yes = 1)
     6) Emphasis on “characteristics of products sold by competitors” (yes = 1)
     7) Emphasis on “changes in tastes of users not yet catered to by the market” (yes = 1)

2. **Data set**
3. Results of estimates (estimated by probit analysis)

(1) For business establishments and enterprises (industrial goods)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.137</td>
<td>0.080</td>
<td>*</td>
</tr>
<tr>
<td>Number of full-time workers</td>
<td>0.121</td>
<td>0.038</td>
<td>***</td>
</tr>
<tr>
<td>Accumulation of technology dummy</td>
<td>0.330</td>
<td>0.090</td>
<td>***</td>
</tr>
<tr>
<td>Demands of customers dummy</td>
<td>0.263</td>
<td>0.089</td>
<td>***</td>
</tr>
<tr>
<td>Own best-selling products dummy</td>
<td>0.330</td>
<td>0.113</td>
<td>***</td>
</tr>
<tr>
<td>Competitors’ products dummy</td>
<td>-0.059</td>
<td>0.083</td>
<td></td>
</tr>
<tr>
<td>Changes in tastes dummy</td>
<td>-0.024</td>
<td>0.083</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.471</td>
<td>0.314</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>1,213</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -661.440

*** = 1% significance level   ** = 5% significance level   * = 10% significance level

(2) For business establishments and enterprises (end-use goods)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.042</td>
<td>0.078</td>
<td></td>
</tr>
<tr>
<td>Number of full-time workers</td>
<td>0.125</td>
<td>0.041</td>
<td>***</td>
</tr>
<tr>
<td>Accumulation of technology dummy</td>
<td>0.317</td>
<td>0.097</td>
<td>***</td>
</tr>
<tr>
<td>Demands of customers dummy</td>
<td>0.274</td>
<td>0.099</td>
<td>***</td>
</tr>
<tr>
<td>Own best-selling products dummy</td>
<td>0.191</td>
<td>0.108</td>
<td>*</td>
</tr>
<tr>
<td>Competitors’ products dummy</td>
<td>0.011</td>
<td>0.086</td>
<td></td>
</tr>
<tr>
<td>Changes in tastes dummy</td>
<td>0.147</td>
<td>0.087</td>
<td>*</td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.056</td>
<td>0.318</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>1,026</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -599.3625

*** = 1% significance level   ** = 5% significance level   * = 10% significance level

(3) Ordinary consumers

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.049</td>
<td>0.119</td>
<td></td>
</tr>
<tr>
<td>Number of full-time workers</td>
<td>0.136</td>
<td>0.066</td>
<td>**</td>
</tr>
<tr>
<td>Accumulation of technology dummy</td>
<td>0.171</td>
<td>0.195</td>
<td></td>
</tr>
<tr>
<td>Demands of customers dummy</td>
<td>0.075</td>
<td>0.226</td>
<td></td>
</tr>
<tr>
<td>Own best-selling products dummy</td>
<td>0.103</td>
<td>0.225</td>
<td></td>
</tr>
<tr>
<td>Competitors’ products dummy</td>
<td>-0.304</td>
<td>0.165</td>
<td>*</td>
</tr>
<tr>
<td>Changes in tastes dummy</td>
<td>0.221</td>
<td>0.170</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.151</td>
<td>0.461</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>269</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -169.303

*** = 1% significance level   ** = 5% significance level   * = 10% significance level
Appended Note 2-1-3  Impact of direction of technological innovation and use of information by SMEs on sales growth rate

1. Model
   Dependents variable: Sales growth rate (natural log of sales in fiscal 2003 - natural log of sales in fiscal 1998)
   Explanatory variables:
   1) Natural log of age of enterprise in 2003 (2003 - years of establishment + 1)
   2) Natural log of sales in fiscal 1997
   3) Very strong emphasis on “technology and know-how accumulated to date” (yes = 1)
   4) Very strong emphasis on “specific demands of clients and customers” (yes = 1)
   5) Very strong emphasis on “accumulation of knowledge and experience of characteristics of own best-selling products or market” (yes = 1)
   6) Emphasis on “characteristics of products sold by competitors” (yes = 1)
   7) Emphasis on “changes in tastes of users not yet catered to by the market” (yes = 1)

2. Data set
   The sample was obtained by concatenating data from SME Agency, Survey of Corporate Management (December 2003) and METI/SME Agency, Basic Survey of Commercial and Manufacturing Structure and Activity (1998) to determine the enterprises for which data could be obtained for the period 1997-2003.

3. Results of estimates (estimated by least squares method)
   (1) For business establishments and enterprises (industrial goods)

<table>
<thead>
<tr>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.064</td>
<td>0.031</td>
</tr>
<tr>
<td>Number of full-time workers</td>
<td>0.012</td>
<td>0.010</td>
</tr>
<tr>
<td>Accumulation of technology dummy</td>
<td>0.024</td>
<td>0.031</td>
</tr>
<tr>
<td>Demands of customers dummy</td>
<td>0.003</td>
<td>0.030</td>
</tr>
<tr>
<td>Own best-selling products dummy</td>
<td>0.037</td>
<td>0.040</td>
</tr>
<tr>
<td>Competitors’ products dummy</td>
<td>0.030</td>
<td>0.029</td>
</tr>
<tr>
<td>Changes in tastes dummy</td>
<td>0.050</td>
<td>0.030</td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.118</td>
<td>0.121</td>
</tr>
</tbody>
</table>

   Sample size 1,065
   Adjusted RSQ = 0.068

   *** = 1% significance level  ** = 5% significance level  * = 10% significance level

   (2) For business establishments and enterprises (end-use goods)

<table>
<thead>
<tr>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.068</td>
<td>0.036</td>
</tr>
<tr>
<td>Number of full-time workers</td>
<td>-0.011</td>
<td>0.013</td>
</tr>
<tr>
<td>Accumulation of technology dummy</td>
<td>-0.058</td>
<td>0.042</td>
</tr>
<tr>
<td>Demands of customers dummy</td>
<td>0.051</td>
<td>0.042</td>
</tr>
<tr>
<td>Own best-selling products dummy</td>
<td>-0.025</td>
<td>0.047</td>
</tr>
<tr>
<td>Competitors’ products dummy</td>
<td>0.054</td>
<td>0.039</td>
</tr>
<tr>
<td>Changes in tastes dummy</td>
<td>-0.002</td>
<td>0.038</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.194</td>
<td>0.151</td>
</tr>
</tbody>
</table>

   Sample size 919
   Adjusted RSQ = 0.007

   *** = 1% significance level  ** = 5% significance level  * = 10% significance level
### (3) Ordinary consumers

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.071</td>
<td>0.089</td>
<td></td>
</tr>
<tr>
<td>Sales in 1997</td>
<td>-0.020</td>
<td>0.035</td>
<td></td>
</tr>
<tr>
<td>Accumulation of technology dummy</td>
<td>-0.376</td>
<td>0.148</td>
<td>**</td>
</tr>
<tr>
<td>Demands of customers dummy</td>
<td>-0.251</td>
<td>0.182</td>
<td></td>
</tr>
<tr>
<td>Own best-selling products dummy</td>
<td>0.131</td>
<td>0.169</td>
<td></td>
</tr>
<tr>
<td>Competitors' products dummy</td>
<td>-0.116</td>
<td>0.125</td>
<td></td>
</tr>
<tr>
<td>Changes in tastes dummy</td>
<td>0.386</td>
<td>0.218</td>
<td>*</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.397</td>
<td>0.358</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>250</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Adjusted RSQ = 0.021**

---

### Appended Note 2-1-4  Correlation between specific type of technological innovation by SMEs and sales growth rate

#### 1. Model
- **Dependent variable:** Sales growth rate (natural log of sales in fiscal 2003 - natural log of sales in fiscal 1998)
- **Explanatory variables:**
  1. Natural log of age of enterprise in fiscal 2003 (2003 - year of establishment + 1)
  2. Natural log of sales in fiscal 1997
  3. Development of new products and services (yes = 1)
  4. Improvement of production processes (yes = 1)
  5. Improvement of design (yes = 1)
  6. Improvement of sales methods (yes = 1)

#### 2. Data set

#### 3. Results of estimates (estimated by least squares method)
- **For business establishments and enterprises (industrial goods)**

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.068</td>
<td>0.031</td>
<td>**</td>
</tr>
<tr>
<td>Sales in 1997</td>
<td>0.014</td>
<td>0.010</td>
<td></td>
</tr>
<tr>
<td>Development of new products and services dummy</td>
<td>0.010</td>
<td>0.030</td>
<td></td>
</tr>
<tr>
<td>Improvement of production processes dummy</td>
<td>0.015</td>
<td>0.030</td>
<td></td>
</tr>
<tr>
<td>Improvement of design dummy</td>
<td>0.019</td>
<td>0.054</td>
<td></td>
</tr>
<tr>
<td>Improvement of sales methods dummy</td>
<td>-0.001</td>
<td>0.037</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.084</td>
<td>0.121</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>1,065</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Adjusted RSQ = 0.001**

---

*** = 1% significance level  ** = 5% significance level  * = 10% significance level
(2) For business establishments and enterprises (end-use goods)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.103</td>
<td>0.032</td>
<td>**</td>
</tr>
<tr>
<td>Sales in 1997</td>
<td>0.016</td>
<td>0.011</td>
<td></td>
</tr>
<tr>
<td>Development of new products and services dummy</td>
<td>0.004</td>
<td>0.035</td>
<td></td>
</tr>
<tr>
<td>Improvement of production processes dummy</td>
<td>0.066</td>
<td>0.034</td>
<td>*</td>
</tr>
<tr>
<td>Improvement of design dummy</td>
<td>-0.018</td>
<td>0.041</td>
<td></td>
</tr>
<tr>
<td>Improvement of sales methods dummy</td>
<td>-0.007</td>
<td>0.037</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.025</td>
<td>0.135</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>912</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Adjusted $R^2 = 0.001$

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

(3) Ordinary consumers

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.041</td>
<td>0.021</td>
<td></td>
</tr>
<tr>
<td>Sales in 1997</td>
<td>0.023</td>
<td>0.010</td>
<td></td>
</tr>
<tr>
<td>Development of new products and services dummy</td>
<td>0.066</td>
<td>0.076</td>
<td></td>
</tr>
<tr>
<td>Improvement of production processes dummy</td>
<td>-0.076</td>
<td>0.089</td>
<td></td>
</tr>
<tr>
<td>Improvement of design dummy</td>
<td>0.203</td>
<td>0.094</td>
<td>**</td>
</tr>
<tr>
<td>Improvement of sales methods dummy</td>
<td>-0.015</td>
<td>0.076</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.300</td>
<td>0.217</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>243</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Adjusted $R^2 = 0.001$

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

Appended Note 2-1-5  Former jobs (private sector only) of representatives of university ventures at time of establishment and now

<table>
<thead>
<tr>
<th></th>
<th>Representative director at time of incorporation</th>
<th>Present representative director</th>
<th>Present principal full-time director 1</th>
<th>Present principal full-time director 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank/credit association</td>
<td>1.7</td>
<td>3.1</td>
<td>1.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Securities/insurance</td>
<td>0.6</td>
<td>0.0</td>
<td>0.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Venture capital</td>
<td>2.9</td>
<td>3.7</td>
<td>3.1</td>
<td>7.6</td>
</tr>
<tr>
<td>Trading company</td>
<td>8.6</td>
<td>8.8</td>
<td>3.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Accountancy firm/auditing firm</td>
<td>0.0</td>
<td>1.2</td>
<td>0.8</td>
<td>4.3</td>
</tr>
<tr>
<td>Consultancy</td>
<td>7.4</td>
<td>6.2</td>
<td>7.0</td>
<td>5.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>49.7</td>
<td>49.7</td>
<td>50.8</td>
<td>54.3</td>
</tr>
<tr>
<td>Communications</td>
<td>1.7</td>
<td>1.2</td>
<td>0.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Construction</td>
<td>6.9</td>
<td>5.6</td>
<td>5.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Transportation</td>
<td>0.8</td>
<td>0.0</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>1.1</td>
<td>1.2</td>
<td>0.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Retailing</td>
<td>2.9</td>
<td>3.7</td>
<td>3.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Services</td>
<td>16.0</td>
<td>17.4</td>
<td>21.1</td>
<td>14.1</td>
</tr>
</tbody>
</table>

Source: Nikkei BP Consulting, Basic Survey of University Ventures (March 2004).
Appended Note 2-1-6  Impact of type of external support received at startup on attainment of commercialization stage by university ventures

1. Model

Dependent variable: Enterprise that had not achieved commercialization at startup has now achieved commercialization (yes = 1)

Explanatory variables:
1) Natural log of age of enterprise in fiscal 2003 (2003 - year of establishment + 1)
2) Natural log of number of number of workers at time of incorporation
3) Receipt of research, development of technological support (yes = 1)
4) Receipt of support regarding management of intellectual property (yes = 1)
5) Receipt of support regarding development of business model (yes = 1)
6) Receipt of support regarding marketing (yes = 1)
7) Receipt of support regarding development of business plan (yes = 1)
8) Receipt of support regarding incorporation procedures (yes = 1)
9) Receipt of support regarding collaboration with other companies (yes = 1)
10) Receipt of support regarding financial planning (yes = 1)
11) Receipt of support regarding capital policy (yes = 1)
12) Receipt of support regarding business management (yes = 1)
13) Receipt of support regarding human resources, personnel or organizational development (yes = 1)
14) Receipt of support regarding legal affairs and contracts (yes = 1)
15) Receipt of support regarding financial affairs and accounting (yes = 1)
16) Receipt of support regarding preparations for going public (yes = 1)

2. Data set

Nikkei BP Consulting, Basic Survey of University Ventures (March 2004).

3. Results of estimates (estimated by probit analysis)

<table>
<thead>
<tr>
<th>variable</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>0.722</td>
<td>0.191</td>
<td>***</td>
</tr>
<tr>
<td>No. of workers at startup</td>
<td>0.199</td>
<td>0.136</td>
<td></td>
</tr>
<tr>
<td>Research, development</td>
<td>-0.112</td>
<td>0.188</td>
<td></td>
</tr>
<tr>
<td>and technology dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intellectual property</td>
<td>-0.452</td>
<td>0.236</td>
<td>*</td>
</tr>
<tr>
<td>management dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development of business model</td>
<td>-0.083</td>
<td>0.266</td>
<td></td>
</tr>
<tr>
<td>dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing dummy</td>
<td>0.597</td>
<td>0.294</td>
<td></td>
</tr>
<tr>
<td>Development of business plan</td>
<td>-0.393</td>
<td>0.242</td>
<td></td>
</tr>
<tr>
<td>dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incorporation procedure dummy</td>
<td>0.123</td>
<td>0.196</td>
<td></td>
</tr>
<tr>
<td>Collaboration with other</td>
<td>-0.215</td>
<td>0.235</td>
<td></td>
</tr>
<tr>
<td>companies dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial planning dummy</td>
<td>0.142</td>
<td>0.227</td>
<td></td>
</tr>
<tr>
<td>Capital policy dummy</td>
<td>0.101</td>
<td>0.262</td>
<td></td>
</tr>
<tr>
<td>Business management dummy</td>
<td>-0.246</td>
<td>0.295</td>
<td></td>
</tr>
<tr>
<td>Human resource, personnel and</td>
<td>0.080</td>
<td>0.263</td>
<td></td>
</tr>
<tr>
<td>organizational development dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal affairs and contracts</td>
<td>0.037</td>
<td>0.246</td>
<td></td>
</tr>
<tr>
<td>dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial affairs and accounting</td>
<td>0.073</td>
<td>0.236</td>
<td></td>
</tr>
<tr>
<td>dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preparations for going public</td>
<td>-0.399</td>
<td>0.695</td>
<td></td>
</tr>
<tr>
<td>dummy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>-1.512</td>
<td>0.369</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -136.950

*** = 1% significance level  ** = 5% significance level  * = 10% significance level
**Appended Note 2-1-7**  Impact of operations in which representative at startup is strongly involved at practical level on attainment of commercialization stage by university ventures

1. **Model**
   - **Dependent variable:** Enterprise that had not achieved commercialization at startup has now achieved commercialization (yes = 1)
   - **Explanatory variables:**
     1. Natural log of age of enterprise in fiscal 2003 (2003 - year of establishment + 1)
     2. Natural log of number of workers at incorporation
     3. Manufacturing and production (yes = 1)
     4. General affairs and personnel (yes = 1)
     5. Accounting and finance (yes = 1)
     6. Marketing (yes = 1)
     7. Public relations, publicity and advertising (yes = 1)
     8. Sales (yes = 1)
     9. Data systems (yes = 1)
    10. Legal affairs (yes = 1)
    11. Management of intellectual property (yes = 1)
       (Reference category: R&D)

2. **Data set**
   - **Nikkei BP Consulting, Basic Survey of University Ventures (March 2004).**

3. **Results of estimates (estimated by probit analysis)**

   Log likelihood = -149.656

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>0.529</td>
<td>0.169</td>
<td>***</td>
</tr>
<tr>
<td>Number of workers at time of establishment</td>
<td>0.125</td>
<td>0.127</td>
<td></td>
</tr>
<tr>
<td>Manufacturing and production dummy</td>
<td>0.533</td>
<td>0.383</td>
<td></td>
</tr>
<tr>
<td>General affairs and personnel dummy</td>
<td>0.427</td>
<td>0.274</td>
<td></td>
</tr>
<tr>
<td>Accounting and finance dummy</td>
<td>0.183</td>
<td>0.272</td>
<td></td>
</tr>
<tr>
<td>Marketing dummy</td>
<td>-0.258</td>
<td>0.301</td>
<td></td>
</tr>
<tr>
<td>Public relations, publicity and advertising dummy</td>
<td>-0.029</td>
<td>0.558</td>
<td></td>
</tr>
<tr>
<td>Sales dummy</td>
<td>0.924</td>
<td>0.240</td>
<td>***</td>
</tr>
<tr>
<td>Data systems dummy</td>
<td>0.257</td>
<td>0.767</td>
<td></td>
</tr>
<tr>
<td>Legal affairs dummy</td>
<td>1.010</td>
<td>0.787</td>
<td></td>
</tr>
<tr>
<td>Intellectual property management dummy</td>
<td>-0.953</td>
<td>0.597</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>-1.441</td>
<td>0.314</td>
<td>***</td>
</tr>
</tbody>
</table>

   Sample size 236

**Notes:**
- *** = 1% significance level
- ** = 5% significance level
- * = 10% significance level

---

**Appended Note 2-1-8**  Summary of the Survey of the Actual Conditions of Social Entrepreneurs

1. **Preparatory survey**
   - **Survey of the Actual Conditions of Social Entrepreneurs**
   - Prior to the Survey of the Actual Conditions of Social Entrepreneurs, a preparatory survey was made of prefectures, municipalities, chambers of commerce and industry and similar entities throughout Japan to create a list of organizations regarded as community businesses.
   - (1) Implementing agency: SME Agency
   - (2) Date of survey: November 2003
   - (3) Method: Mailed questionnaire
   - (4) Subjects of survey
2. **Survey of the Actual Conditions of Social Entrepreneurs**

   Based on the register established through the results of the above preparatory survey, questionnaires were mailed out. NPOs thought to run community businesses were also surveyed.

   (1) Implementing agency: Japan Research Institute
   
   (2) Date of survey: December 2003
   
   (3) Method: Mailed questionnaire
   
   (4) Subjects of survey

<table>
<thead>
<tr>
<th>Subjects</th>
<th>No. of questionnaires sent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prefectures (bureaus/departments responsible for industrial promotion and NPOs)</td>
<td>94</td>
</tr>
<tr>
<td>Prefectural council of social welfare</td>
<td>47</td>
</tr>
<tr>
<td>Cities, towns, villages, special wards</td>
<td>3,204</td>
</tr>
<tr>
<td>Chambers of commerce and industry, ward branches of Tokyo Chamber of Commerce and Industry</td>
<td>550</td>
</tr>
<tr>
<td>Associations of commerce and industry</td>
<td>2,385</td>
</tr>
<tr>
<td>NPOs and foundations</td>
<td>1,565</td>
</tr>
<tr>
<td>Total</td>
<td>7,845</td>
</tr>
</tbody>
</table>

(5) Number of responses = 1,039 (response rate: 13.2%)  

3. **Exclusion from analysis of subjects other than community businesses**

   The following bodies sampled as a result of the survey that were considered clearly not community businesses were excluded from the analysis: (1) bodies with no mission business, (2) bodies with no profit-making business.

---

### Appended Note 2-1-9  Emphases in management of business

Test results (test of difference in emphasis)

<table>
<thead>
<tr>
<th>Subjects</th>
<th>Emphasis (profit-oriented community businesses)</th>
<th>Emphasis (voluntaristic community businesses)</th>
<th>t value</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuation of business</td>
<td>4.70</td>
<td>4.65</td>
<td>3.533</td>
<td>***</td>
</tr>
<tr>
<td>Increase of business income</td>
<td>4.10</td>
<td>3.45</td>
<td>12.072</td>
<td>***</td>
</tr>
<tr>
<td>Stabilization of performance</td>
<td>4.41</td>
<td>4.03</td>
<td>11.330</td>
<td>***</td>
</tr>
<tr>
<td>Securing of jobs</td>
<td>3.87</td>
<td>3.11</td>
<td>7.059</td>
<td>***</td>
</tr>
<tr>
<td>Securing of staff pay</td>
<td>3.38</td>
<td>3.36</td>
<td>9.235</td>
<td>***</td>
</tr>
<tr>
<td>Expansion of field of business to meet local needs</td>
<td>4.05</td>
<td>3.85</td>
<td>3.992</td>
<td>***</td>
</tr>
<tr>
<td>Reduction of price of goods and services provided</td>
<td>3.27</td>
<td>3.00</td>
<td>4.005</td>
<td>***</td>
</tr>
<tr>
<td>Improvement of quality of goods and services provided</td>
<td>4.34</td>
<td>3.97</td>
<td>8.160</td>
<td>***</td>
</tr>
<tr>
<td>Harmonization of views with staff</td>
<td>4.47</td>
<td>4.41</td>
<td>2.734</td>
<td>***</td>
</tr>
<tr>
<td>Concern for the environment</td>
<td>4.08</td>
<td>3.98</td>
<td>2.211</td>
<td>***</td>
</tr>
</tbody>
</table>

*** = 1% significance level  ** = 5% significance level  * = 10% significance level
### Appended Note 2-1-10  Timing of when it becomes apparent that a business is sustainable

1. **Model**
   - **Dependent variable:** Timing of when it becomes apparent that a business is sustainable (9-point scale from "within 1 year of commencement of activities" = 1 to "still not sustainable" = 9)
   - **Explanatory variables:**
     1) Profit-oriented community business dummy (profit-oriented community business = 1, voluntaristic community business = 0)
     2) Number of years in business
     3) Gender of representative dummy (male = 1, female = 0)

2. **Data set**
   - Japan Research Institute, *Survey of the Actual Conditions of Social Entrepreneurs* (December 2003).

3. **Results of estimates (estimated by ordered probit model)**

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit-oriented business dummy</td>
<td>-0.138</td>
<td>0.053</td>
<td>***</td>
</tr>
<tr>
<td>Number of years in business</td>
<td>-0.002</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td>Gender of representative dummy</td>
<td>0.025</td>
<td>0.047</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>2,311</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* = 1% significance level   ** = 5% significance level   *** = 10% significance level

### Appended Note 2-1-11  Trend in business income in present fiscal year

1. **Model**
   - **Dependent variable:** Trend in business income in present fiscal year (more than in previous fiscal year = 1, equal to or less than in previous fiscal year = 0)
   - **Explanatory variables:**
     1) Profit-oriented community business dummy (profit-oriented community business = 1, voluntaristic community business = 0)
     2) Number of years in business
     3) Gender of representative dummy (male = 1, female = 0)

2. **Data set**
   - Japan Research Institute, *Survey of the Actual Conditions of Social Entrepreneurs* (December 2003).

3. **Results of estimates (estimated by probit model)**

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit-oriented business dummy</td>
<td>0.493</td>
<td>0.070</td>
<td>***</td>
</tr>
<tr>
<td>Number of years in business</td>
<td>-0.026</td>
<td>0.003</td>
<td>***</td>
</tr>
<tr>
<td>Gender of representative dummy</td>
<td>-0.104</td>
<td>0.059</td>
<td>*</td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.159</td>
<td>0.078</td>
<td>**</td>
</tr>
<tr>
<td>Sample size</td>
<td>2,020</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* = 1% significance level   ** = 5% significance level   *** = 10% significance level
Appended Note 2-1-12  Change in number of lines of business

1. Model
Dependent variable: Change in number of lines of business from start of business to present (more than in previous fiscal year = 1, equal or fewer than in previous fiscal year = 0)
Community businesses in business for less than one year were excluded from the analysis.
Explanatory variables: 1) Profit-oriented community business dummy (profit-oriented community business = 1, voluntaristic community business = 0)
2) Number of years in business
3) Gender of representative dummy (male = 1, female = 0)

2. Data set
Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

3. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit-oriented community business dummy</td>
<td>0.566</td>
<td>0.064</td>
<td>***</td>
</tr>
<tr>
<td>Number of years in business</td>
<td>0.012</td>
<td>0.003</td>
<td>***</td>
</tr>
<tr>
<td>Gender of representative dummy</td>
<td>-0.230</td>
<td>0.055</td>
<td>***</td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.523</td>
<td>0.071</td>
<td>***</td>
</tr>
<tr>
<td>Sample size</td>
<td></td>
<td>2,357</td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level  ** = 5% significance level  * = 10% significance level

Appended Note 2-1-13  Annual average rate of increase in number of staff and volunteers

1. Model
Dependent variables: 1) Annual average rate of increase in number of staff from start of business to present
2) Annual average rate of increase in number of volunteers from start of business to present
3) Annual average rate of increase in total number of staff and volunteers from start of business to present
Explanatory variables: 1) Profit-oriented community business dummy (profit-oriented community business = 1, voluntaristic community businesses = 0)
2) Number of years in business
3) Gender of representative dummy (male = 1, female = 0)

2. Data set
Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

3. Results of estimates (estimated by least squares method)

<table>
<thead>
<tr>
<th></th>
<th>1) No. of staff</th>
<th>2) No. of volunteers</th>
<th>3) Total no. of staff and volunteers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Significance level</td>
<td>Estimated coefficient</td>
</tr>
<tr>
<td>Profit-oriented community business dummy</td>
<td>0.469</td>
<td>***</td>
<td>-0.039</td>
</tr>
<tr>
<td>Number of years in business</td>
<td>-0.019</td>
<td>***</td>
<td>-0.022</td>
</tr>
<tr>
<td>Gender of representative dummy</td>
<td>-0.012</td>
<td>***</td>
<td>0.038</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.926</td>
<td>***</td>
<td>1.203</td>
</tr>
<tr>
<td>Sample size</td>
<td>1,985</td>
<td></td>
<td>1,985</td>
</tr>
</tbody>
</table>

*** = 1% significance level  ** = 5% significance level  * = 10% significance level

Adjusted RSQ = 0.0263  Adjusted RSQ = 0.0158  Adjusted RSQ = 0.0222
Appended Note 2-1-14  Cooperation with administrative agencies and profit status of business

1. Model
Dependent variables: 1) Profitable mission business dummy (mission business in profit = 1, no mission business in profit = 0)
2) Profitable profit-making business dummy (profit-making business in profit = 1, no profit-making business in profit = 0)
Explanatory variables: 1) Administrative agency’s cooperation dummy (yes = 1, no = 0)
2) Number of years in business
3) Gender of representative dummy (male = 1, female = 0)

2. Data set
Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).

3. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th></th>
<th>1) Mission business in profit</th>
<th>2) Profit-making business in profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Significance level</td>
</tr>
<tr>
<td>Administrative agency’s cooperation dummy</td>
<td>0.159</td>
<td>***</td>
</tr>
<tr>
<td>Number of years in business</td>
<td>0.005</td>
<td>**</td>
</tr>
<tr>
<td>Gender of representative dummy</td>
<td>-0.164</td>
<td>***</td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.127</td>
<td>*</td>
</tr>
<tr>
<td>Sample size</td>
<td>2,323</td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

Appended Note 2-1-15  Cooperation with administrative agencies and profit status of business

1. Model
Dependent variable: Profitable business (mission or profit-making business in profit = 1, no businesses in profit = 0)
Explanatory variables: (1) Type of cooperation from administrative agency dummy (yes = 1, no = 0 for each category of cooperation)
1) Provision of contracted-out work
2) Provision of location for activities (public facilities, etc.)
3) Provision of grants, subsidies and contributions, etc.
4) Publicizing of activities
5) Cooperation in planning of business
6) Assistance with human resources required for activities
7) Provision of free or cheap equipment and materials
8) Introduction of customers
9) Provision of opportunities for information exchanges with similar businesses
10) Provision of information
11) Other
(2) Number of years in business
(3) Gender of representative dummy (male = 1, female = 0)

2. Data set
Japan Research Institute, Survey of the Actual Conditions of Social Entrepreneurs (December 2003).
3. Results of estimates (estimated by probit analysis)

<table>
<thead>
<tr>
<th>Type of cooperation provided by administrative agency</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of contracted-out work</td>
<td>0.334</td>
<td>0.056</td>
<td>***</td>
</tr>
<tr>
<td>Provision of location for activities (public facilities, etc.)</td>
<td>0.103</td>
<td>0.057</td>
<td>*</td>
</tr>
<tr>
<td>Provision of grants, subsidies and contributions, etc.</td>
<td>-0.064</td>
<td>0.056</td>
<td></td>
</tr>
<tr>
<td>Publicizing of activities</td>
<td>-0.107</td>
<td>0.060</td>
<td></td>
</tr>
<tr>
<td>Cooperation in planning of business</td>
<td>0.006</td>
<td>0.073</td>
<td></td>
</tr>
<tr>
<td>Assistance with human resources required for activities</td>
<td>-0.163</td>
<td>0.094</td>
<td>*</td>
</tr>
<tr>
<td>Provision of free or cheap equipment and materials</td>
<td>0.118</td>
<td>0.086</td>
<td></td>
</tr>
<tr>
<td>Introduction of customers</td>
<td>0.313</td>
<td>0.093</td>
<td>***</td>
</tr>
<tr>
<td>Provision of opportunities for information exchanges with similar businesses</td>
<td>0.037</td>
<td>0.083</td>
<td></td>
</tr>
<tr>
<td>Provision of information</td>
<td>0.041</td>
<td>0.062</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>-0.023</td>
<td>0.214</td>
<td></td>
</tr>
<tr>
<td>Number of years in business</td>
<td>0.008</td>
<td>0.003</td>
<td>***</td>
</tr>
<tr>
<td>Gender of representative dummy</td>
<td>-0.207</td>
<td>0.054</td>
<td>***</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.121</td>
<td>0.058</td>
<td>**</td>
</tr>
<tr>
<td>Sample size</td>
<td>2,522</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level    ** = 5% significance level    * = 10% significance level

Appended Note 2-2-1  Purpose of establishment of operations overseas by region

1. Summary of analysis
   The purpose of this analysis is to examine the regions chosen by SMEs with what objectives when engaging in FDI. Taking the purpose of investment in North America and Europe as the baseline, we examine how the objectives of investment in China, the NIEs and Southeast Asia differ.

2. Model
   Dependent variable: Choice of location at time of FDI (China = 1, NIEs = 2, Southeast Asia = 3, North America/Europe = 4)
   Explanatory variables:
   1) Age of overseas subsidiary (number of years from establishment to 2003 (natural log))
   2) Size at time of establishment (natural log of number of local workers of overseas subsidiary at time of establishment)
   3) Cheap imports dummy (import of cheap products to cut costs = 1, other = 0)
   4) Demands dummy (to respond to demands of key customers = 1, other = 0)
   5) Expansion of outlets dummy (to expand outlets in overseas markets = 1, other = 0)
   6) Excess facilities dummy (to make effective use of excess facilities overseas = 1, other = 0)
   7) Secure workers dummy (to secure workers for production = 1, other = 0)
   8) Dividends dummy (to generate income through dividends or royalties = 1, other = 0)
   9) Technology absorption dummy (to absorb high-level technology from overseas = 1, other = 0)

3. Data set
4. Results of estimates (estimated by multinomial logit model; reference category: “4 = North America/Europe”)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated coefficient</td>
<td>Significance level</td>
<td>Estimated coefficient</td>
<td>Significance level</td>
</tr>
<tr>
<td>Age of overseas subsidiary</td>
<td>-1.964 ***</td>
<td>-0.494</td>
<td>-1.043 ***</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.524 ***</td>
<td>0.206</td>
<td>0.370</td>
</tr>
<tr>
<td>Cheap imports dummy</td>
<td>2.538 **</td>
<td>1.727</td>
<td>1.315</td>
</tr>
<tr>
<td>Demands dummy</td>
<td>0.089</td>
<td>-0.143</td>
<td>0.663</td>
</tr>
<tr>
<td>Expansion of outlets dummy</td>
<td>-0.465</td>
<td>-0.218</td>
<td>-0.299</td>
</tr>
<tr>
<td>Excess facilities dummy</td>
<td>0.967</td>
<td>0.741</td>
<td>0.613</td>
</tr>
<tr>
<td>Secure workers dummy</td>
<td>1.914 **</td>
<td>1.294</td>
<td>1.420</td>
</tr>
<tr>
<td>Dividends dummy</td>
<td>0.196</td>
<td>-0.590</td>
<td>0.308</td>
</tr>
<tr>
<td>Technology absorption dummy</td>
<td>-3.633 **</td>
<td>-1.876</td>
<td>-4.184</td>
</tr>
<tr>
<td>Constant term</td>
<td>3.084</td>
<td>0.119</td>
<td>1.576</td>
</tr>
<tr>
<td>Sample size</td>
<td>577</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -614.786, χ² P value = 0.000

*** = 1% significance level  ** = 5% significance level  * = 10% significance level

5. Conclusions

See main text.

Appended Note 2-2-2  Characteristics of enterprises that establish operations overseas (all enterprises)

1. Summary of analysis

The characteristics of enterprises with overseas operations are examined by comparing the attributes of enterprises with overseas subsidiaries with those of enterprises without overseas subsidiaries.

