2016
White Paper on Small and Medium Enterprises in Japan

Earning Power to Open the Future

National Association of Trade Promotion
for Small and Medium Enterprises

Outline of the 2016 White Paper on Small and Medium Enterprises in Japan

Part I of this report takes a look at recent developments among SMEs, and analyzes their productivity.

Based on the information analyzed in Part I, Part II presents an analysis of initiatives for strengthening the earning power of SMEs. More specifically, it examines such themes as IT utilization, overseas expansion and risk management, and analyzes the finance aspects of initiatives for strengthening earning power and management capabilities to appropriately implement them.

Part I Developments among SMEs in fiscal 2015

Economic developments in Japan / Developments among SMEs

The Japanese economy is on a gradual recovery trend, although some weaknesses still remain in certain areas. As shown by increased corporate profits, wages, and employment, a "positive growth cycle" has been set in motion, whereby increased consumption and investment lead to further increases in corporate profits.

Among SMEs, operating profits have reached record high, the number of bankruptcies has declined, and the rate of decline in the number of SME businesses has slowed down. At the same time, however, the increase in operating profits among SMEs is largely owing to a decline in the prices of raw materials and energy, and is not accompanied by an increase in sales. This section thus provides a general overview of issues facing SMEs, as represented by a stagnation of capital investment by SMEs, the aging of facilities, and the deepening issue of labor shortage.

Present status of SME productivity

Japanese SMEs particularly in the service industries are said to have low productivity. However, in addition to analyzing SME productivity by industry, this section shows that there exist in all industries certain numbers of SMEs that have higher productivity than larger enterprises, and that these enterprises are particularly active in making investments.

Part II The earning power of SMEs

Changes in circumstances surrounding SMEs

This section examines medium to long-term changes in the socioeconomic structure that have an impact on SMEs, such as population decline, declining birthrates, and aging population; the weakening of businesses centered on subcontractor-principal contractor relationships; the expanded utilization of information and communications technologies; increases in overseas demand; and frequent occurrences of natural disasters.

IT utilization for improving productivity

Among all SMEs, a certain percentage is unable to assess their company's business conditions or face other such issues that could be resolved by utilizing IT. Yet, IT is not actively utilized, due to a lack of IT personnel, the uncertain effectiveness of introducing IT, and other such reasons. There are also enterprises that have introduced IT but have yet to see any tangible results of having done so.

An analysis is therefore presented of the advantages of IT utilization and the initiatives of high-revenue enterprises to strengthen their earning power through IT utilization.

Overseas expansion for increasing sales

The numbers of middle and wealthy classes of people are increasing overseas, the number of foreign visitors to Japan is reaching record highs, and the agreement on TPP is heightening expectations of deepening relations with foreign countries. However, SMEs that engage in export, direct investment, and inbound marketing are still very few, even though they may be increasing.

Therefore, this section shows how overseas expansion, including inbound marketing, strengthens earning power and increases the number of workers in Japan, and analyzes initiatives related to overseas expansion among high-revenue enterprises.

Risk management to support earning power

The increasing frequency of natural disasters and the expanded utilization of IT have heightened awareness of information security among large enterprises, such that they have begun to promote countermeasures, but initiatives among SMEs are said to be lagging behind.

Thus, the present state of SME initiatives and issues are analyzed in reference to business continuity plans, information security measures, and assessment of risks related to the development of new businesses. This section will also show that these initiatives, whether in emergency situations or at ordinary times, lead to improved management or otherwise contribute to strengthening earning power.

Finance to support SME growth

Financing is important to strengthening the earning power of SMEs. Thus, this section will analyze the relationship between financial institutions and SMEs, and discuss ideal financing solutions that accurately assess the business performance of enterprises. The present state and issues of non-financial aid will also be analyzed to show the importance of providing management support services in collaboration with support organizations.

Management capabilities that determine SME earning power

The management capabilities of the business manager is extremely important to executing investments toward strengthening earning power while establishing a good relationship with financial institutions and other relevant organizations. Thus, this section categorizes SMEs from the aspects of recurring profit margin and equity to total assets to examine the characteristics of enterprises that have earning power and enterprises that have a lower recurring profit margin but a higher equity to total assets than the average of large enterprises. It also analyzes of their investment trends, the decision-making policy of managers, corporate culture, etc.

Additionally, given the advancing ages of SME managers, changes in the awareness of older managers and in their investment behavior are analyzed, and the importance of drawing up methodical business succession plans is discussed.

Contents

Cases described in this report

Part I Developments among SMEs in fiscal 2015

Chapter 3 Analyzing SME productivity

Part II The earning power of SMEs

Chapter 2 IT utilization among SMEs

Chapter 3 Initiatives among SMEs to tap into overseas demand

Chapter 4 Risk management, supporting the earning power

Chapter 5 Financing to support growth in SMEs

Chapter 6 Management capabilities that determine SME earning power

Introductory notes

1. In this report, the term "small and medium enterprises (SMEs)" refers to small and medium enterprises as defined under Article 2, Paragraph 1 of the Small and Medium-sized Enterprise Basic Act, and the term "micro enterprises" refers to "micro enterprises" as defined under Article 2, Paragraph 5 of said act. In addition, "medium enterprises" refers to SMEs other than micro enterprises. (More specifically, SMEs and micro enterprises may roughly be categorized as follows.)

Industry	SMEs (meet one or more of the following conditions)		Micro enterprises included among SMEs at left
	Capital	Number of regular employees	Number of regular employees
1) Manufacturing, construction, transport, other industries (excluding 2)-4))*	Up to ¥300 million	Up to 300	Up to 20
2) Wholesale	Up to ¥100 million	Up to 100	Up to 5
3) Services*	Up to ¥50 million	Up to 100	Up to 5
4) Retail	Up to ¥50 million	Up to 50	Up to 5

* The following industries are separately stipulated as shown below, based on government ordinance related to SME legislation.
[SMEs]
1) Manufacturing
   - Rubber product manufacturing industry: Up to ¥300 million in capital or up to 900 regular employees

3) Services
   - Software industry & information service industry: Up to ¥300 million in capital or up to 300 regular employees
   - Hotel industry: Up to ¥50 million in capital or up to 200 regular employees

[Micro enterprises]
3) Services
   - Accommodations industry & amusement industry: Up to 20 regular employees

2. This report draws largely on recompiled statistical data published by the Japanese Government and the results of surveys conducted by various private-sector entities. Sources, methods of calculation and other relevant information are specified where data are cited, but notes specific to each data source are summarized below.

   (1) Ministry of Economy, Trade and Industry (METI), *Census of Manufactures*
   This survey provides statistics on numbers of business establishments. Surveys of all business establishments are conducted in years ending in 0, 3, 5 and 8 (up to the FY2008 survey), and surveys of business establishments and similar entities with no less than four workers are conducted in all other years.
   In this report, business establishment data for each year are consolidated for analysis. It should be noted, however, that if a business establishment has three workers one year and four the next, it is treated as a new entry. (Conversely, a business establishment that goes from having four workers is 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*
This survey covers only incorporated businesses with 50 or more workers and a capital or investment of at least ¥30 million. Thus, the results do not include micro businesses. Note that the formal name of the survey is "Ministry of Economy, Trade and Industry's Basic Survey of Japanese Business Structure and Activities," but it shall herein be referred to as "Basic Survey of Japanese Business Structure and Activities."

(4) Ministry of Finance (MOF), *Financial Statements Statistics of Corporations by Industry, Annually and Financial Statements Statistics of Corporations by Industry, Quarterly*
As these statistics focus exclusively on incorporated businesses, they do not reveal overall trends among micro enterprises. In consideration of sample sizes and response rates, moreover, the results concerning micro enterprises need to be viewed with some latitude. It should also be noted that the quarterly version does not include corporations with a capital of less than ¥10 million.

(5) Ministry of Internal Affairs and Communications (MIC), *Establishment and Enterprise Census, Economic Census for Business Frame* and MIC/METI, *Economic Census for Business Activity*
This census provides statistics on both business establishments and enterprises. In this report, enterprise-based analyses using these statistics also include sole proprietorships. However, the size of sole proprietorships is determined based on the number of workers at their head office or principal place of business only, as name gathering is unfeasible. Additionally, the *Economic Census for Business Frame* and the *Economic Census for Business Activity* cover the same survey subjects as the *Establishment and Enterprise Census*, but differ from it in that they (1) capture a greater range of business establishments and enterprises by using commercial and corporate registers and other administration records, and (2) adopt a method of surveying enterprises and establishments en bloc by having head offices report information on their branches and other operations. It should thus be noted that numerical differences compared to the results of the *Establishment and Enterprise Census* do not all indicate increases or decreases.

3. This report contains analyses based on questionnaire surveys on SMEs and micro-businesses and other respondents conducted by various private-sector organizations commissioned by the Small and Medium Enterprise Agency (SME Agency). It should be noted, however, that not all enterprises surveyed have responded to these questionnaires.

4. The indicators for SMEs and micro-businesses vary more widely than those for large enterprises. Thus, when examining statistics on SMEs and micro-businesses, it should be noted that the mean values may not necessarily represent the standard state of SMEs and micro-businesses.

5. The map of Japan shown in this report does not necessarily represent the entire territory of Japan.

Part I

Developments among SMEs in fiscal 2015

Chapter 1

Economic developments in Japan

The Japanese economy began to pick up toward the end of 2012, and a "positive growth cycle" has been set in motion. Increased corporate profits have led to an increase in wages and employment, which in turn have further increased corporate profits by stimulating consumption and investment. However, compared to the increases in corporate and household incomes, the recovery trend has yet to reach such expenditures as capital investment and personal consumption. Added to this weak internal demand was the impact of the economic deceleration in China and other emerging countries, such that a weakness has also begun to appear in the production aspect in recent years. This chapter will review the developments in the Japanese economy in fiscal 2015 in terms of such GDP components as consumption, investment, and exports.

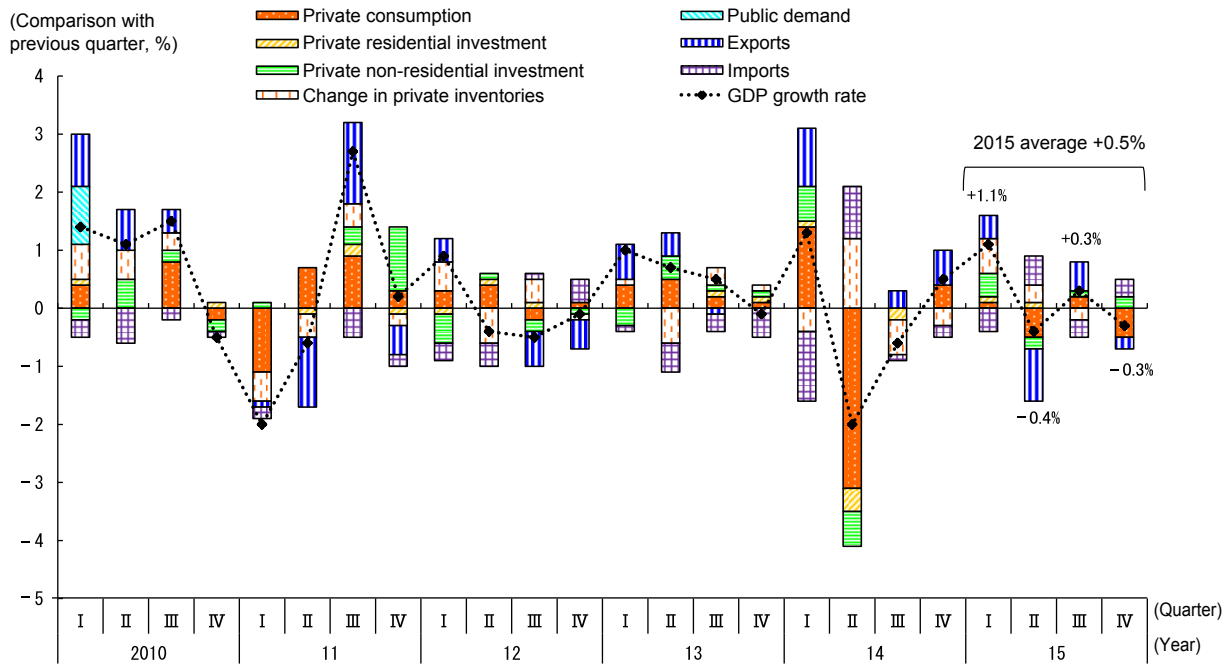
1. Recent developments in the Japanese economy

From the end of 2012 to 2013, the Japanese economy showed movements of picking up, including an increase in corporate profits and an improvement in the employment environment. In 2014, the consumption tax increase and the subsequent last-minute surge in demand and reactionary fall caused a large fluctuation, but the economy once again showed signs of recovery by the end of 2014, and the gradual recovery trend continued into 2015. At the same time, however, recovery has lagged in social expenditures such as capital investment and personal consumption.

In light of changes in real GDP growth since 2015, the first quarter marked a relatively high positive growth of +1.1% compared to the previous quarter, but the second quarter posted a slight negative at -0.1%. GDP growth once again entered the positive zone in the third quarter and reached +0.3%, but fell to -0.3% in the fourth quarter (Fig. 1-1-1). All in all, this amounted to an annual growth of +0.5% in 2015. In terms of demand categories, personal consumption showed signs of picking up in the first quarter of 2015 on the back of a continuous improving trend in the employment and income environments, but turned to negative in the second quarter. It marked a positive once again in the third quarter, but fell to negative territory again in the fourth quarter. This shifting between positive and negative growth signifies a general lack of strength in the economy. Similarly, capital investment remained mostly unchanged despite an improvement seen in corporate profits, with a slight negative in the second quarter of 2015 which turned to a modest positive in the third and fourth quarters.

In sum, real GDP was positive for the year and the economy was on a gradual recovery trend, but improvements were slow to appear in social expenditures such as personal consumption and capital investment.

Fig. 1-1-1 Real GDP growth rate

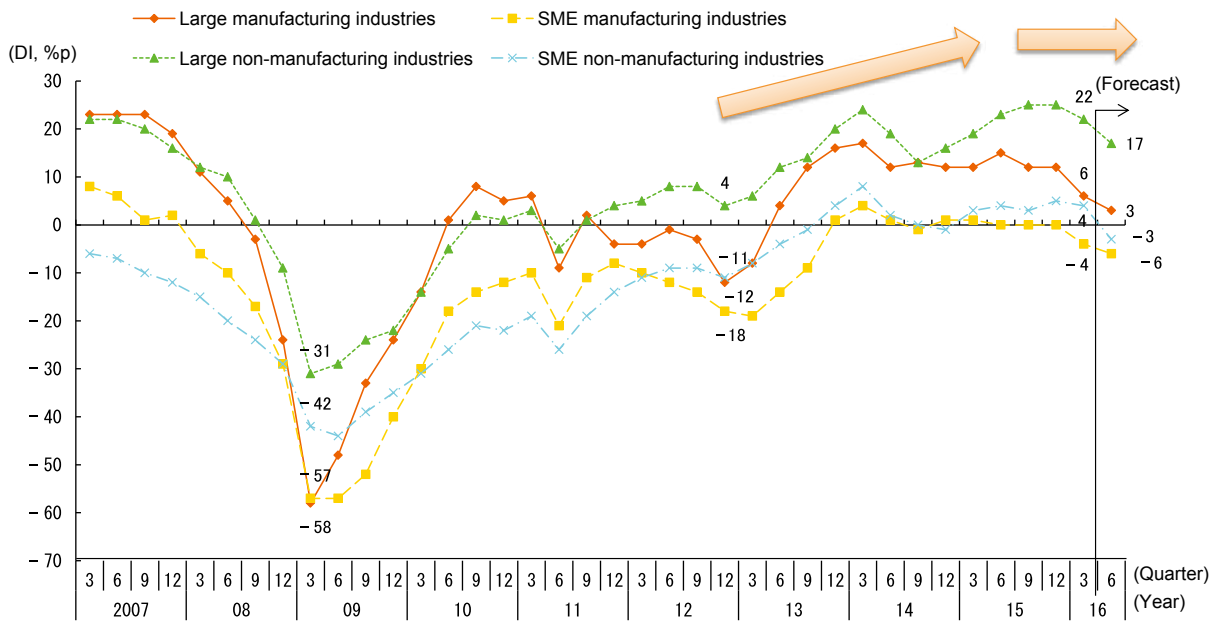


Source: Cabinet Office, *System of National Accounts*.
Notes: 1. 2005 chained yen system
2. Figures are based on "Quarterly (secondary) preliminary GDP estimates for the fourth quarter of 2015" (announced March 8, 2016).

Next, when we examine the business conditions of actual companies in terms of the business conditions DI presented by the Bank of Japan's (BOJ) *Short-Term Economic Survey of Enterprises in Japan* (hereinafter referred to as *BOJ Tankan*), business conditions generally improved from 2013 to March 2014 in terms of both size and industry, but thereafter leveled off from June, partly due to the reactionary last-minute surge in demand accompanying the consumption tax increase (Fig. 1-1-2). The overall good condition continued into 2015, and the ratio of companies, including manufacturing and non-manufacturing companies and large enterprises and SMEs, that describe business conditions as favorable, surpassed the ratio of companies that describe them as unfavorable. In terms of industry and enterprise size, manufacturing industries as a whole saw unchanging business conditions among both large enterprises and SMEs. While an improvement trend was seen among the chemical industries and other such business categories owing to a decline in purchase costs accompanying the drop in crude oil and resource prices, production in the general-purpose, production and industrial machinery industries proceeded cautiously due in part to the impact of the economic deceleration in emerging countries. Business conditions in non-manufacturing industries, and particularly the retail sales, B-to-C service, and the accommodations, eating and drinking services, showed an upward trend owing to the increase in the numbers of foreign visitors to Japan, with the September and December survey marking the highest level among large enterprises since November 1991. SMEs lagged slightly behind large enterprises, but nevertheless showed a modest improvement on the whole.

In the latest survey conducted in March 2016, however, the business conditions of manufacturing industries dropped mainly among large enterprises, and showed a slight drop in both large and SME non-manufacturing industries.

Fig. 1-1-2 Business conditions DI by industry and enterprise size



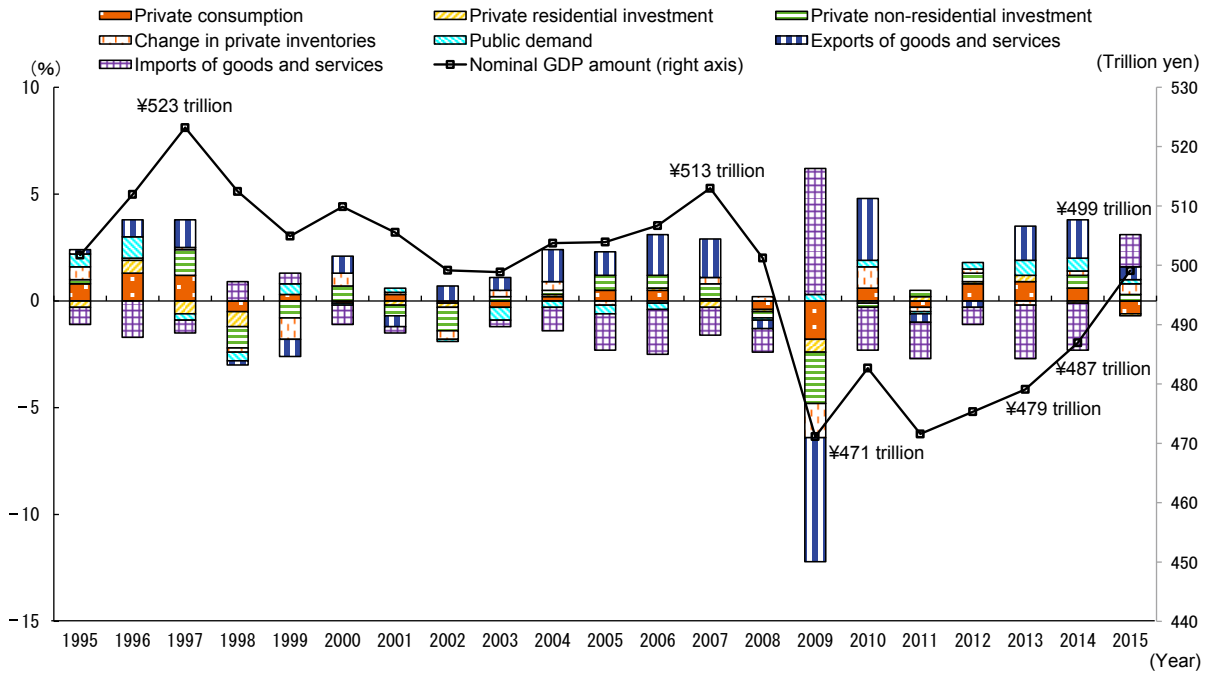
Source: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan).
Notes: 1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥20 million or more and less than ¥100 million.
2. Business conditions DI is an index representing the percentage (%) of companies that describe business conditions as favorable, minus the percentage of companies that describe them as unfavorable.

2. Long-term trends in the Japanese economy

Next, let us examine how the Japanese economy has changed over the years based on nominal GDP. Nominal GDP is also used as a target for a "strong economy that produces hope," which is one of the three new goals of "Abenomics" and aims to increase nominal GDP to ¥600 trillion. With regard to the past twenty years, nominal GDP continued a year-on-year increase until the mid-1990s, supported by robust personal consumption, capital investment, public demand, and exports. However, from the latter half of the 1990s to the first half of the 2000s, it began to decline mainly due to a slowdown in housing and capital investments (Fig. 1-1-3). Thereafter, a gradual recovery trend was observed until 2007 mainly supported by exports and capital investment, but the 2008–2009 Lehman crisis triggered a drastic drop in capital investment and exports, and caused nominal GDP to plunge. The low level continued over the next several years until 2013, when personal consumption, capital investment, and exports acted as upward factors and allowed nominal GDP to surpass the previous year's level and reach ¥479 trillion. In 2014, increases in exports, change in private inventories, and public demand contributed to pushing nominal GDP up to ¥487 trillion, even while personal consumption continued to be stagnant. Nominal GDP continued its increasing trend in 2015 and marked ¥499 trillion, with the decrease in imports on account of the drop in crude oil prices acting as an upward factor.

The nominal GDP level has continued its upward trend since 2012 and shows signs of recovery, but has yet to reach the level in the latter half of the 1990s and before the Lehman crisis.

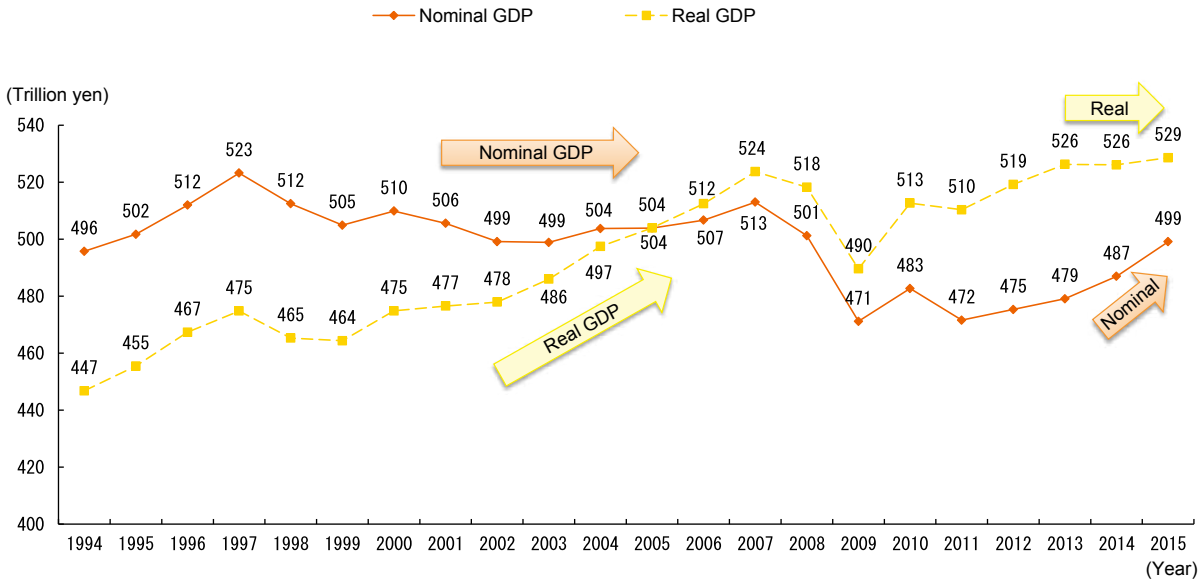
Fig. 1-1-3 Long-term trends in nominal GDP (growth rate, actual amount)



Source: Cabinet Office, *System of National Accounts*.

Nominal GDP is calculated based on actual market transaction prices, and do not reflect price changes caused by inflation and deflation, so let us examine changes in real GDP that excludes price changes (Fig. 1-1-4). From the end of the 1990s to 2006, when nominal GDP practically remained unchanged or otherwise showed a slightly downward trend, real GDP grew gradually, indicating a deflationary trend. Both nominal and real GDP fell in the wake of the Lehman crisis in 2008 and 2009, but while real GDP gradually recovered thereafter, nominal GDP did not begin recovering until after 2012. In 2015, nominal GDP growth rate surpassed real GDP growth rate, marking the beginning of the end to the deflationary situation.

Fig. 1-1-4 Changes in the actual amounts of nominal GDP and real GDP



Source: Cabinet Office, *System of National Accounts*.

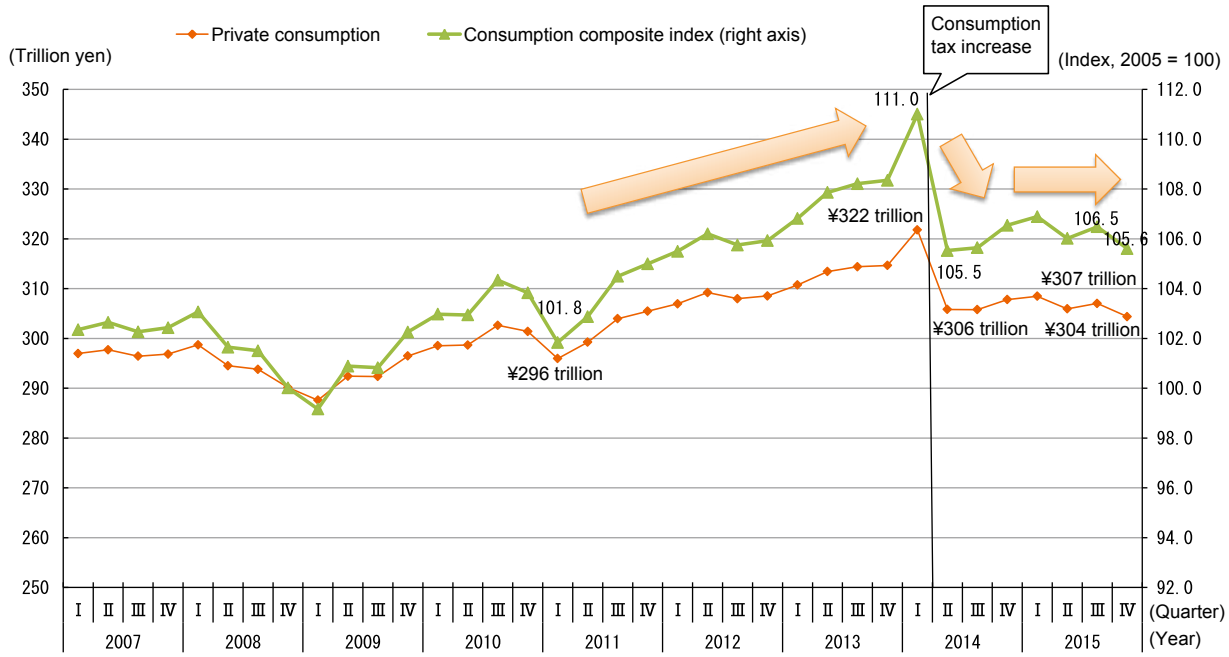
In the next section, we shall look at GDP in terms of consumption, investment, exports and imports, and other such components, and examine the changes that have occurred in each component. Indicators relevant to each component will also be examined, and factors involved in their trend will be discussed. Reference to change in private inventories shall be omitted, as they account for only a small fraction of the total.

3. GDP component trends (1): Consumption

Let us first look at private consumption as an indication of personal consumption trends. In the fourth quarter of 2015, it stood at approximately ¥304 trillion, accounting for 58% of real gross GDP, and was the largest component among all GDP components. In terms of real quarterly GDP, private consumption displayed a gradually increasing trend from the first quarter of 2011 to the first quarter of 2014 and marked an increase of approximately ¥26 trillion (+8%) over that period, owing in part to an increase in consumer confidence and improvement of the income and employment environments (Fig. 1-1-5). In the second quarter of 2014, it dropped due to the reactionary fall in demand following the consumption tax increase, but thereafter turned to a slight recovery trend. The recovery trend continued steadily in 2015 amid signs of improvement in the real income of all employees, which had been maintaining a steady level[1], but in the fourth quarter of the year, household consumption dropped to -0.9% from the previous quarter as a consequence of the large fall in demand for winter clothing due to the record-setting warm winter. Additionally, when looking at changes in the consumption composite index, which is calculated by integrating household consumption expenditure and retail sales amounts as a comprehensive statistic of personal consumption, we see roughly the same trend as private consumption, with a gradual increase from the first quarter of 2011 to the first quarter of 2014 and a downward trend thereafter. The fact that both indexes continue to maintain a steady level but have not returned to their 2013 level indicate that personal consumption continues to be somewhat stagnant.

1) See Fig. 1-1-7 for a graph of changes in the real income of all employees.

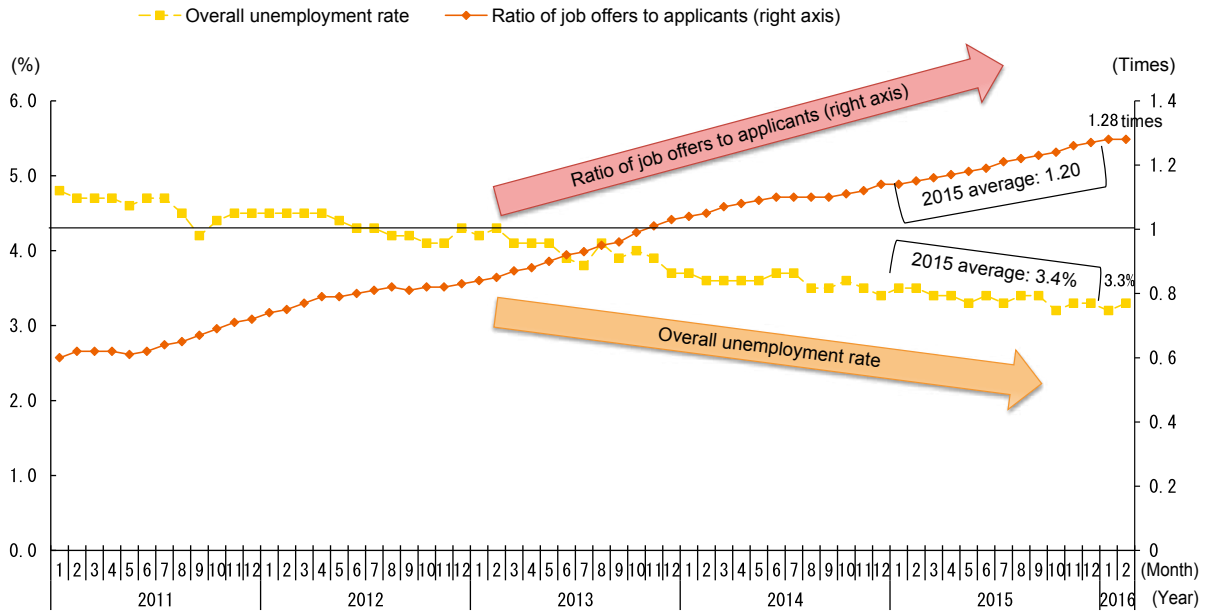
Fig. 1-1-5 Private consumption and consumption composite index



Sources: Cabinet Office, *System of National Accounts*, *Consumption Composite Index*.

While personal consumption has weakened, the consumption environment shows an improving trend in employment. The overall unemployment rate was 4.6% on average in 2011, but thereafter continued to decline to reach 3.4% on average in 2015, dropping for the fifth consecutive year and marking the lowest rate in 18 years since 1997 (Fig. 1-1-6). The ratio of job offers to applicants also shows improvement. Where it was 0.65 on average in 2011, it surpassed 1.0 in the latter half of 2013, such that the number of effective job offers became larger than the number of job applicants. The increasing trend continued thereafter and reached 1.20 on average in 2015, marking an increase for the sixth consecutive year and the highest level in 24 years.

Fig. 1-1-6 Overall unemployment rate and the ratio of job offers to applicants



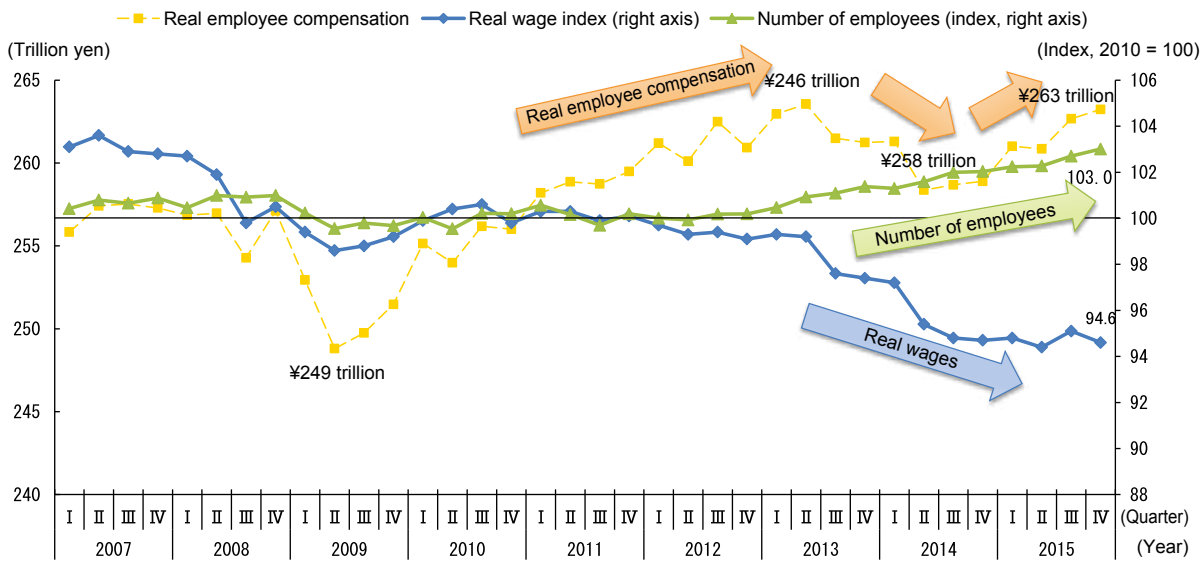
Sources: MHLW, *Employment Referrals for General Workers*; MIC, *Labor Force Survey*.

Next, let us see how employee incomes have changed. In terms of real employee compensation, which is the total amount of compensation paid to employees throughout Japan minus price changes, an increasing trend was generally seen after the Lehman crisis (Fig. 1-1-7). Although it fell significantly in the second quarter of 2014 as an impact of the consumption tax increase, it turned to a gradual recovery trend thereafter.

As real employee compensation is the total amount of compensation paid to all employees in Japan, it is affected by increases in both per capita wage and the number of employees. Thus, to examine which of the two factored into the changes in real employee compensation, let us examine the changes in real wages and number of employees.

When their respective average in 2010 is given a value of 100, the fourth quarter of 2015 showed a drop in the real wage index to 94.6 but an increase in the employee number index to 103.0. Real wages have begun to pick up, but it still remains below the 2013 level. Compared to this, the number of employees has gradually increased since 2013. Thus, the increase in employee compensation can be attributed mainly to an increase in the number of employees.

Fig. 1-1-7 Real employee compensation, real wages, and number of employees



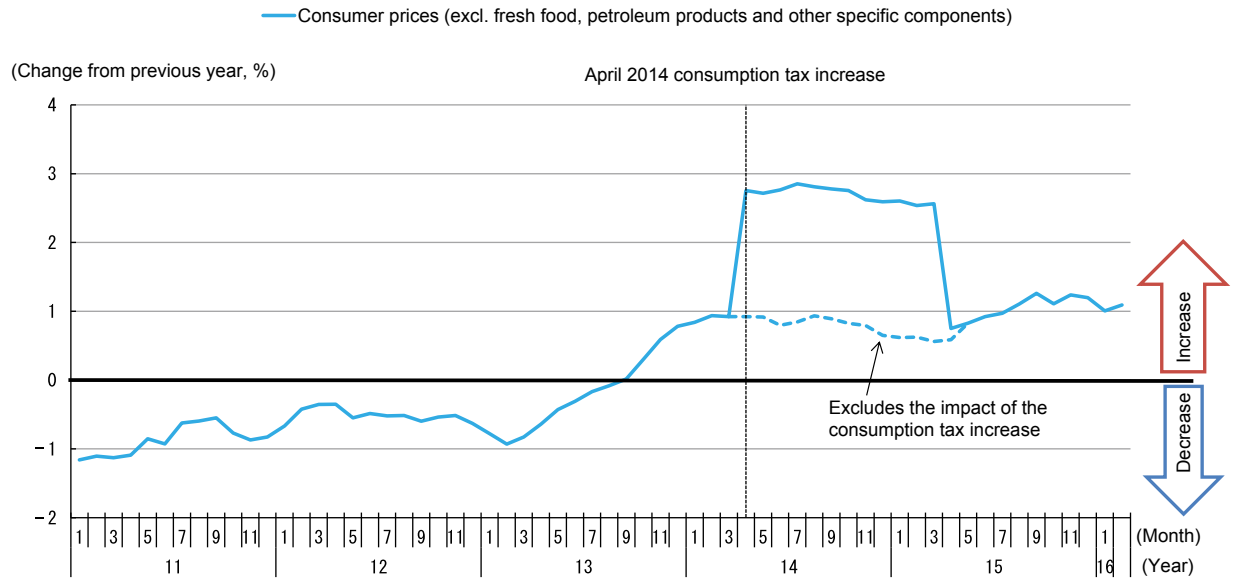
Sources: Cabinet Office, *System of National Accounts*; MHLW, *Monthly Labour Survey*; MIC, *Labor Force Survey*.

The drop in real wages can be attributed to two underlying factors. One is the increase in prices amid a gradual escape from a deflationary situation, as mentioned earlier, and the other is the increase in part-time workers owing to an improvement in the employment environment.

With regard to the former, a look at the overall consumer price trend of food items and sundry goods shows positive year-on-year growth since September 2013, with a continuous increase of around 1% over the previous year (Fig. 1-1-8 (1)). Such increases in the prices of sundry goods are thought to be also bringing down consumer confidence.

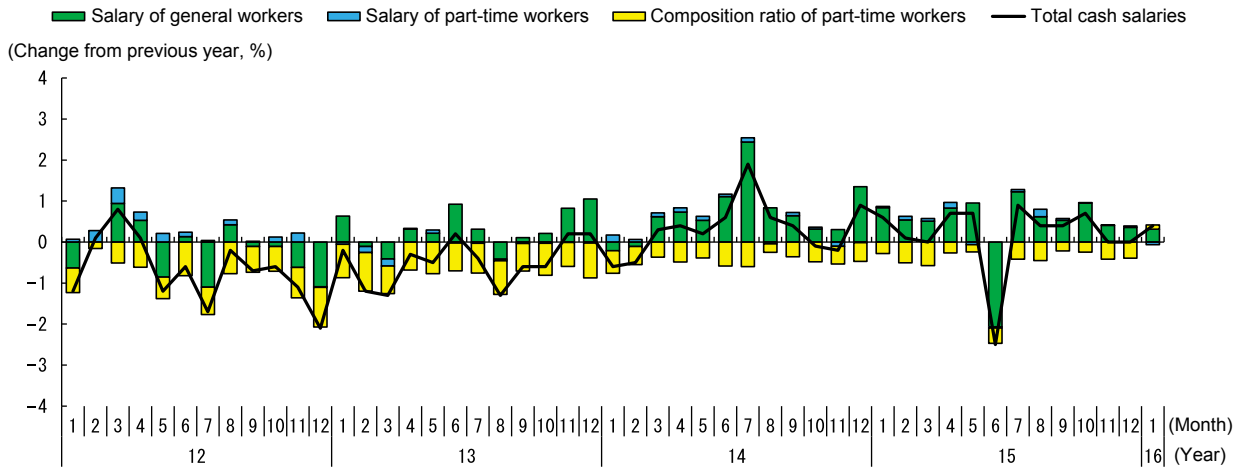
With regard to the latter, an analysis of the changes in total cash salaries (nominal wages) that are actually paid to workers shows that among three relevant factors, including increases in the salary of general workers, the salary of part-time workers, and the composition ratio of part-time workers, the increase in the composition ratio of part-time workers in particular is driving total cash salaries in the negative direction (Fig. 1-1-8 (2)).

Fig. 1-1-8 (1) Consumer prices



Source: Cabinet Office, *Consumer Prices (excl. fresh food, petroleum products and other specific components)*.
Note: Consumer prices (excl. fresh food, petroleum products and other specific components) are the overall consumer price index that excludes fresh foods, minus petroleum products, electricity expenses, city gas expenses, rices, cut flowers, chicken eggs, landline fees, medical consultation fees, nursing fees, tobacco, public high school tuition, and private high school tuition).

Fig. 1-1-8 (2) Breakdown of total cash salaries into factors of changes



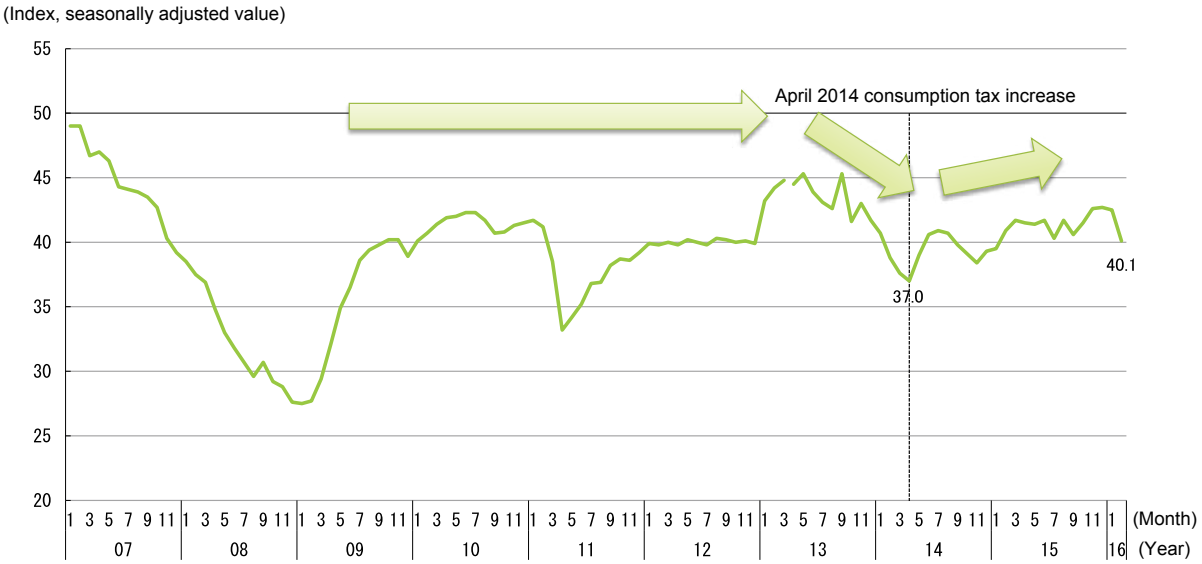
Source: Prepared based on MHLW, *Monthly Labour Survey*.
Notes: 1. The breakdown into factors of changes was derived by the following formula.
$\Delta W/W=[\Delta Wn\times\{(1-r)+(1-r-\Delta r)\}/2]/W$: Salary of general workers
$+[\Delta Wp\times\{r+(r+\Delta r)\}/2]/W$: Salary of part-time workers
$+[\Delta r\times\{Wp+(Wp+\Delta Wp)-Wn-(Wn+\Delta Wn)\}/2]/W$: Composition ratio of part-time workers
W : Total cash salaries (total of all employment styles)
Wn: Total cash salaries of general workers
Wp: Total cash salaries of part-time workers
r : composition ratio of part-time workers
2. Total of all surveyed industries, business establishments with more than 5 employees.
3. The composition ratio of part-time workers is estimated based on a real value obtained by multiplying the total cash salary index of all regular workers, general workers, and part-time workers by a reference value and making a correction so that total cash salaries could be chronologically linked.

Above, we saw that real wages decreased even while the employment environment improved and employee compensation also increased owing to the increase in number of employees. Next, let us take a look at changes in consumer confidence. The consumer confidence index, which represents consumers' awareness of economic

trends, weakened in the first half of 2014 partly as an impact of the consumption tax increase, but began to show signs of recovery in 2015 (Fig. 1-1-9 (1)). A standstill continued after July, but from October to December, an improvement began to appear once again. Nevertheless, the most recent January and February surveys showed a drop in the consumer confidence index due to stock market falls, and the overall assessment was revised downward for two consecutive quarters. It fell below the 2007 level before the Lehman crisis, and hovered at levels below the standard level of 50 (=the number of consumers who respond that consumer confidence "will get worse" or "will get somewhat worse" in the future outnumbers those who respond that it "will improve" or "will somewhat improve").

When we break down this consumer confidence index into its components ("standard of living," "increase in income," "employment environment," and "judgment of appropriate time to buy durable consumer goods") and examine the component that is impacting the change in consumer confidence, we see that the consumer confidence index, which continued to decline from the third quarter of 2013 to the second quarter of 2014, was pushed down by "standard of living" and "increase in income" in 2013, and mainly by "judgment of appropriate time to buy durable consumer goods" in the first quarter of 2014 (Fig. 1-1-9 (2)). In 2015, "standard of living" stabilized, thereby boosting the consumer confidence index to positive territory, and even increased beyond the index as a whole in multiple quarters. With respect to "increase in income," however, a slight increase was seen, but not enough to reach the level of the index. This implies that the sluggish increase of wages is leading to a stagnation of consumer confidence.

Fig. 1-1-9 (1) Consumer confidence index



Source: Cabinet Office, *Consumer Confidence Survey*.

Notes:
1. Indexes were created by asking consumers to give a rating from 1 to 5 regarding their outlook for the coming six months in regard to the four components of "standard of living," "increase in income," "employment environment," and "judgment of appropriate time to buy durable consumer goods." For all components, an index value of 50 was given when "no change" was selected as the response.
2. The survey method was changed in April 2013 (from the visiting and leaving method to a postal survey method).

Fig. 1-1-9 (2) Consumer confidence index by component — differences from previous quarter

Source: Cabinet Office, *Consumer Confidence Survey*.

As seen above, personal consumption remained level in general, and lacked strength. This is thought to be because even while consumer prices were on an increasing trend amid the Japanese economy's gradual escape from deflation, the increase in wages lagged behind the increase in prices, and real wages declined. This led to a decline in consumer confidence, and caused overall consumption to stagnate.

Meanwhile, the employment environment showed an improvement, and the overall number of employees increased mainly among non-regular workers. Owing to this, employee compensation, which represents the total earnings of all citizens, increased even in terms of real values that exclude the impact of price increases. Thus, an increase in real wages is seen as the key to increasing consumption through increases in consumer confidence and employee compensation.

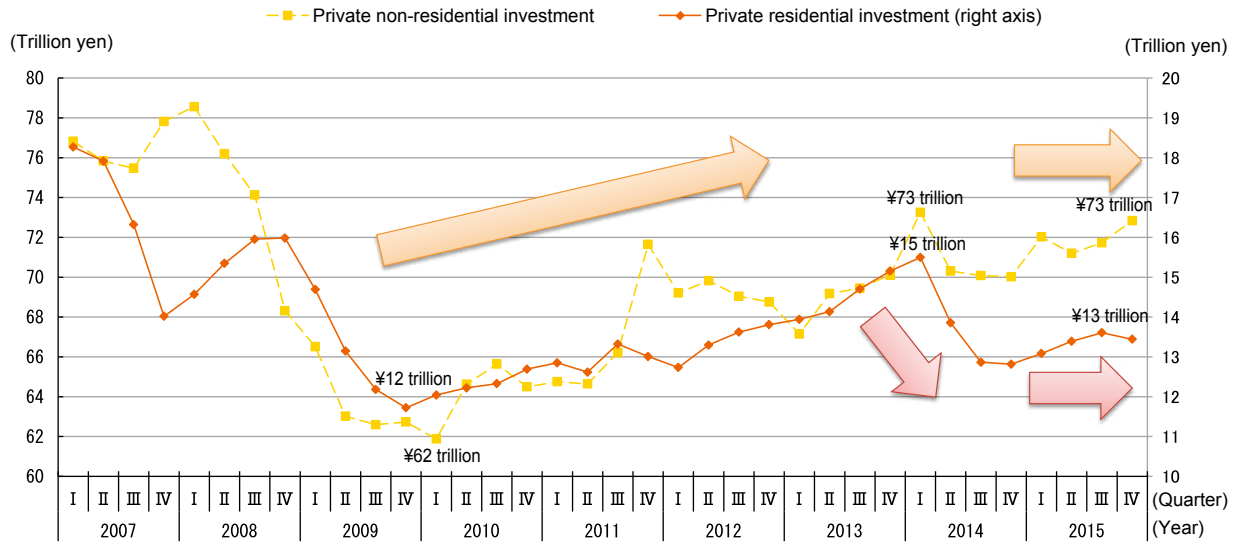
4. GDP component trends (2): Investment

Next, let us examine developments in the private investment sector (residential and non-residential investments). Private residential investment accounts for approximately 3% of overall real GDP, and private non-residential investment approximately 14%. Together, they make up approximately 16% of overall real GDP.

In terms of real quarterly trends, private residential investment gradually increased roughly 20% from 2011 to the first quarter of 2014 (Fig. 1-1-10). It decreased from the second to fourth quarter of 2014 and once again turned to a gradual increase in 2015, but has yet to return to the level before the first quarter of 2014. Private non-residential investment showed a large drop in the wake of the Lehman crisis, and made a gradual recovery on the whole after 2010, but again dropped in the second quarter of 2014. In recent years, it has generally remained on the same level, and has not yet returned to the level before the Lehman crisis.

In this way, private investment showed a gradual recovery after the Lehman crisis, but slackened in the second quarter of 2014. Thereafter, private residential and private non-residential investment progressed in differing ways, but both have yet to return to the level before the Lehman crisis.

Fig. 1-1-10 Private non-residential investment and private residential investment

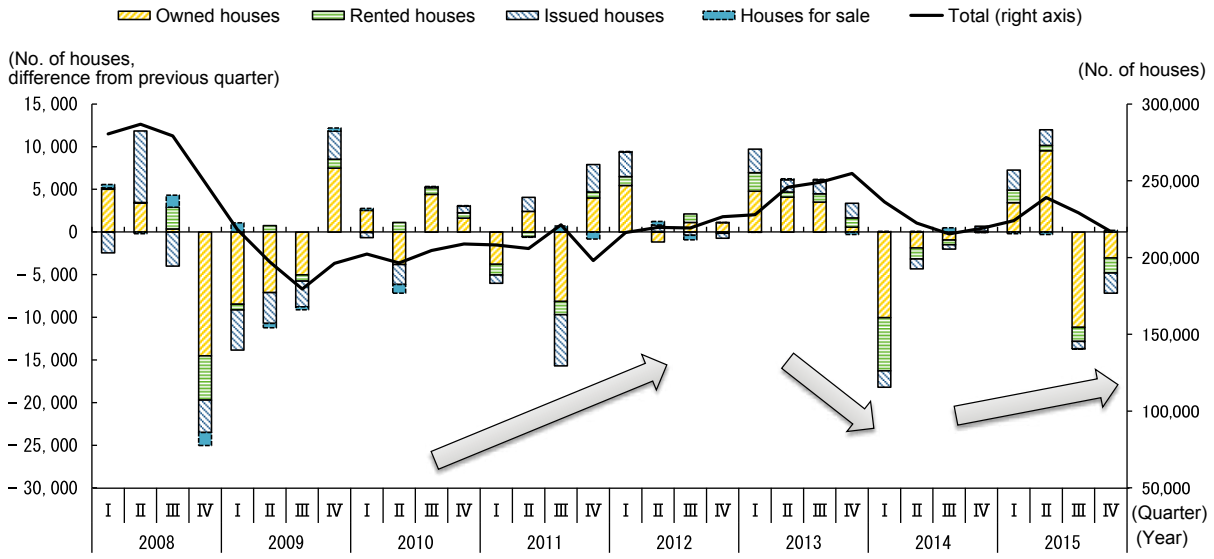


Source: Cabinet Office, *System of National Accounts*.

Next let us turn to private residential investment and examine the trend in the actual number of housing starts. The number of new housing starts largely slumped after the Lehman crisis, mainly among owned and issued houses, but from 2010 to 2013, a gradual recovery was seen among practically all types of housing (Fig. 1-1-11).

In 2014, new housing starts plunged mainly among owned and rented houses as a reaction against the last-minute surge in demand accompanying the consumption tax increase, but recorded a year-on-year increase in 2015 as the impact of the reactionary fall faded.

Fig. 1-1-11 Number of new housing starts (differences from previous quarter, total)



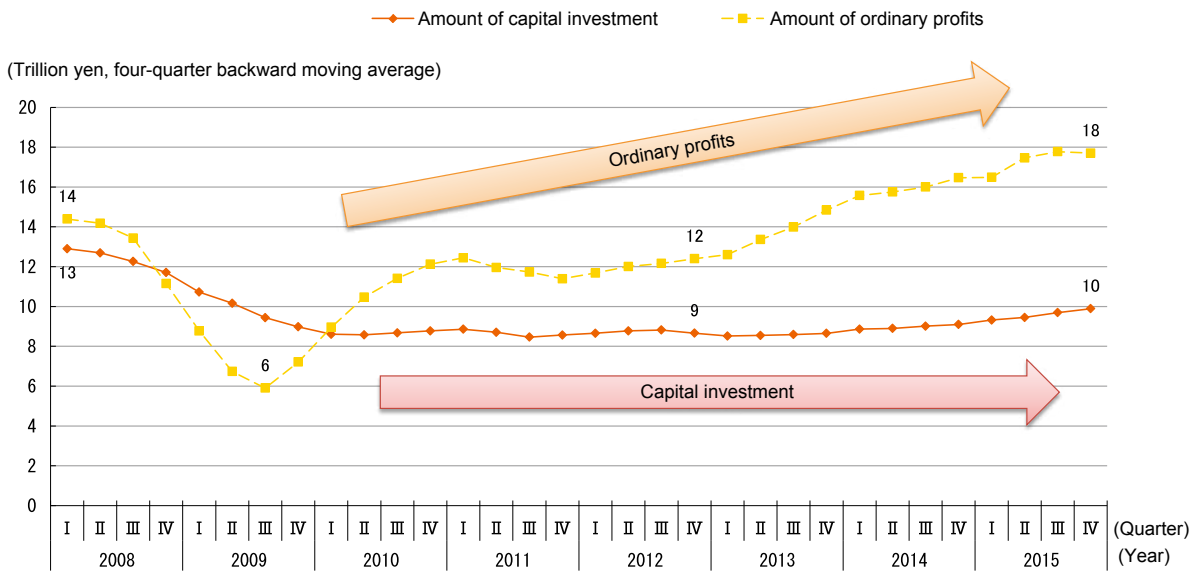
Source: MLIT, *Statistics on Construction Starts*.

Next, let us examine private non-residential investment and the changes that have occurred in the real amount of capital investments (Fig. 1-1-12). Capital investment declined from the fourth quarter of 2008 to 2009 due mainly to the impact of the Lehman crisis, and thereafter maintained its low level. Signs of gradual recovery were seen in 2014, but the level before the Lehman crisis has yet to be reached.

Meanwhile, a look at the ordinary profits of enterprises shows a larger decline compared to the decline in capital investment from 2008 to 2009, but a significant recovery in 2010. After leveling off thereafter, ordinary profits shifted to increase in 2013, and now maintain a higher level than before the Lehman crisis.

In this way, ordinary profits have reached a record high level, but capital investment remains low, and the recovery trend is weak.

Fig. 1-1-12 Capital investment and ordinary profits

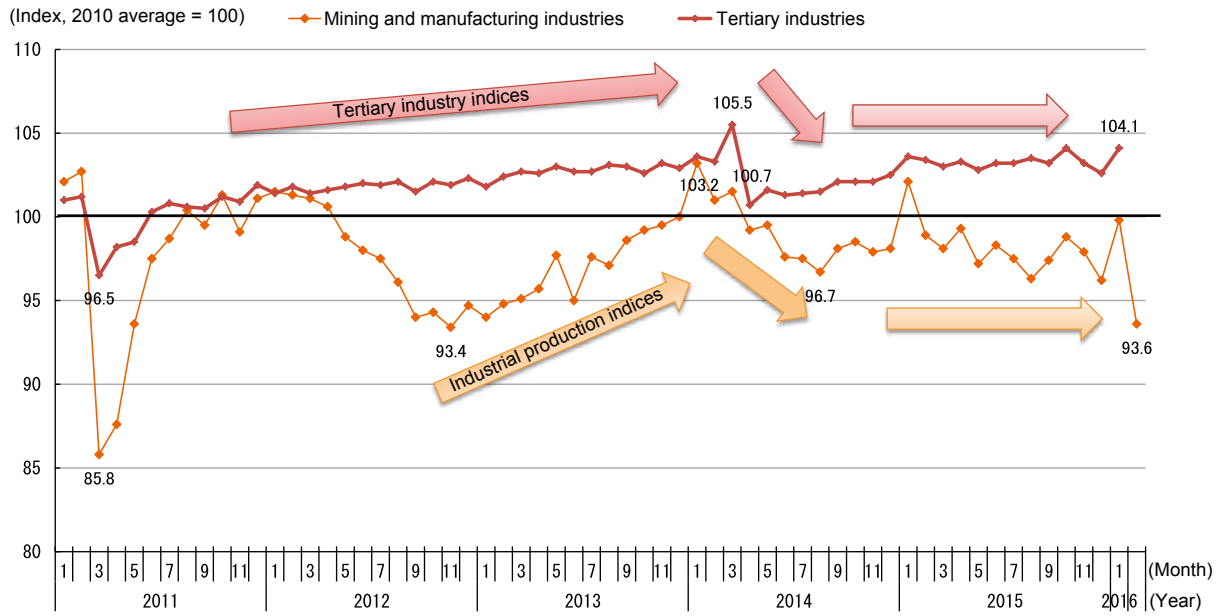


Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

Here, let us take a look at corporate production activities in terms of the indices of industrial production for mining and manufacturing industries, and the indices of tertiary industry activity for tertiary industries such as the wholesale trade and services industries (Fig. 1-1-13).

The indices of industrial production have shown movements of picking up since 2013, but weakened in the middle of 2014. From the end of 2014 to the beginning of 2015, they picked up once again, but are now seesawing once again. The indices of tertiary industry activity displayed a gradual rising trend after falling in the wake of the Great East Japan Earthquake in March 2011, but the impact of the consumption tax increase in April 2014 pushed them back down, particularly in the wholesale and retail trade industries. In May 2014, movements of recovery were seen, but weaknesses are appearing in some areas amid fluctuations. With both indices continuing to seesaw, corporate activities can in no way be said to be strong, and such trend is thought to be contributing to the weakening of capital investment.

Fig. 1-1-13 Indices of industrial production and indices of tertiary industry activity



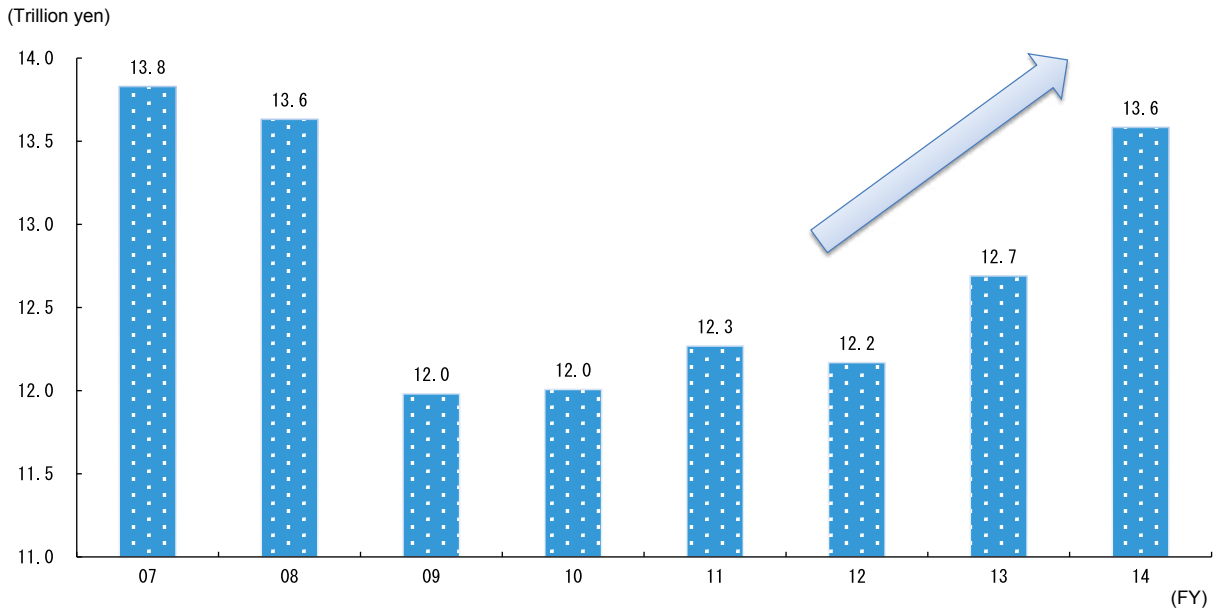
Source: METI, *Indices of Industrial Production*, *Indices of Tertiary Industry Activity*.

Another reason for the decline in private investments could be that corporate profits are increasingly being applied to expenditures other than capital investment.

A look at the trend in R&D expenses (Fig. 1-1-14), which represent investments in intangible assets, reveals an increase over the past two years and a recovery to practically the same level as before the Lehman crisis.

As discussed above, the reason why capital investment is stagnant even while operating profits are at a record high level is assumed to be because corporate production activities are weak, and earned profits are being allocated to R&D expenses.

Fig. 1-1-14 R&D expenses



Source: MIC, *Survey of Research and Development*.

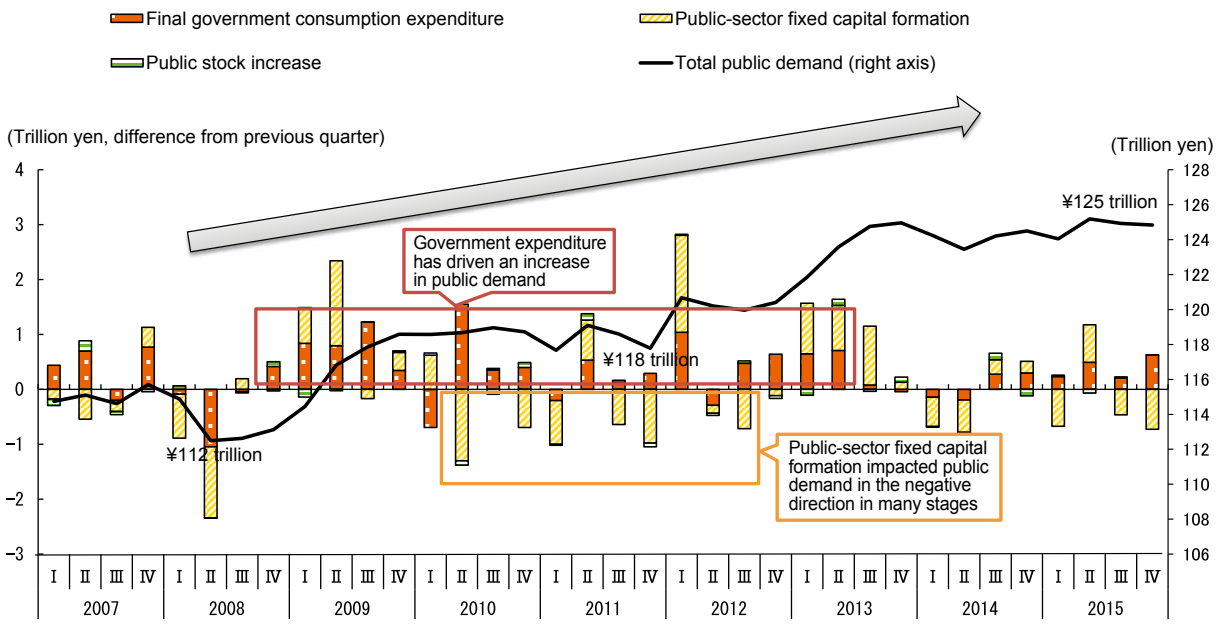
5. GDP component trends (3): Public demand

Public demand accounts for approximately 24% of overall real GDP in real amount. Let us examine this public demand by breaking it down into final government consumption expenditure, which represents the total expenditure of government services; public-sector fixed capital formation, which represents the purchase amount of fixed assets such as dams, dikes and roads by the government; and public stock increase, which represents the amount of changes in government inventory, such as changes in crude oil inventories (Fig. 1-1-15 (1)).

Final government consumption expenditure as a whole continued on an increasing trend since 2008, and now marks an increase of some ¥10 trillion compared to the 2008 average. Public-sector fixed capital formation had been on a decline since the second quarter of 2010, but began to level off or slightly increase from 2013. Public stock increase is trending at a slow pace.

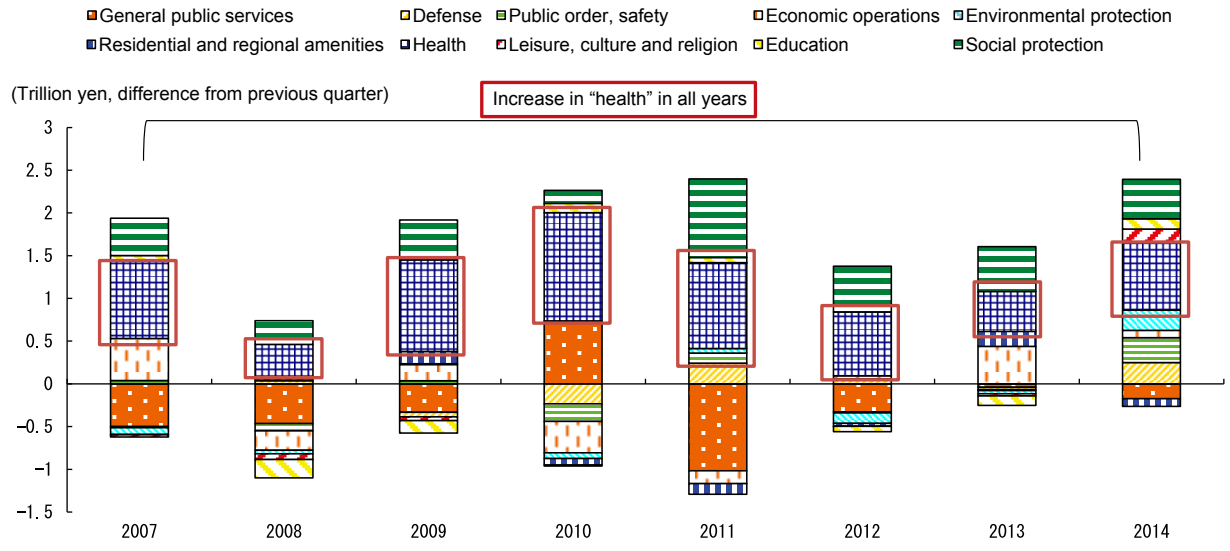
Final government consumption expenditure is contributing to an overall increase in public demand, but in terms of purpose, “health” has largely influenced this increasing trend during the past eight years as a result of an increase in medical expenses, as medical expenses are included in the government’s burden (Fig. 1-1-15 (2)).

Fig. 1-1-15 (1) Public demand (differences from previous quarter, total)



Source: Cabinet Office, *System of National Accounts*.

Fig. 1-1-15 (2) Breakdown of final government consumption expenditure (differences from previous year)

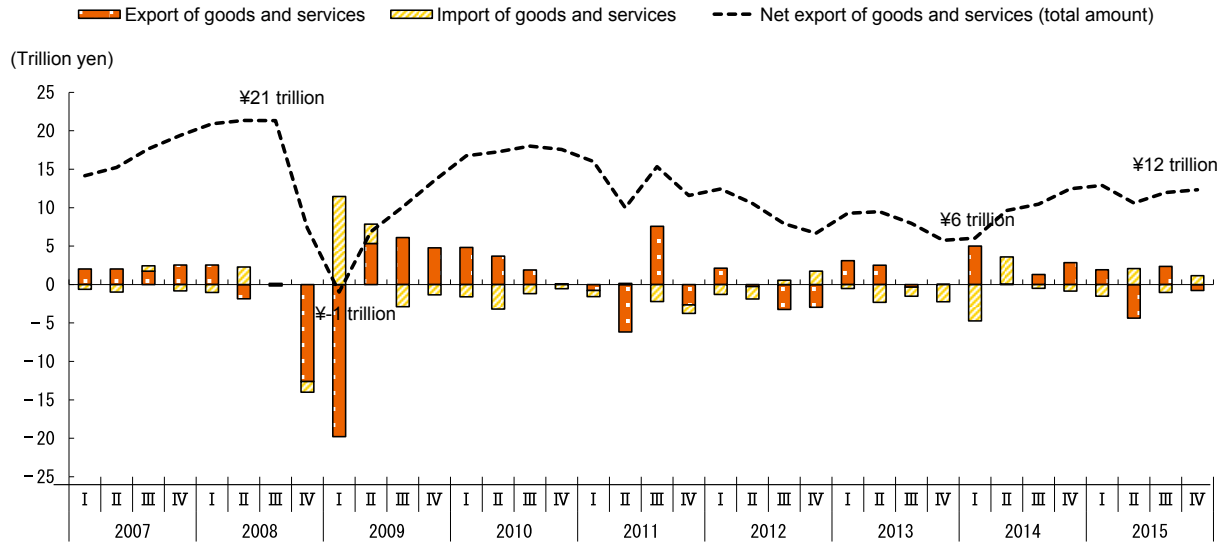


Source: Cabinet Office, *System of National Accounts*.

6. GDP component trends (4): Exports and imports

Lastly, let us examine the export and import of goods and services. Export is a factor that boosts GDP, and import is a factor that conversely depresses GDP. Additionally, exports and imports account for approximately 17% and 15% of overall real GDP, respectively. Immediate trends show that net export, which is equal to exports minus imports, largely decreased in the fourth quarter of 2008 and the first quarter of 2009 due to the decrease in exports accompanying the Lehman crisis, and remained in negative territory in the first quarter of 2009, thereby producing an excess of imports (Fig. 1-1-16). Thereafter, it picked up owing to a reactionary increase in exports, and exports returned to surplus, but after 2011, it turned once again to a gradual decreasing trend, accompanying a gradual increase in imports. The second quarter of 2014 saw a picking up once again, owing mainly to a growth in exports.

Fig. 1-1-16 Export and import of goods and services (differences from the previous quarter, total)

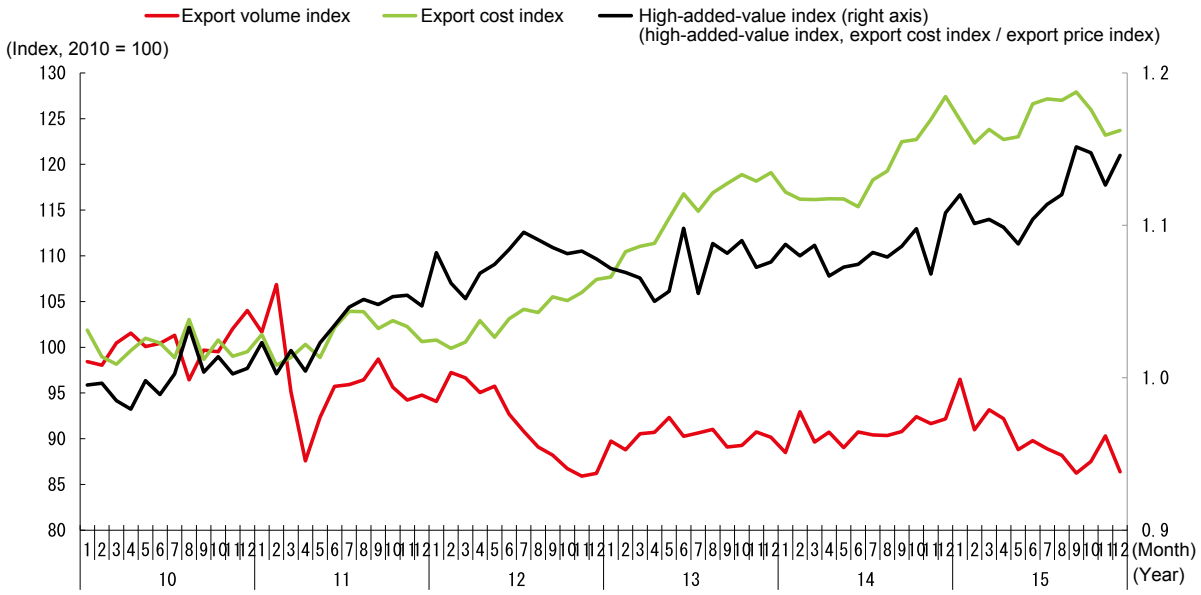


Source: Cabinet Office, *System of National Accounts*.

Next, let us examine recent export trends in terms of volume factor and cost factor. When examining export volume index and export cost index, which indicate the levels of export volume and cost when the 2010 level as presented in the *Trade Statistics of Japan* issued by the Ministry of Finance is given a value of 100, cost increased significantly in 2013, but volume decreased in 2012 and remained low thereafter (Fig. 1-1-17). This means that the recent increase in export amount is not attributed to an increase in export volume but an increase in export cost.

Furthermore, when we examine export cost in detail based on the high-added-value index, which expresses the degree of the added values of export goods, we see a gradual increase in high-value-added products from 2007 raising export cost.

Fig. 1-1-17 Export volume index, export cost index, and high-added-value index

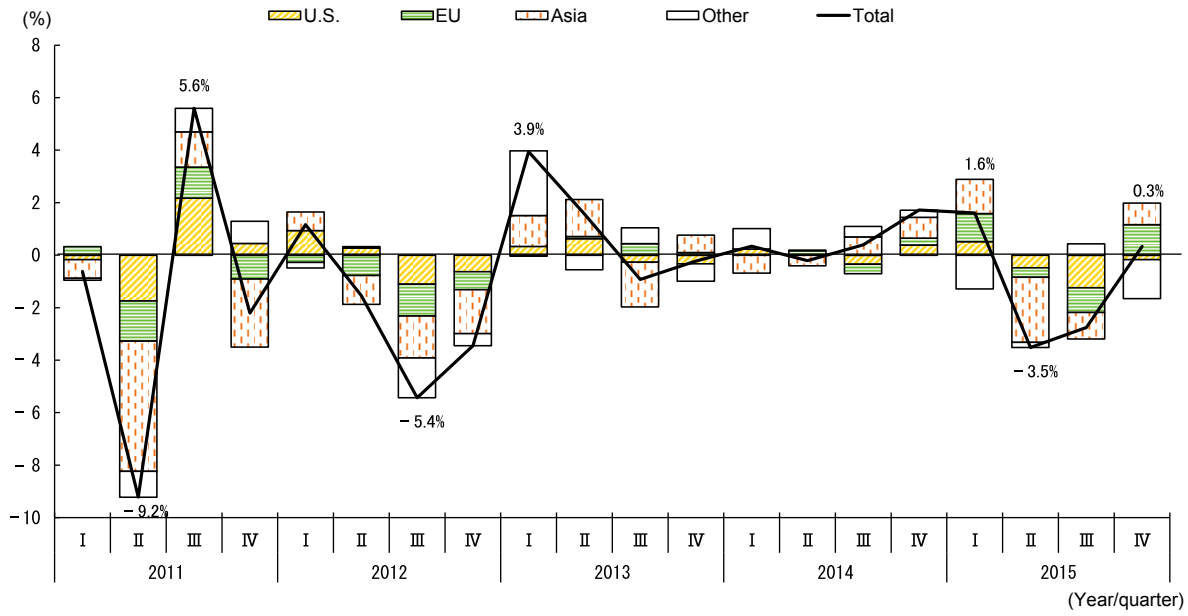


Sources: MOF, *Trade Statistics of Japan*; BOJ, *Corporate Price Index*, *Trends Developments in Real Exports and Real Imports*.
Notes: 1. The figures for export volume index are seasonally-adjusted values by the Cabinet Office.
2. High-added-value index = export cost index (*Trade Statistics of Japan*) / export price index (*Corporate Price Index*)

Next, in terms of regional contribution to export volume in comparison with previous quarters, export volume declined from the second to fourth quarter of 2012 mainly with regard to exports to Asia and EU, and while an improvement was seen in the first half of 2013, a level trend continued thereafter (Fig. 1-1-18). In the second and third quarters of 2015, exports dropped, largely due to a decline in exports to Asia in the second quarter and a decline in exports to the U.S. in the third quarter. The fourth quarter saw a slight increase on the whole, but while the value of exports to EU and Asia increased, the value of exports to the U.S. decreased. GDP based on export value was on a gradual recovery trend after 2014, but GDP based on volume remained level after 2014 and turned to decrease in the second and third quarters of 2015, as discussed above.

In light of trends in the representative exchange rate against the dollar, the yen began to strengthen in mid-2007 and reached the 70 yen level to the dollar in the latter half of 2011. However, it showed a weakening from around the beginning of 2013, such that it hovered at around 120 yen in the latter half of 2015 before slightly regaining its strength and settling at around 113 yen to the dollar (Fig. 1-1-18). Export value increased in the first half of 2013 and from the latter half of 2014 to the first quarter of 2015, but while export volume also increased during these periods, the exchange rate also moved in the direction of a weak yen, thus indicating that exchange rate also factors in the increase in export value.

Fig. 1-1-18 Export volume index (regional contribution)



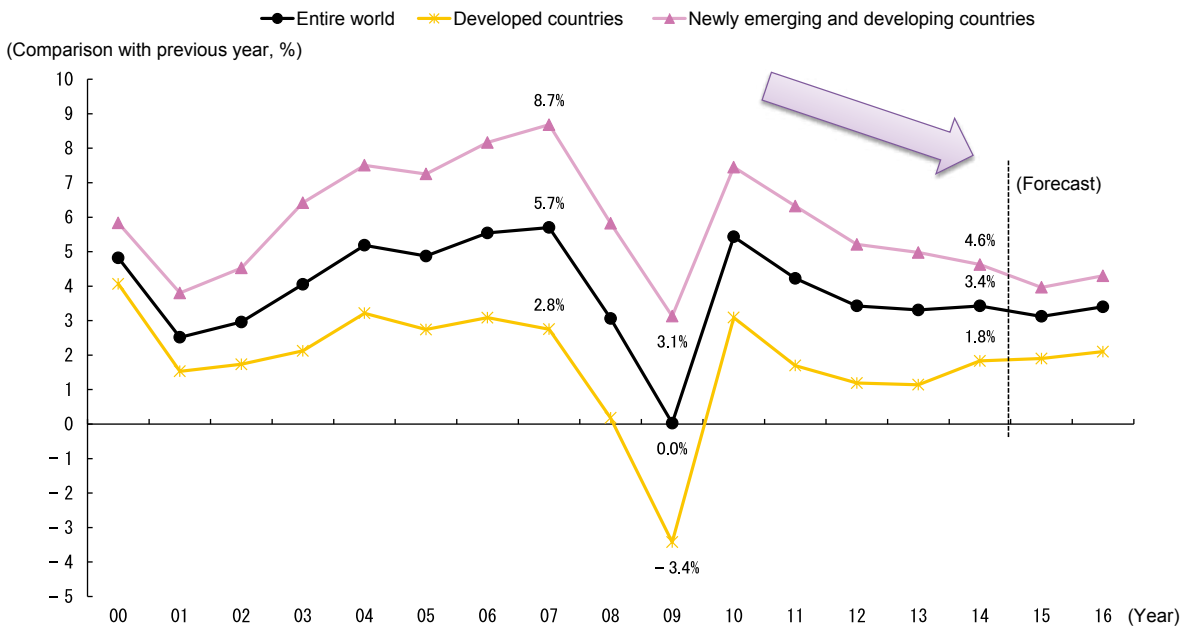
Source: Prepared based on MOF, *Trade Statistics of Japan*.
Note: Seasonally-adjusted values by the Cabinet Office.

Fig. 1-1-19 Exchange rates (yen/dollar)

Source: BOJ
Note: Tokyo Interbank exchange rate, spot (as of 17:00), monthly average.

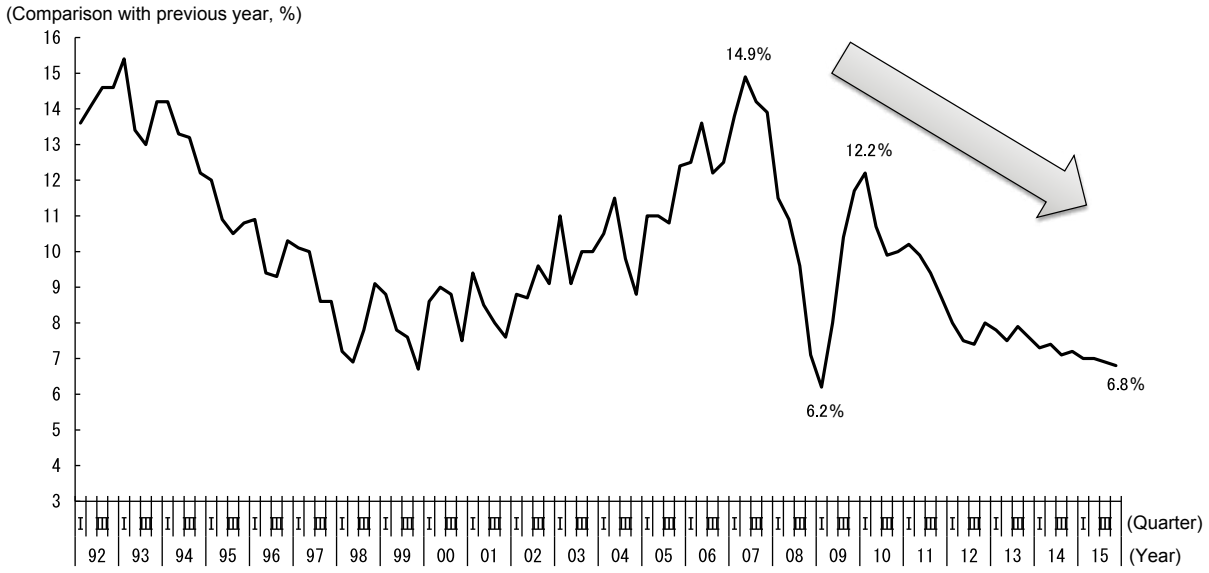
When we look at the real growth rates of global economies in the context of exports, we see a shrinking from 2011 mainly in newly emerging countries and developing countries (Fig. 1-1-19 (1)). In China, for instance, the growth rate declined after peaking in the first quarter of 2010, marked a single-digit growth after the second quarter of 2011, and declined down to the 6% level (Fig. 1-1-19 (2)). From this, we can surmise that export volume is being impacted by the deceleration of the economy mainly in developing countries.

Fig. 1-1-20 (1) Real growth rate of global economies



Source: IMF, *World Economic Outlook* (Oct. 2015).

Fig. 1-1-20 (2) Real growth rate in China

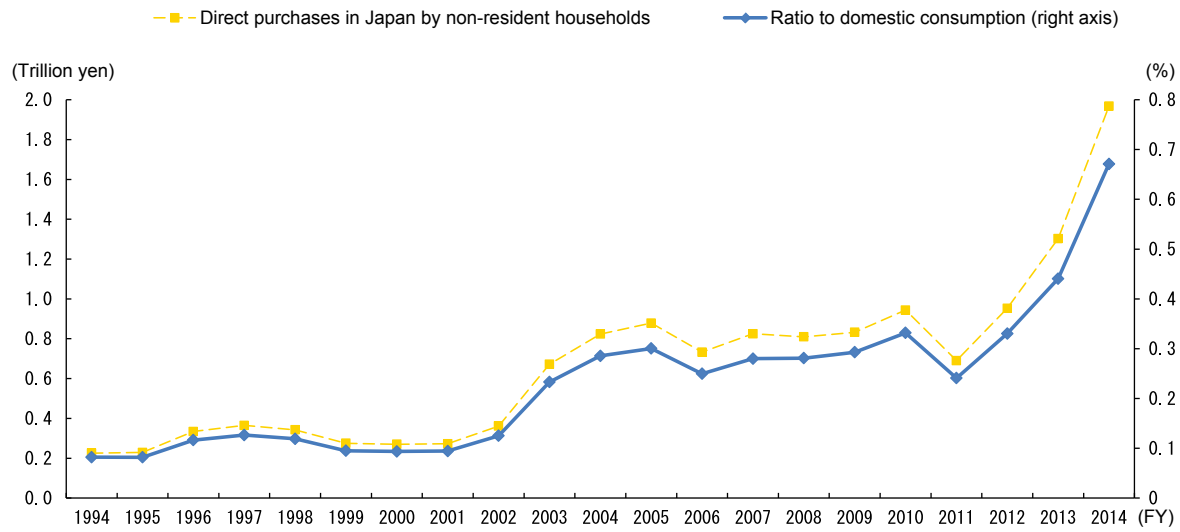


Source: Chinese National Bureau of Statistics

Lastly, let us take a look at the import and export of goods and services. Because this includes direct purchases in Japan by non-resident households, or in other words expenditures by foreign tourists, we shall examine changes in the inbound consumption index (Fig. 1-1-19). Direct purchases in Japan by non-resident households

stood at around ¥0.2 to ¥0.3 trillion in the 1990s, but grew after 2003 to around ¥0.8 to ¥0.9 trillion. They fell again in the wake of the Great East Japan Earthquake in 2011, but showed a large increase thereafter, such that they reached a little below ¥2 trillion in 2014 and marked a ten-fold increase from twenty years ago. Today, said direct purchases have increased to account for approximately 0.7% of overall domestic consumption.

Fig. 1-1-21 Direct purchases in Japan by non-resident households (nominal GDP)



Source: Cabinet Office, *System of National Accounts*.

7. Summary

Japan's economy in fiscal 2015 showed a continued recovery trend in the end of 2012, but a lagging was seen in the recovery of expenditures such as capital investment and personal consumption. Personal consumption slackened due in part to the fall in real wages accompanying a rise in consumer prices, and private non-residential investment has also yet to reach the level before the Lehman crisis. Meanwhile, the employment environment is continuously improving, and the consumption and investment environments are improving in some areas, with an increase in employee compensation, which represents the earnings of the entire country, and a record high level of ordinary profits. Hereafter, it is hoped that personal consumption will pick up, capital investment will increase, and the economy will head toward gradual recovery.

Chapter 2

Developments among SMEs

In the previous chapter, we examined recent developments in the Japanese economy through GDP-related statistics. In this chapter, we will focus on the present state and issues of SMEs. Section 1 will examine the present state of SMEs in terms of the number of SME enterprises, their business conditions, financing, etc. Section 2 will unravel the profit structure of SMEs and shed light on issues that SMEs are facing.

Section 1 Present state of SMEs

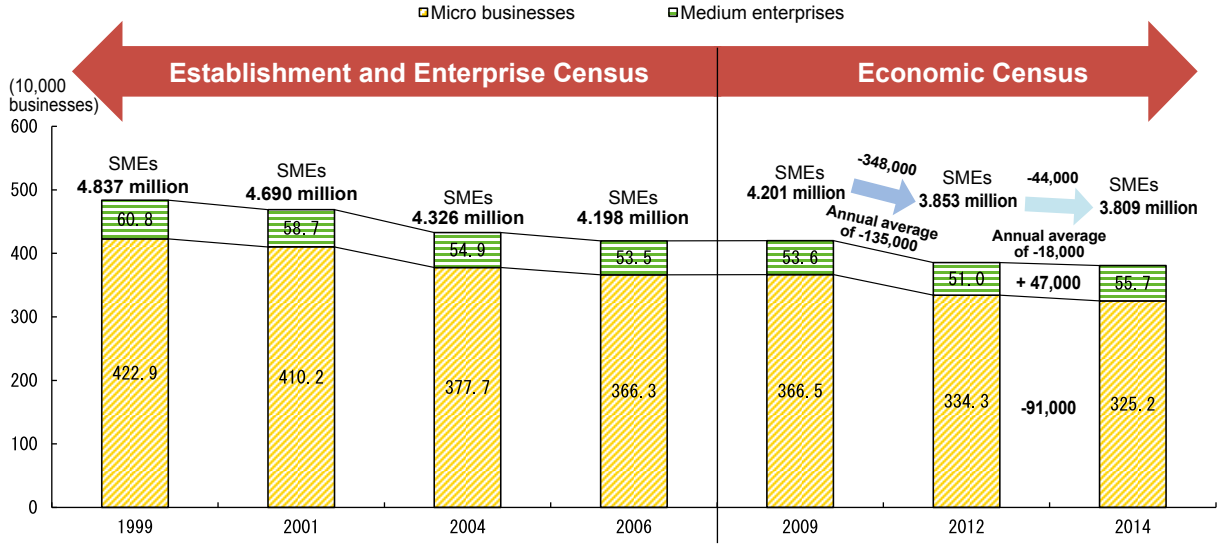
1. Number of SMEs

Before looking into the present state of SMEs, let us verify the number of SMEs based on the *2014 Economic Census for Business Frame*, which was announced in November 2015.

The number of SMEs has been declining over the long term (Fig. 1-2-1), with a decline of 44,000 during the most recent two years, from 2012 to 2014. However, the rate of decline has become gradual. While the number of SMEs declined by an average of 135,000 per year from July 2009 to February 2012, it declined by an average of 18,000 per year from February 2012 to July 2014.

In terms of enterprise size, the number of micro enterprises declined by 91,000 over the two years from 2012 to 2014, but the number of medium enterprises contrarily increased by 47,000 over the same period, for a total decline of approximately 44,000.

Fig. 1-2-1 Numbers of SMEs



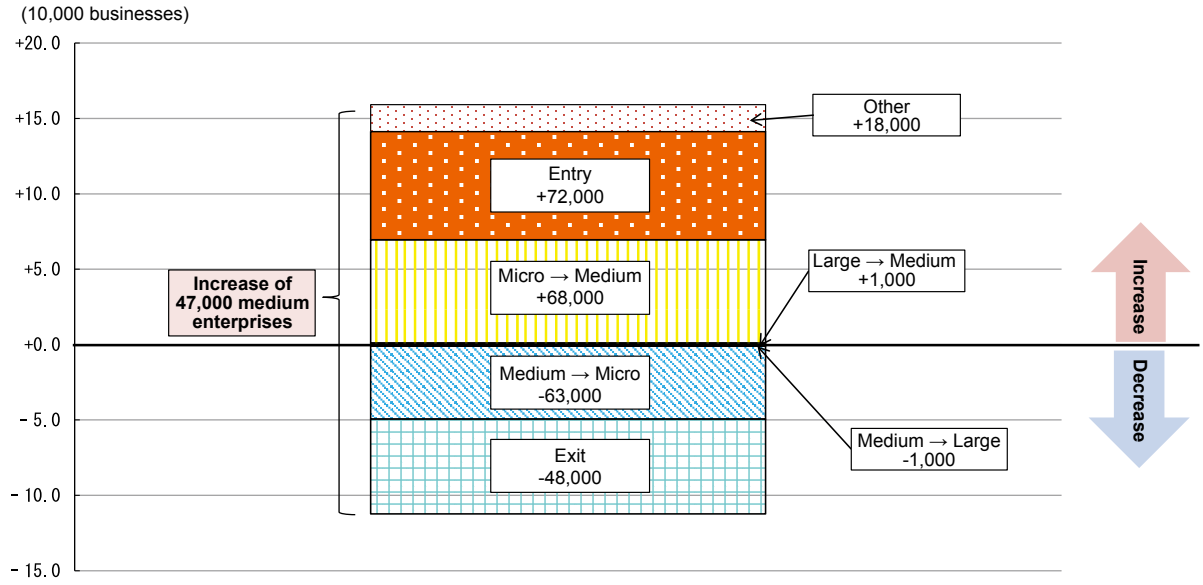
Sources: Recompiled from MIC, *Economic Census for Business Frame*; *Establishment and Enterprise Census* and MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors
2. The 2009 and 2014 *Economic Census for Basic Frame* was conducted on July 1, and the 2012 *Economic Census for Business Activity* was conducted on February 1.
3. The *Economic Census* is based on an expanded scope of businesses and enterprises based on administrative records such as commercial and corporate registration records, and adopts a "head office collective survey method" whereby the business owner in the head office provides collective information of all branch offices, etc. Therefore, it is not appropriate to compare the results of the *Economic Census* with the results of the *Establishment and Enterprise Census* on simple terms.

Next, we shall examine whether the changes in the numbers of medium enterprises and micro enterprises are attributed to market entries and exits, or to changes in enterprise size (from micro to medium enterprise, from medium to large enterprise, etc.).

Let us first look at medium enterprises. Over the two years from 2012 to 2014, there was an increase of 47,000 medium enterprises. With respect to market entries and exits, this figure was partly a result of there being 72,000 entries and 48,000 exits, such that the number of entries surpassed exits by 24,000 (Fig. 1-2-2 (1)). With respect to changes in enterprise size, 68,000 micro enterprises grew into medium enterprises, and 63,000 medium enterprises downsized into micro enterprises. This means there were 5,000 more micro enterprises that became medium enterprises than the opposite. From this, it could be said that the increase in medium enterprises was more a result of new market entries than the growth of existing micro enterprises into medium enterprises. Changes to and from large enterprises were seen among about 1,000 enterprises.

Fig. 1-2-2 (1) Breakdown of the number of medium enterprises (2012 → 2014)



Sources: Recompiled from MIC, *2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

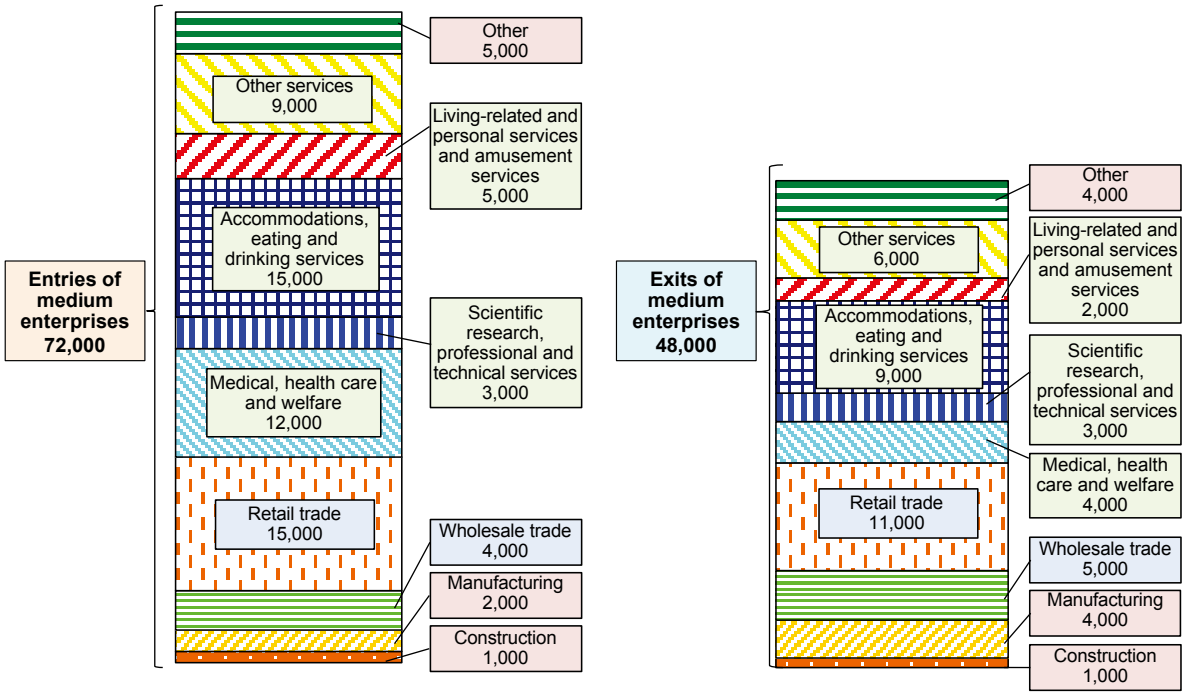
Notes: 1. Among enterprises whose corporate information could not be confirmed in the 2014 or 2012 *Economic Census*, those whose offices are said to have all entered the market are regarded as "entries," and those whose offices are said to have all exited the market are regarded as "exits."
Enterprises that did not fall under these categories, and enterprises whose business type changed to or from a primary industry were categorized as "other."
2. Under this tabulation method, the numbers of entries and exits may be larger than the actual numbers, because enterprises composed of a single office that have relocated their office are counted among both entries and exits, even though they have not actually newly entered or exited the market.

When we look at new market entries by medium enterprises from 2012 to 2014 in terms of industry, we see a noticeable number of entries in the service industries[1]. In particular, there were 15,000 new entries in the accommodations, eating and drinking services industries, and 12,000 new entries in the medical, health care and welfare industries (Fig. 1-2-2 (2)). Meanwhile, entries in the manufacturing industries stood at 2,000, partly due to the different standards regarding medium enterprises[2]. The number of market exits by medium enterprises over the same period in terms of industry shows that the largest number of exits was in the service industries, as was the case with entries, but "manufacturing industries and other" and "commercial industries" (wholesale and retail trade industries) accounted for a larger share of the total than in the case with entries.

1) Here, "manufacturing industries and other" refer to the manufacturing and construction industries and other industries; "commercial industries" refer to the wholesale and retail trade industries; and "service industries" refer to the medical, health care and welfare, accommodations, eating and drinking services, living-related and personal services and amusement services, scientific research, professional and technical services, and other services industries.

2) Generally, in "commercial industries" and "service industries," businesses with six or more employees are considered to be medium enterprises, while in the "manufacturing industries and other," businesses must have 21 or more employees to be considered a medium enterprise.

Fig. 1-2-2 (2) Entries and exits of medium enterprises by industry (2012 → 2014)



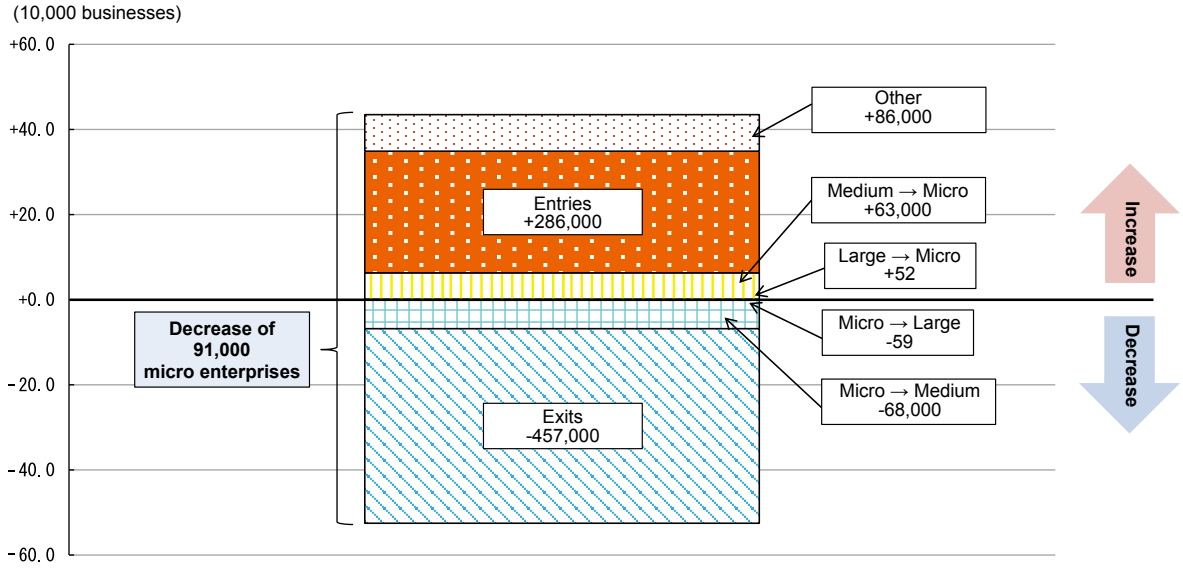
Sources: Recompiled from MIC, *2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

Notes: 1. "Other services" is total of real estate and goods rental and leasing, education, learning support, compound services, and services (not elsewhere classified).
2. "Other" is total of mining and quarrying of stone and gravel, electricity, gas, heat supply and water, information and communications, transport and postal activities, and finance and insurance.

Next, let us look at the breakdown of the number of micro enterprises. Over the two years from 2012 to 2014, the number of micro enterprises declined by 91,000. With 286,000 entries and 457,000 exits, the number of exits largely surpassed the number of entries by 171,000 (Fig. 1-2-3 (1)). With respect to changes in enterprise size, 63,000 medium enterprises downsized into micro enterprises, and 68,000 micro enterprises grew into medium enterprises. Since this means there were 5,000 more micro enterprises that became medium enterprise than the opposite, it could be said that the decline in the number of micro enterprises was mostly due to exits, and was influenced by the much larger number of exits compared to the number of entries[3].

3) Under this tabulation method, the numbers of entries and exits particularly among micro enterprises, which are mostly composed of a single office, may be larger than the actual numbers, because enterprises composed of a single office that have relocated their office are counted among both entries and exits, even though they have not actually newly entered or exited the market.

Fig. 1-2-3 (1) Breakdown of the number of micro enterprises (2012 → 2014)



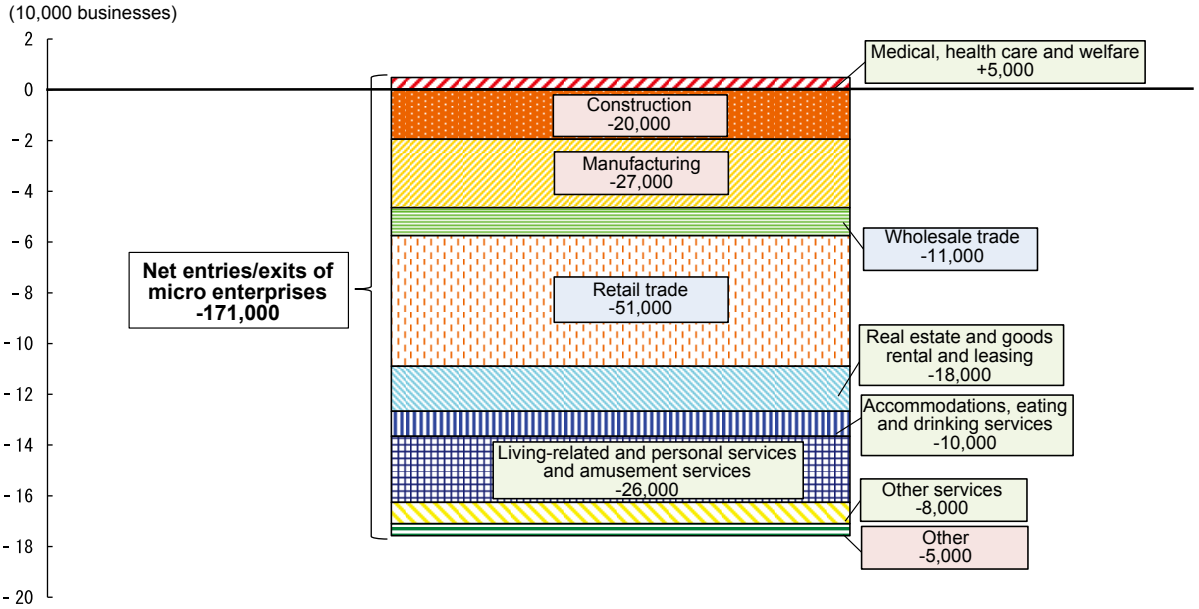
Sources: Recompiled from MIC, *2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

Notes: 1. Among enterprises whose corporate information could not be confirmed by the 2014 or 2012 *Economic Census*, those whose offices are said to have all entered the market are regarded as "entries," and those whose offices are said to have all exited the market are regarded as "exits."
Enterprises that did not fall under these categories, and enterprises whose business type changed to or from a primary industry were categorized as "other."
2. Under this tabulation method, the numbers of entries and exits may be larger than the actual numbers, because enterprises composed of a single office that have relocated their office are counted among both entries and exits, even though they have not actually newly entered or exited the market.

The number of entries and exits by micro enterprises between 2012 and 2014 might be calculated as being larger than the actual numbers[3], so we shall subtract the number of exits from the number of entries to obtain the "net number of entries and exits," and examine this net number by industry (Fig. 1-2-3 (2)). As a result, we see that the number of entries surpassed the number of exits in the medical, health care and welfare industries (+5,000 businesses) only, and exits surpassed entries by roughly the same amount in the three large categories of "manufacturing industries and other"[4] (total -52,000 businesses), "commercial industries" (total -62,000 businesses) and "services" (total -57,000 businesses; incl. medical, health care and welfare).

4) Here, "manufacturing industries and other" refer to the manufacturing and construction industries and other industries; "commercial industries" refer to the wholesale and retail trade industries; and "service industries" refer to the medical, health care and welfare, accommodations, eating and drinking services, living-related and personal services and amusement services, real estate and goods rental and leasing, and other service industries.

Fig. 1-2-3 (2) Net entries and exits (number of entries – number of exits) of micro enterprises by industry (2012 → 2014)

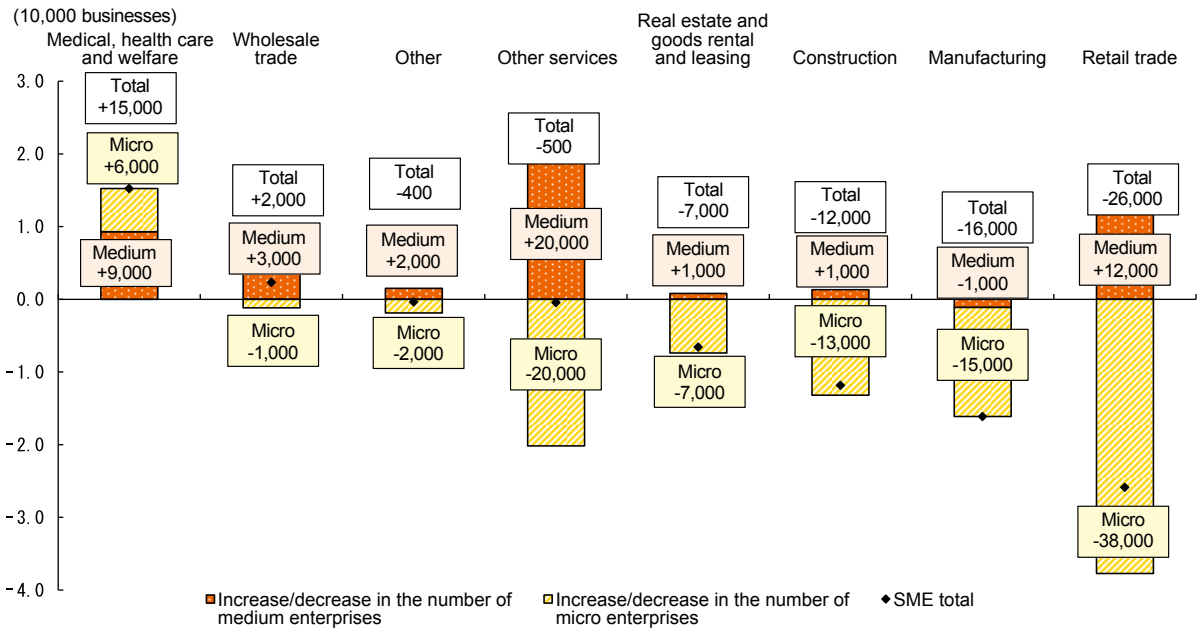


Sources: Recompiled from MIC, *2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

Notes: 1. "Other services" is total of scientific research, professional and technical services, education, learning support, compound services, and services (not elsewhere classified).
2. "Other" is total of mining and quarrying of stone and gravel, electricity, gas, heat supply and water, information and communications, transport and postal activities, and finance and insurance.

Next, let us examine changes in the numbers of SMEs from 2012 to 2014 by industry, in terms of the numbers of entries and exits and changes in enterprise size (Fig. 1-2-4). The numbers of SMEs declined by 43,000 as a whole, but there was an increase in the medical, health care and welfare industries and wholesale industry, with a particularly large increase of 15,000 in the medical, health care and welfare industries. At the same time, the number of enterprises in the retail trade industry and most other industries declined, but a breakdown shows an increase in the numbers of medium enterprises in industries other than the manufacturing industries, indicating that the number of micro enterprises has declined more than the number of medium enterprises increased.

Fig. 1-2-4 Numbers of SMEs by industry (2012 → 2014)



Sources: Recompiled from MIC, *2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

Notes: 1. "Other services" is total of scientific research, professional and technical services, accommodations, eating and drinking services, living-related and personal services and amusement services, compound services, and services (not elsewhere classified).
2. "Other" is total of mining and quarrying of stone and gravel, electricity, gas, heat supply and water, information and communications, transport and postal activities, and finance and insurance.

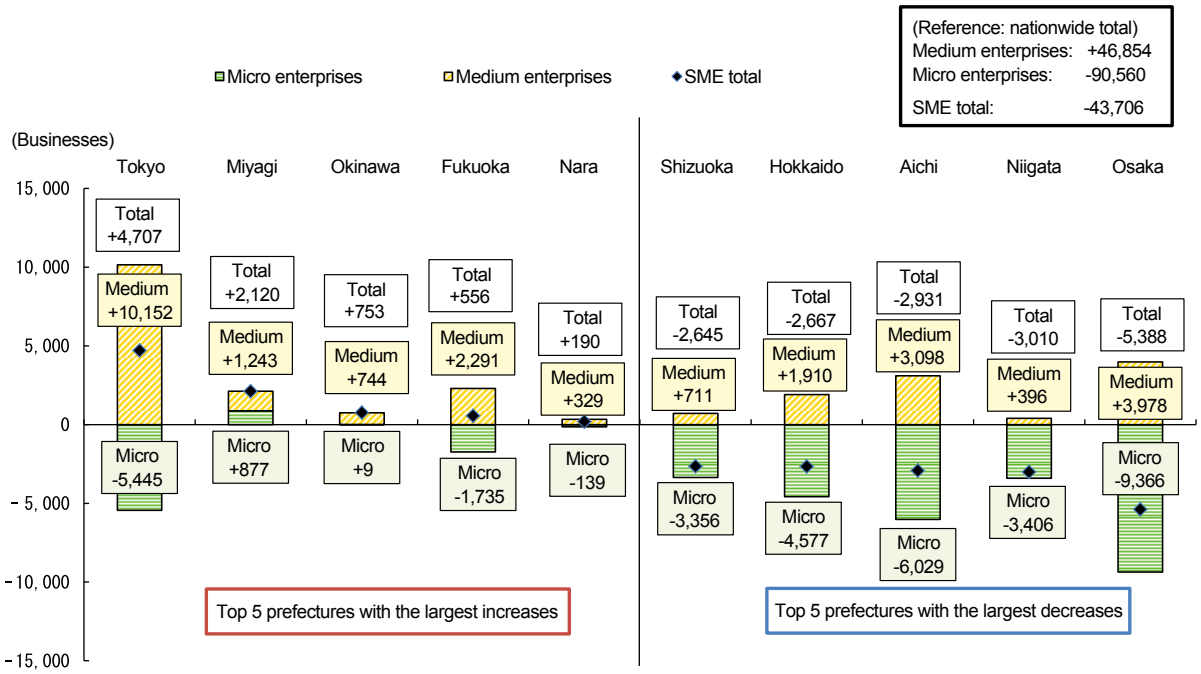
When the increases and decreases in the number of SMEs from 2012 to 2014 are calculated by prefecture, we see that the number increased in only 5 of all 47 prefectures (Fig. 1-2-5). Of these 5 prefectures, the largest increase was in Tokyo (+4,707), followed by Miyagi (+2,120) and Okinawa (+753). The largest decrease was in Osaka (-5,388), followed by Niigata (-3,010) and Aichi (-2,931).[5)]

Let us take a look at the contribution of enterprise size to increases and decreases in these prefectures. Of the top 5 prefectures, the number of micro enterprises increased in Miyagi and Okinawa (Miyagi +877; Okinawa +9), but decreased in the remaining three prefectures (Tokyo -5,445; Fukuoka -1,735; Nara -139) and in all other prefectures.

On the other hand, the number of medium enterprises increased in all 47 prefectures, including Osaka and Niigata, where the number of SMEs declined significantly (Osaka +3,978; Niigata +396). Despite the nationwide decline in the number of micro enterprises, the number of micro enterprises increased or only gradually declined in prefectures where the number of SMEs increased on the whole. Furthermore, as the number of medium enterprises has increased nationwide, it is clear that the decline in the number of micro enterprises was particularly large in prefectures where there was a significant decline in the number of SMEs.

5) For changes in the number of SMEs in all prefectures, see Appended note 1-2-1.

Fig. 1-2-5 Numbers of SMEs by prefecture and enterprise size (2012 → 2014)



Sources: Recompiled from MIC, *2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

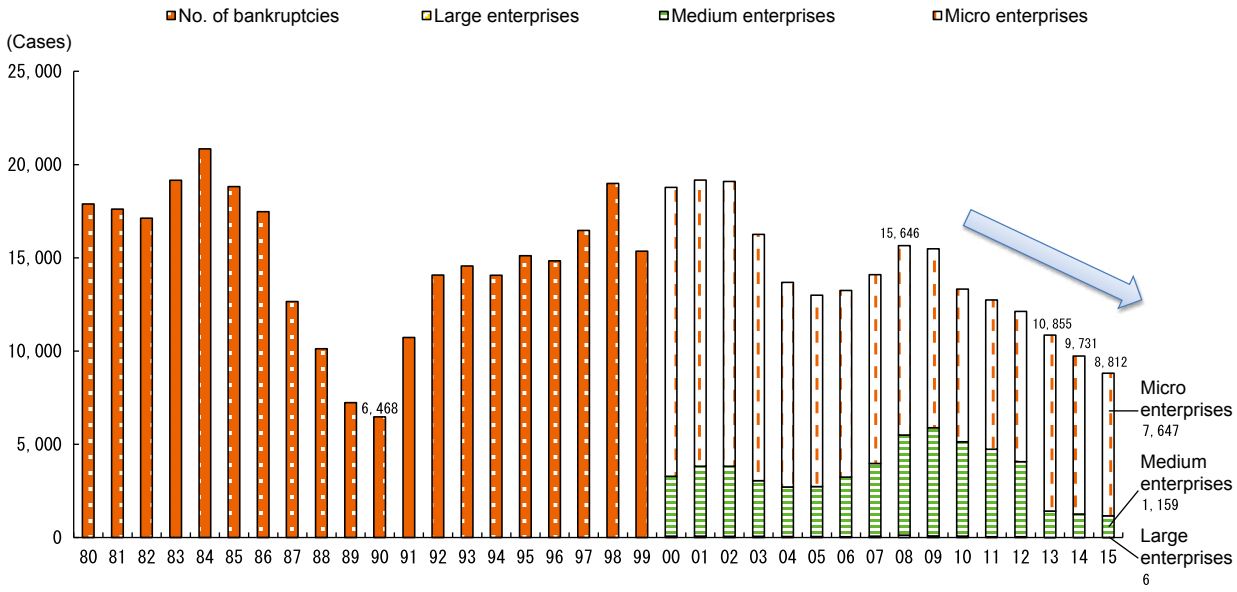
2. Numbers of bankruptcies, suspensions and closures, and dissolutions

Next, let us examine changes in the number of bankruptcies (Fig. 1-2-6 (1)). In 2015, there were 8,812 cases of bankruptcies, marking a level below 10,000 for the second consecutive year and the lowest level in 25 years since the 1989–1990 bubble economy. The annual number of bankruptcies has been showing a year-on-year decline for seven consecutive years since 2009. When looking at the trend after 2000 by enterprise size, we see that in 2015 there were 6 cases of bankruptcies among large enterprises, 1,159 among medium enterprises, and 7,647 among micro enterprises. Compared to 2008, when the number of bankruptcies reached a peak in recent years, the number of bankruptcies among medium enterprises decreased by 4,210. Similarly, the number of bankruptcies among micro enterprises also decreased by 2,510 (approx. 25%) from 2008, such that cases of bankruptcies decreased among enterprises of all sizes.

With respect to the number of business terminations[6] that are not included among bankruptcies, such as suspensions, closures and dissolutions, an increasing trend was seen until 2013, unlike with the number of bankruptcies. It still remains at a high level, although it turned to a decline in 2014 and continued its decline in 2015 (Fig. 1-2-6 (2)).

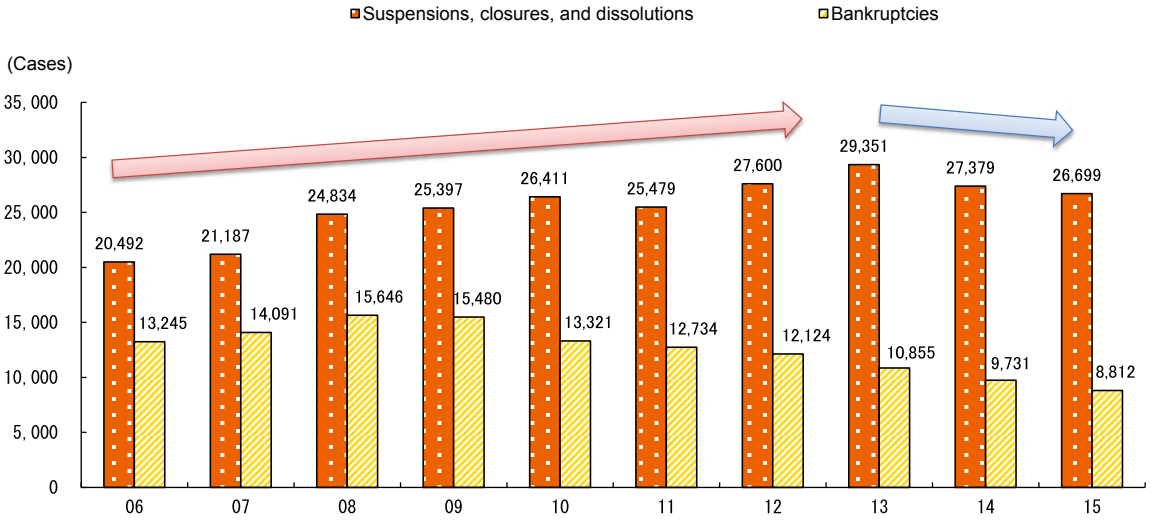
6) "Suspensions and closures" refer to businesses that have terminated in a state of surplus asset, with more assets than liabilities. "Dissolutions" refer to businesses that have given up continuing their business. Neither is included among "bankruptcies."

Fig. 1-2-6 (1) Number of bankruptcies (long-term)



Source: Tokyo Shoko Research, Ltd., *Business Failure News (Monthly)*.
Note: The figures for number of bankruptcies by enterprise size represent figures for after 2000 only.

Fig. 1-2-6 (2) Number of suspensions, closures, dissolutions, and bankruptcies



Source: Tokyo Shoko Research, Ltd., *2015 Survey of Business Suspensions, Closures and Dissolutions*.

3. Business conditions of SMEs

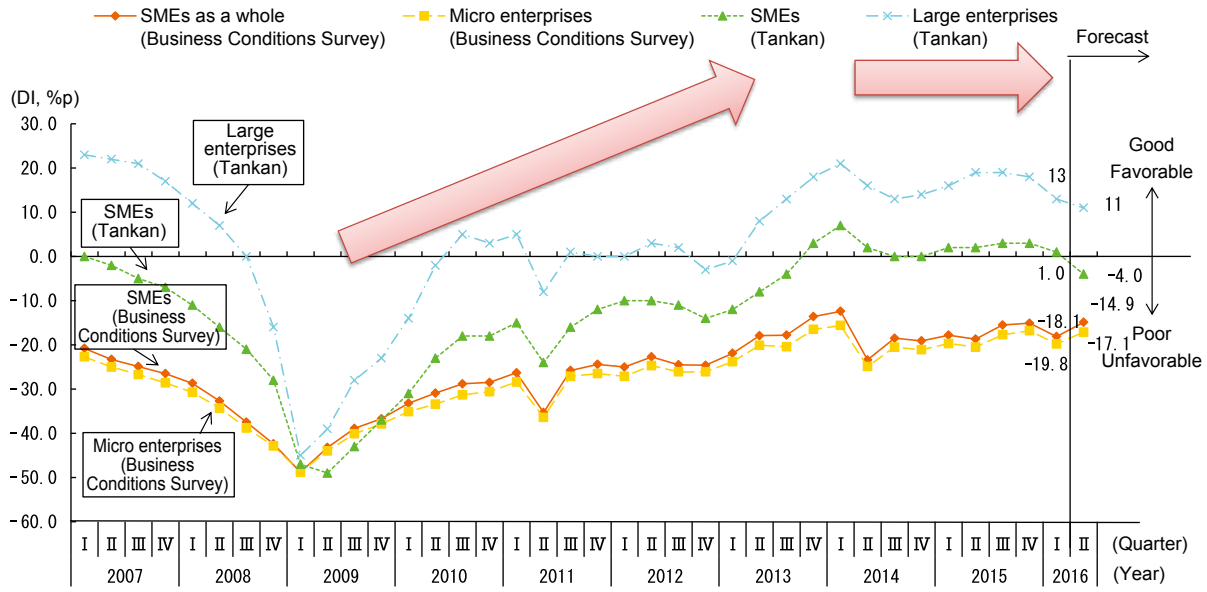
Here, let us verify business confidence among SMEs according to the *Survey on SME Business Conditions* conducted by the SME Agency and SMRJ (hereinafter, *Business Conditions Survey*) and the business conditions DI presented in the Bank of Japan's *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan) (Fig. 1-2-7). The BOJ Tankan also includes large enterprises under the scope of its survey, and can be used to compare the trends of large enterprises and SMEs, but at the same time, it focuses only on enterprises with a capital of ¥20 million or more and relatively large-scale enterprises. On the other hand, the Business Conditions Survey does not include large enterprises, but some 80% of the enterprises surveyed are micro enterprises. For this reason, both the BOJ Tankan and Business Conditions Survey will be used to compare business confidence among large enterprises and SMEs.

Business confidence among SMEs dropped largely in the wake of the Lehman crisis, but showed signs of picking up thereafter, so that in 2013, it returned to the level in 2007 before the Lehman crisis in both surveys. 2014 saw a large fluctuation between the first quarter (January to March) to third quarter (July to September) of the year, due to the last-minute surge in demand accompanying the consumption tax increase and subsequent reactionary fall in demand, and generally maintained a steady level thereafter, although some weakening has begun emerge. On the whole, the BOJ Tankan shows that the number of enterprises who said business conditions are "good" surpassed those that said business conditions are "poor" since the fourth quarter (October to December) of 2013, and the Business Conditions Survey also shows a 30.7 point increase in the business conditions DI compared to the first quarter of 2009, seven years ago when the DI marked the largest decline after the Lehman crisis.

At the same time, the BOJ Tankan continues to show a large difference between large enterprises and SMEs, and the Business Conditions Survey also indicates that the smaller the enterprise, the stricter the conditions they continue to face, since business confidence among micro enterprises is at a lower level compared to SMEs as a whole, to begin with.

Furthermore, when looking at the business conditions DI by region and industry in terms of the Business Conditions Survey, we see that the business conditions DI trended toward an increase in all regions since 2015, but thereafter declined, with some exceptions (Fig. 1-2-8 (1)). By industry, the business conditions DI remained unchanged in 2015 in the wholesale trade, retail trade and service industries, and either remained unchanged or showed a declining trend in the manufacturing and construction industries (Fig. 1-2-8 (2)).

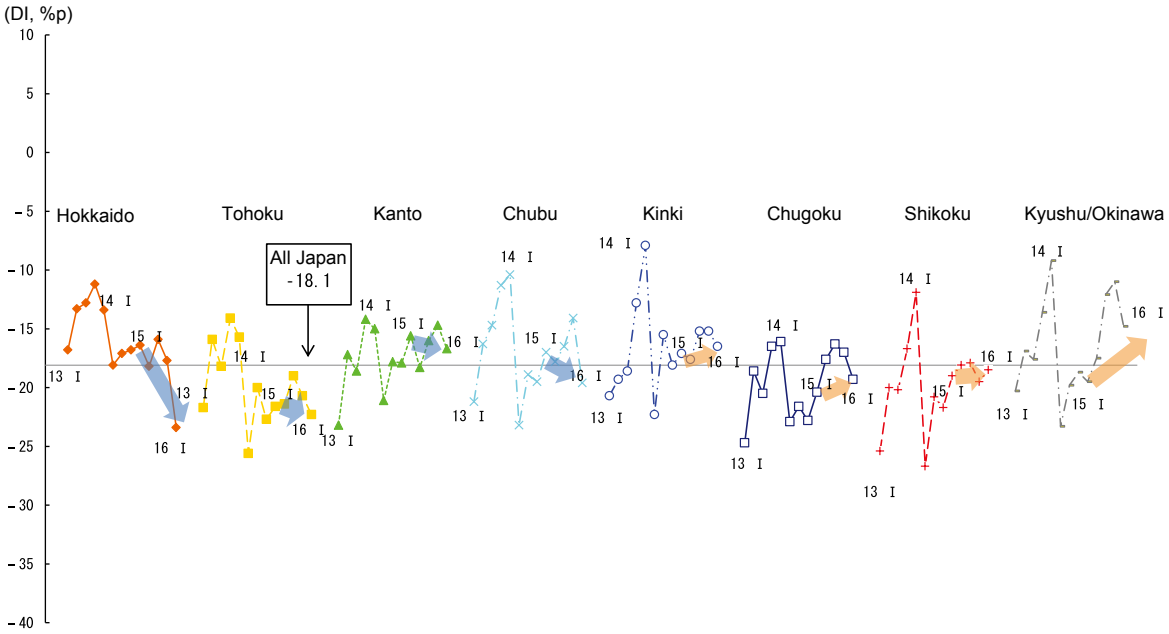
Fig. 1-2-7 Business conditions DI by enterprise size



Sources: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan); SME Agency and SMRJ, *Survey on SME Business Conditions*.

Notes:
1. The business conditions DI of the BOJ Tankan is calculated as the percentage (%) of companies that described recent business conditions as "good," minus the percentage (%) of companies that described them as "poor."
2. The business conditions DI of *Survey on SME Business Conditions* is calculated as the percentage (%) of companies that described business conditions as "favorable," minus the percentage (%) of companies that described them as "unfavorable."
3. In BOJ Tankan, large enterprises refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥20 million or more and less than ¥100 million.

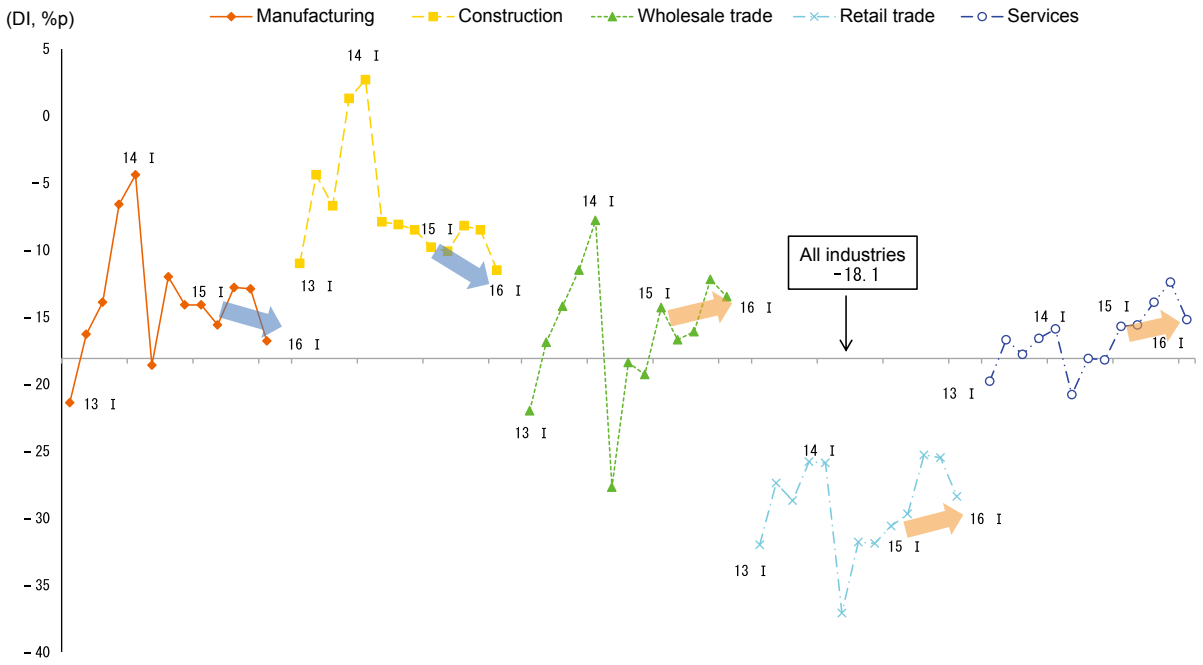
Fig. 1-2-8 (1) Business conditions DI by region



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

Notes:
1. The period covered is from the first quarter of 2013 to the first quarter of 2016.
2. Regional categories are based on prefectures that are under the charge of each Regional Bureau of Economy, Trade and Industry. Niigata, Yamanashi, Nagano and Shizuoka are included in Kanto; Mie is included in Chubu; and Fukui is included in Kinki. Kyushu/Okinawa is the total of all prefectures in Kyushu and Okinawa.

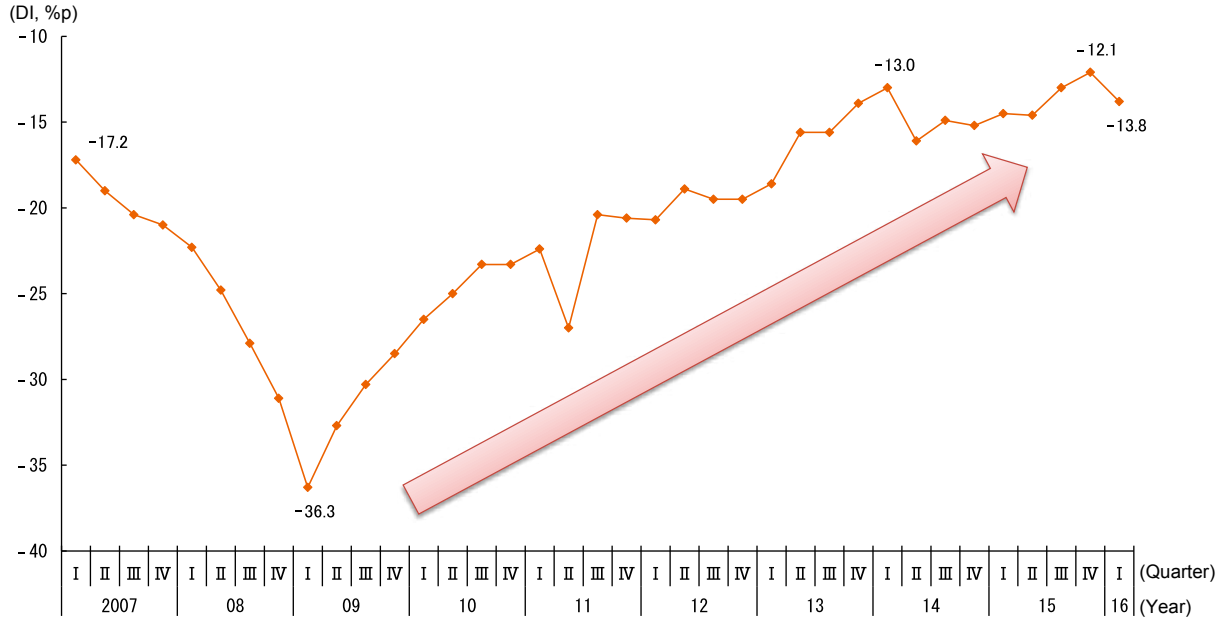
Fig. 1-2-8 (2) Business conditions DI by industry



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Note: The business conditions DI is calculated as the percentage (%) of companies that described business conditions as "favorable," minus the percentage (%) of companies that described them as "unfavorable."

Next, when we look at the financial status of SMEs according to the financial position DI of the Business Conditions Survey, we see that it dropped from 2008 to the first quarter of 2009 due to the Lehman crisis, but thereafter marked a steady increase, and surpassed the level before the Lehman crisis in the first quarter of 2014 (Fig. 1-2-9). In the second quarter of 2014, the financial status of SMEs dropped due to the reactionary fall in demand following the last-minute surge in demand accompanying the consumption tax increase, but picked up once again, although it marked a drop once again in the first quarter of 2016.

Fig. 1-2-9 Financial position DI for SMEs



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Note: The financial position DI is calculated by subtracting the percentage (%) of enterprises that said their financial position has "worsened" from the percentage (%) of enterprises that said it has "improved."

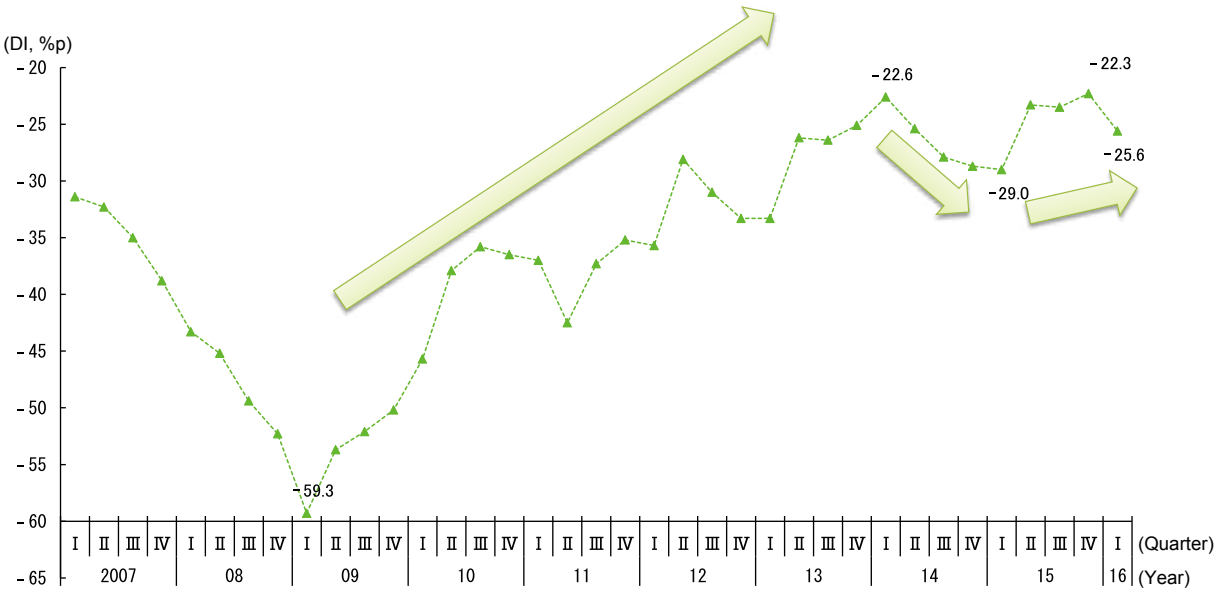
Section 2 Profit structure and issues among SMEs

1. Profits of SMEs

In the previous section, we saw the present state of SMEs, where the rate of decline in the number of SMEs has slowed, the numbers of bankruptcies, business suspensions, closures, and dissolutions have also declined, and business conditions and financial status have begun to improve. In this section, we will examine the profit situation of SMEs.

A look at the profitability (ordinary profits) DI in the Business Conditions Survey shows a large drop from 2008 to the first quarter of 2009 due in part to the Lehman crisis, but a general increase thereafter (Fig. 1-2-10). It fell from the second quarter of 2014 to the first quarter of 2015, turned to an increase in the second quarter, before falling once again.

Fig. 1-2-10 Profitability (ordinary profits) DI for SMEs

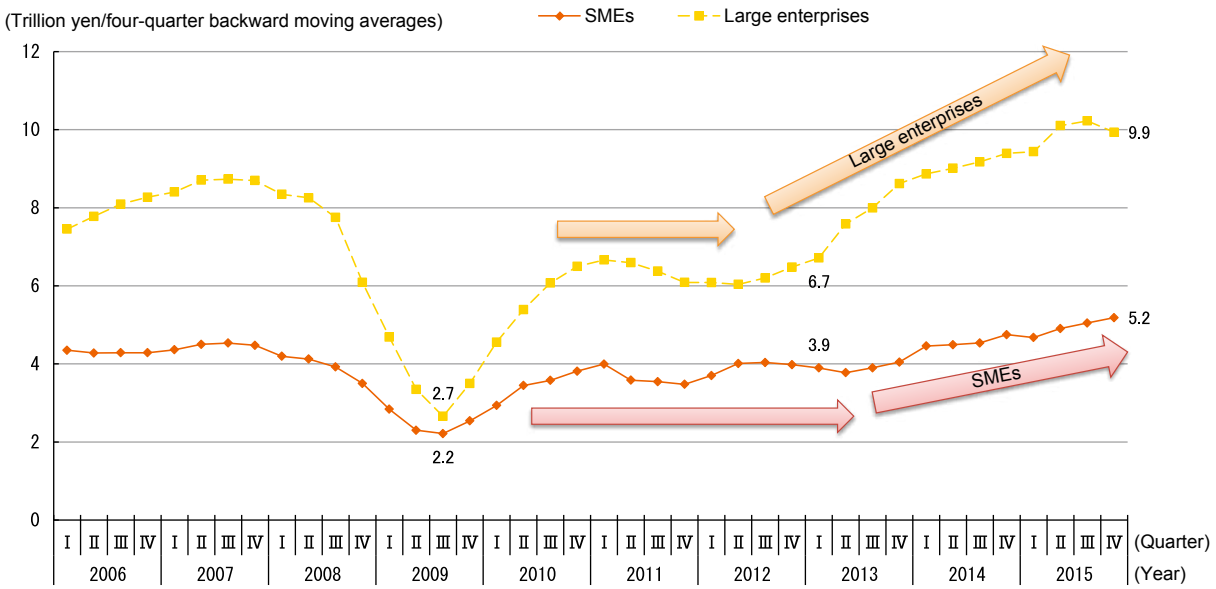


Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Note: The profitability DI is calculated by subtracting the percentage (%) of enterprises that said their profit has "declined," from the percentage (%) of enterprises that said it has "increased."

Next, when we look at the actual amount of ordinary profits according to the *Financial Statements Statistics of Corporations by Industry* of the Ministry of Finance, the ordinary profits of SMEs have generally shown an increasing trend since 2013, and reached a record high in the fourth quarter of 2015 (four-quarter backward moving averages) (Fig. 1-2-11 (1)).

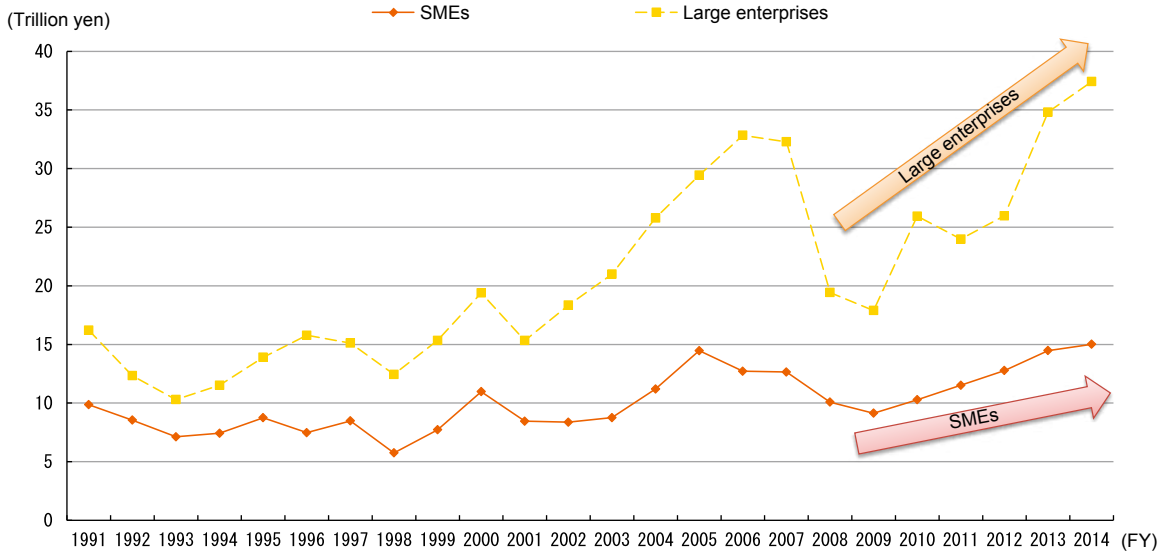
A look at long-term fiscal-year trends in ordinary profits in terms of enterprise size also reveals particularly large growth among large enterprises but steady growth among SMEs as well since fiscal 2010. Both have surpassed the level before the Lehman crisis, and are at a record high (Fig. 1-2-11 (2)).

Fig. 1-2-11 (1) Ordinary profits by enterprise size



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

Fig. 1-2-11 (2) Long-term trends in ordinary profits (by enterprise size)



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

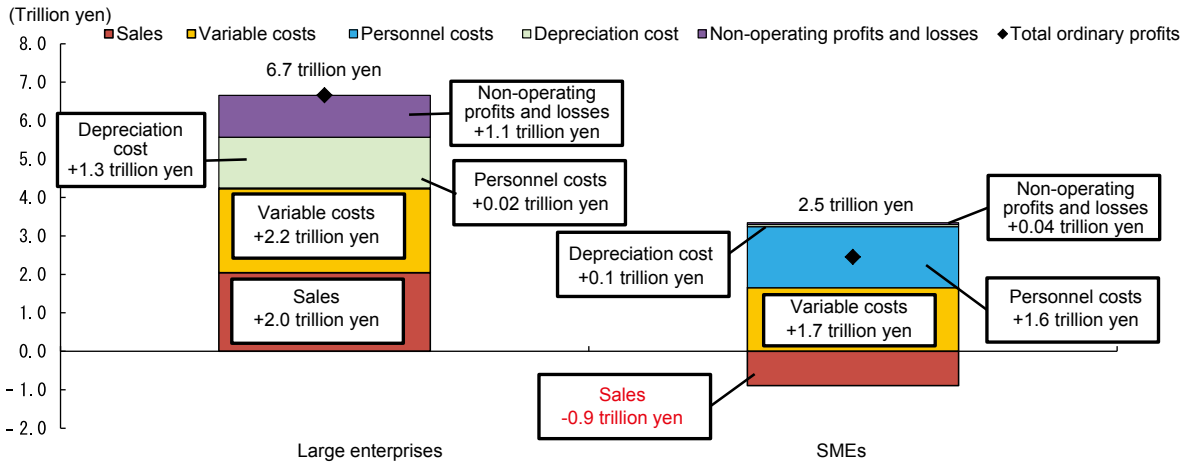
2. Decomposition of the profit structure

The actual amount of ordinary profits has increased in recent years, as seen in Fig. 1-2-11. When comparing the average of the first to fourth quarters of 2009, when ordinary profits dropped most in the wake of the Lehman crisis, and the average of the first to fourth quarters of 2015, ordinary profits increased by roughly ¥2.5 trillion among SMEs and by roughly ¥6.7 trillion among large enterprises. Here we shall perform a decomposition analysis of the profit structure to identify the determining factor in SME profits and examine issues facing SMEs.

Ordinary profits can be broken down into five factors: sales, variable costs (the costs of raw materials, stock goods, etc. that are proportional to sales), personnel costs, depreciation expenses (expenses incurred by fixed assets such as buildings and facilities), and non-operating profits and losses (profits and losses accrued from corporate financial activities and investment activities). To assess which of these factors most influenced ordinary profits between 2009, when ordinary profits declined due to the Lehman crisis, and 2015, when they reached a record high, a decomposition analysis was performed for the amount of increase in ordinary profits at those two points in time (Fig. 1-2-12).

Among large enterprises, the decline in variable costs (+2.2 trillion yen) contributed largely to the increase in ordinary profits, followed by an increase in sales (+2.0 trillion yen) and a decrease in depreciation expenses (+1.3 trillion yen). Among SMEs, the decline in variable costs (+1.7 trillion yen) similarly contributed the most to the increase in ordinary profits, but this was followed by a decline in personnel costs (+1.4 trillion yen). Sales, which contributed to the increase among large enterprises, contrarily contributed to a decrease in ordinary profits among SMEs (-0.9 trillion yen).

Fig. 1-2-12 Decomposition analysis of ordinary profits (average amount of increase for the first to fourth quarters in 2009 and 2015)



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

Notes: 1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

2. The decomposition analysis of ordinary profits was conducted based on the following calculation.
π: Ordinary profits, S: Sales,
F: Fixed costs (personnel costs (P) + non-operating profits and losses (N) + depreciation costs (D)), V: Variable costs
$\pi = S - V - F$, so $\pi = S - S \times V/S - P - N - D$

$$\Delta\pi = \underbrace{(1-V/S)\times\Delta S}_{\text{Sales}} - \underbrace{\Delta(V/S)\times S}_{\text{Variable costs}} - \underbrace{\Delta P}_{\text{Personnel costs}} - \underbrace{\Delta N}_{\text{Non-operating profits and losses}} - \underbrace{\Delta D}_{\text{Depreciation costs}}$$

Common to both large enterprises and SMEs is that operating profits, which largely dropped in the wake of the Lehman crisis, has since reached a record high level. When we look at specific items that have contributed to the increase in operating profits, we see that in large enterprises, ordinary profits increased by expanding sales, while keeping variable costs down, thanks in part to the drop in the prices of crude oil and raw materials, which would have normally increased along with an increase in sales, and also by holding down domestic

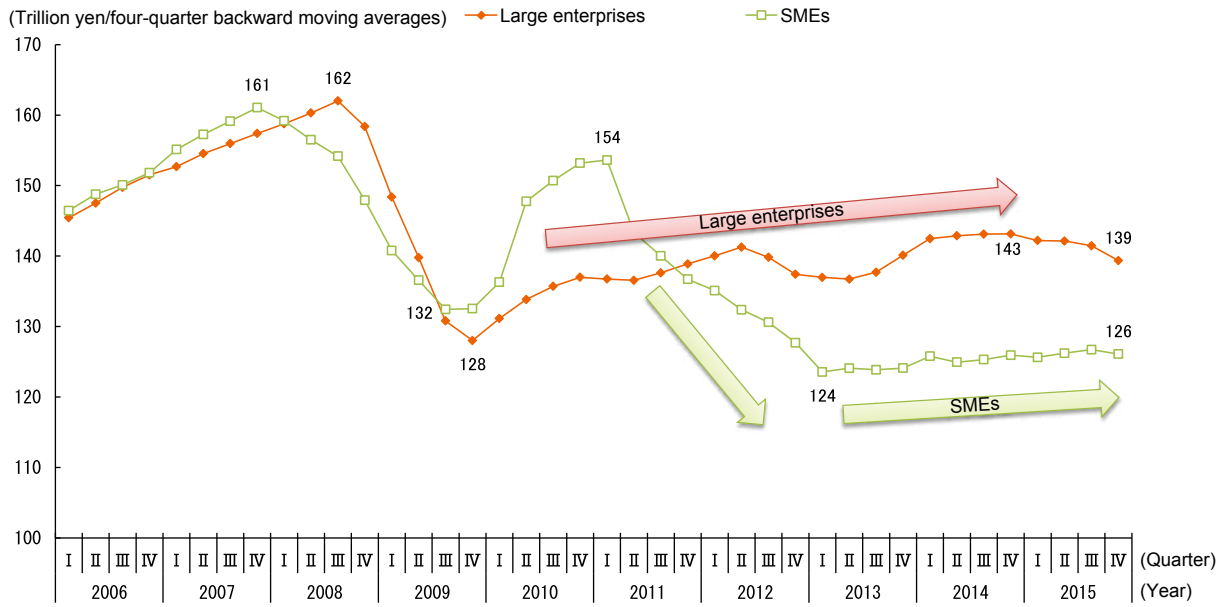
capital investment. In contrast, ordinary profits among SMEs increased owing to the decline in variable costs and personnel costs, even while sales were sluggish.

Below, we will shed light on issues facing SMEs by taking a look at the variable factors of ordinary profits by item and examining indicators relevant to each item.

3. Analysis of sales (slowdown in sales)

Let us first examine changes in sales, which differed largely between large enterprises and SMEs (Fig. 1-2-13). In both groups of enterprises, sales reached a peak from 2007 to the first half of 2008, but largely dropped from 2008 to 2009 due to the impact of the Lehman crisis. Thereafter, sales among large enterprises showed an increasing trend after the fourth quarter of 2009, and eventually leveled off. Sales among SMEs increased temporarily in the latter half of 2010, and once again dropped after 2011. A gradual increase has been seen thereafter, but as of the fourth quarter of 2015, sales have hovered at levels below the level after the Lehman crisis. In sum, it can be said that sales among SMEs have been weaker compared to large enterprises.

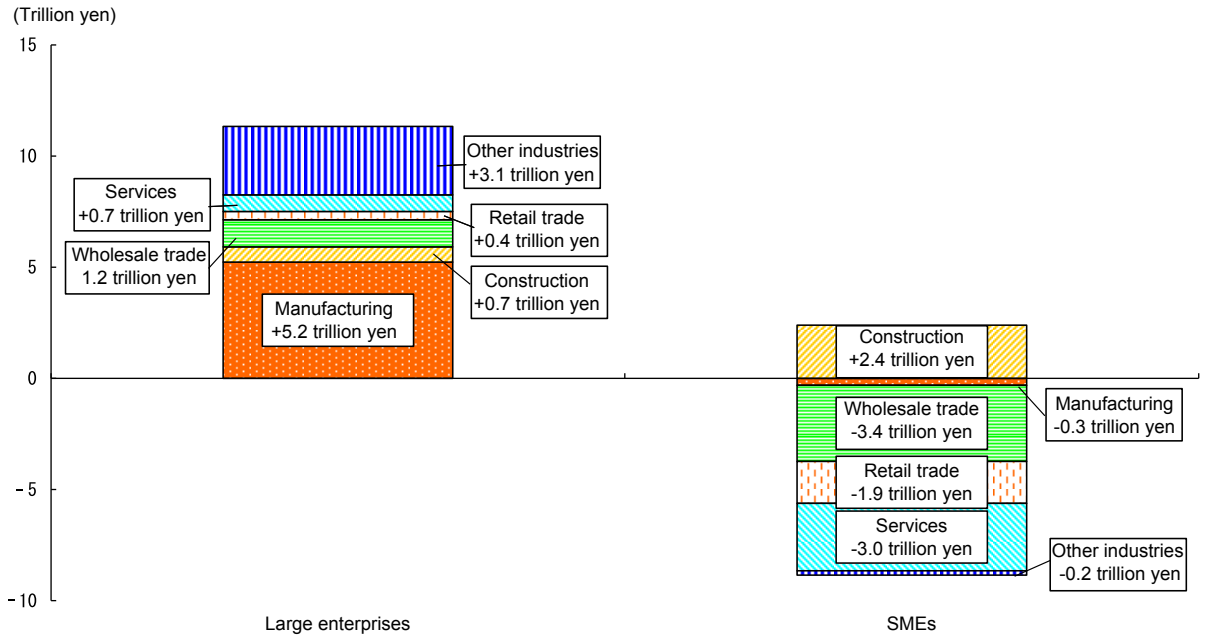
Fig. 1-2-13 Sales by enterprise size



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

To specifically assess which industries have influenced the changes in sales, average sales over the first to fourth quarters of 2009 and 2015 were broken down according to industry and enterprise size, as with the decomposition analysis of ordinary profits discussed earlier (Fig. 1-2-14). Among large enterprises, all six categories of industries contributed to boosting sales, with the manufacturing industries in particular as a driving force. Among SMEs, only the construction industry contributed to boosting sales, while the manufacturing industries contributed to a slight decline and the wholesale trade, retail trade and service industries contributed to a decline of around ¥2 – 3 trillion.

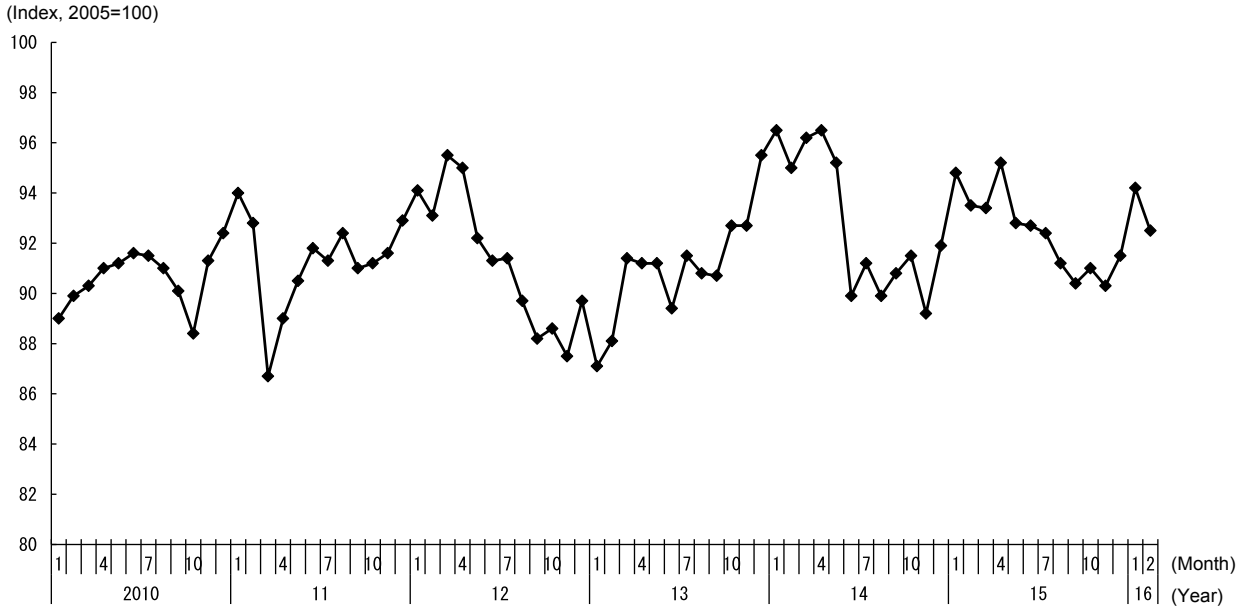
Fig. 1-2-14 Decomposition of sales by industry (average amount of increase for the first to fourth quarters in 2009 and 2015)



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

Next, as an indicator related to such sales, let us examine production trends among SME manufacturing industries by using the Manufacturing Production Indices by Size of Enterprise, which is based on the 2005 production level as a value of 100 (Fig. 1-2-15). Production among SMEs largely dropped in June 2014, but began to show signs of picking up in December 2014. However, from May to November, it continued to mark a month-on-month negative trend or level trend, and although there were signs of picking up thereafter, it dropped once again in the latest two months. As indicated by this seesaw trend, there were hardly any strong movements in production among SMEs.

