

[2017 White Paper on Small and Medium Enterprises in Japan]

FY2016 Developments among SMEs

FY2017 SME Policy Measures

Outline

April 2017

About White Paper on Small and Medium Enterprises

Annual Report Based on Article 11 of the Small and Medium-sized Enterprise Basic Act (Statutory White Paper)

It is obliged to compile a report on the developments related to SMEs based on opinions of the Council for Small and Medium Enterprise Policy and submit it to the Diet every year.

This is the 54th annual report after the enactment of the Small and Medium-sized Enterprise Basic Act.

Small and Medium-sized Enterprise Basic Act (extract)

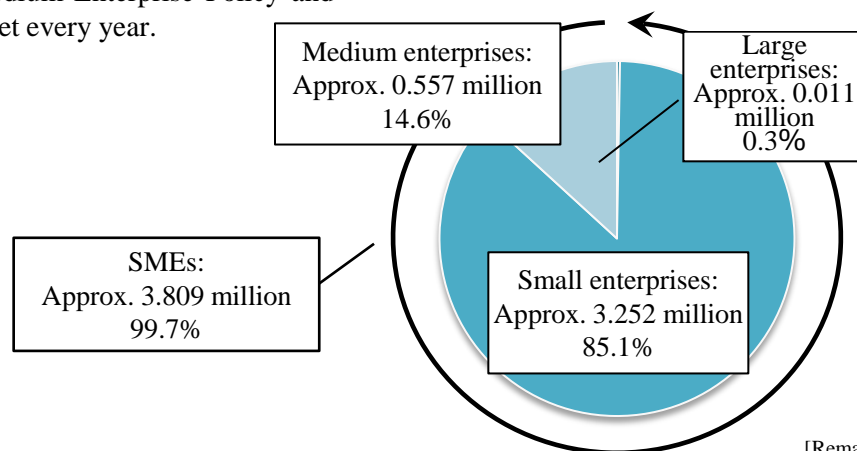
(Annual Report, etc.)

Article 11 (1) The Government must submit a report on the developments related to small and medium-sized enterprises and measures it has taken therefor to the Diet every year.

(2) The Government must prepare a document clarifying measures it intends to take in consideration of the developments related to small and medium-sized enterprises compiled in the report referred to in the preceding paragraph, based on opinions of the Council for Small and Medium Enterprise Policy and submit it to the Diet every year.

Definitions under the Small and Medium-sized Enterprise Basic Act and the Number of Enterprises and Employees

	SMEs		Small enterprises
Business type	Stated capital or number of employee		Number of employees
Manufacturing industry and others	300 million yen or less	300 or fewer	20 or fewer
Wholesale trade industry	100 million yen or less	100 or fewer	5 or fewer
Service industry	50 million yen or less	100 or fewer	5 or fewer
Retail trade industry	50 million yen or less	50 or fewer	5 or fewer

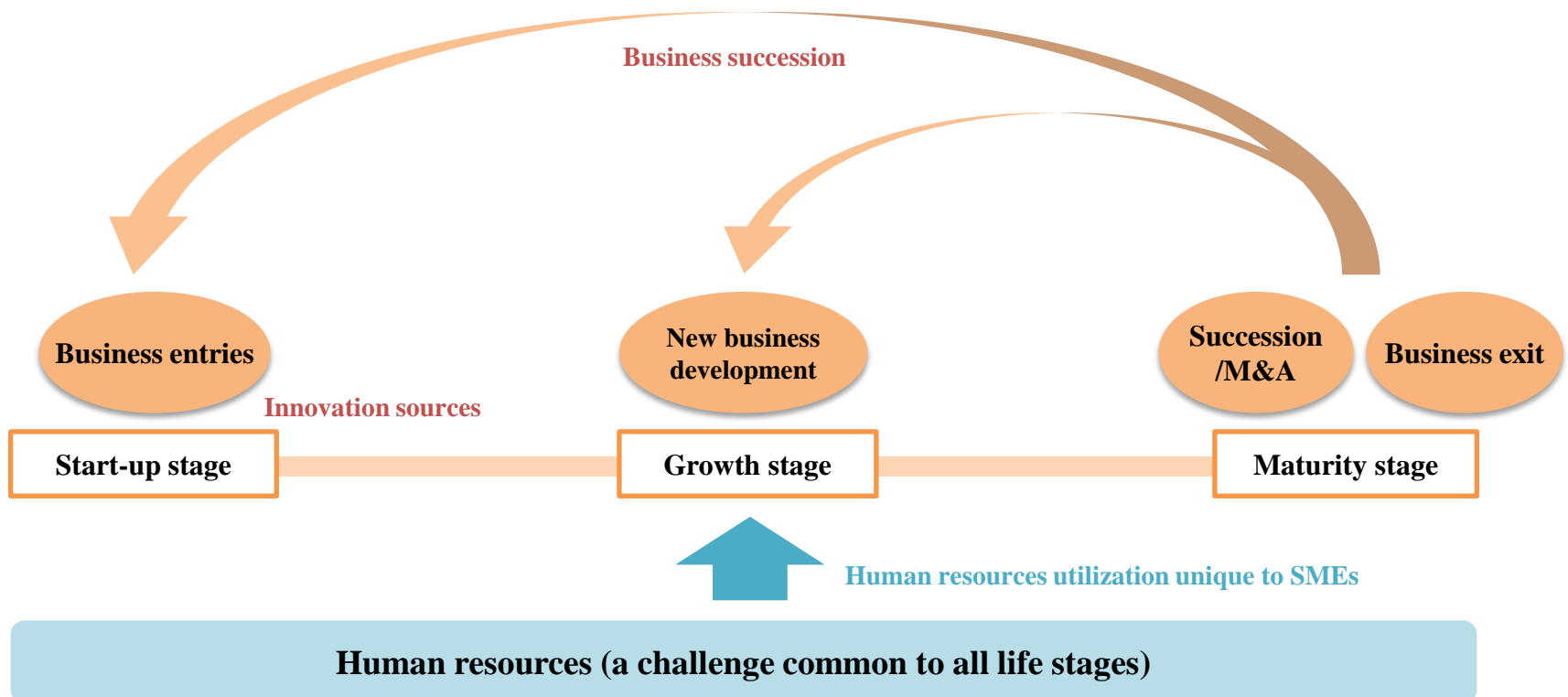


	Number of enterprises	Number of employees
Large enterprises	0.011 million	14.33 million
SMEs	3.809 million	33.61 million
Small enterprises	3.252 million	11.27 million

Outline of FY2016 Developments among SMEs (i)

- While SME business conditions are slowly improving, there are ongoing structural challenges including stagnant business entries, slackening productivity, the aging of managers and growing labor shortages.
- Important under such situation is a lifecycle in which innovation takes place through business entries, existing enterprises pursue growth, and projects and business resources (including withdrawing enterprises) are smoothly taken over by the next generation. Labor shortages common to all life stages and other challenges are analyzed.

Fig. SME Lifecycle (image)



Outline of FY2016 Developments among SMEs (ii)

Part 1 [Analysis of the Current Status]

FY2016 Developments among SMEs

Chapter 1 Current Status of SMEs

Chapter 2 SME Lifecycle and Productivity

Chapter 3 Current Status of the SME Employment
Environment and Labor Shortages

Part 2 [Analysis by Theme]

SME Lifecycle

Chapter 1 Business Entries

Chapter 2 Business Succession

Chapter 3 Promotion of New Business Development

Chapter 4 Overcoming Labor Shortages

SME Policy Measures Taken in FY2016

Chapter 1 Fine-tuned Support for SMEs in
Disaster-hit Areas

Chapter 2 Productivity Improvement Support
for SMEs

Chapter 3 Overseas Business Expansion
Support for SMEs

Chapter 4 Sustainable Development Support
for Micro Enterprises

Chapter 5 Vitalization of Regional Economies
and Promotion of Corporate
Metabolism

Chapter 6 Development of the Business
Environment

Chapter 7 Policy Measures by Business Type
and Area

Chapter 8 Other SME Policy Measures

【Analysis of the Current Status 1-1】Current Status of SMEs and Micro Enterprises (i)

- Ordinary profits of SMEs have remained at record-high levels and their business confidence has been improving.

Fig. 1 Changes in Ordinary Profits

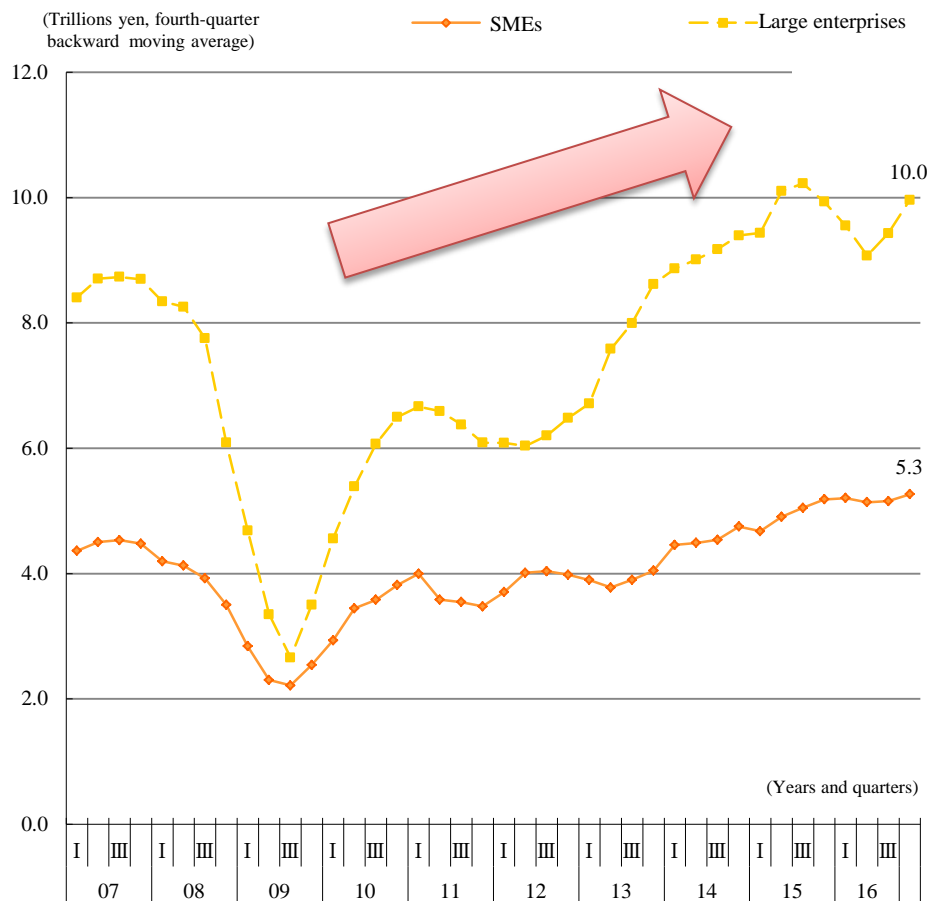


Fig. 1: “Financial Statements Statistics of Corporations by Industry (quarterly report)” (Ministry of Finance)
 (Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more and SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen.

Fig. 2 Changes in Business Conditions DI

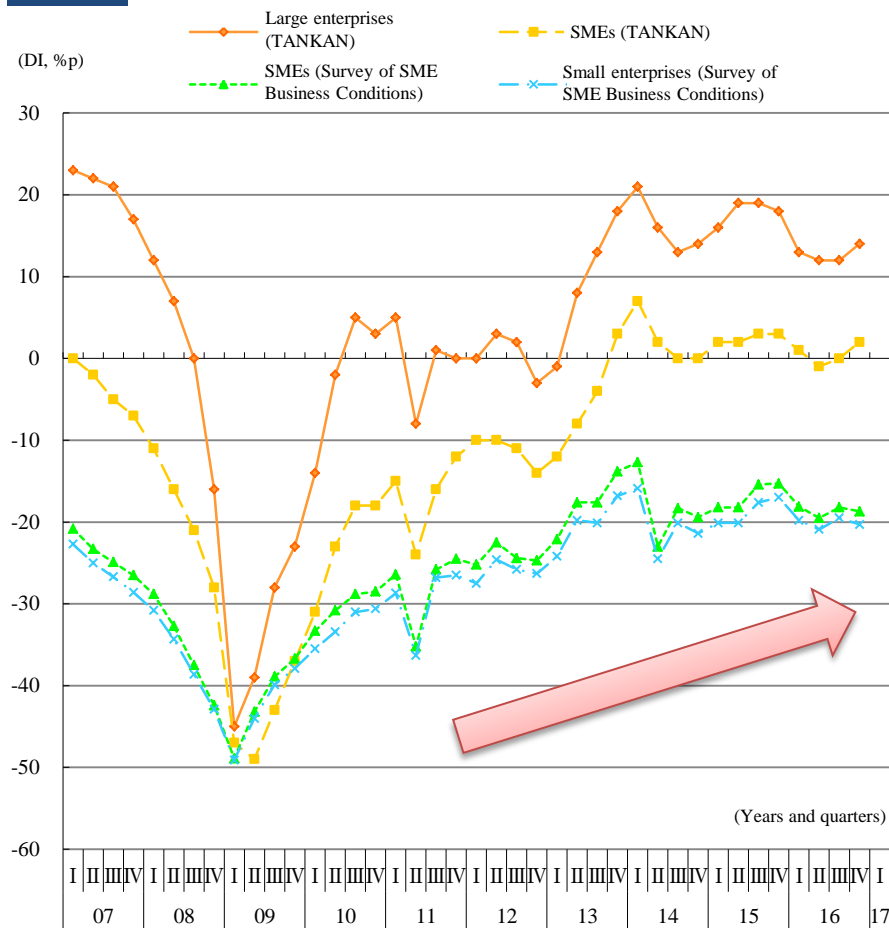


Fig. 2: “TANKAN (Short-Term Economic Survey of Enterprises in Japan)” (Bank of Japan) and “Survey of SME Business Conditions” (Small and Medium Enterprise Agency and Organization for Small & Medium Enterprises and Regional Innovation, JAPAN)
 (Note) Large enterprises in TANKAN refer to those whose stated capital is 1 billion yen or more, and SMEs are those whose stated capital is 20 million yen or more but less than 100 million yen.

【Analysis of the Current Status 1-2】Current Status of SMEs and Micro Enterprises (ii)

- SME sales and productivity have been slackening

Fig. 1 Changes in Sales

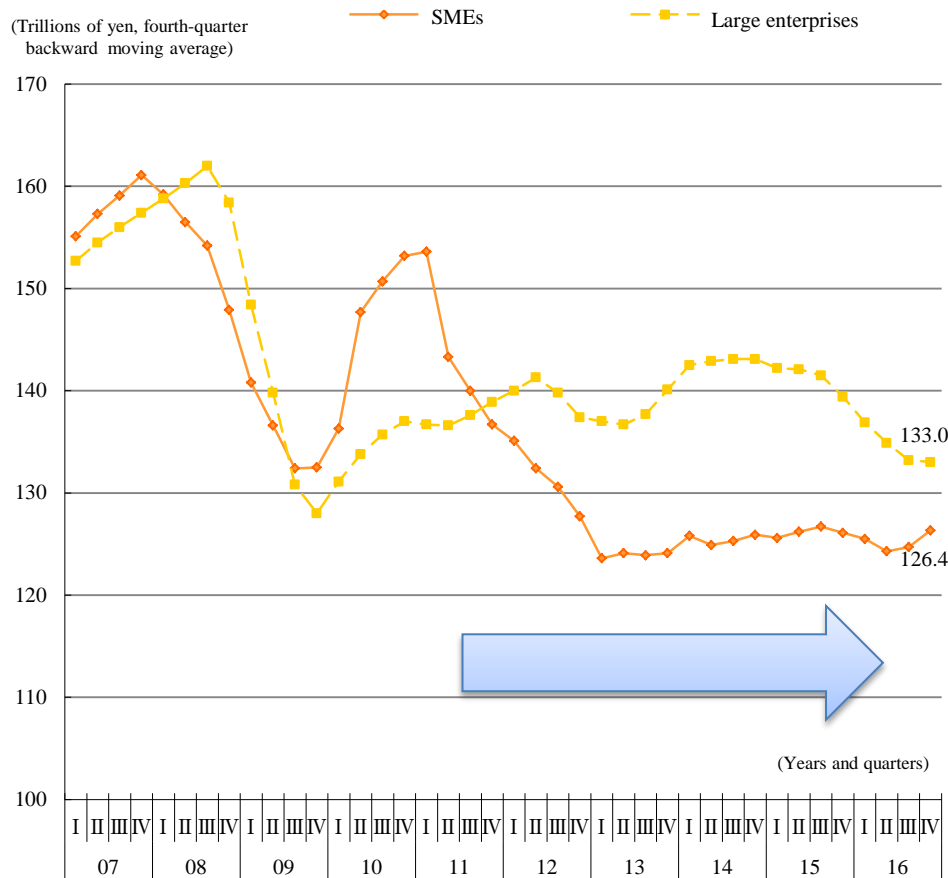


Fig. 1: “Financial Statements Statistics of Corporations by Industry (quarterly report)” (Ministry of Finance)
(Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more and SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen.

Fig. 2 Labor Productivity Changes by Enterprise Size

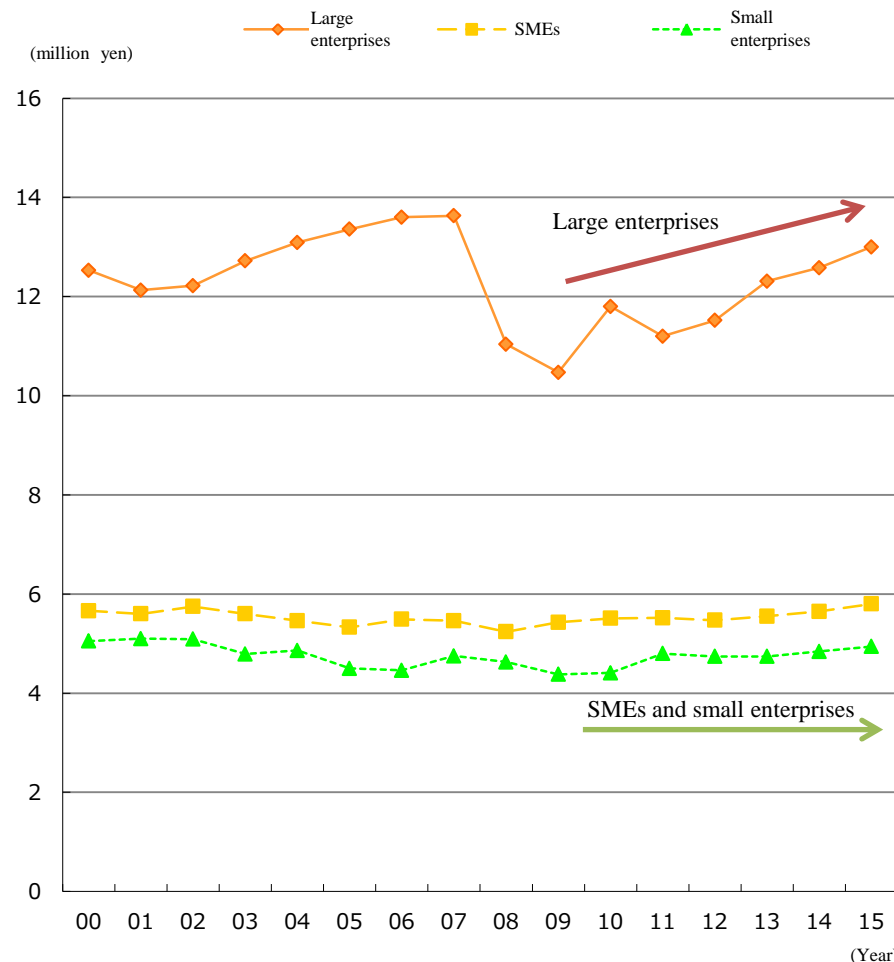


Fig. 1: “Financial Statements Statistics of Corporations by Industry (annually)” (Ministry of Finance)
(Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more, SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen and small enterprises are those whose stated capital is less than 10 million yen.