2. Model

Dependent variable: 1) Overseas subsidiary dummy (overseas subsidiary = 1, no overseas subsidiary = 0)
Explanatory variables: 1) Age of enterprise (number of years from establishment to 2002 (natural log))
2) Size of enterprise (natural log of number of full-time workers of parent company in 2002)
Reference category: industries other than manufacturing, wholesaling and retailing
3) Manufacturing dummy (manufacturing = 1, not manufacturing = 0; the same hereinafter)
4) Wholesaling dummy (wholesaling = 1, not wholesaling = 0)
5) Retailing dummy (retailing = 1, not retailing = 0)
6) Equity ratio (equity capital / total assets; the same hereinafter)
7) Labor productivity (value added / full-time workers; the same hereinafter)

Notes: 1. An enterprise is classified as belonging to “manufacturing” if the product category that accounts for the largest proportion of its sales is a manufactured product. Conversely, an enterprise is classified under “not manufacturing” even if it produces manufactured products if those products do not account for the largest share of sales.
2. Here, value added = operating profit + depreciation costs + gross pay

3. Data set

4. Results of estimates (estimated by probit model)

Log likelihood = -9099.108, $\chi^2$ P value = 0.000

<table>
<thead>
<tr>
<th>Overseas subsidiary dummy</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>0.259</td>
<td>0.019</td>
<td>***</td>
</tr>
<tr>
<td>Size of enterprise</td>
<td>0.505</td>
<td>0.011</td>
<td>***</td>
</tr>
<tr>
<td>Manufacturing dummy</td>
<td>0.792</td>
<td>0.035</td>
<td>***</td>
</tr>
<tr>
<td>Wholesaling dummy</td>
<td>0.654</td>
<td>0.039</td>
<td>***</td>
</tr>
<tr>
<td>Retailing dummy</td>
<td>-0.447</td>
<td>0.055</td>
<td>***</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>0.408</td>
<td>0.041</td>
<td>***</td>
</tr>
<tr>
<td>Labor productivity</td>
<td>0.005</td>
<td>0.001</td>
<td>***</td>
</tr>
<tr>
<td>Constant term</td>
<td>-5.430</td>
<td>0.090</td>
<td>***</td>
</tr>
<tr>
<td>Sample size</td>
<td>28,142</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level  ** = 5% significance level  * = 10% significance level

5. Conclusions
See main text.

Appended Note 2-2-3  International comparison of workers’ wages in manufacturing

(1) Comparison of Japan and other countries

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>Monthly earnings (in ¥1,000)</th>
<th>Monthly earnings (in local currency)</th>
<th>Year (Jan. 1)</th>
<th>Exchange rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Japan</td>
<td>293.1</td>
<td>¥293,100</td>
<td>2000</td>
<td>1</td>
</tr>
<tr>
<td>North America</td>
<td>United States</td>
<td>247.1</td>
<td>US$2,391</td>
<td>2000</td>
<td>107.4</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>Thailand</td>
<td>18.4</td>
<td>5,907 baht</td>
<td>1999</td>
<td>3.11</td>
</tr>
<tr>
<td>NIEs</td>
<td>Republic of Korea</td>
<td>14.5</td>
<td>1,602 won</td>
<td>2000</td>
<td>9.03</td>
</tr>
<tr>
<td>China</td>
<td>China</td>
<td>9.6</td>
<td>729 yuan</td>
<td>2000</td>
<td>12.36</td>
</tr>
</tbody>
</table>

Notes: 1. Yen conversions of monthly earnings were calculated by the SME Agency.
2. Monthly earnings for the United States were calculated by multiplying hourly earnings (US$14.38) by the number of working days (8 hours x 20 days)

(2) Comparison of wages of workers at Japanese subsidiaries in Asia by country and region

<table>
<thead>
<tr>
<th>Region</th>
<th>Country/province</th>
<th>Average monthly wage (in ¥1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southeast Asia</td>
<td>Malaysia</td>
<td>27.3</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>22.4</td>
</tr>
<tr>
<td></td>
<td>Indonesia</td>
<td>13.2</td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>18.9</td>
</tr>
<tr>
<td>China</td>
<td>Liaoning Province (northern coastal region)</td>
<td>13.6</td>
</tr>
<tr>
<td></td>
<td>Beijing City (northern coastal region)</td>
<td>14.7</td>
</tr>
<tr>
<td></td>
<td>Shanghai City (central coastal region)</td>
<td>22.0</td>
</tr>
<tr>
<td></td>
<td>Jiangsu Province (central coastal region)</td>
<td>15.3</td>
</tr>
<tr>
<td></td>
<td>Guangdong Province (southern coastal region)</td>
<td>14.1</td>
</tr>
</tbody>
</table>

**Appended Note 2-2-4  Characteristics of enterprises with overseas operations (manufacturers)**

1. **Summary of analysis**
   The characteristics of manufacturers with overseas operations were examined by comparing the attributes of manufacturers with overseas subsidiaries in North America/Europe and attributes of manufacturers with overseas subsidiaries in Asia with those of manufacturers without overseas subsidiaries.

2. **Model**
   **Dependent variables:**
   1. North America/Europe dummy (overseas subsidiary in North America/Europe in 2002 = 1, no overseas subsidiary = 0)
   2. Asia dummy (overseas subsidiary in Asia in 2002 = 1, no overseas subsidiary = 0)

   **Explanatory variables:**
   1. Natural log of age of enterprise (number of years from establishment to 2002)
   2. Size of enterprise (natural log of number of full-time workers at parent company in 2002)
   3. Equity ratio
   4. R&D intensity ((internal R&D expenditure + contracted-out R&D expenditure) / sales; the same hereinafter)
   5. Advertising intensity (advertising expenditure / sales; the same hereinafter)
   6. Labor share (gross pay / value added; the same hereinafter)

3. **Data set**

4. **Results of estimates (estimated by probit model)**
   ![Log likelihood = -2596.842, \( \chi^2 \) P value = 0.000](Log likelihood = -2596.842, \( \chi^2 \) P value = 0.000)
   ![Log likelihood = -4628.316, \( \chi^2 \) P value = 0.000](Log likelihood = -4628.316, \( \chi^2 \) P value = 0.000)

<table>
<thead>
<tr>
<th></th>
<th>North America/Europe dummy</th>
<th>Asia dummy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Standard error</td>
</tr>
<tr>
<td>Age of enterprise</td>
<td>0.306</td>
<td>0.038</td>
</tr>
<tr>
<td>Size of enterprise</td>
<td>0.718</td>
<td>0.200</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>0.665</td>
<td>0.760</td>
</tr>
<tr>
<td>R&amp;D intensity</td>
<td>7.573</td>
<td>0.532</td>
</tr>
<tr>
<td>Advertising intensity</td>
<td>1.710</td>
<td>0.847</td>
</tr>
<tr>
<td>Labor share</td>
<td>-0.008</td>
<td>0.031</td>
</tr>
<tr>
<td>Constant term</td>
<td>-6.661</td>
<td>0.172</td>
</tr>
<tr>
<td>Sample size</td>
<td>11,895</td>
<td>12,784</td>
</tr>
</tbody>
</table>

*** = 1% significance level    ** = 5% significance level    * = 10% significance level

5. **Conclusions**
   See main text.

**Appended Note 2-2-5  Comparison of business collaboration and FDI**

1. **Summary of analysis**
   The characteristics of business collaboration are examined by comparing enterprises that engage in business collaboration with foreign partners but without FDI, and enterprises that engage only in FDI without business collaboration.

2. **Model**
   **Dependent variable:**
   1. Business collaboration dummy (business collaboration only = 1, FDI only = 0)

   **Explanatory variables:**
   1. Age of enterprise (number of years from establishment to 2003 (natural log))
   2. Size of enterprise (natural log of number of full-time workers of parent company in 2003)
3. Data set

4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th>Business collaboration dummy</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>0.110</td>
<td>0.143</td>
<td></td>
</tr>
<tr>
<td>Size of enterprise</td>
<td>-0.123</td>
<td>0.080</td>
<td></td>
</tr>
<tr>
<td>Manufacturing dummy</td>
<td>-0.269</td>
<td>0.176</td>
<td></td>
</tr>
<tr>
<td>Equity ratio</td>
<td>-0.574</td>
<td>0.274</td>
<td>**</td>
</tr>
<tr>
<td>Labor productivity</td>
<td>-0.013</td>
<td>0.051</td>
<td></td>
</tr>
<tr>
<td>R&amp;D intensity</td>
<td>0.687</td>
<td>5.133</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.156</td>
<td>0.587</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>370</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

Log likelihood = -192.748, χ² P value = 0.038

5. Conclusions
See main text.

Appended Note 2-2-6 Size, continuation and elimination of overseas operations

1. Summary of analysis
The purpose of this analysis was to determine whether or not the scale of investment in an overseas subsidiary (in terms of number of local workers and value of investment) affected its continuation or elimination.

2. Model
Dependent variables:
1) Continuation model 1 dummy (continuing overseas subsidiary = 1, eliminated overseas subsidiary = 0; the same hereinafter)
2) Continuation model 2 dummy

Explanatory variables:
1) Age of overseas subsidiary (natural log of number of years* from date of investment to 2003; the same hereinafter)
   * In the case of eliminated overseas subsidiaries, the period of existence of the subsidiary is the enterprise age.
2) Size at time of establishment (natural log of number of local workers of overseas subsidiary at time of establishment; the same hereinafter)
3) Value of initial investment at time of establishment (natural log)

3. Data set
4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th></th>
<th>Continuation model 1 dummy</th>
<th>Continuation model 2 dummy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Standard error</td>
</tr>
<tr>
<td>Age of overseas subsidiary</td>
<td>0.177</td>
<td>0.102</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.117</td>
<td>0.049</td>
</tr>
<tr>
<td>Value of initial investment at time of establishment</td>
<td>0.060</td>
<td>0.049</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.131</td>
<td>0.262</td>
</tr>
</tbody>
</table>

Sample size: 574

Log likelihood = -204.518, $\chi^2$ P value = 0.001

Log likelihood = -218.074, $\chi^2$ P value = 0.003

5. Conclusions

See main text.

Appended Note 2-2-7 Performance of parent company and continuation/elimination of overseas subsidiary

1. Summary of analysis

The impact of parent companies’ performance on the elimination of overseas operations was analyzed by looking at enterprises with overseas subsidiaries in 1998 and comparing the performance of enterprises that eliminated one or more overseas subsidiaries between 1998 and 2003 with the performance of enterprises that did not eliminate any during that period.

2. Model

Dependent variable: 1) No subsidiaries eliminated dummy (no overseas subsidiaries eliminated between 1998–2003 = 1, one or more subsidiaries eliminated = 0)

Explanatory variables: 1) Age of enterprise (number of years from establishment to 1998 (natural log))
2) Size of enterprise (natural log of number of full-time workers of parent company in 1998)
3) Manufacturing dummy
4) Equity ratio
5) Operating profit ratio (operating profit / sales; the same hereinafter)
6) Export ratio (value of direct exports / sales)
7) Import ratio (value of direct imports / value of procurements)

3. Data set


4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>0.089</td>
<td>0.156</td>
<td></td>
</tr>
<tr>
<td>Size of enterprise</td>
<td>-0.041</td>
<td>0.115</td>
<td></td>
</tr>
<tr>
<td>Manufacturing dummy</td>
<td>0.044</td>
<td>0.162</td>
<td></td>
</tr>
<tr>
<td>Equity ratio</td>
<td>0.268</td>
<td>0.361</td>
<td></td>
</tr>
<tr>
<td>Operating profit ratio</td>
<td>0.451</td>
<td>1.026</td>
<td></td>
</tr>
<tr>
<td>Export ratio</td>
<td>0.003</td>
<td>0.004</td>
<td></td>
</tr>
<tr>
<td>Import ratio</td>
<td>-0.004</td>
<td>0.003</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>1.001</td>
<td>0.481</td>
<td>**</td>
</tr>
</tbody>
</table>

Sample size: 569

Log likelihood = -219.481, $\chi^2$ P value = 0.703

*** = 1% significance level    ** = 5% significance level    * = 10% significance level
5. Conclusions

Size, performance and imports/exports of the parent company are unrelated to elimination of overseas subsidiaries.

Appended Note 2-2-8  Emphases at time of FDI and subsequent performance

1. Summary of analysis

The purpose of this analysis is to examine the impact of emphases at the time of FDI on the subsequent performance of overseas subsidiaries.

2. Model

Dependent variables:
1) Continuation dummy
2) Profit growth dummy (profits of overseas subsidiary increased between 1998–2003 = 1, decreased or no change = 0; the same hereinafter)

Explanatory variables:
1) Age of overseas subsidiary
2) Size at time of establishment
3) Cheap labor force dummy (access to cheap labor = 1, other = 0)
4) Market size dummy (market size = 1, other = 0)
5) Joint venture partner dummy (suitability of local partner for joint venture = 1, other = 0)
6) Infrastructure dummy (development of industrial infrastructure = 1, other = 0)
7) Legal and tax system dummy (development of legal and tax systems = 1, other = 0)
8) Outsourcing dummy (quality of outsourcing contractors = 1, other = 0)

3. Data set


4. Results of estimates (estimated by probit model)

As the sample selection bias for continuing overseas subsidiaries could not be confirmed, no estimates were performed using the Heckman model.

5. Conclusions

See main text.
Appended Note 2-2-9  Sources of information before FDI and subsequent performance

1. Summary of analysis
   The purpose of this analysis was to examine how sources of information used before FDI affected the subsequent performance of overseas subsidiaries.

2. Model
   Dependent variables: 1) Continuation dummy 2) Profit growth dummy
   Explanatory variables: 1) Age of overseas subsidiary (natural log) 2) Size at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment) 3) Experience dummy (Japanese enterprises with FDI experience in same region = 1, other = 0) 4) Financial institution dummy (financial institution of account = 1, other = 0) 5) Customer/supplier dummy (Japanese customer excluding Japanese enterprises with FDI experience in same region = 1, other = 0) 6) Japanese public agency dummy (Japanese public agency = 1, other = 0) 7) Japanese industry association dummy (Japanese industry association = 1, other = 0) 8) Consultant dummy (business consultant = 1, other = 0) 9) Customer/supplier in host country dummy (wholly locally-owned customer = 1, other = 0) 10) Government agency in host country dummy (government agency in host country = 1, other = 0) 11) Industry association in host country dummy (industry association in host country = 1, other = 0)

3. Data set

4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th>Sources of information</th>
<th>Continuation dummy</th>
<th>Profit growth dummy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Standard error</td>
</tr>
<tr>
<td>Age of overseas subsidiary</td>
<td>0.197</td>
<td>0.105</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.138</td>
<td>0.046</td>
</tr>
<tr>
<td>Experience dummy</td>
<td>-0.177</td>
<td>0.147</td>
</tr>
<tr>
<td>Financial institution dummy</td>
<td>0.127</td>
<td>0.158</td>
</tr>
<tr>
<td>Customer/supplier dummy</td>
<td>0.072</td>
<td>0.176</td>
</tr>
<tr>
<td>Japanese public agency dummy</td>
<td>0.773</td>
<td>0.328</td>
</tr>
<tr>
<td>Japanese industry association dummy</td>
<td>0.869</td>
<td>0.445</td>
</tr>
<tr>
<td>Consultant dummy</td>
<td>-0.243</td>
<td>0.229</td>
</tr>
<tr>
<td>Customer/supplier in host country dummy</td>
<td>0.121</td>
<td>0.337</td>
</tr>
<tr>
<td>Government agency in host country dummy</td>
<td>-0.163</td>
<td>0.209</td>
</tr>
<tr>
<td>Industry association in host country dummy</td>
<td>0.121</td>
<td>0.337</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.245</td>
<td>0.290</td>
</tr>
<tr>
<td>Sample size</td>
<td>586</td>
<td>506</td>
</tr>
</tbody>
</table>

As the sample selection bias for continuing overseas subsidiaries could not be confirmed, no estimates were performed using the Heckman model.
5. Conclusions

See main text.

Appended Note 2-2-10  Comparison of enterprises gathering information from financial institution of account and enterprises gathering information from experienced source

1. Summary of analysis
The characteristics of enterprises making extensive use of “financial institutions of account” and “Japanese enterprises with FDI experience” as sources of information for FDI are examined.

2. Model
Dependent variables:
1) Financial institution of account dummy (information gathered from financial institution of account = 1, information not gathered from financial institution of account = 0)
2) Experience dummy (information gathered from Japanese enterprise with FDI experience = 1, information not gathered from Japanese enterprise with FDI experience = 0)

Explanatory variables:
1) Natural log of age of enterprise in 2003
2) Size of enterprise (natural log of number of full-time workers in 2003)
3) Manufacturing dummy
4) Equity ratio
5) Operating profit ratio

3. Data set

4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th>Financial institution of account dummy</th>
<th>Experience dummy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age of enterprise</strong></td>
<td></td>
</tr>
<tr>
<td>0.182</td>
<td>0.110</td>
</tr>
<tr>
<td><strong>Size of enterprise</strong></td>
<td></td>
</tr>
<tr>
<td>0.149</td>
<td>0.059</td>
</tr>
<tr>
<td><strong>Manufacturing dummy</strong></td>
<td></td>
</tr>
<tr>
<td>0.059</td>
<td>0.133</td>
</tr>
<tr>
<td><strong>Equity ratio</strong></td>
<td></td>
</tr>
<tr>
<td>0.600</td>
<td>0.255</td>
</tr>
<tr>
<td><strong>Operating profit ratio</strong></td>
<td></td>
</tr>
<tr>
<td>0.058</td>
<td>0.810</td>
</tr>
<tr>
<td><strong>Constant term</strong></td>
<td></td>
</tr>
<tr>
<td>-1.986</td>
<td>0.489</td>
</tr>
</tbody>
</table>

| **Sample size**                       | 518              |

Log likelihood = -329.107, \( \chi^2 \) P value = 0.002

5. Conclusions
Enterprises that gather information from their financial institutions of account before undertaking FDI are larger, have a higher equity ratio and are easier to lend to (see 2003 White Paper on Small and Medium Enterprises in Japan). It is necessary to note, however, that the enterprises to which financial institutions provide information tend to be these kinds of enterprises.

Appended Note 2-2-11 Relationship between form of investment in overseas subsidiary and continuation/elimination

1. Summary of analysis
An analysis was made of whether differences in form of investment in overseas subsidiaries affect continuation/elimination, and whether the size of a Japanese enterprise’s share in an overseas subsidiary also has an effect.
2. Model
Dependent variables: 1) Continuation model 1 dummy
2) Continuation model 2 dummy
Explanatory variables: 1) Age of overseas subsidiary (natural log)
2) Size of at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment)
3) Up to 50% share dummy (joint venture in which Japanese partner has share of up to 50% = 1, other = 0)
4) Over 50% share dummy (joint venture in which Japanese partner has share of over 50% = 1, other = 0)
5) Independent venture (independent venture = 1, joint venture = 0)

3. Data set

4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th></th>
<th>Continuation model 1 dummy</th>
<th>Continuation model 2 dummy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Standard error</td>
</tr>
<tr>
<td>Age of overseas subsidiary</td>
<td>0.153</td>
<td>0.100</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.166</td>
<td>0.046</td>
</tr>
<tr>
<td>Up to 50% share dummy</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Over 50% share dummy</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Independent venture dummy</td>
<td>0.232</td>
<td>0.140</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.140</td>
<td>0.263</td>
</tr>
</tbody>
</table>

Sample size 579 579

Log likelihood = -207.562, $\chi^2$ P value = 0.000

5. Conclusions
A higher proportion of independent ventures than joint ventures are continued (model 1), and a higher proportion of joint ventures in which the Japanese partner has a share of up to 50% are eliminated than joint ventures in which the Japanese partner has a share of over 50% (model 2).

Appended Note 2-2-12 Relationship between differences in business policy with joint venture partner and continuation/elimination

1. Summary of analysis
The impact on continuation/elimination of differences in business policy with joint venture partners is examined. (The sample includes only overseas joint ventures in which one partner is non-Japanese.)

2. Model
Dependent variable: 1) Continuation dummy
Explanatory variables: 1) Age of overseas subsidiary (natural log)

Note: The age of eliminated overseas subsidiaries is the length of time for which they remained in existence.
2) Size of at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment)
3) Japanese partner's share (over 50% = 1, up to 50% = 0)
4) Difference in business policy dummy (difference in business policy with local partner = 1, other = 0)
5) Division of roles dummy (clearly stated division of roles with local partner = 1, other = 0)
6) Transfer of authority dummy (substantial transfer of authority to local partner = 1, other = 0)
3. Data set

4. Results of estimates (estimated by probit analysis)

<table>
<thead>
<tr>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of overseas subsidiary</td>
<td>0.208</td>
<td>0.150</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.131</td>
<td>0.073</td>
</tr>
<tr>
<td>Japanese partner’s share dummy</td>
<td>0.398</td>
<td>0.212</td>
</tr>
<tr>
<td>Business policy differences dummy</td>
<td>-0.628</td>
<td>0.291</td>
</tr>
<tr>
<td>Division of roles dummy</td>
<td>0.271</td>
<td>0.231</td>
</tr>
<tr>
<td>Authority transfer dummy</td>
<td>-0.017</td>
<td>0.218</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.018</td>
<td>0.423</td>
</tr>
</tbody>
</table>

Sample size: 274

Log likelihood = -96.130, \( \chi^2 \) P value = 0.009

--- = 1% significance level  **) = 5% significance level  * = 10% significance level

5. Conclusions
See main text.

**Appended Note 2-2-13 Relationship between attributes of CEOs of overseas subsidiaries and continuation/elimination**

1. Summary of analysis
The purpose of this analysis was to analyze how the type of person appointed as CEO of an overseas subsidiary affects its continuation/elimination.

2. Model
Dependent variable: 1) Continuation dummy
Explanatory variable: 1) Age of overseas subsidiary (natural log)
2) Size at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment)
Reference category: representative of parent company appointed as CEO
3) Relative dummy (relative of parent company’s CEO = 1, other = 0)
4) Employee of parent company dummy (Japanese employee other than relative = 1, other = 0)
5) Employee of joint venture partner dummy (director or employee of joint venture parent with local nationality = 1, other = 0)
6) Host country national dummy (national of host country chosen by parent company = 1, other = 0)
7) Other dummy (person other than parent company’s representative or 3)–6) = 1, other = 0)

3. Data set
4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of overseas subsidiary</td>
<td>0.173</td>
<td>0.106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.165</td>
<td>0.046</td>
<td>***</td>
<td></td>
</tr>
<tr>
<td>Relative dummy</td>
<td>0.033</td>
<td>0.266</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee of parent company dummy</td>
<td>0.424</td>
<td>0.198</td>
<td>**</td>
<td></td>
</tr>
<tr>
<td>Employee of joint venture partner dummy</td>
<td>-0.125</td>
<td>0.201</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Host country national dummy</td>
<td>0.718</td>
<td>0.363</td>
<td>**</td>
<td></td>
</tr>
<tr>
<td>Other dummy</td>
<td>-0.392</td>
<td>0.230</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.131</td>
<td>0.285</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sample size: 575

Log likelihood = -197.023, χ² P value = 0.000

5. Conclusions

See main text.

Appended Note 2-2-14 Impact of production control problems on profit trends

1. Summary of analysis
The purpose of this analysis was to examine the impact on an overseas subsidiary’s profits of production control problems not envisaged prior to FDI that subsequently arose.

2. Model
Dependent variables: 1) Profit growth model 1 dummy 2) Profit growth model 2 dummy
Explanatory variables: 1) Age of overseas subsidiary (natural log) 2) Size at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment) 3) Quality problem dummy (quality control difficulties = 1, other = 0) 4) Delivery time problem dummy (delivery date management difficulties = 1, other = 0) 5) Outsourcing problem dummy (low technological level of outsourcing contractors in host country = 1, other = 0) 6) Low skill level dummy (low skill level of local workers = 1, other = 0)

3. Data set

4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th>Production control problems</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of overseas subsidiary</td>
<td>-0.177</td>
<td>0.097</td>
<td>*</td>
<td>-0.162</td>
<td>0.096</td>
<td>*</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>-0.020</td>
<td>0.037</td>
<td></td>
<td>-0.020</td>
<td>0.037</td>
<td></td>
</tr>
<tr>
<td>Relative dummy</td>
<td>-0.252</td>
<td>0.125</td>
<td>**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee of parent company dummy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee of joint venture partner dummy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Host country national dummy</td>
<td>0.214</td>
<td>0.147</td>
<td>**</td>
<td>0.198</td>
<td>0.146</td>
<td></td>
</tr>
<tr>
<td>Other dummy</td>
<td>0.172</td>
<td>0.143</td>
<td>**</td>
<td>0.127</td>
<td>0.139</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.758</td>
<td>0.252</td>
<td>*</td>
<td>0.690</td>
<td>0.249</td>
<td>***</td>
</tr>
</tbody>
</table>

Sample size: 506

Log likelihood = -334.799, χ² P value = 0.069

Log likelihood = -333.962, χ² P value = 0.069
5. Conclusions

See main text.

Note: The coefficients of correlation for “quality control difficulties” and “delivery time control difficulties” was high (0.48), and the two variables were not included simultaneously. This also indicates that when quality control problems occur, problems with delivery time tend to occur as well.

Appended Note 2-2-15 Impact of production control measures on profits

1. Summary of analysis
The impact of production control measures undertaken by overseas subsidiaries on their profits was examined.

2. Model
Dependent variable: 1) Profit growth dummy
Explanatory variables: 1) Age of overseas subsidiary (natural log)
2) Size at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment)
3) Manual dummy (operating manual developed = 1, other = 0)
4) Production plan dummy (production plan dummy developed = 1, other = 0)
5) Tidiness and orderliness dummy (thorough tidiness and orderliness = 1, other = 0)
6) Skilled labor dummy (training of skilled labor = 1, other = 0)
7) TQC dummy (implementation of TQC activities = 1, other = 0)
8) Production facility dummy (introduction of production facilities not requiring complex operation = 1, other = 0)
9) Multi-process handling dummy (promotion of multi-process handling = 1, other = 0)

3. Data set

4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of overseas subsidiary</td>
<td>-0.151</td>
<td>0.097</td>
<td></td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>-0.063</td>
<td>0.039</td>
<td></td>
</tr>
<tr>
<td>Manual dummy</td>
<td>0.160</td>
<td>0.127</td>
<td></td>
</tr>
<tr>
<td>Production plan dummy</td>
<td>-0.171</td>
<td>0.128</td>
<td></td>
</tr>
<tr>
<td>Tidiness and orderliness dummy</td>
<td>0.352</td>
<td>0.131</td>
<td>***</td>
</tr>
<tr>
<td>Skilled labor dummy</td>
<td>0.117</td>
<td>0.125</td>
<td></td>
</tr>
<tr>
<td>TQC dummy</td>
<td>0.324</td>
<td>0.151</td>
<td>**</td>
</tr>
<tr>
<td>Production facility dummy</td>
<td>0.309</td>
<td>0.153</td>
<td>***</td>
</tr>
<tr>
<td>Multi-process handling dummy</td>
<td>0.173</td>
<td>0.205</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.475</td>
<td>0.252</td>
<td>*</td>
</tr>
</tbody>
</table>

Log likelihood = -322.241, \( \chi^2 \) P value = 0.000

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

5. Conclusions
See main text.

Appended Note 2-2-16 Impact of sales problems on continuation/elimination

1. Summary of analysis
The purpose of this analysis was to examine the impact on an overseas subsidiary’s continuation or elimination of previously unenvisaged sales problems that arose after FDI.
2. **Model**

Dependent variable: 1) Continuation dummy

Explanatory variables:

1) Age of overseas subsidiary (natural log)
2) Size at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment)
3) Sales difficulties in Japan dummy (difficulty achieving projected value of sales in Japan = 1, other = 0)
4) Sales difficulties in host country dummy (difficulty achieving projected value of sales in host country = 1, other = 0)
5) Intensification of competition in host country dummy (deterioration in profitability due to intensification of competition in host country = 1, other = 0)
6) Relocation of customers dummy (elimination or relocation of local Japanese affiliates that were customers = 1, other = 0)

3. **Data set**


4. **Results of estimates (estimated by probit model)**

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of overseas subsidiary</td>
<td>0.305</td>
<td>0.104</td>
<td>***</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.142</td>
<td>0.048</td>
<td>***</td>
</tr>
<tr>
<td>Sales difficulties in Japan dummy</td>
<td>-0.604</td>
<td>0.209</td>
<td>***</td>
</tr>
<tr>
<td>Sales difficulties in host country dummy</td>
<td>-0.315</td>
<td>0.164</td>
<td>°</td>
</tr>
<tr>
<td>Intensification of competition dummy</td>
<td>-0.347</td>
<td>0.165</td>
<td>**</td>
</tr>
<tr>
<td>Relocation of customers dummy</td>
<td>-0.417</td>
<td>0.277</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.294</td>
<td>0.265</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>584</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -193.915, $\chi^2$ P value = 0.000

---

5. **Conclusions**

See main text.

**Appended Note 2-2-17 Sales management measures and impact on trends in sales**

1. **Summary of analysis**

The impact of sales management measures by overseas subsidiaries on trends in their sales was examined. (Overseas subsidiaries mainly exporting manufactured products to Japan were excluded from the sample.)

2. **Model**

Dependent variable: 1) Sales growth dummy (increase in sales of overseas subsidiary between 1998~2003 = 1, decrease or not change = 0; the same hereinafter)

Explanatory variables:

1) Age of overseas subsidiary (natural log)
2) Size at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment)
3) Market research dummy (market research in host country = 1, other = 0)
4) Sales personnel dummy (training and education of sales personnel = 1, other = 0)
5) Brand dummy (use of own brand = 1, other = 0)
6) Trading company dummy (business done through trading company = 1, other = 0)
7) After-sales service dummy (after-sales service provided = 1, other = 0)
8) Agency agreement dummy (sales agency agreement concluded with enterprise in host country = 1, other = 0)
9) Advertising dummy (advertising used = 1, other = 0)
3. Data set

4) Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th>Sales growth dummy</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of overseas subsidiary</td>
<td>-0.263</td>
<td>0.126</td>
<td>**</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.099</td>
<td>0.052</td>
<td>*</td>
</tr>
<tr>
<td>Market research dummy</td>
<td>0.336</td>
<td>0.160</td>
<td>**</td>
</tr>
<tr>
<td>Sales personnel dummy</td>
<td>0.360</td>
<td>0.163</td>
<td>**</td>
</tr>
<tr>
<td>Brand dummy</td>
<td>0.207</td>
<td>0.211</td>
<td></td>
</tr>
<tr>
<td>Trading company dummy</td>
<td>0.157</td>
<td>0.228</td>
<td></td>
</tr>
<tr>
<td>After-sales service dummy</td>
<td>0.661</td>
<td>0.295</td>
<td>**</td>
</tr>
<tr>
<td>Agency agreement dummy</td>
<td>-0.284</td>
<td>0.316</td>
<td></td>
</tr>
<tr>
<td>Advertising dummy</td>
<td>-0.251</td>
<td>0.395</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.454</td>
<td>0.346</td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -173.011, $\chi^2 P$ value = 0.007

--- = 1% significance level  ** = 5% significance level  * = 10% significance level

Sample size 317

5. Conclusions
See main text.

**Appended Note 2-2-18 Impact of early training of local middle-management personnel on performance**

1. Summary of analysis
An analysis was made of the impact on the continuation/elimination, sales and profits of overseas subsidiaries according to whether or not early training is provided for local middle-management personnel. CEOs of overseas subsidiaries were divided into Japanese and nationals of the host country.

2. Model
Dependent variables:  
1) Continuation dummy  
2) Sales growth dummy  
3) Profit growth dummy
Explanatory variables:  
1) Age of overseas subsidiary (natural log)  
2) Size at time of establishment (natural log of number of workers of overseas subsidiary at time of establishment)  
   Reference category: early training not provided to local middle-management personnel  
3) Middle-management/Japanese CEO dummy (early training for local middle-management personnel where CEO is Japanese = 1, other = 0)  
4) Middle-management/local national CEO (early training for local middle-management personnel where CEO is local national = 1, other = 0)

3. Data set
4. Results of estimates (estimated by probit model)

<table>
<thead>
<tr>
<th></th>
<th>Continuation dummy</th>
<th>Sales growth dummy</th>
<th>Profit growth dummy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Standard error</td>
<td>Significance level</td>
</tr>
<tr>
<td>Age of overseas subsidiary</td>
<td>0.124</td>
<td>0.105</td>
<td>-0.231</td>
</tr>
<tr>
<td>Size at time of establishment</td>
<td>0.126</td>
<td>0.045</td>
<td>0.035</td>
</tr>
<tr>
<td>Middle-management/Japanese CEO dummy</td>
<td>0.400</td>
<td>0.150</td>
<td>0.402</td>
</tr>
<tr>
<td>Middle-management/local national</td>
<td>0.153</td>
<td>0.224</td>
<td>0.339</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.280</td>
<td>0.267</td>
<td>0.682</td>
</tr>
<tr>
<td>Sample size</td>
<td>583</td>
<td>506</td>
<td>506</td>
</tr>
</tbody>
</table>

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

5. Conclusions

Overseas subsidiaries that provide early training for local middle-management personnel tend to continue in existence and register growth in sales and profits. However, this effect is stronger where the CEO of an overseas subsidiary is Japanese rather than a local national. (See main text.)

Appendix Note 2-2-19 Impact of growth in overseas production on domestic production operations and output

1. Summary of analysis

An analysis was made of the impact on enterprises' domestic operations and output of an increase in the volume of overseas production.

2. Model

Dependent variables: 1) Change in number of domestic production operations (increase = 3, no change = 2, decrease = 1)

2) Change in volume of domestic production (increase = 3, no change, decrease = 1)

Explanatory variables: 1) Age of enterprise (number of years from establishment to 1998 (natural log))

2) Size of enterprise (natural log of number of full-time workers of parent company in fiscal 1998)

3) Manufacturing dummy

4) Overseas production growth dummy (increase in volume of overseas production between 1998–2003 = 1, decrease (or no change) = 0; the same hereinafter)

3. Data set


4. Results of estimates (estimated by ordered probit model)

<table>
<thead>
<tr>
<th></th>
<th>Change in number of domestic production operations</th>
<th>Change in volume of domestic production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Standard error</td>
</tr>
<tr>
<td>Age of enterprise</td>
<td>-0.030</td>
<td>0.098</td>
</tr>
<tr>
<td>Size of enterprise</td>
<td>0.132</td>
<td>0.058</td>
</tr>
<tr>
<td>Manufacturing dummy</td>
<td>0.010</td>
<td>0.133</td>
</tr>
<tr>
<td>Overseas production growth dummy</td>
<td>-0.447</td>
<td>0.120</td>
</tr>
<tr>
<td>Sample size</td>
<td>503</td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level     ** = 5% significance level      * = 10% significance level
5. Conclusions
See main text.

Appended Note 2-2-20 Impact of increase in overseas production on sales and ratio of gross profit to sales

1. Summary of analysis
The impact of an increase in the volume of overseas production on the sales and ratio of gross profit to sales of the parent company was examined. The impact according to whether the products made by an enterprise’s largest overseas subsidiary are mainly exported to Japan or sold in the host country was also considered.

2. Model
Dependent variables: 1) Rate of change in sales (natural log of sales in fiscal 2003 - natural log of sales in fiscal 1998) 2) Rate of change in ratio of gross profit to sales (ratio of gross profit to sales in fiscal 2003) - ratio of gross profit to sales in fiscal 2003) (ratio of gross profit to sales = (sales - sales cost) / sales)
Explanatory variables: 1) Age of enterprise (number of years from establishment to 1998 (natural log)) 2) Size of enterprise (natural log of number of workers of parent company in 1998) 3) Manufacturing dummy 4) Overseas production growth dummy 5) Import dummy (largest overseas subsidiary mainly exports products to Japan = 1, sells in host country or exports to third country = 0)

3. Data set

4. Results of estimates (estimated by least squares method)

<table>
<thead>
<tr>
<th></th>
<th>Rate of change in sales</th>
<th>Rate of change in gross profit to sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Standard error</td>
</tr>
<tr>
<td>Age of enterprise</td>
<td>0.116</td>
<td>0.046</td>
</tr>
<tr>
<td>Size of enterprise</td>
<td>-0.020</td>
<td>0.027</td>
</tr>
<tr>
<td>Manufacturing dummy</td>
<td>0.048</td>
<td>0.059</td>
</tr>
<tr>
<td>Overseas production growth dummy</td>
<td>0.132</td>
<td>0.057</td>
</tr>
<tr>
<td>Import dummy</td>
<td>0.119</td>
<td>0.050</td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.713</td>
<td>0.196</td>
</tr>
<tr>
<td>Sample size</td>
<td>396</td>
<td>378</td>
</tr>
</tbody>
</table>

Adjusted RSQ = 0.041, FP value = 0.006
Adjusted RSQ = 0.008, FP value = 0.059

*** = 1% significance level    ** = 5% significance level    * = 10% significance level

5. Conclusions
Enterprises increasing overseas production tend to register growth in sales at the parent company. However, no correlation with profit ratio was observed. In addition, the sales of enterprises exporting to Japan were found to tend to increase more than those of enterprises selling products produced overseas in the host country.