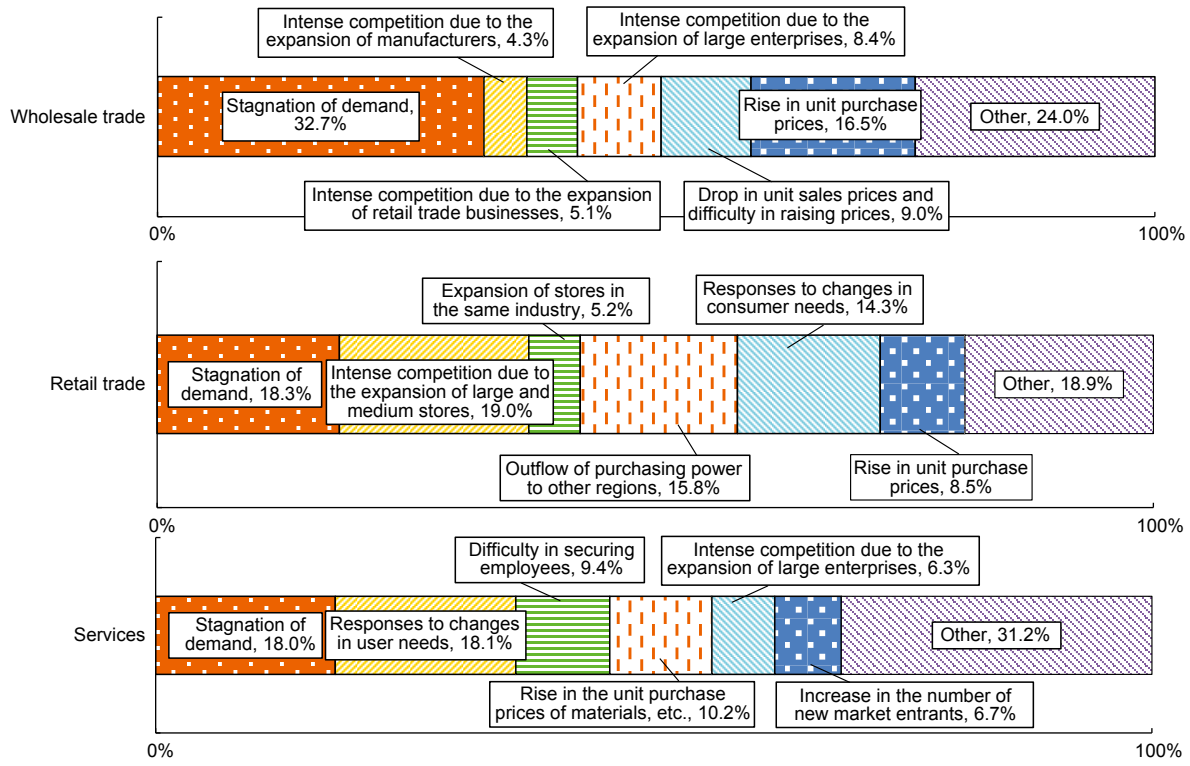
Fig. 1-2-15 Manufacturing production indices for SMEs



Source: SME Agency, *Manufacturing Production Indices by Size of Enterprise* (SME manufacturing production indices).

When examining management issues facing SMEs according to the Business Conditions Survey, "stagnation of demand" was the top issue in the wholesale trade, retail trade, and service industries. Other high-ranking issues included "drop in unit sales prices and difficulty in raising prices" in the wholesale trade industry, "intense competition due to the expansion of large and medium stores" in the retail trade industry, and "responses to changes in user needs" in the service industry. Many businesses thus see issues that are directly linked to a slowdown in sales as their primary management issue (Fig. 1-2-16).

Fig. 1-2-16 Management issues facing SMEs (2015)

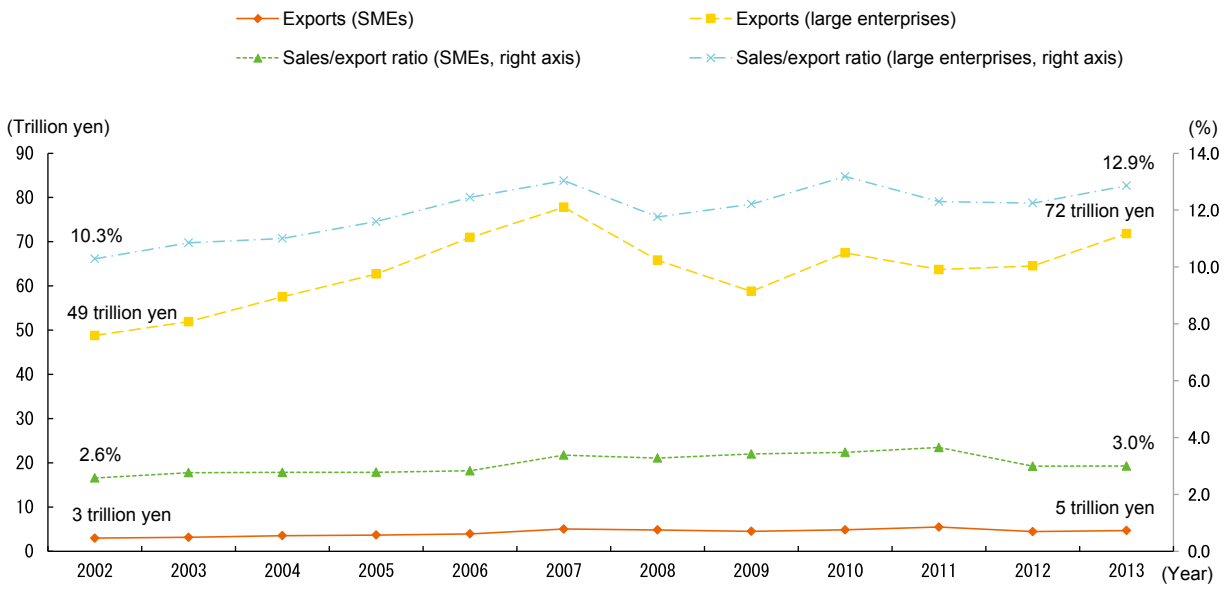


Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

Among the items comprising sales, export value was approximately ¥72 trillion for large enterprises and approximately ¥5 trillion for SMEs in 2013 (Fig. 1-2-17). The ratio of export amount to sales was 12.9% among large enterprises and 3.0% among SMEs, indicating low shares even with respect to sales/export ratio.

Over the past ten years, exports by large enterprises continued on an increasing trend since the Lehman crisis, and showed a +22.2% increase in 2013 compared to 2009. Meanwhile, exports by SMEs remained roughly unchanged, and marked a mere +4.0% increase over 2009. With respect to large enterprises, a high sales/export ratio and increase in exports have contributed to a growth in sales, but with respect to SMEs, the sales/export ratio has been low, and exports had leveled off and did not lead to any growth in sales.

Fig. 1-2-17 Exports and sales/export ratios (by enterprise size)



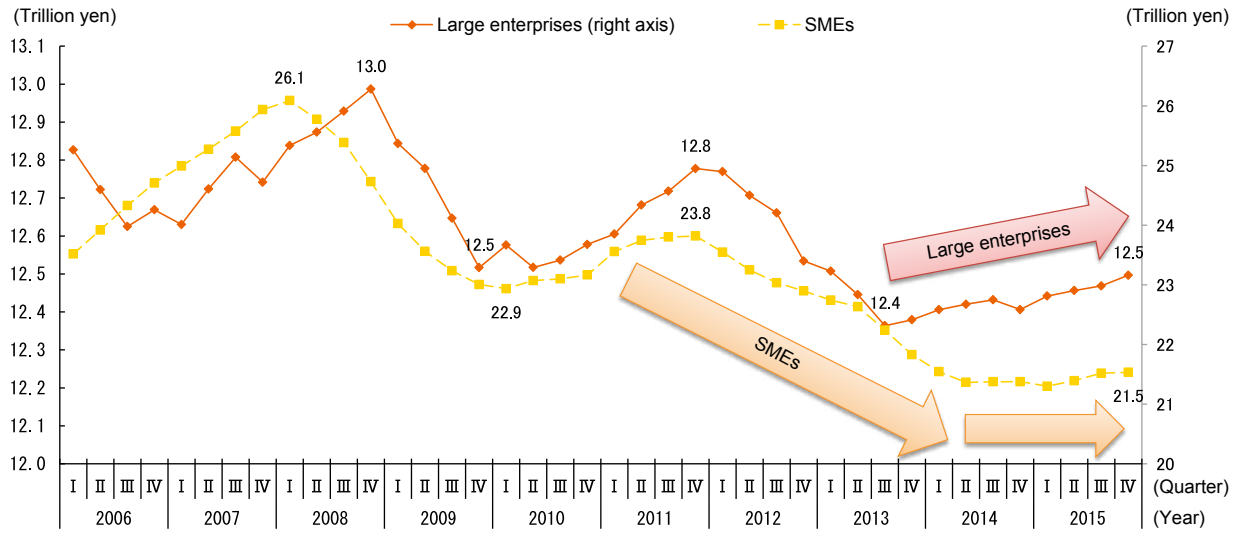
Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.

Sales among SMEs have been sluggish compared to large enterprises, with SME manufacturing industries showing a level trend and SME non-manufacturing industries showing a declining trend, with the exception of the construction industry. Production trends in the manufacturing industries also failed to show any strength, and non-manufacturing industries have also faced stagnant demand and intense competition from large enterprises and other industries newly entering the market. Exports have also shown large differences in both export value and sales/export ratio between large enterprises and SMEs, and a particularly sluggish trend among SMEs. Given the depreciation of the yen in the latter half of 2012, exports increased among both large enterprises and SMEs in 2013, but the increase among SMEs was not as large as that in large enterprises due to their low sales/export ratio, and was not sufficient to boost sales.

4. Analysis of personnel costs (labor shortage)

Next, we shall examine changes in personnel costs, which contribute largely to increases in ordinary profits among SMEs. In terms of enterprise size, personnel costs declined among both large enterprises and SMEs from the latter half of 2008 to the first half of 2010, increased in the following year, but turned to a decline once again in 2012 (Fig. 1-2-18). Thereafter, the trend differed between the two groups of enterprises, with large enterprises showing a gradual increase from the third quarter of 2013 and SMEs showing a level trend beyond 2014.

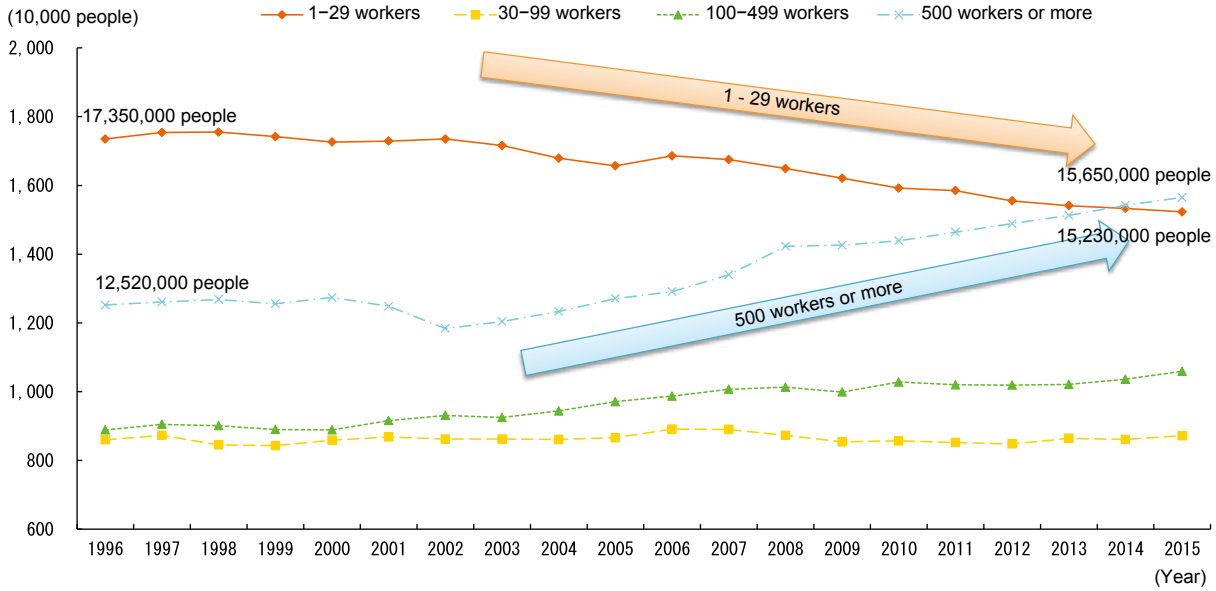
Fig. 1-2-18 Personnel costs (by enterprise size)



Source: MOF, *Financial Statements Statistics of Corporations by Industry*.
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

With respect to the actual numbers of workers, a look at changes in the numbers of non-agricultural and forestry workers by employee size according to MIC's *Labor Force Survey*, shows that the number of workers in enterprises that employ 1 to 29 workers has been on a decline, and decreased by approximately 2.12 million people over the past twenty years (Fig. 1-2-19). On the other hand, the number of workers in large enterprises has increased, with an increase of approximately 3.13 million people over the past twenty years in enterprises that employ more than 500 workers. This shows that even while the number of workers as a whole has increased, the number of workers in smaller enterprises has decreased.

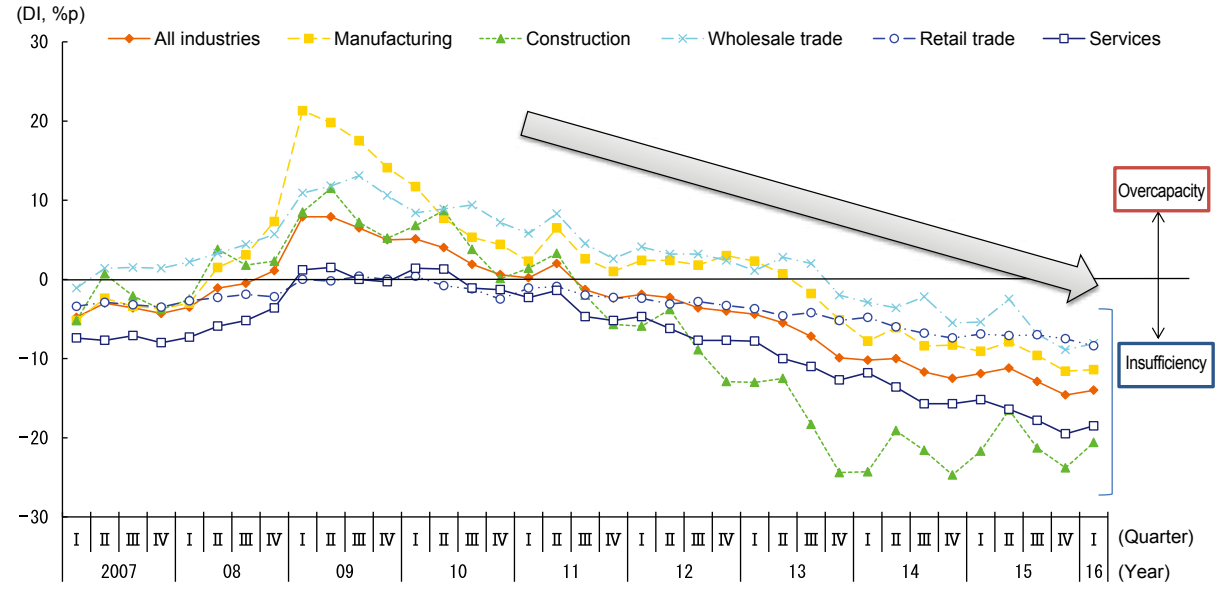
Fig. 1-2-19 Number of non-agricultural and forestry workers by employee size



Source: MIC, *Labor Force Survey*.

Next, let us look at the sense of employee insufficiency among SMEs. Changes in the employee overcapacity and insufficiency DI for SMEs show a change to insufficiency in all industries from the fourth quarter of 2013, with a particularly strong sense of insufficiency in the construction and service industries (Fig. 1-2-20).

Fig. 1-2-20 Employee overcapacity and insufficiency DI for SMEs (by industry)



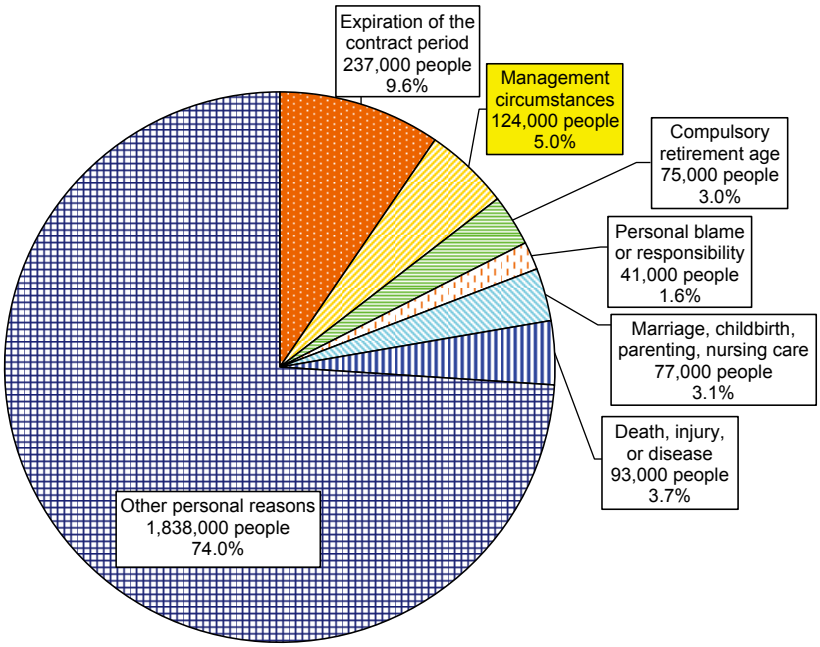
Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Note: The Employee overcapacity/insufficiency DI is calculated by subtracting the percentage (%) of enterprises that said that have an “insufficiency” of employees from the percentage (%) of enterprises that said they have an “overcapacity” of employees.

Below, we shall examine the status of separated workers and new workers in SMEs as a background to the decline in the number of workers among SMEs.

First of all, let us look at the reasons why separated workers have separated from an SME in 2014. Of all workers who have separated from an SME, the reason for separating is known for 2.48 million workers. Of these workers, around 70% have separated for a personal reason, and only around 5% have separated due to restructuring or other management reasons (including voluntary retirement in response to a request from the company) (Fig. 1-2-21).

Details of the largest reason for separation, "other personal reasons," are not examined in detail in the survey of separated workers, so let us examine the reasons why new workers have separated from their previous employment according to a survey conducted on new workers (Fig. 1-2-22)[7]. Among the personal reasons given, 12.2% gave "poor working conditions," 9.8% "human relationships in the workplace," and 9.3% "low income," followed by "cannot take interest in the work content," "insecurity about the company's future," and "cannot put abilities, individuality, qualifications to full use." This suggests that "other personal reasons," which was the reason for separating from an SME among approximately 70% of separated workers, mainly includes dissatisfaction with the treatment of workers, such as working conditions and income, as well as workplace environments and job content.

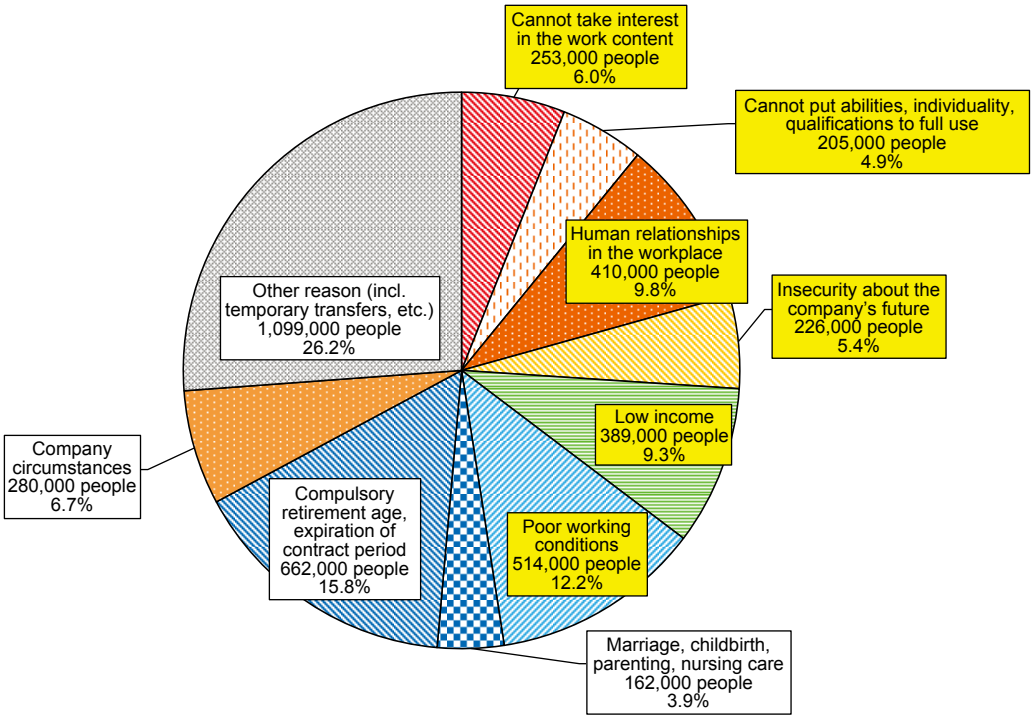
Fig. 1-2-21 Reasons why separated workers separated from an SME (SMEs, 2014)



Source: Prepared based on MHLW, *Survey on Employment Trends*.
Note: SMEs here refer to enterprises with 5 to 99 workers, among those that have a business establishment with 5 or more regular workers.

7) It should be noted that the survey was limited to separated workers who found re-employment, and did not categorize workers by the size of their previous employment.

Fig. 1-2-22 Reasons why new transferred workers separated from their previous employment (all enterprise sizes, 2014)

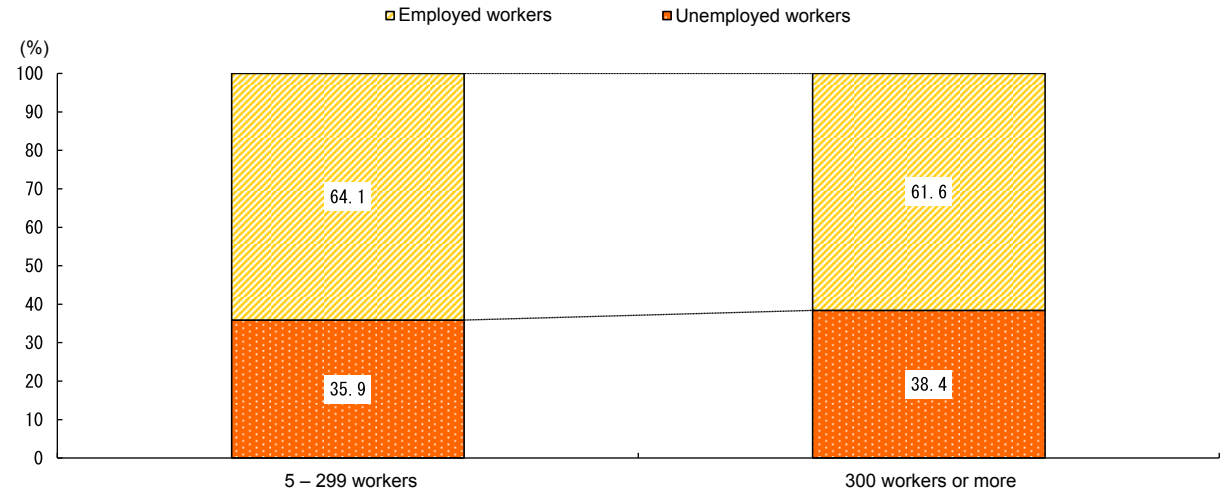


Source: Prepared based on MHLW, *Survey on Employment Trends*.
Note: The above is a result of asking new transferred workers who were newly employed in 2014 (those who had a previous employment and gained new employment at the time of the survey) why they separated from their previous employment.

Next, we shall take a look at new workers who gained new employment or transferred to an SME. First, when we categorize new workers into unemployed workers who had not worked within the year prior to gaining new employment and employed workers who have worked within the year prior to gaining new employment, and examine their numbers by enterprise size, we see that unemployed workers account for 38.4% of all workers in enterprises with 300 workers or more and 35.9% of all workers in enterprises with 5 to 299 workers. This indicates that the ratio of unemployed workers is slightly lower in smaller enterprises (Fig. 1-2-23).

Even in terms of the number of job offers at the time of recruitment of new graduates and the number of job seekers, the number of SME job offers to prospective university graduates has increased over the past two years, and 402,000 job openings were offered in the most recent data, but the number of new graduates who sought employment in an SME was 112,000. While this represented an increase, a large gap nevertheless existed between the number of job offers and number of actual job seekers (Fig. 1-2-24 (1)). SMEs are increasing their number of job offers and are endeavoring to recruit new graduates, but the number of job seekers has hardly increased, and the ratio of job openings to applications continues to hover at a high level of around 3 to 4.

Fig. 1-2-23 Proportion of unemployed and employed workers among new workers, by employee size (all enterprise sizes, 2014)



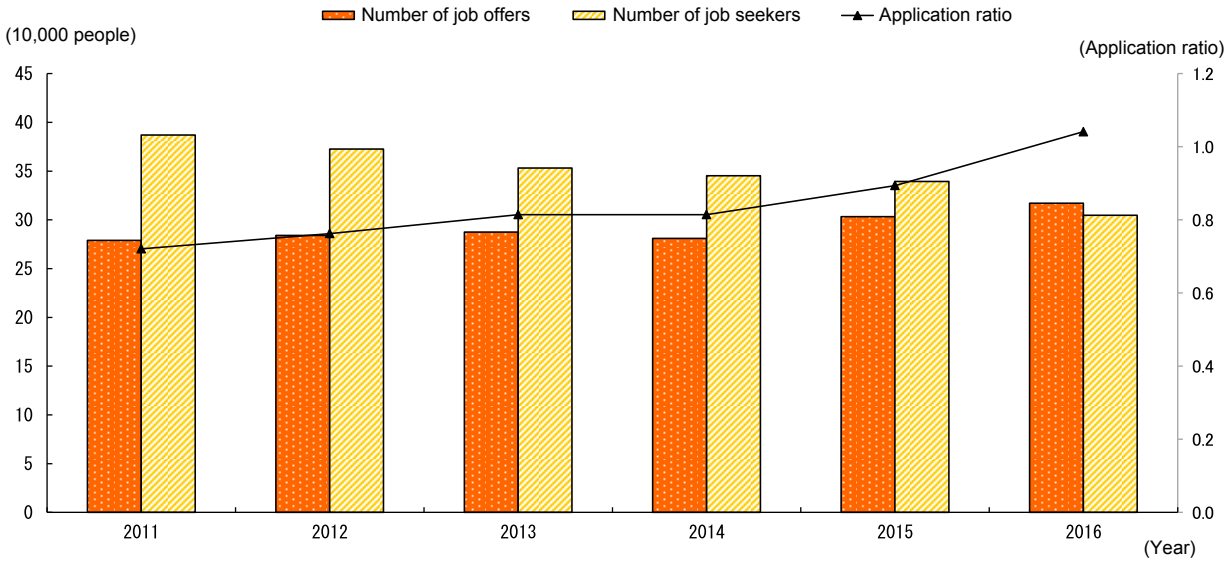
Source: Prepared based on MHLW, *Survey on Employment Trends*.

Fig. 1-2-24 (1) Number of job openings offered to prospective university graduates by SMEs and number of job seekers

Source: Recruit Works Institute, *Works University Graduate Job Offers to Job Seekers Ratio Survey*.
Note: SMEs here refer to enterprises with less than 300 employees.

Meanwhile, when we look at the new graduate recruitment situation of large enterprises, we see that new graduates who sought employment in a large enterprise surpassed the number of job offers, except in 2016. The ratio of job openings to applications stood at around 1, which is extremely low compared to the ratio of between 3 and 4 for SMEs, and indicated a persistently strong preference for large enterprises (Fig. 1-2-24 (2)).

Fig. 1-2-24 (2) Number of job openings offered to prospective university graduates by large enterprises and number of job seekers



Source: Recruit Works Institute, *Works University Graduate Job Offers to Job Seekers Ratio Survey*.
Note: Large enterprises here refer to enterprises with 300 employees or more.

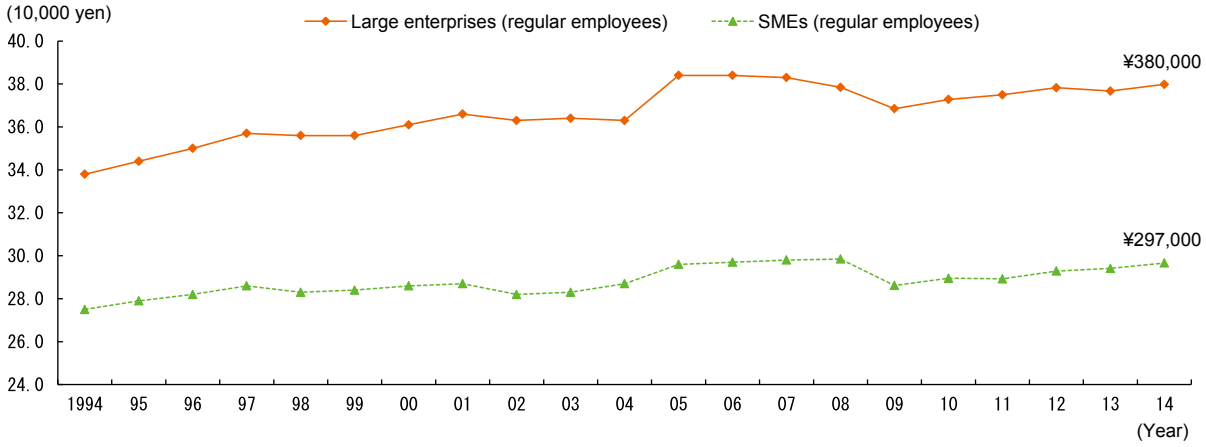
Next, we shall take a look at wage disparities by enterprise size, which is a possible reason for separation from SMEs and preferences for large enterprises.

With respect to salary trends by enterprise size, regular employee wages in SMEs and large enterprises hovered between ¥270,000 and ¥300,000 and between ¥340,000 and ¥380,000, respectively, showing a wage disparity that has not been resolved since the 1990s (Fig. 1-2-25).

Additionally, when looking at the wage increase rate, an increasing trend was seen in enterprises with 100−299 workers, but this was nevertheless a lower level of increase than that seen among enterprises of other sizes (Fig. 1-2-26).

The decrease in the number workers in SMEs could perhaps be attributed to the persistent disparity in wages between large enterprises and SMEs.

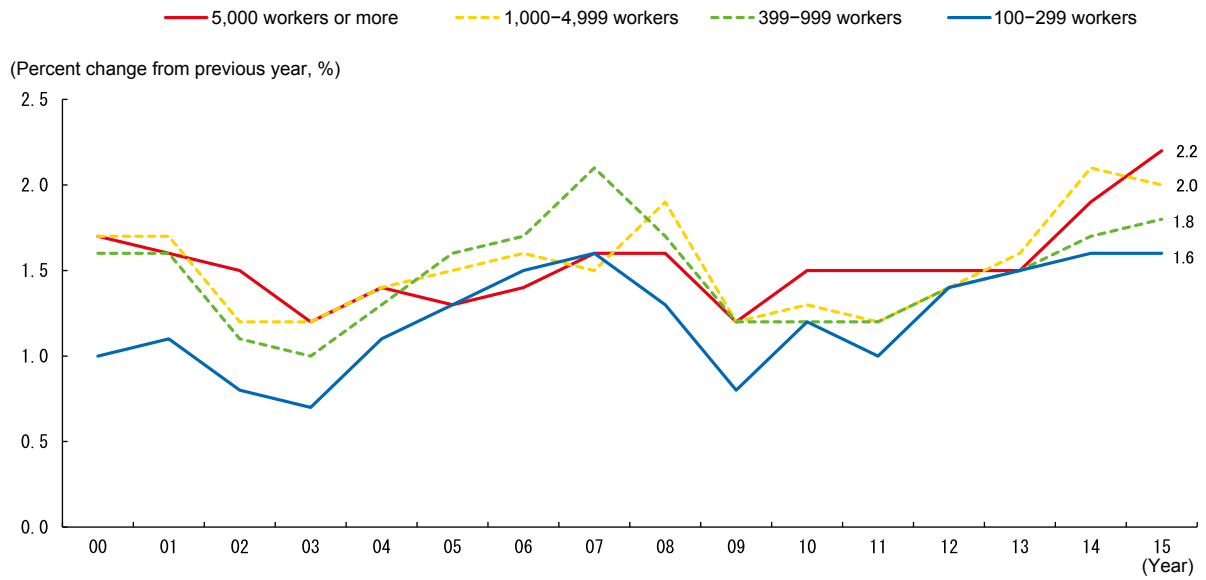
Fig. 1-2-25 Salaries by enterprise size



Source: Recompiled from MHLW, *Basic Survey on Wage Structure*.

Notes:
1. The figures for "regular employees" before 2004 include all general workers regardless of length of employment, and those after 2005 include "regular employees and regular staff members" of business establishments, among general workers.
2. "General workers" refer to regular workers other than short-term workers.
3. "Short-term workers" refer to workers who work shorter hours per day than general workers in the same business establishment, or who work the same hours per day but less days per week than general workers in the same establishment.
4. "Regular workers" refer to either of the following: (a) those who are employed for an indefinite term or for a definite term of more than a month; or (b) those who are employed on a daily basis or for a definite term of less than a month and have worked for more than 18 days each in the two months prior to the survey month.
5. "Salary" refers to cash salary that is supplied regularly as the sum of the basic pay that is paid as the amount of pay for June of each year and various allowances that have been specified in advance, including overtime pay.
6. Enterprises with no more than 299 regular workers as a whole (and enterprises in the wholesale trade, service, retail trade, and restaurant industries with no more than 99 regular workers) are regarded as SMEs, and all other enterprises are grouped as large enterprises.

Fig. 1-2-26 Wage increases (revised rate of average wage per person)



Source: MHLW, *Survey on Wage Increase*.

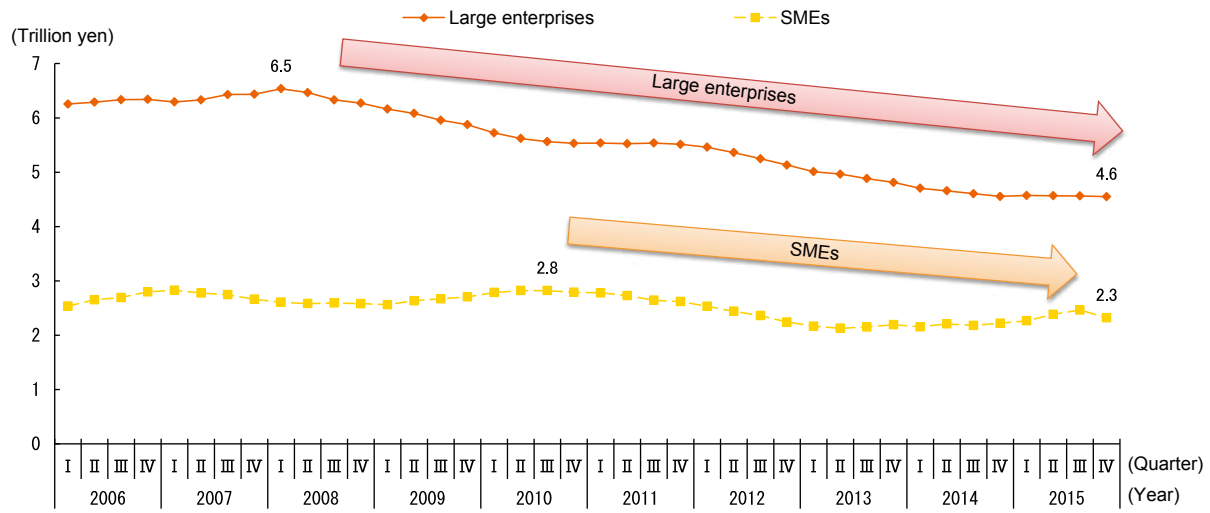
Notes:
1. Data has been collected from enterprises that have revised their wage or are planning a revision and have already decided on specific amounts, and enterprises that are not planning a revision of wages.
2. Revision refers to that of regular bonuses, basic pay increases, and allowances for all or some regular workers, and includes wage decreases through basic pay decreases and wage reductions.
3. Regular workers in this survey refer to workers who are employed without specifying a definite term of employment.
4. Revised rates of average wage per person are the weighted average of regular workers.

5. Analysis of depreciation costs (capital investment) (stagnant capital investment)

Next, we shall look at depreciation costs, which contribute to increasing ordinary profits among both SMEs and large enterprises, in light of relevant trends in capital investment. In terms of enterprise size, depreciation costs among large enterprises show a gradual declining trend after peaking in the first quarter of 2008, while depreciation costs among SMEs show a gradual increasing trend from the first quarter of 2013 (Fig. 1-2-27 (1)). In 2006, there was an average difference of roughly ¥3.5 trillion between large enterprises and SMEs, but the average difference has narrowed to approximately ¥2.1 trillion in 2015.

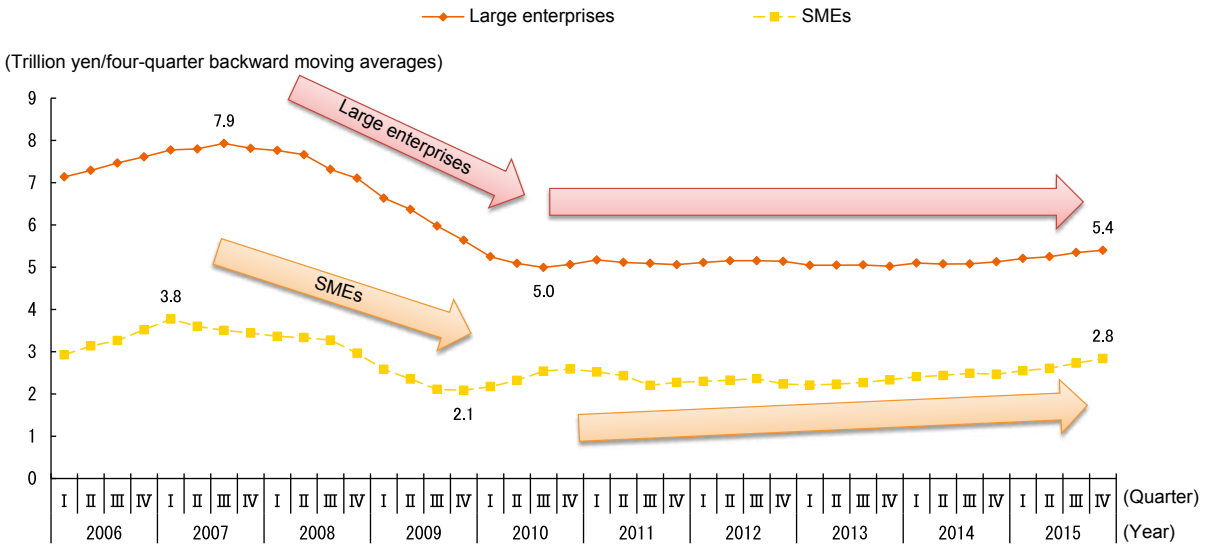
Actual capital investment amounts were on a declining trend among both large enterprises and SMEs between 2008 and early 2010, but have thereafter leveled off (Fig. 1-2-27 (2)). Although a slight increase has been seen recently, capital investment amounts have not yet reached the level before the Lehman crisis.

Fig. 1-2-27 (1) Depreciation costs (by enterprise size)



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

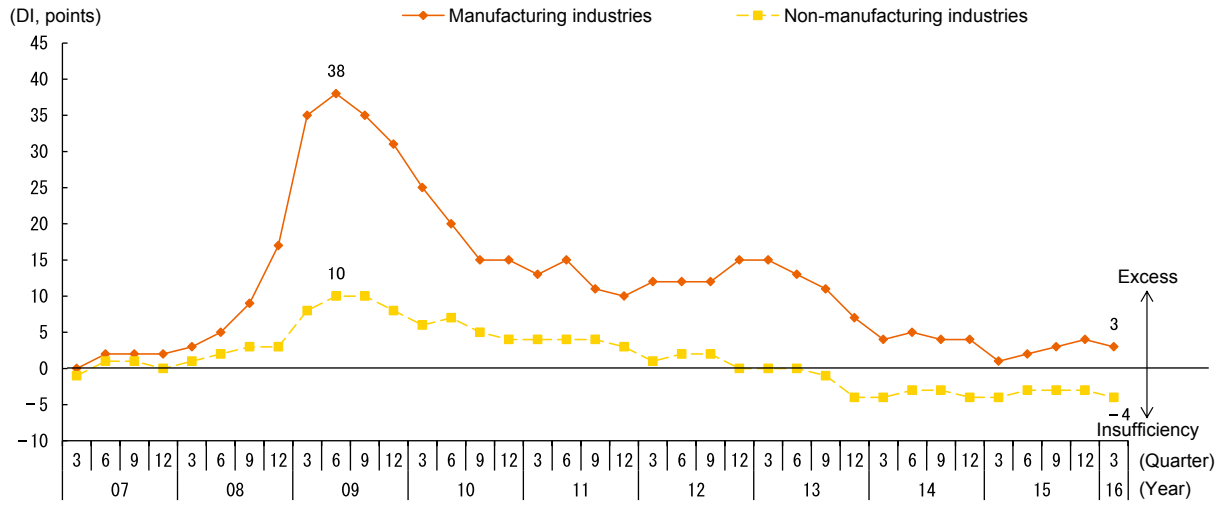
Fig. 1-2-27 (2) Capital investment (by enterprise size)



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

Now let us examine the state of excess/insufficiency of facilities among SMEs in terms of the production and operational facility DI according to the BOJ Tankan. In the manufacturing industries, the DI has shown a declining trend from 2013 to the March 2015 survey, and the sense of having excess facilities had eased, but it increased thereafter for three consecutive quarters, and has once again trended toward a sense of excess (Fig. 1-2-28). In the non-manufacturing industries, "insufficiency" surpassed "excess" for ten consecutive quarters since the September 2013 survey, and the DI remained unchanged or otherwise dropped for three consecutive quarters, indicating that the sense of insufficiency of facilities has yet to improve.

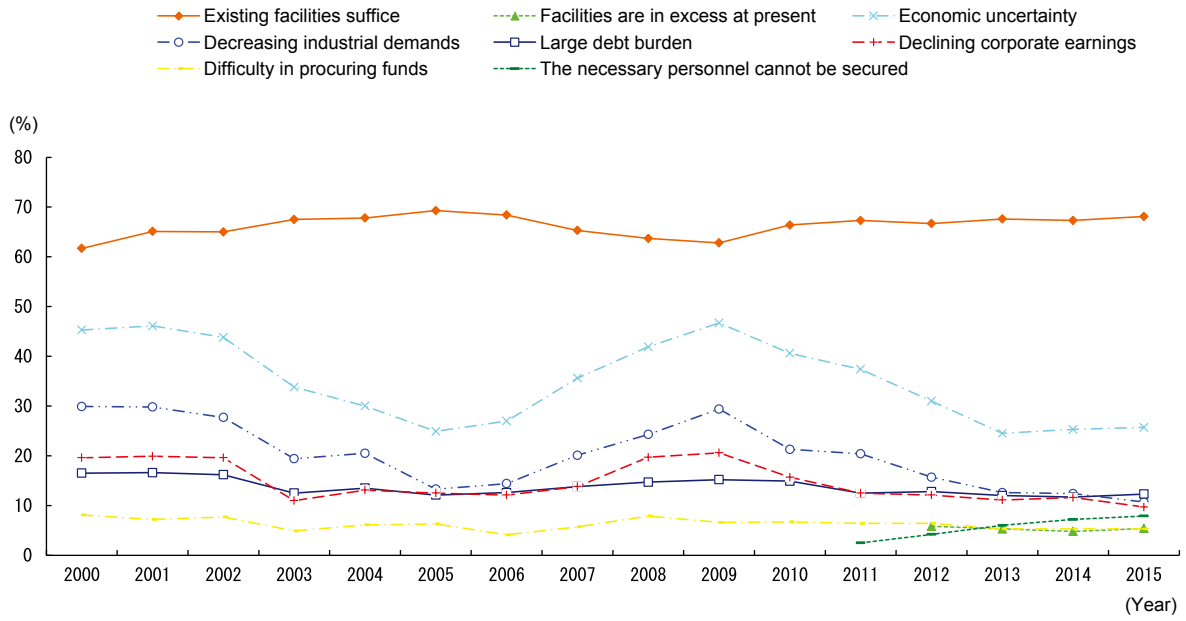
Fig. 1-2-28 Production and operational facility DI for SMEs



Source: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan).
Notes: 1. The production and operational facility DI is the percentage of enterprises that said they have an "excess" of production facilities, minus the percentage of enterprises that said they have an "insufficiency" of such facilities.
2. SMEs here refer to enterprises with a capital of more than ¥20 million and less than ¥100 million.

According to the *Survey of SME Capital Investment Trends* by Shoko Chukin Bank, in 2015 the largest reason why 68% of SMEs did not make capital investments was because their existing facilities sufficed, followed by economic uncertainty and large debt burden (Fig. 1-2-29). As the graph shows, "declining corporate earnings," "decreasing industrial demands," and "economic uncertainty" have declined as reasons for not making capital investments, while the percentage of "existing facilities suffice" has slightly increased. Additionally, "the necessary personnel cannot be secured" has continued to increase as a reason for not making capital investment over the past five years, although it accounts for a small percentage.

Fig. 1-2-29 Reasons for not making capital investments



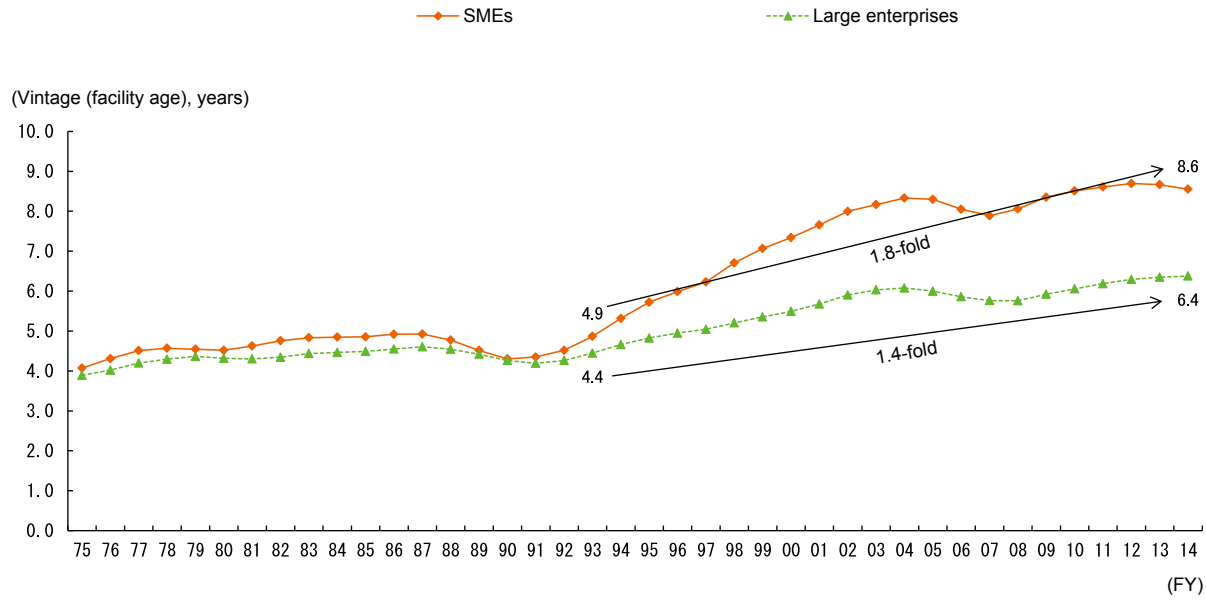
Source: Shoko Chukin Bank, *Survey of SME Capital Investment Trends*.

With respect to facility conditions, facilities ages have yearly increased since the 1990s, and have increased 1.4-fold in large enterprises and 1.8-fold in SMEs from 1993, as an indication of the advanced aging of facilities particularly in SMEs (Fig. 1-2-30).

According to a questionnaire survey on the status of facilities in Japan conducted by Shoko Chukin Bank, responses to a question asking when was the last time a capital investment was made showed that approximately 40% of all respondents have not made a capital investment for over five years, and a little under 20% have not made a capital investment for over ten years. (Fig. 1-2-31).

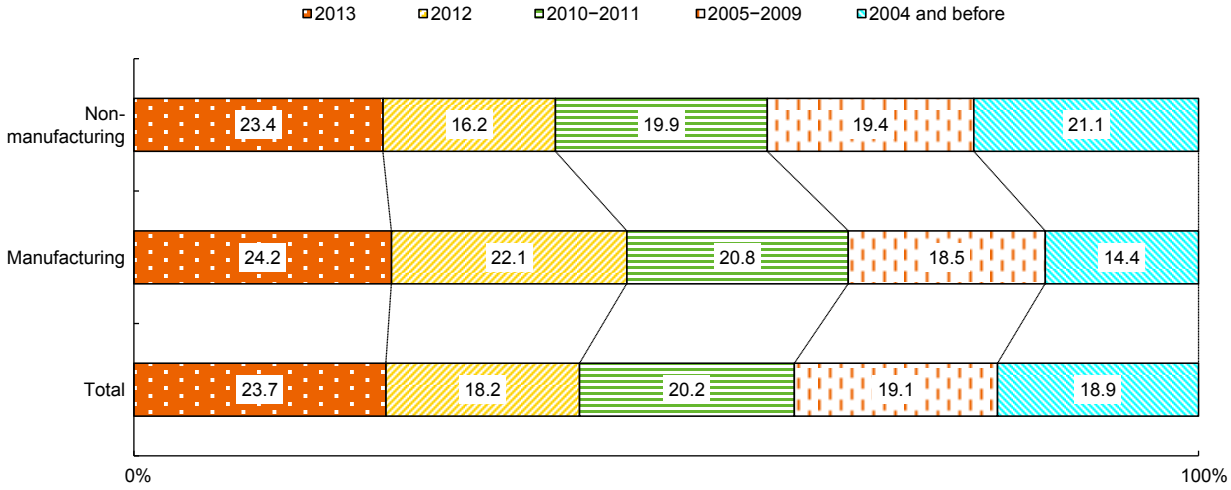
The sense of excess of facilities has declined in the manufacturing industries as well, but capital investment remains stagnant due in part to future uncertainties. As a result, the aging of facilities has become an emerging issue.

Fig. 1-2-30 Facility ages (by enterprise size)



Source: Prepared based on Shoko Research Institute, *Competitive Strength and Capital Investment of SMEs*, in MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Fig. 1-2-31 Last capital investment made by SMEs



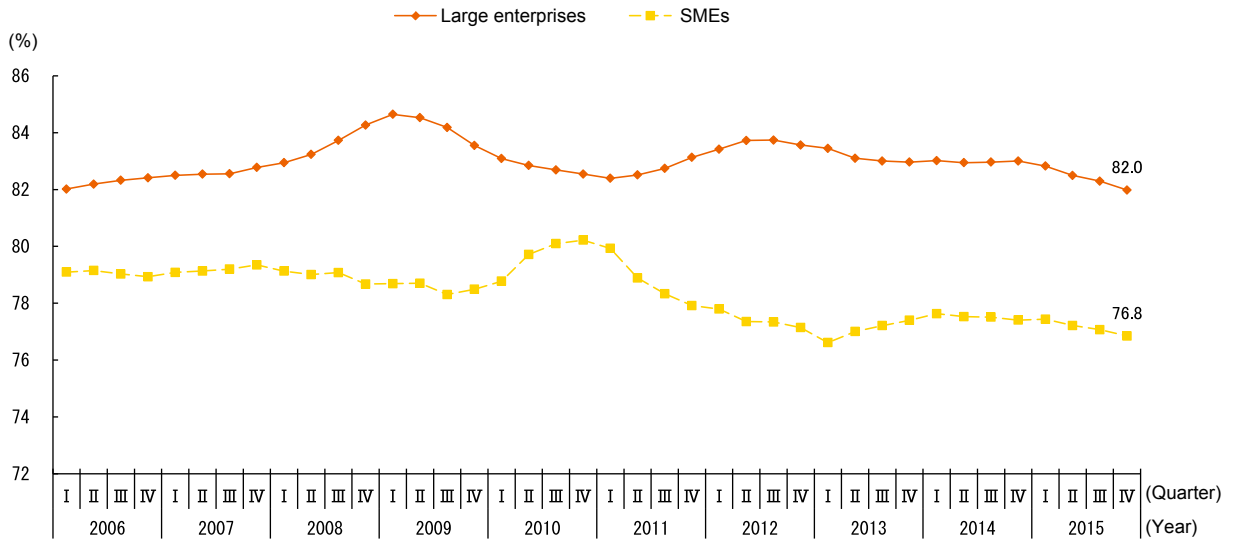
Source: Shoko Chukin Bank, *Survey on the Impacts of Supply Restrictions (insufficiency of labor and facilities) on SMEs* (Dec. 2014 survey).

6. Analysis of variable costs (transaction environment)

Next, we shall look at variable costs, which contribute largely to the increase in ordinary profits among both SMEs and large enterprises. A look at the ratio of variable costs to sales by enterprise size shows that the level for SMEs is lower compared to that for large enterprises. In 2010, the ratio of variable costs to sales for SMEs increased temporarily, and the gap between large enterprises and SMEs narrowed, but from 2011 to 2012, the gap widened once again due to a drop in the ratio among SMEs, and has remained unchanged thereafter (Fig. 1-2-32).

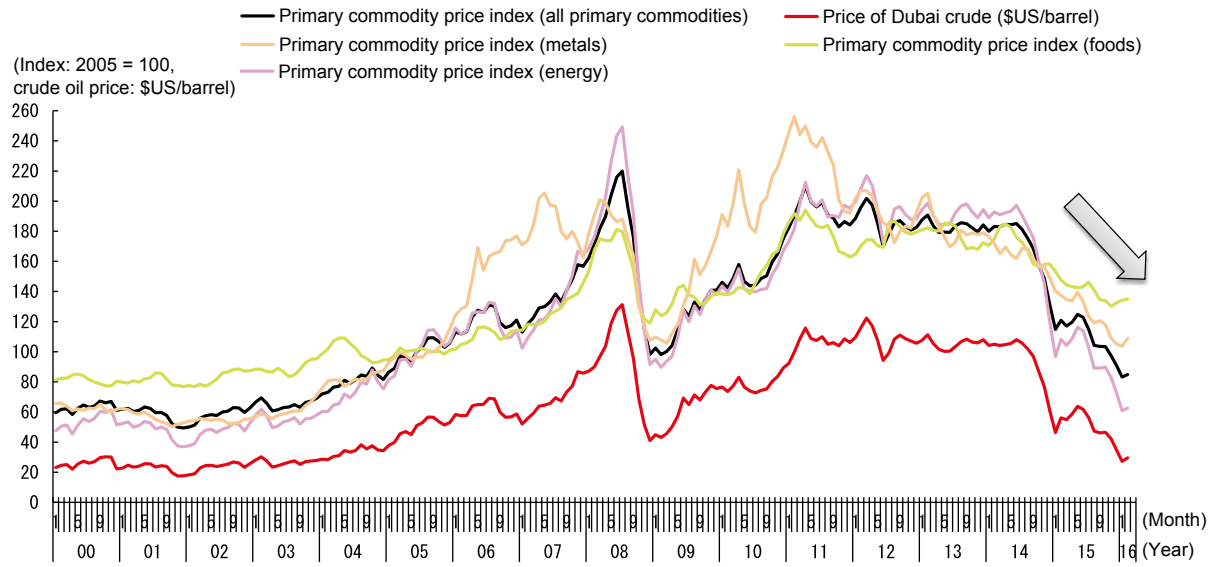
Variable costs fluctuate in response to fluctuations in sales. In the manufacturing industries they are influenced by material costs, and in the retail sales industry, they are influenced by changes in purchase prices, for example. When we look at trends in the prices of primary commodities (energy, foods, metals, etc.), which are deeply related to variable costs, we see that the prices of primary commodities dropped drastically in 2015, with a particularly large drop in energy prices (Fig. 1-2-33). It is thought that this drop in the prices of primary commodities has contributed to pushing down the ratio of variable costs to sales.

Fig. 1-2-32 Ratio of variable costs to sales (by enterprise size)



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

Fig. 1-2-33 Prices of primary commodities

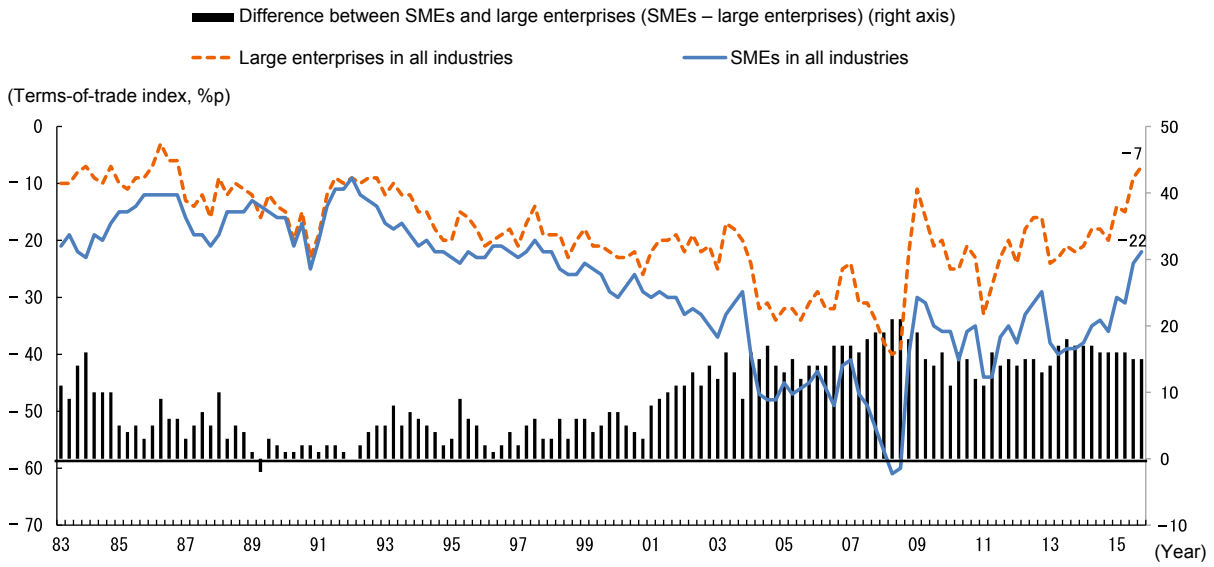


Source: IMF, *Primary Commodity Prices*.
Notes:
1. The primary commodity cost index is the costs of foods, metals, energy (petroleum), etc. weighted by the average export amount from 2002 to 2004.
2. Foods include grains, vegetable oil, meat, sugar, fruits, etc.
3. Metals include copper, aluminum, steel, tin, nickel, zinc, etc.
4. Energy includes crude oil, natural gas, and coal.

Primary commodity prices largely fluctuate, so how appropriately they can be passed through to sales prices in response to such fluctuations has an effect on ordinary profits. Therefore, to gain an overview of the cost pass-through situation of SMEs, we shall take a look at the BOJ Tankan sales price DI minus the purchase price DI as a terms-of-trade index[8] (Fig. 1-2-34). From the 1980s to 1990s, the terms of trade for large enterprises and SMEs were closely linked to each other, and there was virtually no difference between the two. However, in the 2000s, a difference began to gradually appear, and continues to exist today.

8) If the figure obtained by subtracting purchase price from sales price is largely negative, this indicates that increases in purchase prices are not being properly passed through to sales prices.

Fig. 1-2-34 Terms-of-trade index (by enterprise size)

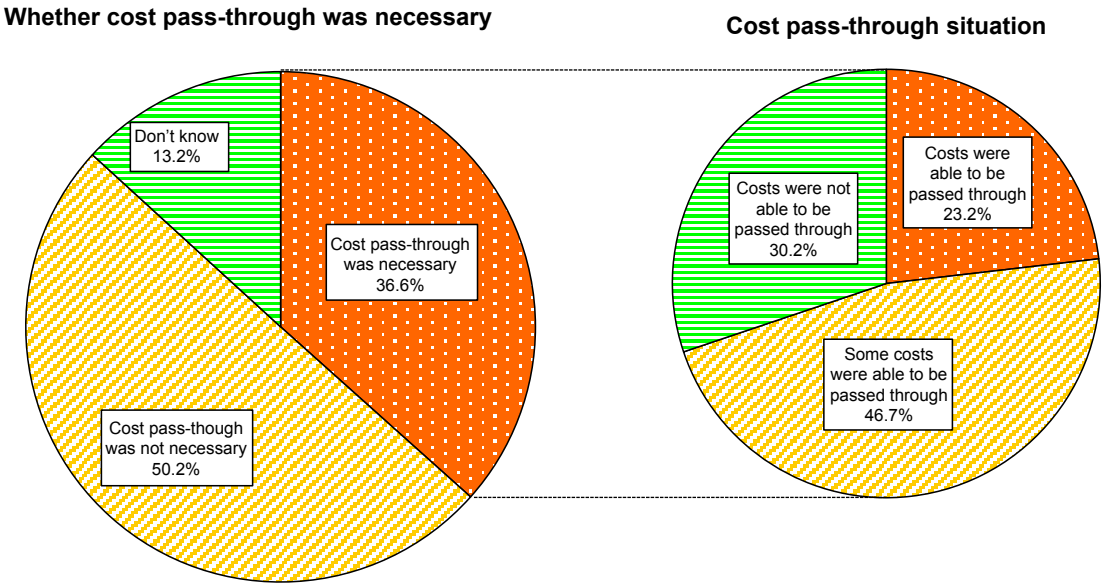


Source: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan).
Notes: 1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥20 million or more and less than ¥100 million.
2. "Terms-of-trade index" equals the sales price DI minus purchase price DI.

According to the *Survey of Subcontract Transaction Prices* conducted by the SME Agency in December 2015, 36.6% of enterprises were in a situation where it was necessary for them to pass through the costs of raw materials and energy costs after April 2015, but 30.2% of those enterprises were not able to actually pass through those costs (Fig. 1-2-35 (1)).

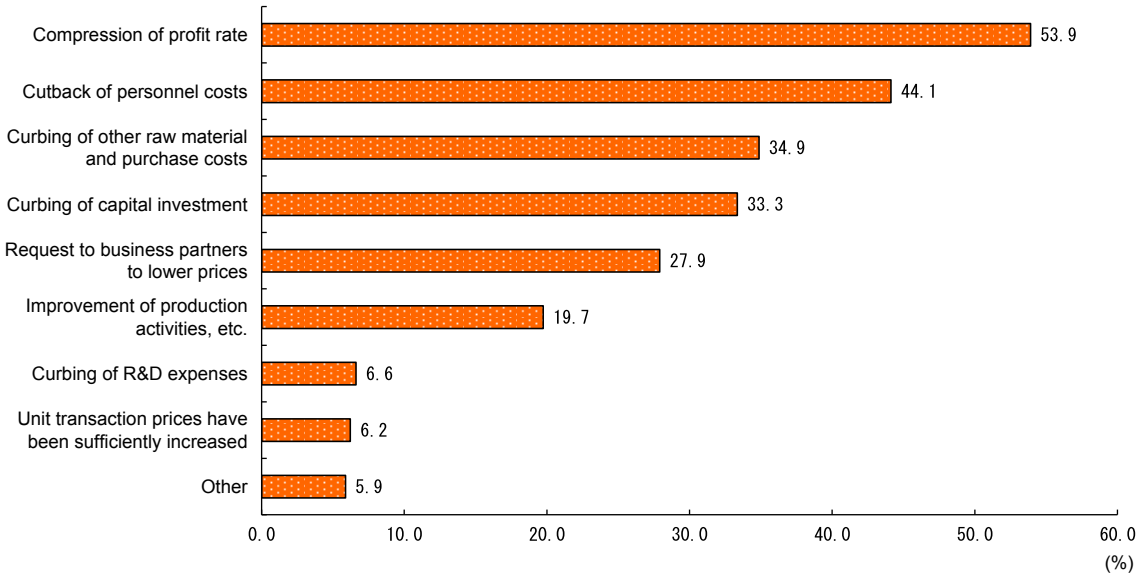
Additionally, as a measure in response to not being able to raise unit prices in the past ten years, 53.9% of enterprises gave "compression of profit rate," and more than 30.0% gave "cutback of personnel costs," "curbing of other raw material and purchase costs," and "curbing of capital investment" (Fig. 1-2-35 (2)).

Fig. 1-2-35 (1) Necessity and status of passing through raw material and energy costs to transaction prices



Source: SME Agency, *Survey of Subcontract Transaction Prices* (conducted December 2015).

Fig. 1-2-35 (2) Measures taken in response to not being able to sufficiently increase transaction prices



Source: SME Agency, *Survey of Subcontract Transaction Prices* (conducted December 2015).

7. Summary

As seen above, while some weaknesses were seen in the business conditions DI for SMEs, an improvement trend also appeared, with ordinary profits reaching a record high level and the number of bankruptcies marking the lowest level in 25 years. However, ordinary profit increases were largely owing to a decline in personnel costs and the prices of crude oil and raw materials, and did not accompany an increase in sales. For this reason, capital investment failed to reach the level before the Lehman crisis, the aging of facilities have advanced, and labor shortage has become a serious issue.

With SMEs now achieving a record high level of ordinary profits, it is an opportune time to address the labor shortage issue that has stemmed from a decline in the working-age population and the issue of aging facilities, and strengthen the “earning power” of SMEs.

Chapter 3

Analyzing SME productivity

As we have seen in the previous chapter, Japan's economy in 2015 continued on a gradual recovery trend on the whole. Ordinary profits marked a record high, and an increase in corporate profits led to an improvement of the employment environment and wage increases, thereby giving momentum to a "positive growth cycle." At the same time, however, SMEs have faced such issues as stagnant sales, the aging of facilities, and labor shortage, and have growing concerns about how the economic deceleration in newly emerging countries may impact their exports and production, among various other issues. In order to continue maintaining the positive growth cycle and pursue the path toward sustainable growth even while greater population decline is anticipated, it is important to increase productivity in each enterprise and strengthen the profitability of enterprises in Japan. From the standpoint of SMEs as well, the record high level of ordinary profits today poses a good opportunity to address the abovementioned issues.

Thus in this chapter, we shall focus on and analyze SME productivity from diverse perspectives.

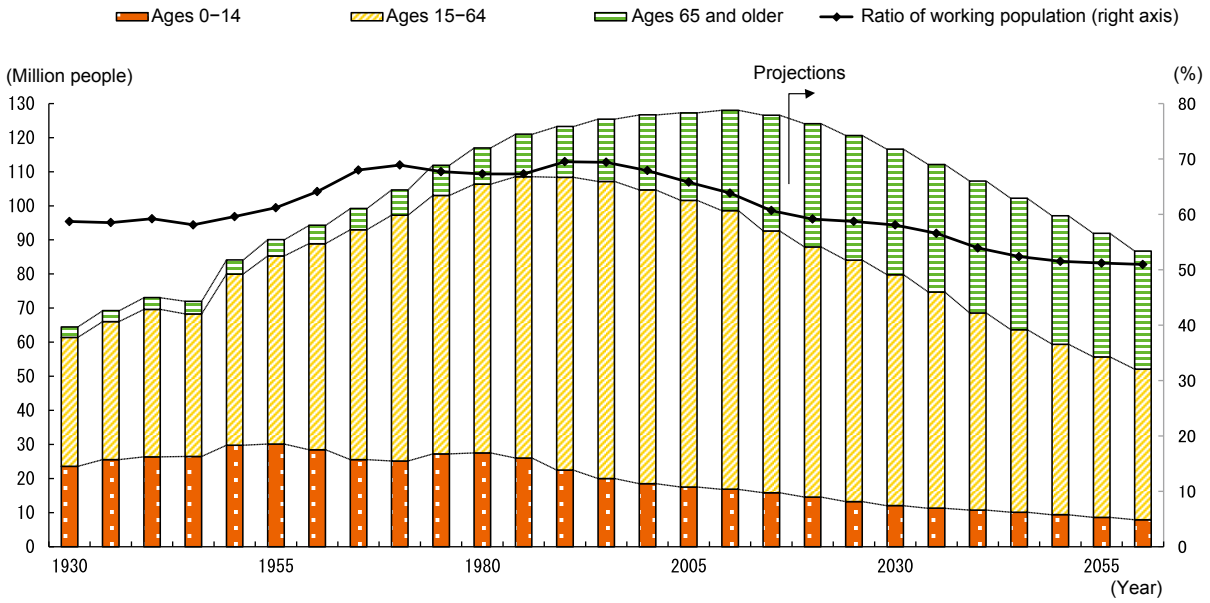
Section 1 Changes in circumstances surrounding SMEs and SME productivity

1. Population decline, declining birthrates, and population aging

Fig. 1-3-1 shows population changes in Japan up to now and future population projections. According to the figure, the working population, from ages 15 to 64, has been declining, and is estimated to continue declining at a considerable rate, while the population of people ages 65 and older will continue to increase.

What impacts will a change in the population structure have on SMEs? Even in terms of the employee insufficiency DI (percentage (%) of enterprises that said they have an "overcapacity" of employees, minus the percentage (%) of enterprises that said they have an "insufficiency" of employees for the quarter) for SMEs, there is a growing sense of insufficiency in all industries (see Fig 1-2-20).

Fig. 1-3-1 Future population projections



Source: National Institute of Population and Social Security Research, *Population Projections for Japan* (January 2012 projections).
Notes: 1. Future population projections are based on medium fertility (medium mortality) estimates.
2. Working ages are defined as ages 15 to 64.

Given the declining population, there are concerns that domestic demand may weaken and sales among domestic enterprises may decrease. With regard to supply, a decline in the working population is expected to create supply constraints and further strengthen the sense of employee insufficiency.

In order for Japan's economy to overcome decreased domestic demand and labor supply constraints that are the result of a declining population and pursue sustainable growth in the future, it is necessary to expand sales channels, including overseas expansion, on the demand side. On the supply side, it is necessary to realize the plan of "Promoting the Dynamic Engagement of All Citizens" toward a society where all citizens are actively engaged, and take initiatives to increase the production efficiency of each employee.

Particularly among SMEs, which account for roughly 70% of total employment in Japan[1], increased productivity in each enterprise would contribute largely to resolving such issues of Japan's economy as a whole. In the following sections, we shall thus analyze SME productivity from various angles.

1) According to the *2014 Economic Census for Business Frame* (recompiled), SMEs employ 70.1% of all employees in Japan (see Supplementary statistical data Table 2 (3)).

Section 2 Present status of SME productivity

Below, we shall analyze SME productivity using two representative indicators of productivity: labor productivity and total factor productivity.

1. Labor productivity in SMEs

Definition of labor productivity in this chapter

In this chapter, labor productivity is defined by the equation, "labor productivity[2] = value added[3] / labor force[4]." It is a quantification of how efficiently workers produce a result, and increases with workers' efforts to build capacity and improve efficiency and with improvements in management efficiency.

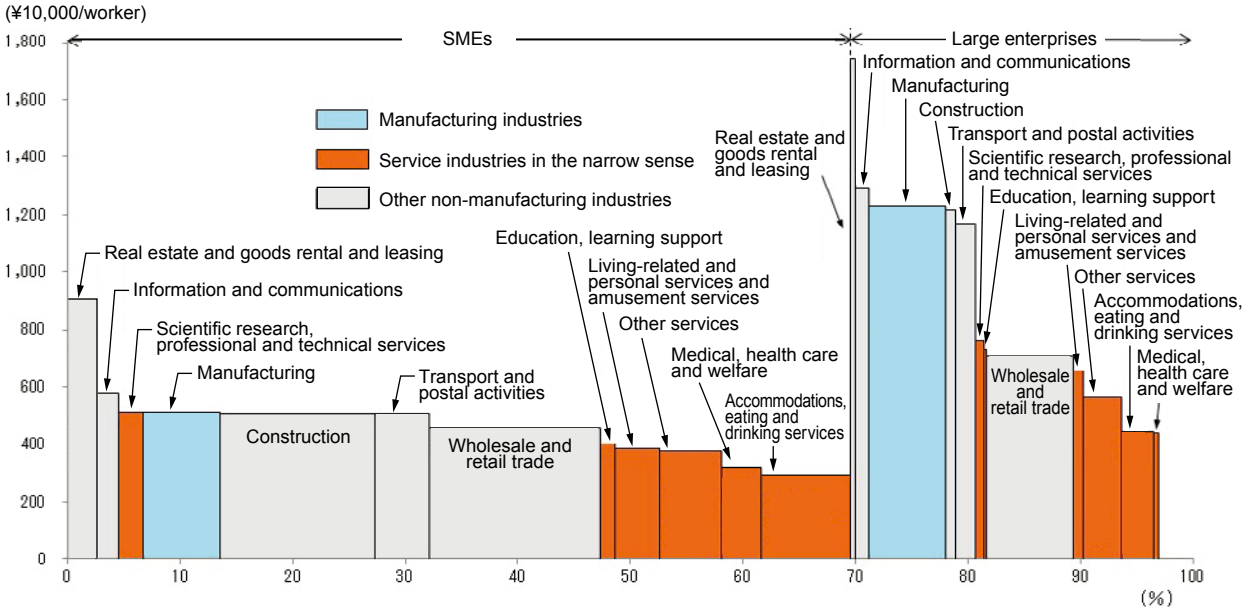
Labor productivity in SMEs (overview)

Before analyzing labor productivity in SMEs, let us take a brief look at labor productivity by industry and enterprise size. Fig. 1-3-2 shows average labor productivity levels among SMEs and large enterprises by industry (vertical axis)[5] and worker ratios by industry (horizontal axis)[6]. When we examine labor productivity levels by industry and enterprise size, we see that the average among SMEs falls below that of large enterprises, even while SMEs account for roughly 70% of Japan's total labor force.

In light of this situation, it can be said that labor productivity must be increased not only in large enterprises, but also in SMEs, in order to raise Japan's total value added.

2) This should be expressed as "real labor productivity" to be accurate, as cost fluctuations are eliminated using a GDP deflator (2005 basis). However, for convenience sake, the term "labor productivity" shall be used in this chapter.
3) Here, value added = net operating profit + personnel costs + taxes and public impositions + rent of movable property and real estate.
4) Here, labor force = number of officers + number of employees.
5) Calculated using data from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*. The *Financial Statements Statistics of Corporations* is a sample survey of profit-making corporations, and the annual surveys the figures of definite settlements of accounts for the fiscal year. The finance and insurance industries have been omitted from Fig. 1-3-2, as financial statements statistics do not include the necessary items for the calculation of value added in those industries.
6) Recompiled from MIC, *Economic Census for Business Frame*. The MIC *Economic Census for Business Frame* is an exhaustive survey of all business establishments in industries included among the Japan Standard Industrial Classification (JSIC), with the exception of the household service industry and some other industries.

Fig. 1-3-2 Labor productivity and labor composition ratio (by enterprise size, by industry)



Sources: Recompiled from MOF, *FY2014 Financial Statements Statistics of Corporations by Industry, Annually*, and MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Labor productivity = value added / total number of workers
2. Value added = net operating profit + officers' pay + officers' bonus + employees' pay + employee benefits + rent of movable and immovable properties + taxes and public impositions
3. Number of workers = number of officers + number of employees
4. Here, the definition of SMEs is pursuant to the Small and Medium-sized Enterprise Basic Act.

Fig. 1-3-2 shows that the service industries[7] in particular, including the accommodations, eating and drinking services, account for a high share of total employment, but display a relatively low average level of labor productivity compared to other industries.

The low level of labor productivity in the service industries can be attributed to the following characteristics that are seen in many service industries.

(1) Simultaneousness: Services are provided and consumed at the same time.
(2) Inseparability: Services are provided and utilized in the same place.
(3) Disappearance: Services cannot be kept in stock.

In other words, in some service industries, such as the restaurant, hairdressing, medical care and nursing care industries, services are provided and consumed at the same time and in the same place, and cannot be kept in stock in some cases. Unlike industrial products, for which production activities could be leveled by adjusting stock, products (services) cannot be produced (provided) in the absence of customers and stored as stock, and short-term changes in demand affect production volume in the same manner. However, such short-term changes in demand cannot be easily accommodated by adjusting labor input, and thus act as a constraint in increasing productivity through an increase in the efficiency of production activities.

This means that increasing productivity tends to be more difficult in industries that handle products (services) characterized by simultaneousness, inseparability, and disappearance. For this reason, it is said to be difficult to measure productivity in the service industries and make comparisons with other industries[8].

While paying careful attention to these points, let us proceed to an analysis of labor productivity by industry in the following section.

7) In this paper, "service industries" refer to service industries in the narrow sense, which fall under industrial divisions L to R of the Japan Standard Industrial Classification (JSIC) (rev. 13). Service industries in the broad sense, which refer to tertiary industries, shall be expressed as "non-manufacturing industries" in this chapter.

8) References to the characteristics of service industries and the impacts of demand in this section are based on Konishi (2015). Konishi (2015) emphasizes that in order to measure the technical capability and productivity of service industries, it is necessary to collect both demand and supply data and perform an empirical analysis upon defining what types of added values are created in each industry.

Comparison of labor productivity by industry

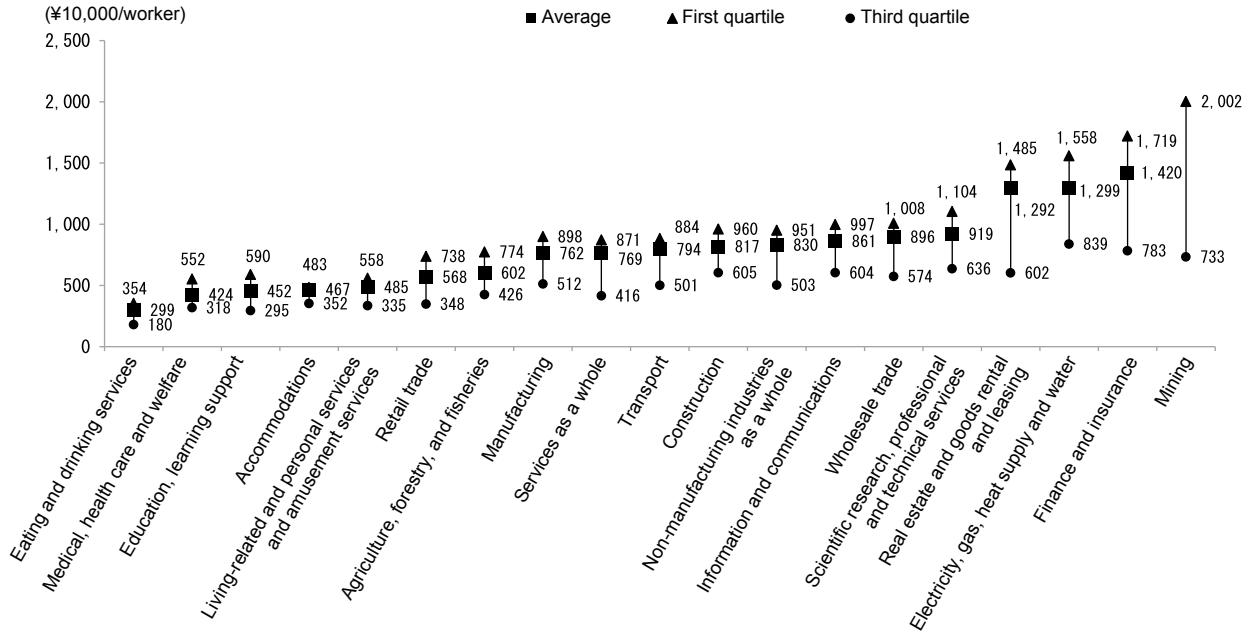
Above, we confirmed average labor productivity by enterprise size and industry. Average values are frequently used to make comparisons when analyzing labor productivity. However, labor productivity may vary widely even among enterprises of the same size and in the same industry, depending on the initiatives implemented by each enterprise, their circumstances, and other such factors.

Therefore, below we shall use responses to the *Basic Survey of Japanese Business Structure and Activities* to analyze in greater detail the distribution of corporate productivity by industry. The survey is conducted every year by the Ministry of Economy, Trade and Industry, and covers enterprises with 50 or more employees and whose paid-up capital or investment fund is over 30 million yen. Although it does not include enterprises of sizes and financial scales below this scope, it shall be used, as it provides large-scale governmental statistics that are useful for calculating the growth rate of productivity and various other indicators of individual companies through the creation of panel data[9].

Fig. 1-3-3 shows SME labor productivity in 2014 in terms of industrial averages, as well as productivity levels at the first quartile point (top 25th percentile) and third quartile point (bottom 25th percentile) for each industry, to provide an overview of the distribution of productivity.

According to this figure, average labor productivity is low in the eating and drinking services, medical, health care and welfare, and accommodations industries, with little difference in productivity levels among enterprises. This is thought to be because the services provided by these industries tend to be characterized by (1) simultaneousness, (2) inseparability, and (3) disappearance, as mentioned earlier, compared to services provided by the finance and insurance industry, and these characteristics are keeping labor productivity down. On the other hand, even among SMEs, average labor productivity is high in the finance and insurance industry and the real estate and goods rental and leasing industry, with large differences in productivity levels among enterprises. This is thought to be due to their high capital intensity ratio and capital productivity, as will be discussed later.

Fig. 1-3-3 Distribution of labor productivity (value added per worker) (SMEs, by industry)



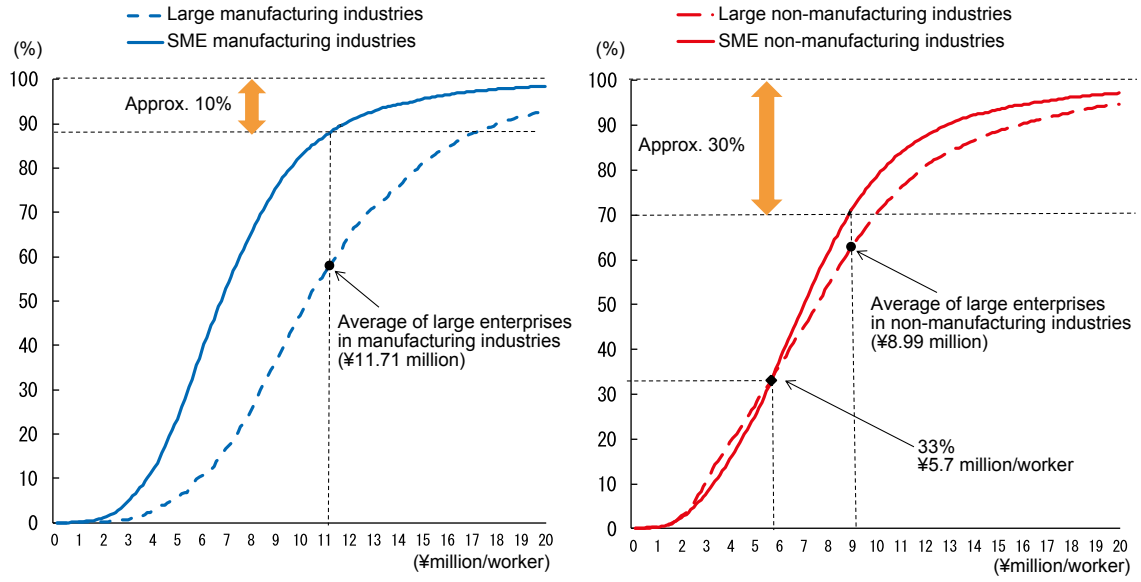
Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes:
1. The definition of SMEs is pursuant to the Small and Medium-sized Enterprise Basic Act. However, enterprises with less than 50 employees and a paid-up capital or investment fund of less than ¥30 million are not included in the above figure.
2. Labor productivity is calculated according to the equation, Labor productivity = value added (net operating profit + personnel costs + taxes and public impositions + rent of movable property and real estate) / total number of workers.
3. Value added is given substance using a GDP deflator (2005 basis).
4. The average for the mining industry was ¥52.6 million/worker (not included in the above graph). This figure was given a tremendous boost by a single enterprise with exceptionally high productivity.

9) To create data that shows trends in individual companies over a period of multiple years.

Next, let us examine labor productivity distribution in greater detail and compare labor productivity levels by industry and enterprise size. Fig. 1-3-4 shows the cumulative distribution of the percentage of enterprises (vertical axis) at each level of labor productivity (horizontal axis) that has been derived by tallying individual responses to the *2014 Basic Survey of Japanese Business Structure and Activities*. Productivity levels were divided into ¥100,000/worker units, and cumulative figures were obtained by adding the percentage of enterprises at each level. The more the graph is shifted to the right means the higher the productivity of a larger number of enterprises in the relevant industries. The points of the graph where the X and Y axes merge also show the approximate percentage of enterprises in the relevant industries that fall within the corresponding labor productivity level. Furthermore, with respect to the angle of the graph until it reaches the 50% mark, the sharper the angle means the more enterprises are concentratedly distributed at that level.

When the cumulative distribution of labor productivity is compared by enterprise size and by manufacturing/non-manufacturing industries, the figure shows that in the manufacturing industries, SME labor productivity is mostly distributed at levels lower than large enterprises (Fig. 1-3-4 left side). In contrast, among the non-manufacturing industries, an inversion is seen from the ¥5.7 million/worker level, with more large enterprises than SMEs distributed at labor productivity levels below ¥5.7 million/worker (below the bottom 33%) (Fig. 1-3-4 right side). At look at cumulative distribution reveals that in the manufacturing industries, the labor productivity of large enterprises is higher than that of SMEs at all levels, but in the non-manufacturing industries, the labor productivity of the bottom third of large enterprises is distributed at lower levels than SMEs[10]. The figure also shows points where the average of large enterprises lies, and by looking at the distance between 100 and these points, it also shows the percentage of SMEs that have higher productivity than large enterprises. It thus indicates that in the manufacturing industries, approximately 10% of SMEs have a higher labor productivity than the average labor productivity of large enterprises, and in the non-manufacturing industries, some 30% of SMEs have a higher labor productivity than the average labor productivity of large enterprises.

Fig. 1-3-4 Cumulative distribution of labor productivity



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The above does not include companies with less than 50 employees or less than ¥30 million in paid-up capital or investment fund.
2. Cumulative figures were obtained by calculating the distribution of labor productivities (value added per worker) for each ¥100,000/worker.

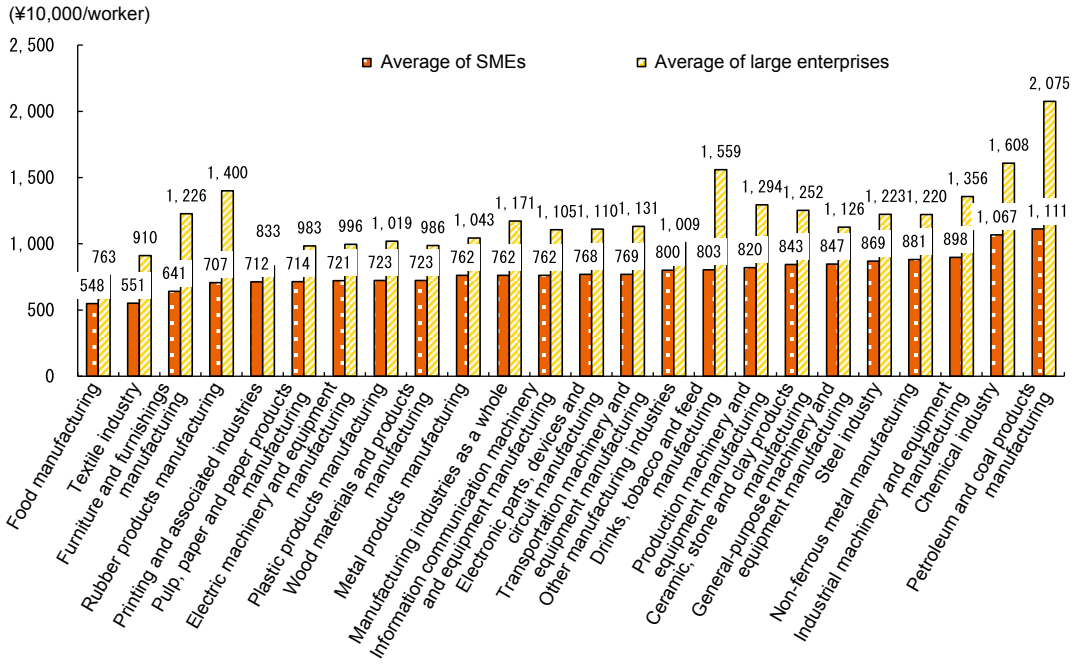
10) However, it should again be noted that the *Basic Survey of Japanese Business Structure and Activities* is based on data that does not include enterprises with less than 50 employees and less than ¥30 million in paid-up capital or investment fund.

It could be said that in the manufacturing industries, the difference in enterprise size is a major determining factor of labor productivity, while in the non-manufacturing industries, other factors are. In particular, the diversity of industries included among "non-manufacturing industries" is thought to have a strong influence on the distribution of labor productivity in the non-manufacturing industries as a whole.

Therefore, in Fig. 1-3-5, the manufacturing industries were further broken down into major groups, and their average labor productivity was shown divided into SMEs and large enterprises. In the manufacturing industries, labor productivity ranged from ¥5.48 million/worker in manufacture of food to ¥11.11 million/worker in the manufacture of petroleum and coal products, and in the non-manufacturing industries, they ranged from ¥7.63 million/worker in the manufacture of food to ¥20.75 million/worker in the manufacture of petroleum and coal products. A comparison of average labor productivity in the manufacturing industries by major group shows that among both SMEs and large enterprises, average labor productivity falls within a range of roughly two or three times the lowest labor productivity level at the most.

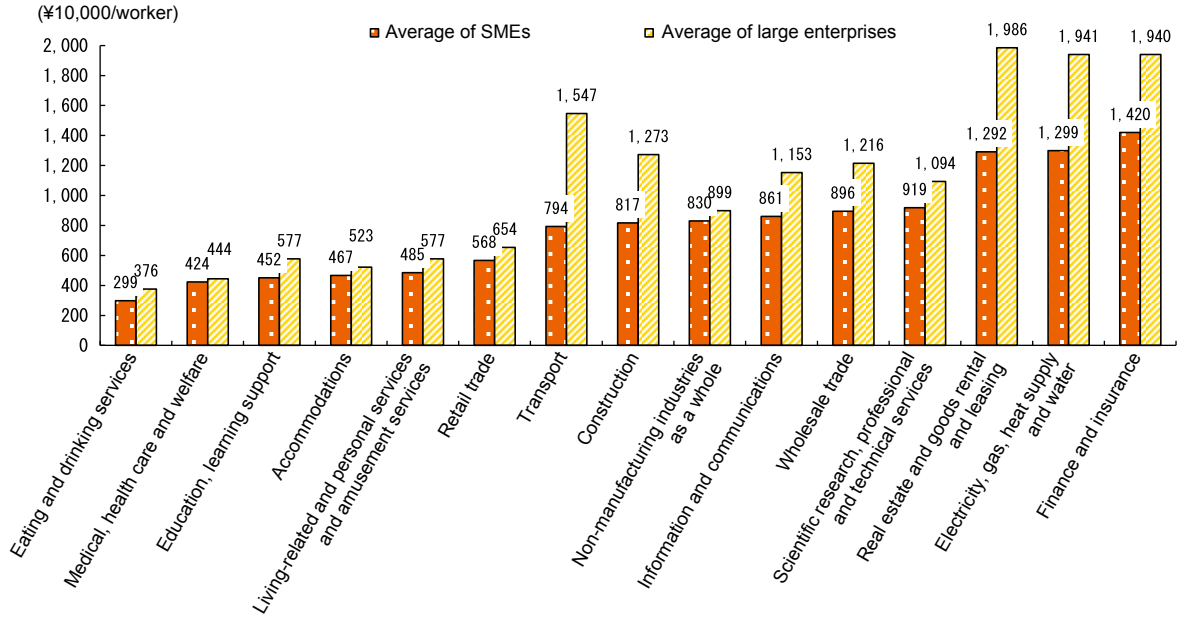
Fig. 1-3-6 shows a comparison of average labor productivity in the non-manufacturing industries in 2014, by industry and enterprise size. Among SMEs, average labor productivity is widely distributed, from ¥2.99 million/worker in eating and drinking services, to ¥14.2 million/worker in finance and insurance. Among large enterprises as well, average labor productivity ranged from ¥3.76 million/worker in eating and drinking services to ¥19.86 million/worker in real estate and goods rental and leasing, with larger differences in average labor productivity among industries compared to the manufacturing industries. An examination of averages in the non-manufacturing industries by industrial division reveals that a roughly four to five-fold difference in labor productivity exists among industries at the most, and when comparing the finance and insurance industry, which has the highest average labor productivity among SMEs, and the eating and drinking service industry, which has the lowest average labor productivity among large enterprises, SMEs in the finance and insurance industry have a roughly 3.7 times higher labor productivity than large enterprises in the eating and drinking service industry.

Fig. 1-3-5 Average labor productivity in the manufacturing industries (by middle industry category, by enterprise size)



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes:
1. The classification of enterprise sizes is based on the definition provided in the Small and Medium-sized Enterprise Basic Act. However, enterprises with less than 50 employees and a paid-up capital or investment fund of less than ¥30 million are not included in the above figure.
2. Labor productivity = value added (net operating profit + personnel costs + taxes and public impositions + rent of movable property and real estate) / total number of workers.
3. The leather, leather products and fur manufacturing industries are not included in the above, as sufficient sample data of large enterprises could not be obtained.

Fig. 1-3-6 Average labor productivity in the non-manufacturing industries (by industry, by enterprise size)



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes:
1. The classification of enterprise sizes is based on the definition provided in the Small and Medium-sized Enterprise Basic Act. However, enterprises with less than 50 employees and a paid-up capital or investment fund of less than ¥30 million are not included in the above figure.
2. Labor productivity = value added (net operating profit + personnel costs + taxes and public impositions + rent of movable property and real estate) / total number of workers.
3. The mining and agricultural, forestry and fisheries industries are not included in the above, as sufficient sample data of large enterprises could not be obtained.

Manufacturing and non-manufacturing industries are frequently compared against each other, but the non-manufacturing industries include a diverse range of industries of completely differing business categories, and this impacts the labor productivity of manufacturing and non-manufacturing industries as a whole. Such differences in business type and category are thought to have a greater impact on labor productivity than differences in enterprise size. Additionally, even within the same industry, labor productivity differs according to enterprise, and it should be noted that this distribution situation lies in the background of Figs. 1-3-5 and 1-3-6.

In consideration of the above situation, it is thought that the enterprise size-based approach[11] is effective for the manufacturing industries, as enterprises that make up the category differ in size and situation regarding their productivity[12], and that measures and corporate initiatives should take enterprise size into consideration. On the other hand, it is thought that for the non-manufacturing industries, it is more important to take into account the differing situations of each industry and take measures through a detailed classification of industries, rather than initiatives that are based on enterprise size.

Based on this awareness, next we shall examine the distribution of labor productivity in the non-manufacturing industries by industrial division.

11) In regard to this point, Fukao et al. (2014) notes that when analyzing the factors involved in the differences in labor productivity in Japan according to enterprise size, 65% can be explained by differences in capital equipment ratio, 25% by differences in total factor productivity (TFP), and 10% by differences in the quality of labor. He says that the disparity in capital equipment ratio according to enterprise size has declined since 1990, possibly owing to the fact that the cost of capital has dropped as a result of a continuation of the ultra-low interest rate policy and the governmental provision of credit guarantees to SMEs, and reduced the disparity in the cost of capital between large enterprises and SMEs.

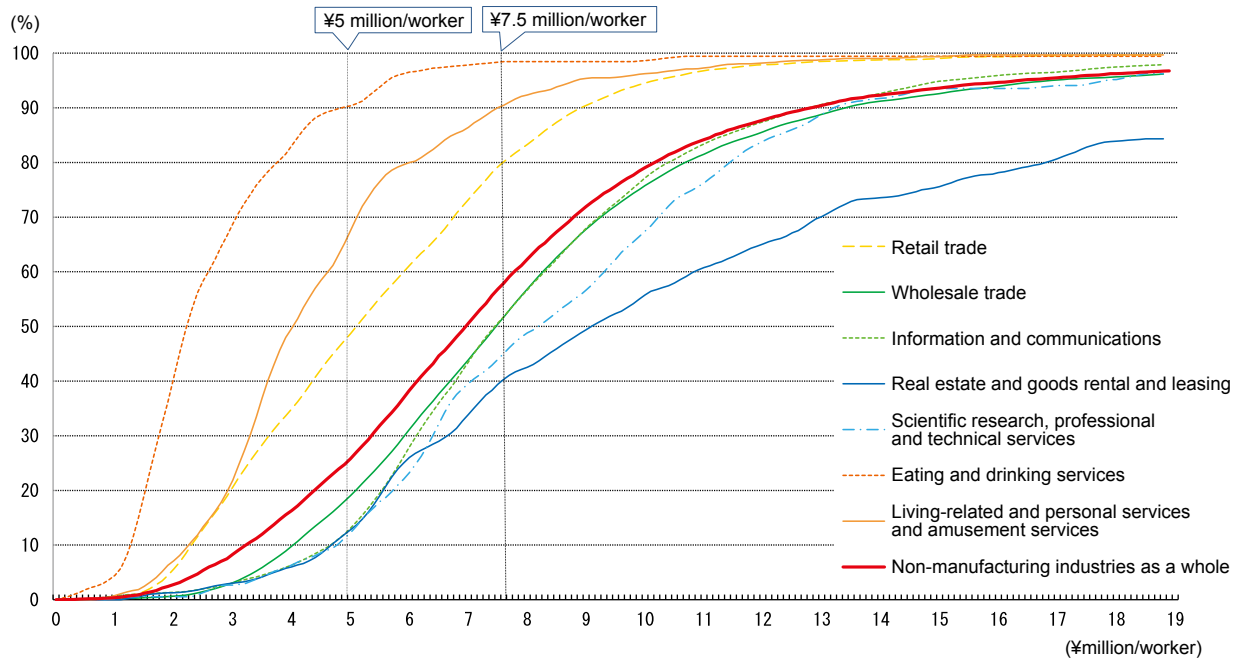
12) In this regard, the *2014 White Paper on Small and Medium Enterprises in Japan* points out that SMMs are less able to pass through costs compared to large manufacturers, and that this is a contributing factor in the differences in the rate of increase of nominal value added per worker in SMMs and large manufacturers (see Fig. 1-1-48 in the *2014 White Paper on Small and Medium Enterprises in Japan*). It is thought that the difference in the ability to pass through costs between SMMs and large manufacturers leads to a difference in labor productivity (value added per worker) between the two groups of enterprises.

Distribution of labor productivity by industry

To accurately assess the present state of labor productivity in SME non-manufacturing industries, we shall next examine the distribution of labor productivity in SME non-manufacturing industries by industrial division.

Fig. 1-3-7 is a decomposition of the cumulative distribution shown in Fig. 1-3-4 according to industry[13]. It shows that the graphs for the eating and drinking services, retail trade, living-related and personal services and amusement services industries are distributed more to the left than the average for all non-manufacturing industries, and that most enterprises are distributed at low levels. For example, approximately 90% of enterprises are distributed below the ¥5 million/worker level in the eating and drinking services industry, and below the ¥7.5 million/worker level in the living-related and personal services and amusement services industries. On the other hand, the graphs for the wholesale trade and scientific research, professional and technical services industries project more largely to the right than the average, and show most enterprises distributed at high levels. For example, only a little over 10% of all enterprises in the scientific research, professional and technical services, real estate and goods rental and leasing, and information and communications industries are distributed below the ¥5 million/worker level. A comparison of SMEs also show differences in distribution per industry, and suggests that the characteristic differences between industries have an influence on the labor productivity of individual companies. Any attempt to increase productivity through policies and corporate initiatives requires an accurate assessment of each industry and detailed responses that capture the characteristics of each industry.

Fig. 1-3-7 Cumulative distribution of labor productivity (SMEs, by industry)



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The above does not include companies with less than 50 employees or less than ¥30 million in paid-up capital or investment fund.
2. Cumulative figures were obtained by calculating the distribution of labor productivities (value added per worker) for each ¥100,000/worker and obtaining the centralized moving average (for five divisions).

13) Obtaining a certain number of samples from METI's *Basic Survey of Japanese Business Structure and Activities* was a prerequisite to creating the graph, so results were not able to be obtained for some industries. Here, a comparison is made of industries for which a certain number of samples were able to be obtained, namely the retail trade, wholesale trade, information and communications, real estate and goods rental and leasing, scientific research, professional and technical services, eating and drinking services, living-related and personal services and amusement services, and manufacturing industries.

2. Total factor productivity (TFP) of SMEs

The analysis of labor productivity in the previous section took into account only the relationship between value added and labor input[14], but total factor productivity (TFP) takes into account input factors besides labor. Below, we shall analyze the present state of TFP among SMEs.

Definition of TFP in this chapter

In this chapter, the growth rate of value added over a certain period, excluding the amount of contribution of capital input[15] and labor input, was calculated as the growth rate of TFP based on the Cobb-Douglas production function[16]. TFP growth refers to changes in value added growth that cannot be explained by capital input or labor input. Therefore, it is said to express the sum of the improvements in the quality of input factors, technological progress, and the results of innovation[17].

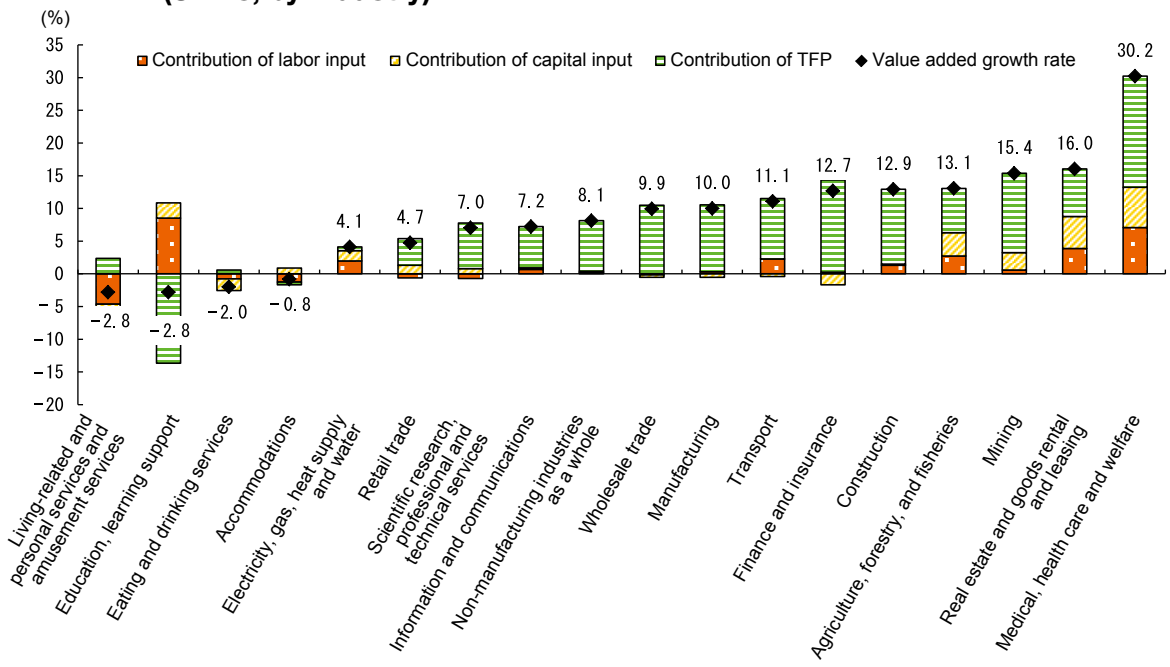
Comparison of TFP growth by industry

Using the concept of total factor productivity, let us make comparisons by industry. Fig. 1-3-8 shows the value added growth rate of SMEs and comparisons of the contributions of capital input, labor input and TFP by industry and enterprise size. Fig. 1-3-9 shows a comparison of TFP growth only.

In Fig. 1-3-8, when we compare the value added growth rate of SMEs by industry, we see that in the living-related and personal services and amusement services industry, labor input and capital input both make a negative contribution to the industry's value added, which is a low -2.8% as a whole. In the education, learning support industry[18], as well, TFP makes a large negative contribution, bringing down the value added growth rate to the same low level of -2.8%. In the eating and drinking services and accommodations industries, labor input makes a negative contribution, putting the value added growth rates of these industries also in the negative territory. In contrast, the medical, health care and welfare industry marked the highest value added growth rate of 30.2%, and an exceptionally high TFP growth rate of all industries[19].

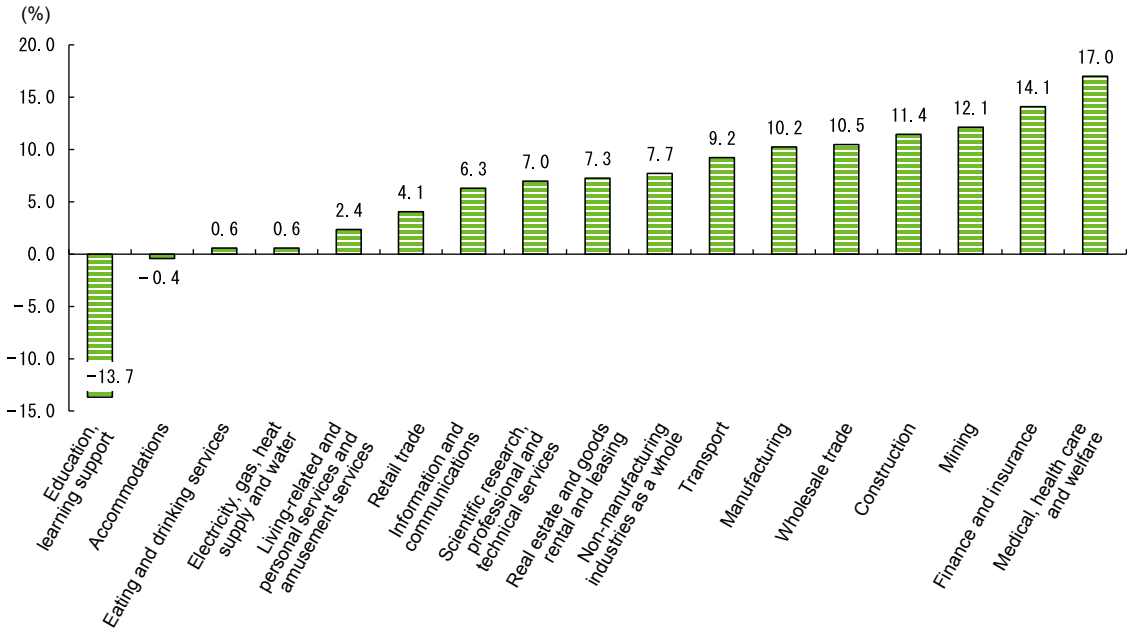
14) The labor force that is input to production activities.
15) Refers to the capital that is input to production activities.
16) For details, see Appended note 1-3-1.
17) It should be noted, however, that in this paper, economic booms, recessions, large accidents, abnormal weather, increase/decrease in demand, etc. also affect the total factor productivity figure, as changes caused by economic and demand fluctuations are not eliminated. In regard to this, Konishi (2013) has succeeded in breaking down the results regarding productivity in manufacturing industries obtained by production function analysis into supply factors, demand factors and other factors by using METI's *Industrial Statistics* and *Dynamic Statistics of Production*, and identifying changes in productivity brought about by supply factors.
18) It should be noted that the range of the "education, learning support industry" in the *Basic Survey of Japanese Business Structure and Activities* includes only industrial groups 8245 and 8249 listed in the Japan Standard Industrial Classification.
19) However, compared to other indicators such as labor productivity, the absolute level of value added growth rate in this industry remains low (see Fig. 1-3-3).

Fig. 1-3-8 Contributions of capital, labor and TFP to value added growth rate (SMEs, by industry)



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Growth rates are comparisons of 2010 and 2014.
2. The above does not include SMEs with less than 50 employees or less than ¥30 million in paid-up capital (or investment fund).

Fig. 1-3-9 TFP growth rate by industry (SMEs)



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Growth rates are comparisons of 2010 and 2014.
2. The above does not include SMEs with less than 50 employees or less than ¥30 million in paid-up capital (or investment fund).

3. About capital equipment ratio and capital productivity

Next, let us examine productivity in reference to indicators that are deeply related to it.

Investing in machinery and equipment is an effective means for SMEs to efficiently create new value added and increase productivity. The extent of such investment in machinery and equipment is expressed by "capital equipment ratio." Capital equipment ratio is an indicator obtained by dividing total capital by labor force. The larger the value, the stronger the capital intensity ratio. Contrarily, the lower the value, the stronger the labor intensity ratio.

To increase productivity, it is also important that the invested machinery and equipment are utilized efficiently. "Capital productivity" quantitatively measures how efficiently investments in machinery, facilities, land, etc. have produced results, and can be improved by increasing facility utilization frequency and operating rates, efforts for efficiency improvement, and other such initiatives.

Here, let us review the definition of labor productivity. It can be expressed as follows.

Labor productivity = value added / labor force

This can be expanded as follows.

Labor productivity = (capital stock / labor force) × (value added / capital stock)

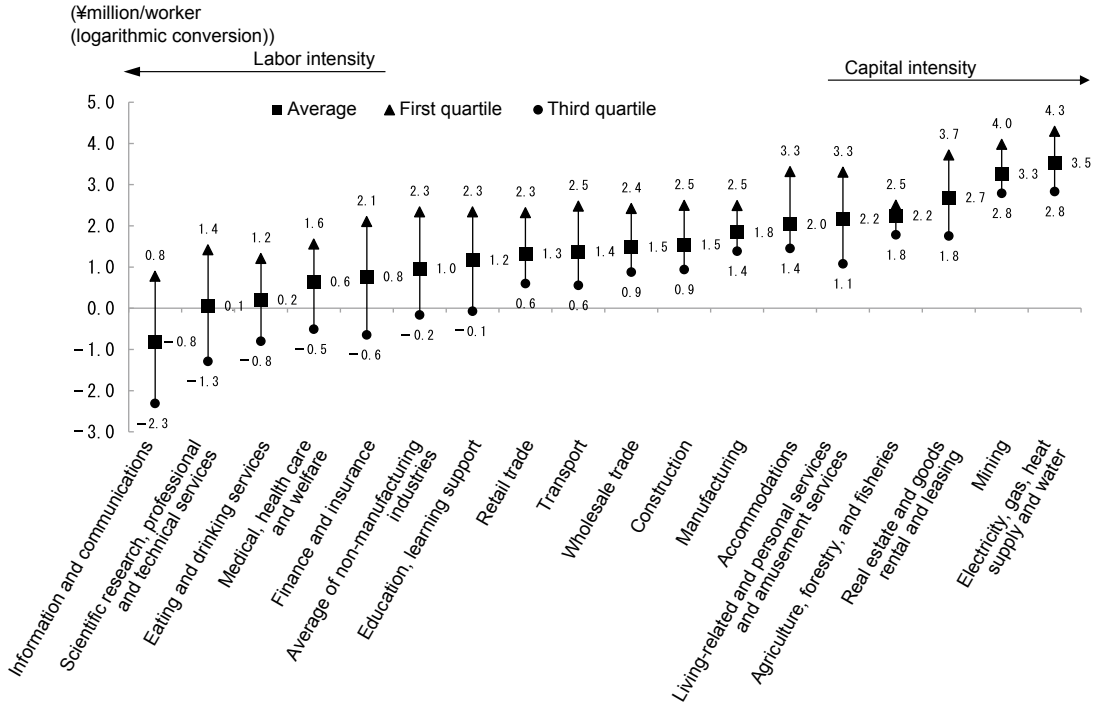
Capital stock divided by labor force is called "capital equipment ratio," and value added divided by capital stock is called "capital productivity." In other words, labor productivity can also be explained in terms of capital equipment ratio and capital productivity, as follows.

Labor productivity = capital equipment ratio × capital productivity

Fig. 1-3-10 is a graph showing not only the average capital equipment ratio in each industry in 2014, but also the range of distribution at the first and third quartile points. Similarly, Fig. 1-3-11 is a graph showing the range of distribution of capital productivity in each industry in 2014. Both graphs show that the information and communications industry has the lowest capital intensity ratio but the highest capital productivity, and the electricity, gas, heat supply and water industry has the highest capital equipment ratio but the lowest capital productivity. In terms of average labor productivity, the information and communications industry and the electricity, gas, heat supply and water industry have high average levels, at ¥8.61 million/worker and ¥12.99 million/worker, respectively, indicating that even industries with the same high labor productivity have their own way of increasing productivity.

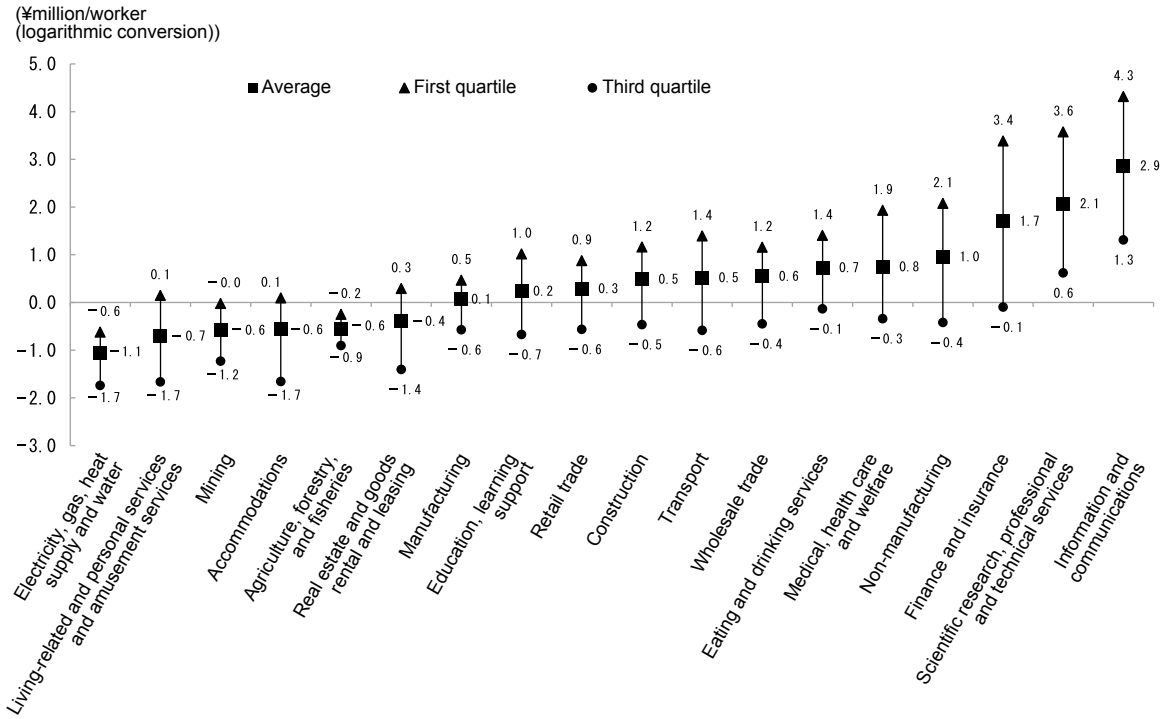
Meanwhile, the medical, health care and welfare industry and eating and drinking services industry have high capital productivity but low capital equipment ratio. This shows that while owned capital is utilized efficiently, strong labor intensity acts as a factor in pushing down labor productivity.

Fig. 1-3-10 Distribution of capital equipment ratio (SMEs, by industry)



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Capital intensity shows the average capital to labor force ratio (logarithmic value) in each industry and a comparison of the first and third quartile values.
2. The above does not include SMEs with less than 50 employees or less than ¥30 million in paid-up capital (or investment fund).

Fig. 1-3-11 Distribution of capital productivity (SMEs, by industry)



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Capital productivity = value added / capital stock (logarithmic).
2. The above does not include SMEs with less than 50 employees or less than ¥30 million in paid-up capital (or investment fund).

Section 3 Comparison of SME productivity by industry

Up to here, we have examined various indicators of productivity in SMEs. In this section, we will sum up these indicators in reference to the living-related and personal services and amusement services industry and retail trade industry, as representative of all service industries.

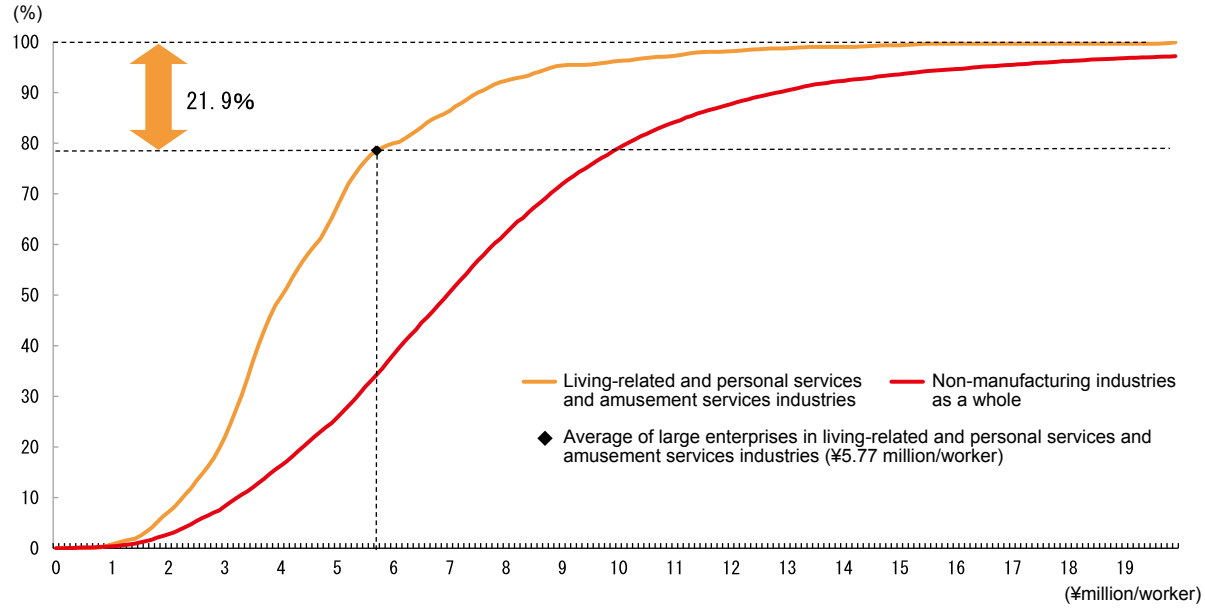
1. SMEs in the living-related and personal services and amusement services industry

The labor productivity level of SMEs in the living-related and personal services and amusement services industry was approximately ¥4.85 million/worker on average, maintaining a low level largely below the average of non-manufacturing industries as a whole (approx. ¥8.3 million/worker). The distribution was also contained within a small range, projecting largely to the left of the cumulative average of non-manufacturing industries as a whole and indicating a low level (see Fig. 1-3-7). Value added growth rate was stagnant at -3 points from 2010 to 2014, with labor input making a negative contribution. TFP growth was in positive territory, but displayed a low rate of growth (see Fig. 1-3-9). Capital equipment rate was confirmed at a high level, but capital productivity was extremely low (see Fig. 1-3-10, 1-3-11). In these ways, labor productivity and total factor productivity of SMEs in living-related and personal services industries hovered at low levels, probably influenced by the earlier-mentioned characteristics of products in service industries ((1) simultaneousness, (2) inseparability, (3) disappearance)).

Here, let us compare the distribution of the labor productivity of SMEs in living-related and personal services and amusement services industries and the average of large enterprises in the same industries (¥5.77 million/worker). Fig. 1-3-12 extracts from Fig. 1-3-7 the graph that shows the cumulative distribution of the industry and adds a point that represents the average labor productivity of large enterprises in the industry. The distance from 100% to the ratio represented by this point expresses the percentage of SMEs that surpass the average of large enterprises. This shows that as much as 21.9% of SMEs are above the ¥5.77 million/worker level, or the average of large enterprises[20].

20) See Appended note 1-3-2 for a breakdown of SMEs that have a higher productivity than large enterprises, in terms of industrial group.

Fig. 1-3-12 Distribution of labor productivity in SME living-related and personal services and amusement services industries



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The above does not include companies with less than 50 employees or less than ¥30 million in paid-up capital or investment fund.
2. Cumulative figures were obtained by calculating the distribution of labor productivities (value added per worker) for each ¥100,000/worker and obtaining the centralized moving average (for five divisions).

Let us take a look at the characteristics of SMEs whose productivity level is above the average of large enterprises in the living-related and personal services and amusement services industries. Fig. 1-3-13 examines SMEs whose productivity level is above the average of large enterprises and other SMEs in terms of the average of various relevant indicators ((1) capital, (2) number of employees, (3) corporate age, (4) net sales, (5) capital investment[21], (6) information processing and communications fee[22], (7) labor cost per employees, (8) capital equipment ratio, and (9) capital productivity). It shows that among SMEs with a labor productivity level above the average of large enterprises display a higher information communications fee, capital investment, and capital equipment ratio than SMEs with a labor productivity level below the average of large enterprises. They also display extremely high net sales, suggestive of their active attitude toward capital investments and IT expenditures.

21) Capital investment here is calculated by including the acquisition amount of tangible fixed assets for the term as capital investment.
22) Information processing and communications fee includes lease payments based on lease agreements and computer rental fees, and has been added here as an indicator of the degree of IT promotion.

Fig. 1-3-13 Characteristics of SMEs with high productivity in the living-related and personal services and amusement services industries (average)

	Composition ratio (%)	Capital (¥million)	No. of employees (people)	Corporate age (years)	Net sales (¥million)	Capital investment (¥million)	Information processing and communication fee (¥million)	Labor cost per employee (¥million)	Capital equipment ratio (¥million/worker)	Capital productivity (¥million)
SMEs with higher productivities than the average of large enterprises (n=68)	21.9	110.7	229.9	42.5	8,054	160.8	16.9	3.8	47.6	642.7
SMEs with lower productivities than the average of large enterprises (n=243)	78.1	88.7	256.7	40.2	3,310	151.8	9.7	2.6	23.3	599.1
SME living-related and personal services and amusement services industries as a whole (n=311)	100	93.5	250.8	40.7	4,356	153.8	11.3	3.2	28.6	792.9

Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.

The above findings indicate that SMEs in the living-related and personal services and amusement services industries have low productivity among all other industries, but as a result of active capital investment initiatives to increase capital equipment ratio and promote IT[23], more than 20% of SMEs have higher productivity levels than large enterprises.

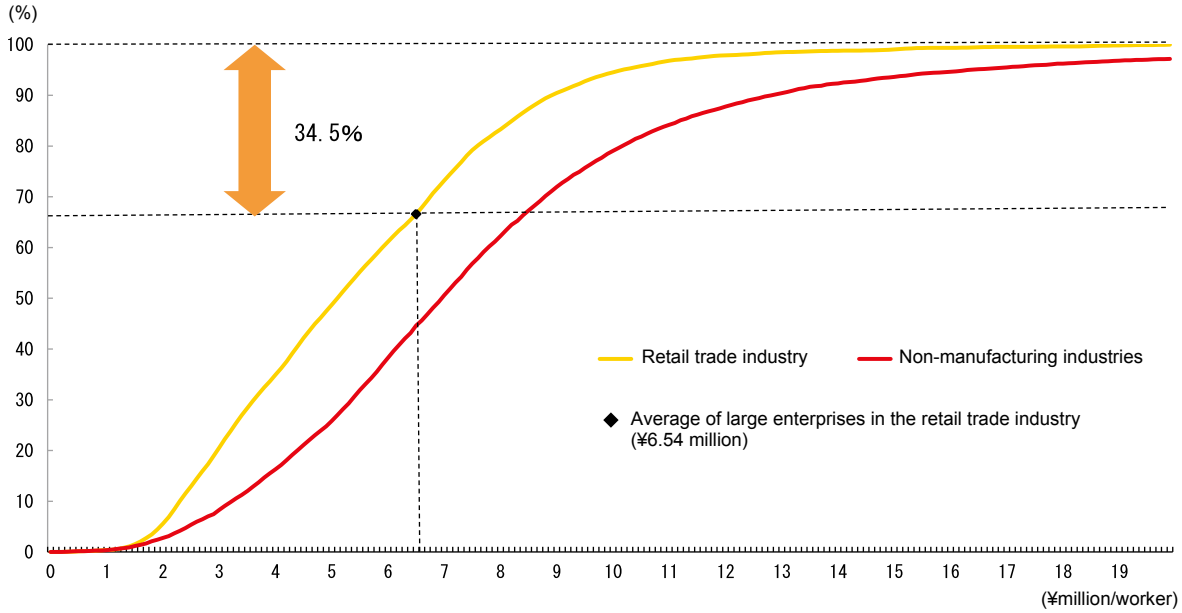
2. SMEs in the retail trade industry

Next, when we look at the labor productivity of SMEs in the retail trade industry, we see that the average is approximately ¥5.68 million/worker, and slightly lower than the manufacturing industries (see Fig. 1-3-3). The top and bottom productivity levels are distributed over a broad range, from ¥7.38 million/workers in the first quartile to ¥3.48 million/worker in the third quartile (see Fig. 1-3-3). For this reason, it is thought that the characteristics and initiatives of each company tend to be relatively readily reflected on labor productivity. The distribution of labor productivity hovers at levels lower than non-manufacturing industries, but compared to the eating and drinking services industry and living-related and personal services and amusement services industries, the graph is more shifted toward the right, and many enterprises are distributed at high productivity levels (see Fig. 1-3-7). TFP in the retail trade industry marked positive growth between 2010 and 2014, but it did not measure up to other industries such as the wholesale trade and manufacturing industries, and labor input made a negative contribution (see Fig. 1-3-8), likely as an impact of recent declines in domestic demand and labor supply constraints.

Here, let us compare the distribution of the labor productivity of SMEs in the retail trade industry with the average of large enterprises, as we did with the living-related and personal services and amusement services industries. If we extract the retail trade industry from the cumulative distribution graph in Fig. 1-3-7 and add the average labor productivity of large enterprises (approx. ¥6.54 million/worker), we get Fig 1-3-14. The result shows that as much as 34.5% of SMEs have a productivity level that is higher than the average of large enterprises[24].

23) See Column 1-3-1 for an example of an enterprise in the living-related and personal services and amusement services industries that is expanding its business by promoting IT.
24) See Appended note 1-3-3 for a breakdown of SMEs that have a higher productivity than large enterprises, in terms of industrial group.

Fig. 1-3-14 Distribution of labor productivity in the SME retail trade industry



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The above does not include companies with less than 50 employees or less than ¥30 million in paid-up capital or investment fund.
2. Cumulative figures were obtained by calculating the distribution of labor productivities (value added per worker) for each ¥100,000/worker and obtaining the centralized moving average (for five divisions).

A comparison of SMEs with productivity levels above the average of large enterprises and other SMEs (Fig. 1-3-15) reveals that their capital investment, in particular, surpasses the average of other SMEs. They also display similarly high information and communications fees, capital equipment ratios, and high net sales, and their labor cost per employee is more than double that of other SMEs. At the same time, however, capital productivity is higher in enterprises with low labor productivity than those with high labor productivity. Thus, while high capital equipment ratio and capital investment were characteristic of SMEs with high labor productivity in the retail trade industry, the influence of capital productivity is not evident in the retail trade industry.

Fig. 1-3-15 Characteristics of SMEs with high productivity in the retail trade industry (average)

	Composition ratio (%)	Capital (¥million)	No. of employees (people)	Corporate age (years)	Net sales (¥million)	Capital investment (¥million)	Information processing and communication fee (¥million)	Labor cost per employee (¥million)	Capital equipment ratio (¥million/ worker)	Capital productivity (¥million)
SMEs with higher productivities than the average of large enterprises (n=383)	25.9	43.0	224.3	45.0	11,638	338.6	34.6	5.1	26.7	575.7
SMEs with lower productivities than the average of large enterprises (n=1095)	74.1	42.2	350.0	44.1	8,112	97.8	17.4	2.4	15.2	1,451.4
SME retail trade industry as a whole (n=1478)	100	42.5	306.0	44.4	9,345	182.0	23.4	3.7	19.2	954.4

Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.

The productivity of SMEs in the retail trade industry cannot be said to be high compared to other industries, but the retail trade industry has the highest ratio of SMEs with labor productivity levels that surpass the average of large enterprises[25]. This high productivity suggests that a virtuous cycle is in motion, whereby active capital investment and IT promotion initiatives are made, and labor cost per employee is increased.

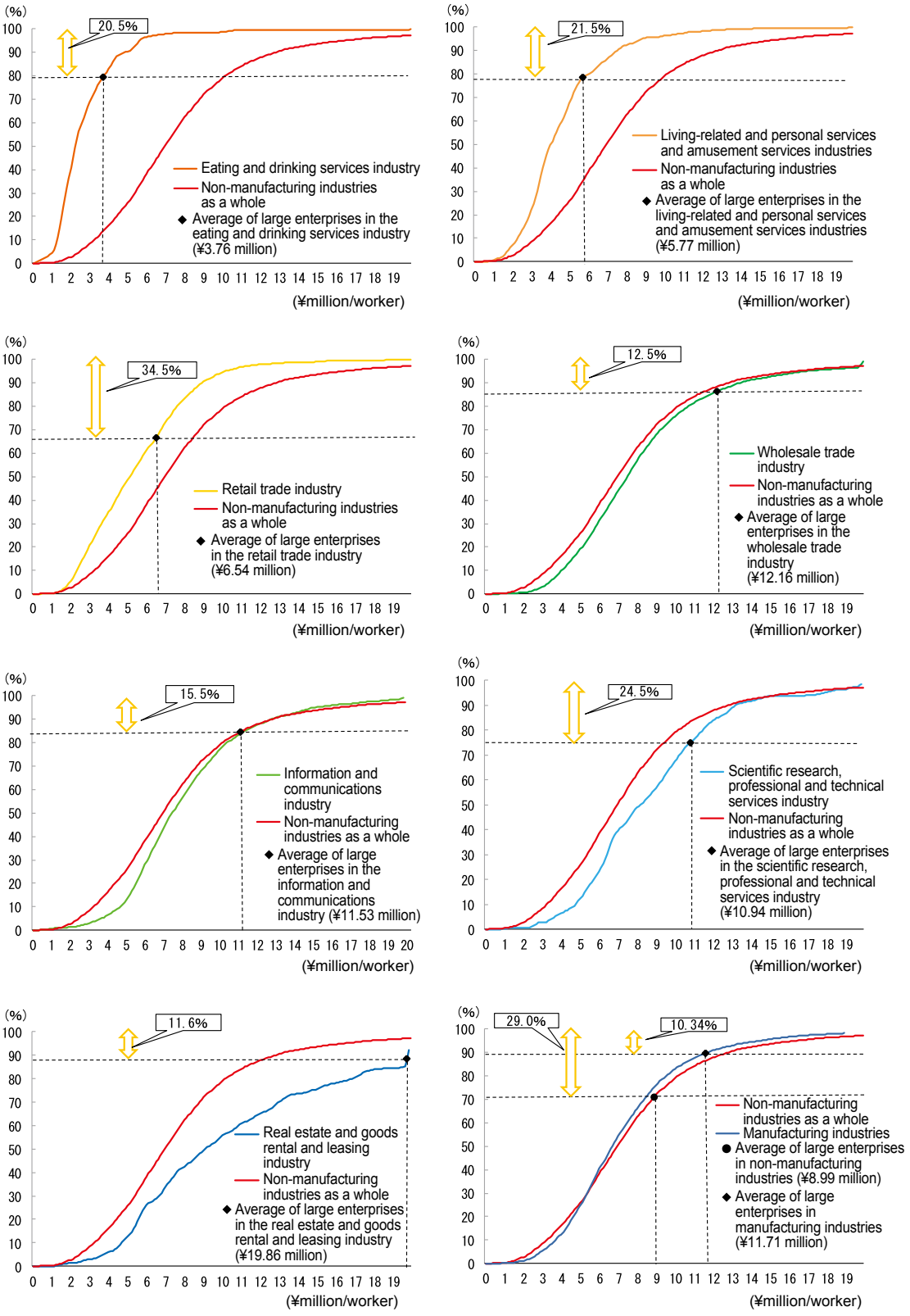
3. Comparison with large enterprises

With regard to other industries, Fig. 1-3-16 shows a comparison of the cumulative distribution of the labor productivity of SMEs by industry and the average labor productivity of large enterprises also by industry. In all industries, the productivity level of approximately 10% to 30% of SMEs surpasses the average of large enterprises in the same industry, indicating their engagement in corporate activities that transcend any disparity in productivity[26] by enterprise size.

In a comparison of averages only, SMEs fall below the level of large enterprises, but an examination of distribution reveals that there is a certain group of SMEs in all industries whose productivity is higher than that of large enterprises.

25) See Fig. 1-3-16 for a comparison with other industries.
26) For details on the disparity of real labor productivity by enterprise size, see Part I Chapter 3 Section 4 of the *2014 White Paper on Small and Medium Enterprises*.

Fig. 1-3-16 Distribution of the SME labor productivity and comparisons with the average labor productivity of large enterprises



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The above graphs do not include companies with less than 50 employees or less than ¥30 million in paid-up capital or investment fund.
2. Data has been leveled for industries for which few samples were obtained.

Section 4 Summary

In this chapter, we examined SME productivity by industry through various indicators.

As a result, it was found that differences in the properties of products and services handled and differences in capital equipment ratio affect indicators of productivity. We thus renewed our awareness that any discussion about productivity must be based on such characteristic differences of each industry.

Furthermore, when SMEs and large enterprises were compared against each other, the average labor productivity of SMEs was lower than that of large enterprises in all industries, but the distribution of labor productivity by industry revealed that a certain ratio (10 – 30%) of SMEs had an average labor productivity that surpassed that of large enterprises in the same industry. When the characteristics of such SMEs with high labor productivity were analyzed, it was found that these SMEs displayed higher levels of capital investment and capital equipment ratio than SMEs in the same industry whose productivity was lower than that of large enterprises. Even in industries with lower capital equipment ratio compared to other industries, such as the living-related and personal services and amusement services industries, there existed SMEs that make active capital investments and have high labor productivity.

Discussions of productivity frequently focus on the consolidation of large enterprises, but when considering the presence of SMEs with a higher productivity than large enterprises and the fact that SMEs account for roughly 70% of total employment, focus should also be placed on increasing the number of such SMEs, as we have discussed in this chapter.

Even amid strong labor supply constraints, there are many SMEs that maintain high profitability. It is important to further build up this layer of SMEs with "earning power" and thereby increase the value added of Japan as a whole.

Based on this awareness, Part II will analyze the activities of SMEs with "earning power," in reference to specific corporate initiatives.

Case 1-3-1 Ohkushi Corporation (Hairdressing Salons)

A business that has been successful in boosting its rate of repeat business and increasing its sales through the introduction of information technology

This chapter has focused on the productivity of SMEs, and conducted separate analyses by industry. The results of these analyses indicated that the service industry, in particular eating and drinking services and living-related and personal services, displayed a lower level of labor productivity than other industries (See Figs. 1-3-3 and 7).

What can small and medium-sized service companies do in relation to this situation?

Ohkushi Corporation (employees: 111; capital: ¥40 million), based in Chiba City, Chiba Prefecture, a company which operates 39 hairdressing salons (as of February 2016), has succeeded in realizing an 85% rate of repeat business and in increasing its scale and its volume of sales on an annual basis, against the background of a stagnation in sales at other businesses providing living-related and personal services resulting from Japan's population decline (see Fig. Case 1-3-1 (1)). The collection of data using IT is a key factor in this success.

Company President Tetsufumi Ohkushi took over his father's business at the age of 29 in 1997. Making use of the experience he had gained as a part-time worker in a convenience store during his student days, in 1994 Mr. Ohkushi introduced a POS system to the salons. In the world of hairdressing, salon proprietors tend to manage their businesses based on intuition, and at that time employee evaluation was also based on intuition. However, the collection of detailed data via the POS system showed that some employees were being incorrectly evaluated.

The POS system not only collected data on sales for each member of staff, but also compiled a variety of other data, including the age, sex, and style of cut of each customer. In addition to basic data such as the rate of repeat business for the salon as a whole and the rate of repeat business for each member of staff, the system has made it possible to obtain a range of data, for example, the increase in the rate of repeat business in relation to which specific type of cut was provided to which specific customer by which specific member of staff. This data is reflected in the evaluation and training of employees. Employees receive an objective assessment based on the collected data once a month, when they receive their pay statement, which assists in improving their skills.

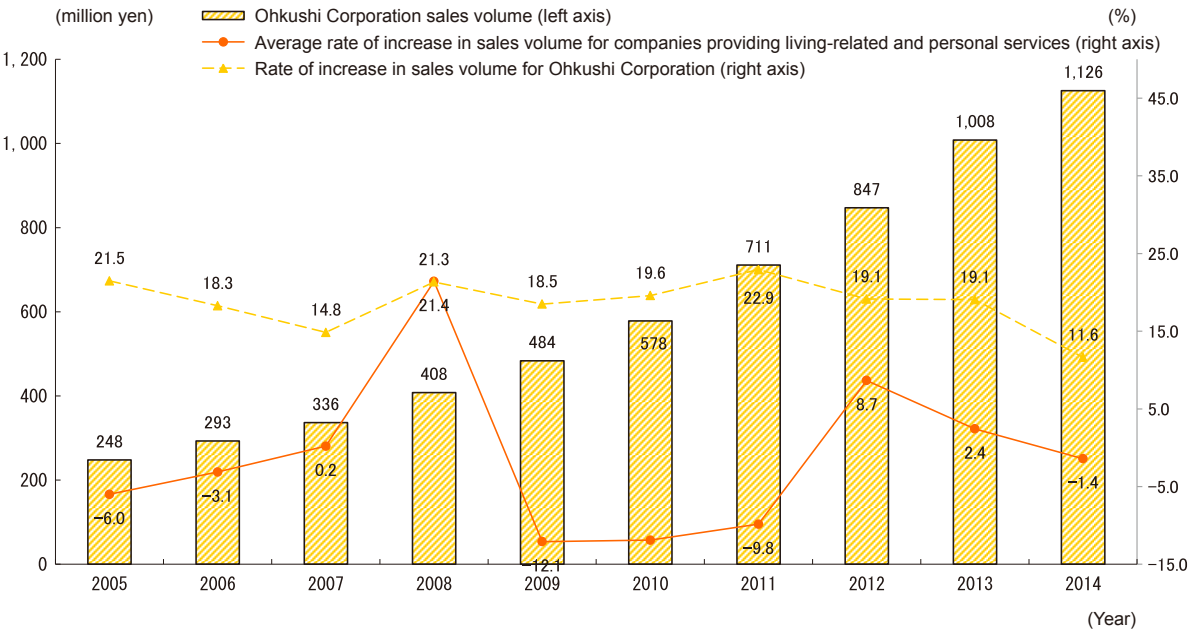
At the same time, Mr. Ohkushi takes care to ensure that these numbers do not hang over his employees' heads. By sharing the company philosophy with all employees and engaging in detailed employee education, he is creating a company in which data is not a means of finding fault, but is rather a resource that can be used effectively by everyone. In addition, the minutes of management meetings are made available to all employees, the company offers a full range of social insurance (health insurance, pension, etc.), which is rare in the world of hairdressing, and workplaces are airy and pleasant to work in. As a result, the company's employee retention rate is very high, standing at 96.38% in 2014. In industries offering personal services such as the hairdressing industry, the level of service offered by each individual employee is directly related to sales, but training programs and other forms of employee education take time and money. Ohkushi Corporation's high employee retention rate can be seen as a factor making it possible for the company to invest time and money in employee training and increase its sales.

By combining information technology and investment in human resources, Ohkushi Corporation has succeeded in realizing a high rate of growth in its sales. Even in the face-to-face world of the service industry, the introduction of IT and the use of collected data to establish objective targets and set evaluative indicators makes it possible to comprehensively reduce costs other than personnel expenses and at the same time to gain a clear understanding of the issues of every employee and every store, and ultimately to realize focused employee education and ongoing improvements.

Ohkushi Corporation provides an excellent example of the realization of increased sales through the introduction of IT in a company offering face-to-face services.

An Ohkushi Corporation hairdressing salon

Fig. Case 1-3-1 (1) Trends in sales volume and rate of increase in sales volume (year-on-year)



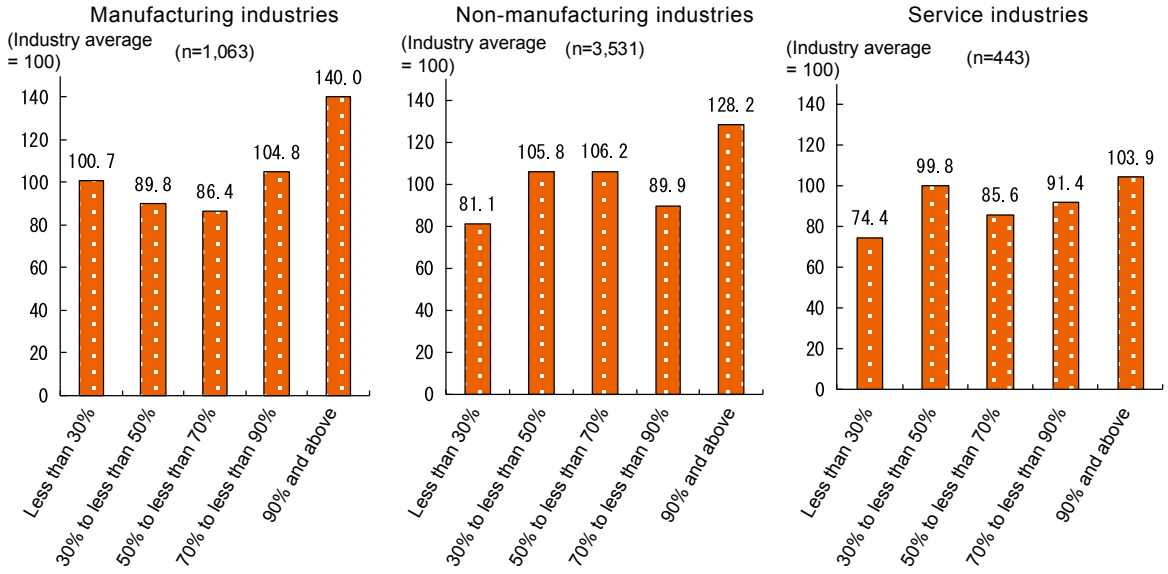
Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Note: Sales volume data for Ohkushi Corporation provided by Ohkushi Corporation.

Column 1-3-1 Employee retention rate

Here, let us analyze employee retention rate as an indicator that is deeply related to productivity. In the previous case example, we saw that in industries where the skill of each employee is important, the higher the retention rate of employees in a company, the higher the productivity. Granted, it could be said that retention rate tends to be high in enterprises with high productivity because they are able to pay high wages, but responses to a questionnaire survey revealed the result shown in Fig. Column 1-3-1 (1).

Fig. Column 1-3-1 (1) shows a comparison of labor productivity levels by employee retention rate[27] using the results of a questionnaire conducted on SMEs in Japan[28] and Teikoku Databank, Ltd.'s database of enterprises. When average labor productivity by industry is given a value of 100, enterprises that said they have an employee retention rate of over 90% had the highest labor productivity level in the manufacturing, non-manufacturing and service[29] industries alike. In the non-manufacturing industries, the labor productivity of enterprises that said they have an employee retention rate of less than 30% was approximately 20% lower than the industrial average.

Fig. Column 1-3-1 (1) Productivity levels by the five-year retention rate of new employees (by industry, SMEs)



Sources: Recompiled from Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency; Teikoku Databank, Ltd., *Corporate Financial Database (COSMOS1)* and *Corporate Profile Database (COSMOS2)*.

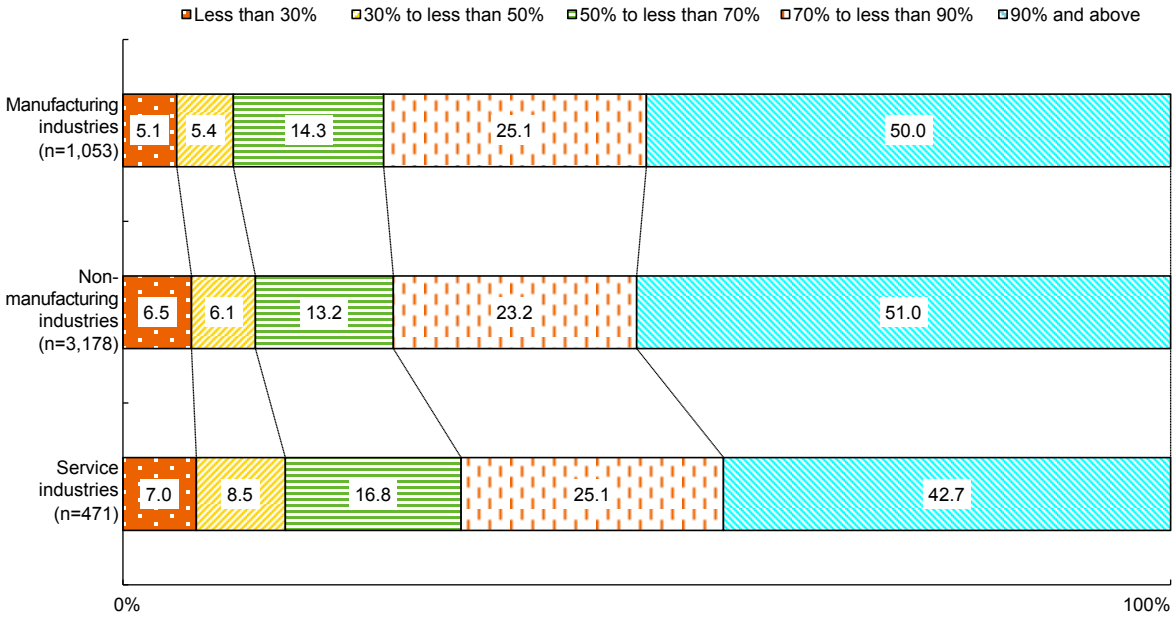
Notes:
1. Service industries refer to industries that fall under large categories L to R of the Japan Standard Industrial Classification (JSIC) (rev. 13).
2. Here, the definition of SMEs is pursuant to the Small and Medium-sized Enterprise Basic Act.
3. Labor productivity = value added (net operating profit + personnel costs + taxes and public impositions + rent of movable property and real estate) / total number of employees.

On the other hand, when examining the five-year retention rate of new employees in the manufacturing, non-manufacturing and service industries, the ratio of enterprises that said they have a retention rate of "less than 30%" was the largest in the service industries and surpassed the manufacturing and non-manufacturing industries. At the same time, the ratio of enterprises that said they have a retention rate of "90% and above" was the lowest. (Fig. Column 1-3-1 (2)).

Improving employee retention rate is important to increasing productivity in the manufacturing, non-manufacturing, and service industries alike, but employee retention rate was found to be relatively low in the service industries. Thus, efforts to improve employee retention rate is sought particularly in the service industries.

27) The figure represents the labor productivity of enterprises in 2015. As it shows a single-year comparison, nominal labor productivity levels are calculated and compared without substantiation.
28) For details, see footnote 1 in Part II, Chapter 1.
29) Service industries are included within non-manufacturing industries.

Fig. Column 1-3-1 (2) Five-year retention rate of new employees (by industry, SMEs)



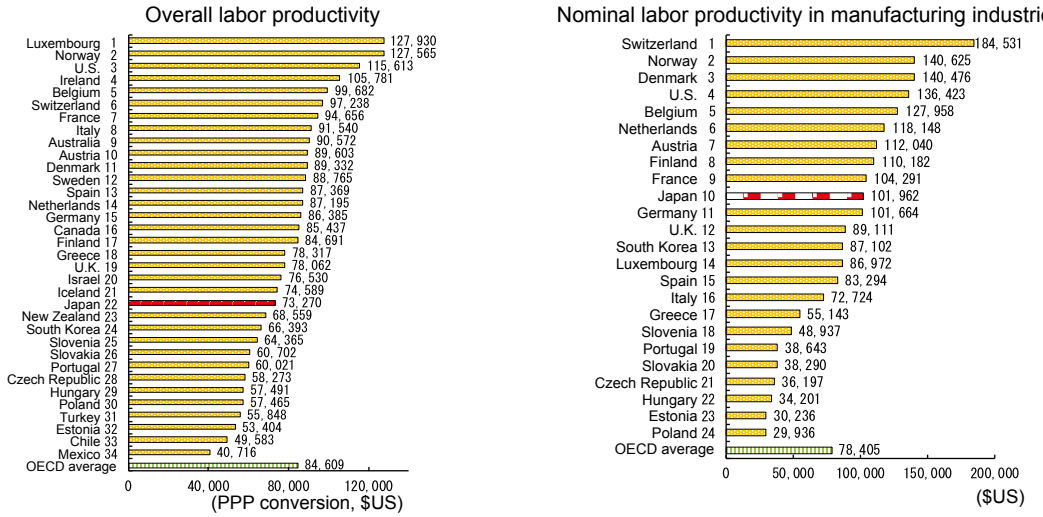
Source: Recompiled from Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Notes:
1. Service industries refer to industries that fall under large categories L to R of the Japan Standard Industrial Classification (JSIC) (rev. 13).
2. Here, the definition of SMEs is pursuant to the Small and Medium-sized Enterprise Basic Act.

Column 1-3-2 International comparison of productivity

In this chapter, we compared the productivity of enterprises in Japan by industry and by enterprise size. Now, let us see where the productivity level of Japanese enterprises lies in relation to other countries. Japan's productivity is said to be low compared to other countries, and ranked 22nd among 34 OECD member countries in 2013 (Fig. Column 1-3-2 (1) left). However, with respect to the manufacturing industries, Japan ranked 10th (Fig. Column 1-3-2 (1) right). This result thus highlights the need to increase productivity in the service industries.

Fig. Column 1-3-2 (1) Labor productivity of OECD member countries (2013)



Source: Japan Productivity Center, *Productivity Trends in Japan* 2014, 2015.

Notes:
1. Overall labor productivity is calculated as GDP / number of employees and converted to US dollars using purchasing power parity (PPP).
2. Labor productivity in manufacturing industries has been converted using the moving average of exchange rates two years before and after.
3. The necessary data for the above have been supplemented mainly by OECD statistical data and data from the statistics bureau in each country.

International comparisons of productivity levels in the service industries have hardly been made, however, because the cost level of services completely differ between the industrialized countries and developing countries, and there have been no valid means for adjusting for the difference[30]. Therefore, we next narrowed our focus to major industrialized countries (U.K., France, and Germany) that are close in rank to Japan in Fig. Column 1-3-2 (1), and compared the changes in labor productivity levels by industry and by enterprise size[31].

In the same figure, a look at changes in labor productivity per hour in SMEs shows a general increasing trend in all countries, indicating that initiatives are being taken by enterprises in each country to efficiently increase value added. However, the labor productivity per hour in SMEs in Japan is lower than other countries, with the exception of the eating and drinking services and accommodations industries. In fact, in the manufacturing, transport, and information and communications industries, there was a difference of more than $US5 per hour using PPP conversion.