【Analysis of the Current Status 1-3】

Current Status of SMEs and Micro Enterprises (iii) - Business Practice Improvement Initiative -

- Ordinary profits of large enterprises have greatly improved, increasing their profitability margin over SMEs.
- To improve such situation, an initiative is being promoted to stabilize and spread appropriate transactions between subcontractor SMEs and their larger contractors to pave the way for SMEs to raise wages.

Fig. 1 Changes in Ordinary Profits

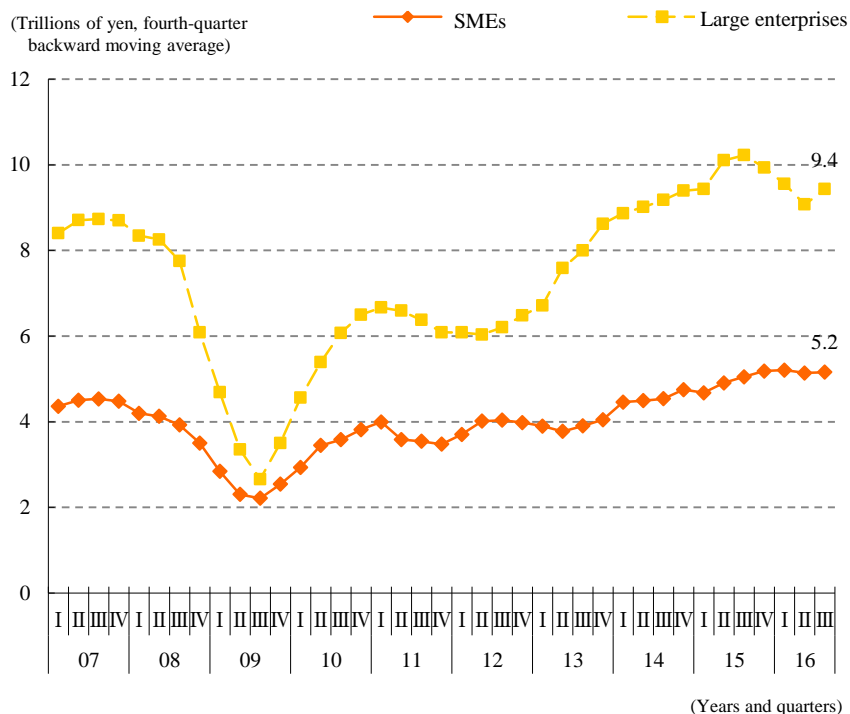


Fig. 1: “Financial Statements Statistics of Corporations by Industry (quarterly report)” (Ministry of Finance)
(Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more and SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen.

Fig. 2 Business Practice Improvement Initiative (Seko Plan)

(i) Clarification and strict implementation of cross-sectoral rules

- Increasing the number of violation cases from 66 to 141 by including “inappropriate cost-cutting activities” and “passing die storage costs to subcontractors”
- Adding “cooperation in improving productivity” and other practices to desirable business practices for larger contractors and their subcontractors
- Larger contractors should make payments to their subcontractors in cash as much as possible and implement other measures to take leadership in improving business practices.

(ii) Development of voluntary action plans by sector, etc.

- Of sectors that have developed subcontracting guidelines, the automobile industry and some other large enterprises were requested to develop and steadily implement voluntary action plans to improve business practices and increase added value. A follow-up to the request has been conducted. **At the end of March 2017, 21 groups in eight sectors had developed such plans.**

(iii) On-site inspection by business practice investigators (Subcontracting Supervising Inspectors)

- Subcontracting Supervising Inspectors have been deployed to hold more than 2,000 interviews with subcontractor SMEs annually and use the data from the interviews to improve business practices.

【Analysis of the Current Status 2-1】SME Lifecycle and Productivity (i)

(Changes in the number of enterprises from business entries and business exits)

- The total number of enterprises has followed a downward trend, decreasing by 390,000 from 2009 to 2014. Small-sized business exits represent a large portion of this decline.
- This means a decreasing trend for small enterprises and an increasing trend for medium enterprises.

Fig. 1 Changes in the Number of Enterprises

(million enterprises)

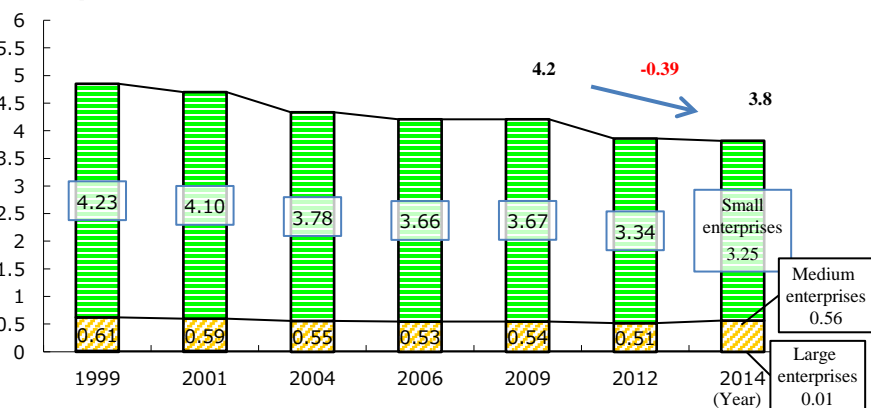


Fig. 2 Breakdown of business entries and exits (2009-2014)

(million enterprises)

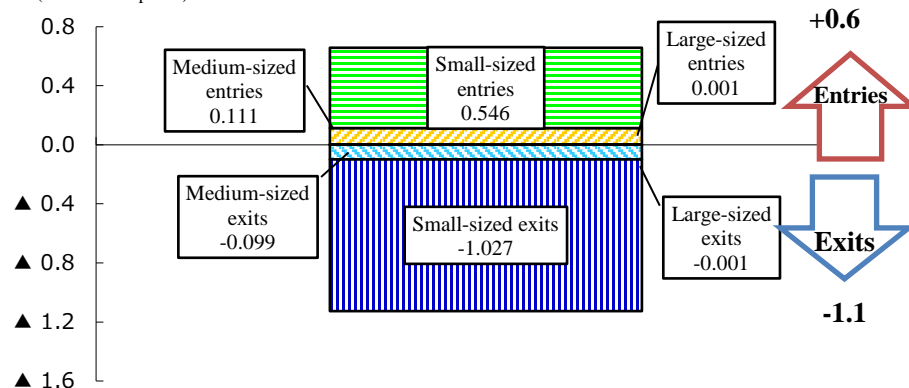
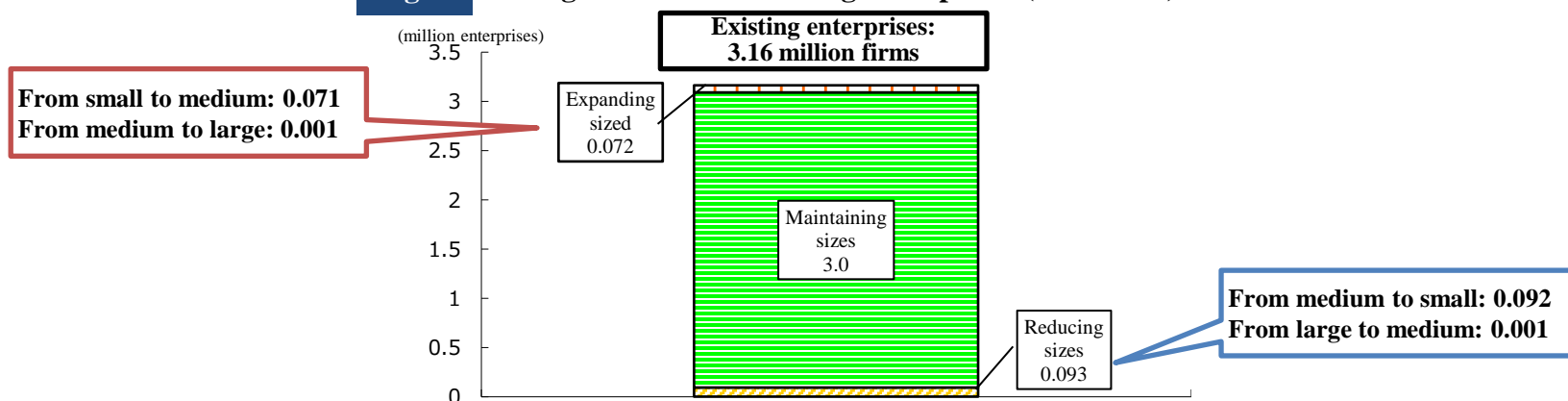


Fig. 3 Changes in Sizes of Existing Enterprises (2009-2014)

(million enterprises)



(Note) Enterprises that maintained their sizes unchanged include about 110,000 enterprises that failed to be identified in 2009 and were identified in 2014 due to enterprise split-ups and the improvement of statistical precision and exclude 40,000 enterprises that were identified in 2009 and could no longer be identified in 2014 due to mergers, etc.

【Analysis of the Current Status 2-2】

(Changes in the number of employees from business entry and exit)

- While the overall number of employees remained basically unchanged from 2009 to 2014, employees at medium enterprises increased. Particularly, medium-sized business entries represent a significant contribution to the increase.
- The number of employees per enterprise increased particularly for medium enterprises.

Fig. 1 Changes in the number of employees

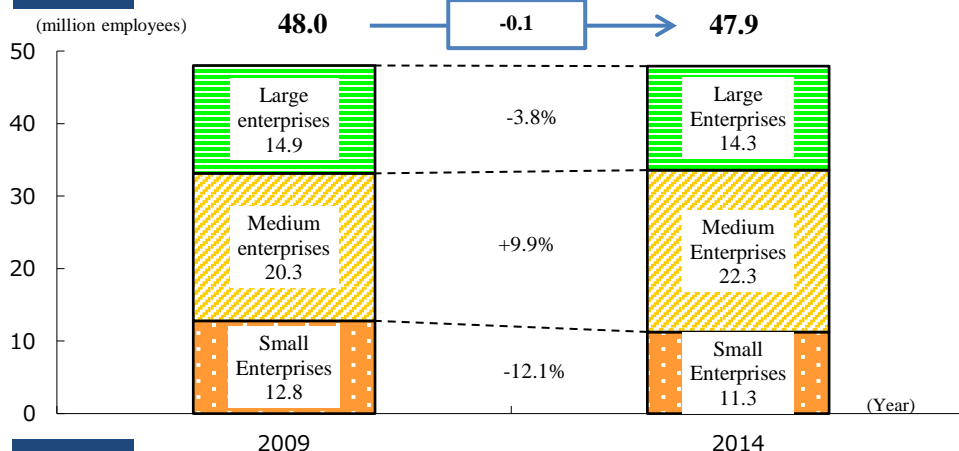


Fig. 2 Breakdown of changes in the number of employees (2009-2014)

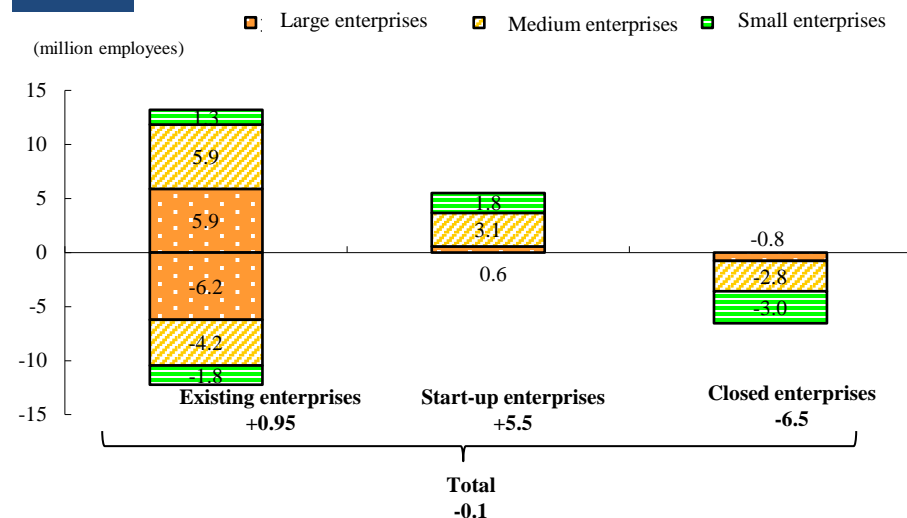
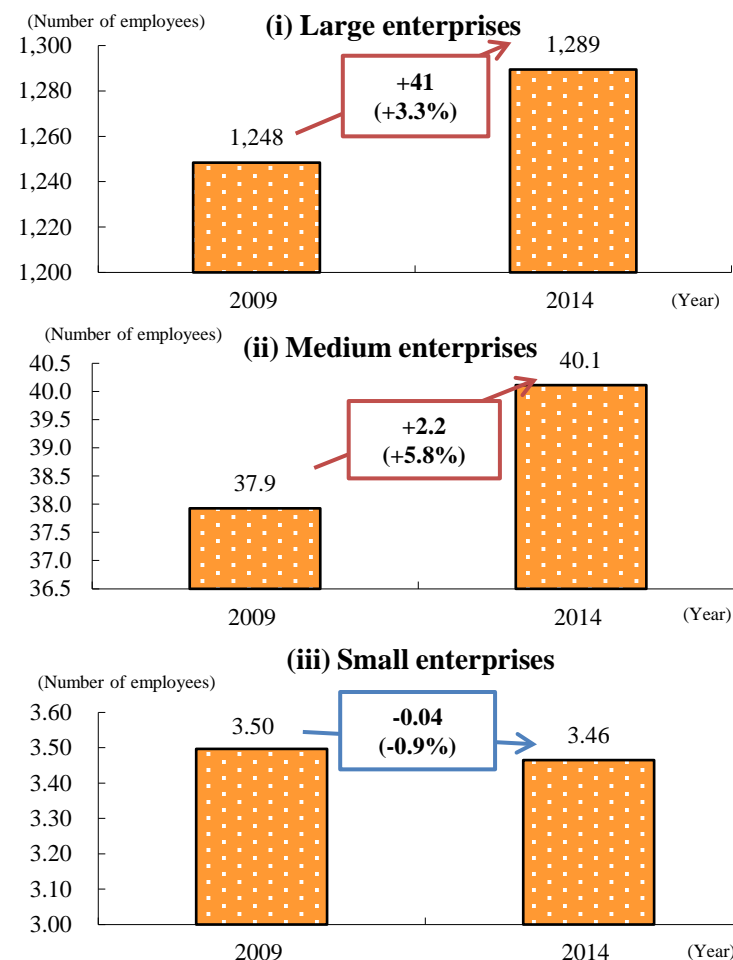


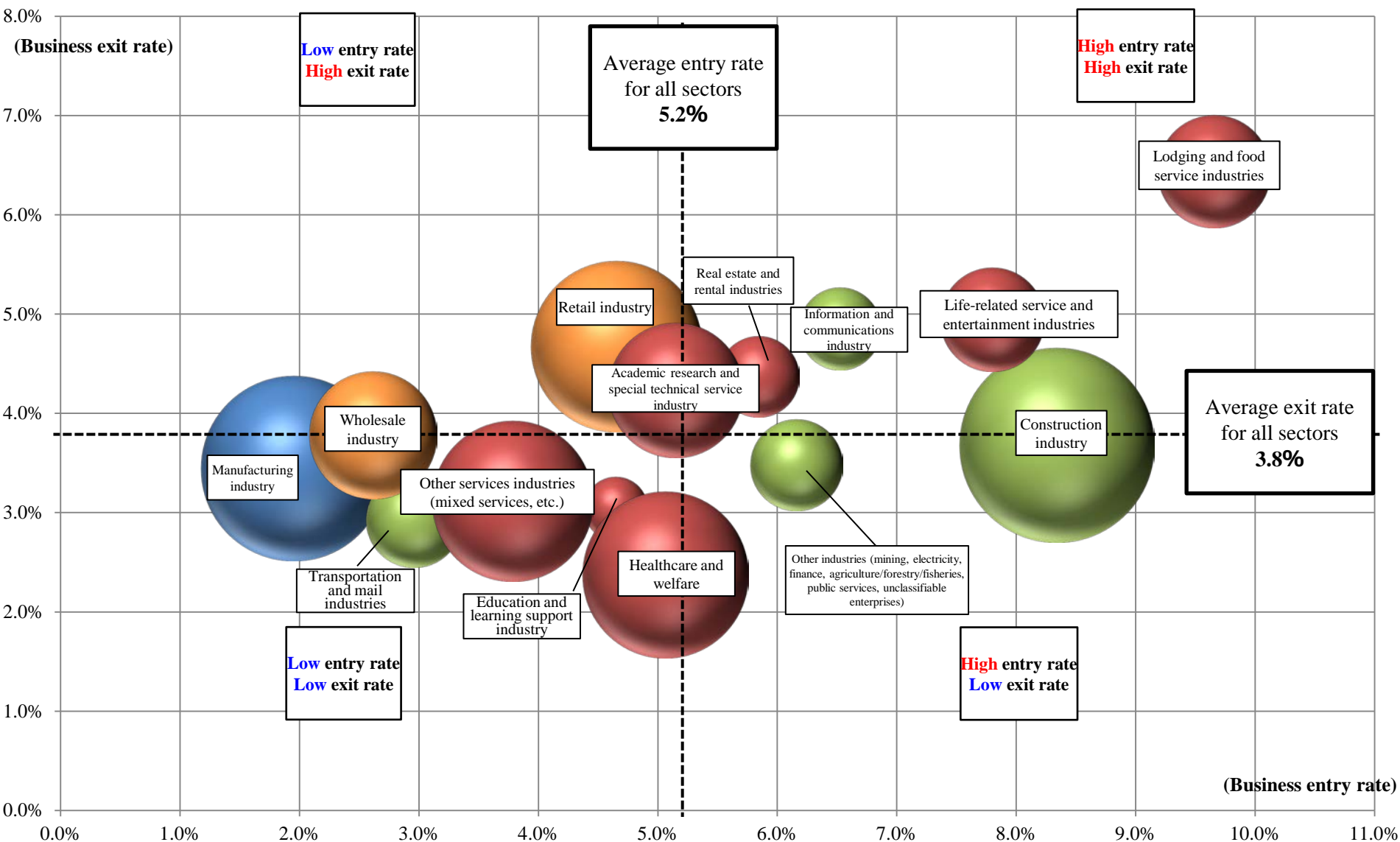
Fig. 3 Changes in the number of employees by enterprise size



【Analysis of the Current Status 2-3】

SME Lifecycle and Productivity (iii) (Business entry and exit rates by sector in FY2015)

- The status of business entries and exists differs from sector to sector.



Remarks: "Annual Report on Employment Insurance Services" (Ministry of Health, Labour and Welfare)

(Notes) 1. The business entry rate in the Annual Report on Employment Insurance Services is computed by dividing the number of business establishments where employment relationships were established in a fiscal year by the number of business establishments adopting employment insurance at the end of the previous year.

2. The business exit rate in the Annual Report on Employment Insurance Services is computed by dividing the number of business closings where employment relationships were closed in a fiscal year by the number of business closings adopting employment insurance at the end of the previous year.