Appended Note 2-2-21 Impact of increase in overseas production on employment

1. Summary of analysis
The purpose of this analysis was to examine what impact an increase in the volume of overseas production has on domestic employees. Differences in impact according to whether an enterprise’s largest overseas subsidiary mainly
exports its products to Japan or sells them in the host country were also taken into consideration. (However, only enterprises with 50 or more full-time employees whose domestic employees could be classified into manufacturing and non-manufacturing operations were analyzed.)

2. Model
Dependent variable:
1) Rate of growth in number of employees in manufacturing (see note below)
2) Rate of growth in number of employees in non-manufacturing (see note below)
3) Rate of growth in total number of workers (see below)

Explanatory variables:
1) Natural log of age of enterprise in 1998
2) Size of enterprise (natural log of number of full-time workers in 1998)
Reference category: overseas production on downward trend
3) Import-oriented dummy (volume of overseas production on upward trend between 1998~2003 and largest overseas subsidiary mainly exports products to Japan = 1, other = 0)
4) Local market-oriented dummy (volume of overseas production followed upward trend between 1998 and 2003, and largest overseas subsidiary sells in host market or exports to third country = 1, other = 0)

Note: The rate of change in the number of workers was calculated by the formula shown below. In this formula, the rate of growth in the number of workers is expressed as a value between a minimum of -2 and maximum of +2. This also allows the rate of change to be calculated taking into account the complete closure of domestic manufacturing operations between 1998~2003. (In this case, the value is -2). See Davis and Haltiwanger (1992).

Rate of change in number of workers = difference between number of workers in 2002 and number of workers in 1998 / arithmetic mean of number of workers in 2002 and number of workers in 1998

3. Data set

4. Results of estimates (estimated by Tobit model)

<table>
<thead>
<tr>
<th></th>
<th>Rate of change in number of workers in manufacturing</th>
<th>Rate of change in number of workers in non-manufacturing</th>
<th>Rate of change in total number of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated coefficient</td>
<td>Standard error</td>
<td>Significance level</td>
</tr>
<tr>
<td>Age of enterprise</td>
<td>-0.130</td>
<td>0.151</td>
<td></td>
</tr>
<tr>
<td>Size of enterprise</td>
<td>-0.077</td>
<td>0.121</td>
<td></td>
</tr>
<tr>
<td>Import-oriented dummy</td>
<td>-0.439</td>
<td>0.218</td>
<td></td>
</tr>
<tr>
<td>Local market-oriented dummy</td>
<td>-0.190</td>
<td>0.197</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.606</td>
<td>0.778</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>251</td>
<td>251</td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -386.937 \chi^2 P value = 0.259
Lower limit -2, upper limit +2
Log likelihood = -250.893 \chi^2 P value = 0.422
Lower limit -2, upper limit +2
Log likelihood = -9.040 \chi^2 P value = 0.422
Lower limit -2, upper limit +2

5. Conclusions
Import-oriented enterprises that increase their overseas production tend to decrease the number of their workers in domestic manufacturing operations. An upward trend in the number of non-manufacturing workers can be observed, though the correlation is not significant even at the 10% significance level. (See main text.)

Appended Note 2-2-22 Characteristics of enterprises that increase domestic and overseas production simultaneously

1. Summary of analysis
The characteristics of enterprises able to maintain or expand domestic production while increasing overseas...
production were examined by comparing the attributes of those whose domestic production is increasing with those whose domestic production is declining (or unchanged).
(The sample consisted only of enterprises whose volume of overseas production followed an upward trend between 1998–2003.)

2. Model
Dependent variable: Domestic production growth dummy (enterprises with both rising overseas production and domestic production between 1998–2003 = 1, enterprises with declining (or unchanged) domestic production = 0)
Explanatory variables: 1) Natural log of age of enterprise in 1998
2) Size of enterprise (natural log of number of full-time workers in 1998)
3) Manufacturing dummy
4) Labor productivity
5) R&D intensity
6) Own brand dummy (uses own brand = 1, other = 0)
7) Labor share

3. Data set

4. Results of estimates (estimated by Tobit model)

<table>
<thead>
<tr>
<th>Domestic production growth dummy</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>0.152</td>
<td>0.165</td>
<td></td>
</tr>
<tr>
<td>Size of enterprise</td>
<td>0.132</td>
<td>0.106</td>
<td></td>
</tr>
<tr>
<td>Manufacturing dummy</td>
<td>0.610</td>
<td>0.277</td>
<td>**</td>
</tr>
<tr>
<td>Labor productivity</td>
<td>-0.000</td>
<td>0.002</td>
<td></td>
</tr>
<tr>
<td>R&amp;D intensity</td>
<td>10.233</td>
<td>4.766</td>
<td>**</td>
</tr>
<tr>
<td>Own brand dummy</td>
<td>0.450</td>
<td>0.242</td>
<td></td>
</tr>
<tr>
<td>Labor share</td>
<td>-0.491</td>
<td>0.295</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>-1.234</td>
<td>0.752</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>280</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

Log likelihood = -127.423, χ² P value = 0.001

5. Conclusions
See main text.

Appended Note 2-2-23  Comparison of domestic and overseas division of labor by product category

(1) Categories of products made in Japan and use of own brands

1. Summary of analysis
A comparison was made of the division of labor between domestic and overseas operations of enterprises using own brands according to category of product (high-precision products, custom-made products, small-lot products, quick-delivery products).

2. Model
A comparison was made between enterprises using own brands and enterprises not using own brands of the proportion of product category X produced mainly domestically (“produce mainly in Japan”). Where the sign is positive and the χ² value is higher, a higher proportion of enterprises using own brands than enterprises not using own brands produce product category X mainly domestically.
X1 = high-precision products, X2 = custom-made products, X3 = small-lot products, X4 = quick-delivery products

3. Data set

4. Results of estimates ($\chi^2$ test)

<table>
<thead>
<tr>
<th>Use of own brands</th>
<th>Sign</th>
<th>$\chi^2$ value</th>
<th>Significance level</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-precision products</td>
<td>+</td>
<td>1.627</td>
<td></td>
<td>447</td>
</tr>
<tr>
<td>Custom-made products</td>
<td>+</td>
<td>0.398</td>
<td></td>
<td>442</td>
</tr>
<tr>
<td>Small-lot products</td>
<td>-</td>
<td>1.885</td>
<td></td>
<td>457</td>
</tr>
<tr>
<td>Quick-delivery products</td>
<td>-</td>
<td>1.166</td>
<td></td>
<td>457</td>
</tr>
</tbody>
</table>

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

5. Conclusions
There was no significant difference between enterprises using own brands and enterprises not doing so in the categories of products produced domestically. However, whereas the signs for “high-precision products” and “custom-made products” were positive, the signs for “small-lot products” and “quick-delivery products” were negative, indicating that there is a tendency for enterprises using own brands to choose to produce “precision-made products” and “custom-made products” domestically, and for enterprises that do not use own brands to choose “quick-delivery products” and “small-lot products”.

(2) Categories of products produced domestically and R&D measures

1. Summary of analysis
A comparison was made of the division of labor between domestic and overseas operations of enterprises engaged in R&D according to product category (mass-produced products, general-purpose products, small-lot products, custom-made products).

2. Model
A comparison was made between enterprises engaged in R&D and enterprises not engaged in R&D of the proportion producing product category Y domestically (“produce mainly domestically” and “produce domestically and overseas”). Where the sign is positive and the $\chi^2$ value is higher, the proportion of enterprises engaged in R&D producing product category Y domestically is higher than enterprises not engaging in R&D.

Y1 = mass-produced products, Y2 = general-purpose products, Y3 = small-lot products, Y4 = custom-made products

3. Data set

4. Results of estimates ($\chi^2$ test)

<table>
<thead>
<tr>
<th>Engagement in R&amp;D</th>
<th>Sign</th>
<th>$\chi^2$ value</th>
<th>Significance level</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass-produced products</td>
<td>+</td>
<td>16.124</td>
<td>***</td>
<td>439</td>
</tr>
<tr>
<td>General-purpose products</td>
<td>+</td>
<td>10.473</td>
<td>***</td>
<td>404</td>
</tr>
<tr>
<td>Small-lot products</td>
<td>+</td>
<td>3.804</td>
<td>*</td>
<td>428</td>
</tr>
<tr>
<td>Custom-made products</td>
<td>+</td>
<td>2.409</td>
<td>*</td>
<td>411</td>
</tr>
</tbody>
</table>

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

5. Conclusions
A higher proportion of enterprises engaging in R&D than enterprises not doing so produce “mass-produced products” and “general-purpose” products domestically. Regarding “custom-made products”, no significant difference was observed. (See main text.)
(3) Categories of products made domestically and labor share

1. Summary of analysis
   A comparison was made of the division of labor between domestic and overseas operations of enterprises with a high labor share according to category of product (high-precision products, custom-made products, small-lot products, quick-delivery products).

2. Model
   A comparison is made between enterprises with a high labor share and low labor share of the proportions producing product Z in Japan (“produce mainly domestically”). If the sign is positive and the $\chi^2$ value is higher, a higher proportion of enterprises with a high labor share than enterprises with a low labor share produce product Z in Japan. The median labor share of the sample (77%) was adopted as the reference value, with enterprises with a labor share of over 77% being classified as having a high labor share and enterprises with a labor share of 77% or less being classified as having a low labor share.

   \[ Z_1 = \text{high-precision products}, \ Z_2 = \text{custom-made products}, \ Z_3 = \text{small-lot products}, \ Z_4 = \text{quick-delivery products} \]

3. Data set

4. Results of estimates ($\chi^2$ test)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Sign</th>
<th>$\chi^2$ Value</th>
<th>Significance Level</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-precision products</td>
<td>+</td>
<td>1.010</td>
<td></td>
<td>369</td>
</tr>
<tr>
<td>Custom-made products</td>
<td>+</td>
<td>0.729</td>
<td></td>
<td>362</td>
</tr>
<tr>
<td>Small-lot products</td>
<td>+</td>
<td>3.004</td>
<td>*</td>
<td>378</td>
</tr>
<tr>
<td>Quick-delivery products</td>
<td>+</td>
<td>9.106</td>
<td>***</td>
<td>366</td>
</tr>
</tbody>
</table>

* = 1% significance level   ** = 5% significance level   *** = 10% significance level

5. Conclusions
   A higher proportion of enterprises with a high labor share than enterprises with a low labor share produce “quick-delivery products” and “small-lot products” in Japan. Conversely, no significant difference was observed regarding “high-precision products” and “custom-made products”.

Appended Note 2-3-1 Age of proprietor and rate of growth in number of workers

1. Model
   Dependent variable: Rate of growth in number of workers (natural log of number of workers in 2003 - natural log of number of workers in 1998)
   Explanatory variables: 1) Natural log of number of workers in 1998
                           2) Natural log of age of enterprise
                           3) Age of proprietor
                           4) Length of time in office

2. Data set
   The sample was obtained by concatenating data from each of the surveys to determine the enterprises for which data in 1998 and 2003 could be obtained. In order to eliminate the effects of startups and business successions, enterprises whose proprietor had been in office for no more than three years in 1998 were excluded.
3. Results of estimates (estimated by least squares method)

![Adjusted RSQ = 0.001](image)

<table>
<thead>
<tr>
<th>Number of workers in 1998</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-0.006</td>
<td>0.006</td>
<td></td>
</tr>
<tr>
<td>Age of enterprise</td>
<td>-0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Age of proprietors</td>
<td>-0.002</td>
<td>0.001</td>
<td>**</td>
</tr>
<tr>
<td>Length of time in office</td>
<td>0.000</td>
<td>0.001</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.009</td>
<td>0.059</td>
<td></td>
</tr>
</tbody>
</table>

Sample size = 2,999

*** = 1% significance level  ** = 5% significance level  * = 10% significance level

Appended Note 2-3-2  Motives for startup in business

![Bar chart](image)

Note: Totals exceed 100 due to multiple responses.

Appended Note 2-3-3  Impact of length of time since business succession on rate of growth in number of employees

1. Model

   Dependent variable: Annual average rate of growth in number of employees from time of business succession to 2003 (natural log of number of employees in 2003 - natural log of number of employees at time of succession) / length of time in office

   Explanatory variables:
   1) Natural log of number of employees at time of succession
   2) Natural log of age of enterprise
   3) Number of proprietors
   4) Internal promotion dummy (proprietor appointed from within company = 1)
   5) Age of previous entrepreneur at time of succession
   6) Number of years in office of previous proprietor
   7) Son/daughter of previous proprietor dummy (son/daughter of previous proprietor = 1)
   8) Preparation period for succession (age at succession - age when first wanted to succeed to business)
9) Age at time of succession
10) University graduate dummy (proprietor graduated from university = 1)
11) Length of time in office (1−9 years; reference value = 10 years)

2. Data set
A sample of enterprises that had had at least two proprietors and whose current proprietor had been in office for not more than 10 years was selected from Tokyo Shoko Research, *Fact-finding Survey on the Education of Successors* (2003).

3. Results of estimates (estimated by least squares method)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees at succession</td>
<td>-0.035</td>
<td>0.004</td>
<td>***</td>
</tr>
<tr>
<td>Age of enterprise</td>
<td>-0.010</td>
<td>0.009</td>
<td></td>
</tr>
<tr>
<td>Number of proprietors</td>
<td>0.005</td>
<td>0.003</td>
<td></td>
</tr>
<tr>
<td>Internal promotion dummy</td>
<td>-0.000</td>
<td>0.009</td>
<td></td>
</tr>
<tr>
<td>Age of previous proprietor at succession</td>
<td>-0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Number of years in office of previous proprietor</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Son/daughter of previous proprietor dummy</td>
<td>-0.007</td>
<td>0.009</td>
<td></td>
</tr>
<tr>
<td>Preparatory period for succession</td>
<td>0.000</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Age at succession</td>
<td>0.001</td>
<td>0.000</td>
<td>**</td>
</tr>
<tr>
<td>University graduate dummy</td>
<td>0.018</td>
<td>0.008</td>
<td>**</td>
</tr>
<tr>
<td>1 year in office dummy</td>
<td>-0.069</td>
<td>0.025</td>
<td>***</td>
</tr>
<tr>
<td>2 years in office dummy</td>
<td>-0.046</td>
<td>0.017</td>
<td>***</td>
</tr>
<tr>
<td>3 years in office dummy</td>
<td>-0.044</td>
<td>0.016</td>
<td>***</td>
</tr>
<tr>
<td>4 years in office dummy</td>
<td>-0.019</td>
<td>0.017</td>
<td></td>
</tr>
<tr>
<td>5 years in office dummy</td>
<td>-0.012</td>
<td>0.017</td>
<td></td>
</tr>
<tr>
<td>6 years in office dummy</td>
<td>-0.004</td>
<td>0.018</td>
<td></td>
</tr>
<tr>
<td>7 years in office dummy</td>
<td>-0.014</td>
<td>0.021</td>
<td></td>
</tr>
<tr>
<td>8 years in office dummy</td>
<td>-0.009</td>
<td>0.022</td>
<td></td>
</tr>
<tr>
<td>9 years in office dummy</td>
<td>0.005</td>
<td>0.024</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>0.082</td>
<td>0.043</td>
<td>*</td>
</tr>
<tr>
<td>Sample size</td>
<td>1,351</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

Appended Note 2-3-4  Impact of length of time since startup on rate of growth in number of employees

1. Model
Dependent variable: Rate of growth in annual average number of employees from startup to 2001
(natural log of number of employees in 2001 - natural log of number of employees at startup) / age of enterprise
Explanatory variables: 1) Natural log of number of employees at startup
2) Preparatory period for startup (age at startup - age when first wanted to form startup)
3) Age at startup
4) University graduate dummy (proprietor graduated from university = 1)
5) Enterprise age dummy (1−9 years; reference value = 10 years)

2. Data set
The sample consisted only of enterprises aged up to 10 years selected from the SME Agency’s *Survey of the Environment for Startups* (December 2001).
3. Results of estimates (estimated by least squares method)

<table>
<thead>
<tr>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees at startup</td>
<td>-0.063</td>
<td>0.006</td>
</tr>
<tr>
<td>Preparatory period for startup</td>
<td>-0.001</td>
<td>0.002</td>
</tr>
<tr>
<td>Age at startup</td>
<td>-0.002</td>
<td>0.001</td>
</tr>
<tr>
<td>University graduate dummy</td>
<td>0.037</td>
<td>0.010</td>
</tr>
<tr>
<td>1 year dummy</td>
<td>0.338</td>
<td>0.025</td>
</tr>
<tr>
<td>2 years dummy</td>
<td>0.144</td>
<td>0.023</td>
</tr>
<tr>
<td>3 years dummy</td>
<td>0.072</td>
<td>0.024</td>
</tr>
<tr>
<td>4 years dummy</td>
<td>0.066</td>
<td>0.024</td>
</tr>
<tr>
<td>5 years dummy</td>
<td>0.059</td>
<td>0.024</td>
</tr>
<tr>
<td>6 years dummy</td>
<td>0.035</td>
<td>0.024</td>
</tr>
<tr>
<td>7 years dummy</td>
<td>0.029</td>
<td>0.024</td>
</tr>
<tr>
<td>8 years dummy</td>
<td>0.015</td>
<td>0.025</td>
</tr>
<tr>
<td>9 years dummy</td>
<td>0.013</td>
<td>0.025</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.200</td>
<td>0.029</td>
</tr>
</tbody>
</table>

Sample size: 4,096

Adjusted RSQ = 0.105

*** = 1% significance level     ** = 5% significance level      * = 10% significance level

Appended Note 2-3-5  Effects of employment experience at another company according to differences in employer

1. Model

Dependent variables: 1) Experience at another company contributed to “external negotiations” (yes = 1, no = 0)
2) Experience at another company contributed to “internal management” (yes = 1, no = 0)
3) Experience at another company contributed to “personal networks” (yes = 1, no = 0)
4) Experience at another company contributed to “information gathering” (yes = 1, no = 0)
5) Experience at another company contributed to “expansion of perspective” (yes = 1, no = 0)

Explanatory variables: 1) Natural log of age of enterprise
2) Number of proprietors
3) Natural log of number of employees at time of succession
4) Internal promotion dummy (proprietor appointed from within company = 1)
5) Age of previous successor at time of succession
6) Number of years in office of previous proprietor
7) Preparatory period for succession (age at time of succession - age when first wanted to succeed to business)
8) Age at time of succession
9) University graduate dummy (proprietor graduated from university = 1)
10) Customer/supplier dummy (employed at customer/supplier of own company = 1)
11) Industry dummy (employed in similar industry as own company, employed in different industry to own; reference category: same industry as own company)
12) Workforce size dummy (larger than own company, smaller than own company; reference category: same size as own company)
13) Natural log of length of time in office

2. Data set

The sample consisted only of enterprises whose proprietor was the son/daughter of the previous proprietor selected from Tokyo Shoko Research’s Fact-finding Survey on the Education of Successors (2003).
3. Results of estimates (estimated by probit analysis)

<table>
<thead>
<tr>
<th></th>
<th>External negotiations</th>
<th>Internal management</th>
<th>Personal networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>-0.179 (0.172)</td>
<td>0.097 (0.169)</td>
<td>-0.581 (0.177)</td>
</tr>
<tr>
<td>Number of proprietors</td>
<td>0.010 (0.058)</td>
<td>0.017 (0.056)</td>
<td>0.101 (0.059)</td>
</tr>
<tr>
<td>Number of employees</td>
<td>-0.311 (0.186)</td>
<td>0.280 (0.188)</td>
<td>-0.179 (0.187)</td>
</tr>
<tr>
<td>Internal promotion dummy</td>
<td>-0.004 (0.007)</td>
<td>0.005 (0.007)</td>
<td>0.008 (0.007)</td>
</tr>
<tr>
<td>Preparatory period for succession</td>
<td>0.016 (0.007)</td>
<td>0.001 (0.006)</td>
<td>0.012 (0.007)</td>
</tr>
<tr>
<td>Age at time of succession</td>
<td>-0.000 (0.009)</td>
<td>0.001 (0.009)</td>
<td>-0.009 (0.009)</td>
</tr>
<tr>
<td>University graduate dummy</td>
<td>0.022 (0.149)</td>
<td>-0.096 (0.147)</td>
<td>0.202 (0.150)</td>
</tr>
<tr>
<td>Customer/supplier dummy</td>
<td>0.307 (0.120)</td>
<td>0.072 (0.119)</td>
<td>0.673 (0.121)</td>
</tr>
<tr>
<td>Similar industry</td>
<td>0.089 (0.130)</td>
<td>-0.286 (0.129)</td>
<td>0.128 (0.131)</td>
</tr>
<tr>
<td>Different industry</td>
<td>-0.014 (0.132)</td>
<td>0.089 (0.130)</td>
<td>-0.296 (0.133)</td>
</tr>
<tr>
<td>Large enterprise dummy</td>
<td>0.210 (0.156)</td>
<td>0.355 (0.154)</td>
<td>0.105 (0.157)</td>
</tr>
<tr>
<td>Small enterprise dummy</td>
<td>0.002 (0.216)</td>
<td>0.045 (0.218)</td>
<td>-0.245 (0.219)</td>
</tr>
<tr>
<td>Length of employment</td>
<td>0.407 (0.080)</td>
<td>0.248 (0.077)</td>
<td>0.186 (0.079)</td>
</tr>
<tr>
<td>Constant term</td>
<td>0.176 (0.745)</td>
<td>-0.682 (0.742)</td>
<td>1.045 (0.757)</td>
</tr>
<tr>
<td>Sample size</td>
<td>648</td>
<td>648</td>
<td>648</td>
</tr>
</tbody>
</table>

*** = 1% significance level    ** = 5% significance level      * = 10% significance level

Log likelihood = -419.486

Log likelihood = -426.857

Log likelihood = -408.767

---

**Appended Note 2-3-6**

Preparations for succession made by previous proprietor and success of succession

1. Model
   - Dependent variable: Succession went well (yes = 1, no opinion/no = 0)
   - Explanatory variables:
     1) Natural log of age of enterprise
     2) Number of proprietors
     3) Natural log of number of employees at time of succession
     4) Internal promotion dummy (proprietor appointed from within company = 1)
     5) Age of previous proprietor at time of succession
     6) Number of years in office of previous proprietor
7) Son/daughter of previous proprietor dummy (son/daughter of previous proprietor = 1)
8) Preparatory period for succession (age at succession - age when first wanted to succeed to business)
9) Age at time of succession
10) University graduate dummy (proprietor graduated from university = 1)
11) Directors approached dummy (approached = 1)
12) Employees approached dummy (approached = 1)
13) Pre-briefing of customers and suppliers dummy (yes = 1)
14) Pre-briefing of financial institutions dummy (yes = 1)
15) Replacement of directors dummy (yes = 1)
16) Generational change of employees dummy (yes = 1)
17) Announcement of timing of succession dummy (yes = 1)
18) Partial transfer of power to successor-in-waiting dummy (yes = 1)
19) Acquisition of own shares by successor-in-waiting dummy (yes = 1)

2. Data set

3. Results of estimates (estimated by probit analysis)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>0.035</td>
<td>0.090</td>
<td></td>
</tr>
<tr>
<td>Number of proprietors</td>
<td>-0.032</td>
<td>0.028</td>
<td></td>
</tr>
<tr>
<td>Number of employees at succession</td>
<td>0.100</td>
<td>0.034</td>
<td>***</td>
</tr>
<tr>
<td>Internal promotion dummy</td>
<td>-0.186</td>
<td>0.090</td>
<td>**</td>
</tr>
<tr>
<td>Age of previous proprietor at succession</td>
<td>-0.000</td>
<td>0.004</td>
<td></td>
</tr>
<tr>
<td>Number of years in office of previous proprietor</td>
<td>-0.008</td>
<td>0.003</td>
<td>***</td>
</tr>
<tr>
<td>Son/daughter of previous proprietor dummy</td>
<td>0.099</td>
<td>0.088</td>
<td></td>
</tr>
<tr>
<td>Preparatory period for succession</td>
<td>0.052</td>
<td>0.004</td>
<td>***</td>
</tr>
<tr>
<td>Age at succession</td>
<td>0.008</td>
<td>0.004</td>
<td>*</td>
</tr>
<tr>
<td>University graduate dummy</td>
<td>0.049</td>
<td>0.071</td>
<td></td>
</tr>
<tr>
<td>Directors approached dummy</td>
<td>0.127</td>
<td>0.076</td>
<td>*</td>
</tr>
<tr>
<td>Employees approached dummy</td>
<td>0.003</td>
<td>0.101</td>
<td></td>
</tr>
<tr>
<td>Pre-briefing of customers and suppliers dummy</td>
<td>0.165</td>
<td>0.091</td>
<td>*</td>
</tr>
<tr>
<td>Pre-briefing of financial institutions dummy</td>
<td>0.032</td>
<td>0.088</td>
<td></td>
</tr>
<tr>
<td>Replacement of directors dummy</td>
<td>-0.010</td>
<td>0.093</td>
<td></td>
</tr>
<tr>
<td>Generational change of employees dummy</td>
<td>0.328</td>
<td>0.144</td>
<td>**</td>
</tr>
<tr>
<td>Announcement of timing of succession dummy</td>
<td>0.146</td>
<td>0.099</td>
<td></td>
</tr>
<tr>
<td>Partial transfer of powers to successor-in-waiting dummy</td>
<td>0.214</td>
<td>0.074</td>
<td>***</td>
</tr>
<tr>
<td>Acquisition of own shares by successor-in-waiting dummy</td>
<td>0.093</td>
<td>0.083</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.334</td>
<td>0.407</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>1,877</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Log likelihood = -1,103.641

---

344

**Appended Note 2-3-7  Provision of advice by previous proprietor and success of succession**

1. **Model**
   - Dependent variable: Succession went well (yes = 1, no opinion/no = 0)
   - Explanatory variables:
     1) Natural log of age of enterprise
     2) Number of proprietors
     3) Natural log of number of employees at time of succession
     4) Internal promotion dummy (proprietor appointed from within company = 1)
     5) Age of previous proprietor at time of succession
     6) Number of years in office of previous proprietor
     7) Son/daughter of previous proprietor dummy (son/daughter of previous proprietor = 1)
8) Preparatory period for succession (age at succession - age when first wanted to succeed to business)
9) Age at time of succession
10) University graduate dummy (proprietor graduated from university = 1)
11) Advice dummy (constantly, frequently, rarely, never; reference category: sometimes)

2. Data set

3. Results of estimates (estimated by probit analysis)

<table>
<thead>
<tr>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of enterprise</td>
<td>0.046</td>
<td>0.112</td>
</tr>
<tr>
<td>Number of proprietors</td>
<td>-0.036</td>
<td>0.034</td>
</tr>
<tr>
<td>Number of employees at succession</td>
<td>0.134</td>
<td>0.044</td>
</tr>
<tr>
<td>Internal promotion dummy</td>
<td>-0.259</td>
<td>0.113</td>
</tr>
<tr>
<td>Age of previous proprietor at succession</td>
<td>0.004</td>
<td>0.005</td>
</tr>
<tr>
<td>Number of years in office of previous proprietor</td>
<td>-0.010</td>
<td>0.004</td>
</tr>
<tr>
<td>Son/daughter of previous proprietor dummy</td>
<td>0.031</td>
<td>0.113</td>
</tr>
<tr>
<td>Preparatory period for succession</td>
<td>0.025</td>
<td>0.005</td>
</tr>
<tr>
<td>Age at succession</td>
<td>0.004</td>
<td>0.006</td>
</tr>
<tr>
<td>University graduate dummy</td>
<td>0.104</td>
<td>0.091</td>
</tr>
<tr>
<td>Constantly dummy</td>
<td>-0.251</td>
<td>0.127</td>
</tr>
<tr>
<td>Frequently dummy</td>
<td>-0.464</td>
<td>0.137</td>
</tr>
<tr>
<td>Rarely dummy</td>
<td>-0.133</td>
<td>0.113</td>
</tr>
<tr>
<td>Never dummy</td>
<td>-0.343</td>
<td>0.109</td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.084</td>
<td>0.498</td>
</tr>
</tbody>
</table>

Log likelihood = -691.832

*** = 1% significance level    ** = 5% significance level    * = 10% significance level

Appended Note 2-3-8  Relationship between state of business before exit and satisfaction with present life

1. Model
Dependent variable: Satisfaction with life compared with before quitting as proprietor (5-point scale from 1. Quite satisfied to 5. Quite dissatisfied)
Explanatory variables:
1) Natural log of present age
2) Gender dummy (male = 0, female = 1)
3) Net assets dummy (net liabilities or assets equal liabilities = 0, net assets = 1)
4) Net liabilities dummy (net assets or assets equal liabilities = 0, net liabilities = 1)
5) Natural log of number of employees at time when proprietor decided to retire
6) Industry dummy (dummy variable by industry)
Method of estimation: Analysis by ordered probit model

2. Data set
JASMEC, *Fact-finding Survey on the Retirement of Small-Enterprise Entrepreneurs* (December 2003) (only persons who exited without transferring business to another party).
3. Results of estimates (estimated by ordered probit model (industry dummies omitted))

<table>
<thead>
<tr>
<th>Natural log of present age</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender dummy</td>
<td>-0.469</td>
<td>0.171</td>
<td>***</td>
</tr>
<tr>
<td>Net assets dummy</td>
<td>-0.319</td>
<td>0.059</td>
<td>***</td>
</tr>
<tr>
<td>Net liabilities dummy</td>
<td>0.368</td>
<td>0.067</td>
<td>***</td>
</tr>
<tr>
<td>Natural log of number of employees at time of decision to retire as proprietor</td>
<td>-0.120</td>
<td>0.032</td>
<td>***</td>
</tr>
<tr>
<td>Pseudo coefficient of determination</td>
<td>0.033</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-2530.243</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>1,744</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level  ** = 5% significance level  * = 10% significance level

Appended Note 2-3-9  Attribute analysis of would-be reentrants

1. Model
   - Dependent variable: Desire to reenter business (“already reentered”, “want to reenter” = 1)
   - Explanatory variables:
     1) Natural log of present age
     2) Gender dummy (male = 0, female = 1)
     3) Founder dummy (not founder = 0, founder = 1)
     4) Inherited from relative dummy (not inherited from relative = 0, inherited from relative = 1)
     5) Internal appointment dummy (not appointed from within company = 0, appointed from within company = 1)
     6) Exit dummy (“transferred” = 0, “exit” = 1)
     7) Natural log of number of employees at time of decision to retire as proprietor
     8) Ordinary profit in previous term dummy (ordinary loss for two consecutive terms or ordinary loss in previous term only = 0, ordinary profit in previous term = 1)
     9) Ordinary loss for two consecutive terms dummy (ordinary profit in previous term or ordinary loss in previous term only = 0, ordinary loss for two consecutive terms = 1)
    10) Net asset dummy (net liabilities or assets equal liabilities = 0, net assets = 1)
    11) Net liabilities dummy (net assets or assets equal liabilities = 0, net liabilities = 1)
    12) Industry dummies (dummy variable for each industry)
   - Method of estimation: Probit model analysis

2. Data set

3. Results of estimates (estimated by probit model (industries dummies omitted))

<table>
<thead>
<tr>
<th>Natural log of present age</th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender dummy</td>
<td>-0.716</td>
<td>0.091</td>
<td>***</td>
</tr>
<tr>
<td>Founder dummy</td>
<td>0.038</td>
<td>0.277</td>
<td></td>
</tr>
<tr>
<td>Inherited from relative dummy</td>
<td>-0.203</td>
<td>0.295</td>
<td></td>
</tr>
<tr>
<td>Internal appointment dummy</td>
<td>-0.025</td>
<td>0.305</td>
<td></td>
</tr>
<tr>
<td>Exit dummy</td>
<td>0.117</td>
<td>0.093</td>
<td></td>
</tr>
<tr>
<td>Natural log of number of employees at time of decision to retire as proprietor</td>
<td>0.110</td>
<td>0.038</td>
<td>***</td>
</tr>
<tr>
<td>Ordinary profit in previous term dummy</td>
<td>-0.010</td>
<td>0.102</td>
<td></td>
</tr>
<tr>
<td>Ordinary loss for two consecutive terms dummy</td>
<td>0.061</td>
<td>0.094</td>
<td></td>
</tr>
<tr>
<td>Net assets dummy</td>
<td>0.015</td>
<td>0.079</td>
<td></td>
</tr>
<tr>
<td>Net liabilities dummy</td>
<td>0.278</td>
<td>0.088</td>
<td>***</td>
</tr>
<tr>
<td>Constant term</td>
<td>13.629</td>
<td>0.983</td>
<td>***</td>
</tr>
<tr>
<td>Pseudo coefficient of determination</td>
<td>0.164</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-976.545</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>2,229</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level  ** = 5% significance level  * = 10% significance level
Appended Note 2-3-10  Attribute analysis of would-be reentrants who actually reenter business

1. Model
Dependent variable: Actual reentry dummy ("actually reentered business" = 1)
Explanatory variables:
1) Natural log of present age
2) Gender dummy (male = 0, female = 1)
3) Ordinary profit in previous term dummy (ordinary loss for two consecutive terms or ordinary loss in previous term only = 0, ordinary profit in previous term = 1)
4) Ordinary loss for two consecutive terms dummy (ordinary profit in previous term or ordinary loss in previous term only = 0, ordinary loss for two consecutive terms = 1)
5) Net asset dummy (net liabilities or assets equal liabilities = 0, net assets = 1)
6) Net liabilities dummy (net assets or assets equal liabilities = 0, net liabilities = 1)
7) Exit dummy ("transfer" = 0, "exit" = 1)
8) Industry dummies (dummy variable for each industry)
Method of estimation: Probit model analysis

2. Data set
(Only persons who had already reentered business or wanted to reenter business were included.)

3. Results of estimates (estimated by probit model (industry dummies omitted)

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural log of present age</td>
<td>1.206</td>
<td>0.376</td>
<td>***</td>
</tr>
<tr>
<td>Gender dummy</td>
<td>-0.066</td>
<td>0.178</td>
<td>*</td>
</tr>
<tr>
<td>Ordinary profit in previous term dummy</td>
<td>0.159</td>
<td>0.190</td>
<td></td>
</tr>
<tr>
<td>Ordinary loss for two consecutive terms dummy</td>
<td>0.051</td>
<td>0.170</td>
<td></td>
</tr>
<tr>
<td>Net asset dummy</td>
<td>0.021</td>
<td>0.145</td>
<td></td>
</tr>
<tr>
<td>Net liabilities dummy</td>
<td>-0.463</td>
<td>0.154</td>
<td>***</td>
</tr>
<tr>
<td>Exit dummy</td>
<td>0.198</td>
<td>0.172</td>
<td></td>
</tr>
<tr>
<td>Constant term</td>
<td>-5.280</td>
<td>1.558</td>
<td>***</td>
</tr>
<tr>
<td>Pseudo coefficient of determination</td>
<td>-317.384</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>488</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level  ** = 5% significance level  * = 10% significance level
Appended Note 2-4-1  Financing structure

Financing structure in fiscal 2000 (by number of employees)

Financing structure in fiscal 2001 (by number of employees)

Notes:
1. The denominator for calculating the breakdown of each category is liabilities + capital + discounted notes.
2. “Trade liabilities” (inter-enterprise credit) is the balance of notes payable + accounts payable. “Other” consists of reserves, etc.