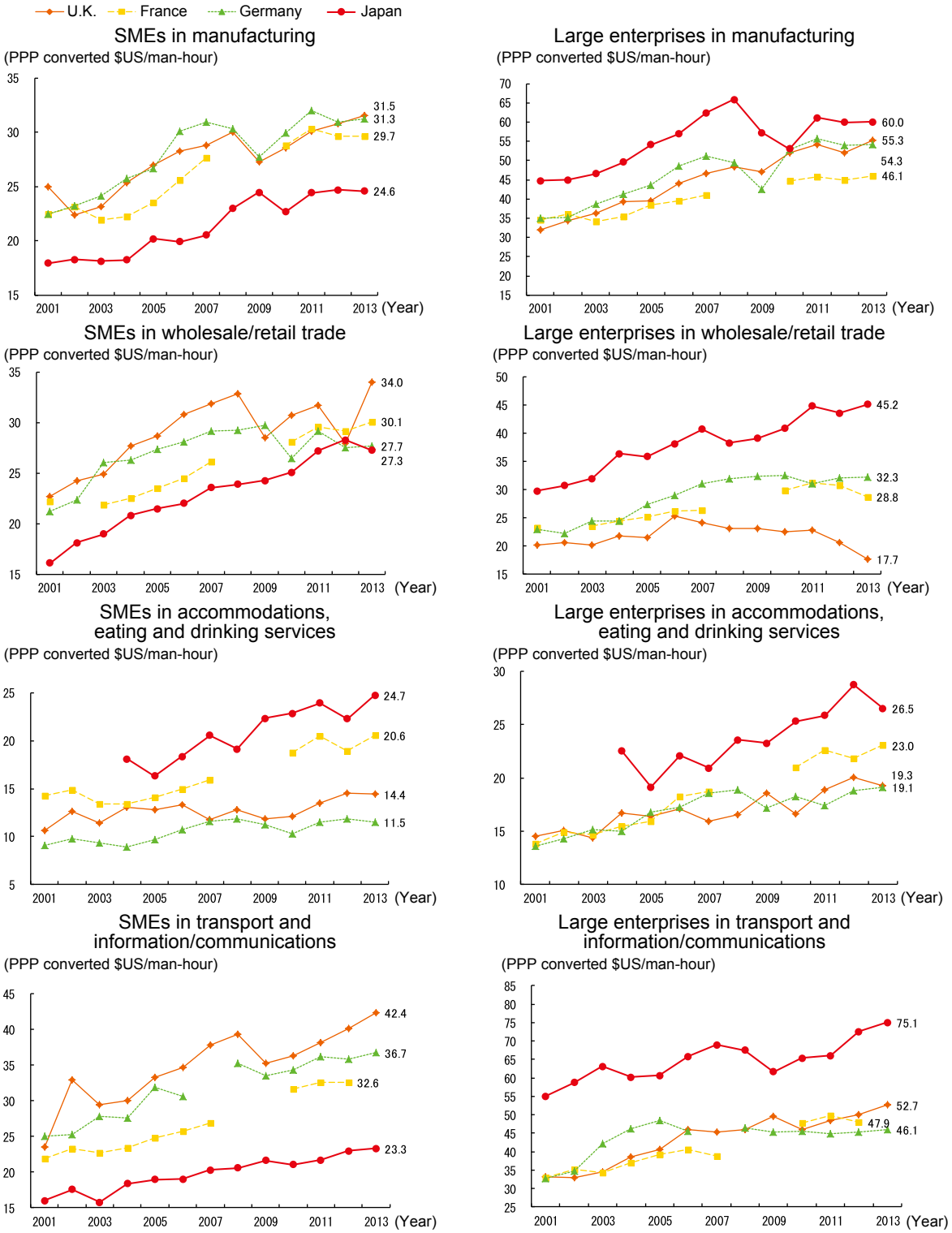
Similarly, a comparison of changes in the labor productivity of large enterprises shows an overall increasing trend in labor productivity per hour in all countries, as with SMEs, with the exclusion of the wholesale and retail trade industries in the U.K. Additionally, the labor productivity level per hour of large enterprises in Japan trends at a higher level compared to other countries in all industries. Levels in the wholesale and retail trade industries and the transport, information and communications industries, in particular, largely surpass the level of other countries, such that enterprises in these industries are thought to be increasing labor productivity in Japan as a whole.

While an analysis of changes in productivity level by enterprise size reveals the above characteristics and indicates that the productivity of large enterprises is maintaining a high level and driving productivity in Japan as a whole, the productivity level of SMEs is lower than other countries with the exception of the eating and drinking services and accommodations industries, and poses an issue for the future.

30) Purchasing power parity (PPP) is used for making international comparisons of productivity in countries as a whole, and is a national-level (GDP) indicator. There are views that it is not appropriate for comparing productivity by industry, as there is the issue that even the same products and services differ in their quality according to country (and that differences in quality between industrialized countries and developing countries cannot be taken into consideration). For the manufacturing industries, international comparisons are made using the moving average of exchange rates, based on the idea that costs readily tend to be adjusted to a certain extent by exchange rate fluctuations.

31) Labor productivity = value added / total number of employees. However, value added is calculated as gross value added, including depreciation cost (because data presented by EUROSTAT is restricted to gross value added, which includes depreciation cost, the calculation method before the previous section shall be revised). Furthermore, only four comparable industries from among the industrial categories presented in EUROSTAT (manufacturing, wholesale and retail trade, eating and drinking services and accommodations, transport and communications industries) have been analyzed.

Fig. Column 1-3-2 (2) International comparison of labor productivity per working hour (by enterprise size, by industry)



Sources: U.K., France, Germany: Compiled by the SME Agency using EUROSTAT.
Japan: Compiled by the SME Agency using MOF, *Financial Statements Statistics of Corporations by Industry, Annually*, and MHLW, *Monthly Labour Survey*.

Notes:
1. For U.K., France, and Germany, SMEs are defined as enterprises with less than 250 employees. For Japan, SMEs are defined as enterprises with less than ¥100 million in capital.
2. Changes in prices and differences in exchange rates were made comparable by leveling them using purchasing power parities for GDP provided by OECD statistics.

Part II

The earning power of SMEs

Chapter 1

Factors that determine the earning power of SMEs

In Part I we saw that, while the Japanese economy is showing signs of a gradual recovery and SMEs are enjoying increasing earnings, efforts need to focus on investing in growth and other areas because of issues that include stagnating sales, a lack of manpower, and increasingly obsolete equipment. We also looked at how there are SMEs with the power to outearn large companies, regardless of the industry.

Part II will look at the characteristics of efforts being made by SMEs with earning power and identify issues SMEs will face going forward. This chapter will review the environment surrounding SMEs and preview areas that will be analyzed in Chapter 2 and beyond.

Section 1 The environment for SMEs

What are the issues that SMEs face in strengthening their earning power? This section will first explore recurring profit margin as an indicator of companies' earning power and, through the elements of the formula for its calculation, examine issues on the road to strengthening earning power.

Fig. 2-1-1 shows the necessity of either expanding sales or cutting costs if a company is to improve its recurring profit margin. Critical to expanding sales is cultivating new demand and further enhancing added value for products and services, while cutting costs requires reducing fixed costs, pursuing economies of scale, improving terms of trade, and boosting productivity[1].

The economic environment surrounding SMEs is changing, a subject that will be covered in more detail later. The most significant of these is the weakening of the traditional transaction structure that has seen SMEs mostly contracting for large enterprises, the contraction of domestic demand due to a growing number of elderly and a declining birthrate, and a lack of workers. SMEs will need to confront these issues if they are going to strengthen their earning power. On the basis of such understanding, this section will examine social and economic structures surrounding SMEs and consider issues that need to be addressed to expand sales and reduce costs.

Fig. 2-1-1 Formula for calculating recurring profit margin

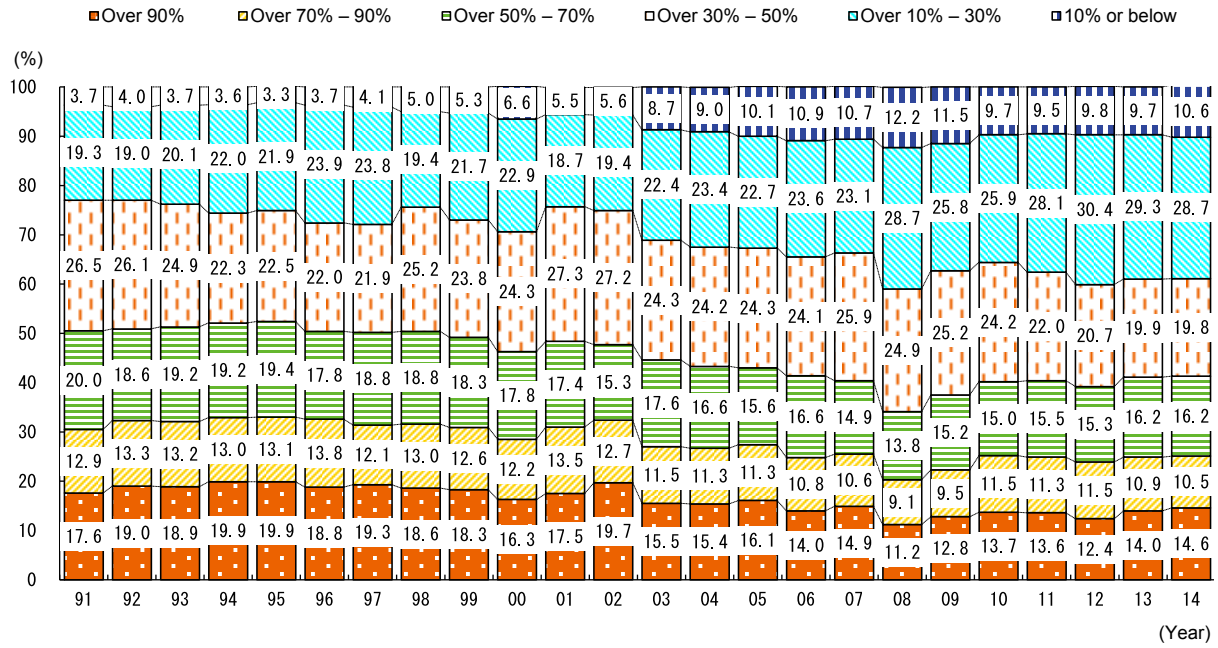
$$\text{Earning power (recurring profit margin)} = \frac{\text{Ordinary profit}}{\text{Sales}} = \frac{\text{Sales} - \text{Costs (fixed costs, variable costs)}}{\text{Sales}}$$

Transformation of the transaction structure surrounding SMEs

Let us first examine the transaction structure surrounding SMEs. Fig. 2-1-2 shows subcontractor enterprises' dependence on principal contractors in the subcontracting relationship. Here we see that in 1991 roughly 80% of businesses had an over 30% dependency on principal contractors. This percentage has dropped over the years, sinking to around 60% in 2014. Meanwhile, there has been a rise in the number of businesses with dependencies between over 10% and 30% and those with dependencies 10% or below.

1) For more details, see pgs. 38–40 of the *2015 White Paper on Small and Medium Enterprises in Japan*.

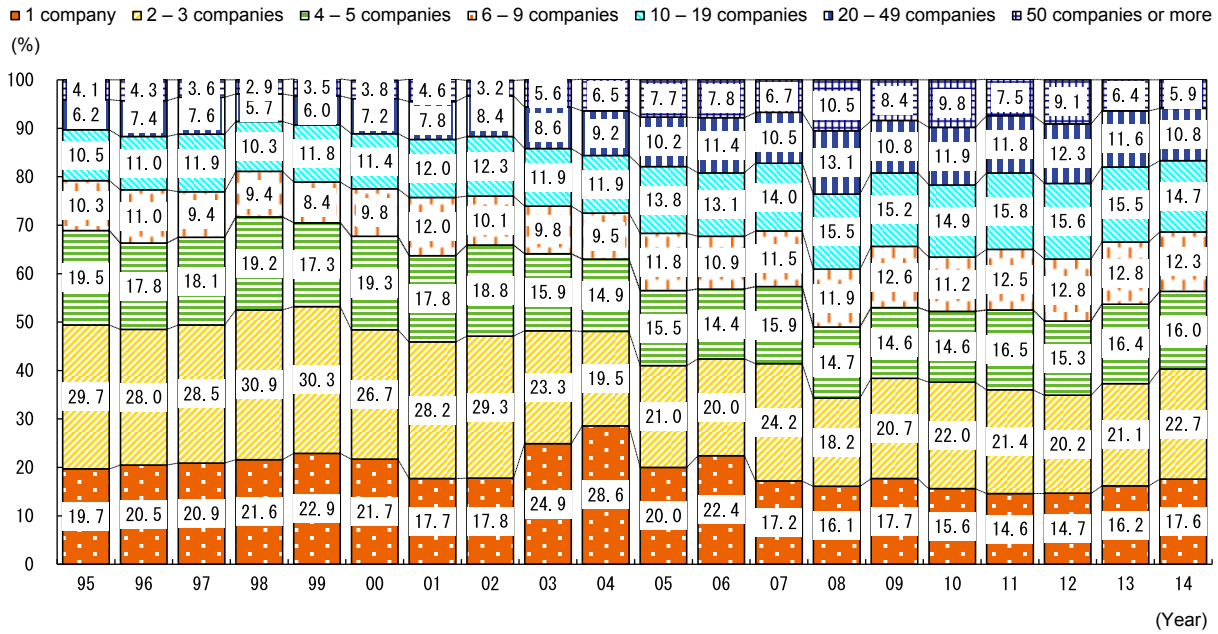
Fig. 2-1-2 Dependency on principal contractors with the highest transaction volumes



Source: SME Agency, *Survey on Improvement of Order System and Other Transaction Conditions*.

Next, we examine dependency based on principal contractor numbers. A look at Fig. 2-1-3 shows that, as of 1995, around 70% of SMEs were doing regular business with 5 or fewer principal contractors, and that this percentage dropped to less than 60% in 2014. On the other hand, some 10% of SMEs were doing business with 20 or more principal contractors in 1995, a proportion that increased to around 17% in 2015. From these results, we can see that subcontractor enterprises' rates of dependency on principal contractors are dropping and that there is a decreasing dependency on principal contractors with the highest transaction volume. As we can see, things are changing with respect to the traditionally fixed nature of business relations that have seen SMEs primarily subcontracting for large enterprises.

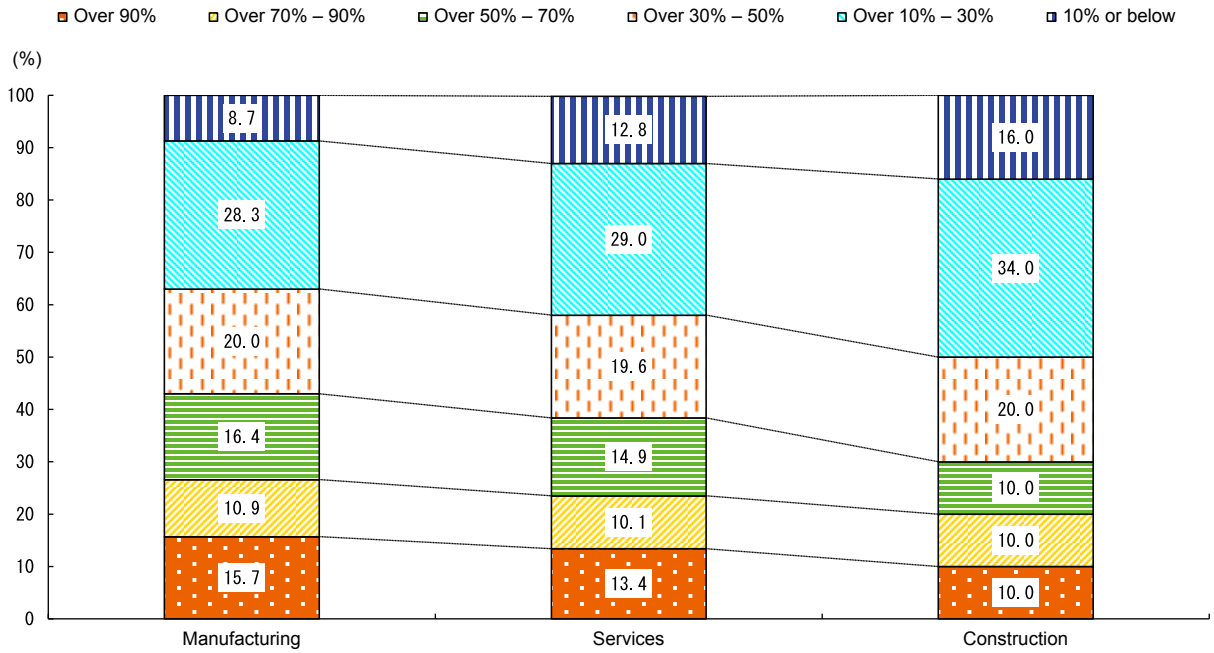
Fig. 2-1-3 Numbers of principal contractors with which subcontractor enterprises are doing regular business



Source: SME Agency, *Survey on Improvement of Order System and Other Transaction Conditions*.

Lastly, we examine the dependency on principal contractors based on industry (Fig. 2-1-4). Based on the comparison among the manufacturing, services, and construction industries shown in Fig. 2-1-4, we can see there is a high dependency on principal contractors with the highest transaction volumes in the manufacturing industry. In the services and construction industries, however, more than 40% of SMEs have a dependency of less than 30% on principle contractors with the highest transaction volumes, which suggests these enterprises do business with a greater variety of partners.

Fig. 2-1-4 Dependency on principal contractors with the highest transaction volumes



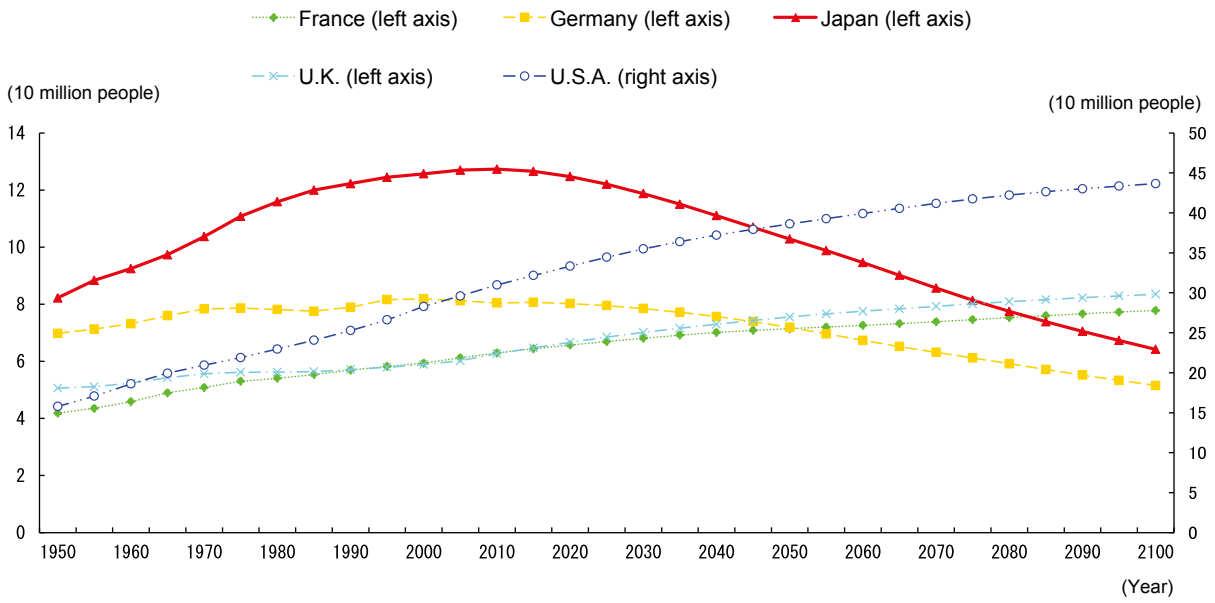
Source: SME Agency, *Survey on Improvement of Order System and Other Transaction Conditions*.

Population decline, declining birth rates, and population aging

Next, let us examine trends concerning population as part of the environment surrounding SMEs. Fig. 2-1-5 shows population data (figures and estimates) for major countries.

Here we see that population is projected to increase in the U.S.A., U.K., and France and to decrease in Japan and Germany. The main factors behind the population increases in the U.S.A., U.K., and France are the increasing numbers of immigrants and the relatively high total fertility rate in these regions. In Germany and Japan, low fertility rates are behind projections for population decline.

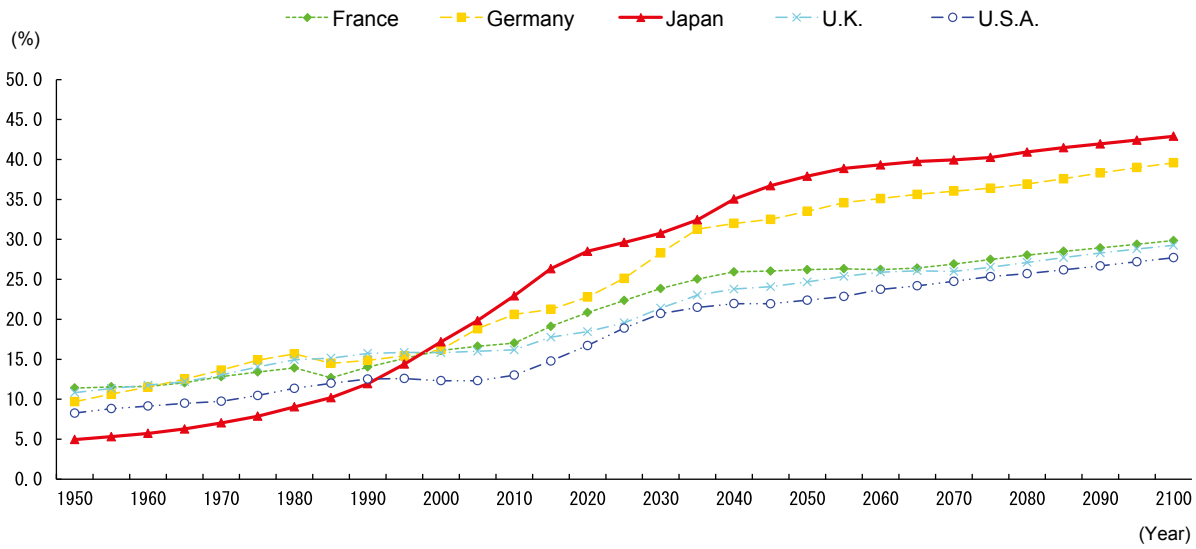
Fig. 2-1-5 Populations of major countries (figures and estimates)



Source: United Nations, *World Population Prospects, the 2015 Revision*.
Notes: 1. Actual figures are given for 2015 and prior and projections (static estimates) are given for 2020 and beyond.
2. Static estimates: projections that assume the total fertility rate from 2010 to 2015 will continue at the same level

Fig. 2-1-6 shows proportions of elderly people (figures and estimates) in major countries. According to the figure, Japan had the lowest proportion of elderly people prior to 1990 but now has the highest such proportion, with this trend is expected to continue. This suggests Japan's population is graying. A comparison with other countries shows that (see Fig. 2-1-5), in terms of populations projected to see further aging, Germany is behind Japan, which is projected to see further population decline. U.S.A., U.K., and France are projected to see less graying relatively, which is projected to see further population increase.

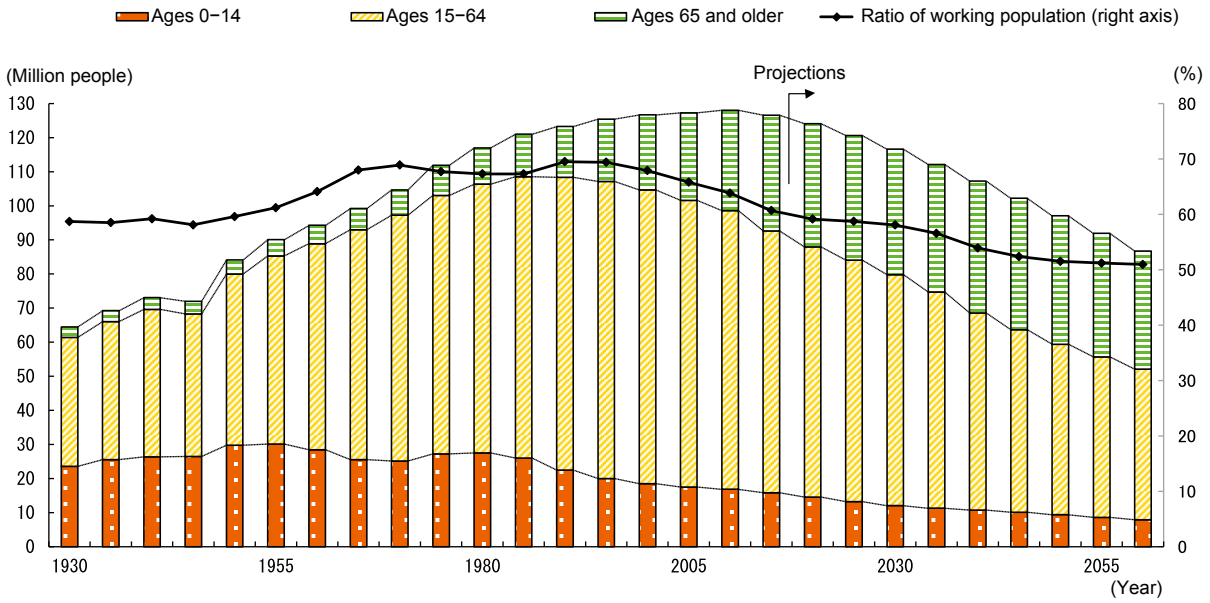
Fig. 2-1-6 Proportions of elderly people (figures and estimates) in major countries



Source: United Nations, *World Population Prospects, the 2015 Revision*.
Notes: 1. Actual figures are given for 2015 and prior and projections (static estimates) are given for 2020 and beyond.
2. Static estimates: projections that assume the total fertility rate from 2010 to 2015 will continue at the same level

Let us next look at total population and age distribution for Japan. As shown in Fig. 1-3-1 (cited earlier), Japan's population continued to increase beginning in 1950, a trend that reversed into a rapid decline starting in 2011. Furthermore, while the youth population and working-age population are on the decline, the elderly population is increasing. These factors are contributing to an increasing rate of overall population aging.

Fig. 1-3-1 (Cited earlier) Future population projections



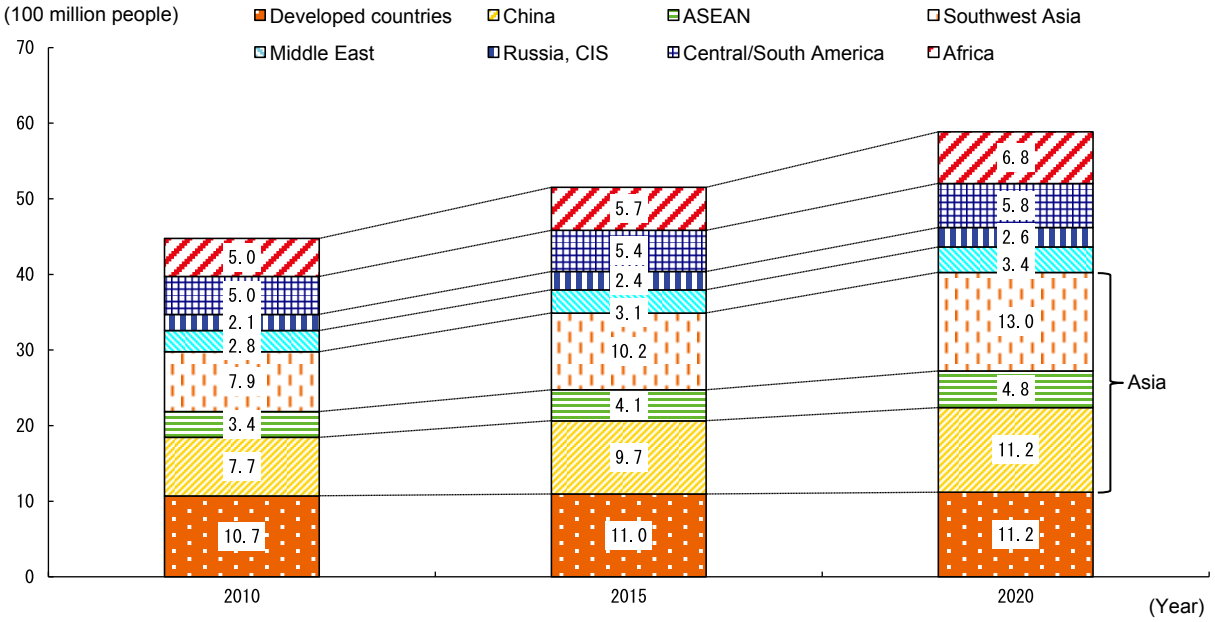
Source: National Institute of Population and Social Security Research, *Population Projections for Japan* (January 2012 projections).
Notes: 1. Future population projections are based on medium fertility (medium mortality) estimates.
2. Working ages are defined as ages 15 to 64.

Trends in overseas demand

The above comparisons of other countries' population trends and proportions of elderly to Japan's has shown that populations are on an upward trend in some major countries but on a downward trend in Japan. We have also seen that Japan has a high proportion of elderly people. In addition, the data on Japan's declining birth rate and working-age population has shown the country to be graying and having increasingly fewer children. A look at changes in business relationships involving SMEs and the kinds of changes seen above regarding population distribution shows a need for SMEs to directly engage with the market and stir up new demand. As one potential solution to expanding sales, the following examines trends concerning overseas demand in the interest of capturing overseas demand.

Fig. 2-1-7 shows future population estimates for the middle and wealthy classes based on region. From this we can see that while the growth of the middle and wealthy class populations have mostly leveled out, populations of these classes are expected to increase in Asia like Southwest Asia as well as China and ASEAN nations. Capturing demand in these nations will be an important element to SMEs strengthening their earning power.

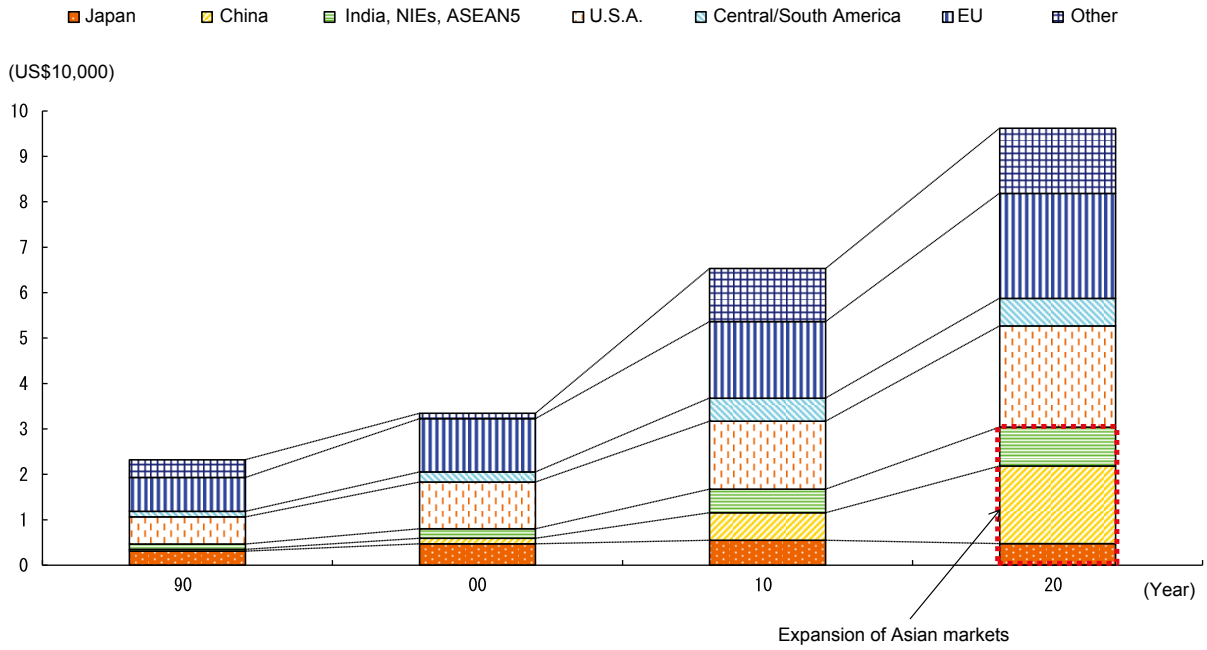
Fig. 2-1-7 Middle and wealthy class populations by region



Source: Prepared by the SME Agency based on METI, *White Paper on International Economy and Trade 2013*.
Notes: 1. Prepared based on *Euromonitor International 2013*; UN, *World Population Prospects, the 2010 Revision*.
2. Household population categorized by household disposable income. Calculated as household ratio for each income group multiplied by population.
3. Household ratios for each income group for 2015 and 2020 are estimates provided by Euromonitor.

Fig. 2-1-8 shows historical real GDP categorized by region. This indicates that Japan's real GDP increased from 1990s to 2000s but growth slowed between 2000s and 2010. Moreover, real GDP is projected to drop overall between 2010 and 2020. The Asian market presents a different picture: although Asia accounted for only a small portion of real GDP globally in the 1990s, it has since grown and is on track to see significant growth until 2020. Similarly, a look at real GDP for the Central and South American region shows growth to have accelerated since 2000 and suggest strong growth until 2020. SMEs will therefore need to capture demand in Asia and other foreign markets.

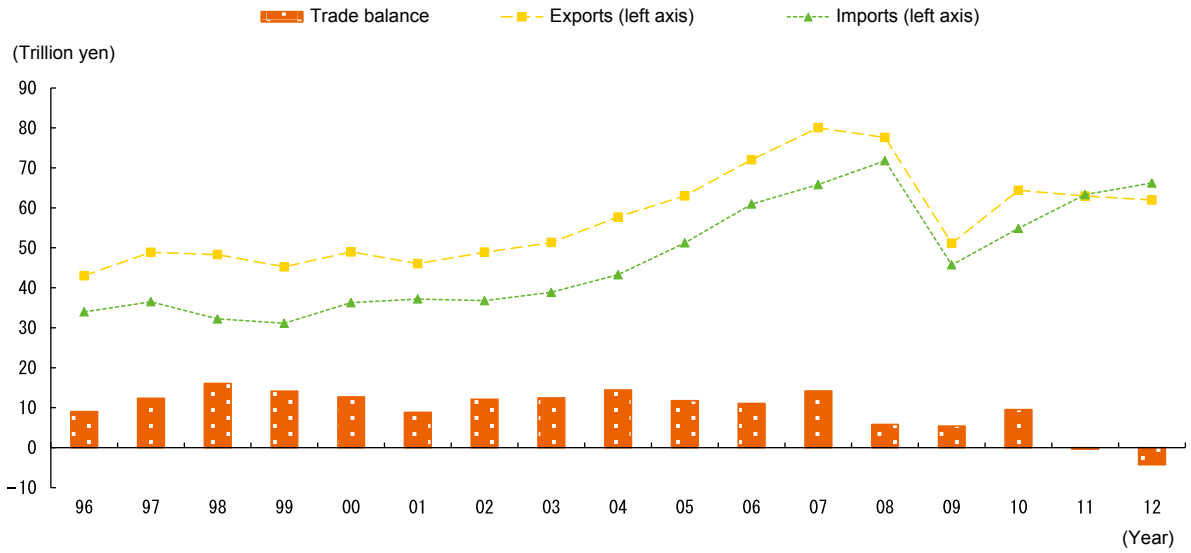
Fig. 2-1-8 Real GDP by region (U.S. dollar equivalent)



Source: IMF, *World Economic Outlook, October 2015*.
Note: NIEs: South Korea, Hong Kong, Taiwan, Singapore; ASEAN5: Indonesia, Thailand, Philippines, Malaysia, Viet Nam

Let us also take a look at Japan's trade balance (Fig. 2-1-9). Japan had a consistent trade surplus between 1996 and 2010, but began running a trade deficit in 2011. While a major contributor to this was increased imports of things such as fossil fuels in the aftermath of the Great East Japan Earthquake, decreased competitiveness of Japanese companies overseas also played a role. Companies need to capture overseas demand, and key to this will be demonstrating the competitiveness in overseas markets.

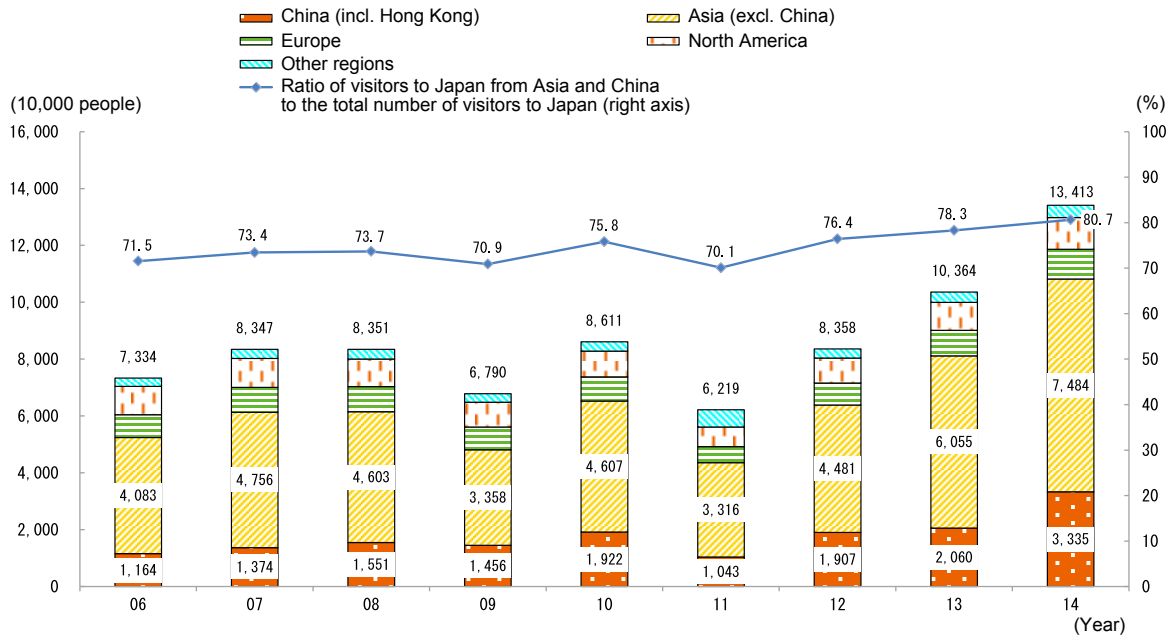
Fig. 2-1-9 Japan's trade balance over time



Source: MOF, *Balance of Payments Statistics*.
Note: Statistics presented are based on the 6th edition of the IMF's *Balance of Payments Manual*.

Let us now look at the importance of capturing overseas demand through tourism. Fig. 2-1-10 shows numbers of overseas visitors to Japan. Here we see that, although there were drops in the number of overseas visitors to Japan in 2009, when the country's economy was impacted by the Lehman crisis, and in 2011, when the Great East Japan Earthquake occurred, numbers have risen every year since. Tourists from China and other Asian countries have accounted for a relatively high proportion of all tourists since 2006, reaching 80% in 2014. This suggests an important goal will be capturing demand from those visiting Japan from China and other Asian countries.

Fig. 2-1-10 Numbers of overseas visitors to Japan

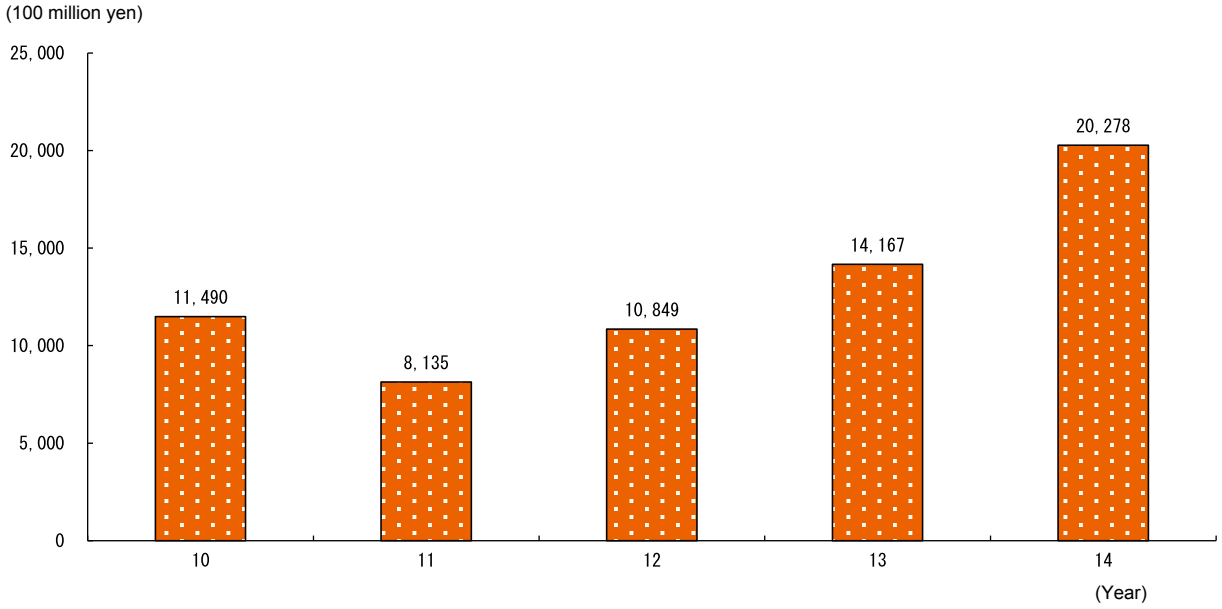


Source: Japan National Tourist Organization (JNTO), *Trend of Overseas Visitors to Japan*.
Note: "Overseas visitors to Japan" refers to the number overseas tourists entering Japan, as calculated by subtracting the number of non-Japanese long-term residents who nominate Japan as their primary country of residence from the number of non-Japanese visitors formally admitted to Japan according to figures compiled by the Ministry of Justice (MOJ) based on nationality .To this figure is then added the number of non-Japanese visitors who temporarily disembark in Japan. Students and residents and their families who enter or re-enter the country are also included as overseas visitors to Japan.

Lastly, Fig. 2-1-11 shows consumption by overseas visitors to Japan. Although consumption by foreign visitors did see a dip as a result of the Great East Japan Earthquake in 2011, we can see that not only have visitor numbers increased (Fig. 2-1-10), consumption has also risen.

This paper has so far looked at trends concerning overseas demand because of the importance of capturing this demand in expanding sales in Japan, whose population continues to drop as its economy contracts. Although myriad investments and resources will be required to capture overseas demand, the single most important thing will be acquiring human resources at this time of population decline. To explore this further, the following pages will focus on human resources and present an overview of human resource trends involving SMEs.

Fig. 2-1-11 Consumption by overseas visitors to Japan

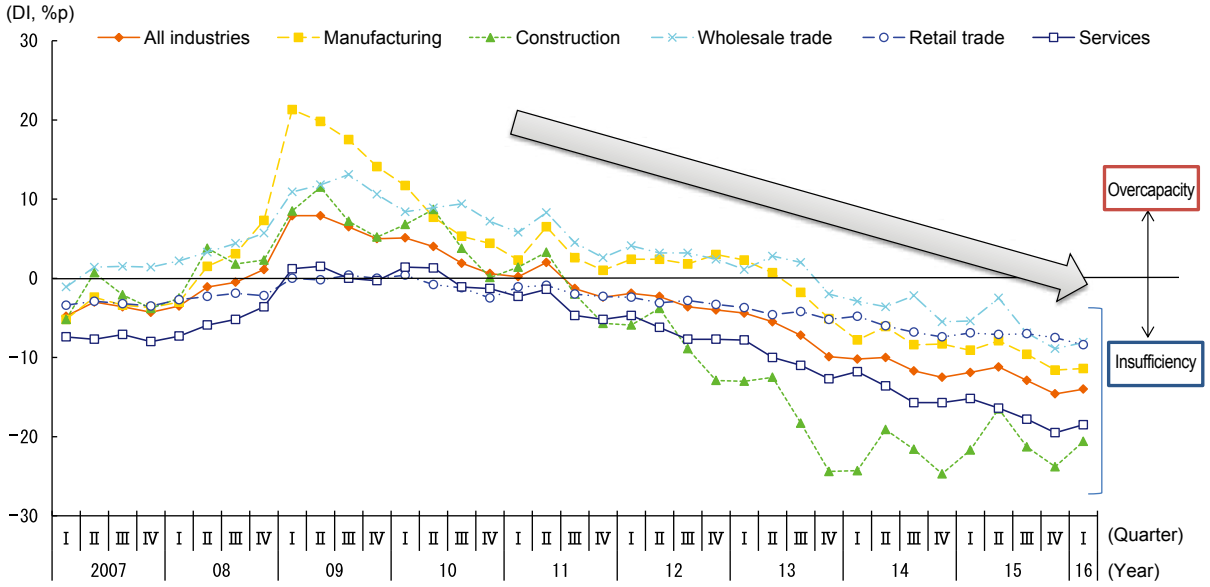


Source: Japan Tourism Agency, *Consumption Trend Survey for Foreigners Visiting Japan*.

Human resource trends involving SMEs

As Japan's population declines, acquiring workers is becoming a major challenge for SMEs. As shown in Fig. 1-2-20 (cited earlier), the feeling that human resources are insufficient is becoming more intense among SMEs, a trend that is especially conspicuous at companies in the services and construction industries. The following pages will take a closer look at the human resources situation in connection with SMEs.

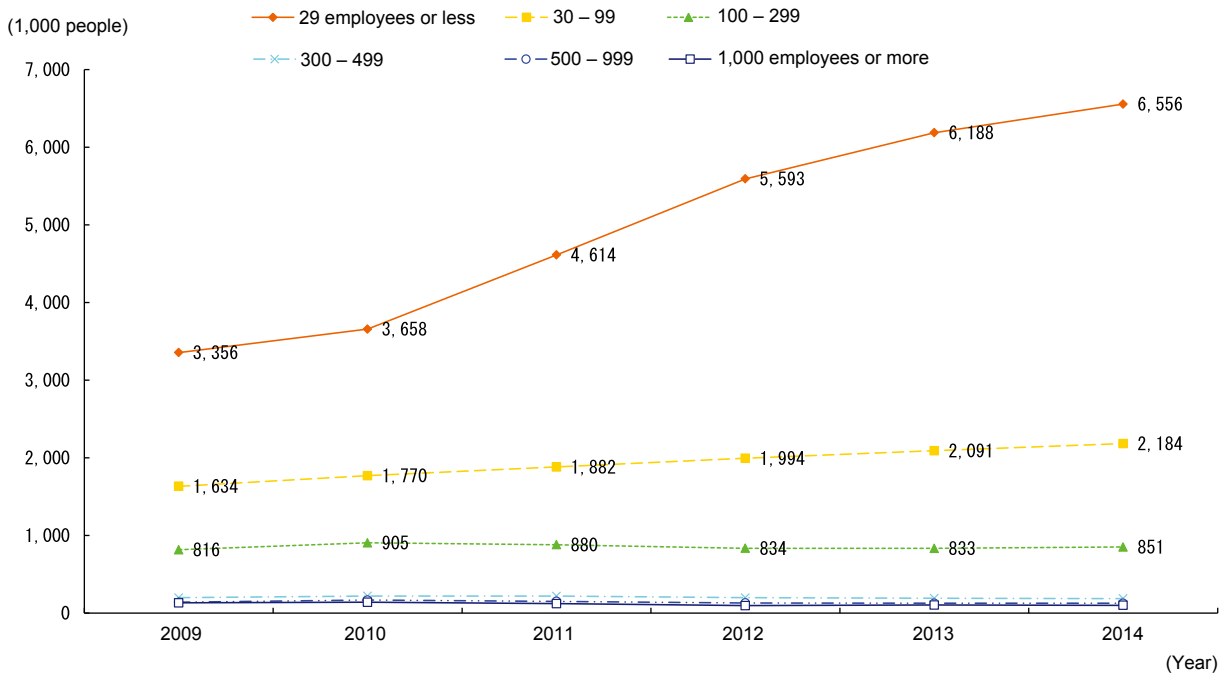
Fig. 1-2-20 (Cited earlier)
Employee overcapacity and insufficiency DI for SMEs (by industry)



Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.
Note: The Employee overcapacity/insufficiency DI is calculated by subtracting the percentage (%) of enterprises that said that have an "insufficiency" of employees from the percentage (%) of enterprises that said they have an "overcapacity" of employees.

Fig. 2-1-12 shows numbers of job offers to applicants categorized by number of employees. While companies with 100 or more employees have seen little fluctuation, those with between 30 and 99 employees have seen increases in job offers to applicants. Particularly notable is the increase in job offers to applicants at micro enterprises with 29 or fewer employees. We saw in Fig. 2-1-12 how feelings that there are not enough employees is intensifying at SMEs. This feeling is strongest at micro enterprises.

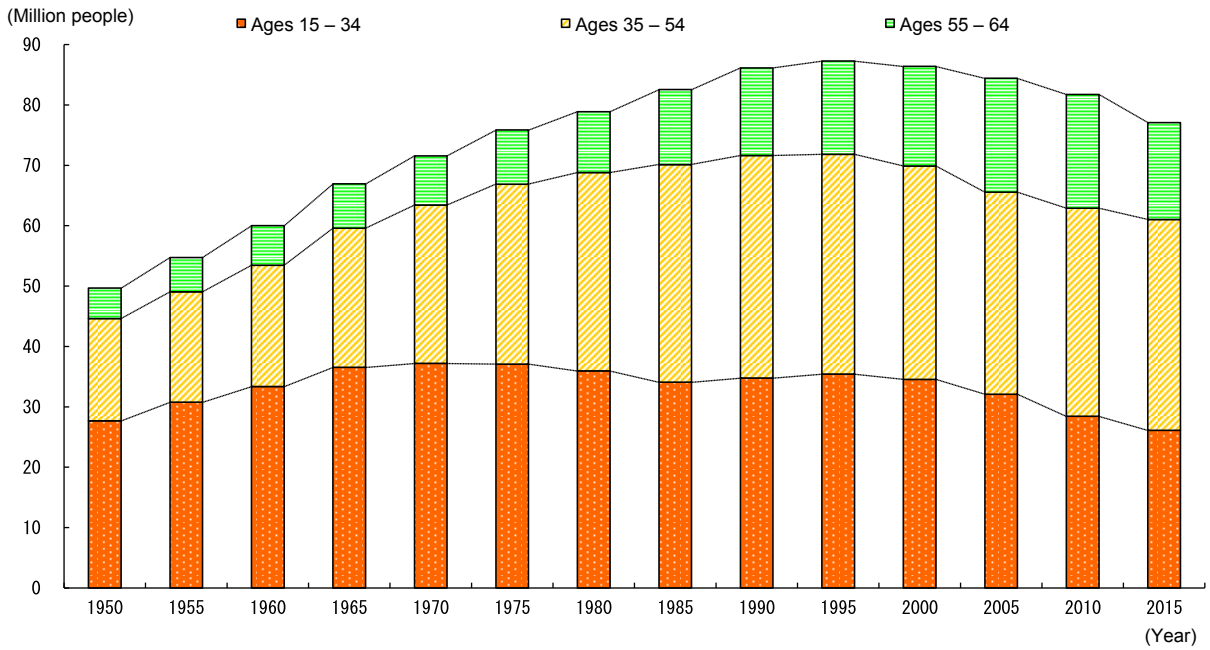
Fig. 2-1-12 Job offers to applicants by number of employees



Source: MHLW, *Employment Referrals for General Workers*.

Next we examine working-age population as a factor behind medium- and long-term human resource insufficiency. Looking at trends concerning working-age population in Fig. 2-1-13, we see that until the mid-1990s the working-age population continued to rise, trending downward thereafter. Breaking down the working-age population by age group shows that the 55–64 group has consistently risen while the 15–34 group has seen a pronounced drop. Previous pages have provided evidence of Japan's graying population, and we can now see that a decline in the working-age population is occurring at the same time.

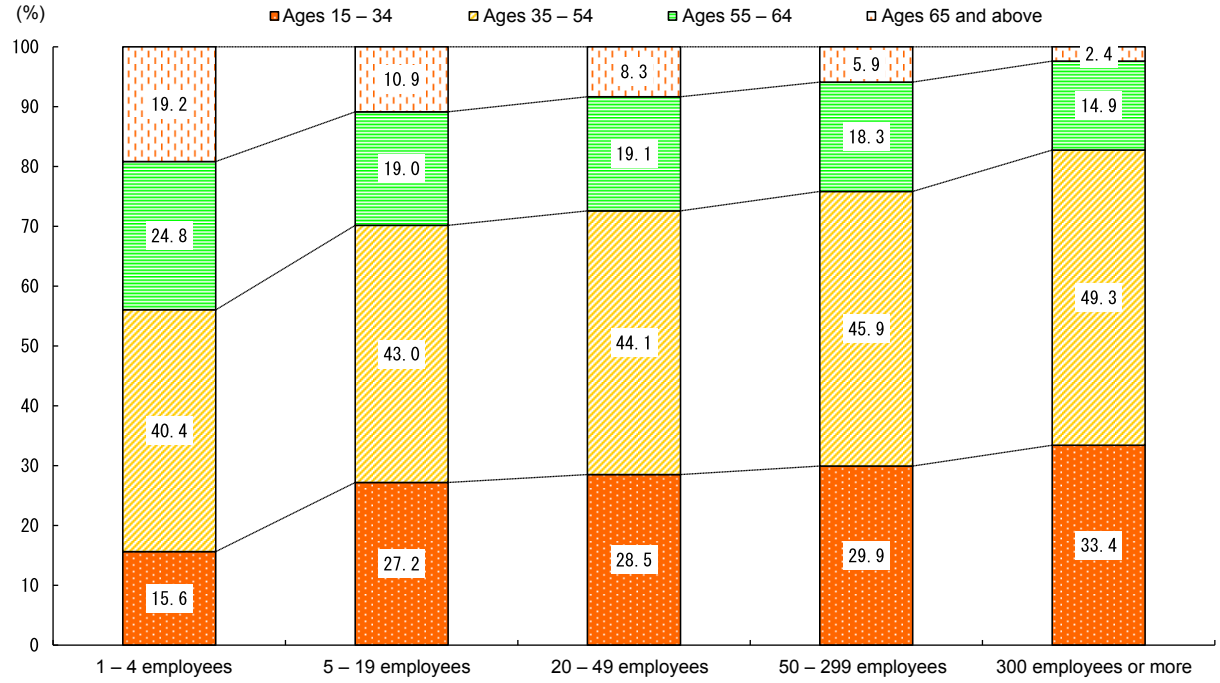
Fig. 2-1-13 Long-term trends concerning the working-age population



Sources: MIC, *Population Census, Population Estimates*.
Notes: 1. People of indeterminate age are proportionally distributed among each age category.
2. Figures of 2015 are final figures based on preliminary population figures.

The following pages will take an in-depth look at the aging workforces of SMEs. Fig. 2-1-14 shows employee age distribution categorized by the number of employees. We can see here that the proportion of employees 55 or older increases as the number of employees decreases. This suggests that SMEs—and micro businesses in particular—are serving as sources of employment for the elderly and that employee restructuring at these enterprises is not being done.

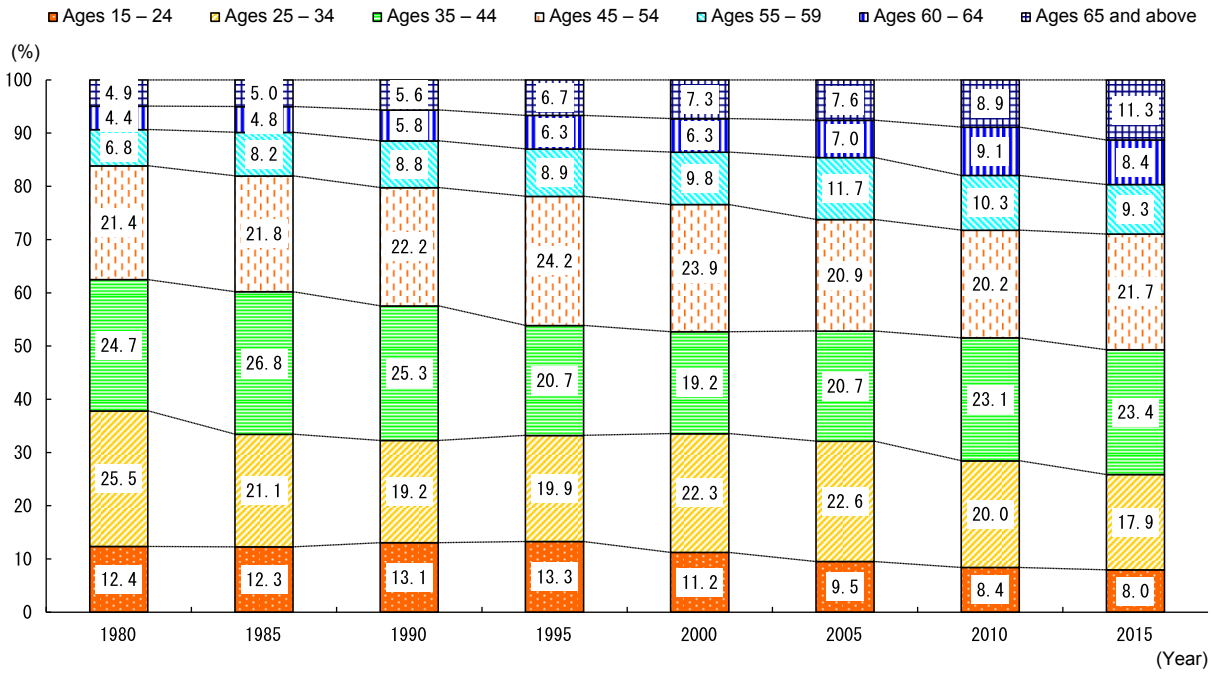
Fig. 2-1-14 Employee age distribution by number of employees



Source: MIC, *2012 Basic Survey on Employment Structure*.
Note: Excludes persons employed at public offices or other legal entities.

Lastly, we look at age distribution among the working population (Fig. 2-1-15). Here we see that, since the 1980s, the proportion of workers aged 55 or over has been on the rise. The figure also shows how the working population is aging.

Fig. 2-1-15 Age distribution among the working population



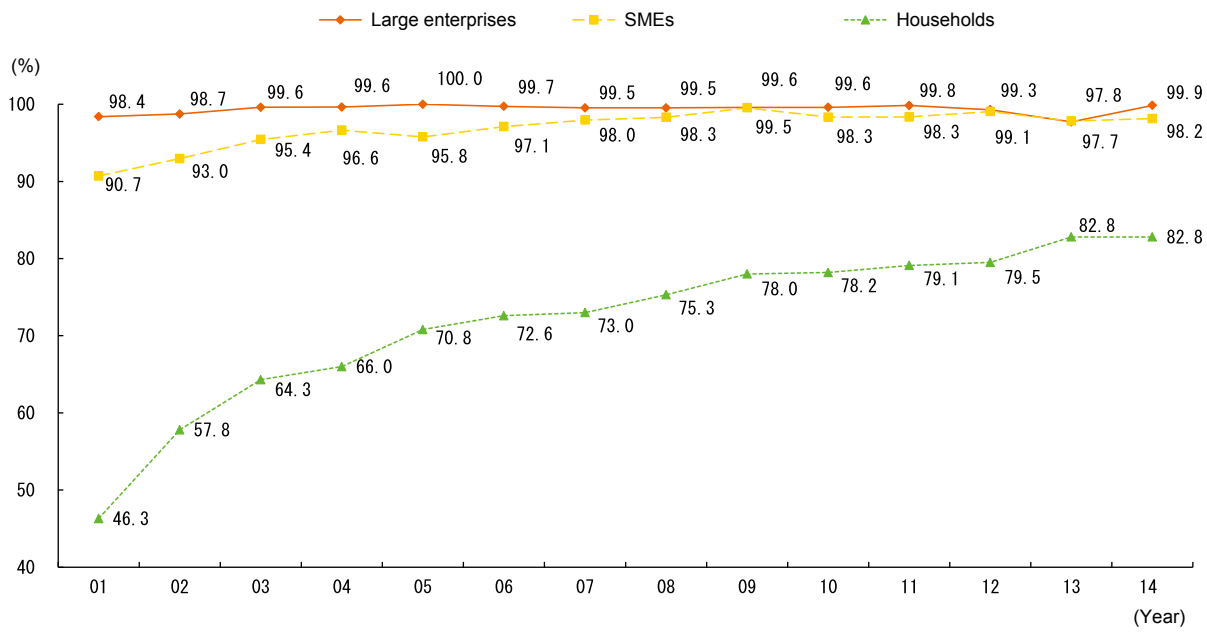
Source: MIC, *Labor Force Survey*.

We have so far looked at the increasingly serious state of Japan's labor force insufficiencies as a medium- to long-term aspect of the country's economic development. One method for strengthening earning power amid the supply restrictions being imposed by this workforce insufficiency is the use of information technologies. IT skills are rapidly progressing and have become an indispensable corporate resource, and how a company uses IT can potentially have a dramatic effect on that companies earning power. Accordingly, the following pages present an overview of progress concerning IT.

Information technology progress

Fig. 2-1-16 shows Internet penetration rates by company size. We can see that nearly all large enterprises and a large majority of SMEs use the Internet. Household Internet penetration is also growing annually, from around 50% at the beginning of the 2000s to over 80% in 2014. From this, it is clear that Internet penetration is seeing solid growth.

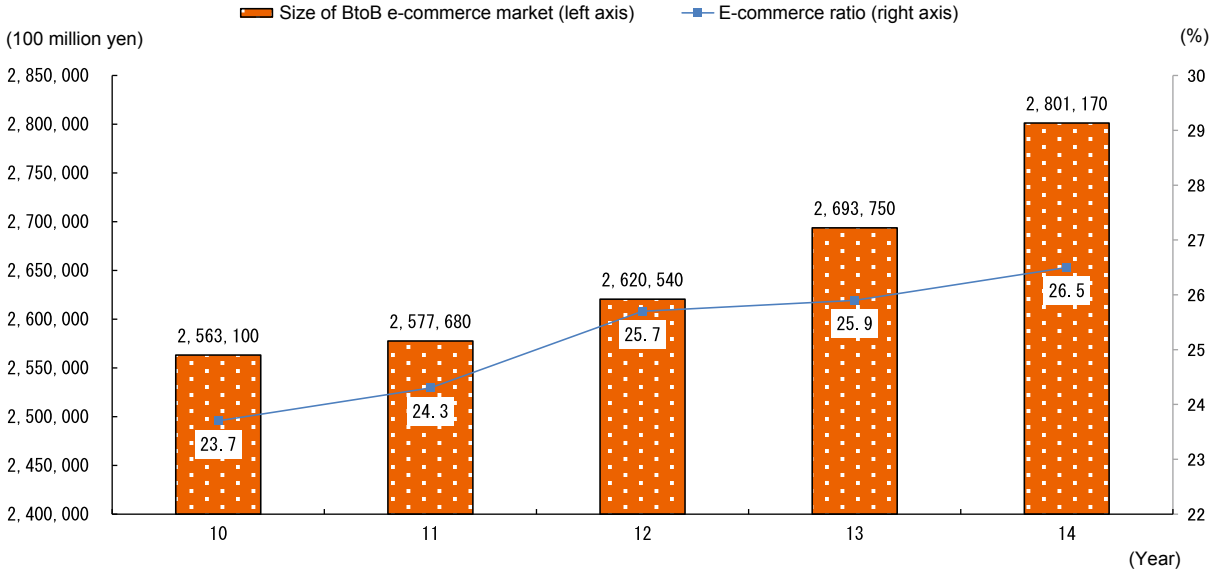
Fig. 2-1-16 Internet penetration rates



Source: MIC, *Communications Usage Trend Survey*.
Note: Large enterprises here refer to enterprises with a capital of ¥100 million or more, and SMEs refer to enterprises with a capital of less than ¥100 million.

Fig. 2-1-17 shows that the electronic commerce market is expanding in step with increasing Internet penetration. We can also see here that the e-commerce market for business-to-business transactions and the EC (electronic commerce) ratio is increasing annually.

Fig. 2-1-17 BtoB E-commerce market size and EC ratio

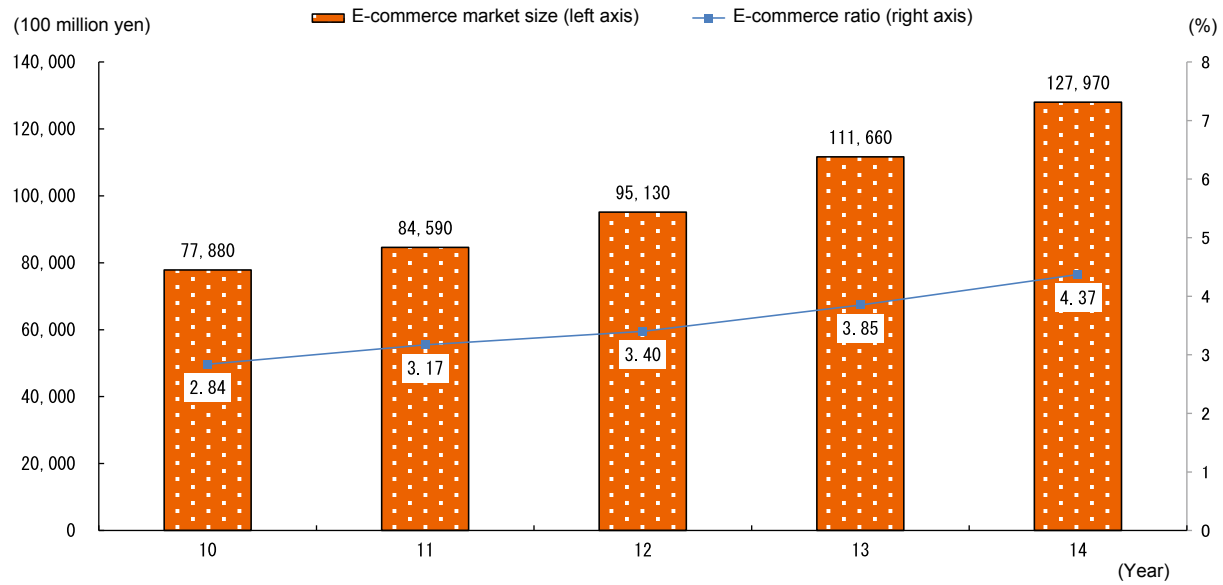


Source: METI, *2014 Survey of Basic Infrastructure for the Digitization and Creation of Services in the Japanese Economy (E-commerce Market Survey)*.

Notes: 1. The EC ratio refers to the proportion of electronic commerce to total transaction amount.
2. Electronic commerce refers to business transactions (buying and selling) conducted through the use of computer network systems and whose contract amounts are traceable.

Fig. 2-1-18 examines the size of the e-commerce market for individual consumers. From this we can see that, as with the BtoB e-commerce market, the e-commerce market for individuals is seeing annual growth.

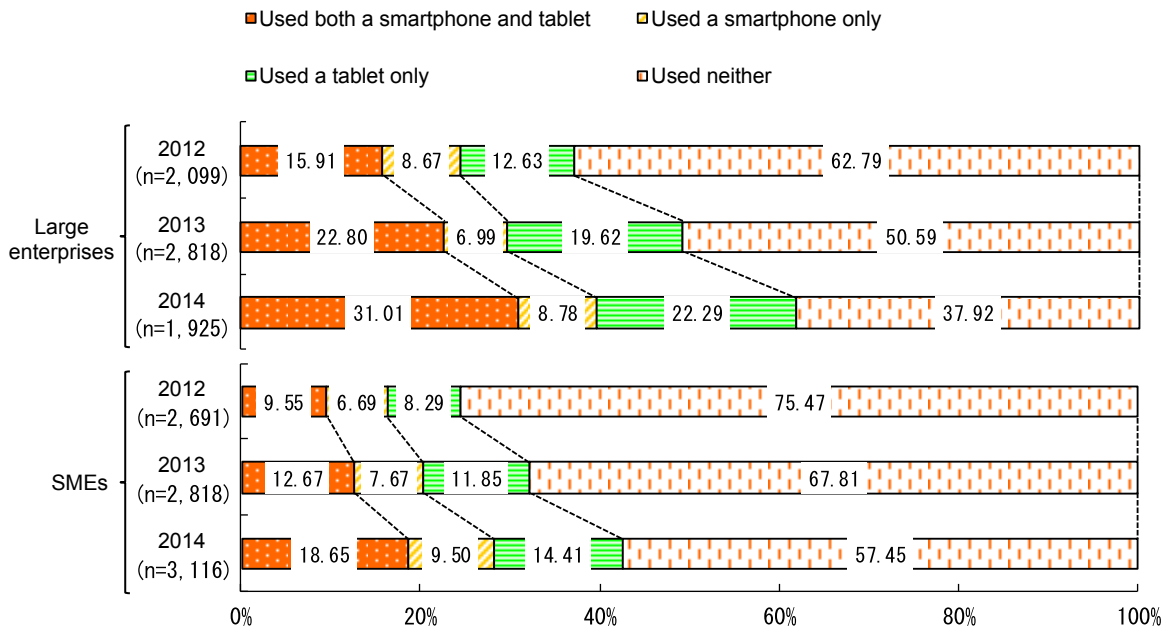
Fig. 2-1-18 Size of E-commerce market for individual consumers



Source: METI, *2014 Survey of Basic Infrastructure for the Digitization and Creation of Services in the Japanese Economy (E-commerce Market Survey)*.
Notes: 1. The EC ratio refers to the proportion of electronic commerce to total transaction amount.
2. EC market size and EC ratio figures are for the retail trade and service industries.

Fig. 2-1-19 shows smartphone and tablet device usage by company size for the last three years. For large enterprises, while over 60% were using neither smartphones nor tablets in 2012, some 70% were using either one or both in 2014. This indicates the steady growing usage of smartphone and tablet devices in corporate activities. SMEs had a lower rate of smartphone and tablet device usage than large enterprises, with just under 70% saying they used neither in 2014. Smartphones and tablets are superior to traditional mobile phones in a number of ways, including the ease with which users can view e-mail and documents and their ability to access internal systems from off-site. Making effective use of smartphones and tablets is one means to improve productivity.

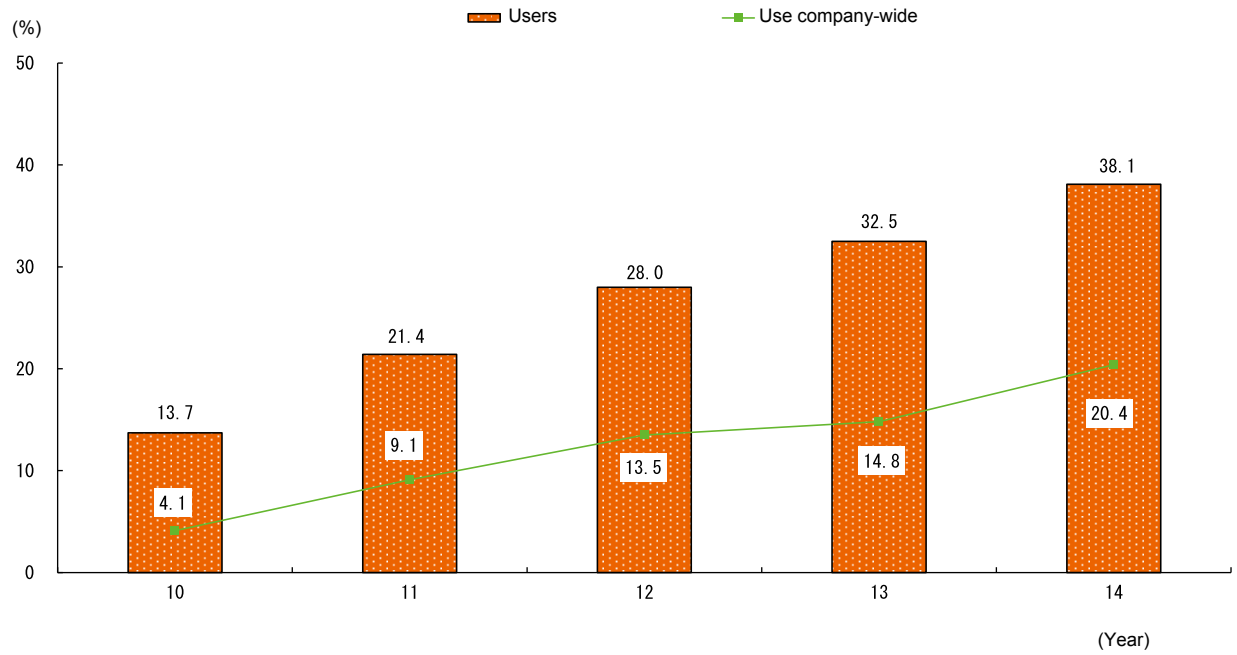
Fig. 2-1-19 Smartphone and tablet device usage by company size



Source: Recompiled from METI, *Survey of Conditions in Information Processing*.

Cloud services are one way of using IT to improve productivity. Cloud services allow companies to store data without deploying servers or other equipment and improve operational efficiency by making data accessible from off-site. For these reasons, cloud services have seen a rapid increase in adoption in recent years. Fig. 2-1-20 shows companies' usage of cloud services. From this we can see that companies' usage of cloud services is rising year after year and that the proportion of companies saying they use cloud services company-wide is on the rise.

Fig. 2-1-20 Companies' usage of cloud services

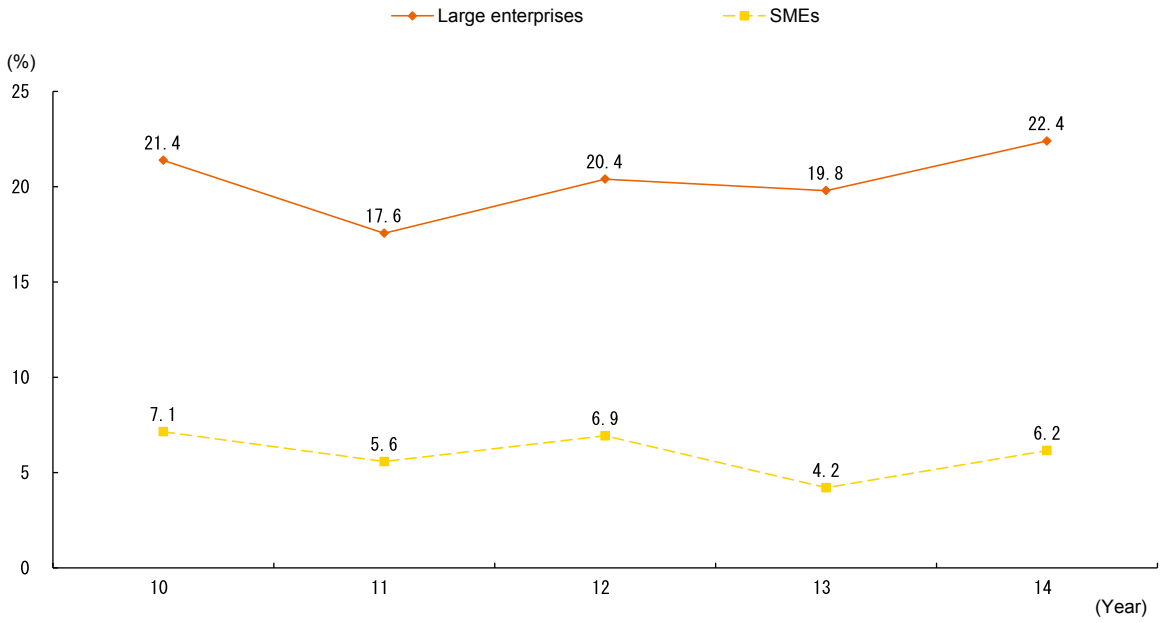


Source: MIC, *Communications Usage Trend Survey 2014*.

Fig. 2-1-21 shows the extent to which different categories of companies are embracing telework[2]. It indicates that around 20% of large enterprises and less than 10% of SMEs allow telework. In addition to enabling more efficient operations and improving productivity, telework allows employees to work more flexibly. This can allow companies to make up for a lack of human resources. Teleworking employees are also able to work from anywhere, potentially allowing companies to reduce fixed costs such as office building costs.

2) Teleworking refers to a flexible work arrangement that makes use of ICT free workers from specific places and times of work. The neologism comes from "tel", meaning a remote place, and "work". According to the Japan Telework Association, there are three types of work arrangements based on where the person works: (1) home-based telework, (2) mobile-based telework, and (3) facility-based telework.

Fig. 2-1-21 Telework adoption by company size



Source: MIC, *Communications Usage Trend Survey*.
Note: Large enterprises here refer to enterprises with a capital of ¥100 million or more, and SMEs refer to enterprises with a capital of less than ¥100 million.

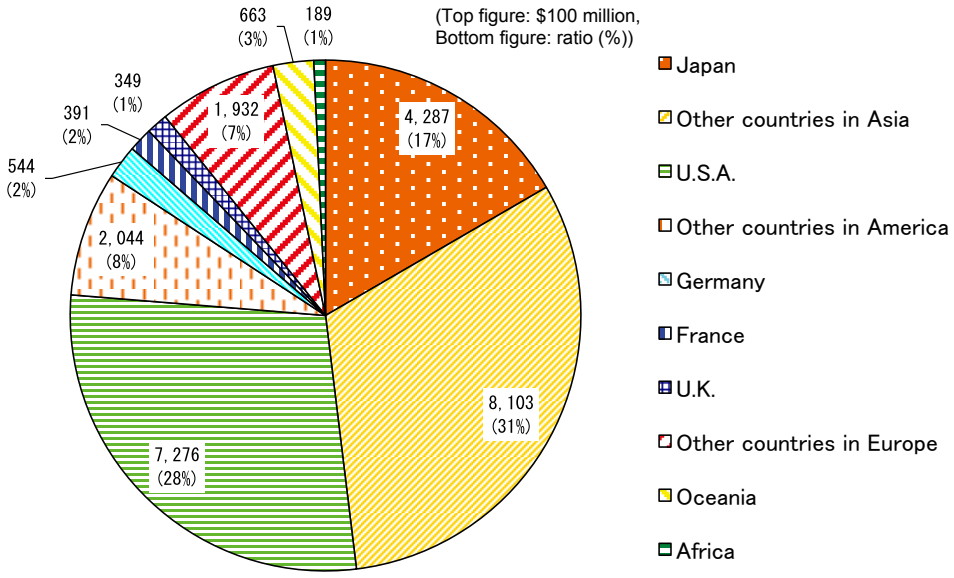
The importance of risk management

The discussion so far has focused on supply restrictions and provided an overview of the environment involving SMEs. We have seen how the domestic market in Japan is contracting due to population decline and how the problem of Japan's aging and shrinking workforce is worsening, as well as how companies are responding by capturing more overseas demand and leveraging information and communications technologies. Against this backdrop, it will be essential that companies looking to improve their earning power capture overseas demand and make investments aimed at utilizing information and communications technologies.

There are, however, a number of risks that will need to be considered by companies engaging in such investment. This includes the need to perceive as risks business practices, legal systems, and other matters not previously perceived as such in Japan when endeavoring to capture overseas demand and establish subsidiaries overseas. When deploying new IT systems, companies will also need to conduct advance planning for measures to address system problems and cyber attacks. There are many more risks in addition to these, including risks arising from business activities such as accidents caused by defective products, risks associated with natural disasters such as typhoons, floods, and earthquakes, and risks that involve compliance violations. To address risks that grow increasingly variegated and complex, companies need to practice proper risk management.

For an example of this, let us look at Fig. 2-1-22 and the cumulative cost of damage done by natural disasters from 1985 to 2015. The graph shows that the cumulative damage cost is highest in the U.S., followed by Asia. Japan ranks after the Asian region due to its high level of damage caused by natural disasters. Fig. 2-1-22 provides a reminder of the importance of Japan having strategies to address natural disasters. There are many salient examples from recent years, including unexpected disasters such as major floods like the levee destruction that occurred on the Kinugawa River in 2015. Preparing for risks as a matter of normal practice is critical to ensuring continued corporate activity during disasters.

Fig. 2-1-22 Global proportions of damage costs and natural disaster damage costs



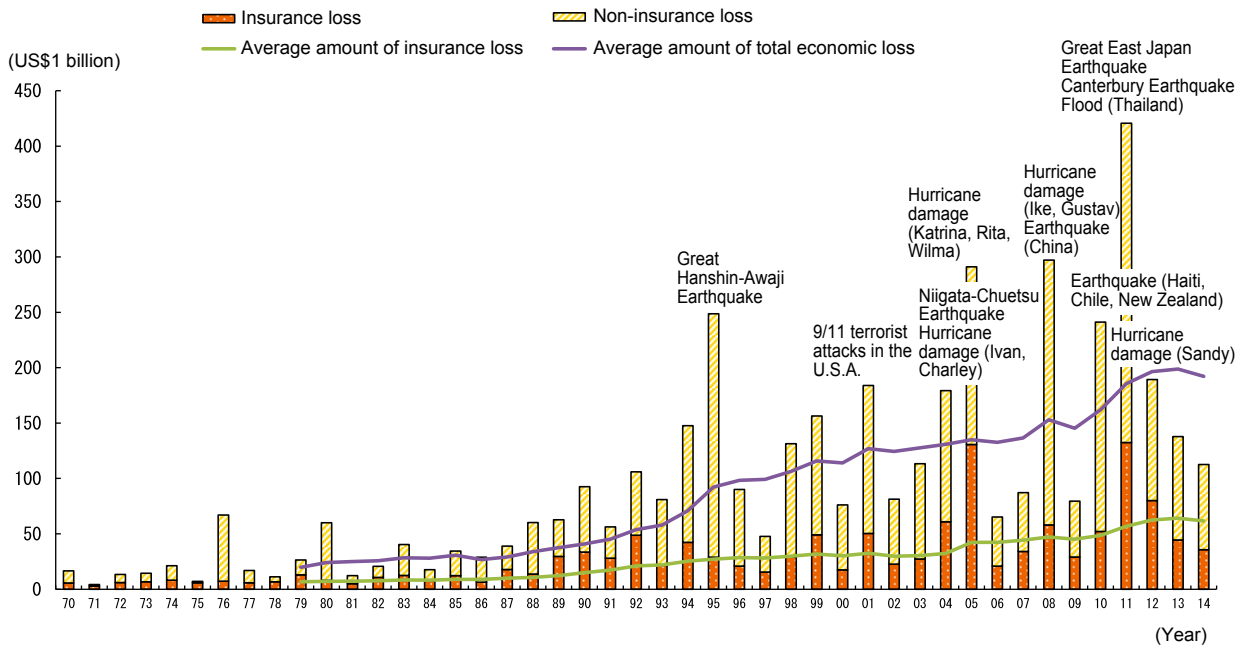
Source: Prepared by the SME Agency based on CRED/OFDA International Disaster Database (EM-DAT) of the Université Catholique de Louvain.

Notes: 1. Figures represent total cost of damage done by natural disasters between 1985 and 2015.
2. At least one of the following criteria must be fulfilled to be considered an EM-DAT disaster: 1. Ten (10) or more people reported killed, 2. Hundred (100) or more people reported affected, 3. Declaration of a state of emergency, and 4. Call for international assistance.

Fig. 2-1-23 shows the margins between insurance losses and total economic losses between 1970 and 2014.[3)] Getting insurance coverage is one important part of good risk management. We can see from Fig. 2-1-23 that, while total economic losses are growing rapidly, insurance losses are seeing only mild growth, indicating that non-insurance losses are on the rise. In years with significant total economic losses, it is often the case that disasters that occurred in Japan played a role. These facts suggest that it is important to consider measures for dealing with natural disasters.

3) Total loss here refers to all financial damages directly attributable to major accidents and includes damage done to buildings, infrastructure, and modes of transport. This also includes damages attributable to cessation of business as a direct result of property damage. Total loss here does not include indirect financial damage such as earnings decreases suffered by suppliers due to an inability to conduct business. Insurance loss refers to the total amount paid as insurance proceeds, whether as part of a private or a government program, and represents the total amount prior to reinsurance claim recovery. However, it does not include insurance loss arising from damage liability or life insurance proceeds. Lastly, non-insurance loss is calculated as total economic loss minus insurance loss.

Fig. 2-1-23 Insurance loss, non-insurance loss, and total economic loss



Source: Prepared by the SME Agency based on Swiss Re, *Swiss Re Sigma No. 2, 2015*.
Note: Average amounts of insurance loss and average amounts of total economic loss are calculated based on 10 years moving averages.

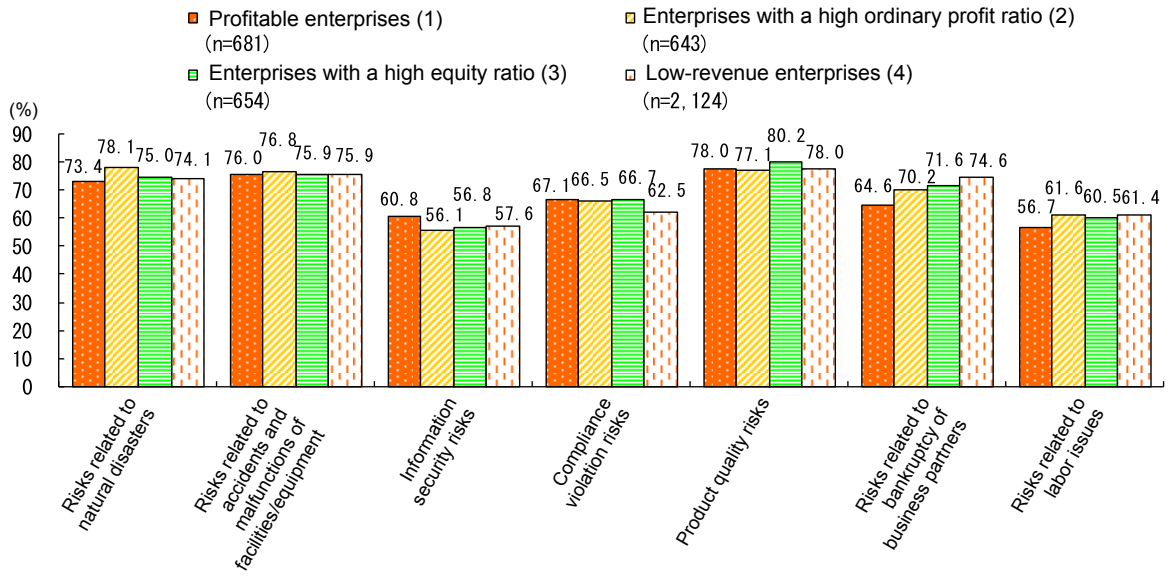
Let us examine SMEs' awareness of and preparedness towards risks such as natural disasters and information security risks. Fig. 2-1-24 and Fig. 2-1-25 present four categories of SMEs based on ordinary profit rate and equity ratio levels[4] and examines these companies' awareness of and preparedness towards different risks.

Fig. 2-1-24 shows that companies tend to be aware of consequences when risks present themselves, while Fig. 2-1-25 suggests that few companies are taking measures to address these risks. Of particular note is that, despite companies having a high awareness of natural disasters as one category of risk (Fig. 2-1-24), they are doing little to prepare for them. This chapter has discussed the importance of leveraging IT, and it is now clear that there is still much work to be done not only in taking measures to improve information security but also in improving awareness of such risks. Thus, risk preparation stands as a major issue SMEs need to address.

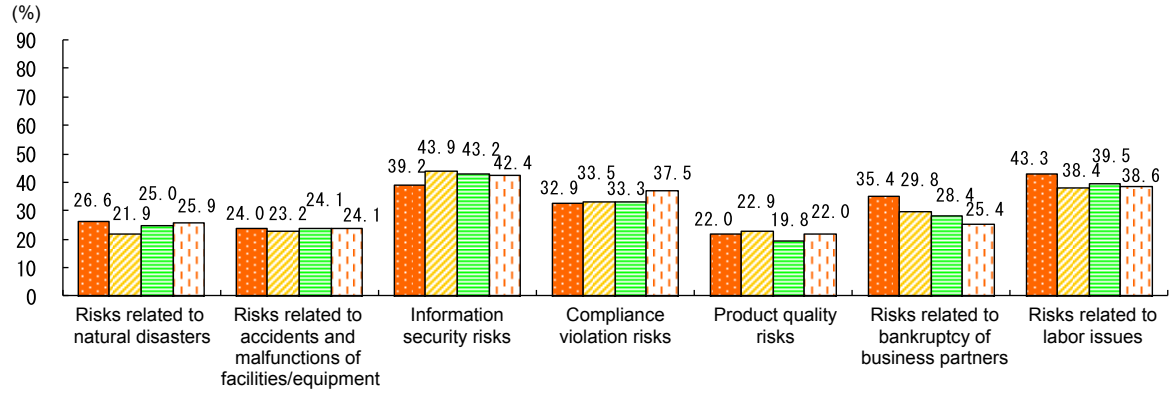
4) See Part II Chapter 6 for more information about SME categories based on ordinary profit rate and equity ratio.

Fig. 2-1-24 Attitude towards risk preparation, by company category

(1) Impacts are expected



(2) No impacts are expected

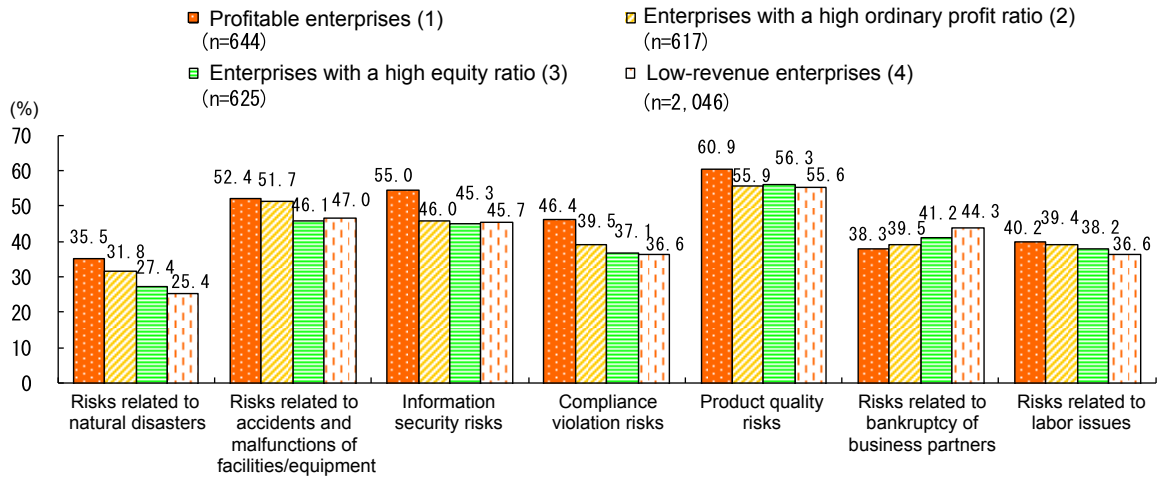


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

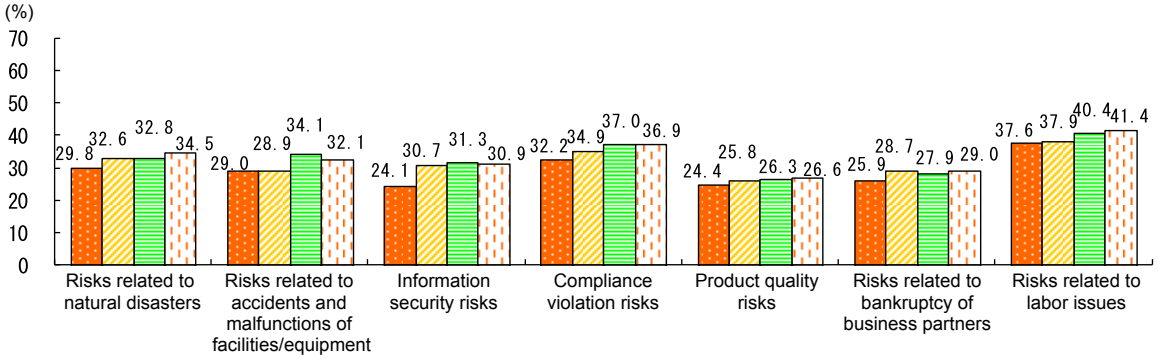
Notes:
1. "Impact are expected" represents the sum of "Has a large impact" and "Has an impact" responses.
2. "No impact are expected" represents the sum of "Has a slight impact" and "Has almost no impact" responses.
3. "Other" responses are not presented here.
4. Enterprise categories conform to those in Fig. 2-6-5.

Fig. 2-1-25 Measures against risks, by company category

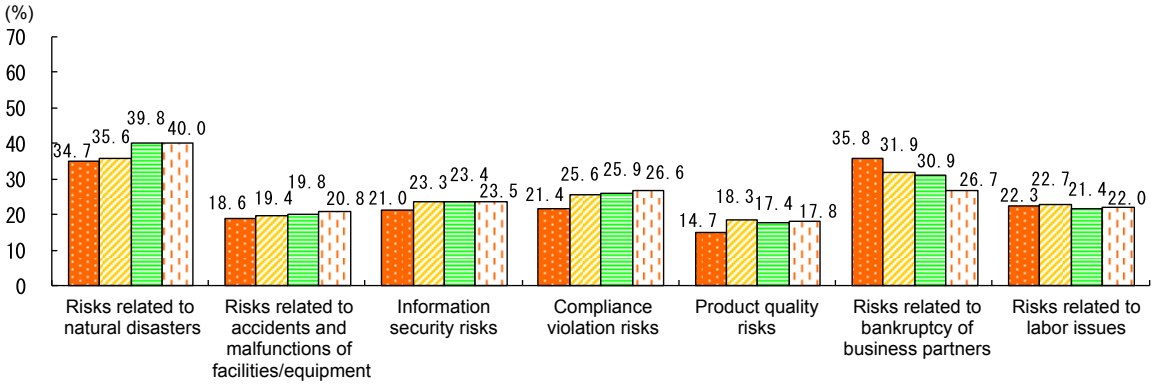
(1) Countermeasures have been taken



(2) Countermeasures are being considered



(3) No countermeasures have been taken



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. "Other" responses are not presented here.
2. Enterprise categories conform to those in Fig. 2-6-5.

This chapter has discussed the necessity of capturing overseas demand if demand for products and services is to be expanded, as well as the importance of increasing productivity through the use of information and communication technologies. The present state of these efforts and related issues are discussed in more detail in Part II Chapter 2 and Chapter 3. These initiatives will have a major impact on expanding sales and will be important efforts to improving SMEs' earning power. However, as discussed above, proper risk management will also be essential as enterprises engage in business activities. This risk management is discussed in Part II Chapter 4, where we present an overview of the present state of risk management at SMEs as well as related issues, and examine the importance of risk management going forward.

Chapter 2

IT utilization among SMEs

Section 1 Necessity of IT investment for improving productivity

As we saw in Part I and Part II, Chapter 1, SMEs in Japan are facing worker shortages as a result of structural factors, namely a decreasing overall population and working-age population arising from declining birth rates and a growing number of elderly. As structural problems are difficult to resolve in the short term, economizing on manpower and promoting rationalization on the assumption that labor shortages will continue would seem the best course of action.

Part II Chapter 1 examined the gradually changing nature of the relationship between the principal contractor and subcontractor and how, as relationships with principal contractors weaken, subcontractors are finding it necessary to promote themselves and find their own customers. Yet, with nationwide labor shortages, it has never been more difficult to find people to spare for sales efforts. It is also not easy — even with active sales staff — to generate new demand and find new customers.

IT has made rapid advances and achieved widespread penetration in recent years. As we saw in Part II, Chapter 1, it will be important to make use of these technologies in order to overcome challenges such as labor shortages and changing trading dynamics and to expand sales while cutting costs and allowing SMEs to increase their earning power. Subsequent sections therefore analyze the specific effects of IT deployment as well as the state of and challenges surrounding IT deployment at SMEs based on the *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities*[1] in order to examine the kind of IT investment that will enable SMEs to grow going forward.

Section 2 Extent and effects of IT utilization at SMEs

This section will look at the current situation involving Japanese SMEs making IT investments and the potential effects to enterprises that such investment can bring.

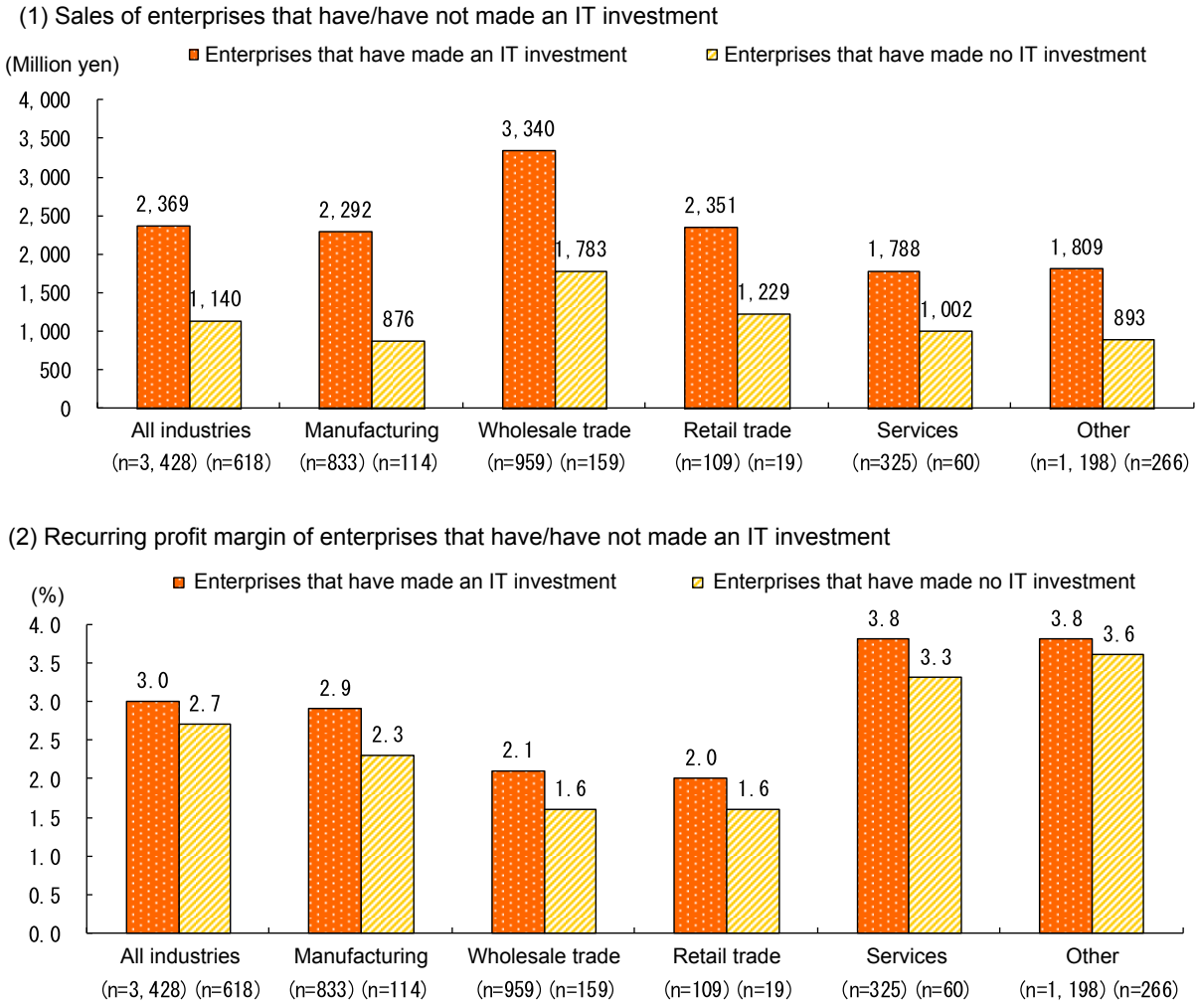
1. Effects of IT investment and the impact on enterprises

Relationship between business performance and IT

Fig. 2-2-1 breaks down enterprises by industry and compares average annual sales and recurring profit margin for the last three years at enterprises that did and did not invest in IT. From this we can see that both sales and recurring profit margin are higher at enterprises that invested in IT than at enterprises that did not.

1) Survey of 30,000 SMEs conducted by Teikoku Databank, Ltd. in December 2015, commissioned by the SME Agency. The response rate was 15.3%.

Fig. 2-2-1 Relationship between business performance and presence/absence of IT investment, by industry



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December, 2015), commissioned by the SME Agency.
Notes: 1. Figures were categorized based on whether or not enterprises invested in IT.
2. Figures shown are averages of sales and recurring profit margin for the three years from 2012 to 2014.

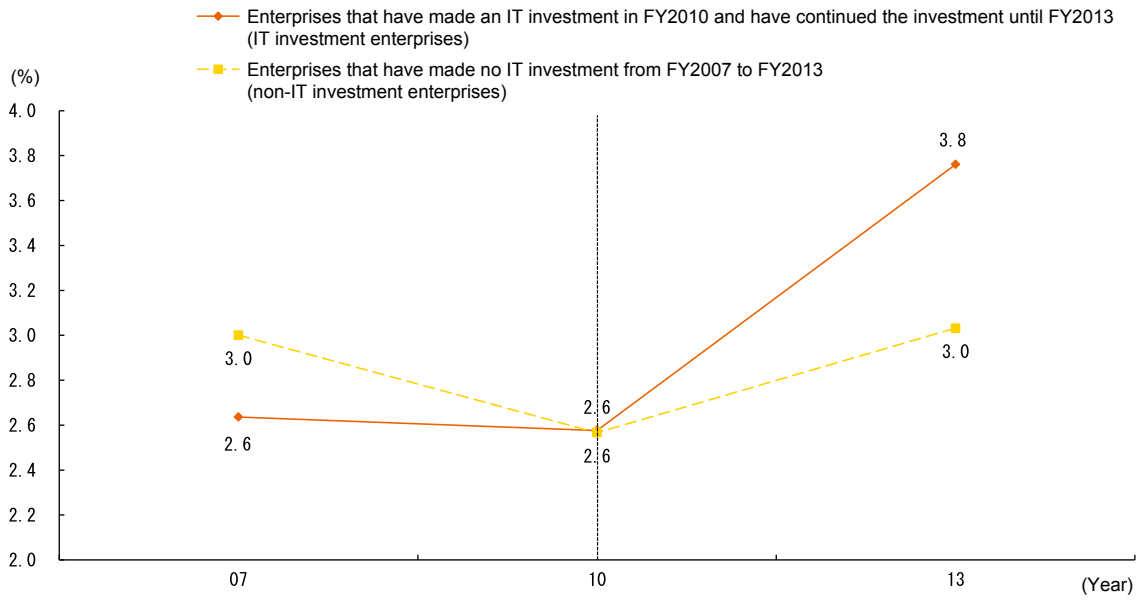
Recurring profit margin resulting from IT investment

As it is now clear, enterprises investing in IT tend to have better performance with respect to sales and recurring profit margin than enterprises not investing in IT. However, these results merely indicate a correlation; this graph cannot tell us if sales and recurring profit margin improved due to IT investment or if enterprises with good sales and recurring profit ratios are investing in IT. Consequently, referencing data compiled by the Ministry of Economy, Trade and Industry in their *Basic Survey of Japanese Business Structure and Activities* and focus on recurring profit margin, let us look at recurring profit margin changes before and after IT investment (Fig. 2-2-2).

The graph looks at SMEs that from fiscal 2007 through 2013 responded every year regarding their IT investment. It compares the recurring profit margins of enterprises that did not invest in IT from fiscal 2007 through 2009, began investing in fiscal 2010, and continued to invest through fiscal 2013 ("IT investment enterprises") with those that made no IT investment between fiscal 2007 and 2013 ("non-IT investment enterprises"). Here, IT investment enterprises had lower recurring profit margins than non-IT investment enterprises in fiscal 2007, before investment was started. For fiscal 2010 and beyond, however, whereas recurring profit margin at non-IT investment enterprises increased only slightly between fiscal 2007 and 2013, IT investment enterprises achieved major gains in recurring

profit margin compared to fiscal 2007, before they began investing. Thus it would seem that one factor behind IT investment enterprises' ability to improve recurring profit margin was their beginning IT investment in fiscal 2010, which allowed them to make operations more efficient and expand sales while improving their profit ratio, the result of which was improved recurring profit margins.

Fig. 2-2-2 Recurring profit margin among IT investment enterprises and non-IT investment enterprises



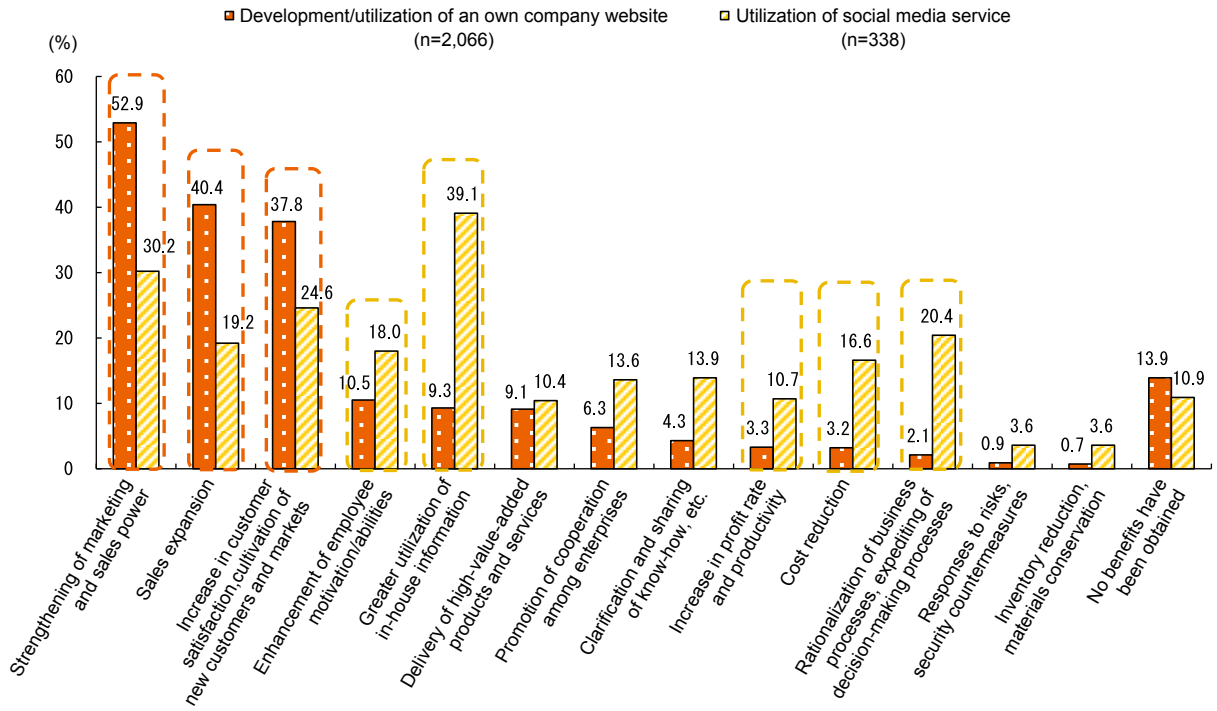
Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Recurring profit margin = ordinary profit / sales.
2. Based on data from SMEs responding to surveys every year from fiscal 2007 to 2013.

Effects of utilizing one's own website and social media services

The following discussion will look at the effects of deploying specific types of IT. First let us examine the potential effects of "developing and utilizing one's own company website" and "utilizing social media services". Social media services refer to relatively new information services whereby a multitude of people and organizations can do such things as talk and exchange video and text over a computer network, some of the best known of which are Facebook and Twitter. Recent years have begun to see companies using these services to promote themselves as they would with a company website. Fig. 2-2-3 shows the potential effects of using a company website and social media services. We can see here that the most cited effect of developing and utilizing one's own company website is "Strengthening of marketing and sales power", followed by "Sales expansion" and "Increase in customer satisfaction, cultivation of new customers and markets". As for the effects of using social media services, the top response was "Greater utilization of in-house information", followed by "Strengthening of marketing and sales power" and "Increase in customer satisfaction, cultivation of new customers and markets". Enterprises

also said social media services effected them more than their own website in the areas of "Rationalization of business processes, expediting of decision-making processes", "Cost reduction" and "Increase in profit rate and productivity". This tells us that using social media services can bring the same effects brought by company websites, namely "Strengthening of marketing and sales power", "Increase in customer satisfaction, cultivation of new customers and markets", and "Sales expansion", and that enterprises may benefit from more active information utilization in-house, process rationalization, and cost reduction, while potentially improving profitability.

Fig. 2-2-3 Effects of using company websites and social media services



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

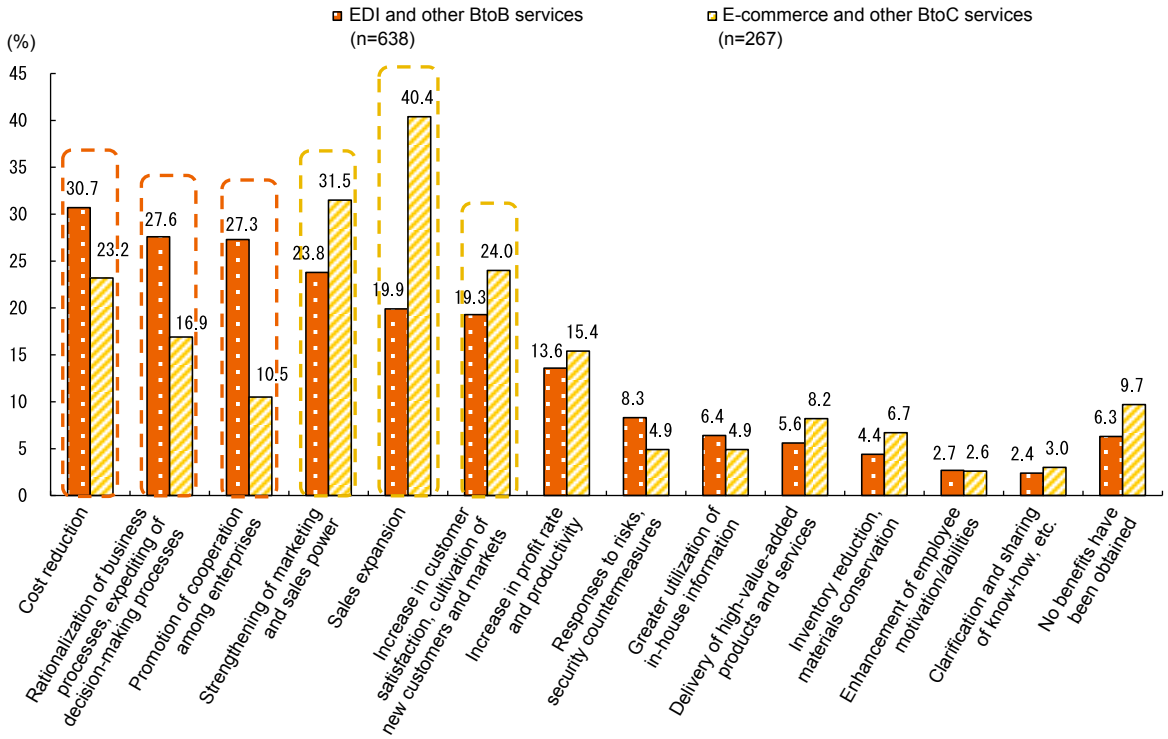
Effects of electronic commerce

Now let us take a look at the effects of conducting e-commerce. In Part II, Chapter 1 we learned that both e-commerce market size and utilization frequency in Japan is growing for the advancement of computerization, both for BtoB[2] (business to business) and BtoC[3] (business to customer) transactions. Amid this time of change in the external environment, what sort of effects are SMEs seeing in conducting e-commerce? Fig. 2-2-4 examines the effects of EDI[4] and other BtoB services as well as e-commerce[5] and other BtoC services. The top response for BtoB services was "Cost reduction", followed by "Rationalization of business processes, expediting of decision-making processes" and "Promotion of cooperation among enterprises". The top responses for BtoC, meanwhile, were "Sales expansion", followed by "Strengthening of marketing and sales power" and "Increase in customer satisfaction, cultivation of new customers and markets". From this we can infer that, for BtoB services, businesses' usage of e-mail and the

2) "BtoB" here refers to the buying and selling of products and services between enterprises.
3) "BtoC" here refers to the buying and selling of products and services between an enterprise and a general consumer.
4) "EDI" here refers to a method of standardizing commerce-related data and exchanging it electronically between enterprises, and is used for making and taking orders, issuing quotations, and making payments.
5) "E-commerce" here refers to the buying, selling, and distribution of goods and services through electronic data transmission over a computer network.

Internet to buy and sell things between themselves and their leveraging of EDI data transactions to make and receive orders is enabling them to cut down on the time and costs involved in creating conventional paper forms while strengthening cooperative relationships with business partners through quicker transactions. For BtoC services, new sales channels are being formed as enterprises sell their products over the Internet; this is effectively expanding sales as they gain new customers and boost sales volume.

Fig. 2-2-4 Effects of e-commerce



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Based on data from companies conducting e-commerce.
2. Total does not always equal 100% as multiple responses were possible.

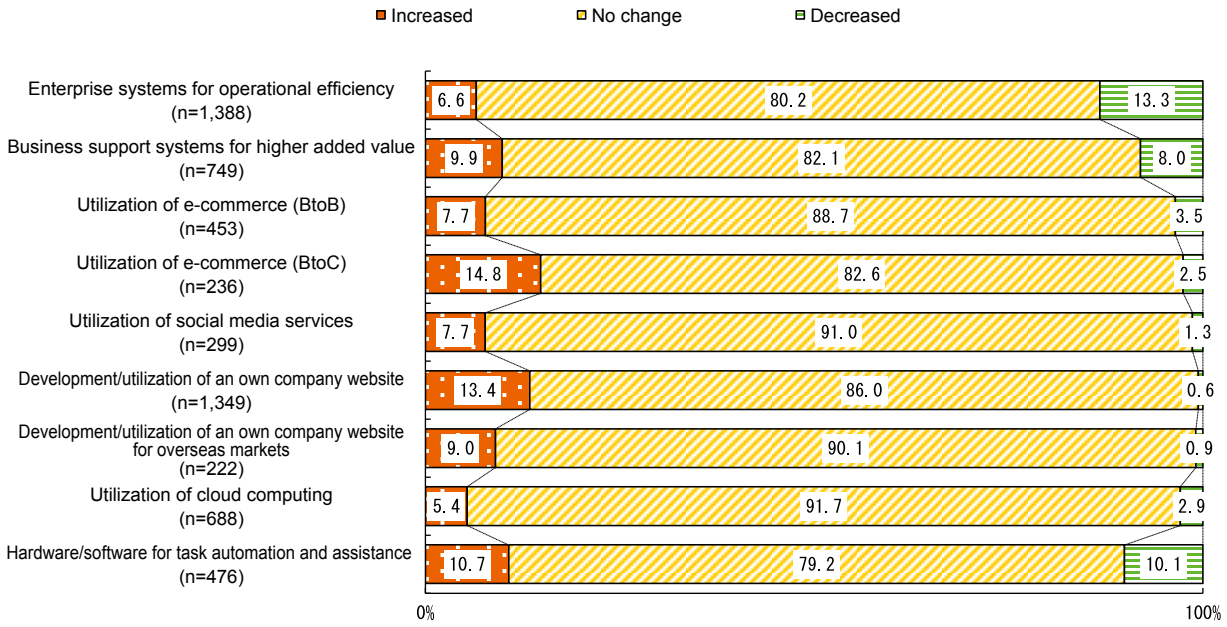
Relationship between IT investment and number of workers

At a time when Japan's overall population and working-age population are declining due to higher numbers of elderly and lower birth rates, SMEs need to improve profitability by improving operational effectiveness, cutting costs, and economizing on manpower through IT investment if they are to strengthen their earning power with the limited workforces available to them. The goal of most IT investment seems to be rationalization or laborsaving, but what is the relationship between IT utilization and the number of workers at SMEs?

Fig. 2-2-5 looks at how worker numbers changed as a result of IT investment, based on the type of investment. We can see that worker numbers decreased at 13.3%, 10.1%, and 8.0% of companies that, respectively, deployed "Enterprise systems for operational efficiency", "Hardware/software for task automation and assistance" and "Business support systems for higher added value". This suggests that, as it was done primarily for rationalization and laborsaving, this IT investment allowed these enterprises to review their business processes and ultimately reduce worker numbers. However, it was only for these types of IT investment that a high percentage of enterprises said their numbers of workers decreased. 80% to 90% of enterprises said there was no change in their numbers of workers, regardless of the type of IT investment. We can also see that, for almost all types of IT investment, the proportion of enterprises that said worker numbers increased was higher than that which said worker numbers decreased. Among companies who said their worker numbers increased, "Usage of e-commerce

(for BtoC)" (14.8%), "Development/utilization of an own company website" (13.4%), "Hardware/software for task automation and assistance" (10.7%), and "Business support systems for higher added value" (9.9%) were cited more often than other types of IT investment. This would suggest that enterprises are engaging in IT investment apt to bring greater added value to the enterprise in the form of strengthened marketing and sales capabilities, expanded sales, and the cultivation of new customers and markets. This is leading to greater sales by developing new business partners, and enterprises are hiring new workers to handle these operations. We noted earlier that worker numbers decreased in association with certain types of IT investment. Some companies have deployed both IT for improving added value and IT for making operations more efficient. It is possible that these companies are improving business performance without a change in worker numbers companywide by using IT in back office operations to save on labor and by assigning surplus staff to areas of business—namely sales and marketing—that are seeing IT investment for the sake of improving added value.

Fig. 2-2-5 Changes in worker numbers based on types of IT investment



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Based on companies engaged in each type of IT investment.

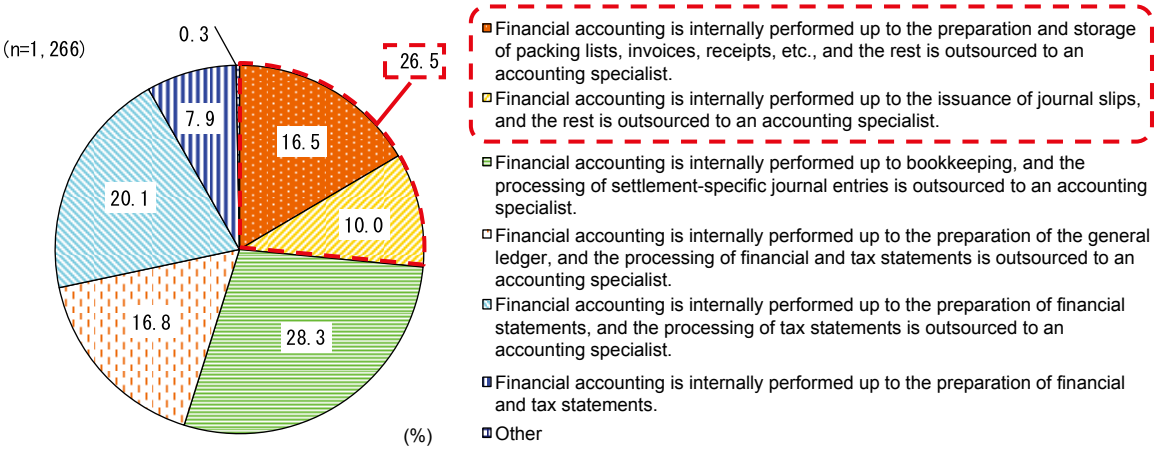
Column 2-2-1 E-commerce and EDI Initiatives

EDI is a method of standardizing commerce-related data and exchanging it electronically between enterprises, and is used for making and taking orders, issuing quotations, and making payments. This column looks at EDI and presents an overview of EDI initiatives at SMEs and the effects of these initiatives.

EDI utilization

Let us first take a broad look at the extent to which SMEs are using e-commerce. Fig. Column 2-2-1 (1) shows the back office situation concerning accounting and taxation business at SMEs in 2012 based on the *2012 Survey of Conditions in Accounting at SMEs* conducted by Teikoku Databank, Ltd. and commissioned by the SME Agency. Here we can see that 26.5% of all SMEs surveyed outsource even bookkeeping to accounting professionals, suggesting that these enterprises find it difficult to keep track of business conditions by themselves. In recent years, enterprises able to effectively utilize IT can easily keep track of the company's business situation without needing specialized knowledge of finance or accounting which leads to a business improvement. It might also be inferred that, judging from the potential effects of the aforementioned e-commerce for BtoB transactions, using EDI and other e-commerce technologies is likely to help cut costs and achieve business process rationalization.

Fig. Column 2-2-1 (1) Management of finance and accounting affairs at surveyed enterprises

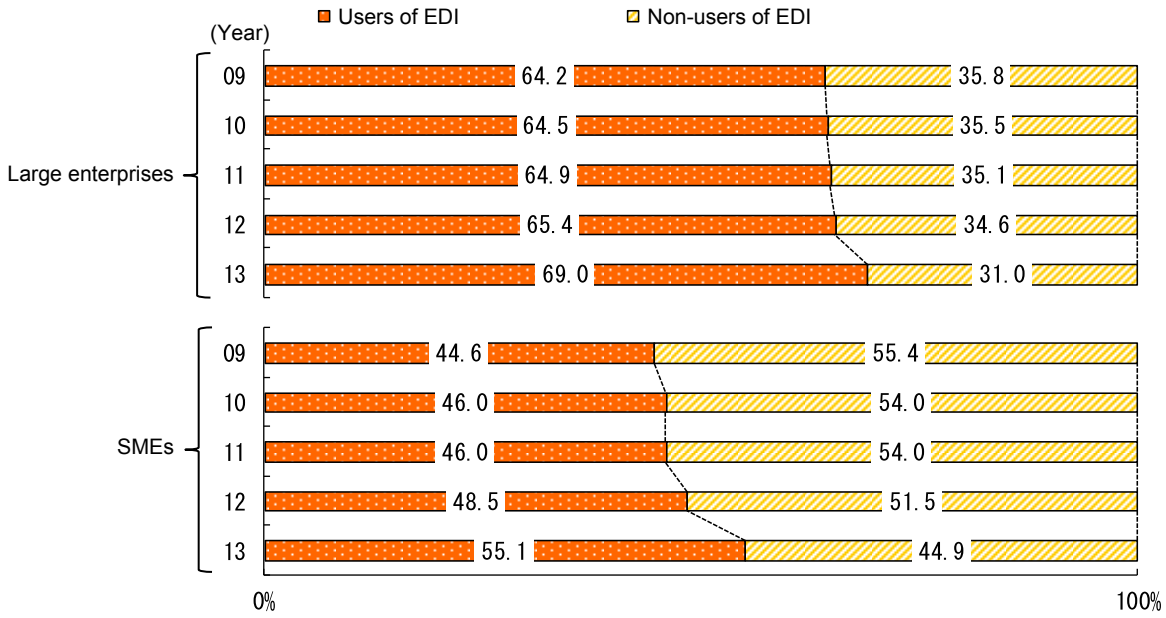


Source: Teikoku Databank, Ltd., *2012 Survey of Conditions in Accounting at SMEs*, commissioned by the SME Agency.
Note: Based on data from SMEs.

Proportions of enterprises using EDI, based on enterprise size

Next, Fig. Column 2-2-1 (2) looks at enterprise size and the proportions of enterprises using EDI, based on the Ministry of Economy, Trade and Industry's *Survey of Conditions in Information Processing*. It should be noted that, as the *Survey of Conditions in Information Processing* surveyed enterprises that had capital or investment of ¥30 million and 50 or more employees, the enterprises surveyed are relatively large organizations. The data shows that SMEs lag behind large enterprises when it comes to EDI initiatives and that even now 44.9% of SMEs use no EDI. However, increasing computerization is seeing a gradually rising trend in the number of SMEs deploying this technology.

Fig. Column 2-2-1 (2) EDI usage by enterprise size



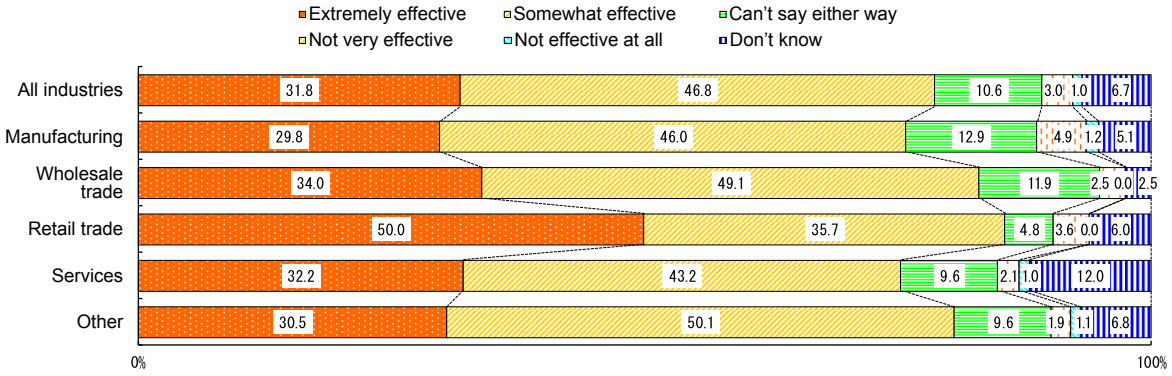
Source: Recompiled from METI, *Survey of Conditions in Information Processing*.
Note: Based on enterprises that said they used either Internet-based EDI or other type of EDI.

Effects of using EDI

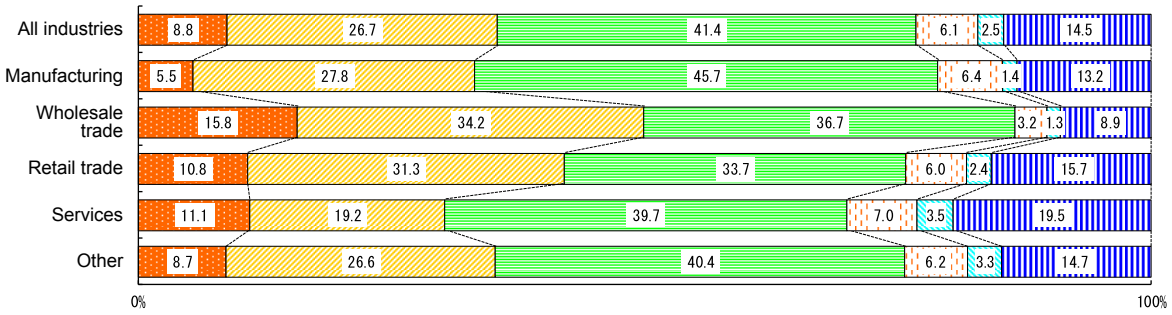
The following discussion will look at the effects of EDI for BtoB applications based on the Ministry of Economy, Trade and Industry's *Survey of Conditions in Information Processing*. In Fig. Column 2-2-1 (3), which examines EDI effect by industry, the combined rate of response for the "Extremely effective" and "Somewhat effective" responses was around 70% to 80% for every industry with respect to operational reform and efficiency in (1). In the retail trade industry, half of enterprises chose "Extremely effective". With respect to sales expansion as per (2), while no direct effect was seen here because EDI is used for making and taking orders and making payments between enterprises, it is worth noting that roughly 30% to 50% of enterprises said EDI had an indirect effect on boosting sales.

Fig. Column 2-2-1 (3) Effects of EDI by industry

(1) Effects on operational reform and efficiency



(2) Effects on sales expansion



Source: Recompiled from METI, *2014 Survey of Conditions in Information Processing*.
Note: Based strictly on data from SMEs.

Case 2-2-1 NAKAGAWA Corporation

A long-established company that has used bottom-up improvement and visualization of processes to focus IT investment

NAKAGAWA Corporation (employees: 30; capital: ¥30 million), based in Taito City in Tokyo, is a long-established company (founded in 1910) that plans, manufactures, and markets products for use in festivals, under the brand name "Asakusa Nakaya." In addition to direct sales from its two stores in Asakusa, the company also exhibits at special events held by department stores throughout the country, operates stalls during festivals (for example the three major festivals of the Tohoku region), and conducts e-commerce via the Internet.

Since its establishment in 1910, the company has based its operations on three corporate principles: To always maintain an eagerness for business, to operate on a face-to-face basis with its customers, and to perpetuate traditional Japanese culture. In addition to this side of the company, its characteristics as a long-established business, it also possesses another side as an up-to-date organization that has read the trend of the times and maintained investment in information technology.

The company's IT investment began in 1991, when it introduced office computers in order to commence catalogue sales, seeking to sell its products throughout the country on a year-round basis, rather than as seasonal products for festival use. In 2000, NAKAGAWA Corporation created a Web sales system and commenced Internet marketing, expanding its business throughout Japan. Around 2001, however, the company's business took a turn for the worse, in part as the result of the entry of new competitors to its market. In response, it began to rebuild its in-house systems using information technology.

The fact that the company's Web sales system and basic business system, which relied on office computers, were not linked had been inefficient. In 2004, it therefore installed servers for functions including the Internet, email, and databases, and linked its basic business system and its sales system. The newly-organized Systems Office and staff members from the company's workplaces began to hold twice-monthly e-commerce meetings, at which they examined IT strategy and considered opinions and requests for improvements from workplaces. They modified the systems to make it easier to use at the worksite, thus increasing the efficiency of work procedures.

In 2015, the company developed a simulator system[6] called "Nakaya Factory," which made it possible to take orders for order-made products[7], something that had previously required hand-written entries, entirely over the Web. At the same time, it created a WEB-EDI system, enabling it to make a complete transition from the use of paper dockets, estimate sheets, etc. to electronic data. By enabling automatic calculation of the rate of defective products against total products and realizing total consistency from procurement to ordering, the company was successful in further increasing the efficiency of its operations.

Based on the company's experience, company President Masao Nakagawa is emphatic that "The key to IT investment is making processes visible and ensuring that the systems penetrate to the workplace level. It is meaningless to just indiscriminately introduce IT. It's important to consider which aspects of your procedures you want to make more efficient, to make investments after establishing an investment plan, and to assess the outcomes following the investment."

Tegaki fuda
(Small wooden plaques with names hand-painted on them)

Kubisage kifuda
(*Tegaki fuda* that can be worn as pendants)

Chochin
(Paper lanterns)

Shinchu fuda
(Brass *fuda*)

Zippo

Products that can be ordered from NAKAGAWA Corporation's simulator Nakaya Factory

6) The company's "simulator system" is a system that enables users to select the materials, size, characters, font, etc. that they desire on the Web via simple operations, and to then order the product directly on the Web.

7) "Order-made products" here refers to *tegaki fuda*, *hori fuda* (engraved *fuda*), chochin, etc. that are made to order.

Column 2-2-2 A New Trend: Cloud Computing

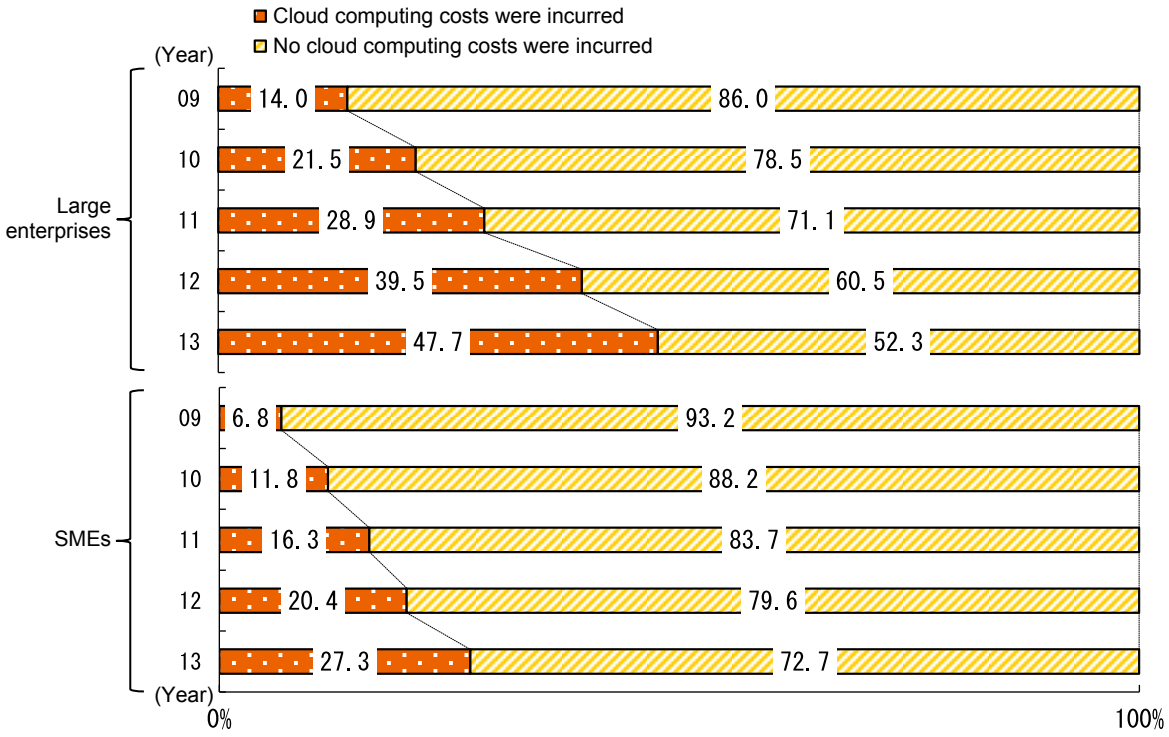
The high costs of hardware and software have traditionally made IT investment prohibitive. However, the emergence of social media services, cloud computing[8], and other such new information services has now made it possible to deploy IT at relatively low cost. This column focuses on "cloud computing" as a comparatively new information service, examining the extent of and benefits from cloud computing initiatives at SMEs in Japan, as well as issues standing in the way of further cloud computing utilization.

Extent of cloud computing usage

With the advent of cloud computing, IT has become an information service that enterprises can use to run their businesses without the need to possess their own hardware or software. Cloud computing is garnering attention as an information technology for its low cost of deployment and use compared to conventional local hardware and software based IT systems.

Fig. Column 2-2-2 (1) looks at cloud computing usage by enterprise size, specifically whether or not enterprises are incurring costs to deploy cloud computing, based on the *Survey of Conditions in Information Processing* published by the Ministry of Economy, Trade and Industry. The graph shows that while the proportion of SMEs using cloud computing is lower than that for large enterprises, this proportion is rising every year.

Fig. Column 2-2-2 (1) Cloud computing usage by enterprise size

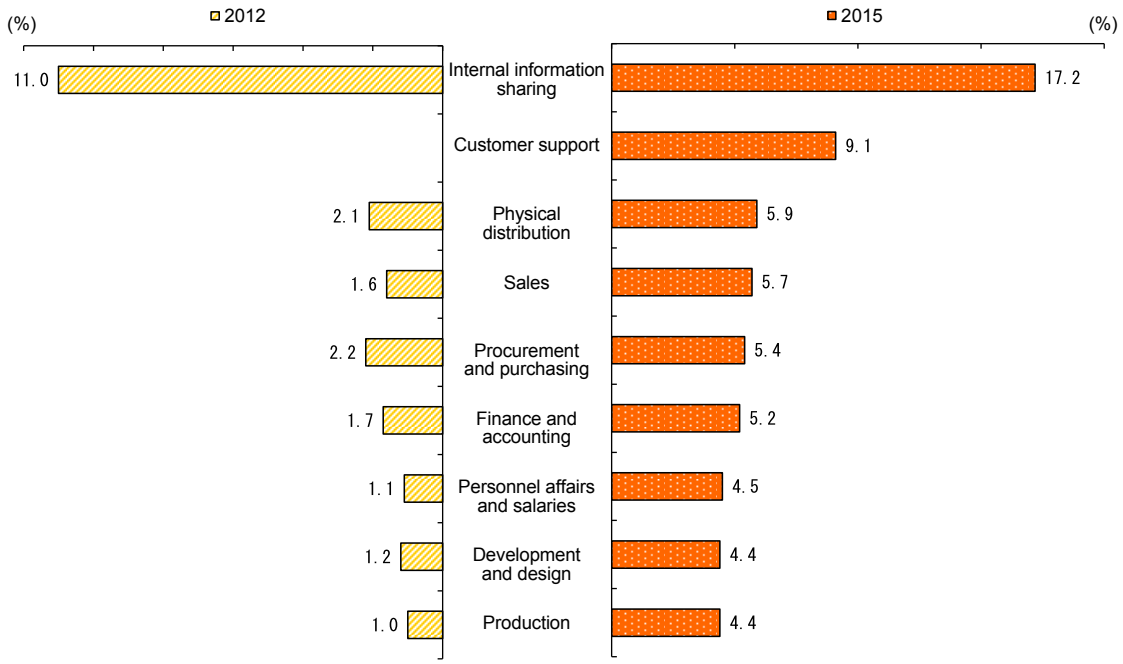


Source: Recompiled from METI, *Survey of Conditions in Information Processing*.

8) Cloud computing is an on-demand information processing service provided by Internet networks and is a means for using software and data traditionally managed and used on local computers.

Let us look at the means by which cloud computing services are deployed. Fig. Column 2-2-2 (2) shows the results of the *Questionnaire Survey on IT Use*[9] conducted in November 2012 by Mitsubishi UFJ Research and Consulting Co., Ltd. and commissioned by the SME Agency, as well as cloud computing usage categorized by business domain using data from another survey conducted in December 2015. The top reason cited for using cloud computing was "Internal information sharing", followed by "Customer support". Comparing the 2012 and 2015 survey results, we can see that the proportion of enterprises using cloud computing increased across all business domains.

Fig. Column 2-2-2 (2) Comparison of cloud computing usage by business domain



Sources: For 2012 data: Mitsubishi UFJ Research & Consulting, Co., Ltd., *Questionnaire Survey on IT Use* (November 2012), commissioned by the SME Agency.
For 2015 data: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

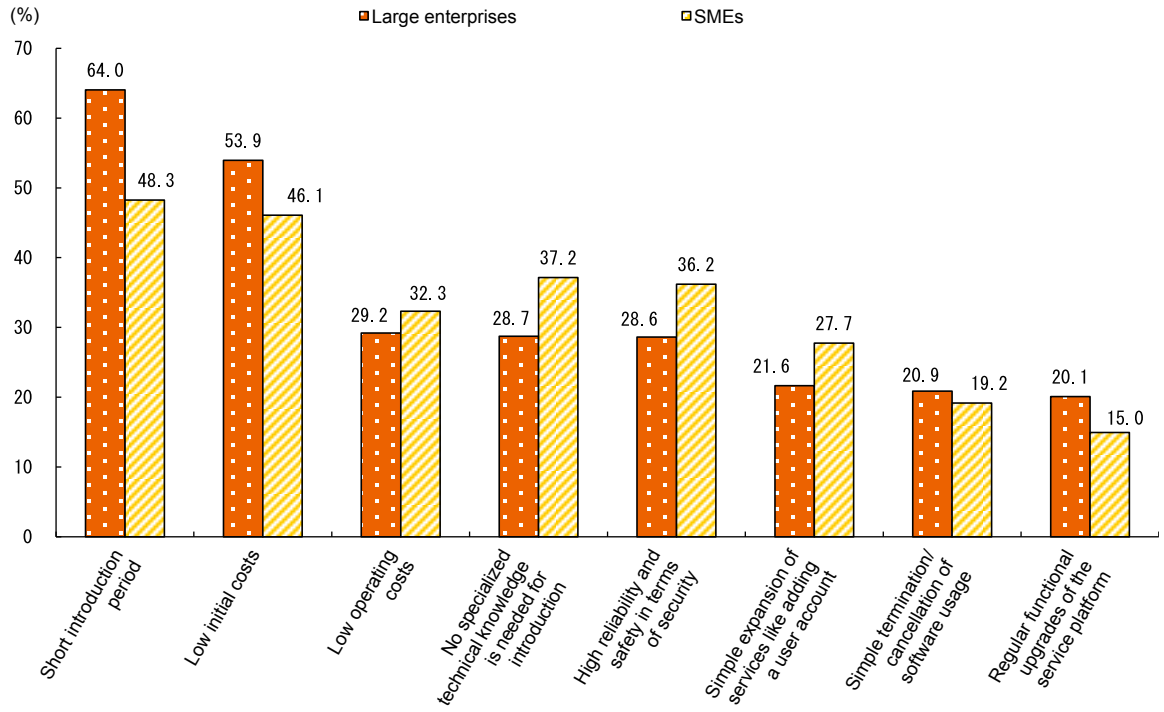
Notes:
1. Based on data from SMEs.
   SMEs here refer to enterprises with 300 or fewer employees (100 or fewer employees for the wholesale trade and services industries, and 50 or fewer employees for the retail trade industry).
2. Cloud computing usage rates for each business domain are presented for enterprises that said they use IT in every business domain.
3. Total does not always equal 100% as multiple responses were possible.
4. 2012 cloud computing usage is blank for Customer support as it was not a category on the 2012 survey.

Advantages of cloud computing

Fig. Column 2-2-2 (3) shows cloud computing advantages by enterprise size based on the *Survey of Conditions in Information Processing* published by the Ministry of Economy, Trade and Industry. For both large enterprises and SMEs, "Short introduction period" and "Low initial costs" had the first and second highest response rates, a result that puts the unique advantages of cloud computing at the top. Areas where SMEs scored higher than large enterprises were "Low operating costs", "No specialized technical knowledge is needed for introduction", and "High reliability and safety in terms of security". These results suggest that both large enterprises and SMEs are becoming broadly aware of the fact that cloud computing can be used at low cost and without the need to overcome significant technological hurdles.

9) Survey of 15,000 enterprises conducted in November 2012 by Mitsubishi UFJ Research and Consulting Co., Ltd. and commissioned by the SME Agency. The response rate was 16.7%.

Fig. Column 2-2-2 (3) Advantages of cloud computing by enterprise size

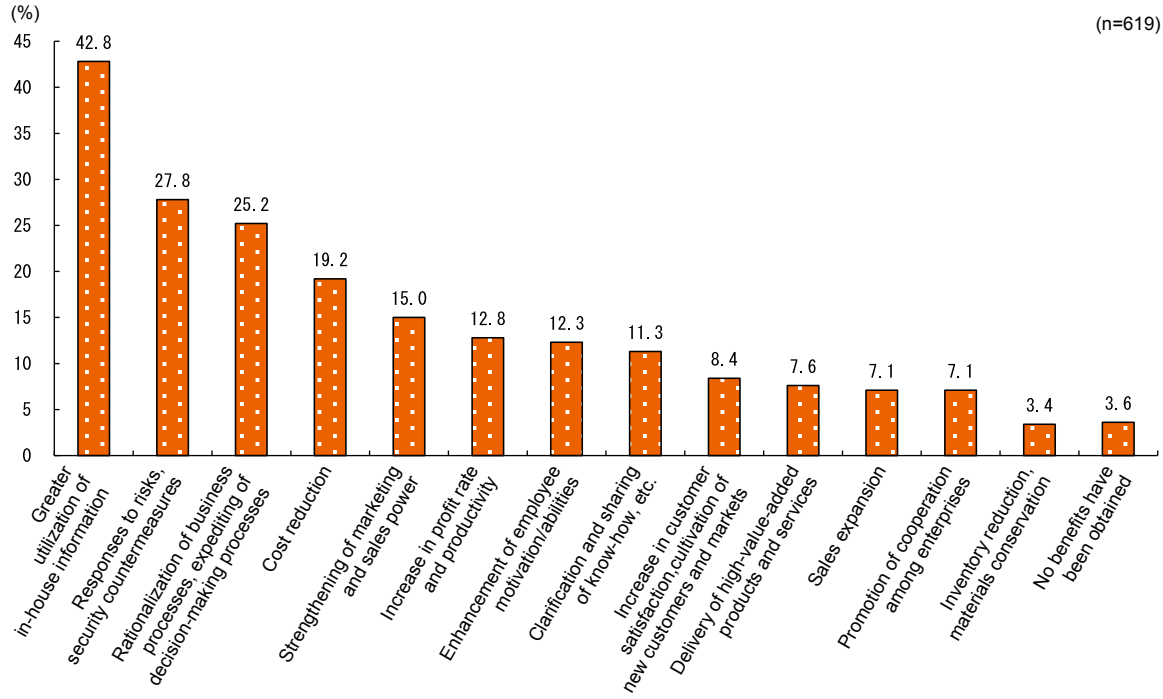


Source: Recompiled from METI, *2014 Survey of Conditions in Information Processing*.
Notes: 1. No "Other" category is presented here.
2. Total does not always equal 100% as multiple responses were possible.

Effects of cloud computing

Fig. Column 2-2-2 (4) shows the potential effects of using cloud computing based on survey results. The top effect cited was "Greater utilization of in-house information", followed by "Responses to risks, security countermeasures", "Rationalization of business processes, expediting of decision-making processes", "Cost reduction", "Strengthening of marketing and sales power", and "Increase in profit rate and productivity". In Fig. Column 2-2-2 (2) we saw how cloud computing is being used not only for "Internal information sharing" but also "Customer support", "Sales", and many other areas of business. Although cloud computing is being used for information sharing, finance and accounting, personnel affairs and salaries, and other such back-office functions, survey results imply that SMEs are boosting selling power and improving profit ratios through better profitability achieved through the use of cloud computing in business domains such as sales, customer support, and other areas that lead to greater added value.

Fig. Column 2-2-2 (4) Effects of cloud computing



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Based on data from enterprises using cloud computing.
2. Total does not always equal 100% as multiple responses were possible.

This column has presented an overview of the extent of and effects from deploying cloud computing at SMEs. Different from the traditional method of IT deployment, i.e. enterprises possessing their own hardware, software, and information systems, cloud computing is a new low-cost information service that is likely to take on increasingly greater importance, despite inherent security and other issues. Moreover, Japanese SMEs' earning power is likely to get a boost as these enterprises also begin using cloud computing in many areas outside of back office operations.

Case 2-2-2 Shibazono Kaihatsu Corporation

A company that boosted its earnings by making processes visible through the introduction of cloud computing

Shibazono Kaihatsu Corporation (employees: 19; capital: ¥50 million), based in Adachi City in Tokyo (founded in 1986), is a company mainly involved in the operation of a chain of pay-by-the-hour parking lots called "ST-Park" and pay-by-the-hour bicycle parking lots called "cycle24h," and the provision of commissioned services such as clearing away abandoned bicycles, chiefly in the Tokyo metropolitan area.

Originally a construction company, Shibazono Kaihatsu recognized that the need for car and bicycle parking lots was increasing as a result of social trends and revisions in the law, and transformed its business towards the construction and sale of multi-story car park facilities and the operation of pay-by-the-hour car parks and bicycle parks. The company took its first steps in the pay-by-the-hour parking lot business as a franchisee of a major parking lot company in 1995. Following this, recognizing that illegally parked bicycles were becoming a social issue, it commenced a pay-by-the-hour bicycle parking lot business. In 1998, the company developed Japan's first unmanned mechanical pay-by-the-hour bicycle parking system, and its profits steadily increased. However, a revision of the Road Traffic Act in 2006 that enhanced the enforcement of penalties for parking violations saw other companies enter the parking lot management business, setting off competition to undercut prices. The company's profit rate declined rapidly, and its business results worsened.

Shibazono Kaihatsu introduced an office computer system on a top-down basis in 2006 in an attempt to get the company back in the black, but employees found it difficult to input data, and the system was not linked with contract and other in-house data. The system was not used by employees, and the investment was a failure. In addition, the failed computer system introduction worsened relations with employees, leading several to quit the company. The company's internal system was breaking down, and it faced a difficult situation.

After reflecting on its situation, in 2007 Shibazono Kaihatsu introduced a management accounting system with easier data input functions. It took opinions from employees following the introduction of the system, and unified its approach to the management of worksites and accounting. This system linked sales for each of the company's facilities and a range of in-house contract data such as rental fees on land with the accounting system, making it possible to instantly understand income and expenditure at the level of individual facilities. The company got back into the black, and its business results steadily recovered.

The introduction of the management accounting system had enabled Shibazono Kaihatsu to achieve a recovery in its results, and its number of car and parking lots also showed a steady increase. However, this increase in facilities made it difficult for the company to check the status of operations and the balance of income and expenditure at all of its facilities with its existing staff. In addition to this, it was difficult for the management accounting system itself to monitor the operating status of all the company's facilities in real time. This necessitated a further IT initiative.

Seeking to make the operating and income and expenditure status of each of its facilities, in addition to the operating status of each space in each of its car and bicycle parking facilities, visible, and to boost profitability by rationalizing work procedures, in 2012 the company developed a unique integrated facility management system called SHIP, using cloud computing. This system made it possible to grasp the operating status of any of 270 car or bicycle parking lots from a map in real time via a tablet or smartphone. Linking to Google Maps, Google's map service, enabled a range of data, including the management history of the facility, real-time images from surveillance cameras, and sales information linked to ticket machine data, to be obtained by clicking on car or bicycle icons displayed on a map. In addition, linking to the company's management accounting system made it possible to instantaneously view the status of income and expenditure at each facility. A six-member project team including representatives of the system development company was formed, and held fortnightly meetings at which it considered opinions from employees concerning the functions that were needed at worksites and functions that would increase convenience. The addition of new functions on this basis increased the sophistication of the system.

The introduction of this system enabled Shibazono Kaihatsu to reduce costs by increasing the efficiency of work procedures, and it succeeded in boosting sales by 10% and its operating profit by 90% against fiscal 2006 in fiscal 2012. It also became possible for the company to make important management decisions, such as the negotiation of leasing fees with the owners of car park facilities and the closure of unprofitable facilities, backed up by data.

In addition to its benefits from the perspective of management and operating procedures for the company's car and bicycle parking facilities, the system has also enabled the company to work to increase customer satisfaction by responding closely to the needs of its users via the linkage of its services to public transport electronic payment systems and point card systems, and the introduction of a system for free short-term bicycle parking.

In the future, in addition to obtaining and analyzing publicly accessible data (population density and road data in the vicinity of stations published by the government and municipalities) in order to make long-term sales projections and enhance its profitability, the company will continue to act as a responsible member of society and contribute to the realization of more livable towns and cities by providing support for the upgrading of deteriorated public bicycle parking facilities and cooperating with regional and municipal administrations to assist in responding to the problem of illegally parked bicycles, says Koji Ebinuma, Shibazono Kaihatsu's President.

Receiving the Grand Prize and the Special Prize for the introduction of the cloud computing system SHIP in the Ministry of Economy, Trade and Industry's 2014 IT Management Awards for Small and Medium Enterprises (Company President Koji Ebinuma second from right)

Case 2-2-3 ID's Co., Ltd.

A company that boosts the added value and productivity of retailers using Big Data and cloud computing

ID's Co., Ltd. (employees: 43; capital: ¥191.035 million), based in Tomigusuku City, Okinawa Prefecture, is a business providing database and marketing services for chain grocery stores and other retail chains.

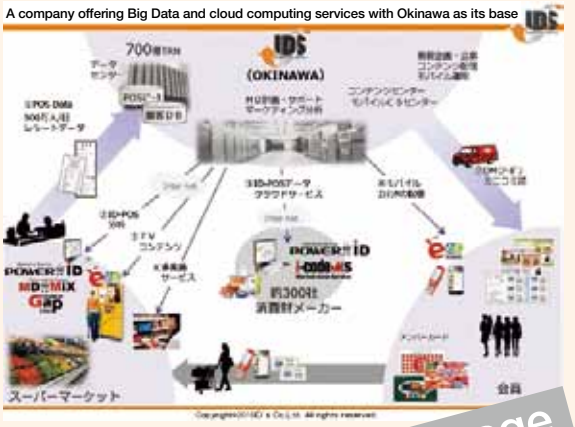
Of the foodstuffs sold by chain grocery stores and similar retailers in Japan, only processed foods have a Japanese Article Number (JAN) code (a system of article codes that is unified throughout the country). Up to the present, there has been no standard for unified JAN codes for pre-prepared food items and fresh foods. It has therefore been impossible to establish databases of trends in consumption of these staple goods. Few grocery store chains have made effective use of information obtained from POS data in their marketing, and without possessing a full understanding of the demand among consumers in their area, they have faced a range of problems, including losses on food items due to the ordering of excess stock. Choken Yamakawa, President of ID's Co. Ltd., saw this as a business opportunity, and set about creating a business in this area. In 2014, he developed "i-code"[10], a unified code making it possible to survey information on the market distribution of all food items, including fresh foods. In order to obtain a volume of data from throughout Japan that would overwhelm his competitors, Mr. Yamakawa provided i-code without charge to grocery store chains. Collecting the data at his company's data center in Okinawa, he commenced marketing activities.

By introducing the ID-POS data analysis cloud computing system Power-GAP and analyzing the POS data they compiled, grocery store chains became able to aggregate data including the unit prices of products and the number of products sold on a store-by-store basis, and compare market trends in their regions and demand at their own stores. The analysis of factors such as purchasing trends among consumers in addition to trends in demand in the areas in which their stores were located made it possible to control losses on products, in addition to controlling opportunity loss resulting from failing to offer the products that consumers wanted to purchase. Because this analysis tool is a cloud-based Web system, client companies were able to introduce it at a low cost. It is also able to be operated by on-site employees with no systems knowledge, and is capable of immediately outputting a range of accumulated data, contributing to increased productivity among the retailers using it.

Apart from data analysis, the system is also able to inform point card holders of sales and bargains by direct mail or email, and issue coupons based on customers' attributes and purchase history, offering retailers a high level of added value as an effective marketing tool.

As a result of the development of the system, ID's Co., Ltd. now deals with approximately 50 grocery store chains, representing more than 2,000 stores, throughout the country, and is contributing to increased productivity and the realization of high added value for chain grocery stores across Japan.

For the future, the company is looking towards the overseas market. By compiling POS data for Japanese grocery store chains advancing into China and Taiwan, it intends to create a system enabling Japanese agricultural producers to obtain information about what items are selling, and by this means to promote exports of Japanese agricultural products. Seeking also to tap into demand from overseas tourists who are today visiting Japan in increasing numbers (the inbound market), the company is also working on the development of a system for labeling products with information concerning ingredients, characteristics, etc. in multiple languages.



Conceptual diagram of the company's business model

Image

10) "i-code" is Japan's first marketing code for foodstuffs that integrates classification systems and code systems from processed foods to fresh produce and pre-prepared food items (Granted Japanese patent: Patent No. 5753217).

Case 2-2-4 WEIC Corporation

A company that promotes the aggressive use of IT systems by SMEs through the provision of business support services using AI and cloud computing

WEIC Corporation (employees: 100; capital: ¥335.2 million), based in Chuo City in Tokyo, is a company mainly specializing in the provision of business support services such as the acquisition of potential customers for corporate sales and the securing of appointments for business negotiations, through the fusion of IT and inside sales[11]. The company was founded in 2004, and its first area of business was the development and sale of e-learning systems for learning Chinese. In 2008, the company established a business office in Shanghai, and its business in China steadily expanded. With a request from one of its business partners for business support services as the starting point, the company began to cultivate the area of business support systems that bring together customer relationship management (CRM)[12] and data analysis, which is now its main business area.

The traditional sales method in Japan has generally involved the handling of the entire process from the creation of customer lists, to the organization of appointments, visiting the customer, and closing the sale[13], by a single sales representative. However, because sales representatives each have differing areas of specialization within the sales process, considerable time and cost is involved before reaching the contract stage. In addition, the process is inefficient, because sales representatives do not share information, and expertise is therefore not accumulated. By contrast, US companies divide the process into three segments — 1) Marketing; 2) Inside sales; and 3) Visiting the customer/Closing the sale — and share information while implementing an efficient sales process.