【Analysis of the Current Status 2-4】

SME Lifecycle and Productivity (iv) (Current status of business exits)

- As SME managers are aging, the number of business exits has hit a record high, despite a decline in the number of bankruptcies.
- Enterprises with managers aged 60 or more and 80 or more hit their respective record-high shares of closed enterprises.

Fig. 1 Distribution of Ages of Managers of SMEs (by five-year interval)

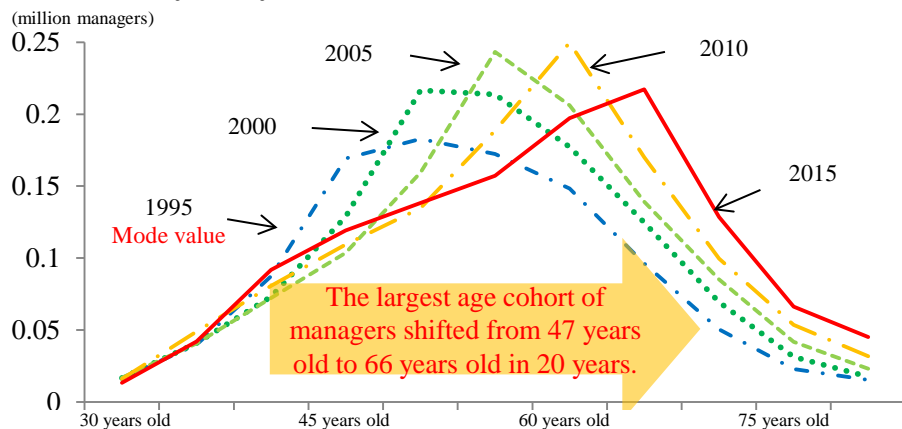


Fig.1: “COSMOS2 (corporate information file)” (Teikoku Databank, Ltd.) (rearranged and processed)

(Note) The mode value is the value that occurs most frequently.

Fig. 2 Changes in business exits and bankruptcies

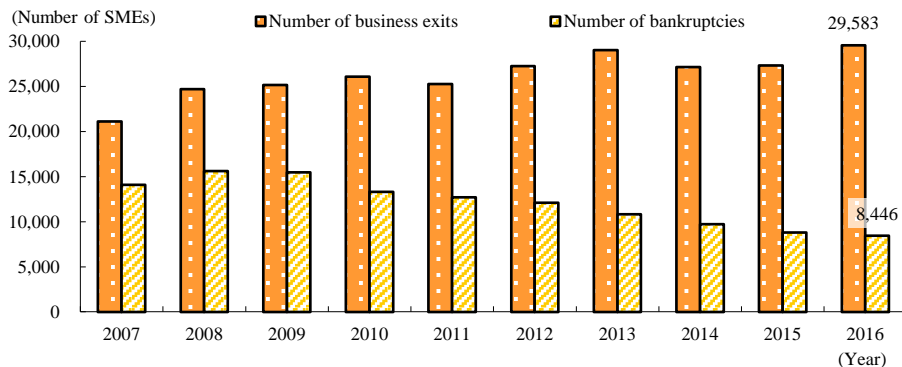
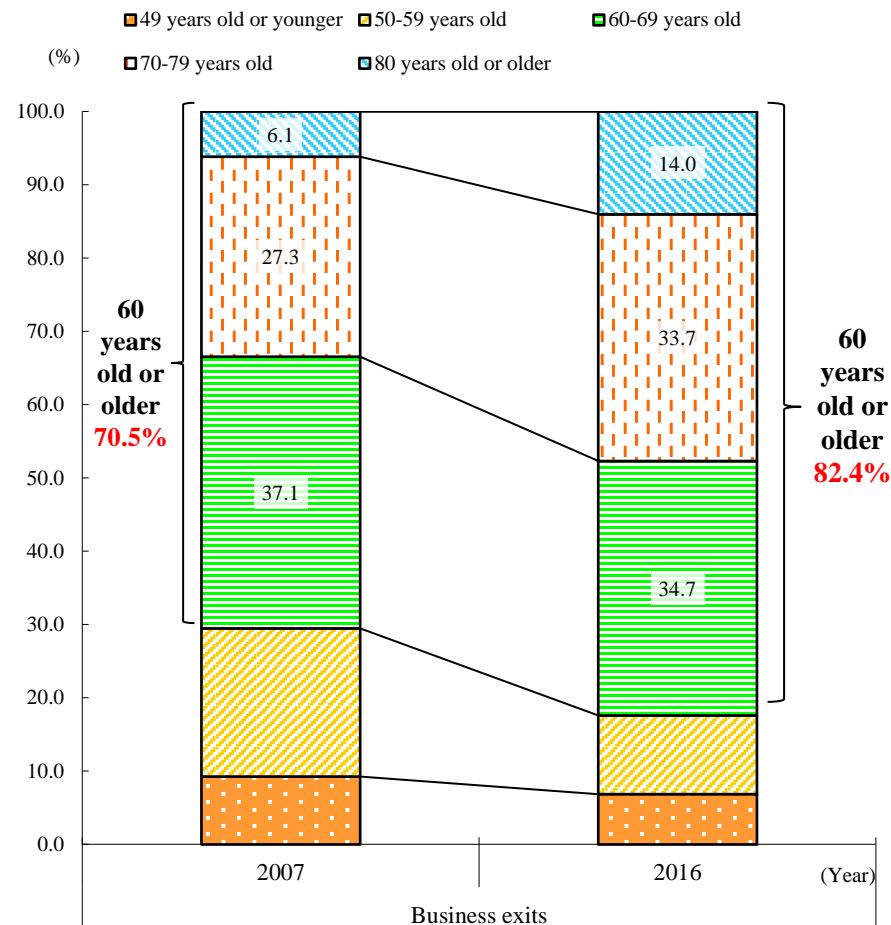


Fig. 3 Ages of managers of closed enterprises



Figs. 2-3: “2016 Business Exit Trend Survey” (Tokyo Shoko Research)

【Analysis of the Current Status 2-5】

SME Lifecycle and Productivity (v) (Relationship between Lifecycle and Productivity (i))

- Influences of each lifecycle element's trend on SME productivity are analyzed.
- While start-up enterprises have boosted productivity, the latest productivity-boosting effect has declined. Existing enterprises with high productivity have been expanding their share and thus pushing up overall productivity. On the other hand, a decline in existing enterprises' productivity, and bankruptcies and exits of enterprises with high productivity have pushed down overall productivity.

Fig. 1 Breakdown of productivity changes by element

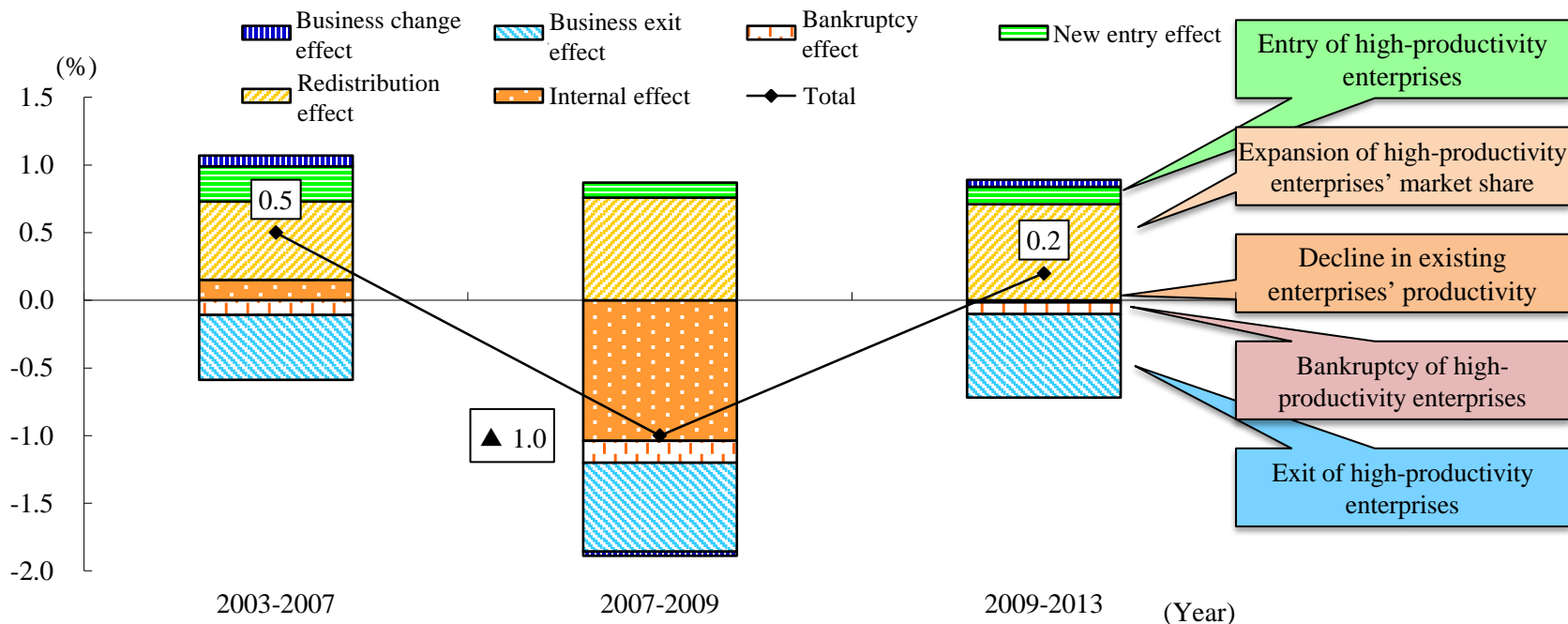


Fig. 1: “FY2016 Analysis of Corporate Metabolism for SMEs” under contract from the Small and Medium Enterprise Agency (Research Institute of Economy, Trade and Industry, December 2016)

(Notes) 1. Productivity here refers to total factor productivity, which indicates how overall value added changes when labor and capital change.

2. The business change effect refers to the overall productivity boosting or reducing effect of enterprises' business changes.

3. Used here are financial data of customer SMEs that the CRD (Credit Risk Database) Association received from its members (credit guarantee associations and financial institutions).

【Analysis of the Current Status 2-6】

SME Lifecycle and Productivity (vi) (Relationship between Lifecycle and Productivity (ii))

- Approx. 50% of start-up enterprises have raised SME productivity overall.
- The trend of raising productivity has recently declined due to a drop in high-productivity start-up enterprises.

Fig. 1 Breakdown of new entry effect

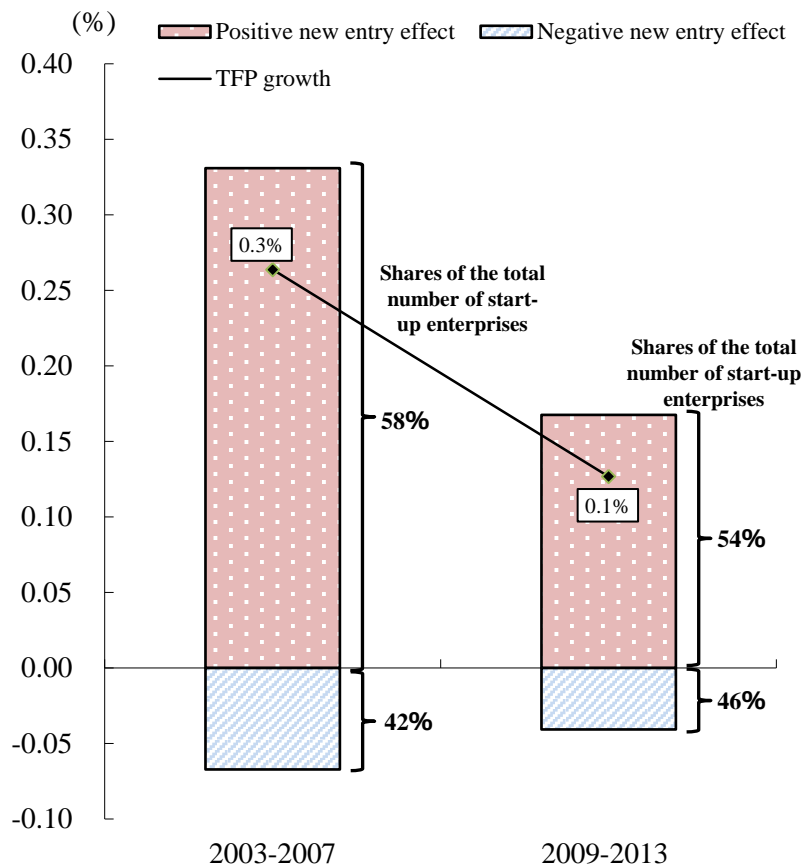


Fig. 2 Distribution of new entry enterprises (2009-2013)

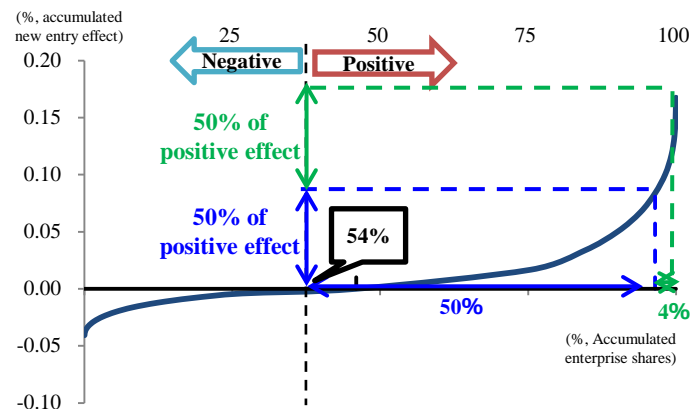
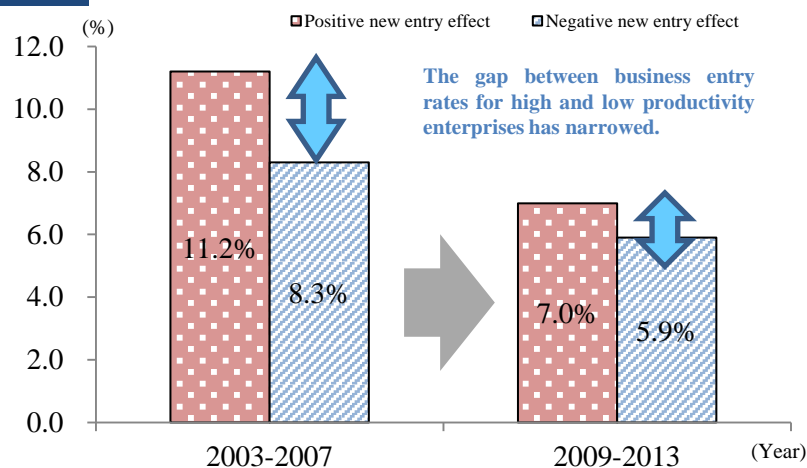


Fig. 3 Business entry rate changes (2009-2013)



【Analysis of the Current Status 2-7】

SME Lifecycle and Productivity (vii) (Relationship between Lifecycle and Productivity (iii))

- Some 50% of closed enterprises have pushed down productivity. Half of closed enterprises, excluding those attributable to mergers and acquisitions and moving overseas, have substantially pushed down productivity.
- Such enterprises feature fewer employees and sales and higher profits than existing enterprises. The share of enterprises that have determined successors to owners is relatively small for closed enterprises, indicating it is important to reduce business exits resulting from successor shortages.

Fig. 1 Breakdown of business exit effect

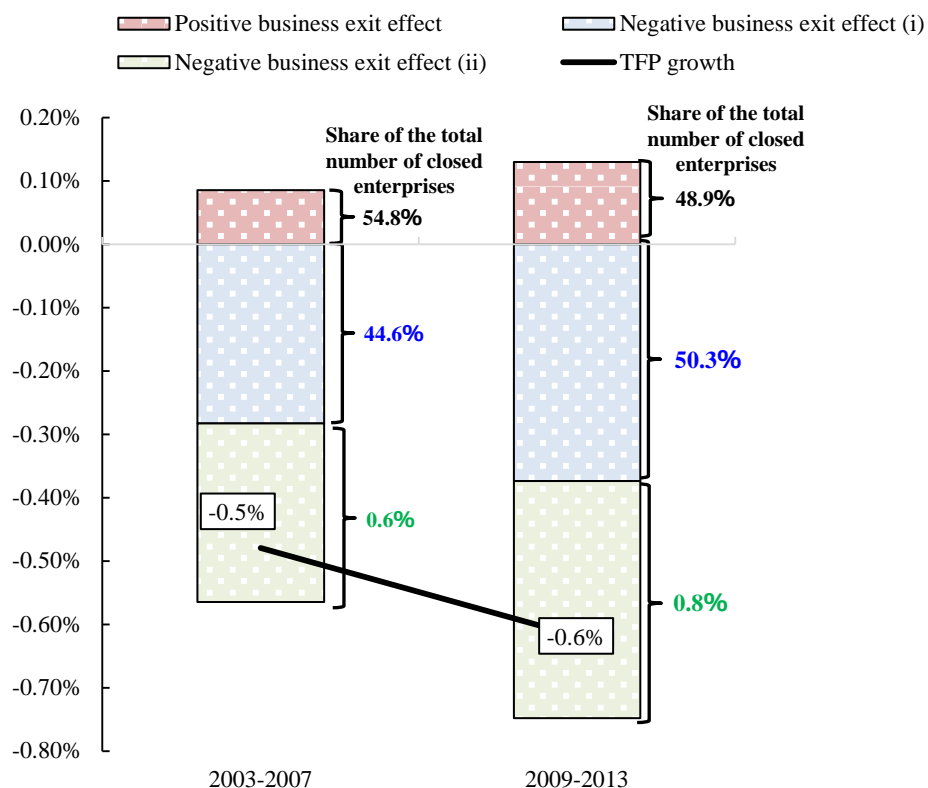


Fig. 2 Distribution of closed enterprises (2009-2013)

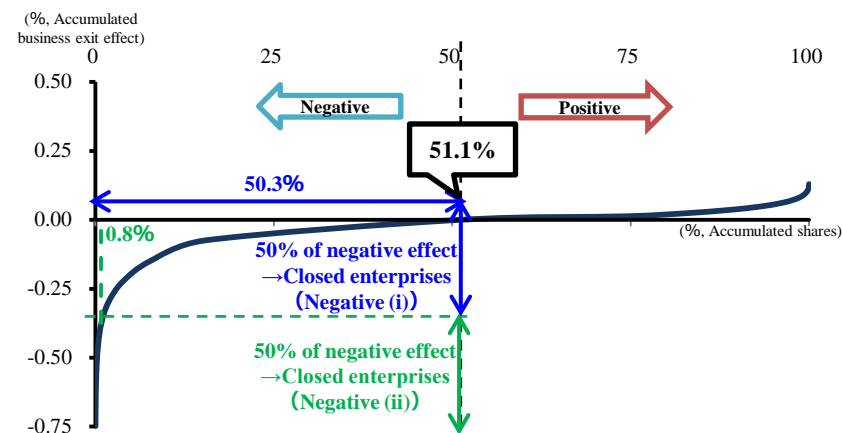


Fig. 3 Average characteristics of closed enterprises (business performance indicators)

	Closed enterprises (Negative (i)) 50.3%	Closed enterprises (Negative (ii)) 0.8%	(Reference) Existing enterprises	Closed enterprises (pushing up) 48.9%
Number of employees	6.4	94.5	11.2	8.7
Sales	0.19 billion yen	6.59 billion yen	0.34 billion yen	0.09 billion yen
Sales growth	0.55%	3.54%	1.4%	-3.8%
Ordinary profit margin	3.93%	4.95%	1.9%	-1.1%
Fixed asset growth	1.0%	8.0%	3.9%	-0.5%
Share for enterprises that determined successors to owners	42%	41.7%	45%	40.8%

Fig. 1-3: “FY2016 Analysis of Corporate Metabolism for SMEs” under contract from the Small and Medium Enterprise Agency (Research Institute of Economy, Trade and Industry, December 2016)
 (Note) Productivity here refers to total factor productivity, which indicates how overall value added changes when labor and capital change.