Notes: 1. The denominator for calculating the breakdown of each category is liabilities + capital + discounted notes.
2. “Trade liabilities” (inter-enterprise credit) is the balance of notes payable + accounts payable. “Other” consists of reserves, etc.
Appended Note 2-4-2 Type of main bank

Types of main bank in 2001 (by number of employees)

Notes: 1. "Main bank" is here defined as the financial institution that an enterprise regards as its main bank, regardless of the proportion of outstanding borrowing from that institution.
2. "Leading banks" are city banks, long-term credit banks and trust banks.
3. "Regional/second-tier regional banks" are regional banks and second-tier regional banks. "Credit associations/coops" are credit associations and credit cooperatives.

Types of main bank in 2002 (by number of employees)

Notes: 1. "Main bank" is here defined as the financial institution that an enterprise regards as its main bank, regardless of the proportion of outstanding borrowing from that institution.
2. "Leading banks" are city banks, long-term credit banks and trust banks.
3. "Regional/second-tier regional banks" are regional banks and second-tier regional banks. "Credit associations/coops" are credit associations and credit cooperatives.
Characteristics of enterprises undertaking new business activities

1. Model
Dependent variables:
1) Undertook new business activity in past three years dummy (enterprises that undertook new business activity in past three years = 1, others = 0)
2) Number of new business activities undertaken in past three years (none undertaken = 0, 1 undertaken = 1, 2 undertaken = 2)

Explanatory variables:
Variables profiling enterprises
1) Industry dummies (dummy variables for manufacturing, construction, wholesaling, retailing, food services, services, transportation and communications, and real estate respectively; reference category: "other industries")
2) Natural log of age of enterprise
3) Natural log of number of employees
4) Main bank dummy (dummy variables for enterprises whose main bank is a leading bank, regional/second-tier regional bank, and credit association/coop respectively; reference category: "credit association/coop"; enterprises whose main bank is another financial institution are excluded)
5) Length of relationship with main bank in years
6) Response of main bank to loan application (loan application approved = 1, loan rejected or reduced = 0)
7) Number of banks of account (total number of city banks, long-term credit banks, trust banks, regional banks, second-tier regional banks, credit associations and credit cooperatives with which an enterprise was doing business as of the end of October 2001)
8) Relations with government-affiliated financial institutions dummy (enterprises doing business with government-affiliated financial institutions as of the end of October 2001 = 1, others = 0)

Method of estimation: Probit model, least squares method

2. Data set
Data for dependent variables 1) new business activities undertaken in past three years dummy and 2) number of new business activities undertaken in past three years are from SME Agency, Survey of the Financial Environment of Enterprises.
Data for explanatory variables 1) industry dummies, 2) natural log of age of enterprise, 3) natural log of number of employees, 4) main bank dummy, 5) length of relationship with main bank in years, 6) response of main bank to loan application, 7) number of banks of account and 8) relationship with government-affiliated financial institutions dummy are from SME Agency, Survey of Business Financing Environment.

3. Hypotheses
Variables profiling enterprises
1) Industry dummies
Undertaking of new business activities and number undertaken are expected to differ according to differences in the growth process of industries, such as growth industries and declining industries.

2) Natural log of age of enterprise
Older enterprises should have developed a business base and technological capabilities through having done business for many years, and so are expected to undertake new business activities making good use of these assets. There are also expected to be differences in the number of new business activities undertaken.

3) Natural log of number of employees
The more employees an enterprise has, the more human resources it should have. This should make it easier for it to allocate human resources to new business activities. There should therefore be differences in the number of new business activities undertaken.

Variables regarding bank transactions, etc.
4) Main bank dummy
The response of main banks and interest rates charged differ according to the type of main bank. This may affect whether new business activities are undertaken and, if so, how many are undertaken.
5) Length of relationship with main bank
Enterprises that do business with their main banks over a long period build close relations with them, and can borrow more smoothly from them than enterprises that have done business with their main banks for fewer years. As a result, they may engage in new business activities more frequently and engage in a greater number of such activities.

6) Response of main bank to loan application
Enterprises that borrow smoothly from their main banks should have greater financial leeway than enterprises that do not, and as a result undertake new business activities.

7) Number of banks of account
Enterprises with more banks of account are thought to increase their number of banks of account in the process of undertaking new business activities.

8) Relationship with government-affiliated financial institution dummy
The complementary functions of government financial institutions may enable enterprises that do business with government-affiliated financial institutions to undertake new business activities.

4. Results of estimates

<table>
<thead>
<tr>
<th>Undertook new business activities dummy</th>
<th>Number of new business activities undertaken (none = 0, one = 1, two = 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated coefficient</td>
<td>Standard error</td>
</tr>
<tr>
<td>Constant term</td>
<td>-0.800</td>
</tr>
<tr>
<td>Manufacturing dummy</td>
<td>0.352</td>
</tr>
<tr>
<td>Construction dummy</td>
<td>-0.043</td>
</tr>
<tr>
<td>Wholesale dummy</td>
<td>0.224</td>
</tr>
<tr>
<td>Retailing dummy</td>
<td>-0.131</td>
</tr>
<tr>
<td>Food services dummy</td>
<td>0.381</td>
</tr>
<tr>
<td>Services dummy</td>
<td>0.220</td>
</tr>
<tr>
<td>Transportation and communications dummy</td>
<td>-0.111</td>
</tr>
<tr>
<td>Real estate dummy</td>
<td>-0.063</td>
</tr>
<tr>
<td>Natural log of age of enterprise</td>
<td>-0.240</td>
</tr>
<tr>
<td>Natural log of number of employees</td>
<td>0.385</td>
</tr>
<tr>
<td>Leading bank as main bank dummy</td>
<td>0.156</td>
</tr>
<tr>
<td>Regional/second-tier regional bank as main bank dummy</td>
<td>0.095</td>
</tr>
<tr>
<td>Length of relationship with main bank in years</td>
<td>-0.001</td>
</tr>
<tr>
<td>Response of main bank to loan applications</td>
<td>0.113</td>
</tr>
<tr>
<td>Number of banks of account</td>
<td>0.011</td>
</tr>
<tr>
<td>Relationship with government-affiliated financial institution dummy</td>
<td>0.179</td>
</tr>
<tr>
<td>Sample size</td>
<td>2,323</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-1519.159</td>
</tr>
</tbody>
</table>

The results were generally as hypothesized.

Appendixed Note 2-4-4 “Ganbare! Chushokigyo Fund”

The purpose of this fund is to provide financing and hands-on business support for activities such as the expansion of marketing outlets to existing SMEs.

Many SMEs encounter difficulties in expanding into new areas business despite having outstanding technologies and ideas. While funding is important, SMEs have a particular need for know-how on marketing and developing new business opportunities in order to bring their outstanding technologies and ideas to market.
The formation of fund by JASMEC and partners in the private sector, such as business corporations with the ability to evaluate new business ventures, meets this need by making maximum use of the business strengths of these private-sector partners to provide firm financial and management support to SMEs embarking on new business ventures.

Forms of support
→ supply of funds (investment, etc.)
→ hands-on business support for expansion of marketing outlets, etc.

Fund formed by investment from both government and private sectors.
Commenced from fiscal 2004.
→ Up to half of total amount in fund invested by JASMEC ( Organization for Small and Medium Enterprises and Regional Innovation from July 2004) per fund.
→ Each fund estimated to be around ¥5~10 billion in size.

Appended Note 2-4-5  Performance of revitalization support councils

1) Performance of revitalization support councils
Use of councils by SMEs seeking to restructure steadily increasing

2) Method of revitalization used in case of completed revitalization plans
Management accounting and a variety of other methods used

Source: SME Agency.
Notes: 1. Cumulative figures for revitalization methods as of March 4.
2. Methods used are counted more than once where multiple revitalization methods are used by the same enterprise.
**Appended Note 2-4-6  Structure of the receivable-backed loan guarantee program**

1. Credit guarantee corporations provide guarantees when loans are received from financial institutions using accounts receivable.

2. Accounts receivable as security
   - Accounts receivable from businesses in Japan (including public agencies) may be used as security under the program.
   - Accounts receivable from services as well as physical goods may be used.
   - Accounts receivable whose transfer is prohibited (where a business agreement contains a rider prohibiting transfer of credits) are excluded.

---

**Appended Note 2-4-7  Characteristics of enterprises doing business using accounts receivable**

1. Model
   - Dependent variable: Doing business using accounts receivable dummy (doing business using accounts receivable = 1, other = 0)
   - Explanatory variables:
     1) Industry dummy (dummy variables for construction, manufacturing, transportation, wholesaling, retailing, real estate and services respectively; reference category: food services, information and communications, other industries)
     2) Natural log of age of enterprise
     3) Natural log of number of employees
     4) Main bank dummy (dummy variables for enterprises whose main bank is a leading bank, regional/second-tier regional bank, and credit association/coop respectively; reference category: credit association/coop; enterprises whose main bank is another financial institution are excluded)
     5) Response of main bank to loan application (loan application approved = 1, loan refused or reduced = 0)
6) Length of relationship with main bank in years
7) Number of banks of account

Variables regarding financial status
8) Equity ratio (equity capital / total assets)
9) Ratio of operating profit to total capital (operating profit / total capital)

Method of estimation: Probit model

2. Data set
Data for dependent variables 1) doing business using accounts receivable and explanatory variables 1) industry dummies, 2) natural log of age of enterprises, 3) natural log of number of employees, 4) main bank dummy, 5) response of main bank to loan applications, 6) length of relationship with main bank in years, and 7) number of banks of account are from SME Agency, Survey of the Financial Environment of Enterprises.
Data for explanatory variables 8) equity ratio and 9) ratio of operating profit to total capital were recompiled from the latest financial results in the Tokyo Shoko Research Database.

3. Hypotheses
Variables profiling enterprises
1) Industry dummies
   Differences in business practices (i.e. greater use of cash transactions and greater use of bill transactions) should affect engagement in transactions using accounts receivable.
2) Natural log of age of enterprise
   • The longer an enterprise has been established, the more likely it will be to use accounts receivable by selecting appropriate customers using know-how and experience built up over many years of business.
3) Natural log of number of employees
   • The more employees an enterprise has, the more likely it is to have creditworthiness with banks, have greater financial leeway, and do business using accounts receivable. Conversely, enterprises with fewer employees should find it harder to smoothly raise funds from banks, and to manage their finances by doing business using accounts receivable.

Variables regarding bank transactions
4) Main bank dummy
   • The responses of main banks differ according to what type of financial institution they are, and these differences are expected to affect engagement in business using accounts receivable.
5) Response of main bank to loan application
   • Frequent refusal of loan applications by a main bank requires an enterprise to cover the shortfall from other sources. They are consequently expected to do less business using accounts receivable.
6) Length of relationship with main bank in years
   • Enterprises that have not done business with their main bank for long do not have close relations with their main bank, and are less able than enterprises with long relationships to borrow smoothly. It is therefore perfectly feasible that they should not do business using accounts receivable.
7) Number of banks of account
   • Enterprises with more banks of account would be expected to do more business using accounts receivable in the process of increasing the number of their banks of account.

Variables regarding financial status
8) Equity ratio
   • Enterprises with low equity ratios may be unable to smoothly obtain borrowing, and so reduce business done using accounts receivable by a corresponding amount.
9) Ratio of operating profit to total capital
   • Enterprises with lower profitability may be unable to borrow smoothly from banks, and so reduce business done using accounts receivable by a corresponding amount.
4. Results of estimates

Log likelihood = -118,325  $\chi^2$ P value = 0.000

<table>
<thead>
<tr>
<th></th>
<th>Estimated coefficient</th>
<th>Standard error</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant term</td>
<td>1.035</td>
<td>0.840</td>
<td></td>
</tr>
<tr>
<td>Construction dummy</td>
<td>-0.030</td>
<td>0.443</td>
<td></td>
</tr>
<tr>
<td>Manufacturing dummy</td>
<td>0.104</td>
<td>0.456</td>
<td></td>
</tr>
<tr>
<td>Transportation dummy</td>
<td>-0.663</td>
<td>0.529</td>
<td></td>
</tr>
<tr>
<td>Wholesaling dummy</td>
<td>0.512</td>
<td>0.547</td>
<td></td>
</tr>
<tr>
<td>Retailing dummy</td>
<td>-0.592</td>
<td>0.480</td>
<td></td>
</tr>
<tr>
<td>Real estate dummy</td>
<td>-1.121</td>
<td>0.487</td>
<td>**</td>
</tr>
<tr>
<td>Services dummy</td>
<td>0.030</td>
<td>0.511</td>
<td></td>
</tr>
<tr>
<td>Natural log of age of enterprise</td>
<td>0.461</td>
<td>0.533</td>
<td></td>
</tr>
<tr>
<td>Natural log of number of employees</td>
<td>0.469</td>
<td>0.188</td>
<td>**</td>
</tr>
<tr>
<td>Main leading bank dummy</td>
<td>0.006</td>
<td>0.319</td>
<td></td>
</tr>
<tr>
<td>Regional/second-tier regional bank dummy</td>
<td>-0.175</td>
<td>0.272</td>
<td></td>
</tr>
<tr>
<td>Response of main bank to loan applications</td>
<td>0.445</td>
<td>0.259</td>
<td>*</td>
</tr>
<tr>
<td>Length of relationship with main bank in years</td>
<td>-0.004</td>
<td>0.008</td>
<td></td>
</tr>
<tr>
<td>Number of banks of account</td>
<td>-0.039</td>
<td>0.017</td>
<td>**</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>-0.856</td>
<td>0.405</td>
<td>**</td>
</tr>
<tr>
<td>Ratio of operating profit to total capital</td>
<td>-1.214</td>
<td>1.608</td>
<td></td>
</tr>
<tr>
<td>Sample size</td>
<td>15,000</td>
<td>1.855</td>
<td></td>
</tr>
</tbody>
</table>

*** = 1% significance level  ** = 5% significance level  * = 10% significance level

- The correlation with the response of main banks is significantly positive. This is thought to be because enterprises able to borrow smoothly have greater financial leeway, and are consequently that much more able to do business using accounts receivable.
- Regarding financial variables, equity ratio and ratio of operating profit to total capital both have a significant negative effect. This is likely due to the reasons hypothesized.

**Appended Note 3**  Summary of main surveys used

<table>
<thead>
<tr>
<th>Title of survey</th>
<th>Subject of survey</th>
<th>Sample size</th>
<th>Register used</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey of the Financial Environment of Enterprises</td>
<td>All industries except agriculture, forestry, fisheries and government sector (not otherwise classified)</td>
<td>15,000</td>
<td>Tokyo Shoko Research, Ltd. database</td>
<td>53.6%</td>
</tr>
</tbody>
</table>

Notes: 1. Survey of Corporate Management: randomly sampled by industry and number of employees.
Bibliography

Fukaura Atsuyuki (1997) *Saiken Ryudoka no Keizaigaku* [The Economics of the Liquidation of Bonds], Nihon Hyoronsha.
Horaguchi Haruo (1992) *Nihon Kigyo no Kaigai Chokusetsu Toshi* [Foreign Direct Investment by Japanese Enterprises], University of Tokyo Press
Hosouchi Nobutaka (1999) *Komyunitei Bijinesu* [Community Business], Chuo University Press.
Hosouchi Nobutaka (2001) *Chiiki wo Genkini Suru Komyunitei Bijinesu* [Community Businesses That Vitalize the Community], Gyosei Corporation.


Komiya Ryutaro and Amano Akihiro (1972) Kokusai Keizaigaku [International Economics], Iwanami Shoten.


Research Institute of Economy, Trade and Industry.
Morikawa Masayuki (1998) “Shinki Jigyo he no Shinshusu to Kizon Jigyo kara no Tettai” [Entry into New
Business and Withdrawal from Existing Business], RIETI Discussion Paper Series 98-D0J-87.
Spreading Micro-Businesses and Challenges Faced], Chosa Kiho, No. 55 (November 2000), National
Life Finance Corporation.
Nagaoka Sadao and Hirao Yukiko (1996) Sangyo Soshiki no Keizaigaku [The Economics of Industrial
Organization], Nihon Keizai Hyoronsha.
National Association of Accountants (1949) “Measuring the Variation of Costs with Volume”.
of Generational Changeovers], Small Business Research Center.
Succession Problem of Small and Medium Enterprises], Small Business Research Center.
Shimbun, Inc.
(ed.) Multinationals as Mutual Invaders: Intra-industry Direct Foreign Investment, Croom Helm,
London.
Sekiguchi Sueo and Higuchi Yoshio (1999) Gurobaru Keizai Jidai no Sangyo to Koyo [Industry and
Employment in the Age of the Global Economy], Toyo Keizai, Inc.
Economic Analysis of the Computer Game Industry], Toyo Keizai, Inc.
Enterprises in Japan], Gyosei Corporation.
Enterprises in Japan], Gyosei Corporation.
Enterprises in Japan], Gyosei Corporation.
Small and Medium Enterprise Agency Business Succession and Reentry Workshop (2001) Jigyotai no
Keizoku/Hatten no Tame ni: Chukan Hokoku [Interim Report on Promoting the Continuation and
Development of Business Entities].
Doyukan Inc.
Doyukan Inc.
wo Chushin to shite” [A Summary of the 2002 White Paper on Small and Medium Enterprises in Japan
Institute for Financial Affairs, Inc.


Uesugi Ichiro (2003) *Nihon ni Okera Kigyo-kan Shinyo: Kinyu Kikan Kariire to no Kankei* [Inter-Enterprise Credit in Japan and the Relationship with Borrowing from Financial Institutions].

Urata Shujiro (1997) “Chugoku he no Chokusetsu Toshi to Gijutsu Iten” [Direct Investment and Technology Transfers to China], JCER Discussion Paper, No.49.


SUPPLEMENTARY
STATISTICAL DATA
## Contents

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1</td>
<td>Number of business establishments and enterprises by industry and size (private)</td>
<td>3</td>
</tr>
<tr>
<td>Table 2</td>
<td>Number of enterprises by prefecture (private, non-primary industry, 2001)</td>
<td>6</td>
</tr>
<tr>
<td>Table 3</td>
<td>Number of workers by industry and size (private)</td>
<td>7</td>
</tr>
<tr>
<td>Table 4</td>
<td>Number of business establishments and workers and value of shipments in manufacturing</td>
<td>10</td>
</tr>
<tr>
<td>Table 5</td>
<td>Capital investment and value added in manufacturing</td>
<td>11</td>
</tr>
<tr>
<td>Table 6</td>
<td>Number of business establishments and workers and value of sales in wholesaling</td>
<td>12</td>
</tr>
<tr>
<td>Table 7</td>
<td>Number of business establishments and workers and value of sales in retailing</td>
<td>13</td>
</tr>
<tr>
<td>Table 8</td>
<td>Financial status, profit status and key financial indices of business corporations (median values)</td>
<td>14</td>
</tr>
<tr>
<td>Table 9</td>
<td>Outstanding lending to SMEs by type of financial institution</td>
<td>16</td>
</tr>
<tr>
<td>Table 10</td>
<td>State of corporate bankruptcies</td>
<td>17</td>
</tr>
<tr>
<td>Table 11</td>
<td>Average monthly cash earning per regular worker</td>
<td>18</td>
</tr>
<tr>
<td>Table 12</td>
<td>Trends in entry and exit rates (non-primary industries)</td>
<td>19</td>
</tr>
<tr>
<td>Table 13</td>
<td>Trends in entry and exit rates by industry (based on number of business establishments, annual average)</td>
<td>22</td>
</tr>
<tr>
<td>Table 14</td>
<td>Trends in entry and exit rates based on number of business establishments with employees</td>
<td>22</td>
</tr>
<tr>
<td>Table 15</td>
<td>Trends in number of incorporation registrations and company entry and exit rates</td>
<td>23</td>
</tr>
<tr>
<td>Table 16</td>
<td>Outline of SME-related budget allocations for fiscal 2004</td>
<td>24</td>
</tr>
</tbody>
</table>
### Table 1  Number of business establishments and enterprises by industry and size (private)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Small and medium business establishments</th>
<th>Large business establishments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Of which small business establishments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>% of total</td>
<td>No.</td>
</tr>
<tr>
<td>Mining</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>4,508</td>
<td>99.8</td>
<td>3,771</td>
</tr>
<tr>
<td>1999</td>
<td>4,155</td>
<td>99.9</td>
<td>3,641</td>
</tr>
<tr>
<td>2001</td>
<td>3,760</td>
<td>99.9</td>
<td>3,285</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>646,956</td>
<td>99.9</td>
<td>593,099</td>
</tr>
<tr>
<td>1999</td>
<td>611,785</td>
<td>99.9</td>
<td>566,904</td>
</tr>
<tr>
<td>2001</td>
<td>606,656</td>
<td>100.0</td>
<td>564,188</td>
</tr>
<tr>
<td>Electricity, gas, heat and water supply</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>3,703</td>
<td>97.4</td>
<td>2,080</td>
</tr>
<tr>
<td>1999</td>
<td>3,513</td>
<td>97.3</td>
<td>1,925</td>
</tr>
<tr>
<td>2001</td>
<td>3,389</td>
<td>97.7</td>
<td>1,802</td>
</tr>
<tr>
<td>Transport and communications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>167,513</td>
<td>99.6</td>
<td>125,898</td>
</tr>
<tr>
<td>1999</td>
<td>165,624</td>
<td>99.4</td>
<td>126,480</td>
</tr>
<tr>
<td>2001</td>
<td>168,904</td>
<td>100.0</td>
<td>129,210</td>
</tr>
<tr>
<td>Wholesale, retailing and food services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>443,098</td>
<td>99.0</td>
<td>233,353</td>
</tr>
<tr>
<td>1999</td>
<td>441,302</td>
<td>99.2</td>
<td>238,670</td>
</tr>
<tr>
<td>2001</td>
<td>400,302</td>
<td>99.1</td>
<td>187,839</td>
</tr>
<tr>
<td>Retailing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>1,530,040</td>
<td>99.0</td>
<td>1,186,905</td>
</tr>
<tr>
<td>1999</td>
<td>1,402,175</td>
<td>99.0</td>
<td>1,074,418</td>
</tr>
<tr>
<td>2001</td>
<td>1,383,498</td>
<td>98.8</td>
<td>1,041,900</td>
</tr>
<tr>
<td>Food services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>832,323</td>
<td>99.5</td>
<td>653,718</td>
</tr>
<tr>
<td>1999</td>
<td>800,850</td>
<td>99.5</td>
<td>624,285</td>
</tr>
<tr>
<td>2001</td>
<td>791,012</td>
<td>99.5</td>
<td>598,941</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>107,390</td>
<td>99.6</td>
<td>83,578</td>
</tr>
<tr>
<td>1999</td>
<td>101,394</td>
<td>99.7</td>
<td>80,192</td>
</tr>
<tr>
<td>2001</td>
<td>99,600</td>
<td>99.6</td>
<td>80,632</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>291,187</td>
<td>100.0</td>
<td>287,510</td>
</tr>
<tr>
<td>1999</td>
<td>285,283</td>
<td>100.0</td>
<td>282,768</td>
</tr>
<tr>
<td>2001</td>
<td>288,992</td>
<td>100.0</td>
<td>285,450</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>1,641,243</td>
<td>97.7</td>
<td>1,213,708</td>
</tr>
<tr>
<td>1999</td>
<td>1,639,632</td>
<td>99.0</td>
<td>1,200,947</td>
</tr>
<tr>
<td>2001</td>
<td>1,678,443</td>
<td>99.0</td>
<td>1,210,629</td>
</tr>
<tr>
<td>Non-primary industry total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>6,435,509</td>
<td>99.6</td>
<td>5,044,016</td>
</tr>
<tr>
<td>1999</td>
<td>6,141,042</td>
<td>99.3</td>
<td>4,789,091</td>
</tr>
<tr>
<td>2001</td>
<td>6,071,654</td>
<td>99.2</td>
<td>4,688,360</td>
</tr>
</tbody>
</table>

Source: MPHPT, Establishment and Enterprise Census of Japan (recompiled).

Notes:
1. For the figures for 1996, business establishments with 300 or fewer workers (100 or fewer in wholesaling, 50 or fewer in retailing, food services and services) are treated as small and medium business establishments.
2. For the figures for 1999 onward, business establishments with 300 or fewer workers (100 or fewer in wholesaling and services, 50 or fewer in retailing and food services) are treated as small and medium business establishments as defined under the revised Small and Medium Enterprise Basic Law.
3. Business establishments with 20 or fewer workers (5 or fewer in wholesaling, retailing, food services and services) are treated as small business establishments.
4. The percentages of the total for small business establishments indicate their proportion of the total number of business establishments.
5. Industries are classified according to the October 1993 revised system of industry classification.
6. The figures for 2001 include business establishments with temporary employment service and subcontracted workers only (total number of workers = 0).
## Enterprises

<table>
<thead>
<tr>
<th>Industry</th>
<th>Year</th>
<th>SMEs No.</th>
<th>% of total</th>
<th>Large enterprises No.</th>
<th>% of total</th>
<th>Total No.</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>1996</td>
<td>3,209</td>
<td>99.6%</td>
<td>2,733</td>
<td>84.8%</td>
<td>3,223</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>3,074</td>
<td>99.8%</td>
<td>2,633</td>
<td>85.5%</td>
<td>3,079</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>2,618</td>
<td>99.7%</td>
<td>2,276</td>
<td>86.6%</td>
<td>2,627</td>
<td>100.0%</td>
</tr>
<tr>
<td>Construction</td>
<td>1996</td>
<td>581,745</td>
<td>99.9%</td>
<td>547,328</td>
<td>94.0%</td>
<td>582,292</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>555,372</td>
<td>99.9%</td>
<td>526,072</td>
<td>94.6%</td>
<td>555,847</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>543,459</td>
<td>99.9%</td>
<td>516,405</td>
<td>95.0%</td>
<td>543,760</td>
<td>100.0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1996</td>
<td>664,948</td>
<td>99.6%</td>
<td>593,823</td>
<td>88.9%</td>
<td>667,710</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>605,212</td>
<td>99.6%</td>
<td>537,430</td>
<td>88.4%</td>
<td>607,626</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>554,431</td>
<td>99.6%</td>
<td>493,942</td>
<td>88.7%</td>
<td>556,581</td>
<td>100.0%</td>
</tr>
<tr>
<td>Electric., gas, heat &amp; water</td>
<td>1996</td>
<td>466</td>
<td>94.1%</td>
<td>237</td>
<td>47.9%</td>
<td>29</td>
<td>5.9%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>521</td>
<td>95.2%</td>
<td>274</td>
<td>50.1%</td>
<td>26</td>
<td>4.8%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>510</td>
<td>94.8%</td>
<td>266</td>
<td>49.4%</td>
<td>28</td>
<td>5.2%</td>
</tr>
<tr>
<td>Transport &amp; Communication</td>
<td>1996</td>
<td>104,982</td>
<td>99.5%</td>
<td>83,948</td>
<td>79.6%</td>
<td>105,498</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>103,944</td>
<td>99.6%</td>
<td>83,101</td>
<td>79.7%</td>
<td>104,291</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>100,459</td>
<td>99.7%</td>
<td>80,462</td>
<td>79.8%</td>
<td>100,802</td>
<td>100.0%</td>
</tr>
<tr>
<td>Wholesaling, ret. &amp; food</td>
<td>1996</td>
<td>2,225,572</td>
<td>99.4%</td>
<td>1,936,090</td>
<td>86.5%</td>
<td>2,238,894</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>2,092,866</td>
<td>99.7%</td>
<td>1,787,703</td>
<td>85.1%</td>
<td>2,099,551</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>1,999,435</td>
<td>99.7%</td>
<td>1,707,214</td>
<td>85.1%</td>
<td>2,056,829</td>
<td>100.0%</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>1996</td>
<td>284,831</td>
<td>98.3%</td>
<td>194,448</td>
<td>67.1%</td>
<td>4,829</td>
<td>1.7%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>293,903</td>
<td>99.2%</td>
<td>203,261</td>
<td>68.6%</td>
<td>2,259</td>
<td>0.8%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>255,587</td>
<td>99.1%</td>
<td>176,374</td>
<td>68.4%</td>
<td>2,394</td>
<td>0.9%</td>
</tr>
<tr>
<td>Retailing</td>
<td>1996</td>
<td>1,196,240</td>
<td>99.4%</td>
<td>1,062,801</td>
<td>88.3%</td>
<td>1,203,479</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>1,084,209</td>
<td>99.7%</td>
<td>945,211</td>
<td>86.9%</td>
<td>1,087,993</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>1,054,397</td>
<td>99.7%</td>
<td>915,688</td>
<td>86.6%</td>
<td>1,057,941</td>
<td>100.0%</td>
</tr>
<tr>
<td>Food services</td>
<td>1996</td>
<td>744,501</td>
<td>98.8%</td>
<td>678,841</td>
<td>91.0%</td>
<td>745,755</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>714,754</td>
<td>99.9%</td>
<td>639,231</td>
<td>89.4%</td>
<td>715,396</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>689,451</td>
<td>99.9%</td>
<td>615,172</td>
<td>89.2%</td>
<td>689,907</td>
<td>100.0%</td>
</tr>
<tr>
<td>Finance &amp; insurance</td>
<td>1996</td>
<td>34,346</td>
<td>98.9%</td>
<td>33,065</td>
<td>95.2%</td>
<td>34,721</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>33,119</td>
<td>98.9%</td>
<td>31,842</td>
<td>95.1%</td>
<td>33,481</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>34,262</td>
<td>99.1%</td>
<td>33,126</td>
<td>95.8%</td>
<td>34,594</td>
<td>100.0%</td>
</tr>
<tr>
<td>Real estate</td>
<td>1996</td>
<td>265,823</td>
<td>100.0%</td>
<td>262,980</td>
<td>98.9%</td>
<td>265,905</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>260,879</td>
<td>100.0%</td>
<td>257,965</td>
<td>98.8%</td>
<td>260,974</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>262,654</td>
<td>100.0%</td>
<td>260,025</td>
<td>99.0%</td>
<td>262,743</td>
<td>100.0%</td>
</tr>
<tr>
<td>Services</td>
<td>1996</td>
<td>1,191,833</td>
<td>99.0%</td>
<td>1,023,372</td>
<td>85.0%</td>
<td>1,203,904</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>1,181,827</td>
<td>99.7%</td>
<td>1,001,806</td>
<td>84.5%</td>
<td>1,185,708</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>1,191,823</td>
<td>99.7%</td>
<td>1,008,453</td>
<td>84.3%</td>
<td>1,195,565</td>
<td>100.0%</td>
</tr>
<tr>
<td>Non-primary industry total</td>
<td>1996</td>
<td>5,072,922</td>
<td>99.4%</td>
<td>4,483,576</td>
<td>87.9%</td>
<td>5,102,642</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>4,836,764</td>
<td>99.7%</td>
<td>4,228,781</td>
<td>87.2%</td>
<td>4,851,104</td>
<td>100.0%</td>
</tr>
<tr>
<td></td>
<td>2001</td>
<td>4,689,609</td>
<td>99.7%</td>
<td>4,102,169</td>
<td>87.2%</td>
<td>4,703,039</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: MPHPT, Establishment and Enterprise Census of Japan (recompiled).

Notes:
1. Number of enterprises = number of companies + business establishments of sole proprietors (independent establishments and head offices).
2. SMEs in 1996 are enterprises with 300 or fewer regular employees (100 or fewer in wholesaling, 50 or fewer in retailing, food services and services) or capital stock of ¥100 million or less (¥30 million or less in wholesaling, ¥10 million or less in retailing, food services and services).
3. SMEs from 1999 are enterprises with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and food services) or capital stock of ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, food services and services) as defined under the revised Small and Medium Enterprise Basic Law.
4. Small enterprises are enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, food services and services).
5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
6. Industries are classified according to the October 1993 revised system of Industry classification.
### (3) Companies only

<table>
<thead>
<tr>
<th>Industry</th>
<th>SMEs</th>
<th>Of which small enterprises</th>
<th>Large enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>% of total No.</td>
<td>% of total</td>
<td>No.</td>
</tr>
<tr>
<td><strong>Mining</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>2,517</td>
<td>99.4</td>
<td>2,046</td>
<td>80.8</td>
</tr>
<tr>
<td>1999</td>
<td>2,496</td>
<td>99.8</td>
<td>2,061</td>
<td>82.4</td>
</tr>
<tr>
<td>2001</td>
<td>2,136</td>
<td>99.6</td>
<td>1,797</td>
<td>83.8</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>303,583</td>
<td>99.8</td>
<td>269,646</td>
<td>88.7</td>
</tr>
<tr>
<td>1999</td>
<td>301,407</td>
<td>99.8</td>
<td>272,282</td>
<td>90.2</td>
</tr>
<tr>
<td>2001</td>
<td>298,977</td>
<td>99.9</td>
<td>272,228</td>
<td>90.9</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>329,841</td>
<td>99.2</td>
<td>259,750</td>
<td>78.1</td>
</tr>
<tr>
<td>1999</td>
<td>317,831</td>
<td>99.2</td>
<td>250,789</td>
<td>78.3</td>
</tr>
<tr>
<td>2001</td>
<td>295,464</td>
<td>99.3</td>
<td>235,600</td>
<td>79.2</td>
</tr>
<tr>
<td><strong>Electricity, gas, heat and water supply</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>445</td>
<td>93.9</td>
<td>216</td>
<td>45.6</td>
</tr>
<tr>
<td>1999</td>
<td>499</td>
<td>95.0</td>
<td>252</td>
<td>50.0</td>
</tr>
<tr>
<td>2001</td>
<td>508</td>
<td>94.8</td>
<td>264</td>
<td>53.6</td>
</tr>
<tr>
<td><strong>Transport and communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>54,602</td>
<td>99.1</td>
<td>32,641</td>
<td>61.0</td>
</tr>
<tr>
<td>1999</td>
<td>55,950</td>
<td>99.3</td>
<td>35,218</td>
<td>62.5</td>
</tr>
<tr>
<td>2001</td>
<td>56,250</td>
<td>99.4</td>
<td>36,324</td>
<td>64.2</td>
</tr>
<tr>
<td><strong>Wholesaling, retailing and food services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>201,273</td>
<td>97.7</td>
<td>114,817</td>
<td>57.7</td>
</tr>
<tr>
<td>1999</td>
<td>207,421</td>
<td>98.9</td>
<td>120,616</td>
<td>59.7</td>
</tr>
<tr>
<td>2001</td>
<td>187,170</td>
<td>98.7</td>
<td>111,287</td>
<td>59.7</td>
</tr>
<tr>
<td><strong>Fashion and textile</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>78,008</td>
<td>98.4</td>
<td>44,015</td>
<td>55.5</td>
</tr>
<tr>
<td>1999</td>
<td>82,672</td>
<td>99.2</td>
<td>42,031</td>
<td>50.5</td>
</tr>
<tr>
<td>2001</td>
<td>74,584</td>
<td>99.4</td>
<td>39,376</td>
<td>52.5</td>
</tr>
<tr>
<td><strong>Finance and insurance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>15,453</td>
<td>97.6</td>
<td>14,178</td>
<td>89.6</td>
</tr>
<tr>
<td>1999</td>
<td>15,559</td>
<td>97.7</td>
<td>14,283</td>
<td>89.7</td>
</tr>
<tr>
<td>2001</td>
<td>16,595</td>
<td>98.2</td>
<td>15,440</td>
<td>91.3</td>
</tr>
<tr>
<td><strong>Real estate</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>93,771</td>
<td>99.9</td>
<td>90,935</td>
<td>96.9</td>
</tr>
<tr>
<td>1999</td>
<td>92,890</td>
<td>99.9</td>
<td>89,868</td>
<td>96.8</td>
</tr>
<tr>
<td>2001</td>
<td>95,993</td>
<td>99.9</td>
<td>93,372</td>
<td>97.2</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>245,686</td>
<td>95.7</td>
<td>139,494</td>
<td>54.3</td>
</tr>
<tr>
<td>1999</td>
<td>264,412</td>
<td>98.6</td>
<td>143,771</td>
<td>53.6</td>
</tr>
<tr>
<td>2001</td>
<td>266,477</td>
<td>98.7</td>
<td>147,452</td>
<td>54.6</td>
</tr>
<tr>
<td><strong>Non-primary industry total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>1,637,439</td>
<td>98.3</td>
<td>1,181,947</td>
<td>71.0</td>
</tr>
<tr>
<td>1999</td>
<td>1,645,154</td>
<td>99.2</td>
<td>1,171,709</td>
<td>70.7</td>
</tr>
<tr>
<td>2001</td>
<td>1,595,493</td>
<td>99.2</td>
<td>1,154,034</td>
<td>71.8</td>
</tr>
</tbody>
</table>

Source: MPHPT, Establishment and Enterprise Census of Japan (recompiled).