WEIC Corporation set about developing a system that would enable Japanese companies to conduct efficient sales by subdividing the process like US companies. In 2015, it began to supply customers with its cloud-based sales support system SALES BASE. Based on a unique database containing information on approximately four million companies, this system uses artificial intelligence (AI)[14] to identify potential customers with a high degree of accuracy, collects information regarding the needs of these potential customers from the company's call center, organizes appointments, and automatically inputs the appointment schedule to the schedules of the client company's sales representatives. Of the three divisions of the sales process discussed above, the system therefore conducts 1) Marketing and 2) Inside sales. By allowing the client company to focus exclusively on 3) Visiting the customer/Closing the sale based on customer information offering a high potential for closure of the sale, the system enables the realization of an efficient sales process and an increased closure rate.

At the same time, because the introduction of the system significantly changes the traditional individual-based sales method and eliminates any difference in outcomes based on the skills of the individual sales representative, the company had to consider methods of ensuring that the introduction of the system would not result in a decline in the motivation and the productivity of sales representatives who were confident of their sales skills. Management therefore needs to explain the features and characteristics of the system to its employees prior to its introduction, and takes their opinions. Depending on the situation, it may also be necessary to revise the client's methods of assessing personnel or its company rules in order to ensure that sales representatives accept the system.

"In the case of a conventional IT investment involving the introduction of software, if the company is unable to use the software effectively following its introduction, it will not obtain the outcomes it desires. By contrast, when we introduce our system, we ask the client company what type of output it desires, and we act as the client's proxy in conducting all of the necessary processes to make that happen, including searching our database, having our data analysts conduct analyses in order to identify targets, and arranging appointments by telephone. This means that as long as the client company's sales representatives maintain their motivation and use our system, the company will realize the outcomes it seeks," says WEIC's President Yuki Uchiyama.

If one of WEIC's client companies were to conduct the entire series of processes described above in-house, from creating a database to developing a system and engaging data analysts and other IT specialists, it could expect to invest a considerable amount of time and money. Given this, rather than an attempting to conduct their own sales, the introduction of this system offers SMEs with little sales experience and limited staff a means of increasing efficiency using IT, making it possible for them to expand their sales channels and realize increased efficiency by delegating aspects of the sales process in order to enable an efficient sales process and the acquisition of new customers.

Yuki Uchiyama, President of WEIC Corporation

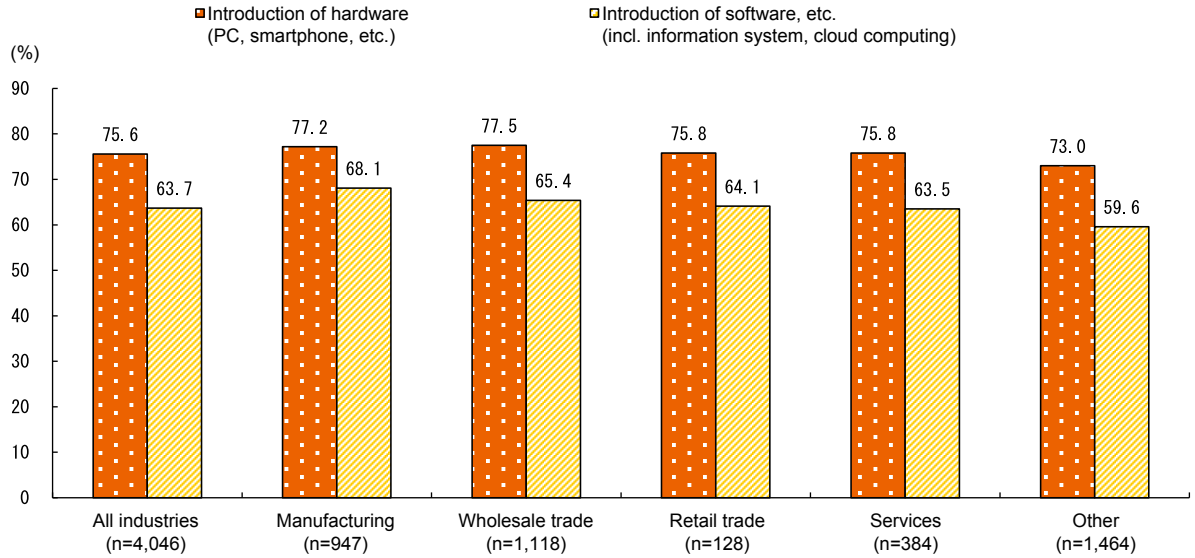
11) "Inside sales" refers to sales methods such as telephone and email sales and DM, which differ from the traditional method of visiting the potential customer (field sales).
12) By means of customer relationship management, or CRM, companies attempt to increase customer satisfaction by basing initiatives on customer attributes, the history of contact with the customer, etc., chiefly using IT.
13) "Closing the sale" refers to the conclusion of a contract with the customer.
14) Artificial intelligence, or AI, refers to computer programs that are able to understand natural languages used by humans, make logical deductions, and learn from experience.

2. IT usage among SMEs

IT deployment by industry

The following discussion will focus on the current state of IT investment among SMEs. Fig. 2-2-6 looks at IT deployment by industry. Here we see that 75.6% of SMEs use hardware[15] in managing their business, and that 63.7%—more than half—of these enterprises use both hardware and software[16] (including information systems[17] and cloud computing). Categorized by industry, the manufacturing and wholesale trade industries showed slightly higher hardware and software deployment rates than other industries. Meanwhile, for all industries, some 20% to 30% of enterprises were not using hardware and roughly 30% to 40% were not using software, indicating that IT usage among SMEs is lagging.

Fig. 2-2-6 IT deployment by industry



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

IT usage for bookkeeping at SMEs

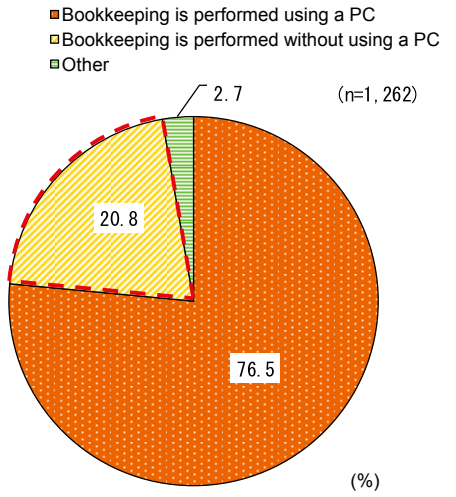
Next, Fig. 2-2-7 shows IT usage for bookkeeping among SMEs based on the *2012 Survey of Conditions in Accounting at SMEs* published by Teikoku Databank, Ltd. and commissioned by the SME Agency. We can see from this that around 20% of SMEs are not using computers for bookkeeping and that, even among SMEs using computers, roughly 30% are doing their bookkeeping without the use of accounting software.

15) "Hardware" here refers in a general sense to physical equipment that includes personal computers, smartphones, and other computing devices, as well as the circuits, apparatuses, and other components from which these devices are made.
16) "Software" here refers to non-physical computing programs, data, etc. that is loaded onto hardware.
17) "Information system" here refers to any system that properly stores and manages data via computer-aided information processing.

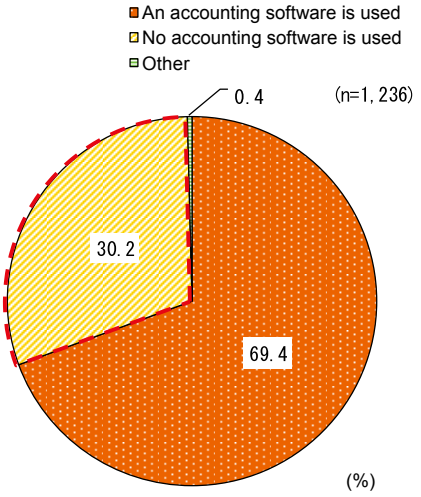
These results imply that SMEs which have yet to deploy IT are doing their bookkeeping by hand and are consequently seeing productivity and profitability being driven down by the mistakes, lost time, and costs committed and incurred when making book entries.

Fig. 2-2-7 IT usage for bookkeeping at SMEs

(1) Usage of a PC for bookkeeping



(2) Usage of an accounting software for bookkeeping



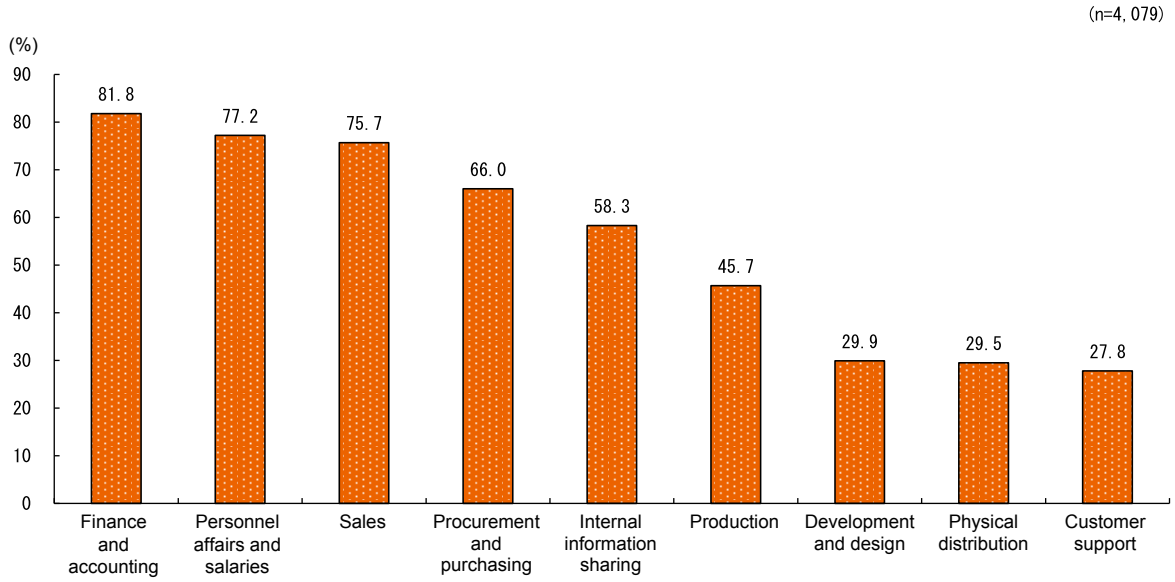
Source: Teikoku Databank, Ltd., *2012 Survey of Conditions in Accounting at SMEs*, commissioned by the SME Agency.
Note: Based on data from SMEs.

IT usage in different business domains

The following will examine the extent of IT deployment in different business domains. Figs. 2-2-8 and 2-2-9 look at the extent of and methods used for IT deployment in different business domains. We see here that, as the back-office business areas of "Finance and accounting" and "Personnel affairs and salaries" are critical to enterprises in every industry, a high proportion of enterprises are using IT in these areas and that most IT consists of packaged software and systems. On the other hand, IT deployment is low in the business domains of "Development and design", "Physical distribution", and "Customer support" as these domains are not necessary for certain industries. We can also see that, with respect to the method of deployment, many enterprises are eschewing packaged software and systems in favor of "Self-developed software systems" and "Order-made systems" that allow for the deployment of IT technologies tailored to their specific enterprises.

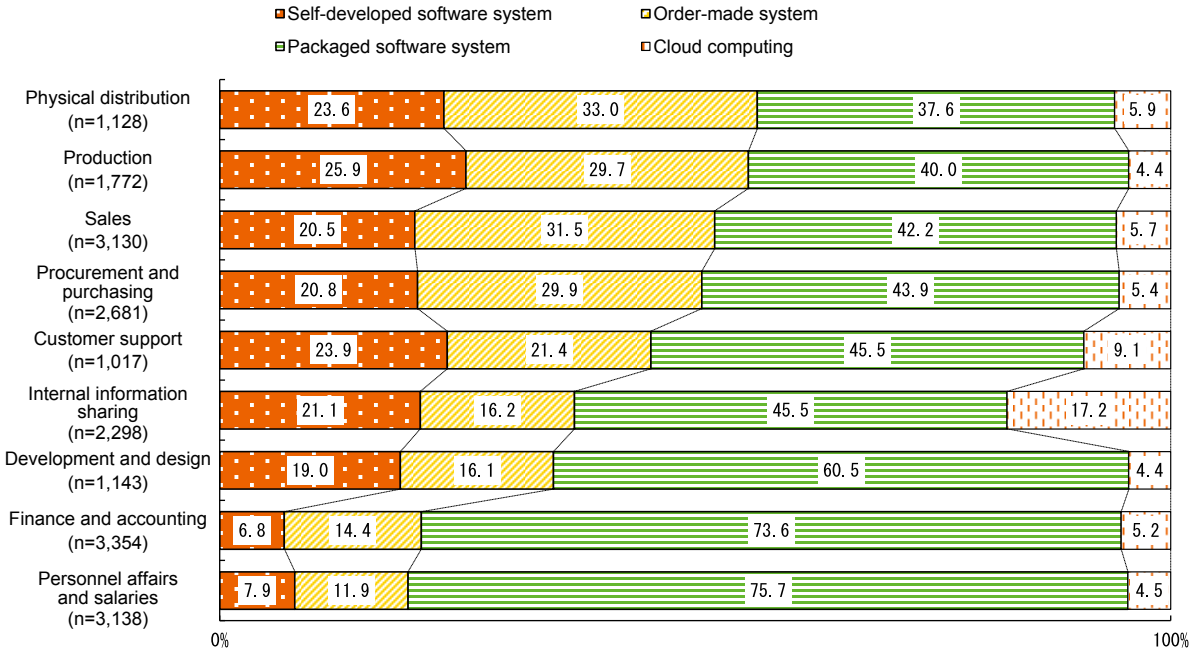
Clearly, IT is increasingly being used in business areas that can make use of packaged software and systems. It is also clear that a substantial number of enterprises are not using IT in finance and accounting or personnel affairs and salaries — business domains necessary in every industry.

Fig. 2-2-8 IT deployment by business domain



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-2-9 IT deployment method by business domain

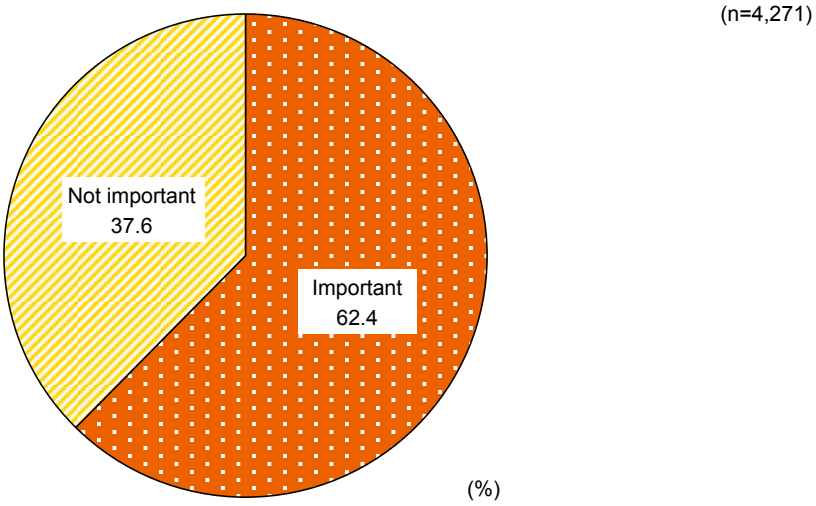


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Importance of IT investment at SMEs

Lastly, we look at Fig. 2-2-10 and examine the extent to which IT investment is seen as important at Japanese SMEs. This indicates that some 40% of enterprises still believe that usage of IT is not important.

Fig. 2-2-10 Importance of IT investment at SMEs



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: The "Most important" and "Important" responses were tabulated as "Important", while "Not so important" and "Not important" were tabulated as "Not important".

This section has looked at the extent and potential effects of IT usage by SMEs in Japan. Here we have seen that, although SMEs are making progress in effectively utilizing IT as society becomes increasingly computerized, there are still a number of enterprises doing business without the use of IT. As previously discussed, IT investment helps rationalize business processes, reduce costs, expand sales, among many other effects, and using IT allows Japanese SMEs to boost their earning power even as they struggle with a shortage of workers.

Section 3 Issues involving effective IT usage and initiatives at high-revenue enterprises

In this section, we will shed light on the reasons why IT investment is making little progress among SMEs and the success factors behind enterprises that are enjoying the expected effects of IT investment.

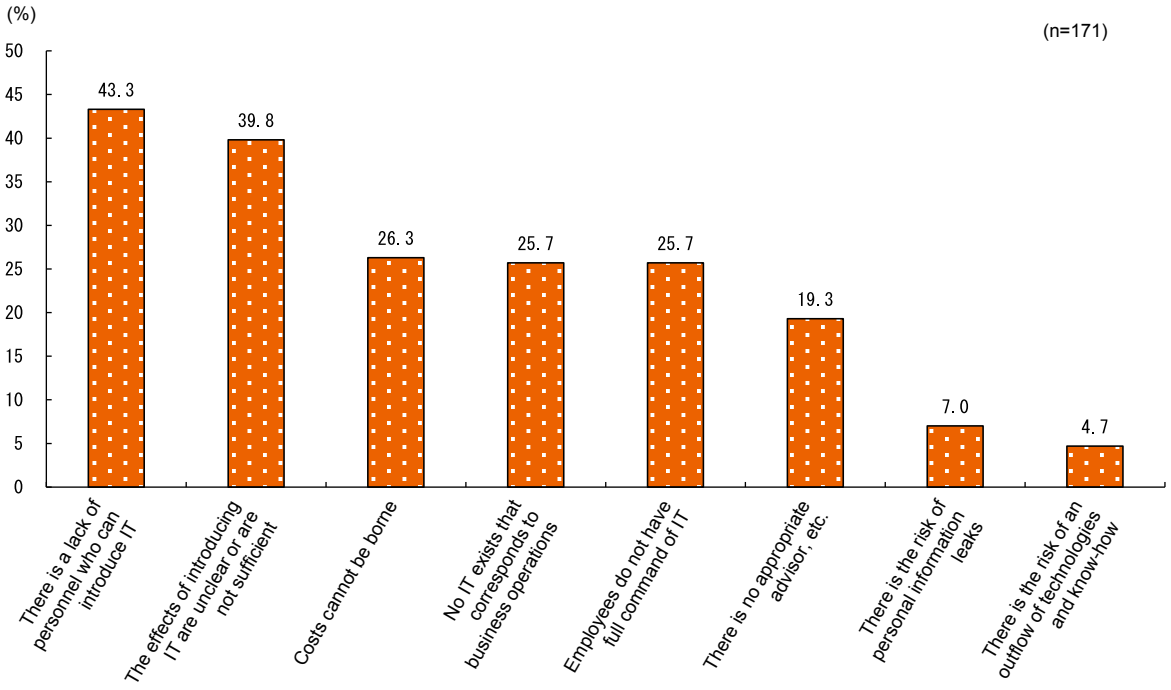
This section will focus on recurring profit margin as a key indicator of earning power and will examine differences in the effects from and initiatives being taken towards IT investment by enterprises that have achieved a strong profit structure through investment and those that have not by comparing these enterprises' earning power (recurring profit margins). To do this, we have created two groups of enterprises of the same size: those with recurring profit margins in the top 25% ("high-revenue enterprises") and those in the bottom 25% ("low-revenue enterprises").

1. Reasons for not investing in IT and issues faced when investing

Reasons for not investing in IT among companies that have yet to invest

Fig. 2-2-11 shows the result of asking companies who viewed IT investment as important but who had not invested in IT their reasons for not investing. The top reason given was "There is a lack of personnel who can introduce IT", followed by "The effects of introducing IT are unclear or are not sufficient" and "Costs cannot be borne". From this we can see that companies that view IT investment as important are looking to invest in IT in order to solve management issues but do not have IT people capable of deploying IT. We can also see that many enterprises have not taken steps towards investment as they do not understand the potential effects of IT deployment and cannot bear the costs.

Fig. 2-2-11 Reasons for not investing in IT among companies that have yet to invest

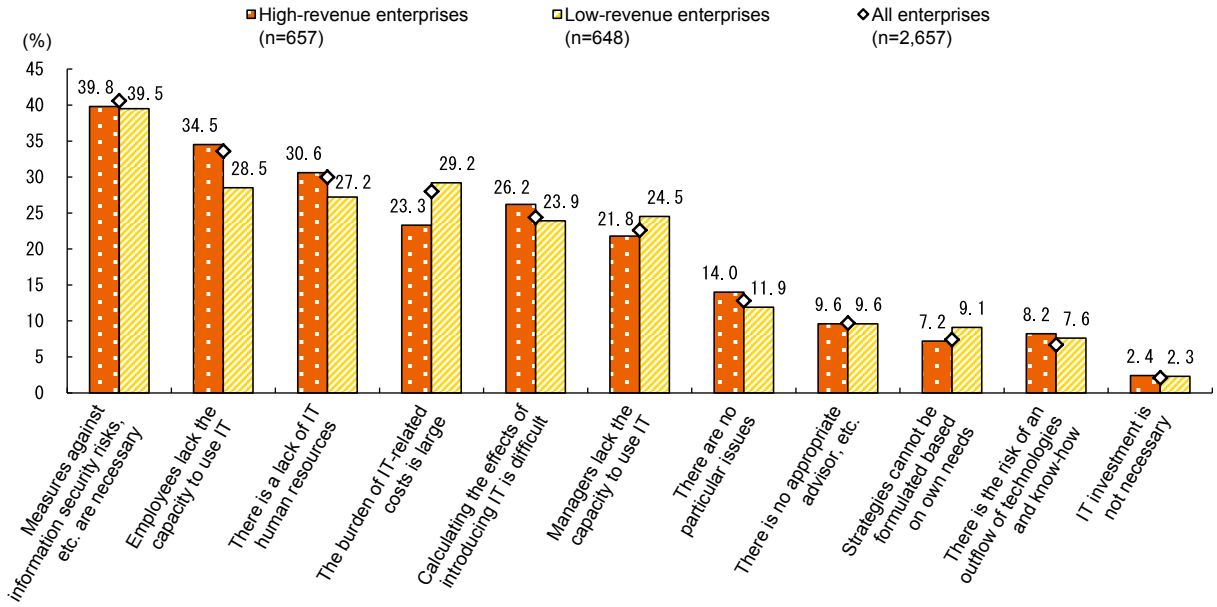


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Based on data from enterprises that stated IT investment is important but that they are not currently investing in IT.
3. No "Other" category is presented here.

Issues faced by enterprises when investing in IT

Next we look at Fig. 2-2-12, which shows future investment issues to be faced by enterprises currently investing in IT, categorized by high- and low-revenue enterprises. Overall, the issue of "Measures against information security risks, etc. are necessary" was the top response, followed by "Employees lack the capacity to use IT" and "There is a lack of IT human resources". Furthermore, although there are strong trends among high- and low-revenue enterprises to cite a lack of human resources and costs, respectively, as issues, there are no particularly conspicuous differences between the issues faced by the two types of enterprises.

Fig. 2-2-12 Future investment issues to be faced by enterprises currently investing in IT, categorized by high- and low-revenue enterprises



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Based on data from enterprises currently investing in IT.
3. No "Other" category is presented here.

2. IT investment initiatives among high- and low-revenue enterprises

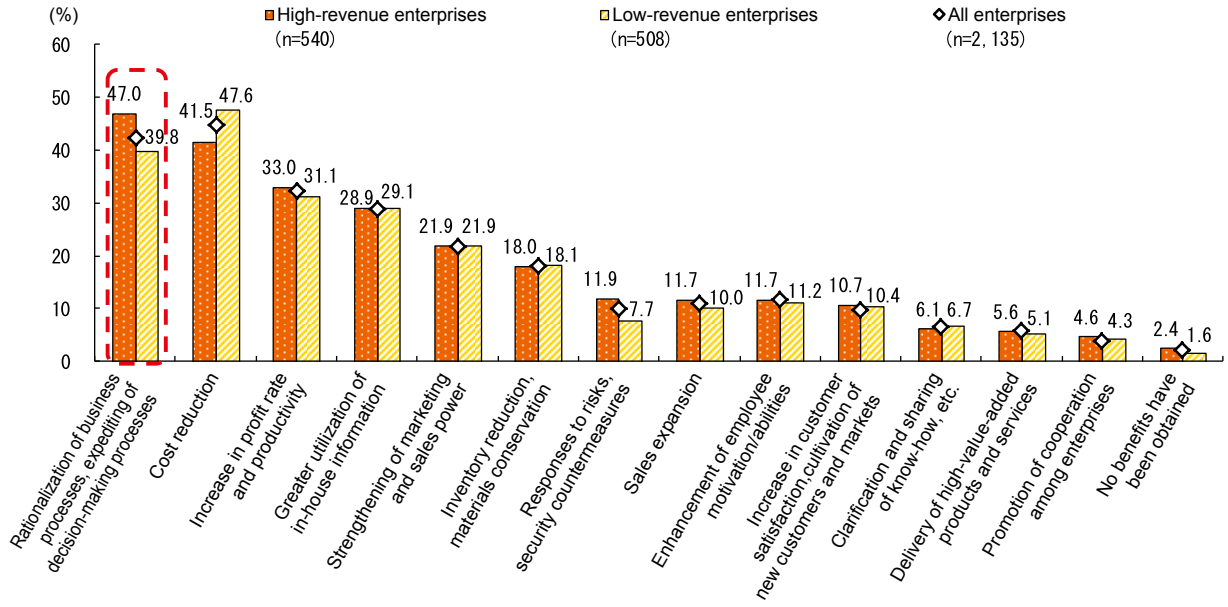
Effects of IT investment for high- and low-revenue enterprises

Let us now look at the different potential effects of investing in IT for high- and low-revenue enterprises. Fig. 2-2-13 compares high- and low-revenue enterprises in terms of two types of IT investment made: "Enterprise systems for operational efficiency" and "Business support systems for higher added value". We can see that high-revenue enterprises saw "Rationalization of business processes, expediting of decision-making processes" as the top effect of enterprise systems for operational efficiency, indicating that such enterprises have a greater sense of this effect than low-revenue enterprises. A similar pattern was also seen for business support systems for higher added value: high-revenue enterprises made "Rationalization of business processes, expediting of decision-making processes" their top response, and we can see that these enterprises have a greater sense of "Sales expansion", "Increase in profit rate and productivity", and "Strengthening of marketing and sales power" as effects than do low-revenue enterprises.

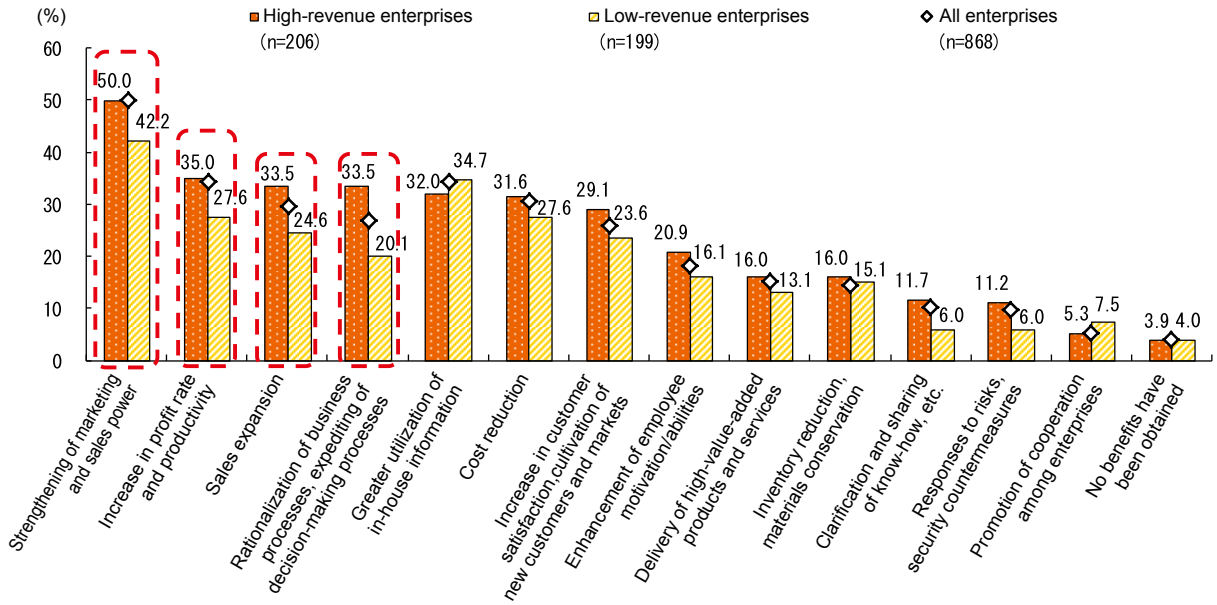
These results indicate that the potential effects of IT investment are felt more keenly among high-revenue enterprises. If all enterprises could get the same sense of effect by investing in the same type of IT, there should not be any conspicuous difference between high- and low-revenue enterprises. This is further evidence that high-revenue enterprises realize the effects of IT investment and are taking steps to further improve business performance.

Fig. 2-2-13 Effects of IT investment as viewed by high-revenue and low-revenue enterprises

(1) Effects on enterprise systems for operational efficiency



(2) Effects on business support systems for higher added value



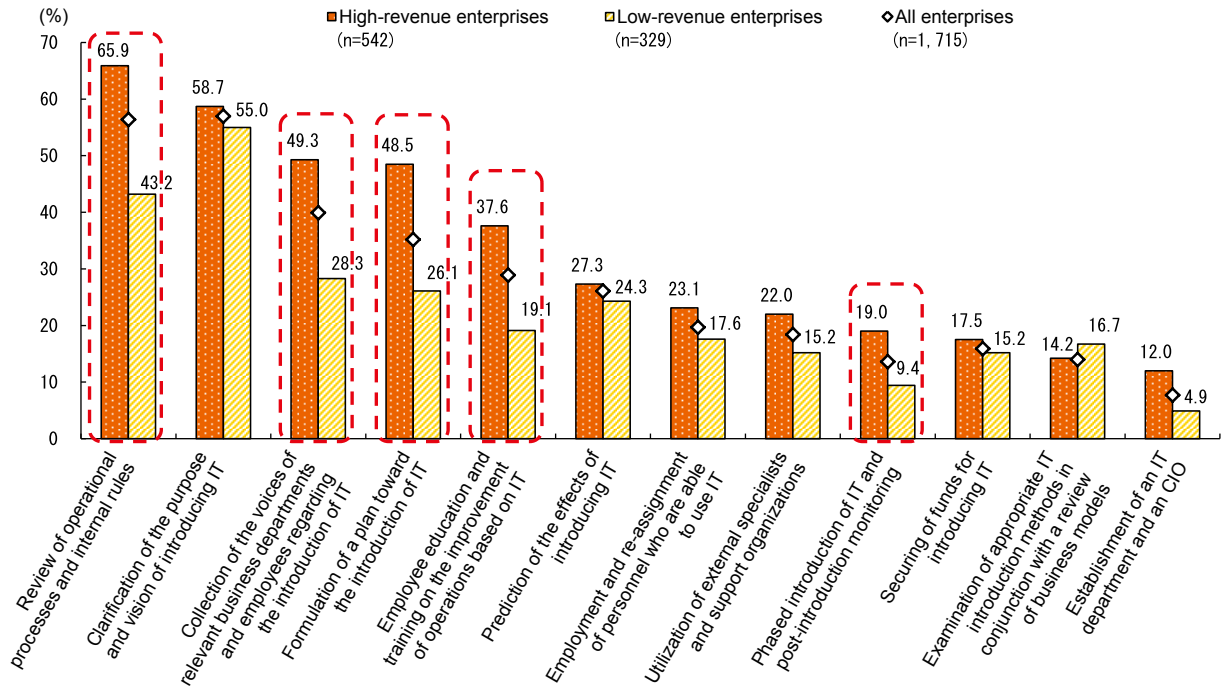
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Actions taken before and after IT investment among high- and low-revenue enterprises — the success factors behind IT investment

The following discussion focuses on actions taken before and after IT investment by high- and low-revenue enterprises, presenting a detailed analysis of the differences among these actions at enterprises effecting from IT investment and at those not effecting, as well as the success factors behind IT investment.

Fig. 2-2-14 compares high- and low-revenue enterprises in terms of which actions taken before and after IT investment were meaningful in achieving effects. Big differences were seen between the two types of enterprises for responses such as "Review of operational processes and internal rules", "Collection of the voices of relevant business departments and employees regarding the introduction of IT", "Formulation of a plan toward the introduction of IT", "Employee education and training on the improvement of operations based on IT", and "Phased introduction of IT and post-introduction monitoring".

Fig. 2-2-14 Actions taken that were meaningful to achieving IT investment effects, as viewed by high- and low-revenue enterprises



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Based on data from enterprises currently investing in IT.
2. Total does not always equal 100% as multiple responses were possible.

The above results suggest that, along with reviewing business processes and internal rules while gathering feedback and information from departments and employees, enterprises deploying IT would do well to provide employees with IT training in a staged and systematic manner and to conduct ex-post investment evaluations following IT investment.

Case 2-2-5 Yoshihana Co., Ltd.

A company that has improved its efficiency and increased its profit rate by attracting customers through its website and introducing a cloud computing system

Yoshihana Co., Ltd. (employees: 44; capital: ¥3 million), based in Kaga City, Ishikawa Prefecture, operates the 50-room hot spring *ryokan* Ohanami Kyubei, located in the Yamanaka Onsen region. From the time of its establishment in 1958, the company focused on taking group bookings for company trips organized through travel agents. In addition to providing *ryokan* accommodation, the company also organized banquets for its corporate guests and engaged in product sales, and its business status was solid. However, the effects of a sluggish economy combined with a contraction in the scale of the hotel accommodation industry overall, in addition to a change in the company's customer makeup from groups to individuals, saw its revenue per customer decline and its business status worsen, and its traditional operational system could not function effectively with increasing complexity in procedures.

Feeling a sense of crisis in relation to the problems being faced by the company's traditional business approach, company President Ryuhei Yoshimoto joined Yoshihana in 2004 in order to reform operations. At the time, Mr. Yoshimoto had no knowledge or experience of business management, and he was hard pressed to determine how to reform the company. He decided to introduce an IT system in order to render processes previously conducted on an individual basis visible, making it possible to identify where the company's problems lay.

First, Mr. Yoshimoto judged that the company's traditional system of relying on travel agents made it difficult to attract individual customers with diverse needs, and he commenced the creation of a company webpage in 2005 in order to make it possible to attract customers directly. In addition to formulating product plans that responded to diverse needs, he analyzed the webpage access log to investigate which pages received the most access and how the reservation rate changed when he changed the photographs on the starting page. Repeating the PDCA cycle in this way enabled Mr. Yoshimoto to optimize the company homepage.

Next, in order to increase the efficiency of complex work procedures, in 2010 Mr. Yoshimoto introduced a system that used cloud computing. Until then, all office procedures had used paper – for example, reservations made by telephone or FAX were copied into a reservation book. This cost time and money, and procedures were also inefficient, for example as a result of the frequent occurrence of mistakes in copying. The introduction of the cloud computing system enabled data to be managed entirely on computer rather than paper. Linking the systems used for different sections (reservations, reception, accounts) rationalized operations and saved labor, and analysis of the data concerning customer attributes and sales aggregated by the system made it possible to conduct effective advertising and develop products with consideration of customer attributes.

By means of repeatedly implementing measures and checking the results in this way, the company was able to continue to improve its website in stages, leading to an increased reservation rate via Web reservations, and increased revenue. In addition to this, the introduction of the cloud-based system increased operational efficiency and reduced costs, resulting in an increase in the company's profit rate.

However, this process of company reform via the introduction of IT had been based on Mr. Yoshimoto's own judgment, and had been put into effect from the top down, without consideration of the opinions of employees. Because of this, while the introduction of IT initially improved business results, as time passed, the antipathy of employees to the changes increased. Job motivation declined, the level of customer service declined, and as a consequence customer satisfaction also declined, resulting in a steady reduction in sales.

Realizing that top-down IT introduction had been a mistake, Mr. Yoshimoto revised the company's internal system to ensure that future business plans would only be formulated after he had communicated his thinking to all employees and taken their opinions into consideration and reflected them in the plan, and in addition that efforts would be made to provide every individual employee with guidance and training in customer service and IT use. This produced a steady recovery in employee motivation, improved the quality of customer service, and resulted in increased customer satisfaction. In addition, while only a section of employees had used the IT systems up to that point, IT-related training for the entire company resulted in greater use of the systems at the workplace level. This once again increased operational efficiency, and the company's results, which had previously slumped, steadily recovered their previous level.

Mr. Yoshimoto says "The introduction of IT and the fostering of human resources have resulted in a steady improvement in Yoshihana's business results, but there is still room for development. People tend to think that introducing IT costs a lot of money, but there are also quite a few low-cost options such as cloud computing systems, and also options that can be used for free, like webpage analysis. Because the *ryokan* business is a traditional industry, a lot of inefficient ways of going about things still linger from the past, and this makes the well-planned introduction of IT all the more effective."

Company President Ryuhei Yoshimoto

Case 2-2-6 Kobayashi Manufacture Co., Ltd.

A company that has increased its productivity by listening to employee opinions and reforming its systems to ensure employee satisfaction

Kobayashi Manufacture Co., Ltd. (employees: 99; capital: ¥10 million), based in Hakusan City, Ishikawa Prefecture, is a manufacturer of precision-machined sheet metal products for semiconductor manufacturing equipment and machine tools. Equipped with a full range of production equipment and boasting considerable technological expertise, the company uses these strengths to respond to its customers' needs via high-mix/low-volume manufacturing in short time periods.

Established in 1919, Kobayashi Manufacture's main business was initially the production of bolts for use in ships and textile machinery. As times changed, the demand for bolts declined, and the company shifted its area of business to sheet metals and coatings. The company's approach those days was low-mix/high-volume. In the 1980s, when the use of personal computers began to become more widespread, company President Yasunori Kobayashi, then a student, perceived their potential. He quickly developed an original order management software, and, with the agreement of the then-President, his father, introduced it to the company. However, employees rebelled against this unilateral introduction of IT by management. Feeling that being managed by computers was demeaning to employees, not only did they not make use of the new technology, but some even left the company. After joining the company, Yasunori Kobayashi was appointed President in 1991, and came to question the company's low-mix/high-volume approach to manufacturing, which treated workers like machines. In 1999, Kobayashi Manufacture changed its management orientation, transforming itself from a company that prioritized speed to one that sought to ensure the happiness of each of its employees. Efforts were commenced to create a working environment in which the company's employees could perform their jobs energetically and with a sense of the value of the work.

As times changed, the company found that its clients were demanding the same low prices as were available from overseas products, and it became difficult to ensure its previous level of profit. In 2008, the Lehman crisis occurred, resulting in a significant decline in sales across the industry. Each time that the company faced these changes in its circumstances and new challenging trials, it upgraded its IT system in an attempt to reduce costs through IT use.

First, the company upgraded its order management software, which had focused exclusively on the management of dockets from the acceptance of orders to shipping, developing a production status management system that made it possible for users to check materials, the status of the work, work history, solid diagrams, and estimates at a glance, and that handled the acceptance and issuing of orders via electronic data interchange (EDI). The company also made efforts to establish relationships of greater trust with its business partners via the speedy acceptance and issuing of orders using EDI, in order to help secure new orders from existing and new customers. Next, it installed 90 Web cameras in its factory and recorded all of its work procedures and the operations of the employees in charge of them. In order to make it possible to instantaneously grasp the work procedures involved in manufacturing a product, the company linked the images recorded by its cameras to the data in its production status management system.

In making these improvements to the company's system, Mr. Kobayashi sought opinions from employees, and made the system upgrades in stages in order to resolve any problems that arose along the way. For example, Mr. Kobayashi predicted that company employees might feel that they were being put under surveillance, and object to the installation of the Web cameras. He therefore explained to all employees in advance that the purpose of the installation of the cameras was to record manufacturing activities in order to increase quality, boost productivity, and fairly assess each employee's way of working, and only went ahead with their installation after receiving the agreement of the employees.

By upgrading its systems in steady stages and rendering its manufacturing procedures visible as described above, Kobayashi Manufacture has succeeded in increasing the efficiency of its work processes. In addition, the realization of an atmosphere of greater openness and communication has resulted in increased employee motivation and productivity, and has seen the company's results display a V-shaped recovery, returning to their pre-crisis level the year after the Lehman crisis.

Mr. Kobayashi says "No matter how magnificent the system, if a company's employees are not satisfied with it, the company will not obtain the results it desired. To ensure that your investment is successful, dialogue with employees is essential. The most important thing is to understand what kind of company each employee wants the company to be in the future, and to share these visions."

Company President Yasunori Kobayashi (R)
and Department Manager Masae Kurokawa (L)

Kobayashi Manufacture Co., Ltd.'s head office and factory

Case 2-2-7 Eagle Bus Co., Ltd.

A bus company that improved its unprofitable routes through a fusion of digital and analogue: The introduction of an original system to reform its work processes and the conducting of customer surveys

Eagle Bus Co., Ltd. (employees: 200; capital ¥50 million), based in Kawagoe City, Saitama Prefecture, is a transportation company that operates route buses, high-speed buses, and sightseeing buses.

From its establishment in 1972, the company's business focus was the operation of high-speed and sightseeing buses. However, a request to the company from Hidaka City in Saitama Prefecture in 2006 to take over the operation of bus routes when a major bus company pulled out of the area saw it newly add route bus operation to its other business areas.

The route bus business that Eagle Bus. Co., Ltd. took over had been inefficiently managed, with no change to the timetables in almost 40 years, and was chronically in the red. Believing that it would be necessary to optimize timetables in order to bring unprofitable routes into the black, Masaru Yajima, the company's President, brought together the marketing methods for the identification of user needs that he had developed in the sightseeing bus business and scientific methods for the understanding and analysis of transport data using IT, and created and introduced a unique timetable optimization system. First, global positioning system (GPS) units and infrared sensors were installed at the entrances of the buses on the routes in order to gather basic information. This enabled constant monitoring of the status of operations, and the collection of data including data on the average number of passengers and the length of delays by route, data on stops with a low rate of use, and data for different time periods throughout the day. In addition, the company conducted a questionnaire survey of customers at the same time as introducing the new system, in order to assess the needs of customers using the buses every day. Bringing together the objective data obtained using IT and the results of the questionnaire survey, the company reorganized its timetables in order to increase customer satisfaction and boost profits with the optimum cost-benefit ratio.

The introduction of the IT system not only made the operation of the bus routes visible, but also enabled the Eagle Bus to commence management based on specific consumption (the quantity of various factors of production required to produce a specific level of output) in order to reduce costs. Efforts were made to increase profitability by projecting the costs that could be reduced by shortening operating times, and conducting thorough post facto assessments of the reduction in costs following implementation.

The combination of the introduction of an IT system and the conducting of a questionnaire survey enabled the company, four years after taking over the operation of the routes, to achieve increased customer satisfaction and a resultant increase in the number of passengers, and to realize a return to profitability. In order to maintain a high level of customer satisfaction, in addition to day-by-day surveys, Eagle Bus also conducts questionnaire surveys regarding passenger attitudes towards once-yearly changes in its timetables, and, because the lifestyles of the residents of the areas through which its routes run are changing, a questionnaire survey of local residents once every three years.

Eagle Bus has succeeded in improving its unprofitable routes through the introduction of IT, but still faces a severe business environment, with the Ministry of Land, Infrastructure, Transport and Tourism estimating that more than 70% of bus companies throughout the country are operating at a loss. The company has succeeded in significantly improving its balance of revenue and expenditure on unprofitable routes, but its route bus business as a whole is still in the red, necessitating further increases in productivity and profitability into the future. Company President Masaru Yajima says "We have to increase the profitability of our route bus business in the future, but we can't make increasing the profit rate our number one priority as a management indicator. We also can't just judge the data based on appearances. Although the introduction of IT has made it possible for us to understand which routes were normally underused, we have to ensure that we understand the needs of the customers who use those routes before deciding on their continuation. Increased satisfaction with our services is linked to increased profitability."

An Eagle Bus Co., Ltd. route bus

The company's retro "CO-EDO Loop Bus"

Case 2-2-8 Happy Co., Ltd.

A company that optimized its business and increased profitability through the introduction of an electronic records system that centrally manages its services

Happy Co., Ltd. (employees: 25; capital: ¥53.5 million), based in Uji City, Kyoto Prefecture, offers a "Care and Maintenance Service®" for clothes to customers throughout the country, based on a concept of enabling its customers to enjoy their garments for as long as possible. The company operates without physical stores or agencies, accepting orders by telephone or the Internet and making use of delivery services.

37 years ago, in 1979, company President Hideo Hashimoto established a dry cleaning business using equipment that he had developed himself. By the latter half of the 1990s, he had expanded his business to almost 50 agencies. However, the dry cleaning market in Japan began to shrink annually, for reasons including the limited cleaning ability of dry cleaning procedures, and, as times changed, reduced prices due to increased competition and the trend towards "fast fashion." Recognizing the urgency of the situation, Mr. Hashimoto closed all his stores and established Happy Co., Ltd. in 2002. Mr. Hashimoto moved away from the dry cleaning business and developed a new area of business, a service for revivifying clothes that involved a process of laundering that would not damage even high-quality fabrics (in 2006 he invented a world-first technique for laundering in water, which he called "Weightless Balance Laundering®"[18]).

Happy Co., Ltd. makes skillful use of IT in its care and maintenance process. Employees first check the level of soiling and the state of clothing received from customers, and create individual records for the items in the system. Based on these records, company sales representatives advise customers as to the optimum care and maintenance schemes and the potential risks. Procedures are commenced when the customer's agreement is obtained. The development and introduction of this core electronic records system enabled centralized management that establishes a solid connection between front office processes (consultation and sales, settlement of accounts, etc.) and back office processes (laundering, finishing, shipment, etc.), making it possible to optimize the business as a whole. In addition, the recording of all work procedures by video cameras has enabled the transformation of experience-based knowledge such as employees' specific skills from implicit knowledge to explicit technique. This "visualization" has further transformed human resources into assets, enabling the realization of high quality and high added value, with a resulting increase in the level of customer satisfaction.

The use of a database that compiles data from the electronic records system also enables the company to target customers and conduct efficient sales. In addition to this, by linking its order Webpage to the electronic records system, the company has created a cyber-physical system[19] that allows customers to make orders from PCs and also smartphones and other mobile terminals. By means of efficient sales procedures based on data mining[20] using this Big Data, the company is working to reduce costs, increase repeat business, and increase its sales by acquiring new customers.

The original electronic records system that was introduced following the company's establishment did not possess the diverse functions of the system today. Based on Mr. Hashimoto's belief in not incorporating functions that would not be used in the workplace, the system was improved in stages by a repeated process of trial and error that reflected the opinions of company employees. By incorporating an increasing number of functions that enhanced convenience, Mr. Hashimoto succeeded in creating a system that is able to be put to use in the workplace.

Following the completion of the electronic records system, which provides a total management system, the company's advertising expenses were reduced to one-eighth, its sales were increased by 113%, and its operating profit was approximately five times what it had been prior to the completion of the system. The company's prices are higher than those of a normal laundering business, but its sales have steadily increased. Since the completion of its management system, Happy Co., Ltd. has also worked to make constant improvements to the system while reflecting opinions from the workplace as to how to further optimize work procedures and increase the added value of services.

Mr. Hashimoto says "We will continue to offer our customers a richer lifestyle through our unique service for the revivification of their valued garments, based on a concept of care and maintenance that goes beyond conventional laundering services."

Customer consultation at Happy Co., Ltd.

One of the company's procedures (Silhouette press)

18) "Weightless Balance Laundering" is an original laundering method developed by Happy Co., Ltd. that realizes the cleaning ability that is the strong point of washing in water with the ability to maintain the shape of clothes that is the strong point of dry cleaning, applying a water washing process that does not use physical, mechanical force and is gentler than hand washing (patent granted for Japan and overseas).

19) "Cyber-physical systems" are services/systems that contribute to the realization of a more efficient and advanced society by bringing together the information obtained from sensor networks, etc. making up embedded systems in the real world (physical) with the computing power of IT (cyber).

20) "Data mining" refers to automated search technologies and methods enabling patterns, trends, correlations, etc. that would not be discovered by simple analyses to be determined in large volumes of data.

Column 2-2-3 IT usage and labor productivity

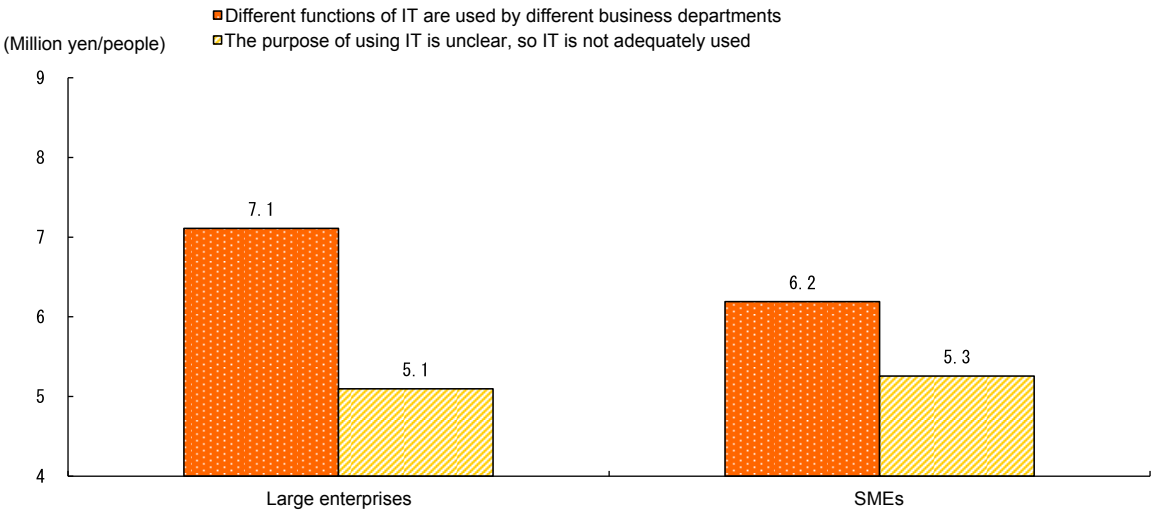
The discussion so far has looked at how, even though SMEs as a whole are increasingly engaging in IT deployment, there is still a good number not using things like computers or accounting software. This column will examine the relationship between IT investment and labor productivity at SMEs.

IT usage and labor productivity

Fig. Column 2-2-3 (1) shows labor productivity levels by enterprise size based on differences in IT usage at enterprises using data from *2014 Survey of Conditions in Information Processing* and *2014 Basic Survey of Japanese Business Structure and Activities*, both published by METI. We can see that, regardless of enterprise size, enterprises with unclear IT goals and inadequate IT usage have lower levels of labor productivity than do enterprises using IT for different business departments and functions.

As shown earlier in Figs. 2-2-8 and 2-2-9, a strong percentage of SMEs are utilizing IT in the form of packaged software and systems in the "finance and accounting" and "personnel affairs and salaries" business domains, which are critical to every type of industry. These results provide further grounds for the idea that enterprises that are deploying packaged accounting software and other IT to improve operational efficiency are effectively improving productivity, while enterprises not deploying accounting software, etc. are not achieving improved efficiency through IT, indicating the latter is not improving productivity like the former is.

Fig. Column 2-2-3 (1) IT usage and labor productivity at enterprises, by size (2013)



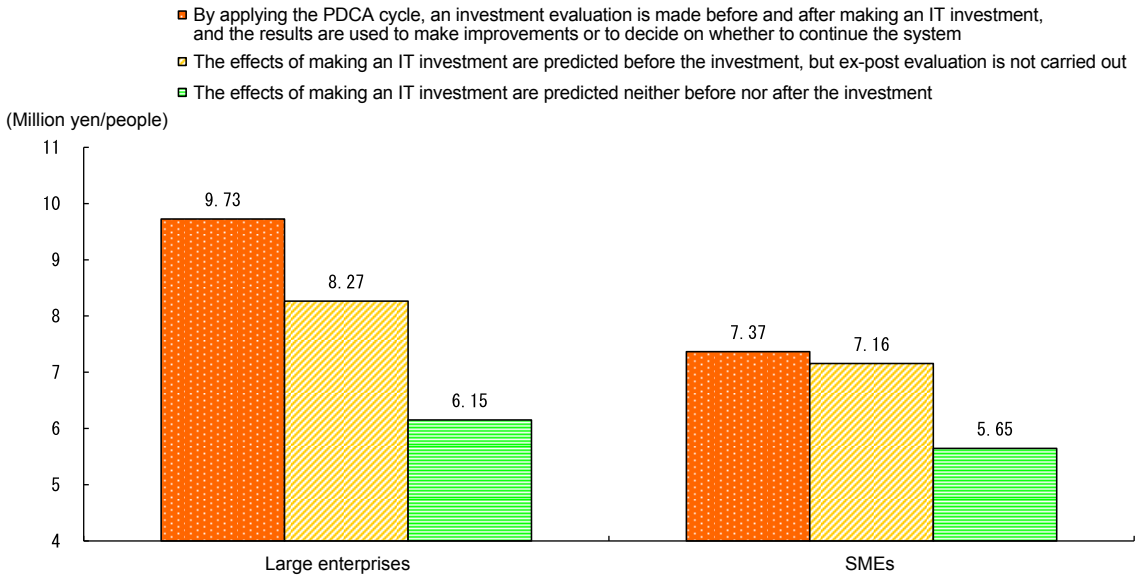
Source: Recompiled from METI, *2014 Survey of Conditions in Information Processing* and *2014 Basic Survey of Japanese Business Structure and Activities.*
Notes: 1. Based on fiscal 2013 labor productivity resulting from 2013 IT usage.
2. Labor productivity = amount of added value / number of employees.

IT investment evaluation and labor productivity

Next let us look at Fig. Column 2-2-3 (2), which shows enterprises' labor productivity based on size and actions taken before and after IT investment. We can see that, regardless of enterprise size, enterprises that made effect estimates prior to and after investing in IT had higher labor productivity than those that made no estimates at all. Moreover, enterprises that conducted ex-post evaluations in addition to preliminary evaluations and that carry out a PDCA cycle had even higher levels of labor productivity.

This would suggest that SMEs can improve labor productivity to the level of large enterprises by conducting much more thorough preliminary and ex-post evaluations when investing in IT.

Fig. Column 2-2-3 (2) IT investment evaluations and labor productivity, by enterprise size (2013)



Source: Recompiled from METI, *2014 Survey of Conditions in Information Processing* and *2014 Basic Survey of Japanese Business Structure and Activities.*

Notes: 1. Based on fiscal 2013 labor productivity resulting from 2013 IT usage.
2. Labor productivity = amount of added value / number of employees

Column 2-2-4 Measures to support deployment and effective utilization of IT

Lending for investment in IT (IT funds)

The Japan Finance Corporation provides funding for equipment capital for the acquisition of equipment, etc. that composes information networks SMEs need to computerize their business, as well as working capital for the acquisition of software and for the production, screening, etc. of digital content (see Fig. Column 2-2-4).

Fig. Column 2-2-4 Overview of IT fund programs

Loan Eligibility	Enterprises for which any of the following apply: 1. Enterprises undertaking internal business improvement, information exchange, or other effective measures aimed at upgrading the enterprise's business through the use of information technologies 2. Enterprises conducting transactions or sending or receiving information over a network with other enterprises, consumers, etc. 3. Enterprises endeavoring to bring the level of the information technologies used in its business to the level of those used by a business partner or other outside entity 4. Enterprises endeavoring to innovate with respect to business methods, content, etc. through the use of information technologies 5. Enterprises upgrading their information technology base, including efforts involving any combination of 1 through 4 above 6. Enterprises that are or are attempting to operate a taxi business and are investing in digitalization to equip their fleets with wireless technology (ended May, 2016) 7. Cable television service providers 8. Enterprises transferring, etc. taxable assets targeted for tax reduction as provided for by the Consumption Tax Act
Loan Usage	1. Enterprises for which any of 1 through 5 under "Loan Eligibility" apply Equipment funds and leasing capital, etc. needed to acquire computers (including software) 2. Enterprises for which 6 under "Loan Eligibility" apply Equipment funds needed to equip taxis with wireless technologies 3. Enterprises for which 7 under "Loan Eligibility" apply Equipment funds needed to provide 4K broadcasting 4. Enterprises for which 8 under "Loan Eligibility" applies Equipment funds needed to acquire computers (including software) and other equipment for a taxable business targeted for a reduced tax rate
Loan Limits	SME Unit: ¥720 million (of which working capital is limited to ¥250 million) Micro Business and Individual Unit: ¥72 million (of which working capital is limited to ¥48 million)
Loan Interest Rates	SME Unit: Standard interest rates, special interest rates Micro Business and Individual Unit: Standard interest rates, special interest rates
Loan Periods	Equipment funds: Not exceeding 20 years (including a period of deferment not exceeding 2 years) Working capital: Not exceeding 7 years (including a period of deferment not exceeding 2 years)
Managing Financial Institutions	Japan Finance Corporation (SME Unit as well as Micro Business and Individual Unit) Okinawa Development Finance Corporation

Column 2-2-5 Competitive IT Strategy SME Selection 100

A program jointly conducted by METI and related agencies, the Competitive IT Strategy SME Selection 100 selects SMEs that are proactively endeavoring to effectively utilize IT in competitive fields and presents their efforts as best practices.

In contrast to the kind of IT investment practiced by Japanese enterprises, that is "conservative" investment focused mainly on improving business efficiency and cutting costs, American enterprises are using IT to strengthen product and service development capabilities while creating new value and honing their competitive edge through business model reform supported by IT. Amid the changing environment surrounding SMEs, which includes a declining and aging population alongside a changing employment structure, Japanese SMEs — which form the economic foundation of the country — will need to focus further energies on "competitive IT investment" if they are to strengthen their earning power.

Those selected are SMEs that effectively utilize IT to expand profits by strengthening current business and to create new value by venturing into new areas of business.

The acceptance of applications began in fiscal 2014, and the program plans to select about 100 companies over a three-year period[21].

21) 33 SMEs were selected on October 27, 2015 during the first phase. Information about the selected companies can be found on METI's website at http://www.meti.go.jp/policy/it_policy/investment/it_keiei/100sen.html.

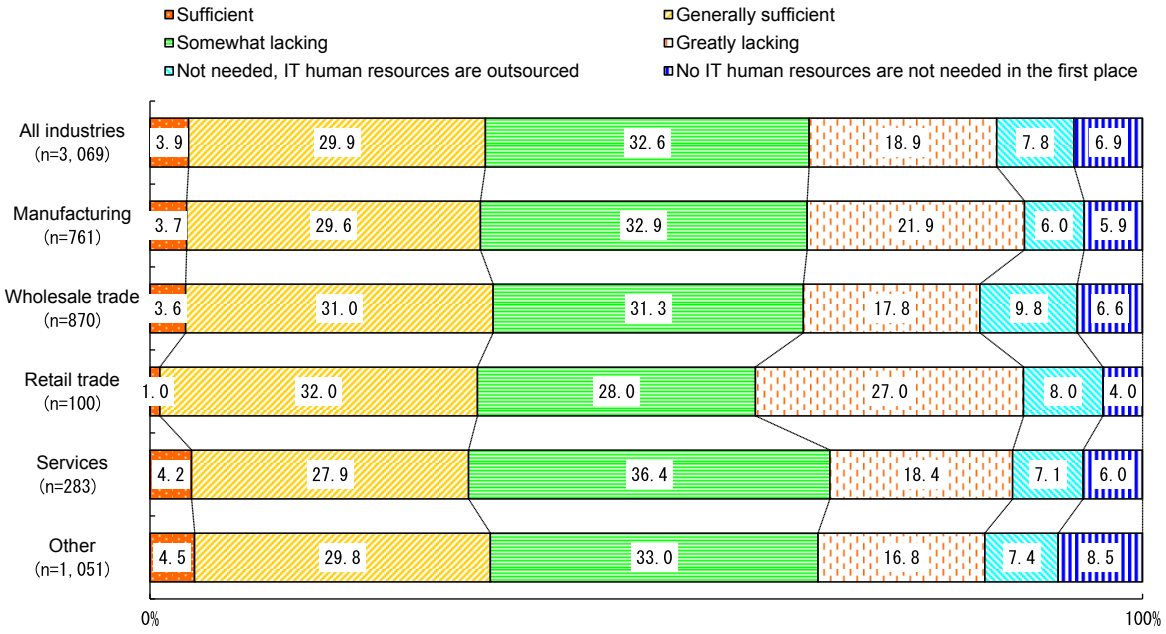
3. Utilization of IT personnel

We have so far looked at issues faced by enterprises investing in IT and at "IT personnel[22]" as one reason for enterprises' not investing in IT. This section will look at the present state of and issues concerning IT personnel needed to succeed with IT investment.

Present state of IT personnel utilization

Fig. 2-2-15 looks at IT personnel sufficiency based categorized by industry. In every industry, roughly 30% of enterprises said that IT personnel were either "Sufficient" or "Generally sufficient". Meanwhile, some 50% to 60% of respondents in every industry chose either "Somewhat lacking" or "Greatly lacking", indicating an overall lack of IT personnel.

Fig. 2-2-15 IT personnel sufficiency by industry



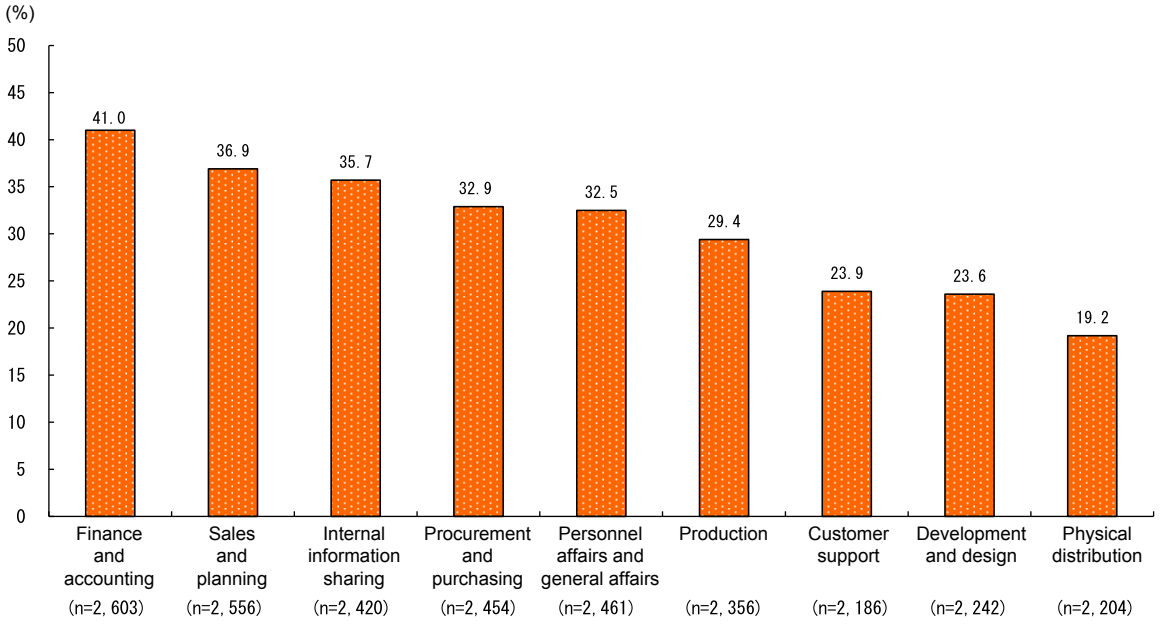
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Based on data from enterprises currently investing in IT.

22) "IT personnel" here refers to personnel that use IT or plan, implement, and manage the deployment of information systems.

Next, Fig. 2-2-16 shows IT personnel utilization by business domain and Fig. 2-2-17 shows IT personnel working in each business domain. Keeping in mind that IT personnel are not needed in certain business domains in certain industries, the business domain found to have the most IT personnel working in it was "Finance and accounting", followed by "Sales and planning", "Internal information sharing", and "Procurement and purchasing". We can also see that, compared to other business domains, the "Finance and accounting" and "Personnel affairs and general affairs" domains had higher percentages of enterprises utilizing highly-specialized IT personnel recruited via external outsourcing as freelancers[23] or as personnel from information systems firms, as opposed to IT personnel employed in-house to perform jobs as systems engineers[24], project managers[25], and other IT engineers in charge of developing and operating systems, as well as IT engineers that analyze data, such as data scientists[26].

These results also suggest there is a high percentage of enterprises employing highly-specialized IT personnel in-house in order to differentiate themselves from competitors. These are the development and design, production, and other business domains in the manufacturing industry and the procurement and purchasing, physical distribution, and other domains in the wholesale and retail trade industries, among others. On the other hand, an increasing number of companies is utilizing IT personnel recruited via outsourcing for business domains such as finance and accounting, which are critical to every industry, as there is no need to differentiate oneself from competitors in such domains.

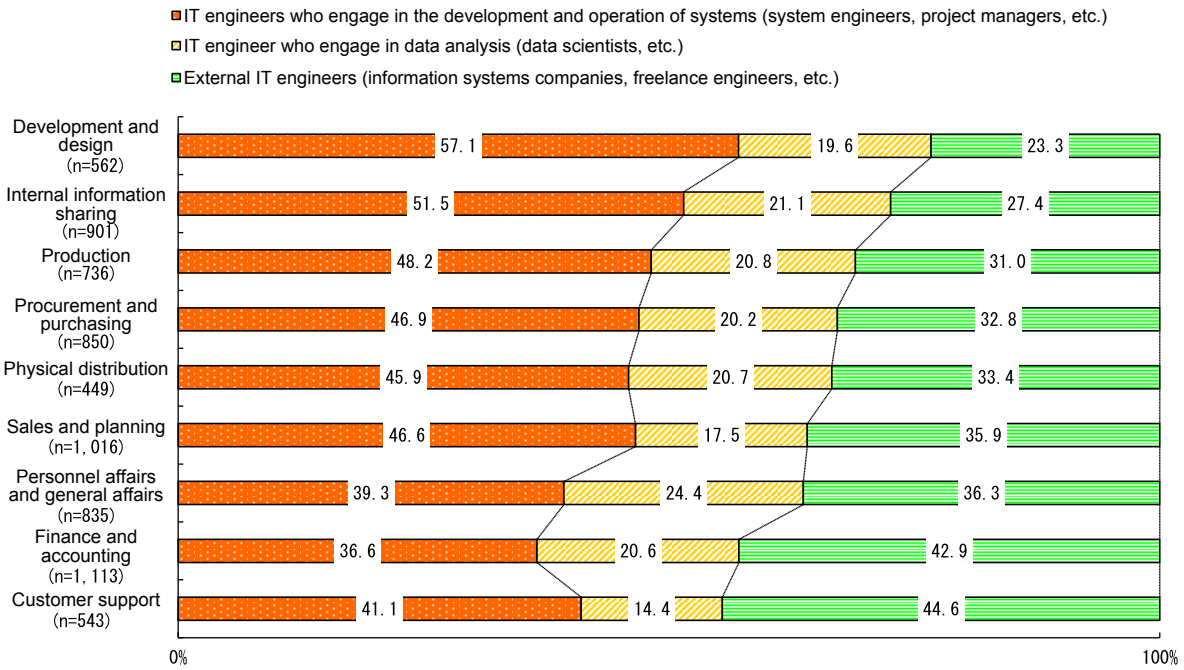
Fig. 2-2-16 Methods for utilizing IT personnel, by business domain



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Based on data from enterprises currently investing in IT.

23) "Freelancers" here refer to those that do not work exclusively for any enterprise or organization and that provide their skills as occupationally independent sole proprietors or private enterprises.
24) "Systems engineers" here refer to engineers whose primary duties are the planning, design, and operation of systems to ensure their smooth operation.
25) "Project managers" here refer to project managers whose primary duties are coordinating schedules, ascertaining workloads, conducting external negotiations, and managing operations.
26) "Data scientists" here refer to engineers and researchers who utilize statistics, data analysis, and other disciplines to perform duties that involve leveraging large amounts of data for use in business strategy.

Fig. 2-2-17 Composition of IT personnel being utilized by enterprises, by business domain



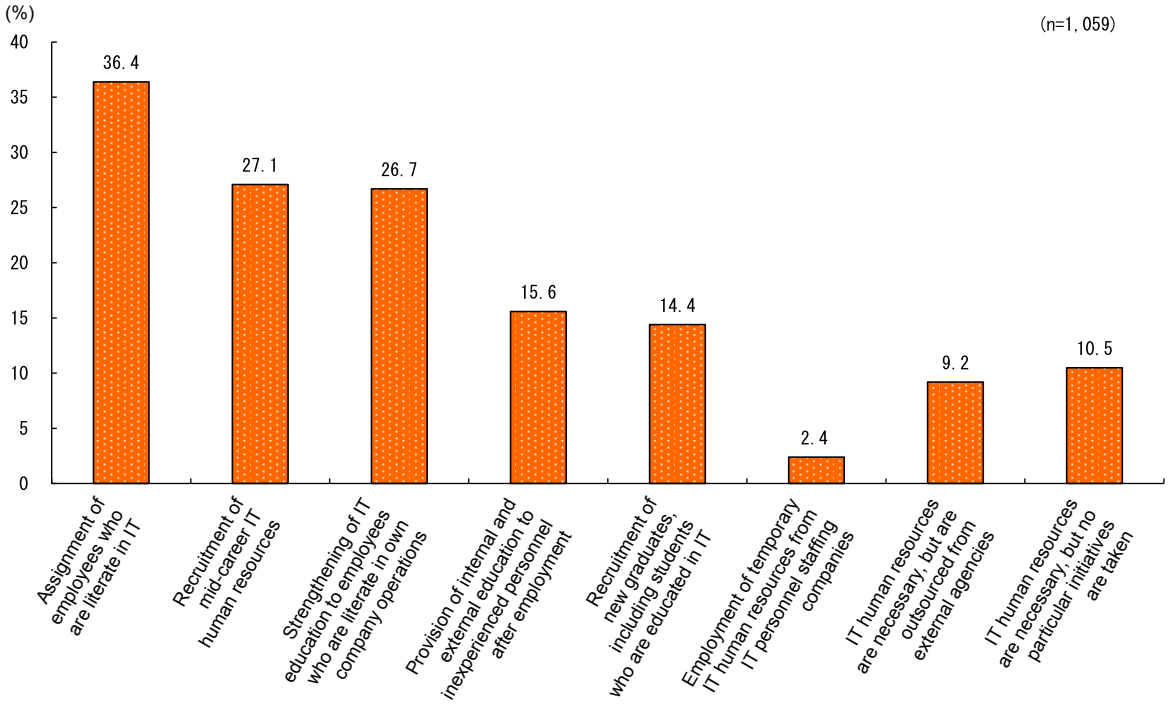
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Based on data from enterprises currently investing in IT.

Initiatives to recruit and train IT personnel

Figs. 2-2-18 and 2-2-19 look at enterprises with IT personnel and show, respectively, these enterprises' efforts to recruit and train IT personnel. With respect to IT personnel recruiting, the largest group of enterprises was those engaged in the "Assignment of employees who are literate in IT". Those engaged in the "Recruitment of mid-career IT human resources" and "Strengthening of IT education to employees who are literate in own company operations" ranked second and third. This would suggest that, among enterprises investing in IT, many are recruiting IT personnel by first reorganizing existing employees in preparation for the investment and then hiring mid-career IT personnel.

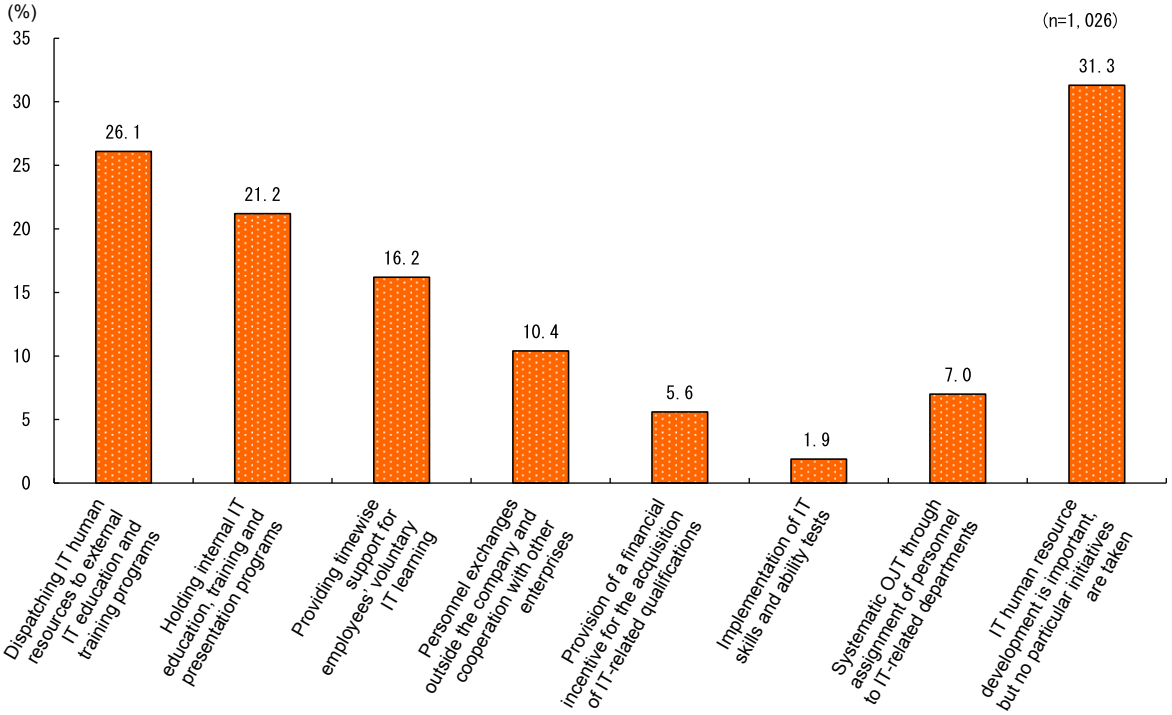
Regarding the training of IT personnel, the largest group at 31.3% was that who said that "IT human resource development is important, but no particular initiatives are taken", and this was among enterprises that currently have IT personnel. It seems that enterprises with IT personnel are facing a number of problems that are preventing them from conducting sufficient training to improve these people's skills. In order to boost profit ratios and productivity through IT investment, these enterprises will need to take full advantage of the IT measures they implement. Doing this will require having high-level IT personnel with the relevant skills. Enhancing profitability through the use of IT will perhaps require leveraging high-level IT personnel through outsourcing in a flexible manner, in addition to hiring such people as full-time employees.

Fig. 2-2-18 Efforts to recruit IT personnel among enterprises with IT personnel



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Based on data from enterprises who were investing in IT and responded that their IT personnel was either "Sufficient" or "Generally sufficient".

Fig. 2-2-19 Efforts to train IT personnel among enterprises with IT personnel



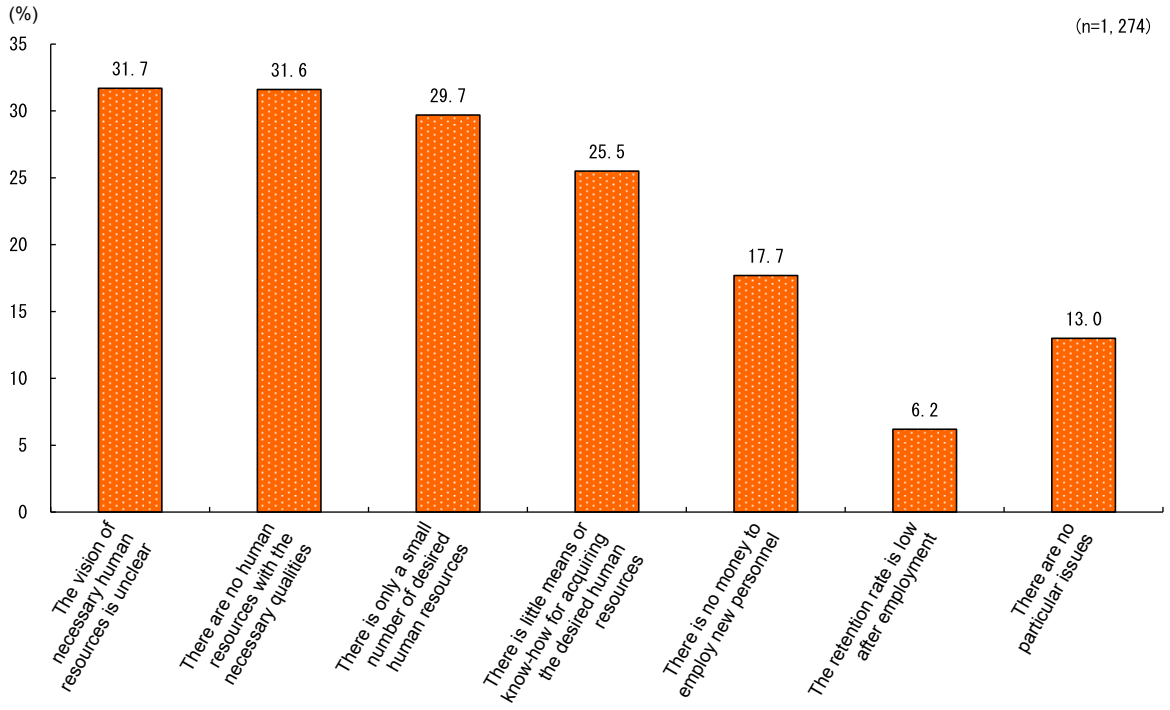
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Based on data from enterprises who were investing in IT and responded that their IT personnel was either "Sufficient" or "Generally sufficient".

Issues concerning IT personnel recruiting and training

Continuing on, let us examine issues enterprises are facing in recruiting and training IT personnel. Figs. 2-2-20 and 2-2-21 look at enterprises who said they had insufficient IT personnel and show, respectively, problems concerning IT personnel recruitment and training. Regarding problems involving IT personnel recruiting, "The vision of necessary human resources is unclear" was the top response, followed by "There are no human resources with the necessary qualities" and "There is only a small number of desired human resources". This suggests that, while enterprises may want to recruit IT personnel, both personal qualities and personnel quantities are lacking, preventing them from recruiting the IT people they need.

As for problems involving IT personnel training, "There is a lack of employees who are capable of providing guidance to or developing IT human resources" was the top response, followed by "Employees cannot secure the necessary time to receive education due to being busy with work" and "There is little means or know-how for providing guidance to or developing IT human resources". It would appear that enterprises lacking sufficient IT personnel are not training these personnel because they have no employees able to teach IT skills, nobody has expertise in personnel training, and there is no time to spend on personnel training as employees are busy with other work.

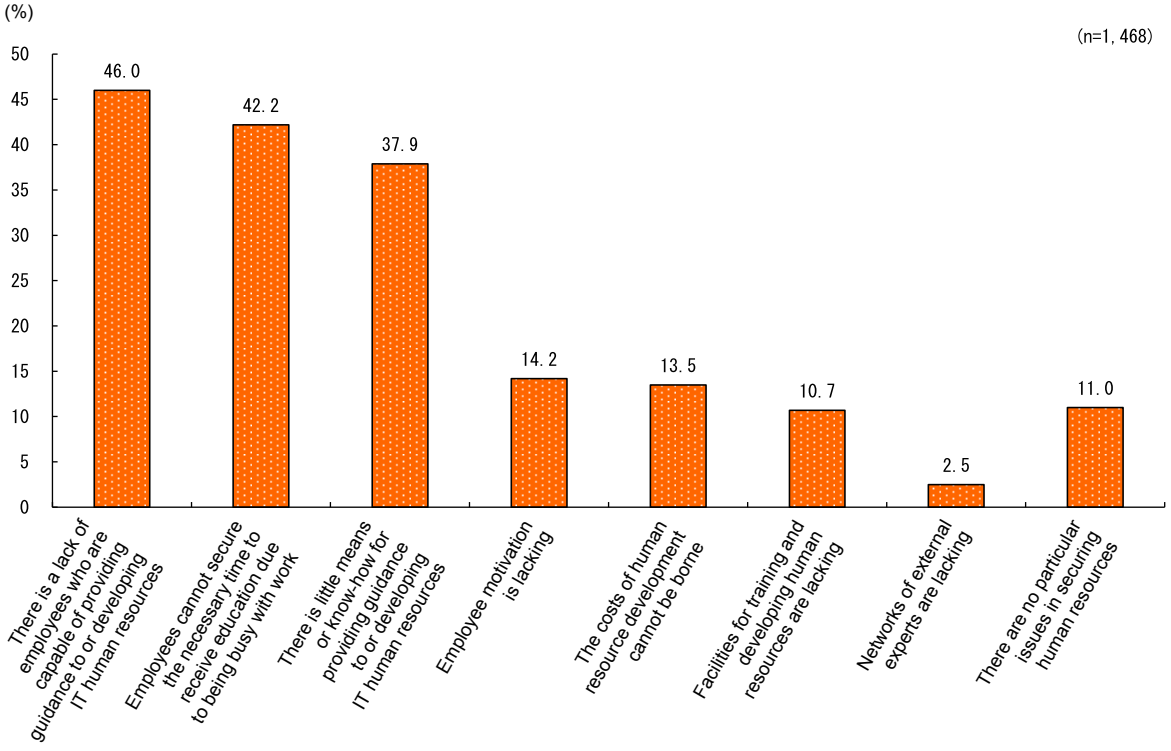
Fig. 2-2-20 Problems with recruiting IT personnel among enterprises with insufficient IT personnel



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Based on data from enterprises who were investing in IT and responded that their IT personnel was either "Somewhat lacking" or "Greatly lacking".

Fig. 2-2-21 Problems with training IT personnel among enterprises with insufficient IT personnel

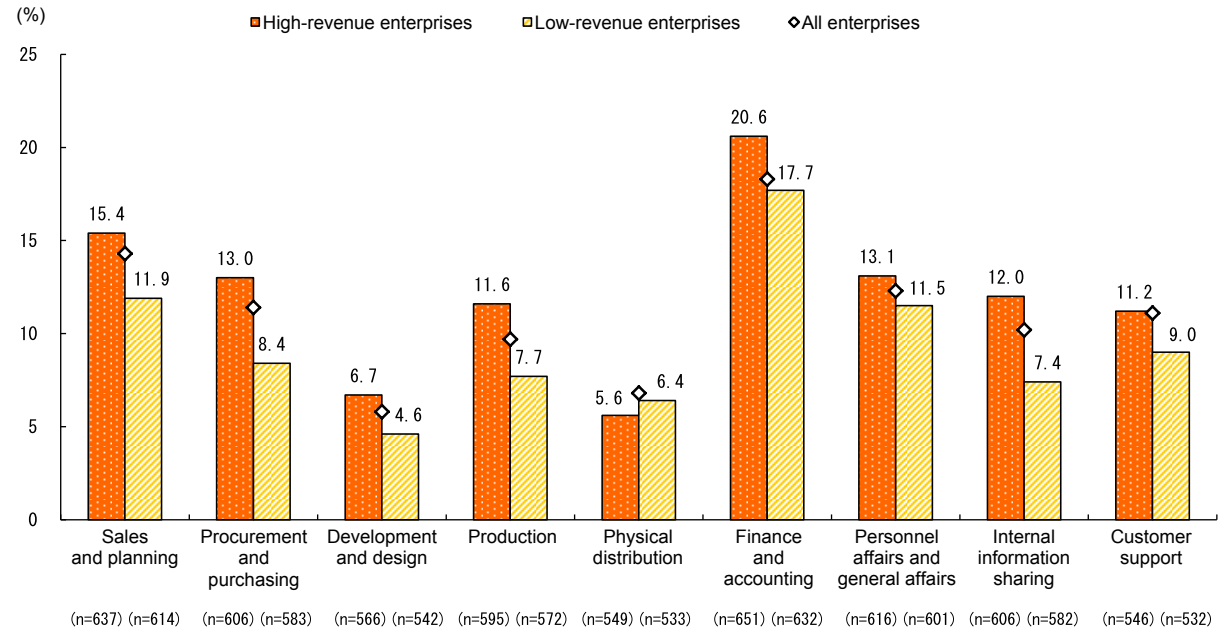


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Based on data from enterprises who were investing in IT and responded that their IT personnel was either "Somewhat lacking" or "Greatly lacking".

Utilization of external IT personnel

The discussion that follows will examine the utilization of external IT personnel at SMEs. Fig. 2-2-22 looks at different business domains and compares high-revenue and low-revenue enterprises in terms of the extent to which they utilize external IT personnel in addition to full-time IT employees. From this we can see that more high-revenue enterprises are using external IT personnel than are low-revenue enterprises.

Fig. 2-2-22 Proportions of external IT personnel being utilized by high-revenue and low-revenue enterprises



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Based on data from enterprises currently investing in IT.

In this section we have looked at IT personnel utilization and seen that SMEs lack the IT personnel they need to invest in IT. Through Figs. 2-2-20 and 2-2-21 we have also seen that, due to the many problems SMEs face, they are not able to sufficiently recruit or train IT personnel. On the other hand, high-revenue enterprises are overcoming IT personnel shortages by utilizing external personnel. We can likely be certain that, due to a declining overall population resulting from a declining birth rate and population aging, labor shortages will continue to worsen at SMEs in Japan. These shortages, however, can be mitigated by using IT to rationalize business processes. As the external business environment continues to change, one effective method going forward may be the enterprising utilization of IT in ways suited to that enterprise by leveraging outside resources as needed, rather than investing in IT using the enterprise's internal resources alone.

Column 2-2-6 Support measures for IT personnel shortages

Strategic CIO Development Support Program

This program is run by the Organization for Small & Medium Enterprises and Regional Innovation and targets SMEs making systematic efforts to use IT in order to execute medium- to long-term management strategies. It provides — for relatively extended periods — to these enterprises specialists with ample knowledge of and experience with IT management and providing support in drafting and executing IT implementation plans based on management strategies, and also trains IT personnel for these enterprises.

Program Overview

Eligible Enterprises	SMEs systematically engaged in resolving management problems and achieving management reform by deploying relatively advanced IT systems that allow for things such as coordination between departments and companies
Support Provided	Dispatching of specialists to SMEs, providing support listed below, and allowing SMEs to play a proactive role in the support process in order to train IT personnel within their enterprises. 1. Comprehensive support covering everything from management and IT strategy creation to developing, migrating, operating, and expanding systems 2. Support for efforts ranging from management and IT strategy creation to IT planning 3. Support for efforts ranging from business practice improvement to achieving the ideal IT plans 4. Support for efforts ranging from companywide information management strategy creation to achieving the ideal IT plans
Dispatch Fees	¥17,200 per person/day (including tax)
Dispatch Period	6 months to 1 year
Specialists Dispatched	Individuals with CIO experience, SME consultants, IT coordinators[27], and other advisers with practical experience resolving and helping to resolve management problems using IT

27) "IT coordinators" here refer to experts that have knowledge of both IT and enterprise management and that provide IT implementation support services aimed at achieving executives' management strategies.

4. Conclusion

Chapter 2 has looked at the present state of IT investment, the effects of this investment, and the key points and problems on the path to achieving investment success at SMEs.

While there are enterprises that have not implemented IT due to a range of issues and enterprises that have invested in IT but are not enjoying the expected benefits, both can improve their business performance by following the examples of efforts by high-revenue enterprises analyzed in this chapter, understanding the key points of IT investment success, and investing in IT while utilizing a variety of IT personnel.

Although labor shortages are likely to intensify as a decreasing birth rate and aging population contribute to an overall population decline in Japan, SMEs can expect that IT implementation will allow them to not only rationalize business processes and economize on manpower but also boost their earning power.

Chapter 3

Initiatives among SMEs to tap into overseas demand

As discussed in Part I and Chapter 1 of Part II, there is a possibility that domestic demand in Japan will shrink as a result of the structural problems of declining total population and declining productive-age population due to the nation's declining birthrate and aging population. However, as also discussed in Chapter 1 of Part II, overseas demand is expanding, and the number of foreign tourists visiting Japan is also increasing. Furthermore, we can project a further deepening of Japan's relations with the rest of the world against the background of the Trans-Pacific Partnership (TPP), and this will include links in the area of trade. Given this, accessing overseas demand will be a vital factor in enabling Japan's SMEs to expand their sales figures.

Following a discussion of changing trends in overseas expansion among Japan's SMEs, this chapter follows on from Chapter 2 of Part II in analyzing the effect, the status, and the issues of investment in overseas expansion based on the results of the *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities*. This chapter will also specifically focus on three types of investment — investment in export (direct[1] and indirect[2]), direct investment[3], and responses to inbound tourism[4] — and will consider future directions for investment in overseas expansion[5].

Section 1 Changing trends in overseas expansion —The importance of overseas expansion against the background of the TPP—

In considering the status of overseas expansion among Japan's SMEs, we will first offer an overview of the TPP, concluded in 2015.

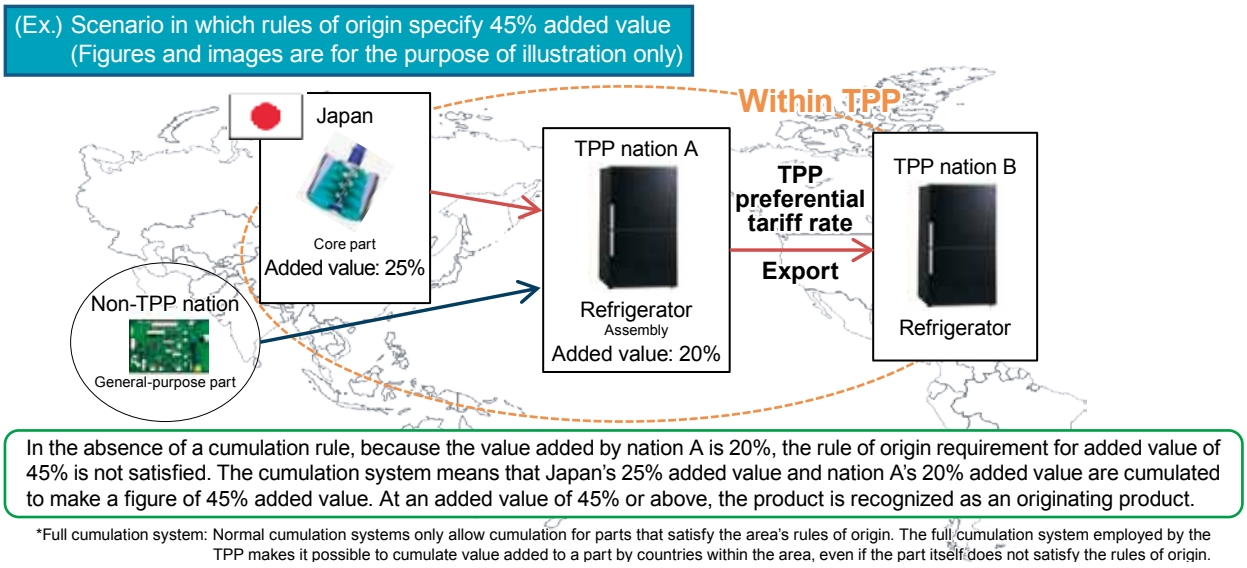
The Trans-Pacific Partnership Agreement, involving 12 countries (Japan, the US, Canada, Mexico, Chile, Peru, Malaysia, Singapore, Viet Nam, Brunei, Australia, and New Zealand), was concluded on October 5, 2015. Establishing new rules in a broad range of areas, including the abolition of tariffs, the liberalization of investment and services, the protection of intellectual property, e-commerce, and temporary entry for businesspersons, the TPP will result in the formation of an enormous, high-level free trade area in an economic zone that represents approximately 40% of global GDP and approximately 30% of Japan's total export value. This agreement is expected to offer large numbers of SMEs and midsized companies not only in the manufacturing industry but also in the service industry with an opportunity for expansion.

The TPP eliminates 99.9% of tariffs on the industrial products exported by Japan, considered from the perspective of ultimate export value. Taking automotive parts as an example, the US (current tariff rate: 2.5%) has agreed to immediately eliminate tariffs on auto parts representing more than 80% of export value; Canada (current tariff rate: 6.0%) has agreed to immediately eliminate tariffs on products representing just under 90% of export value in this area. This reduction of tariffs will not only boost exports for SMEs and midsize companies themselves, but also offers these companies significant benefits via the expansion of exports by large enterprises. The TPP will also eliminate tariffs on items produced by regional SMEs, such as textiles and ceramics. For example, the US will immediately eliminate tariffs on products accounting for 75% of the value of Japanese ceramic exports to the country; the US will phase out its current tariff rate of 9.1% on towels over five years, while Canada will immediately eliminate its current tariff of 17%.

1) Direct exports are exports for which customs procedures are conducted by a company itself or in the name of the company.
2) Indirect exports are exports conducted by domestic trading companies or wholesalers, export agents, etc.
3) Direct investment refers to investment to establish an overseas subsidiary or capital participation in an overseas company.
4) Responses to inbound tourism refers to the sale and provision of a company's goods and services to tourists visiting Japan from overseas.
5) Overseas expansion also includes importing, the establishment of business tie-ups with overseas companies, etc., but these will generally not be considered in this chapter.

With regard to rules of origin, the TPP employs a system of full cumulation of origin, in which origin is judged on the basis of the cumulation of added value and processing procedures in multiple signatory countries (Fig. 2-3-1). This means that goods are able to satisfy rules of origin requirements based not only on production in a single country, but also on the cumulation of added value, etc. within the TPP region. This makes it possible to utilize the TPP through a more diverse range of production networks, a fact that benefits companies which export parts and other products manufactured in Japan.

Fig. 2-3-1 Image of full cumulation system



*Full cumulation system: Normal cumulation systems only allow cumulation for parts that satisfy the area's rules of origin. The full cumulation system employed by the TPP makes it possible to cumulate value added to a part by countries within the area, even if the part itself does not satisfy the rules of origin.

The TPP Agreement also liberalizes investment and the provision of services across national borders. For example, a country that is a recipient of investment is prohibited from applying conditions to investment activities such as the requirement for investors to conduct technology transfers (the requirement for the transfer of specific technologies, production processes, or valuable proprietary knowledge to individuals within the country) or applying royalty regulations (the requirement for the payment of use fees of a fixed rate or value as specified by a licensing contract). In addition, the introduction of Investor-State Dispute Settlement (ISDS) means that if an SME or midsize company has suffered damages as a result of unfair treatment by a government, the company is able to directly seek international arbitration regarding the issue.

Viet Nam and Malaysia have eased their restrictions on external investment in convenience stores and other retail businesses; Viet Nam has eased restrictions on investment in a wide range of areas, including areas related to "Cool Japan" initiatives, including theaters and live venues, and tourism-related areas, including travel agents. This easing of restrictions can be expected to offer benefits for overseas expansion in a broad range of areas, including the service industry. For example, SMEs and midsize companies engaged in the production of foodstuffs or specialty regional products will be able to expand overseas through cooperation with convenience stores. Fig. 2-3-2 compiles a list of examples of the benefits that can be expected from the TPP.

Fig. 2-3-2 Examples of benefits offered by the TPP Agreement

Facilitation of customs procedures (Rapid customs clearance, etc.)
- 48 hour rule for customs clearance from arrival of cargo (six hours in the case of express clearance)
  → Reduces risk of delay in delivery to overseas customers. Beneficial for online sales, etc.

Enhancement of measures against counterfeit and pirated goods
- Grants authorities in each signatory country the right to interdict counterfeit goods at the border.
- Provides for mandatory criminal penalties, etc. for the use of labels or packaging that violate trademark rights and illegal recording of films.
  → Approximately 20% of SMEs suffer losses due to counterfeiting of goods; these provisions offer the benefit of preventing the counterfeiting of products manufactured by SMEs and midsize companies, and of protecting brands and technologies.
  → Offers the benefit of preventing piracy of digital content.

Introduction of rules concerning temporary entry of businesspersons
- Each signatory country has made pledges regarding the length of stay available to short-term business visitors, contracted service providers, company transferees, investors, spouses, etc.
  → Offers benefits to SMEs and midsize companies conducting trade negotiations, providing services, dispatching staff overseas, etc.

Introduction of rules concerning e-commerce
- Liberalization of cross-border data transfer.
- Abolition of requirement to locate servers in other countries' territories.
  → Will benefit SMEs and midsize companies engaged in the sale of products using IT from bases in Japan.

Introduction of rules concerning state-owned enterprises
- The TPP makes it a principle that state-owned enterprises will not discriminate against companies based in other signatory nations, and ensures transparency among state-owned enterprises.
  → These provisions will benefit SMEs and midsize companies conducting transactions with state-owned enterprises overseas.

Introduction of rules concerning government procurement
- Nations which are not parties to the WTO Agreement on Government Procurement, such as Viet Nam and Malaysia, will be subject to discipline under the TPP.
- Organizations including some US power-related organizations and Malaysian investment-related agencies will be newly subject to discipline.
  → Improves access to infrastructure markets and government-affiliated agency procurement markets. SMEs and midsize companies will also benefit.

Introduction of rules concerning SMEs
- Each signatory nation will establish a dedicated website on which it publishes the text of the TPP Agreement, etc., which will include information specifically for SMEs.
- The Agreement stipulates the establishment of subcommittees to identify means of supporting SMEs in making use of the business opportunities offered by the TPP, etc.
  → Nations will cooperate in encouraging the use of the TPP by SMEs.

Case 2-3-1 Asai Nursery, Inc.

An example of an agriculture-commerce-industry joint venture that has realized increased productivity through the use of Dutch cultivation techniques

Asai Nursery, Inc. (employees: 13; capital: ¥50 million), based in Tsu City in Mie Prefecture, cultivates flowers and plants and operates a landscape gardening and greenification business, in addition to engaging in research and development, cultivation, and distribution of agricultural products, chiefly tomatoes.

After its foundation in 1907, the company's initial business focus was the cultivation and sale of trees for greenification. During its heyday, the company's annual turnover reached ¥500 million, but changes in lifestyle following the collapse of Japan's bubble economy saw demand for trees decline, and the company's sales sank to a tenth of what they had been in its peak period. In his university days, Asai Nursery's President, Yuichiro Asai, interned at a seed and seedling company in the US, and came to recognize the low level of productivity of Japan's family-run agriculture in comparison to US-style agriculture. He felt strongly that he had to change Japan's agriculture. Experience in the experimental cultivation of mini tomatoes and the systematization of cultivation methods for a fertilizer company in Shizuoka Prefecture made him realize the potential of tomatoes. Believing that he would be able to restructure his family's company through research on mini tomatoes and their production and sale, he returned home and commenced the greenhouse cultivation of tomatoes as a new business, having been appointed the company's President.

When he commenced the experimental cultivation of mini tomatoes, Mr. Asai had no expertise in cultivating vegetables, and he found it hard going. Encouraged by Professor Norihiro Nishimura of Mie University, he entered the university's graduate school and commenced research on the selective breeding of tomatoes using genome technology. He also introduced a system created by a Dutch company which is the world's largest producer of greenhouse cultivation systems, and focused on increasing productivity, receiving advice from Dutch consultants and controlling the temperature, humidity, and amount of carbon dioxide in the greenhouse. In the area of distribution, Mr. Asai commenced direct sales, enabling him to maintain a constant awareness of customers' needs and to avoid being caught between agricultural cooperatives and other entities, and he steadily cultivated business partners.

Four years ago, seeking to expand its sales channels and spur overseas demand, Asai Nursery formulated a plan to jointly launch a Vietnamese subsidiary that would become a local production base. However, this attempt failed as a result of trouble with the company's local business partner. Learning from this experience, Mr. Asai created a system enabling the company to expand its business overseas by traveling overseas and surveying foreign markets for himself, identifying reliable local partners and employing staff possessing language abilities making it possible to smoothly conduct overseas business and local Chinese personnel with Ph.D. degrees. The company is today exporting tomatoes and other high-quality agricultural produce to Asian countries including China and Singapore, and, while the pace is gradual, its overseas sales are increasing.

In 2013, Asai Nursery was involved in the joint foundation of Ureshinoagri Inc., an agriculture-commerce-industry joint venture (Tsuji Oil Mills Co., Ltd: 65%; Asai Nursery, Inc.: 20%; Mitsui & Co., Ltd.: 15%) seeking to incorporate industrial and commercial expertise in order to realize a new agriculture. In September 2014, the venture completed the construction of a large-scale plant factory with a total floor area of two hectares. The facility focuses on the production and sale of high-quality mini tomatoes, using sunlight and waste heat from a neighboring Tsuji Oil Mills biomass boiler for greenhouse temperature management, and applying the latest technologies to the maintenance of optimal temperature conditions for tomatoes, using sensors and computers. In addition to this, the standardization of procedures inside the greenhouse has enabled the realization of a high level of productivity.

Mr. Asai says "In addition to expanding our joint venture in future, I also want to work to move into the global food market by gathering together young farm managers and promoting the overseas expansion of Japan's agricultural and food industries."

Yuichiro Asai, President of Asai Nursery, Inc.

"Ureshino" truss tomatoes produced by Asai Nursery, Inc.

Section 2 Investment in overseas expansion among SMEs: Status and outcomes

This section will consider the status of investment in overseas expansion among Japanese SMEs, and clarify the outcomes which can be obtained from conducting such investments.

1. Outcomes of investment in overseas expansion and effects on enterprises

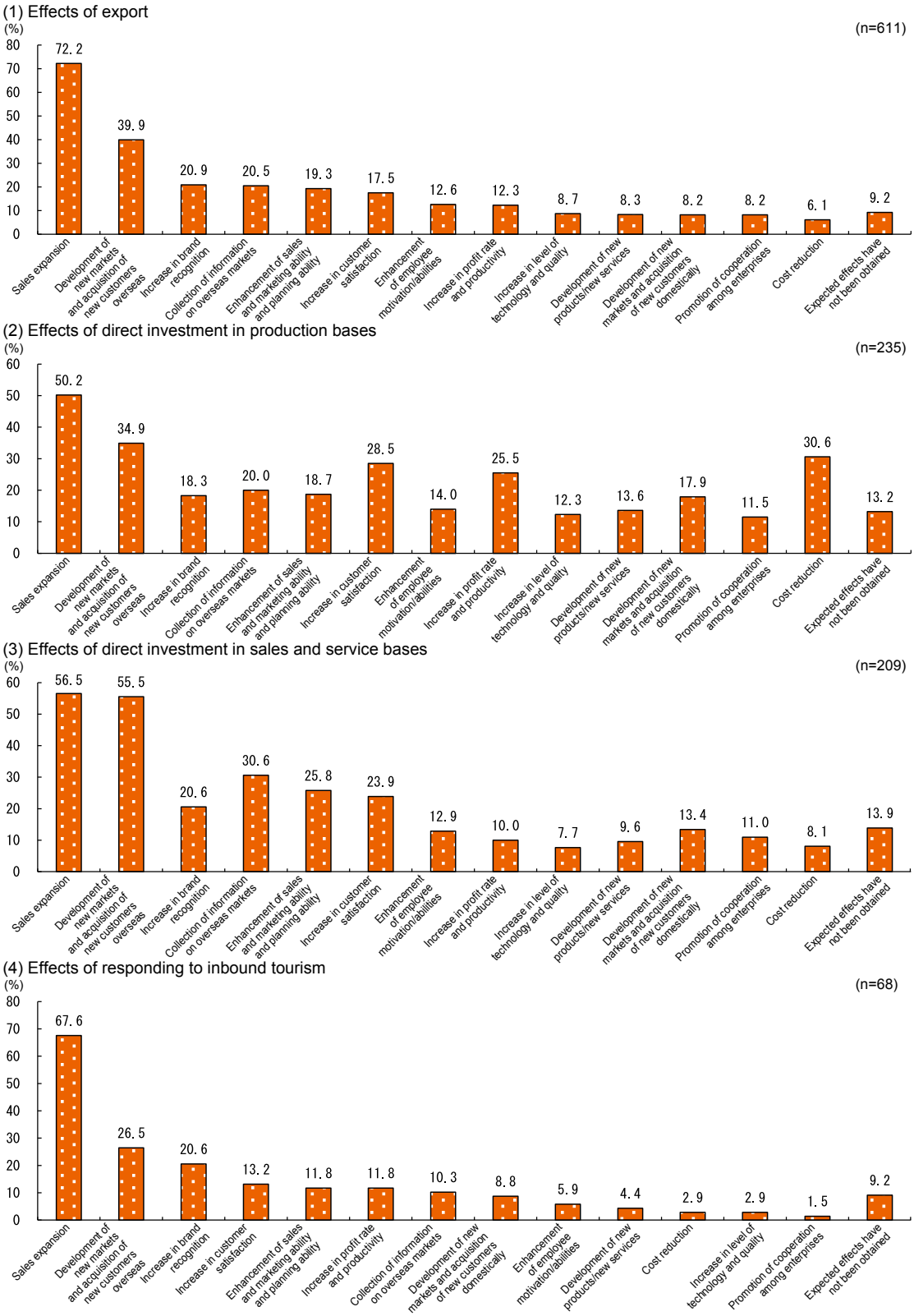
Outcomes of investment in overseas expansion

Fig. 2-3-3 shows outcomes from exports, direct investment in production bases, direct investment in sales and services bases, and investment in responses to inbound tourism. For each of these types of investment in overseas expansion, the proportion of enterprises which have experienced positive outcomes in terms of "Sales expansion" and "Development of new markets, and acquisition of new customers overseas" is high. This can be considered to indicate that no matter which category is chosen, conducting investment in overseas expansion leads to the acquisition of overseas customers, and as a result to increased sales.

The proportion of enterprises responding "Increase in brand recognition" is also high in the categories of exports and investment in responses to inbound tourism. It may be inferred from this that the presentation of goods and services to overseas customers in their own countries and to overseas visitors to Japan increases a company's level of recognition and boosts the value of its brand.

Numerous enterprises indicated "Cost reduction," "Increase in customer satisfaction," and "Increase in profit rate and productivity" as effects of direct investment in production bases. In the case of direct investment in sales and service bases, a higher proportion of enterprises indicated the "Development of new markets and acquisition of new customers overseas" as outcomes than was the case for other forms of investment, and numerous enterprises also indicated the "Collection of information on overseas markets," "Enhancement of sales and marketing ability and planning ability," and "Increase in customer satisfaction" as effects. We can infer that direct investment in production bases enables enterprises to reduce costs and increase their productivity and profit rate by taking advantage of the low-cost labor and geographical advantages offered by locating their production bases overseas. In the case of direct investment in sales and service bases, it can be assumed that the establishment of sales centers and offices overseas and the subsequent pursuit of sales activities enables enterprises to collect information on overseas markets and to acquire new overseas customers.

Fig. 2-3-3 Effects of investment in overseas expansion



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

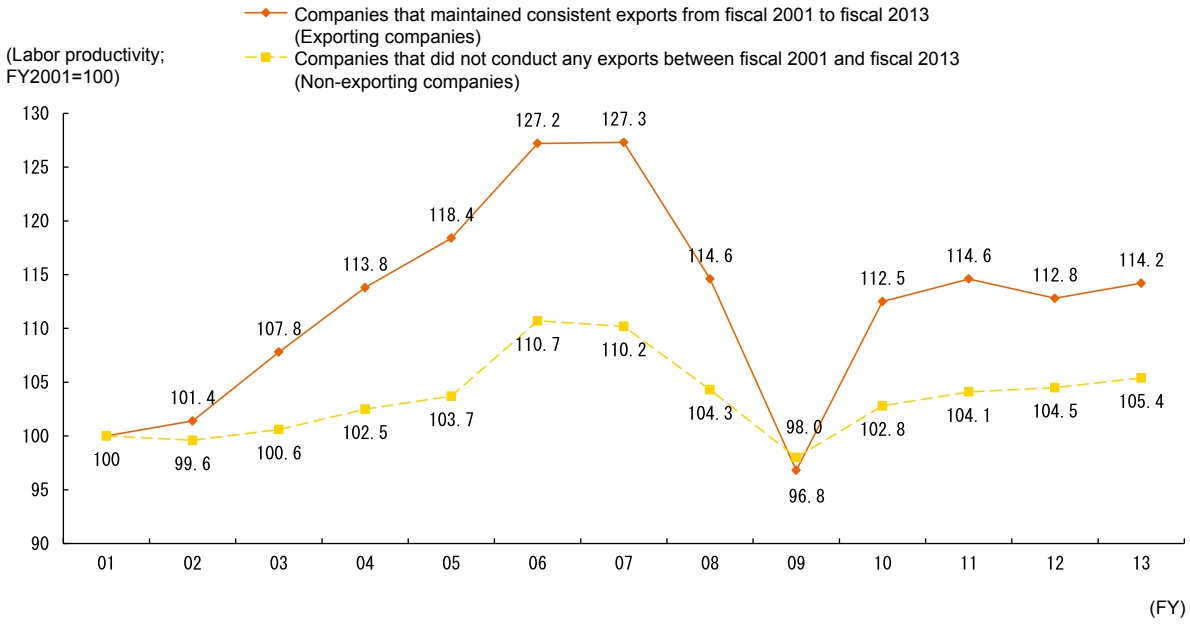
Notes: 1. Categories respectively aggregate results for companies investing in export, conducting direct investment in production or sales/service bases, or investing in responses to inbound tourism.
2. Total does not always equal 100% as multiple responses were possible.

Changes in recurring profit margin with investment in overseas expansion

In order for a company to boost its earning power, it must increase sales and reduce costs to increase profitability. What is the correlation between investment in overseas expansion and labor productivity? Using data from the Ministry of Economy, Trade and Industry's *Basic Survey of Japanese Business Structure and Activities*, this section will consider changes in labor productivity following the commencement of exports and the conducting of direct investments, in order to determine whether investment in overseas expansion contributes to increased labor productivity.

Based on data for SMEs that responded each fiscal year to the survey regarding their export status from fiscal 2001 to fiscal 2013, Fig. 2-3-4 shows changes in labor productivity for companies that conducted continuous exports from fiscal 2001 to fiscal 2013 ("exporting companies" below) and companies that did not conduct any exports between fiscal 2001 and fiscal 2013 ("non-exporting companies" below), with the figure for 2001 considered as 100. For non-exporting companies, there is little change in the level of labor productivity from fiscal 2001 to fiscal 2013. By contrast, exporting companies display a steady increase in labor productivity from fiscal 2001 onwards. While labor productivity figures for exporting companies dipped temporarily below those for non-exporting companies in 2009 due to the effect of the Lehman crisis, they recovered following this, and have maintained a consistently high level in relation to figures for non-exporting companies.

Fig. 2-3-4 Labor productivity for exporting and non-exporting companies

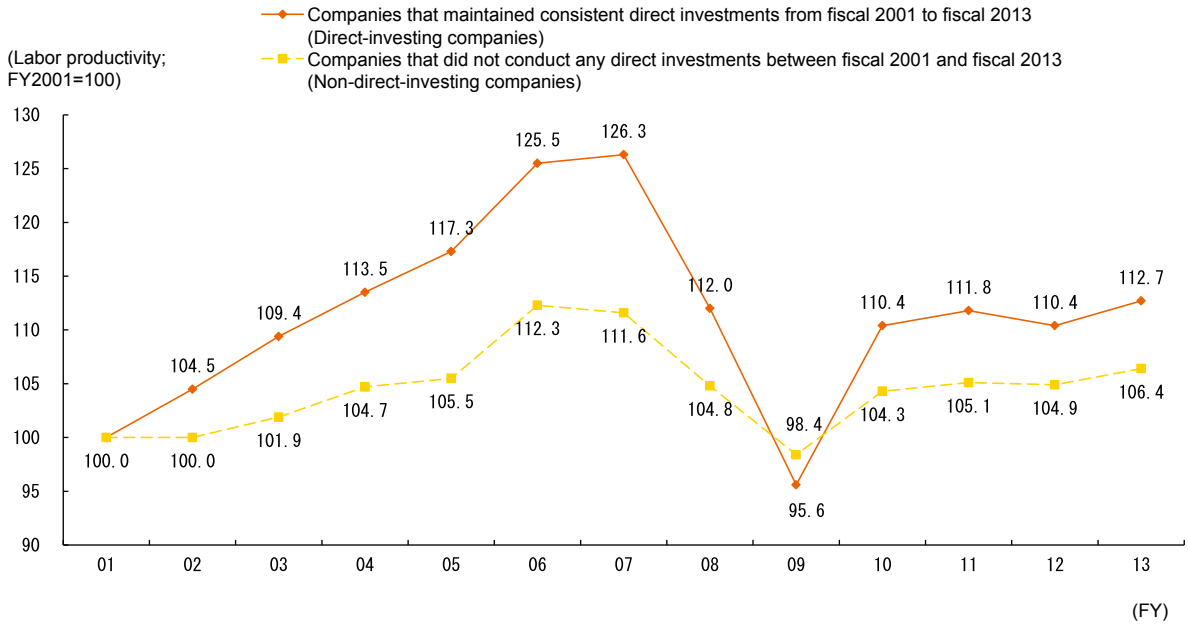


Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Aggregates results for SMEs only.
2. Labor productivity calculated as value added domestically divided by number of domestic employees.
3. Aggregates results for companies responding to the survey every fiscal year from fiscal 2001 to fiscal 2013.

Fig. 2-3-5 shows the relationship between direct investment and labor productivity. Based on data for SMEs that responded each fiscal year to the survey regarding their direct investment status from fiscal 2001 to fiscal 2013, the figure shows changes in labor productivity for companies that conducted continuous direct investments from fiscal 2001 to fiscal 2013 ("direct-investing companies" below) and companies that did not conduct any direct investments between fiscal 2001 and fiscal 2013 ("non-direct-investing companies" below), with the figure for 2001 considered as 100. As in the case of results for exports, little change in labor productivity is observed for the non-direct-investing companies from fiscal 2001 to fiscal 2013. By contrast, labor productivity began to increase for direct-investing companies from fiscal 2001. Figures dipped below those for non-direct-

investing companies in fiscal 2009 due to the effect of the Lehman crisis, but recovered following this to maintain a consistently high level in relation to figures for non-direct-investing companies.

Fig. 2-3-5 Labor productivity for direct-investing and non-direct-investing companies



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Aggregates results for SMEs only.
2. Labor productivity calculated as value added domestically divided by number of domestic employees.
3. Aggregates results for companies responding to the survey every fiscal year from fiscal 2001 to fiscal 2013.

The results discussed above do not demonstrate a causal relationship between investment in overseas expansion and increased labor productivity (it is not clear whether investment in overseas expansion increased labor productivity for these companies, or whether companies boasting a high level of labor productivity conducted investments in overseas expansion), but they do at least demonstrate that there is a correlation between investment in overseas expansion and increased labor productivity.

Relationship between investment in overseas expansion and number of domestic workers

Up to this point, we have considered outcomes related to investment in overseas expansion. This section will look at the effect of investment in overseas expansion on employment in companies.

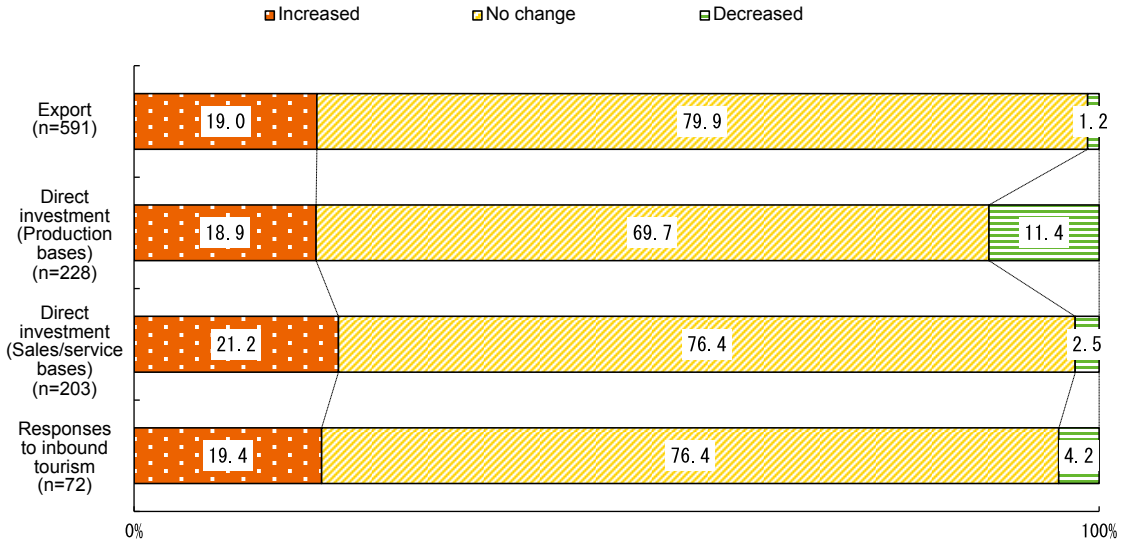
Fig. 2-3-6 shows changes in the number of domestic workers with investment in overseas expansion, by type of investment. Slightly more than 10% of companies conducting direct investment in order to establish production bases overseas responded that their number of domestic workers had declined, a higher proportion than for companies conducting other types of investment. However, for all types of investment, approximately 70 to 80% of companies responded that there had been no change, and the proportion of companies responding that their number of domestic workers had increased is consistently higher than the proportion responding that the number had decreased.

Based on these results, we may conjecture that in the case of investment in exports and responses to inbound tourism, with the commencement of investment in overseas expansion, companies acquire new customers, increasing their sales and turnover, and hire more domestic workers in order to respond to this increased sales volume. In the case of direct investment for the establishment of production bases, because production processes originally conducted domestically are shifted overseas with the establishment of local factories, etc., the number of domestic workers decreases. However, we can also assume the existence of companies which increase their domestic workers following the commencement of direct investment, for example through the hiring of domestic personnel for the management of overseas subsidiaries, the collection of information on overseas markets, the formulation of business strategy, etc., or

through the domestic recruitment of specialized personnel with the transition to a high-value-added research and development-based business model.

This indicates that rather than hollowing-out domestic employment, investment in overseas expansion has the potential to boost employment.

Fig. 2-3-6 Changes in number of domestic workers with investment in overseas expansion (by type of investment)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Categories respectively aggregate results for companies investing in export, conducting direct investment in production or sales/service bases, or investing in responses to inbound tourism.

Case 2-3-2 Kahoku Lighting Solutions Corporation

A company that has enhanced cost-competitiveness and realized high added value by establishing overseas production bases and strengthening its domestic business

Kahoku Lighting Solutions Corporation (employees: 120; capital: ¥100 million), based in Ishinomaki City in Miyagi Prefecture, is a manufacturer of light bulbs and other lighting products for industrial and medical applications.

The company was established in 1927 as a manufacturer of lamps for projectors. Over the course of its history it concluded joint venture contracts with the overseas companies GTE Sylvania, Inc. and Phillips Lighting Holdings B.V., but in 2006 the company extinguished these contracts, and became independent as Kahoku Lighting Solutions Corporation. Because the company had previously been foreign-owned, it had for years been conducting exports to countries and regions including Asia, the US, and Europe, and its ratio of overseas sales was high. Possessing no brand power in comparison to larger companies, the achievement of brand recognition among users represents an issue for the company. Kahoku Lighting Solutions' strength is its ability to understand customer desires and dissatisfactions that larger companies are unable to respond to, and to respond flexibly to these needs using the expertise it has accumulated in the more than 80 years since its foundation in 1927.

The Lehman crisis in 2008 reduced revenue by around 30%, and area such as semiconductors received a significant effect. Feeling that it was necessary to find a new business axis to add to its business in the areas of medical equipment and semiconductors, one that would not be affected by economic downturns, the company turned to airport lighting. However, manufacturing its products in Japan meant that it was unable to match existing manufacturers in terms of cost. In order to realize cost-competitiveness, the company therefore began to investigate offshore production from 2009. Representatives traveled overseas and collected information on overseas markets, and the company began formulating a business plan for overseas expansion. It then proceeded to systematically implement its overseas expansion plan, beginning with the selection of a country or region to locate its production base in. Taking costs and the level of acceptance of Japanese companies into consideration, the company selected Viet Nam, and commenced operation of a local subsidiary in April 2013.

In conducting investment in overseas expansion, the company first consulted with the liaison service of the Japan External Trade Organization (JETRO) for the support of Japanese companies venturing overseas. JETRO was able to introduce it to a partner with extensive knowledge of manufacturing in Viet Nam. As a result, the company was able to secure local personnel for the main posts in its local subsidiary, and its factory launch was extremely smooth. One staff member from the Head Office in Japan is stationed in Viet Nam, with the remaining almost 30 employees having been locally recruited. The local personnel tend to be hard-working, and the development of their skills through efforts by the company to cultivate its human resources has enabled the realization of increased operational efficiency. However, because local employees often quit very soon after commencing their employment, the company feels that in the future it will be necessary to make improvements to employee treatment and the working environment in order to retain local staff. The fact that the local legal system and business practices differ from Japan's in many areas has also meant that the company has experienced its share of problems in Viet Nam, but step-by-step instruction is gradually leading to improvements.

The establishment of an overseas production base through the foundation of a local subsidiary has enabled the company to reduce manufacturing costs, and the creation of a system of overseas mass production is gradually increasing sales, boosting its profit rate.

The establishment of an overseas production base, the overseas shift of its domestic production, and the creation of a system of overseas mass production has also not only made it possible for the Japanese Head Office to strengthen its research and development efforts, enabling it to respond to new demand in the future, but also to plan the establishment of a system for high-unit-cost small-lot production.

Company President Yasumasa Konno says "In the domestic market we were fighting for customers, and it was vital for us to access overseas demand through exports and direct investment in order to increase our sales. We are also aware that our main products at present might not be successful forever, and so we want to enhance our research and development in Japan and create a system that enables us to respond rapidly to future demand. To make this possible, we intend to boost our company metabolism by recruiting personnel able to advance research and development and sales every year, and giving attention to fostering these human resources."

Yasumasa Konno,
President of
Kahoku Lighting Solutions Corporation

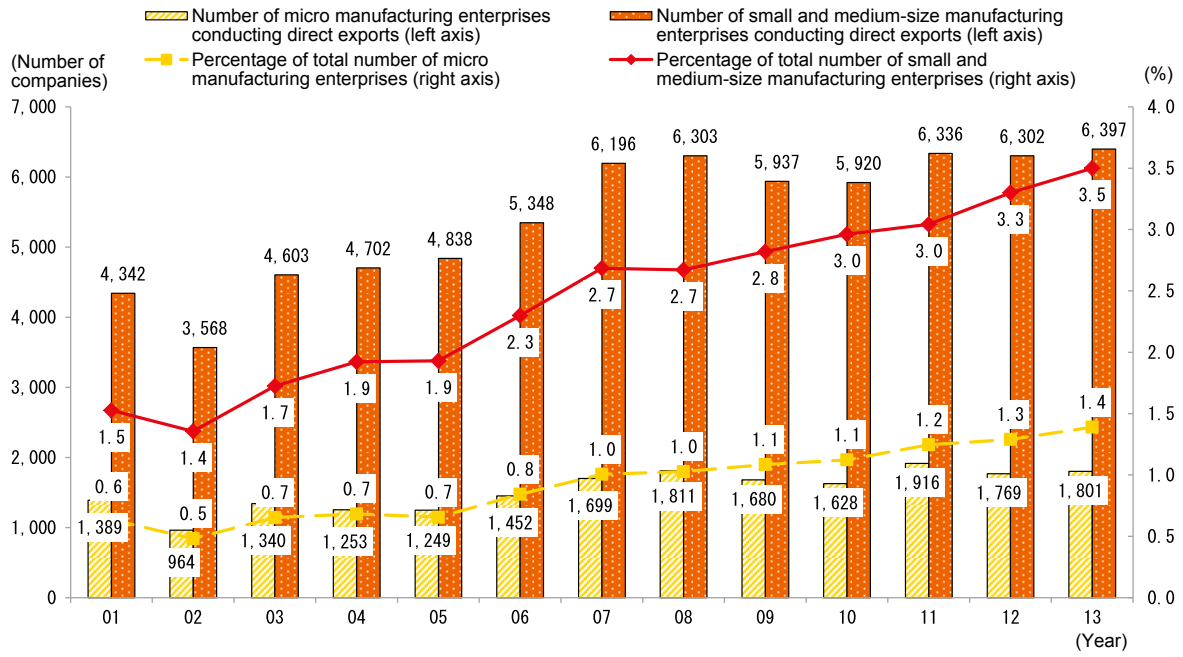
2. Status of overseas expansion among SMEs

This section will consider the status of exports, direct investment, and responses to inbound tourism among Japan's SMEs against the background of intensifying international competition with the growth of companies in emerging nations.

Status of exports among SMEs

The status of exports among Japan's SMEs will be considered first. Fig. 2-3-7 shows changes in the number and percentage of exporting companies among small and medium-size manufacturing enterprises (SMMs) and micro manufacturing businesses. While the number of exporting companies among SMEs and micro-businesses has increased over the long-term, the percentage of these companies against the total number of SMMs has not exceeded a low 3.5%.

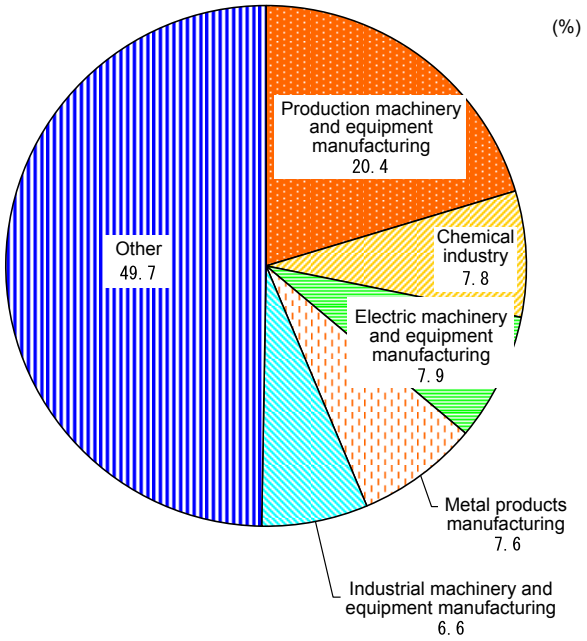
Fig. 2-3-7 Number and percentage of enterprises conducting direct exports (by enterprise size; manufacturing industry)



Sources: Recompiled from METI, *Census of Manufactures*; MIC, METI, *2012 Economic Census for Business Activity.*
Notes: 1. Statistics for workplaces with four or more workers re-aggregated for units of companies.
2. According to the *2013 Census of Manufactures*, there are approximately 180,000 SMEs and approximately 130,000 micro businesses with manufacturing sites having four or more workers.

Fig. 2-3-8 shows the composition of direct export by small and medium-size manufacturing enterprises conducting direct exports, by industry. Of 24 classifications for the manufacturing industry, the top five business types account for 50.3% of exports, or more than half of the total. This indicates that export among Japan's SMMs is fundamentally underpinned by machinery and equipment-related export, in particular the export of production machinery.

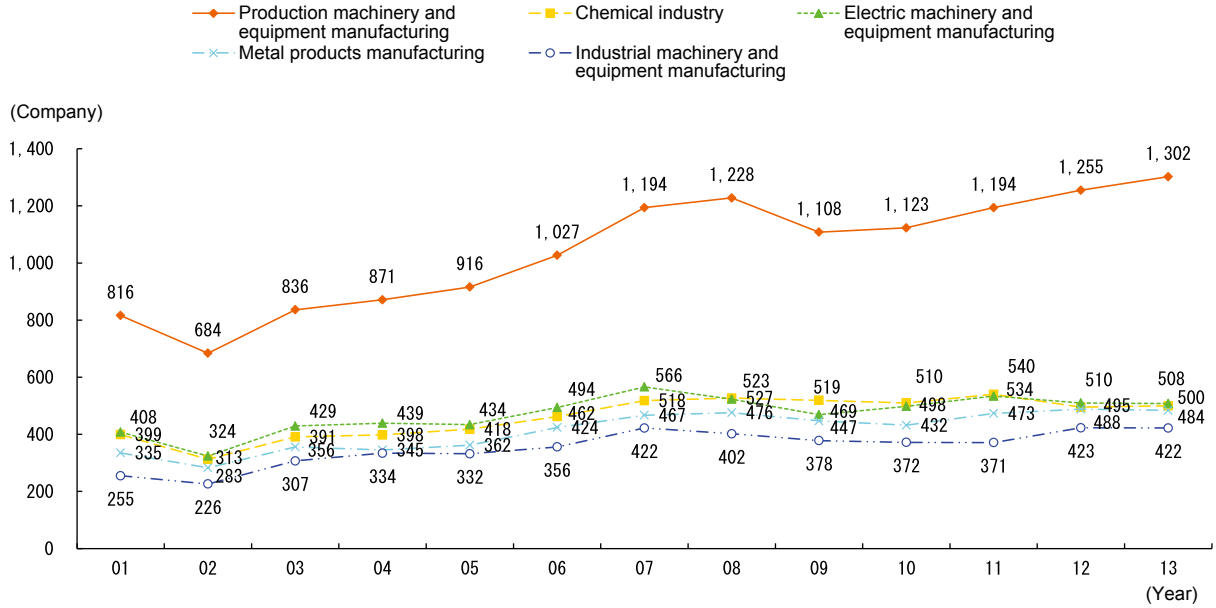
Fig. 2-3-8 Composition of direct export (by industry; SMMs)



Source: Recompiled from METI, *2013 Census of Manufactures.*
Note: Statistics for workplaces with four or more workers re-aggregated for units of companies.

Fig. 2-3-9 shows changes in the number of enterprises conducting direct exports in the top five industry categories from Fig. 2-3-8. Production machinery and equipment manufacturing, the category with the highest number of exporting companies, has maintained a consistent increase with the exception of the period directly following the Lehman crisis, while numbers in the other four industry categories have recovered to roughly their pre-Lehman levels in recent years.

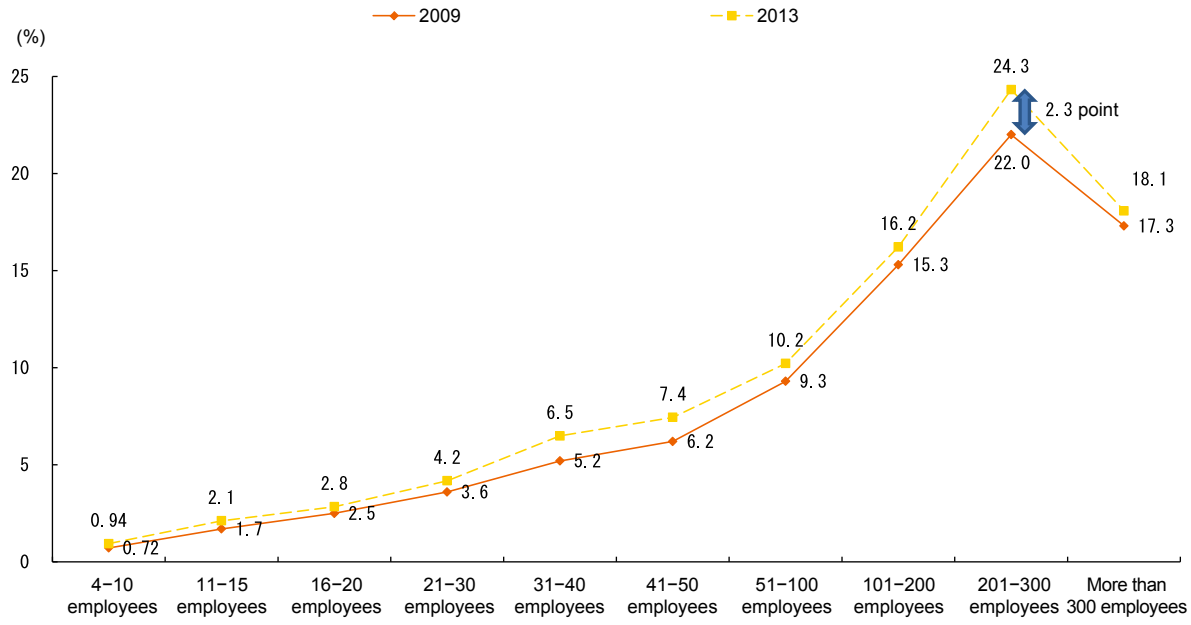
Fig. 2-3-9 Changes in the number of enterprises conducting direct exports (by industry; SMMs)



Sources: Recompiled from METI, *Census of Manufactures*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes: 1. Statistics for workplaces with four or more workers re-aggregated for units of companies.
2. Results for top five industry categories in 2013.

Fig. 2-3-10 compares the ratio of SMMs conducting direct exports by number of employees, for 2009 and 2013. These results show that the ratio of exporting companies increases with an increasing number of employees. In addition, the fact that the amplitude of the increase between 2009 and 2013 is greater in proportion to the size of the company indicates that the manufacturing industry, which is characterized by comparatively large-scale companies, has driven the increase in the number of companies conducting direct exports.

Fig. 2-3-10 Ratio of enterprises conducting direct exports (by number of employees; SMMs)

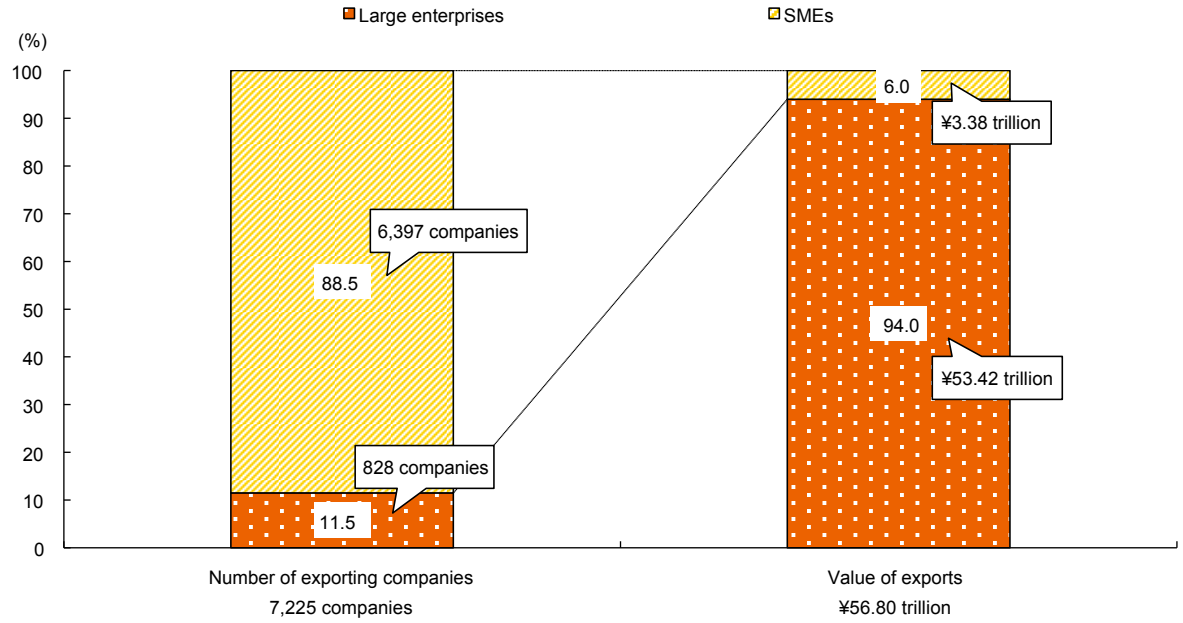


Sources: Recompiled from METI, *2009 Census of Manufactures* and *2013 Census of Manufactures*.
Note: Statistics for workplaces with four or more workers re-aggregated for units of companies.

Fig. 2-3-11 compares the number of exporting companies and the annual value of exports for large enterprises and SMEs. Data for the number of exporting companies were aggregated from METI, *2013 Census of Manufactures*[6], and data for the value of exports were aggregated from METI, *2014 Basic Survey of Japanese Business Structure and Activities*[7]. The fact that there are differences between the enterprises surveyed in the data sets should be borne in mind. The results show that while approximately 90% of Japan's 7,225 exporting companies, or 6,397 companies, are SMEs, at an annual export value of 3.38 trillion yen, they account for less than 10% of the nation's annual export value of 56.80 trillion yen. This demonstrates that the export value per company for SMEs is extremely low in comparison to large enterprises.

6) The Ministry of Economy, Trade and Industry's *Census of Manufactures* is a survey focusing on manufacturing industry workplaces throughout Japan with four employees or more.
7) The Ministry of Economy, Trade and Industry's *Basic Survey of Japanese Business Structure and Activities* is a survey focusing on companies with 50 or more employees and capital of ¥30 million or more.

Fig. 2-3-11 Number of exporting companies and value of exports (by enterprise size; manufacturing industry)



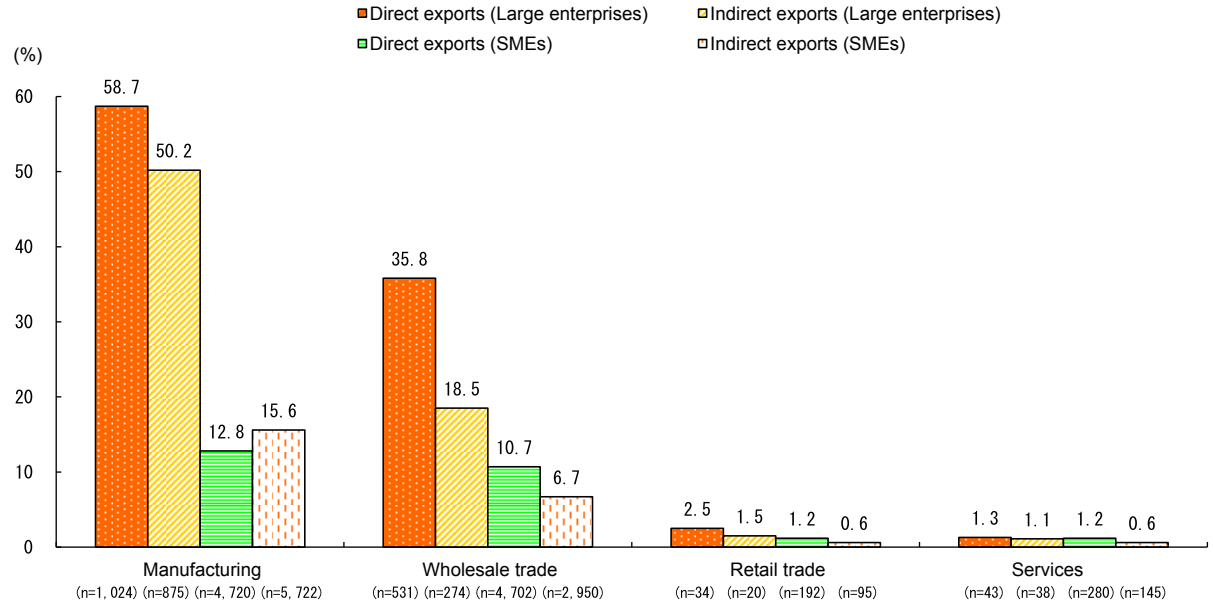
Sources: Recompiled from METI, *2013 Census of Manufactures*; *2014 Basic Survey of Japanese Business Structure and Activities*.
Note: Statistics for workplaces with four or more workers re-aggregated for units of companies.

Up to this point, we have looked at trends in exports among small and medium-size manufacturing enterprises. To continue, we will consider trends in exports among other types of enterprise, using financial data sourced from Teikoku Databank, Ltd.

Fig. 2-3-12 shows the percentage of enterprises conducting direct exports and indirect exports, by enterprise size and industry category. The results indicate that while the percentage of large enterprises and SMEs conducting direct and indirect exports in the manufacturing and wholesale sectors is comparatively high, little export activity is being conducted in the retail and services sectors, irrespective of the size of the enterprises[8].

8) It should be borne in mind that because Teikoku Databank, Ltd. aggregates data for which it has received requests for credit research, the company's data do not present a comprehensive overview of export trends among Japanese companies.

Fig. 2-3-12 Percentage of enterprises conducting direct and indirect exports (by enterprise size and industry; 2015)

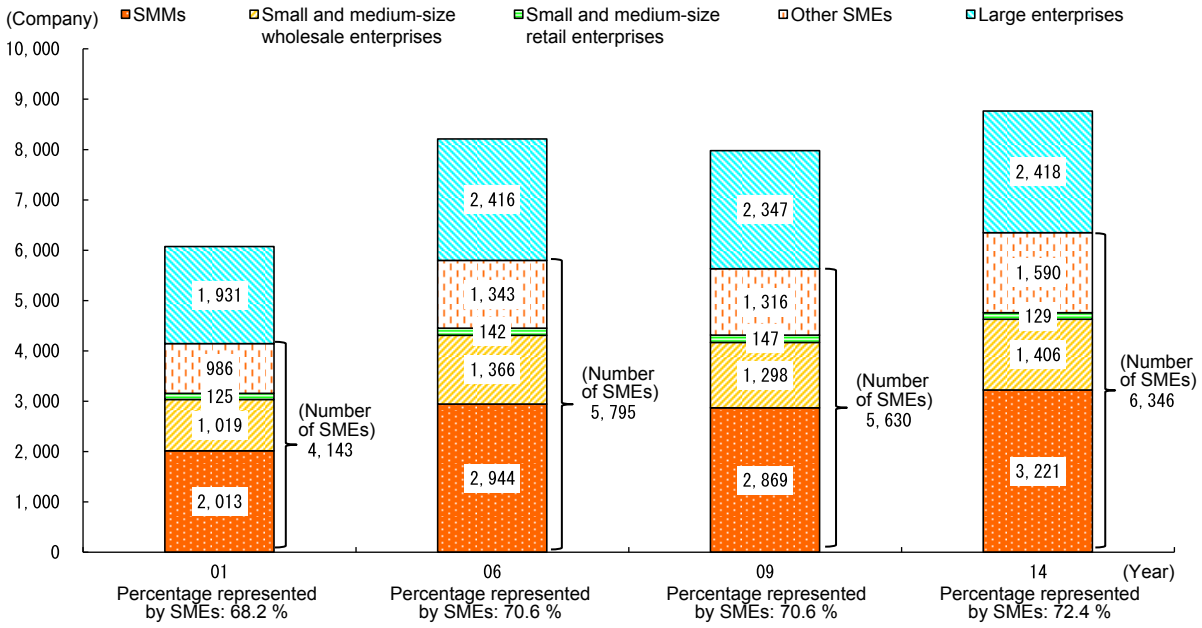


Sources: Recompiled from Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)* and *CCR (Corporate Credit Research Files)*.

Status of direct investment among SMEs

Below, we will look at the status of direct investment among SMEs. Fig. 2-3-13 shows changes in the number of enterprises conducting direct investment, by size and industry category. Comparing 2001 and 2006, we see a significant increase in the number of enterprises conducting direct investments among both large enterprises and SMEs. From 2006 to 2009 a slight decline in the number of both large enterprises and SMEs conducting direct investments can be observed as a result of factors including the Lehman crisis, but between 2009 and 2014, both large enterprises and SMEs display an increase. In addition, 1,590 of the 6,346 SMEs conducting direct investment in 2014 were SMEs other than enterprises engaged in manufacturing, retail or wholesale activities, representing a significant increase in this category compared to 2009. It may be conjectured from this that while direct investment has traditionally been driven by the manufacturing industry, SMEs in a variety of other industries, including retail and services, have commenced direct investment.

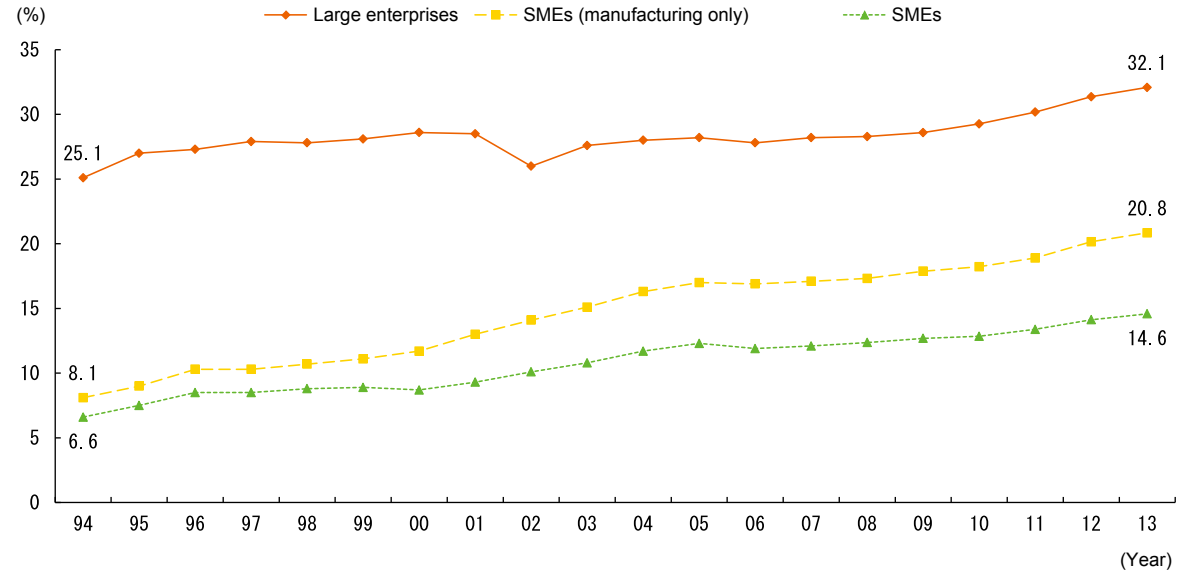
Fig. 2-3-13 Changes in the number of enterprises conducting direct investment (by enterprise size and industry category)



Sources: Recompiled from MIC, *Establishment and Enterprise Census*, 2009 and 2014 *Economic Census for Business Frame.*
Notes: 1. "Enterprises conducting direct investments" here refers to enterprises that have an overseas subsidiary (A company of which the parent company holds more than 50% of voting rights; this includes cases in which either the subsidiary or the subsidiary and the parent company combined hold more than 50% of voting rights, and subsidiaries that appear on the parent company's consolidated financial statements, even if the parent company holds less than 50% of voting rights), but not including small offices/home offices.
2. "Large enterprises" here refers to any enterprise other than an SME as defined by the Small and Medium-sized Enterprise Basic Act.

To continue, we will look at the ratio of enterprises conducting direct investments based on METI's *Basic Survey of Japanese Business Structure and Activities*. Fig. 2-3-14 shows changes in the ratio of enterprises with overseas subsidiaries, i.e., enterprises conducting direct investments, by enterprise size. These results show that like large enterprises, there has been an annual increase in the percentage of enterprises conducting direct investments for SMEs overall, and there has been a proportional increase in the ratio of SMMs conducting direct investments.

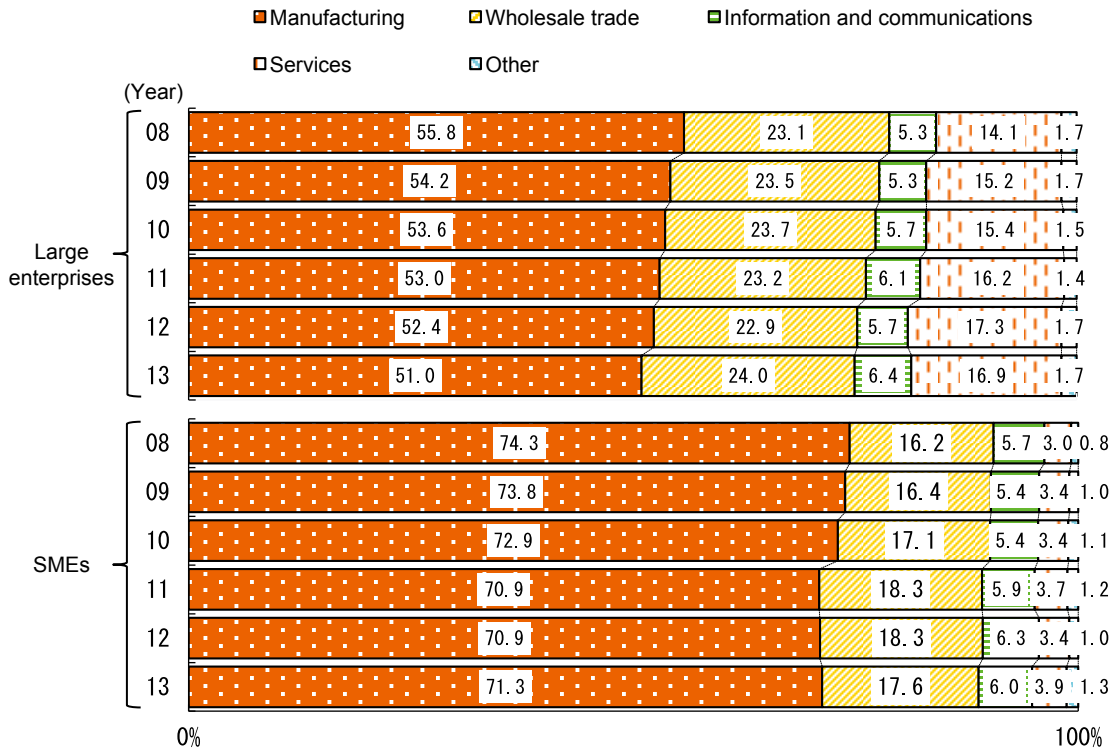
Fig. 2-3-14 Changes in the ratio of enterprises with overseas subsidiaries (by enterprise size)



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. "Enterprises that own overseas subsidiaries" refers to enterprises that own an overseas subsidiary or affiliated company at the end of the fiscal year.
2. "Subsidiary" refers to a company of which the owning company holds at least 50% of the voting rights. This includes companies in which the subsidiary itself or the subsidiary and the parent company together in total own at least 50% of the voting rights. "Affiliated company" refers to a company in which the parent company directly owns between 20% and 50% of the voting rights.

Fig. 2-3-15 shows changes in the ratio of industry sectors for enterprises with overseas subsidiaries, by enterprise size. These results show that while manufacturing enterprises continue to represent the greater share of companies with overseas subsidiaries among both large enterprises and SMEs, from 2008 to 2013, the percentage of manufacturing enterprises declined little by little, and there was a proportional gradual increase in the percentage of enterprises in the wholesale, information and communications, and services sectors. Based on these results, we may conjecture that against the background of shrinking domestic demand resulting from population decline, enterprises in the diverse range of business types represented by the wholesale, retail and services industries are advancing overseas in order to access overseas demand.

Fig. 2-3-15 Changes in the ratio of industry sectors for enterprises with overseas subsidiaries

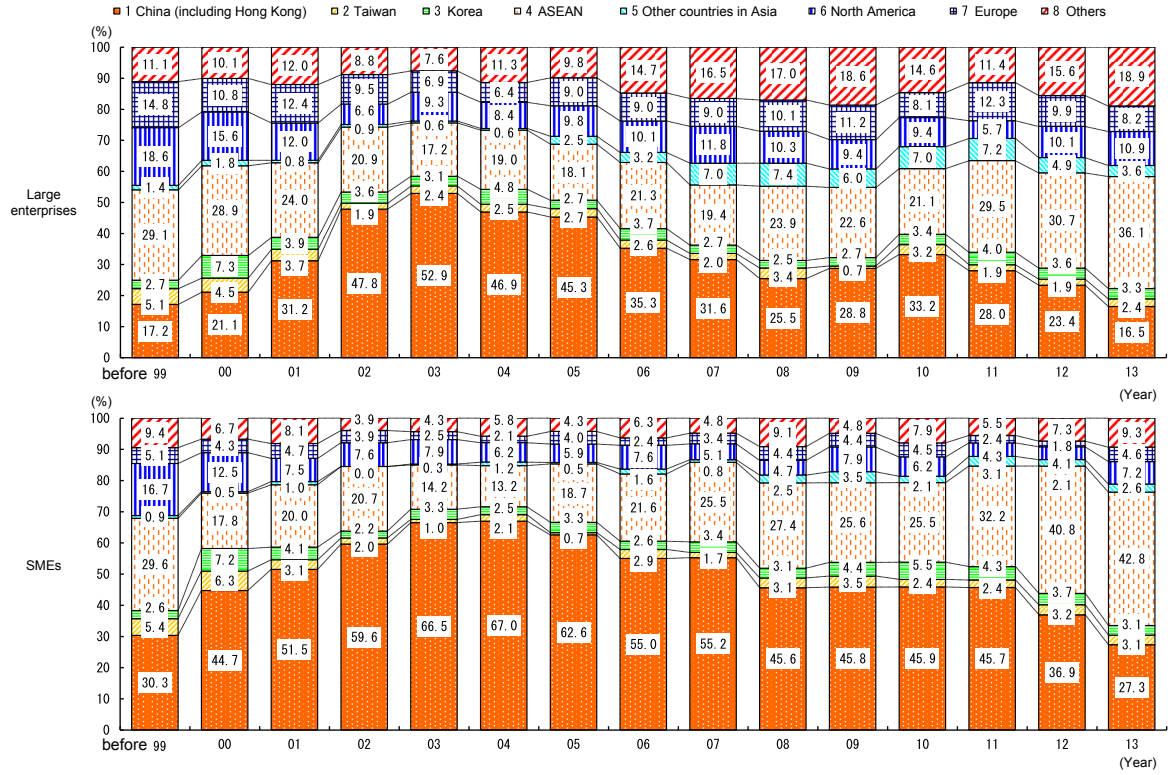


Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. "Enterprises that own overseas subsidiaries" refers to enterprises that own an overseas subsidiary or affiliated company at the end of the fiscal year.
2. "Subsidiary" refers to a company of which the owning company holds at least 50% of the voting rights. This includes companies in which the subsidiary itself or the subsidiary and the parent company together in total own at least 50% of the voting rights. "Affiliated company" refers to a company in which the parent company directly owns between 20% and 50% of the voting rights.
3. The services industry includes services such as retail trade and the accommodations, eating and drinking services.

To conclude this analysis, we will consider the countries and regions in which these companies are conducting direct investments. Fig. 2-3-16 shows changes in the makeup of countries and regions in which subsidiaries are located, by enterprise size. These results show that from around 2011, the ratio of direct investment in China began to decline among both large enterprises and SMEs. At the same time, there has been a significant increase in the ratio of direct investment in other Asian countries, in particular the ASEAN nations[9]. As this indicates, there has been a recent shift away from China and towards emerging Asian nations as targets for direct investment among Japanese companies. This trend can be seen to have been significantly influenced by the decline in the pace of growth of the Chinese economy and a sense of uncertainty over the future, in addition to spiraling labor costs. The realization of the appeal of countries and regions other than China and the business opportunities they represent as production and sales/services bases by the manufacturing and other sectors, in particular the wholesale and services sectors, and a shift towards these countries and regions as the focus of investment, can also be assumed. This phenomenon also demonstrates that there has been a change in the traditional pattern of manufacturing industry-focused overseas expansion, in which production and sales bases were situated in China in order to take advantage of low labor costs and abundant demand.