【Analysis of the Current Status 3-1】

Current Status of the SME Employment Environment and Labor Shortages (i)

- SMEs have increasingly perceived labor shortages, especially concerning the high ratio of job offers to applicants. Particularly, the number of employees has been decreasing at smaller-sized SMEs. The background factors of such situation are job and wage gaps.

Fig. 1 Changes in Employee Overcapacity and Insufficiency DI

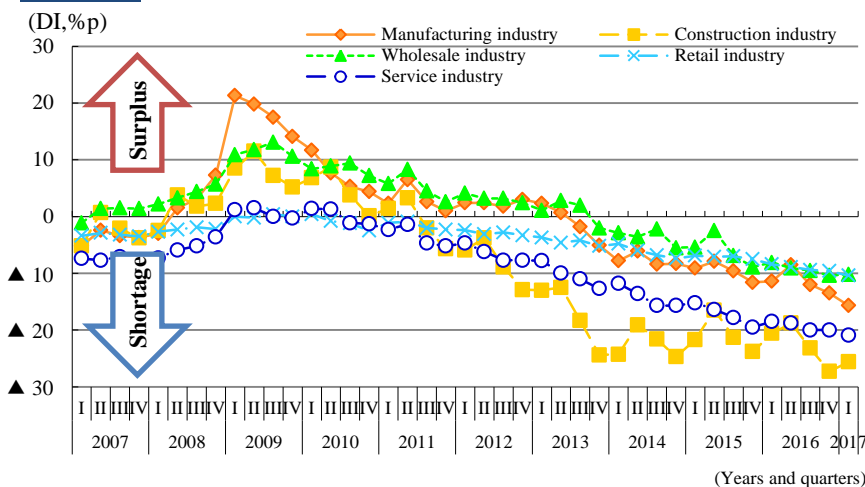


Fig. 1 “Survey of SME Business Conditions” (SME Support, Japan, Small and Medium Enterprise Agency)

Fig. 2 Changes in the number of employees by employment size

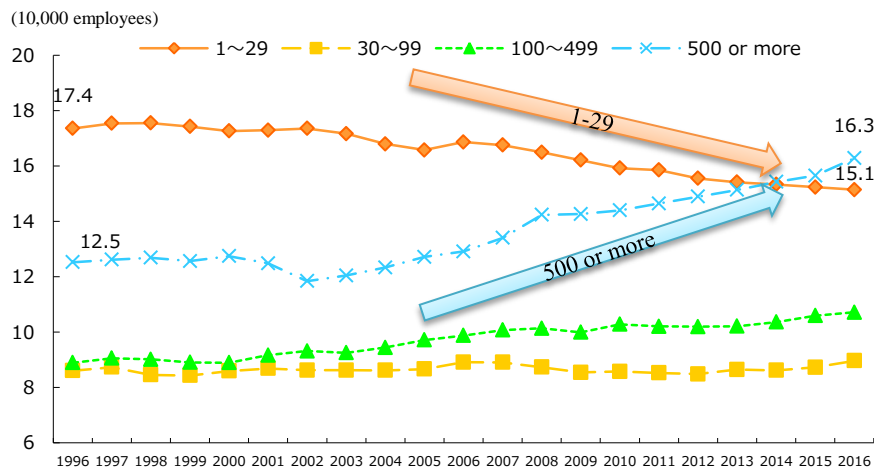


Fig. 2: “Labor Force Survey” (Ministry of Internal Affairs and Communications)

Fig. 3 Gap between job offers and applicants by job type

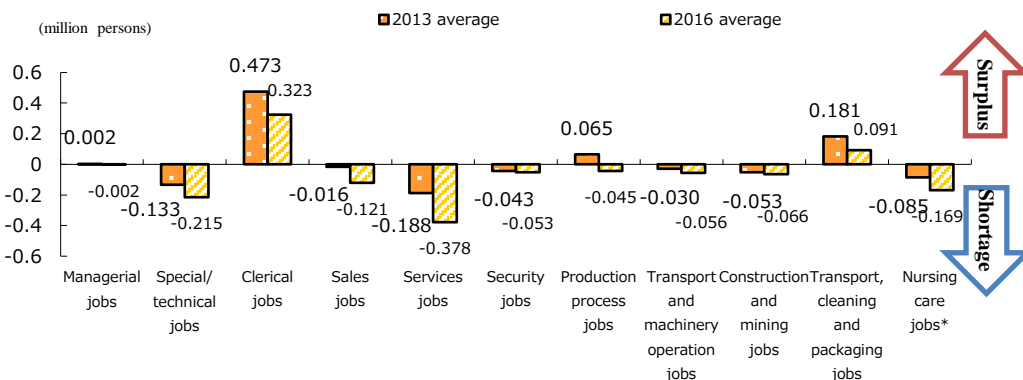


Fig. 3: “General Public Employment Placement Conditions” (Ministry of Health, Labour and Welfare)

(Notes) 1. Excluding “agriculture/forestry/fisheries jobs” and “unclassifiable jobs”

2. “Nursing care jobs” cover “welfare facility instruction specialists,” “other social welfare specialists,” “domestic helpers” and “nursing care service jobs” extracted from “special/technical jobs” and “services jobs”, based on “Classification of Jobs (2013 Revised Edition)” by the Ministry of Health, Labour and Welfare.

Fig. 4 Changes in wages by enterprise size



Fig. 4: “Basic Statistical Survey of Wage Structure” (Ministry of Health, Labour and Welfare) rearranged and processed

(Notes) 1. “Regular employees” covered general workers with no specified employment periods until 2004. Since 2005, they have covered general workers described as “regular employees” by business establishments.

2. Wages represent “regularly paid cash wages” for June every year, covering basic pay, predetermined allowances and overtime money.

3. Enterprises with 299 or fewer permanent employees (99 or fewer permanent employees for wholesale, services, retail and restaurant industries) are classified as SMEs. The others are large enterprises.

【Analysis of the Current Status 3-2】

Current Status of the SME Employment Environment and Labor Shortages (ii) (Utilization of various human resources)

- Smaller enterprises utilize more various human resources, including women and seniors.
- Many SMEs utilize or consider utilizing various human resources as core employees.

Fig. 1 Male and female shares of employees by company size (employees)

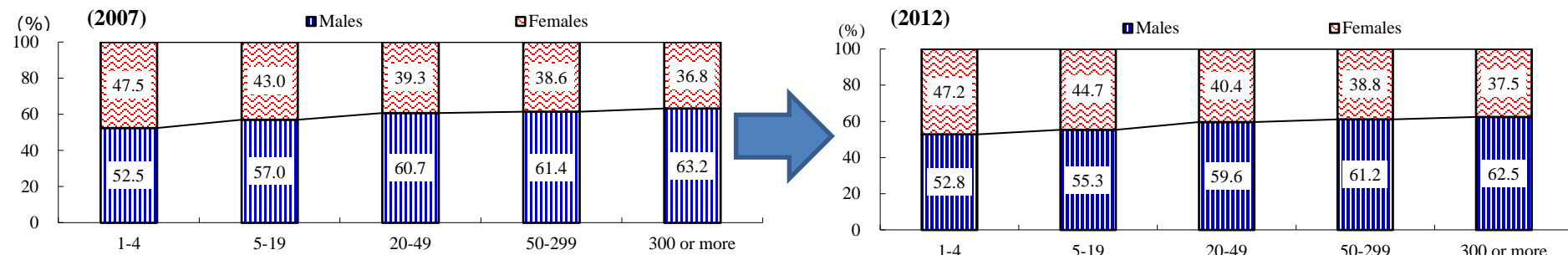


Fig. 2 Age distribution of employees by company size (employees)

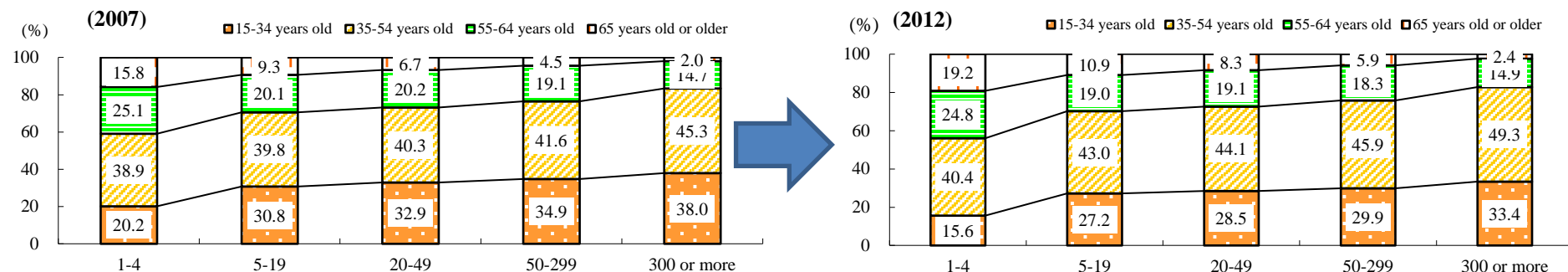
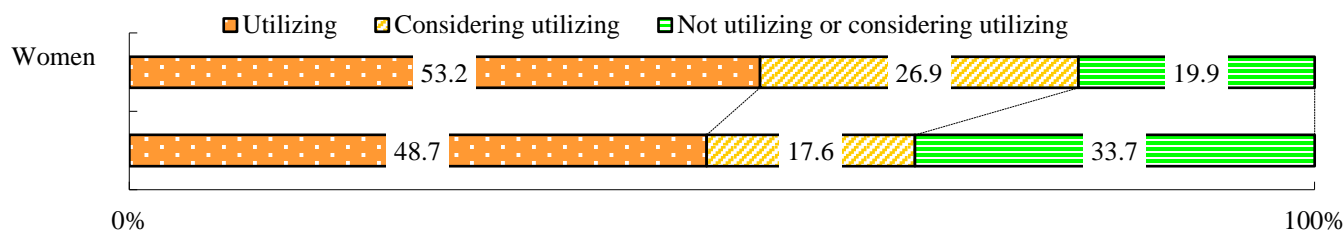


Fig. 3 Utilization of various human resources as core workers (SMEs)



[Analysis by Theme 1-1] Business Entries (i)

- In comparison with other countries, Japan features a lower business entry rate and a larger share of people who are indifferent to starting up enterprises. However, people attempting to start up enterprises in Japan are likelier to actually succeed in starting up those enterprises.
- Increasing public interest in starting up enterprises is important. A key motivator for people to start up enterprises seems to be recommendations from close friends.

Fig. 1 International comparison of business entry rates

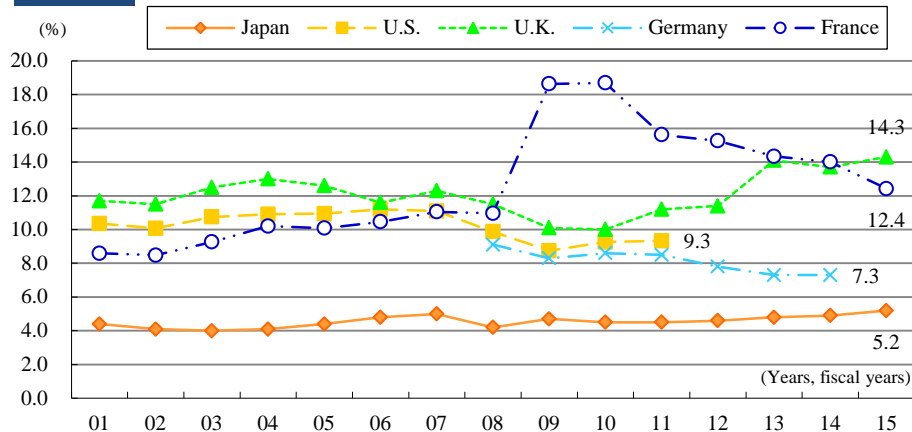
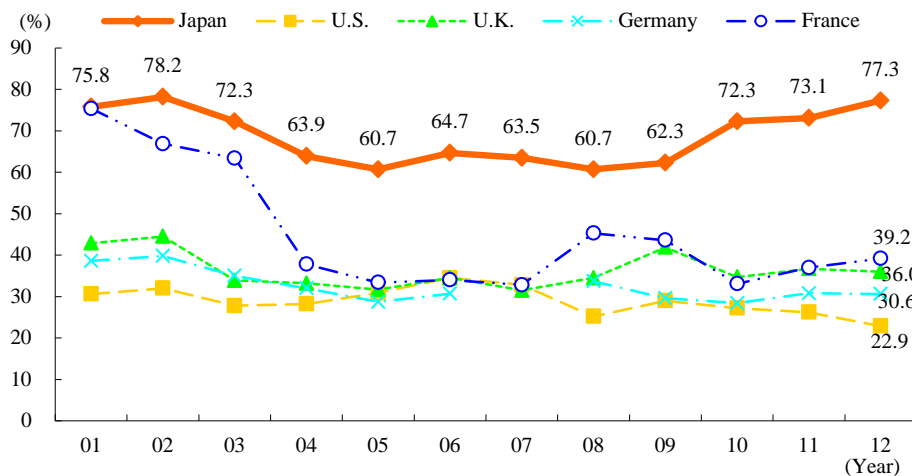


Fig. 2 Percentages of people indifferent to starting up enterprises (international comparison)



Figs. 1-2: Prepared by the Small and Medium Enterprise Agency from a report on a FY2013 "Survey on Entrepreneurship" (Venture Enterprise Center, March 2014)

Fig. 3 Percentages of people who are interested in starting up enterprises that actually succeed in starting up those enterprises (international comparison)

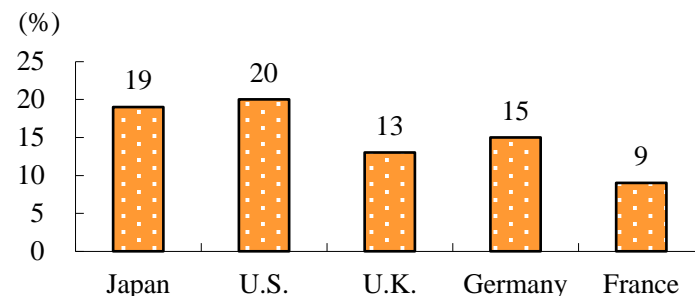


Fig. 3: Prepared by the Small and Medium Enterprise Agency from "International Comparison of Factors Influencing Business Start-up Activities" (Research Institute of Economy, Trade and Industry, March 2016)

Fig. 4 Motivations for entrepreneurs to start new enterprises

Recommendations by close friends and the presence of entrepreneurs can become key motivations.

		Most frequently cited	Second most frequently cited	Third most frequently cited
49 years old or younger	Male (n=961)	Influence of surrounding entrepreneurs and managers (40.7%)	Failing to do what I want to do at my place of employment (29.2%)	Future uncertainties and worsened treatment at my place of employment (27.5%)
	Female (n=75)	Recommendations by close friends (33.3%)	Home environment changes (marriage, child delivery, etc.) (25.3%)	Influence of surrounding entrepreneurs and managers (22.7%)
50-59 years old	Male (n=809)	Future uncertainties and worsened treatment at my place of employment (35.7%)	Failing to do what I want to do at my place of employment (28.4%)	Influences of surrounding entrepreneurs and managers (27.3%)
	Female (n=107)	Recommendations by close friends (37.4%)	Home environment changes (marriage, child delivery, etc.) (29.0%)	Failing to do what I want to do at my place of employment (23.4%)
60 years old or older	Male (n=949)	Influence of surrounding entrepreneurs and managers (25.2%)	Recommendations by close friends (21.9%)	Future uncertainties and worsened treatment at my place of employment (21.7%)
	Female (n=99)	Failing to do what I want to do at my place of employment (30.3%)	Recommendations by close friends (26.3%)	Acquisition of licenses or qualifications useful for business operations (24.2%)

Fig. 4: "Survey on Business Entry Realities" under contract from the Small and Medium Enterprise Agency (Mitsubishi UFJ Research and Consulting, November 2016)

(Notes) 1. Motivations for entrepreneurs to have interests in starting up enterprises before actually doing so are compiled.

2. Because respondents were allowed to cite multiple motivations, percentage shares may not necessarily add up to 100%.

【Analysis by Theme 1-2】Business Entries (ii)

- 5- to 10-year-old enterprises are classified into three types -- high growth, stable growth and sustainable growth.
- Services and manufacturing enterprises are dominant among high-growth enterprises. Their managers are young and indicate effects of entrepreneurial education.