Notes:
1. Business establishments of sole proprietors not included.
2. SMEs in 1996 are enterprises with 300 or fewer regular employees (100 or fewer in wholesaling, 50 or fewer in retailing, food services and services) or capital stock of ¥100 million or less (¥30 million or less in wholesaling, ¥10 million or less in retailing, food services and services).
3. SMEs from 1999 are enterprises with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and food services) or capital stock of ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, food services and services) as defined under the revised Small and Medium Enterprise Basic Law.
4. Small enterprises are enterprises with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, food services and services).
5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
6. Industries are classified according to the October 1993 revised system of Industry classification.
Table 2: Number of Enterprises by Prefecture (Private, Non-primary Industry, 2001)

<table>
<thead>
<tr>
<th>Prefecture</th>
<th>SMEs</th>
<th>Large Enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hokkaido</td>
<td>185,314</td>
<td>425</td>
<td>185,739</td>
</tr>
<tr>
<td>Aomori</td>
<td>55,324</td>
<td>87</td>
<td>55,411</td>
</tr>
<tr>
<td>Iwate</td>
<td>50,630</td>
<td>84</td>
<td>50,714</td>
</tr>
<tr>
<td>Miyagi</td>
<td>79,500</td>
<td>208</td>
<td>79,708</td>
</tr>
<tr>
<td>Akita</td>
<td>47,371</td>
<td>68</td>
<td>47,439</td>
</tr>
<tr>
<td>Yamagata</td>
<td>52,617</td>
<td>92</td>
<td>52,709</td>
</tr>
<tr>
<td>Fukushima</td>
<td>81,092</td>
<td>103</td>
<td>81,195</td>
</tr>
<tr>
<td>Ibaraki</td>
<td>101,555</td>
<td>143</td>
<td>101,698</td>
</tr>
<tr>
<td>Tochigi</td>
<td>79,368</td>
<td>117</td>
<td>79,485</td>
</tr>
<tr>
<td>Gunma</td>
<td>85,300</td>
<td>119</td>
<td>85,419</td>
</tr>
<tr>
<td>Saitama</td>
<td>197,256</td>
<td>302</td>
<td>197,558</td>
</tr>
<tr>
<td>Chiba</td>
<td>147,825</td>
<td>323</td>
<td>148,148</td>
</tr>
<tr>
<td>Tokyo</td>
<td>548,591</td>
<td>4,728</td>
<td>553,319</td>
</tr>
<tr>
<td>Kanagawa</td>
<td>222,205</td>
<td>646</td>
<td>222,851</td>
</tr>
<tr>
<td>Niigata</td>
<td>104,232</td>
<td>181</td>
<td>104,413</td>
</tr>
<tr>
<td>Toyama</td>
<td>53,914</td>
<td>109</td>
<td>54,049</td>
</tr>
<tr>
<td>Ishikawa</td>
<td>39,480</td>
<td>60</td>
<td>39,543</td>
</tr>
<tr>
<td>Fukui</td>
<td>35,752</td>
<td>60</td>
<td>35,812</td>
</tr>
<tr>
<td>Yamanashi</td>
<td>41,480</td>
<td>63</td>
<td>41,543</td>
</tr>
<tr>
<td>Nagano</td>
<td>95,213</td>
<td>186</td>
<td>95,399</td>
</tr>
<tr>
<td>Gifu</td>
<td>94,722</td>
<td>143</td>
<td>94,865</td>
</tr>
<tr>
<td>Shizuoka</td>
<td>158,623</td>
<td>277</td>
<td>158,900</td>
</tr>
<tr>
<td>Aichi</td>
<td>267,922</td>
<td>787</td>
<td>268,709</td>
</tr>
<tr>
<td>Mie</td>
<td>68,633</td>
<td>104</td>
<td>68,737</td>
</tr>
<tr>
<td>Shiga</td>
<td>42,635</td>
<td>67</td>
<td>42,702</td>
</tr>
<tr>
<td>Kyoto</td>
<td>109,457</td>
<td>225</td>
<td>109,682</td>
</tr>
<tr>
<td>Osaka</td>
<td>371,638</td>
<td>1,489</td>
<td>373,127</td>
</tr>
<tr>
<td>Hyogo</td>
<td>186,392</td>
<td>407</td>
<td>186,799</td>
</tr>
<tr>
<td>Nara</td>
<td>39,476</td>
<td>36</td>
<td>39,512</td>
</tr>
<tr>
<td>Wakayama</td>
<td>46,438</td>
<td>36</td>
<td>46,474</td>
</tr>
<tr>
<td>Tottori</td>
<td>21,890</td>
<td>50</td>
<td>21,940</td>
</tr>
<tr>
<td>Shimane</td>
<td>31,092</td>
<td>34</td>
<td>31,126</td>
</tr>
<tr>
<td>Okayama</td>
<td>66,319</td>
<td>119</td>
<td>66,438</td>
</tr>
<tr>
<td>Hiroshima</td>
<td>104,528</td>
<td>212</td>
<td>104,740</td>
</tr>
<tr>
<td>Yamaguchi</td>
<td>54,243</td>
<td>75</td>
<td>54,318</td>
</tr>
<tr>
<td>Tokushima</td>
<td>34,450</td>
<td>30</td>
<td>34,480</td>
</tr>
<tr>
<td>Kagawa</td>
<td>41,200</td>
<td>85</td>
<td>41,285</td>
</tr>
<tr>
<td>Ehime</td>
<td>60,025</td>
<td>80</td>
<td>60,105</td>
</tr>
<tr>
<td>Kochi</td>
<td>39,928</td>
<td>41</td>
<td>39,969</td>
</tr>
<tr>
<td>Fukuoka</td>
<td>171,645</td>
<td>437</td>
<td>172,082</td>
</tr>
<tr>
<td>Saga</td>
<td>32,091</td>
<td>43</td>
<td>32,134</td>
</tr>
<tr>
<td>Nagasaki</td>
<td>55,740</td>
<td>72</td>
<td>55,812</td>
</tr>
<tr>
<td>Kurnamoto</td>
<td>63,039</td>
<td>100</td>
<td>63,139</td>
</tr>
<tr>
<td>Oita</td>
<td>46,603</td>
<td>74</td>
<td>46,677</td>
</tr>
<tr>
<td>Miyazaki</td>
<td>45,457</td>
<td>60</td>
<td>45,517</td>
</tr>
<tr>
<td>Kagoshima</td>
<td>65,591</td>
<td>92</td>
<td>65,683</td>
</tr>
<tr>
<td>Okinawa</td>
<td>58,987</td>
<td>76</td>
<td>59,063</td>
</tr>
<tr>
<td>Total</td>
<td>4,689,609</td>
<td>13,430</td>
<td>4,703,039</td>
</tr>
</tbody>
</table>
**Table 3  Number of workers by industry and size (private)**

(1) Business establishments

| Industry                     | Year | SMEs | | Large business establishments | Total |
|------------------------------|------|------| | | |
| | | No. | % of total | No. | % of total | No. | % of total | No. | % of total |
| **Mining**                   | 1996 | 58,713 | 91.4 | 30,242 | 47.1 | 5,525 | 8.6 | 64,238 | 100.0 |
| | 1999 | 51,787 | 94.3 | 27,636 | 50.3 | 3,147 | 5.7 | 54,934 | 100.0 |
| | 2001 | 44,262 | 94.1 | 25,427 | 54.0 | 2,795 | 5.9 | 47,057 | 100.0 |
| **Construction**             | 1996 | 5,527,973 | 95.7 | 3,275,682 | 56.7 | 246,515 | 4.3 | 5,774,488 | 100.0 |
| | 1999 | 4,875,254 | 95.8 | 3,005,959 | 59.1 | 214,246 | 4.2 | 5,089,500 | 100.0 |
| | 2001 | 4,778,737 | 96.7 | 3,024,411 | 61.2 | 164,874 | 3.3 | 4,943,611 | 100.0 |
| **Manufacturing**            | 1996 | 9,580,770 | 74.1 | 3,592,943 | 27.8 | 3,341,264 | 25.9 | 12,922,034 | 100.0 |
| | 1999 | 8,538,218 | 74.6 | 3,122,088 | 27.3 | 2,914,099 | 25.4 | 11,452,317 | 100.0 |
| | 2001 | 8,253,790 | 74.2 | 3,002,677 | 27.0 | 2,872,355 | 25.8 | 11,126,145 | 100.0 |
| **Electricity, gas, heat and water supply** | 1996 | 158,415 | 71.4 | 15,540 | 7.0 | 63,590 | 28.6 | 222,005 | 100.0 |
| | 1999 | 153,713 | 71.6 | 14,746 | 6.9 | 60,837 | 28.4 | 214,550 | 100.0 |
| | 2001 | 148,979 | 71.1 | 14,473 | 6.9 | 60,414 | 28.9 | 209,393 | 100.0 |
| **Transport and communications** | 1996 | 3,036,146 | 87.6 | 728,641 | 21.0 | 428,535 | 12.4 | 3,464,681 | 100.0 |
| | 1999 | 2,896,690 | 89.0 | 714,197 | 21.9 | 357,256 | 11.0 | 3,253,946 | 100.0 |
| | 2001 | 2,936,272 | 88.8 | 745,086 | 22.5 | 369,755 | 11.2 | 3,306,027 | 100.0 |
| **Wholesaling, retailing and food** | 1996 | 15,194,465 | 83.4 | 5,173,211 | 28.4 | 3,014,596 | 16.6 | 18,209,061 | 100.0 |
| | 1999 | 14,506,335 | 84.1 | 5,122,088 | 27.3 | 2,738,556 | 15.9 | 17,244,891 | 100.0 |
| | 2001 | 14,598,441 | 83.1 | 3,002,677 | 27.0 | 2,872,355 | 25.8 | 17,570,547 | 100.0 |

Source: MPHPT, Establishment and Enterprise Census of Japan (recompiled).

Notes: 1. For the figures for 1996, business establishments with 300 or fewer workers (100 or fewer in wholesaling, 50 or fewer in retailing, food services and services) are treated as small and medium business establishments.
2. For the figures for 1999 onward, business establishments with 300 or fewer workers (100 or fewer in wholesaling and services, 50 or fewer in retailing and food services) are treated as small and medium business establishments as defined under the revised Small and Medium Enterprise Basic Law.
3. Small business establishments are defined as business establishments with 1-20 workers (1-5 workers in wholesaling, retailing, food services and services).
4. The percentages of the total for small business establishments indicate their proportion of the total number of business establishments.
5. Industries are classified according to the October 1993 revised system of industry classification.
### (2) Enterprises (number of regular employees of companies and sole proprietors)

<table>
<thead>
<tr>
<th>Industry</th>
<th>SMEs</th>
<th>Large enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of regular company employees+total no. of workers of sole proprietors</td>
<td>% of total</td>
<td>No. of regular company employees</td>
</tr>
<tr>
<td>Mining</td>
<td>29,771</td>
<td>84.5</td>
<td>13,601</td>
</tr>
<tr>
<td>Construction</td>
<td>3,150,971</td>
<td>86.5</td>
<td>1,801,381</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6,239,901</td>
<td>60.2</td>
<td>1,746,930</td>
</tr>
<tr>
<td>Electricity, gas, heat and water supply</td>
<td>26,960</td>
<td>12.4</td>
<td>2,234</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>2,003,904</td>
<td>67.3</td>
<td>299,959</td>
</tr>
<tr>
<td>Wholesaling, retailing and food services</td>
<td>8,036,726</td>
<td>67.8</td>
<td>1,976,620</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>2,364,659</td>
<td>66.9</td>
<td>310,547</td>
</tr>
<tr>
<td>Retailing</td>
<td>3,784,141</td>
<td>65.0</td>
<td>918,919</td>
</tr>
<tr>
<td>Food services</td>
<td>1,867,926</td>
<td>81.7</td>
<td>747,151</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>159,920</td>
<td>13.9</td>
<td>54,293</td>
</tr>
<tr>
<td>Real estate</td>
<td>432,827</td>
<td>83.0</td>
<td>229,546</td>
</tr>
<tr>
<td>Services</td>
<td>5,520,004</td>
<td>73.4</td>
<td>1,113,842</td>
</tr>
<tr>
<td>Non-primary industry total</td>
<td>25,600,984</td>
<td>66.9</td>
<td>7,238,406</td>
</tr>
</tbody>
</table>

Notes: 1. SMEs are sole proprietors and companies with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and food services) or with capital stock of ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, food services and services).
2. Small enterprises are companies with 300 or fewer regular employees (100 or fewer in wholesaling and services) and sole proprietors with 300 or fewer workers (100 or fewer in wholesaling, retailing, food services and services).
3. The percentages of the total small enterprises indicate the proportion of regular employees at enterprises of all sizes accounted for by small enterprises.
4. The percentages of the total for small enterprises indicate the proportion of regular employees of companies and workers of sole proprietors accounted for by small enterprises.
5. Industries are classified according to the October 1993 revised system of industry classification.

### (3) Enterprises (number of regular employees of companies and total number of workers of sole proprietors)

<table>
<thead>
<tr>
<th>Industry</th>
<th>SMEs</th>
<th>Large enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of regular company employees-total no. of workers of sole proprietors</td>
<td>% of total</td>
<td>No. of regular company employees</td>
</tr>
<tr>
<td>Mining</td>
<td>30,478</td>
<td>84.8</td>
<td>14,285</td>
</tr>
<tr>
<td>Construction</td>
<td>3,516,530</td>
<td>87.7</td>
<td>2,159,911</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6,635,481</td>
<td>61.7</td>
<td>2,134,914</td>
</tr>
<tr>
<td>Electricity, gas, heat and water supply</td>
<td>26,962</td>
<td>12.4</td>
<td>2,234</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>2,058,631</td>
<td>67.9</td>
<td>354,136</td>
</tr>
<tr>
<td>Wholesaling, retailing and food services</td>
<td>10,145,170</td>
<td>72.6</td>
<td>3,617,709</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>2,467,928</td>
<td>67.8</td>
<td>388,725</td>
</tr>
<tr>
<td>Retailing</td>
<td>4,909,837</td>
<td>66.7</td>
<td>1,861,774</td>
</tr>
<tr>
<td>Food services</td>
<td>2,767,405</td>
<td>86.7</td>
<td>1,367,210</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>182,164</td>
<td>15.6</td>
<td>176,491</td>
</tr>
<tr>
<td>Real estate</td>
<td>643,253</td>
<td>87.9</td>
<td>439,757</td>
</tr>
<tr>
<td>Services</td>
<td>6,724,696</td>
<td>77.0</td>
<td>1,993,791</td>
</tr>
<tr>
<td>Non-primary industry total</td>
<td>29,963,365</td>
<td>70.2</td>
<td>10,793,230</td>
</tr>
</tbody>
</table>

Notes: 1. Figures indicate the number of regular employees of companies combined with the total number of workers of sole proprietors (independent establishments and head offices).
2. SMEs are companies with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and food services) or with capital stock of ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, food services and services).
3. Small enterprises are companies with 20 or fewer regular employees (5 or fewer in wholesaling, retailing, food services and services) and sole proprietors with ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, food services and services).
4. The percentages of the total small enterprises indicate the proportion of regular employees of companies and workers of sole proprietors accounted for by small enterprises.
5. Industries are classified according to the October 1993 revised system of industry classification.
(4) Companies only (number of regular employees of companies)

<table>
<thead>
<tr>
<th>Industry</th>
<th>SMEs</th>
<th>Large enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of regular employees</td>
<td>% of total</td>
<td>No. of regular employees</td>
</tr>
<tr>
<td>Mining</td>
<td>28,763</td>
<td>84.1</td>
<td>5,443</td>
</tr>
<tr>
<td>Construction</td>
<td>2,824,238</td>
<td>85.1</td>
<td>493,131</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5,841,034</td>
<td>58.6</td>
<td>1,119,197</td>
</tr>
<tr>
<td>Electricity, gas, heat and water supply</td>
<td>26,960</td>
<td>12.4</td>
<td>190,678</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>1,978,593</td>
<td>67.0</td>
<td>974,096</td>
</tr>
<tr>
<td>Wholesaling, retailing and food services</td>
<td>5,928,159</td>
<td>61.4</td>
<td>3,733,874</td>
</tr>
<tr>
<td>Wholesaling</td>
<td>2,260,118</td>
<td>65.9</td>
<td>1,169,926</td>
</tr>
<tr>
<td>Retailing</td>
<td>2,773,138</td>
<td>56.4</td>
<td>2,142,076</td>
</tr>
<tr>
<td>Food services</td>
<td>894,903</td>
<td>68.0</td>
<td>421,872</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>147,901</td>
<td>13.0</td>
<td>987,079</td>
</tr>
<tr>
<td>Real estate</td>
<td>393,261</td>
<td>81.6</td>
<td>88,892</td>
</tr>
<tr>
<td>Services</td>
<td>4,081,001</td>
<td>67.5</td>
<td>1,963,470</td>
</tr>
<tr>
<td>Non-primary industry total</td>
<td>21,249,910</td>
<td>62.9</td>
<td>12,555,860</td>
</tr>
</tbody>
</table>


Notes:
1. Business establishments of sole proprietors not included.
2. SMEs are companies with 300 or fewer regular employees (100 or fewer in wholesaling and services, 50 or fewer in retailing and food services) or with capital stock of ¥300 million or less (¥100 million or less in wholesaling, ¥50 million or less in retailing, food services and services).
3. Small enterprises are companies with 20 or fewer regular employees (6 or fewer in wholesaling, retailing, food services and services).
4. The percentages of the total for small enterprises indicate the proportion of regular employees of enterprises of all size accounted for by small enterprises.
5. Industries are classified according to the October 1993 revised system of industry classification.
## Table 4 Number of business establishments and workers and value of shipments in manufacturing

### (1) Number of business establishments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4~9</td>
<td></td>
<td>229,281</td>
<td>206,621</td>
<td>213,308</td>
<td>198,411</td>
<td>190,640</td>
<td>206,808</td>
<td>186,111</td>
<td>186,698</td>
<td>161,085</td>
<td>144,213</td>
</tr>
<tr>
<td>10~19</td>
<td></td>
<td>81,909</td>
<td>77,733</td>
<td>76,789</td>
<td>74,823</td>
<td>73,743</td>
<td>70,132</td>
<td>67,274</td>
<td>71,678</td>
<td>80,520</td>
<td>108,071</td>
</tr>
<tr>
<td>20~99</td>
<td></td>
<td>84,654</td>
<td>82,665</td>
<td>82,099</td>
<td>80,991</td>
<td>78,181</td>
<td>74,710</td>
<td>72,562</td>
<td>69,321</td>
<td>88,716</td>
<td>123,468</td>
</tr>
<tr>
<td>100~999</td>
<td></td>
<td>12,171</td>
<td>11,852</td>
<td>11,623</td>
<td>11,723</td>
<td>11,422</td>
<td>11,066</td>
<td>11,049</td>
<td>10,807</td>
<td>10,321</td>
<td>9,104</td>
</tr>
<tr>
<td>1,000 or more</td>
<td></td>
<td>3,159</td>
<td>3,080</td>
<td>3,062</td>
<td>3,046</td>
<td>3,014</td>
<td>2,972</td>
<td>2,876</td>
<td>2,859</td>
<td>2,854</td>
<td>2,745</td>
</tr>
<tr>
<td>4~299</td>
<td></td>
<td>409,815</td>
<td>379,071</td>
<td>384,019</td>
<td>365,946</td>
<td>354,627</td>
<td>370,154</td>
<td>342,019</td>
<td>338,033</td>
<td>312,891</td>
<td>287,514</td>
</tr>
<tr>
<td>300 or more</td>
<td></td>
<td>3,855</td>
<td>3,754</td>
<td>3,707</td>
<td>3,666</td>
<td>3,619</td>
<td>3,559</td>
<td>3,438</td>
<td>3,388</td>
<td>3,376</td>
<td>3,211</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>413,670</td>
<td>382,825</td>
<td>387,726</td>
<td>369,612</td>
<td>358,246</td>
<td>373,713</td>
<td>345,457</td>
<td>341,421</td>
<td>316,267</td>
<td>290,725</td>
</tr>
</tbody>
</table>

Source: METI, Census of Manufactures.
Notes: 1. Based on statistics for business establishments.
3. Table (1) shows the number of business establishments by number of workers at business establishments (plants).

### (2) Number of workers

Upper row: 1,000 workers, lower row: % of total

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4~9</td>
<td></td>
<td>1,366</td>
<td>1,247</td>
<td>1,272</td>
<td>1,199</td>
<td>1,155</td>
<td>1,231</td>
<td>1,119</td>
<td>1,111</td>
<td>957</td>
<td>860</td>
</tr>
<tr>
<td>10~19</td>
<td></td>
<td>1,131</td>
<td>1,074</td>
<td>1,061</td>
<td>1,036</td>
<td>1,007</td>
<td>1,021</td>
<td>971</td>
<td>938</td>
<td>976</td>
<td>921</td>
</tr>
<tr>
<td>100~299</td>
<td></td>
<td>1,958</td>
<td>1,903</td>
<td>1,897</td>
<td>1,879</td>
<td>1,881</td>
<td>1,834</td>
<td>1,776</td>
<td>1,776</td>
<td>1,739</td>
<td>1,660</td>
</tr>
<tr>
<td>300 or more</td>
<td></td>
<td>1,485</td>
<td>1,424</td>
<td>1,359</td>
<td>1,309</td>
<td>1,276</td>
<td>1,224</td>
<td>1,164</td>
<td>1,097</td>
<td>1,067</td>
<td>964</td>
</tr>
<tr>
<td>1,000 or more</td>
<td></td>
<td>1,485</td>
<td>1,424</td>
<td>1,359</td>
<td>1,309</td>
<td>1,276</td>
<td>1,224</td>
<td>1,164</td>
<td>1,097</td>
<td>1,067</td>
<td>964</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10,885</td>
<td>10,416</td>
<td>10,321</td>
<td>10,103</td>
<td>9,937</td>
<td>9,838</td>
<td>9,378</td>
<td>9,184</td>
<td>8,866</td>
<td>8,315</td>
</tr>
</tbody>
</table>

### (3) Value of shipments

Upper row: ¥billion, lower row: % of total

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4~9</td>
<td></td>
<td>14,806</td>
<td>13,545</td>
<td>13,750</td>
<td>13,941</td>
<td>13,400</td>
<td>13,722</td>
<td>12,194</td>
<td>12,198</td>
<td>10,250</td>
<td>9,104</td>
</tr>
<tr>
<td>10~19</td>
<td></td>
<td>17,379</td>
<td>16,219</td>
<td>16,318</td>
<td>16,314</td>
<td>16,492</td>
<td>16,280</td>
<td>15,001</td>
<td>14,742</td>
<td>14,733</td>
<td>13,380</td>
</tr>
<tr>
<td>20~99</td>
<td></td>
<td>69,348</td>
<td>66,039</td>
<td>67,531</td>
<td>68,957</td>
<td>70,216</td>
<td>67,445</td>
<td>63,630</td>
<td>63,915</td>
<td>61,267</td>
<td>57,012</td>
</tr>
<tr>
<td>100~299</td>
<td></td>
<td>59,303</td>
<td>57,698</td>
<td>59,541</td>
<td>60,761</td>
<td>63,917</td>
<td>60,493</td>
<td>59,724</td>
<td>62,770</td>
<td>60,568</td>
<td>57,975</td>
</tr>
<tr>
<td>300 or more</td>
<td></td>
<td>68,963</td>
<td>68,075</td>
<td>70,635</td>
<td>73,377</td>
<td>76,835</td>
<td>72,466</td>
<td>68,720</td>
<td>73,269</td>
<td>70,269</td>
<td>66,293</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>311,199</td>
<td>299,027</td>
<td>306,030</td>
<td>313,068</td>
<td>323,072</td>
<td>305,869</td>
<td>291,450</td>
<td>300,478</td>
<td>286,667</td>
<td>269,116</td>
</tr>
</tbody>
</table>

Source: METI, Census of Manufactures.
Notes: 1. Based on statistics for business establishments.
3. Table (1) shows the number of business establishments by number of workers at business establishments (plants).
Table 5 Capital investment and value added in manufacturing

(1) Capital investment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>30~99</td>
<td>2,251</td>
<td>1,864</td>
<td>1,734</td>
<td>1,962</td>
<td>2,137</td>
<td>1,975</td>
<td>1,659</td>
<td>1,522</td>
<td>1,712</td>
<td>1,414</td>
</tr>
<tr>
<td>100~299</td>
<td>2,890</td>
<td>2,536</td>
<td>2,658</td>
<td>2,829</td>
<td>2,982</td>
<td>2,621</td>
<td>2,604</td>
<td>2,812</td>
<td>2,290</td>
<td></td>
</tr>
<tr>
<td>300~999</td>
<td>3,755</td>
<td>3,111</td>
<td>3,209</td>
<td>3,906</td>
<td>4,052</td>
<td>3,571</td>
<td>3,571</td>
<td>3,751</td>
<td>2,957</td>
<td>2,857</td>
</tr>
<tr>
<td>1,000 or more</td>
<td>4,550</td>
<td>3,545</td>
<td>3,643</td>
<td>3,936</td>
<td>4,210</td>
<td>3,761</td>
<td>3,761</td>
<td>3,761</td>
<td>3,175</td>
<td>2,925</td>
</tr>
<tr>
<td>30~299</td>
<td>5,141</td>
<td>4,401</td>
<td>4,392</td>
<td>4,791</td>
<td>5,119</td>
<td>4,904</td>
<td>4,280</td>
<td>4,127</td>
<td>4,524</td>
<td>3,703</td>
</tr>
<tr>
<td>300 or more</td>
<td>7,805</td>
<td>6,656</td>
<td>6,852</td>
<td>7,422</td>
<td>8,439</td>
<td>6,809</td>
<td>6,809</td>
<td>7,322</td>
<td>5,783</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12,946</td>
<td>11,056</td>
<td>11,244</td>
<td>12,632</td>
<td>13,380</td>
<td>13,343</td>
<td>11,089</td>
<td>11,326</td>
<td>11,845</td>
<td>9,486</td>
</tr>
</tbody>
</table>

Investment per worker

(Upper row: ¥billion, lower row: % of total)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>30~99</td>
<td>1,023</td>
<td>791</td>
<td>906</td>
<td>1,000</td>
<td>940</td>
<td>820</td>
<td>771</td>
<td>907</td>
<td>788</td>
<td></td>
<td></td>
</tr>
<tr>
<td>100~299</td>
<td>1,539</td>
<td>1,401</td>
<td>1,506</td>
<td>1,585</td>
<td>1,597</td>
<td>1,476</td>
<td>1,466</td>
<td>1,617</td>
<td>1,379</td>
<td></td>
<td></td>
</tr>
<tr>
<td>300~999</td>
<td>2,475</td>
<td>2,008</td>
<td>2,085</td>
<td>2,557</td>
<td>2,827</td>
<td>2,929</td>
<td>2,604</td>
<td>2,812</td>
<td>2,290</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000 or more</td>
<td>2,914</td>
<td>2,489</td>
<td>2,680</td>
<td>3,006</td>
<td>3,299</td>
<td>3,466</td>
<td>3,529</td>
<td>3,751</td>
<td>3,036</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30~299</td>
<td>1,261</td>
<td>1,070</td>
<td>1,074</td>
<td>1,184</td>
<td>1,274</td>
<td>1,248</td>
<td>1,127</td>
<td>1,100</td>
<td>1,247</td>
<td>2,139</td>
<td></td>
</tr>
<tr>
<td>300 or more</td>
<td>2,685</td>
<td>2,239</td>
<td>2,364</td>
<td>2,764</td>
<td>2,964</td>
<td>3,116</td>
<td>2,628</td>
<td>2,864</td>
<td>2,515</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall average</td>
<td>1,854</td>
<td>1,561</td>
<td>1,609</td>
<td>1,836</td>
<td>1,966</td>
<td>2,009</td>
<td>1,736</td>
<td>1,808</td>
<td>1,943</td>
<td>1,649</td>
<td></td>
</tr>
</tbody>
</table>

(2) Value added

(Upper row: ¥billion, lower row: % of total)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>4~9</td>
<td>7,756</td>
<td>7,124</td>
<td>7,322</td>
<td>7,163</td>
<td>7,071</td>
<td>7,280</td>
<td>6,487</td>
<td>6,531</td>
<td>5,379</td>
<td>4,770</td>
<td></td>
</tr>
<tr>
<td>10~19</td>
<td>7,789</td>
<td>7,318</td>
<td>7,453</td>
<td>7,458</td>
<td>7,482</td>
<td>7,452</td>
<td>6,869</td>
<td>6,760</td>
<td>7,114</td>
<td>6,508</td>
<td></td>
</tr>
<tr>
<td>20~99</td>
<td>27,410</td>
<td>26,414</td>
<td>27,402</td>
<td>28,045</td>
<td>28,215</td>
<td>27,025</td>
<td>25,773</td>
<td>26,014</td>
<td>24,849</td>
<td>22,879</td>
<td></td>
</tr>
<tr>
<td>100~299</td>
<td>22,152</td>
<td>21,915</td>
<td>22,935</td>
<td>23,227</td>
<td>23,977</td>
<td>22,482</td>
<td>22,502</td>
<td>23,168</td>
<td>22,666</td>
<td>21,389</td>
<td></td>
</tr>
<tr>
<td>300~999</td>
<td>24,118</td>
<td>24,456</td>
<td>25,564</td>
<td>26,055</td>
<td>26,263</td>
<td>24,907</td>
<td>23,638</td>
<td>24,707</td>
<td>22,801</td>
<td>21,457</td>
<td></td>
</tr>
<tr>
<td>1,000 or more</td>
<td>25,750</td>
<td>25,122</td>
<td>26,257</td>
<td>27,356</td>
<td>26,865</td>
<td>24,090</td>
<td>22,590</td>
<td>23,063</td>
<td>20,896</td>
<td>20,371</td>
<td></td>
</tr>
<tr>
<td>Overall average</td>
<td>65,107</td>
<td>62,771</td>
<td>65,113</td>
<td>65,894</td>
<td>66,745</td>
<td>64,239</td>
<td>61,631</td>
<td>62,472</td>
<td>59,608</td>
<td>55,547</td>
<td></td>
</tr>
</tbody>
</table>

Source: METI, Census of Manufactures.
Notes:
1. Based on statistics for business establishments.
3. Capital investment equals the value of acquisitions of tangible fixed assets plus the annual change in construction in progress.
4. Where business establishments of the head office are separate from plants, investment in the same is not included.
5. In Table (2), figures for business establishments with 4~9 workers up to 2000 and business establishments with 29 or fewer workers since 2001 indicate gross value added.
Table 6 Number of business establishments and workers and value of sales in wholesaling

(1) Number of business establishments and workers

<table>
<thead>
<tr>
<th>Item</th>
<th>No. of business establishments (1,000)</th>
<th>No. of employees (1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1~2</td>
<td>101.8</td>
<td>90.4</td>
</tr>
<tr>
<td>3~4</td>
<td>123.3</td>
<td>103.0</td>
</tr>
<tr>
<td>5~9</td>
<td>132.1</td>
<td>120.1</td>
</tr>
<tr>
<td>10~19</td>
<td>70.5</td>
<td>67.8</td>
</tr>
<tr>
<td>20~49</td>
<td>8.4</td>
<td>8.4</td>
</tr>
<tr>
<td>50~99</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>1~99</td>
<td>472.5</td>
<td>425.7</td>
</tr>
<tr>
<td>100 or more</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Total</td>
<td>476.0</td>
<td>429.3</td>
</tr>
</tbody>
</table>

(2) Total sales during the year and total sales during the year per worker

<table>
<thead>
<tr>
<th>Item</th>
<th>Total sales during the year (¥ billion)</th>
<th>Total sales during the year per worker (¥10,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1~2</td>
<td>8,162</td>
<td>6,595</td>
</tr>
<tr>
<td>3~4</td>
<td>23,788</td>
<td>19,413</td>
</tr>
<tr>
<td>5~9</td>
<td>64,403</td>
<td>54,115</td>
</tr>
<tr>
<td>10~19</td>
<td>82,024</td>
<td>72,162</td>
</tr>
<tr>
<td>20~49</td>
<td>108,734</td>
<td>98,992</td>
</tr>
<tr>
<td>50~99</td>
<td>68,696</td>
<td>64,689</td>
</tr>
<tr>
<td>1~99</td>
<td>355,807</td>
<td>315,966</td>
</tr>
<tr>
<td>100 or more</td>
<td>217,358</td>
<td>198,351</td>
</tr>
<tr>
<td>Total</td>
<td>573,165</td>
<td>514,317</td>
</tr>
</tbody>
</table>

Source: METI, Census of Commerce.

Notes:
2. The 1999 survey was conducted at the same time as the MPHPT’s Establishment and Enterprise Census of Japan (a simplified questionnaire was used for both surveys), which enabled existing business establishments to be determined. The figures are not therefore continuous with the figures for previous years.
3. "Number of business establishments" is expressed as "number of stores" in the Census of Commerce up to 1999. However, the two are the same in content.
4. Workers for calculating annual sales per worker exclude those employed in agency and intermediary business.
### Table 7  Number of business establishments and workers and value of sales in retailing

**(1)  Number of business establishments and workers**

<table>
<thead>
<tr>
<th>Item</th>
<th>No. of business establishments (1,000)</th>
<th>No. of workers (1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1~2</strong></td>
<td>847.2</td>
<td>764.8</td>
</tr>
<tr>
<td></td>
<td>(53.2)</td>
<td>(51.0)</td>
</tr>
<tr>
<td><strong>3~4</strong></td>
<td>416.9</td>
<td>370.9</td>
</tr>
<tr>
<td></td>
<td>(26.2)</td>
<td>(24.7)</td>
</tr>
<tr>
<td><strong>5~9</strong></td>
<td>214.0</td>
<td>222.5</td>
</tr>
<tr>
<td></td>
<td>(13.4)</td>
<td>(14.6)</td>
</tr>
<tr>
<td><strong>10~19</strong></td>
<td>71.9</td>
<td>89.6</td>
</tr>
<tr>
<td></td>
<td>(4.5)</td>
<td>(6.0)</td>
</tr>
<tr>
<td><strong>20~49</strong></td>
<td>32.1</td>
<td>42.0</td>
</tr>
<tr>
<td></td>
<td>(2.1)</td>
<td>(2.8)</td>
</tr>
<tr>
<td><strong>1~49</strong></td>
<td>1,583.1</td>
<td>1,499.9</td>
</tr>
<tr>
<td></td>
<td>(99.5)</td>
<td>(99.3)</td>
</tr>
<tr>
<td><strong>50 or more</strong></td>
<td>8.1</td>
<td>10.1</td>
</tr>
<tr>
<td></td>
<td>(0.5)</td>
<td>(0.7)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,591.2</td>
<td>1,499.9</td>
</tr>
</tbody>
</table>

**Source:** METI, Census of Commerce.

**Notes:**
2. The 1999 survey was conducted at the same time as the MPHPT’s Establishment and Enterprise Census of Japan (a simplified questionnaire was used for both surveys), which enabled existing business establishments to be determined. The figures are not therefore continuous with the figures for previous years.
3. “Number of business establishments” is expressed as “number of stores” in the Census of Commerce up to 1999. However, the two are the same in content.