9) ASEAN is a regional entity made up of 10 nations: Malaysia, Thailand, the Philippines, Indonesia, Viet Nam, Cambodia, Singapore, Laos, Myanmar, and Brunei.

Fig. 2-3-16 Changes in composition of countries and regions for location of local overseas offices (by period of investment and enterprise size)



Source: Recompiled from METI, *2014 Basic Survey of Overseas Business Activities*.
Notes: 1. "Local overseas offices" is a generic term referring to subsidiaries and second-tier subsidiaries. A "subsidiary" is an overseas corporation in which the Japanese parent company has a stake of at least 10%. An "second-tier subsidiary" is an overseas corporation in which a subsidiary at least 50% owned by the Japanese parent company has a stake of at least 50%, or an overseas corporation in which the Japanese parent company and a subsidiary at least 50% owned by the Japanese parent company jointly have a total stake of at least 50%.
2. The data totaled is for enterprises with Japanese head offices determined to be large enterprises and SMEs as defined in the Small and Medium-sized Enterprise Basic Act.

Status of responses to inbound tourism among SMEs

Finally, we will look at the status of responses to inbound tourism among Japan's SMEs. This is a topic that has attracted attention recently against the background of a marked increase in the number of overseas tourists visiting Japan. When fewer overseas tourist were visiting Japan, domestic companies focused on exporting their goods and services and establishing overseas production and sales bases as methods of tapping into overseas demand. Because of this, only some industries, in particular the manufacturing industry, were able to actively access overseas demand. With the increase in the number of overseas tourists, however, a diverse range of industries, in particular retail, eating and drinking services, and accommodations, are now able to access overseas demand by providing goods and services to tourists, as discussed in Part II, Chapter 1 above.

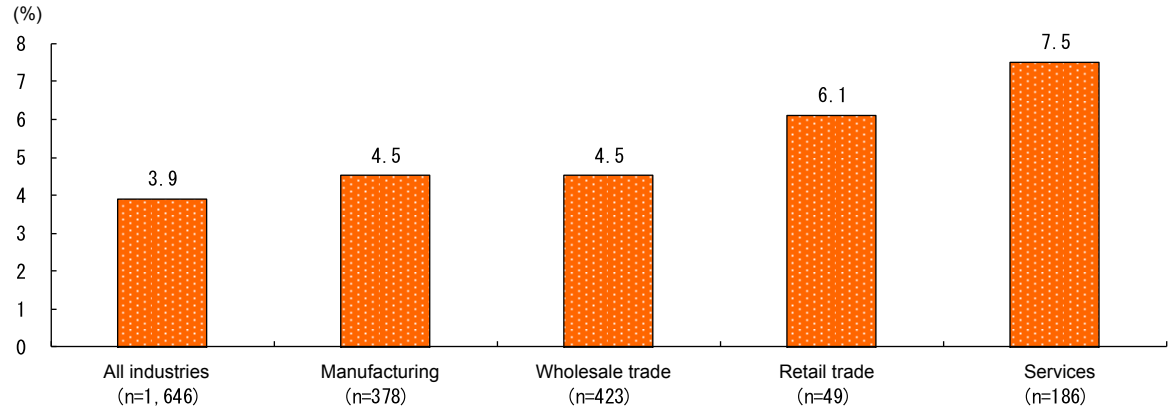
Here, we will consider characteristics of industry category and enterprise size in relation to responses to inbound tourism. Fig. 2-3-17 shows the ratio of enterprises conducting responding to inbound tourism, by industry category and size of enterprise, based on the results of a questionnaire survey. Looking at all industry categories, only 3.9% of companies are responding to inbound tourism. Turning to the industry categories able to most easily respond to consumption among inbound tourists, we see that 6.1% of retail companies and 7.5% of services companies, including companies providing accommodations and eating and drinking services, are responding to inbound tourism. Looking at results by size of enterprise, we see that the ratio of companies responding to inbound tourism is higher among companies with 21 employees or more than among companies with 20 employees or less.

These results indicate that Japanese companies are beginning to make efforts to respond to inbound tourism, and that this trend is centered on the retail industry, which provides products to overseas tourists visiting Japan, and services industries that have considerable opportunity to engage with tourists, including the accommodations, amusement, and eating and drinking services industries.

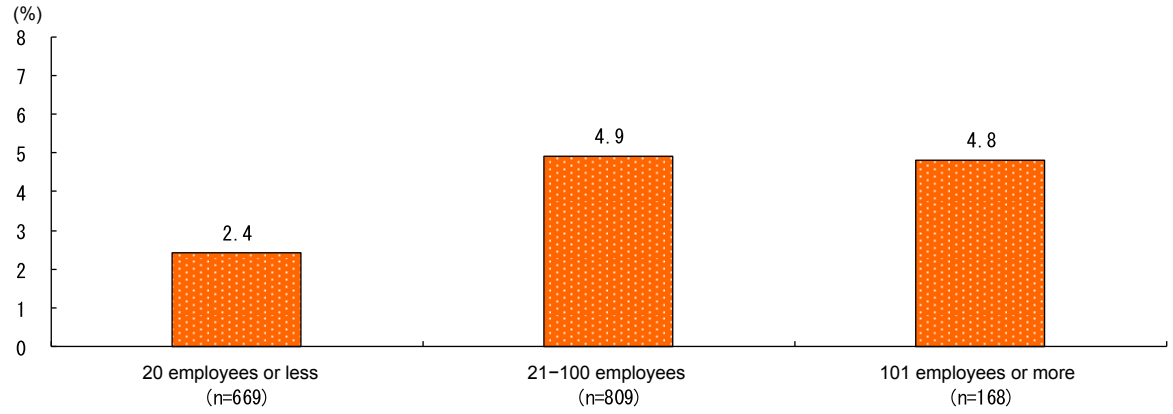
In addition, we can note that the larger a company is, the greater its flexibility in terms of allocating employees, and the easier it therefore is for it to respond to inbound tourism. Because it involves accessing overseas demand without leaving Japan, responding to inbound tourism may be considered an easier option for investment than export or direct investment, but it is also lagging behind these other options. This means that even more SMEs will be able to use this opportunity and increase their sales by accessing overseas demand through efforts to respond to inbound tourism.

Fig. 2-3-17 Ratio of enterprises responding to inbound tourism

(1) Ratio of companies responding to inbound tourism (by industry category)



(2) Ratio of companies responding to inbound tourism (by enterprise size)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Column 2-3-1 RESAS tourism maps: Trends in areas visited by overseas tourists

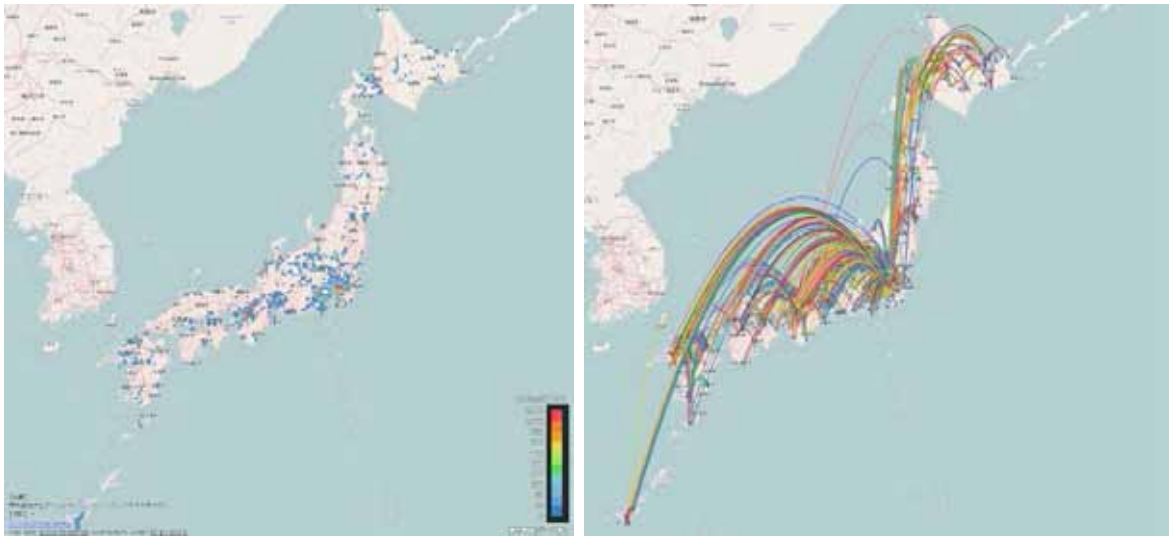
Using the Regional Economy and Society Analyzing System (RESAS), a system launched in April 2015 by the Headquarters for Overcoming Population Decline and Vitalizing Local Economy in Japan and the Ministry of Economy, Trade and Industry to enable data-based support for local government initiatives, it is possible to survey the areas visited by overseas tourists in Japan and trends in consumption among tourists.

Overseas tourists in Japan: Mesh analysis

Mesh analysis is a function added to the tourism maps in RESAS in September 2015. The mesh analysis function makes it possible to display areas in which overseas tourists are staying on meshes in units of 10 kilometers and one kilometer, in order to show which areas are popular and which have few visitors and should be prioritized in future PR efforts. Using the 10 kilometer meshes, the movements of overseas tourists staying within a specific mesh to other meshes can be displayed, enabling relationships between regions to be determined. This makes it possible to understand the patterns of the excursions undertaken by tourists, and this data can be used in examining the possibility for tourism cooperation between regions (Data is integrated for the six-month period from November 2014 to April 2015; Data source: NAVITIME Japan Ltd., Inbound GPS Data).

Fig. Column 2-3-1 (1) shows a heat map of areas in which overseas tourists are staying and a map showing the relationship between regions in terms of the movements of overseas tourists between meshes, using the 10 kilometer meshes. While the heat map is red in major cities such as Tokyo and Osaka, we can see that there are numerous other regions which are not displayed at all. In addition, we may conjecture from the fact that the map showing tourist movements mainly shows links between Tokyo and Osaka and regional areas that the airports close to these cities serve as the portals for visits to Japan by overseas tourists, and that tourists visit regional areas after arriving at these cities.

Fig. Column 2-3-1 (1) Overseas tourists in Japan: Mesh analysis

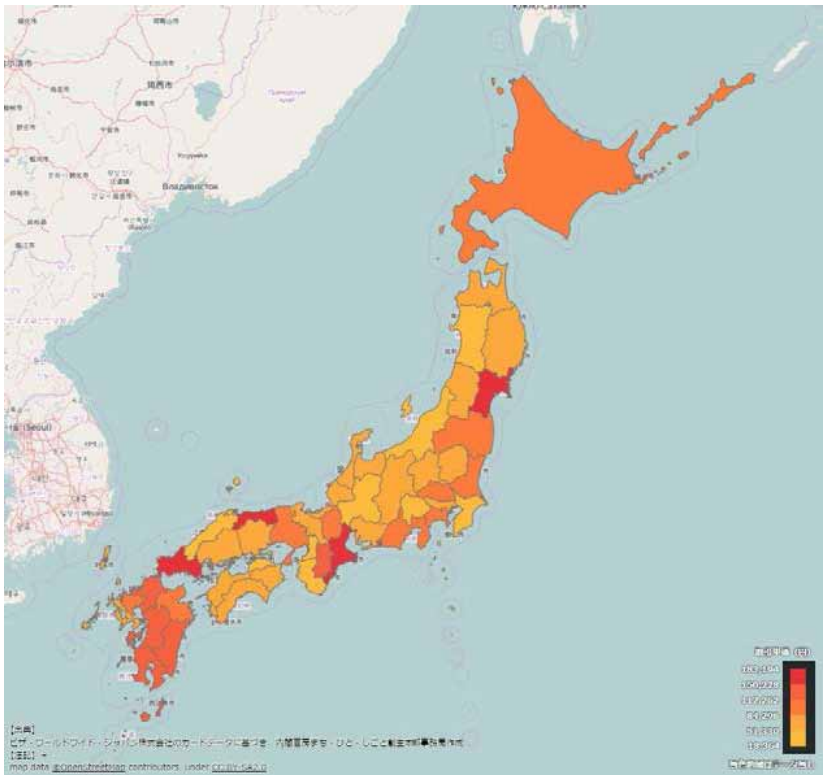


Source: NAVITIME Japan Ltd., *Inbound GPS Data.*
Note: Based on Regional Economy and Society Analyzing System (RESAS) calculations.

Analysis of consumption by tourists visiting Japan

Consumption analysis is a function added to the tourism maps in RESAS in December 2015. This function makes it possible to display the total value and number of credit card transactions conducted by overseas tourists visiting Japan (by region and by nationality), the unit value of the transactions, and changes in the total value of consumption, by sector for units of prefectures on maps or graphs. This enables us to understand the total value of consumption and the unit value of transactions conducted by overseas tourists in specific regions (Data is monthly data from August 2012 to July 2015; Countries are the country of residence of the cardholder. Results are extrapolated to the total value of transactions for all credit cards based on the share of the total value of Visa card transactions in the total value of all credit card transactions for countries around the world. Data source: Visa Worldwide (Japan) Co., Ltd. credit card data). For example, looking at the unit value of transactions in the sightseeing and entertainment sectors, we see that the value per transaction was higher in a number of regions (Miyagi Prefecture, Mie Prefecture, Tottori Prefecture, and Yamaguchi Prefecture) than in Tokyo and Osaka (Fig. Column 2-3-1 (2)).

Fig. Column 2-3-1 (2) Analysis of consumption by overseas tourists visiting Japan (sightseeing and entertainment sectors; unit transaction value; 2014)

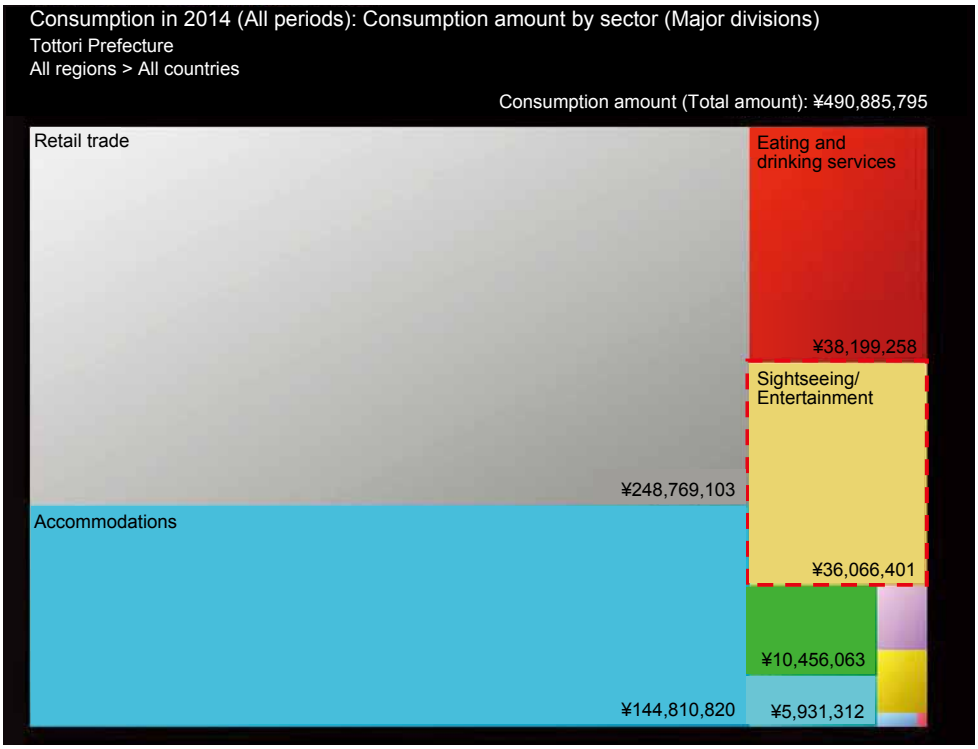


Source: Visa Worldwide (Japan) Co., Ltd.
Note: Based on Regional Economy and Society Analyzing System (RESAS) calculations.

Hanabi maps of consumption by tourists visiting Japan

Hanabi maps of consumption by overseas tourists visiting Japan display the total value of consumption by overseas tourists (by region and by nationality) using credit cards, by sector, as the size of squares. The maps are formulated based on credit card data. The resulting maps make it possible to understand the consumption behavior of tourists visiting Japan in specific regions. (The same data as used in the analysis of consumption discussed above was employed). Looking at the hanabi map of consumption by tourists in 2014 in Tottori Prefecture, where the consumption analysis shown in Fig. Column 2-3-1 (2) showed that the unit value of transactions was high (sightseeing and entertainment sectors; unit transaction value; 2014), we see that 50.6% of total annual expenditure was in the retail sector, 29.5% was in the accommodations sector, and only 7.3% was in the sightseeing and entertainment sectors. Given this, we can project that the adoption of a greater focus on the sightseeing and entertainment sectors, in which the unit value of transactions is high, will make it possible for the prefecture to promote more consumption by inbound tourists (Fig. Column 2-3-1 (3)).

Fig. Column 2-3-1 (3) Hanabi map of consumption by overseas tourists visiting Japan (Tottori Prefecture; 2014)



Source: Visa Worldwide (Japan) Co., Ltd.
Note: Based on Regional Economy and Society Analyzing System (RESAS) calculations.

The following functions of RESAS can also be used to assist companies in attempting to tap into consumption by inbound tourists.

Analysis of areas visited by overseas tourists

This function makes it possible to display the number of overseas tourists visiting a region (using units of prefectures), by nationality and purpose of visit ("All purposes" or "Sightseeing or leisure purposes") on a map or graph. This enables analyses such as identification of which nationalities to prioritize tourism measures in relation to.

Analysis of areas in which overseas tourists stay

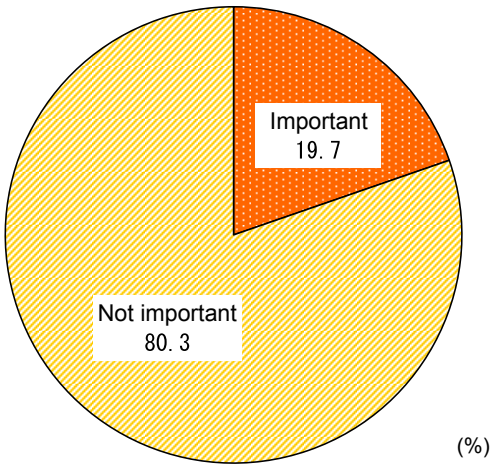
This function makes it possible to display the status of accommodation of tourists visiting Japan by prefecture and city/town for daytime (2 PM) and nighttime (4 AM), by month. The understanding of trends in accommodation among tourists that this offers enables analyses such as identification of which nationalities to prioritize tourism measures in relation to.

Importance of investment in overseas expansion to SMEs

Finally, we will consider the importance of investment in overseas expansion as perceived by Japanese SMEs (Fig. 2-3-18). The results shown here indicate that approximately 80% of SMEs do not consider investment in overseas expansion to be important.

Fig. 2-3-18 Importance of investment in overseas expansion to SMEs

(n=3, 675)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Responses for the items "Of the greatest importance" and "Important" have been aggregated under the category "Important," and responses for the items "Not very important" and "Not important" have been aggregated under the category "Not important."

The overview of the actual status and the effects of investment in overseas expansion among Japan's SMEs presented in this section has indicated that despite the fact that the number of companies engaging in efforts to tap into overseas demand via investment in overseas expansion is gradually increasing, the ratio of these companies to the total number of SMEs remains low, and a relatively high proportion of companies do not consider this form of investment as being important.

However, as shown in Fig. 2-3-3, there are enterprises that have experienced the benefits of the cultivation of overseas markets and increased sales as a result of investment in overseas expansion. Given this, we can consider that accessing overseas demand through investment in overseas expansion will be important to Japan's SMEs in future as a means of bolstering their earning power against the background of shrinking domestic demand.

Case 2-3-3 Nanbu Bijin Co., Ltd.

A company that increased its sales by boosting overseas exports of sake with the acquisition of kosher certification

Nanbu Bijin Co., Ltd. (employees: 30; capital: ¥20 million), based in Ninohe City in Iwate Prefecture, founded in 1902 and hence boasting over 100 years of history, is a long-established maker of sake using the pure water found in its local area.

Demand for sake within Japan has become saturated, and younger people are moving away from the drink. Against this background, the company's sales were displaying an annual decline. Having spent a period in the US as an exchange student during his high school years, Kosuke Kuji, Nanbu Bijin's fifth-generation President, decided to tap into overseas demand by exporting his company's sake. Mr. Kuji brought together sake makers seeking to export their product overseas to launch the Sake Export Association, an organization that aimed to support the promotion of Japanese sake overseas and to make the drink international. The association actively organized seminars and tastings with a view towards commencing overseas export. Mr. Kuji's initial attempts to conduct sales activities overseas faced a significant language barrier, and he found it difficult to explain the superiority of his product and the brewing process during business negotiations. Negotiating sales in tandem with overseas coordinators enabled him to overcome the language barrier, making it possible to commence fully-fledged exports.

The first shipment was small, consisting of 12 720ml bottles and six 1.8L bottles. However, company representatives continued to visit points of sale and beefed-up their sales activities. The company also branded its sake "Southern Beauty" in English and began to use English-language labels on its exports. As a result of these efforts to increase understanding of sake in the export market, the company's brand recognition gradually began to increase, and its export sales also rose.

In 2013, the company received kosher certification (certification that the ingredients, preparation, etc. of a food or drink adhere strictly to Jewish religious law) for its sake and its plum liqueur with no added sugar, giving its products high added value. While sales in the US had gradually increased following the commencement of exports in 1997, Mr. Kuji realized that sake sold overseas in only a limited range of venues such as Japanese restaurants, and there was little opportunity for ordinary customers to come into contact with the drink. He also noted that in the US products with kosher certification had recently increased to represent around 30% of supermarket products, and that their image of being safe and healthful meant that it was not only Jewish consumers who were purchasing kosher foods. At this time, there was basically no sake that had received kosher certification, and Mr. Kuji decided to take the certification for his products, believing that it would distinguish his company from the competition, expand his sales channels, and increase his volume of exports and sales.

Acquiring kosher certification involved detailed inspection of the production process and storehouses, etc., and verification of every stage of the company's procedures, from delivery of raw materials to the shipment of the product, to ensure, for example, that there would be no mixing of the raw materials for kosher-certified products and non-kosher-certified products. This cost time and money, but the acquisition of kosher certification increased the company's brand recognition and its sales, and in 2014, its overseas sales increased 1.2-fold against the previous year.

One of the factors in Nanbu Bijin's success in exporting its products is that in looking towards overseas expansion, Mr. Kuji explained his concept of the purpose of the venture and his vision to all employees. Following this, decisions were made rapidly, and all the company's employees came together as one to work towards expanding overseas. Another factor in the company's success is the fact that it has developed a system by means of which Mr. Kuji is able to give attention to guiding the overseas business onto a successful trajectory, while the employees around him provide support to ensure that the domestic business is not neglected.

With the acquisition of kosher certification, the company expects to further expand its business by commencing exports to areas that were previously closed to it, such as Israel, Northern Europe, and Eastern Europe. Mr. Kuji says emphatically, "As a company that has received kosher certification, a world-standard guarantee of the safety and security of a product, for Japanese sake and liqueur, we want to continue to communicate the appeal of Japan's traditional culture to the rest of the world."

A sake tasting for members of the Jewish community in the US (Company President Kosuke Kuji in the center)

Kosher certification

Case 2-3-4 WILLER TRAVEL, Inc.

A company that has succeeded in tapping the inbound tourism market by developing and marketing products for overseas tourists visiting Japan

WILLER TRAVEL, Inc. (capital: ¥70 million), based in Osaka City in Osaka Prefecture, is a member of the WILLER ALLIANCE Group, an operator of highway buses and other travel services. Using the Internet, via its own website and other companies' travel sites, WILLER TRAVEL provides a wide range of services, including the sale of highway bus, airplane and ferry tickets and reservations for hotels and other accommodation. The company also engages in comprehensive Web marketing activities, from listing advertisements[10] and display advertisements[11] to acquire new customers through its website/company system to measures to entice existing customers, for example sending out mail magazines. At present, 98% of the company's customers make bookings via the Internet.

The mission of the WILLER ALLIANCE Group is to bring value innovation to the movement of people throughout the world. Recognizing the potential for the use of buses to transport overseas tourists visiting Japan from the airport to the city and to offer sightseeing excursions, from 2009, when the number of tourists visiting the country began to steadily increase, the company took the lead over its competitors by working to cultivate an Internet-based business aimed at overseas tourists, seeking to tap into demand from this market.

In addition to developing products specifically tailored to overseas tourists visiting Japan, WILLER TRAVEL has also built a system enabling it to respond to the needs of these tourists, including offering reservations via its website in English, Chinese and Korean, enabling online credit card transactions, recruiting non-Japanese staff members able to respond in other languages in its physical offices, and conducting English-language training for its other staff members. It has also commenced offering announcements at its bus stations in English and onboard its buses in multiple languages. By advertising on sites in different languages and using listing advertisements, the company has also increased its recognition among overseas tourists visiting Japan through its marketing activities.

In launching these initiatives to tap the inbound tourist market, the company formulated a vision for a business targeting foreign tourists at a Group management meeting featuring all the Group companies, and informed its employees of this vision at one of its three-monthly strategy meetings. The company incorporated this business vision into a business plan, and worked to cultivate its business while verifying the effectiveness of the plan and adjusting its course each month.

These steady efforts saw WILLER TRAVEL succeed in making steady inroads into the inbound tourist market, and the number of users of its services increased annually. From 2014 to 2015, the company increased its annual number of users from 70,000 to approximately 100,000, mainly from Europe and Asia, a 143% year-on-year increase, and numbers have continued to increase steadily.

In addition, in September 2015 the company commenced operation of a website called "JAPAN BUS LINES," which enables overseas tourists to search for and make reservations on highway bus routes throughout Japan in English, Chinese or Korean. The company sought to promote consumption by inbound tourists in Japan's regional areas by securing routes that connected all major cities and regional areas, but it found this a difficult process in practice, leading to the creation of the website. Bus companies from around the country can register with the site, providing overseas tourists with a one-stop service by means of which they are able to reserve seats and purchase tickets on route buses throughout Japan. In the future, the company intends to further strengthen its grip on the inbound tourist market by means of measures including increasing the range of languages available on its website and expanding its scope to normal route buses.

Shigetaka Murase, president of WILLER TRAVEL, Inc.

In March 2016, in cooperation with WILLER CORPORATION, a member of the WILLER ALLIANCE Group that plays a role as a regional trading company in order to promote regional revitalization, and umari inc., the company launched Japan's first double-decker restaurant bus[12] to enable overseas tourists to experience the appeal of Japanese food. In the future, a program enabling visitors to experience harvesting vegetables on a farm in Niigata Prefecture and enjoy sightseeing while savoring regional foods is being planned. In tandem with this initiative, the company, in cooperation with umari inc., has launched the "NIPPON Travel Restaurant" on it homepage as a new eating experience that fuses the attractions of regional foods and travel. By spreading information regarding appealing regional dishes from Japan to the world via its homepage and encouraging visits to different regional areas by foreign tourists, the company is seeking to contribute to regional revitalization and expand the inbound tourist market.


The company's restaurant bus

10) "Listing advertisements" are advertisements that relate to search terms input to a search engine by Internet users, and which are displayed on the search results page.
11) "Display advertisements" are advertisements using images, movies, etc. that are embedded in webpages.
12) The company's restaurant bus is a double-decker bus with refrigerators, sinks, and a kitchen for the preparation of food on the first level, and tables and seating space for 25 passengers on the upper level. The upper level also features a transparent roof that can be opened and closed. Opening the roof on warm and sunny days makes it possible for passengers to eat their meals on the bus while enjoying the surrounding scenery.

Section 3 Problems related to investment in overseas expansion and initiatives of high-revenue enterprises

In this section, we will discuss problems associated with investment in overseas expansion for SMEs, and clarify factors in the success of companies that have boosted their results by conducting investment.

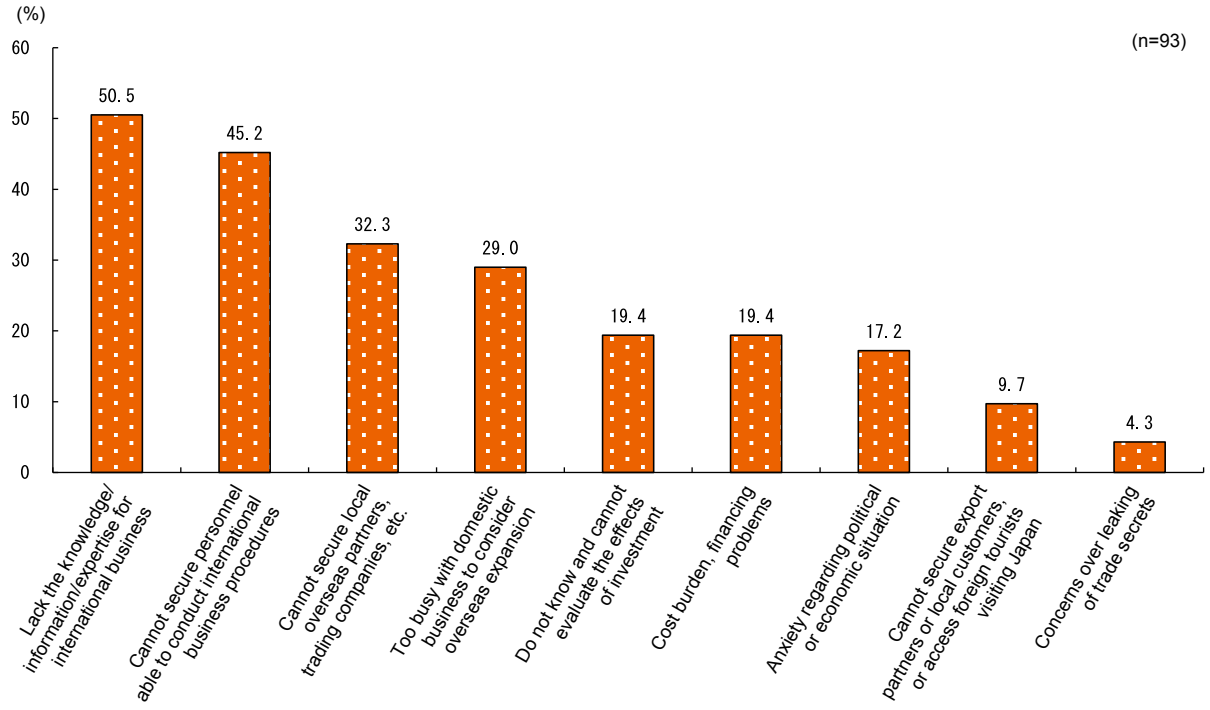
As was the case in Chapter 2, Section 3, this section will also focus on the recurring profit margin, which is essential to enhancing companies' earning power. Dividing SMEs into high- and low-revenue enterprises, we conduct a comparison of their recurring profit margins in order to analyze the differences between the initiatives implemented by, and the effects of investment for, companies that have become high-earning enterprises through investment in overseas expansion and enterprises that have not.

1. Reasons that enterprises do not conduct investment in overseas expansion

Reasons enterprises not conducting overseas investment are not investing in overseas expansion

In this section, we will consider companies that are not conducting investment in international expansion. Fig. 2-3-19 shows responses from enterprises regarding their reasons for not conducting investment in overseas expansion, despite viewing such investment as important. We see that the most frequent response was "Lack the knowledge/information/expertise for international business," followed by "Cannot secure personnel able to conduct international business procedures," "Cannot secure local overseas partners, trading companies, etc.," and "Too busy with domestic business to consider overseas expansion." These results indicate that even among companies that regard investment in overseas expansion as important, limiting factors (a lack of relevant information or expertise, a lack of human resources or partner companies, limited time due to domestic business) are preventing them from conducting investment.

Fig. 2-3-19 Reasons enterprises not conducting overseas investment are not investing in overseas expansion



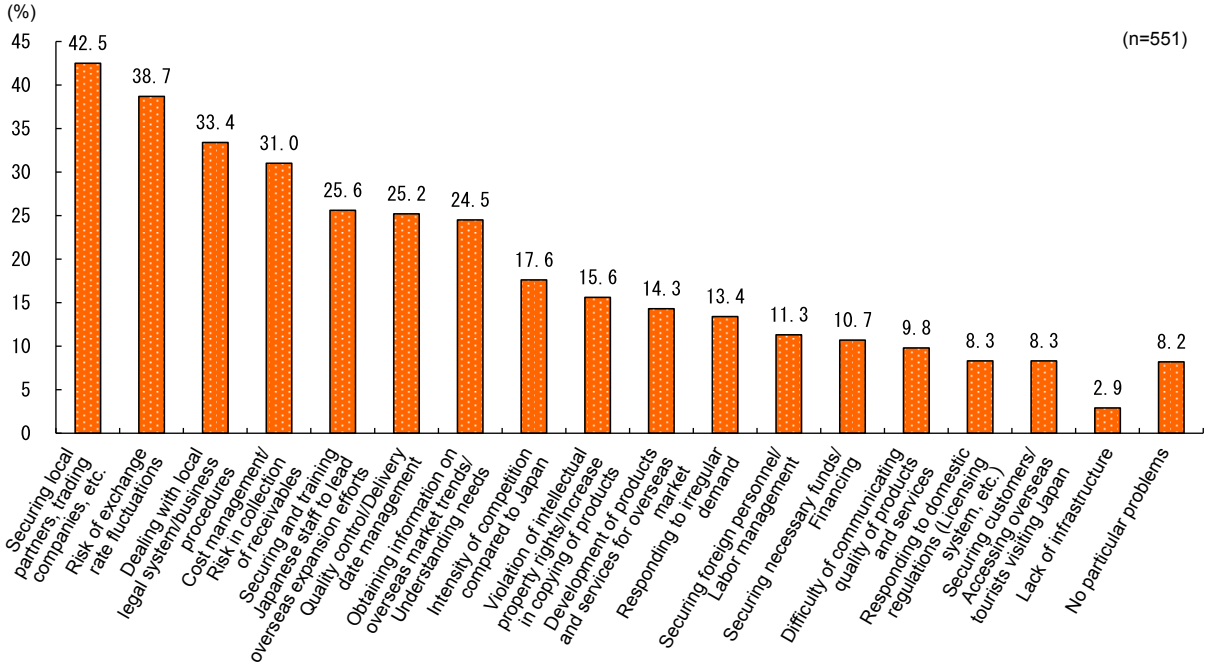
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies that are not conducting investment in overseas expansion, but responded that investment in overseas expansion is important.

Issues related to investment in overseas expansion

Fig. 2-3-20 shows problems that enterprises experience in relation to conducting exports. "Securing local partners, trading companies, etc.," is the most frequent response, followed by "Risk of exchange rate fluctuations," "Dealing with local legal system/business procedures," and "Cost management/Risk in collection of receivables."

Fig. 2-3-20 Problems related to exports

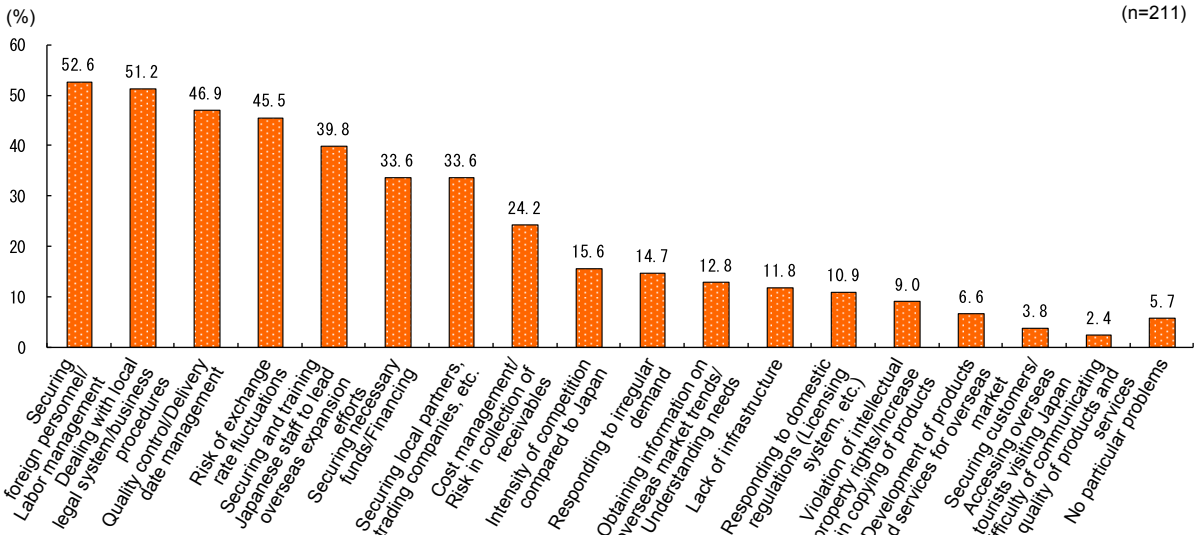


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies conducting exports.

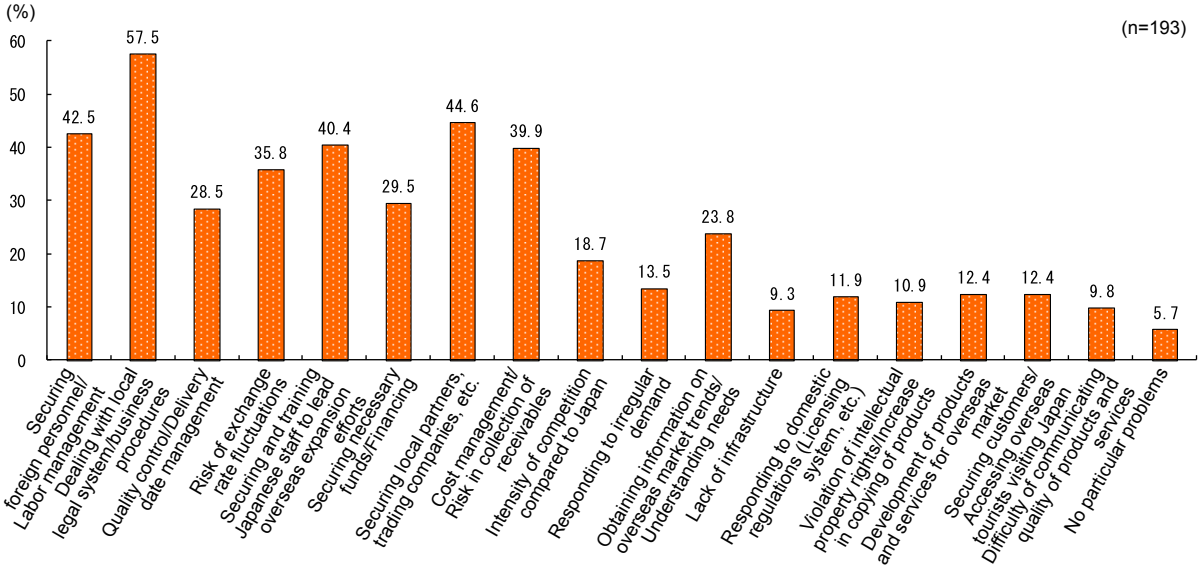
Fig. 2-3-21 shows problems that enterprises experience in relation to direct investment. As we can see, the most frequent responses for both enterprises investing in production bases and enterprises investing in sales or service bases were "Securing foreign personnel/Labor management" and "Dealing with local legal system/business procedures." We may consider this as being due to the fact that in order for enterprises situating overseas production or sales/service bases to establish overseas subsidiaries, it is necessary to secure local personnel to deploy locally, and to respond to local laws and practices related to commercial transactions. A high proportion of enterprises establishing production bases also indicated "Quality control/Delivery date management," "Risk of exchange rate fluctuations," and "Securing and training Japanese staff to lead overseas expansion efforts" as issues. This may be considered to be due to the fact that local production necessitates quality control and delivery date management, and that sales and procurement necessitate attention to problems of the exchange rate. A high proportion of enterprises establishing sales or services bases also responded "Securing local partners, trading companies, etc.," "Securing and training Japanese staff to lead overseas expansion efforts," and "Cost management/Risk in collection of receivables." This may be considered to be due to the fact that it is necessary for these enterprises to search for local partners in order to secure local sales destinations, and that they must also recruit Japanese staff possessing a high level of experience of work in an overseas environment and linguistic proficiency in order to support their local sales offices.

Fig. 2-3-21 Problems related to direct investment

(1) Problems related to direct investment in production bases



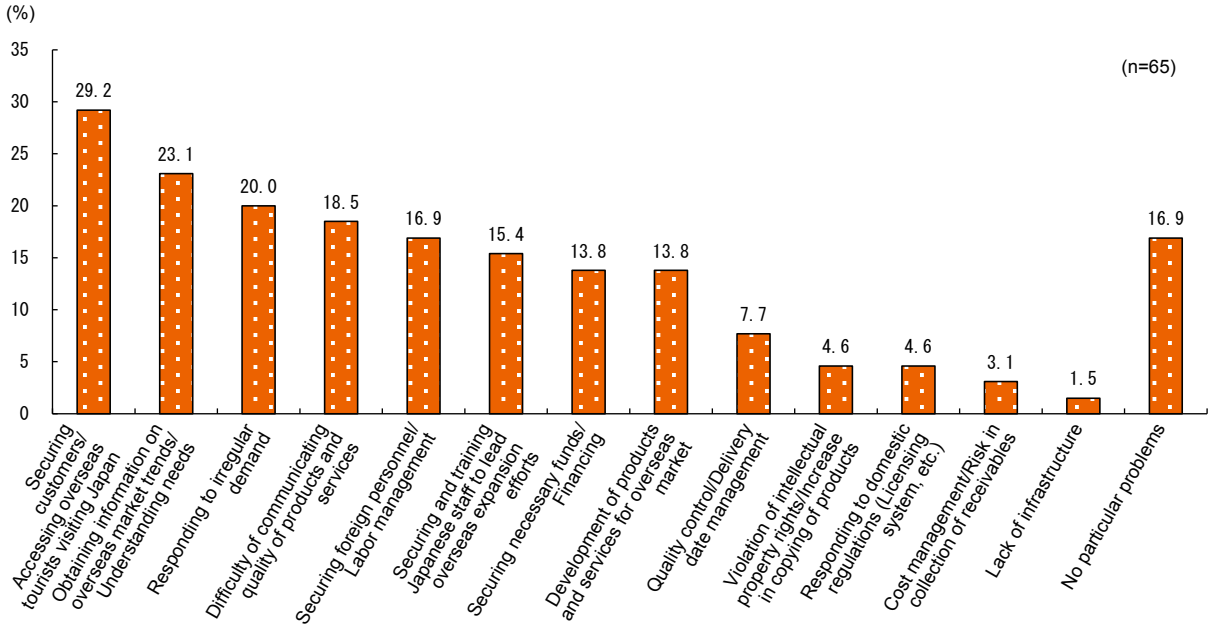
(2) Problems related to direct investment in sales or service bases



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies conducting direct investments.

Finally, Fig. 2-3-22 shows problems that enterprises experience in relation to responding to inbound tourism. The number of enterprises investing in responding to inbound tourism is lower than the number investing in exports or conducting direct investments. The most frequent response among these enterprises was "Securing customers/Accessing overseas tourists visiting Japan," followed by "Obtaining information on overseas market trends/Understanding needs," "Responding to irregular demand," and "Difficulty of communicating quality of products and services."

Fig. 2-3-22 Problems related to responses to inbound tourism



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies conducting responses to inbound tourism.

2. Investment in overseas expansion: High-revenue enterprises and low-revenue enterprises

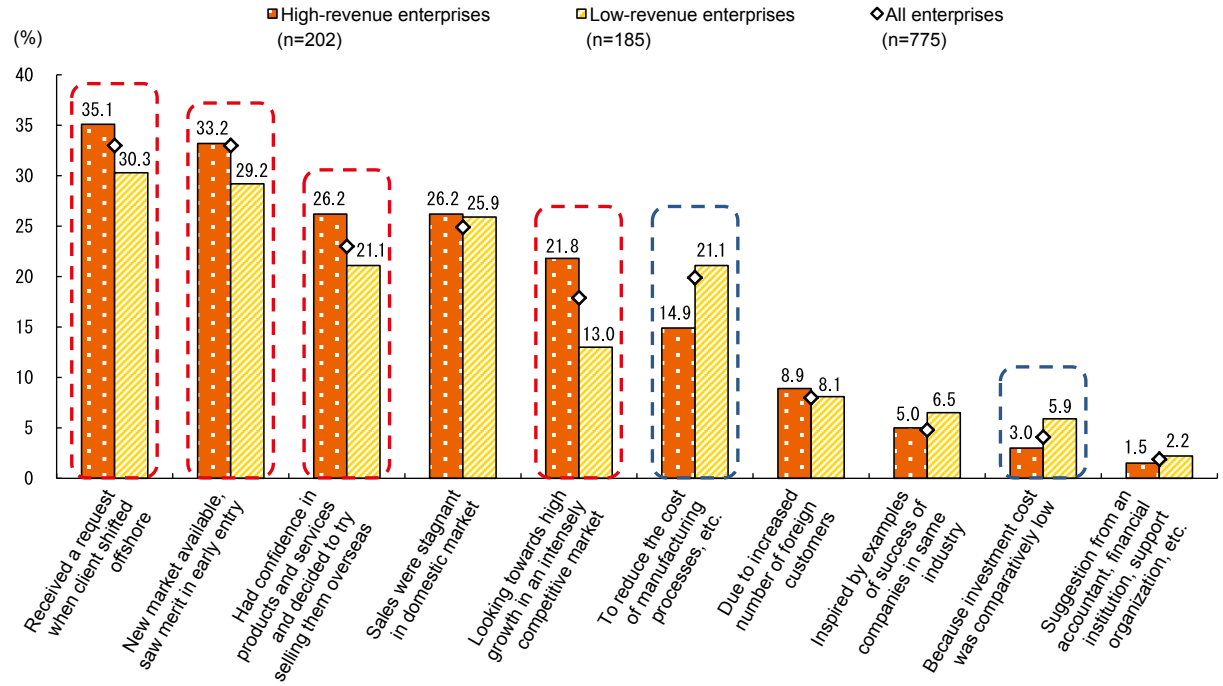
Up to this point, we have considered problems that SMEs experience in relation to exporting, conducting direct investments, or responding to inbound tourism, and we have seen that a variety of problems related to investment in overseas expansion prevent SMEs from expanding overseas. In addition, it is not difficult to imagine that overcoming these problems increases in difficulty the smaller the enterprise. However, against this background, there are enterprises that have conducted investments in overseas expansion, and which have increased their revenue as a result. In this section, we will compare the effects of investment in overseas expansion and initiatives conducted prior to and following these investments for high-revenue and low-revenue enterprises, seeking to clarify factors in success when investing in overseas expansion.

Impetus for investment in overseas expansion for high-revenue and low-revenue enterprises

Fig. 2-3-23 compares the factors that provided the impetus for investment in overseas expansion for high-revenue and low-revenue enterprises. The most frequent responses for high-revenue enterprises were "Received a request when client shifted offshore," "New market available, saw merit in early entry," "Had confidence in products and services and decided to try selling them overseas," and "Looking towards high growth in an intensely competitive market." The most frequent responses for low-revenue enterprises were "Received a request when client shifted offshore," and "New market available, saw merit in early entry," as in the case of high-revenue enterprises. However, the proportion of low-revenue enterprises responding that the impetus for investment in overseas expansion was "To reduce the cost of manufacturing processes, etc." and "Because investment cost was comparatively low" was higher than was the case for high-revenue enterprises.

These results indicate that rather than attempting to reduce costs, high-revenue enterprises tend to advance overseas because they have confidence in their products and services, and because overseas markets are displaying growth.

Fig. 2-3-23 Impetus for investment in overseas expansion (by high-revenue or low-revenue enterprise)

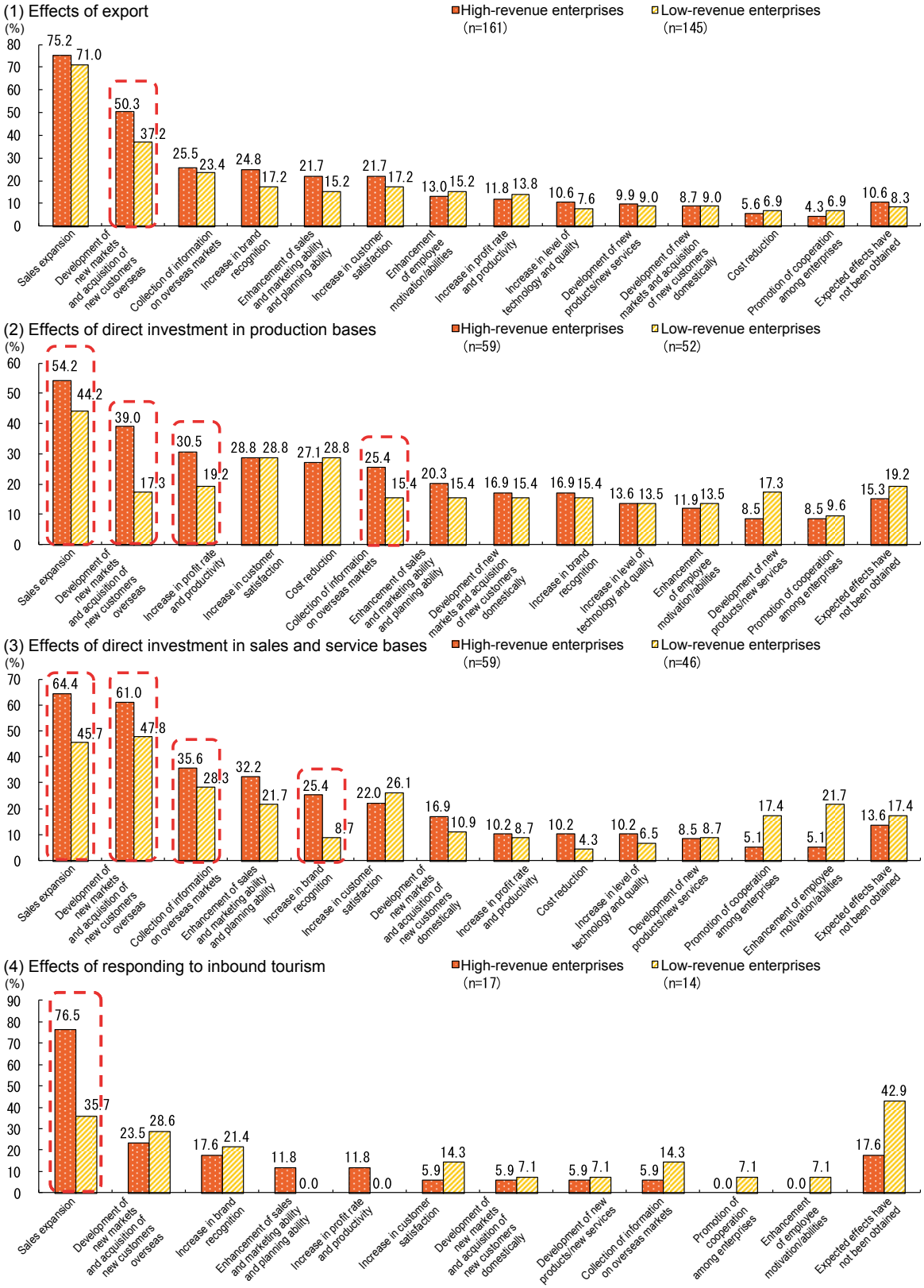


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies conducting investment in overseas expansion.

Effects of investment in overseas expansion for high-revenue and low-revenue enterprises

Fig. 2-3-24 compares the effects of investment in overseas expansion for high-revenue and low-revenue enterprises, based on the categories shown in Fig. 2-3-3. These results indicate that for all categories of investment in overseas expansion, more high-revenue enterprises experience "Development of new markets and acquisition of new customers overseas" as an effect than low-revenue enterprises. A high proportion of high-revenue enterprises similarly experience the effects "Sales expansion," "Increase in profit rate and productivity," and "Collection of information on overseas markets" from direct investment for the establishment of production bases, "Sales expansion," "Collection of information on overseas markets," and "Increase in brand recognition" from direct investment for the establishment of sales/service bases, and "Expansion of sales" from investment in responding to inbound tourism. Summarizing these results, we can see that there are differences between high- and low-revenue enterprises in terms of the effects of investment in overseas expansion, and that high-revenue enterprises tend to experience "Sales expansion" and "Development of new markets and acquisition of new customers overseas" as effects.

Fig. 2-3-24 Effect of investment in overseas expansion (by high-revenue or low-revenue enterprise)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

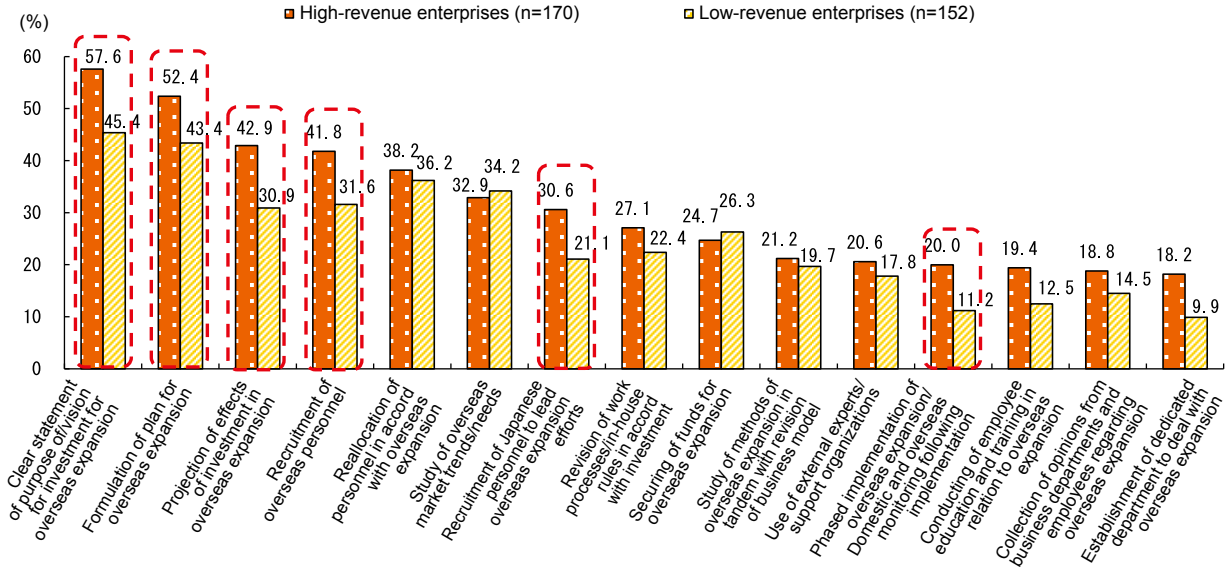
Notes: 1. Categories respectively aggregate results for companies investing in export, conducting direct investment in production or sales/service bases, or investing in responses to inbound tourism.
2. Total does not always equal 100% as multiple responses were possible.

Initiatives related to investment in overseas expansion among high-revenue and low-revenue enterprises — Factors in investment success —

Above, we considered the significant effects obtained from investment in overseas expansion by high-revenue enterprises. Below, we compare initiatives implemented by high- and low-revenue enterprises prior to and following investment in overseas expansion in order to determine what types of initiatives enable enterprises to increase their profitability, thus elucidating factors in the success of investment in overseas expansion.

Fig. 2-3-25 compares high-revenue and low-revenue enterprises with regard to initiatives put into effect prior to or following investment in overseas expansion that have proven significant for obtaining effects from the investment. The results show that a higher proportion of high-revenue enterprises than low-revenue enterprises indicate "Clear statement of purpose of/vision for investment for overseas expansion," "Formulation of plan for overseas expansion," "Projection of effects of investment in overseas expansion," "Recruitment of overseas personnel," "Recruitment of Japanese personnel to lead overseas expansion efforts," and "Phased implementation of overseas expansion/Domestic and overseas monitoring following implementation" as initiatives that they have implemented.

Fig. 2-3-25 Status of implementation of significant initiatives for realization of effects of investment in overseas expansion (by high-revenue or low-revenue enterprise)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Aggregates data for companies conducting investment for overseas expansion.
2. Total does not always equal 100% as multiple responses were possible.
3. Responses for "Other" item are not shown.

The survey of initiatives put into effect in relation to investment in overseas expansion by high-revenue enterprises offered here tends to indicate that in order to engage in business overseas, which is more difficult to predict than domestic business, it is important for enterprises to recruit and train personnel, including foreign personnel, and to project the effects of investment, in addition to clarifying the exact purpose of overseas expansion and conducting the investment while monitoring and correcting the course of the company's overseas expansion in stages.

If low-revenue enterprises formulate plans suited to their own company and conduct investments in overseas expansion after taking these factors in the success of high-revenue enterprises into consideration, they can anticipate succeeding in increasing their sales and opening up new overseas markets, and by this means boosting their earning power.

Case 2-3-5 SUEHIRO EPM Corporation

A company that has succeeded in winning overseas demand by unifying with a will to solve its customers' problems

SUEHIRO EPM Corporation (employees: 43; capital: ¥40 million), based in Yokkaichi City, Mie Prefecture, has been engaged in the design and manufacture of edible oil milling machinery and food processing equipment since its foundation in 1953. At present the company holds a share of basically 100% in the domestic oil milling machinery market, and exports to 18 countries, including Indonesia and South Korea.

The company was established in 1953 by Hitoshi Sakuma, father of current Chairman Hiroshi Sakuma, as a business conducting repairs of oil milling machinery. At that time, most oil milling machinery in Japan was manufactured overseas, mainly in Germany or the US. The machinery frequently broke down, and ordering replacement parts took time, causing problems for domestic users. Seeking to solve its customers' problems, SUEHIRO EPM Corporation commenced in-house development, and in 1959 succeeded in developing Japan's first edible oil milling machine. In 1966, Hitoshi Sakuma stepped down, and the current Chairman, Hiroshi Sakuma, joined the company at the age of 27. Mr. Sakuma constantly considered the customers' perspective and sought to identify his customers' problems, having the belief that he was promoting himself as much as his products. This attitude enabled him to build up relationships of trust with customers, and the company's domestic customer base steadily grew. In 1975, the company developed a pressurized extruder using its milling machine technology (capable of conducting functions including crushing, mixing, heating and sterilizing in a short period), and its share of the domestic market grew even further.

With the advancement of customers into overseas markets (through the establishment of overseas subsidiaries, etc.), SUEHIRO EPM's machinery came to be used overseas, and the reputation of its products for high quality and superior operation began to spread among overseas edible oil producers. In 1984, the company commenced exports through the overseas base of a domestic customer. Export issues such as tariffs and problems caused by the language barrier were handled for the company by its customer, and it was able to conduct smooth exports. As the result of incurring a large debt when conducting indirect exports through a trading company in the past, SUEHIRO EPM now conducts almost all of its exports as direct transactions, without the use of trading companies as intermediaries. The company is able to minimize the risk represented by exchange rate fluctuations by conducting all of its transactions in yen. It has also made efforts to open up new sales channels by recruiting a staff member proficient in foreign languages who handles overseas transactions full-time, and visits overseas markets to collect information and survey market needs.

Carrying on the spirit of solving its customers' problems that was present at its foundation, SUEHIRO EPM conducts joint developments and research projects with its customers and works to solve their problems. In doing so, it has won the trust of customers both in Japan and overseas, and it has been able to expand its sales by tapping into overseas demand through exports.

Speaking emphatically, Mr. Sakuma says "Our ability to expand out of the domestic market and acquire overseas customers was based on the entire company sharing the same thinking regarding our overseas expansion. This was a result, first, of clearly presenting and sharing my vision for the company, in particular in relation to overseas expansion, with President and company executives at our monthly meetings, and also of making all our employees aware of this vision via my messages in the company newsletter, which is published once a month. But above all, it is a result of thinking about what our overseas customers' problems are, and making use of information on market needs and market data collected by our full-time overseas sales supervisor, in order to develop and design products able to solve those problems."

A group photograph of
SUEHIRO EPM staff about to ship a product

Case 2-3-6 YUKI Precision Co., Ltd.

A company that has opened up new fields and taken up the challenge of entering the aerospace industry using its twin strengths, quality and reliability

YUKI Precision Co., Ltd. (employees: 30; capital: ¥35 million), based in Chigasaki City, Kanagawa Prefecture, undertakes OEM machining, manufacture and development of precision machined parts for the aerospace and medical instruments industries, in addition to conducting in-house development.

Established in 1950, the company was initially involved in the mass production of metal machined parts under contract to a major electrical machinery manufacturer. With the collapse of Japan's bubble economy, the company experienced a serious decline in orders due to factors including the effect of cheap offshore parts manufacture. Company President Masato Otsubo joined in 2006 with a brief to reorganize the company. The results of a questionnaire survey of customers reaffirmed to Mr. Otsubo that YUKI Precision's strengths were high quality and high reliability. He therefore determined to shift away from the company's previous low-mix, high-volume business model, towards a high-mix, low-volume model that would see the company supplying high-quality and high-value-added products, and to enter advanced markets, including the aviation and space industries, the medical equipment industry and the automotive industry. The company also moved away from an exclusive reliance on OEM manufacture and machining, establishing an in-house development department, and increasing the amount of work it handled in-house from design to manufacture. In order to acquire customers in new fields, the company first redesigned its logo to do away with its previous corporate image, and worked to cultivate new sales opportunities by actively providing information via its website and through events such as product exhibitions. Next, in order to establish a high-mix, small-lot production system, the company rationalized its operational procedures through the development and introduction of an IT system for order-based production[13]. These initiatives enabled it to acquire customers in the aerospace, medical and automotive fields, and the transition in its company system to one capable of supplying high-value-added products through low-volume, small-lot production saw sales steadily recover, until the company's figures, which had shown a temporary decline, displayed a V-shaped recovery.

Following this, believing that its high level of technological expertise would be valued overseas, YUKI Precision decided on a path of expansion into overseas markets via exports. Mr. Otsubo communicated his vision regarding this overseas expansion to the company's employees, and an awareness that it would be essential not to rely on domestic demand exclusively, but also to access demand from overseas, if the company was to survive came to be shared within the group. Communicating this message outside the company via the Internet and at product exhibitions attracted global business-ready personnel, individuals with expertise in foreign languages and experience of working overseas and knowledge of export procedures, with whom the company's vision for overseas expansion resonated. By actively undertaking business negotiations overseas and building relationships of trust, the company was able to acquire local business partners, and commenced exports to Europe, in particular France, which has a vigorous aerospace industry. Today, YUKI Precision's overseas sales are showing a steady annual increase.

The company has also formulated a medium- to long-term plan in relation to overseas expansion. In the first stage, it established a local subsidiary in Lyon, France, in May 2015 in order to function as a base for sales. The company intends to steadily increase its number of local sales representatives, and in the future, to also establish production bases. At present, overseas sales make up around 10% of YUKI Precision's overall sales, but its plan for the future is to increase this figure to 50% by 2020 by targeting France's aerospace industry and marketing its precision cutting and machining technologies.

Company President Masato Otsubo emphasizes "In the future, via manufacturing with a focus on quality and reliability, and further expansion of our overseas sales channels, we want to introduce the world to the excellence of Japanese manufacturing, and, through our products, to bring happiness to society, our customers and our employees."

YUKI Precision's booth at an aviation industry show held in Paris (2015)

13) The company's IT system for order-based production is a system created by integrating the databases of its existing IT system. The system integrates work processes throughout the company, from the receipt of an order to production and shipping, in a way that is optimal for production based on the receipt of orders.

Case 2-3-7 Saito Optical Science Manufacturing Ltd.

A company that has promoted technological innovation in the market and generated domestic and overseas demand by supplying technologies and providing consultation services

Saito Optical Science Manufacturing Ltd. (employees: 52; capital: ¥10 million), based in Misato Town in Akita Prefecture, is a company providing OEM machining services (polishing of glass materials and semiconductor substrates employed in electronic components, medical devices and measurement devices), and technological services including polishing-related consultation.

Established in 1977, the company initially based its headquarters in Saitama Prefecture. Its main business at the time was OEM polishing of glass for wristwatch covers, but Japan's major domestic manufacturers eventually moved their production bases offshore, and the rise of Chinese and Taiwanese companies led to undercutting of prices in the area of OEM polishing services. The company's President at the time, Touji Saito, father of current President Nobuei Saito, recognized that there was no future in the company's existing business model, and restructured the company in order to make the transition to a system able to provide high-value-added technologies and services. First, seeking to secure superior human resources in the region, the company established a plant in Akita Prefecture in 1985. In 2009, it acquired a research and development facility in Gunma Prefecture through an M&A. In addition to hard crystal substrate polishing technologies to add to its existing glass polishing technologies, this brought the company extensive equipment to devote to research and development, enabling it to commence providing consultation services to support the development of products in the field of polishing technology.

This consultation service represented a business model that was previously unknown in the industry, and the company began to receive requests for consultation not only from Japan, but also from the US, South Korea, and China. Ordinarily, the company would not have considered supplying its technologies to a domestic competitor or an overseas company, but Nobuei Saito, who became President in 1994, felt that by providing technologies to companies in Japan and the rest of the world, the company would be able to spur technological innovation in the market, and by this means would accumulate information enabling it to provide even higher-level technological services. Mr. Saito made his thinking known to company employees, and took their opinions onboard to create a company-wide consensus. In 2009, the company commenced providing technological guidance to overseas companies. Prior to becoming involved with overseas companies, Saito Optical Science investigates its potential business partner and projects the balance of income and expenditure involved in its consultation services, thus minimizing the risks involved in overseas business. In addition to this, the company also deploys staff members with knowledge of trends in overseas markets and who are proficient in the relevant languages, enabling it to build relationships of trust with its clients as it steadily increases its overseas share.

Company President Nobuei Saito

By steadily pursuing initiatives and conducting strategic facility investments while exporting its technologies in the form of polishing-related consultation services, Saito Optical Science has succeeded not only in tapping into demand in the domestic market, but also in the overseas market.

In 2013, the company transferred its research and development facility in Gunma Prefecture to Akita Prefecture, and in November 2015 it also relocated its headquarters from Saitama Prefecture to Akita Prefecture. By concentrating all of its company functions, from finance to research and development and manufacturing, in Akita Prefecture, the company has created a system that enables it to make rapid business decisions and management judgments.

Company President Nobuei Saito says "Based on the very latest industry data that we are able to compile through our polishing technology consultations, we are able to accurately grasp the direction of the industry and to supply technologies the effectiveness of which is objectively verifiable to companies in Japan and overseas. By this means, an SME in Japan is able to spur development by major corporations. We intend to continue focusing our efforts on the technological services field, in order to invigorate the domestic and overseas markets."

Polished sapphire substrates

Column 2-3-2 Support measures to assist companies in overseas expansion

This column looks at support programs for overseas expansion offered by government organizations.

[Measures related to securing partner companies and customers]

Invitation of overseas buyers/Individual business meetings (Japan External Trade Organization (JETRO))

JETRO invites leading overseas buyers and experts in a range of areas including machinery, environment and energy, agricultural, forestry and fisheries products and foodstuffs, designer and traditional products, fashion (textiles and apparel), and content (film, anime, etc.) to Japan and matches them with Japanese companies seeking to cultivate overseas markets for individual business meetings.

Method of implementation Period for applications	JETRO's webpage provides an overview of the business meetings and the method of applying for participation. http://www.smrj.go.jp/keiei/kokusai/event/index.html
Fees, etc.	Participation in business meetings is free

Support for exhibition of products in international trade exhibitions, etc. held in Japan (Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ))

The SMRJ provides support for companies to exhibit their products in international trade exhibitions held in Japan which are visited by large numbers of overseas buyers.

Details of support	Support for translation of materials for business meetings and advance preparation via consultation with liaison staff, support for involvement of experts and interpreters, etc. during exhibition, provision of advice on formulation of contracts following exhibition, support for follow-ups after business meetings, etc.
Method of implementation Period for applications	When the plans for an exhibition have been concluded, the SMRJ calls for applications from companies wishing to exhibit on its website, etc. http://www.smrj.go.jp/keiei/kokusai/event/index.html
Fees, etc.	Part of the expenses involved in exhibiting are subsidized by the SMRJ.

Support for exhibition in Japan Pavilions of overseas trade fairs and trade exhibitions (Japan External Trade Organization (JETRO))

JETRO provides support for exhibition in the Japan Pavilions of overseas trade fairs and trade exhibitions that it organizes or participates in, providing a package with a range of services that includes support for exhibition procedures, customs clearance and transportation for exhibits, and advertising.

Method of implementation	JETRO calls for exhibiting companies and groups on its webpage.
Period for applications	The period for applications differs depending on the exhibition (See the JETRO website for details). http://www.jetro.go.jp/events/tradefair
Fees, etc.	Part of the expenses involved in exhibiting are subsidized by JETRO. (Individual details are provided when companies apply for exhibition.)

Support for exhibition in overseas trade exhibitions
(Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ))

The SMRJ provides comprehensive support for companies exhibiting in overseas trade fairs (mainly in the Japan Pavilions organized by JETRO), from the stage of preparation for the exhibition (advice on establishing overseas sales channels, support for the formulation of materials for business meetings, etc.) to follow-ups (support for contract procedures, provision of import/export expertise, etc.). Services are provided without charge, other than translation services, for which the company pays one-third of expenses.

[Measures for the collection of overseas information]

Seminars on overseas expansion
(Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ))

At these seminars, companies are provided with information on trends in new overseas markets, useful information for overseas expansion, etc. in an easy-to-grasp fashion while discussing case studies.

Method of implementation	Seminars are held by SMRJ in collaboration with financial institutions, etc. (The seminar schedule and information on applying are published on the website of SMRJ.) http://www.smrj.go.jp/keiei/kokusai/seminar2/index.html
Period for application	Depends on individual case
Fees, etc.	Free

Consultations with overseas coordinators regarding export support
(Japan External Trade Organization (JETRO))

Coordinators (specialists) stationed overseas offer consultations to companies wishing to expand overseas (regarding products that sell well in the target country, the potential for sales in the target country, etc.) in the areas of agricultural, forestry and fisheries products and foodstuffs, apparel/textiles, designer products/traditional products, content, machinery and parts, and environment and energy.

Method of implementation	Inquiries and applications are accepted at Japanese offices of JETRO. http://www.jetro.go.jp/services/coordinator
Period for application	Depends on individual case
Fees, etc.	Free

Provision of advice to support internationalization
(Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ))

The SMRJ provides advice concerning issues involved in internationalization, etc. Specifically, the business challenges of the company seeking consultation are identified, a target country is selected, and advice is offered concerning the development or modification of products for the overseas market, etc.

Method of implementation	Companies can apply by FAX (03-5470-1527) or email (kei-kokusai@smr.j.go.jp). Advice is offered at 10 locations throughout the country. http://www.smrj.go.jp/keiei/kokusai/advice/index.html
Period for application	Depends on individual case
Fees, etc.	Free

[Measures to assist in securing necessary funds]

Funding for overseas expansion/Business restructuring

The Japan Finance Corporation loans funds (including funds for subleasing from overseas companies) to support the commencement or expansion of overseas business by SMEs and the restructuring of business for overseas expansion (Fig. Column 2-3-2).

Fig. Column 2-3-2 [Overview of system for provision of funds for overseas expansion and business restructuring]

Who is eligible for a loan	Companies that fall into either of the following category 1 or 2: 1. Overseas expansion is essential from the business perspective in order to respond to structural changes in the economy, and the company meets all of criteria (1)–(3). (1) The business subject to the commencement or enhancement of overseas expansion is of such a scale that it can be considered an extension of the relevant SME's domestic business (2) The company continues to locate the base for its business activities (its headquarters) in Japan (3) The company seeks to conduct business in overseas markets as part of efforts towards business innovation, and corresponds to any of categories a–d a. Overseas expansion is essential as a result of the overseas advancement of customers b. Overseas advancement is essential given the status of supply of raw materials c. Overseas advancement is essential due to a shortage of labor power d. Overseas expansion is essential because the contraction of the domestic market makes it impossible for the company to project growth without cultivating and securing overseas markets 2. The company corresponds to both (1) and (2) in responding to economic structural change overseas (1) The company will restructure the business it is expanding overseas by conducting direct investments (including scrapping all or part of the business), and this is essential from a business perspective (2) The company will continue its domestic operations, and anticipates medium- to long-term growth.
How loans may be used	Funds for the necessary equipment or operations for the relevant business (including funds for subleasing from overseas companies, funds for the restructuring of the business being advanced overseas, and funds to repay debts resulting from these)
Loan limits	(SME Unit) ¥720 million (of which ¥250 million may go to fund operations) (Micro Business and Individual Unit) ¥72 million (of which ¥48 million may go to fund operations)
Loan interest rates	(SME Unit) Standard interest rate, special interest rate (Micro Business and Individual Unit) Standard interest rate, special interest rate
Loan periods	Equipment funds: Within 20 years <period of deferment not exceeding 2 years> Operating funds: Within 7 years <period of deferment not exceeding 2 years>
Financial institution handling loans	Japan Finance Corporation (SME Unit and Micro Business and Individual Unit) The Okinawa Development Finance Corporation

[Avoiding risk in relation to overseas expansion]

Export payment insurance for SMEs (Nippon Export and Investment Insurance (NEXI))

NEXI provides specialized insurance for SMEs covering the risk of collection of export payments. The program provides an insurance payout in the event that payments cannot be collected due to the manifestation of risks in the destination country following shipment (conflict, restrictions on the sending of foreign currency, natural disaster, etc.) or in relation to the buyer (bankruptcy, shortage of funds, etc.).

Method of implementation	Inquiries and applications are accepted at NEXI offices in Japan. Customer Liaison, Nippon Export and Investment Insurance Head office: 0120-672-094 (toll-free) Osaka office: 0120-649-818 (toll-free) http://nexi.go.jp/
Period for application	Depends on individual case
Fees, etc.	Companies pay insurance premiums, as determined by the details of their contract.

Overseas investment insurance (Nippon Export and Investment Insurance (NEXI))

This program provides insurance payouts to companies conducting direct investments (investment through capital contribution, acquisition of rights to real estate, etc.) in the event that they are unable to continue their business due to the manifestation of risks in the destination country (war, restrictions on the sending of foreign currency, natural disaster, etc.).

Method of implementation	Inquiries and applications are accepted at NEXI offices in Japan. Investment Insurance and Underwriting Group, Nippon Export and Investment Insurance Head office: 03-3512-7668 http://nexi.go.jp/
Period for application	Depends on individual case
Fees, etc.	Companies pay insurance premiums, as determined by the details of their contracts.

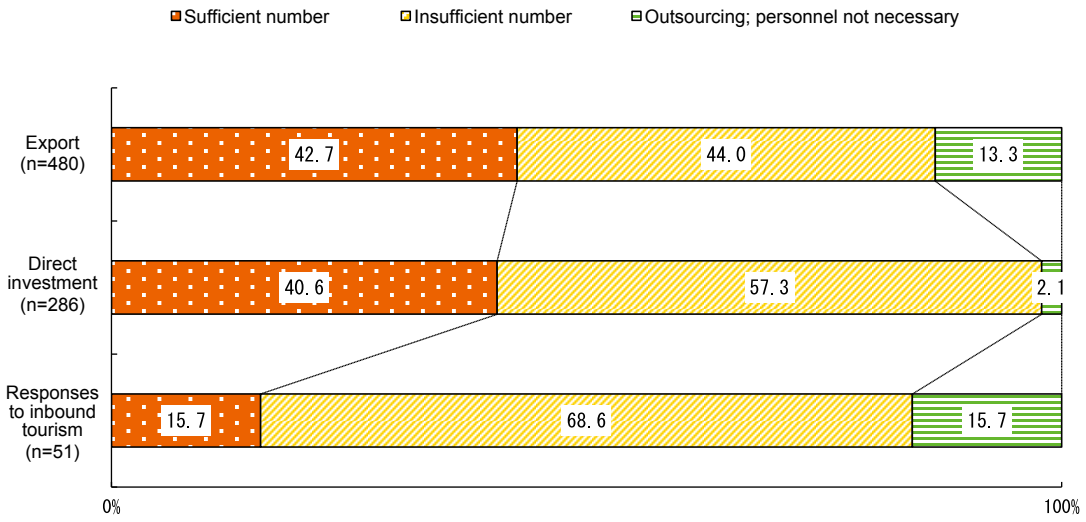
3. Human resources for investment in overseas expansion

Above, we have seen that a high proportion of companies conducting investments in overseas expansion regard securing human resources to lead the process as one of the problems they face, and a high proportion of companies which are not investing in overseas expansion list the difficulty of securing human resources as a reason for not pursuing investment. This section will look at the status of initiatives and problems in relation to the human resources that are essential to investing in overseas expansion.

Status of employment of global business-ready human resources/foreign employees

First, we will look in detail at the status of employment of global business-ready human resources[14]. Fig. 2-3-26 shows the degree of adequacy of the number of global business-ready human resources, by type of investment. As the results show, around 40% of companies conducting exports and direct investments have been able to secure global business-ready human resources, while 44.0% in the former category and 57.3% in the latter category report a lack of human resources. Among companies responding to inbound tourism, only 15.7% report that they have secured the necessary human resources for global business, with 68.6% reporting a lack of human resources. As this indicates, companies attempting to respond to inbound tourism are feeling the lack of suitable human resources more keenly than companies conducting exports or direct investments.

Fig. 2-3-26 Adequacy of number of global business-ready human resources (by type of investment in overseas expansion)

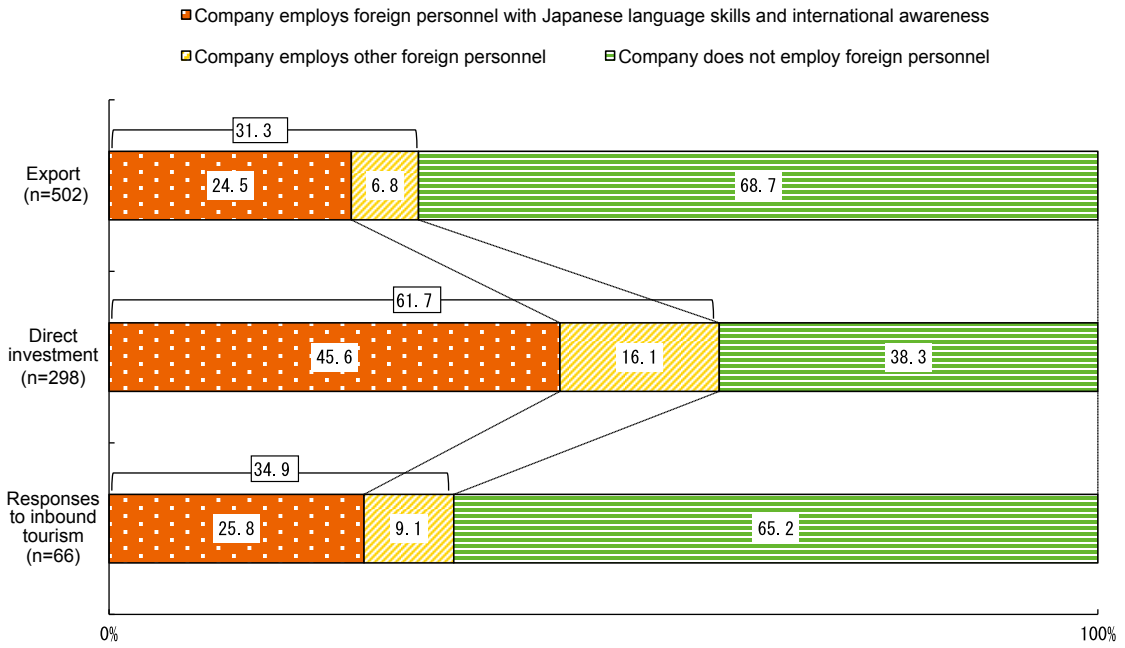


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Categories respectively aggregate data for companies conducting exports, direct investment, or responses to inbound tourism.

Fig. 2-3-27 shows the status of employment of foreign personnel, by type of investment in overseas expansion. Because enterprises conducting direct investments employ foreign staff both in Japan and overseas at their production or sales/service bases, the proportion of these enterprises with foreign personnel is higher, at a little over 60%, than it is among enterprises conducting other types of investment. The employment of foreign personnel among enterprises conducting exports or responding to inbound tourism is much less well advanced than it is among enterprises conducting direct investments, with between 60 and 70% of enterprises not employing any foreign staff members at all.

14) "Global business-ready human resources" refers to Japanese staff possessing excellent language skills, resident oversea or with extensive experience of working overseas, and with an international outlook.

Fig. 2-3-27 Employment of foreign personnel (by type of investment in overseas expansion)

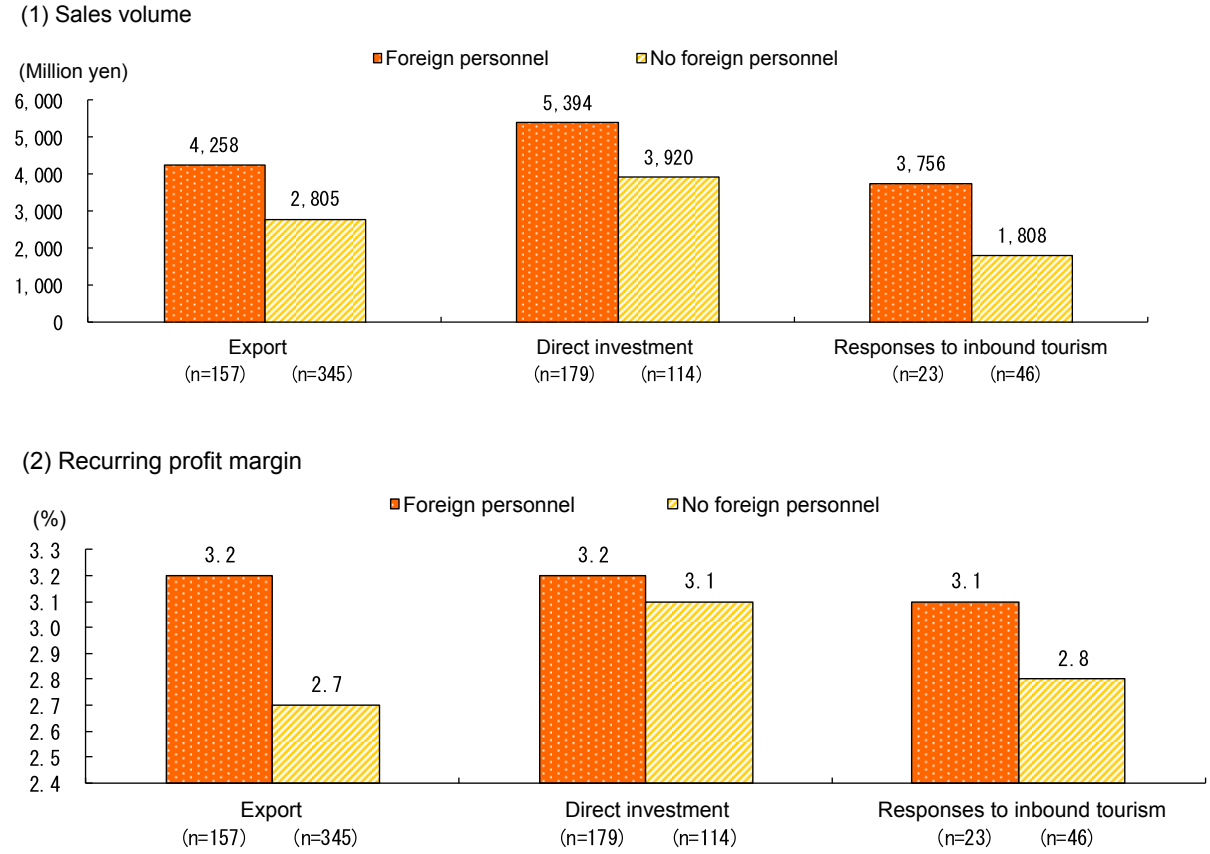


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Categories respectively aggregate data for companies conducting exports, direct investment, or responses to inbound tourism.

Employment of foreign human resources and labor productivity

Fig. 2-3-28 shows sales volume and recurring profit margin for enterprises conducting investments in overseas expansion, by employment or non-employment of foreign human resources and type of investment. The results show that the level of sales volume and recurring profit margin is higher for enterprises that employ foreign human resources than for those which do not for all types of investment in overseas expansion. While this does not demonstrate a causal relationship between the employment of foreign human resources and increased sales volume and recurring profit margin, we can at least point to a correlation between the employment of foreign human resources and business results.

Fig. 2-3-28 Business results (by employment or non-employment of foreign personnel)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Notes: 1. Categories respectively aggregate data for companies conducting exports, direct investment, or responses to inbound tourism.
2. Sales volume and recurring profit margin are both calculated based on averages for the three-year period from 2012 to 2014.

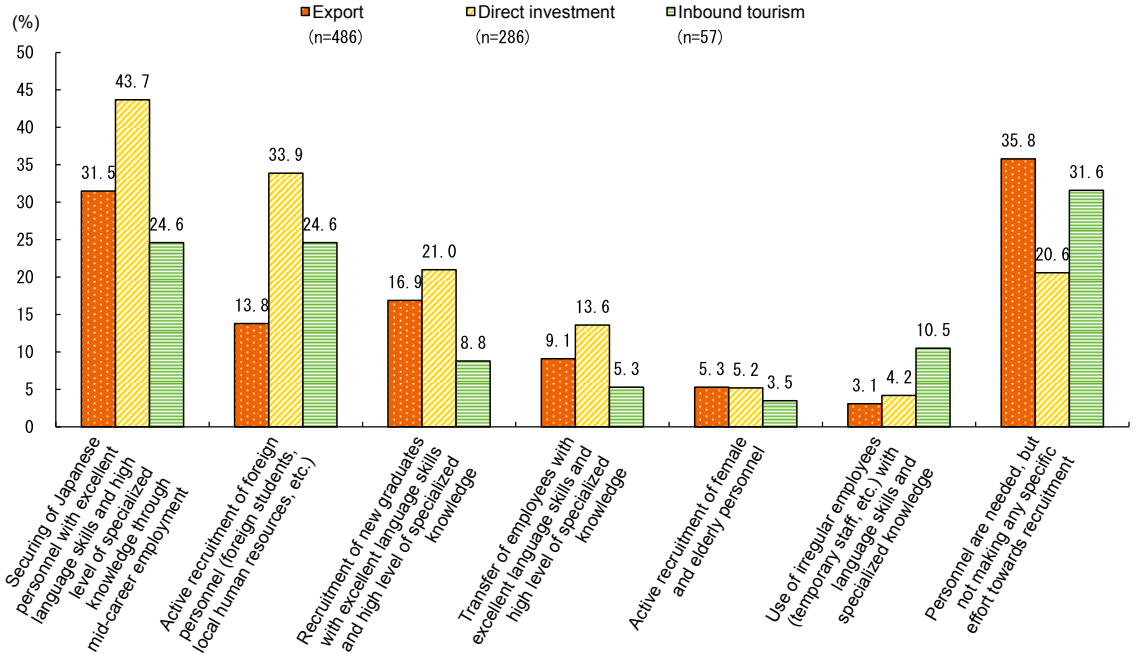
Initiatives for securing and developing human resources for overseas expansion

In this section, we will look at the status of initiatives for securing and developing human resources for overseas expansion (the global business-ready human resources and foreign personnel necessary for overseas expansion) among SMEs.

Figs. 2-3-29 and 2-3-30 respectively show the status of initiatives for securing human resources and initiatives for developing human resources among enterprises conducting investments in overseas expansion, by type of investment. In the case of enterprises conducting direct investments, the most frequent response concerning initiatives for the securing of human resources is "Securing of Japanese personnel with excellent language skills and high level of specialized knowledge through mid-career employment," followed by "Active recruitment of foreign personnel (foreign students, local human resources, etc.)," and "Recruitment of new graduates with excellent language skills and high level of specialized knowledge." Among enterprises conducting exports and responding to inbound tourism, the highest proportion of enterprises respond "Personnel are needed, but not making any specific effort towards recruitment."

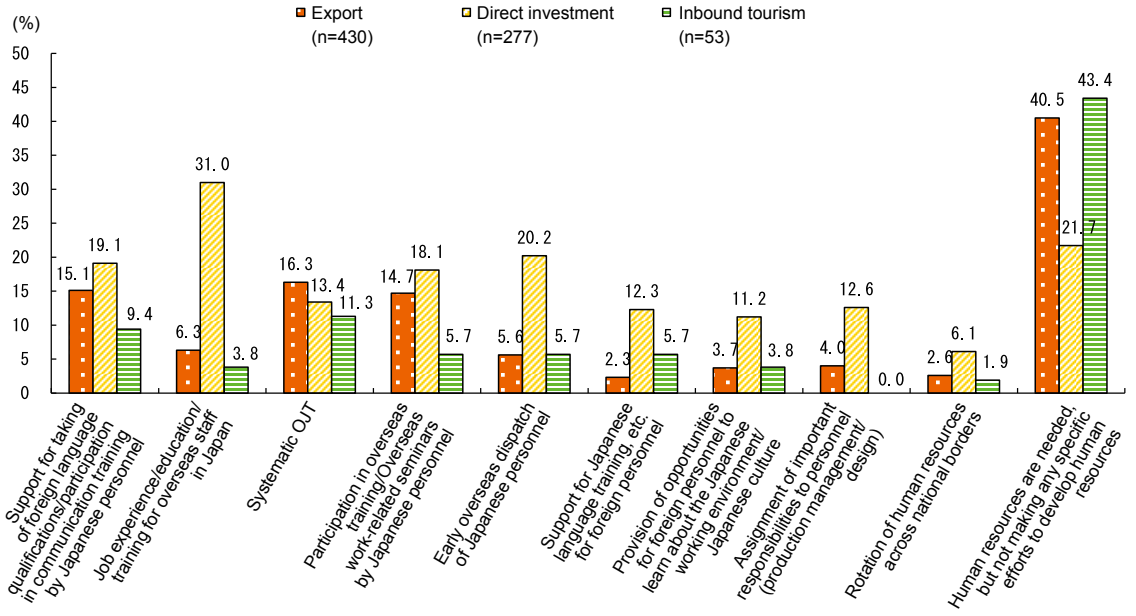
Turning to initiatives for the development of human resources, despite the fact that there are enterprises conducting direct investments that responded "Job experience/education/training for overseas staff in Japan" and "Early overseas dispatch of Japanese personnel," overall the proportion of enterprises for all types of investment responding "Human resources are needed, but not making any specific efforts to develop human resources" was high.

Fig. 2-3-29 Status of initiatives for securing human resources (by type of investment in overseas expansion)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies conducting exports, direct investment, and responses to inbound tourism.

Fig. 2-3-30 Status of initiatives for the development of human resources (by type of investment in overseas expansion)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies conducting exports, direct investment, and responses to inbound tourism.

Summarizing these results, we can indicate that while a percentage of SMEs are working to secure global business-ready human resources through mid-career employment and externally recruiting foreign human resources such as

foreign students in Japan, there is still a high proportion of companies which have not secured the necessary human resources. In addition, there is a tendency among companies conducting all types of investment in overseas expansion not to make efforts to develop human resources for overseas expansion.

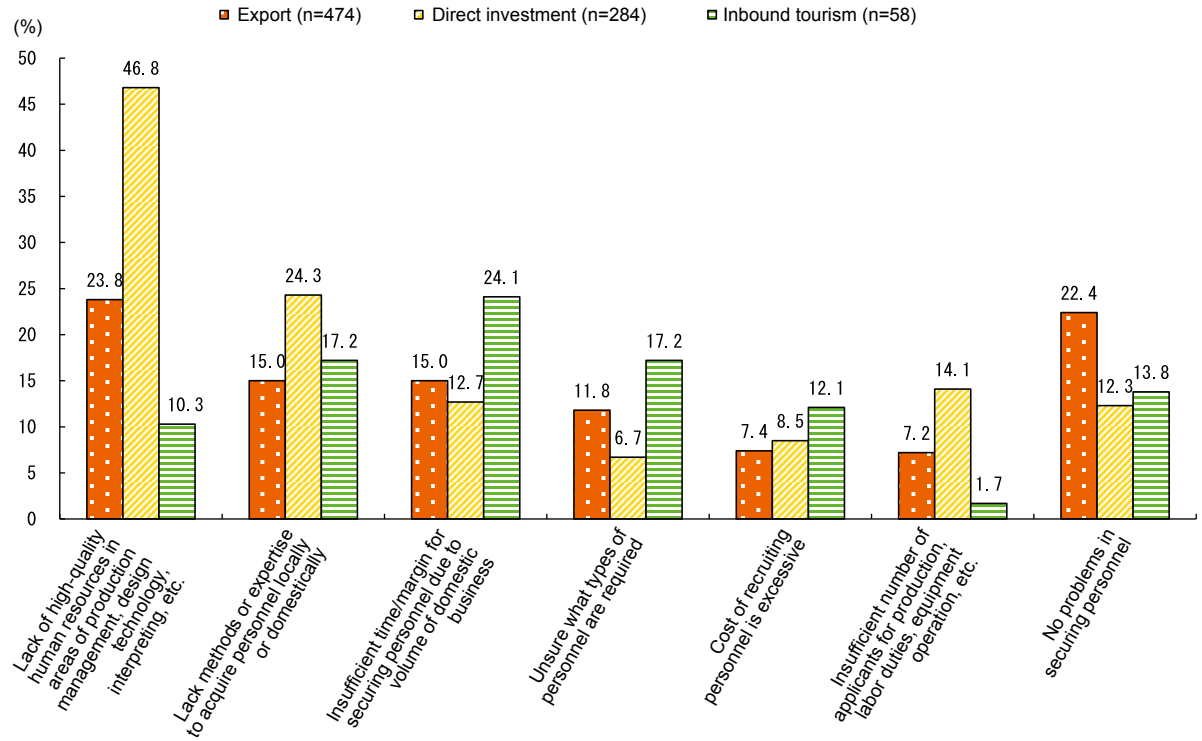
Problems associated with securing and developing human resources for overseas expansion

What types of problems prevent enterprises conducting investments in overseas expansion from securing and developing the necessary human resources? Figs. 2-3-31 and 2-3-32 respectively show problems that enterprises encounter in securing and training personnel, by type of investment in overseas expansion.

Looking first at problems in securing human resources, the highest proportion of enterprises conducting exports and direct investments respond "Lack of high-quality human resources in areas of production management, design technology, interpreting, etc.," while the most frequent response among enterprises attempting to respond to inbound tourism is "Insufficient time/margin for securing personnel due to volume of domestic business."

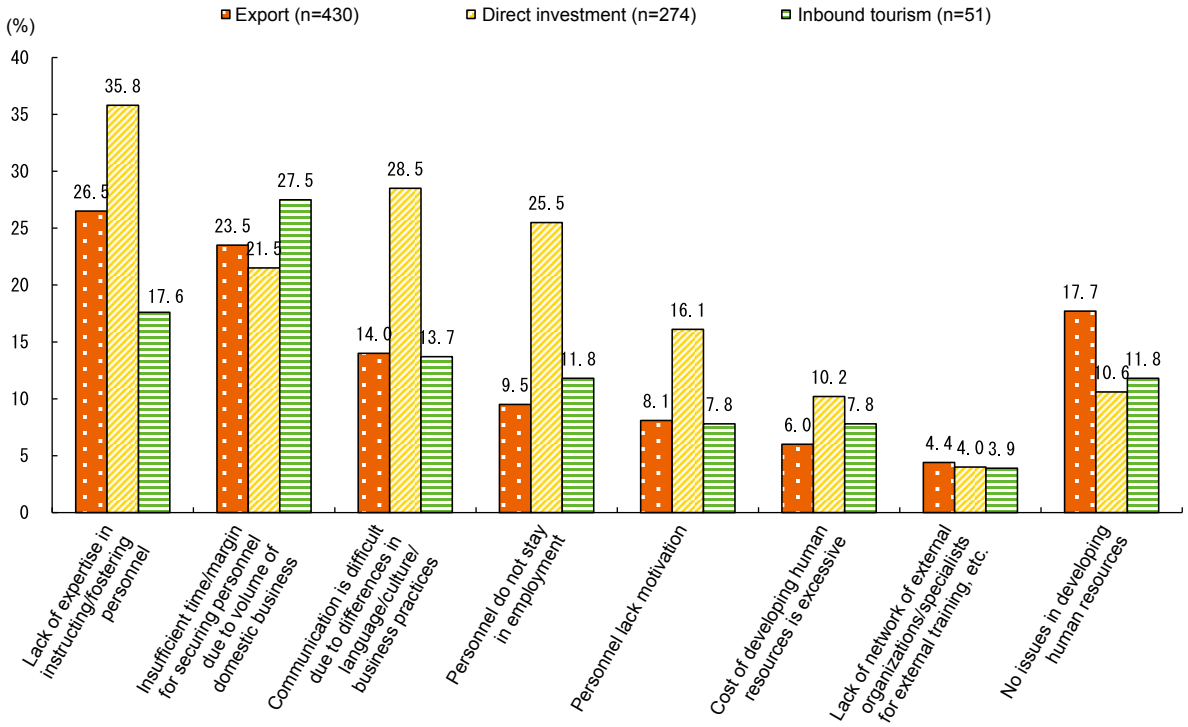
Turning to problems experienced in developing human resources, a high proportion of enterprises for all types of investment responded "Insufficient time/margin for securing personnel due to volume of domestic business." In addition, the highest proportion of enterprises conducting exports responded "Lack of expertise in instructing/fostering personnel," while the most frequent responses for enterprises conducting direct investments were "Lack of expertise in instructing/fostering personnel," "Communication is difficult due to differences in language/culture/business practices," and "Personnel do not stay in employment."

Fig. 2-3-31 Problems in securing personnel (by type of investment in overseas expansion)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies conducting exports, direct investment, and responses to inbound tourism.

Fig. 2-3-32 Issues in developing human resources (by type of investment in overseas expansion)



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates data for companies conducting exports, direct investment, and responses to inbound tourism.

These results indicate that a lack of human resources of the requisite quality is preventing companies conducting exports and direct investments from securing human resources; in the case of companies responding to inbound tourism, the issue is the fact that companies are too busy dealing with their domestic workload. Companies conducting exports are prevented from developing human resources by a lack of expertise in instructing and fostering personnel. Companies conducting direct investment face the problems of a lack of expertise in instructing and fostering personnel, difficulty in communicating with foreign human resources due to differences in language, culture, and business practices, and in addition are unable to retain employees. Companies responding to inbound tourism are mainly prevented from developing human resources by the fact that they are too busy dealing with their existing workload.

Tapping into overseas demand is by no means a simple matter, and the utilization of global business-ready human resources and foreign personnel is essential to success. However, as we have seen, due to a variety of problems, many companies conducting investment in overseas expansion are unable to recruit and develop human resources for this purpose in-house. Fig. 2-3-28 showed a correlation between the employment of foreign human resources and companies' sales volume and recurring profit margin. If SMEs are unable to secure and develop global business-ready human resources within their own companies, then the contracting and utilization of diverse human resources, including foreign personnel with a good command of Japanese and an international perspective, from outside the company would represent one means of succeeding in investment in overseas expansion.

By securing and developing global business-ready human resources within their own companies at the same time as contracting and utilizing diverse human resources from outside, without insisting that those human resources be Japanese, Japanese SMEs could expect their investments in overseas expansion to be successful in enabling them to tap into overseas demand and increase their earning power.

Case 2-3-8 Fuji Filter Manufacturing Co., Ltd.

A company that has succeeded in overseas expansion by cultivating the essential personnel in-house

Fuji Filter Manufacturing Co., Ltd. (employees: 180; capital: ¥57.4 million), based in Chuo City in Tokyo, develops, designs and manufactures high-precision industrial filters and filter systems. The company manufactures filters for a wide range of applications, supplying 30% of its products to the chemical industry, 24% to the automotive industry, 20% for plant engineering applications, and 20% for shipping applications. Fuji Filter Mfg.'s strength is its ability to combine high-mix, low-volume production and low-mix, high-volume production, two production systems with differing characteristics. In addition to its Head Office in Tokyo, the company has a manufacturing plant in Tochigi Prefecture, and sales representatives in more than 15 countries, enabling it to supply Japanese-made filters not only in Japan, but throughout the world.

In 1966, Kazumitsu Shiomi retired from a foreign-funded trading company, taking filter inventory in lieu of a retirement allowance. Using this as capital, he founded a company and commenced manufacturing Japanese-made filters. Because joint development with a US company ensured that the quality of the company's products was high, and Mr. Shiomi had experience of working overseas and was proficient in English, the company was able to commence exporting to the US a few years after its foundation, and began to cultivate overseas customers through the establishment of overseas sales representatives.

Following his father Kazumitsu's example, current President Chika Shiomi joined the company and gained knowledge about its products and production management on the factory floor, in addition to learning sales skills in the overseas sales department. In 2006, she succeeded her father as the company's President. Having established the management principle of making its employees the world's happiest, based on the understanding that it is employees that support a company, the company listened to opinions from its employees and put effort into studying issues rather than adopting a top-down management style, enabling it to develop and manufacture products able to solve problems for its customers. In looking towards overseas expansion, strategies and plans were formulated together with employees, and all employees shared the vision, enabling the company to cultivate new business partners both in Japan and overseas, and by this means to boost its business results.

One of the company's distinctive features is the effort that it puts into proposal-based sales. Industrial filters have a wide range of applications, from the automotive coating process to cosmetics manufacture. The company is therefore fostering sales staff able to market its products overseas, without the need to rely on trading companies, by having them learn about products through factory training, followed up by study meetings and tests.

In addition, in 2012 the company established Fuji Filter Korea in South Korea as a joint venture in order to increase the added value and cost competitiveness of its filters. With this move, the company now conducts part of the design process for filter cases, previously manufactured by a supplier, in-house, enhancing its in-house design ability. The company has also established sales bases in Germany and the US in order to collect information on the global market and boost its sales.

Company President Chika Shiomi says "We have been able to take our products to the world precisely because, following our principle of ensuring that our employees are the happiest in the world, managers and employees share a management vision, enabling us to cultivate our human resources in the workplace, and generating a feeling of unity as we listen to our customers and develop and manufacture products that respond to their problems and their needs."

Group photograph at a company technical seminar in Thailand, 2014 (Ms. Shiomi is the sixth from the left in the front row)

The company's products, employed in a wide range of scenarios, from space to the ocean floor

Case 2-3-9 Yamanaka Engineering Co., Ltd.

A company that has succeeded in advancing into the overseas market and taking its business to the world by fostering its personnel and deploying diverse human resources

Yamanaka Engineering Co., Ltd. (employees: 230; capital: ¥85 million), based in Higashiosaka in Osaka Prefecture, manufactures precision cold-forged[15] dies used in the production of automotive parts, provides design and development solutions for dies and parts, and manufactures components. Placing a priority on how to solve its customers' problems, the company is responsive to customer needs, and has built relationships of trust with its clients. This has enabled it to develop a broad customer base, including major automakers. Using its high-level machining technologies, the company is able to manufacture high-precision and high-quality dies in short periods, and it is also able to develop high-value-added products based on designs formulated using its high-level analytic technologies.

From its foundation in 1961, the company constantly challenged itself to tackle new issues, and it increased quality through innovation in machining technology, winning high regard and a high level of trust from its customers. This saw its business steadily expand. However, with the advancement of economic globalization, Japanese manufacturers shifted their production bases offshore, and came to procure dies from overseas companies rather than domestically. Having studied in the US during his student days, company President Masahito Yamanaka keenly felt the necessity for global business, and, believing that his company possessed a level of technological expertise that was not matched by foreign companies and could succeed in global competition amid the trend of the overseas movement of Japan's manufacturing industry, resolved to work towards overseas expansion.

Mr. Yamanaka communicated his passion to his employees, and, prioritizing a bottom-up process, formulated a vision for the company's overseas expansion incorporating the opinions of his employees. This ensured a consensus within the company. In addition, the company worked to render its management indicators visible and shared them with its local partners overseas, strengthening its relationships of trust with its local partners. Seeking to open up overseas sales channels, the company employed overseas staff members and provided training and education at its Head Office in Japan to ensure that these personnel understood its management vision. This enabled it to achieve steady progress in its overseas expansion. By creating a corporate structure that made active use of non-Japanese staff members (for example, the company's employment of a Korean acquaintance of Mr. Yamanaka's from his student days in the US enabled it to succeed in securing large orders from Korean automakers, which had previously been monopolized by its rivals), the company overcame its previous difficulties in entering overseas markets.

Commencing with the establishment of a production base in Singapore in 1994, the company established local subsidiaries to act as production bases in China in 2002 and 2010, and in Thailand in 2011, and now exports to more than 20 countries throughout the world.

Believing that the growth of employees ensures the growth of the company, and that human resources are the wellspring of technological capability in manufacturing and technological development capability, the company works to foster its human resources not only through OJT, but also by conducting education programs by rank and ability, and operating an in-house application system for posts that become vacant. The company also believes in the necessity of creating an open environment in order to encourage openness in thinking among its employees, and therefore actively recruits foreign employees, calls for applications over the Internet, recruits staff without prejudice regarding their academic background, and assigns members of staff to suitable positions. In addition, seeking to form overseas networks in order to open up new overseas sales channels, the company is working to increase its opportunities to offer presentations at international conferences and meetings of academic societies. By making even greater use of its non-Japanese personnel through these initiatives, the company is aiming to increase its overseas sales ratio from the present figure of 25% to 30%. Mr. Yamanaka says "Securing and fostering personnel able to lead overseas expansion will be the key to advancing our expansion even further. In order to do so, we will work to enhance our fostering of personnel with a global outlook, for example by actively assigning young staff members in their 20s to overseas bases, and we will deploy diverse human resources, including non-Japanese staff members who understand and share our management vision."

Company employees reviewing a design

The company's production base in Thailand

15) Cold forging is a technique of forging and molding metal materials at room temperature. The method uses less energy than hot forging, and material loss is low, reducing manufacturing costs.

Column 2-3-3 Support for Securing Global Business-ready Human Resources

This column looks at measures to provide support for SMEs in utilizing the global business-ready human resources and foreign human resources that are essential to investment in overseas expansion.

[Support for securing human resources]

Presentation of information concerning job openings to individuals who have participated in JICA volunteer programs (Japan Overseas Cooperation Volunteers, volunteers with Japanese corporations overseas) (Japan International Cooperation Agency (JICA))

The Japan International Cooperation Agency (JICA) provides information on companies wishing to employ individuals who have participated in their volunteer programs to volunteers wishing to seek employment upon their return to Japan following their term of volunteering. Making use of this system enables SMEs to recruit human resources whose volunteer experiences have given them the ability to function cross-culturally, and who can contribute to success in overseas expansion.

[Flow]

Company contacts JICA → JICA sends explanatory materials and an application form → Company returns application form to JICA → JICA presents the company's information to volunteers returning to Japan through the comprehensive international cooperation career website "PARTNER" and other means

Provision of assistance for the utilization of specialists in overseas expansion (Japan External Trade Organization (JETRO))

This system assists with part of the expenses necessary in employing external experts on overseas business when SMEs and midsized companies are attempting to expand overseas (establish bases, conduct exports, etc.) to emerging nations and other countries.

[Overview]

Target companies	1. SMEs 2. Midsized companies (Companies other than SMEs that had sales of less than ¥100 billion in the most recent fiscal year prior to the fiscal year in which the application is made, or companies with less than 1,000 regular employees, or groups made up of such companies (Groups of which two-thirds of the members are midsized companies and which are operated for the benefit of midsized companies)) * In the case of groups made up of midsized companies and SMEs, the existence of a central administrating company is a prerequisite.
Method of implementation Period for applications	A preliminary review is necessary. (For details, see the JETRO website.) http://www.jetro.go.jp/services/expert-subsidy
Fees, etc.	Expenses eligible for subsidization and upper limits for subsidies are as follows: • Personnel costs for hiring of expert advisors (¥1.8 million) • Expenses for long-distance domestic travel by expert advisors (Upper limit: ¥700,000) • Cost of contracting a proxy for registration of an overseas subsidiary (Upper limit: ¥500,000).

[Support for development of human resources]

Internships to foster international business-ready human resources (Japan External Trade Organization (JETRO) and The Overseas Human Resources and Industry Development Association (HIDA))

In an initiative designed to foster human resources possessing international business skills and human resources able to develop new products and services that are fitted to the diverse and rapidly changing markets of emerging nations, developing nations in Asia and elsewhere and the Japanese government, government-affiliated organizations and private sector organizations mutually provide young workers and students with opportunities to participate in internships with businesses in their respective countries.

[Overview]

Purpose	• To support SMEs in overseas expansion (market surveys, searches for local partners, connections with government-affiliated organizations, etc.) • To promote the development of networks and cooperative relationships with government-affiliated organizations and key individuals to enable SMEs to win infrastructure-related business • To cultivate future global leaders
Method of implementation	The program calls for applications from young workers and students wishing to participate in internships with government-affiliated organizations, industry organizations, local private companies, etc. in developing nations (nations on the OECD/DAC list), with a focus on Asian nations.
Desired applicants	Japanese workers and students (Japanese nationals)
Fees, etc.	The program subsidizes expenses for traveling to the destination country, living in the destination country, etc.

Training for management personnel in companies expanding overseas (Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ))

Focusing on companies wishing to expand into Asia (for overseas trade or the establishment of bases), this program develops human resources which will function as key personnel, providing education in basics including trade procedures, international contracts, and sales negotiations with overseas customers, and training to acquire the knowledge and expertise that is essential to conducting direct investments and promoting the overseas expansion of a business.

[Overview]

Details of training	• Participatory training involving methods including workshops and research on case studies in addition to lectures, in order to instill the necessary knowledge for overseas expansion • Individual guidance in the formulation of plans for overseas expansion
Fees, etc.	¥75,000 for nine days (2015 figure)
Method of implementation	SME Universities call for applicants for classes (As classes are scheduled)

4. Conclusion

Chapter 3 has offered an overview of the status of investment in overseas expansion among Japan's SMEs, and considered factors in success and the problems encountered by SMEs when conducting these investments. As we have seen, SMEs experience a variety of problems and restrictions in attempting to expand overseas, including a lack of expertise and a lack of appropriate human resources. However, as Japan's population declines and domestic demand shrinks, opportunities for retail and service companies in addition to manufacturing companies to invest in overseas expansion and tap into overseas demand are increasing against the background of factors including the TPP Agreement and the increase in foreign tourism in Japan.

By taking advantage of this tail wind and actively investing in overseas expansion after learning from examples of success and establishing a strategy, Japanese SMEs can fully expect to increase their earning power and establish a virtuous cycle in which profits obtained as a result of overseas expansion are channeled into investment in further growth.

Chapter 4

Risk management, supporting the earning power

As we have seen up through the previous chapter, the business environment for enterprises is undergoing profound changes with the spread of globalization and information technology and the transformation of the structure of transactions. There is now more global-scale uncertainty than before, meaning that enterprises face a variety of risks. In order for SMEs in Japan to grow and develop, they must tolerate risk and invest for growth. Moreover, to avoid future costs, they need to learn their latent risks and respond to them appropriately. However, SMEs are often not sufficiently aware of risk and thus have not taken sufficient countermeasures to it. In this chapter, we will look at how well SMEs are responding to the risks they face and analyze issues with their countermeasures.

Section 1 Risks facing SMEs

1. Types of risks

People generally use the word "risk" to mean "danger," i.e., the possibility of some negative result happening. However, sometimes we can think of risk as "uncertainty," which includes the possibility of both positive and negative results. In this chapter, we define risk more broadly as "uncertainty of some event happening." This includes not just the danger of some loss, but the possibility of either gain or loss from expanding into new business.

There are various ways to categorize risk, but most commonly there are two categories: pure risk and speculative risk. "Pure risk" is risk that can only cause loss. It is easy to understand conceptually, and though the incidence of individual events is hard to predict, it is easy to take measures against them, such as using nonlife insurance. Therefore, up to now, countermeasures to risk have been thought of as targeting pure risk only, as their objective has been to avoid loss. On the other hand, "speculative risk," also known as "business risk," is an event that might lead not just to loss but to gain. In recent years, businesses have begun to recognize that risk (including speculative risk) is the source of gain. They are actively accepting risk with the understanding that an enterprise cannot grow unless it takes risks in its pursuit of gain.

Fig. 2-4-1 gives specific examples from the broad range of risks as they apply to enterprise management. "Risks related to business opportunities" refers to risks involved with strategic decision-making in the management of a business. The questions to ask here might be, for example, whether entry into a new business field will be successful or whether the scale of capital investment is appropriate. "Risks related to conducting business activities" are those risks involved in the proper and efficient conducting of business processes. Risks include property destruction by earthquake and information leaks owing to network security troubles.

Fig. 2-4-1 Specific examples of risks in enterprise management initiatives

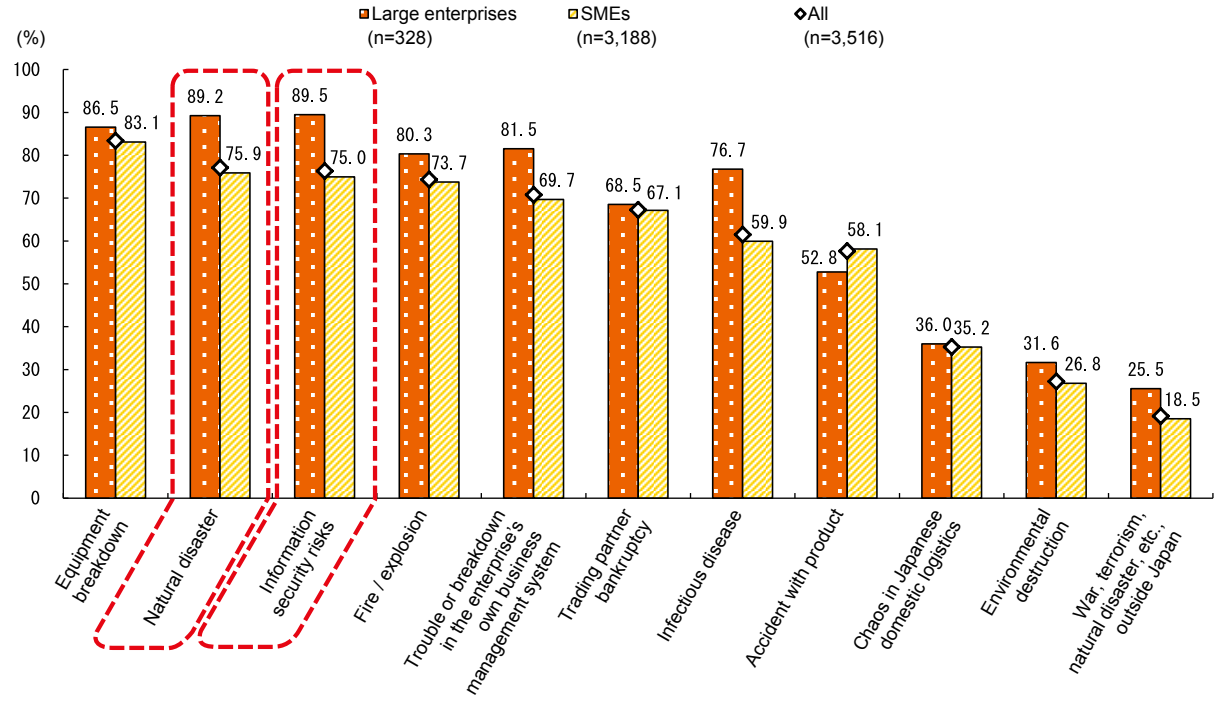
Category	Specific examples
Risks related to business opportunities	• Risks related to entering new business field (e.g., will entry into a new business field be successful?) • Risks related to capital investment (e.g., is the scale of investment appropriate?) • Risks related to product development strategy (e.g., will development of new models be successful?) • Risks related to funds procurement strategy (e.g., capital increase vs. corporate bonds; will borrowing, etc., be successful?)
Risks related to conducting business activities	• Risks of damage to goods, environment, etc. (earthquakes, inappropriate factory waste liquid processing, etc.) • Risks related to information systems (e.g., information leaks caused by security troubles) • Risks related to product quality (occurrence or distribution of defective goods, etc.) • Risks related to compliance (legal violations, etc.) • Risks related to financial reports (fraudulent accounting, etc.)

Source: Prepared by SME Agency based on Research Council on Risk Management and Internal Control, *Internal Control in a New Era of Risk*.

What awareness do enterprises have of the impact of the various risks on their business? This section analyzes risk management initiatives used by SMEs, according to the *Survey on Risk Management Initiatives at SMEs*.[1)]

The survey asked about the risks that enterprises anticipated would make business continuity difficult if they were to emerge. The results indicated that, overall, large enterprises responded at a higher rate to different risks than SMEs, and SMEs on the whole had a lower awareness of risk (Fig. 2-4-2).

Fig. 2-4-2 Risks that enterprises anticipate would make continuation of business difficult, by enterprise size



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Looking at specific items, more than 80% of both large enterprises and SMEs answered that "equipment breakdown" was such a risk. Next came "natural disaster" and "information security risks," though there was a

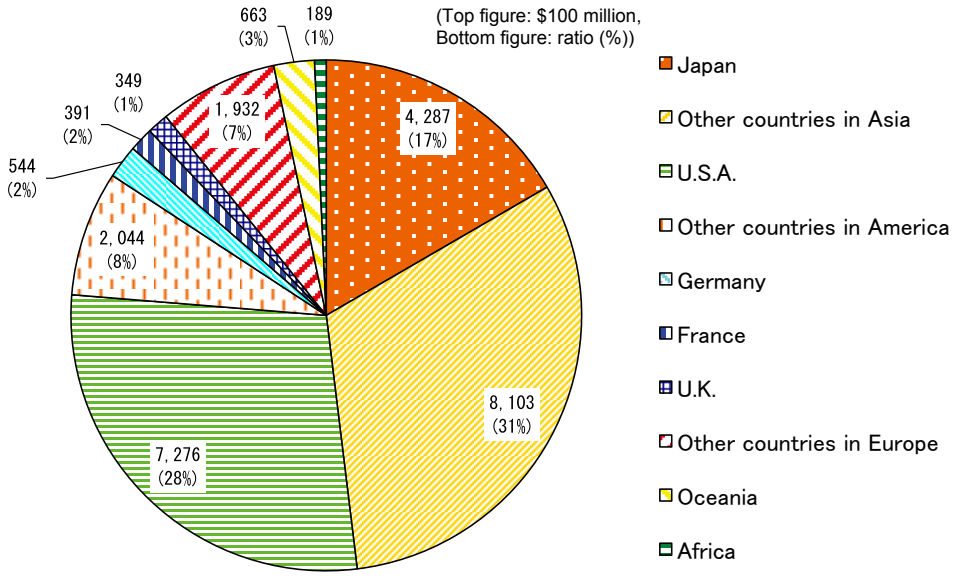
1) Survey of 20,000 enterprises conducted by Mizuho Research Institute Ltd. in December 2015, commissioned by the SME Agency. The response rate was 18.1%.

marked difference between large enterprises and SMEs, which listed these as risks threatening business continuity at the rate of nearly 90% and about 75% respectively. If any of these risks were to emerge, it could cause serious damage and have a big impact on business continuity, no matter what the enterprise size. Therefore, it is important to take countermeasures in advance.

2. Natural disaster risk

First we will discuss the natural disaster risk. This is a type of "pure risk," as it would only cause loss. How has natural disaster affected Japan? Fig. 2-1-22 (cited earlier) shows the cost of damages from natural disasters around the world between 1985 and 2015. Japan suffers quite a few natural disasters compared to other parts of the world, and there have been great damages. By country, the U.S. sustained the most damage (nearly 30%), and the rest of the Asian region has also sustained much. Despite the fact that Japan only has 0.25% of the world's landmass, it sustained 17% of the monetary damages. Obviously it is a country liable to damage by natural disaster.

Fig. 2-1-22 (Cited earlier)
Global proportions of damage costs and natural disaster damage costs

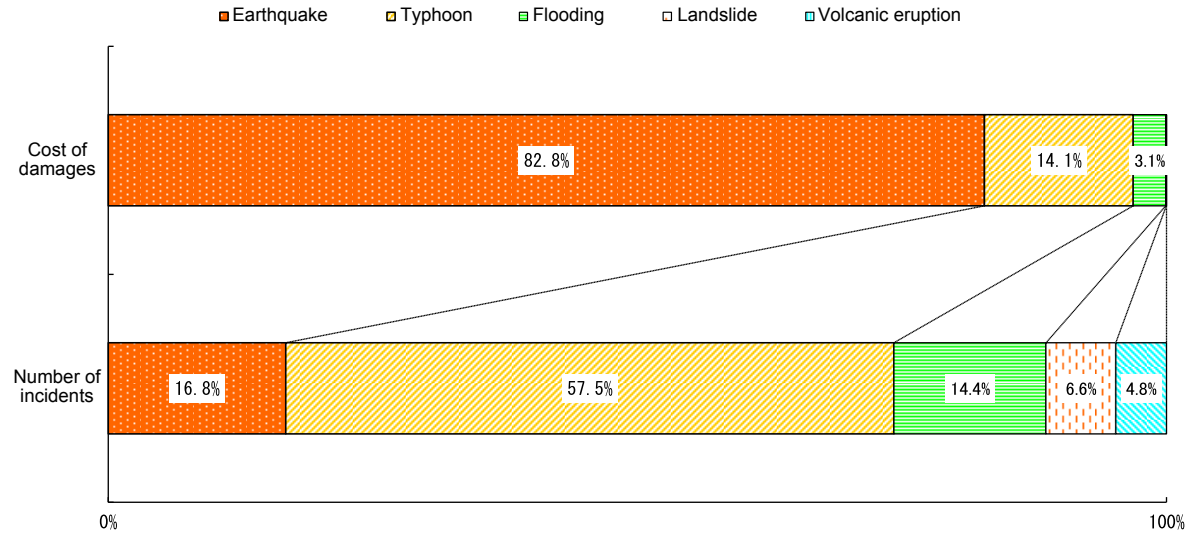


Source: Prepared by the SME Agency based on CRED/OFDA International Disaster Database (EM-DAT) of the Université Catholique de Louvain.
Notes: 1. Figures represent total cost of damage done by natural disasters between 1985 and 2015.
2. At least one of the following criteria must be fulfilled to be considered an EM-DAT disaster: 1. Ten (10) or more people reported killed, 2. Hundred (100) or more people reported affected, 3. Declaration of a state of emergency, and 4. Call for international assistance.

A breakdown of the damage caused by natural disaster in Japan shows the most common natural disaster, at 57.5%, is "typhoons," followed by "earthquakes" and "flooding" (Fig. 2-4-3). Earthquakes, which can cause massive damage over a large area each time they happen, account for more than 80% of the costs of natural disasters,

followed in order by typhoons and flooding. In recent years, disasters of a larger scale than previously predicted have been occurring more frequently. Examples include the Great East Japan Earthquake and massive flooding when the levees of the Kinugawa River failed.

Fig. 2-4-3 Breakdown of costs of natural disasters in Japan, by type of disaster

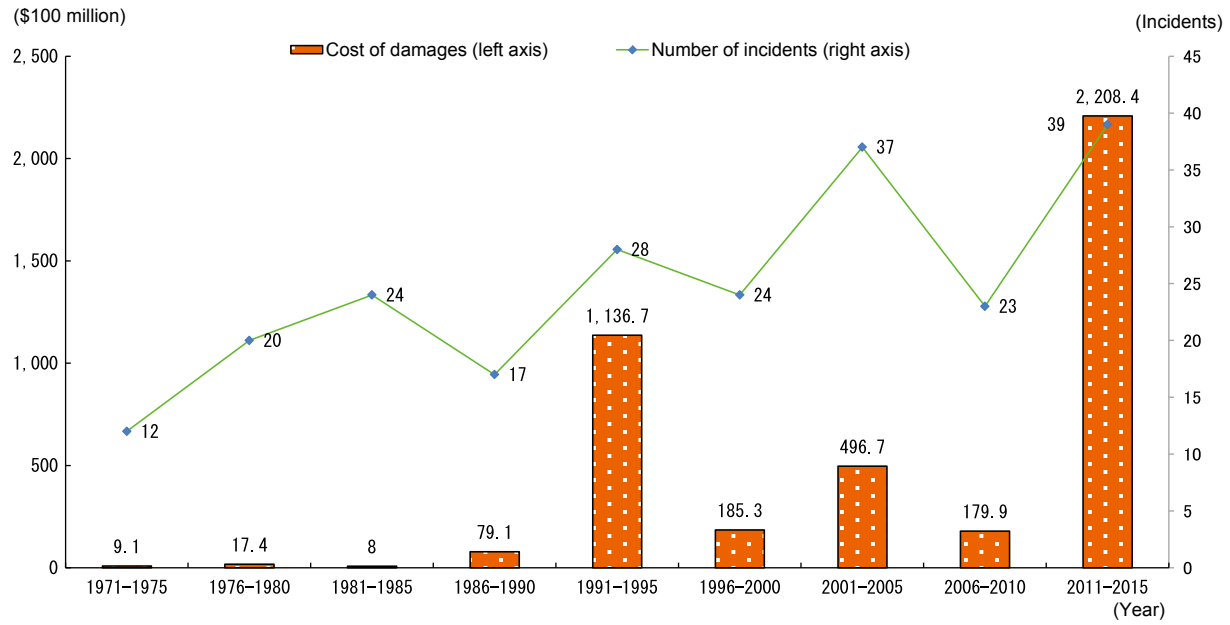


Source: Prepared by the SME Agency based on CRED/OFDA International Disaster Database (EM-DAT) of the Université Catholique de Louvain.

Notes: 1. Figures represent total cost of damage done by natural disasters between 1985 and 2015.
2. At least one of the following criteria must be fulfilled to be considered an EM-DAT disaster: 1. Ten (10) or more people reported killed, 2. Hundred (100) or more people reported affected, 3. Declaration of a state of emergency, and 4. Call for international assistance.

Next, let's look at trends in the costs of damages from natural disasters in Japan and the number of such disasters (Fig. 2-4-4). The most immediate period shows a big increase in costs of damages, in part because of the Great East Japan Earthquake in 2011. The number of incidents is also increasing in recent years, so we can say the threat from natural disaster is growing. Japan's natural conditions (its topography, geology, and climate, for example) make it vulnerable to natural disasters like earthquakes, typhoons, and flooding. Therefore, enterprises in Japan need to be aware of natural disaster risks and take countermeasures like providing better earthquake resistance at business sites and performing construction to prevent business site flooding.

Fig. 2-4-4 Trend in frequency of and damage from natural disasters in Japan



Source: Prepared by the SME Agency based on CRED/OFDA International Disaster Database (EM-DAT) of the Université Catholique de Louvain.

Notes: 1. Figures represent total cost of damage done by natural disasters between 1971 and 2015.
2. At least one of the following criteria must be fulfilled to be considered an EM-DAT disaster: 1. Ten (10) or more people reported killed, 2. Hundred (100) or more people reported affected, 3. Declaration of a state of emergency, and 4. Call for international assistance.

Case 2-4-1 Kaneki-Yoshida Co., Ltd.

A marine product processing company that in the immediate aftermath of the Great East Japan Earthquake secured a base for procuring raw materials and alternate production enabling it to continue doing business

Kaneki-Yoshida Co., Ltd. (employees: 90; capital: ¥37 million), based in Minami-Sanriku Town, Miyagi Prefecture, is a marine product processing company that deals with sea urchin, abalone, kelp, and the like.

Motivated by the tsunami alerts issued in Japan at the time of the 2010 Chile earthquake, Kaneki-Yoshida instituted twice-yearly evacuation drills and training. Furthermore, owing to the frequent occurrence of earthquakes in the area where the company's headquarters are located, it also worked to inform its employees in morning assemblies and through in-house announcements of evacuation procedures for the workplace, during commutes, and when at home.

When the 2011 Great East Japan Earthquake occurred, Kaneki-Yoshida's employees were able to evacuate quickly. However, the headquarters and four plants and storage and cultivation facilities in the same town were damaged by the tsunami that followed, making production impossible. All of the facilities were covered by catastrophe insurance, but only half were also accompanied by contracts for earthquakes. The amount of insurance money received covered approximately 20% of the total amount of loss. During the period immediately after the quake when there was no official assistance, the company coped by taking early withdrawals of insurance money and financing from banks.

There was a strong desire at Kaneki-Yoshida to resume operations at the earliest possible date, so the company began by working to secure raw materials. The earthquake occurred in March, which is when kelp—the ingredient for the company's key products—is harvested. Normally, this overlaps with the time when orders are placed for the entire year's processed volume. Since there were concerns that the company would not be able to resume business until the following season if orders were not placed immediately and stock laid in, employees were dispatched to inland districts that still had phone service so they could make contact with trading companies. The employees let the trading companies know that Kaneki-Yoshida had weathered the disaster in good shape, needed raw materials, and would not be losing out on purchases from outside the disaster reached that were expected to increase since the company would respond flexibly regarding the purchase price. By the end of that March, the company had received delivery of the raw materials.

Next, because Kaneki-Yoshida's plants in its hometown had completely stopped operations, the company decided to look for candidate facilities mainly among other companies in the same industry as alternate production sites. It learned that there was a business in Hachinohe City, Aomori Prefecture, that had taken on consignment processing work for Kaneki-Yoshida from before the earthquake that had a vacant factory, and so an approach was made. The then-vacant factory had been damaged in the tsunami, but the Hachinohe company said Kaneki-Yoshida could use it for two weeks if it did the repairs. Accordingly, in late March it decided to follow through. At this point when production was expected to resume, it informed buyers and began deliveries to customers in the Tohoku and Kanto regions.

The alternate production approach was kept in place for about half a year, from mid-April to the end of October. The variety of products was limited to about 20% of normal, and production volume was around 60% to 70% of the same. While sales did not reach the ¥2.2 billion level seen in the period that ended January 31, 2011, prior to the quake, they were still able to maintain a level of ¥1.48 billion for the same period ending the following year.

When it came to rebuilding facilities after the quake, as much as possible Kaneki-Yoshida chose sites in the town not at risk of floods and restored them there. As for provisions on the financial front, the company reexamined the insurance policies it had taken out and added special earthquake contracts to the catastrophe insurance for each facility. On top of that, for the main plant it beefed up indemnification by also adding compensation for business suspension. Finally, the company also gave attention to its financial standing, and has made every effort to refrain from investing in sectors such as real estate that have scant connection to its core business and to condense debts that are not urgent.

The company's rebuilt Number 2 plant

3. Risks in expanding into new business[2)]

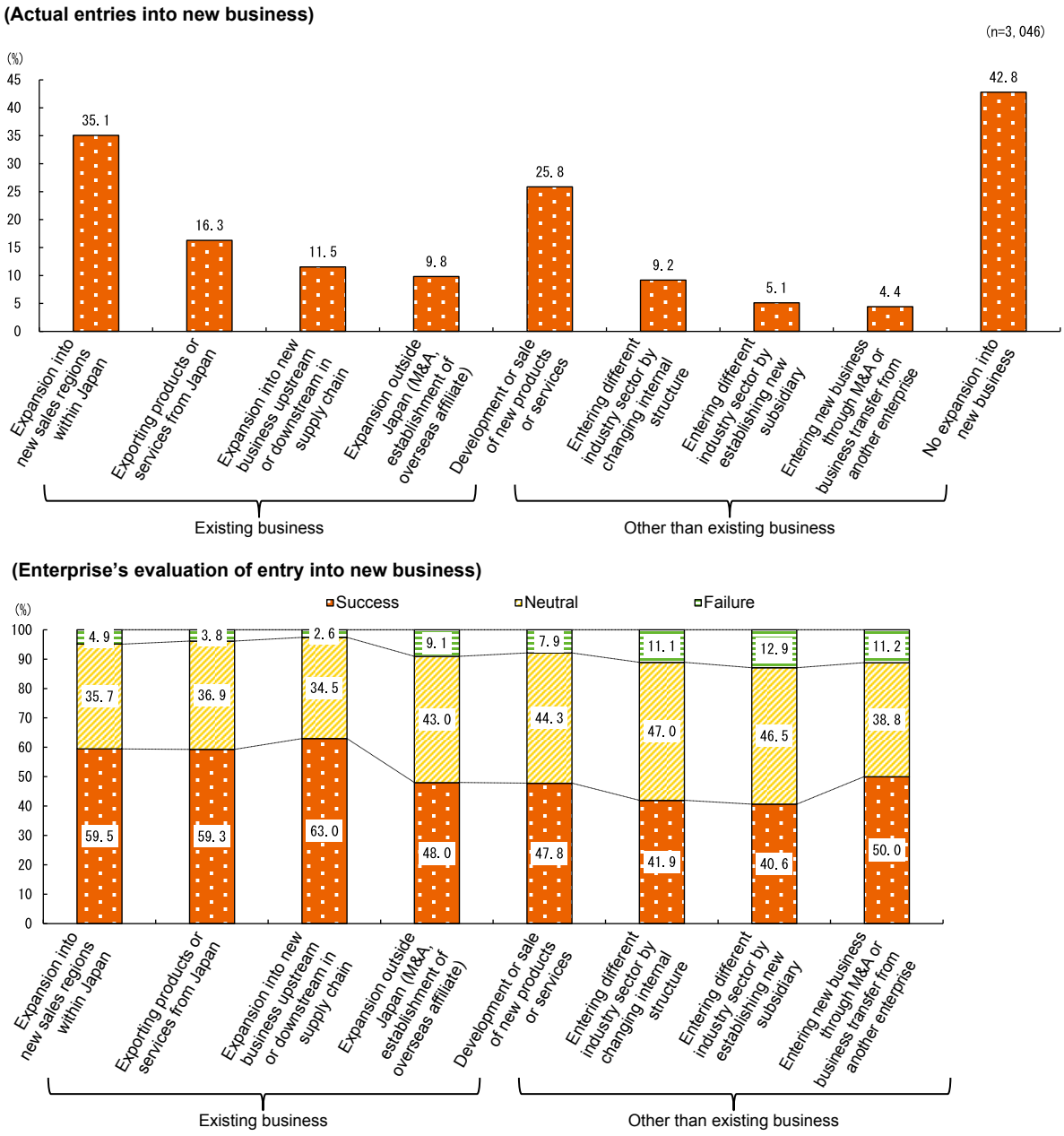
As the previous chapter showed, it is important that enterprises respond to the changes in the environment that they face and aim for growth by getting into new business. However, while expanding into new business can potentially lead to great gains, there are dangers from not sufficiently preparing in advance or from encountering sudden changes in the environment. Such dangers could lead the enterprise to withdraw from the new business or have a big impact on its existing business. Next we look at risks in expanding into new business, which are among those business risks that could lead to either gain or loss.

State of expansion into new business, and benefits

First, let's look at how enterprises have expanded into new business so far and see how they evaluate that experience (Fig. 2-4-5). Taking out those enterprises that gave the answer "No expansion into new business," there were still nearly 60% of enterprises that had expanded into new business. The most common descriptions of that expansion were "Expansion into new sales regions within Japan," "Development or sale of new products or services," and "Exporting products or services from Japan." Asked how they evaluated their experience with new business, there was some variance among items, but in each case some 40% − 60% of those enterprises that had expanded replied that the expansion was "Neutral" and a similar percentage said it was a "Failure." In other words, there are many issues for SMEs expanding into new business.

2) In this part, "new business" is defined as "entry into a new business field or offering new products or services." This definition allows a wider look at the state of new business development at SMEs.

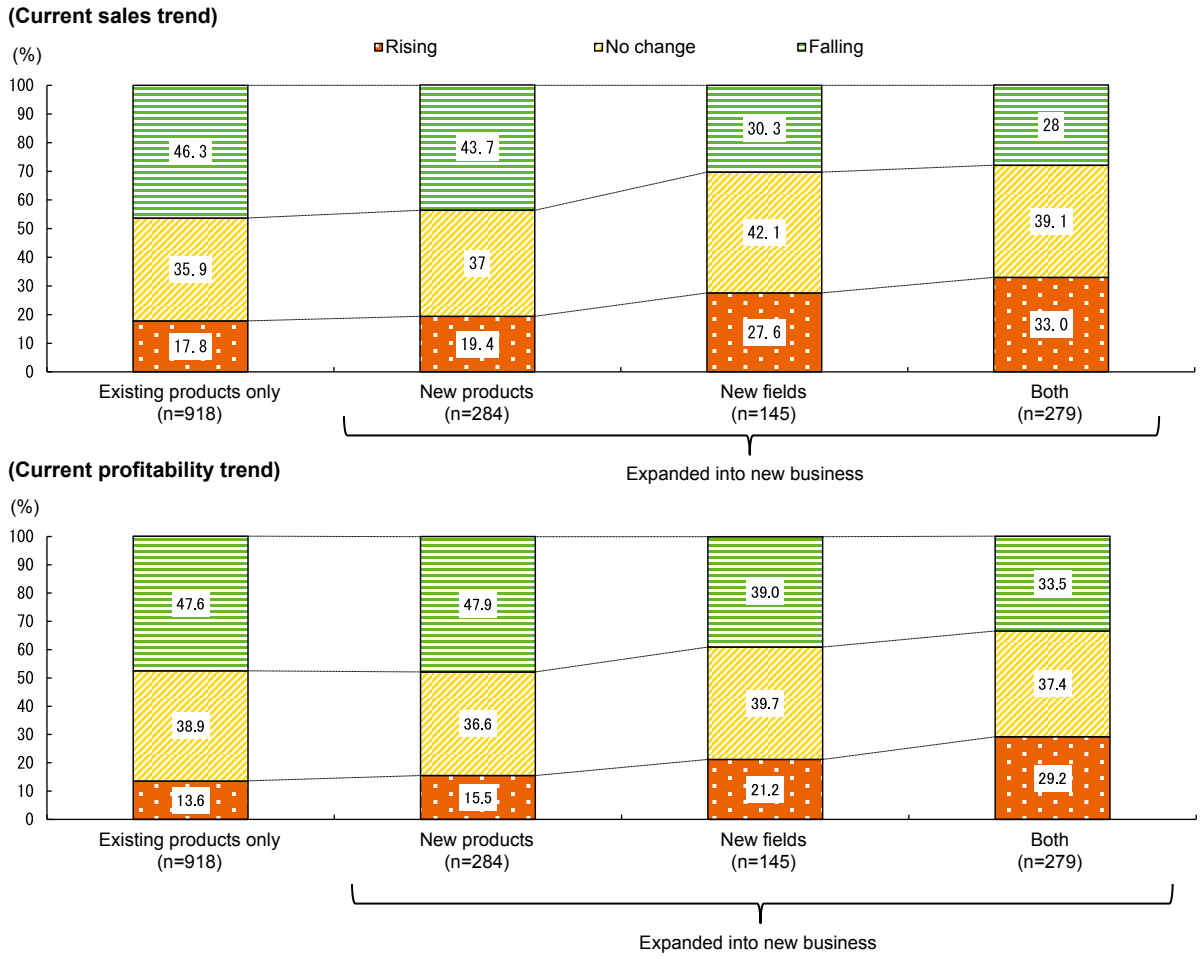
Fig. 2-4-5 Past entries into new business and evaluation of entry



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses to questions about actual entries into new business were possible.

So what kind of impact does expanding into new business have on enterprise earnings? According to Fig. 2-4-6, the percentage of enterprises who replied that current sales were "Rising" was 18% for those selling "Existing products only," but higher (19% − 33%) for those expanding into new business. Next, a look at profitability shows a similar trend here as with sales. Enterprises that had expanded into new business answered that profitability was "Rising" more often than those that had not. Current earnings were good more often for those enterprises that had expanded into new business, but enterprises where sales or profitability were on a rising trend were only about 30% of the total.

Fig. 2-4-6 Current earnings of SMEs that have expanded into new business

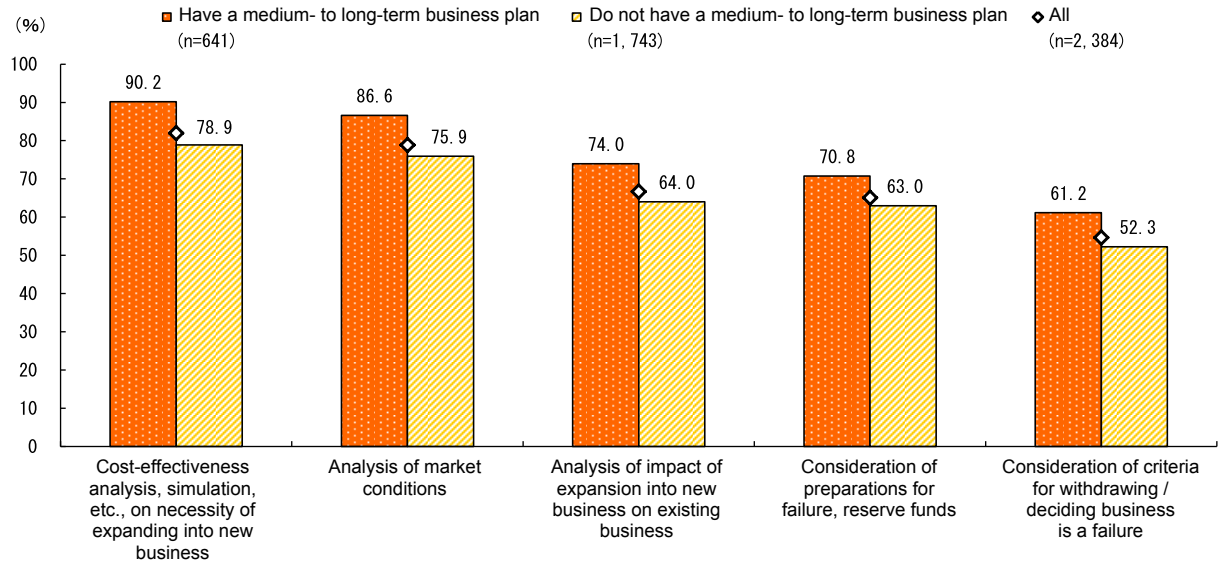


Source: Japan Finance Corporation Research Institute, *Survey on New Business Development at SMEs* (August 2013).
Note: Here, "SMEs" refers to businesses with fewer than 300 workers.

Consideration before expanding into new business

What kinds of things are considered in advance at those enterprises where an expansion into new business leads to rising sales and profitability? Fig. 2-4-7 compares the items considered before expanding into new business, by whether the enterprise had established a medium- to long-term business plan covering a period of at least three years. On the whole, enterprises that manage systematically (those that answered "Have a medium- to long-term business plan") responded that they considered each of the items at a higher rate, showing that they were doing prudent consideration. Overall, enterprises less often gave responses indicating they had considered the failure of their new business (such as "Consideration of preparations for failure, reserve funds" and "Consideration of criteria for withdrawing / deciding business is a failure").

Fig. 2-4-7 Items considered before expanding into new business, by whether the enterprise had established a medium- to long-term business plan



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

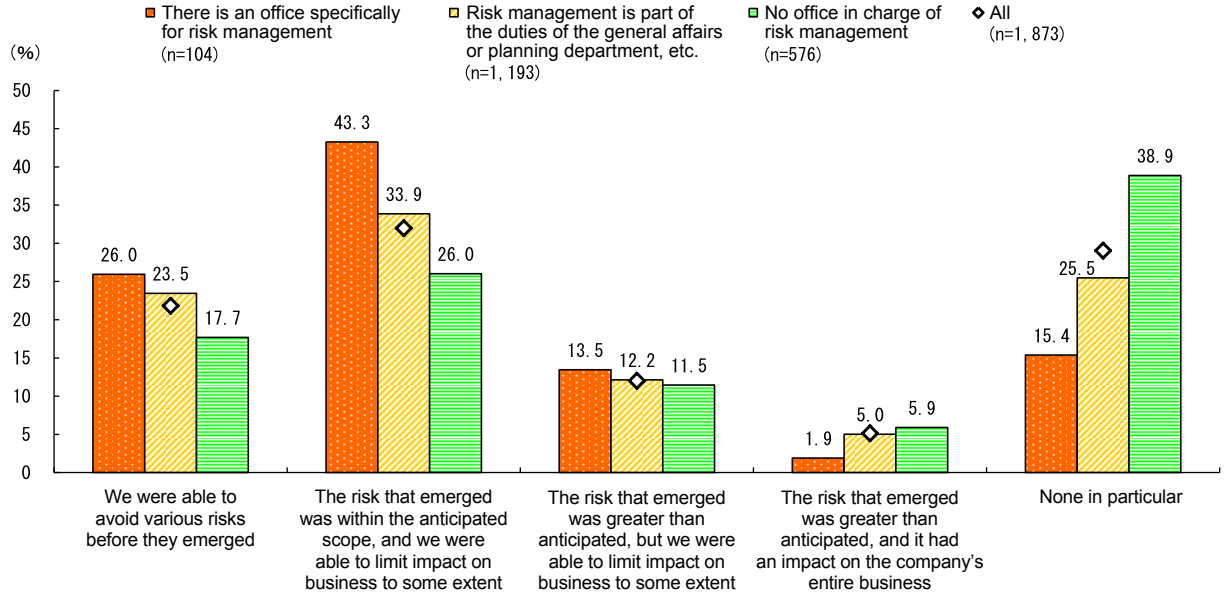
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The category of enterprises that "have a medium- to long-term business plan" shows the total of those that answered "We have a business plan covering a period of three years or more."

Do enterprises get different benefits from advance consideration of expansion into new business based on systems they have in place, such as whether they have an office specifically for risk management? Fig. 2-4-8 compares the benefits from considering before expanding into new business, based on type of risk management system at the enterprise. The percentage of enterprises that said that the impact of emerging risks was within what was anticipated (i.e., they answered "We were able to avoid various risks before they emerged" or "The risk that emerged was within the anticipated scope, and we were able to limit impact on business to some extent") was relatively high (nearly 70%) for those that said they had an office specifically for risk management. On the other hand, enterprises who answered that "Risk management is part of the duties of the general affairs or planning department, etc." or "No office in charge of risk management" scored low in both cases.

Nearly 60% of enterprises had already expanded into new business, which is not a small number by any means. Moreover, the responses showed that a certain percentage of them felt that sales or profits were on a rising trend as a result. However, expanding into new business does not in itself guarantee a gain. There is the possibility of loss sometimes. In general, it is difficult under uncertain conditions to determine when a loss is happening and to decide to withdraw from a business.[3)] Managers sometimes make the wrong decision on whether to continue or withdraw when they take on a new business and do not get the results they expected. To ensure a gain when expanding into new business, it is also important to anticipate a deterioration in the external environment and set benchmarks in advance for withdrawing from or suspending a business. An enterprise can survive challenges by drafting a plan in advance, collecting and analyzing the necessary information, then making rational decisions based on that information and changing course when the environment changes.

3) Prospect theory: A decision-making model used in behavioral economics. This theory tries to explain human behavior patterns in respect to risk. It says that people prioritize risk avoidance in situations where they could make a gain. On the other hand, in a situation where they could lose, people try to avoid loss as far as possible.

Fig. 2-4-8 Benefits from considering before expanding into new business, based on type of risk management system



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

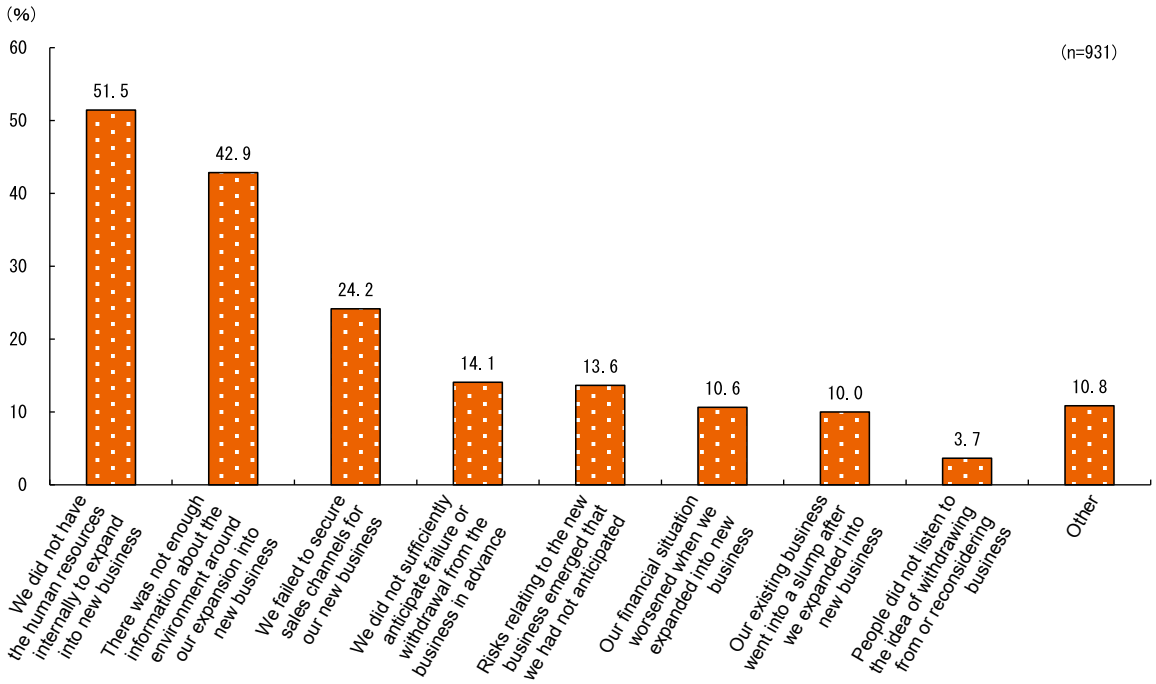
Column 2-4-1 Issues with expansion into new business

Enterprises that aim to survive and grow when the environment around them is changing so drastically need to get into new markets and business fields, not just stay in their existing business fields. However, it is not easy for an enterprise by itself to secure all the management resources it needs to expand into new business. This column looks at the issues involved with expanding into new business.

Fig. Column 2-4-1 (1) shows the reasons why expansion into new business did not go well up to now. Many enterprises (51.5%) answered, "We did not have the human resources internally to expand into new business." Many also (42.9%) said, "There was not enough information about the environment around our expansion into new business." A certain number replied that they had not adequately anticipated losses, with 14.1% responding, "We did not sufficiently anticipate failure or withdrawal from the business in advance."

Next, let's look at issues that came up when considering entry to a new business, comparing by enterprise size (Fig. Column 2-4-1 (2)). Overall, many enterprises responded that there was a problem with a lack of management resources ("Not enough human resources to expand into new business" or "Funds procurement") or a lack of information ("Not enough skill / know-how to expand into new business," "Securing customers / sales channels after expanding into new business," etc.). There was a marked difference between large enterprises and SMEs concerning "Funds procurement." This indicates that SMEs do not have enough management resources when expanding into new business.

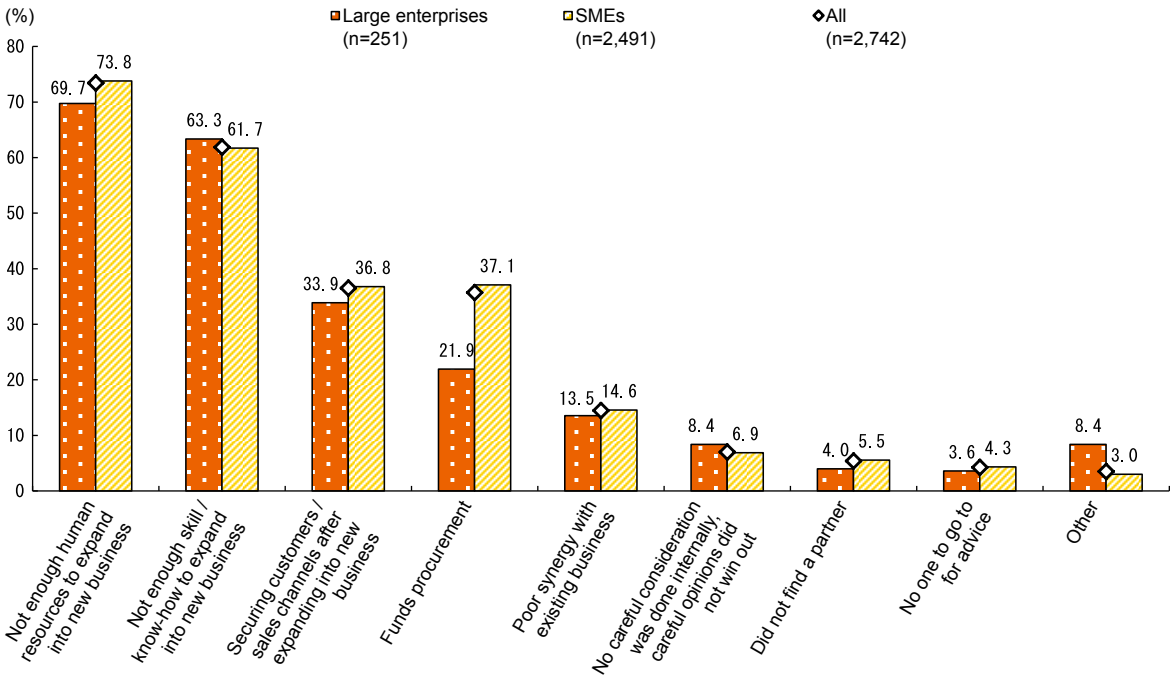
Fig. Column 2-4-1 (1) Reasons why expansion into new business did not go well



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The above reasons were given by those who answered "Neutral" or "Failure" as their evaluation of their expansion into new business.

Fig. Column 2-4-1 (2) Issues with expansion into new business, by enterprise size



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-4-2 Tohken Thermo Tech Co., Ltd.

A company taking what it had learned in overcoming an unexpected bad situation in an overseas business and applying those lessons to its subsequent overseas development initiatives

Tohken Thermo Tech Co., Ltd. (employees: 740; capital: ¥88 million), based in Osaka City, Osaka Prefecture, possesses broad range of basic technologies for thermal processing and performs processing on commission.

The company set up shop in Thailand in 1995, Malaysia in 1996, China in 2010, and Mexico in 2012, giving it at present four overseas bases of operation.