Fig. 1 Growth trends after business entry

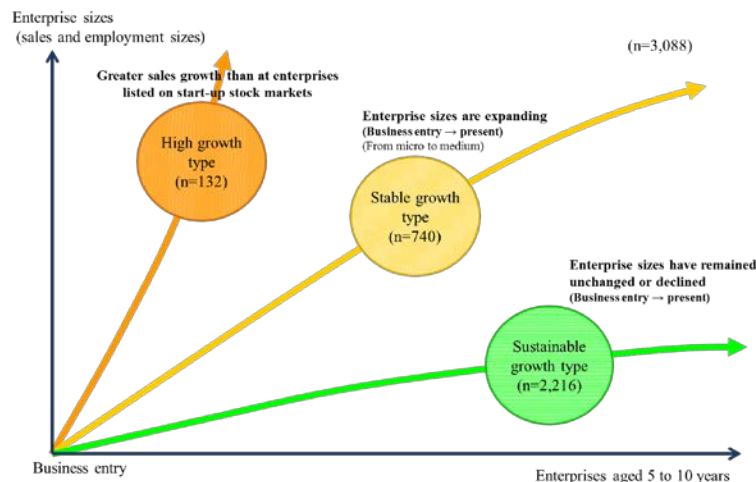


Fig. 2 Industry shares by growth type

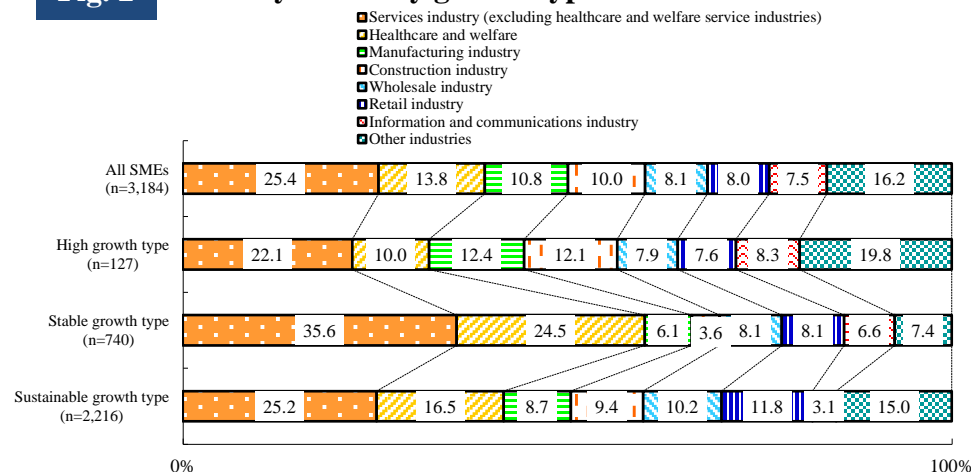


Fig. 3 Entrepreneurs' age distribution by growth type

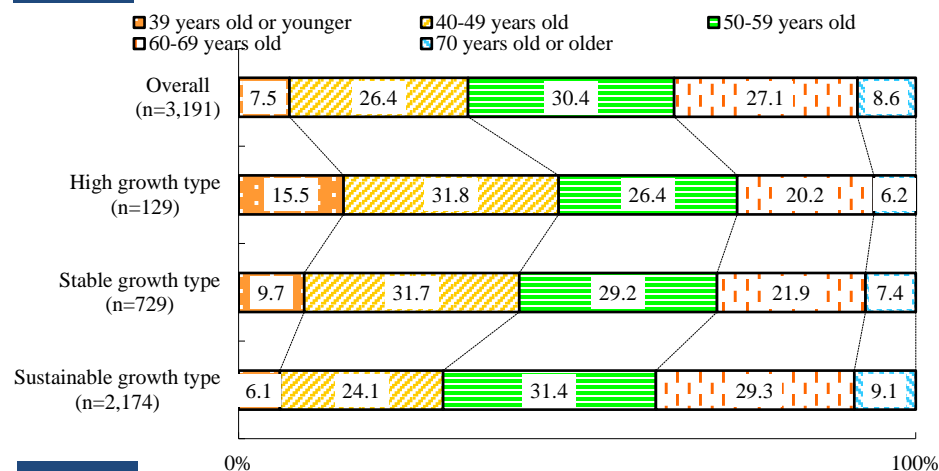
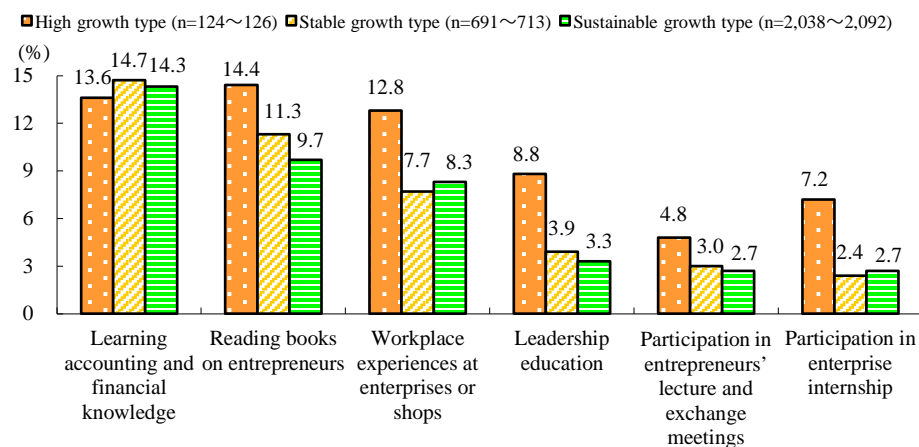


Fig. 4 Details of entrepreneurial education at school by growth type



(Note) The data cover respondents who cited specific courses at elementary schools, junior high schools, senior high schools, technical colleges, vocational schools, junior colleges, universities or graduate schools.

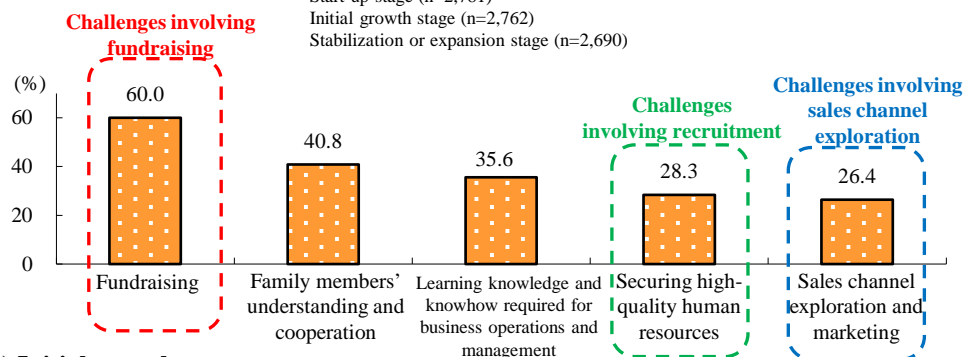
【Analysis by Theme 1-3】Business Entries (iii)

- Within each growth type, challenges shift from fundraising to recruitment as enterprises go to higher stages.
- Whether enterprises have realized target growth types depended on successful fundraising.

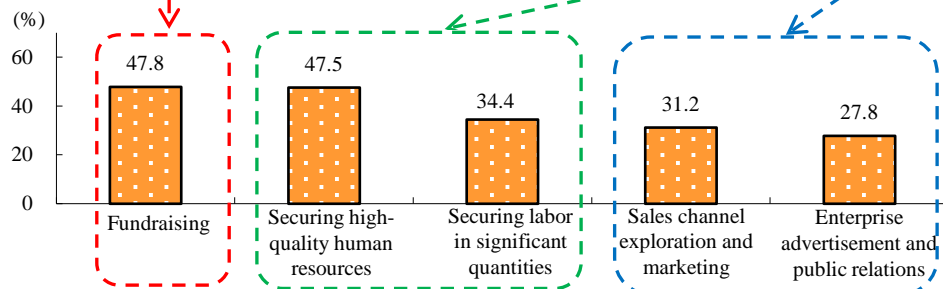
Fig. 1 Challenges at each growth stage

(1) Start-up stage

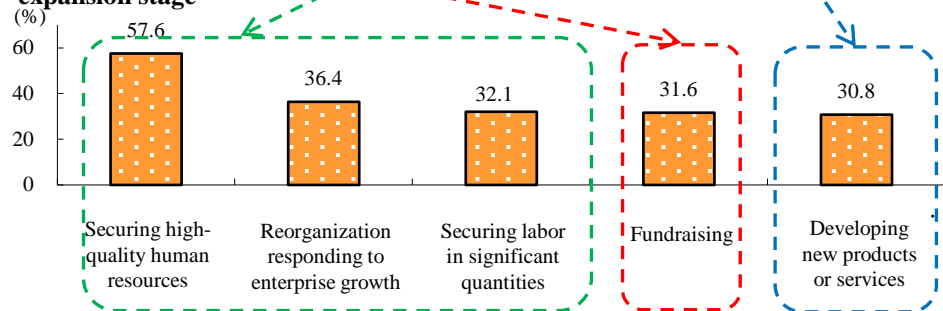
Start-up stage (n=2,781)
Initial growth stage (n=2,762)
Stabilization or expansion stage (n=2,690)



(2) Initial growth stage



(3) Stabilization or expansion stage

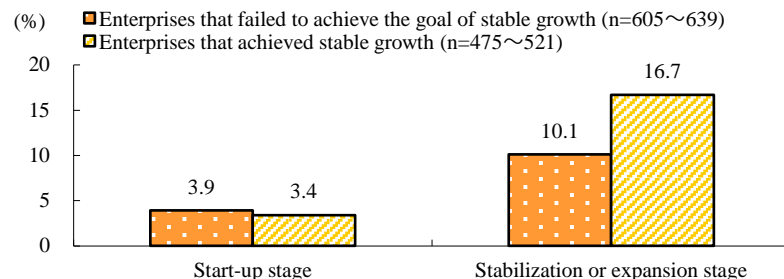


Figs 1-2: "Survey on Business Entry Realities" under contract from the Small and Medium Enterprise Agency (Mitsubishi UFJ Research and Consulting, November 2016)

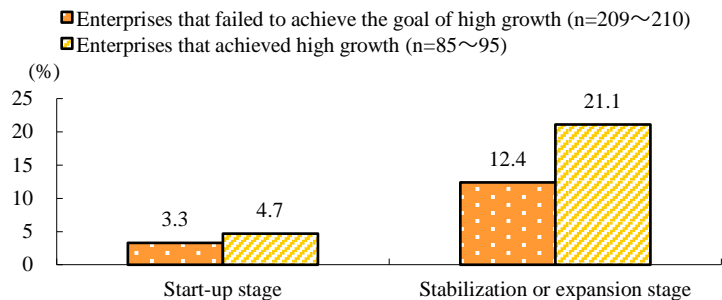
Fig. 2 Use of loans without security or guarantee

Loans without security or guarantee in the stabilization or expansion stage lead to stable or high growth

(1) Use of loans without security or guarantee at stable growth enterprises



(2) Use of loans without security or guarantee at high growth enterprises



(Notes)

- Here, in the "start-up stage", there are no mainstream products or service sales, while in the "initial growth stage," sales have been reported, but operating income has not turned positive, and in the "stabilization or expansion stage," sales have been reported, and operating income has turned positive for at least one fiscal period.
- Here, Loans without security or guarantee are loans provided without security or guarantee due to high ratings for business operations and growth potential.

【Analysis by Theme 1-4】Business Entries (iv)

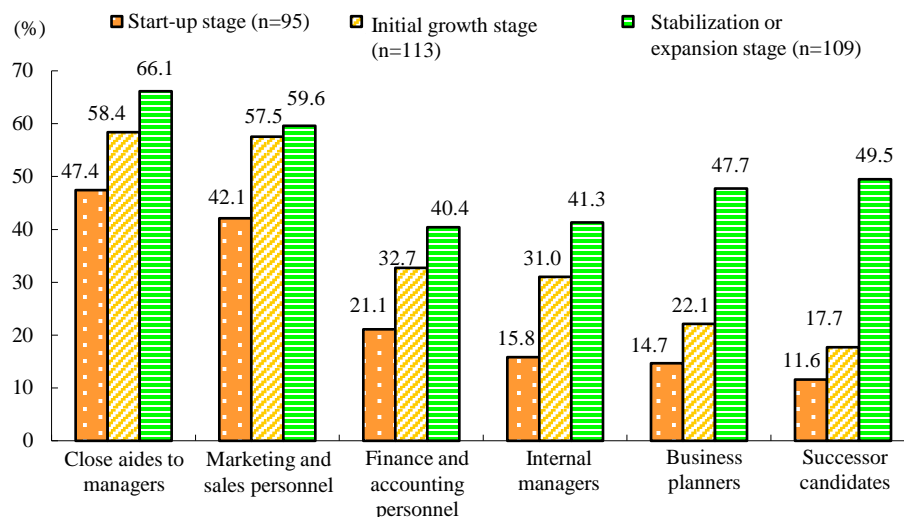
- In the stabilization or expansion stage at high growth enterprises, there are strong needs for investment and for business advisers, internal managers, business planners and other human resources required for business expansion.

Fig. 1 Fundraising methods at high-growth enterprises in the growth or expansion stage

	Most frequently cited	Second most frequently cited	Third most frequently cited	Fourth most frequently cited	Fifth most frequently cited
Fundraising methods used in the stabilization or expansion stage (n=104)	Loans from private financial institutions (73.1%)	Loans from government financial institutions (45.2%)	Enterprise managers' own funds (36.5%)	Using public subsidies (19.2%)	Loans from family members, relatives, acquaintances, etc. (13.5%)
Fundraising methods that enterprises wanted to use in the stabilization or expansion stage (n=14)	Investment from venture capitals, investment partnerships, funds, etc. (78.6%)	Investment from individual investors (71.4%)	Loans from private enterprises or other organizations (71.4%)	Investment from private enterprises, funds, foundations or other organizations (71.4%)	Using crowdfunding (64.3%)

(Note) The five most frequently cited items are listed for fundraising methods that enterprises used and those that enterprises wanted to use.

Fig. 2 Human resources required at high growth enterprises in each growth stage



【Specific case】Robit Inc. (Tokyo)

An enterprise that took advantage of speedy planning and development processes to enhance technology and gain success

- Robit Inc. in Tokyo, founded in June 2014, develops IoT (Internet of things) systems, robots, etc. Robit's President Takahashi decided to start up an enterprise after winning first prizes at multiple business contests thanks to high ratings for his planning ability and sample products during his university days.
- After starting up the enterprise with marginal money including business contest prize money and business start-up and second start-up promotion subsidies from the Small and Medium Enterprise Agency, President Takahashi planned products and developed samples repeatedly within a short period of time. The speedy product planning and development attracted individual investors, allowing him to successfully receive investment from them.
- Later, he took advantage of the investment to recruit some friends from his university days and enhance research and development. In the summer of 2016, which was two years after the start-up, Robit successfully launched the "Mezamashi Curtain mornin'" system to open and close curtains with smartphones.
- The product's shipments surpassed 20,000 units in the six months after its launch and its sales have smoothly grown. Robit is tackling the commercialization of new products and services.



Robit's "Mezamashi Curtain mornin'"

[Analysis by Theme 1-5] Business Entries (v)

- Fundraising needs at stable growth enterprises shift from loans to public subsidies and investment as they go to higher stages. From the initial growth stage, needs increase for advisers to managers and various other human resources.

Fig. 1 Fundraising methods at stable growth enterprises in each growth stage

(Start-up stage)

	Most frequently cited	Second most frequently cited	Third most frequently cited	Fourth most frequently cited	Fifth most frequently cited
Fundraising methods used in the start-up stage (n=677)	Enterprise managers' own funds (82.3%)	Loans from family members, relatives, acquaintances, etc. (39.3%)	Loans from private financial institutions (39.3%)	Loans from government financial institutions (28.2%)	Using public subsidies (12.6%)
Fundraising methods that enterprises wanted to use in the start-up stage (n=179)	Loans from private financial institutions (45.3%)	Loans from government financial institutions (41.3%)	Using public subsidies (36.9%)	Investment from venture capital firms, investment partnerships, funds, etc. (34.6%)	Investment from private enterprises, funds, foundations or other organizations (31.8%)

(Initial growth stage)

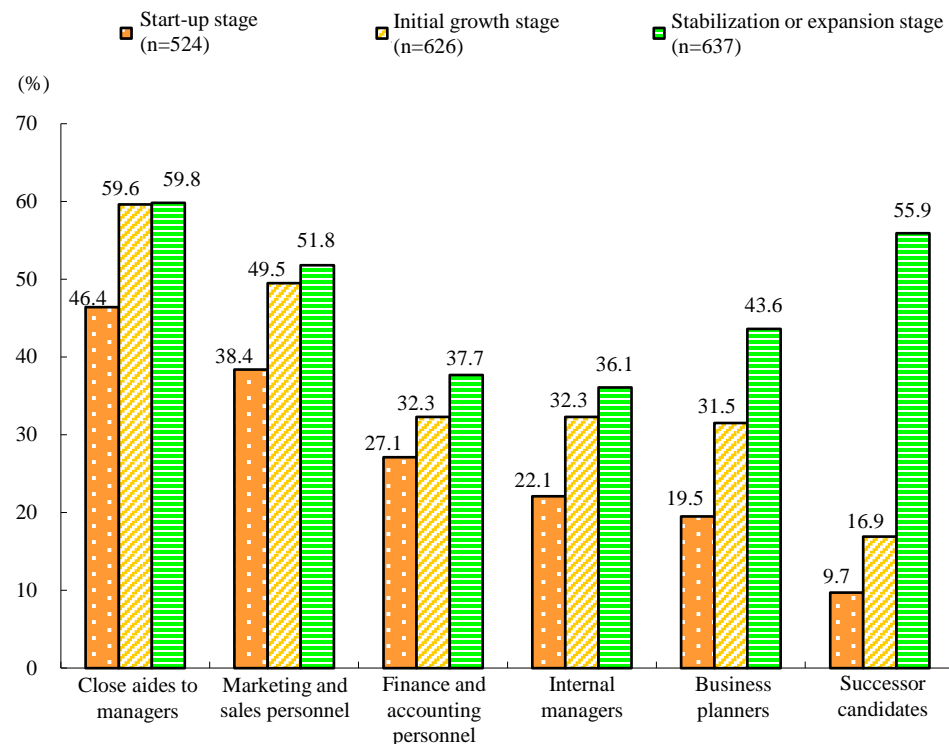
	Most frequently cited	Second most frequently cited	Third most frequently cited	Fourth most frequently cited	Fifth most frequently cited
Fundraising methods used in the initial growth stage (n=646)	Loans from private financial institutions (72.9%)	Enterprise managers' own funds (46.4%)	Loans from government financial institutions (40.9%)	Loans from family members, relatives, acquaintances, etc. (22.0%)	Using public subsidies (19.8%)
Fundraising methods that enterprises wanted to use in the initial growth stage (n=126)	Using public subsidies (44.4%)	Investment from private enterprises, funds, foundations or other organizations (43.7%)	Investment from venture capitals, investment partnerships, funds, etc. (42.9%)	Investment from individual investors (39.7%)	Using crowdfunding (38.1%)

(Stabilization or expansion stage)

	Most frequently cited	Second most frequently cited	Third most frequently cited	Fourth most frequently cited	Fifth most frequently cited
Fundraising methods used in the stabilization or expansion stage (n=546)	Loans from private financial institutions (78.4%)	Loans from government financial institutions (42.6%)	Enterprise managers' own funds (40.2%)	Using public subsidies (22.9%)	Loans from family members, relatives, acquaintances, etc. (13.8%)
Fundraising methods that enterprises wanted to use in the stabilization or expansion stage (n=110)	Investment from venture capitals, investment partnerships, funds, etc. (44.5%)	Using crowdfunding (44.5%)	Using public subsidies (42.7%)	Investment from private enterprises, funds, foundations or other organizations (40.0%)	Investment from individual investors (37.3%)

(Note) The five most frequently cited items are listed for fundraising methods that enterprises used and those that enterprises wanted to use.

Fig. 2 Human resources required at stable growth enterprises in each growth stage



【Analysis by Theme 2-1】Business Succession (i)

- Non-family business succession accounts for one-third of the total business succession cases. In many of non-family business succession cases, successors come from within the organization.
- In many cases where acquaintances recommended that managers prepare for business succession, successors were chosen. While the selection of successors takes time, enterprises that have not determined successors have generally failed to progress in enacting business succession measures.