### (2) Total sales during the year and total sales during the year per worker

<table>
<thead>
<tr>
<th>Item</th>
<th>Total sales during the year (¥ billion)</th>
<th>Total sales during the year per worker (¥10,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1~2</strong></td>
<td>15,224</td>
<td>13,332</td>
</tr>
<tr>
<td></td>
<td>(10.8)</td>
<td>(9.3)</td>
</tr>
<tr>
<td><strong>3~4</strong></td>
<td>23,006</td>
<td>20,054</td>
</tr>
<tr>
<td></td>
<td>(16.4)</td>
<td>(14.0)</td>
</tr>
<tr>
<td><strong>5~9</strong></td>
<td>28,878</td>
<td>28,999</td>
</tr>
<tr>
<td></td>
<td>(20.5)</td>
<td>(20.2)</td>
</tr>
<tr>
<td><strong>10~19</strong></td>
<td>21,409</td>
<td>23,826</td>
</tr>
<tr>
<td></td>
<td>(15.2)</td>
<td>(16.6)</td>
</tr>
<tr>
<td><strong>20~49</strong></td>
<td>21,151</td>
<td>23,919</td>
</tr>
<tr>
<td></td>
<td>(15.0)</td>
<td>(16.7)</td>
</tr>
<tr>
<td><strong>1~49</strong></td>
<td>109,668</td>
<td>110,131</td>
</tr>
<tr>
<td></td>
<td>(78.0)</td>
<td>(76.8)</td>
</tr>
<tr>
<td><strong>50 or more</strong></td>
<td>30,971</td>
<td>33,194</td>
</tr>
<tr>
<td></td>
<td>(22.0)</td>
<td>(23.2)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>140,639</td>
<td>143,325</td>
</tr>
</tbody>
</table>
Table 8  Financial status, profit status and key financial indices of business corporations (median values)

(1) All industries

<table>
<thead>
<tr>
<th>Size</th>
<th>Item</th>
<th>FY 2000</th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>Large enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales</td>
<td>33,800</td>
<td>36,400</td>
<td>35,715</td>
<td>2,499,600</td>
</tr>
<tr>
<td></td>
<td>Total assets</td>
<td>40,200</td>
<td>43,550</td>
<td>45,200</td>
<td>2,137,000</td>
</tr>
<tr>
<td></td>
<td>Value added</td>
<td>8,500</td>
<td>8,600</td>
<td>8,800</td>
<td>485,900</td>
</tr>
<tr>
<td></td>
<td>(Personnel costs)</td>
<td>6,700</td>
<td>6,900</td>
<td>7,100</td>
<td>338,000</td>
</tr>
<tr>
<td></td>
<td>(Interest expenses)</td>
<td>200</td>
<td>200</td>
<td>147</td>
<td>7,900</td>
</tr>
<tr>
<td></td>
<td>No. of workers (including officers)</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>551</td>
</tr>
<tr>
<td></td>
<td>Quick ratio</td>
<td>83.8</td>
<td>84.1</td>
<td>84.7</td>
<td>75.9</td>
</tr>
<tr>
<td></td>
<td>Equity ratio</td>
<td>21.6</td>
<td>22.5</td>
<td>24.8</td>
<td>30.2</td>
</tr>
<tr>
<td></td>
<td>ROA</td>
<td>1.5</td>
<td>1.2</td>
<td>1.3</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>Ratio of ordinary profit to sales</td>
<td>1.1</td>
<td>1.0</td>
<td>1.1</td>
<td>2.4</td>
</tr>
<tr>
<td></td>
<td>Total capital turnover</td>
<td>1.1</td>
<td>1.1</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>Interest rate on borrowing</td>
<td>0.8</td>
<td>0.8</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Value-added ratio</td>
<td>28.1</td>
<td>27.3</td>
<td>27.4</td>
<td>21.0</td>
</tr>
<tr>
<td></td>
<td>Labor productivity</td>
<td>672</td>
<td>659</td>
<td>511</td>
<td>886</td>
</tr>
<tr>
<td></td>
<td>Capital-labor ratio</td>
<td>602</td>
<td>611</td>
<td>500</td>
<td>974</td>
</tr>
<tr>
<td></td>
<td>Ratio of fixed assets to long-term capital</td>
<td>73.2</td>
<td>72.4</td>
<td>73.5</td>
<td>87.6</td>
</tr>
<tr>
<td></td>
<td>Debt redemption period (years)</td>
<td>12.3</td>
<td>13.0</td>
<td>12.8</td>
<td>6.5</td>
</tr>
</tbody>
</table>

(2) Manufacturing

<table>
<thead>
<tr>
<th>Size</th>
<th>Item</th>
<th>FY 2000</th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>Large enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales</td>
<td>100,100</td>
<td>106,400</td>
<td>112,450</td>
<td>3,237,600</td>
</tr>
<tr>
<td></td>
<td>Total assets</td>
<td>88,100</td>
<td>94,700</td>
<td>104,000</td>
<td>3,396,800</td>
</tr>
<tr>
<td></td>
<td>Value added</td>
<td>23,500</td>
<td>25,600</td>
<td>25,850</td>
<td>717,400</td>
</tr>
<tr>
<td></td>
<td>(Personnel costs)</td>
<td>18,700</td>
<td>21,300</td>
<td>20,900</td>
<td>509,000</td>
</tr>
<tr>
<td></td>
<td>(Interest expenses)</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>11,500</td>
</tr>
<tr>
<td></td>
<td>No. of workers (including officers)</td>
<td>41</td>
<td>45</td>
<td>45</td>
<td>766</td>
</tr>
<tr>
<td></td>
<td>Quick ratio</td>
<td>87.6</td>
<td>87.4</td>
<td>87.5</td>
<td>83.3</td>
</tr>
<tr>
<td></td>
<td>Equity ratio</td>
<td>22.8</td>
<td>23.3</td>
<td>25.0</td>
<td>39.9</td>
</tr>
<tr>
<td></td>
<td>ROA</td>
<td>2.1</td>
<td>1.6</td>
<td>1.8</td>
<td>3.6</td>
</tr>
<tr>
<td></td>
<td>Ratio of ordinary profit to sales</td>
<td>1.4</td>
<td>1.0</td>
<td>1.3</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>Total capital turnover</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Interest rate on borrowing</td>
<td>0.9</td>
<td>0.8</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Value-added ratio</td>
<td>28.1</td>
<td>27.5</td>
<td>27.2</td>
<td>23.0</td>
</tr>
<tr>
<td></td>
<td>Labor productivity</td>
<td>671</td>
<td>650</td>
<td>548</td>
<td>939</td>
</tr>
<tr>
<td></td>
<td>Capital-labor ratio</td>
<td>648</td>
<td>700</td>
<td>620</td>
<td>1,171</td>
</tr>
<tr>
<td></td>
<td>Ratio of fixed assets to long-term capital</td>
<td>71.3</td>
<td>71.5</td>
<td>72.2</td>
<td>80.3</td>
</tr>
<tr>
<td></td>
<td>Debt redemption period (years)</td>
<td>10.3</td>
<td>11.4</td>
<td>11.2</td>
<td>4.3</td>
</tr>
</tbody>
</table>

(3) Wholesale/retailing

<table>
<thead>
<tr>
<th>Size</th>
<th>Item</th>
<th>FY 2000</th>
<th>FY 2001</th>
<th>FY 2002</th>
<th>Large enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales</td>
<td>20,153</td>
<td>20,500</td>
<td>19,028</td>
<td>2,324,600</td>
</tr>
<tr>
<td></td>
<td>Total assets</td>
<td>12,932</td>
<td>14,000</td>
<td>13,800</td>
<td>1,469,200</td>
</tr>
<tr>
<td></td>
<td>Value added</td>
<td>3,457</td>
<td>3,400</td>
<td>3,200</td>
<td>289,200</td>
</tr>
<tr>
<td></td>
<td>(Personnel costs)</td>
<td>3,200</td>
<td>3,121</td>
<td>3,100</td>
<td>194,800</td>
</tr>
<tr>
<td></td>
<td>(Interest expenses)</td>
<td>100</td>
<td>96</td>
<td>64</td>
<td>6,300</td>
</tr>
<tr>
<td></td>
<td>No. of workers (including officers)</td>
<td>9</td>
<td>9</td>
<td>8</td>
<td>363</td>
</tr>
<tr>
<td></td>
<td>Quick ratio</td>
<td>61.8</td>
<td>80.3</td>
<td>78.7</td>
<td>67.8</td>
</tr>
<tr>
<td></td>
<td>Equity ratio</td>
<td>14.8</td>
<td>15.8</td>
<td>17.1</td>
<td>22.5</td>
</tr>
<tr>
<td></td>
<td>ROA</td>
<td>0.3</td>
<td>0.1</td>
<td>0.1</td>
<td>2.4</td>
</tr>
<tr>
<td></td>
<td>Ratio of ordinary profit to sales</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>Total capital turnover</td>
<td>1.8</td>
<td>1.7</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td></td>
<td>Interest rate on borrowing</td>
<td>0.7</td>
<td>0.7</td>
<td>1.5</td>
<td>1.0</td>
</tr>
<tr>
<td></td>
<td>Value-added ratio</td>
<td>15.6</td>
<td>15.1</td>
<td>15.5</td>
<td>13.8</td>
</tr>
<tr>
<td></td>
<td>Labor productivity</td>
<td>600</td>
<td>588</td>
<td>400</td>
<td>752</td>
</tr>
<tr>
<td></td>
<td>Capital-labor ratio</td>
<td>302</td>
<td>300</td>
<td>206</td>
<td>800</td>
</tr>
<tr>
<td></td>
<td>Ratio of fixed assets to long-term capital</td>
<td>50.9</td>
<td>57.7</td>
<td>59.8</td>
<td>96.6</td>
</tr>
<tr>
<td></td>
<td>Debt redemption period (years)</td>
<td>23.0</td>
<td>23.7</td>
<td>24.8</td>
<td>11.2</td>
</tr>
</tbody>
</table>
## (4) Services

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
<td>SMEs</td>
<td>Large enterprises</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>25,800</td>
<td>27,350</td>
<td>29,650</td>
<td>737,600</td>
<td>816,100</td>
<td>802,850</td>
</tr>
<tr>
<td>Total assets</td>
<td>39,700</td>
<td>40,750</td>
<td>40,050</td>
<td>867,700</td>
<td>857,600</td>
<td>863,950</td>
</tr>
<tr>
<td>Value added</td>
<td>6,800</td>
<td>7,300</td>
<td>8,600</td>
<td>262,100</td>
<td>278,200</td>
<td>287,700</td>
</tr>
<tr>
<td>(Personnel costs)</td>
<td>6,400</td>
<td>7,189</td>
<td>8,100</td>
<td>181,100</td>
<td>187,600</td>
<td>188,250</td>
</tr>
<tr>
<td>(Interest expenses)</td>
<td>91</td>
<td>49</td>
<td>21</td>
<td>3,100</td>
<td>2,500</td>
<td>1,800</td>
</tr>
<tr>
<td>No. of workers (incl. officers)</td>
<td>17</td>
<td>13</td>
<td>13</td>
<td>315</td>
<td>301</td>
<td>306</td>
</tr>
<tr>
<td>Revenue</td>
<td>100.0</td>
<td>104.8</td>
<td>96.3</td>
<td>32.7</td>
<td>35.9</td>
<td>39.5</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>26.2</td>
<td>31.6</td>
<td>30.3</td>
<td>32.7</td>
<td>35.9</td>
<td>39.5</td>
</tr>
<tr>
<td>ROA</td>
<td>0.7</td>
<td>0.9</td>
<td>0.8</td>
<td>4.1</td>
<td>3.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Ratio of ordinary profit to sales</td>
<td>1.0</td>
<td>1.2</td>
<td>1.1</td>
<td>3.4</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Total capital turnover</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
</tr>
<tr>
<td>Interest rate on borrowing</td>
<td>0.7</td>
<td>1.4</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Value-added ratio</td>
<td>36.8</td>
<td>35.9</td>
<td>35.4</td>
<td>38.9</td>
<td>38.0</td>
<td>40.1</td>
</tr>
<tr>
<td>Labor productivity</td>
<td>590</td>
<td>470</td>
<td>806</td>
<td>816</td>
<td>772</td>
<td></td>
</tr>
<tr>
<td>Capital-labor ratio</td>
<td>604</td>
<td>330</td>
<td>603</td>
<td>556</td>
<td>430</td>
<td></td>
</tr>
<tr>
<td>Ratio of fixed assets to long-term capital</td>
<td>76.9</td>
<td>79.0</td>
<td>82.9</td>
<td>80.8</td>
<td>77.7</td>
<td></td>
</tr>
<tr>
<td>Debt redemption period (years)</td>
<td>7.7</td>
<td>6.5</td>
<td>5.2</td>
<td>4.3</td>
<td>3.7</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** MOF, Financial Statements Statistics of Corporations by Industry, Annually (recompiled).

**Notes:**
1. SMEs: enterprises with capital stock of ¥300 million or less, or 300 or fewer employees (capital stock of ¥100 million or less, or 100 or fewer employees in wholesaling and services, capital stock of ¥50 million or less, or 50 or fewer employees in retailing).
2. Large enterprises: enterprises other than SMEs.
3. Value added = net operating profit + personnel costs (officers' pay, employees' pay, employee benefits) + interest expenses and discount charges + rent of movable property and real estate + taxes and public impositions
4. Quick ratio = quick assets / current liabilities x 100
5. Quick assets = cash and deposits + trade receivables
6. Equity ratio = equity / total capital x 100
7. ROA = operating profit / total capital (average of beginning and end of period) x 100
8. Ratio of ordinary profit to sales = ordinary profit / sales x 100
9. Total capital turnover = sales / total capital (average of beginning and end of period)
10. Interest rate on borrowing = interest expenses and discount charges / short-term and long-term borrowing + bonds + notes receivable discounted (average of beginning and end of period) x 100
11. Value-added ratio = value added / sales x 100
12. Labor productivity = value added / number of employees
13. Capital-labor ratio = tangible fixed assets (excluding construction in progress, average of beginning and end of period) / number of employees
14. Ratio of fixed assets to long-term capital = fixed assets / fixed liabilities + equity x 100
15. Debt redemption period (years) = (short-term and long-term borrowing + bonds) (average at beginning and end of period) / (ordinary profit x 50% + depreciation costs + special depreciation costs - directors' pay - interim dividends - dividends)
16. Figures for sales, total assets, value added (personnel costs, interest expenses, discount charges), labor productivity and capital-labor ratio are in units of ¥10,000.

## (5) Construction

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td></td>
<td></td>
<td></td>
<td>SMEs</td>
<td>Large enterprises</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>27,700</td>
<td>26,900</td>
<td>27,400</td>
<td>5,041,300</td>
<td>4,966,500</td>
<td>4,802,850</td>
</tr>
<tr>
<td>Total assets</td>
<td>19,100</td>
<td>19,000</td>
<td>20,000</td>
<td>4,870,800</td>
<td>4,329,200</td>
<td>4,214,900</td>
</tr>
<tr>
<td>Value added</td>
<td>6,230</td>
<td>6,200</td>
<td>6,200</td>
<td>751,400</td>
<td>734,200</td>
<td>685,600</td>
</tr>
<tr>
<td>(Personnel costs)</td>
<td>5,663</td>
<td>5,466</td>
<td>5,700</td>
<td>590,400</td>
<td>590,400</td>
<td>520,550</td>
</tr>
<tr>
<td>(Interest expenses)</td>
<td>91</td>
<td>49</td>
<td>21</td>
<td>13,300</td>
<td>11,200</td>
<td>8,950</td>
</tr>
<tr>
<td>No. of workers (incl. officers)</td>
<td>17</td>
<td>13</td>
<td>13</td>
<td>825</td>
<td>793</td>
<td>775</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>86.7</td>
<td>92.2</td>
<td>90.6</td>
<td>76.4</td>
<td>75.5</td>
<td>78.3</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>22.8</td>
<td>23.9</td>
<td>26.1</td>
<td>24.1</td>
<td>24.9</td>
<td>26.9</td>
</tr>
<tr>
<td>ROA</td>
<td>1.6</td>
<td>1.4</td>
<td>1.4</td>
<td>2.3</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Ratio of ordinary profit to sales</td>
<td>1.0</td>
<td>0.9</td>
<td>0.9</td>
<td>2.0</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Total capital turnover</td>
<td>1.5</td>
<td>1.5</td>
<td>1.4</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Interest rate on borrowing</td>
<td>0.9</td>
<td>2.0</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Value-added ratio</td>
<td>22.6</td>
<td>22.3</td>
<td>21.8</td>
<td>14.8</td>
<td>14.9</td>
<td>14.8</td>
</tr>
<tr>
<td>Labor productivity</td>
<td>675</td>
<td>664</td>
<td>485</td>
<td>1,007</td>
<td>979</td>
<td>955</td>
</tr>
<tr>
<td>Capital-labor ratio</td>
<td>387</td>
<td>350</td>
<td>263</td>
<td>801</td>
<td>831</td>
<td>804</td>
</tr>
<tr>
<td>Ratio of fixed assets to long-term capital</td>
<td>54.6</td>
<td>52.7</td>
<td>54.2</td>
<td>73.1</td>
<td>74.9</td>
<td>70.8</td>
</tr>
<tr>
<td>Debt redemption period (years)</td>
<td>14.2</td>
<td>16.2</td>
<td>16.4</td>
<td>10.0</td>
<td>12.6</td>
<td>11.8</td>
</tr>
</tbody>
</table>

**Source:** MOF, Financial Statements Statistics of Corporations by Industry, Annually (recompiled).

**Notes:**
1. SMEs: enterprises with capital stock of ¥300 million or less, or 300 or fewer employees (capital stock of ¥100 million or less, or 100 or fewer employees in wholesaling and services, capital stock of ¥50 million or less, or 50 or fewer employees in retailing).
2. Large enterprises: enterprises other than SMEs.
3. Value added = net operating profit + personnel costs (officers' pay, employees' pay, employee benefits) + interest expenses and discount charges + rent of movable property and real estate + taxes and public impositions
4. Quick ratio = quick assets / current liabilities x 100
5. Quick assets = cash and deposits + trade receivables
6. Equity ratio = equity / total capital x 100
7. ROA = operating profit / total capital (average of beginning and end of period) x 100
8. Ratio of ordinary profit to sales = ordinary profit / sales x 100
9. Total capital turnover = sales / total capital (average of beginning and end of period)
10. Interest rate on borrowing = interest expenses and discount charges / short-term and long-term borrowing + bonds + notes receivable discounted (average of beginning and end of period) x 100
11. Value-added ratio = value added / sales x 100
12. Labor productivity = value added / number of employees
13. Capital-labor ratio = tangible fixed assets (excluding construction in progress, average of beginning and end of period) / number of employees
14. Ratio of fixed assets to long-term capital = fixed assets / fixed liabilities + equity x 100
15. Debt redemption period (years) = (short-term and long-term borrowing + bonds) (average at beginning and end of period) / (ordinary profit x 50% + depreciation costs + special depreciation costs - directors' pay - interim dividends - dividends)
16. Figures for sales, total assets, value added (personnel costs, interest expenses, discount charges), labor productivity and capital-labor ratio are in units of ¥10,000.
17. Unit for number of workers (including officers): individual workers
18. Debt redemption period: in years
19. Figures for other financial indicators are expressed as percentages.
Table 9 Outstanding lending to SMEs by type of financial institution

(Unit: ¥ trillion)

<table>
<thead>
<tr>
<th>Financial institution</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>City banks</td>
<td>104.8</td>
<td>105.1</td>
<td>106.2</td>
</tr>
<tr>
<td>Regional banks</td>
<td>75.5</td>
<td>73.3</td>
<td>73.7</td>
</tr>
<tr>
<td></td>
<td>74.6</td>
<td>71.6</td>
<td>71.3</td>
</tr>
<tr>
<td></td>
<td>72.8</td>
<td>70.6</td>
<td>74.9</td>
</tr>
<tr>
<td></td>
<td>76.1</td>
<td>76.5</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>32.5</td>
<td>31.6</td>
<td>31.9</td>
</tr>
<tr>
<td></td>
<td>33.2</td>
<td>32.0</td>
<td>31.4</td>
</tr>
<tr>
<td></td>
<td>31.1</td>
<td>31.1</td>
<td>30.7</td>
</tr>
<tr>
<td></td>
<td>31.2</td>
<td>30.3</td>
<td>30.5</td>
</tr>
<tr>
<td>Domestically-licensed bank accounts total</td>
<td>243.9</td>
<td>240.7</td>
<td>238.0</td>
</tr>
<tr>
<td></td>
<td>242.3</td>
<td>230.4</td>
<td>224.8</td>
</tr>
<tr>
<td></td>
<td>222.2</td>
<td>219.2</td>
<td>228.0</td>
</tr>
<tr>
<td></td>
<td>232.0</td>
<td>230.4</td>
<td></td>
</tr>
<tr>
<td>Domestically-licensed trust accounts, etc.</td>
<td>6.7</td>
<td>6.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Credit associations</td>
<td>49.5</td>
<td>48.7</td>
<td>49.1</td>
</tr>
<tr>
<td></td>
<td>51.9</td>
<td>50.3</td>
<td>49.4</td>
</tr>
<tr>
<td></td>
<td>49.6</td>
<td>50.3</td>
<td>49.6</td>
</tr>
<tr>
<td>Credit cooperatives</td>
<td>16.8</td>
<td>16.1</td>
<td>16.0</td>
</tr>
<tr>
<td></td>
<td>16.1</td>
<td>15.4</td>
<td>14.8</td>
</tr>
<tr>
<td></td>
<td>14.6</td>
<td>14.6</td>
<td>14.6</td>
</tr>
<tr>
<td>Private-sector financial institutions total</td>
<td>316.6</td>
<td>311.8</td>
<td>309.9</td>
</tr>
<tr>
<td></td>
<td>315.9</td>
<td>301.1</td>
<td>299.1</td>
</tr>
<tr>
<td></td>
<td>295.2</td>
<td>295.5</td>
<td>288.1</td>
</tr>
<tr>
<td></td>
<td>296.0</td>
<td>298.7</td>
<td>296.2</td>
</tr>
<tr>
<td>Shoko Chukin Bank</td>
<td>11.3</td>
<td>11.2</td>
<td>11.4</td>
</tr>
<tr>
<td>Japan Finance Corporation for Small Business</td>
<td>7.1</td>
<td>7.2</td>
<td>7.2</td>
</tr>
<tr>
<td>National Life Finance Corporation</td>
<td>9.5</td>
<td>9.6</td>
<td>9.7</td>
</tr>
<tr>
<td></td>
<td>10.1</td>
<td>9.9</td>
<td>9.9</td>
</tr>
<tr>
<td></td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Government-affiliated financial institutions total</td>
<td>337.8</td>
<td>333.5</td>
<td>331.5</td>
</tr>
<tr>
<td></td>
<td>339.4</td>
<td>329.7</td>
<td>327.4</td>
</tr>
<tr>
<td></td>
<td>344.9</td>
<td>332.7</td>
<td>324.0</td>
</tr>
<tr>
<td>Total outstanding lending to SMEs</td>
<td>344.5</td>
<td>339.8</td>
<td>335.8</td>
</tr>
<tr>
<td></td>
<td>344.9</td>
<td>334.9</td>
<td>324.0</td>
</tr>
<tr>
<td>Outstanding lending to SMEs (excluding trust accounts)</td>
<td>307.8</td>
<td>303.5</td>
<td>301.5</td>
</tr>
<tr>
<td></td>
<td>309.4</td>
<td>307.7</td>
<td>305.6</td>
</tr>
<tr>
<td></td>
<td>304.7</td>
<td>302.9</td>
<td>301.0</td>
</tr>
<tr>
<td></td>
<td>300.2</td>
<td>298.4</td>
<td>296.5</td>
</tr>
<tr>
<td>Other</td>
<td>22.3</td>
<td>21.0</td>
<td>21.5</td>
</tr>
<tr>
<td></td>
<td>20.3</td>
<td>20.7</td>
<td>21.3</td>
</tr>
<tr>
<td></td>
<td>20.9</td>
<td>21.7</td>
<td>22.3</td>
</tr>
<tr>
<td></td>
<td>22.3</td>
<td>22.9</td>
<td>23.3</td>
</tr>
<tr>
<td>Domestically-licensed bank accounts total</td>
<td>229.5</td>
<td>217.1</td>
<td>218.9</td>
</tr>
<tr>
<td></td>
<td>214.3</td>
<td>212.4</td>
<td>200.0</td>
</tr>
<tr>
<td></td>
<td>196.8</td>
<td>197.0</td>
<td>186.2</td>
</tr>
<tr>
<td></td>
<td>197.0</td>
<td>194.0</td>
<td>197.0</td>
</tr>
<tr>
<td>Domestically-licensed trust accounts, etc.</td>
<td>6.7</td>
<td>6.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Credit associations</td>
<td>49.5</td>
<td>48.7</td>
<td>49.1</td>
</tr>
<tr>
<td></td>
<td>51.9</td>
<td>50.3</td>
<td>49.4</td>
</tr>
<tr>
<td></td>
<td>49.6</td>
<td>50.3</td>
<td>49.6</td>
</tr>
<tr>
<td>Credit cooperatives</td>
<td>16.8</td>
<td>16.1</td>
<td>16.0</td>
</tr>
<tr>
<td></td>
<td>16.1</td>
<td>15.4</td>
<td>14.8</td>
</tr>
<tr>
<td></td>
<td>14.6</td>
<td>14.6</td>
<td>14.6</td>
</tr>
<tr>
<td>Total outstanding lending to SMEs</td>
<td>316.6</td>
<td>311.8</td>
<td>309.3</td>
</tr>
<tr>
<td></td>
<td>315.9</td>
<td>301.1</td>
<td>299.1</td>
</tr>
<tr>
<td></td>
<td>295.2</td>
<td>295.5</td>
<td>288.1</td>
</tr>
<tr>
<td>Total outstanding lending to SMEs (excluding trust accounts)</td>
<td>337.8</td>
<td>333.5</td>
<td>331.5</td>
</tr>
<tr>
<td></td>
<td>339.4</td>
<td>329.7</td>
<td>327.4</td>
</tr>
<tr>
<td></td>
<td>344.9</td>
<td>332.7</td>
<td>324.0</td>
</tr>
<tr>
<td>Private-sector financial institutions total</td>
<td>344.5</td>
<td>339.8</td>
<td>335.8</td>
</tr>
<tr>
<td></td>
<td>344.9</td>
<td>334.9</td>
<td>324.0</td>
</tr>
<tr>
<td>Shoko Chukin Bank</td>
<td>11.3</td>
<td>11.2</td>
<td>11.4</td>
</tr>
<tr>
<td>Japan Finance Corporation for Small Business</td>
<td>7.1</td>
<td>7.2</td>
<td>7.2</td>
</tr>
<tr>
<td>National Life Finance Corporation</td>
<td>9.5</td>
<td>9.6</td>
<td>9.7</td>
</tr>
<tr>
<td></td>
<td>10.1</td>
<td>9.9</td>
<td>9.9</td>
</tr>
<tr>
<td></td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Government-affiliated financial institutions total</td>
<td>337.8</td>
<td>333.5</td>
<td>331.5</td>
</tr>
<tr>
<td>Total outstanding lending to SMEs</td>
<td>344.5</td>
<td>339.8</td>
<td>335.8</td>
</tr>
<tr>
<td></td>
<td>344.9</td>
<td>334.9</td>
<td>324.0</td>
</tr>
<tr>
<td>Outstanding lending to SMEs (excluding trust accounts)</td>
<td>307.8</td>
<td>303.5</td>
<td>301.5</td>
</tr>
<tr>
<td></td>
<td>309.4</td>
<td>307.7</td>
<td>305.6</td>
</tr>
<tr>
<td></td>
<td>304.7</td>
<td>302.9</td>
<td>301.0</td>
</tr>
<tr>
<td>Other</td>
<td>22.3</td>
<td>21.0</td>
<td>21.5</td>
</tr>
<tr>
<td></td>
<td>20.3</td>
<td>20.7</td>
<td>21.3</td>
</tr>
<tr>
<td></td>
<td>20.9</td>
<td>21.7</td>
<td>22.3</td>
</tr>
<tr>
<td></td>
<td>22.3</td>
<td>22.9</td>
<td>23.3</td>
</tr>
<tr>
<td>Domestically-licensed bank accounts total</td>
<td>229.5</td>
<td>217.1</td>
<td>218.9</td>
</tr>
<tr>
<td></td>
<td>214.3</td>
<td>212.4</td>
<td>200.0</td>
</tr>
<tr>
<td></td>
<td>196.8</td>
<td>197.0</td>
<td>186.2</td>
</tr>
<tr>
<td></td>
<td>197.0</td>
<td>194.0</td>
<td>197.0</td>
</tr>
<tr>
<td>Shoko Chukin Bank</td>
<td>11.3</td>
<td>11.2</td>
<td>11.4</td>
</tr>
<tr>
<td>Japan Finance Corporation for Small Business</td>
<td>7.1</td>
<td>7.2</td>
<td>7.2</td>
</tr>
<tr>
<td>National Life Finance Corporation</td>
<td>9.5</td>
<td>9.6</td>
<td>9.7</td>
</tr>
<tr>
<td></td>
<td>10.1</td>
<td>9.9</td>
<td>9.9</td>
</tr>
<tr>
<td></td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Total outstanding lending to SMEs</td>
<td>316.6</td>
<td>311.8</td>
<td>309.3</td>
</tr>
<tr>
<td></td>
<td>315.9</td>
<td>301.1</td>
<td>299.1</td>
</tr>
<tr>
<td>Total outstanding lending to SMEs (excluding trust accounts)</td>
<td>337.8</td>
<td>333.5</td>
<td>331.5</td>
</tr>
</tbody>
</table>

Sources: Compiled by the SME Agency from sources including BOJ, Monthly Financial and Economic Statistics.
Notes: 1. Outstanding lending to SMEs through domestically-licensed banking accounts and trust accounts, etc. indicates lending to enterprises with capital stock of ¥300 million (¥110 million) or less or ¥100 million (¥30 million) or less in wholesaling, ¥50 million (¥10 million) or less in retailing, food services and services) or 300 or fewer regular employees (100 or fewer in wholesaling and services [50 or fewer in services], 50 or fewer in retailing and food services).
Figures in square parentheses indicate definitions up to March 2000.
2. “Other banks” are trust banks and long-term credit banks.
4. Outstanding lending to SMEs by credit associations is total outstanding lending excluding lending to individuals, local governments, overseas yen loans and domestic loans transferred overseas.
5. Outstanding lending to SMEs by credit cooperatives is total outstanding lending including lending to individuals and local governments, etc.
6. Outstanding lending by the Japan Finance Corporation for Small Business does not include equipment loan lending and outstanding lending to small and medium business investment consultation companies.
7. The National Life Finance Corporation was formed by the merger of the People’s Finance Corporation and the Environmental Hygiene Finance Corporation in October 1999. Figures for lending up to September 1999 thus represent the combined total for the former People’s Finance Corporation and the former Environmental Hygiene Finance Corporation. The figures from December 1999 are the total for ordinary loans and environmental health loans.
### Table 10 State of corporate bankruptcies

#### (1) No. of corporate bankruptcies and debts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No. of bankruptcies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td>14,061</td>
<td>15,108</td>
<td>14,834</td>
<td>16,464</td>
<td>18,988</td>
<td>15,352</td>
<td>18,769</td>
<td>19,164</td>
<td>19,087</td>
<td>16,255</td>
</tr>
<tr>
<td>Enterprises with capital stock</td>
<td></td>
<td>13,965</td>
<td>14,970</td>
<td>14,731</td>
<td>16,293</td>
<td>18,749</td>
<td>15,135</td>
<td>18,497</td>
<td>18,819</td>
<td>18,687</td>
<td>15,877</td>
</tr>
<tr>
<td>of under ¥100 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Debts</strong></td>
<td></td>
<td>56,294</td>
<td>92,411</td>
<td>81,229</td>
<td>140,447</td>
<td>137,484</td>
<td>136,214</td>
<td>238,850</td>
<td>165,196</td>
<td>137,824</td>
<td>115,818</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td>14,787</td>
<td>15,450</td>
<td>15,140</td>
<td>25,310</td>
<td>28,230</td>
<td>26,546</td>
<td>44,710</td>
<td>30,073</td>
<td>24,977</td>
<td>19,848</td>
</tr>
<tr>
<td>Enterprises with capital stock</td>
<td></td>
<td>13,899</td>
<td>15,021</td>
<td>14,709</td>
<td>23,650</td>
<td>27,523</td>
<td>25,569</td>
<td>43,668</td>
<td>28,943</td>
<td>24,759</td>
<td>19,608</td>
</tr>
<tr>
<td>of under ¥100 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### (2) No. of bankruptcies and debts by industry