Tohken Thermo entered the Malaysian market shortly before the Asian financial crisis, and went through the experience of seeing its operations there sink into quicksand as business with the customer that had been expected to account for the majority of its sales dramatically decline as a result of the crisis and not recover in the aftermath. As for processing commissions, normally the risks were low for this sales channel when it came to getting an inquiry from a customer and then pursuing the business. However, after sales entering the market dropped off significantly more than had been expected. The resulting situation was a severe one that imposed financial burdens on the head office in Japan as well, and the company momentarily even looked at pulling out. At this point, the newly arrived president of the local subsidiary and its employees made all-out efforts at cold calls and opened up a sales channel that focused on local non-Japanese companies. Fortunately, business was also good for the Japanese head office and financial institutions continued to provide loans, with the result that the company remained in Malaysia and continued to do business there. Today, the company is expanding its business with local companies as partners. It has also wiped out its accumulated losses and moved into the black. However, investment recovery has been a prolonged processes, and the company views the entire affair as "our experience of defeat, and our experience of going all out to overcome that defeat."

Based on its experience of seeing the risks latent in a sales channel rise up to the surface, when Tohken Thermo entered the Mexico market in 2012 it took the measure of doing so after having entering a protocol with its customers in the event that a dedicated production line would be required for any new business. While the protocol does not legally guarantee specific production volumes or similar, it does have the customer promise that it will prioritize placing orders with the company when the customer has received orders from its own client. Tohken Thermo also had the experience in China of having to take processing commissions at a low cost from customers owing to massive drop in such orders due to the difficulties Japanese automobile manufacturers had, only to see not much improvement in profits once commissions had recovered. Reflecting on that, in Mexico the company kept medium- and long-term profitability in mind as it took a judicious approach to pricing strategies.

Furthermore, as a new initiative in Mexico, Tohken Thermo is also looking beyond Japanese companies to take North American and European enterprises under consideration as business partners, and in anticipation has been looking at how to handle any legal risks that are expected to come. This is being done on the advice of a consulting lawyer invited into the company as an outside board member, and the company is trying to pay even closer attention to its contracts.

Tohken Thermo has looked intently at its past experiences and future business development in its efforts to develop measures for dealing with risk in advance. Executive Managing Director Ryuji Kawasaki says that in discussions held prior to a company's advance into overseas markets, "it is best not to think things will work out when the move is made. The ease with which a company can be set up is a separate matter from drumming up business. You can get general information about things like company and tax laws or tax incentives from support agencies or financial institutions, but you need to exchange deep and varied information with customers and investigate who your competitors are in advance."

The offices of the company's Mexican subsidiary

Case 2-4-3 Kawakamikiko Co., Ltd.

A company that determined in advance what it imagined its acceptable limits were when entering the Korean market, and then was able to control the effects when it decided to withdraw on their basis

Kawakamikiko Co., Ltd. (employees: 37; capital: ¥10 million), based in Takasaki City, Gunma Prefecture, is a wholesaler and services company that mainly handles equipment for newspaper distributors. It gets its stock primarily from group company Maruyamakikai Manufacturing Co., Ltd., and sells those products through sales offices that operate mainly in eastern Japan.

Around 2000 or so, Kawakamikiko received an inquiry from a concern in Korea that wanted to mechanize the task of folding leaflets, which was then being done by hand. The query came at a moment when the company had decided that it would be unprofitable due to competition to continue to limit its activities only to what is its current region of operation. It accordingly was looking into expanding its sales area in Japan. Also, sales at the time of machines that put newspapers in plastic bags to prevent them from getting wet in the event of rain were growing. The company also sold the newspaper bags as maintenance supplies for the equipment, and was further considering Korea for other suppliers.

It was against this background that Kawakamikiko came to explore developing new business in the Korean market as a source of both buyers and suppliers. Initially, it looked for sales agents and selected one from among the half dozen or so that had placed inquires. However, sales did not go well through the agent, and so in 2003 the company decided to use its own money to fund setting up a local subsidiary. Based on its sales and scale of its profit at the time, the thinking was that it would be dangerous for the company's business if it developed an accumulated total loss of ¥100 million.

Prior to entering the market, Kawakamikiko had expectations of customers and judged the business environment in Korea for its subsidiary to be favorable. However, the move came at a time when the penetration of the internet was overlapping with that of newspapers, and sales of the latter had already peaked. The situation that resulted as a consequence was one in which the company did not meet its sales targets and it generated red ink on the order of several million yen annually.

It was during this period of ongoing business stagnation in Korea that the Lehman crisis occurred. Sales for the Kawakamikiko parent company in Japan fell 40% to 50% and its financial health was worsening. Under the circumstances, the company decided that for the sake of morale among management and employees at the parent enterprise it would without delay end the effort to keep going a Korean operation that continued generating losses. In addition to the ¥50 to ¥60 million worth of losses that it included in its calculations, the company had also invested around ¥100 million along with covering various other costs. In the end, the company began its withdrawal at the start of 2009 and was able to finish the job that March.

Kawakamikiko does not see the series of business it developed from its Korean base as having been a "failure." Considering that it had no experience moving into overseas markets at the time and was worried about falling behind its competitors, it sees its decision to enter the Korean market as having been a good one. The experience allowed it to see that the method of relying on agents to mitigate risk is a good one for when advancing into overseas markets. Even today, it is still trying to find agents in various countries and do sales through them.

The fact that Chairman Seiichi Sato had been previously involved with helping to rebuild a company that had gone bankrupt and so had a visceral understanding of how bad performance had to get for an enterprise to collapse had a significant influence on the thinking about the amount of red ink that formed the basis for the decision to get out of the Korean market. Sato explains, "While it goes without saying that having excellent judgment is crucial, so, too, is decisiveness. Even if you can make a determination, the question of whether or not you can make decisions about things like reducing your workforce or closing an operation and then carrying them out is another story". Kawakamikiko, in fact, was able to act quickly, as it began taking steps to close down its Korean operation at the start of 2009 after having undertaken a restructuring of the Japanese parent enterprise in the second half of 2008. "The crucial thing in management is to be regularly thinking about risk. You can't have an image of only successes. There are businesspersons who have failed here among SMEs, too," Sato said.

The Korean subsidiary that Kawakamikiko established in 2003

4. The need for risk management

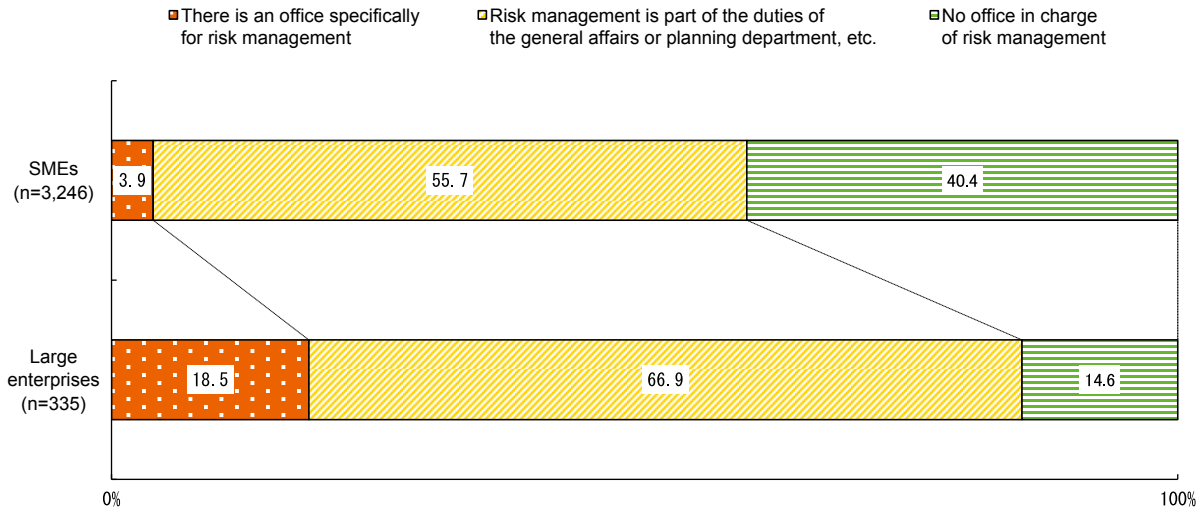
What is risk management?

Risk management, the systematic management of risk, is a process that seeks to avoid or minimize loss, etc. Here, risk management refers to business management techniques that seek to accurately learn risks that create obstacles to the management of an enterprise, and the impact of those risks; that seek to avoid crises by taking countermeasures in advance; and that seek to minimize loss when a crisis happens. The objective of these techniques is to maintain and increase corporate value.

Conventionally, it has been assumed that enterprises unconsciously practice risk management when making business decisions. Recently, however, outsourcing is on the rise as business processes become more complex. This has resulted in new risks. For example, if business processes are disrupted at an enterprise's subcontractor, it can have an expanding chain-reaction impact on the enterprise. Or there can be quality problems if an employee breaks the law and it shakes the management of the enterprise. Now there is greater need than ever for risk management, and enterprises need to practice it proactively.

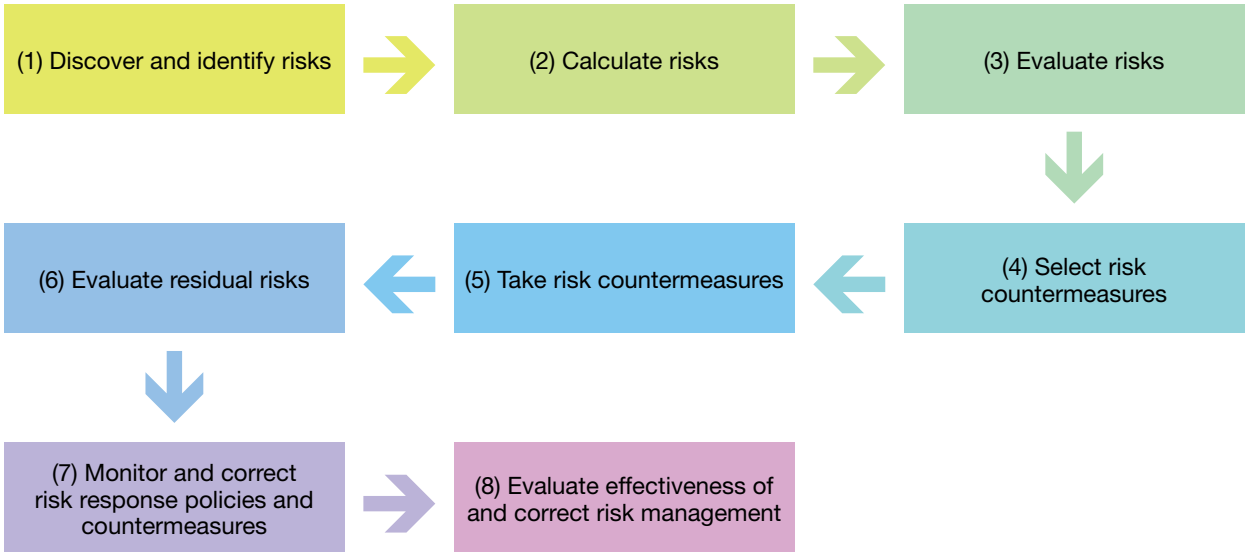
First, what kind of systems are in place at enterprises that practice risk management? Fig. 2-4-9 shows enterprises' risk management systems, by enterprise size. Among large enterprises, 18.5% said that "There is an office specifically for risk management" and 66.9% said "Risk management is part of the duties of the general affairs or planning department, etc." These answers show that large enterprises are practicing risk management systematically. On the other hand, a mere 3.9% of SMEs said that "There is an office specifically for risk management" and 40.4% answered that they had "No office in charge of risk management." So SMEs do not seem to have fully developed risk management systems.

Fig. 2-4-9 Risk management system, by enterprise size



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Fig. 2-4-10 Risk management process



Source: Prepared by SME Agency based on Research Council on Risk Management and Internal Control, *Internal Control in a New Era of Risk.*

Development of risk management

Generally, the practice of risk management follows this process: (1) Discover and identify risks, (2) Calculate risks, (3) Evaluate risks, (4) Select risk countermeasures, (5) Take risk countermeasures, (6) Evaluate residual risks, (7) Monitor and correct risk response policies and countermeasures, and (8) Evaluate effectiveness of and correct risk management (Fig. 2-4-10).

First, it is necessary to discover what kinds of risk factors there are in relation to the enterprise's business objectives and identify them as risks (1). Next, the enterprise must calculate the relative importance of the identified risks to itself, as measured by the probability of that risk occurring and the degree of impact that risk will have on the enterprise if it emerges. If it is difficult to quantitatively assess a risk on those two scales, another effective approach is to assess it qualitatively as "great," "moderate," or "small." The enterprise then draws a risk map, etc., that compares the probability of a risk and its impact on the enterprise to some benchmark, and then sets out the risks relevant to the business (2). Next, the enterprise prioritizes the risks calculated in step (2) based on some standard (3). Risk control and risk financing are the two main types of risk countermeasures, which are more finely divided into six classes (Fig. 2-4-11).

Fig. 2-4-11 Risk countermeasure methods

Category	Means	Content
Risk control	Avoidance	Measures that interrupt activities that bear risk and isolate predicted risks. Involves forfeiting returns.
	Loss prevention	Measures that prevent losses before they occur, reducing the frequency of losses by taking preventive measures.
	Loss mitigation	Measures that mitigate loss or prevent it from expanding when there is an accident; measures that limit the scale of loss.
	Separation / dispersion	Measures that separate and disperse sources of risk so they are not concentrated in one place.
Risk financing	Transfer	Methods such as insurance or contracts to get loss compensation from a third party when loss occurs.
	Possession	Self-paying for any losses without taking any measures against latent risks, even though they are known.

Source: Prepared by SME Agency based on Research Council on Risk Management and Internal Control, *Internal Control in a New Era of Risk.*

Risk control is a method that diminishes the frequency and size of a loss. Risk financing sets aside a source of money to compensate for a loss. The latter can be sub-categorized as "transfer" (using insurance, etc., to transfer the monetary risk to a third party) or "possession" (bearing the cost of any loss directly, for example by putting funds in reserve). Risk control reduces loss, and risk financing is also an effective countermeasure (4). After a risk management program is selected to specifically achieve the selected risk countermeasures, those countermeasures are implemented (5). The enterprise performs an evaluation to determine if the countermeasures have brought residual risks down to an acceptable level (6). It is necessary to reconsider the enterprise's response to risk periodically or whenever a risk emerges and a major loss occurs (7). Then, the enterprise evaluates the effectiveness of its risk management system to determine whether it has built and is operating an appropriate and efficient system, and it makes any necessary corrections (8). This series of steps is the risk management process.

Thus, risk management has to be addressed as an organization, but that does not mean that just building a risk management system enables an enterprise to respond flawlessly to all risks. The primary focus of risk management is to enable the enterprise to learn those risks that create barriers to its sustained development and then take appropriate countermeasures. In other words, an enterprise must not only manage all risks, but take priority measures against those risks with a great impact on management. Following is a case study of an enterprise that actively sought out external certification as part of its risk management (Case 2-4-4). Thus, when pursuing risk management, it is essential that managers provide leadership and share their targets with their employees as they carry out their initiatives.

Case 2-4-4 Ishizaka Sangyo Co., Ltd.

A company training employees, improving operations, and achieving an increase in sales by putting external certifications to use

Ishizaka Sangyo Co., Ltd. (employees: 135; capital: ¥70 million), based in Miyoshi Town, Saitama Prefecture, is an industrial waste disposal business focused mainly on the business of sorting, classifying, and recycling the waste that is generated when dismantling homes and buildings.

When reports emerged in 1999 that dioxin had been detected in agricultural products grown around Tokorozawa, despite the fact that it had been using a new type of incinerator that did not produce dioxin Ishizaka Sangyo reflected on its corporate image and decided to get out of the incineration disposal business that had once been its mainstay. While at the time it accounted for 70% of its sales, the decision was made that a change of business was unavoidable even if they were not able to fully sort out all the risks that might be involved.

Thus, Ishizaka Sangyo entered the recycling business in 2002. To raise awareness of the move among local residents and environmental groups, it began by getting outside parties to look at its plant. Specifically, it sought to expose its operations to public view by removing the sound abatement walls that had been erected around the site and creating an inspection tour route in the plant itself. Today, the facility receives 10,000 visitors each year, and the thinking of the company's employees has also changed as a result of being seen by the guests.

In 2003, Ishizaka Sangyo simultaneously acquired ISO14001 Environmental Management, ISO9001 Quality Management, and OHSAS18001 Occupational Health and Safety certifications to provide the framework of standards for an integrated management system. The direct motivation for acquiring them was because they were being used by a major business partner as a scoring standard for when selecting a disposal business. At first, the introduction of the new system met with opposition from employees due to the increased workload, but it gradually took root. Ishizaka Sangyo subsequently acquired several more certifications in response to changes in the environment as well as various demands being placed on the company related to energy conservation, business continuity, and improving the quality of the education provided to both employees and plant visitors, among other items. These certifications included ISO27001 Information Security Management in 2007, ISO50001 Energy Management in 2011, ISO22301 Business Continuity in 2013, and ISO29990 Learning Services in 2014. Together, the standards these certifications represent are being put into practice as the basis for Ishizaka Sangyo's integrated management system.

Ishizaka Sangyo's head office takes the lead in seeing that the standards are actually put into practice. The system calls for bottom-up reporting from the manager of each unit on the initiatives being undertaken to do so. Those managers are given the autonomy to apply the ISO standards as tools for rectifying the issues that come up while doing business. Training takes place in the form of a monthly ISO promotion committee meeting to convey in readily grasped ways the notion that the ISO mechanisms are the work of Ishizaka. Putting the standards into practice costs several millions of yen annually arising from the outlays for consulting companies and expenses arising from external audits, but the company is achieving investment effects by getting third-party assessments about making its management transparent and increasing the quality of its employees.

More recently, Ishizaka Sangyo has been pouring its energies into "Omotenashi Keiei," a concept meaning management geared toward providing high-quality service. Its efforts have won external praise, with the company having been selected as a FY2012 Omotenashi Keiei Company by the Ministry of Economy, Trade and Industry (METI). Specifically, as one of its involvements with the local community the company has been pursuing through its "Kunugi Forest School" at Santome Konjaku-mura[4] a resource recycling program based on the 3Rs[5] and a hands-on teaching about environmental protection using a "seeing and feeling" approach.

These initiatives to improve operations by putting external certification standards into practice and these CSR efforts have boosted the trust shown in the company by outside parties and improved its corporate image, with the result that sales have continued to stay on the upswing.

Ishizaka Sangyo's plant

An ISO promotion committee meeting

4) A woodlands-themed amusement park operated by the company.
5) The 3Rs stands for "reduce," "reuse," and "recycle."

Column 2-4-2 Tools for enterprises getting into foreign markets

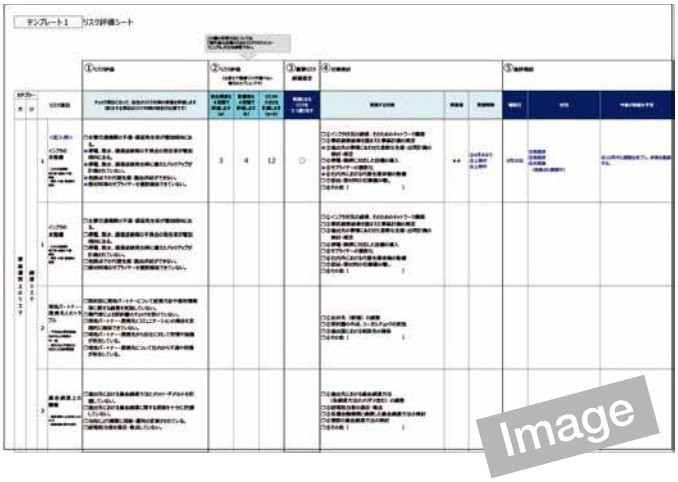
SMEs are increasingly expanding overseas to capture foreign demand. When they do so, they face a variety of unforeseen risks, which in some cases can be an impediment to the continuity of their business. In light of that fact, this column introduces some tools to help enterprises overcome the challenges they face in their overseas businesses, whether they have already gotten into a foreign market or aim to expand overseas in future.

(1) Collection of case studies of SMEs reorganizing their overseas businesses (for the stable continuity of such business)

SMEs are expanding overseas at an accelerating pace, but there are also more and more cases of business reorganizations in the new market (e.g., shrinking or withdrawing from the business, transferring to a third country, etc.) in order to respond to changes in the local business environment. The SME Agency has put together a collection of 28 case studies of SMEs that undertook a business reorganization outside Japan. The collection, published in June 2015, also summarizes things to take into consideration when reorganizing overseas businesses and trends in overseas business reorganizations by SMEs.[6)]

(2) Overseas risk management manual for SMEs

Enterprises entering foreign markets need to study the risks in their target countries and consider how to deal with those risks. In March 2016, the Organization for Small & Medium Enterprises and Regional Innovation, Japan published an overseas risk management manual to make up for the lack of information and know-how available to SMEs. It introduces specific methods of risk management overseas and countermeasures to 21 risks that enterprises could very possibly encounter when they get into foreign markets. It includes a template that enterprises can follow as they work, which enables them to run a risk management PDCA cycle.



6) http://www.chusho.meti.go.jp/keiei/kokusai/2015/150616kaigai.html

Section 2 Establishing a business continuity plan (BCP[7]) to ensure business continues stably

As the previous section noted, Japan has long been threatened by natural disasters. A massive earthquake occurred in 2011, and heavier rains than had ever occurred happened in 2015. These are examples of natural disasters of a scale far beyond our earlier expectations and emphasize the increasing need for risk management. Moreover, it is not just natural disasters that have a big impact on enterprise management. For example, we have seen epidemics of infectious diseases and leaks of information through computer networks. If an enterprise does not respond correctly when faced with a crisis, it could become less trusted, its brand power could be lost, and the very business continuity of the enterprise could be threatened. This section will clarify the state of measures taken against a variety of risks faced by SMEs and issues to be addressed in SME initiatives for business continuity.

1. The need to prepare for large-scale disasters

When a large-scale disaster happens and disrupts the business activities of an enterprise, it does not just affect that enterprise. The impacts can be considerable, affecting trading partners, the local economy and society, and Japan as a whole. The Great East Japan Earthquake of March 2011 caused production to shut down at enterprises directly affected by the event, which cut supply chains. Many enterprises were indirectly impacted when their own business activities came to a stop as a result. Maintaining supply chains is critical to supporting economic activity in Japan.

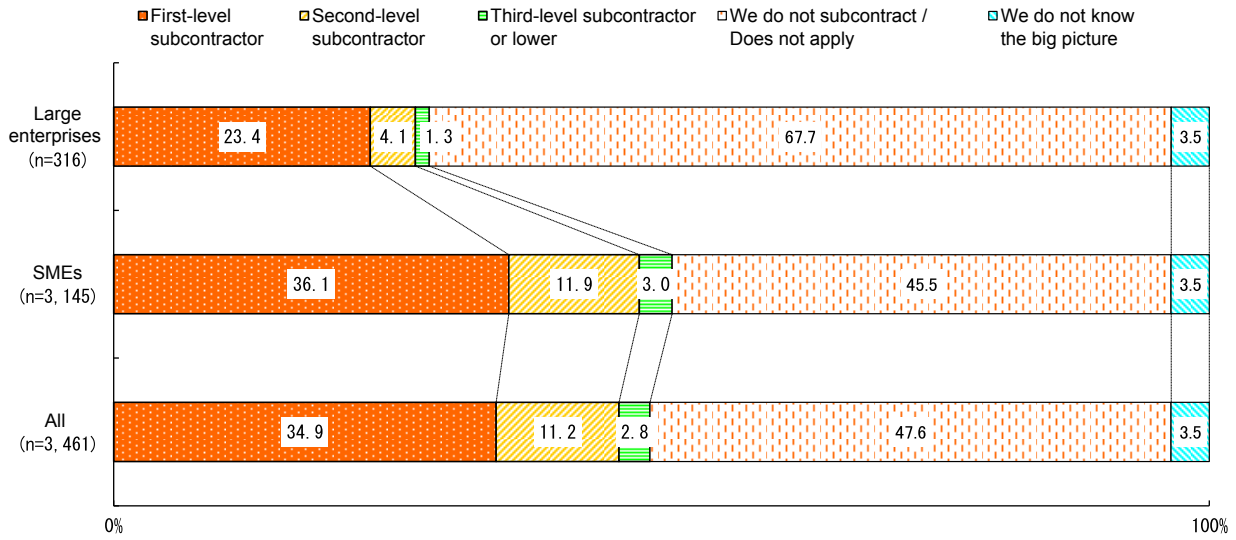
Supply chain awareness

Since the Great East Japan Earthquake, businesses, especially large enterprises, have increasingly reconsidered their suppliers as part of risk management. In some cases, the purchasing side of the partnership checks to make sure the supplier has established a BCP when it offers contracts. Enterprises that cannot fulfill their supply responsibility as a member of the supply chain lose trade opportunities.

Under those circumstances, what awareness do SMEs have about their supply chains? First, let's consider that from the viewpoint of an enterprise in the supply chain. A greater percentage of SMEs than large enterprises subcontract to work for other enterprises. When first-level, second-level, and third-level subcontractors or lower are added together, they make up more than 50% of SMEs. This shows that SMEs have a very important role to play in supply chains (Fig. 2-4-12).

7) A business continuity plan (BCP) establishes initiatives to conduct before emergencies, as well as business continuity means, methods, etc., to use during emergencies, to minimize damage to business assets and enable an enterprise's core business to continue or rapidly recover if the enterprise suffers a natural disaster, major fire, terrorist attack, or other emergency.

Fig. 2-4-12 Position in the supply chain, by enterprise size

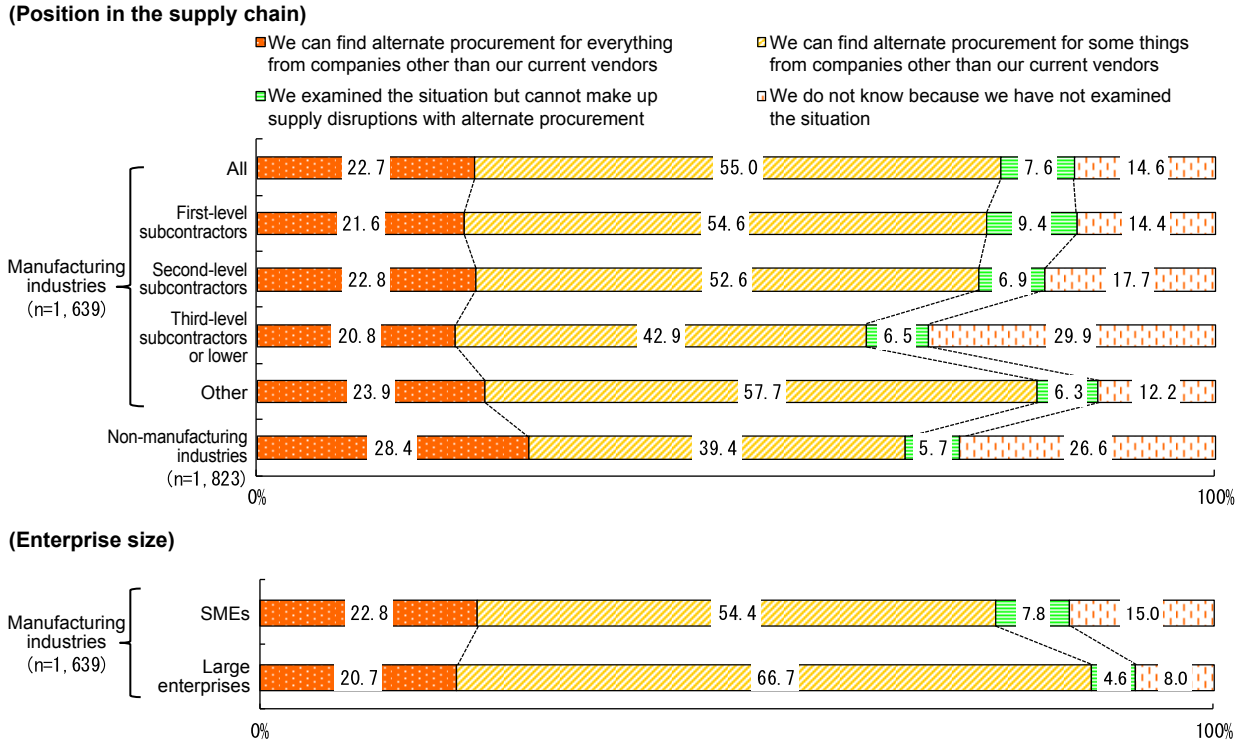


Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

To prepare for business continuity, an enterprise must not only anticipate disaster affecting itself, but also its vendors. It is very important that the enterprise consider in advance what it would do if it can no longer get a supply of products and services. Fig. 2-4-13 shows the state of SMEs' examination of alternate procurement in case procurement from their current vendors becomes impossible. According to the results, 77.7% of manufacturing industries answered "We can find alternate procurement for everything from companies other than our current vendors" or "We can find alternate procurement for some things from companies other than our current vendors." The manufacturing industries had done more than non-manufacturing industries to ensure alternate procurement. Looking at the results for manufacturing industries by position in the supply chain, a relatively high percentage of third-level subcontractors or lower answered that "We examined the situation but cannot make up supply disruptions with alternate procurement" (6.5%) or "We do not know because we have not examined the situation" (29.9%), showing a lack of progress in securing alternate procurement.

Among manufacturing industries, comparing by enterprise size, 15.0% of SMEs answered that "We do not know because we have not examined the situation," which is twice the rate of large enterprises giving the same answer. Moreover, 7.8% of SMEs responded that "We examined the situation but cannot make up supply disruptions with alternate procurement," which is higher than for large enterprises. This demonstrates that SMEs have lower awareness of maintaining the supply chain, and thus they are behind in taking countermeasures.

Fig. 2-4-13 Examination of alternate procurement



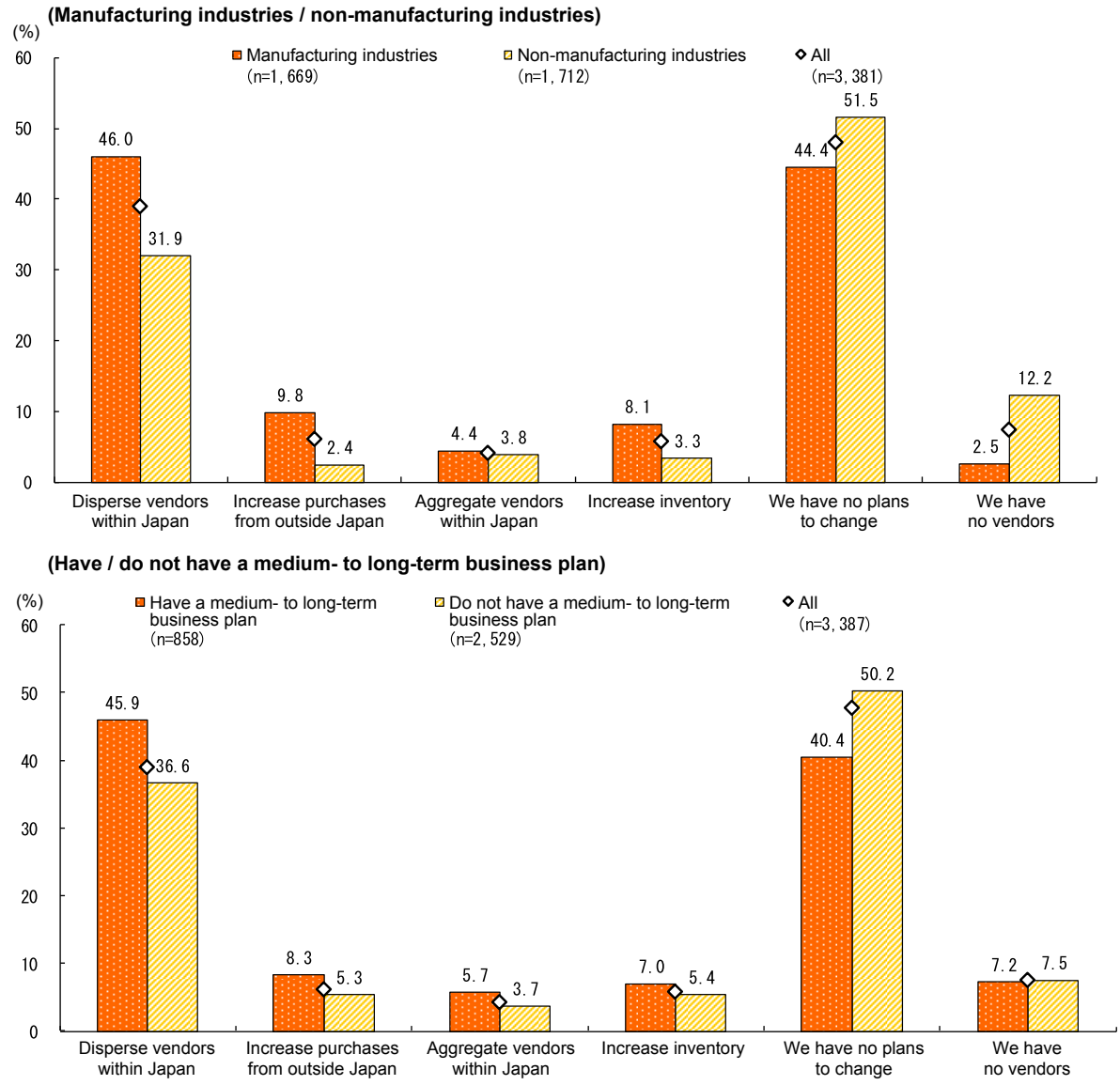
Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Notes: 1. Enterprises classified as "Other" in terms of position in the supply chain is the total of those that answered "We do not subcontract" or "We do not know the big picture."
2. The question about examination of alternate procurement was inquiring about vendors for the enterprise's core business.

Fig. 2-4-14 shows measures that enterprises already have taken or plan to take concerning vendors as part of their consideration of securing alternate suppliers. By industry sector, 46.0% of manufacturing industries answered that they "Disperse vendors within Japan" and 9.8% said that they "Increase purchases from outside Japan," indicating a higher rate of taking countermeasures than is the case with non-manufacturing industries. Comparing enterprises that have a medium- to long-term business plan with those that do not, enterprises that manage systematically (those that answered "Have a medium- to long-term business plan") are dispersing their suppliers more than those that do not.

While concentrating component procurement at a limited number of suppliers, etc., offers economies of scale and thus cost savings, enterprises that do so are vulnerable to disruption of production activities if their business site is hit by disaster. Because only a small number of respondents said that they "Aggregate vendors within Japan," it seems that they have taken measures that emphasize supply chain maintenance over efficiency.

Fig. 2-4-14 Measures taken or to be taken concerning vendors

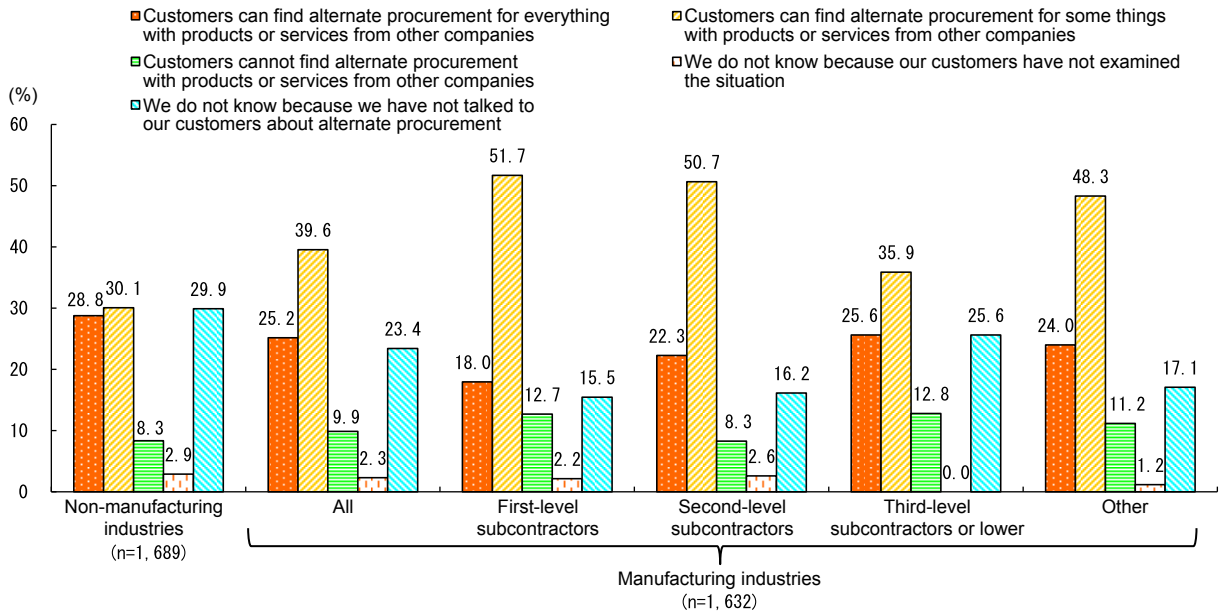


Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Notes:
1. Total does not always equal 100% as multiple responses were possible.
2. The category of enterprises that "have a medium- to long-term business plan" shows the total of those that answered "We have a business plan covering a period of three years or more."
3. The question about measures taken or to be taken concerning vendors was inquiring about vendors for the enterprise's core business.

Maintaining the supply chain requires not just securing the enterprise's own suppliers but sharing information about the enterprise's product supply system with customers of the enterprise. Fig. 2-4-15 shows how well each enterprise's customers would be able to get alternate procurement from other companies if the responding enterprise could not deliver, based on position in the supply chain. Comparing manufacturing and non-manufacturing industries, more than 60% of manufacturing industries answered "Customers can find alternate procurement for everything with products or services from other companies" or "Customers can find alternate procurement for some things with products or services from other companies." This suggests that there is a strong awareness of maintaining the supply chain and that many enterprises are examining the situation by sharing information with their customers. Looking just at manufacturing industries, the lower the level of the subcontracting enterprise, the higher the percentage that answered "We do not know because we have not talked to our customers about alternate procurement," meaning they are not sharing information with their customers.

Fig. 2-4-15 Examination of customer's alternate procurement from other companies



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Notes:
1. Total does not always equal 100% as multiple responses were possible.
2. Enterprises classified as "Other" in terms of position in the supply chain is the total of those that answered "We do not subcontract" or "We do not know the big picture."
3. The question about examination of alternate procurement was inquiring about customers for the enterprise's core business.

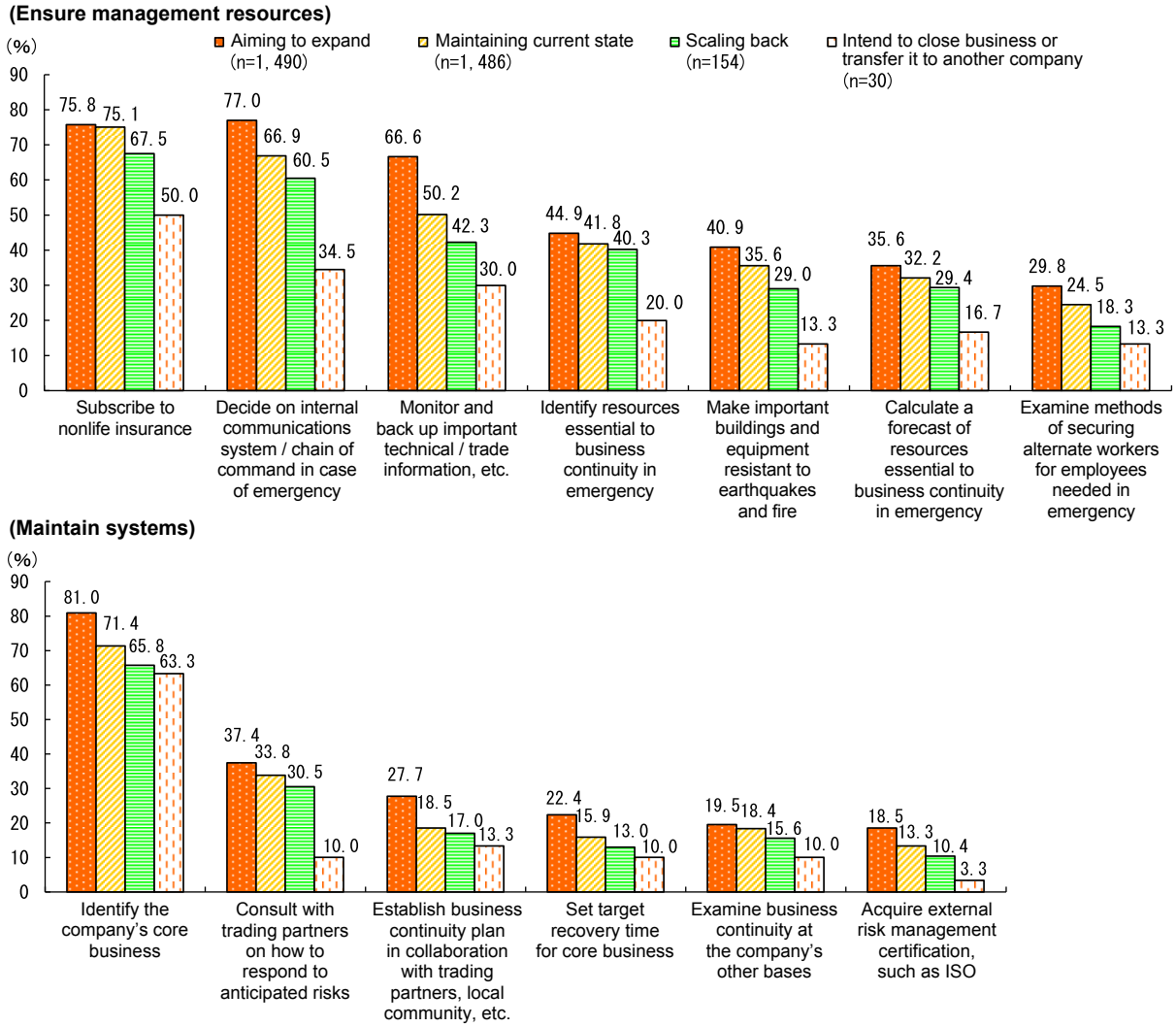
State of response to risk

There are some enterprises that have actually done much in terms of countermeasures to risk and are well prepared for disaster, even if they have not been particularly aware they were taking business continuity measures. Fig. 2-4-16 compares the state of SME risk countermeasures, by future business direction. Overall, enterprises that said they were "Aiming to expand" had more advanced risk countermeasures than those that described themselves as "Scaling back" or "Intend to close business or transfer it to another company." These results show that enterprises strongly aiming to expand had made more progress taking measures against assumed risks, having not only an offensive but also defensive awareness.

Looking at the nature of countermeasures taken, the most common measure for ensuring management resources was to "Subscribe to nonlife insurance." Nonlife insurance may compensate not only for the cost of recovery of property damaged in a disaster but also for diminished profits, and thus can make a significant financial contribution to the continuity of business activities.[8)] Asked what measures they had taken to maintain systems, the most common answer from enterprises was that they "Identify the company's core business," but only a small percentage said that they "Set target recovery time for core business." It is very important for enterprises to forecast how much they can withstand and to set target recovery times, not only for the sake of customers and markets but also for the sake of their own financial situation. Additionally, about 30% of enterprises replied that they "Consult with trading partners on how to respond to anticipated risks," meaning they will hopefully work closely with trading partners and the community in taking countermeasures.

8) For details about nonlife insurance, see Column 2-4-3 below.

Fig. 2-4-16 SME risk countermeasures, by future business direction



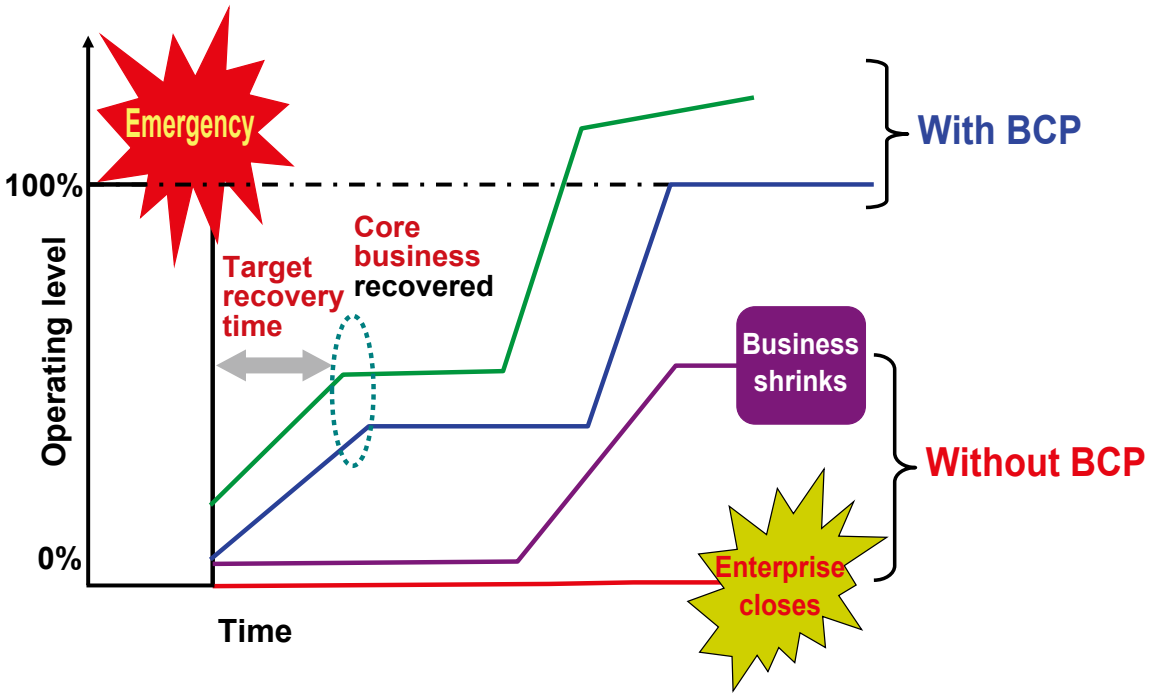
Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Need for business continuity plan (BCP)

A business continuity plan (BCP) establishes initiatives to conduct before emergencies, as well as business continuity means, methods, etc., to use during emergencies, to minimize damage to business assets and enable an enterprise's core business to continue or rapidly recover if the enterprise suffers a natural disaster, major fire, terrorist attack, or other emergency. In an emergency where only limited management resources are available for use, establishing a BCP that prioritizes and focuses on the core business to be recovered and then carrying out the BCP during the emergency makes a big difference in the degree and speed of recovery (Fig. 2-4-17). A BCP anticipates and prepares for various disasters, so that the enterprise that encounters an unexpected situation can quickly recover its business processes and fulfill its responsibility to supply its trading partners and customers.

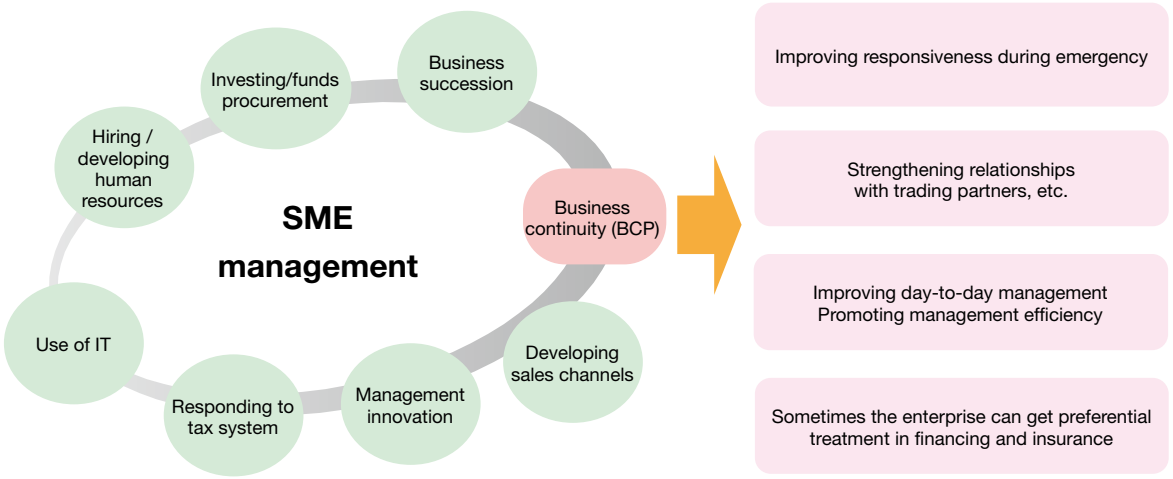
Managers need to stop thinking of BCP as something out of the ordinary. It needs to be handled actively as part of the management of the enterprise, in much the same way as hiring, HR development, and business succession (Fig. 2-4-18). Aside from improving the capacity of the organization to respond to crisis, other benefits from establishing and operating a BCP are stronger relationships with trading partners, more efficient management, and other things that increase corporate value.

Fig. 2-4-17 The need for BCP



Source: SME BCP (Business Continuity Plan) Guide

Fig. 2-4-18 Benefits of establishing and using BCP



Source: Prepared by SME Agency based on *Guidelines for Formulating and Using BCPs at Small and Medium Enterprises*.

Column 2-4-3 Preparing for risk with insurance

Insurance is an effective way to prepare for the various risks facing an enterprise, offering great returns at little cost. Enterprises recognize risk and choose a course of action as a countermeasure, specifically, subscribing to insurance. There are several problems with this course of action, such as 1) underestimating the probability of disaster and the extent of the damage, 2) the behavioral pattern that prefers to own the risk instead of transferring it to someone else by paying an insurance premium, and 3) the existence of relief programs for victims after disasters reduces the incentive to subscribe to insurance.

This column provides an overview of nonlife insurance for various risks, including new risks that have emerged with the changes in the environment. Enterprises need to correctly understand the risks and then make a self-help effort, using tools like insurance as advance preparation.

Fig. Column 2-4-3 Overview of nonlife insurance

Risk category	Specific examples	Examples of corresponding insurance
Property loss	Loss to office, factory, or machinery from fire, flood, wind, earthquake, etc.	Comprehensive enterprise asset insurance, earthquake damage compensation rider, movables comprehensive insurance
Decreased profitability	Lost operating income and increased ordinary expenses when operations are disrupted because of disaster	Enterprise cost and general profitability insurance
Liability	Product defects, food poisoning, facility explosions, construction accidents	Facility liability insurance, contractor liability insurance, output liability insurance
Personal damages	Employee injured while working at factory	Comprehensive occupational accident insurance, injury insurance
Automobiles	Traffic accident caused by employee driving a company car	Automobile insurance
Management	Diminished profitability because of failed investment, liability claim from shareholders hurt by lower profitability	Directors and officers (D&O) liability insurance
Other	Information leaked when employee took it off premises, network disruption from cyber attack	Information leak liability insurance, cyber security insurance

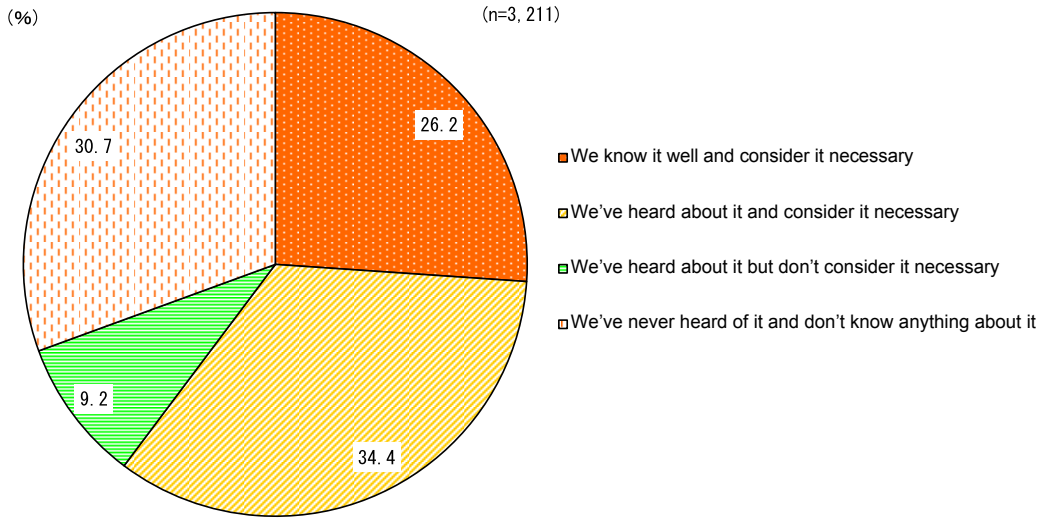
Note: Types of compensation may be limited depending on the type of insurance.

2. Current state of BCP initiatives

BCP recognition

What awareness do SMEs have of BCP? Fig. 2-4-19 shows how well SMEs understand BCP. Those who answered "We know it well and consider it necessary" or "We've heard about it and consider it necessary" together make up about 60% of all SMEs. On the other hand, nearly 40% of them answered "We've heard about it but don't consider it necessary" or "We've never heard of it and don't know anything about it." This indicates considerable variability in SMEs' BCP awareness.

Fig. 2-4-19 BCP recognition at SMEs



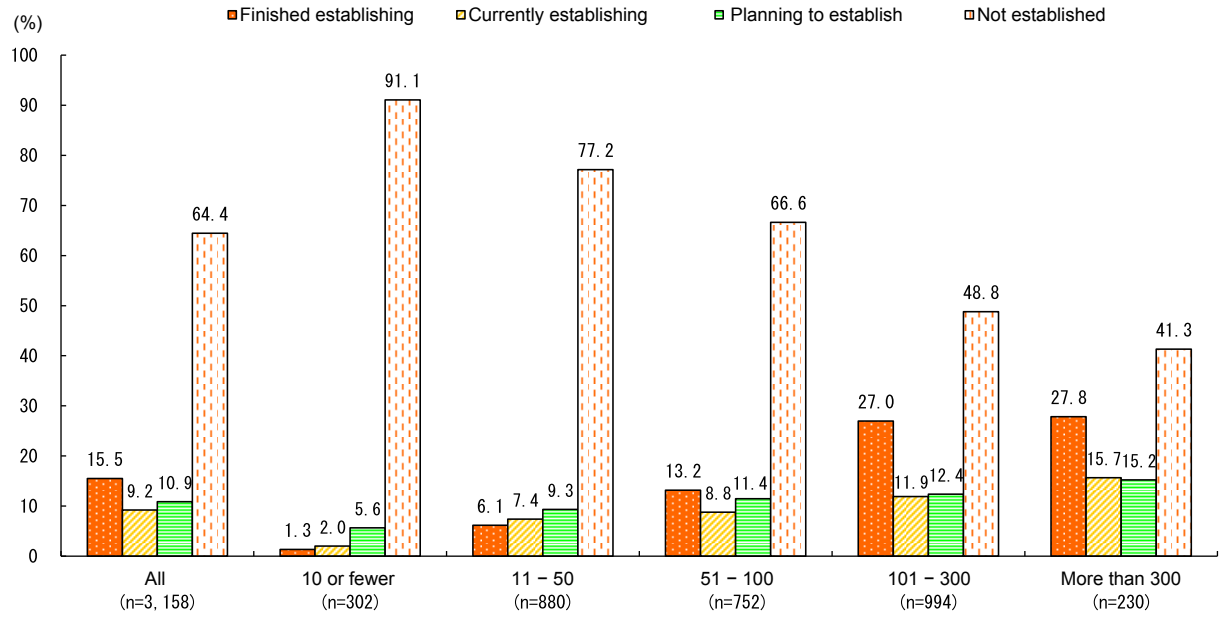
Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Percentage of SMEs that have established a BCP

Fig. 2-4-20 compares the state of BCP establishment at SMEs, by number of employees at enterprise.[9] Overall, 15.5% of enterprises said they had "Finished establishing" a BCP, while 64.4% said they had "Not established" a BCP. Clearly, the initiatives to establish BCPs have been insufficient. Addressing the question of BCP recognition, Fig. 2-4-19 showed that about 60% of SMEs answered "We know it well and consider it necessary" or "We've heard about it and consider it necessary." Even so, very few SMEs said they had "Finished establishing" a BCP. The percentage saying they had "Finished establishing" a BCP was particularly low for enterprises with few employees. This shows that SMEs recognize the need to establish a BCP, but it was not a high priority in their day-to-day business activities, such that more than a few enterprises had not yet established one.

9) See Appended note 2-4-1 concerning the state of BCP establishment at large enterprises.

Fig. 2-4-20 State of BCP establishment at SMEs, by number of employees

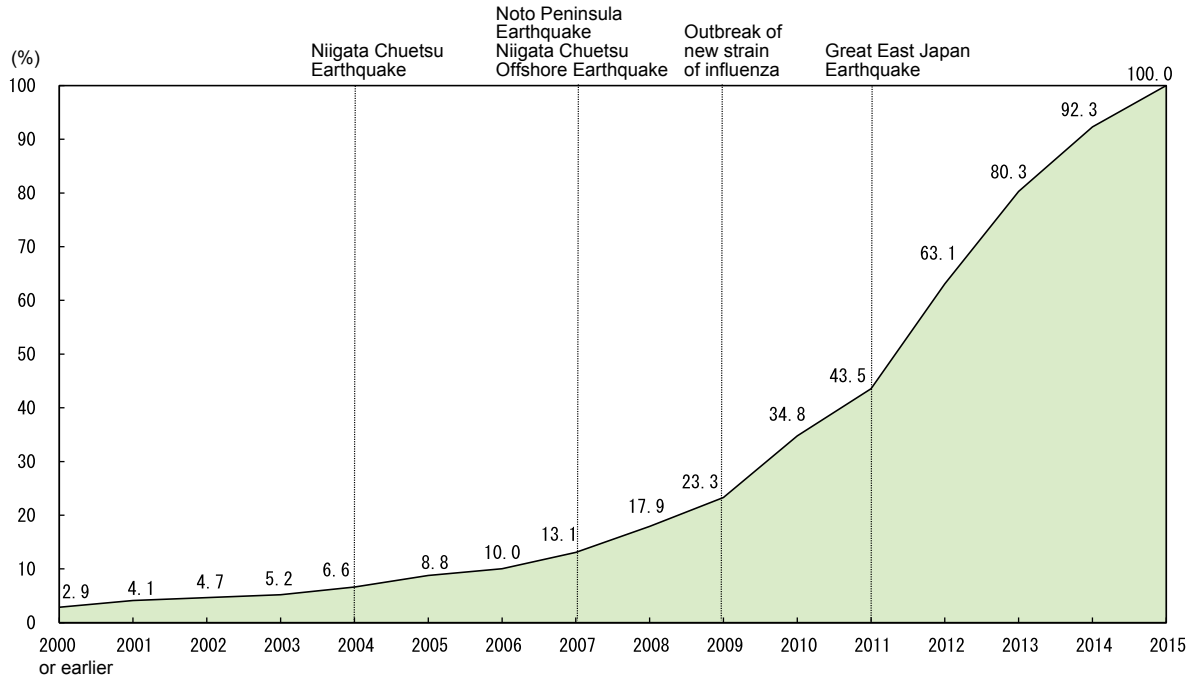


Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Fig. 2-4-21 shows the year a BCP was established at enterprises that have one, alongside the times when major disasters happened. The figure shows the trend in the percentage of enterprises that had finished establishing a BCP each year (the 100% mark refers to the number of enterprises that replied they had finished establishing one as of 2015).

Enterprises in Japan started paying attention to BCPs in about 2001, the year of the 9/11 terrorist attacks in the U.S., but very few enterprises had actually established a BCP by then. Even after that, the number of enterprises that had established a BCP did not grow very much even as other large-scale disasters happened. As of 2010, the year before the Great East Japan Earthquake, only 34.8% had done so. However, the remaining two-thirds (65.2%) have established a BCP since 2011. So the number of enterprises with a BCP is on a rising trend, but it is still not enough. It is feared that as time passes, the lessons from the great earthquake will fade. Japan faces many natural disasters, and many kinds of risks are anticipated as a result of the changes in the environment facing enterprises. In a country like this, it will be important to take a stronger response to risk in future.

Fig. 2-4-21 Year BCP established at enterprises that have one (cumulative percentage)

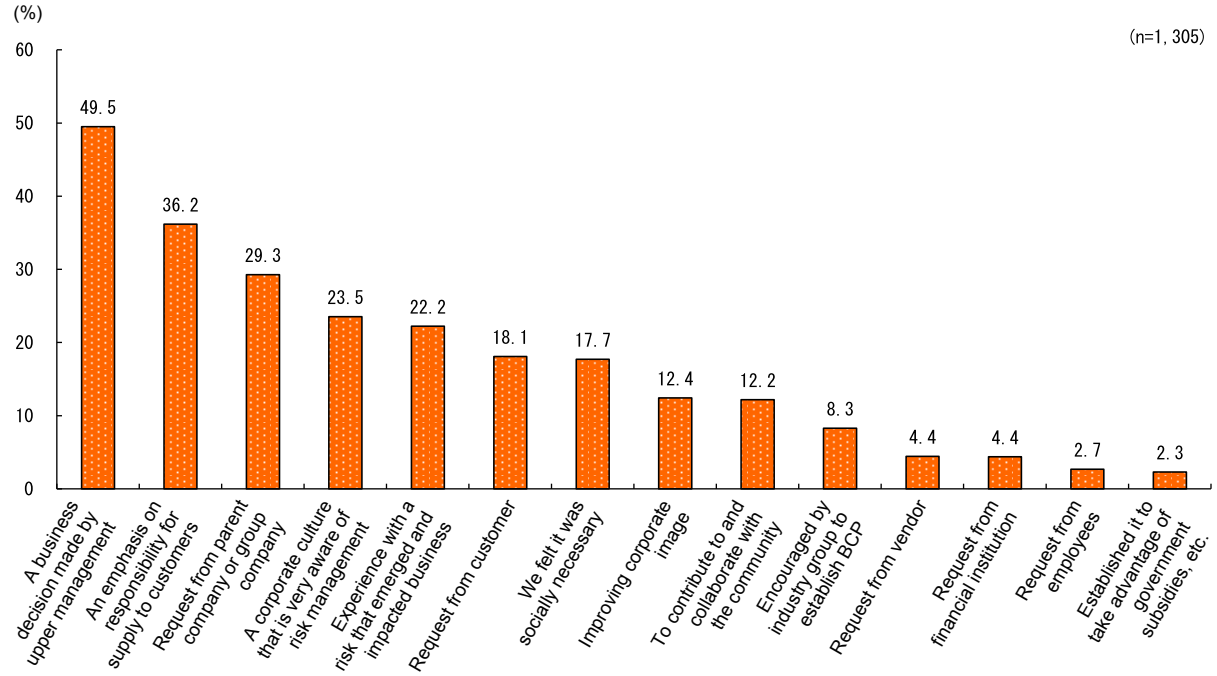


Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: On this scale, 100% refers to the 558 enterprises that reported what year they had established a BCP. The percentage shown for each year is the percent of those 558 enterprises that had established a BCP by that year.

Motivation for establishing BCP

What was the background that led enterprises to establish a BCP? Fig. 2-4-22 shows the motives and background that led to BCP establishment at those enterprises that had one. The most common answer (49.5%) was that it was a "A business decision made by upper management," followed by "An emphasis on responsibility for supply to customers." In BCP initiatives, it is important that managers recognize fulfilling the supply responsibility as one of their most critical management issues and demonstrate leadership as they advance their measures. There were also many enterprises who responded that there had been a "Request from parent company or group company" or "Request from customer." So there are a certain number of enterprises that established a BCP when an outside party asked them to.

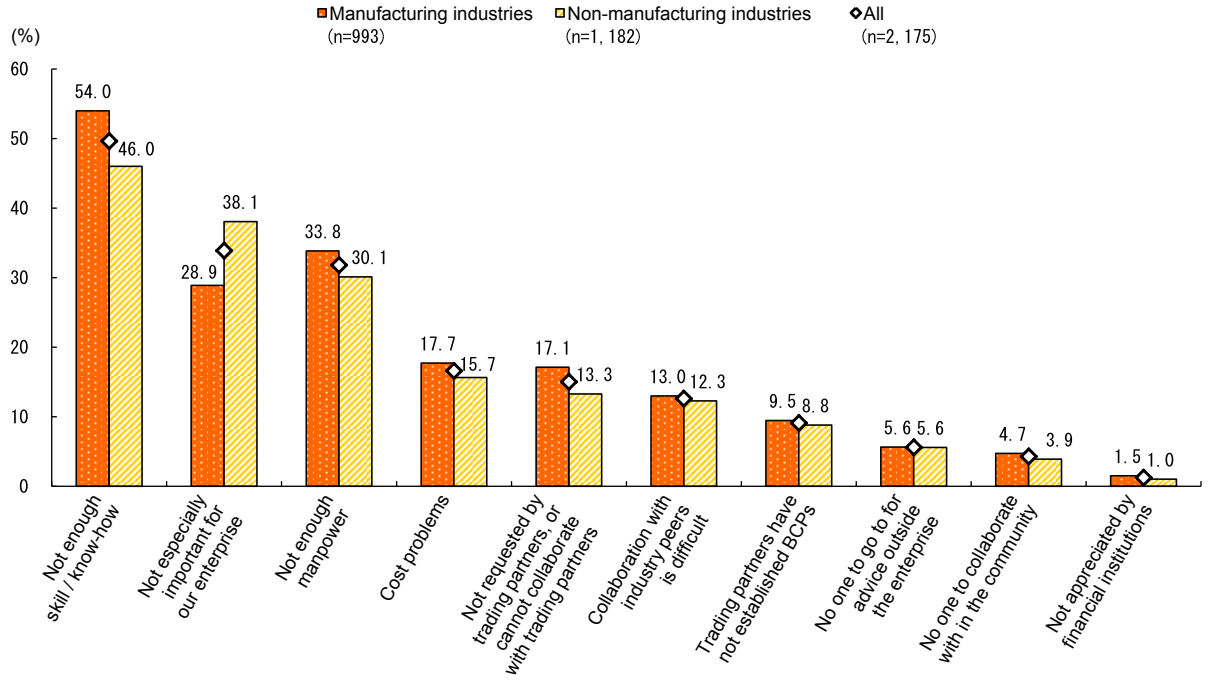
Fig. 2-4-22 Motivation for establishing BCP



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-4-23 looks at the reasons for not establishing a BCP at those enterprises that did not have one, by industry sector. Overall, the most common answer was "Not enough skill / know-how," at 49.8%. There was a particularly marked difference between industry sectors for the choice "Not especially important for our enterprise." Just under 40% of non-manufacturing industries gave this answer, indicating a lower awareness of the importance of BCPs than in manufacturing industries. As for the supply chain perspective, there are greater benefits to be had by enterprises that collaborate with trading partners and industry peers rather than just working alone. Even so, nearly 20% of respondents said that a BCP was "Not requested by trading partners, or cannot collaborate with trading partners" or "Collaboration with industry peers is difficult."

Fig. 2-4-23 Reasons for not establishing BCP, by industry



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

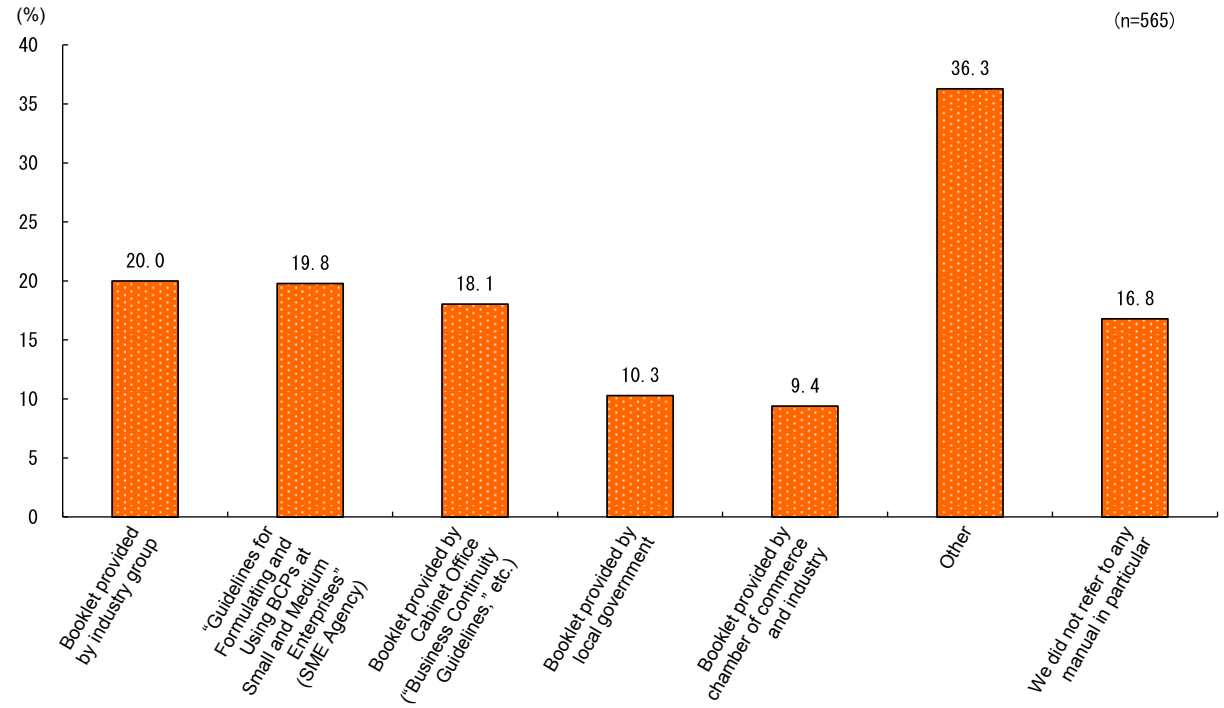
When establishing BCP

Various tools are available to support the establishment of enterprise BCPs. Fig. 2-4-24 shows the manuals that enterprises referred to when establishing a BCP. The most common answer (20.0%) was "Booklet provided by industry group," followed by "Guidelines for Formulating and Using BCPs at Small and Medium Enterprises" and "Booklet provided by Cabinet Office." On the other hand, 16.8% replied that "We did not refer to any manual in particular."

Fig. 2-4-25 indicates the organizations that provided advice for establishing or operating the BCP. The most common sources of advice were "Trading partner," "Tax accountant," and "Financial institution" (chosen by up to about 20% of respondents). This indicates that enterprises were going to institutions with deep ties to their business activities for advice. On the other hand, nearly 20% said that they went to "No one in particular."

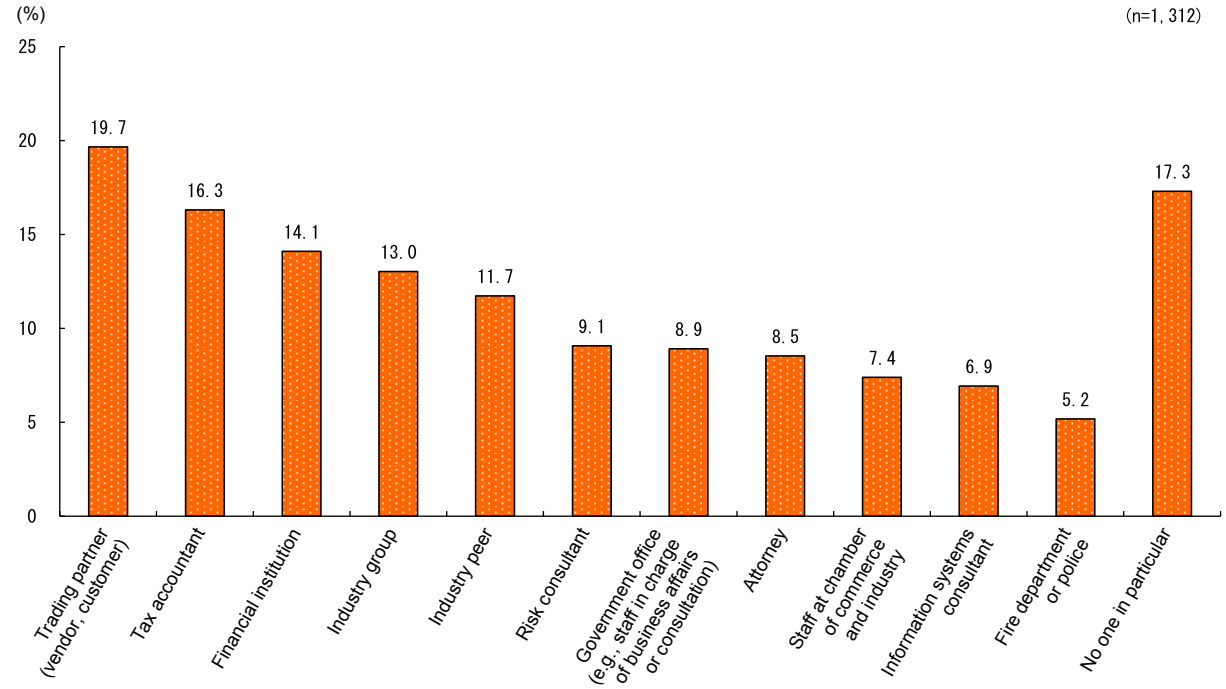
Thus there are manuals and supporting organizations, but as Fig. 2-4-23 shows, a lack of skill and know-how is still the most commonly given reason for not establishing a BCP. Keeping this in mind, there seems to be a possibility that SMEs have not begun the process of BCP establishment in spite of the availability of manuals and sources of advice because they do not see the merits in doing so. The results also suggest there are issues of recognition and ease of understanding of existing manuals and supporting organizations.

Fig. 2-4-24 Manuals referred to when establishing BCP



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-4-25 Sources of advice for establishing / operating BCP

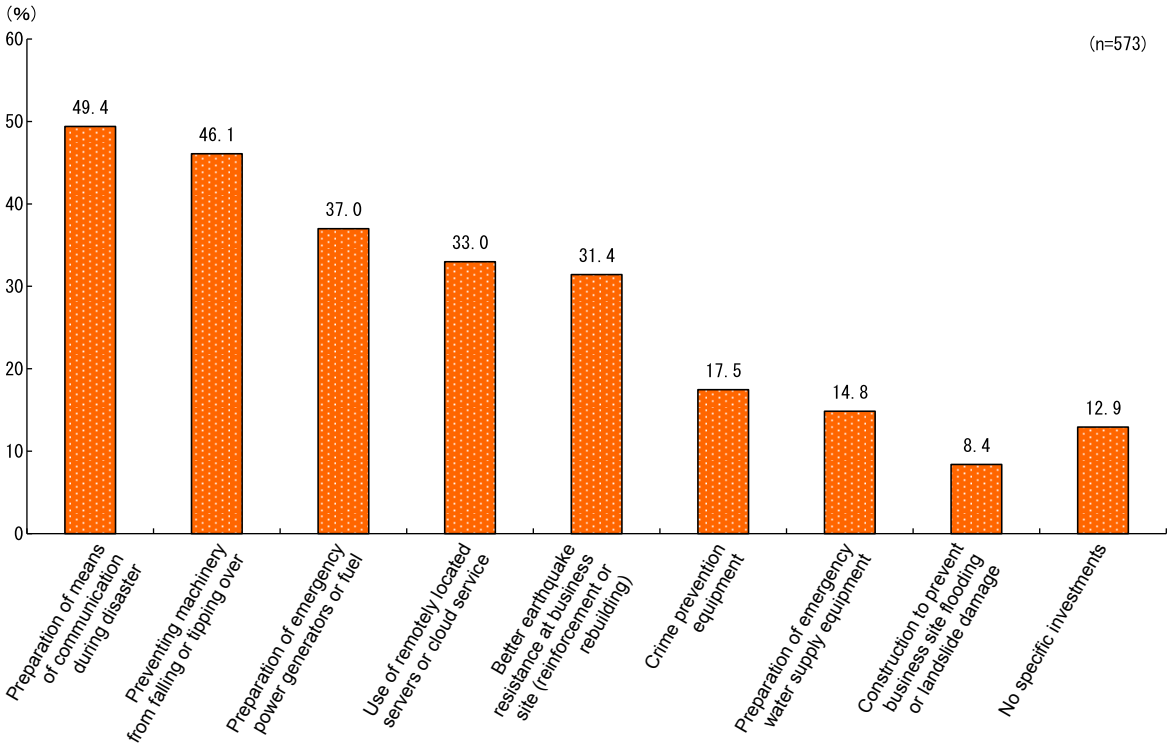


Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Column 2-4-4 Investment based on BCP

Setting up a BCP-based system requires funds, but what specific things do enterprises invest in? Fig. Column 2-4-4 (1) shows that the most common answer (49.4%) was "Preparation of means of communication during disaster," an investment to ensure the necessary information during an emergency. Other frequent investments were to prevent facility destruction in an earthquake ("Preventing machinery from falling or tipping over" and "Better earthquake resistance at business site") or to mitigate damage ("Preparation of emergency power generators or fuel" and "Use of remotely located servers or cloud service").

Fig. Column 2-4-4 (1) Nature of investment based on BCP



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Many small-scale enterprises, though aware of the need to invest based on their BCP, faced funding challenges doing so. The Japan Finance Corporation offers a program to provide funding needed to maintain facilities based on a BCP. It supports SMEs that have established a BCP to minimize business disruptions caused by events such as disasters (Fig. Column 2-4-4 (2)).

Fig. Column 2-4-4 (2) Funds to maintain social environment response facilities (BCP-related)

Who is eligible for a loan	Parties maintaining disaster prevention facilities, etc., based on a BCP they have established as per "Guidelines for Formulating and Using BCPs at Small and Medium Enterprises"
How loans may be used	• To fund equipment necessary to prepare (including improve and repair) facilities, etc., that help prevent disasters (*excludes land-related funding, except in those cases based on a BCP established in collaboration with the community as per a local authority's disaster prevention work plan, etc.) • To fund operations necessary to perform a seismic durability diagnosis as based on a BCP
Loan limits	(SME Unit) ¥720 million (of which ¥250 million may go to fund operations) (Micro Business and Individual Unit) ¥72 million (of which ¥48 million may go to fund operations)
Loan interest rates	(SME Unit) [Equipment funds] Standard interest rate, special interest rate [Operating funds] Special interest rate (Micro Business and Individual Unit) [Equipment funds] Special interest rate [Operating funds] Special interest rate
Loan periods	Equipment funds: Within 20 years <period of deferment not exceeding 2 years> Operating funds: Within 7 years <period of deferment not exceeding 2 years>
Financial institution handling loans	Japan Finance Corporation (SME Unit and Micro Business and Individual Unit)

Note: See http://www.chusho.meti.go.jp/bcp/ for more information about "Guidelines for Formulating and Using BCPs at Small and Medium Enterprises."

3. Benefits and issues of business continuity management (BCM)[10)]

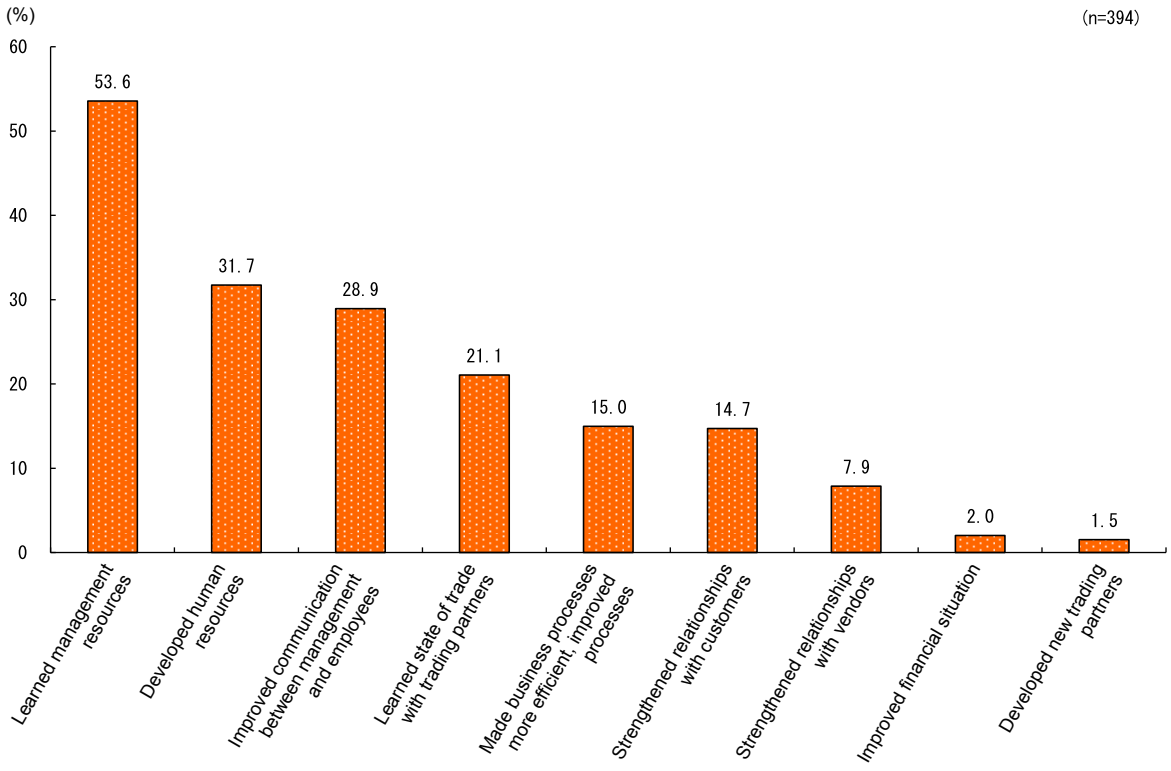
Benefits of BCM

Management before an emergency happens—training employees and taking measures in advance—is important to ensure that the BCP functions effectively when an emergency actually happens. This management process is called business continuity management (BCM). What kind of benefits are there for enterprises that establish a BCP and practice BCM?

Fig. 2-4-26 shows the benefits of establishing a BCP and practicing BCM before an emergency happens, when the risks have not yet emerged. It shows that the most common benefit was "Learned management resources," helping the enterprise to know its own strengths and weaknesses, followed by "Developed human resources," "Made business processes more efficient, improved processes," and so on. This indicates that establishing a BCP and practicing BCM have positive outcomes for management.

When asked about the benefits of BCP / BCM during an actual emergency, the responses indicated benefits for business continuity and supply chain maintenance (for example, "There was some damage, but we were able to continue business," "We were able to fulfill our supply responsibilities to customers," and "Mitigated damage") (Fig. 2-4-27).

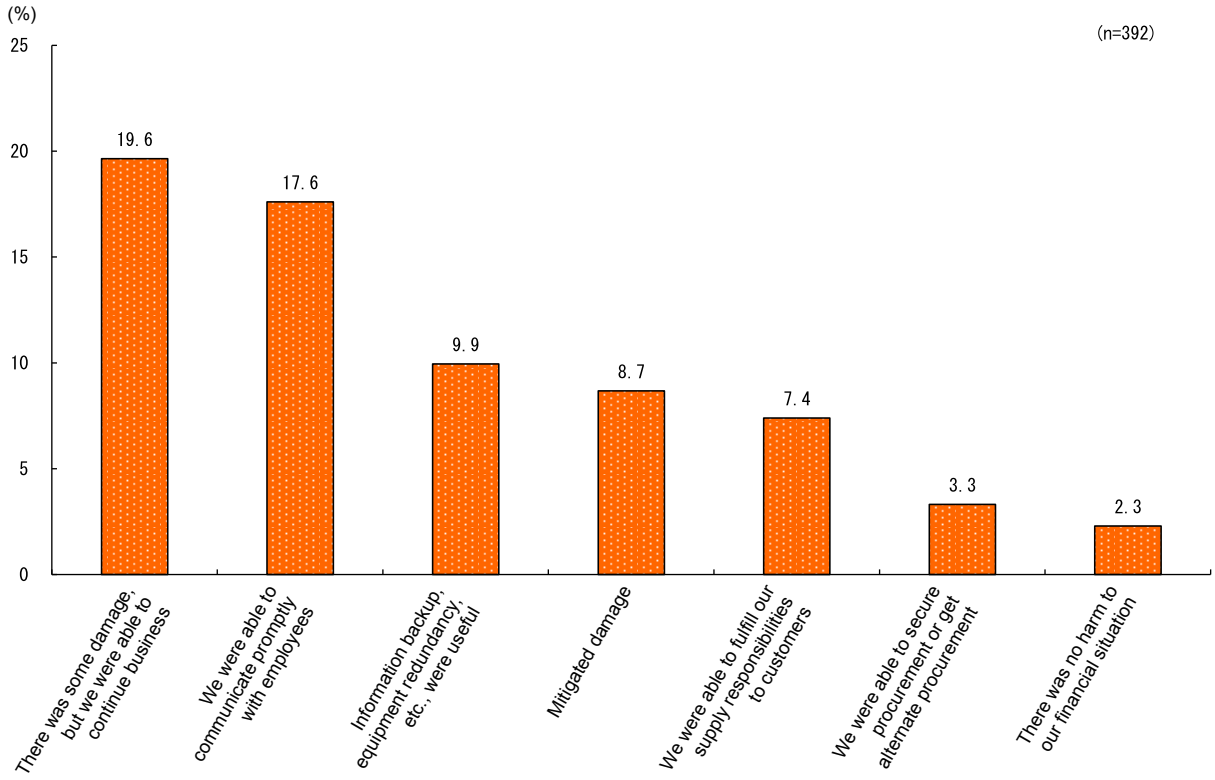
Fig. 2-4-26 Benefits of BCM prior to emergency



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

10) Business continuity management (BCM) is the act of establishing and continually operating a business continuity plan, and a mechanism for controlling it. It includes the following actions: 1) understanding the business, 2) preparing a BCP cycle operating policy, 3) establishing a BCP, 4) getting a culture of BCP firmly established, and 5) giving BCP training and maintaining, updating, and auditing the BCP cycle.

Fig. 2-4-27 Benefits of BCM during emergency



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-4-5 Taisei Fine Chemical Co., Ltd.

A company where the strong awareness of the proprietor is driving Business Continuity Management, and linking it to cost cutting and employee training on a regular basis

Taisei Fine Chemical Co., Ltd. (employees: 66; capital: ¥40 million), based in Asahi City, Chiba Prefecture, was established to take over the resins business of the Taiseikako Group when that group moved to a split holding company arrangement in 2004. Taisei Fine Chemical designs, develops, manufactures, and sells synthetic resins comprised mainly of acrylic resins used as materials for printing and packaging, coatings, electronics, makeup, and medical supplies. Its headquarters are located in Chiba's Asahi City, and it has a sales office and laboratories at a site in Katsushika City, Tokyo, where Taiseikako is located.

Taisei Fine Chemical President Toyohito Ino learned about risk management from the company's chairman, and long had the idea of wanting to cement its place in the company's culture. As a first step, he proposed internally that work be done to draft a business continuity plan (BCP), but he was unable to get others to see the need. He had staff get to work on a management plan in April 2010 and a manual completed that October, but they lacked a sensibility applicable to conditions on the ground and the initiative went nowhere. Only one directive was issued on earthquake-resistance inspections in an internal audit conducted in October. This was for a seismic mitigation rack to be installed that would prevent storage drums in the warehouse from being tossed about. Work was completed on March 7, 2011. Four days later, the Great East Japan Earthquake struck. Some employees said the racks saved their necks.

While the headquarters and factory were not damaged by the tsunami, Taisei Fine Chemicals found at the time that it was not able to confirm the status of all its employees. Immediately after the disaster, staff were appointed to make note of all processes undertaken in interviews with Ino and the company's various departments. The goal was to revise the production plan and update manuals to reflect what was learned from writing down how conditions were actually dealt with such as what jobs took priority. With regard to the factory, various issues emerged including equipment failures, problems with power supply, and injuries to employees. Operations unavoidably were shut down for one month as a result. Furthermore, some customers were lost for certain products because their manufacture was delayed.

The seismic mitigation racks installed on March 7, 2011, that prevented damage in the earthquake that followed

Based on these experience, Taisei Fine Chemical decided once again to take up the task of drafting a BCP. The company got advice from a private consultancy with the assistance of Tokyo Metropolitan Government and a BCP was created. Because the drafting process was an open one in which auditors and employees working on the ground also participated, it also helped in the area of employee education. Based on the BCP, the company put up a headquarters administration building with an earthquake-resistant structure, dispersed its warehouses, secured its inventory, built a large dedicated power generation station, installed emergency shutdown equipment for use in the event of power loss, and commissioned an outside data center to handle data needs. It also guaranteed it would have operating funds on hand through such measures as maintaining cash and deposits three times the level of accounts receivable, shifting from promissory note to cash collections, and eliminating debt. One senses that the BCP-based initiatives led to a reduction in operational costs thanks to the commissioning of an outside data center. Furthermore, the drafting of the plan overall were beneficial when it came to insurance companies calculating the costs of their policies.

The initiative further led to collaborations and tie-ups with outside parties. The audits of external consignors resulted in audits being undertaken over awareness of BCPs in the sense of whether or not the external consignor could continue its business in the event of an emergency. And furthermore, it led to the drafting of a Taiseikako Group BCM Document internal to the group. Additionally, the initiative expanded the circle of alliances through the exchange of friendship agreements with companies in other lines of work that set down the grounds for providing mutual assistance in an emergency.

Power generator installed after the 2011 earthquake

According to Ino, "It is important for a company's executives to have a strong awareness of the issues at stake when pursuing risk management initiatives. The fact that we tried to make them a part of the regular work cycle so that employees did not see them as extra work and connected them to improvements and earnings is what made the initiative a success."

Case 2-4-6 Oizuru Corporation

A company pursuing work on business continuity management systems internally and externally, and linking those initiatives to improving its own operations and its business partners' assessments

Oizuru Corporation (employees: 56; capital: ¥10 million), based in Mizuho Town, Nishi-Tama County, Tokyo, has been involved since its founding in 1958 in all manner of packaging-related services ranging from the design and manufacture of packaging and cushioning materials to logistics.

Oizuru was aware of the risk management concept from its own experience of a fire at the company that saw it continue to supply its products thanks to assistance in the form of getting another company in its industry to handle alternate production for it. At the time of the H1N1 influenza outbreak of 2009, in response to Tokyo Metropolitan Government's invitation to provide support with drafting business continuity plans (BCPs) for fiscal 2010 the company decided to participate and drafted a plan that hypothesized an earthquake directly under the Tama area. It put business continuity management (BCM) procedures into practice in June 2011, and in June 2012 obtained BS25999 Business Continuity Management certification (superseded in May 2014 by the ISO22301 certification).

Oizuru's employees were not interested in BCM at first, but management took the approach of working steadily to get staff on board as a way of demonstrating how serious management was. They undertook an analysis of all the danger spots in the company's facilities, and implemented various specific measures to remedy those items thought to pose immediate dangers. These included such steps as immobilizing copiers, making servers tip-resistant, making glass shatter-resistant, and making shelving tip-resistant and linking units together. As these improvements were made in ways visible to the eye, employee attitudes also changed.

The BCM System[11] initiatives Oizuru pursued entailed creating plans for drills to be conducted every year. The company would then follow up on the drills by seeing what could and could not accomplished, and review the contents of its manuals accordingly. Manuals and procedures were refined at this point by having all employees bring up points they had noticed and giving them thought. The documents that were created or updated were then posted and made plain to see, leading to improvements in operations. The abilities of employees to problem-solve were also improved through such initiatives, which had an enormous effect on regular operations.

One benefit these efforts produced for Oizuru was improved relations with its suppliers. In order to bolster its supply chain, the company got particularly its major suppliers to lend a hand with the BCMS initiative. The effort to visit suppliers, distribute and collect questionnaires, and conduct interviews regarding screening items led to a strengthening of relations with them.

Furthermore, Oizuru also linked up with four other companies in its industry to conclude a five-party mutual cooperation agreement that built a support network for times of disaster. This makes it possible for the companies to share production information and carry out alternate production in emergencies. The initiative was very well-received among the company's customers. Some had been procuring goods from Oizuru alone, but were concerned that relying on a single supplier might be risk. Learning about the BCMS initiative changed their minds, since Oizuru's agreement with other companies meant the risk had been mitigated. The company's case is a good example of how an initiative to adopt BCMS served to prevent a drop in order volume or loss of orders.

Analysis of danger spots in Oizuru's facilities and prevention and mitigation strategies

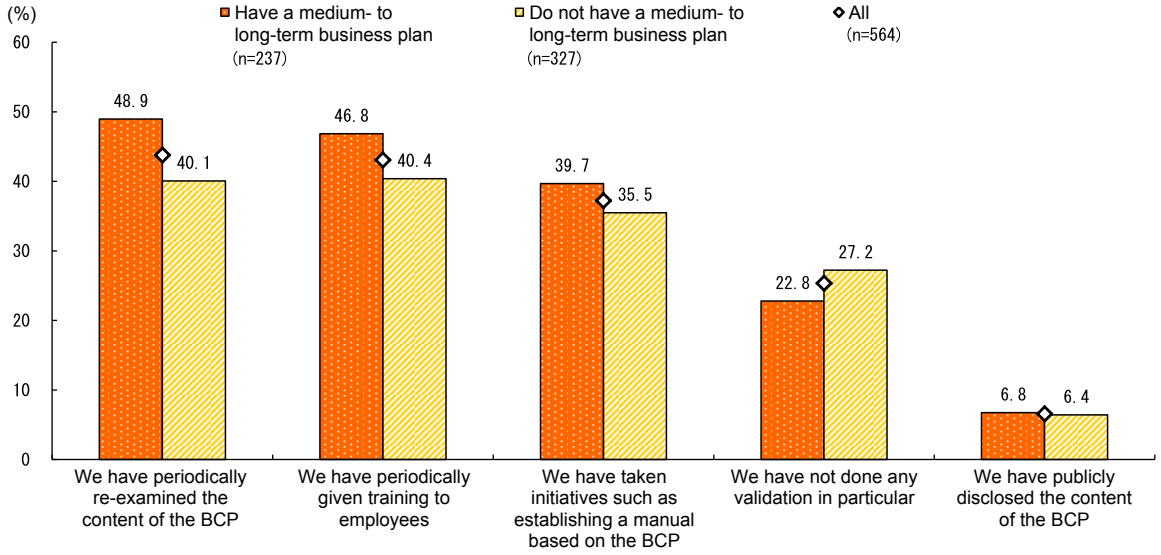
Posted material regarding BCP activities

11) A system for establishing, implementing, enacting, reviewing, maintaining, and improving business continuity, comprising one part of a companywide management system.

Issues with the execution of BCM

Fig. 2-4-28 compares the state of validation, training, and reconsideration of an established BCP, by whether the enterprise had established a medium- to long-term business plan covering three years or more. Overall, more than 40% of enterprises responded "We have periodically re-examined the content of the BCP" or "We have periodically given training to employees." However, nearly 30% said that "We have not done any validation in particular." Looked at by whether the enterprise had established a medium- to long-term business plan, those that said that they "Have a medium- to long-term business plan" had taken initiatives at a higher rate than those answering "Do not have a medium- to long-term business plan." This suggests that enterprises that manage systematically are more proactively executing BCM. Business continuity and recovery during an emergency is only possible with employee cooperation, and therefore it is important to share the content of the established BCP with employees, give training before an emergency, and continually improve the BCP.

Fig. 2-4-28 State of BCP validation, training, and reconsideration, by whether the enterprise had established a medium- to long-term business plan



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The category of enterprises that "have a medium- to long-term business plan" shows the total of those that answered "We have a business plan covering a period of three years or more."

This section has looked at how SMEs are managing risk so they can fulfill their social mission of continuing business even if threats emerge that could have a major impact on enterprise management. Although awareness of the importance of establishing and operating a BCP is rising, there is a great deal of variance in the degree of initiatives depending on the enterprise. SMEs are known to have limited management resources, but actions like identifying the enterprise's own core business, consulting on how to check employees' safety, and consulting on how to communicate with trading partners are not very costly and can enhance the enterprise's capacity to respond in an emergency. Instead of working alone to try to establish a BCP that is perfect from the beginning, an enterprise should first establish a BCP, gradually improve it, and then practice BCM and entrench it as an organizational activity.

This review has shown that establishing a BCP and practicing BCM will help enterprises look back on their management. This will not only enhance their ability to respond to crises, but also help raise corporate value when there is no emergency, by developing human resources, increasing business process efficiency, and the like. Industry groups provide support and tools commensurate to the characteristics of their industry so that even SMEs with limited management resources can take initiatives. In recent years, moreover, enterprises are working more closely with industry peers and others in their communities to ensure that alternate production is possible, and a movement to maintain supply chains is growing. Proactive efforts to collaborate with others, and SME preparations for business continuity, will hopefully advance in future.

Case 2-4-7 Doei Industry Co., Ltd.

An enterprise that solved succession problems by getting support from an industry group while it obtained ISO22301 certification and improved how it was assessed as a company

Doei Industry Co., Ltd. (employees: 40; capital: ¥80 million), based in Isehara City, Kanagawa Prefecture, is an enterprise established in 1956 that engages in precision-stamping and connector processing.

In June 2013, right as Doei Industry was struggling with the issue of managing succession it was approached by the Japan Metal Stamping Association (JMSA) about being selected as a BCMS model corporation for the METI commission business.[12] While Doei President Hirohiko Matsui knew of the existence of BCMS, he had not yet fully grasped what it entailed. He learned that BCMS was an undertaking connected to business continuity, and thought that making an effort of this sort would have some appeal as his company approached successor candidates. Furthermore, he knew that few companies had acquired ISO22301 certification and that his enterprise would be able to receive assistance from METI via the JMSA, so he decided to pursue the initiative.

Initially, Matsui received vehement opposition from Doei's executive staff for numerous reasons. These included the fact that acquiring the company's ISO9001 certification had been extremely difficult, there were hardly any materials then-available about ISO22301, the undertaking was projected to require massive amounts of work, and the period for acquiring it was too short. Matsui responded by pointing out there were successor candidates, and to encourage one to join the company would require dealing with business continuity as a company. He explained that the succession problem was one that would also have a direct bearing on the executive staff itself in the future. The executives eventually agreed, and work on the initiative began. Two younger executives who had not been involved in the effort to acquire the ISO9001 certification were put in charge.

The fact that Doei's president himself had displayed his strong will and leadership, as well as the fact that the company knuckled down in short order to select these young executives to deal with the problem of business continuity that was so close out at hand, helped the company to obtain its ISO22301 certification in January 2014. It used the tools that the JMSA had created in its effort to acquire the certification. The JMSA had explained the technical vocabulary involved in readily comprehensible ways and was a big help in the BCMS initiative.

One result of this initiative was that when an earthquake struck in May 2015, as they had drilled employees immediately turned off the machinery at their respective posts and gathered together in the designated location. External benefits included getting new orders because it was greatly reassuring to do business with a certified company, and the company's banks offering high praise for the initiative as a splendid undertaking.

Matsui had taken Doei's first steps toward obtaining the ISO22301 certification in October 2013, which was right around the time when they also began considering successor candidates and the implementation of a business continuity management system. It took six months, but that individual finally agreed to join the company. That person is now handling their duties as a member of the company.

Aluminum doors that are easily opened and closed in the event of emergency


A metal storage area outfitted with apparatus to prevent items from falling

12) "Model Projects for Improving Business Competitiveness based on New Management System Standards for Business Continuity and Their Application (Model Projects for Improving Business Competitiveness, Group category)," included in the supplementary 2012 budget. The program targeted 28 groups chosen through public subscription. The objective was for the groups to implement model initiatives that made strategic use of international standards such as ISO22301 Business Continuity and ISO50001 Energy Management and then determine and analyze the factors behind any successes.

Case 2-4-8 Japan Metal Stamping Association (JMSA)

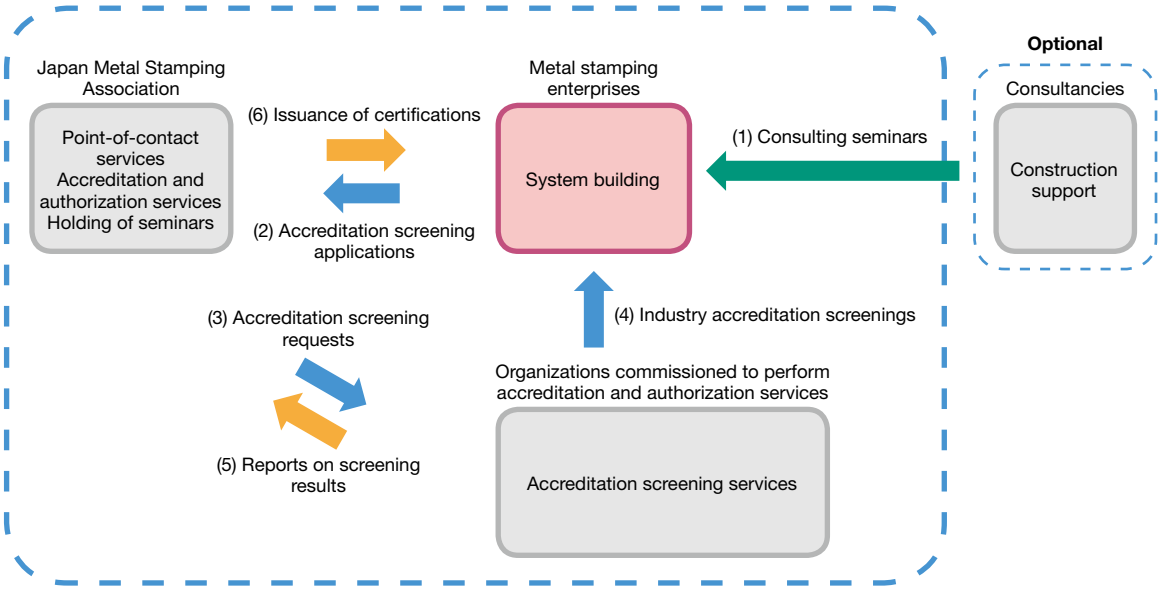
A trade association that creates tools for assisting in BCMS building and has set up its own qualification system

The Japan Metal Stamping Association (JMSA), based in Minato City, Tokyo, is a trade association comprising groups and enterprises that manufacture metal stamping products. Many of the association's members are located in regions where there are concerns about the effects of potential earthquakes along the Nankai Trough and the like. The JMSA made attempts to popularize BCMSs as a part of CSR activities, but the effort languished. At this point, the association applied to METI's commissioned project[13] program and undertook a BCMS propagation effort.

It began by putting together the tools an SME would need to construct a BCMS in a short period of time that would also be effective. As part of its project, the association got member companies to actually make use of the tools that had been put together and worked to get them to acquire ISO22301 certification as external recognition. One member company, Doei Industry Co., Ltd. (Isehara City, Kanagawa Prefecture) was selected as a model enterprise and was able to acquire ISO22301 certification in short order, taking less than half a year.

Also, the expenditures required for acquiring BCMS-related certifications from outside bodies are quite high, which represents a large burden for an SME. In light of this, the JMSA put together its own qualification system for assessing the effectiveness of a BCMS. Normally, getting an outsider certification in this area will require expenditures of close to ¥1 million to ¥2 million to cover inspections, consulting, and similar, but using the system the JMSA provides requires only ¥200,000 for the initial inspection and ¥100,000 for renewal inspections.

By putting together the tools to help an enterprise create its own BCMS and preparing its own qualification system, the association is providing its members with support for their own BCMS initiatives.



Outline of the JMSA's industry qualification system

13) Please refer to footnote 12 for details about the METI commissioned projects.

Case 2-4-9 Okayama Prefectural Industrial Promotion Foundation (OPTIC)

A support agency that provides enterprises in the prefecture with assistance in drafting BCPs, and promotes tie-ups between mainly model enterprises that have produced BCPs with enterprises in other regions

The Okayama Prefectural Industrial Promotion Foundation (OPTIC) is a support agency for corporations and enterprises located in Okayama Prefecture. The OPTIC is comprised of departments for general affairs, management support, and technical support; the SME Support Section in the Management Support Department is charged with projects to promote BCPs and BCMs.

Facing the Seto Inland Sea as it does, Okayama Prefecture had little experience of such disasters of earthquakes or tsunami. Even if they were aware of disaster prevention as an issue, local enterprises tended to not be aware of BCPs, let alone implemented one. For that reason, the OPTIC had limited its activities as a support agency in this area to holding seminars.

The Great East Japan Earthquake of March 2011, however, provided a spark that kindled interest in BCPs nationwide. With that, starting in fiscal 2012 the OPTIC began promoting and offering support for drafting BCPs to SMEs as a project commissioned by the prefecture. Specifically, the foundation held awareness-raising seminars. Five participating SMEs were then selected to be model enterprises and then given assistance on drafting BCPs that hypothesized the occurrence of a massive Nankai Trough earthquake. The BCPs they created were then posted to the foundation's website.

In fiscal 2013, the OPTIC shifted the thrust of its program from "a BCP is a plan for dealing with disasters" to "a BCP is a management strategy." The program's aim was to generate large numbers of companies with "profitable BCMs" by emphasizing the security of implementation and effectiveness in corporate activities and encourage taking on new services through cooperation among enterprises using business continuity as the entry point. Behind this move was the thought that enterprises would not be able to stay in business if they could not increase profits amid a changing management environment. Aside from this, the decision was also made to focus on assistance with implementing BCMs for the purpose of working toward BCPs that—rather than being simply plans for coping with disasters—work in tandem with management strategy in such initiatives as trans-area cooperative (corporate cooperative) BC.[14]

The OPTIC's undertakings in terms of trans-area- and corporate cooperation initiatives have included building an "In This Together" BC Cooperation Network that would provide a mechanism to stave off losing clients' orders by arranging for members to supplement one another in disasters, as well as providing support to group initiatives at the municipality level (with Setouchi City's effort providing the model) aimed at creating a town able to weather disasters and crises soundly through cooperation among enterprises, the local government bureaucracy, and the local assembly.

"In This Together" BC Cooperation

Among the enterprises that the OPTIC has assisted are ones that concluded "In This Together" BC Cooperation alliances with peer enterprises in other regions with the aim of providing for alternate production in times of disaster. Some of these companies as a result have gone on to make the most of those alliances on a regular basis in their work, while others have acquired external certification (ISO22301) for their BCMS to improve their effectiveness in emergencies, and still others have newly incorporated BC ideas in their existing networks of corporate alliances.

The OPTIC's BCP and BCM support initiatives have been well-received. They have won laurels four years in a row at the BCAO Awards[15] sponsored by the Business Continuity Advancement Organization: the Grand Prize in fiscal 2012, Honorable Mention in fiscal 2013, Special Award for Excellence in Execution in fiscal 2014, and Honorable Mention in fiscal 2015. Five of the companies the foundation has assisted have also won awards that put them on par with well-known major corporations and helped them to build networks with enterprises in other areas.

Chronology of BCAO Awards for OPTIC and Enterprises in the Prefecture

14) "BC" stands for business continuity.

15) Given to individuals and organizations that have contributed to or carried out the propagation of the BC concept in ways conducive to its spread throughout Japan.

Section 3 Information security risks

As Part II, Chapter 3 indicated, enterprises are actively implementing IT with such objectives as enhancing productivity. On the other hand, as society becomes increasingly information-based, the threats to information security have become more varied, including targeted attacks and unauthorized access from within. In January 2016, Japan introduced a social security / tax ID number system ("My Number"). As a result, organizations may possess a wide range of important information, including specific personal information. This makes security measures all the more important. In addition, information security troubles can cause damage both direct (such as loss of information) and indirect (loss of social credibility). Incidents threatening the business continuity of enterprises have also happened when those enterprises did not take appropriate measures. Therefore, enterprises need to be very thorough about security when they use IT.[16)]

Moreover, many enterprises see information security risks as risks that could endanger their business continuity, as Section 1 above showed. This section analyzes the current state of information security risks at SMEs and the issues that are involved.

1. State of information security

Concept of information security

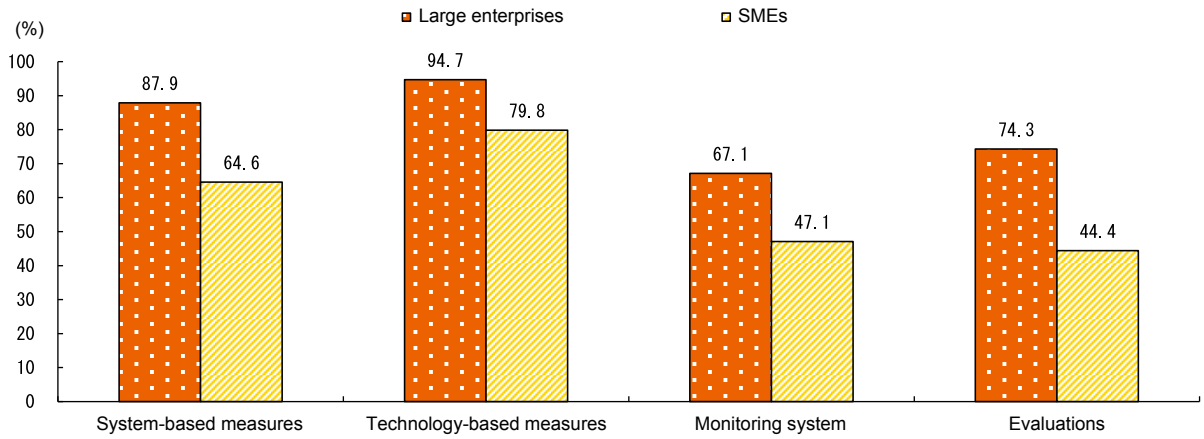
Information security is defined as "The act of maintaining the confidentiality, integrity, and availability of information.[17)] It may entail the authenticity, accountability, non-repudiation, and reliability of information."[18)] In other words, the important thing for enterprises is how to protect their trade secrets, personal information, and other information, and how to protect the information systems that handle that information. Moreover, the information that enterprises should protect is not just electronic but also printed information and even the products they manufacture. It is critical that the enterprise examine the characteristics of the information assets[19)] it possesses and take appropriate information security measures.

Information security measures

What is the status of measures taken to prevent information security troubles? Fig. 2-4-29 compares information security measures taken, by enterprise size. On the whole, SMEs had taken measures at a rate about 20% lower than in the case of large enterprises. Less than 50% of SMEs said that they had a "Monitoring system" (e.g., they had implemented security monitoring tools). It seems SMEs have not done much to take security measures.

16) 2015 revision of Japan Revitalization Strategy
17) "Availability" means that, when an authorized person wishes to use an asset under authorized conditions, that asset is ready to be used.
18) JIS Q 27001:2006
19) An "information asset" is something that has value as an asset and that the enterprise has selected as subject to control.

Fig. 2-4-29 Information security measures taken, by enterprise size

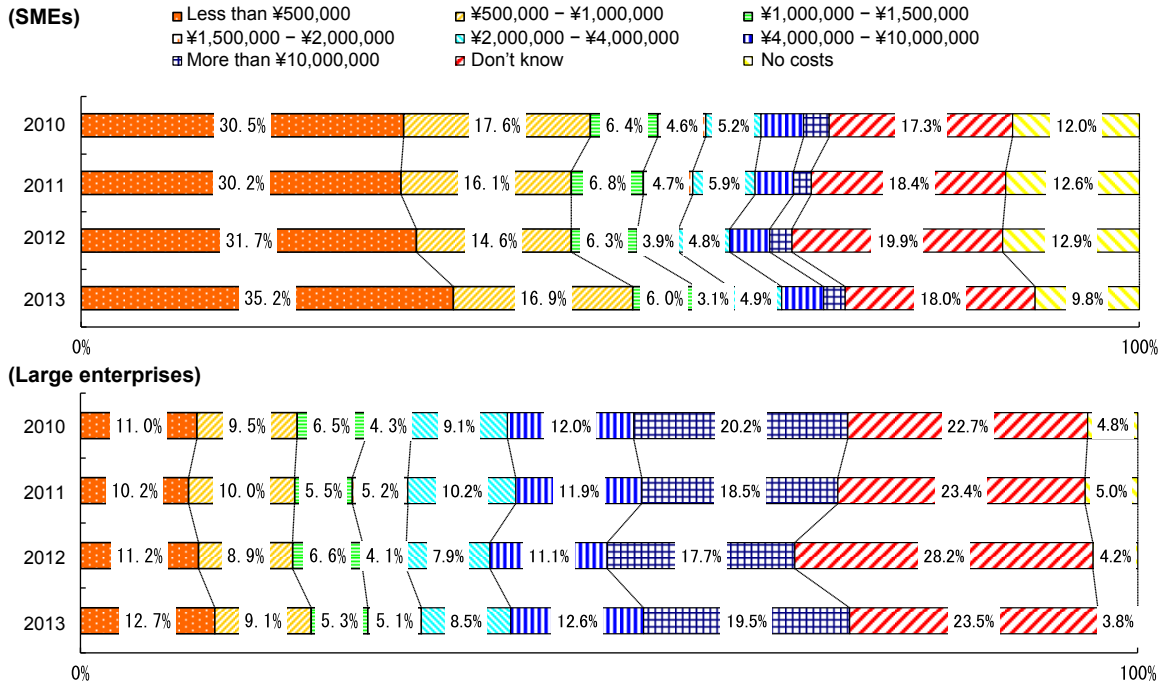


Source: Recompiled from METI, *Survey of Conditions in Information Processing*.
Notes: 1. The state of measures taken, by category, shows the total of those that answered "We have already taken" one or more measures in that category.
2. The following four items were presented as information security measure categories.
- System-based measures: risk analysis, establishment of security policy, specific measures based on an established security policy, writing an information security report, writing a BCP, appointing a company-wide security controller, appointing a security controller in each department, training employees in information security, checking implementation of information security measures at business partners, preparing / strengthening internal controls
- Technology-based measures: access control to important computer rooms, access control internally to important systems, data encryption, firewall against external connections, introduction of products with ISO/IEC 15408 certification, introduction of thin clients, introduction of biometric identification
- Monitoring system: introduction of security monitoring software, constant security monitoring by outside specialist
- Evaluations: use of information security measure benchmarks, periodic system audits by outside specialist, periodic system audits conducted internally, periodic information security audits by outside specialist, periodic information security audits conducted internally, periodic vulnerability diagnosis, periodic acquisition of vulnerability information, periodic analysis of access logs, acquisition of information security management system certification

Next, let's look at the trend in average per-company information security measure costs[20] each year (Fig. 2-4-30). At large enterprises, the most frequent answer was "Don't know," followed by "More than ¥10,000,000" (just under 20%). In contrast, at SMEs, the most common reply was "Less than ¥500,000" (35.2%), followed by "¥500,000 − ¥1,000,000" (16.9%). Here, information security measure costs include not only payments to external contractors but also costs of security training for employees, personnel costs, and so on. Therefore, there are many SMEs with low costs associated with taking information security measures.

20) "Information security measure costs," as used here, refers to costs for those information security measures that the enterprise takes. They include the cost of security training for employees, purchasing security-related equipment and software, payments to external parties (e.g., for services ordered), and internal costs such as personnel costs when enterprise staff conduct surveys, examinations, and measures.

Fig. 2-4-30 Trend in average cost per company for information security measures



Source: Recompiled from METI, *Survey of Conditions in Information Processing*.

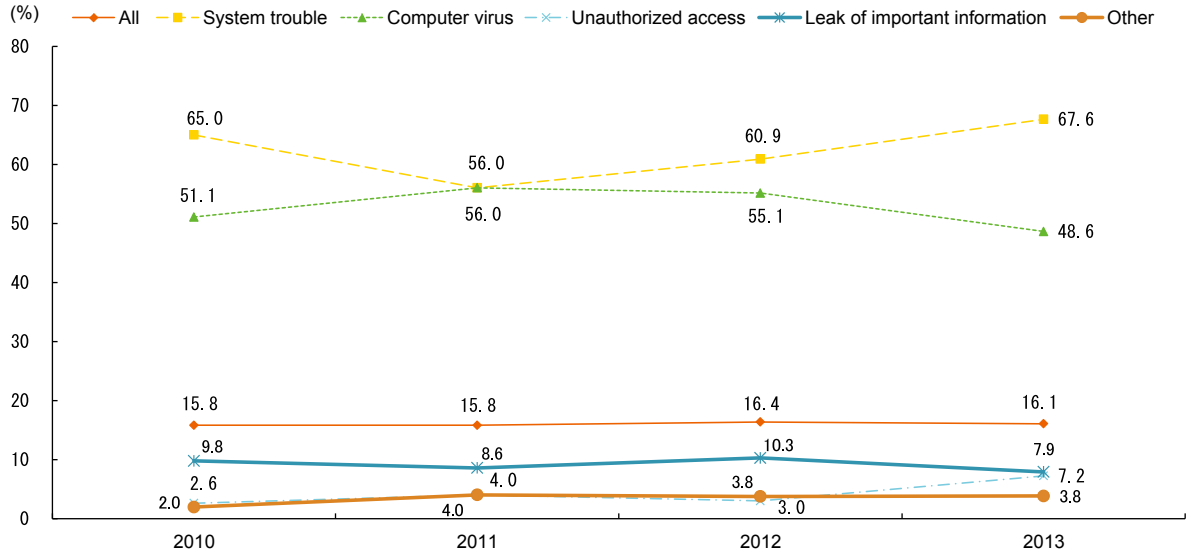
Incidence of troubles

What kind of information security damages actually occur at enterprises? Fig. 2-4-31 shows the rate at which information security troubles[21] occur at SMEs. The incidence of information security troubles overall was 16.1% in the most recent year, meaning there was trouble at about one company in six. Next, looking at the trends by category, "System trouble" rose 6.7 points over the previous year to 67.6%. "Unauthorized access" rose 4.2 points to 7.2%. On the other hand, the incidence of "Computer virus" declined 6.5 points to 48.6%. Although the damage caused by computer viruses declined, about half of all enterprises had taken some damage. Enterprises need to be very thorough in taking basic measures like installing antivirus software and periodically updating it.

A breakdown of the most common types of trouble experienced showed that for "System trouble," "System shut down by internal factors" was to blame in 48.9% of all cases of trouble. As for "Computer virus," the cause was "Virus caught from web site" in 23.5% of all cases (Fig. 2-4-32).

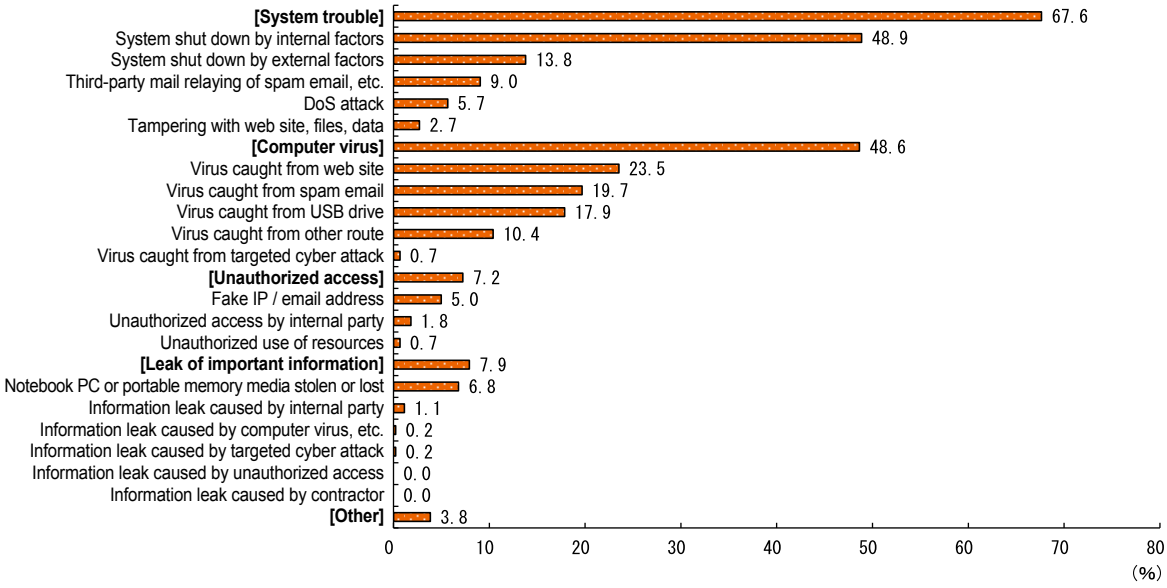
21) "Information security troubles" refers to any loss of information confidentiality, integrity, or availability.

Fig. 2-4-31 Incidence of information security troubles at SMEs, by category



Source: Recompiled from METI, *Survey of Conditions in Information Processing*.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The incidence of troubles, by category, shows the percentage of enterprises that answered they had had one or more troubles in that category.

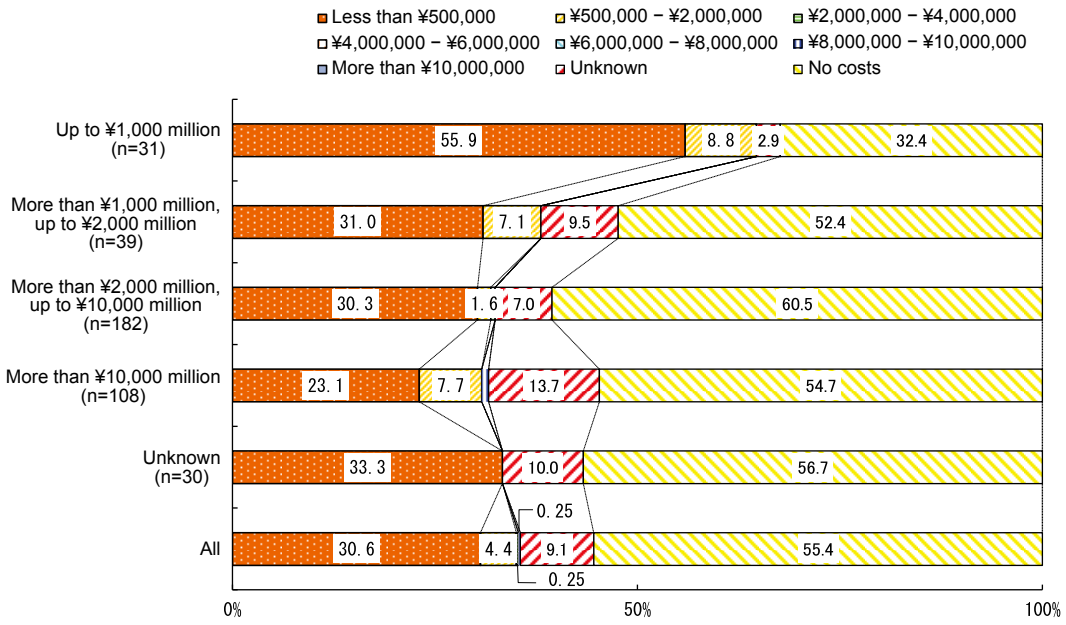
Fig. 2-4-32 Incidence of information security troubles at SMEs, by type of trouble



Source: Recompiled from METI, *Survey of Conditions in Information Processing*.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The incidence of troubles, by category, shows the percentage of enterprises that answered they had had one or more troubles in that category.

Next, let's look at the cost of damages at SMEs where information security troubles had occurred (Fig. 2-4-33). Damage had occurred at 35.5% of enterprises overall. Asked for the costs of the damages, enterprises most commonly said "Less than ¥500,000" (30.6%). Looking at the incidence of damage by sales, 64.7% of enterprises with sales of up to ¥1,000 million had taken some damage. The smaller the scale of sales, the more likely the enterprise took some damage. Enterprises with small-scale sales need to take adequate countermeasures, because even damages with a relatively small cost can impact management.

Fig. 2-4-33 Cost of damages from information security troubles at SMEs, by sales

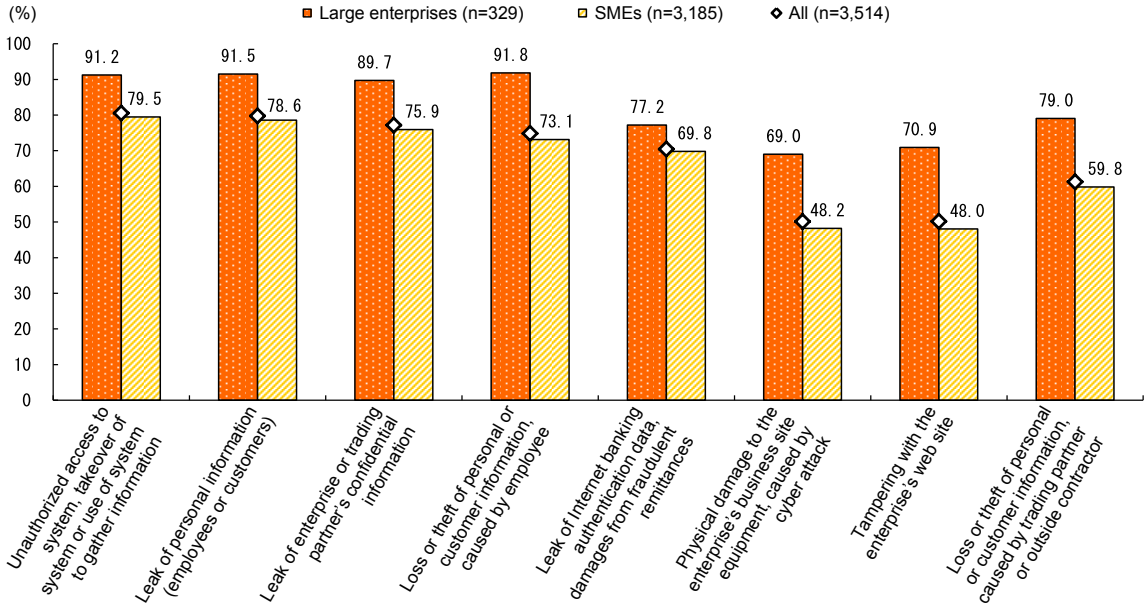


Source: Recompiled from METI, *Survey of Conditions in Information Processing*.
Note: Cost of damages does not include such damages as system disruptions, etc., caused by earthquake.

Anticipation of information security troubles

Fig. 2-4-34 shows the percentage of security troubles anticipated by enterprises in their handling of information in their businesses. It shows that, on the whole, SMEs anticipate security troubles at a lower rate than large enterprises do. The most common answer from SMEs (79.5%) was "Unauthorized access to system, takeover of system or use of system to gather information," followed by "Leak of personal information" and "Leak of enterprise or trading partner's confidential information." This reveals that leaks of important information are seen as a big risk.

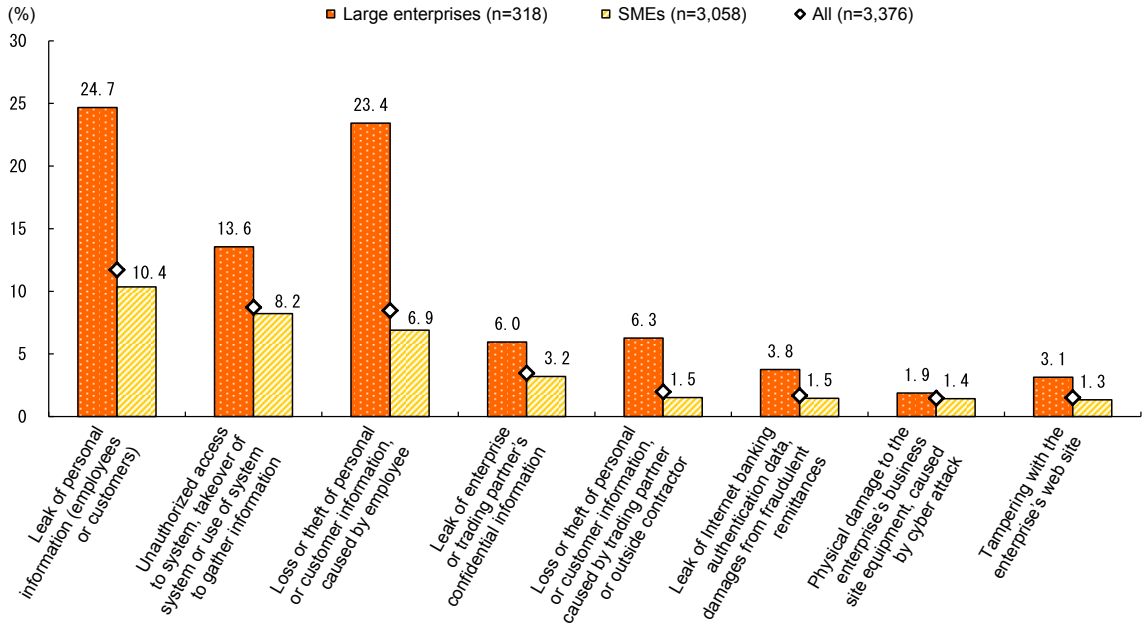
Fig. 2-4-34 Anticipated information security troubles



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Looking at the nature of information security troubles that have actually occurred, relatively many SMEs mentioned "Leak of personal information" (10.4%) and "Unauthorized access to system, takeover of system or use of system to gather information" (8.2%) (Fig. 2-4-35). While "Physical damage to the enterprise's business site equipment, caused by cyber attack" and "Leak of Internet banking authentication data, damages from fraudulent remittances" did not occur at a high rate, there were a certain number of such cases, which have the potential to cause great damage. Care must be taken regarding cases like these.

Fig. 2-4-35 Information security troubles that have actually occurred

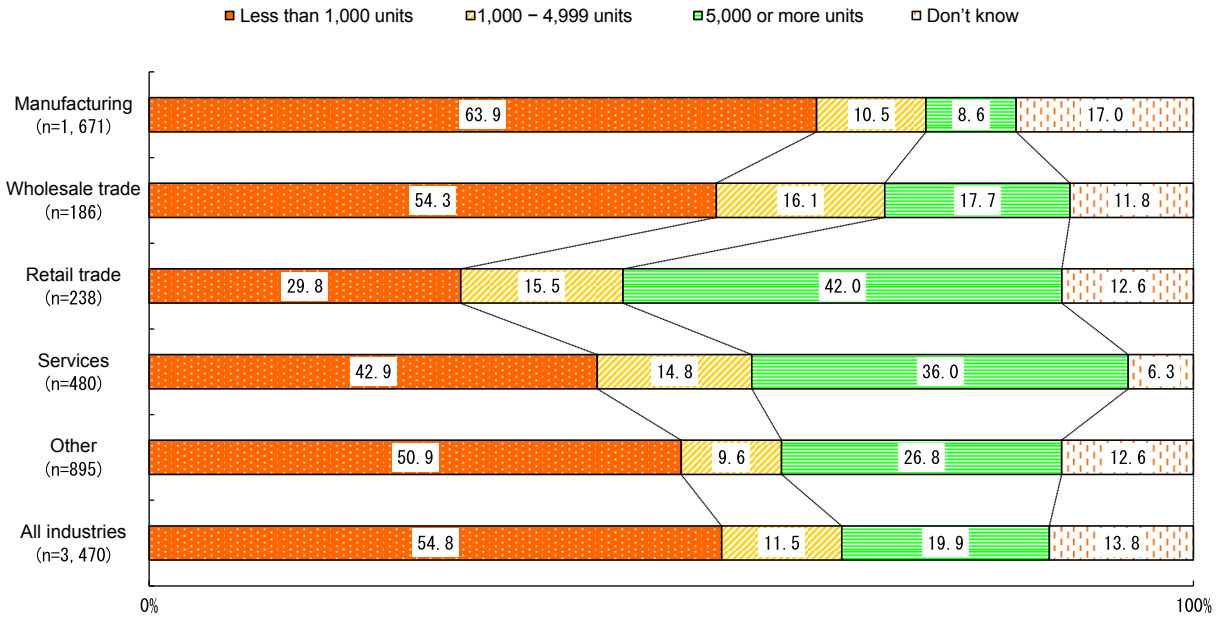


Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Scale of personal information handled

Fig. 2-4-36 shows the number of units of personal information handled by businesses annually, by industry sector. Overall, the most common answer was "Less than 1,000 units" (54.8%), followed by "5,000 or more units" (19.9%). The retail trade is a sector that handles a large amount of personal information, with 42.0% of enterprises there answering "5,000 or more units." When the Act on the Protection of Personal Information was revised,[22] the scope of business operators handling personal information grew[23] to include those who keep a database[24] and handle information for less than 5,000 individuals. These businesses[25] have to practice stricter personal information management.

Fig. 2-4-36 Number of units of personal information handled, by industry



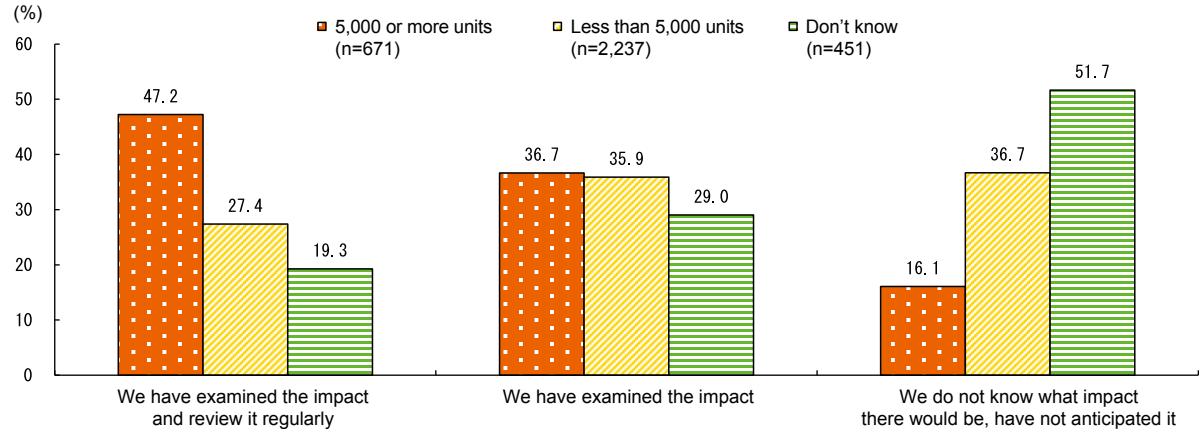
Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Examination of information security risks before they emerge

To what extent do enterprises examine the impact of information security troubles in advance? Fig. 2-4-37 shows the status of examination of impact if an information security risk were to emerge, by amount of personal information handled. The percentage of enterprises that answered "We have examined the impact and review it regularly" was 47.2% among the group that handled "5,000 or more units" of personal information, 27.4% among those handling "Less than 5,000 units," and 19.3% of those answering "Don't know." This indicates that enterprises that handle fewer units of personal information, and those that do not know how many they handle, have not adequately anticipated in advance the damage they might sustain.

22) Enacted September 3, 2015 and promulgated September 9, 2015.
23) Prior to the revision, businesses handling less than 5,000 units of personal information were not considered business operators handling personal information.
24) A collection of personal information, systematically structured so that specific personal information can be searched. The regulations apply whether the information is kept on paper or electronic media.
25) Regardless of whether the business is for-profit or not-for-profit. Includes sole proprietors.

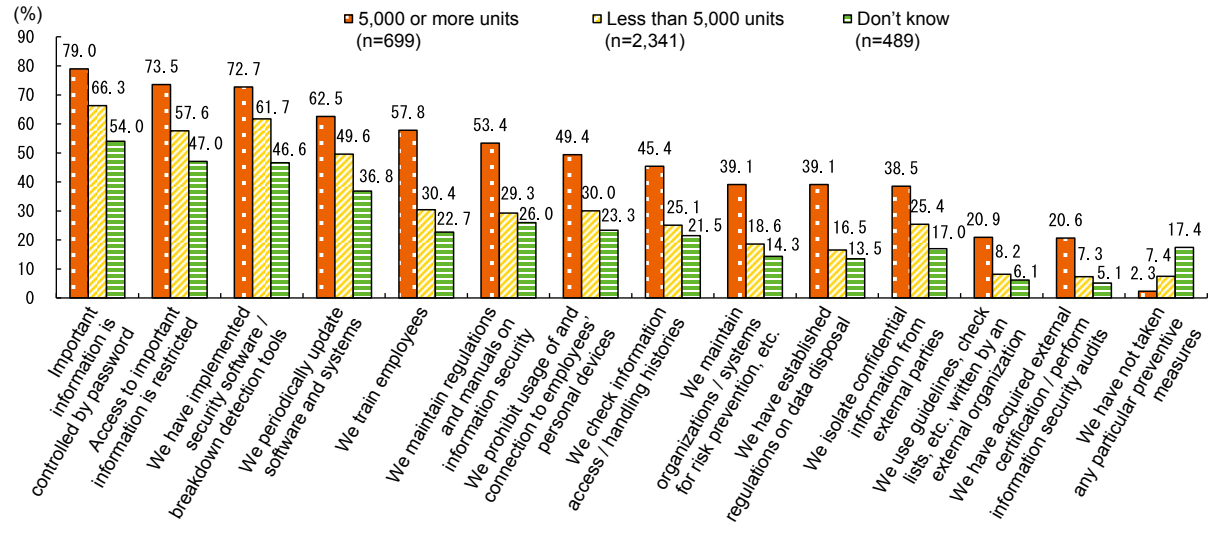
Fig. 2-4-37 Status of examination of impact if an information security risk were to emerge, by amount of personal information handled



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.

Fig. 2-4-38 shows the status of preventive measures taken for information security, by amount of personal information handled. Even enterprises that handle "5,000 or more units" of personal information (i.e., those business operators handling personal information under the Act on the Protection of Personal Information even before it was revised) have not necessarily done enough. For example, just 62.5% said "We periodically update software and systems" and only 39.1% said "We have established regulations on data disposal." Moreover, on the whole, those enterprises handling "Less than 5,000 units" and those answering "Don't know" have not gotten far with their preventive measures. There is a particularly significant gap for the items "Access to important information is restricted" and "We train employees."

Fig. 2-4-38 Status of preventive measures taken for information security, by amount of personal information handled

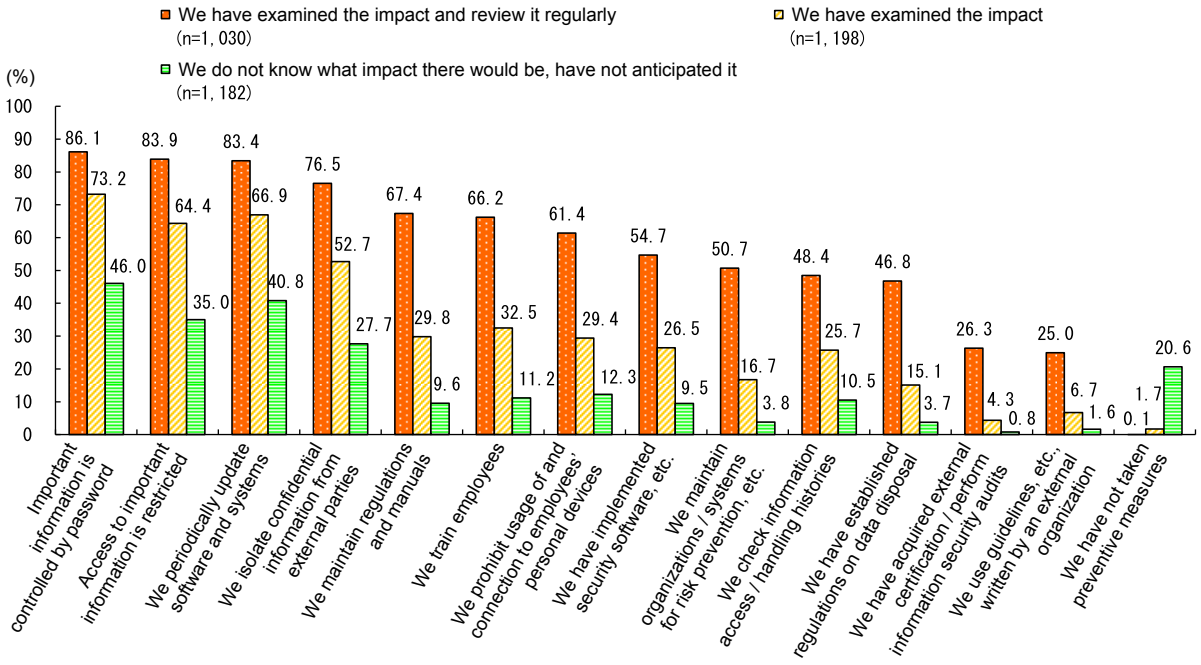


Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Next, let's compare the respondents' answers on the status of preventive measures they have taken for information security, by whether or not they have examined the impact if information security risks were to emerge (Fig. 2-4-39). Enterprises that had not examined the impact of information security risks were behind

in taking important but relatively inexpensive security measures like “Important information is controlled by password” and “We train employees.” The above results show that enterprises handling less than 5,000 units of personal information did not prioritize security measures in their management and had not made much progress on them, since many had not examined the impact of information security troubles and had not anticipated the damage if security troubles were to occur.

Fig. 2-4-39 Status of preventive measures taken for information security, by status of examination of risk impact



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-4-10 Hospitality One Co., Ltd.

A home care services startup seeking to develop its business with a strength in an information security structure that takes its industry to a new level

Hospitality One Co., Ltd. (employees: 30; capital: ¥5 million), based in Minato City, Tokyo, was founded in 2008 as a company providing home care services not covered by long-term care insurance system. The company provides home care services mainly to clients in their terminal phase, and among its duties handles sensitive personal information including such medical information as patient case records. Handling personal information by fax is commonplace in the industry. Sending faxes to the wrong number is a frequent occurrence, an experience that Hospitality One, too, has had. The company took the misdelivery incident quite seriously, and decided to launch an initiative to beef up information security by creating mechanisms that would prevent it from recurring.

It had been proactive when it came to dealing with such labor management problems as the issue of work-life balance and with formulating a BCP, and so now to address this new concern the company decided to take advantage of the support system available in Minato City and work to qualify for a PrivacyMark certification from JIPDEC (previously known as Japan Information Processing and Development Center). As part of the City's program to provide assistance in initiatives to acquire ISO and other certifications, applicants can receive financial support to cover half (up to ¥500,000) of the costs related to applying, screening, registering, and hiring consultants. The thinking at Hospitality One was that qualifying to use the PrivacyMark would also function as a "proactive" element that would help the relevant government personnel and patients feel secure that this was a company operating at a high level when it came to information security. There are very few home care stations around the country that have qualified for the PrivacyMark.

President Kei Takamaru explains, "Getting the PrivacyMark is one means of improving the level of information security. The process leading up to getting it is itself important." As the company approaches its 8th anniversary, the feeling at Hospitality One is that this process is linked to creating a corporate culture. The process of assigning staff to the task and having them check internal regulations and procedures of all sorts alerted those personnel and their peers to the information security-related risks the company faces and raised awareness among employees about the issue.

With home care businesses that use ICT services for distance care and the like poised to grow, Hospitality One believes that the fact it is working to acquire the PrivacyMark will enhance its attractiveness as a care provider. Furthermore, President Takamaru has getting the company publicly listed on his mind, and in that event believes that such a development would help its case as a means of solidifying the company's structures.

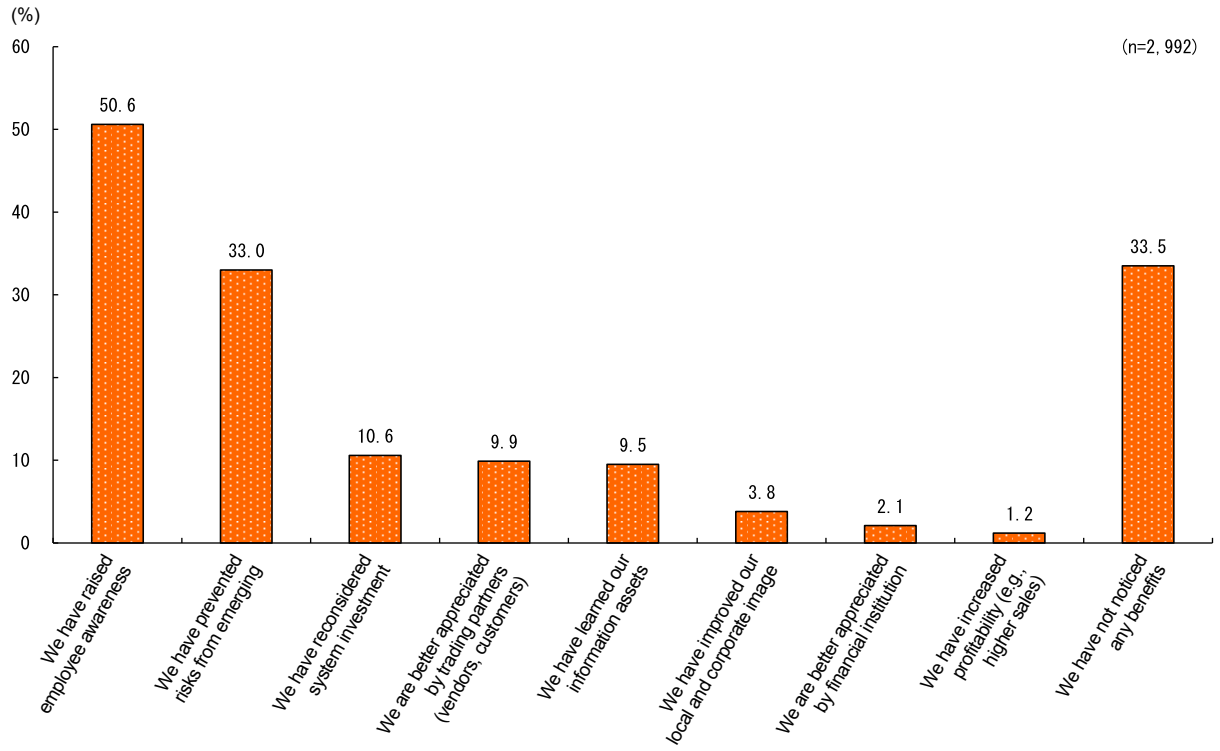
Documents related to information security

2. Benefits of and issues with information security measures

Benefits of information security measures

What benefits can enterprises derive by working on information security? According to Fig. 2-4-40, the most common answer was "We have raised employee awareness" (50.6%), followed by "We have prevented risks from emerging" (33.0%). In addition, about 10% of respondents chose answers that reflect an increase in corporate value, namely "We have reconsidered system investment" and "We are better appreciated by trading partners." On the other hand, about 30% said "We have not noticed any benefits."

Fig. 2-4-40 Benefits of preventive measures taken for information security

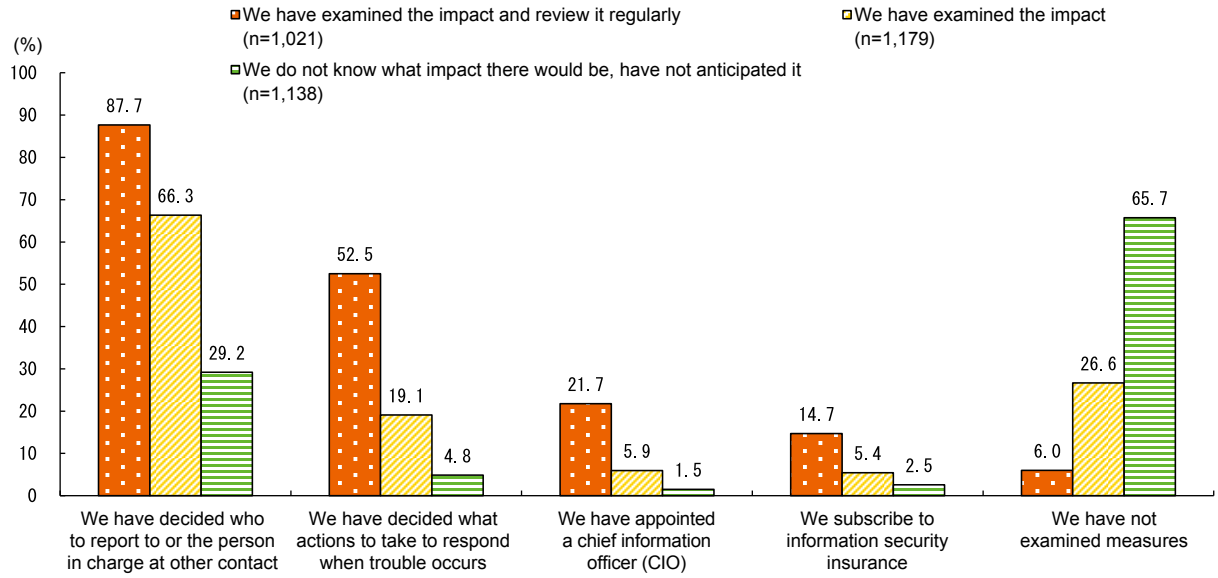


Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Issues with information security systems

Fig. 2-4-41 compares the respondents' answers on measures they have taken for when information security trouble occurs, by whether or not they had examined the impact if an information security risk were to occur. Enterprises answering "We have examined the impact and review it regularly" were more likely to have taken measures. Of those answering "We do not know what impact there would be, have not anticipated it," 65.7% said "We have not examined measures." The results show that enterprises that have not anticipated the damage from information security troubles are more likely to be behind in dealing with measures to take when security trouble happens.

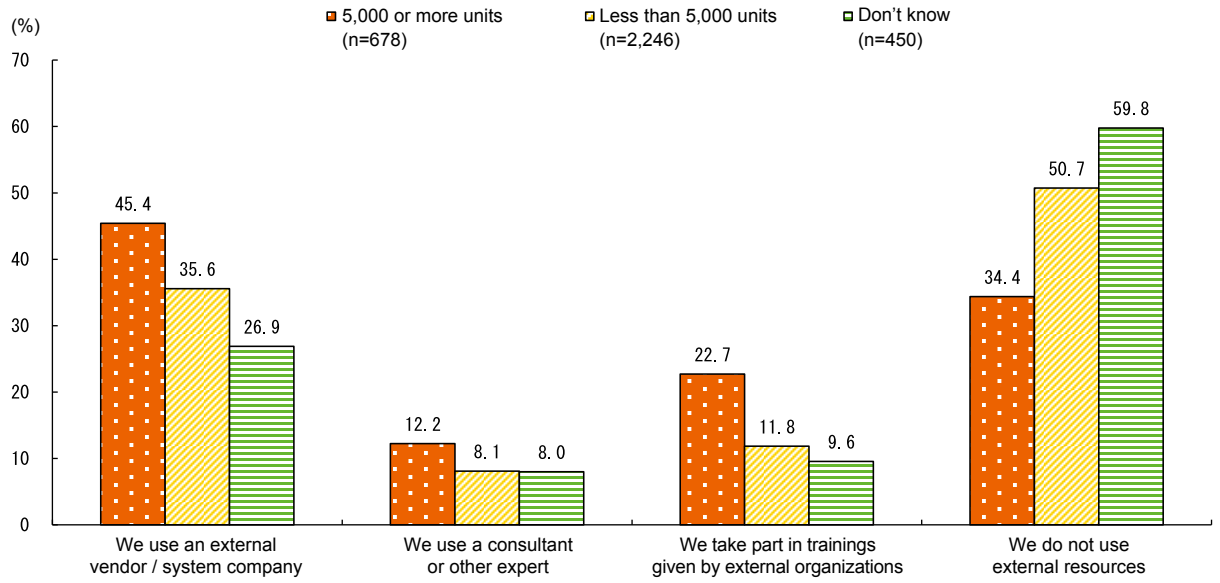
Fig. 2-4-41 Measures for when information security trouble occurs, by status of examination of risk impact



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-4-42 shows what kind of external resources the respondents had used for information security, by amount of personal information handled. Of those enterprises handling 5,000 or more units of personal information, nearly 50% responded “We use an external vendor / system company,” while 22.7% said “We take part in trainings given by external organizations.” On the other hand, enterprises handling less than 5,000 units of personal information and those that did not know how many they handle were making little use of external resources on the whole. More than 50% said they were not using such resources, but it is important to make good use of such resources to make sure that security measures are taken efficiently.

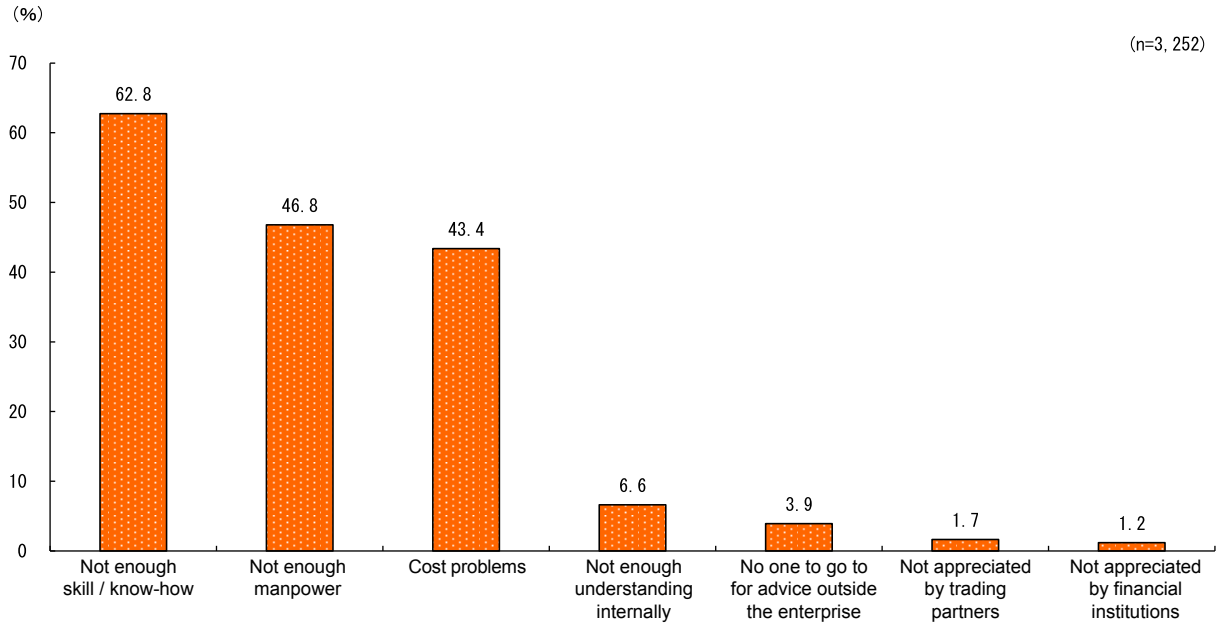
Fig. 2-4-42 Status of usage of external resources, by amount of personal information handled



Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Next, let's look at the issues with enterprises' information security systems (Fig. 2-4-43). The most commonly mentioned issue was "Not enough skill / know-how" (62.8%), followed by "Not enough manpower" and "Cost problems" (each just under 50%). This shows that enterprises are strongly aware of their lack of information on how to proceed with measures and their lack of management resources to carry out those measures.