Fig. 1 Successor criteria and present status of non-family succession (medium-sized corporations)

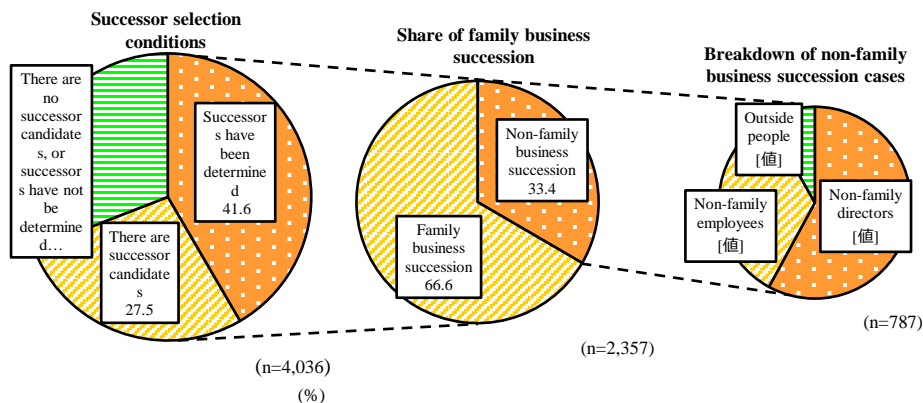


Fig. 2 Shares of enterprises recommended to prepare for business or asset succession by successor selection stage

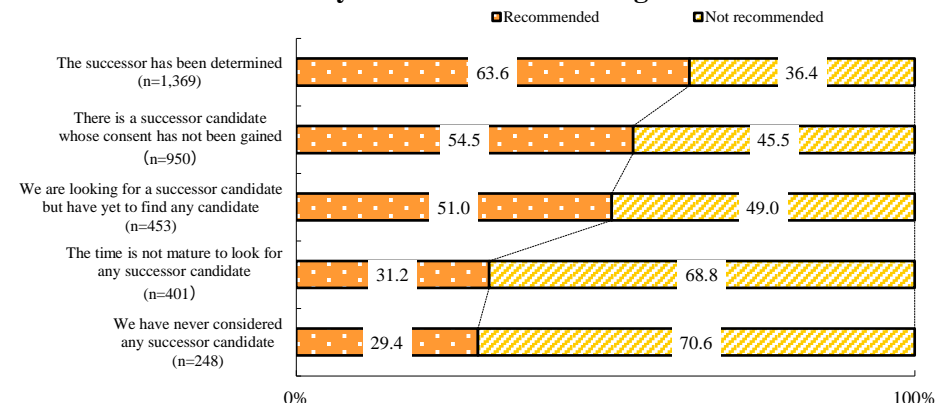


Fig. 3 Time to receive consent from a candidate after beginning the selection process

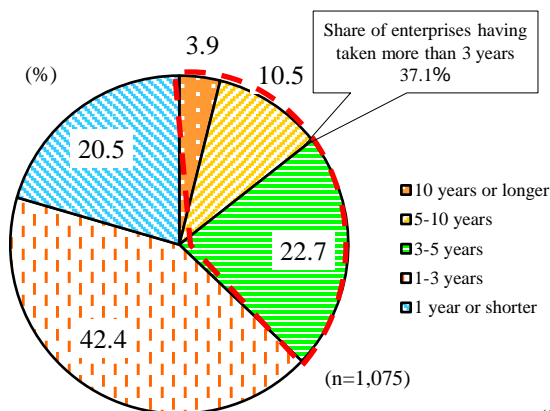
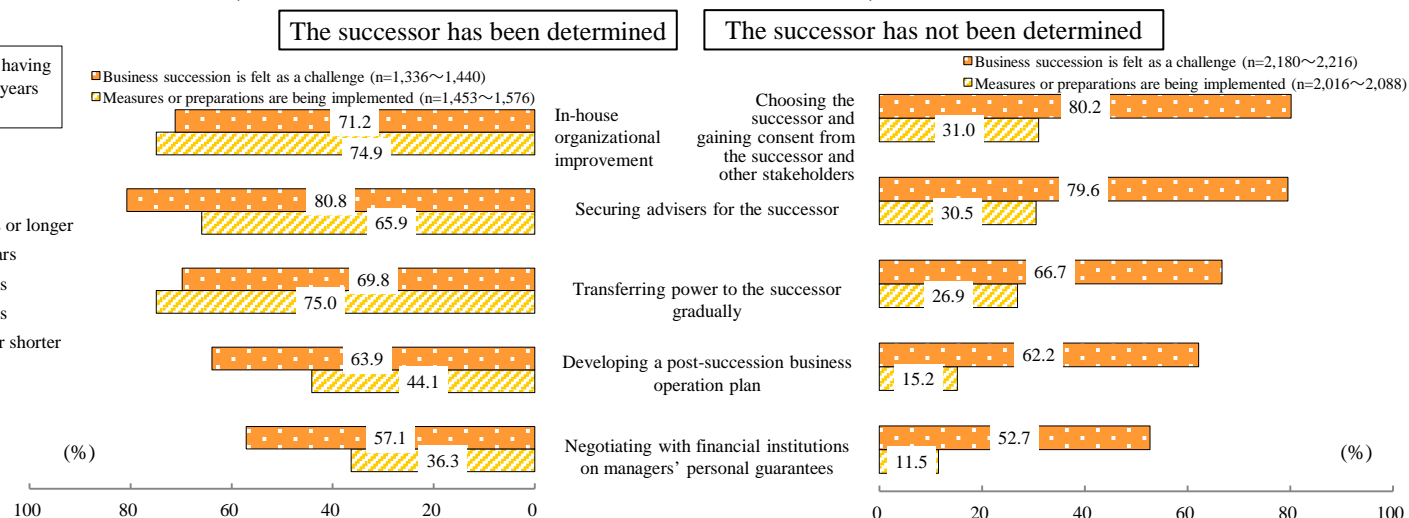


Fig. 4 Business succession challenges, measures and preparations (the successor has been or has not been determined)



【Analysis by Theme 2-2】Business Succession (ii)

- Enterprises fail to make smooth progress in resolving challenges regarding non-family asset succession. Relevant challenges include time-consuming measures and preparations for asset succession methods.
- Top managers must select their successors and systematically make preparations for succession, while supporters and financial institutions must cooperate in providing fine-tuned support for resolving various challenges.

Fig. 1 Asset succession challenges, measures and preparations (family and non-family succession)

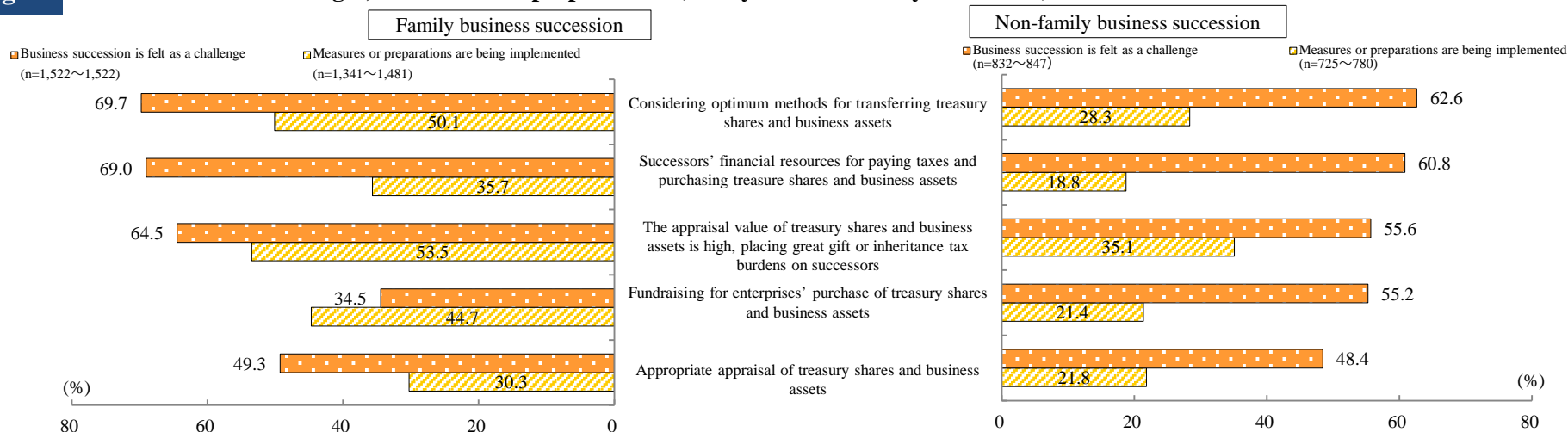


Fig. 2 Impressions of treasury share appraisal value viewed by the ordinary profit margin

There are many loss-ridden enterprises whose stocks have unexpectedly high appraisal value

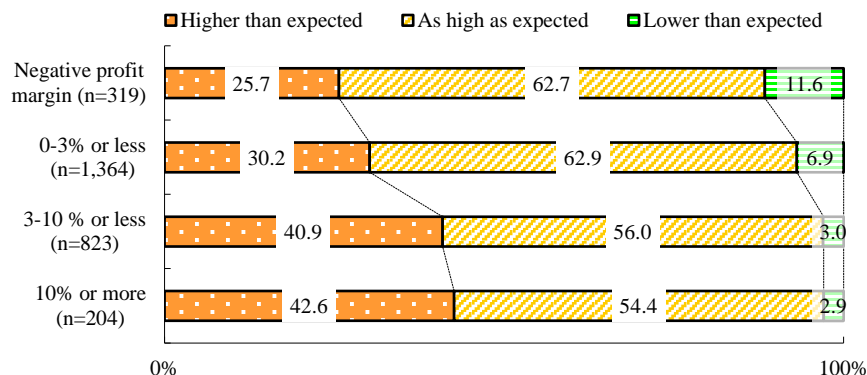
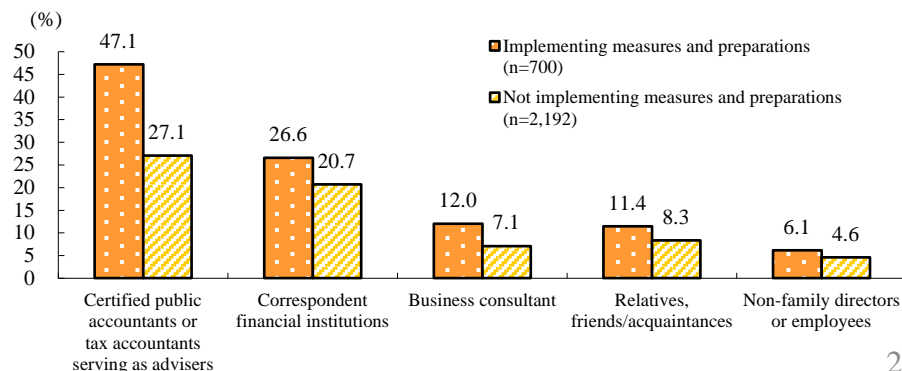


Fig. 3 Advisers recommending preparations for business or asset succession by stage of measures and preparations regarding successors' financial resources

What is important for enterprises managers is advice from those who frequently meet them



【Analysis by Theme 2-3】Business Succession (iii)

- For enterprises that lack successors but want to continue business operations, business transfers, sales or integration (mergers and acquisitions) are important options. In general, most managers insist on not only maintaining positions for their employees but also the future development of their business.
- Enterprises fail to make progress in making preparations or taking measures despite abundant succession challenges. The share is low for enterprises that consult with specialists on succession. Support arrangements are necessary to find relevant needs and respond to various challenges.

Fig. 1 Consideration of sale, integration or transfer of business ownership (mergers and acquisitions) both for enterprises with or without successors or successor candidates

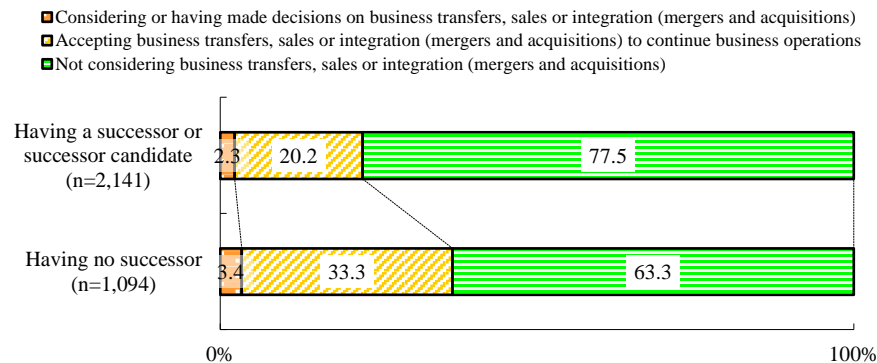


Fig. 2 Priorities for sale, integration, or transfer of business ownership (mergers and acquisitions) by company size (employees)

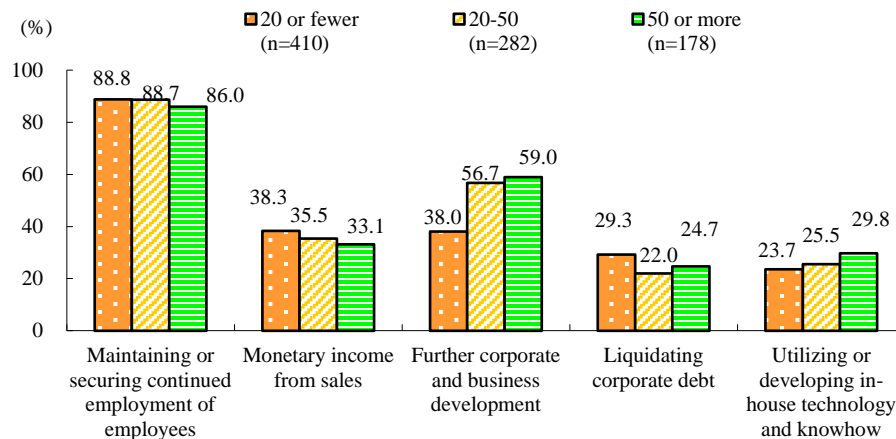


Fig. 3 Challenges, measures and preparations regarding business transfers, sales or integration (mergers and acquisitions)

Even enterprises interested in mergers and acquisitions have failed to make progress in taking relevant measures or making preparations.

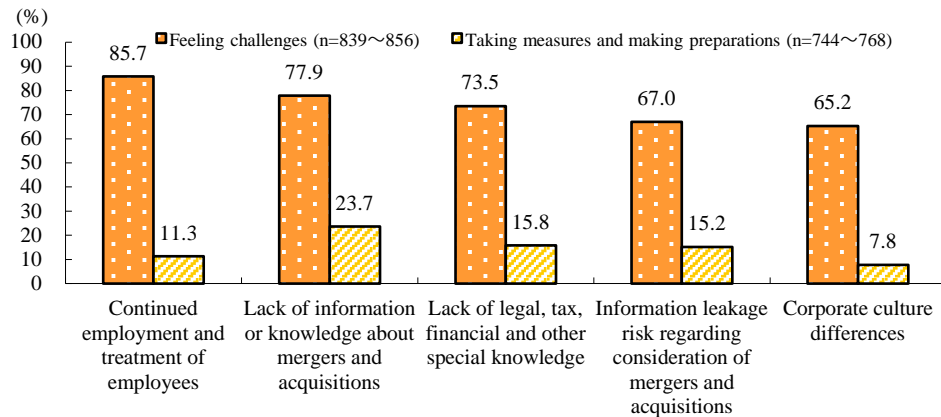
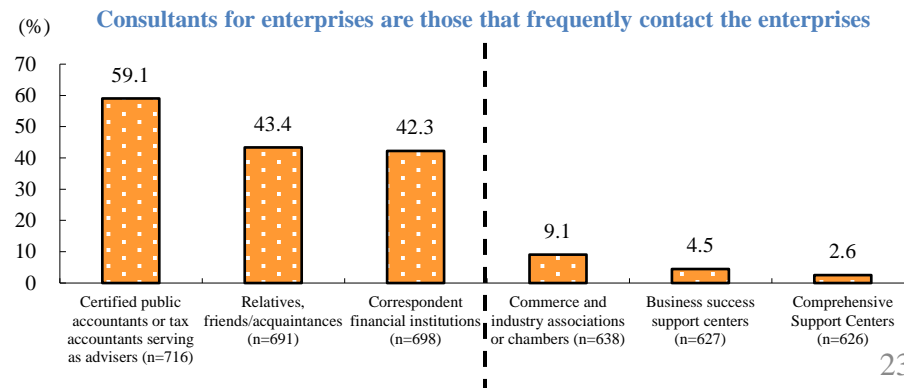


Fig. 4 Consultants on business succession for enterprises interested in sale, integration, or transfer of ownership (mergers and acquisitions) (three most frequently cited and 3 least frequently cited consultants)



【Analysis by Theme 2-4】Business Succession (iv)

【Specific case】Autec Mechanical Co. (Minami-Alps City, Yamanashi Prefecture)

Three generations tackling smooth business and asset succession

- Autec Mechanical is a manufacturer founded by its present chairman to design and produce automatic assemblers and automatic inspection devices, etc. Since the early stage, the chairman has not stuck to family management but has been conscious of developing a system for excellent employees to succeed to the top manager position and enable business operations to be maintained over the long term.
- The present chairman developed a corporate business philosophy and has held business plan presentation contests to spread the enterprise's business direction. The chairman picked an employee as a director in his 40s and appointed him as the present president who has now taken over the management of the business management.
- The enterprise picked a sales head as a director and a candidate for the next top manager in his 40s and dispatched him to an outside successor training course that the present president underwent in his 40s. The enterprise is proceeding with training of a business successor candidate.
- The chairman says: “Large organizations can select business successors. However, SMEs must take much time to train successor candidates. Successor candidates are required to accumulate experiences as managers from an early stage.”
- While implementing solid business management with the share price rising, the enterprise has transferred shares held by the chairman and his family to the present management and an employee shareholding association gradually to facilitate non-family succession.



From the left, the sales head (candidate for the next president), the chairman and the present president

【Analysis by Theme 3-1】Promotion of New Business Development (i)

- New business development contributes to SME growth.
- The success of new business development depends on target strategies and marketing initiatives.

Fig. 1 Relationship between new business development (new product development) and the ordinary profit margin

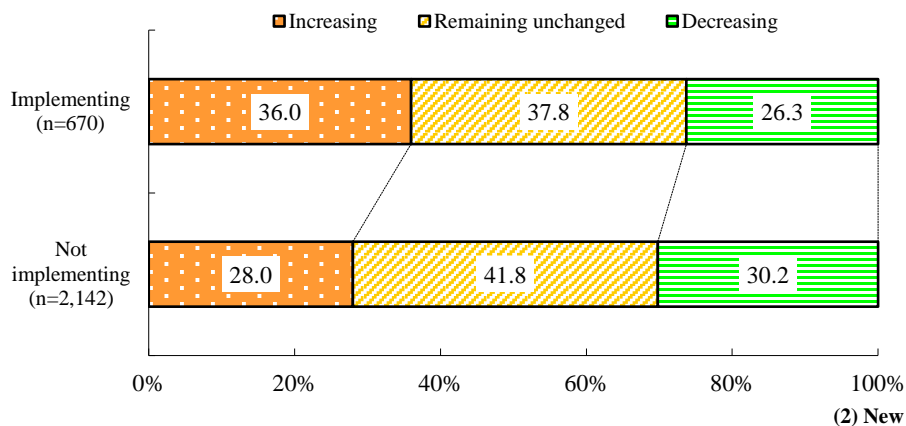


Fig. 2 Implementation of new business development

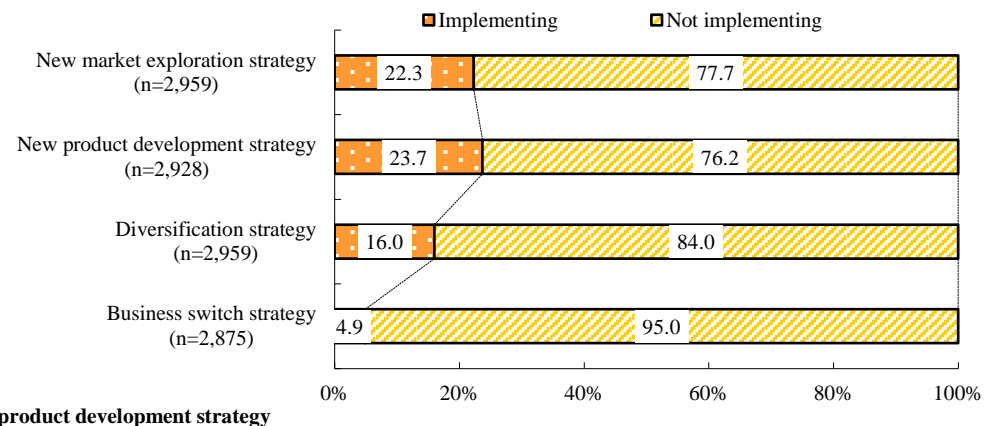
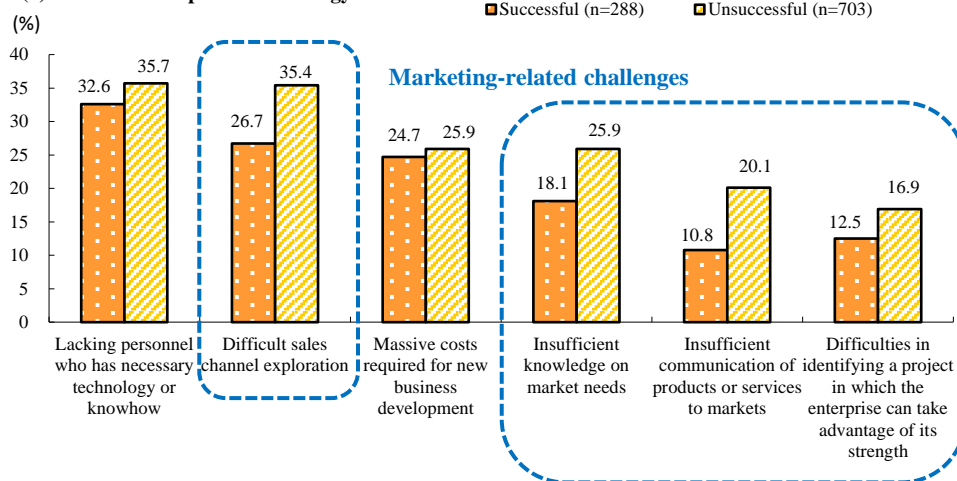
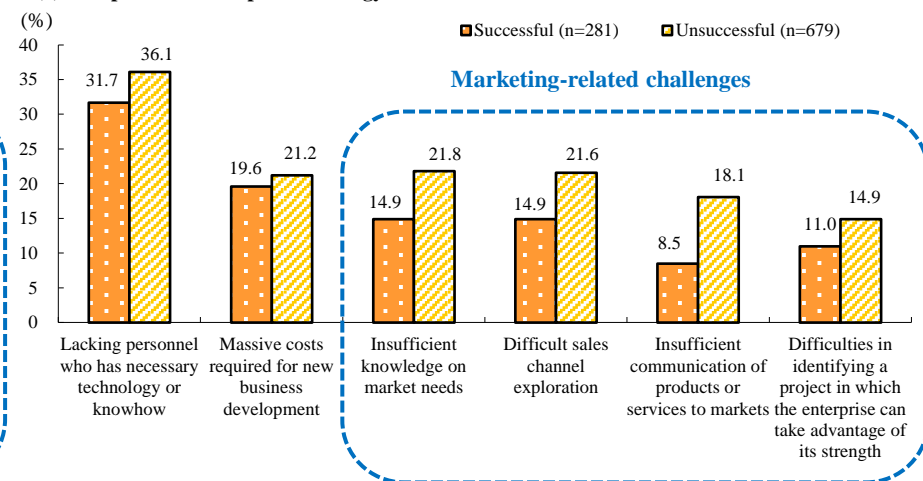