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of bankruptcies</td>
<td></td>
<td>3,378</td>
<td>3,982</td>
<td>4,065</td>
<td>5,096</td>
<td>5,638</td>
<td>4,580</td>
<td>6,214</td>
<td>6,514</td>
<td>5,976</td>
<td>5,113</td>
</tr>
<tr>
<td>Debts</td>
<td></td>
<td>6,187</td>
<td>8,006</td>
<td>8,939</td>
<td>24,000</td>
<td>22,300</td>
<td>12,860</td>
<td>24,977</td>
<td>24,977</td>
<td>19,590</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td>3,090</td>
<td>3,150</td>
<td>3,022</td>
<td>3,710</td>
<td>2,891</td>
<td>3,529</td>
<td>3,870</td>
<td>3,613</td>
<td>2,767</td>
<td></td>
</tr>
<tr>
<td>No. of bankruptcies</td>
<td></td>
<td>6,974</td>
<td>10,075</td>
<td>9,188</td>
<td>9,972</td>
<td>14,844</td>
<td>11,443</td>
<td>12,167</td>
<td>12,289</td>
<td>16,059</td>
<td></td>
</tr>
<tr>
<td>Debts</td>
<td></td>
<td>4,505</td>
<td>4,771</td>
<td>4,723</td>
<td>5,100</td>
<td>5,884</td>
<td>4,427</td>
<td>5,448</td>
<td>5,535</td>
<td>5,411</td>
<td>4,573</td>
</tr>
<tr>
<td>Commerce</td>
<td></td>
<td>11,801</td>
<td>14,463</td>
<td>10,948</td>
<td>26,098</td>
<td>22,563</td>
<td>14,036</td>
<td>46,506</td>
<td>19,566</td>
<td>14,744</td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td>657</td>
<td>707</td>
<td>594</td>
<td>591</td>
<td>686</td>
<td>629</td>
<td>667</td>
<td>665</td>
<td>574</td>
<td></td>
</tr>
<tr>
<td>No. of bankruptcies</td>
<td></td>
<td>12,771</td>
<td>11,737</td>
<td>20,526</td>
<td>17,703</td>
<td>20,013</td>
<td>47,664</td>
<td>48,804</td>
<td>30,542</td>
<td>21,771</td>
<td>24,862</td>
</tr>
<tr>
<td>Debts</td>
<td></td>
<td>6,956</td>
<td>35,260</td>
<td>23,172</td>
<td>35,842</td>
<td>16,283</td>
<td>27,921</td>
<td>92,008</td>
<td>10,784</td>
<td>8,996</td>
<td></td>
</tr>
<tr>
<td>Financial and insurance</td>
<td></td>
<td>74</td>
<td>91</td>
<td>66</td>
<td>82</td>
<td>97</td>
<td>136</td>
<td>77</td>
<td>89</td>
<td>757</td>
<td>75</td>
</tr>
<tr>
<td>No. of bankruptcies</td>
<td></td>
<td>1,729</td>
<td>1,778</td>
<td>1,743</td>
<td>1,825</td>
<td>2,000</td>
<td>1,868</td>
<td>2,052</td>
<td>2,198</td>
<td>2,398</td>
<td>2,380</td>
</tr>
<tr>
<td>Debts</td>
<td></td>
<td>5,326</td>
<td>10,637</td>
<td>7,015</td>
<td>25,263</td>
<td>34,508</td>
<td>19,823</td>
<td>21,552</td>
<td>26,004</td>
<td>39,235</td>
<td>31,919</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td>628</td>
<td>629</td>
<td>654</td>
<td>748</td>
<td>945</td>
<td>686</td>
<td>830</td>
<td>851</td>
<td>947</td>
<td>735</td>
</tr>
<tr>
<td>No. of bankruptcies</td>
<td></td>
<td>1,576</td>
<td>2,238</td>
<td>1,441</td>
<td>1,829</td>
<td>3,037</td>
<td>2,968</td>
<td>3,503</td>
<td>5,488</td>
<td>3,864</td>
<td>7,214</td>
</tr>
<tr>
<td>Debts</td>
<td></td>
<td>2,500</td>
<td>10,075</td>
<td>7,015</td>
<td>25,263</td>
<td>34,508</td>
<td>19,823</td>
<td>21,552</td>
<td>26,004</td>
<td>39,235</td>
<td>31,919</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>628</td>
<td>629</td>
<td>654</td>
<td>748</td>
<td>945</td>
<td>686</td>
<td>830</td>
<td>851</td>
<td>947</td>
<td>735</td>
</tr>
<tr>
<td>No. of bankruptcies</td>
<td></td>
<td>5,553</td>
<td>9,304</td>
<td>6,365</td>
<td>17,410</td>
<td>25,505</td>
<td>16,600</td>
<td>19,368</td>
<td>21,404</td>
<td>27,684</td>
<td>21,819</td>
</tr>
<tr>
<td>Debts</td>
<td></td>
<td>2,500</td>
<td>10,075</td>
<td>7,015</td>
<td>25,263</td>
<td>34,508</td>
<td>19,823</td>
<td>21,552</td>
<td>26,004</td>
<td>39,235</td>
<td>31,919</td>
</tr>
</tbody>
</table>

#### (3) Breakdown of number of bankruptcies by cause

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Slump in sales</td>
<td></td>
<td>52.1</td>
<td>47.4</td>
<td>46.9</td>
<td>47.5</td>
<td>50.5</td>
<td>54.2</td>
<td>55.2</td>
<td>55.2</td>
<td>57.9</td>
<td>62.9</td>
</tr>
<tr>
<td>Careless management</td>
<td></td>
<td>19.0</td>
<td>17.4</td>
<td>17.3</td>
<td>15.6</td>
<td>13.8</td>
<td>13.0</td>
<td>11.2</td>
<td>9.5</td>
<td>8.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Chain reaction bankruptcy</td>
<td></td>
<td>7.7</td>
<td>7.5</td>
<td>7.9</td>
<td>9.8</td>
<td>9.9</td>
<td>7.9</td>
<td>7.7</td>
<td>8.3</td>
<td>8.8</td>
<td>8.2</td>
</tr>
<tr>
<td>Past difficulties</td>
<td></td>
<td>7.5</td>
<td>8.1</td>
<td>10.6</td>
<td>11.1</td>
<td>12.0</td>
<td>11.4</td>
<td>12.9</td>
<td>14.7</td>
<td>14.6</td>
<td>12.3</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>13.7</td>
<td>19.6</td>
<td>17.3</td>
<td>16.0</td>
<td>13.8</td>
<td>13.9</td>
<td>13.0</td>
<td>12.3</td>
<td>10.7</td>
<td>9.1</td>
</tr>
</tbody>
</table>


Note: Only enterprises with debts of at least ¥10 million are included.
Table 11  Average monthly cash earning per regular worker

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All industries</td>
<td>5~29</td>
<td>294,848</td>
<td>298,745</td>
<td>299,485</td>
<td>303,306</td>
<td>307,324</td>
<td>303,305</td>
<td>293,348</td>
<td>296,665</td>
<td>289,633</td>
<td>285,647</td>
</tr>
<tr>
<td></td>
<td>30~99</td>
<td>350,410</td>
<td>356,876</td>
<td>361,610</td>
<td>367,455</td>
<td>373,229</td>
<td>366,495</td>
<td>342,149</td>
<td>345,017</td>
<td>342,874</td>
<td>332,071</td>
</tr>
<tr>
<td></td>
<td>100~499</td>
<td>398,159</td>
<td>409,957</td>
<td>418,585</td>
<td>419,067</td>
<td>426,914</td>
<td>422,618</td>
<td>407,083</td>
<td>407,619</td>
<td>408,752</td>
<td>402,210</td>
</tr>
<tr>
<td></td>
<td>500 or more</td>
<td>482,749</td>
<td>488,792</td>
<td>503,337</td>
<td>511,590</td>
<td>527,377</td>
<td>521,327</td>
<td>509,238</td>
<td>512,014</td>
<td>511,075</td>
<td>500,710</td>
</tr>
<tr>
<td>Construction</td>
<td>5~29</td>
<td>326,115</td>
<td>339,160</td>
<td>337,082</td>
<td>343,146</td>
<td>345,895</td>
<td>335,165</td>
<td>328,872</td>
<td>336,613</td>
<td>327,802</td>
<td>321,864</td>
</tr>
<tr>
<td></td>
<td>100~499</td>
<td>504,003</td>
<td>513,704</td>
<td>516,748</td>
<td>507,081</td>
<td>518,091</td>
<td>511,065</td>
<td>511,883</td>
<td>506,491</td>
<td>503,568</td>
<td>488,302</td>
</tr>
<tr>
<td></td>
<td>500 or more</td>
<td>648,545</td>
<td>637,711</td>
<td>639,658</td>
<td>641,534</td>
<td>643,858</td>
<td>617,958</td>
<td>612,785</td>
<td>597,808</td>
<td>596,822</td>
<td>594,650</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5~29</td>
<td>259,631</td>
<td>265,315</td>
<td>270,205</td>
<td>276,105</td>
<td>281,153</td>
<td>279,258</td>
<td>276,269</td>
<td>275,799</td>
<td>270,540</td>
<td>266,319</td>
</tr>
<tr>
<td></td>
<td>30~99</td>
<td>290,558</td>
<td>294,818</td>
<td>299,819</td>
<td>316,753</td>
<td>323,039</td>
<td>317,400</td>
<td>305,817</td>
<td>309,705</td>
<td>305,366</td>
<td>299,816</td>
</tr>
<tr>
<td></td>
<td>100~499</td>
<td>360,332</td>
<td>371,228</td>
<td>385,833</td>
<td>388,768</td>
<td>390,394</td>
<td>396,089</td>
<td>396,692</td>
<td>397,027</td>
<td>394,796</td>
<td>398,509</td>
</tr>
<tr>
<td></td>
<td>500 or more</td>
<td>459,377</td>
<td>466,762</td>
<td>484,189</td>
<td>496,628</td>
<td>515,045</td>
<td>510,154</td>
<td>509,134</td>
<td>521,803</td>
<td>524,621</td>
<td>515,150</td>
</tr>
<tr>
<td>Wholesaling, retailing, and</td>
<td>5~29</td>
<td>262,446</td>
<td>257,631</td>
<td>260,311</td>
<td>261,292</td>
<td>261,719</td>
<td>258,197</td>
<td>243,002</td>
<td>244,867</td>
<td>238,933</td>
<td>231,181</td>
</tr>
<tr>
<td>food services</td>
<td>30~99</td>
<td>290,156</td>
<td>294,488</td>
<td>295,713</td>
<td>314,787</td>
<td>320,928</td>
<td>309,913</td>
<td>288,274</td>
<td>268,772</td>
<td>266,564</td>
<td>240,609</td>
</tr>
<tr>
<td></td>
<td>100~499</td>
<td>351,302</td>
<td>369,035</td>
<td>372,089</td>
<td>369,327</td>
<td>379,740</td>
<td>370,128</td>
<td>333,866</td>
<td>328,328</td>
<td>335,604</td>
<td>329,588</td>
</tr>
<tr>
<td></td>
<td>500 or more</td>
<td>475,901</td>
<td>482,295</td>
<td>485,621</td>
<td>491,738</td>
<td>513,910</td>
<td>493,612</td>
<td>498,749</td>
<td>492,415</td>
<td>508,539</td>
<td>511,167</td>
</tr>
<tr>
<td>Services</td>
<td>5~29</td>
<td>304,968</td>
<td>317,484</td>
<td>309,075</td>
<td>312,626</td>
<td>318,086</td>
<td>316,766</td>
<td>315,035</td>
<td>316,799</td>
<td>317,284</td>
<td>310,851</td>
</tr>
<tr>
<td></td>
<td>30~99</td>
<td>388,472</td>
<td>396,873</td>
<td>401,830</td>
<td>399,414</td>
<td>409,810</td>
<td>405,551</td>
<td>384,764</td>
<td>383,419</td>
<td>381,698</td>
<td>382,153</td>
</tr>
<tr>
<td></td>
<td>100~499</td>
<td>390,999</td>
<td>398,124</td>
<td>405,185</td>
<td>409,556</td>
<td>417,094</td>
<td>418,018</td>
<td>416,796</td>
<td>413,118</td>
<td>414,692</td>
<td>404,262</td>
</tr>
<tr>
<td></td>
<td>500 or more</td>
<td>464,129</td>
<td>466,452</td>
<td>475,645</td>
<td>476,160</td>
<td>484,510</td>
<td>491,142</td>
<td>449,522</td>
<td>437,620</td>
<td>432,900</td>
<td>422,494</td>
</tr>
</tbody>
</table>

Note: Cash earnings represent the amount before deduction of income tax, social insurance premiums, union dues and payments, etc.
### Table 12 Trends in entry and exit rates (non-primary industries)

#### 1) Enterprises (sole proprietorships + business companies)

<table>
<thead>
<tr>
<th>Year</th>
<th>Survey interval (months)</th>
<th>No. of enterprises at start of period</th>
<th>No. of entries</th>
<th>Entry survey period (months)</th>
<th>Increase in no. of enterprises</th>
<th>Annual average increase in no. of enterprises</th>
<th>Annual average no. of exits</th>
<th>Annual average no. of exits</th>
<th>Entry rate (%)</th>
<th>Exits rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975~1978</td>
<td>37</td>
<td>4,736,331</td>
<td>681,775</td>
<td>29.5</td>
<td>299,246</td>
<td>97,053</td>
<td>277,332</td>
<td>180,279</td>
<td>5.9</td>
<td>3.8</td>
</tr>
<tr>
<td>1978~1981</td>
<td>36.5</td>
<td>5,037,577</td>
<td>739,996</td>
<td>30</td>
<td>318,925</td>
<td>104,853</td>
<td>296,998</td>
<td>191,146</td>
<td>5.8</td>
<td>3.8</td>
</tr>
<tr>
<td>1981~1984</td>
<td>60</td>
<td>5,356,502</td>
<td>1,039,351</td>
<td>54</td>
<td>72,096</td>
<td>14,419</td>
<td>230,967</td>
<td>216,548</td>
<td>4.3</td>
<td>4.0</td>
</tr>
<tr>
<td>1986~1990</td>
<td>60</td>
<td>5,428,598</td>
<td>853,991</td>
<td>54</td>
<td>-126,240</td>
<td>-25,248</td>
<td>189,776</td>
<td>215,024</td>
<td>3.0</td>
<td>4.0</td>
</tr>
<tr>
<td>1991~1994</td>
<td>63</td>
<td>5,302,358</td>
<td>967,779</td>
<td>81</td>
<td>-147,968</td>
<td>-28,184</td>
<td>143,375</td>
<td>171,559</td>
<td>2.7</td>
<td>3.2</td>
</tr>
<tr>
<td>1995~1999</td>
<td>33</td>
<td>5,154,390</td>
<td>507,531</td>
<td>33</td>
<td>-253,477</td>
<td>-92,173</td>
<td>184,557</td>
<td>288,147</td>
<td>3.6</td>
<td>5.6</td>
</tr>
<tr>
<td>1999~2001</td>
<td>27</td>
<td>4,800,913</td>
<td>264,642</td>
<td>21</td>
<td>-160,984</td>
<td>-71,548</td>
<td>151,224</td>
<td>222,772</td>
<td>3.1</td>
<td>4.5</td>
</tr>
</tbody>
</table>
**Note: Method of calculation of entry and exit rates**


   (Example) Calculation of entry and exit rates based on number of business establishments, 1999–2001
   
   (1) Annual average number of entries of business establishments
   
   The MPHPT’s *Establishment and Enterprise Census of Japan* groups the number of business establishments according to period of establishment. According to the 2001 *Establishment and Enterprise Census of Japan*, the number of new business establishments since 2000 was 406,705. As the survey period from January 1, 2000 to the date of the survey on October 1, 2001 is 21 months, the number of new business establishments (406,705) is divided by 21 and multiplied by 12.
   
   \[ 406,705 \div 21 \times 12 = 232,403 \]

   (2) Annual average increase in the number of business establishments
   
   The annual average increase in the number of business establishments is calculated by dividing the increase in the number of business establishments from the date of the previous survey on July 1, 1999 to October 1, 2001 (65,768) by the period between the surveys (27 months) and multiplying by 12.
   
   \[ -65,768 \div 27 \times 12 = -29,230 \]

   (3) Annual average number of exits of business establishments
   
   The annual average number of exits of business establishments is calculated by subtracting the annual average increase in the number of business establishments from the annual average number of entries of business establishments.
   
   \[ 232,403 - (-29,230) = 261,633 \]

   (4) Entry rate
   
   The entry rate is calculated by dividing the annual average number of entries of business establishments (1) by the number of business establishments at the time of the previous survey (6,184,829) and multiplying the result by 100.
   
   \[ 232,403 \div 6,184,829 \times 100 \approx 3.8\% \]

   (5) Exit rate
   
   The exit rate is calculated by dividing the annual average number of exits of business establishments (3) by the number of business establishments at the time of the previous survey, and multiplying the result by 100.
   
   \[ 261,633 \div 6,184,829 \times 100 \approx 4.2\% \]


   (Example) Method of calculation of entry and exit rates based on number of business establishments in 1996–1999
   
   (1) Annual average number of entries of business establishments, annual average number of exits of business establishments
   
   The MPHPT’s *1999 Establishment and Enterprise Census of Japan* groups the number of business establishments into new business establishments, closed business establishments and continuing business establishments according to their status of change. The number of new business establishments (i.e. entries) and the number of closed business establishments are each divided by the period from the date of the previous survey on October 1, 1996 to July 1, 1999 (33 months) and multiplied by 12 to calculate the annual average number of entries of business establishments and annual average number of exits of business establishments.
   
   \[ 740,389 \div 33 \times 12 = 269,232 \]
   
   \[ 1,058,431 \div 33 \times 12 = 384,884 \]

   (2) Entry and exit rates
   
   The annual average number of entries of business establishments and annual average number of exits of business establishments (1) are each divided by the number of business establishments at the time of the previous survey and multiplied by 100.
   
   \[ 269,232 \div 6,502,924 \times 100 \approx 4.1\% \]
   
   \[ 384,884 \div 6,502,924 \times 100 \approx 5.9\% \]
3. Additional information

Another method of calculating the entry and exit rates using the MPHPT's Establishment and Enterprise Census of Japan in addition to methods 1 and 2 above is by tracing entries and exits back using the data from individual questionnaires. Surveys since 1991 have assigned a code consisting of a municipality code, survey block number and business establishment number, and this code can be used to concatenate business establishments with the results of surveys conducted in subsequent years in order to calculate the entry and exit rates.

The calculations are performed by classifying each business establishment into one of the following categories based on the concatenated results:

(Example) Entry and exit rates for 1999~2001

Continuing business establishments: business establishments traceable from the questionnaire data from start (1999) and end (2001) of period and found to exist at both points in time

New business establishments (entries): business establishments not found to exist at the start of the period (1999) and found to exist only at the end of the period (2001)

Closed business establishments: business establishments found to exist at the start of the period (1999) but not at the end of the period (2001)

Entry rate = annual average number of entries of business establishments / number of business establishments at start of period (1999) \times 100 (%) 

Exit rate = annual average number of exits of business establishments / number of business establishments at start of period (1999) \times 100 (%)

* Important points regarding 1–3 above

Business establishments that migrated across the boundaries of survey blocks (which numbered 248,000 as of March 2001 and each consisted of around 30 business establishments) cannot be concatenated using questionnaire data. As it is also not possible to concatenate business establishments from which questionnaires could not be collected for reasons such as temporary closure of business at the time of the survey, it should be borne in mind that both the number of entries and exits of business establishments may in reality be larger.

4. Treatment in this report

1) As questionnaire data cannot be traced back prior to 1991, long-term entry and exit rates are calculated based on the data published by the MPHPT in order to ensure data continuity (method 1, 2 above).

2) Due to the practical difficulty of calculating the entry and exit rates from the establishment periods published by the MPHPT (due to the large impact of changes of industry), entry and exit rates by industry group and municipality for 1999–2001 are calculated based on questionnaire date (method 3 above).
### Table 13  Trends in entry and exit rates by industry (based on number of business establishments, annual average)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-primary industry total</td>
<td>6.5</td>
<td>7.0</td>
<td>6.1</td>
<td>6.2</td>
<td>6.1</td>
<td>4.7</td>
<td>4.2</td>
<td>4.1</td>
<td>4.6</td>
<td>3.7</td>
<td>4.1</td>
<td>3.8</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.0</td>
<td>5.6</td>
<td>4.3</td>
<td>3.4</td>
<td>3.7</td>
<td>3.1</td>
<td>3.1</td>
<td>2.8</td>
<td>3.1</td>
<td>1.5</td>
<td>1.9</td>
<td>1.6</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>Wholesaling</td>
<td>2.5</td>
<td>3.2</td>
<td>4.3</td>
<td>2.3</td>
<td>2.5</td>
<td>3.1</td>
<td>2.9</td>
<td>4.0</td>
<td>4.5</td>
<td>4.0</td>
<td>5.3</td>
<td>4.1</td>
<td>4.1</td>
<td></td>
</tr>
<tr>
<td>Retailing</td>
<td>6.5</td>
<td>8.1</td>
<td>8.0</td>
<td>6.8</td>
<td>6.4</td>
<td>5.1</td>
<td>4.8</td>
<td>3.2</td>
<td>5.0</td>
<td>3.3</td>
<td>4.9</td>
<td>3.1</td>
<td>3.1</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>6.5</td>
<td>3.8</td>
<td>5.3</td>
<td>3.7</td>
<td>3.8</td>
<td>3.7</td>
<td>4.1</td>
<td>3.2</td>
<td>5.0</td>
<td>5.3</td>
<td>7.4</td>
<td>7.2</td>
<td>4.4</td>
<td></td>
</tr>
</tbody>
</table>

Source: MPHPT, Establishment and Enterprise Census of Japan.
Notes: 1. Entries and exit of business establishments, including openings and closures due to opening, closure and movement of branches and factories.
3. See Table 12 regarding the method of calculation of the entry and exit rates.
4. Classification of industries as of 2001 according to MPHPT, Japan Standard Industrial Classification (revised October 1993).

### Table 14  Trends in entry and exit rates based on number of business establishments with employees

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry rate</td>
<td>7.2</td>
<td>6.4</td>
<td>6.1</td>
<td>5.9</td>
<td>5.8</td>
<td>6.0</td>
<td>6.8</td>
<td>7.4</td>
<td>6.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Exit rate</td>
<td>3.7</td>
<td>5.8</td>
<td>4.3</td>
<td>4.2</td>
<td>4.2</td>
<td>4.1</td>
<td>3.7</td>
<td>3.4</td>
<td>3.2</td>
<td>3.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry rate</td>
<td>5.8</td>
<td>5.1</td>
<td>4.6</td>
<td>4.8</td>
<td>4.6</td>
<td>4.7</td>
<td>4.2</td>
<td>3.9</td>
<td>4.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Exit rate</td>
<td>3.3</td>
<td>3.3</td>
<td>3.4</td>
<td>3.4</td>
<td>3.6</td>
<td>2.5</td>
<td>2.8</td>
<td>3.1</td>
<td>4.0</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Notes: 1. Entry rate = number of business establishments newly covered by employment insurance in fiscal year concerned / number of business establishments covered by employment insurance at end of previous fiscal year x 100 (%)
2. Exit rate = number of business establishments that cease to be covered by employment insurance in fiscal year concerned / number of business establishments covered by employment insurance at end of previous fiscal year x 100 (%)
Table 15  Trends in number of incorporation registrations and company entry and exit rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of incorporation registrations</td>
<td>77,323</td>
<td>51,391</td>
<td>54,216</td>
<td>53,452</td>
<td>57,270</td>
<td>62,143</td>
<td>65,155</td>
<td>63,402</td>
<td>71,483</td>
<td>72,926</td>
</tr>
<tr>
<td>Company entry rate</td>
<td>19.6</td>
<td>12.5</td>
<td>12.4</td>
<td>12.2</td>
<td>12.0</td>
<td>12.4</td>
<td>12.1</td>
<td>11.0</td>
<td>11.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Company exit rate</td>
<td>15.2</td>
<td>6.1</td>
<td>12.7</td>
<td>3.0</td>
<td>6.6</td>
<td>5.1</td>
<td>4.9</td>
<td>3.9</td>
<td>5.4</td>
<td>3.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of incorporation registrations</td>
<td>71,145</td>
<td>81,418</td>
<td>88,214</td>
<td>77,857</td>
<td>88,521</td>
<td>93,778</td>
<td>97,692</td>
<td>112,903</td>
<td>119,226</td>
<td>96,286</td>
</tr>
<tr>
<td>Company entry rate</td>
<td>10.1</td>
<td>10.9</td>
<td>11.1</td>
<td>9.3</td>
<td>9.9</td>
<td>10.0</td>
<td>10.0</td>
<td>10.7</td>
<td>10.6</td>
<td>8.0</td>
</tr>
<tr>
<td>Company exit rate</td>
<td>4.4</td>
<td>4.7</td>
<td>5.5</td>
<td>2.8</td>
<td>4.8</td>
<td>5.4</td>
<td>2.7</td>
<td>4.0</td>
<td>3.4</td>
<td>1.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of incorporation registrations</td>
<td>96,158</td>
<td>102,950</td>
<td>100,845</td>
<td>93,799</td>
<td>103,972</td>
<td>100,802</td>
<td>96,071</td>
<td>93,283</td>
<td>95,879</td>
<td>104,061</td>
</tr>
<tr>
<td>Company entry rate</td>
<td>7.5</td>
<td>7.7</td>
<td>7.2</td>
<td>6.3</td>
<td>6.8</td>
<td>6.3</td>
<td>5.9</td>
<td>5.5</td>
<td>5.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Company exit rate</td>
<td>3.2</td>
<td>3.0</td>
<td>1.6</td>
<td>2.9</td>
<td>2.5</td>
<td>3.7</td>
<td>2.5</td>
<td>2.9</td>
<td>2.5</td>
<td>1.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of incorporation registrations</td>
<td>105,941</td>
<td>105,133</td>
<td>117,475</td>
<td>140,520</td>
<td>165,718</td>
<td>176,058</td>
<td>172,105</td>
<td>107,459</td>
<td>97,603</td>
<td>92,522</td>
</tr>
<tr>
<td>Company entry rate</td>
<td>5.7</td>
<td>5.5</td>
<td>6.0</td>
<td>7.0</td>
<td>8.0</td>
<td>8.1</td>
<td>7.6</td>
<td>4.5</td>
<td>3.9</td>
<td>3.6</td>
</tr>
<tr>
<td>Company exit rate</td>
<td>4.1</td>
<td>3.0</td>
<td>3.5</td>
<td>3.5</td>
<td>3.1</td>
<td>3.4</td>
<td>1.7</td>
<td>1.0</td>
<td>1.6</td>
<td>1.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of incorporation registrations</td>
<td>92,885</td>
<td>103,723</td>
<td>92,610</td>
<td>82,502</td>
<td>88,036</td>
<td>98,350</td>
<td>90,687</td>
<td>87,544</td>
</tr>
<tr>
<td>Company entry rate</td>
<td>3.6</td>
<td>3.9</td>
<td>3.5</td>
<td>3.1</td>
<td>3.3</td>
<td>3.6</td>
<td>3.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Company exit rate</td>
<td>2.1</td>
<td>2.3</td>
<td>4.5</td>
<td>2.0</td>
<td>2.2</td>
<td>2.4</td>
<td>2.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>


Notes:
2. The numbers of companies in 1963 and 1964 are estimates based on the National Tax Agency’s Results of the Corporation Sample Survey. The number of companies from 1967 includes associations.
3. Company entry rate = number of incorporation registrations / number of companies in previous year x 100 (%) 
4. Company exit rate = company entry rate - rate of increase (%)
### Table 16 Outline of SME-related budget allocations for fiscal 2004

<table>
<thead>
<tr>
<th></th>
<th>Fiscal 2003 budget</th>
<th>(Fiscal 2003 supplementary budget)</th>
<th>Fiscal 2004 initial budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>METI general account</td>
<td>1,295</td>
<td>(845)</td>
<td>1,305</td>
</tr>
</tbody>
</table>

(Unit: ¥100 million)

Source: METI

Notes:
1. In addition to the above, the fiscal 2003 initial budget and the fiscal 2004 initial budget provided for investment in JASMEC (insurance operations) (¥39.0 billion under the fiscal 2003 initial budget, ¥39.2 billion under the fiscal 2004 initial budget: MOF), and support for the Organization for Worker’s Retirement Allowance Mutual Aid (¥4.3 billion under the fiscal 2003 initial budget and ¥4.1 billion under the fiscal 2004 initial budget: MHLW).
2. The figure for the fiscal 2003 supplementary budget includes the amount for MOF.
## Index of figures

### Part I

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fig. 1-1-1</td>
<td>Contribution by component to real GDP (private-sector demand) ............3</td>
</tr>
<tr>
<td>Fig. 1-1-2</td>
<td>Trends in business conditions DI ..........................................................5</td>
</tr>
<tr>
<td>Fig. 1-1-3</td>
<td>Factor analysis of gap in business conditions DI by size .........................6</td>
</tr>
<tr>
<td>Fig. 1-1-4</td>
<td>Contribution by component to real GDP (from trough to peak of business cycle) 7</td>
</tr>
<tr>
<td>Fig. 1-1-5</td>
<td>Production inducement effect by component of final demand ......................8</td>
</tr>
<tr>
<td>Fig. 1-1-6</td>
<td>(1) Trend in value of sales of retailers (percentage change from a year earlier) 9</td>
</tr>
<tr>
<td>Fig. 1-1-7</td>
<td>(2) Rate of growth in consumption expenditure and breakdown by component 10</td>
</tr>
<tr>
<td>Fig. 1-1-8</td>
<td>Year-on-year change in indices of all industry activity and contributions thereto 11</td>
</tr>
<tr>
<td>Fig. 1-1-9</td>
<td>Production indices for manufacturing (all enterprises and SMEs) 12</td>
</tr>
<tr>
<td>Fig. 1-1-10</td>
<td>Inventory ratio indices in manufacturing (all enterprises and SMEs) 13</td>
</tr>
<tr>
<td>Fig. 1-1-11</td>
<td>Production and inventory trends among SMEs by key sectors of manufacturing 14</td>
</tr>
<tr>
<td>Fig. 1-1-12</td>
<td>Shipment trends in manufacturing (change from a year earlier and contributions to growth) ..........................................................14</td>
</tr>
<tr>
<td>Fig. 1-1-13</td>
<td>Shipment trends among SMEs by category (change from a year earlier and contributions to growth) ..........................................................14</td>
</tr>
<tr>
<td>Fig. 1-1-14</td>
<td>Trends in export ratios in manufacturing ..................................................15</td>
</tr>
<tr>
<td>Fig. 1-1-15</td>
<td>Trends in business conditions DI for SMEs according to category of manufacturing (4Q 2000–4Q 2003) 18</td>
</tr>
<tr>
<td>Fig. 1-1-16</td>
<td>Trends in production by small and medium manufacturers and volume and unit value of orders received by small and medium subcontractors 19</td>
</tr>
<tr>
<td>Fig. 1-1-17</td>
<td>Trends in business conditions DI for SMEs by category of non-manufacturing (4Q 2000–4Q 2003) ..................................................20</td>
</tr>
<tr>
<td>Fig. 1-1-18</td>
<td>Trends in business conditions DI for SMEs (construction) by characteristic 21</td>
</tr>
<tr>
<td>Fig. 1-1-19</td>
<td>Trends in business conditions DI for SMEs (wholesaling) by proportion of exports 21</td>
</tr>
<tr>
<td>Fig. 1-1-20</td>
<td>Trends in business conditions DI for SMEs (wholesale) by proportion of imports 22</td>
</tr>
<tr>
<td>Fig. 1-1-21</td>
<td>Trends in business conditions DI for SMEs (retailing) according to chain affiliation 22</td>
</tr>
<tr>
<td>Fig. 1-1-22</td>
<td>Trends in business conditions DI for SMEs according to size and industry 23</td>
</tr>
<tr>
<td>Fig. 1-1-23</td>
<td>Trend in value of capital investment ..........................................................24</td>
</tr>
<tr>
<td>Fig. 1-1-24</td>
<td>Trends in sense of production/operating overcapacity ..................................25</td>
</tr>
<tr>
<td>Fig. 1-1-25</td>
<td>Trends in sense of production overcapacity DI among SMEs (manufacturing) 25</td>
</tr>
<tr>
<td>Fig. 1-1-26</td>
<td>Trends in value of capital investment among SMEs ......................................26</td>
</tr>
<tr>
<td>Fig. 1-1-27</td>
<td>Trends in capital investment by SMEs broken down by purpose ......................27</td>
</tr>
<tr>
<td>Fig. 1-1-28</td>
<td>Trends in sources of funding of capital investment by SMEs 28</td>
</tr>
<tr>
<td>Fig. 1-1-29</td>
<td>Trend in unemployment rate .........................................................................29</td>
</tr>
<tr>
<td>Fig. 1-1-30</td>
<td>Trends in unemployment rate by age group ....................................................30</td>
</tr>
<tr>
<td>Fig. 1-1-31</td>
<td>Employment trends by number of workers (contribution to percentage change from a year earlier) ..................................................30</td>
</tr>
<tr>
<td>Fig. 1-1-32</td>
<td>Trends in number of new job offers by size (change from previous year and change from same month of previous year) 31</td>
</tr>
<tr>
<td>Fig. 1-1-33</td>
<td>Trends in employment DI ...........................................................................32</td>
</tr>
<tr>
<td>Fig. 1-1-34</td>
<td>Trends in financial position DI (all industries) ..............................................33</td>
</tr>
<tr>
<td>Fig. 1-1-35</td>
<td>Trends in financial position DI for SMEs ....................................................33</td>
</tr>
<tr>
<td>Fig. 1-1-36</td>
<td>Reasons for tightness of financial position ...................................................34</td>
</tr>
<tr>
<td>Fig. 1-1-37</td>
<td>Lending attitude of financial institutions (all industries) ................................34</td>
</tr>
</tbody>
</table>
Fig. 1-1-38  Trends in ease of borrowing DI.................................................................................... 35
Fig. 1-1-39  Trends in outstanding lending by size ........................................................................... 35
Fig. 1-1-40  Trends in outstanding lending to SMEs by type of financial institution....................... 36
Fig. 1-1-41  Trends in lending by government-affiliated financial institutions according to type ......... 36
Fig. 1-1-42  Trend in number of bankruptcies and total liabilities.................................................... 37
Fig. 1-1-43  Trends in number of bankruptcies by industry............................................................... 38
Fig. 1-1-44  Bankruptcy by type and clearing of bills ....................................................................... 38
Fig. 1-1-45  Breakdown of legal petitions ......................................................................................... 38
Fig. 1-1-46  Trend in number of self-employed................................................................................. 38
Fig. 1-2-1  Trends in SME business conditions DI by region (4Q 2000 ~ 4Q 2003).......................... 39
Fig. 1-2-2  Trends in SME business conditions DI by industry and region (4Q 2000 ~ 4Q 2003)......... 40
Fig. 1-2-3  Trends in unemployment rate by region (1Q 2001 ~ 4Q 2003).......................................... 41
Fig. 1-2-4  Trends in SME business conditions DI in Hokkaido (4Q 2000 ~ 4Q 2003)....................... 41
Fig. 1-2-5  Manufacturing production index for Hokkaido ............................................................... 42
Fig. 1-2-6  Trends in SME business conditions DI in the Tohoku region (4Q 2000 ~ 4Q 2003)......... 42
Fig. 1-2-7  Manufacturing production index for the Tohoku region ................................................ 43
Fig. 1-2-8  Trends in SME business conditions DI in the Tohoku region (by prefecture) (4Q 2000 ~ 4Q 2003) .................................................................................................................... 44
Fig. 1-2-9  Trends in SME business conditions DI in the Kanto region (4Q 2000 ~ 4Q 2003)............. 44
Fig. 1-2-10 Manufacturing production index for the Kanto region ...................................................... 45
Fig. 1-2-11 Trends in SME business conditions DI in the Kanto region (by prefecture) (4Q 2000 ~ 4Q 2003) .................................................................................................................... 46
Fig. 1-2-12 Trends in SME business conditions DI in the Chubu region (4Q 2000 ~ 4Q 2003) .......... 48
Fig. 1-2-13 Manufacturing production index for the Chubu region .................................................. 48
Fig. 1-2-14 Trends in SME business conditions DI in the Chubu region (by prefecture) (4Q 2000 ~ 4Q 2003) .................................................................................................................... 49
Fig. 1-2-15 Trends in SME business conditions DI in the Kinki region (4Q 2000 ~ 4Q 2003) .......... 50
Fig. 1-2-16 Manufacturing production index for the Kinki region ...................................................... 51
Fig. 1-2-17 Trends in SME business conditions DI in the Kinki region (by prefecture) (4Q 2000 ~ 4Q 2003) .................................................................................................................... 51
Fig. 1-2-18 Trends in SME business conditions DI in the Chugoku region (4Q 2000 ~ 4Q 2003) .... 52
Fig. 1-2-19 Manufacturing production index for the Chugoku region .............................................. 53
Fig. 1-2-20 Trends in SME business conditions DI in the Chugoku region (by prefecture) (4Q 2000 ~ 4Q 2003) .................................................................................................................... 54
Fig. 1-2-21 Trends in SME business conditions DI in the Shikoku region (4Q 2000 ~ 4Q 2003) ...... 54
Fig. 1-2-22 Manufacturing production index for the Shikoku region .............................................. 55
Fig. 1-2-23 Trends in SME business conditions DI in the Shikoku region (by prefecture) (4Q 2000 ~ 4Q 2003) .................................................................................................................... 56
Fig. 1-2-24 Trends in SME business conditions DI in the Kyushu/Okinawa region (4Q 2000 ~ 4Q 2003) .................................................................................................................... 57
Fig. 1-2-25 Manufacturing production index for the Kyushu region .................................................. 58
Fig. 1-2-26 Manufacturing production index for Okinawa ................................................................. 58
Fig. 1-2-27 Trends in SME business conditions DI in the Kyushu/Okinawa region (by prefecture) (4Q 2000 ~ 4Q 2003) ............................................................................................. 59
Part II