Fig. 2-4-43 Issues with information security system



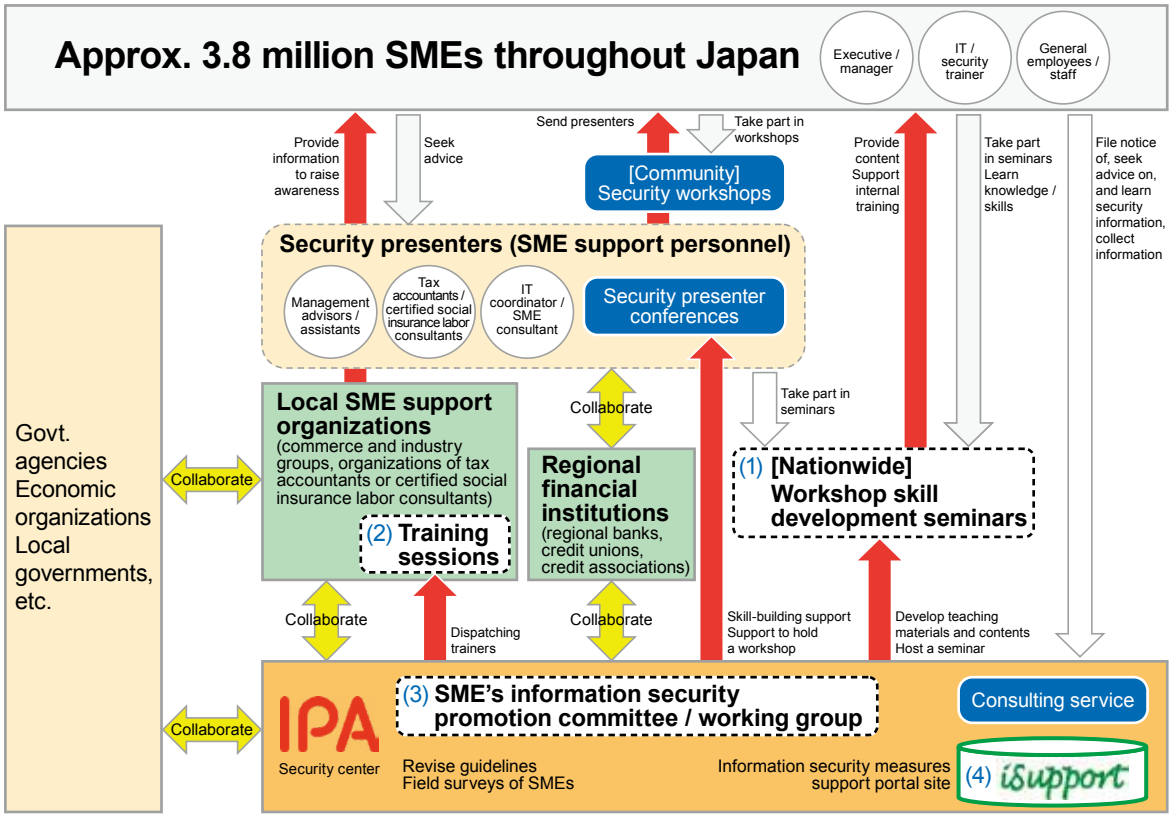
Source: Mizuho Research Institute, Ltd., *Survey on Risk Management Initiatives at SMEs* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

This section has looked at the information security measures at SMEs. It has demonstrated that SMEs, especially businesses that handle few units of personal information, have little awareness of the impact of information security risks and are behind in taking security measures. Taking measures for information security is a management issue that enterprises cannot avoid if they are going to use IT. Managers need to be aware of this and provide the strong leadership for their enterprises to take measures as an organization. However, many enterprises sense that a lack of know-how and management resources is a problem if they are to take information security measures. Therefore, it is hoped that these enterprises too will actively use external resources and programs available from support organizations to promote information security measures and use IT to build stronger enterprises.

Column 2-4-5 Information security promotion awareness raising

The Information-technology Promotion Agency, Japan (IPA) offers awareness-raising content and seminars for SMEs across Japan to support their initiatives for information security.

Fig. Column 2-4-5 Overview of information security promotion awareness raising



(1) Conduct seminars and conferences throughout Japan to strengthen development of experts, so that these individuals gain the practical knowledge needed to implement and support information security measures at SMEs.
(2) Send information security instructors free of charge to training courses held by regional SME support organizations.
(3) Revise the "Guidelines for Systematic Information Security Measures at SMEs," conduct field surveys to learn conditions at SMEs, and give direct instruction.
(4) Strengthen the functions of the "iSupport" portal site, which offers a wide selection of information security content and tools to support SMEs.

Case 2-4-11 AZ-COM Data Security Co., Ltd.

A company that has increased sales by obtaining external certification for information security and actively investing in both tangibles and intangibles

AZ-COM Data Security Co., Ltd. (employees: 60; capital: ¥50 million), based in Chichibu City, Saitama Prefecture, as a fully-owned subsidiary of Maruwa Unyu Kikan Co., Ltd., is involved in comprehensive document management services and business process outsourcing. The company provides comprehensive document management services covering both analog (document preservation and delivery, as well as erasure of confidential information therein) and digital (electronic deliverables produced by data conversion using OCR[26] technology, as well as on-demand electronic data and image distribution services) needs.

AZ-COM does much business with financial institutions, and its efforts at acquire certifications, investing in facilities, and monitoring on-site conditions have also had a great impact on how it is viewed. It is evident from this that the company has created a sophisticated security structure. The Chichibu No. 3 Security Center is the company's primary facility for financial institutions. The facility was put up as a prior investment matched to specifications geared to such customers, and so the company acquired the ISO27001/JIS Q27001[27] certification for it. The building itself has the same construction as a data center, but the company invested approximately 1.5 times as much as it would for a normal depot for earthquake- and fire-resistant equipment as well as such internal fixings as fiber optic circuitry and security cameras. Furthermore, aside from such tangibles, the company also put together a business process that includes double- and triple-checking and to prevent human error instituted bans on staff bringing in such personal items as mobile phones and from using paper and labels. For example, when a staff member wishes to make notes they are allowed to write only on the white board the company supplies them with and from time to time have to erase those notes that are no longer needed. These measures served both to highlight for customers the company's information security structures while also protecting its employees. AZ-COM's investments in facilities and information security initiatives have had advantageous effects, and its sales have increased in recent years.

Furthermore, for purposes of introducing the PDCA cycle to its information security work, AZ-COM decided Security Risk Reports would be submitted whenever a close call[28] occurred. The process entails a report being submitted from the individual or unit concerned. The personal information protection manager and chair of the information security committee (who is also on the board of directors) would add their comments to it and then return it to the original reporter for review. Three minor incidents occurred in 2015 that were reported in this fashion, and each was quickly remedied. The company also tests employees on information security every year, and if there is a change in its systems it holds impromptu training sessions on a case-by-case basis.

Many enterprises in AZ-COM's industry have already qualified for JIPDEC's PrivacyMark, and in some cases they have been requested by business partners to acquire an ISMS certification as well. Management of external consignors has an important place among such initiatives. The recipients of outside consignment might be limited to enterprises that have the PrivacyMark, and when they do start doing business their partner might monitor facilities investments, the installation of security cameras, and the like.

AZ-COM's advanced initiatives in information security are being pursued in group companies as well, and the company has taken on the role of providing guidance to those companies on acquiring the ISMS certification and to affiliates on qualifying for the PrivacyMark.

Chichibu No. 3 Security Center

White board for taking memos

26) OCR stands for optical character recognition.

27) ISO27001 is an international standard for information security whose requirements include protecting information assets from various threats and creating a comprehensive Information Security Management System (ISMS) for mitigating risk. JIS Q27001 is the corresponding domestic standard.

28) A "close call" in this context means an incident that did not develop into a major disaster or accident, but was discovered at the brink of one unsurprisingly even if connected.

Case 2-4-12 COMIT Co., Ltd.

A company that acquired external certification in information security on its own, improved the way outsiders saw it, and is aiming to develop further

COMIT Co., Ltd. (employees: 42; capital: ¥40 million), based in Minato City, Tokyo, was established in 2003 by President Akihiko Tenma as a company involved in the development and operation of information systems as well as the planning, development, and sales of information security services. It began to hire new university graduates in 2007, and today as it reaches its 13th anniversary its workforce has grown to 42 employees. The company has a culture of willingness to try anything by itself. For example, when it was ready adopt a thin client service, it looked into purchasing one from a major vendor but turned around and developed one itself when it saw the costs were forecast to be higher than expected. Today, that service it developed in-house is at the point where the company is ready to put it on sale as a product.

In light of its business continuity philosophy of wanting to protect the company for its employees and of the fact that it provided services to financial institutions, COMIT reached the point where it decided it would seek to qualify for the PrivacyMark as a way of boosting its credibility. Tenma himself took the lead in this initiative. He had frequently observed companies that went bankrupt after information leaks, and was of the view that his company must be protected.

Since he knew nothing at first about how outside certifications were acquired, he asked a consulting company to handle it. However, their work was limited to a perfunctory assembly of documents. That approach was limited to acquiring the certification, and Tenma decided this would not lead to the business continuity issue that was his real intent. Consequently, he decided the effort would be handled in-house. In this instance, he thought it important that the company carry out the initiative with realistic expectations. The idea was to look closely in turn at the rules and stipulations laid out in the PrivacyMark framework, the Personal Information Protection Act, and with respect to information security management system (ISMS) certifications and similar, and clarify which ones exactly were relevant to the company. Specifically, he set aside those stipulations that did not apply, considered which initiatives were possible, and then sorted out the work. He got his employees to focus on the positive effects in seeing how the initiative was tied to COMIT's future as a company as they learned what they were capable of by carrying it out. He encouraged an approach that was open to communication and maintaining positive thinking. Use of the PDCA cycle that was put together in these information security-directed efforts was expanded to all management activities, leading to other initiatives such as the general affairs and accounting departments also putting together annual plans and reassessing situations where problems had been discovered during the process executing those plans. All this was linked to management improvements. In the end, the company qualified in 2008 to use the PrivacyMark, and in 2012 acquired an ISMS certification.

COMIT's initiative had an impact on other companies, as well. The things that employees from partner companies learned at COMIT were well-received back in their home company workplaces, and executives at other enterprises in the industry were prompted by what they heard about COMIT to obtain ISMS certification for their own businesses.

"A small company like ours has to be known for its technical capabilities, work methods, and the low risk it presents or potential clients will not choose it," says Tenma, whose aim now is to expand his company's business by raising its profile so its information security initiatives are readily visible for all to see.

Employees at an in-house training session

Chapter 5

Financing to support growth in SMEs

As we have seen in previous chapters, it is important that SMEs tolerate some risk and invest in growth with the aim of cultivating sales channels and improving productivity, thereby stimulating growth in Japan's economy as a whole. And because it is vital that funding be supplied to finance this growth investment by SMEs, in this chapter we focus our analysis on the financial institutions that are the principal funding suppliers for this sort of growth investment by SMEs.

Section 1 Changes in the structures of funding circulation

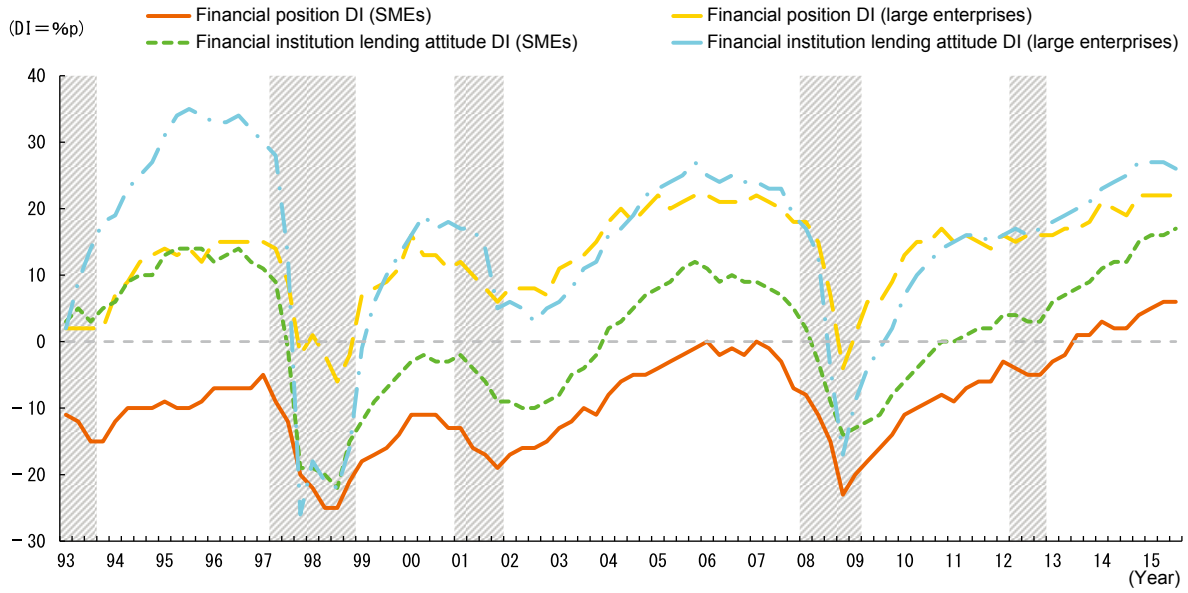
In this section, we take a medium- and long-term perspective on the changes to the funding procurement structures used by SMEs, and look at the changes in the economic environment and the changes to the supply of funding by financial institutions resulting from the changes in the way those financial institutions deal with the growing disparities in the profitability of enterprises.

1. Transitions in funding procurement structures according to enterprise size

Trends in cash-flow and ease of borrowing DI from financial institutions by enterprise size

When we look at the cash-flow situation for enterprises since the collapse of the bubble, shifts in the financial position DI for both SMEs and large enterprises have generally followed the economic cycles (Fig. 2-5-1). While the financial position DI of large enterprises have been in positive territory if we exclude the recessionary phase, the financial position DI of SMEs have rarely been positive, even during period of economic expansion, and the situation for SME cash-flows has generally been dire compared with large enterprises. The lending attitude DI for financial institutions has also followed a similar trend to the economic cycle, and the feeling among SMEs is that borrowing from financial institutions is more difficult for them than for large enterprises.

Fig. 2-5-1 Cash-flow and ease of borrowing from financial institutions by enterprise size



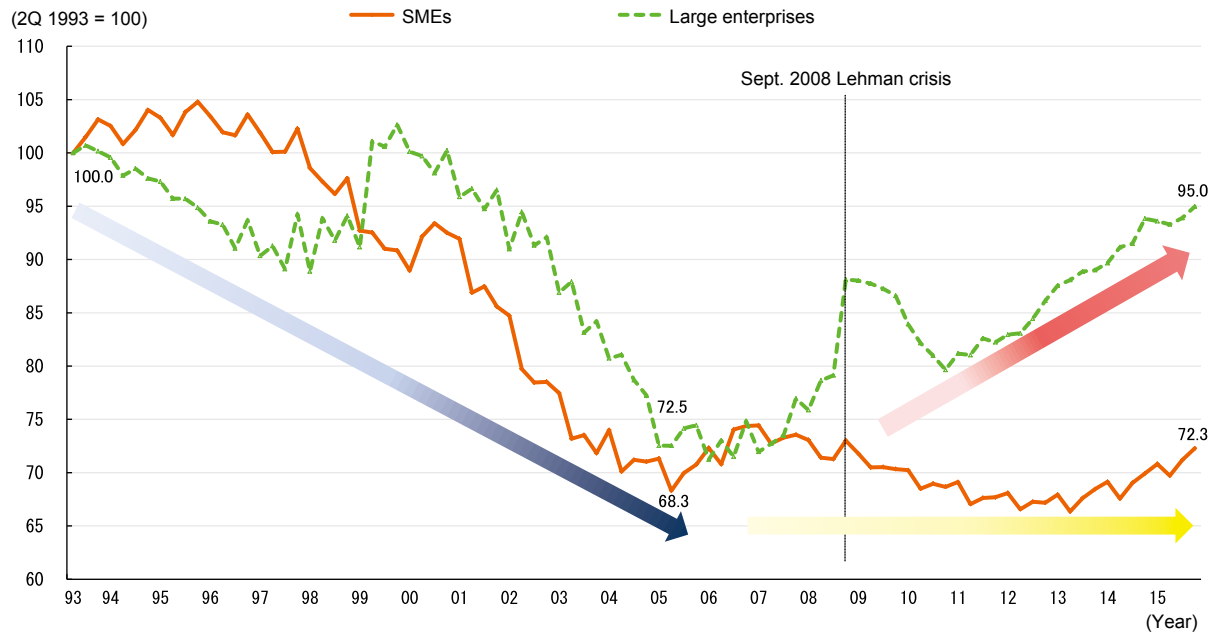
Source: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan).
Notes:
1. Large enterprises here refer to enterprises with capital of ¥1 billion or more, and SMEs refer to enterprises with capital of ¥20 million or more and less than ¥100 million.
2. The financial position DI was calculated by taking the proportion (%) of enterprises who responded that their recent cash-flow situation was “Comfortable” and subtracting the proportion (%) who responded “Difficult”.
3. The financial institution lending attitude DI was calculated by taking the proportion (%) of enterprises who responded that recent financial institution attitudes to lending were “Generous” and subtracting the proportion (%) who responded “Strict”.
4. The shaded sections of the graph indicate periods of economic recession based on the business cycle reference dates from the Cabinet Office.

Trends in borrowings according to enterprise size

Fig. 2-5-2 shows the total amounts of money lent to enterprises by Japanese banks according to enterprise size. Taking the second quarter of 1993 as a reference, loans to both SMEs and large enterprises shrank significantly during the period from the collapse of the bubble to the mid-2000s, decreasing around 30% by the middle of the 2000s. After that point, total loan amounts differ by enterprise size, with large enterprises weathering the turbulence of the Lehman crisis to move into a generally growing trend, paving the way for a recovery to 1993 levels. After the Lehman crisis, SMEs generally declined and their recovery stalled, leaving them no higher than their peaks of the mid-2000s, despite the underlying growth trends during the economic expansion phase.

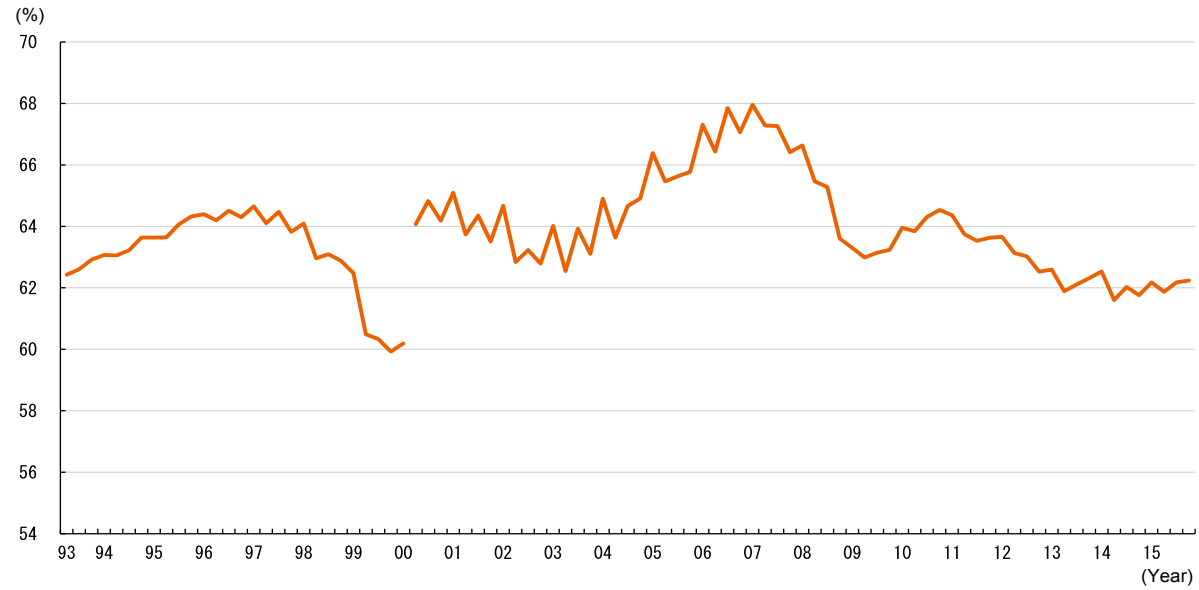
If we also consider the trends in the proportion of SMEs as recipients of corporate loans from Japanese banks, the ratio for loans to SMEs increased in the mid-1990s before declining either side of the financial system instability in the late 1990s. Subsequently, it again increased in the mid-2000s, peaking in 2007 before it again went into decline and then leveled off (Fig. 2-5-3).

Fig. 2-5-2 Trends in loans from financial institutions by enterprise size



Source: BOJ, *Monthly Report of Recent Economic and Financial Developments*.
Notes: 1. Loans include trust and overseas accounts.
2. Totals are only for Japanese banks.
3. Figures shown in the graph are for 2Q 1993, 2Q 2005 and 4Q 2015 respectively.

Fig. 2-5-3 Proportion of corporate loans given to SMEs



Source: BOJ, *Monthly Report of Recent Economic and Financial Developments*.
Notes: 1. Totals are only for Japanese banks.
2. Because the range of applicable enterprises changed markedly under the revisions to the Small and Medium-sized Enterprise Basic Act, there is a discontinuity between March 2000 and the subsequent period.

Trends in leveraging and the ratio of borrowings as a multiple of monthly turnover

Next, we look at the effects of these shifts in the provision of financing on the degree of leveraging in enterprises and their ratio of borrowings as a multiple of their monthly turnover.

(1) Leveraging (Fig. 2-5-4)

Leveraging indicates the ratio of borrowings as a proportion of total assets and shows the extent to which the assets owned by an enterprise are dependent on loans. The higher the amount of leveraging, the greater the burden imposed by loan repayments, which can increase the negative impacts on cash-flow. Interest rate rises can also increase the amount of interest paid and heighten the risk of cost increases. Conversely, improvements in the ratio of equity to total assets due to factors such as increased profits will reduce the amount of leveraging. In this way, leveraging is used as an indicator of the overall health of an enterprise.

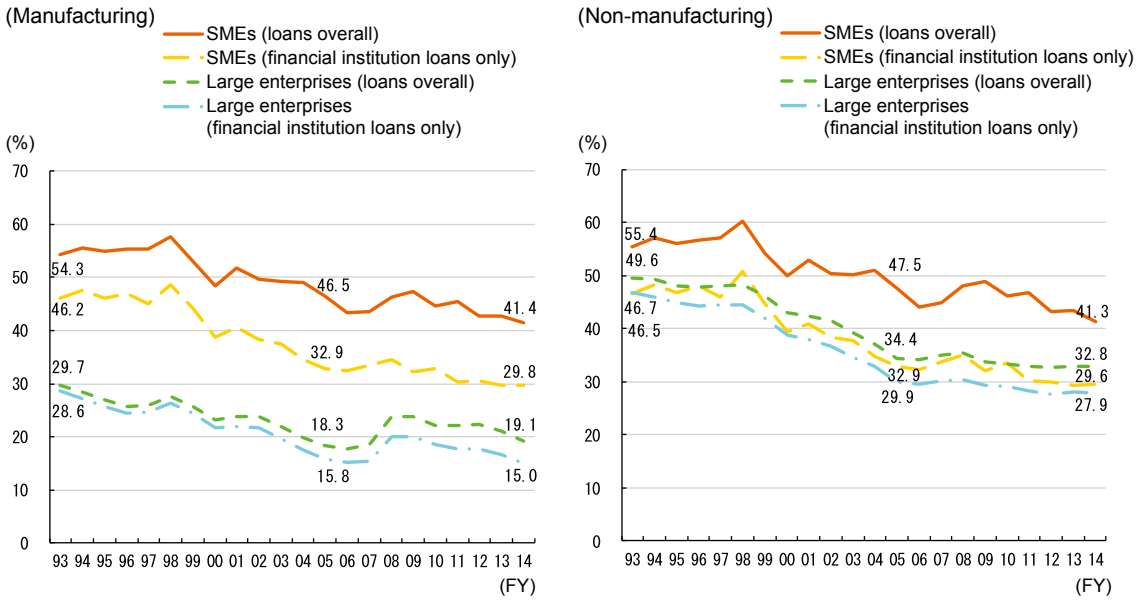
Looking specifically at the manufacturing industries, SMEs in manufacturing tend to have higher rates of leveraging overall than large manufacturing enterprises. Looking at the trends, both large enterprises and SMEs show a slight downward trend, with an upward trend between 2007 and 2009 that later reverted to the ongoing decline. However, the rise between 2007 and 2009 differed slightly depending on the size of the enterprise. For large manufacturing enterprises, their dependence on loans from financial institutions increased at the same rate as for loans overall, while the increase in the dependence of SMEs in the manufacturing industries on loans from financial institutions was smaller than the rise in overall dependence. However, because their loans came primarily from lenders other than financial institutions, their leveraging actually increased.

Turning now to the non-manufacturing industries, SMEs in non-manufacturing have a higher level of loans overall than large non-manufacturing enterprises, but when we restrict the sources solely to financial institutions, SMEs have a lower level of borrowing than large enterprises. Looking at these trends, they are much the same for SMEs in both manufacturing and non-manufacturing, while for large enterprises in the non-manufacturing industries, the overall trend is downwards without the upsurge in the late 2000s.

The difference between the figures for loans overall and loans from financial institutions is due to lending by sources other than financial institutions, and in 2014 leveraging by SMEs in manufacturing from sources other than financial institutions was at 11.6%, while the figure for SMEs in non-manufacturing was 11.7%. The funding sourced from entities other than financial institutions includes loans from parent companies and from representatives, and while we have no detailed breakdown of such sources, the reasons may well be diverse and include situations where the SME is part of a corporate group and the parent company procures funding collective function so as to optimize funding efficiency. Another likely scenario may be where the SME cannot secure a loan from a financial institution due to its poor financial standing. What this reveals is that loans from sources other than financial institutions are an important way of procuring funding for SMEs.

To summarize: there is a declining trend among SMEs in both manufacturing and non-manufacturing industries, and there is a period in the latter half of the 2000s during which SMEs increased their amount of leveraging through loans from sources other than financial institutions. Also, while the proportion of loans from sources other than financial institutions is steady or rising, loans from sources other than financial institutions are an important funding avenue for SMEs.

Fig. 2-5-4 Trends in leveraging



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes:
1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital less than ¥100 million.
2. Financial institution loans = Financial institution short-term loans + financial institution long-term loans + corporate bonds
3. Overall loans = Financial institution short-term loans + other short-term loans + financial institution long-term loans + other long-term loans + corporate bonds
4. Leveraging (financial institution loans only) = Financial institution loans ÷ Total assets
5. Figures shown in the graph are for FY1993, FY2005 and FY2014.

(2) Borrowings ratio as a multiple of monthly turnover (Fig. 2-5-5)

The ratio of borrowings as a multiple of monthly turnover shows how much the amount an enterprise has borrowed is as a multiple of the enterprise's monthly turnover. Whereas the amount of leveraging is calculated solely from the balance sheet, the ratio of borrowings as a multiple of monthly turnover is calculated using the borrowings listed in the balance sheet and the sales shown in the profit and loss statement. This makes it possible to see the level of borrowing relative to the scale of the enterprise's sales. This is not a completely consistent standard as the distribution of the figures differs depending on the industry type and business model, but a high value for this figure indicates a severe debt burden, whereas a low figure probably signifies a relatively easy debt burden.

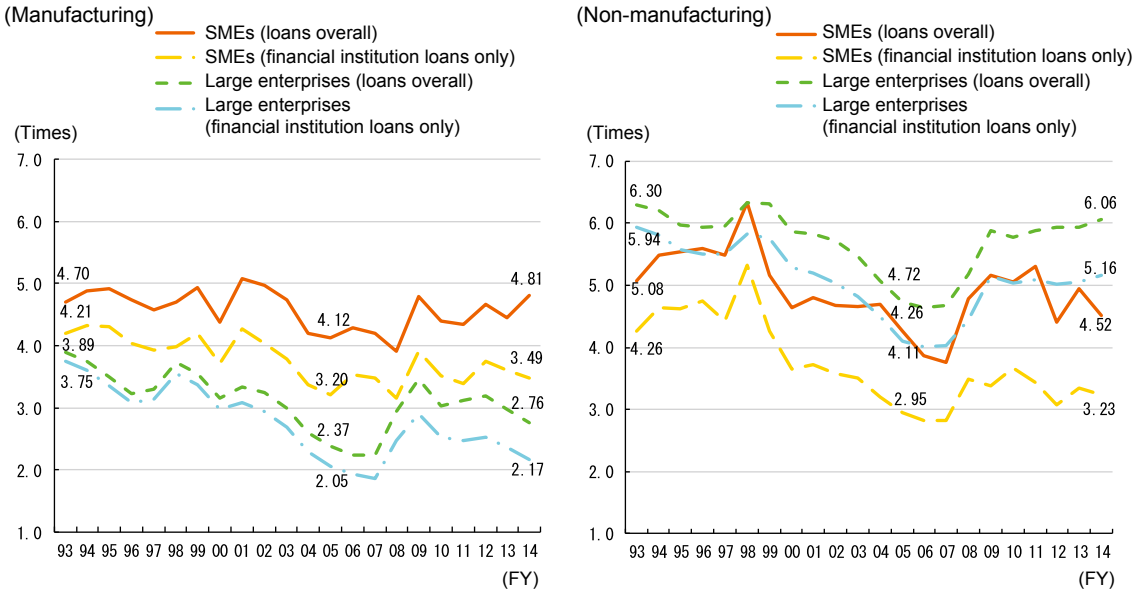
When we look at the figures in detail, the situation in the manufacturing industries is the same as for leveraging, with SMEs tending to have a higher ratio than large manufacturing enterprises. The trends show a period in the mid-2000s when the ratios declined across all enterprise sizes, while in the latter half of the 2000s ratios again rose before subsequently leveling off. For SMEs, the ratio for loans from financial institutions only went from 4.21x in 1993 to 3.49x in 2014, a drop of 0.72 points. Over the same period, the ratio for all loans rose from 4.70x to 4.81x, an increase of 0.11 points. In other words, while borrowings from financial institutions decreased, borrowings from sources other than financial institutions increased and the ratio of borrowings as a multiple of monthly turnover did not decline. For large manufacturing enterprises, the ratio for all loans went from 3.89x in 1993 to 2.76x in 2014, a drop of 1.13 points, while the ratio for loans from financial institutions only during that period decreased from 3.75x to 2.17x, a fall of 1.58 points.

Unlike the manufacturing industries, the ratios in the non-manufacturing sector were higher for large non-manufacturing enterprises than for SMEs in non-manufacturing. These trends show that the ratios generally fell for both SMEs and large enterprises from 1993 through to the late 2000s, but that they rose again in 2008.

In summary, in the manufacturing industries the monthly turnover ratio was higher for SMEs than for large enterprises, while in non-manufacturing industries, it was higher for large enterprises. Also, even where the timing and magnitude of the variations due to enterprise size and industry type differ, except in the case of SMEs in the manufacturing industries, the general trend is for the monthly turnover ratio to decrease and the burden imposed by borrowings to lessen. However, the fall in borrowings from financial institutions by SMEs in manufacturing is offset by the increase in borrowings from sources other than financial institutions, with the result that there is no lessening of the debt burden.

Above, we have looked at the changes in the demand for funding and the level of the debt burden borne by enterprises. Below, we will look at the fluctuations in borrowings by these enterprises and the factors behind the variations in the capital expenditure ratio.

Fig. 2-5-5 Trends in the ratio of borrowings as a multiple of monthly turnover



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes:
1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital less than ¥100 million.
2. Financial institution loans = Financial institution short-term loans + financial institution long-term loans + corporate bonds
3. Overall loans = Financial institution short-term loans + other short-term loans + financial institution long-term loans + other long-term loans + corporate bonds
4. Ratio of borrowings as a multiple of monthly turnover (financial institution loans only) = Financial institution loans ÷ Monthly turnover
5. Ratio of borrowings as a multiple of monthly turnover (all loans) = All loans ÷ Monthly turnover
6. Figures shown in the graph are for FY1993, FY2005 and FY2014.

2. Factors behind enterprises' demand for loans

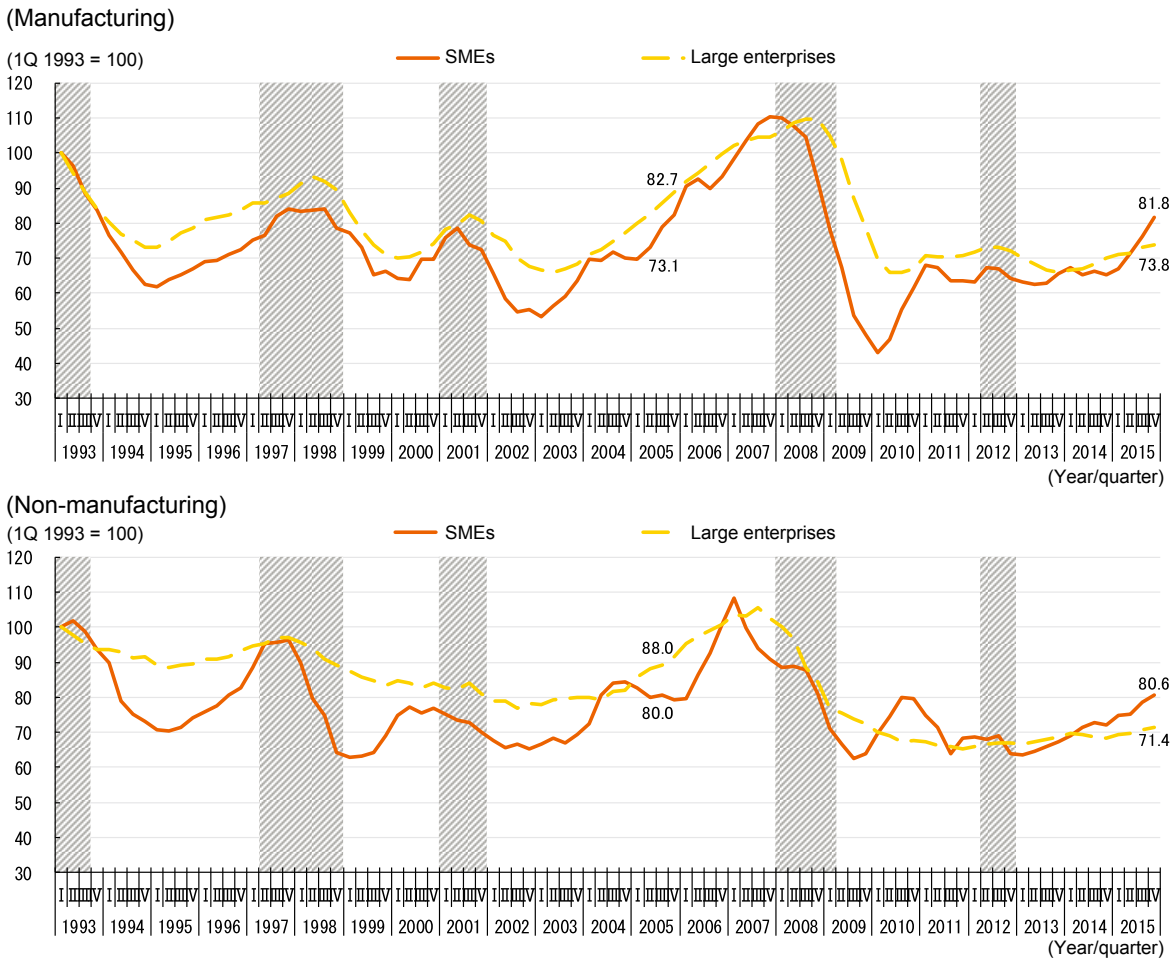
There are two probable background drivers for the shifts in demand for funding discussed in the previous section: (1) the "capital investment" and "investment in affiliated companies" that are the root causes of the demand for funding, and (2) changes in the "inter-enterprise credit" that underlies demand for working capital. In this section, we will continue our analysis by focusing on these two aspects.

Trends in investment and loans for affiliated companies and capital investment

Fig. 2-5-6 looks at the trends in capital investment by enterprises, taking 1993 as a benchmark. In the manufacturing industries, trends have followed the ups and downs in the underlying market conditions, with SMEs in particular showing more severe decreases in capital investment than large enterprises during economic downturns. So while the level of capital investment among SMEs is generally lower than for large enterprises, prior to the Lehman crisis in 2007, capital investment levels were higher for SMEs than for large enterprises. From 2010 onwards, the gap between SMEs and large enterprises has narrowed and in recent years capital investment by SMEs has actually exceeded that by large enterprises. However, as we saw in Part I, conditions have still not recovered to the levels they were at prior to the Lehman crisis.

Looking at the non-manufacturing industries, large enterprises were trending downward slightly until 2003, after which they began to rise again and by 2007 had returned to 1993 levels. The Lehman crisis sent them into another decline and since 2010 they have remained at much the same level. SMEs repeatedly experience marked rises and falls in line with the fluctuations in the economy, but during periods of economic growth, we see a scenario where SMEs increase their level of capital investment more than large enterprises. In the 2010s when large enterprises remained relatively level, capital investment by SMEs shows a slight rising trend, continuing until it climbs above the level for large enterprises as of the second quarter of 2014.

Fig. 2-5-6 Trends in capital investment



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Notes:
1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital less than ¥100 million.
2. The index shows four-quarter backward moving averages.
3. Figures shown in the graph are for 2Q 2005 and 4Q 2015 respectively.
4. The shaded sections of the graph indicate periods of economic recession based on the business cycle reference dates from the Cabinet Office.

Next, we look at investment in subsidiaries and affiliated companies. Investment in affiliated companies takes many forms, including parent companies loaning business funding to a subsidiary, investment in overseas subsidiaries and enterprise purchases through M&A processes. Fig. 2-5-7 shows the trends in the amounts of investments and loans per company for enterprises that engaged in investments in and/or loans to affiliated companies.

(1) Investments and loans for affiliated companies in Japan

There is an increasing trend for both SMEs and large enterprises. The magnitude of the increase varies depending on the enterprise size, but particularly in the first half of 2000s, the trend among large enterprises far outstripped that of SMEs. During that period, the gap between SMEs and large enterprises widened and stayed wide, since the pace of the increase did not change for either SMEs or large enterprises from the mid-2000s onwards.

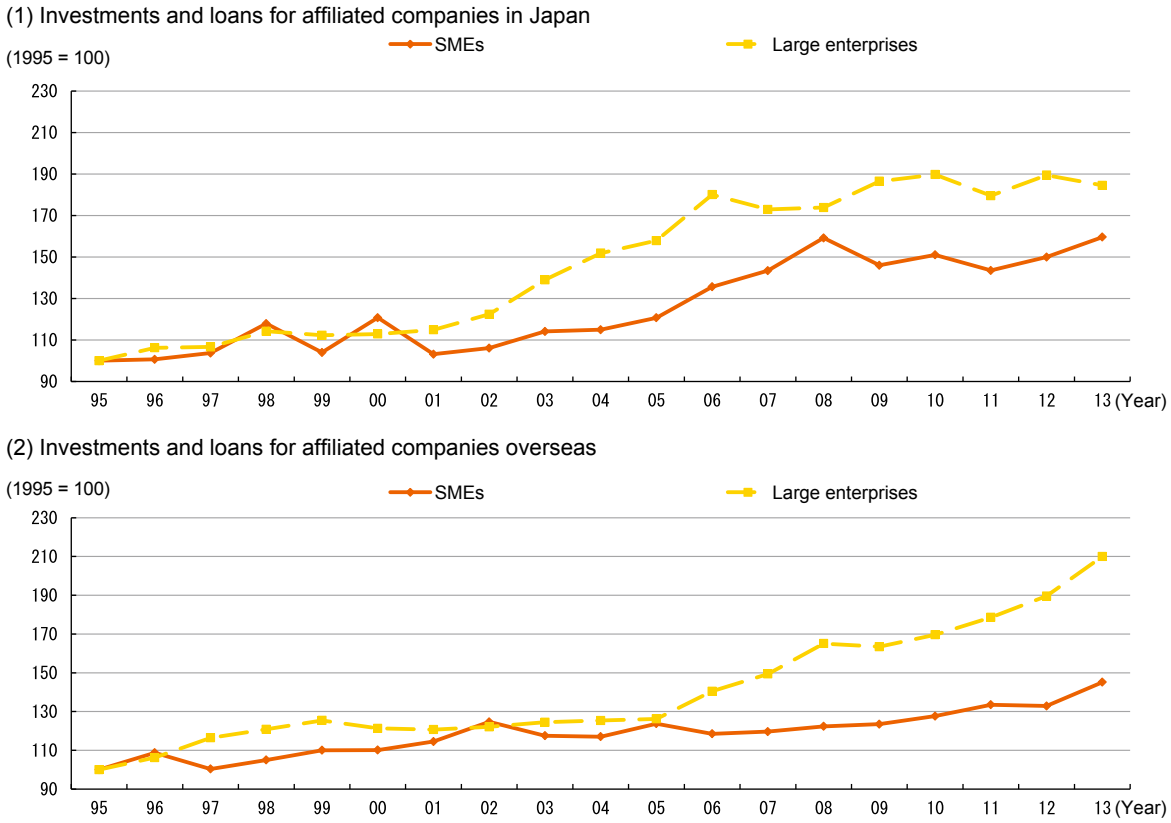
(2) Investments and loans for affiliated companies overseas

As with investments and loans for affiliated companies in Japan, the trend for both SMEs and large enterprises was for increased investment. However, the nature of that increase differs. Up until 2005, the rate of increase for SMEs and large enterprises was about the same, but in 2005 the rate of increase for large enterprises accelerated and a large gap opened up between SMEs and large enterprises.

So, this reveals that capital investment by both SMEs and large enterprises is generally in step with the ups and downs in the economy as a whole, but investments and

loans to affiliated companies tend to increase regardless of economic trends. Particularly between 2000 and 2005, we see that large enterprises very actively invested in affiliated companies in Japan, whereas from 2005 onwards they switched their focus and invested more actively in affiliated companies offshore.

Fig. 2-5-7 Trends in per-company balances in investments and loans for affiliated companies



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. SMEs are defined in accordance with the definitions in the Small and Medium-sized Enterprise Basic Act.
2. The figure shows the balances in investments and loans for affiliated companies by individual companies engaging in investments and loans to affiliated companies in Japan and overseas respectively.

Trends in inter-enterprise credit business and their impact on cash-flow in SMEs

Thus far, we have looked at the trends in borrowing as a means of procuring funding, but inter-enterprise credit business is another important avenue for enterprises seeking funding. Inter-enterprise credit transactions refer to "accrued transactions" arising out of commercial transactions conducted between businesses. When businesses procure the supply of goods and/or services, they commonly pay for those goods or services after a set time rather than making an immediate on-the-spot payment. In this situation, purchasers generate account payables and payment notes, while vendors generate an accounts receivable and notes receivable, effectively setting up temporary loans by the vendors to the purchasers. Because the purchasers are being granted credit by the vendors, this is referred to as "inter-enterprise credit". This sort of inter-enterprise credit particularly affects SMEs due to their limited management resources. Here, we will look at the trends in inter-enterprise credit and analyze the effects of those trends on borrowing by SMEs.

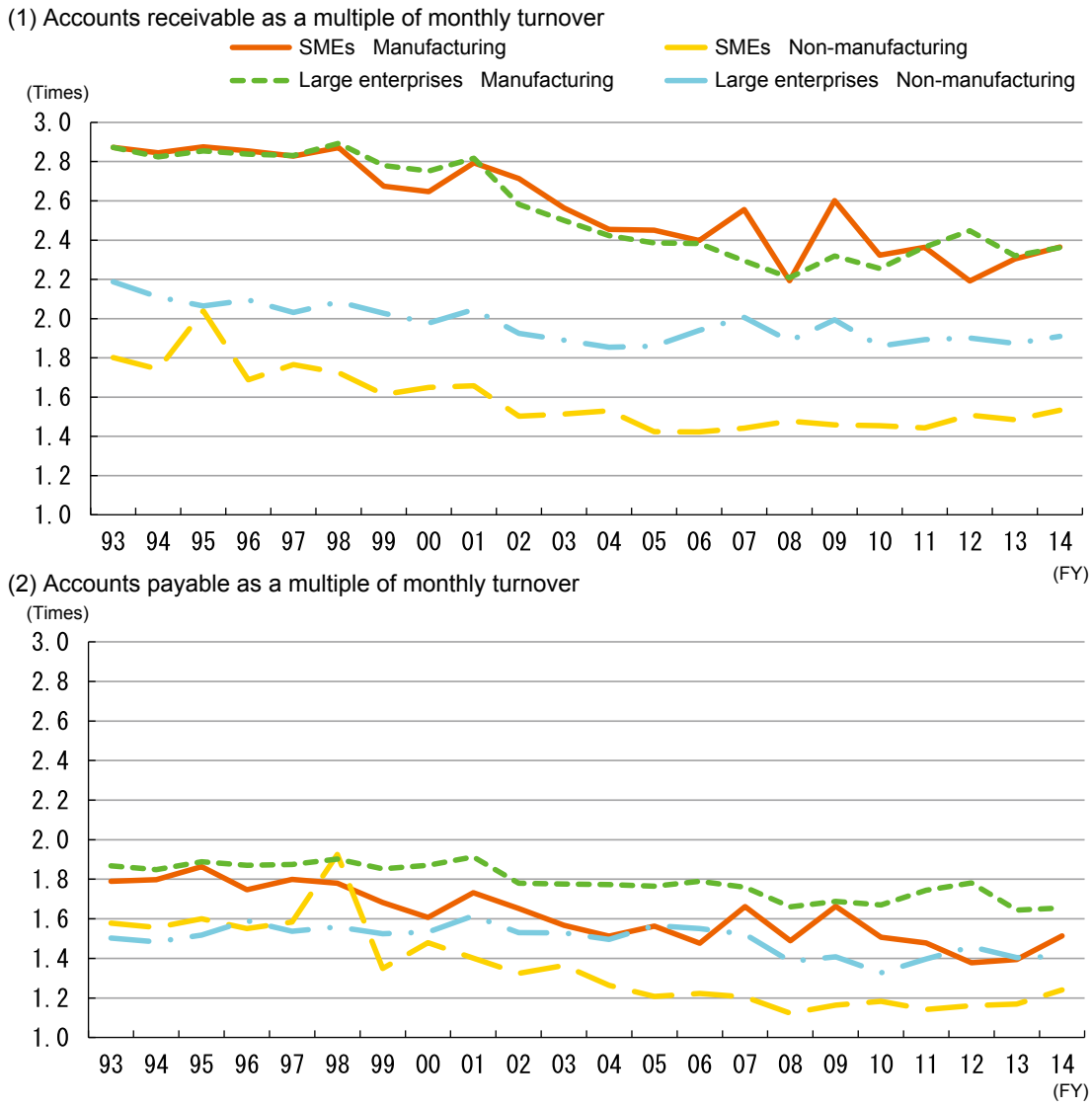
We begin by examining the inter-enterprise credit trends by enterprise size and by industry type (Fig. 2-5-8). The figure shows the accounts receivable and accounts payable as multiples of the monthly turnover and shows the correlations between sales and accounts receivable and accounts payable respectively. We see a trend for both accounts receivable and accounts payable to shrink as a multiple of monthly turnover, as well as a contraction in inter-enterprise credit. The decrease in the ratio of accounts receivable as a multiple of monthly turnover is particularly marked in the manufacturing industries. There also appears to be growing gap between SMEs and

large enterprises in terms of the difference in the degree of contraction in the ratio of accounts payable as a multiple of monthly turnover.

Next, we will analyze the trends in enterprises' required working capital[1] as a result of these types of inter-enterprise credit. The need enterprises have for working capital arises when they require funding to bridge the gap between when goods and/or services are purchased and the investment starts returning income. If we take the manufacturing industries as an example, ordinarily there is a chain of events from materials being purchased and used to manufacture products through to those products being sold and generating revenue. When inter-enterprise credit is used for that process, it generates accounts payable, inventory and accounts receivable, but because inventory and accounts receivable are not realizable as cash, they become advanced funding, while accounts payable become funds that are advanceable. So where the advanced funding is the larger sum, the need for working capital arises. In the retail trade, the customers that businesses deal with are generally ordinary consumers. Sales are paid for in cash, but purchases are often made using inter-enterprise credit. In this situation, there is far less need for advanced funding and the need for working capital does not arise (Fig. 2-5-9). Also, where the need for working capital arises in businesses, that required working capital also increases as the businesses grow larger. But in businesses where there is no need for working capital in the first place, even if the business grows in size there is still no need for working capital.

1) Here, working capital that is theoretically required by enterprises is referred to as "required working capital", and the funding actually procured from financial institutions for that required working capital is referred to as "working capital". Consequently, required working capital and working capital are not necessarily equivalent.

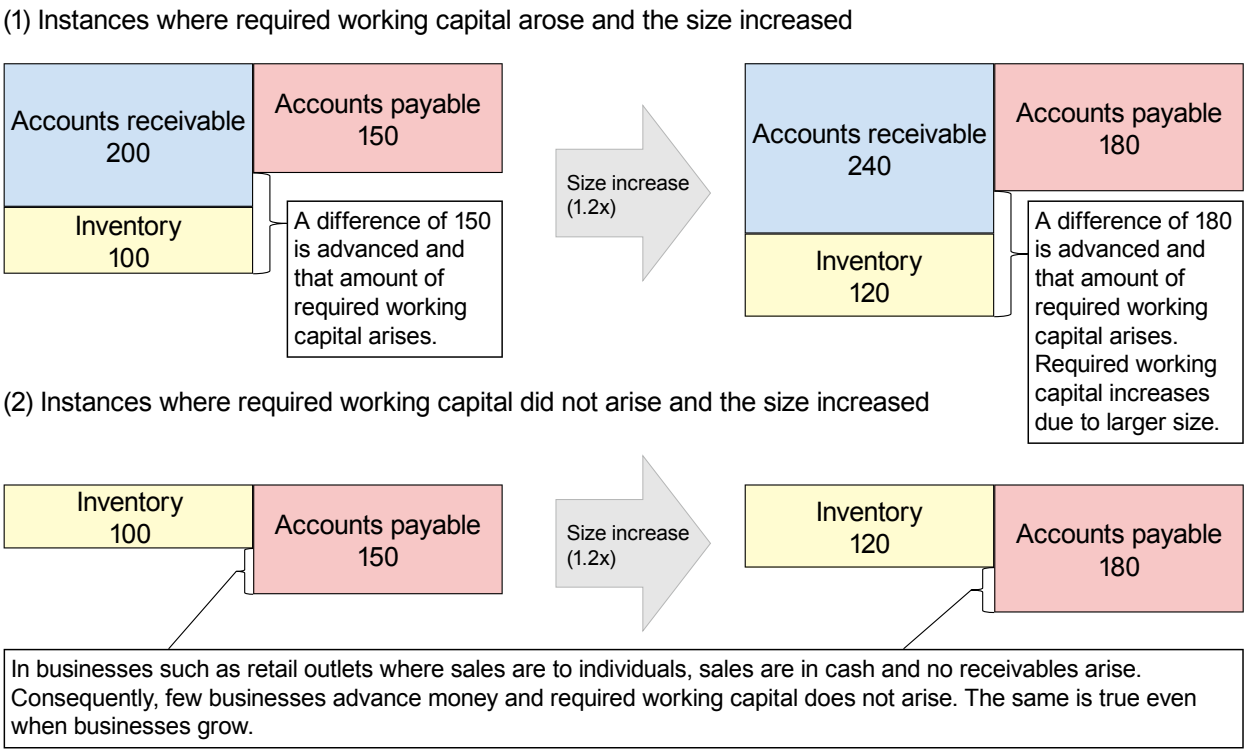
Fig. 2-5-8 Trends in inter-enterprise credit business



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Notes:
1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital less than ¥100 million.
2. Accounts receivable = Receivables + notes receivable + discounted notes payable, accounts payable = payables + payment notes
3. Accounts receivable as a multiple of monthly turnover = ((starting accounts receivable + ending accounts receivable) ÷ 2) ÷ monthly turnover, accounts payable as a multiple of monthly turnover = ((starting accounts payable + ending accounts payable) ÷ 2) ÷ monthly turnover

Fig. 2-5-9 Schematic of required working capital



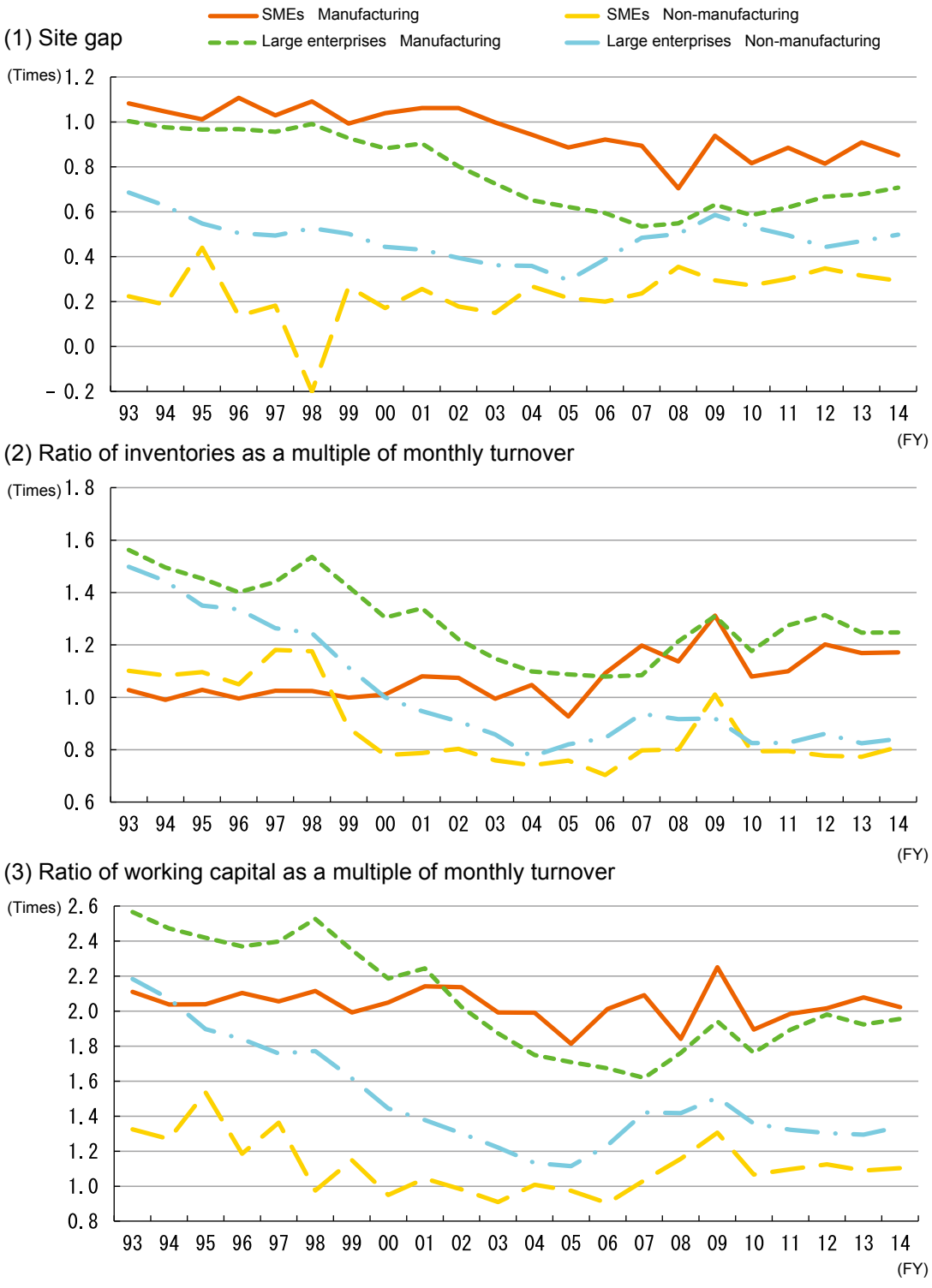
Based on this required working capital model, we now look at the trends in required working capital by enterprise size (Fig. 2-5-10). Here, in order to look at required working capital in terms of how many months of turnover it represents, we analyzed the ratio of required working capital as a multiple of monthly turnover. Required working capital can also be referred to as the difference between accounts receivable and accounts payable plus inventory. So if we divide each of these by the monthly turnover, we can then define the ratio of required working capital as a multiple of monthly turnover as the difference between the ratios of accounts receivable and accounts payable as multiples of monthly turnover (the "site gap") plus the ratio of inventories as a multiple of monthly turnover.

Looking at the ratio of required working capital as a multiple of monthly turnover in the manufacturing industries, contraction of the site gap is canceled out by increases in inventories, resulting in a fairly level trend. But for large manufacturing enterprises, both the site gap and the ratio of inventories as a multiple of monthly turnover are contracting, causing a major shrinkage of the ratio of required working capital as a multiple of monthly turnover and a reversal of the SMEs and large enterprises standings in 2002. From the late 2000s onwards, large enterprises returned to growth, but even recently SMEs have been performing better than large enterprises.

If we look at the ratio of required working capital as a multiple of monthly turnover in the non-manufacturing industries, the trends in the site gap and the ratio of inventories as a multiple of monthly turnover are similar for both SMEs in non-manufacturing and large non-manufacturing enterprises. From 1993 through to the mid-2000s, the difference in the ratios of required working capital as a multiple of monthly turnover steadily contracted and then has remained steady since the latter half of the 2000s.

To summarize, for both manufacturing and non-manufacturing, large enterprises have a higher ratio of required working capital as a multiple of monthly turnover, but the difference is shrinking and in the manufacturing industries SMEs have now surpassed large enterprises. So it may well be that the shrinkage in the ratio of required working capital as a multiple of monthly turnover for large manufacturing enterprises is placing a greater required working capital burden on SMEs in the manufacturing industries.

Fig. 2-5-10 Trends in the site gap, etc.



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Notes:
1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital less than ¥100 million.
2. Site gap = Ratio of accounts receivable as a multiple of monthly turnover – ratio of accounts payable as a multiple of monthly turnover
3. Inventories = Products or goods + work in progress + raw materials or inventory
4. Ratio of inventory as a multiple of monthly turnover = ((starting inventory + ending inventory) ÷ 2) ÷ monthly turnover
5. Ratio of working capital as a multiple of monthly turnover = Ratio of accounts receivable as a multiple of monthly turnover + ratio of inventories as a multiple of monthly turnover – ratio of accounts payable as a multiple of monthly turnover

Given these changes, we can speculate that, up until the mid-2000s, large manufacturing enterprises significantly reduced their ratios of accounts receivable as a multiple of monthly turnover by hastening the collection of accounts receivable, but by delaying as far as possible the earlier payment of accounts payable, they constrained the rate of contraction in the ratio of accounts payable as a multiple of monthly turnover and thereby minimized the site gap. SMEs in the manufacturing industries used a very similar approach to the large enterprises but were probably unable to constrain the rate of contraction in the ratio of accounts payable as a multiple of monthly turnover to the extent that large enterprises could, which meant that they could not reduce the site gap to the same degree as large enterprises.

In terms of the ratio of inventories as a multiple of monthly turnover, large enterprises in both manufacturing and non-manufacturing were successful in significantly reducing their ratios of inventory as a multiple of monthly turnover by using more efficient management practices to reduce the amounts of stock on hand. SMEs however actually increased their inventory levels, particularly in the manufacturing industries. While this is something that diversified products and micro-scale production requires from small-lot mass-production, it probably increased the inventory burden.

In this way, required working capital declined for large enterprises up until the mid-2000s and then returned to a rising trend as of the late 2000s, while for SMEs, required working capital decreased slightly through to the mid-2000s and has shown sluggish growth in recent time.

Balance sheet trends according to enterprise size

Finally, we look at changes in inter-enterprise credit and investments and loans in affiliated companies and capital investment, as well as the correlations between rises and fall in capital investment and working capital, based on changes in balance sheets by enterprise size. Specifically, by focusing on balance sheet trends at three points in 1993, 2005 and 2014 that mark the turning points in lending to enterprises noted in Fig. 2-5-2, we analyze the background to the funding demand at the time (Fig. 2-5-11).

(1) Trends in asset scale

Among SMEs, balance sheets fell by ¥25.4 trillion (−4.5%) between 1993 and 2005, but increased by ¥38.3 trillion (+7.1%) between 2005 and 2014.

Large enterprises rose ¥93.3 trillion (+17.4%) in the period from 1993 to 2005 and rose still further by ¥159 trillion (+25.2%) from 2005 to 2014, showing that large enterprises in particular have grown markedly.

(2) Required working capital

As revealed in the previous section, required working capital is indicated by "accounts receivable − accounts payable + inventories". This can be further broken down into the gap between incomings and outgoings shown as "accounts receivable − accounts payable" (the "receipt-payment gap") and the inventories held in stock. The receipt-payment gap for SMEs was ¥5.2 trillion in 1993, rising to ¥15.2 trillion in 2005 and then to ¥18.4 trillion in 2014. Inventories totaled ¥65.8 trillion in 1993, fell ¥18.9 trillion to ¥46.9 trillion in 2005 and then remained fairly flat through to 2014 when they totaled ¥46.7 trillion. As a result, required working capital, which was at ¥71.1 trillion in 1993, fell ¥8.9 trillion to ¥62.2 trillion in 2005 before recovering ¥2.9 trillion to reach ¥65.1 trillion in 2014.

The receipt-payment gap for large enterprises was ¥29.0 trillion in 1993, ¥20.4 trillion in 2005 and ¥28.0 trillion in 2014, falling substantially in 2005 and then recovering somewhat subsequently, though only in recent years has it climbed back up to 1993 levels. Inventories were at ¥62.0 trillion in 1993, fell ¥16.2 trillion to ¥45.8 trillion in 2005, but recovered ¥2.2 trillion to reach ¥48.0 trillion in 2014. Consequently, required working capital, which was at ¥91.0 trillion in 1993, fell ¥24.7 trillion to ¥66.3 trillion in 2005 and then rose ¥9.6 trillion to reach ¥75.9 trillion in 2014.

In short, between 1993 and 2005, both SMEs and large enterprises made efforts to reduce required working capital by keeping less inventory. However, while the effective reductions in required working capital made by SMEs were diluted by an increase in their receipt-payment gap, large enterprises were able to shrink their receipt-payment gap, which allowed them to more effectively lower their required working capital. Between 2005 and 2014, levels of stock on hand did not change much for either SMEs or large enterprises and the changes in required working capital reflected pretty closely the variations in their respective receipt-payment gaps.

(3) Other investments, etc.

Other investments includes the many types of loans and financing extended to affiliated companies reviewed in Fig. 2-5-7. For this reason, trends in the other investments category largely reflect investments made in affiliated companies.

Other investments by SMEs increased markedly from 1993 to 2005, rising from ¥49.5 trillion to ¥70.1 trillion, and rose again to ¥76.4 trillion in 2014. Among large enterprises, the trend was one of continued large increases, jumping from ¥83.6 trillion in 1993 to ¥170.8 trillion in 2005 and then to ¥287.2 trillion by 2014.

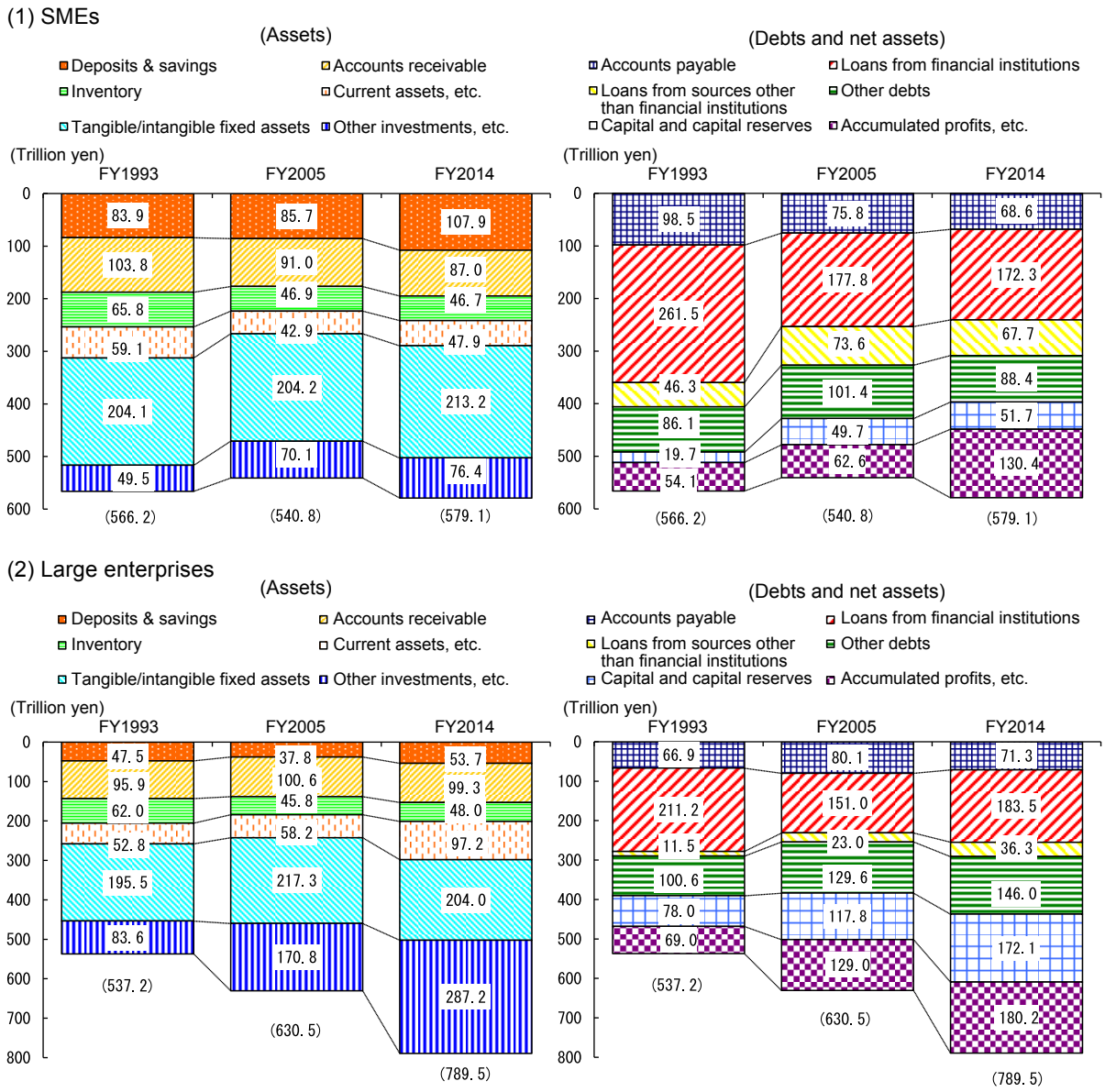
(4) Net assets

The net assets category is made up of the enterprise's capital and funds such as the accumulated profits generated by the enterprise's business activities. Capital increases through direct financial contributions such as increased capitalization and the acquisition of additional enterprises. Accumulated profits increase through the accumulation of earnings by the enterprise.

Net assets for SMEs totaled ¥73.9 trillion in 1993, rising to ¥112.3 trillion in 2005 and then to ¥182.1 trillion in 2014. Capital rose particularly strongly from 1993 to 2005, climbing by ¥30.0 trillion, and between 2005 and 2014, there was strong rise of ¥67.8 trillion in accumulated profits.

Net assets for large enterprises were at ¥147.0 trillion in 1993 and rose to ¥246.8 trillion in 2005 before climbing to ¥352.3 trillion in 2014. This reveals that as well as large increases in both "capital and capital reserves" and "accumulated profits, etc.", with secured profits leading to significant rises in internal reserves, enterprises also procured funding through additional investments and other direct funding, thereby achieving large gains in their net assets.

Fig. 2-5-11 Balance sheet trends according to size



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes: 1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital less than ¥100 million.
2. Figures outside the frames indicate the totals for the Assets and Debts and net assets categories.

The above figure shows that from the collapse of the bubble in 1993 through to 2005, large enterprises cut back their borrowings, particularly for capital expenditure, and drew on direct financing and internal reserves to fund investment in affiliated companies. Then, from the latter half of the 2000s through to the present, they presumably increased their borrowings from financial institutions, particularly for working capital, while further accelerating their active investment by continuing to use direct financing and internal reserves to fund investment in affiliated companies.

From 1993 to 2005, SMEs restricted their own borrowings by reducing their assets, focusing particularly on reducing inventories and accounts receivable. From the late 2000s through to recently, we can see that they have raised their levels of cash within the scope of their internal reserves and progress with capital investment.

Based on this, we can probably say that the differences in the scale of financial institution loans shown in Fig. 2-5-2 between 2005 and 2014 are as follows:

(1) Among SMEs, assets have remained much the same while capital investment has been within the scope

permitted by internal reserves and borrowings have not increased greatly.

(2) Large enterprises have actively invested in affiliated companies, especially overseas, and because that investment funding exceeds the amounts available through direct financing and the increase in internal reserves, they have raised their level of borrowing from financial institutions.

3. Trends in enterprise profits according to fluctuations in borrowings

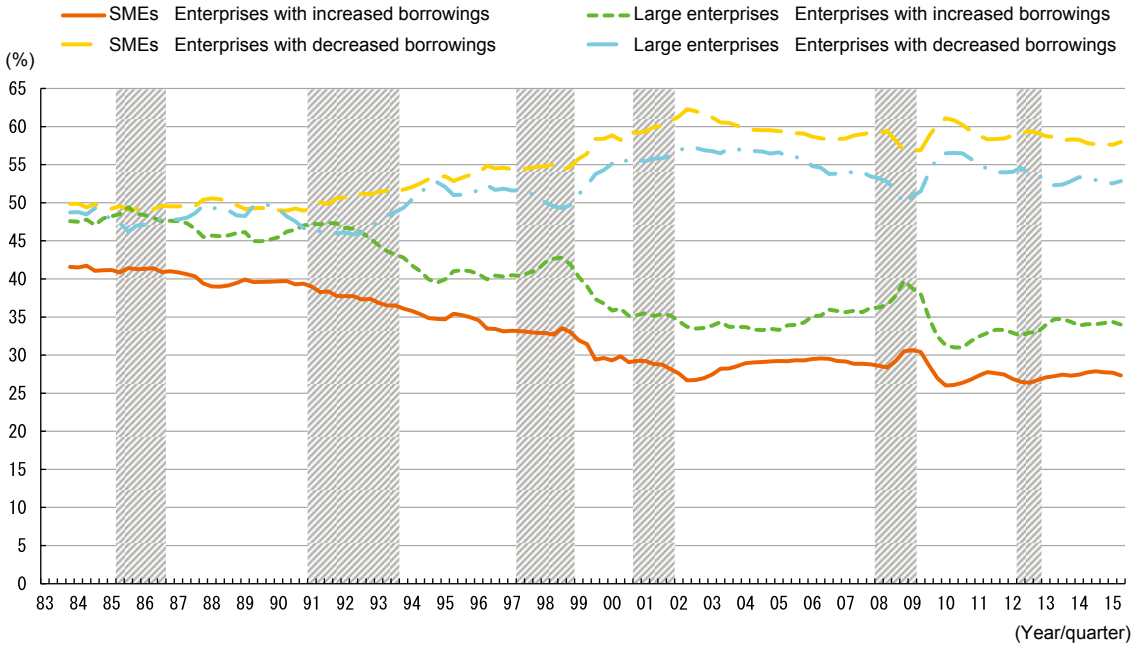
So far, we have analyzed the trends in borrowings according to enterprise size and the factors driving those trends. Below, we will focus on enterprises of the same size and analyze the differences between enterprises who increased their borrowings and those who decreased their borrowings.

Trends in enterprises according to changes in borrowings

We begin by examining the trends in enterprises according to their changes in borrowings. Fig. 2-5-12 shows how the respective proportions of enterprises have changed according to whether they are borrowing more or borrowing less. Among large enterprises, the proportions of enterprises who increased their borrowings and those who decreased borrowings were roughly equivalent up until the beginning of the 1990s. But as of the mid-1990s, the number of enterprises with decreased borrowings rose and the trends in the two categories began to diverge. Among SMEs, the proportion of enterprises decreasing their borrowings was high as of the mid-1980s, and like large enterprises, there was a trend for the divergence to increase. Thus, regardless of the enterprise size, the number of enterprises decreasing their borrowings from financial institutions from the mid-1990s onwards increased by corresponding amounts relative to enterprises with increased borrowings.

However, when we look at these enterprises solely in terms of changes in borrowings, we are not taking into account the amounts by which those borrowing changed, which is why the trends here differ from the trends in borrowing according to enterprise size discussed in the previous section. This is because, in many instances, an enterprise procuring funding does so all at once, by procuring all the funding they need for a year at the same time, for instance. So it is important to note that the simple fact that a high proportion of enterprises are reducing their borrowings does not necessarily equate to a reduction in total borrowings.

Fig. 2-5-12 Trends in the proportions of enterprises with increased borrowings and those with decreased borrowings



Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Notes: 1. SMEs are defined in accordance with the definitions in the Small and Medium-sized Enterprise Basic Act.
2. Data compiled is only for companies with borrowings from financial institutions at the end of the year (the total for corporate bonds and long-term and short-term financial institution loans).
3. The shaded sections of the graph indicate periods of economic recession based on the business cycle reference dates from the Cabinet Office.

Financial situations of enterprises with increased borrowings and those with decreased borrowings

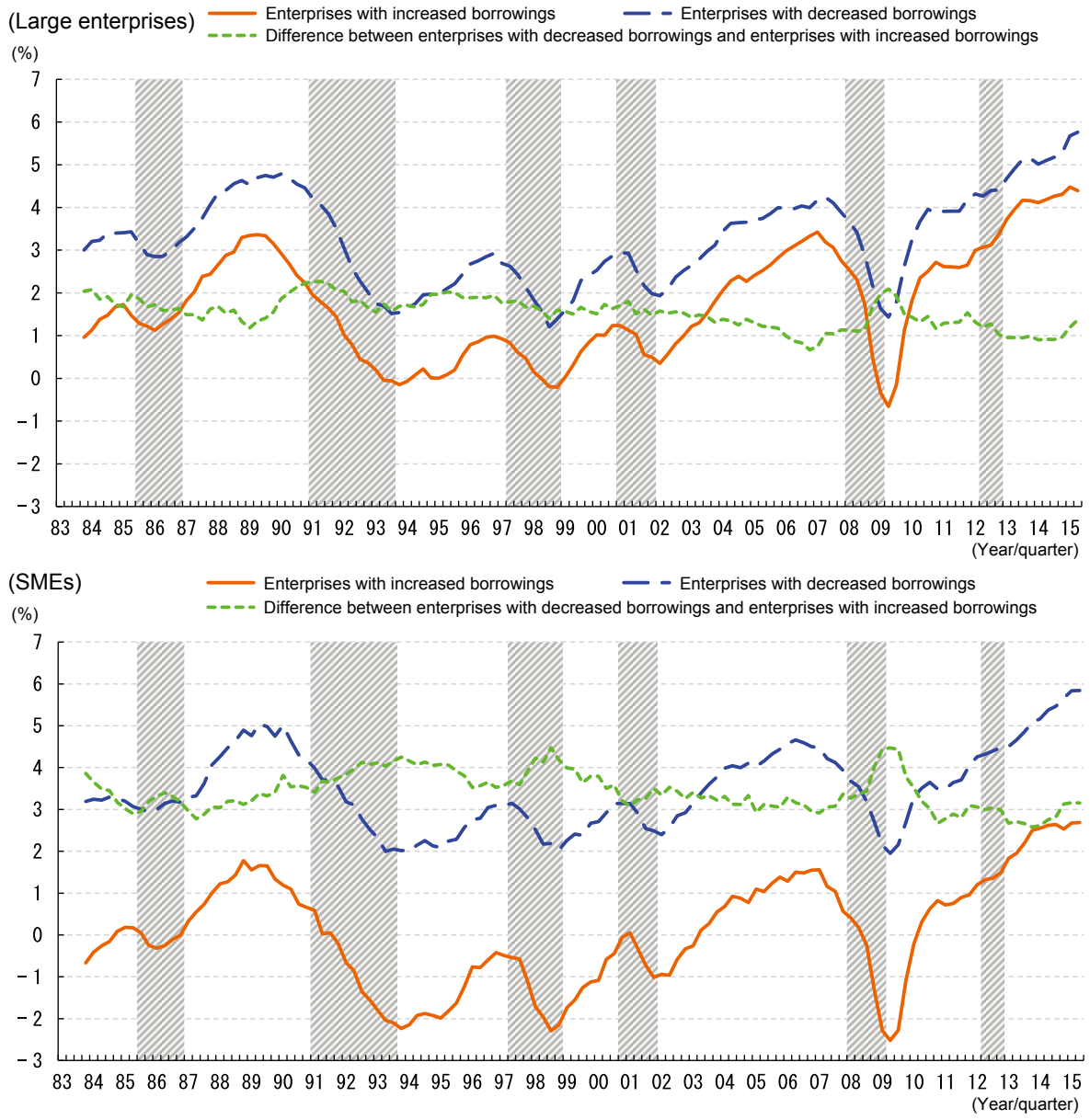
Next, we look at the differences in the profitability of enterprises with increased borrowings and those with decreased borrowings. Here, we take the rate of ordinary profit as an indicator of profitability. Fig. 2-5-13 shows the changes in average ordinary profit rates according to changes in borrowings. For both SMEs and large enterprises, we can see that enterprises with decreased borrowings had higher profitability than those with increased borrowings. This is presumably due to the fact that enterprises with higher profitability accumulate more internal reserves and are able to repay loans more quickly. Also, where enterprises have decreased borrowings, both SMEs and large enterprises have equivalent ordinary profit rates, and enterprises that have high rates of return and have reduced their borrowings maintain the same profit levels even if they change in size.

When we look at the difference between the rates of return for enterprises with increased borrowings and those with decreased borrowings, it is larger for SMEs than for large enterprises. And if we then look at that trend based on the enterprise size, the difference for large enterprises declined from 2% at the start of the 1980s to around 1% by the latter half of that decade. It again rose to around 2% during the bubble era before slowly falling again through to the late 2000s. It again rose to the 2% mark at the time of the Lehman crisis in 2008, and then fell again and is now in the range mid-way between 1% and 2%. We see the same sort of trends for SMEs also, but the figure suggests that almost any kind of economic downturn magnifies that difference in the case of SMEs.

This difference in profit rates between enterprises with decreased borrowings and those with increased borrowings could be considered as an indicator of risk tolerance levels by financial institutions. In other words, increasing lending to enterprises with low profit rates relative to enterprises that are reducing borrowings and have high profit rates will broaden the gap in profit rates between the two. So we can presume that the growth in that difference is the result of risk permitted by financial institutions. If we look at Fig. 2-5-13 with this in mind, the risk tolerance of the financial institutions that should be supporting SMEs through economic downturns increases,

and during periods of economic growth that risk tolerance weakens. So over the long term, that difference of over 2% in the late 1990s has now weakened to a little over 1%. However, just recently there is an increasing trend, which may be a sign that risk tolerance is again rising.

Fig. 2-5-13 Average ordinary profit rates according to changes in borrowings

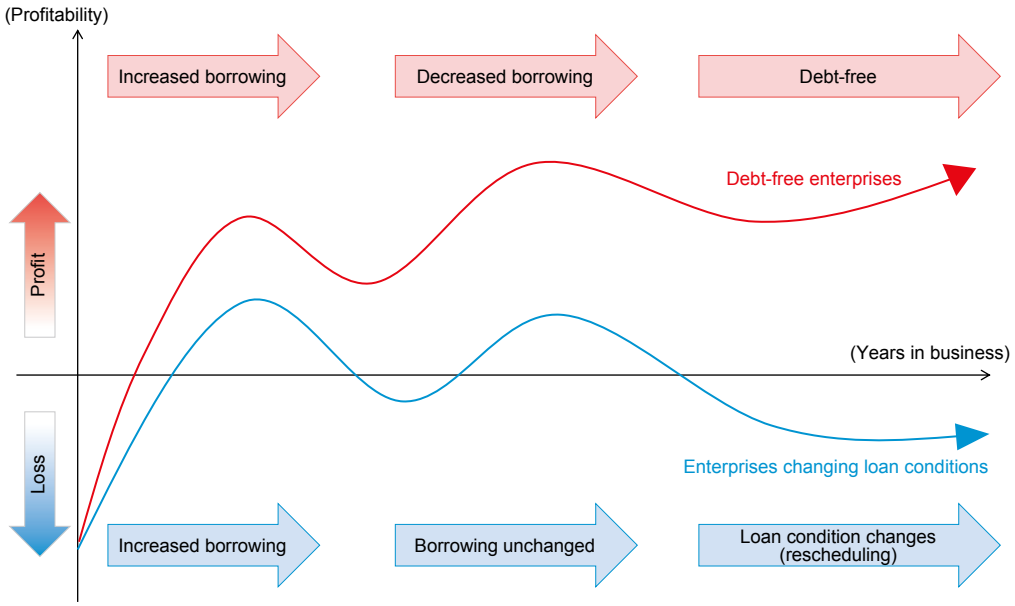


Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Notes:
1. Here, SMEs are defined in accordance with the definitions in the Small and Medium-sized Enterprise Basic Act.
2. Borrowings here refers to the total amount for corporate bonds and long-term and short-term financial institution loans.
3. Ordinary profit rates are seasonally-adjusted using backward moving averages for the 4 quarters.
4. The shaded sections of the graph indicate periods of economic recession based on the business cycle reference dates from the Cabinet Office.
5. Values for ordinary profit rate that exceeded 100% or were less than –100% were treated as erroneous and excluded.

4. Trends in debt-free enterprises and enterprises with changed loan conditions

As we saw in the previous section, enterprises with increased borrowings have different levels of profitability from enterprises with decreased borrowings, and that difference is particularly marked among SMEs. Some high-profit enterprises accumulate large internal reserves and are able to progress the repayment of their borrowings, eventually repaying all their loans and becoming debt-free enterprises. However, some low-profit enterprises are forced to increase borrowings by procuring funding during periods of business expansion. If the profitability of those enterprises declines, the burden placed on them by their loan repayments increases and they experience cash-flow difficulties. In this section, we analyze the trends among enterprises that are no longer in debt (debt-free enterprises) and enterprises that revise the conditions of their loans (enterprises with changed loan conditions) (Fig. 2-5-14).

Fig. 2-5-14 Profitability schematic for debt-free enterprises and enterprises with changed loan conditions

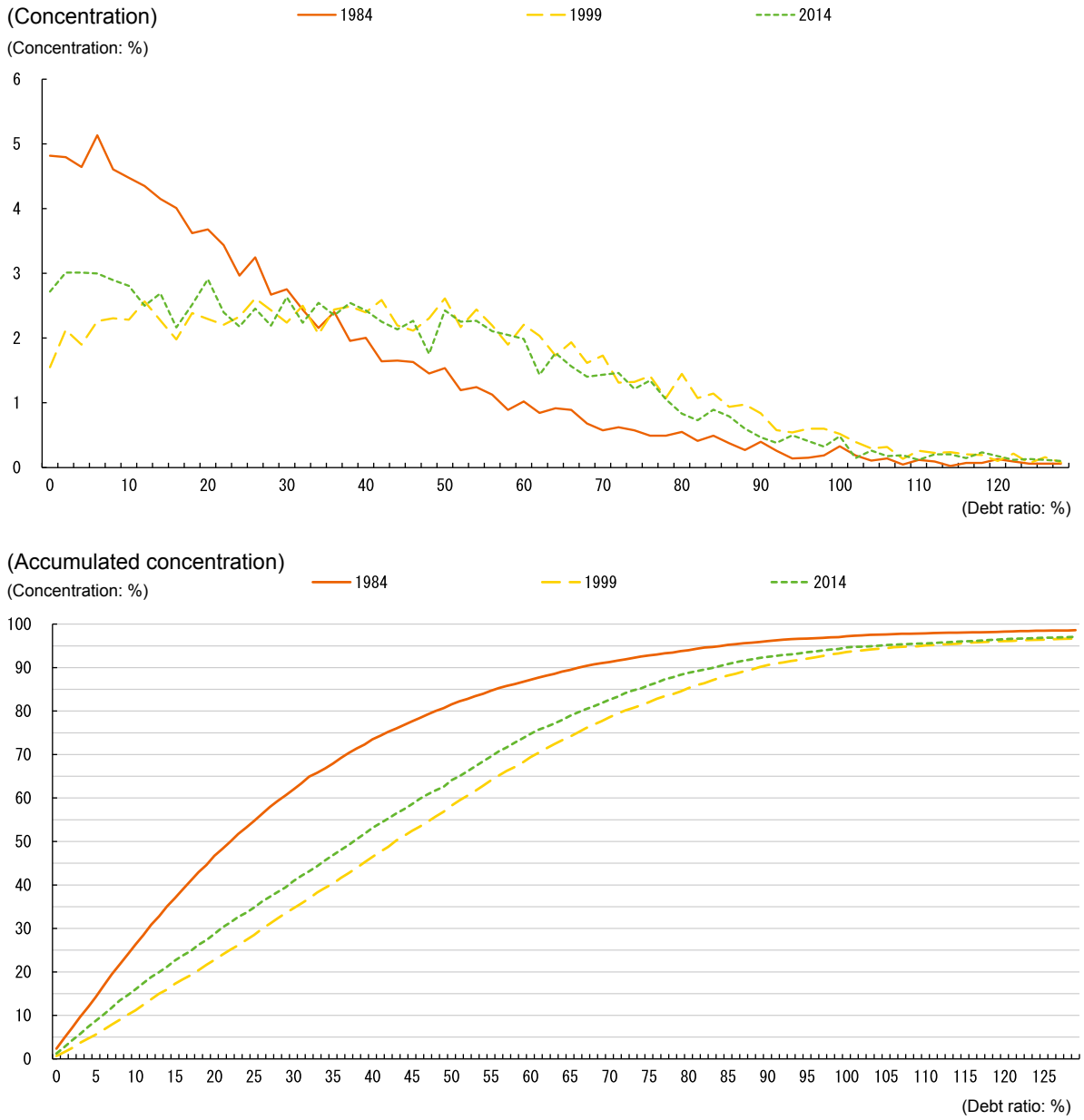


Conditions where the proportion of debt-free enterprises increases while enterprises with changed loan conditions are unchanged

The differences between debt-free enterprises and enterprises with changed loan conditions arise from their differing profitability. This difference in profitability also arises among enterprises of the same size and again tends to widen[2]. This sort of difference in profitability is linked to increases and decreases in borrowings and may also give rise to differences in the size of the burden placed on enterprises by their borrowings. To examine the burden imposed by borrowings, we will look at the trends in the debt ratio of enterprises that have taken out loans with financial institutions (Fig. 2-5-15). In 1984, there were many enterprises with a debt ratio of 30% or less, but by 1999 the number of enterprises with debt ratios of less than 30% had declined, while those with ratios above 30% had increased. More recently in 2014, the proportion of enterprises with debt ratios below 30% was slightly higher than in 1999. This probably indicates that, of the enterprises in the debt ratio range with the highest number of enterprises in 1984, high-profit enterprises reduced their borrowings and became debt-free, while low-profit enterprises did not pay down their borrowings and found their debt ratios increasing.

2) For information on the growth in the profitability gap among enterprises of the same size, see the *2015 White Paper on Small and Medium Enterprises in Japan*, Part I, Chapter 3 (P.51—52).

Fig. 2-5-15 Trends in the SME debt ratio distribution



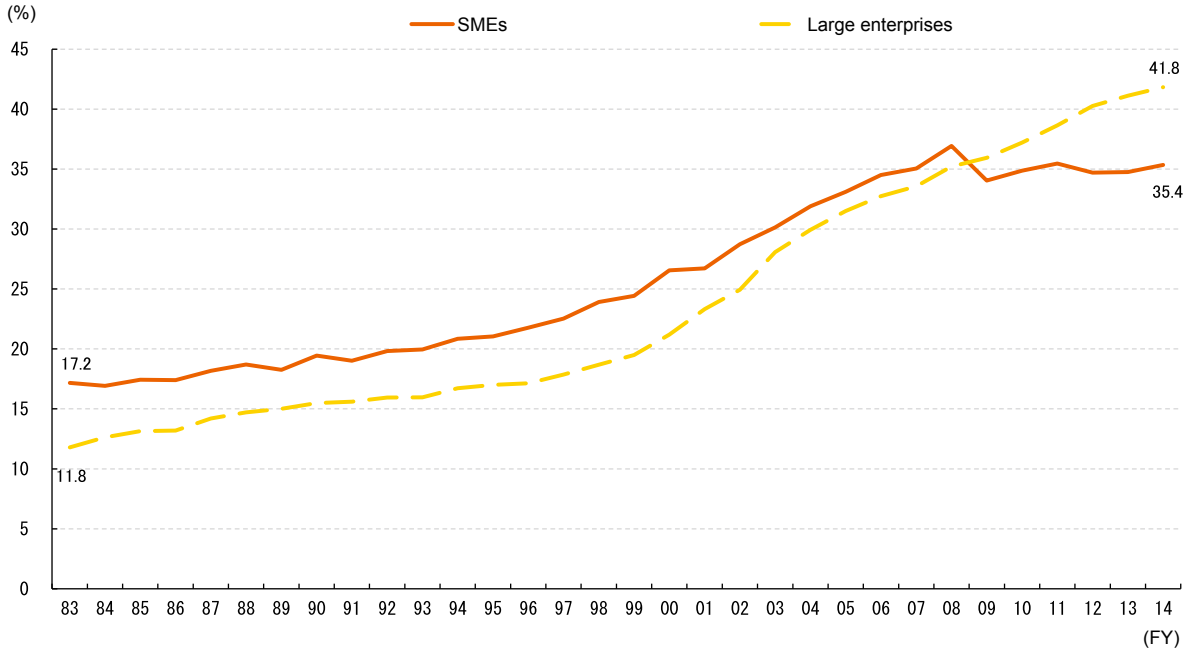
Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes: 1. SMEs refer to enterprises with a capital less than ¥100 million.
2. The data collected here excludes debt-free enterprise with no borrowings from financial institutions.

Increases in debt-free enterprises

Next, we look at the debt-free enterprises that have resulted from these changes to the debt ratio. Fig. 2-5-16 shows the trends in the proportion of "debt-free enterprises[3]" that have no borrowings from financial institutions. There is a rising trend in the proportion of debt-free enterprises for both SMEs and large enterprises, with more than 40% of large enterprises becoming debt-free by 2014. Looking at the past 30 years, SMEs had a larger proportion of debt-free enterprises for a long time, but after the Lehman crisis the proportion of debt-free enterprises flat-lined, and in recent years the proportion of debt-free businesses has been higher among large enterprises.

3) Where no other specific description is provided, "debt-free" in this chapter indicates simply that the enterprise has no borrowings from financial institutions. It must be noted that here, "debt-free enterprises" may also include enterprises that have borrowings from managers or affiliated companies.

Fig. 2-5-16 Proportion of debt-free enterprises according to enterprise size



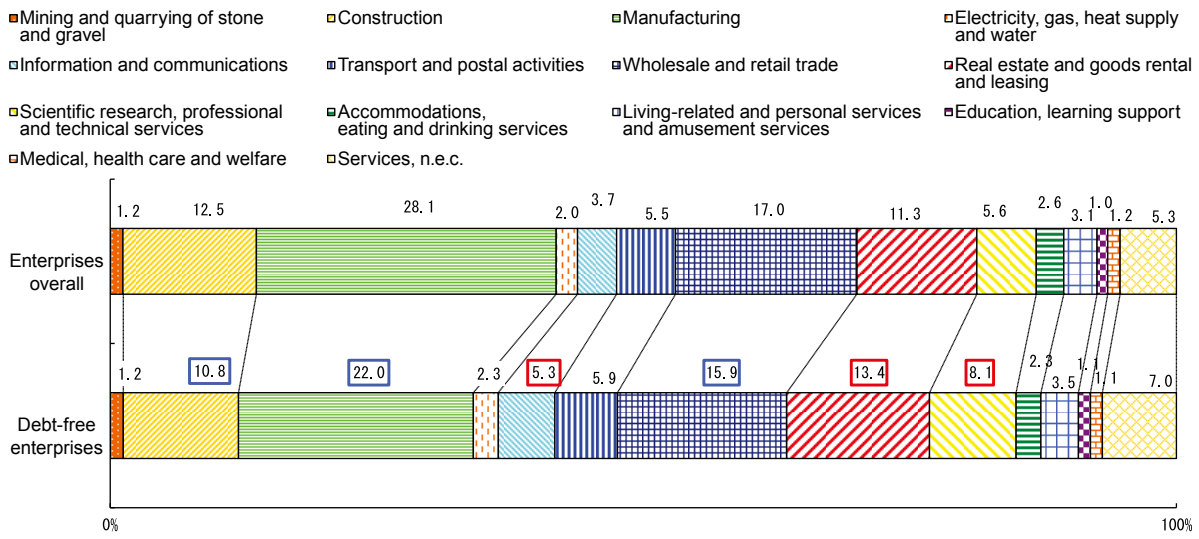
Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes: 1. Here, debt-free enterprises refer to enterprises that have no borrowings from financial institutions at the end of the current and previous periods.
2. Large enterprises here refer to enterprises with a capital of more than ¥100 million, and SMEs refer to enterprises with a capital of ¥100 million or less.

Composition of debt-free enterprises by industry type

We will also examine the composition of debt-free enterprises according to the industry type. Fig. 2-5-17 compares the composition of debt-free SMEs by industry type with the overall composition of all SMEs by industry type[4]. Looking at the figure, we can see that the proportion of debt-free enterprises in "Construction", "Manufacturing" and "Wholesale and retail trade" is lower than the proportion for all SMEs. On the other hand, there is a higher proportion of debt-free enterprises in "Information and communications", "Real estate and goods rental and leasing" and "Scientific research, professional and technical services".

4) It must be noted that this graph is compiled based on individual data from the *Financial Statements Statistics of Corporations by Industry, Annually*, so this data may differ from the breakdown of enterprise numbers for each industry type listed in the attached statistical data.

Fig. 2-5-17 Comparison of the industry-type breakdown for debt-free SMEs with the breakdown for all SMEs



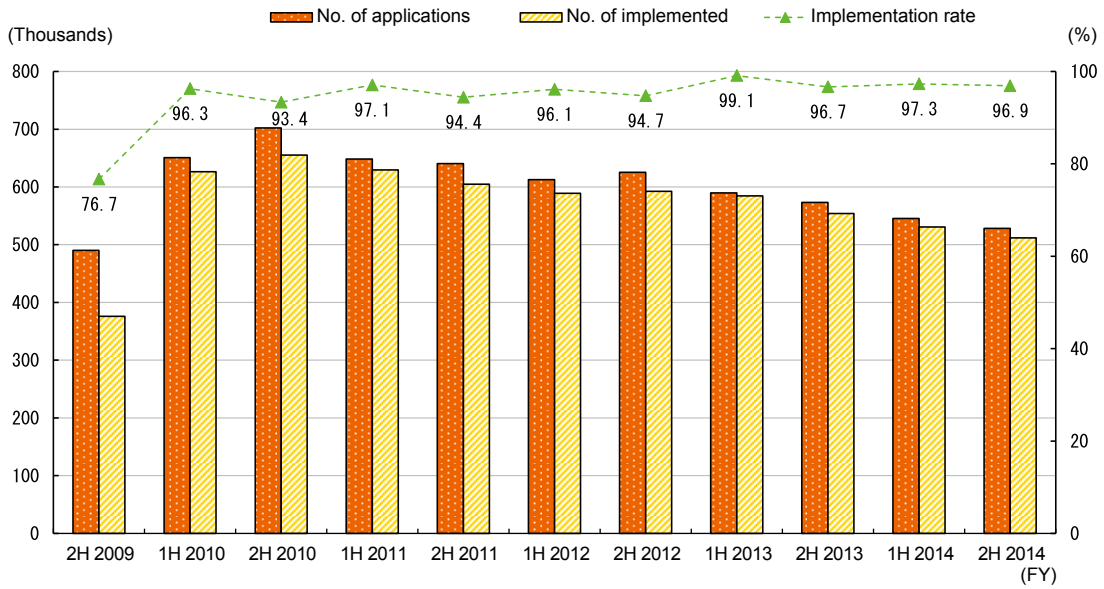
Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.
Notes: 1. Of the general industries in the *Financial Statements Statistics of Corporations by Industry*, figures are compiled for SMEs in the non-primary industries, excluding "Agriculture", "Forestry", "Fisheries" and "Finance and insurance".
2. SMEs refer to enterprises with capital of ¥100 million or less.

Trends in enterprises with changed loan conditions

Below, we will focus on enterprises with changed loan conditions. Among SMEs, the number of enterprises with changed loan conditions cannot be identified accurately, but is taken to be between 300,000 and 400,000[5]. Fig. 2-5-18 shows the situation for factors such as changes to lending terms and conditions in private financial institutions, as published by the Financial Services Agency (FSA). This shows the trends in the numbers of SMEs who submitted applications to financial institutions for loan conditions to be changed, and in the number of instances where the financial institutions changed the lending conditions in response to an application. The figure shows that the number of applications submitted to financial institutions by SMEs for loan conditions to be changed increased in the period from the second half of 2009 when the Lehman crisis arose, rising to 700,000 in the second half of FY2010. The effects of improved economic conditions in recent years have seen the number of applications fall, and the figure for the second half of 2014 was over 500,000. If we also look at the proportion of applications that were acted upon, we see the effects of the Financing Facilitation Act[6], with 90% or more of applications being enacted. Since FY2013 when the Act was completed, high levels of 95% or more have continued.

5) Quoted from the Financial Services Agency (FSA), *Minutes of the Joint Meeting of the 28th meeting of the Financial System Council and the 16th meeting of the Sectional Committee on Financial System*.
6) The Act concerning Temporary Measures to Facilitate Financing for Small and Medium-Sized Enterprises, etc. Under the Act, financial institutions shall make every possible effort to take steps such as modifying lending conditions in response to applications from SMEs and applicants for housing loans.

Fig. 2-5-18 Situation for changes to lending conditions by private financial institutions



Source: Materials formulated by the Financial Services Agency (FSA).
Notes: 1. 2H 2009 refers to the period from December 2009 to March 2010.
2. The implementation rate is calculated from the number of applications and the number of implemented instances in the relevant period.
3. The number of instances is based on individual loans received.

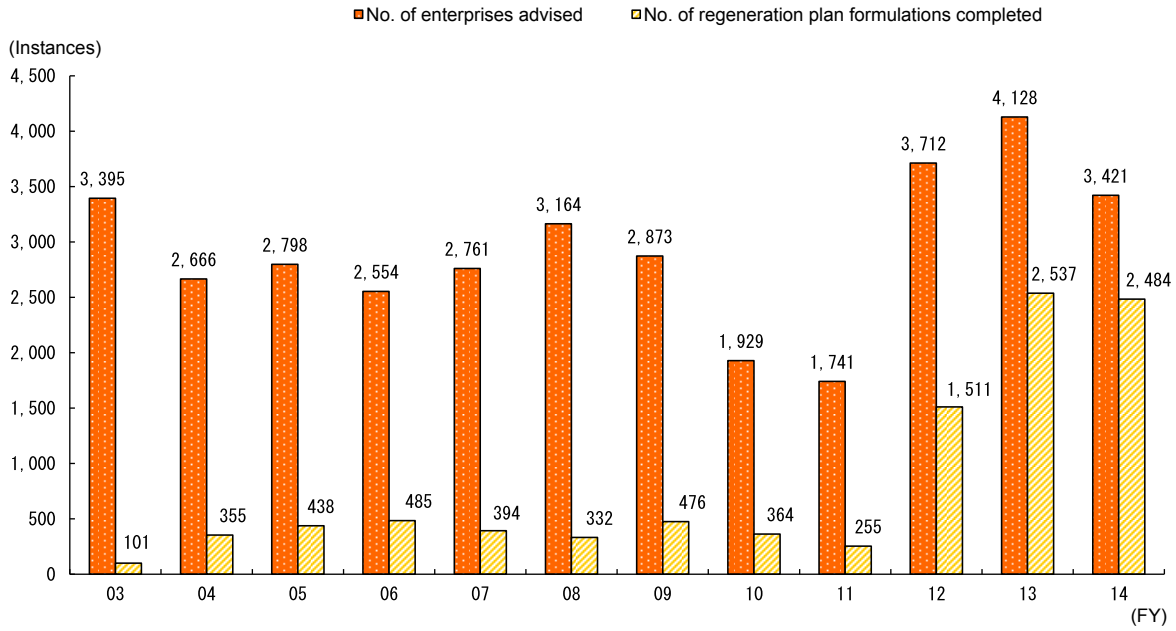
Utilization of Revitalization Support Councils

In this section, we move on to look at the utilization of the Revitalization Support Councils[7], which were established to support SMEs who require financial assistance, such as enterprises with changed loan conditions. Fig. 2-5-19 shows the trends in the number of enterprises consulting with Revitalization Support Councils and the number of revitalization plans formulated. When the Councils were first established, there were around 3,000 consultations each year, but in FY2010 and FY2011, that number dropped to around 2,000 before rising steeply again in FY2012 to reach a total of 3,421 consultations in FY2014. The number of revitalization plans formulated also increased suddenly in FY2012, and 2,484 revitalization plans were formulated in FY2014. The main reasons for this were the formulation of an exit strategy for the Financing Facilitation Act[8], including a target of providing support for the drafting of 3,000 revitalization plans per year formulation and the enacting of legislation to accelerate and simplify the provision of support for revitalization plan formulation.

7) The Revitalization Support Councils were established by approved support agencies, such as Chambers of Commerce and Industry, that had been sanctioned as agents to deliver revitalization support programs under the Article 127 of the Industrial Competitiveness Enhancement Act, and were set up within those approved support agencies. Starting in February 2003, SME Revitalization Support Councils were set up progressively nationwide, and there is currently one council in each of 47 prefectures throughout Japan. Specialists with knowledge and experience in business revitalization (staff from financial institutions, certified public accountants, certified public tax accountants, lawyers, SME management consultants, etc.) are permanently appointed as General Managers or Assistant General Managers and the councils provide consultations for SMEs experiencing difficulties. The services provided include advice and support policies aimed at finding solutions, referrals to support agencies and, in some cases, introductions to lawyers (primary responses). Where enterprises meet set requirements (business viability, etc.), the councils support them in formulating revitalization plans (secondary response).

8) A policy package that provides management support to SMEs under the final extension to the SME Financing Facilitation Act (April 2012). These policies were developed in consultation with the relevant ministries and agencies to ensure faster and more targeted delivery of three measures to strengthen the initiatives in the final extension to the SME Financing Facilitation Act aimed at promoting management reforms and business revitalization in SMEs. The three measures were: (1) more effective delivery of consulting services by financial institutions; (2) enhanced functions and cooperation with the Enterprise Turnaround Initiative Corporation of Japan (ETIC) and the SME Revitalization Support Councils; and (3) other measures to facilitate the support management reform and business revitalization.

Fig. 2-5-19 Trends in the number of consultations with Revitalization Support Councils and the number of revitalization plans completed



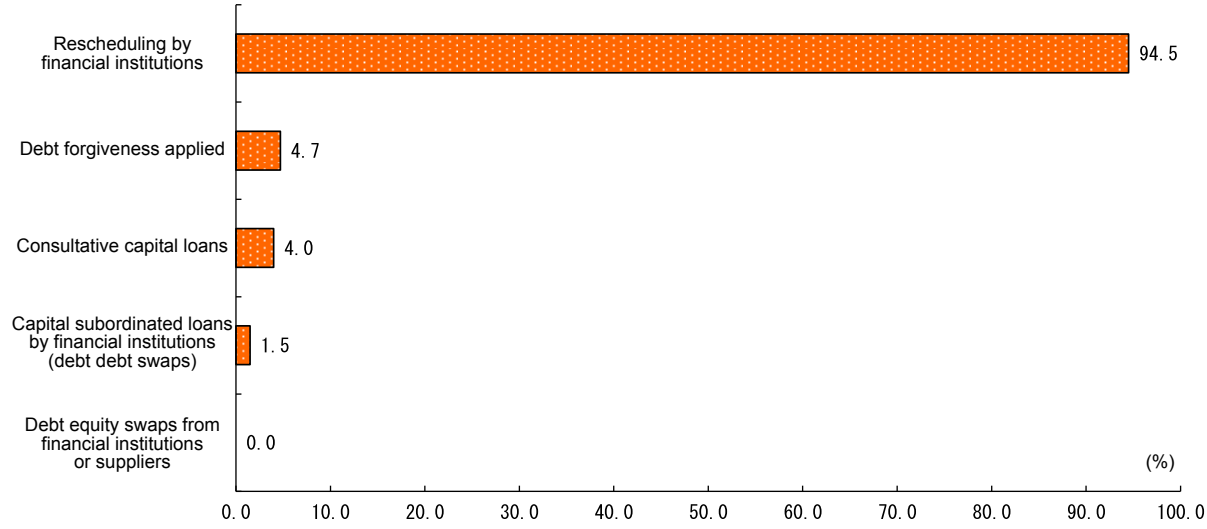
Source: Materials formulated by the SME Agency.

Next, if we look at the proportions of enterprises consulting with Revitalization Support Councils by industry, “Manufacturing”, “Wholesale and retail trade” and “Construction” together make up 72.3% of the total. When we compare this to the proportions of enterprises across the major industrial categories in Japan, we can see that the proportion of enterprises in the manufacturing industries is extremely high (Fig. 2-5-20). Also, when we look at the financing methods used in the completed revitalization plans, the overwhelming bulk (94.5%) opt for “Rescheduling by financial institutions”, with the predominant solutions proposed by financial institutions being changes to lending conditions, such as capital repayment deferral and extensions to the repayment period (Fig. 2-5-21).

Fig. 2-5-20 Proportions of enterprises consulting with Revitalization Support Councils by industry

Source: MIC, *2014 Economic Census for Business Frame*; materials formulated by the SME Agency.
Note: The proportions of consulting enterprises are cumulative totals up to the second quarter of FY2015.

Fig. 2-5-21 Financing methods in completed revitalization plan proposals



Source: Materials formulated by the SME Agency.
Note: Figures are as at the second quarter of 2015

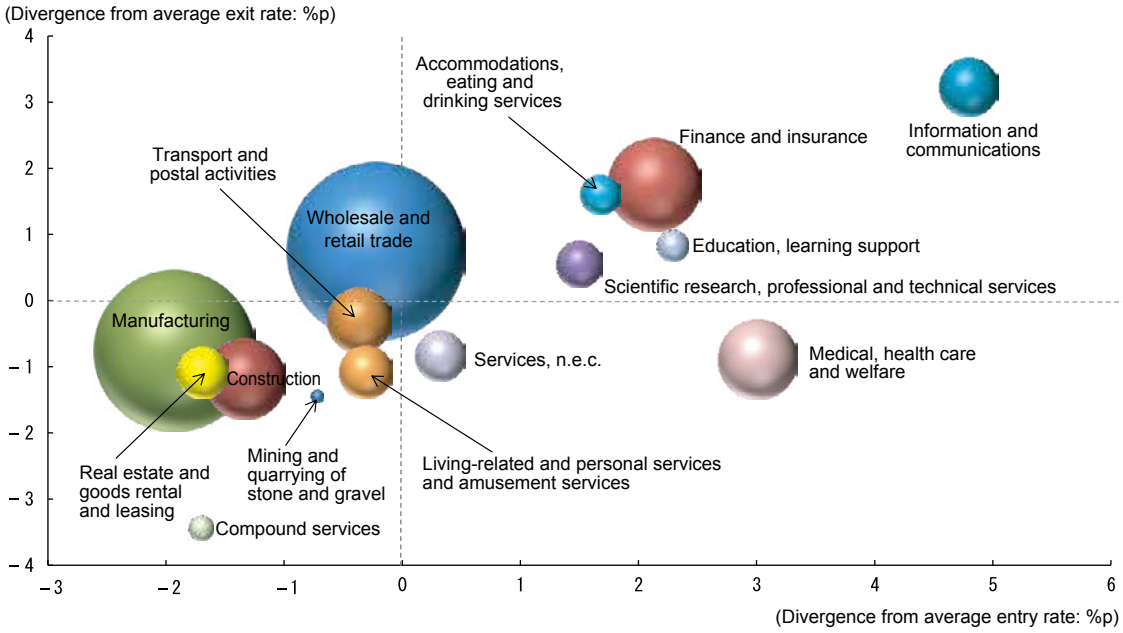
Trends in entry and exit rates

Fig. 2-5-22 plots the divergence in the average entry and exit rates looked at by industry type, and shows that the respective average rates for "Manufacturing" and "Construction" diverge considerably from the average for all industries, indicating that rejuvenation in those industries is stagnating. The exit rate for "Wholesale and retail trade" is also higher than the average for all industry types while its entry rate is lower than the all-industry average, with closures happening faster than in other industries, presumably because the market is contracting.

Fig. 2-5-23 shows the rates of change in the startup and closure rates by industry from 2012 to 2014. This shows some revival in startups with recent entry rates in positive territory for all industries, but there are differences in the size of the variations in each industry, with relatively low growth in the entry rates in "Manufacturing", "Construction" and "Wholesale and retail trade". There are also many industries with declining exit rates due to the effects of the recent shift towards economic expansion in Japan.

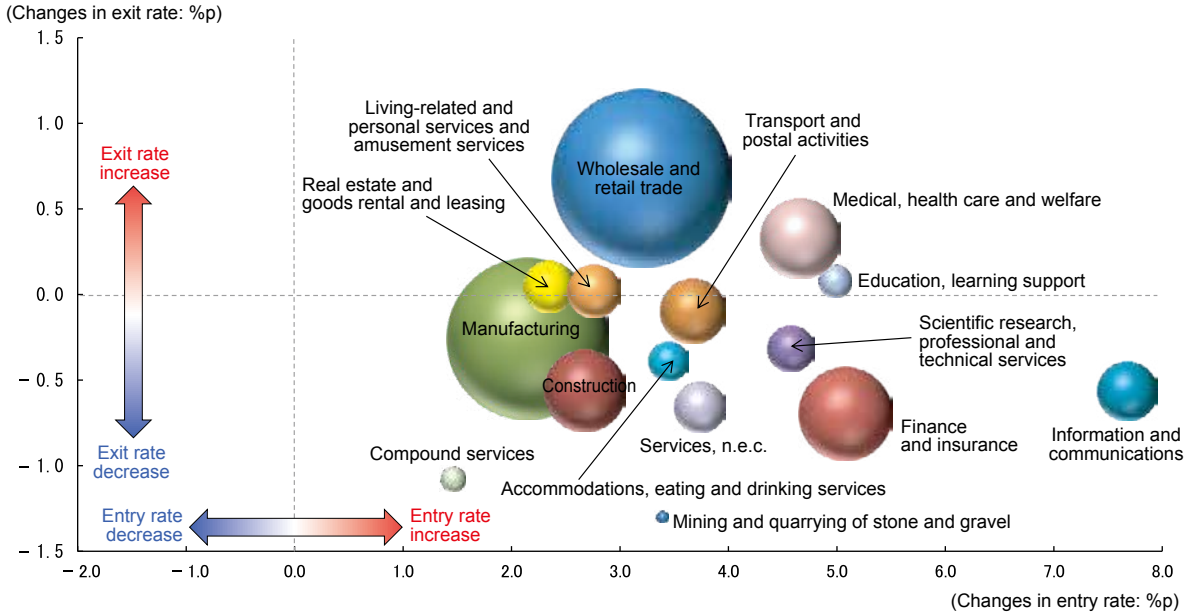
In this way, the "Manufacturing", "Construction" and "Wholesale and retail trade" industries, which make up the majority of the businesses seeking consultations with Revitalization Support Councils, are faced with structural issues including stalled rejuvenation efforts and market contraction. Simply providing temporary financial assistance to these sorts of enterprises through changes to lending conditions is unlikely to help them much in reforming their own management, and more fundamental revitalization support may be required.

Fig. 2-5-22 Divergence in average entry and exit rates by industry



Sources: MIC, *2014 Economic Census for Business Frame*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes:
1. The figure shows the divergence by each industry from the average entry and exit rates for all industries.
2. The size of each circle shows the ratio of sales in each industry as a proportion of total sales for the non-primary industries.
3. The average entry rate for all industries is 4.6%, and the average exit rate is 6.1%. Note also that for "Electricity, gas, heat supply and water", the divergence from the average entry rate is 15.1%p and the divergence from the average exit rate is –0.6%p, but these are not shown on the above graph.

Fig. 2-5-23 Changes in entry and exit rates by industry (2012 — 2014)



Sources: MIC, 2009 and 2014 *Economic Census for Business Frame*; MIC, METI, *2012 Economic Census for Business Activity*.
Notes:
1. For industry entry rates and exit rates, the figure shows the rates of change in the figure from 2012 to 2014.
2. The size of each circle shows the ratio of sales in each industry as a proportion of total sales for the non-primary industries.
3. The rate of change in entry rate for "Electricity, gas, heat supply and water" is 18.9%p, and the rate of change for exits is 1.6%p, but this is not shown on the graph.
4. The average entry rate for all industries is 4.6%, and the average exit rate is 6.1%.

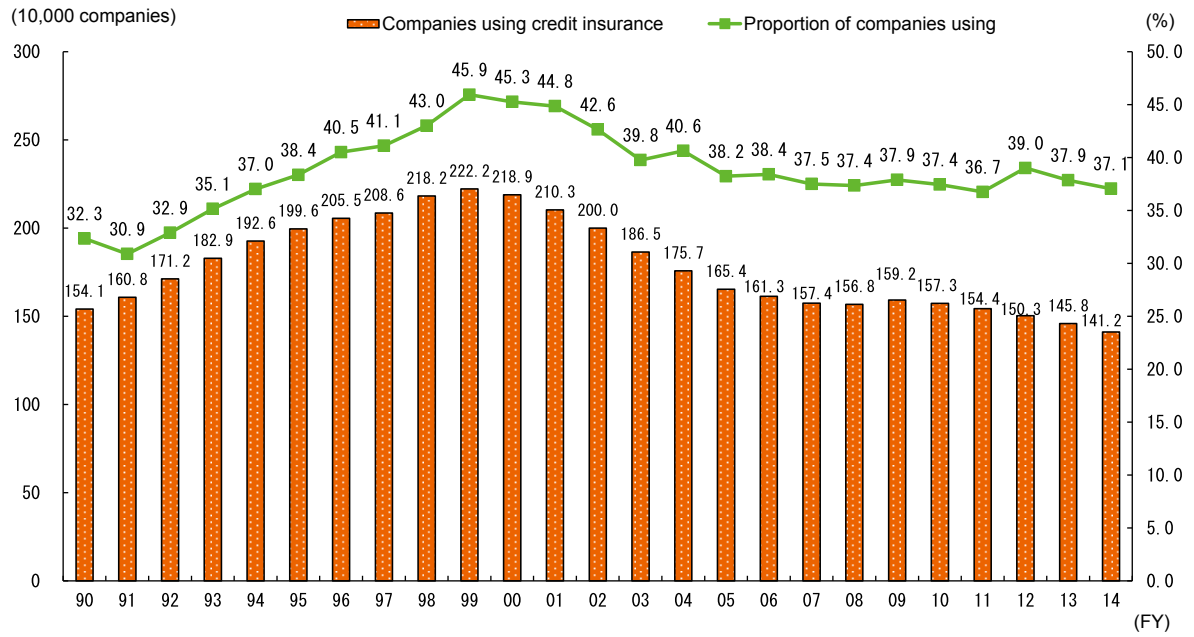
5. Trends in the use of credit guarantee schemes

Below, we discuss trends in the use of the credit guarantees offered by credit guarantee corporations that were established to help SMEs cope with cash-flow issues. When SMEs take out loans with private financial institutions, the loans are guaranteed by credit guarantee corporations so as to facilitate funding procurement by SMEs. In this section, we will look at the trends in the users of such credit guarantee schemes and factors such as the loan balances.

Numbers of credit guarantee users and their balances

We will begin by looking at the situation around the use of credit guarantee corporations by SMEs. Fig. 2-5-24 shows the number of credit guarantee users and the number of SMEs as a proportion of credit guarantee users. The figure shows that the number of credit guarantee users rose until 1999, reaching 2.222 million at its peak. Subsequently the number declined slowly and most recently stood at 1.412 million. The proportion of SMEs among credit guarantee users was 32.3% in 1990 and had climbed to 45.9% by 1999. It then declined through the mid-2000s before leveling off after the Lehman crisis, and was most recently at 37.1%.

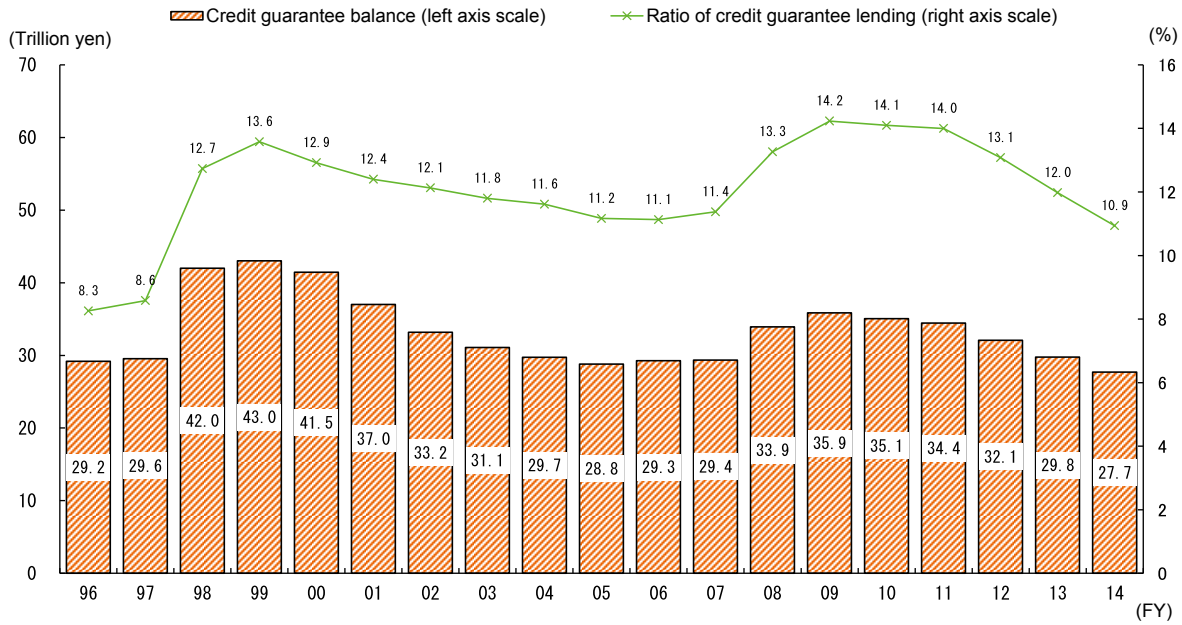
Fig. 2-5-24 Trends in the numbers and proportions of credit guarantee users



Sources: Recompiled from MIC, *Establishment and Enterprise Census*, 2009 and 2014 *Economic Census for Business Frame*; MIC, METI, *2012 Economic Census for Business Activity*; materials of Japan Federation of Credit Guarantee Corporations.
Note: Here, "Proportion of companies using" refers to the number of SMEs using credit guarantees as a proportion of the total number of SMEs.

Fig. 2-5-25 shows the trends in credit guarantee balances and the loans to SMEs as a proportion of the total. The emergency guarantee program introduced to combat the financial system instability that arose at the end of the 1990s significantly boosted the credit guarantee balance at the time and also led to a similarly large increase in the rates of credit guarantee lending. Subsequently there was a gradual decline in the 2000s until the rate again rose with the Lehman crisis. The improved economic conditions in recent years have again lowered credit guarantee balances to the levels of the mid-1990s, with the figure for end of FY2014 standing at ¥27.7 trillion.

Fig. 2-5-25 Trends in credit guarantee balances and ratio of credit guarantee lending



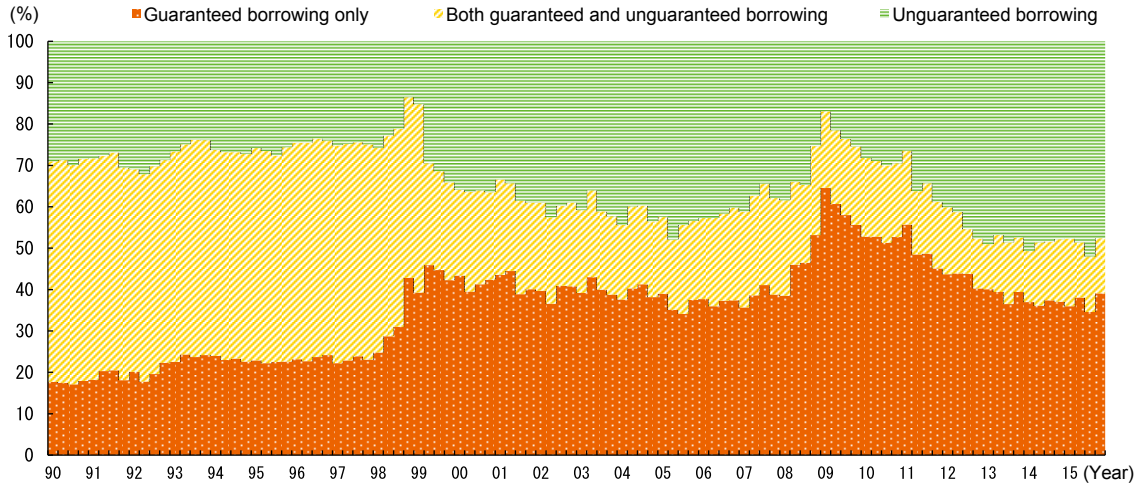
Sources: Prepared by the SME Agency based on Japan Federation of Credit Guarantee Corporations, *Current Status of Credit Guarantee Corporations*; Bank of Japan, *Monthly Report of Recent Economic and Financial Developments*.
Note: Here, "Ratio of credit guarantee lending" refers to the total credit guarantee balance as a proportion of the amount of lending to SMEs.

Trends in credit guarantee users

Next we look at the situation of enterprises that use credit guarantees when procuring funding (Fig. 2-5-26). This examines those SMEs who use credit guarantee schemes for new borrowings in the fourth quarter, and looks at whether they opt for borrowings with credit guarantees, or use "proper" financing[9] from financial institutions, or both. The figure shows that more than half the enterprises used a combination of credit guarantees and proper financing from financial institutions in the 1990s, so that risks were shared between credit guarantee corporations and financial institutions. Later, during the instability in the financial system in the late 1990s and through to the Lehman crisis in 2008, an increasing proportion of users opted to use only borrowings that came with credit guarantees or borrowings without credit guarantees, indicating an increasing polarity in their financing choices.

9) Here, proper financing refers to financing where the financial institution does not use guarantees from third-party agencies such as credit guarantee corporations.

Fig. 2-5-26 Use of credit guarantees for new borrowings among enterprises using credit guarantees

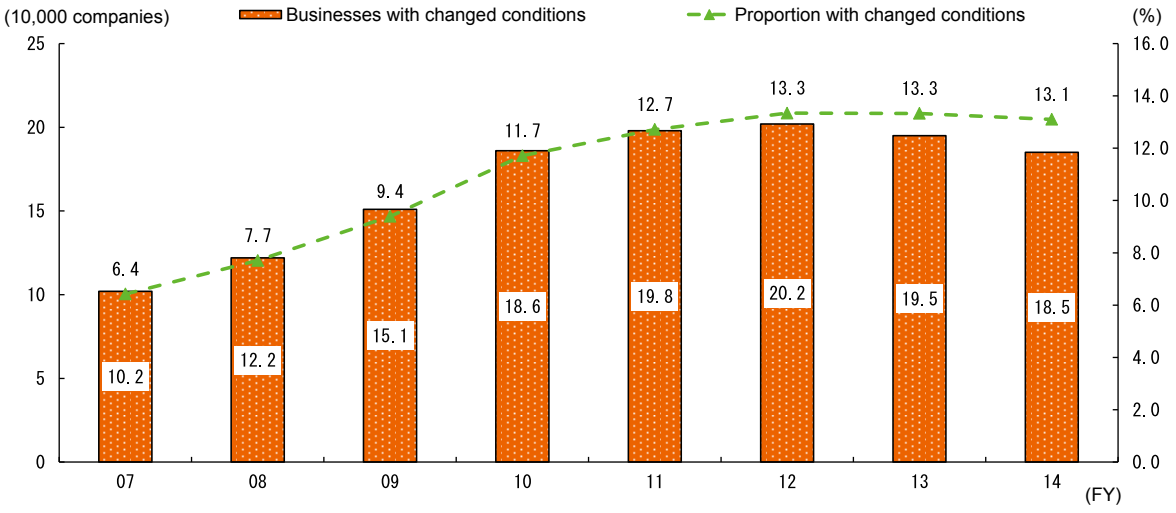


Source: Prepared by the SME Agency based on Japan Finance Corporation (JFC), *Survey on Financial Status of SMEs with Guarantees*.
Note: This survey is directed at enterprises who use credit guarantees and classifies the respondents into enterprises who, for new borrowings in the fourth quarter, use only unguaranteed borrowings, those who use both guaranteed and unguaranteed borrowings, and those who use only guaranteed borrowings. The survey then calculates the proportions of enterprises in each category.

Trends in credit guarantee users with changed conditions

Fig. 2-5-27 looks at SMEs who use credit guarantee corporations and shows the number of enterprises with changed conditions and the number enterprises with changed conditions as a proportion of all the enterprises who use credit guarantees. Looking at the figure, we can see a rise in the number of enterprises with changed conditions after the Lehman crisis, rising to 202,000 in FY2012. But in recent years there has been a gradual decline, with the number falling to 185,000 in FY2014. Enterprises with changed conditions as a proportion of credit guarantee users climbed similarly from 6.4% in FY2007 to 13.3% in FY2012, but then remained more or less steady and stood at 13.1% in FY2014.

Fig. 2-5-27 Trends in enterprises with changed conditions among credit guarantee users



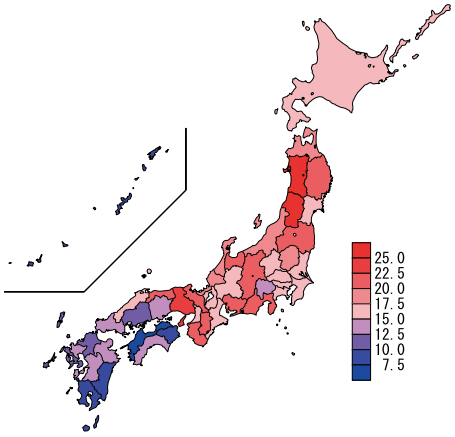
Source: Materials formulated by the SME Agency.

Current status of credit guarantees by region

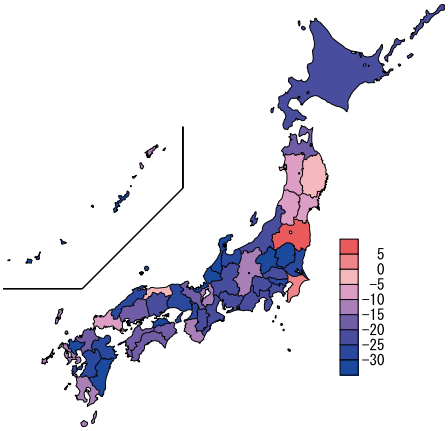
Finally, we examine the proportion of credit guaranteed loans as a proportion of the loans given to SMEs by region. Fig. 2-5-28 (1) shows credit guaranteed loans as a proportion of the lending to SMEs by regional financial institutions. The proportion is high in the Tohoku region, particularly in Akita and Yamagata prefectures. If we also look at the fluctuations in the credit guarantee balance between 2011 and 2015, we see that the balance fell significantly everywhere other than the Tohoku region (Fig. 2-5-28 (2)). This, as we saw in Fig. 2-5-25, is because even though there was a decreasing trend in credit guarantee balances and rates of credit guaranteed lending in Japan as a whole, measures such as the Great East Japan Earthquake Recovery Emergency Guarantee following the Great East Japan Earthquake had the effect of strengthening the need for borrowing backed by credit guarantees in the Tohoku region especially. By contrast, the rates of credit guaranteed lending decreased in the Chugoku, Shikoku and Kyushu regions, with the general trend shifting from east to west.

Fig. 2-5-28 Trends in credit guarantees by region

(1) Proportion of credit guaranteed loans given to SMEs



(2) Rates of variability in credit guarantee balances from 2011 to 2015



Source: Prepared by the SME Agency based on data published by regional financial institutions and credit guarantee corporations.
Notes:
1. Proportion of credit guaranteed loans = Credit guaranteed lending/lending to SMEs
2. Lending to SMEs is calculated as the average figure for FY2013 and FY2014, totaled for each prefecture based on the figures published by the respective financial institutions. Note also that personal lending, such as housing loans, is subtracted from the lending to SMEs published by the financial institutions.
3. Credit guaranteed lending is calculated as the average balance at the financial institutions for each prefecture for FY2014.
4. The trends in credit guarantees show the fluctuation rate for credit guarantee balances at credit guarantee corporations from the end of March 2010 to the end of March 2015.

6. Trends in loan-deposit ratios and non-performing loan ratios at financial institutions

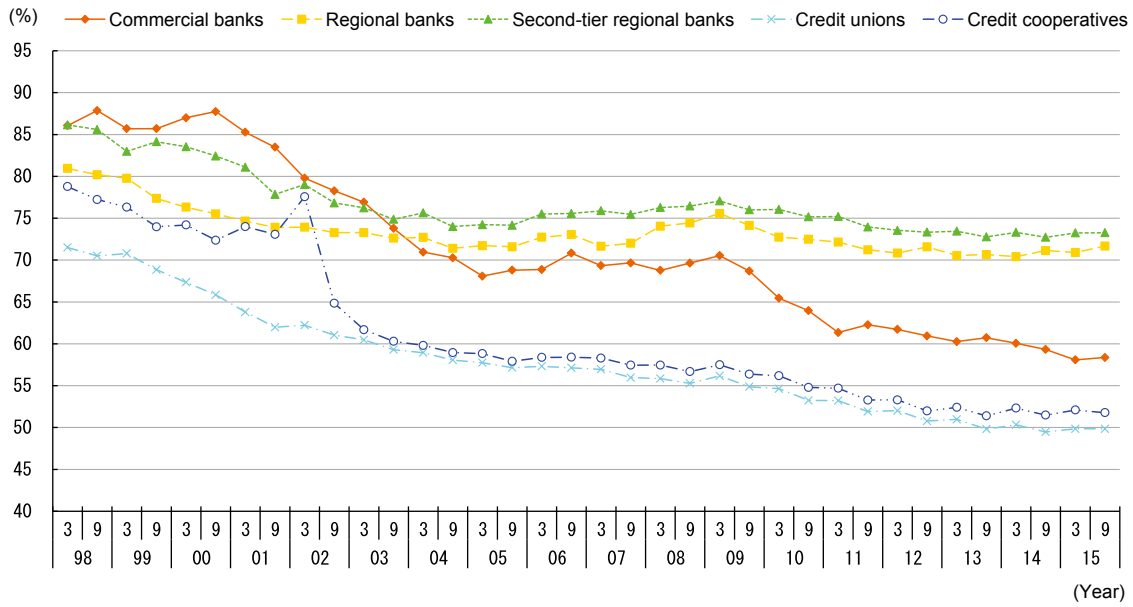
In the previous section, we focused on borrowings by enterprises, but in this final section we will examine the trends the financial institutions that are the principal providers of funding.

Trends in loan-deposit ratios by business type

We begin by looking at the trends in the loan-deposit ratio. Fig. 2-5-29 shows the trends in the loan-deposit ratio[10] according to the type of financial institution. The trend in recent years has been for loan balances to increase, but because deposits have increased even more, the loan-deposit ratio has decreased markedly, with particularly large declines in commercial banks, credit unions and credit cooperatives. The ratio at regional banks and second-tier regional banks has been steady in the last few years, and while deposits at commercial banks, credit unions and credit cooperatives have trended strongly, the trend just recently is for gradual decrease.

10) "Loan-deposit ratio" indicates the ratio of lending balance over deposit balance. Financial institutions make profits by lending out deposits they have collected, and when the loan-deposit ratio is lowered, a funding surplus is generated.

Fig. 2-5-29 Trends in the loan-deposit ratio according to financial institution type

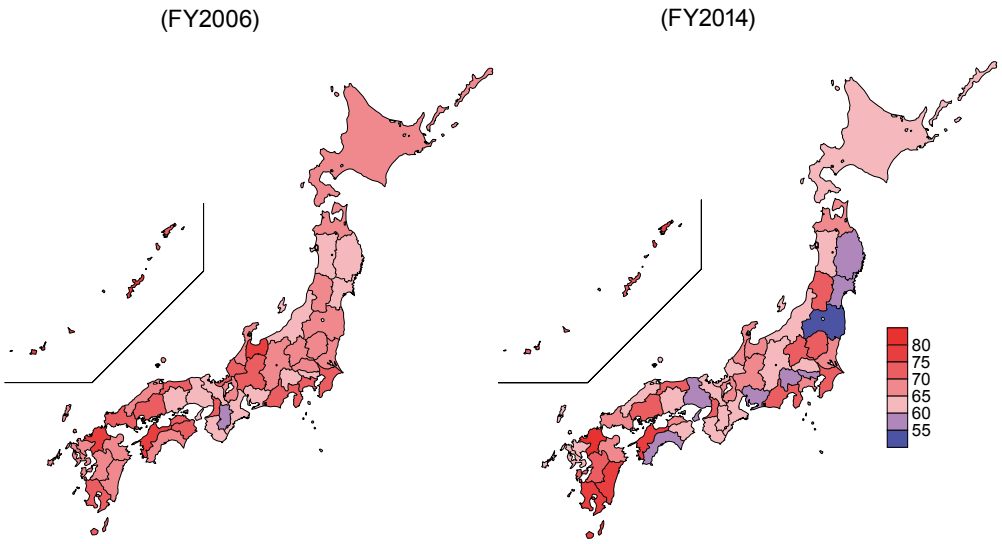


Sources: Prepared by the SME Agency based on the Japanese Bankers Association, *Deposit & Lending Bulletin for All Banks*; Shinkin Central Bank Regional SME Research Institute, *Credit Union Statistical Report*; National Central Society of Credit Cooperatives, *Main Accounts in All Japan Credit Cooperatives*.
Notes: 1. The lending balance is the amount of the bank account lending balance at each of the financial institutions.
2. The deposit balance is the total of the bank account deposit balance + negotiable deposit balance + receivables balance at each of the financial institutions.

Loan-deposit ratios by region

Next, we look at various indicators at financial institutions in each region. Fig. 2-5-30 shows the changes in the loan-deposit ratios at regional financial institutions from FY2006 to FY2014 by prefecture. The changes between FY2006 and FY2014 show that, with the exception of some parts of Kyushu, loan-deposit ratios fell overall.

Fig. 2-5-30 Trends in loan-deposit ratios at regional financial institutions



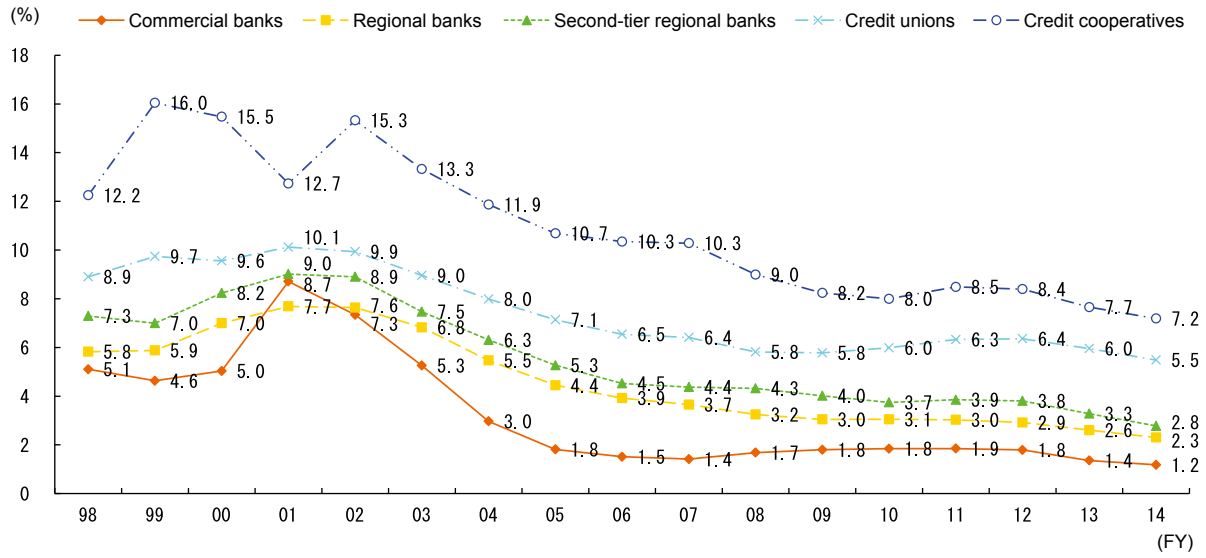
Source: SME Agency data
Notes:
1. Loan-deposit ratio = Lending balance at financial institutions / Total of deposits at financial institutions + negotiable deposits + receivables
2. Totals shown are published figures for regional financial institutions (regional banks, second-tier regional banks, credit unions and credit cooperatives).
3. Figures are compiled based on head offices. Figures for branches in other prefectures are also included in the prefecture where the head office is located.

Trends in non-performing loan ratios by business type

Below, we look at the trends in non-performing loan ratios[11] (Fig. 2-5-31). In the period of financial system instability in the early 2000s, non-performing loan ratios temporarily increase, but subsequently went into a downward trend year on year. The financial situation for enterprises temporarily worsened during economic shocks such as the Lehman crisis, but even at those times non-performing loan ratios at financial institutions did not increase significantly, and the management of financial institutions remained sound.

11) "Non-performing loan ratio" indicates the ratio of claims disclosed under the Financial Revitalization Law over the total credit exposure. This ratio is used as an indicator of the health of financial institutions.

Fig. 2-5-31 Trends in the non-performing loan ratio according to financial institution type

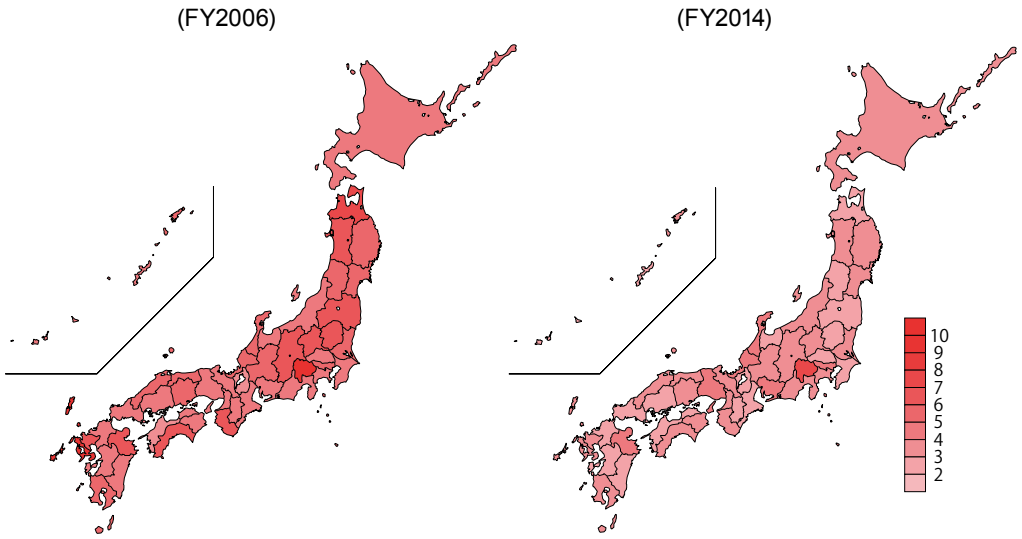


Source: Prepared by the SME Agency based on data published by the FSA.

Trends in non-performing loan ratios by region

Next, we look at the trends in non-performing loan ratios according to region (Fig. 2-5-32). As mentioned above, non-performing loan ratios continued their downward trend even through events such as the Lehman crisis, and when we look at the trends in non-performing loan ratios in individual regions, we see very little difference between the regions.

Fig. 2-5-32 Trends in non-performing loan ratios at regional financial institutions (by prefecture)



Source: Prepared by the SME Agency based on FSA, *Key Management Indices for Small and Medium Regional Financial Institutions*.

Notes:
1. Non-performing loan ratio = Total risk management loans at each financial institution/Total lending at each financial institution
2. Totals shown are published figures for regional financial institutions (regional banks, second-tier regional banks, credit unions and credit cooperatives).
3. Figures are compiled based on head offices. Figures for branches in other prefectures are also included in the prefecture where the head office is located.

Summary of Section 1

In this section, we have focused on borrowings by enterprises, analyzing their fluctuations and the underlying causes. Large enterprises, while increasing their investment in affiliated companies, including offshore ventures, are currently increasing their borrowings from financial institutions. However, we also saw that investment by SMEs has been limited to the scope allowed by their internal reserves, and borrowings from financial institutions continue to be relatively unchanged.

We compared enterprises of the same size and noted that, while differences in profitability have resulted in some high-profit enterprises becoming entirely debt-free, there are also significant numbers of low-profit enterprises dealing with cash-flow difficulties who have had to take steps such as renegotiating their borrowing conditions. And in looking at the differences in profitability between enterprises increasing their borrowings and those decreasing their borrowings, we also examined the risk tolerance applied by financial institutions. This revealed that risk tolerance has declined gradually since 1990, but the recent upturn in economic conditions has resulted in risk tolerance returning to a rising trend.

As the profit environment for enterprises improves, their investment needs also increase. In the face of this appetite for investment, it is important that financial institutions also pay attention to the growth of enterprises and move positively to provide funding. In the next section, we will analyze the situation around this supply of growth investment funding from financial institutions to SMEs.

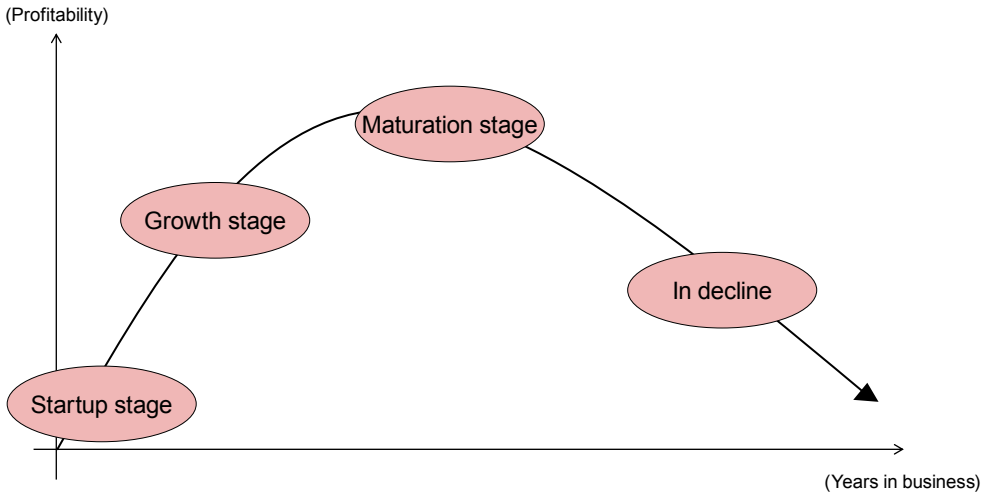
Section 2 The importance of funding growth in SMEs

1. Need for growth funding for SMEs and the funding sources

Identifying the stages of enterprise growth and the management issues

In this section, we will use the *Survey of Fund Raising by Small and Medium Enterprises*[12] to analyze the need for a supply of funding that targets SME growth stages and risks. The analysis will be in terms of the growth stages for SMEs and the status of borrowings from financial institutions. Here, the four growth stages of enterprises are the "startup stage", "growth stage", "maturation stage" and "in decline" (Fig. 2-5-33). Enterprises face different management issues at each of the respective growth stages and are likely to invest in a range of management resources to address those issues.

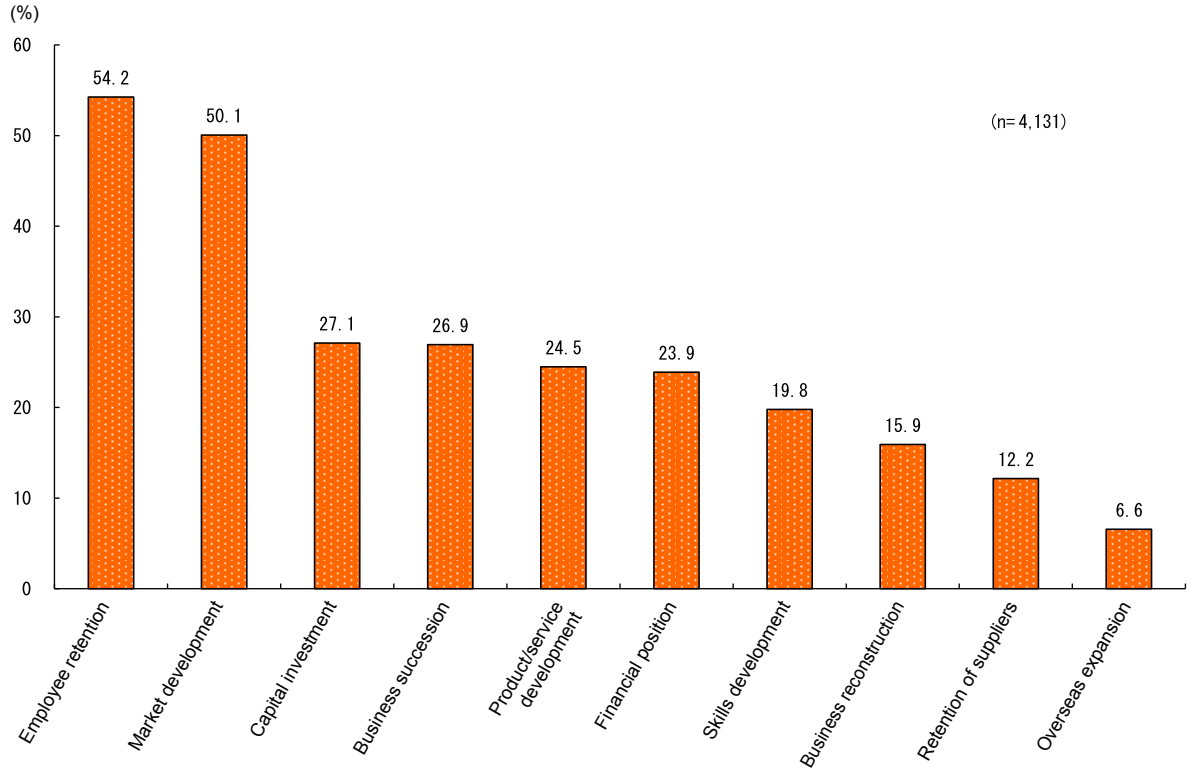
Fig. 2-5-33 Schematic of the enterprise growth stages



We will begin by looking at the management issues faced by SMEs. Fig. 2-5-34 shows the management issues accompanying the growth of SMEs, and it shows that "Employee retention" (54.2%) and "Market development" (50.1%) both rank above the 50% mark, indicating that many enterprises have problems with increasing their sales and holding on to staff. The "Capital investment", "Business succession", "Product/service development" and "Financial position" responses all drew scores in the mid-20% range, suggesting that some enterprises also face issues to do with their growth stage and financial status.

12) Survey of 20,000 enterprises and 5,800 main financial institution branches conducted by the Mizuho Research Institute Ltd. in December 2015, commissioned by the SME Agency. The response rate was 23.5% for enterprises and 52.8% for financial institutions.

Fig. 2-5-34 Management issues posed by growth

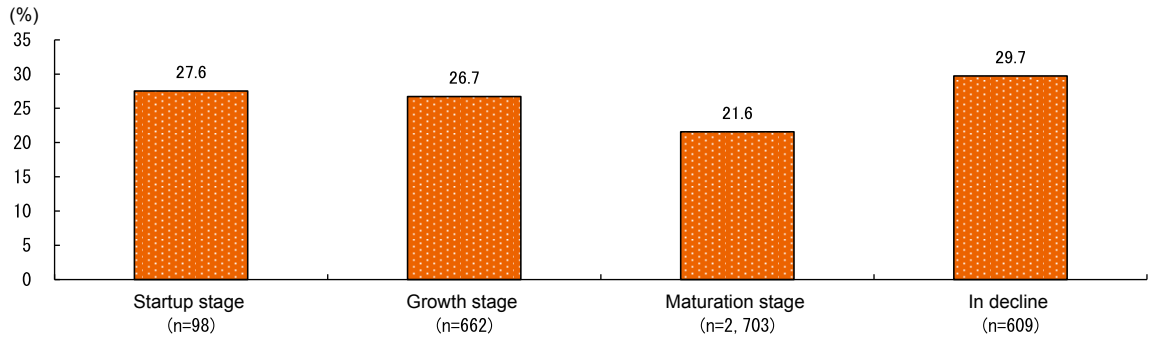


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

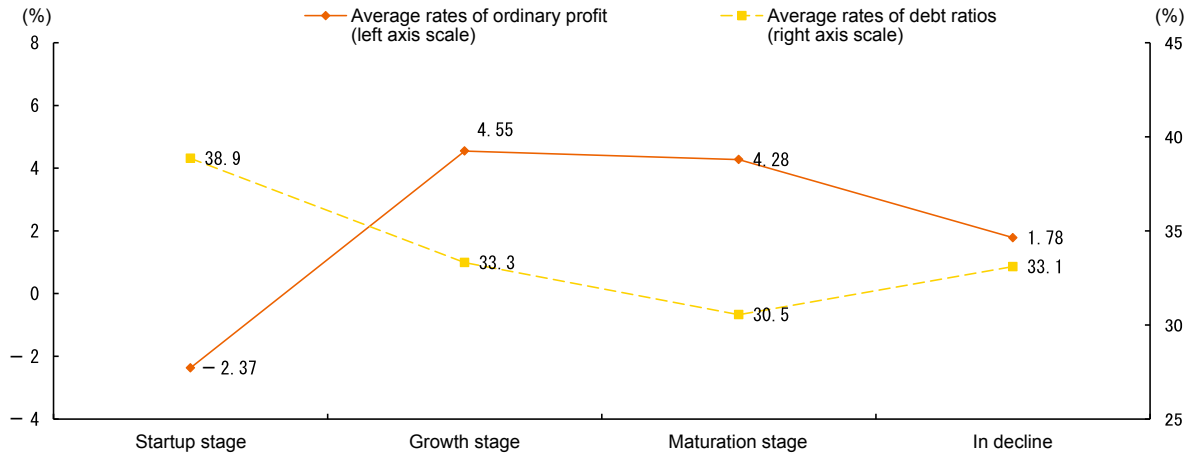
In terms of the "Financial position", which is closely related to the topic of this chapter, Fig. 2-5-35 (1) shows the enterprises who felt they had management issues with their financial position according to their growth stage. The proportion of respondents reporting cash-flow management issues tended to decline as enterprises moved from the startup stage through the growth stage and into the maturation stage of growth. Though it increases in decline stage. If we also look at the average ordinary profit and debt ratios according to enterprise growth stage, average ordinary profit rates are in negative territory (−2.37%) in the startup stage, but rise to 4.55% in the growth stage before slowing slightly to 4.28% in the maturation stage. When enterprises enter the in decline stage, ordinary profit drops markedly to 1.78% (Fig. 2-5-35 (2)). So this shows that enterprises are in the red in the startup stage and go into the black as operations start to stabilize in the growth stage. Profit ratios then decline slightly as growth slows in the maturation stage and fall still further as enterprises go into decline. Debt ratios, which are at 38.9% in the startup stage, decline as enterprises progress through the growth stages, falling to 30.5% in the maturation stage before rising again to 33.1% as enterprises go into the in decline stage, when the debt burden is again growing. When we consider the status of ordinary profit rates and levels of debt burden relative to enterprise growth stages, we see the trends in the awareness of SMEs of their "financial position".

Fig. 2-5-35 Average ordinary profit and debt ratios according to the growth stage of enterprises who see their financial position as a management issue

(1) Enterprises that see their financial position as a management issue according to growth stage



(2) Average rates of ordinary profit and debt ratios according to enterprise growth stage

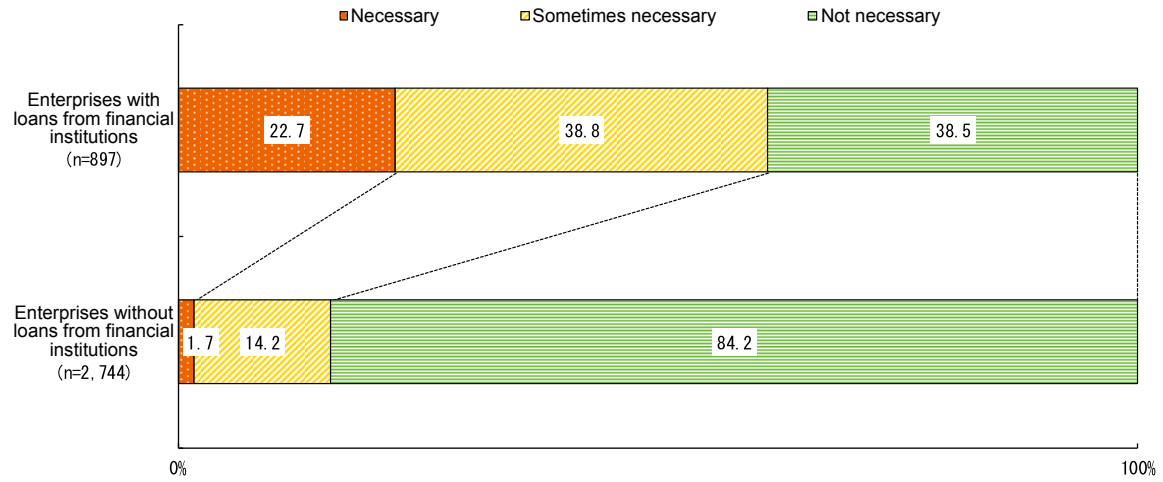


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Totals are calculated for enterprises with ordinary profit rates and debt ratios that are both in the –100% to 100% range.