Fig. 3 Challenges for enterprises that are successful and unsuccessful in new business development

(1) New market exploration strategy



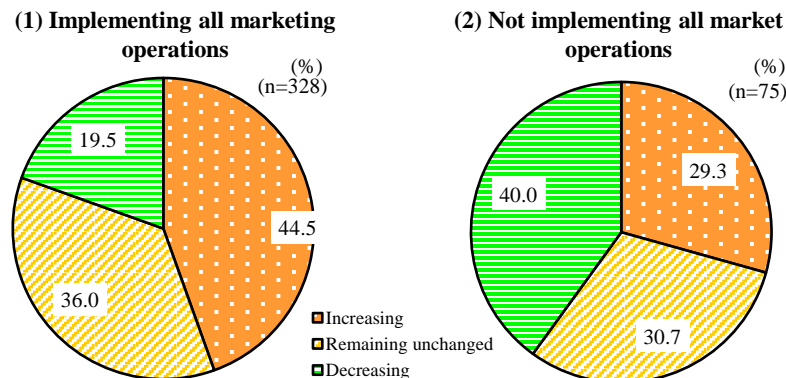
(2) New product development strategy



[Analysis by Theme 3-2] Promotion of New Business Development (ii)

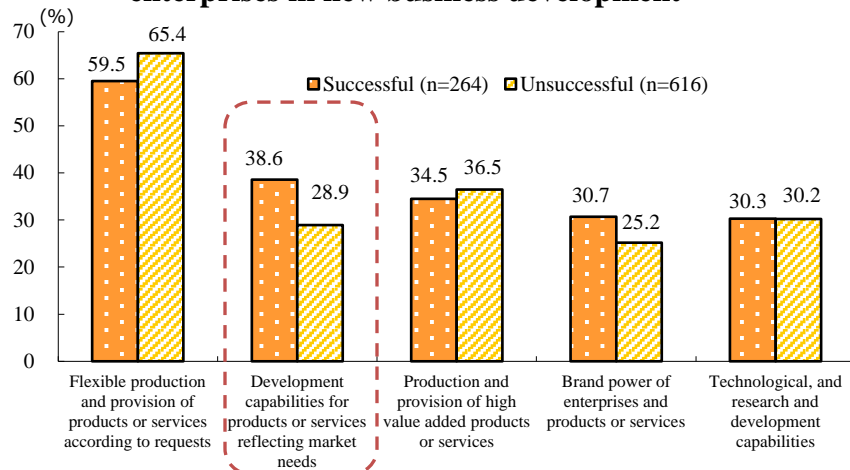
- Enterprises that are strong in finding market needs among marketing operations are successful in new business development. At such enterprises, business planning divisions as well as sales divisions are opt to find market needs.
- Enterprises that evaluate and verify marketing operations benefit from employees' improved motivations and personnel training effects.

Fig. 1 Ordinary profit margin trends by presence and absence of marketing operations



(Note) Marketing operations include "finding enterprise strengths," "finding market needs," "information strategies" and "verification of marketing operation effects."

Fig. 2 Enterprise strengths for successful and unsuccessful enterprises in new business development



Figs. 1-4: "Survey on SMEs' Business Strategies for Growth" under contract from the Small and Medium Enterprise Agency (Nomura Research Institute, November 2016)

Fig. 3 Divisions to find market needs for successful and unsuccessful enterprises in new business development

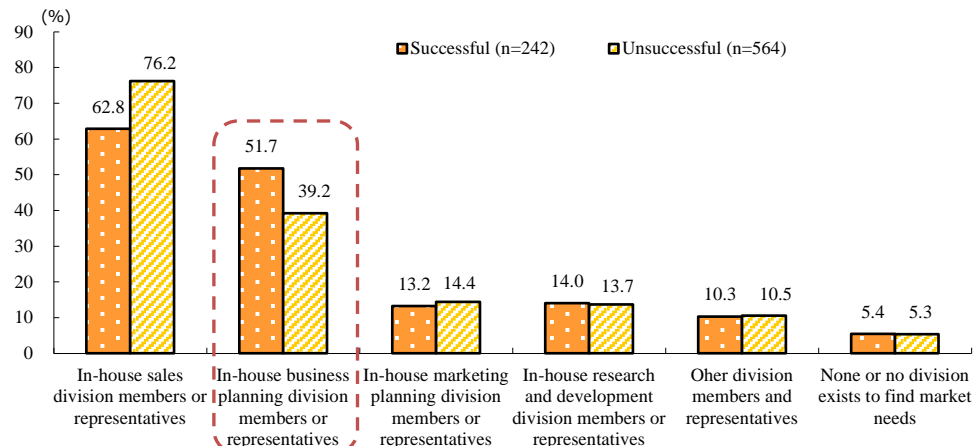
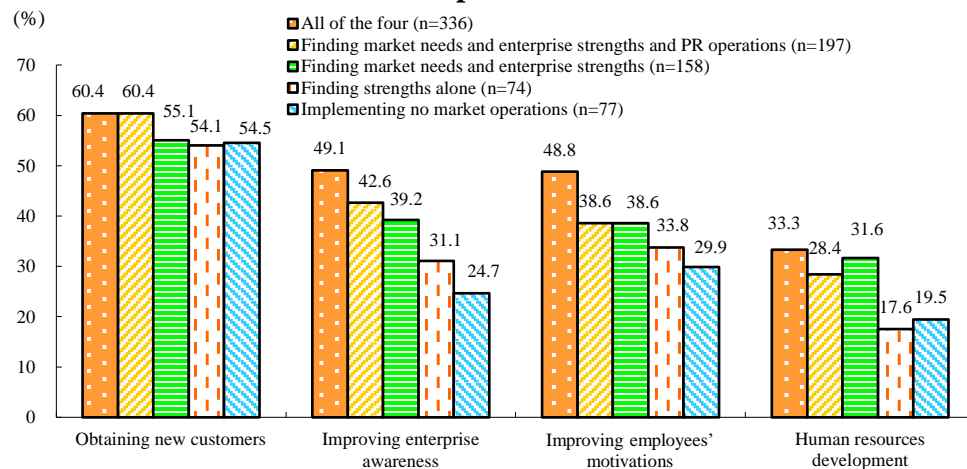


Fig. 4 Relationship between marketing operations and new business development effects



(Notes) 1. Among new business development effects, qualitative ones alone are tabulated.

2. PR operations include not only advertisement but also strategic information collection and communication activities such as finding enterprise ratings and effective utilization of various media.

【Analysis by Theme 3-3】Promotion of New Business Development (iii)

- It is effective for enterprises to utilize outside business resources for responding to labor shortages, a common challenge for new business development. Utilizing outside resources has a positive effect on the profits. Enterprises that have utilized outside resources have not perceived many problems.

Fig. 1 Relationship between utilization of outside resources for evaluating and verifying marketing operations and the ordinary profit margin (successful enterprises in new business development)

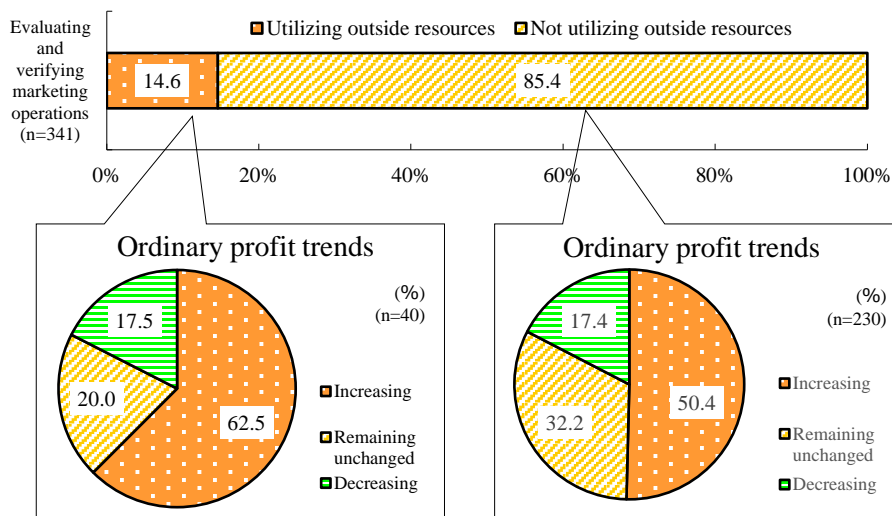
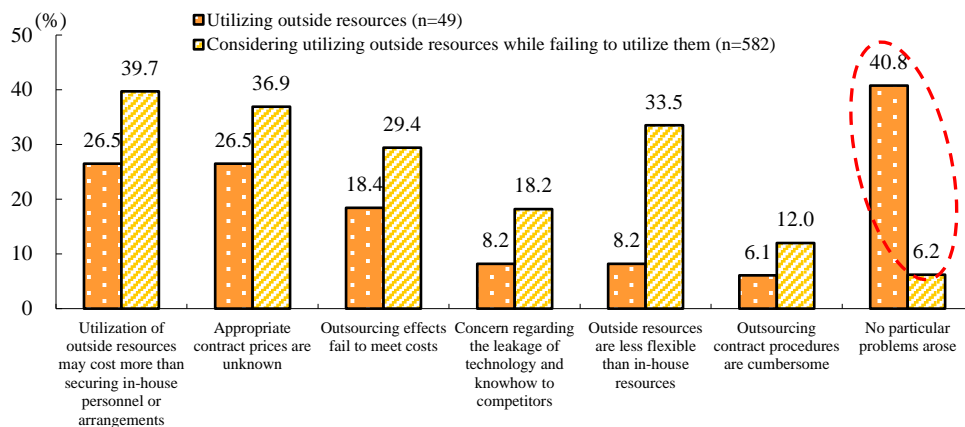


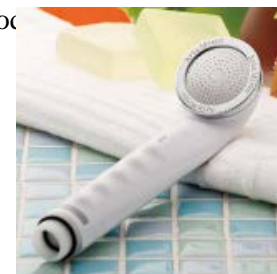
Fig. 2 Challenges for enterprises that have utilized and have not utilized outside resources



【Specific case】Tanaka Metal Factory (Yamagata City, Gifu Prefecture)

Taking advantage of outside resources for a brand strategy to create a niche market

- Tanaka Metal Factory develops, produces and sells copper and stainless steel parts and shower heads. It had been producing water faucet valves as a subcontractor. In response to stagnant demand and fiercer price competition under slack housing starts, however, the enterprise has sought to develop proprietary products and explore sales channels for them without depending on subcontracting deals.
- When considering a new core business, the enterprise paid attention to water-saving shower heads that were selling at high prices. It proceeded with new product development and successfully developed shower heads featuring water-saving and beauty care effects.
- When launching a new product for consumers, the enterprise outsourced branding strategy development and successfully increased customers' awareness of the product by clarifying the concept and advertisement points for the product.
- Tanaka Metal Factory took nearly three years to establish its proprietary brand products targeting women in their 30s who are sensitive to beauty care and health. As a result, its sales have doubled.



【Analysis by Theme 3-4】Promotion of New Business Development (iv)

- SMEs do not utilize IoT and other new technologies to a large extent but have some interest in them. Non-manufacturing SMEs could take advantage of new technologies for visualizing things to raise productivity.
- SMEs have relatively high interest in the sharing economy that can become their new business chance.

Fig. 1 Utilization of IoT, big data, artificial intelligence and other new technologies by business category

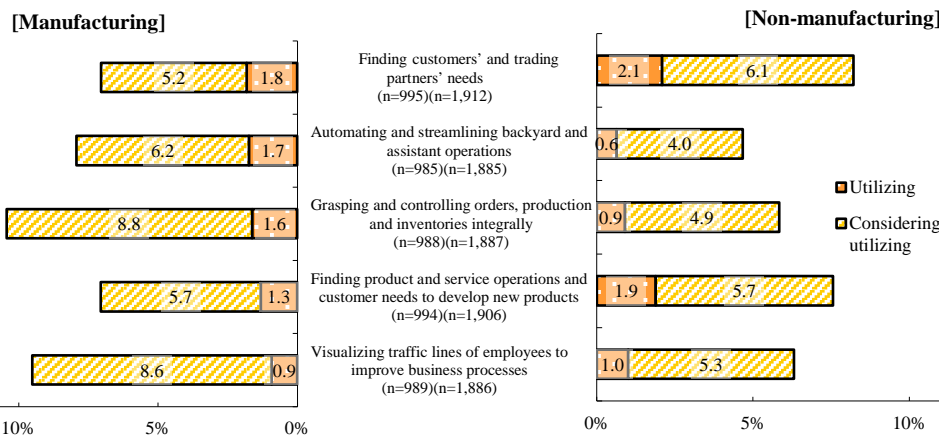
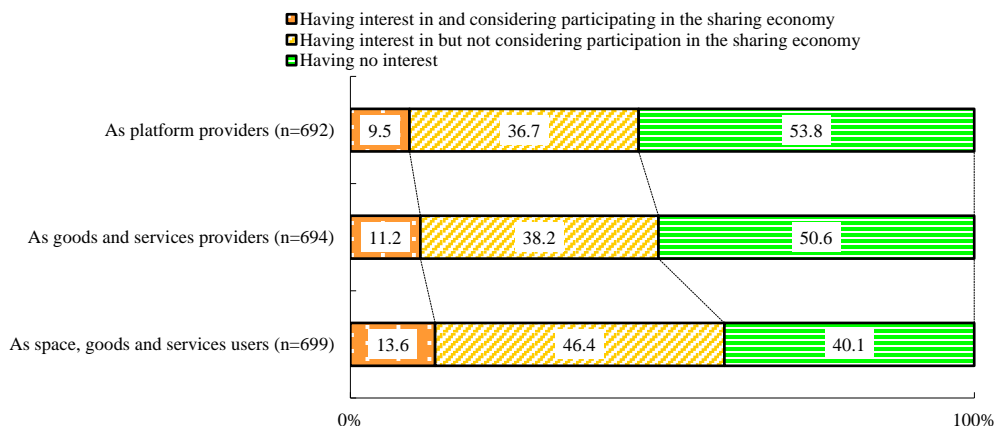


Fig. 2 Interest in the sharing economy



【Specific case】Tokachi Bus Co. (Obihiro City, Hokkaido Prefecture)

Tokachi Bus is a regional enterprise that positively utilizes IoT to improve customer satisfaction.

- It is a bus operator founded in 1926, providing bus operations in one city and 13 towns/villages in Tokachi, Hokkaido. The enterprise seeks to increase bus users instead of viewing their decline as natural in a state of despair.
- In 2008, the enterprise launched marketing house-to-house visits along bus routes to find reasons for falling demand. In a bid to resolve bus users' concerns about uncertain bus stops and routes, it joined hands with an information technology vendor to develop a bus transfer guidance service. The enterprise provides an application for searching a bus route by destination even if bus stop locations are unknown.
- The enterprise has also introduced a system for bus location users utilizing IoT technology, providing a service to visualize bus operations on an application and notify customers of arrival times. The service has resolved bus users' concerns about volatile arrival times in winter, increasing customer satisfaction. The enterprise is considering installing sensors in buses to count incoming and outgoing passengers and using sensor data for revising bus schedules.
- Various initiatives successfully led the enterprise to achieve sales growth in 2011. Furthermore, it is trying to increase tourists to revitalize the Tokachi region by providing regional tourism spot information and bus routes to such spots.



【Analysis by Theme 4-1】Overcoming Labor Shortages (i)

- Enterprises seeking growth and expansion strongly feel shortages of both core and labor personnel.
- Particularly, core personnel shortages prevent enterprises from responding to weak new business development and demand growth, affecting new business development at enterprises focused on growth and expansion.