Fig. 2-1-1 Breakdown of enterprises by rate of operating profit on sales (manufacturing) .........................62
Fig. 2-1-2 Degree of emphasis on business motivations (by size) ......................................................63
Fig. 2-1-3 Variation in emphasis on business motivations (1~5 point scale) ........................................63
Fig. 2-1-4 Breakdown of service sector by share of real domestic product (tertiary industry) .................64
Fig. 2-1-5 Trend in number of privately managed business establishments by major industry group (non-primary industry) .................................................................65
Fig. 2-1-6 Trends in number of workers (private sector) by major industry group (non-primary industry) .................................................................65
Fig. 2-1-7 Rate of growth in number of business establishments in service sector (industry groups) (1999~2001) ........................................................................................................65
Fig. 2-1-8 New industries established between 2000 and 2003 (as listed in NTT’s Town Pages) ...........66
Fig. 2-1-9 Transition in players in newly formed new service markets (at time of entry and now) ..........68
Fig. 2-1-10 Background to emergence of new services (for personal consumers) .................................68
Fig. 2-1-11 Background to emergence of new services (for business establishments and enterprises) .........69
Fig. 2-1-12 Present state of outsourcing and future potential for use .......................................................69
Fig. 2-1-13 Reasons for choice of new field of business ........................................................................69
Fig. 2-1-14 Factors behind successful market entry by new service providers .......................................70
Fig. 2-1-15 Barriers at time of entry ....................................................................................................71
Fig. 2-1-16 Effects on market of new entrants .......................................................................................71
Fig. 2-1-17 Trend in number of enterprises in a new industry (Japanese home TV game software) .........73
Fig. 2-1-18 Industries where there is a large gap between the entry and exit rates (in favor of entries), 1999~2001: industries with high growth rates ..............................................74
Fig. 2-1-19 Industries where there is a large gap between the entry and exit rates (in favor of exits), 1999~2001: industries with high rates of decline .................................................74
Fig. 2-1-20 Contribution of total factor productivity to real economic growth rate in Japan .....................76
Fig. 2-1-21 Comparison of rates of growth in total factor productivity of SMEs and large enterprises .......76
Fig. 2-1-22 Breakdown by size of titles judged to be innovative (Titles launched in 2003) ....................77
Fig. 2-1-23 State of product development and improvement activities according to size .......................77
Fig. 2-1-24 Extent of introduction of new technologies and know-how in development and improvement of new products and services .................................................................78
Fig. 2-1-25 Proportion of enterprises engaging in business conversion or diversification .......................78
Fig. 2-1-26 Development and improvement concepts for new products and services .............................79
Fig. 2-1-27 Incorporation of “changes in tastes of users not yet catered to by the market” and impact on rate of growth in sales ..................................................................................79
Fig. 2-1-28 Outcomes of prior securement of market and development/improvement of products ...........79
Fig. 2-1-29 Partners of SMEs that make use of networks in development activities (in 2002 compared with 1984) ....................................................................................................................80
Fig. 2-1-30 Trend in number of university ventures ................................................................................84
Fig. 2-1-31 State of commercialization by university ventures ...............................................................84
Fig. 2-1-32 Proportion of university ventures that have achieved commercialization ..........................85
Fig. 2-1-33 Period of development of new products or technologies in manufacturing .......................85
Fig. 2-1-34 Breakdown of university ventures by scale of startup funding ............................................85
Fig. 2-1-35 Breakdown of university ventures by scale of capital ...........................................................85
Fig. 2-1-36 Profile of management personnel at university ventures .........................................................86
Fig. 2-1-37 Fields of responsibility of university venture managers by background .............................86
Fig. 2-1-38 Domestic market size of university ventures by scale of capital (after 10 years) .................86
Fig. 2-1-39 Overseas market size of university ventures by scale of capital (after 10 years) .................86
Fig. 2-1-40 Technological seeds of university ventures ..........................................................................87
Fig. 2-1-41 Factors affecting commercialization .....................................................................................87
Fig. 2-1-42 Types of employee in short supply ......................................................................................88
Fig. 2-1-43 Types of employee in short supply at university ventures (by stage of commercialization) ....88
| Fig. 2-1-44 | Motivation behind startup of university ventures | .......................................................... | 90 |
| Fig. 2-1-45 | State of contracting out by university ventures | .......................................................... | 90 |
| Fig. 2-1-46 | State of contracting out of manufacturing and production by university ventures | .......................................................... | 91 |
| Fig. 2-1-47 | Trends in size of elderly and child populations | .......................................................... | 91 |
| Fig. 2-1-48 | Labor force ratio by age group | .......................................................... | 92 |
| Fig. 2-1-49 | Employed persons by age group | .......................................................... | 92 |
| Fig. 2-1-50 | Breakdown of employed persons by gender and size of workforce | .......................................................... | 92 |
| Fig. 2-1-51 | Employed persons as a proportion of total number of employed persons and persons desiring employment (women by number of workers) | .......................................................... | 93 |
| Fig. 2-1-52 | Employed persons as a proportion of total number of employed persons and persons desiring employment (men by number of workers) | .......................................................... | 93 |
| Fig. 2-1-53 | Reasons given by women in their thirties for leaving their jobs (only non-employed persons desiring employment by previous occupation) | .......................................................... | 94 |
| Fig. 2-1-54 | Problems regarding employment of workers in early sixties | .......................................................... | 95 |
| Fig. 2-1-55 | Employed persons as a proportion of the total number of employed persons and persons desiring employment (men by number of workers) | .......................................................... | 95 |
| Fig. 2-1-56 | Working arrangement desired by people aged 55–69 years | .......................................................... | 96 |
| Fig. 2-1-57 | Form of work sought by employed persons aged 30–59 (by gender) | .......................................................... | 96 |
| Fig. 2-1-58 | Working hours per week by number of workers | .......................................................... | 96 |
| Fig. 2-1-59 | Job categories of outside human resources used | .......................................................... | 97 |
| Fig. 2-1-60 | State of use of OBs (by enterprise size) | .......................................................... | 97 |
| Fig. 2-1-61 | State of use of OBs (by industry) | .......................................................... | 98 |
| Fig. 2-1-62 | Fields of use of outside human resources and OBs | .......................................................... | 98 |
| Fig. 2-1-63 | Satisfaction with abilities of OBs (by field of use) | .......................................................... | 98 |
| Fig. 2-1-64 | Breakdown of types of SOHO business | .......................................................... | 100 |
| Fig. 2-1-65 | Breakdown of SOHO workers by gender (self-employed only) | .......................................................... | 101 |
| Fig. 2-1-66 | Entry motivations of SOHO businesses | .......................................................... | 101 |
| Fig. 2-1-67 | Number of workers of full-time and part-time SOHO businesses | .......................................................... | 102 |
| Fig. 2-1-68 | Content of SOHO work | .......................................................... | 102 |
| Fig. 2-1-69 | Routes by which orders are most frequently received | .......................................................... | 103 |
| Fig. 2-1-70 | Main occupation of part-time SOHO workers | .......................................................... | 103 |
| Fig. 2-1-71 | State of continuation in most recent job | .......................................................... | 103 |
| Fig. 2-1-72 | Reasons given by SOHO workers for leaving previous job | .......................................................... | 104 |
| Fig. 2-1-73 | Employment experience of part-time SOHO workers whose main occupation is housewife | .......................................................... | 104 |
| Fig. 2-1-74 | Rates of ownership of personal computers and Internet access in the home | .......................................................... | 106 |
| Fig. 2-1-75 | Methods of use of the Internet and e-mail | .......................................................... | 106 |
| Fig. 2-1-76 | Effects of use of IT | .......................................................... | 107 |
| Fig. 2-1-77 | Working hours per week of SOHO workers (self-employed only) and self-employed in general | .......................................................... | 107 |
| Fig. 2-1-78 | Trends in NPO applications and certifications | .......................................................... | 110 |
| Fig. 2-1-79 | Forms of organization | .......................................................... | 110 |
| Fig. 2-1-80 | Present fields of business | .......................................................... | 110 |
| Fig. 2-1-81 | Present content of business | .......................................................... | 111 |
| Fig. 2-1-82 | Trend in number of Long-term Care Insurance applicants | .......................................................... | 111 |
| Fig. 2-1-83 | Age makeup of representatives | .......................................................... | 112 |
| Fig. 2-1-84 | Gender of representatives | .......................................................... | 112 |
| Fig. 2-1-85 | Backgrounds of representatives | .......................................................... | 112 |
| Fig. 2-1-86 | Most important motivation for commencing activity | .......................................................... | 113 |
| Fig. 2-1-87 | Other core members involved in commencement of activities | .......................................................... | 113 |
| Fig. 2-1-88 | Number of members of organization | .......................................................... | 113 |
| Fig. 2-1-89 | Age makeup of members | .......................................................... | 114 |
Fig. 2-1-90  Attributes of members ................................................................. 114
Fig. 2-1-91  Issues regarding management of business ................................. 114
Fig. 2-1-92  Earnings performance of mission business ............................... 115
Fig. 2-1-93  Profit-making business ............................................................... 115
Fig. 2-1-94  Earnings performance of profit-making businesses of community businesses with a profit-making business ................................................................. 115
Fig. 2-1-95  Breakdown of business-oriented and voluntaristic community businesses ........................................ 116
Fig. 2-1-96  Emphases in management of business (means of scores on five-point scale) ........................................ 116
Fig. 2-1-97  Timing of when it becomes apparent that a business is sustainable 117
Fig. 2-1-98  Trends in business income in present fiscal year ........................ 117
Fig. 2-1-99  Present content of business ....................................................... 117
Fig. 2-1-100  Change in number of lines of business ................................... 118
Fig. 2-1-101  Annual average rate of increase in number of staff and volunteers 118
Fig. 2-1-102  Cooperation with administrative agencies and profit status of business ........................................ 118
Fig. 2-1-103  Type of cooperation with administrative agencies and proportion of community businesses with business turning a profit ................................................................. 119
Fig. 2-1-104  Impact of community businesses’ activities on region ............ 123
Fig. 2-1-105  People whose participation in activities is especially sought 123
Fig. 2-1-106  Main problems of shopping centers .................................... 125
Fig. 2-1-107  Business conditions by age of proprietor ............................... 126
Fig. 2-1-108  State of action to improve and revitalize stores in shopping centers attracting more shoppers .......................................................... 126
Fig. 2-1-109  Opening of large stores and increase in number of shoppers 128
Fig. 2-1-110  Closing of large stores and decrease in number of shoppers 128
Fig. 2-1-111  Requirements of town management projects ....................... 130
Fig. 2-1-112  Reasons for failure of central urban areas to develop .............. 131
Fig. 2-1-113  Activities undertaken as part of town management projects 131
Fig. 2-1-114  Engagement in “intangible” activities by field of TMO project 132
Fig. 2-2-1  Trends in rate of overseas production ....................................... 134
Fig. 2-2-2  Proportion of enterprises with overseas subsidiaries .................. 134
Fig. 2-2-3  Number of overseas subsidiaries by year of establishment or investment 135
Fig. 2-2-4  Forms of elimination ................................................................. 135
Fig. 2-2-5  Trends in number of eliminated overseas subsidiaries .............. 136
Fig. 2-2-6  Regional breakdown of number of overseas subsidiaries of SMEs (fiscal 2001) ........................................ 136
Fig. 2-2-7  Trends in number of establishments of overseas subsidiaries of SMEs by year and region ................................................................. 137
Fig. 2-2-8  Purpose of establishment of operations overseas by SMEs according to region ........................................ 137
Fig. 2-2-9  Main markets of overseas subsidiaries of SMEs (by region) .... 137
Fig. 2-2-10  Forms of FDI by SMEs according to region ............................ 138
Fig. 2-2-11  Forms of FDI by SMEs according to year (in China only) ........ 138
Fig. 2-2-12  Forms of FDI by SMEs according to year (excluding China) 138
Fig. 2-2-13  Number of local workers at time of initial investment by SMEs (by size of parent company) ................. 139
Fig. 2-2-14  Number of local workers at time of initial investment by SMEs (by region) ........................................ 139
Fig. 2-2-15  Value of FDIs by SMEs (by size of parent company) ............... 139
Fig. 2-2-16  Value of FDIs by SMEs (by region) ......................................... 140
Fig. 2-2-17  Number of overseas subsidiaries of SMEs ................................ 140
Fig. 2-2-18  Number of eliminated overseas subsidiaries of SMEs (by region) .................................................. 140
Fig. 2-2-19  Relocation of operations by SMEs that withdrew from overseas subsidiaries ................................. 140
Fig. 2-2-20  Proportion of enterprises with overseas subsidiaries by size of enterprise ........................................ 141
Fig. 2-2-21  Number of workers at parent company and markets for products 141
Fig. 2-2-22  Equity ratios of enterprises with overseas operations (SMEs) 142
Fig. 2-2-23  Labor productivity of enterprises with overseas operations (SMEs) 142
Fig. 2-2-24 Labor share of enterprises with overseas operations (small and medium manufacturers)......143
Fig. 2-2-25 R&D intensity and advertising intensity of enterprises with overseas operations (small and
medium manufacturers) .............................................................................................................143
Fig. 2-2-26 State of business collaboration by size of enterprise ..................................................144
Fig. 2-2-27 Reasons for choice of business collaboration instead of FDI .........................................145
Fig. 2-2-28 Comparison of equity ratios of direct investors and enterprises engaged in business
collaboration ..............................................................................................................................145
Fig. 2-2-29 Proportion of enterprises with own brands establishing operations overseas ................145
Fig. 2-2-30 Outline of successes and failures of FDI .....................................................................147
Fig. 2-2-31 Period until attainment of initially planned level of production ....................................147
Fig. 2-2-32 Difference between continuing and eliminated overseas subsidiaries according to
size of initial investment ...........................................................................................................148
Fig. 2-2-33 Emphases at time of FDI (by size of parent company) ....................................................148
Fig. 2-2-34 Emphases at time of FDI and subsequent performance ..................................................149
Fig. 2-2-35 Sources of information before FDI (by size of parent company) ......................................150
Fig. 2-2-36 Sources of information at time of FDI and subsequent performance ...............................151
Fig. 2-2-37 Forms of FDI (by size of parent company) .....................................................................152
Fig. 2-2-38 Proportion of withdrawals by SMEs by form of investment ............................................152
Fig. 2-2-39 Relationship between eliminations and differences in business policy with overseas joint
venture partner ..........................................................................................................................152
Fig. 2-2-40 Attributes of CEOs of overseas subsidiaries (by size of parent company) ......................153
Fig. 2-2-41 Relationship between attributes of CEO of overseas subsidiary and
continuation/elimination ..........................................................................................................153
Fig. 2-2-42 Abilities of human resources required with economic globalization..................................154
Fig. 2-2-43 Japanese experience of local CEOs ............................................................................155
Fig. 2-2-44 Profit trends and problems encountered by overseas subsidiaries .................................156
Fig. 2-2-45 Production control activities undertaken at overseas subsidiaries (by size of parent
company) ..................................................................................................................................156
Fig. 2-2-46 Methods of production control introduced at overseas subsidiaries ..............................157
Fig. 2-2-47 Relationship between sales problems of overseas subsidiaries and eliminations ............159
Fig. 2-2-48 Action taken regarding local sales management (by size of parent company) .................160
Fig. 2-2-49 Methods of sales management used in local marketing ................................................160
Fig. 2-2-50 Methods of personnel management used in China .........................................................162
Fig. 2-2-51 Relationship between early training of local middle-management personnel and
subsequent performance .........................................................................................................162
Fig. 2-2-52 Impact on domestic production operations of increase in overseas production
(by size of parent company) .....................................................................................................163
Fig. 2-2-53 Impact of increase in overseas production on volume of domestic production .................163
Fig. 2-2-54 Impact of increase in overseas production on sales and profit ratio .................................164
Fig. 2-2-55 Contribution to Japanese parent company of activities of overseas subsidiaries ..............165
Fig. 2-2-56 Impact on Japanese parent company of increase in overseas production (exports) ...........165
Fig. 2-2-57 Impact on Japanese parent company of increase in overseas production (expansion
of marketing outlets) .............................................................................................................165
Fig. 2-2-58 Impact on Japanese parent company of increase in overseas production
(procurement costs) ................................................................................................................167
Fig. 2-2-59 Impact of increase in volume of overseas production on employment ............................167
Fig. 2-2-60 Impact of development of own brands on domestic production ......................................168
Fig. 2-2-61 Relationship between categories of products still made in Japan and own brands ..........169
Fig. 2-2-62 Impact of engagement in R&D on domestic production ................................................171
Fig. 2-2-63 Relationship between categories of products still made in Japan and R&D ...................171
Fig. 2-2-64 Comparison of change in volume of domestic production and labor share ....................172
Fig. 2-2-65 Relationship between categories of products still made in Japan and labor share ..........172
| Fig. 2-3-1 | Age composition of self-employed | 175 |
| Fig. 2-3-2 | Trends in average age of representatives by size of capital | 176 |
| Fig. 2-3-3 | Decision-making processes of proprietors | 176 |
| Fig. 2-3-4 | Presence of “right-hand man” in business | 177 |
| Fig. 2-3-5 | Age of proprietors and rate of growth in number of workers | 177 |
| Fig. 2-3-6 | Presence of successor | 178 |
| Fig. 2-3-7 | M&A matches by Osaka Chamber of Commerce and Industry | 178 |
| Fig. 2-3-8 | Trends in rate of change of presidents | 180 |
| Fig. 2-3-9 | Change in reasons for retirement of previous proprietor | 181 |
| Fig. 2-3-10 | Average age at retirement of previous proprietor | 181 |
| Fig. 2-3-11 | Change in relationship to previous proprietor | 181 |
| Fig. 2-3-12 | Primary reasons for business succession | 182 |
| Fig. 2-3-13 | Reasons for succession of child of previous proprietor by time of succession | 182 |
| Fig. 2-3-14 | Reasons for succession of non-relative of previous proprietor by time of succession | 183 |
| Fig. 2-3-15 | Attractions of managing a company | 184 |
| Fig. 2-3-16 | Relationship between length of time from business succession and rate of growth in number of employees | 185 |
| Fig. 2-3-17 | Relationship between length of time from startup and rate of growth in number of employees | 185 |
| Fig. 2-3-18 | Types of difficulties encountered after succession | 186 |
| Fig. 2-3-19 | Age at succession and types of difficulties encountered | 187 |
| Fig. 2-3-20 | Difficulties building trust within company | 187 |
| Fig. 2-3-21 | Difficulties building trust outside company | 187 |
| Fig. 2-3-22 | Difficulties exercising leadership as proprietor | 188 |
| Fig. 2-3-23 | Change of proprietor and proportion of enterprises commencing new actions | 188 |
| Fig. 2-3-24 | Commencement of new actions and proportion of successful successions | 189 |
| Fig. 2-3-25 | Change of proprietor and proportion of enterprises registering an increase in ratio of ordinary profit to net sales | 189 |
| Fig. 2-3-26 | Generation of proprietor and relationship to previous proprietor | 191 |
| Fig. 2-3-27 | Relationship to previous proprietor and rate of growth in number of employees after succession | 191 |
| Fig. 2-3-28 | Experience of employment at another company and rate of growth in number of employees after succession | 192 |
| Fig. 2-3-29 | Intention to succeed to business at time of employment | 192 |
| Fig. 2-3-30 | Intention to succeed to business at time of employment and experience of employment at other companies | 192 |
| Fig. 2-3-31 | Relationship between intention to succeed to business upon entering workforce and place of employment | 193 |
| Fig. 2-3-32 | Intention to succeed to business upon entering workforce and industry of employer | 193 |
| Fig. 2-3-33 | Intention to succeed to business and number of employees of employer | 193 |
| Fig. 2-3-34 | Intention to succeed to business upon entering workforce and length of employment | 193 |
| Fig. 2-3-35 | Intention to succeed to business upon entering workforce and position at employer | 194 |
| Fig. 2-3-36 | Helpfulness of employment at another company | 194 |
| Fig. 2-3-37 | Ways in which employment at another company is useful | 194 |
| Fig. 2-3-38 | Relationship to previous proprietor and ways in which employment at other company is useful | 194 |
| Fig. 2-3-39 | Skills acquired at other company and rate of growth in number of employees | 195 |
| Fig. 2-3-40 | Intention to succeed to business upon employment by other company and rate of growth in number of employees after succession | 195 |
| Fig. 2-3-41 | Relationship to place of employment and benefits of experience | 196 |
| Fig. 2-3-42 | Industry of employer and benefits of experience | 196 |
| Fig. 2-3-43 | Number of employees of employer and benefits of experience | 196 |
Fig. 2-3-44  Period of employment and benefits of experience.................................................................208
Fig. 2-3-45  Measures taken by previous proprietor to assist succession .................................................................209
Fig. 2-3-46  Measures taken before succession by previous proprietor and proportion of enterprises with successful successions .................................................................209
Fig. 2-3-47  Provision of advice by previous proprietor and proportion of successful successions .................................................................................................................................209
Fig. 2-3-48  Provision of advice by previous proprietor and types of difficulties encountered after succession .................................................................................................................................209
Fig. 2-3-49  Provision of advice by previous proprietor and rate of growth in number of employees after succession ............................................................................................................................................210
Fig. 2-3-50  Relationship to previous proprietor and preparation for succession .................................................................210
Fig. 2-3-51  Relationship to previous proprietor and period of preparation for succession ............................................................................................................................................210
Fig. 2-3-52  Preparation for succession and rate of growth in number of employees after succession ............................................................................................................................................210
Fig. 2-3-53  Period of preparation for succession and rate of growth in number of employees after succession ............................................................................................................................................210
Fig. 2-3-54  Suitability of age of succession and rate of growth in number of employees after succession ............................................................................................................................................210
Fig. 2-3-55  Age at time of succession ............................................................................................................................................210
Fig. 2-3-56  Suitable age of succession in case of children of proprietors ............................................................................................................................................210
Fig. 2-3-57  Appropriate age of succession in case of non-relatives of proprietors ............................................................................................................................................210
Fig. 2-3-58  Age of proprietor and proportion with designated successor ............................................................................................................................................210
Fig. 2-3-59  Age of proprietor and relationship to successor ............................................................................................................................................210
Fig. 2-3-60  Age of proprietor and actions sought of successors ............................................................................................................................................210
Fig. 2-3-61  Classification according to desire and actual continuation in business ............................................................................................................................................210
Fig. 2-3-62  Age composition of respondents to the Fact-finding Survey on the Retirement of Small-Enterprise Entrepreneurs ............................................................................................................................................210
Fig. 2-3-63  Business position of respondents to the Fact-finding Survey on the Retirement of Small-Enterprise Entrepreneurs at time of quitting as proprietor ............................................................................................................................................210
Fig. 2-3-64  Number of employees at time of quitting as proprietor ............................................................................................................................................210
Fig. 2-3-65  Industry at time of quitting as proprietor ............................................................................................................................................210
Fig. 2-3-66  Number of employees at exit (by industry) ............................................................................................................................................210
Fig. 2-3-67  Method of disposal of business upon quitting as proprietor ............................................................................................................................................210
Fig. 2-3-68  Profit status at time of decision to quit as proprietor ............................................................................................................................................210
Fig. 2-3-69  Asset status at time of decision to quit as proprietor ............................................................................................................................................210
Fig. 2-3-70  State of disposal of liabilities by exited proprietors ............................................................................................................................................210
Fig. 2-3-71  Business status before exit and state of disposal of liabilities ............................................................................................................................................210
Fig. 2-3-72  Asset status before exit and state of disposal of liabilities (by age) ............................................................................................................................................210
Fig. 2-3-73  Present employment status of exited proprietors ............................................................................................................................................210
Fig. 2-3-74  Employment status by current age ............................................................................................................................................210
Fig. 2-3-75  Present employment status and profit status (60~69-year-olds) ............................................................................................................................................210
Fig. 2-3-76  Present employment status and asset status (60~69-year-olds) ............................................................................................................................................210
Fig. 2-3-77  Disposal of liabilities and present employment status (60~69-year-olds) ............................................................................................................................................210
Fig. 2-3-78  State of business quitted by proprietor and satisfaction with present life ............................................................................................................................................210
Fig. 2-3-79  Status of business quitted by proprietor and satisfaction with present income ............................................................................................................................................210
Fig. 2-3-80  State of disposal of liabilities and satisfaction with present income ............................................................................................................................................210
Fig. 2-3-81  State of disposal of liabilities and satisfaction with present life ............................................................................................................................................210
Fig. 2-3-82  Method of disposal of liabilities by former proprietors with more liabilities than assets and proportion of completion of disposal of liabilities ............................................................................................................................................210
Fig. 2-3-83  Method of disposal of liabilities and satisfaction with present life ............................................................................................................................................210
Fig. 2-3-84  Method of disposal of liabilities and satisfaction with present income ............................................................................................................................................210
Fig. 2-3-85  Types of costs incurred at time of exit ............................................................................................................................................210
Fig. 2-3-86  Total cost of exit (by number of employees at exit) ............................................................................................................................................210
Fig. 2-3-87  Relationship between industry and cost of exit ............................................................................................................................................210
INDEX OF FIGURES

Fig. 2-3-88  Reason for leaving previous job according to number of workers of previous employer ........................................... 220
Fig. 2-3-89  Number of employees of previous employer by age ........................................................................................................... 220
Fig. 2-3-90  Occurrence of arrears in employees’ wages .................................................................................................................. 221
Fig. 2-3-91  Business status and occurrence of arrears in wages ................................................................................................. 221
Fig. 2-3-92  Business strengths and their survival ....................................................................................................................... 222
Fig. 2-3-93  Business status before exit ...................................................................................................................................... 222
Fig. 2-3-94  Would-be reentry rate and actual reentry rate (according to bankruptcy or exit) ......................................................... 223
Fig. 2-3-95  Relationship between profit status before exit and reentry (up to 49-year-olds) ........................................................ 224
Fig. 2-3-96  Relationship between profit status before exit and reentry (50–59-year-olds) .......................................................... 224
Fig. 2-3-97  Relationship between profit status before exit and reentry (60-year-olds and over) ................................................... 224
Fig. 2-3-98  Relationship between asset status before exit and reentry (up to 49-year-olds) .......................................................... 225
Fig. 2-3-99  Relationship between asset status before exit and reentry (50–59-year-olds) .......................................................... 225
Fig. 2-3-100 Relationship between asset status before exit and reentry (60-year-olds and over) .................................................... 225
Fig. 2-3-101 Number of employees at time of decision to exit and asset status ............................................................................. 226
Fig. 2-3-102 Age at time of quitting as proprietor and asset status of business ............................................................................. 227
Fig. 2-4-1 Finishing structure (fiscal 2002, by number of employees) ............................................................................................. 230
Fig. 2-4-2 Proportion of enterprises unable to obtain desired lending from main bank (by number of employees) ......................... 231
Fig. 2-4-3 Short-term borrowing rates of main banks (by number of employees) ........................................................................ 231
Fig. 2-4-4 Proportion of enterprises providing security to main banks (by number of employees) .................................................. 232
Fig. 2-4-5 Types of guarantor providing guarantees to main banks (by number of employees) ....................................................... 232
Fig. 2-4-6 Dependence on borrowing from main banks (by number of employees) ................................................................. 233
Fig. 2-4-7 Types of main bank (by number of employees) .............................................................................................................. 233
Fig. 2-4-8 Length of relationship with main bank (by number of employees) ................................................................. 233
Fig. 2-4-9 Number of banks of account (by number of employees) ............................................................................................... 234
Fig. 2-4-10 Proportion of enterprises undertaking new business activities in the last three years (by number of employees in 2001)........ 234
Fig. 2-4-11 Number of new business activities undertaken in the last three years (by number of employees in 2001) ................. 235
Fig. 2-4-12 Proportion of enterprises undertaking new business activities in the last three years (by industry in 2001) ............... 235
Fig. 2-4-13 Number of new business activities undertaken in the last three years (by industry in 2001) ........................................ 235
Fig. 2-4-14 Problems encountered when undertaking new business activities (by number of employees) .................................. 236
Fig. 2-4-15 Financing structure according to intention to engage in new business activities (by number of employees) ...................... 237
Fig. 2-4-16 Financing structure according to intention to undertake new business activities (by number of employees)透过 .................. 237
Fig. 2-4-17 Desired methods of financing of new business activities (by number of employees) ..................................................... 238
Fig. 2-4-18 Proportion of enterprises securing loans from financial institutions for new business activities (by number of enterprises) ............ 238
Fig. 2-4-19 Proportion of enterprises undertaking new business activities (by response of main bank in 2001) .......................... 239
Fig. 2-4-20 Number of new business activities undertaken in the last three years (by response of main bank in 2001) ..................... 239
Fig. 2-4-21 Classification of enterprises according to ordinary profit and asset status ................................................................. 241
Fig. 2-4-22 Relationship between rates of growth in sales and performance up to 2001 of enterprises with net liabilities and making an ordinary loss in 1997 ............................................................................................................................... 242
Fig. 2-4-23 Change in variable cost ratio at enterprises with declining sales .................................................................................... 243
Fig. 2-4-24 Distribution of rates of increase in fixed costs of enterprises with declining sales ......................................................... 243
Fig. 2-4-25 Rate of increase in number of employees of enterprises with declining sales ................................................................. 243
Fig. 2-4-26  Rate of change in per capita personnel costs of enterprises with declining sales.................244
Fig. 2-4-27  Trends in capital of recovering enterprises and stagnant enterprises................................245
Fig. 2-4-28  Change in business conditions of enterprises unable to obtain desired lending in 2001 (only enterprises with more liabilities than assets in 2001)..................................................246
Fig. 2-4-29  Proportion of enterprises unable to obtain desired loan (by equity ratio)........................246
Fig. 2-4-30  Average short-term borrowing rate (by equity ratio)....................................................247
Fig. 2-4-31  Proportion of enterprises unable to obtain desired lending from main bank (according to provision of data).................................................................................................247
Fig. 2-4-32  Proportion of enterprises unable to obtain desired lending from main bank (by length of relationship with main bank)..................................................................................248
Fig. 2-4-33  Proportion of enterprises unable to obtain desired lending from main bank (by length of relationship with main bank, enterprises with net liabilities only)........................................248
Fig. 2-4-34  Development of business plans and proportion of enterprises whose loan applications were refused or reduced (by equity ratio)..............................................................249
Fig. 2-4-35  State of provision of concrete figures in business plans................................................250
Fig. 2-4-36  Concreteness of business plan and response of main bank (by equity ratio)......................250
Fig. 2-4-37  Establishment of concrete targets and state of attainment.............................................251
Fig. 2-4-38  Establishment of concrete targets and state of attainment (equity ratio of less than 0%)......253
Fig. 2-4-39  Number of employees and concreteness of business plans...........................................253
Fig. 2-4-40  Concreteness of plans and level of attainment (up to 20 employees).................................254
Fig. 2-4-41  Background to preparation of business plan (by equity ratio).........................................254
Fig. 2-4-42  Factors other than financial status considered when classifying borrowers...................255
Fig. 2-4-43  Business transfer and transferees.....................................................................................255
Fig. 2-4-44  Financial status before transfer of businesses acquired by transferees other than relatives, directors and employees .......................................................................................................256
Fig. 2-4-45  External business transfers and strengths of enterprises with net liabilities.........................256
Fig. 2-4-46  Criteria used by financial institutions when deciding whether to support management improvements at SMEs (by type of financial institution).........................................................258
Fig. 2-4-47  Methods used by financial institutions to support SMEs................................................261
Fig. 2-4-48  Particular obstacles to continuation of support after commencement (by type of financial institution).....................................................................................................................261
Fig. 2-4-49  Trends in ratio of accounts receivable (by fiscal year).......................................................264
Fig. 2-4-50  Enterprises engaging in transactions using accounts receivable (by number of employees).................................................................................................................................264
Fig. 2-4-51  Proportion of enterprises engaging in transactions using accounts receivable (by industry)..............................................................................................................................................264
Fig. 2-4-52  Proportion of enterprises engaging in transactions using accounts receivable (by response of main bank)............................................................................................................265
Fig. 2-4-53  Short-term borrowing rates (according to engagement in transactions using accounts receivable).......................................................................................................................265
Fig. 2-4-54  Use of the receivable-backed loan guarantee program......................................................265
Fig. 2-4-55  State of use of guarantee corporations (by number of employees)....................................266
Fig. 2-4-56  State of use of guarantee corporations (by equity ratio)....................................................266
This white paper was drafted by the Research Office of the SME Agency in the Ministry of Economy, Trade and Industry. The Editors-in-Chief were Takehiko Yasuda and Hisanaga Kawamura, and the individual chapters were drafted by the following persons:

**Part I**
- Chapter 1: Yutaka Hirano, Keiichi Tsujino
- Chapter 2: Yutaka Hirano

**Part II**
- Chapter 1: Masa Kanai, Fumiko Arata, Takaumi Ikeda
- Chapter 2: Jun Fujibayashi
- Chapter 3: Koichi Hoshino, Koji Inoue
- Chapter 4: Koichi Hoshino, Yusuke Kieda

Thanks are due to Iichiro Uesugi (Fellow of the Research Institute of Economy, Trade and Industry), Professor Shujiro Urata of Waseda University, Associate Professor Hiroyuki Okumuro of Hitotsubashi University, Associate Professor Tomoyo Kazumi of Takachiho University, Associate Professor Hiroki Kawai of Keio University, Associate Professor Kenji Kutsuna of Kobe University, Professor Sueko Kojima of Kokushikan University, Professor Noriaki Goto of Nihon University, Professor Hideki Konaka of Osaka University of Commerce, Professor Masayuki Kondo of Yokohama National University, Professor Yu Peng of Hosei University, Professor Mutsuhiro Seki of Hitotsubashi University, Professor Nomi Naka of Musashi University, Daisuke Tsutara (Teaching Fellow at the National Graduate Institute for Policy Studies), Professor Eiichi Tomiura of Kobe University, Professor Kazumitsu Nawata of the University of Tokyo, Tetsuya Hamanabe (Director of the Research Institute of Economy, Trade and Industry), Professor Kenji Higuchi of Hakuoh University, Koichi Fujii (business consultant), Satoko Yasuda (Visiting Researcher at the Research Center for Advanced Science and Technology at the University of Tokyo), Associate Professor Masanori Yasumoto of Shinshu University, Professor Kiyoshi Washio of Nihongo Sangyo University, Landes Co., Ltd., Enterbrain Inc., Chiba Industry Advancement Center, Japan Leasing Association, CESA Computer Entertainment Supplier’s Association, Itsunomiya Chamber of Commerce and Industry, Tokyo Chamber of Commerce and Industry, Osaka Chamber of Commerce and Industry, Workers’ Collective Network Japan, Tokyo Workers’ Collective Cooperative Association, Hokkaido NPO Support Center, Aomori NPO Support Center, Ibaraki NPO Center Commons, Tokyo Voluntary Action Center, TAMA-NPO Center, NPO Center Kamakura, Nagano NPO Center, Hamamatsu NPO Network Center, “Shimin Forum 21” NPO Center, Partnership Support Center, Mie Citizens’ Activity Volunteer Center, Osaka NPO Center, Takarazuka NPO Center, Nara NPO Center, Okayama NPO Center, Kochi City Citizens’ Activity Support Center, NPO Fukuoka, Prefectural Volunteer Center (Fukuoka), Miyazaki City Volunteer Support Center, and the many others who kindly gave their assistance.

We should also like to thank the SME entrepreneurs and everyone else who took part in interviews and surveys, and provided valuable advice and comments that contributed to the production of this white paper.