Fig. 1 Labor shortages by industry and business category

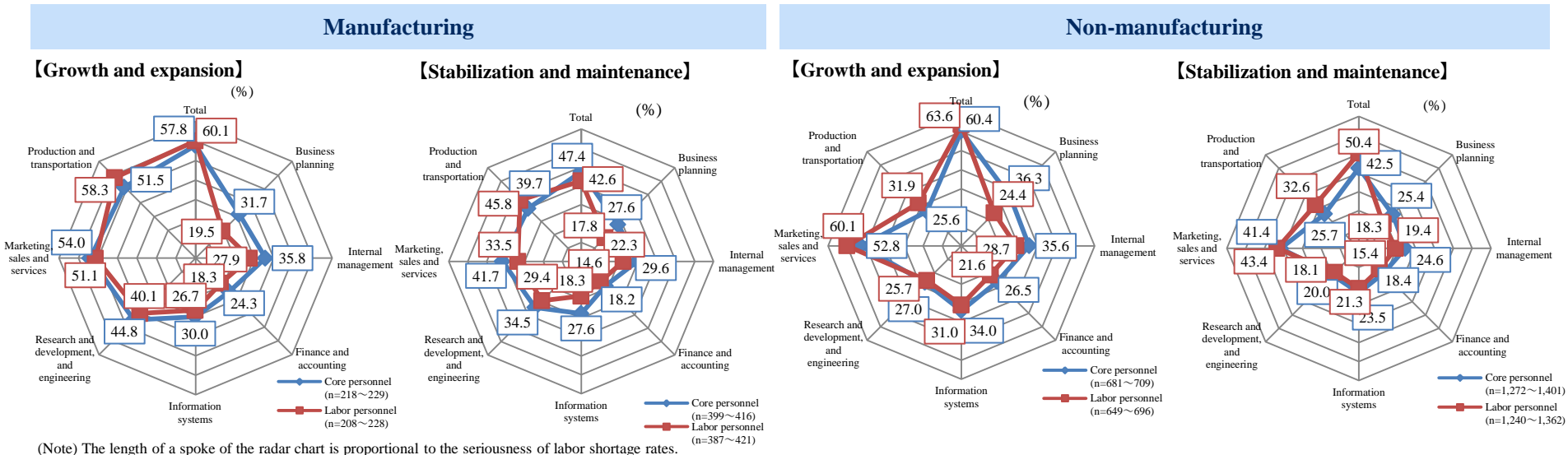
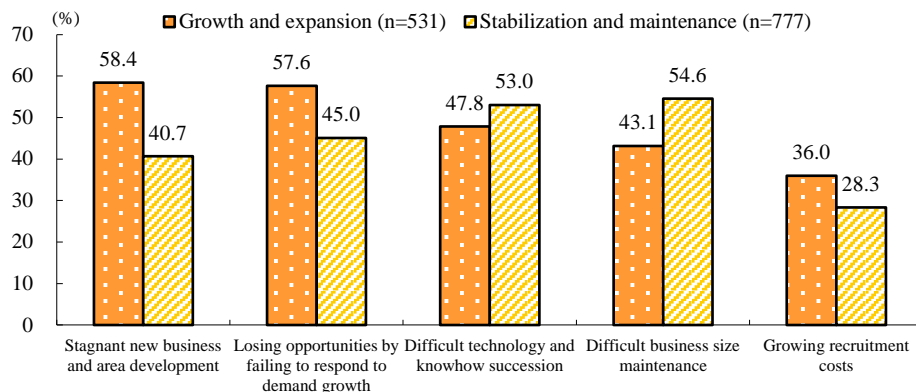


Fig. 2 Core personnel shortage's influences on business by type of business development policy



(Reference) Personnel classification in 2017 White Paper

Personnel classification	Core personnel	<ul style="list-style-type: none"> Core personnel in each division that undertake advanced and difficult business operations Personnel responsible for management and operations of the organization Personnel directing and managing multiple people Personnel with high specialization, skill and educational levels
	Labor personnel	<ul style="list-style-type: none"> Personnel in each division that undertake relatively routine work Personnel not responsible for organizational management or operations Personnel working under core personnel's direction and management Personnel doing auxiliary work for core personnel Personnel providing indispensable labor for business operation while lacking special skills

【Analysis by Theme 4-2】Overcoming Labor Shortages (ii)

- Enterprises that successfully stabilize business operations focus on workplace environment improvements and work burden reductions and are successful in recruitment.
- Enterprises that can utilize various human resources take advantage of SME flexibility, including overtime work cuts and giving consideration to human relations, to improve the workplace improvement.

Fig. 1 Success or failure of recruitment and stabilization of recruited human resources

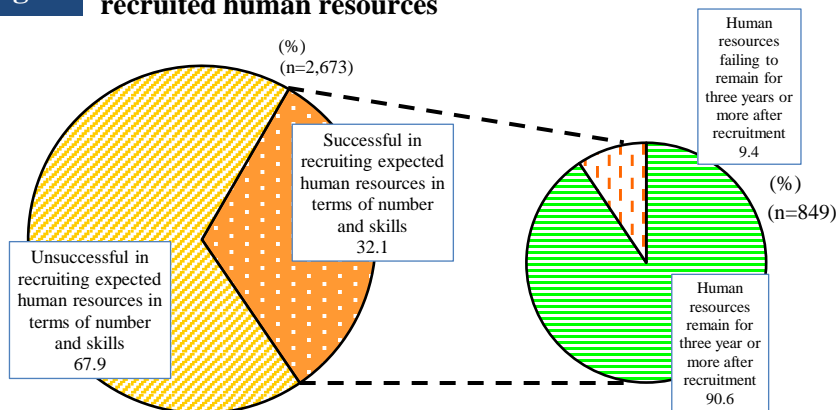


Fig. 2 Initiatives viewed by SMEs as effective for stabilizing and nurturing human resources

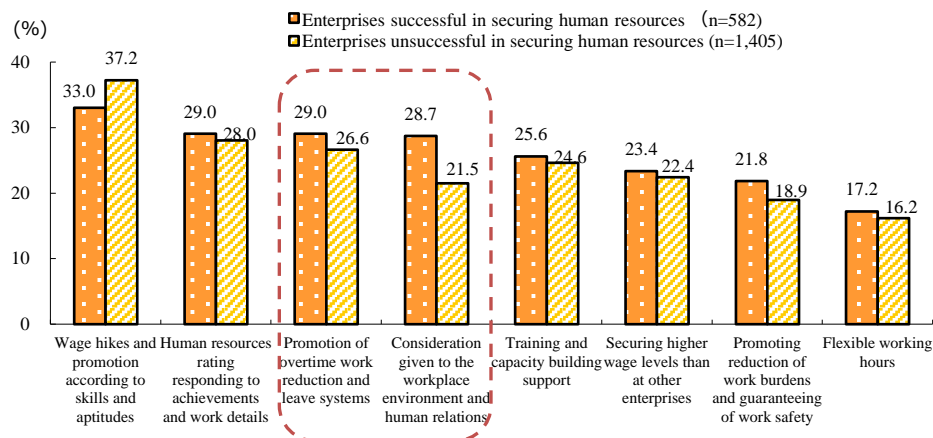
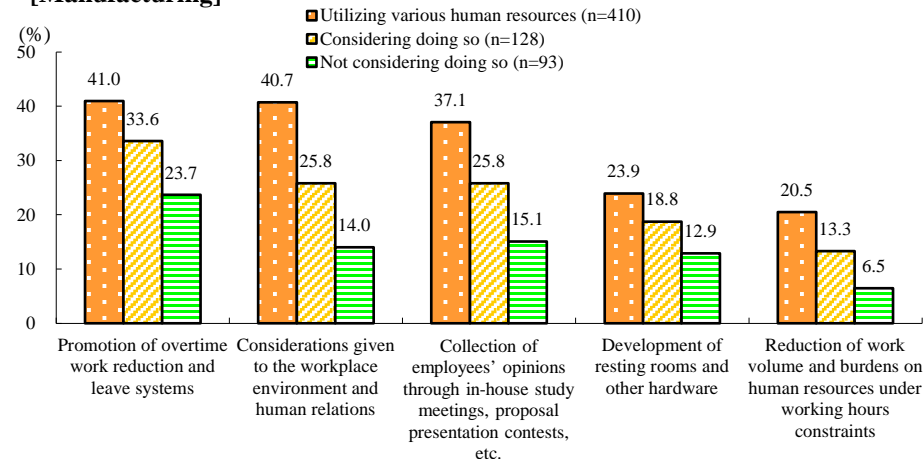
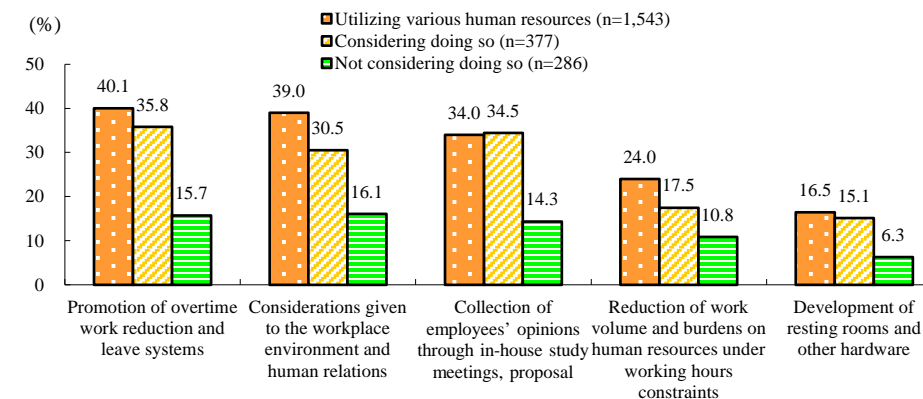


Fig. 3 Workplace environment improvement initiatives by presence or absence of various human resources (core personnel)

[Manufacturing]



[Non-manufacturing]



(Note) Enterprises utilizing various human resources are those utilizing any of the classes of "women," "seniors," "foreigners" and "handicapped" as core personnel. Enterprises considering doing so are others considering utilizing any of the above as core personnel. Other enterprises are those not considering doing so.

[Analysis by Theme 4-3] Overcoming Labor Shortages (iii)

- Enterprises that can utilize various human resources despite labor shortages accomplish rationalization and standardization useful for improving productivity, leading to greater earning power.

Fig. 1 Work rationalization and standardization initiatives categorized by presence or absence of various human resources (core personnel)

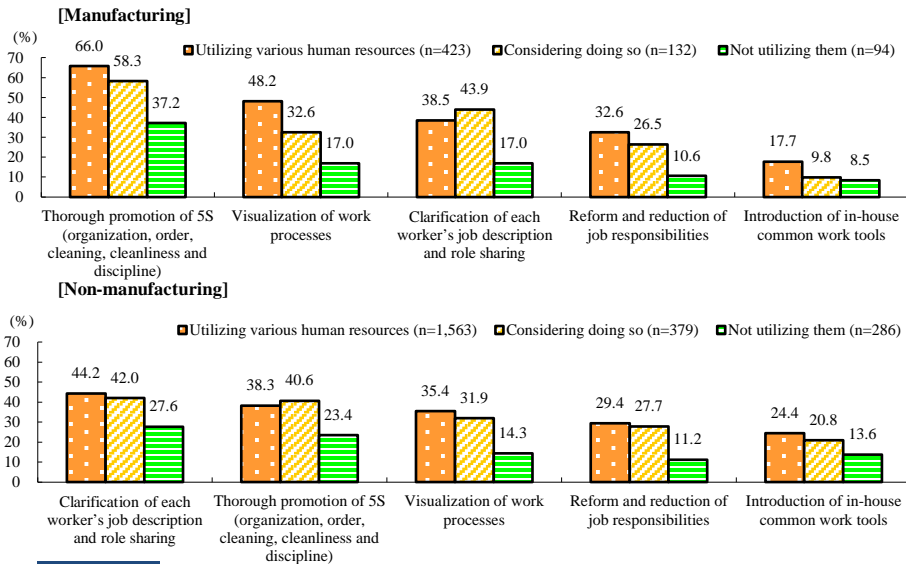
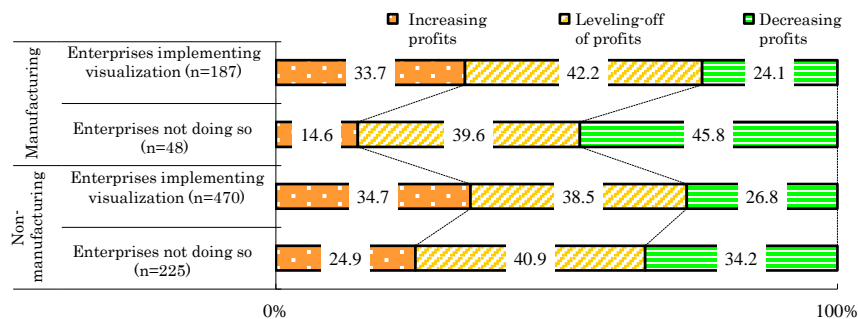


Fig. 2 Relationship between work visualization initiatives and earning power (enterprises utilizing various human resources as core personnel)



(Note) "Enterprises implementing visualization" are those that implement the "visualization of work processes" and any of the "thorough promotion of 5S," the "clarification of each worker's work details and role sharing," the "reform and reduction of work details," the "introduction of in-house common work tools" and the "integration of work that overlaps among divisions or areas." Enterprises not doing so are those that implement no visualization initiatives.

Fig. 1-2: "Survey on Recruitment and Job Retention at SMEs and Micro Enterprises" contracted by the Small and Medium Enterprise Agency (Mizuho Information & Research Institute, November 2016)

[Specific case] Sanshu Seika Co. (Kasukabe City, Saitama Prefecture)

Sanshu Seika has realized a flexible work style featuring each worker playing three roles, with women playing active roles

- Sanshu Seika is a rice and western confectionery manufacturing and marketing company founded in 1950. Women account for nearly 40% of regular employees, more than 90% of non-regular employees and more than 20% of managerial officials, playing great roles as a substantial part of the workforce. The president has taken leadership in promoting the active role of women, allowing the enterprise to be chosen as one of the "Top 100 Diversity Employers" and receive other relevant certifications and commendations.
- At Sanshu Seika, few employees take maternity leave, childcare leave or nursing care leave. The company features a childcare and nursing care system and allows employees to take paid holidays without any hesitation, regardless of their positions. The biggest secret behind the paid holiday system is a mechanism that allows each worker to play three or more roles through a system of cross-training for factory workers.
- In order to allow the three-roles-per-worker mechanism to smoothly work, the enterprise has established rules to standardize the work, visualize role sharing and regularly reflect these factors in personnel evaluations, reportedly leading to follow-up arrangements for employees on vacation, higher motivation and productivity improvements.
- This allows women employees who play core roles to demonstrate their potential while maintaining work-life balance through a flexible work style. The largest recent hit product is "Fried Pasta", which was conceived by a short-time regular employee engaging in childcare. The president describes the hit product as an achievement emerging from arrangements based on the three-roles-per-worker mechanism.



Recent hit product
"Fried Pasta"

【Analysis by Theme 4-4】Overcoming Labor Shortages (iv)

- Enterprises that boost earnings even amid labor shortages are tackling labor-saving, information technology introduction, outsourcing and other initiatives.
- A rising number of enterprises are pursuing growth by outsourcing design marketing and other operations for which advanced skill level human resources are required.

Fig. 1 Initiatives by enterprises facing labor shortages by ordinary profit (non-manufacturers)

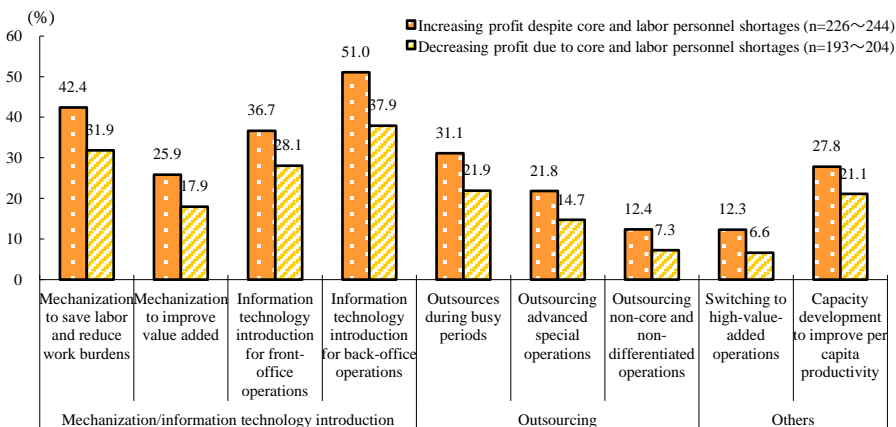


Fig. 2 Business operations which have growing needs for outsourcing by business policy

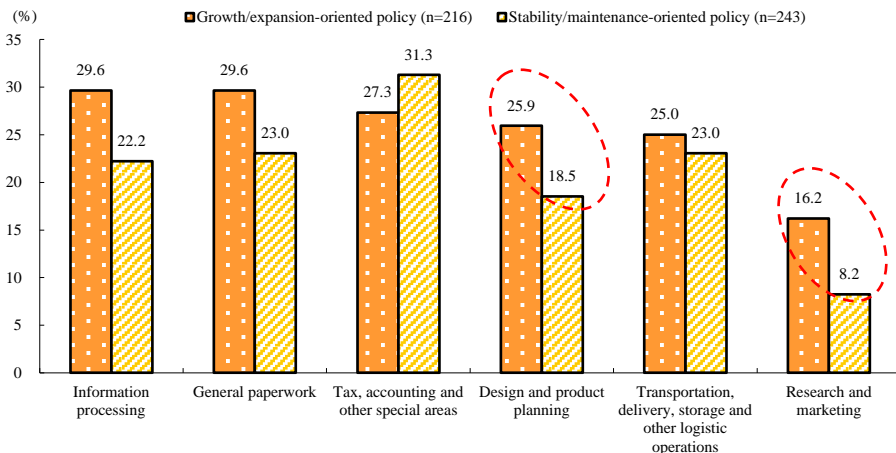


Fig. 1-2: "Survey on Recruitment and Job Retention at SMEs and Micro Enterprises" under contract from the Small and Medium Enterprise Agency (Mizuho Information & Research Institute, November 2016)

【Specific case】Waris, Inc. (Minato-Ward, Tokyo)

An enterprise matching SMEs and venture firms with skilled women freelancers.

- Waris is a human resource matching service enterprise founded in 2013. It matches enterprises willing to outsource PR, marketing and other operations with freelance-oriented women, particularly professionals with an arts background and extensive management experience, under outsourcing contracts.
- Some 70% of about 1,100 corporate customers are SMEs and venture firms. These customers can save costs by outsourcing new projects and other business operations requiring advanced strategists to well-experienced people, instead of recruiting advanced skill level human resources. Such outsourcing, unlike subcontracting, allows their employees to improve their capabilities by accumulating new knowledge and networks while working with freelance professionals.
- As SMEs are not well experienced with project-outsourcing contracts, Waris reorganizes or breaks down project operations, clarifies required skills, examines outsourcing contracts and conducts follow-up services during contract periods. It thus provides integrated services to allow customers to smoothly complete projects.
- Representative Director Tanaka says: "Due partly to Japan's declining labor force, it is difficult for SMEs and venture firms to recruit advanced skill level human resources. If they base their recruitment on employment, they have a risk of failing to secure necessary human resources when they are required. I would like these enterprises to become more flexible and consider the option of outsourcing."



Representative Director
Miwa Tanaka

Outline of FY2017 SME Policy Measures

[Acknowledgement]

Ordinary profits of SMEs have remained at record-high levels and their business confidence has been improving moderately. However, there are ongoing structural challenges including stagnant business entries, slackening productivity, the aging of managers and growing labor shortages. In the future, it will be important for the Japanese economy to enhance SMEs' business capabilities, improve their productivity and increase the number of SME managers working with vitality in response to economic and social changes including a further decline in Japan's labor force and fiercer international competition.

[Key Points]

From the four viewpoints -- “initiatives to enhance business capabilities and improve productivity,” “increasing SME managers working with vitality,” “developing a stable business environment” and “reconstruction and restoration from disasters,” the government will effectively implement policy measures to vitalize SMEs that are important for supporting regional economies. Specifically, in order to improve SMEs' productivity, the government will tackle the enhancement of technical capabilities, the promotion of information technology, support for overseas expansion and the strengthening of business support arrangements. The government will also back up business entries and succession, and regional and interregional human resources exploration and will continue to tackle the improvement of business practices and financial support. Furthermore, the government will take measures required for SMEs affected by the Great East Japan Earthquake, the Kumamoto Earthquake and other disasters.

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Chapter 1 Initiatives to Enhance Business Capabilities and Improve Productivity

Chapter 2 Increasing the Number of SME Managers Working with Vitality

Chapter 3 Development a Stable Business Environment

Chapter 4 Reconstruction and Restoration from Disasters

Chapter 5 Policy Measures by Business Type and Area

Chapter 6 Other SME Policy Measures