The necessity of growth funding to resolve management issues and sources of that funding

Next, Fig. 2-5-36 shows the results of a survey of whether or not enterprises need to procure funding when they are planning future investment to resolve these sorts of management issues. The figure shows that over 60% of enterprises who currently have loans replied "Necessary" or "Sometimes necessary", indicating that they clearly need to procure funding to resolve their problems. On the other hand, close to 80% of enterprises who do not currently have loans chose the "Not necessary" response, showing that debt-free enterprises have little intention of procuring funding from financial institutions for future investment.

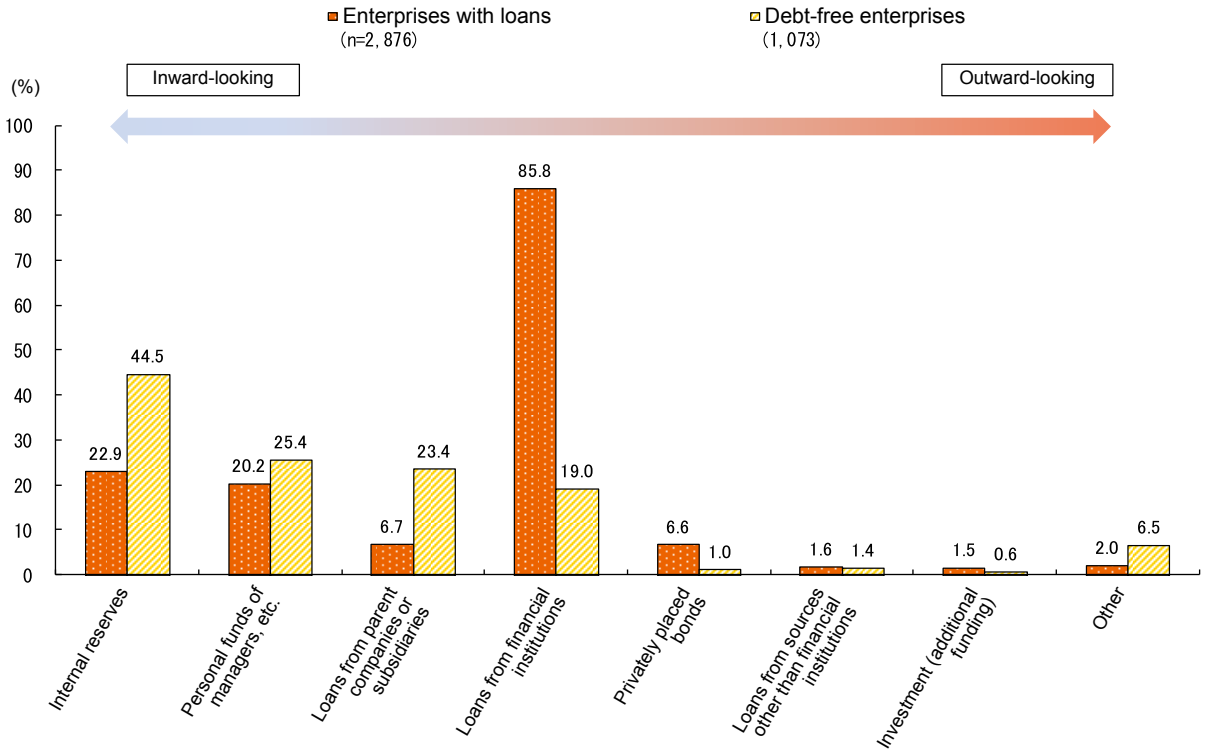
Fig. 2-5-36 Intentions to procure funding from financial institutions to resolve growth-related issues



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

We now turn to the sources of funding that is procured for investments aimed at resolving growth-related issues. Fig. 2-5-37 shows sources of the funding needed to resolve growth-related issues according to the status of borrowings from financial institutions. Over 80% of the enterprises who routinely borrow from financial institutions responded that their funding source is "Loans from financial institutions", followed by "Internal reserves" and then "Personal funds of managers, etc.". However, the highest proportion of debt-free enterprises that do not have borrowings from financial institutions responded "Internal reserves", followed by "Personal funds of managers, etc." and then "Loans from parent companies or subsidiaries". This shows that enterprises who already borrow from financial institutions actively seek out funding from external sources, whereas debt-free enterprise prioritize internal sources when procuring funding. Across all enterprises, hardly any selected the "Investment (additional funding)" response, showing that SMEs have little need for direct financing and primarily opt for indirect financing. Thus, SMEs that have difficulty procuring funding directly from the market have a strong ongoing need to procure funding from financial institutions, whereas debt-free enterprises rely heavily on in-house funding such as internal reserves and have little need for borrowings from financial institutions.

Fig. 2-5-37 Sources of funding needed to resolve growth-related issues

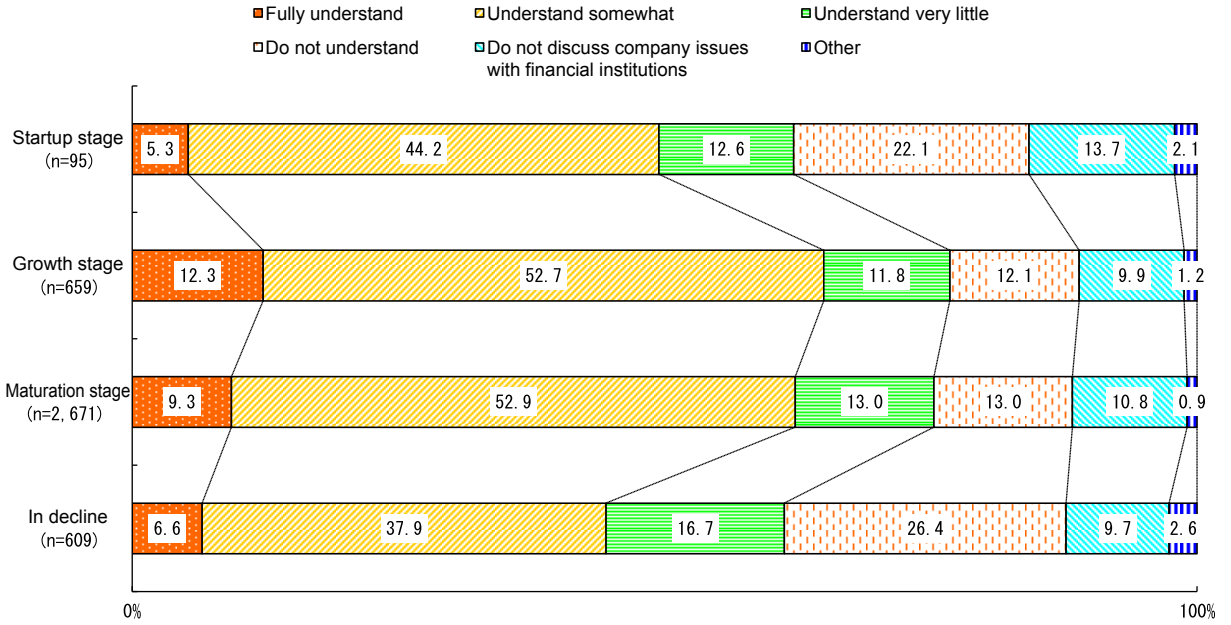


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Understanding of the management issues of enterprises

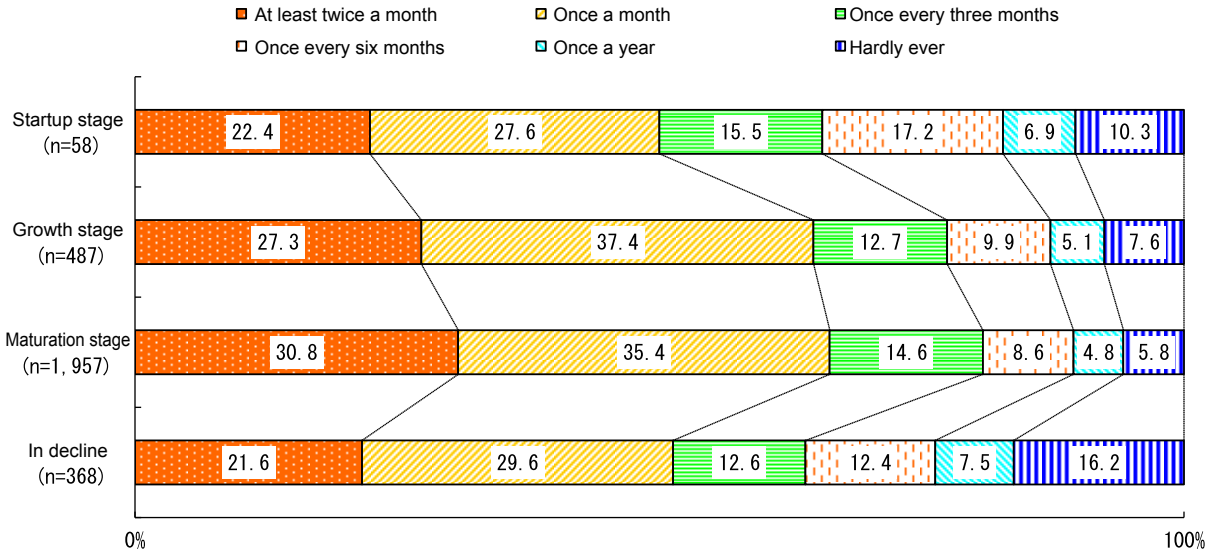
Finally, we will look from the perspective of enterprises at the extent to which financial institutions actually understand the management issues faced by enterprises. No more than 10% of the responding enterprises replied that financial institutions "Fully understand" their management issues (Fig. 2-5-38). If we also include the "Understand somewhat" responses, then 50−60% of enterprises felt that financial institutions understand their management issues. The proportions of "Understand very little" and "Do not understand" responses were high among enterprises in the startup stage and enterprises in decline. These differences in the understanding of management issues according to enterprise growth stage probably arise out of the level of day-to-day interactions between enterprises and financial institutions and the nature of the information they exchange. Fig. 2-5-39 shows the frequency of enterprises' face-to-face meetings with the main banks according to the growth stage of those enterprises. It shows that the frequency of meetings with financial institutions increases until enterprises reach the maturation stage and then declines once the enterprises enter the in decline phase. We can surmise that this weakening of the relationship between an enterprise and its financial institution is linked to the lowered understanding by the financial institution of the enterprise's management issues. Below, we move on to an analysis that focuses on the points of contact between enterprises and financial institutions.

Fig. 2-5-38 Financial institutions' understanding of the management issues of enterprises



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Fig. 2-5-39 Frequency of meetings with main banks according to growth stage



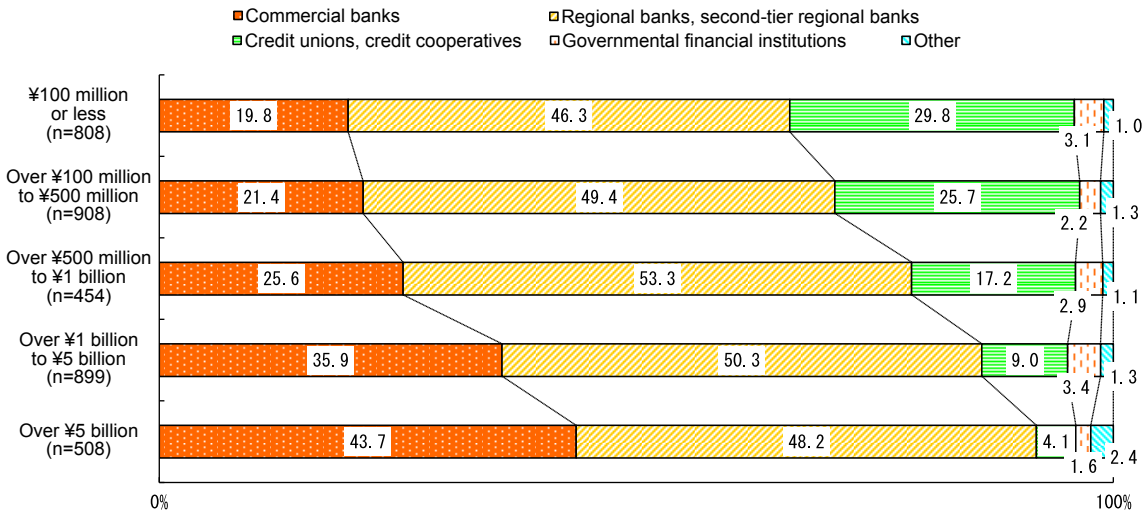
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Figures were totaled only for enterprises with borrowings from financial institutions.

2. Relationships between SMEs and financial institutions

Everyday contacts between SMEs and financial institutions

Below, we look in more detail at the everyday contacts between financial institutions and SMEs. Firstly, Fig. 2-5-40 shows the types of main bank according to the volume of enterprise sales. The most popular choice of main bank among responding enterprises was "Regional banks, second-tier regional banks", with little change in the proportion of the responses regardless of the enterprise sales volumes. We can also see that, while the proportion of enterprises selecting "Commercial banks" as their main bank increases as sales volumes rise, the proportion who select "Credit unions, credit cooperatives" grows smaller.

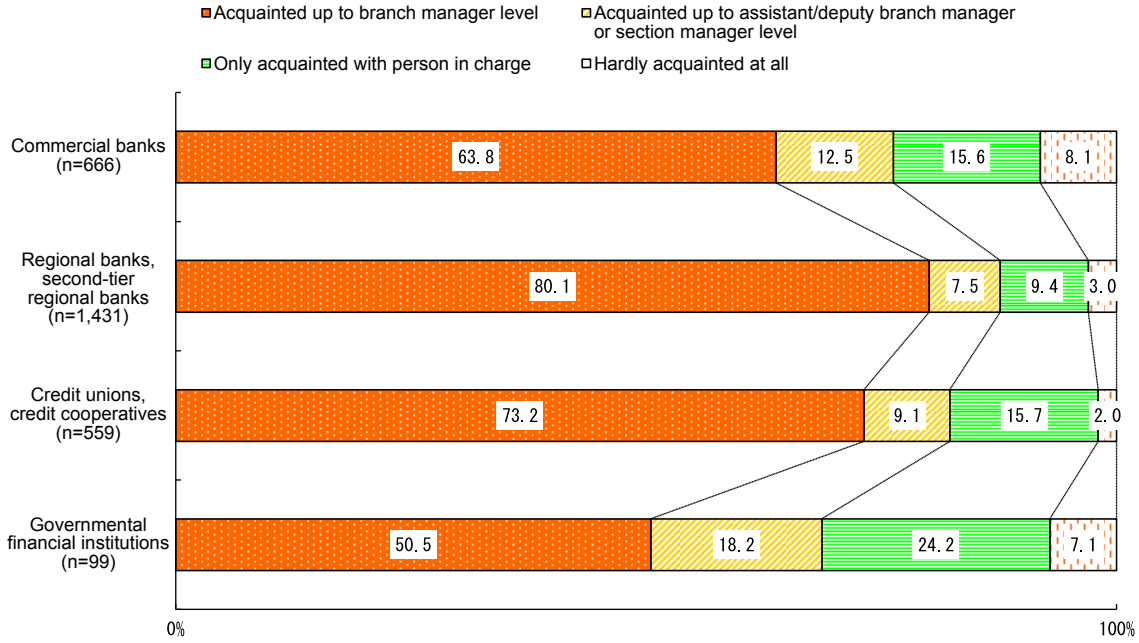
Fig. 2-5-40 Main bank types according to sales volume



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

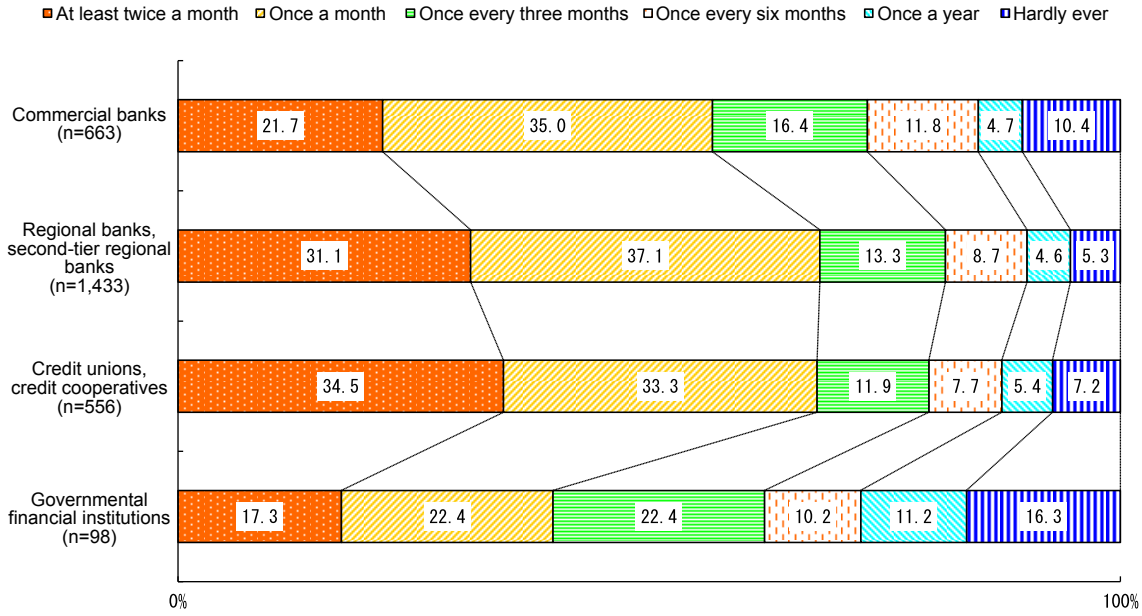
Next, we look at how well acquainted enterprises are with main bank management staff for the different types of bank (Fig. 2-5-41). The enterprises with the highest proportion who responded "Acquainted up to branch manager level" are those with "Regional banks, second-tier regional banks" as their main bank, followed by enterprises with credit unions or credit cooperatives as their main bank and then enterprises with commercial banks as their main bank. However, roughly half of the enterprises who nominated governmental financial institutions as their main bank responded that they had never met the branch manager, with 24.2% responding "Only acquainted with person in charge", which is the highest proportion compared with other bank types. If we also look at the frequency of face-to-face meetings at main banks, the frequency is lowest for "Commercial banks", with "Regional banks, second-tier regional banks" being more frequent and "Credit unions, credit cooperatives" the most frequent (Fig. 2-5-42). Also, the proportion of enterprises who have meetings with governmental financial institutions once a month or more is below 40%, whereas that proportion for the other bank types is 50−70% of enterprises, showing that governmental financial institutions clearly have relatively infrequent personal meetings with enterprises.

Fig. 2-5-41 Face-to-face meetings with main bank management staff by bank type



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Figures were totaled only for enterprises with borrowings from financial institutions.

Fig. 2-5-42 Frequency of face-to-face meetings with main banks according to bank type



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Figures were totaled only for enterprises with borrowings from financial institutions.

These differences in meeting frequencies among the different bank types are most likely the result of factors such as differences in the number of clients assigned per public liaison officer and the different number of branches depending on the type of financial institution type. The reasons for this may well be that credit unions and credit cooperatives deal with more small enterprises than commercial banks and regional or second-tier regional

banks, and each branch covers a smaller area. Fig. 2-5-43 shows the number of branches according to financial institution type. In terms of the numbers of financial institutions, the credit unions are the most numerous with 267, but in terms of the number of domestic branches and employees, regional banks top the list with 7,491 branches and 130,818 employees. When we look at the number of clients and the financing balance per individual public liaison officer in the area of lending to SMEs, the trend is for client numbers to be higher but financing balances to be smaller at smaller financial institutions. However, the numbers of clients and the financing balances are both markedly higher at governmental financial institutions. This is most likely due to the fact that, whereas a lot of the work at private financial institutions is in areas other than financing, such as handling deposits and dealing with investment trusts and insurance products, governmental financial institutions specialize in the financing business, so financing work makes up a large proportion of their business.

Fig. 2-5-43 Number of branches according to financial institution type

(1) Numbers of financial institutions, branches in Japan and employees according to financial institution type

	No. of financial institutions	No. of branches in Japan	No. of employees
Commercial banks	5	2,732	93,416
Regional banks	64	7,491	130,818
Second-tier regional banks	41	3,057	44,889
Credit unions	267	7,398	109,258
Credit cooperatives	154	1,709	20,120
Governmental financial institutions	2	252	11,339

(2) Loan balance and no. of clients per public liaison officer

	No. of clients (companies)	Loan balance (¥100 million)
Commercial banks	42.2	43.0
Regional banks	47.0	32.6
Second-tier regional banks	55.3	25.9
Credit unions	62.6	19.9
Credit cooperatives	66.1	14.4
Governmental financial institutions	100.6	122.6

Sources: Prepared by the SME Agency based on data published by the Japanese Bankers Association, the Shinkin Central Bank Regional SME Research Institute, the National Central Society of Credit Cooperatives, and the Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Notes:
1. The totals for the number of financial institutions, number of branches in Japan and number of employees were calculated as at the end of March, 2015.
2. The numbers per public liaison officer are calculated from a survey of branches included in the *Survey of Fund Raising by Small and Medium Enterprises* targeting financial institutions.
3. In the case of governmental financial institutions, total values were calculated for the Japan Finance Corporation and the Shoko Chukin Bank, whose clients are predominantly SMEs.

State of information exchange between SMEs and financial institutions

Next, we will look at the nature of the information that is exchanged during face-to-face meetings between SMEs and financial institutions, taking the perspectives of the enterprises and the financial institutions separately. We begin by analyzing the information received by enterprises from financial institutions (Fig. 2-5-44 (1)). Many enterprises responded "Information on financial affairs/products" or "Local situation", and when we break the responses down by growth stage, enterprises in the growth stage or maturation stage generally received more items of information than enterprises in the other growth stages.

Fig. 2-5-44 (2) shows the results from the perspective of financial institutions talking about the information they provided to SMEs. Overall, the results are similar to the responses from enterprises, with many financial institutions choosing the "Information on financial affairs/products" or "Local situation" responses. But over 40% of financial institutions also responded "Solutions to management issues" or "Industry trends", which is one point where their responses differ from those of SMEs.

When we look at the results by financial institution type, there are also some major differences. Many regional banks, second-tier regional banks, credit unions and credit cooperatives responded "Local situation", whereas a high proportion of commercial banks and

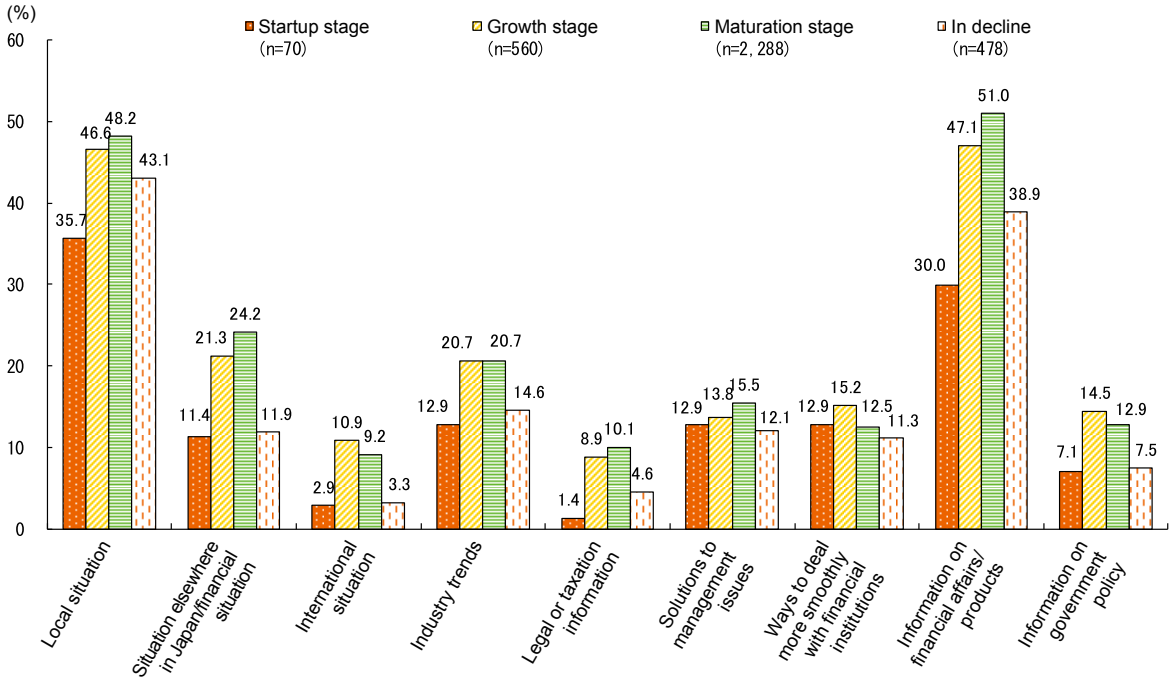
governmental financial institutions opted for "Situation elsewhere in Japan/financial situation". The "International situation" response was also exceptionally popular with commercial banks. Also, whereas commercial banks, regional banks, second-tier regional banks, credit unions and credit cooperatives all rate highly for the "Industry trends" response, only governmental financial institutions are outstandingly high for "Information on government policy". So from this we can conclude that because different types of financial institution cover different regions and types of business, they tend to specialize in the types of information they provide to clients. For this reason, when enterprises are gathering information from financial institutions, it is probably most effective for them to obtain that information from a financial institution that specializes in that area.

Next, we move on to an analysis of the information that enterprises provide to financial institutions. Looking firstly from the perspective of enterprises, the highest proportion of enterprises responded "Status of finances/income and expenditure", followed by "Future business outlook". Less than 30% of enterprises provide information about "Management issues", with few enterprises explicitly airing their management issues with financial institutions (Fig. 2-5-45 (1)).

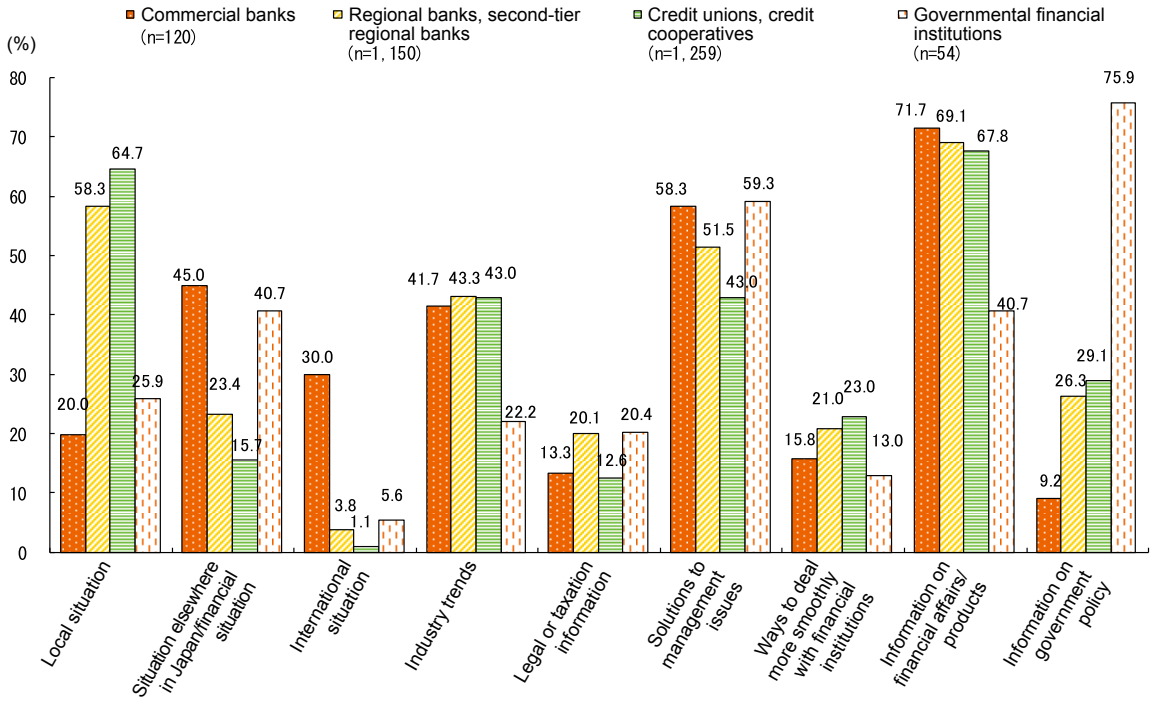
Then, if we look at the results from the perspective of financial institutions, the highest proportion of financial institutions selected the "Funding requirements" response, followed by "Status of finances/income and expenditure" and then "Trends in competing banks" (Fig. 2-5-45 (2)). The "Funding requirements" and "Trends in competing banks" responses diverge from those selected by the enterprises, and this is probably because financial institutions would naturally identify the financing needs of enterprises during their conversations, whereas the enterprises themselves might not be aware that they were providing any information. When we look at the results by financial institution type, almost 100% of governmental financial institutions responded "Status of finances/income and expenditure". And the proportion of commercial banks and governmental financial institutions who checked "Management issues" is higher than for other types of financial institution.

Fig. 2-5-44 Information gathered by enterprises from financial institutions

(1) Information gathered by enterprises from financial institutions



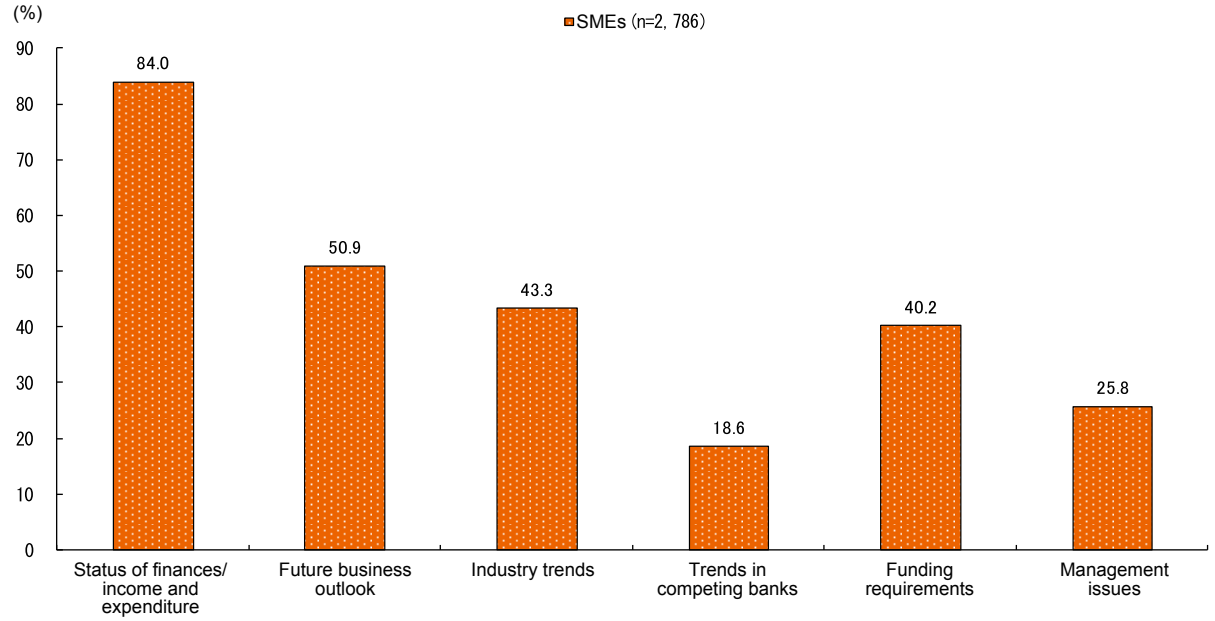
(2) Information financial institutions provide to enterprises



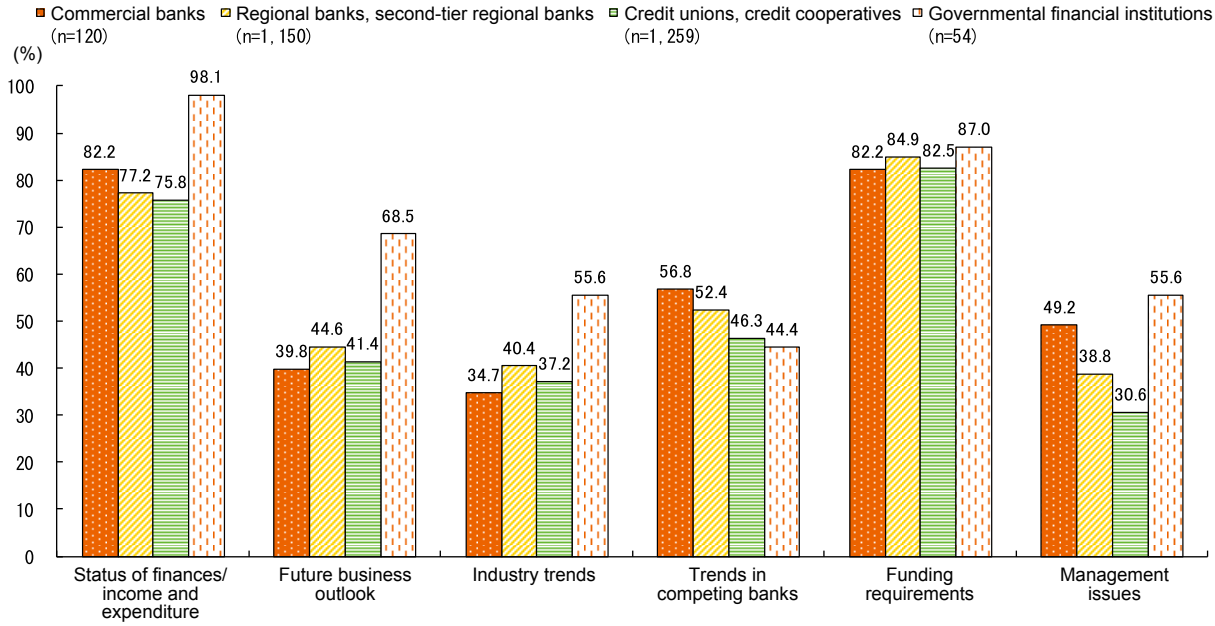
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-5-45 Information provided to financial institutions by enterprises

(1) From enterprises' viewpoint



(2) From financial institutions' viewpoint



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Notes: 1. Data from the perspective of financial institutions was totaled based on the "Always check" responses for the information that financial institutions check when meeting with enterprises.
2. Total does not always equal 100% as multiple responses were possible.

Programs by financial institutions that promote risk preparedness in enterprises

So we have seen that financial institutions, through their day-to-day interactions with SMEs, understand the particular characteristics of those enterprises. The fact that financial institutions deal with many enterprises gives them the ability to make comparisons between enterprises and identify their strengths and weaknesses. So one

would expect that financial institutions would make full use of their consulting functions to promote solutions that address the weaknesses and other issues that they have pinpointed. In this section, we look at programs by financial institutions that will support enterprises in developing measures to handle risks, which is one way in which those financial institutions can use their consulting functions to address weaknesses in enterprises (Fig. 2-5-46).

If we look at the trends for financial institutions generally, many financial institutions promote measures aimed at business succession and market development, such as "Securing new sales destinations" and "Retention of staff for business succession", which are raised as management issues by enterprises themselves.

Looking at the trends by financial institution type, a high proportion of credit unions, credit cooperatives and governmental financial institutions opted for "Cooperation with outside specialists/agencies", suggesting an approach that actively promotes cooperation with third parties in situations where enterprises cannot resolve their management issues themselves.

A high proportion of commercial banks nominated "Hedging against exchange rate and interest fluctuations", which may well be because commercial banks can offer financial derivative products that present specific solutions for the risks posed by the exchange rate and interest rate fluctuations triggered by changes in the economic or financial environment.

Many regional banks, second-tier regional banks and commercial banks chose "Utilization of insurance", which is probably because regional banks and commercial banks, through their large networks of branches and extensive employee base, can work with businesses such as insurance companies within their own corporate grouping to offer a wide range of proposals.

To summarize, we see that the different financial institution types are using their particular characteristics to promote measures to deal with risks in sectors where they have specialist capabilities.

Fig. 2-5-46 Programs by financial institutions that promote risk preparedness in enterprises

	Total (n=2,946)	Commercial banks (n=121)	Regional banks, second-tier regional banks (n=1,226)	Credit unions, credit cooperatives (n=1,540)	Governmental financial institutions (n=55)
Earthquake-proofing and fire-prevention measures at factories and branches, etc.	11.3	9.9	17.1	5.8	38.2
Distribution of operations at factories and branches, etc.	5.3	9.9	8.8	1.9	14.5
Layout reviews inside factories, etc.	7.2	3.3	7.7	6.9	12.7
Reviews of distribution routes	8.5	16.5	9.8	6.9	7.3
Enhancement of product quality management systems	16.0	14.9	19.5	13.2	20.0
Security enhancements for in-house systems	8.4	14.0	12.2	4.7	16.4
Enhancement of in-house management systems	32.5	55.4	38.2	25.5	50.9
Review of business procedures	10.8	9.1	13.0	9.4	7.3
Employee multi-skilling	10.1	9.1	9.8	10.2	16.4
Employee awareness-raising	25.3	13.2	20.1	30.7	18.2
Normalization of the employee age composition	10.2	5.0	9.1	11.3	16.4
Utilization of employees with specialist knowledge	7.7	5.0	9.4	6.6	7.3
Retention of staff for business succession	61.8	66.1	66.5	57.5	72.7
Cooperation with outside specialists/agencies	49.7	33.9	48.5	51.6	60.0
Securing new sales destinations	67.1	62.0	70.2	65.1	61.8
Diversification of supply lines	20.7	24.0	25.5	16.6	18.2
Wider distribution of sales destinations	43.8	33.1	45.1	43.9	36.4
Normalization of business terms	28.5	18.2	30.1	27.7	36.4
Hedging against exchange rate and interest fluctuations	19.1	50.4	33.9	3.8	40.0
Utilization of insurance	30.9	45.5	56.1	10.2	20.0
Enhancement of in-house accounts management systems	39.7	31.4	44.2	35.9	63.6
Drafting of medium-term management plans	46.9	45.5	49.1	43.6	96.4

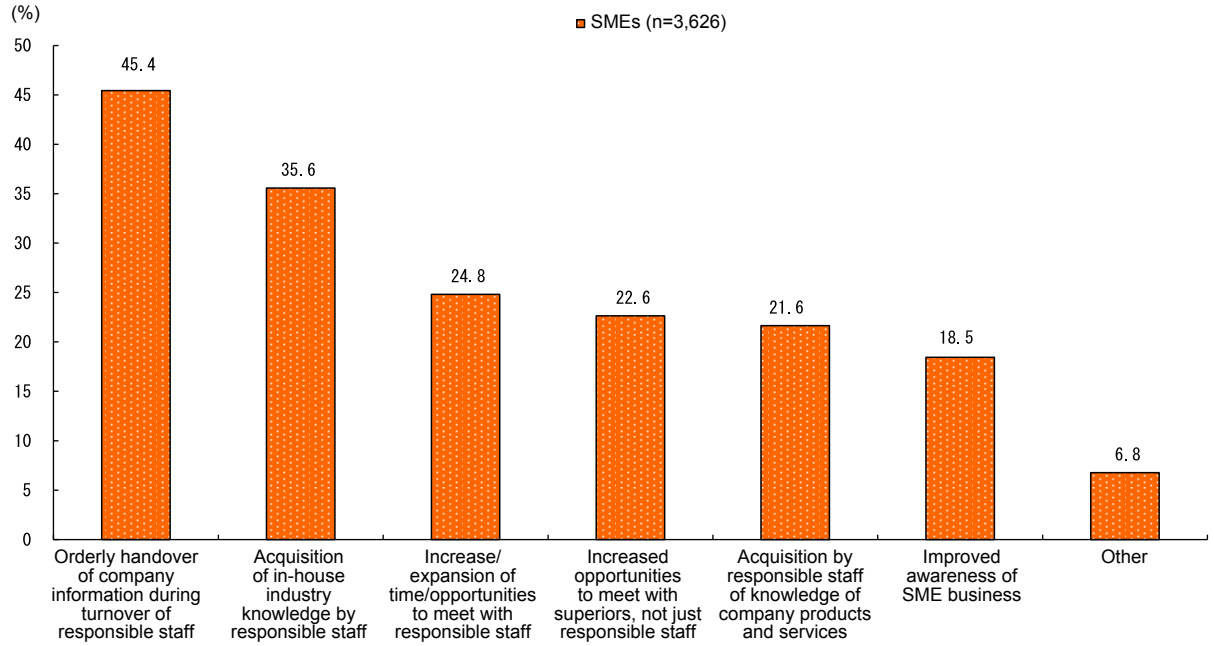
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Notes: 1. Items that scored 50% or higher are shaded in red and items that scored 10% or below are shaded in blue.
2. Total does not always equal 100% as multiple responses were possible.

Problems with strengthening relationships between enterprises and financial institutions

Finally, we will look at the problems that hamper the strengthening of relationships between enterprises and financial institutions. Fig. 2-5-47 shows the factors that enterprises see as necessary for deepening the relationships between enterprises and financial institutions. The "Orderly handover of company information during turnover of responsible staff" and "Acquisition of in-house industry knowledge by responsible staff" responses were both popular choices. This suggests that they feel that, by carefully passing along the information on enterprises that has been built up during their everyday dealings within the institution, and by more thoroughly familiarizing the responsible staff with the industry in which each enterprise operates, financial institutions

can provide them with more in-depth information on topics such as enterprise trends and the future outlook. The "Increase/expansion of time/opportunities to meet with responsible staff" response tends to become less popular as enterprises progress through the growth stages, indicating that enterprises in the startup stage and growth stage want more opportunities for meetings between their companies and financial institutions so as to enhance the financial institutions' familiarity with their business operations.

Fig. 2-5-47 What SMEs feel is needed to deepen their relationships with financial institutions



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-5-1 Eltes Co., Ltd. (Minato City, Tokyo)

An enterprise that has forged friendly relationships with financial institutions by carefully explaining the details of its business

Eltes Co., Ltd. (employees: 70; capital: ¥504.89 million), based in Minato City, Tokyo, is an internet risk management consultancy. Specifically, the company provides services that focus on detecting "social risks"—flurries of negative comments of a critical or malicious sort on the internet (described in Japanese as *enjō*, or "inflammatory")—and suggesting strategies for dealing with those risks that become apparent in "big data" such as that from social network services[13]. It also provides services for detecting internal fraud whose purpose is to prevent data security incidents arising from internal factors.

When the company moved to its current Minato City headquarters in 2013, it began doing business with Mizuho Bank's Shinbashi-Chuo Branch. It also reworked the terms on financing previously received from other financial institutions to more favorable conditions. Eltes was operating in the red when it inaugurated its relationship with Mizuho, but by carefully explaining its business model the company was able to get across to the bank its situation and prospects.

In explaining that business model, Eltes set up any number of scenes to generate comprehension of its president's ideas. Through them, it carefully laid out the course it plans to pursue as a company in terms of what it would be making and how it would recover its debts. It also used the approach of creating explanatory documents that made it easy to see how the deficit the company had reckoned was a transient condition. These were appended to the circular distributed within the bank, and if read would again convey the company's situation and approach. By taking the defensive step of explaining how the company has a disposition to operate and going on the offense with having the president explain its business, Eltes got its business model across to its partners.

When it comes to doing business with financial institutions, Eltes President Takahiro Sugawara, says, "you commonly hear the criticism that 'banks won't lend SMEs money.' However, it seems to me that in quite a few instances the problem might well be with how the SMEs present themselves. The important thing is to put your explanation into the language of the banks. You just don't get things across if you simply talk about what you're thinking." Sugawara's point, then, is that a business enterprises/companies, too, needs to improve their approach when a financial institution doesn't understand the nature of its business.

This approach of a company giving a thorough explanation of itself also demonstrates effects when it comes to business matching through its bank. In the case of Eltes, the company understood that since the company's business is a service not visible to the eye, so it is not possible for a bank by itself to understand about Eltes. For that reason, it had the bank participate in strategy sessions to get an even deeper understanding of the company. There, Eltes shared details about the orders it had successfully fulfilled, the way it deals with customers, and sales techniques that had been worked for it, as well as information about the industries and business categories it was targeting. Doing this made it easier for the bank to search out matches for the company and increased the frequency with which introductions to potential clients led to actual negotiations.

As this example illustrates, it is crucial for a company to carefully explain its own business as an undertaking of its own in order to deepen relations with its financial institutions. The company can expect such an undertaking to result in the financial institutions understanding them better. Furthermore, this will lead to getting more finely tuned business support from those institutions, and help improve its capacity to earn profits.

Eltes President Sugawara delivering a talk at a forum

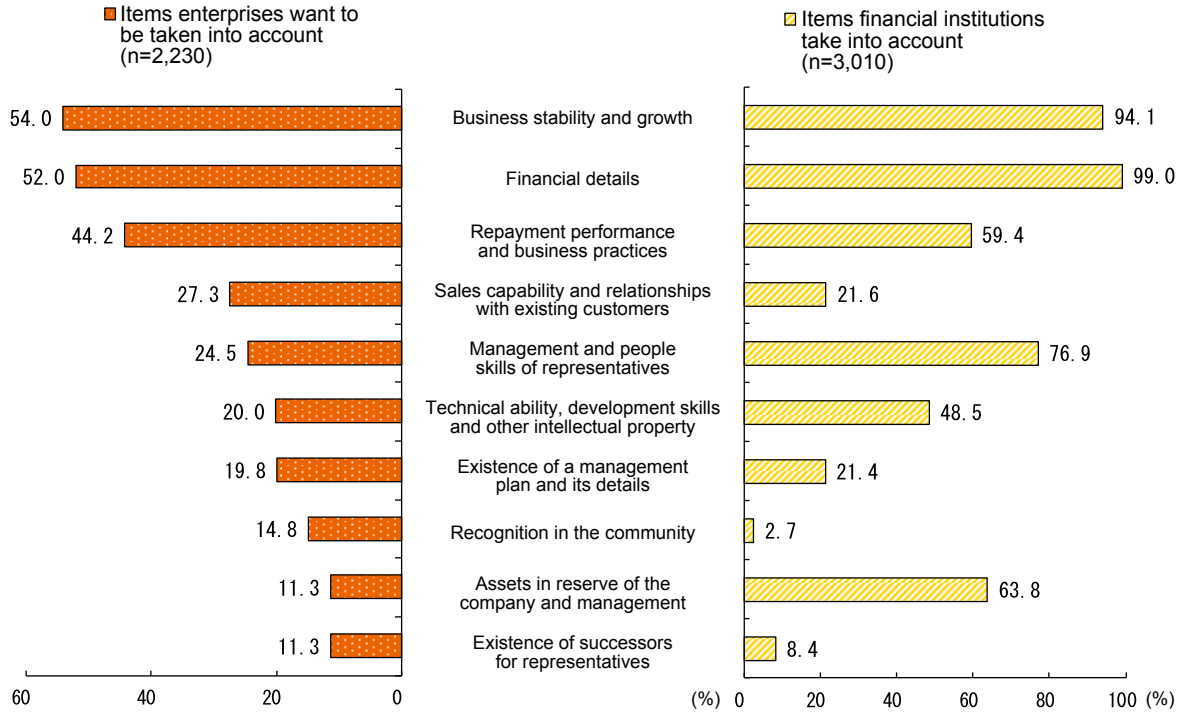
13) For example, Facebook, Twitter, Instagram, and other similar networks for sharing information among members.

3. Necessity of feasibility assessments

Items to consider when making financial decisions

Below, we look in more detail at financial institutions' lending activities with respect to SMEs. Fig. 2-5-48 shows the items that financial institutions consider when lending to SMEs and the items other than security or guarantees that SMEs want to be considered when they receive financing from financial institutions. SMEs and financial institutions had matching responses for their top two choices, with both selecting "Financial details" and "Business stability and growth". The subsequent choices for SMEs were "Repayment performance and business practices" and "Sales capability and relationships with existing customers", whereas for financial institutions the responses were "Management and people skills of representatives" and "Assets in reserve of the company and management". From this, we see that while SMEs prioritize business practice between themselves and their customers and financial institutions, for financial institutions the emphasis is on the resources of managers, showing that SMEs and financial institutions have quite different viewpoints.

Fig. 2-5-48 Items other than security or guarantees that financial institutions consider and items other than security or guarantees that SMEs want to be considered



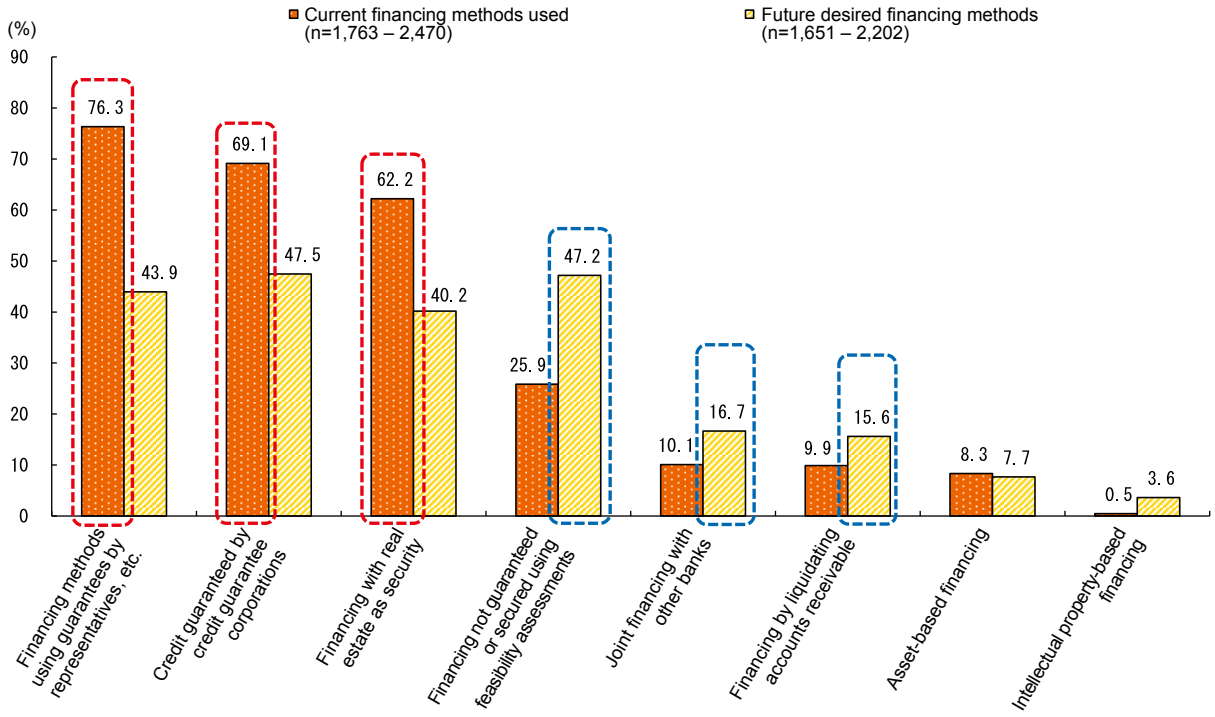
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Notes: 1. For the above items, enterprises provided multiple responses and financial institutions ranked their top five choices.
2. Total does not always equal 100% as multiple responses were possible.

State of financing method use and preferred future use

Next, we look at the financing methods currently used by SMEs. Fig. 2-5-49 shows the financing methods currently being used by SMEs and the financing methods they would prefer to use for future borrowings. The figure shows that the most frequently used method at present is "Financing methods using guarantees by representatives, etc.", followed by "Credit guaranteed by credit guarantee corporations" and then "Financing with real estate as security". Popular choices as preferred financing methods for future borrowings were "Credit guaranteed by credit guarantee corporations" and "Financing not guaranteed or secured using feasibility assessments" ("Financing

based on feasibility assessments"). From this, we see that the need for guaranteed financing from credit guarantee corporations is deeply rooted, but that the need for financing based on feasibility assessments is growing when compared with its current level of use.

Fig. 2-5-49 Financing methods currently used by SMEs and preferred financing methods for future borrowings

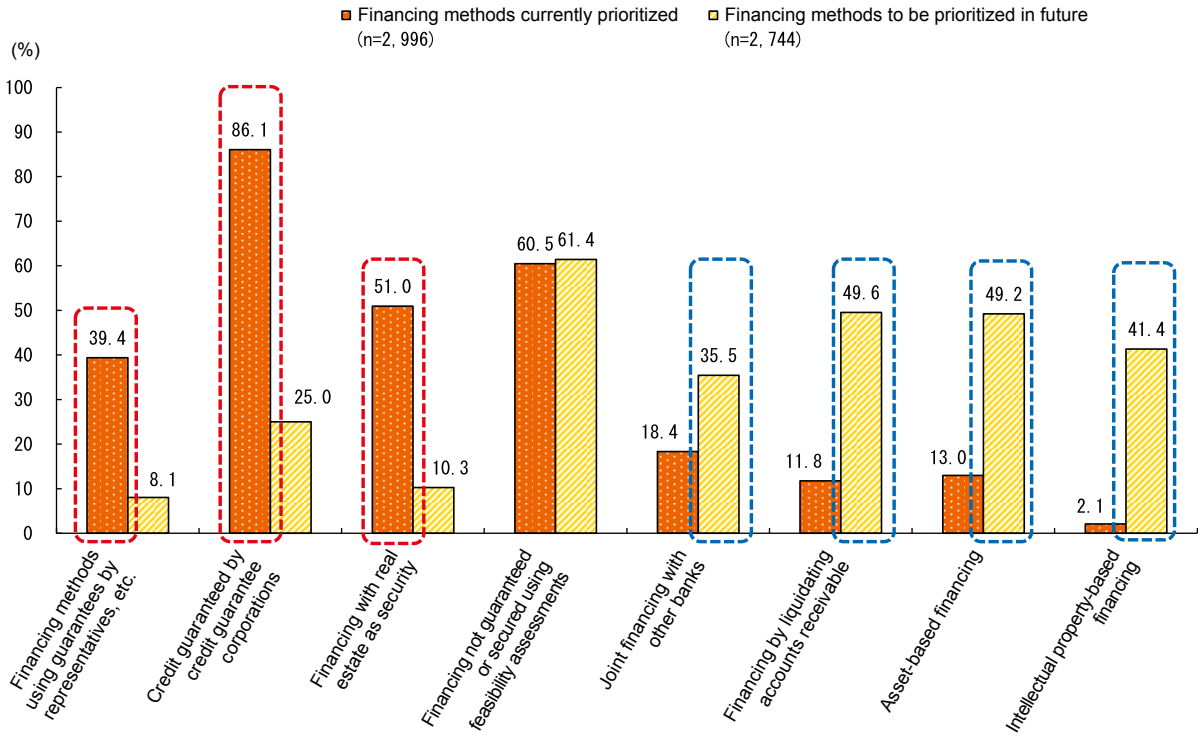


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Notes: 1. Figures were totaled only for enterprises with borrowings from financial institutions.
2. Total does not always equal 100% as multiple responses were possible.

Next, Fig. 2-5-50 shows the financing methods currently prioritized by financial institutions and those they would like to prioritize in future. This shows that the highest priority is currently given to "Credit guaranteed by credit guarantee corporations" followed by "Financing not guaranteed or secured using feasibility assessments" and then "Financing with real estate as security". The most popular choice for financing method to be prioritized in the future is "Financing not guaranteed or secured using feasibility assessments", followed by "Financing by liquidating accounts receivable" and then "Asset-based financing".

This shows that, while financial institutions currently use credit guarantee corporations, they are putting more effort into financing based on feasibility assessments and intend to give feasibility assessment-based financing greater priority in the future. In this respect, their policies are coming into line with the future needs of SMEs.

Fig. 2-5-50 Financing methods currently prioritized by financial institutions and financing methods to be prioritized in future



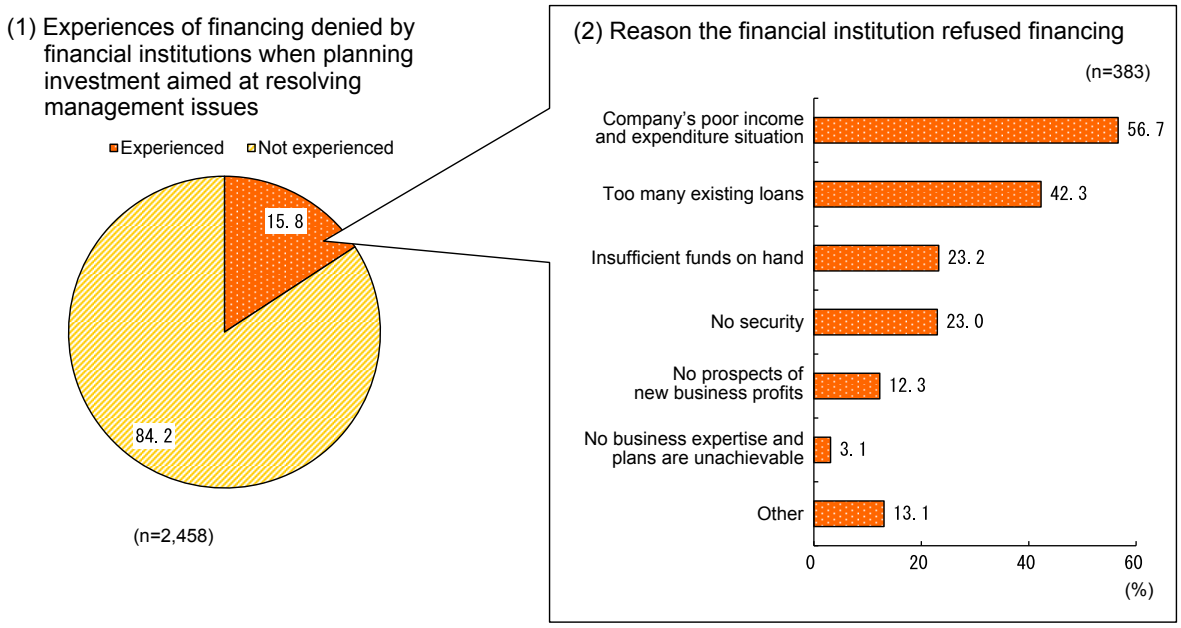
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Notes: 1. Data is totaled for the top five responses chosen.
2. Total does not always equal 100% as multiple responses were possible.

So, while SMEs tend to prefer their business viability to be assessed on the basis of factors other than security or guarantees when receiving financing, such as the growth of the business or sales capability, financial institutions tend to prioritize company or management assets in reserve as the basis for making credit decisions. This reveals a mismatch in the perceptions of enterprises and financial institutions. However, in the case of future financing methods, enterprises have high expectations for financing based on feasibility assessments, while financial institutions themselves intend to promote financing grounded in feasibility assessments. So it seems likely that in the future, enterprises and financial institutions will bring their respective perceptions into line and will both progress the adoption of feasibility assessment-based financing.

Financial institutions' reasons for refusing to finance enterprises' investment plans

Fig. 2-5-51 shows situations where enterprises have consulted with financial institutions on investment plans designed to resolve their management issues, and the financial institutions refused to finance the plan. Of all the enterprises surveyed, 15.8% responded that they had had financing refused by a financial institution. Looking at the reasons for the refusals, 56.7% responded "Company's poor income and expenditure situation" and 42.3% chose "Too many existing loans", indicating that many enterprises were refused support for reasons to do with existing business issues. The results also show that relatively few enterprises were refused funding for reasons to do with new business, with 12.3% responding "No prospects of new business profits" and 3.1% opting for "No business expertise and plans are unachievable". This shows that when financial institutions screen and decide on financing for new investments by an enterprise, they place more emphasis on the financial status and income/expenditure situation of the enterprise than they do on the content of the new business investment plan. This means that, even when enterprises have investment plans founded on excellent ideas, they find it difficult to obtain financing from financial institutions if their financial status and income/expenditure situations are poor.

Fig. 2-5-51 Experiences of refusal by financial institutions of investment plans to resolve management issues



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Case 2-5-2 Hatagoya & Company (Taito City, Tokyo)

An enterprise that procures capital without personal guarantees from its president by being forthcoming with information releases

Hatagoya & Company (employees: 150; capital: ¥100 million), based in Taito City, Tokyo, manages and operates the 52-branch Family Lodge Hatagoya mini-hotel chain. These are overnight-stay hotels patterned after U.S.-style motels and assume their guests are largely people coming by car. Hatagoya's hotels cut down on value-added features as much as possible, and other than lodgings provide no services like restaurants or leisure facilities. As a consequence, there usually are only two full-time staffers on site and they handle everything from front desk duties to cleaning the rooms. The hotels' guests support the chain's no-frills service policy, and as much as 60 percent are repeat customers.

The company employs the "leased direct management" approach for the majority of its hotels, wherein they get the owner of the land to shoulder building construction costs and then leases it from them for 20 years. At the time Hatagoya was founded, the odds of finding a landowner who would agree to this approach were minimal owing to the company's lack of a track record or evidence of credit worthiness. In 1995, it built its first hotel with its own financing, but no bank would take it on as a business customer. Around this time, the company learned about the Green Sheet Brand system[14]. After putting its house in order as required, in December 1999 it registered as a Green Sheet Brand and successfully obtained around ¥100 million in financing through a public stock offering. Furthermore, in 2000 it received funds through the New Growth Business Development Special Finance System from Japan Finance Corporation for Small and Medium Enterprises (currently, Japan Finance Corporation), which led to it building relationships with financial institutions. What's more, Hatagoya's sales were solid, it continued to pay its debts without a hitch, and its registration as a Green Sheet brand further improved its creditworthiness. As a result, in December 2000 it finally received its first proper loan.

The first hotel the company opened using the leased direct management approach was its Numata branch. The nature of the financing required was different from that with the two other approaches used previously, direct management on owned property and direct management on rented property. With the two previous approaches, the company owned the building and (in the former) the land. Both regardless required considerable finances, but with the leased direct management approach the facilities investment is rather small. The operating capital required for carrying over through the quiet winter months became the main burden.

Thereafter, Hatagoya continued to expand its operations as it gradually opened new hotels, and starting from roughly 2009 it became able to solicit financing from the financial institutions with which it did business without the joint guarantee of top executive personally (hereafter, "personal guarantee"). However, the responses from financial institutions did not change regardless of its repeated proposals. Then, in October 2011 the winds shifted when Hatagoya received a merit award from the Tokyo Chamber of Commerce and Industry in its "Bravery in Management Prize"[15] competition. The company's business had earned recognition from a third party, and financial institutions that had not done business with it previously now came knocking at its door. Some of these new institutions responded to the company's proposals for financing without the president's personal guarantee. Hatagoya entered business relationships not dependent on the president's personal guarantee with four new financial institutions as a result, but three institutions that the company had already been doing business with for many years still refused to provide loans without such a guarantee. Hatagoya President Makoto Kai comments, "I understand that financial institutions that had not done business with us previously would be cautious when they undertook new loans, but the fact that banks we had been doing business with for a long time were adamant about refusing to give us loans without the personal guarantee." In Kai's view, debt guarantees dependent on a company's top executive personally can inhibit a company's volition to develop in a healthy way. Financial institutions by virtue of having done business with an enterprise for many years understand its business quite well, and wonder about taking the risk of doing business without that guarantee. The three banks that Hatagoya initially had done business with ended the relationship for a time, but in 2015 they resumed their ties without the personal guarantee. With this, Kai built the relationship with those institutions that he had imagined.

Building such relationships not based on personal guarantees arose from the company being actively forthcoming with information and testimonials from third parties that combined to enhance the company's creditworthiness. In addition to those items that Hatagoya was legally compelled to disclose as registered Green Sheet brand company, it also of its own volition made public information about the availability ratios and profit-loss statuses for each of its hotels. It also made it possible for certified public tax accountants and audit corporations to confirm the company's financial situation whenever they wanted. Hatagoya expects to use this highly transparent approach to business and great credit worthiness as fodder for obtaining further growth financing to achieve its goal of expanding of its network to cover the country by developing potential customers and opening new hotels.

Hatagoya's Tsuyama branch, opened in September 2015

14) The Green Sheet Brand system was established in July 1997 by the Japan Securities Dealers Association so brokerages could buy and sell shares in non-listed companies fairly and smoothly. The objective of this system is to facilitate procuring capital for non-listed companies and securing a venue for investors to redeem their funds. As such, it operates with a status different from that of stock exchange markets operating based on the Financial Instruments and Exchange Act. The system will be phased out on March 31, 2018.

15) The "Bravery in Management Prize" is awarded by the Tokyo Chamber of Commerce and Industry to small and medium enterprises or groups that boldly take on challenges in difficult business environments. It recognizes SMEs that come up with unique products and services using innovative or creative technologies, techniques, ideas, or business approaches. The system rewards decisions to make major changes in management irrespective of past practices, and such actions as "taking on major risks," "overcoming significant barriers," "trying to break the bounds of conventional wisdom," and "pursuit of higher ideals."

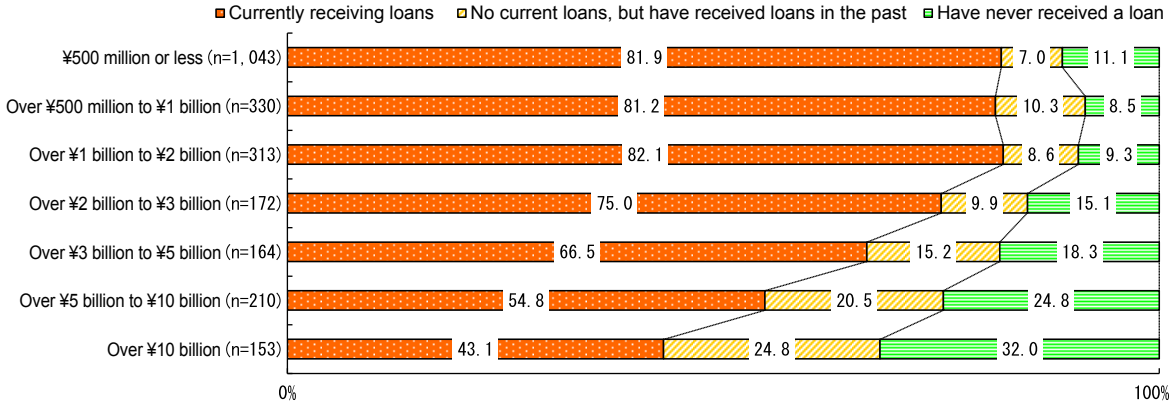
Column 2-5-1 Trends in management guarantees in financial institution dealings

In this section, we have been discussing the need for financing that does not rely unduly on security and/or guarantees, but is based on assessments of the feasibility of enterprises by financial institutions. But here, we will look at the trends in the use of management guarantees for borrowings from financial institutions. (1) of Fig. Column 2-5-1 (1) shows the proportions of enterprises who provide management guarantees according to enterprise sales volumes. Over 80% of enterprises with sales of ¥2 billion or less provide management guarantees, but as the sales volumes increase, the proportion of enterprises offering management guarantees declines, until the level finally drops below 50% among enterprises with sales in excess of ¥10 billion.

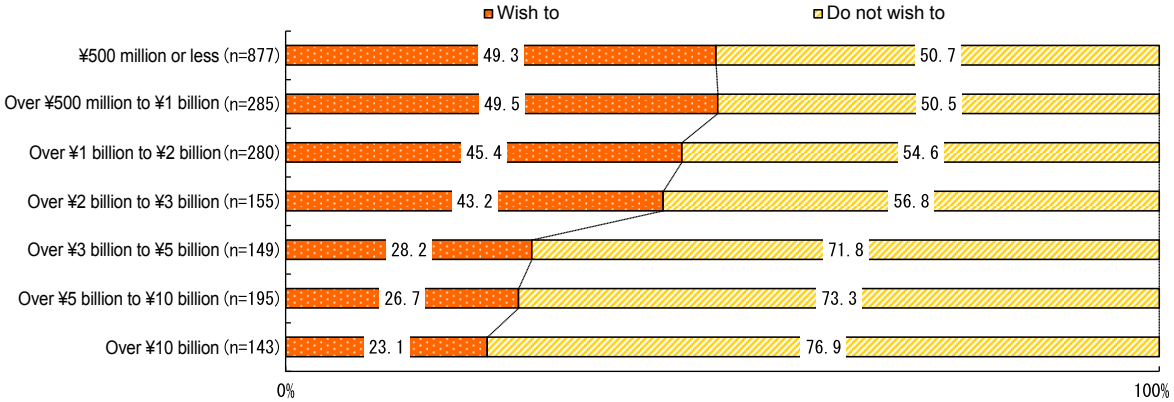
Next, if we look at future borrowing intentions, we see that, across all sales volumes, less than 50% of enterprises want to borrow funds where a management guarantee is provided. As sales volumes increase, the proportion of enterprises who do not want borrowings with management guarantees provided also increases, climbing to 70% or higher for enterprises with sales of ¥3 billion or more, indicating quite negative intentions towards management guarantees (Fig. Column 2-5-1 (1)).

Fig. Column 2-5-1 (1) Trends in management guarantees by sales volume

(1) Current status of loans that use management guarantees



(2) Future intentions regarding loans that use management guarantees



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Notes: 1. Figures were totaled only for enterprises with borrowings from financial institutions.
2. Figures were totaled for SMEs as defined in the Small and Medium-sized Enterprise Basic Act and also for large enterprises.

Thus, there is considerable divergence between the intentions of enterprises and their actual use of management guarantees for borrowings. Such management guarantees have the effect of enhancing credit and imposing discipline on management, which can facilitate the procurement of funding. However, it can also act as an impediment to developments such as particularly dramatic business expansion by management and faster business revitalization. With this situation in mind, the *Guidelines for Personal Guarantees Provided by Business Owners* were formulated and came into effect as of 1 February 2014.

The "Guidelines for Personal Guarantees Provided by Business Owners" stipulate the following with regard to management guarantees:

(1) In situations where the relationships between corporations and individuals are clearly segregated, consideration should be given to not requesting management guarantees.
(2) Even where a sizable personal guarantee is provided, when it has been decided to shut down the business or implement early business revitalization, consideration should be given in the bankruptcy proceedings to measures such as providing ¥990,000 in free assets, an amount equivalent to set living expenses and the ability to continue living in a "modest" home.
(3) Any debt balance that cannot be repaid when the guarantee obligation is discharged should in principle be forgiven.

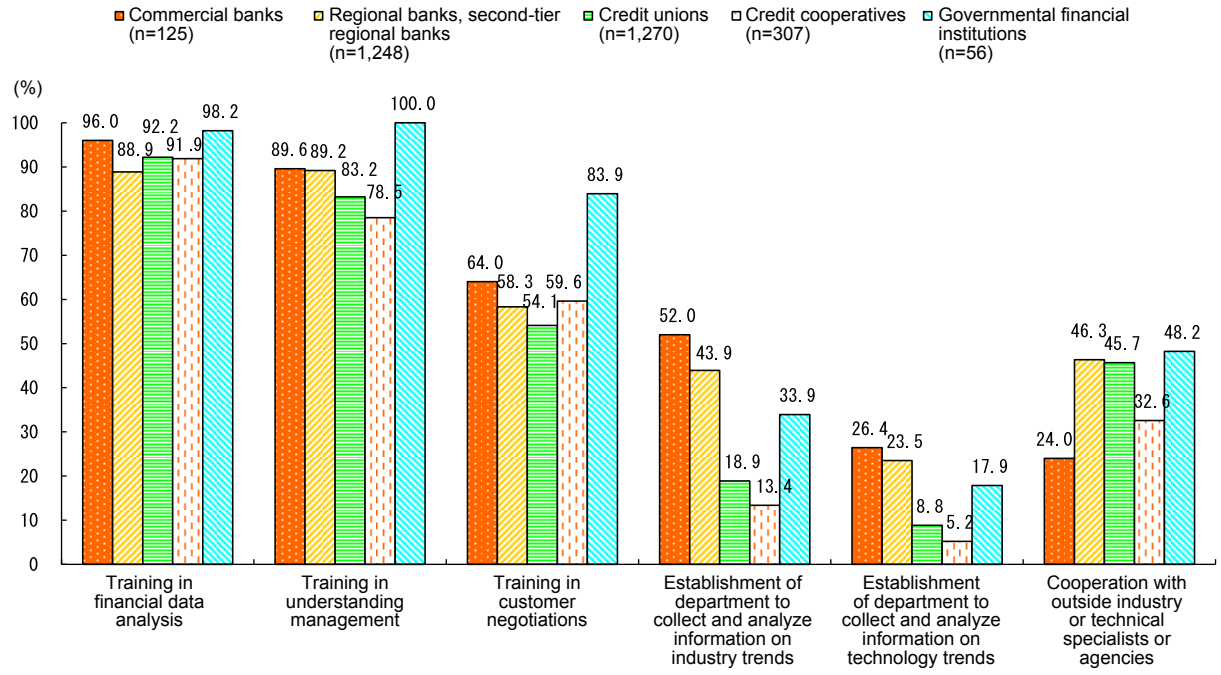
These and other measures are designed to eliminate the abuse of management guarantees and to stimulate activity by enterprises.

In future, it is expected that these guidelines will be widely adopted and retained as part of financing practices.

Programs to improve lending decision-making capacity and their effects

So as to progress financing based on feasibility assessments, as anticipated by SMEs, financial institutions must increase their capacity to make good lending decisions. Fig. 2-5-52 shows a range of measures aimed at improving the capacity of financial institutions to make lending decisions when offering finance to SMEs. Virtually every type of financial institution chose "Training in financial data analysis". A fairly high proportion are also engaged in "Training in understanding management", but the proportions for credit unions and credit cooperatives are relatively low when compared with commercial banks and regional banks. Measures for the "Establishment of department to collect and analyze information" on industry and technology trends are better implemented the larger the financial institution, whereas the smaller the financial institution, the better the implementation of "Cooperation with outside industry or technical specialists or agencies". This is presumably because the larger the financial institution, the more likely it is to establish a specialist department, whereas the smaller the financial institution, the more effort it puts into improving its lending decision-making capacity through cooperation with outside specialists and agencies. Among credit unions and credit cooperatives, which are limited by their structures, cooperation with external bodies is likely to be important, but the level of cooperation in credit cooperatives is lower than in regional banks or credit unions.

Fig. 2-5-52 Measures to increase capacity for making decisions on lending

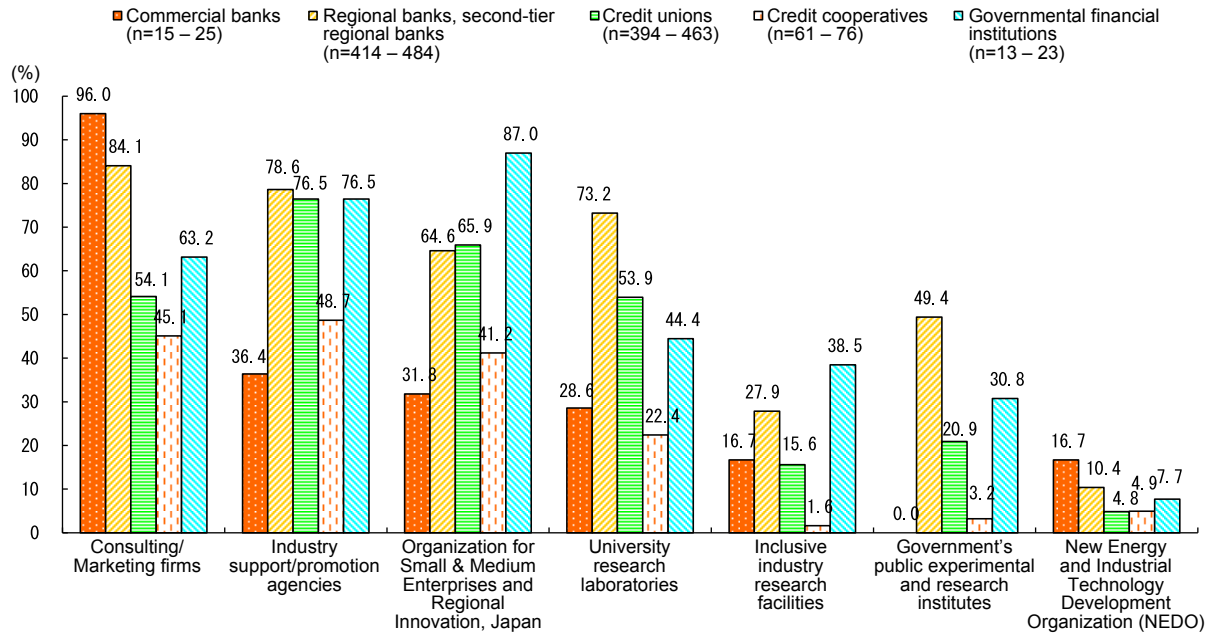


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-5-53 shows the external industry and technical specialists and agencies with which financial establishments cooperate. The cooperation partners differ depending on the type of financial institution. Commercial banks cooperate actively with private sector businesses such as consulting firms and marketing firms, while credit unions cooperate actively with public-sector agencies such as industry support agencies and industry promotion agencies, as well as the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ). Regional banks, second-tier regional banks and governmental financial institutions vary somewhat in the options they chose, but generally cooperate with both private sector businesses and public-sector agencies.

To summarize, commercial banks, regional banks, second-tier regional banks, and governmental financial institutions all actively cooperate with other companies. When we look at their cooperation partners, regional banks, second-tier regional banks and governmental financial institutions actively cooperate with both private sector businesses and public-sector agencies, but commercial banks actively cooperate with private sector businesses in particular.

Fig. 2-5-53 Outside industry and technical cooperation partners helping to improve decision-making capacity

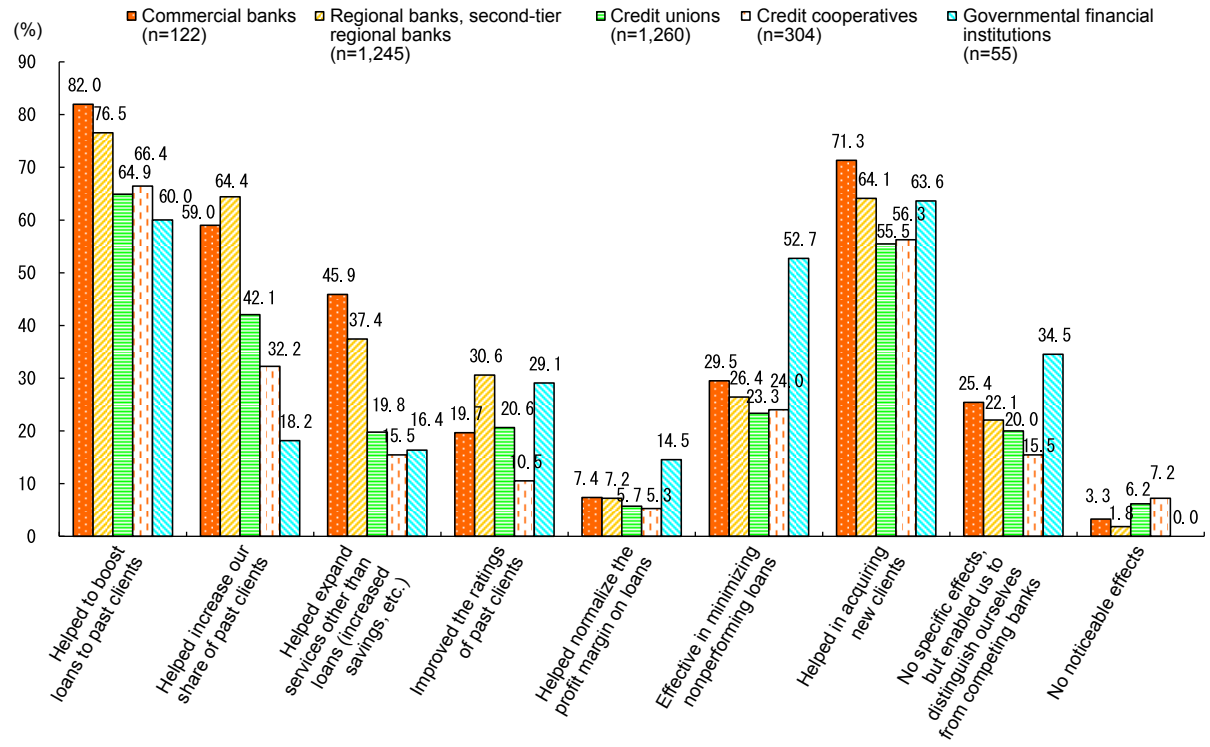


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Notes: 1. Totals were calculated for cooperation partners for financial institutions who responded "Cooperation with outside industry or technical specialists or agencies" in Fig. 2-5-52.
2. Total does not always equal 100% as multiple responses were possible.

Next, Fig. 2-5-54 shows the effects of these measures. The "Helped to boost loans to past clients", "Helped in acquiring new clients" and "Helped increase our share of past clients" responses were all ranked high, indicating that, by improving the assessment abilities of the responsible officers, relationships between staff and existing customers were strengthened. It also seems likely that the measures assisted in increasing the amount of financing provided to enterprises and that the improved skills helped in the acquisition of new clients.

Fig. 2-5-54 Effects of measures to increase capacity for making decisions on lending



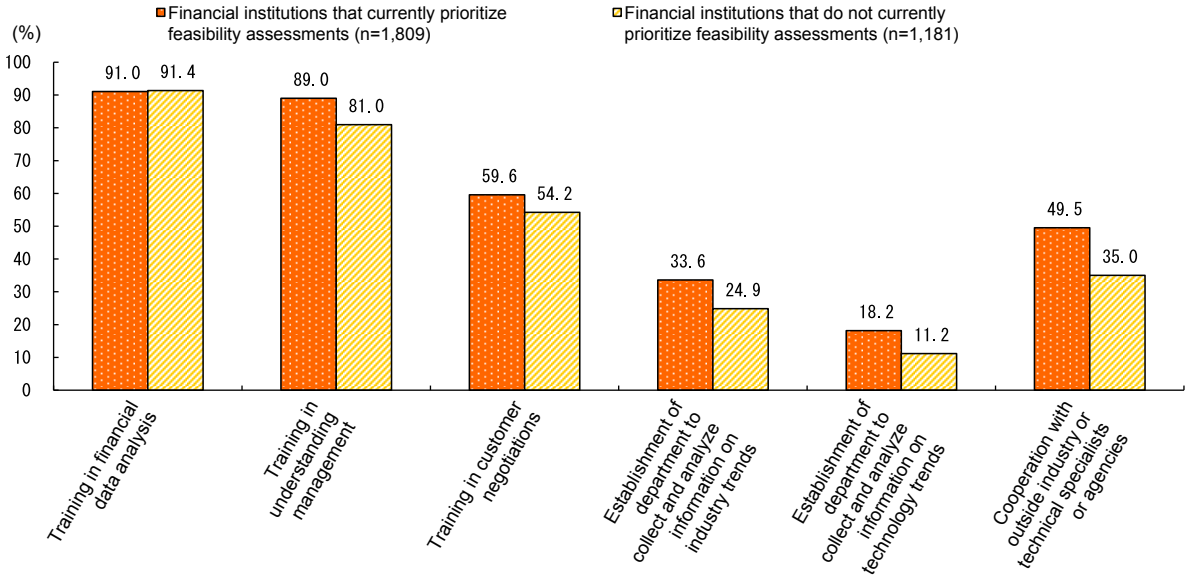
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-5-55 shows the measures aimed at increasing the capacity of financial institutions to make lending decisions and the effects of those measures, looked at according to the status of initiatives to provide financing based on feasibility assessments. This looks at the measures designed to increase the capacity of financial institutions to make lending decisions and the effects of those measures, based on whether or not the financial institutions currently prioritize "Financing not guaranteed or secured using feasibility assessments" in Fig. 2-5-50. If we start by examining the details of the measures, there is very little difference for the "Training in financial data analysis" response. But for the other items, the proportions are higher for financial institutions that currently prioritize feasibility assessments, with a particularly marked difference for the "Cooperation with outside industry or technical specialists or agencies" response, showing that cooperation with outside agencies often plays a part in promoting financing that is based on feasibility assessments. When we look at the effects of these measures, financial institutions that currently prioritize feasibility assessments report that most items are very effective. When compared with financial institutions that do not currently prioritize feasibility assessments, there are many items where the respective proportions of financial institutions experiencing effects differ by more than 10%.

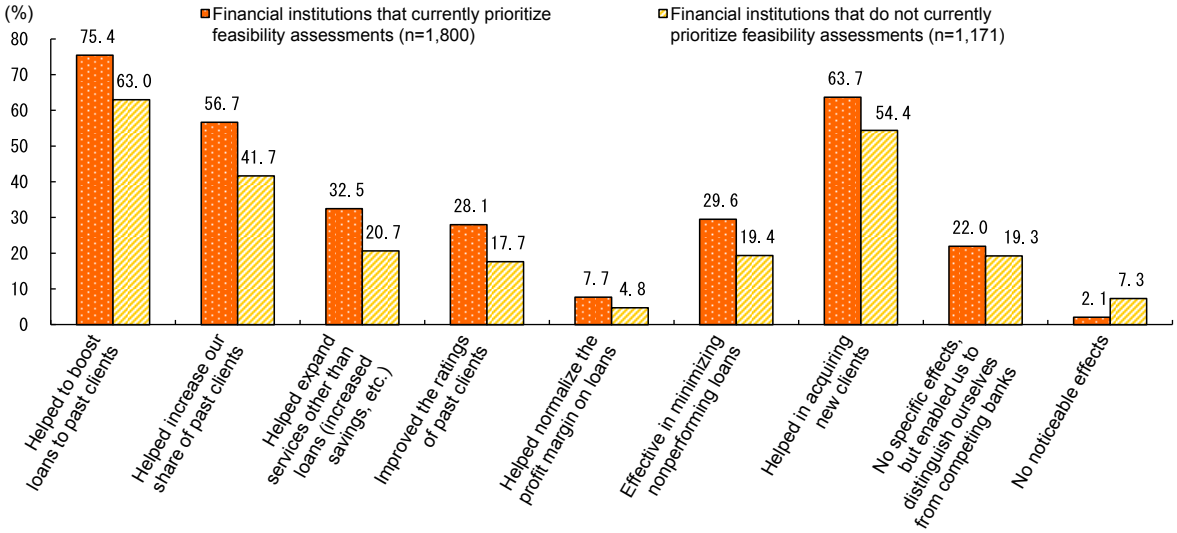
These results indicate that, in order to prioritize financing based on feasibility assessments, not only training in financial data analysis but also other measures, including setting up departments to collect and analyze information on technology and industry trends and, where necessary, cooperating with outside industry or technical specialists and agencies, are effective in helping to generate outcomes such as expanded dealings with past clients and the cultivation of new business partners. So the feasibility assessment-based financing that SMEs want could also be something that financial institutions actually find desirable.

Fig. 2-5-55 Measures aimed at increasing lending decision-making capacity and their effects according to the status of initiatives for providing feasibility assessment-based financing

(1) Measures to increase capacity for making decisions on lending



(2) Effects of measures to increase capacity for making decisions on lending



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-5-3 Morita Komuten Co., Ltd. (Tanba City, Hyogo Prefecture)

An enterprise that used the Hyogo SME Technological and Managerial Capability Evaluation Program to broaden the scope of capital it procures

Morita Komuten Co., Ltd. (employees: 22; capital: ¥80 million), based in Tanba City, Hyogo Prefecture, is a contractor that handles mostly private projects that have included building commercial and geriatric care facilities and doing seismic reinforcement work. The company once mainly focused on getting orders for public projects, but shifted to its policy of targeting private projects since around 2000 when President Kogaki took over. The drop in public investment lay behind this move. Competing enterprises sought to diversify their own businesses by focusing on general home construction, but Morita Komuten devoted its energies to getting orders for in the area of non-housing work where it was strong. What specifically happened was the veteran of major general contractor joined Morita. The company used his network to develop relationships that enabled it to get a steady stream of orders from a major home improvement center to build new branches. Today, Morita pursues business opportunities across wider area, getting orders everywhere from Shizuoka to Kumamoto.

Morita has become able to get orders from major clients like this because its average costs and short project times satisfy its customers. When it comes to its relationship with the home improvement center client in particular, Morita is also trusted by the architect's office that designs the stores. Excessive administrative costs are kept down because that office does not need to frequently check what is happening at the project sites, and as a result a deeply trusting relationship has arisen among the three enterprises.

While Morita was highly trusted by its private business partners for its considerable technical prowess, there was a time when the once-steady business relationship it had with its main bank worsened. Morita had gotten the bank to provide working capital for short-term operations that would be generated by reimbursements, but when large amounts of payments went uncollected Morita switched the portion of that financing meant for construction over to working capital for long-term operations. While the company subsequently made steady progress on paying that long-term operations financing, it was no longer able to get the bank to provide the short-term operations financing it once had. This had an effect on Morita's cash flow. It was under these circumstances that Morita applied for short-term operations financing from the Hyogo Prefecture Credit Cooperative ("Hyogo Credit"), an institution with which it had long done business. The cooperative provided the funds. Morita thereafter continued to do this business with the cooperative, and the relationship grew stronger.

In 2014, Hyogo Credit provided Morita with an introduction to the Hyogo SME Technological and Managerial Capability Evaluation Program. Morita used the program to get a report evaluating its capabilities in those two areas. The report contained an easy-to-understand description of Morita's business, and also included an objective description of the company's strengths and weaknesses.

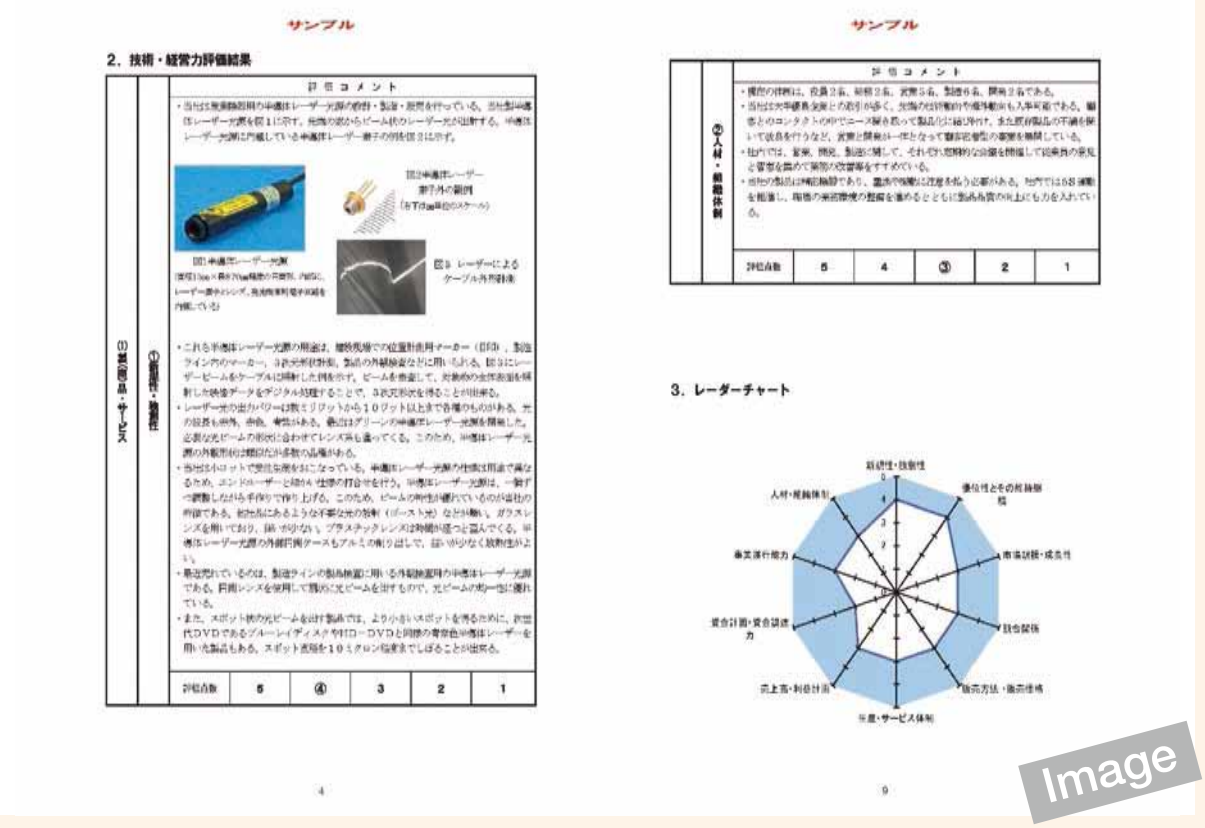
Based on this report, Morita was able to get a sense of where it fit into its industry. It also got an understanding of the issues it faced such as training successors and client selection. The company then took steps to addresses the highlighted issues, dealing with successor training by making adjustments to its staffing practices and its organizational structure and with client selection by maintaining the amount of orders it sought to get while putting emphasis on getting ones with higher rates of return. All in all, Morita worked hard to improve its profit margin.

Furthermore, starting in fiscal 2013 Hyogo Credit had made Morita a recipient for business support on a priority basis because Morita had improved its results and had an excellent approach to doing business. However, in evaluating Morita's business feasibility Hyogo Credit determined that its viability was of sort peculiar to the construction business. The cooperative therefore suggested the Evaluation Program to Morita so it would have the objective assessment of specialists as a reference. The report that resulted confirmed that—through its pursuit of a business that called for technical capabilities, process control skills, and management abilities—Morita had the basic competencies required to a high degree as well as an excellent balance among them, giving it competitive superiority. The improved understanding of Morita's business feasibility that resulted also played a factor in Hyogo Credit's August 2014 decision to consolidate new financing to the company with existing loans including those from other financial institutions and give Morita a major boost toward improving its financing overall. Also, in February 2015 Morita took advantage of Hyogo Credit's "Technology Assessment Support Loan" program to procure new working capital. Such support led the cooperative to replace the financial institution that had once been Morita's main bank, and they have built an excellent relationship with Hyogo Credit now taking on that main bank role.

Looking back on the relationships his company has had with its main banks, President Kogaki says, "Before, whenever I went to visit the director of our bank I would be questioned for Morita's decision to get orders from clients in other prefectures. I had had a relationship with that bank that predated Morita's founding and I had thought they understood us, but perhaps there was a basic difference in our thinking about how we handled our business." Kogaki further pointed out that there was a big difference in the information Morita was able to get from its financial institutions. "We got a variety of information from Hyogo Credit, such as how to use public financing and evaluation programs. I think the disparity in terms of the levels of information provided is explained by the fact Hyogo Credit and our old main bank have very different standards and attitudes in terms of how they look at the world."

For Morita, getting an assessment of its business provided the opportunity to expand the scale of financing it procured. In addition, it has used the advice it has gotten from Hyogo Credit in its effort to improve operations by, for example, drafting a management improvement plan and bringing in specialists provided by the Small and Medium Enterprise Management Consultant Association.

For the enterprise here, the Hyogo SME Technological and Managerial Capability Evaluation Program had the merit of enabling it to be objective to understand its strengths and weaknesses and work on improving its management. For the financial institution, it allowed it to better understand the enterprise's viability. The program seems to have had the effect of deepening mutual understanding between the two. One may anticipate that the demand for such mechanisms for outside parties to evaluate businesses will rise further from both enterprises and financial institutions.



Sample of technological and managerial capability evaluation report

Case 2-5-4 Kure Credit Union (Kure City, Hiroshima Prefecture)

A credit union that collaborates with the Hiroshima Industrial Promotion Organization to proactively provide financing based on business feasibility evaluations

Kure Credit Union, based in Kure City, Hiroshima Prefecture, is a financial institution that proactively works together with local government to assertively move forward with providing financing to SMEs based on evaluations of their business feasibility.

The metropolis that serves as Kure Credit's operational base had developed as a coastal industrial city. It prospered as a center for manufacturing industries, bringing together business in fields related to shipbuilding, steelmaking, and automobiles. However, local SMEs there today face a difficult environment owing to shrinking and aging of the population and the emptying out of the city's core business districts. Many of the local manufacturing SMEs previously operated by filling requests from major manufacturers. A considerable number also possessed hidden technologies and expertise, and wanted to shed their reliance on subcontracting in their quest to find new avenues for growth.

Under these conditions, Kure Credit thought it might be possible to provide the support and appropriate loans to companies that would lead to growth by digging into and evaluating the strengths in such areas as technological prowess and know-how of the SMEs with which it did business. Toward that end, it took the lead in approaching Hiroshima Prefecture about implementing an SME Technological and Managerial Capacity Evaluation Program like the first one ever introduced in Japan by Hyogo Prefecture.

Kure Credit was prompted to make this approach by an exchange of information it undertook in fiscal 2012 with the Hyogo Prefecture-based Tanyo Shinkin Bank. In the meeting, that credit union introduced Kure Credit to both Hyogo's evaluation program and the concept of intellectual asset-based management. Officials from the Hiroshima Prefecture Bureau of Industry and Labor with which Kure Credit has long had a relationship also attended the meeting. They got to hear directly from people who had used the program and developed a concrete image of how it operated. The prefectural officials also came away from the meeting with a favorable attitude toward creating such a program locally, resulting in fiscal 2013 in the establishment of the Hiroshima Prefecture SME Technological and Managerial Capacity Evaluation Program. The Hiroshima Industrial Promotion Organization (HIPO), a public interest foundation, was tasked with operating the program. Kure Credit loaned staff to HIPO and they actively contributed to setting up the program.

The Hiroshima evaluation program was designed with reference to the one Hyogo had set up. The basic mechanisms are the same. Specialists are dispatched to a company, they conduct an evaluation that includes qualitative aspects, and they issue an assessment. However, some aspects of the Hiroshima program are different, including the share of support provided for the costs incurred in using the program and the fact that HIPO staff will also attend interviews conducted at a given company.

In conjunction with the program's founding, Kure Credit developed its own financial product, the SME Technological and Managerial Evaluation Loan ("Kure-shin Core Competence"). It provides this financing support for companies when they use the evaluation program. The system had been used 126 times from its start-up in 2013 to the end of February 2016 among all financial institutions in the prefecture, with Kure Credit accounting for around 20 percent of that figure.

Indispensable to proactive use of the evaluation system is Kure Credit's main and branch offices working together when it comes to providing assistance. The Corporate Business Support Group at the credit union takes the initiative—with staff from the main office also sitting in—when it comes to introducing the program to enterprises for which they believe using the program will be beneficial. Kure Credit takes a meticulous approach to those enterprises that do apply to the program, working to ensure the process is a smooth one by dispatching staff from the main office to help write the application and reduce the burden on whichever office is the company's main contact. Furthermore, staff from both the main office and the local office involved will go to the company to attend interviews conducted by the external evaluation organization for its assessments. Credit union staff will also offer feedback after the assessment has been issued. In collaboration with HIPO, Kure Credit will also dispatch professionals and take another steps to help address any issues that have been brought to light in the assessment. Behind Kure Credit's drive to promote the evaluation program is the credit union's belief that the program's purpose is not to encourage companies to take out loans but rather that it serves to help its business partners to grow and solve the problems they face.

In Kure Credit's eyes, promoting the program is connected to improving companies' powers of discernment. The credit union had already made it a practice to visit companies personally when vetting them. Having specialists go along raises awareness in the sense of realizing matters can be seen in another way and broadens the perspective. Circular memos, too, serve toward digging deeper at the nature of a company's business.

SMEs, meanwhile, have few opportunities to get evaluated by third parties; the program therefore has the merit of letting them get an objective third-party evaluation at low cost. Such assessments allow the company to get sense of strengths and weakness it may not have known it had. The assessments can be used in the future as resources for making decisions when drafting management strategies (action plans, etc.), and as a public relations tool for dealing with financial institutions and business partners. Furthermore, use of the evaluation program has created connections with public institutions in the form, for example of getting ongoing advice from the Hiroshima Yorozu Support Center and the Hiroshima Institute of Invention and Innovation.

Higashi-Hiroshima City-based Corporation Pearlstar Inc. (employees: 7; capital: ¥10 million) was the first enterprise to make use of both the evaluation program and the Kure-shin Core Competence loan program. The specialist examiners took note of the manufacturing technology and know-how Pearlstar has accumulated over the years, as well as how it made the most of a widespread network that includes universities and hospitals, and rated its technology highly. The fact that Pearlstar used the program was also publicized in the media, raising the profile of the company's technological prowess among business partners and financial institutions and helping to build firm relationships of trust. Furthermore, use of the program also helped the company to form connections with public institutions, such as getting ongoing advice from coordinators at the Higashi-Hiroshima Society of Commerce and Industry.

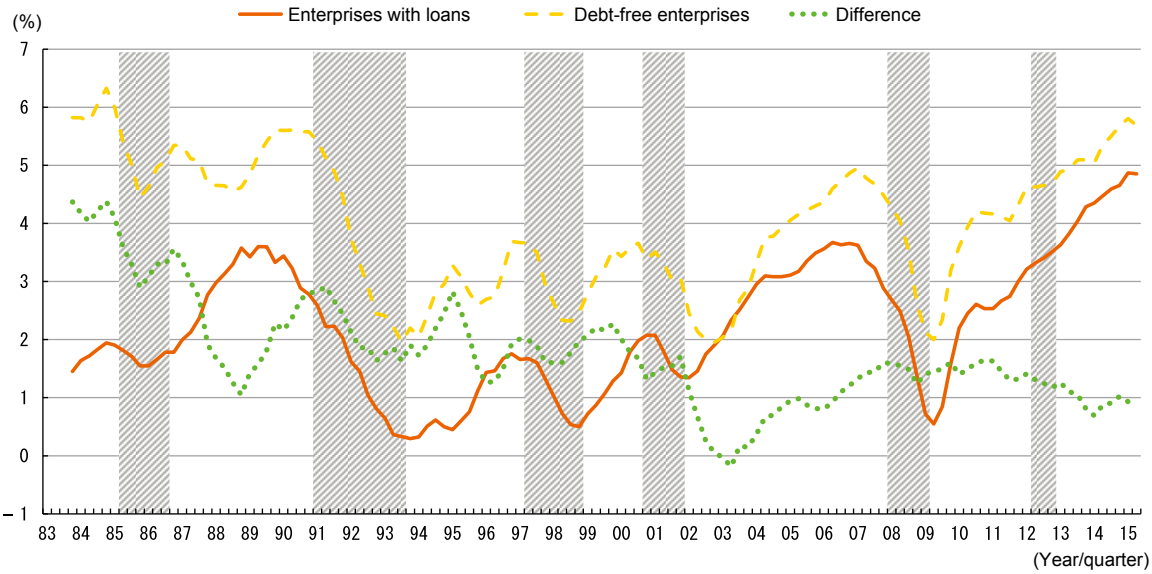
Thus, for Kure Credit, getting actively involved in designing this program by proactively approaching local government has strengthened the systems it has for evaluating the business feasibility of an enterprise. The SMEs that have used have also bolstered their trust-based relationships with financial institutions thanks to the publicity about their technological and management prowess. The efforts of this credit union are expected to be mirrored around the country.

4. Fund-raising environment for debt-free enterprises

Characteristics of debt-free enterprises

As we saw in Section 1, the proportion of debt-free enterprises is increasing and given that trend, it is likely that the differences in profitability among SMEs will widen. Here, we look in more detail at the characteristics of debt-free enterprises. We begin by looking at the difference in profitability between debt-free enterprises and enterprises who have borrowings from financial institutions. Fig. 2-5-56 shows the trends in the ordinary profit rates of SMEs according to their status as regards borrowings. The figure confirms that, at almost any time in the past 30 years, debt-free enterprises have had higher ordinary profit rates than enterprises with borrowings. It also allows us to examine how high the ordinary profit rates of debt-free enterprises are. However, when we look at the difference in the ordinary profit rates of debt-free enterprises and enterprise with borrowings, it has been steadily decreasing despite repeated rises and falls through the latter half of the 1980s. It fluctuated around 2% in the 1990s and since the 2000s has trended around the 1% mark, clearly showing a trend for the difference to decline in the medium- and long-term.

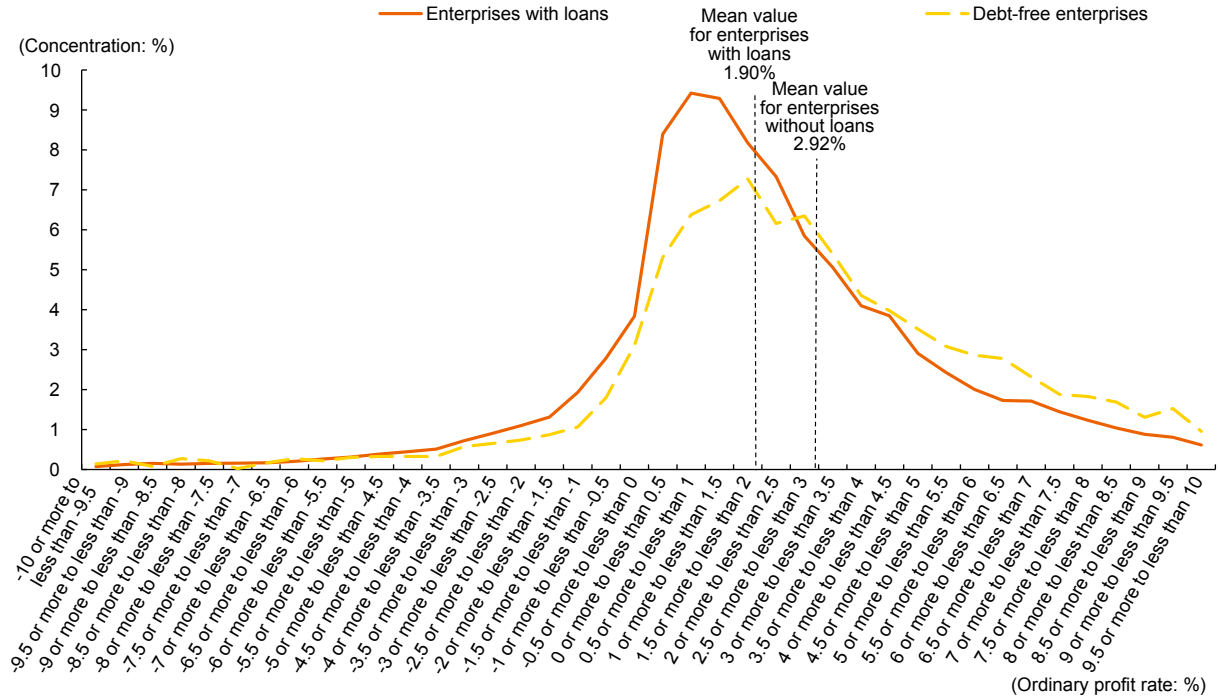
Fig. 2-5-56 Trends in SME ordinary profit rates according to borrowings status



Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
Notes:
1. SMEs are defined in accordance with the definitions in the Small and Medium-sized Enterprise Basic Act.
2. Borrowings here refers to the total amount for corporate bonds and long-term and short-term financial institution loans.
3. Ordinary profit rates are seasonally-adjusted using backward moving averages for the 4 quarters.
4. The shaded sections of the graph indicate periods of economic recession based on the business cycle reference dates from the Cabinet Office.
5. Values for recurring profit margin that exceeded 100% or were less than -100% were treated as erroneous and excluded.

Fig. 2-5-57 compares the fluctuations in ordinary profit rates over a 5-year period for debt-free enterprises and enterprises with loans from financial institutions. It shows that the trend for debt-free enterprise has fewer peaks than that of enterprises with loans, but that the variations are larger in degree. It also shows that enterprises with loans generally make up a higher proportion of the enterprises with an average ordinary profit rate that is 2.5% or less, whereas debt-free enterprises generally comprise a higher proportion of enterprises with rates above 2.5%. This shows that debt-free enterprises overall have higher rates of ordinary profit and higher profitability than enterprises with borrowings from financial institutions.

Fig. 2-5-57 Fluctuations in ordinary profit rates according to status of borrowings from financial institutions

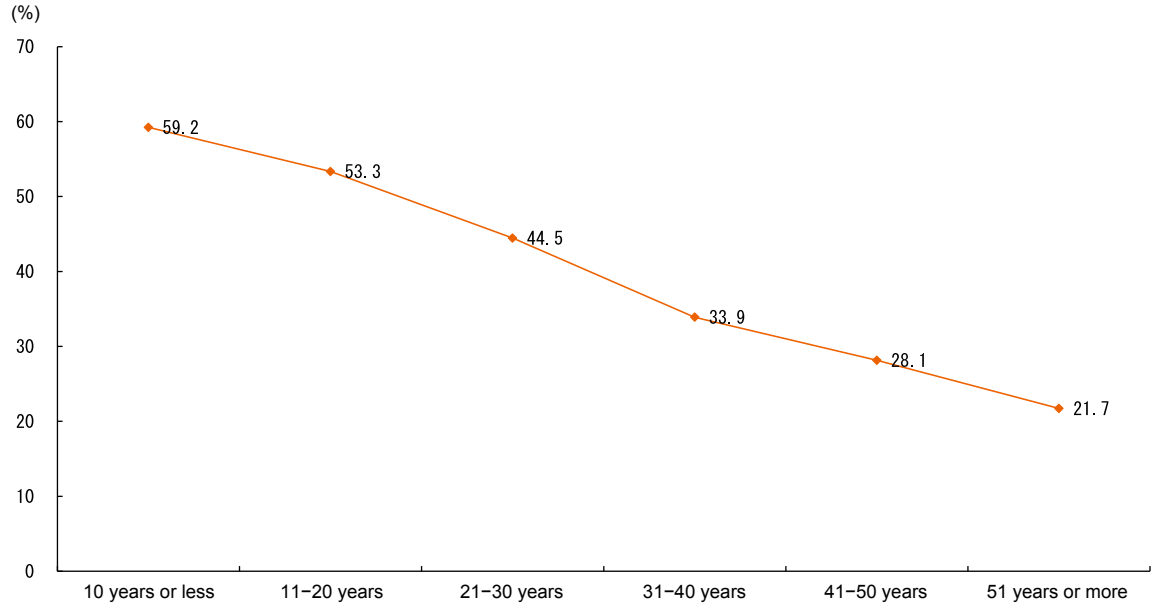


Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities.*
Notes: 1. Panel data was compiled for a 5-year period from 2010 to 2014 and the average ordinary profit rates calculated for that period.
2. Here, debt-free enterprises refer to enterprises that have had no borrowings from financial institutions for the past five years.

Fig. 2-5-58 shows the proportion of debt-free enterprises according to the number of years since they were established. We can see that more than 50% of all enterprises established 20 years ago or less are debt-free, but as they age, that proportion declines. This is likely to be due to the fact that financial institutions, when offering financing to SMEs, place a lot of emphasis on the stability of the enterprise, as we saw in Fig. 2-5-48. This results in the emergence of financial relationships between enterprises and financial institutions as the enterprises become stable.

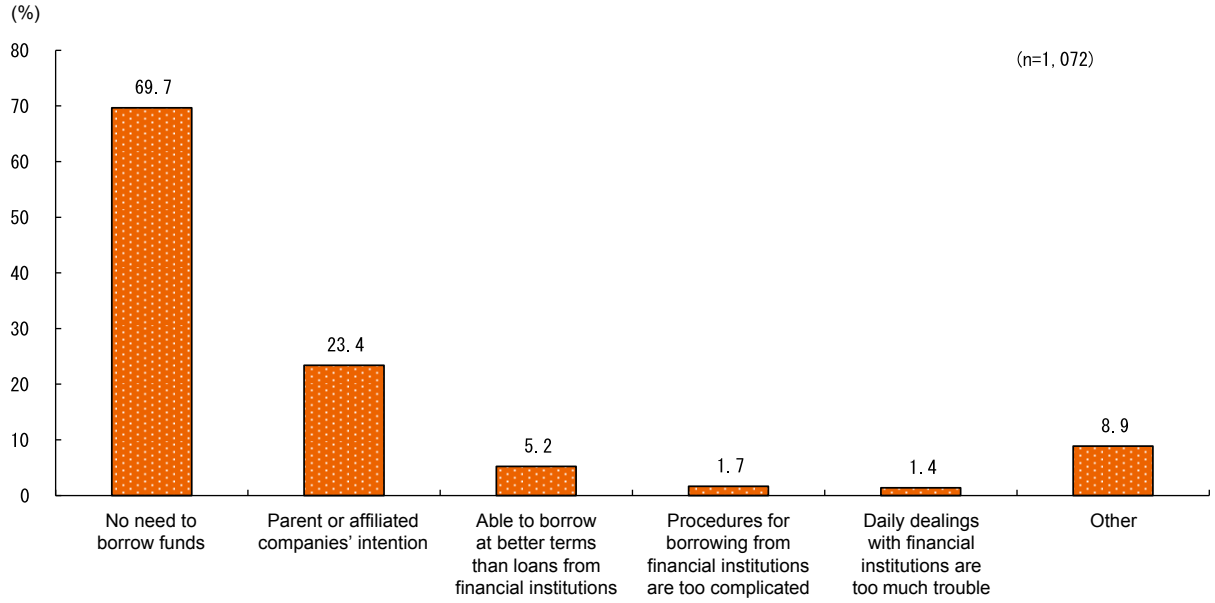
Next, we look at the reasons why debt-free enterprises do not borrow from financial institutions. Fig. 2-5-59 shows the reasons why debt-free enterprises do not need to borrow from financial institutions. The highest proportion of enterprises (69.7%) responded "No need to borrow funds", followed by "Parent or affiliated companies' intention" (23.4%). This suggests that, for debt-free enterprises, the intentions of their parent company or affiliated companies mean that there are enterprises within the group that are procuring funding, and given their high levels of profitability, many enterprises can meet the costs of investment funding with their internal reserves.

Fig. 2-5-58 Proportion of debt-free enterprises according to years since establishment



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.

Fig. 2-5-59 Reasons why debt-free enterprises do not borrow from financial institutions

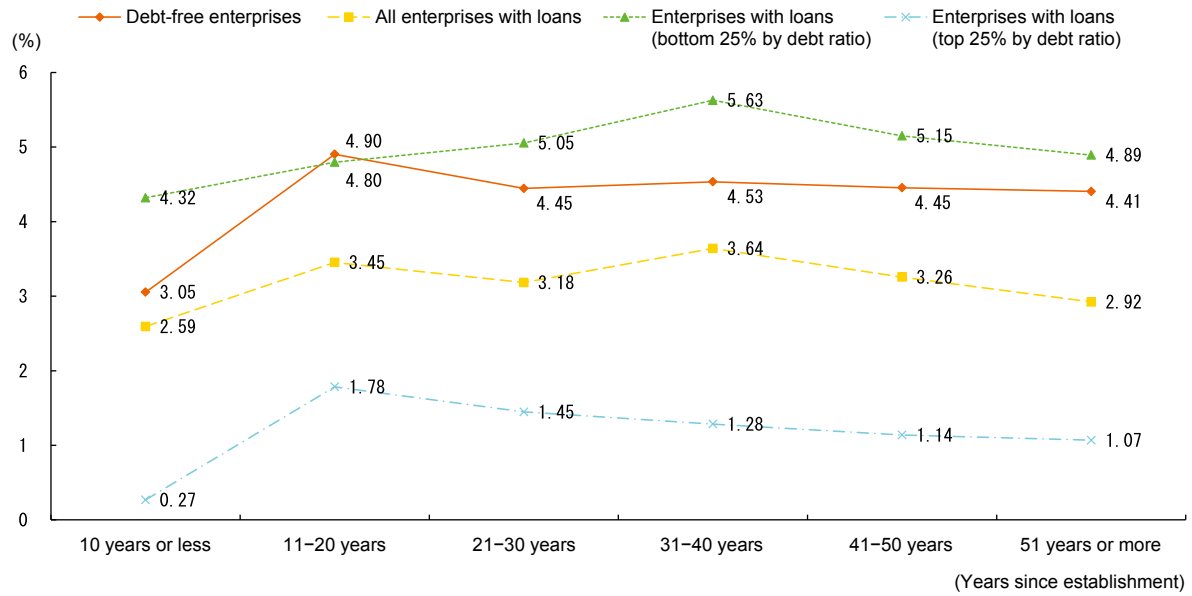


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Next, Fig. 2-5-60 looks at average ordinary profit rates according to the number of years since establishment and the status of borrowings from financial institutions. If we start by comparing debt-free enterprises and enterprises with borrowings generally, debt-free enterprises generally tend to have higher average rates of ordinary profit, and as the enterprises age, that difference grows larger. If we then look at enterprises with borrowings from financial

institutions and take the enterprises with debt ratios in the highest 25% and the lowest 25%, enterprises with high debt ratios have a heavier debt burden and low profits. But if we look at the enterprises with a light debt burden and low debt ratios, they generally have a higher average rate of ordinary profit than debt-free enterprises. So presumably by borrowing from financial institutions in order to make investments, they achieve better profitability than debt-free enterprises.

Fig. 2-5-60 Rates of ordinary profit according to years since establishment and status of borrowings from financial institutions



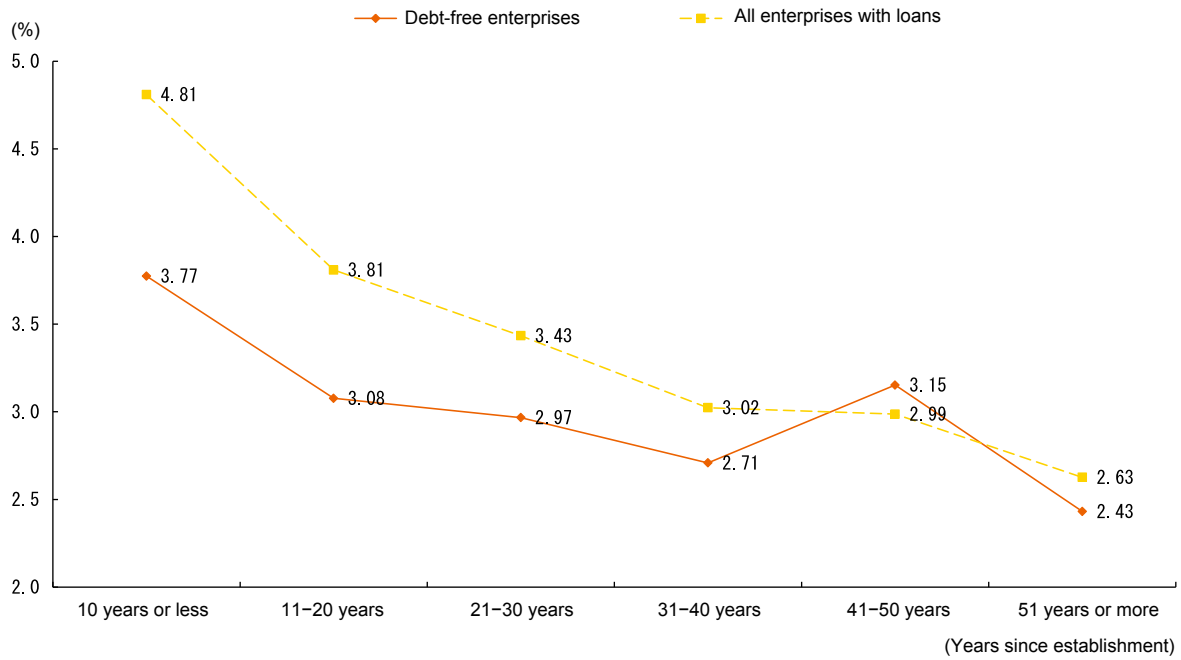
Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The average rate of ordinary profit is calculated as the average for enterprises with ordinary profit rates from -100% to less than 100%.
2. Debt ratios in the lowest and highest 25% refers to the respective totals for enterprises with borrowings from financial institutions where their debt ratio (financial institution loans as a proportion of total assets) is in the bottom 25% and highest 25%. Enterprises in the bottom 25% can be said to have low debt ratios and a relatively light debt burden, and enterprises in the top 25% can be said to have high debt ratios and a relatively heavy debt burden.

Necessity for investment by debt-free enterprises

Next, we look at trends in capital investment. Fig. 2-5-61 looks at investment ratio proportions according to the number of years since establishment and the status of borrowings from financial institutions. If we compare debt-free enterprises with enterprises that have borrowings from financial institutions, we see that debt-free enterprises generally have lower rates of investment. Also, investment rates trend downwards as the number of years since establishment rises, and capital investment as a proportion of total investment also declines as enterprises age. This is probably because younger enterprises invest in new growth, but as enterprises age and management becomes more stable in the process, they tend not to make any more large investments.

While this indicates that excessive dependence on borrowings curtails profitability, a certain amount of borrowing that is invested in growth results in enterprises that achieve higher profitability than even debt-free enterprises. Because debt-free enterprise have high profitability on average, they are expected to have little interest in taking on new investments that involve risk. However, to increase profitability in the face of a contracting market due to an aging and shrinking population, it is important that enterprises invest actively and they should be giving serious consideration to procuring funding from financial institutions when the need arises.

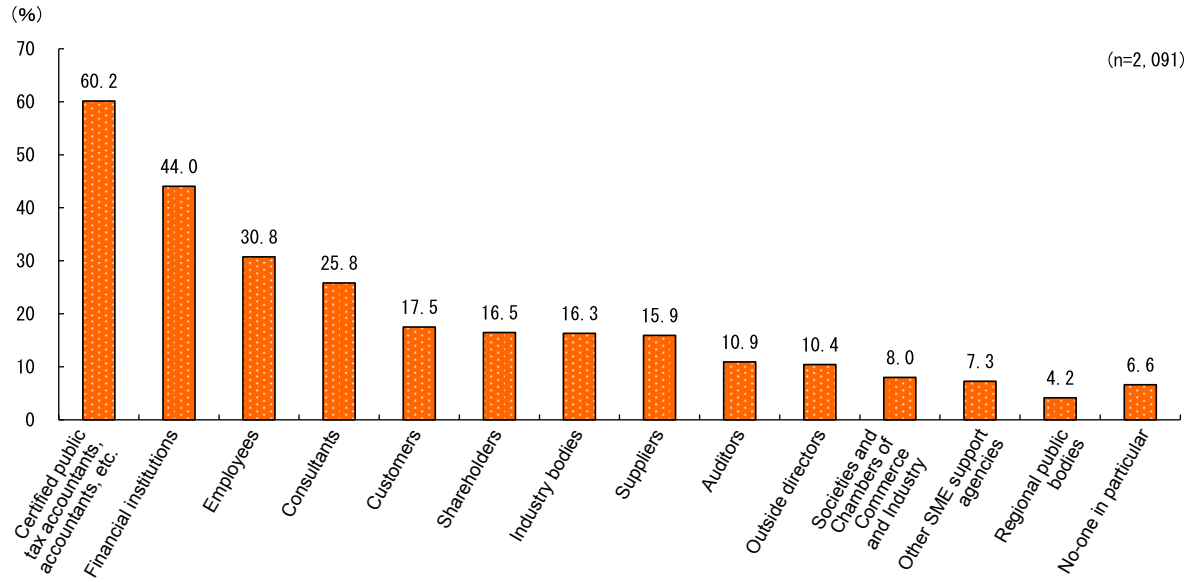
Fig. 2-5-61 Investment ratio proportions according to years since establishment and status of borrowings from financial institutions



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Note: Here, investment rate refers to the amount of capital investment as a proportion of total assets (total tangible and intangible fixed assets).

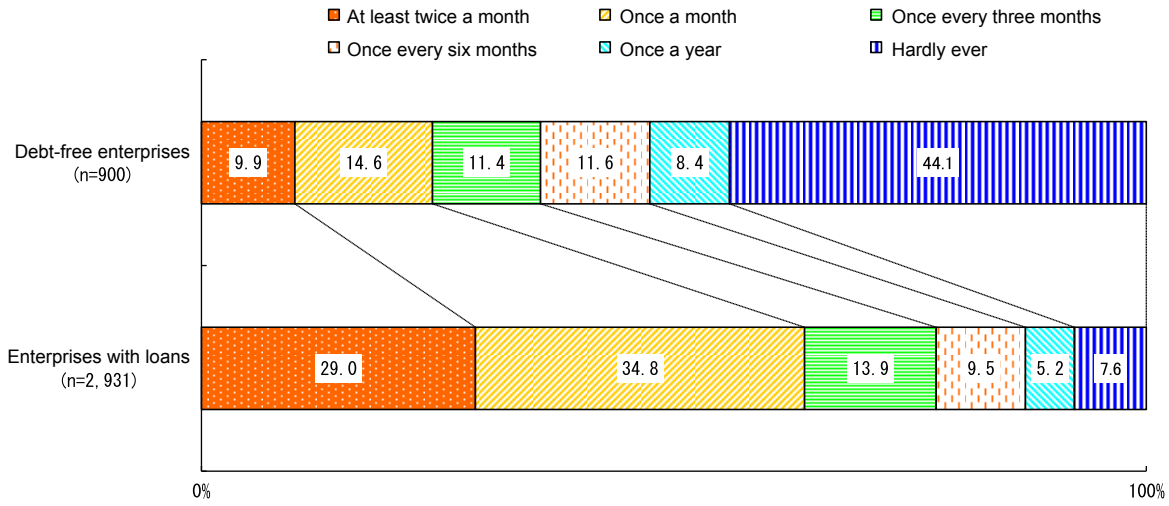
We now examine who supports debt-free enterprises in this sort of growth investment. If we begin with the consultation and research partners that SMEs seek out with the aim of investing in growth, most often it is "Certified public tax accountants, accountants, etc.", followed by "Financial institutions" (Fig. 2-5-62). Next, we look at the frequency of meetings with main banks according to whether or not the enterprises have borrowings from financial institutions. The proportion of enterprises who responded "At least twice a month" or "Once a month" was a total of 63.8% among enterprises with borrowings and 24.5% among debt-free enterprises (Fig. 2-5-63). In other words, while the main consultation partners for growth investment by SMEs were certified public tax accountants, certified public accountants and financial institutions, the tenuous nature of relationships with financial institutions among debt-free enterprises suggests that they rely particularly heavily on certified public tax accountants and certified public accountants as consultation partners. So we can anticipate that, for debt-free enterprises, certified public tax accountant and certified public accountants will play a significant role in supporting growth.

Fig. 2-5-62 Consultation and research partners when engaging in risk-taking behavior



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Refer to Part II, Chapter 2 for details of the survey.

Fig. 2-5-63 Frequency of meetings with main banks according to status of borrowings from financial institutions



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Case 2-5-5 Futaba Tsushinsha Co., Ltd.

A debt-free enterprise that with assistance from financial institutions is investing in growth through business diversification

Futaba Tsushinsha Co., Ltd. (employees: 67; capital: ¥30 million), based in Chuo City, Tokyo, has been diversifying its business due to a corporate split-up and making investments aimed at growth. The company is an advertising agency targeting magazines with a particular strength in women's magazines. Founded in 1948, the agency has a long history and is extremely well-known its area of expertise, combining personnel and know-how as its particular technologies. The company has operated since its founding on a debt-free enterprise—one that does not take out loans—by pursuing business that makes the most of its strengths.

The turning point for Futaba came as a result of the recessionary phase that ensued from the Lehman crisis, with the company recording its first deficit since its founding. Some of Futaba's peer enterprises even went out of business, and the company sensed the need to think about the nature of its businesses to cope with a changing environment. First, it thought about diversification as a way of putting its owned assets to good use and got into the real estate rental business. It also launched a new franchise-style café business. As Futaba was in the process of diversifying its operations, it split its core businesses up into two companies. Futaba Tsushinsha Co., Ltd. would operate as an advertising agency, while Futaba Holdings Co., Ltd., would handle the real estate rental and restaurant businesses.

The company had been pushing forward on its diversification program while also having its eyes set on splitting itself in two. However, at this juncture it got advice from Tokyo Small and Medium Business Investment and Consultation Co., Ltd. (SBIC). The SBIC, which has expertise in financial policy, had also made an investment in Futaba when it began its diversification process. The investment also had positive effects, but for Futaba the most beneficial thing was having the chance to consult with SBIC about the issues arising from diversification and future strategies.

Futaba had begun looking into talking with SBIC in May 2013 about the split-up. SBIC worked up a scheme proposal for Futaba and moved forward on studying the possibility with the potential tax advantages in mind. That August, Futaba also brought in a certified public accountant and a certified welfare consultant from a consultancy that SBIC had introduced the company to, and with them established a committee to study a split-up with the president, corporate auditor, and principal administrative officers as the core members. The committee met 12 times at a rate of once a month and came up with a final company split-up scheme. Thanks to this scrupulous follow-up on the part of SBIC the split-up was accomplished without a hitch. Both Futaba companies have been operating well as initially imagined, and both income and profits have risen for five years in a row.

Futaba Tsushinsha President Hiroshi Ohkawa gave SBIC's consulting abilities high marks. "When you're working things out with a bank, people from every section of the bank join in on the meeting. This means talks require a lot of effort and time. In contrast, with SBIC I can get advice about everything including legal, financial, and taxation matters pretty much from just one person. That is very satisfying," he says. Meanwhile, he also holds out the expectation that financial institutions will change how they deal with their business customers. "Banks have people rich in experience, too," he says. "These people might need to push themselves forward so they can handle various consultations with businesspeople."

Thus, it would appear that the kinds of support that debt-free enterprises seek for their investments is not only loans and funds for operational use but also the ability to provide consultations that a businessperson can rely on.

One of the shops from the company's new café business

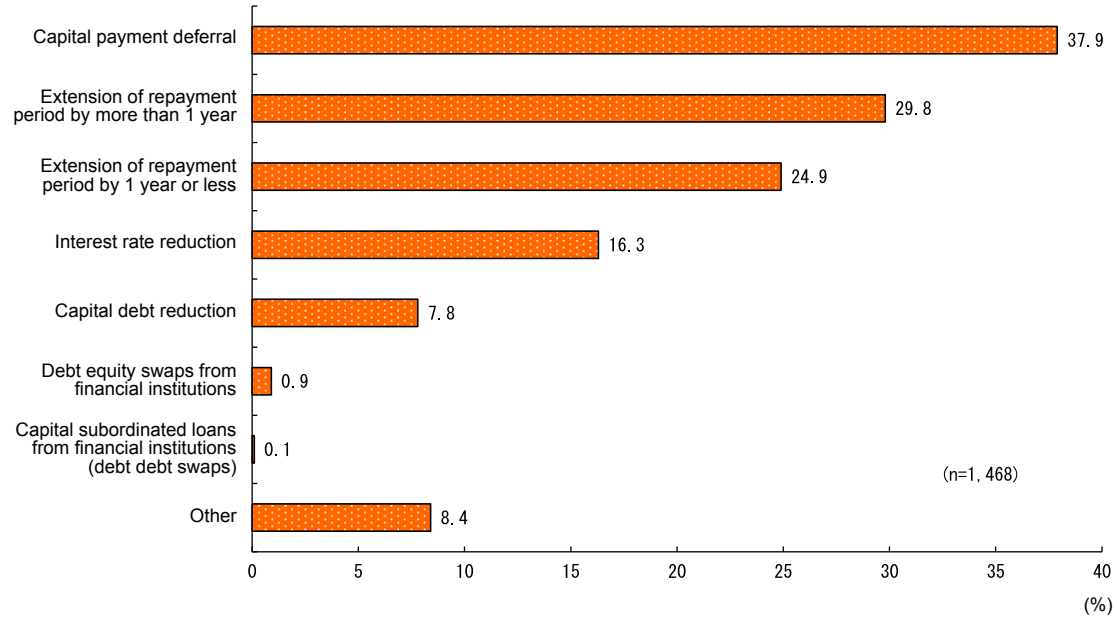
5. Fund-raising environment for enterprises with changed loan conditions

In Section 1, we discussed the rise in enterprises with changed loan conditions who had renegotiated the conditions of their borrowings from financial institutions, together with the fact that those enterprises with changed loan conditions were repeatedly changing those conditions. Here, we analyze the fund-raising situation for those enterprises with changed loan conditions based on the *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*[16].

Details of the condition changes

First, we look at the accepted details arising from the changed conditions (Fig. 2-5-64). The commonest change (37.9%) is "Capital payment deferral", followed by "Extension of repayment period by more than 1 year" and then "Extension of repayment period by 1 year or less". In total, 54.7% of enterprises responded that they had extended their repayment period, showing that the bulk of the condition changes amounted only to a temporary easing of the repayment terms.

Fig. 2-5-64 Details of condition changes accepted by financial institutions

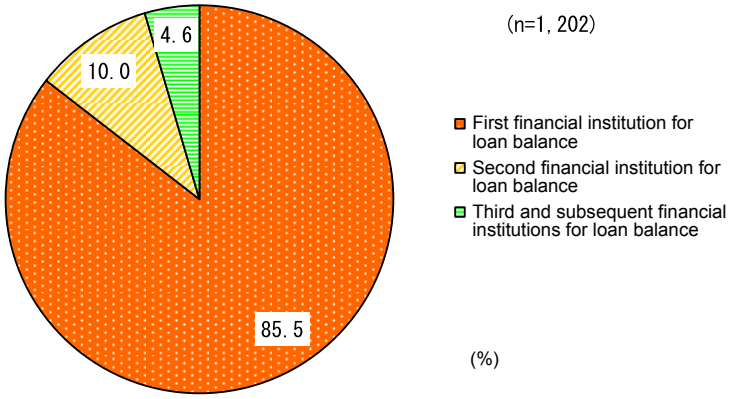


Source: Research Institute of Economy, Trade and Industry (RIETI), *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*.
Notes: 1. Data totals are for enterprises whose changes were first accepted after the Financing Facilitation Act was enacted.
2. Total does not always equal 100% as multiple responses were possible.

Fig. 2-5-65 shows the loan balance rankings of the financial institutions who first accepted the condition changes. The highest proportion of enterprises (85.5%) responded "First financial institution for loan balance". While one assumes that the first financial institution for the loan balance would almost invariably be the enterprise's main bank, the main bank's decision on whether to accept the condition changes would also be likely to influence other banks' stance on supporting the enterprise, which could also be why it is the main bank that first accepts the enterprise's condition changes.

16) Survey of 20,000 enterprises conducted by Tokyo Shoko Research, Ltd. in December 2014, commissioned by the Research Institute of Economy, Trade and Industry (RIETI). The response rate was 30.0%.

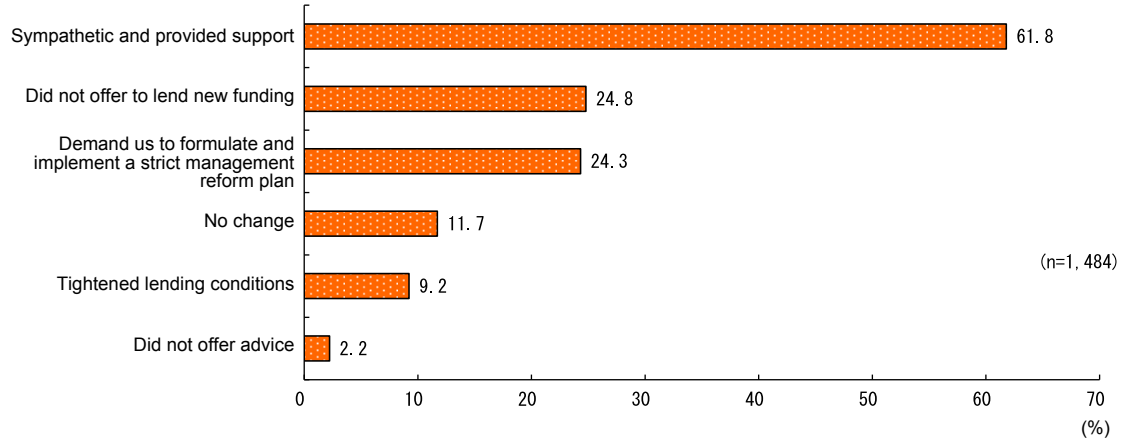
Fig. 2-5-65 Loan balance rankings of financial institutions who first accepted condition changes



Source: RIETI, *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*.
Note: Data totals are for enterprises whose changes were first accepted after the Financing Facilitation Act was enacted.

Next, we look at the attitudes adopted by financial institutions after accepting the changed conditions (Fig. 2-5-66). Most enterprises (61.8%) responded "Sympathetic and provided support", showing that financial institutions responded sympathetically to more than half of the enterprises. However, 24.8% responded "Did not offer to lend new funding" and 24.3% chose "Demanded us to formulate and implement a strict management reform plan", which shows that some enterprises were unsatisfied with the financial institution's attitude.

Fig. 2-5-66 Attitudes of financial institutions after accepting condition changes

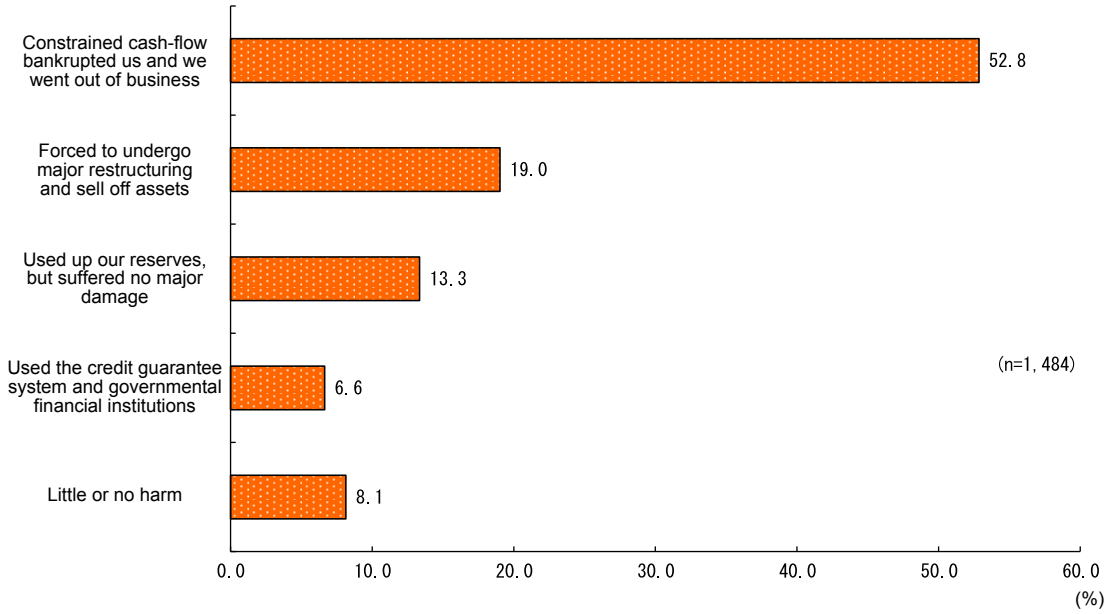


Source: RIETI, *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*.
Notes: 1. Data totals are for enterprises whose changes were first accepted after the Financing Facilitation Act was enacted.
2. Total does not always equal 100% as multiple responses were possible.

These responses by financial institutions to loan condition changes could well have a major impact on the continued survival of enterprises. Fig. 2-5-67 looks at the likely scenarios if the condition changes had not be accepted. In all, over 70% of enterprises responded that there would have been very significant impacts, with 52.8% choosing "Constrained cash-flow bankrupted us and we went out of business" and 19.0% selecting "Forced to undergo major restructuring and sell off assets". And the proportion of enterprises who responded "Little or no harm" was just 8.1%. Under the Financing Facilitation Act, where SMEs and micro-businesses consult with

financial institutions, they are required to make every effort to provide appropriate and thoroughgoing financial intermediary functions and respond in detail to the actual circumstances. Consequently, it is likely that the Financing Facilitation Act is effective in significantly affecting the survival of enterprises.

Fig. 2-5-67 Likely scenarios should condition changes not be accepted

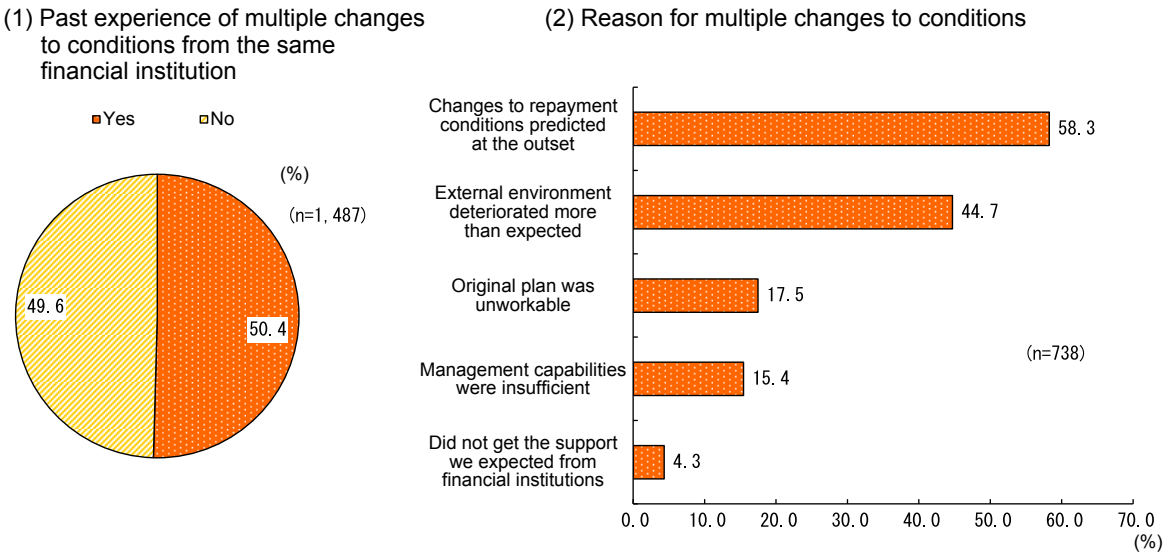


Source: RIETI, *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*.
Notes: 1. Data totals are for enterprises whose changes were first accepted after the Financing Facilitation Act was enacted.
2. Total does not always equal 100% as multiple responses were possible.

Multiple changes to conditions

Next, we will focus on those enterprises who renegotiated their loan conditions multiple times. Of the enterprises whose condition changes were accepted by financial institutions, roughly half (50.4%) responded that they had successfully changed their loan conditions more than once. The most popular reason given for having to change the conditions multiple times was “Changes to repayment conditions predicted at the outset” (58.3%), suggesting that the original changes to the repayment conditions were just temporary condition changes for the enterprise and did nothing more than temporarily resolve a cash-flow issue for the enterprise. However, 44.7% of enterprises responded “External environment deteriorated more than expected”, which confirms that for those enterprises, the multiple condition changes were the result of drastic changes in the external environment. Specifically, these were the Lehman crisis in 2008 and the Great East Japan Earthquake in 2011, two events that each precipitated an unprecedented economic crisis and damage to Japan’s economy within a short time of each other. This shows that many enterprises had to change their repayment conditions multiple times either as a result of issues with the original condition changes or due to the impact of disastrous changes in the external environment.

Fig. 2-5-68 Reasons for changing conditions multiple times



Source: RIETI, *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*.
Note: Data totals are for enterprises whose changes were first accepted after the Financing Facilitation Act was enacted.

Formulation of management reform plans when conditions are changed

When financial institutions accept condition changes proposed by enterprises, many of the institutions require the enterprises to present a management reform plan. This is because, as information for deciding whether or not to continue supporting an enterprise in the future, the financial institutions need to know the future management prospects of that enterprise. Fig. 2-5-69 shows the situation with respect to presenting a management reform plan the first time conditions were changed.

(1) Enterprises who presented a management reform plan

The proportion of enterprises who presented a management reform plan is 75.6%, just over three quarters of all enterprises surveyed[17]. In addition, 61.1% of enterprises had presented a management reform plan by the time the conditions were changed.

(2) Financial institutions when management reform plans are formulated

Next, if we look at the role played by financial institutions when management reform plans are formulated, 67.2% of enterprises responded "Drafted by the company and approved by the financial institution", showing that a high proportion of enterprises draft their own management reform plans. On the other hand, the "Drafted equally by the company and the financial institution" and "Drafted by the financial institution and approved by the company" responses scored 26.8% and 4.0% respectively, showing that around one quarter of enterprises had the assistance of financial institutions as they formulated their management reform plans.

(3) Involvement of the financial institution's head office in formulating management reform plans

If we also consider the extent to which the financial institutions' head offices are involved in the formulation of these management reform plans, 31.8% of enterprises responded "Documentation exchanged via the business branch" and 26.6% opted for "Minimal, but there was a direct visit". However, 24.7% responded "Not aware of any head office involvement", which shows that around three-quarters of the enterprises surveyed enjoyed some level of involvement by the financial institution's head office.

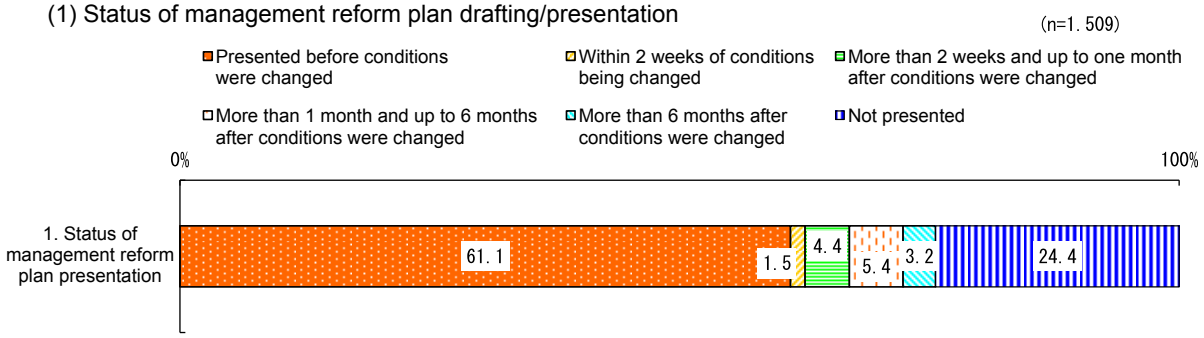
17) Of the enterprises whose condition changes were accepted by financial institutions, roughly a quarter (24.4%) did not present a management reform plan, but the reasons for that were not explored by the survey. However, there is a range of likely reasons, including cases where enterprises are considering presenting a future plan before even a year has elapsed since the condition change, cases where the financial institutions did not require a plan to be presented because ample security or credit guarantees were provided, cases where documentation was provided to the financial institutions but, due to the simplicity of the content, the enterprise failed to recognize the documents as a management reform plan, and cases where limitations on the respective human and physical resources of the financial institution and the enterprise prevented a plan from being presented.

(4) Management reform plan details

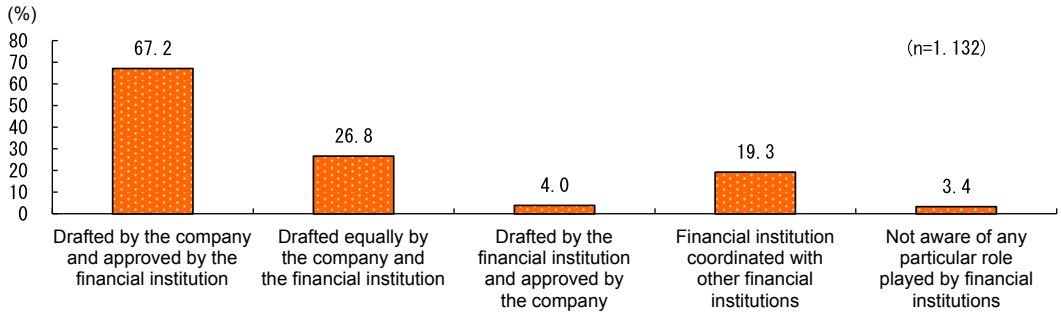
Looking at the content of these management reform plans, 45.6% were "Restructuring" and 57.2% were "Measures for process innovation", showing that reducing costs by cutting back on staff and reviewing the current production and supply methods for products and services are given priority over measures that would create new added value, such as developing new business and developing new products or new services.

Fig. 2-5-69 Status of management reform presentation and the role of financial institutions in formulating plans

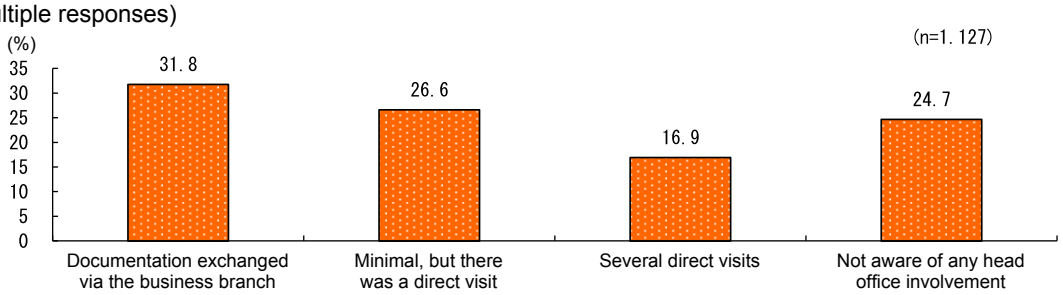
(1) Status of management reform plan drafting/presentation



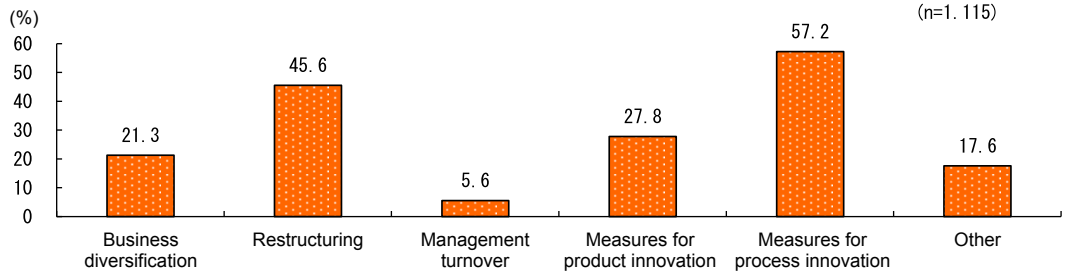
(2) Role of financial institutions in formulating management reform plans (multiple responses)



(3) Level of involvement by the financial institution's head office in formulating management reform plans (multiple responses)



(4) Management reform plan details (multiple responses)

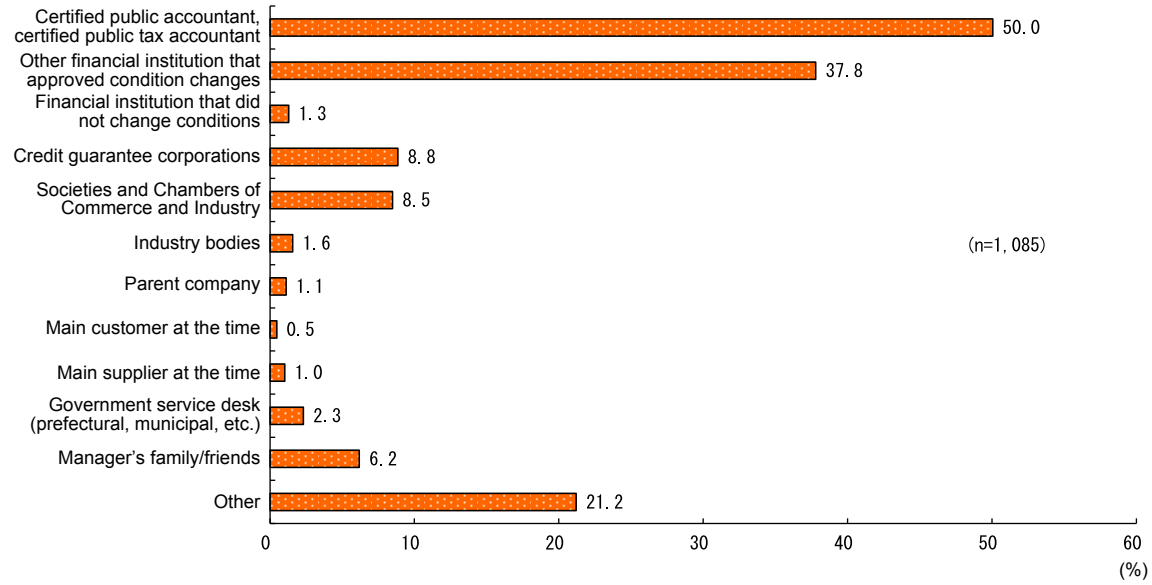


Source: RIETI, *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*.
Notes: 1. Data totals are for enterprises whose changes were first accepted after the Financing Facilitation Act was enacted.
2. Product innovation refers to developing or supplying new products and services or significantly improving existing products and services. Process innovation refers to introducing new methods for manufacturing products or supplying services or significantly improving the existing methods.
3. Total does not always equal 100% as multiple responses were possible.

Those assisting in the formulation of management reform plans

Next, we examine other organizations and agents who lend assistance when these management reform plans are being formulated. Fig. 2-5-70 shows partners, other than the financial institutions that accepted condition changes, who provided advice or assistance in the formulation of management reform plans. The highest proportion of enterprises (50.0%) replied "Certified public accountant, certified public tax accountant", followed by "Other financial institution that approved condition changes" (37.8%). In the previous discussion of consultation partners for undertaking investment, many enterprises nominated the "Certified public accountant, certified public tax accountant" and "Financial institutions" responses. In this situation where enterprises are formulating a management reform plan when renegotiating repayment conditions, once again it is safe to say that "Certified public accountant, certified public tax accountant" and "Financial institutions" play an important role.

Fig. 2-5-70 Consultation partners when formulating management reform plans



Source: RIETI, *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*.
Notes: 1. Data totals are for enterprises whose changes were first accepted after the Financing Facilitation Act was enacted.
2. Totals were calculated for consultation partners other than the financial institutions who first accepted changed conditions.
3. Total does not always equal 100% as multiple responses were possible.

Business condition changes after conditions were changed

Finally, we will look at the shifts in business sentiment resulting from these changes to repayment conditions and analyze what caused those shifts (Fig. 2-5-71).

(1) Changes in business sentiment since conditions were changed

If we look first at the changes in business sentiment, 17.1% chose "Improved" and 42.0% opted for "Slightly improved", making a little less than 60% of respondents recording an improving trend in business conditions. However, less than 20% saw business conditions as getting still worse, with 6.1% choosing "Worsened" and 11.2% selecting "Slightly worse".

(2) Reasons business sentiment changed (own company's measures)

Asked for the reasons why their business conditions changed, the highest proportion of enterprises where business conditions improved and enterprises where business conditions worsened answered "Lowered costs" and "Costs increased" respectively, suggesting that the factor that has the greatest impact on business conditions is whether or not costs decrease. The other highly rated responses are "Management and staff now feel more at risk/Management and staff do not feel more at risk" and "Management reform plan provided useful guidance/Management reform plan was not sufficient". From this, we see that management and employees feel at risk faced with worsening business conditions and the situation precipitated by the changed repayment conditions, so they

have to formulate highly feasible management reform plans so that employees can all work together to reform the business with the aim of reducing costs.

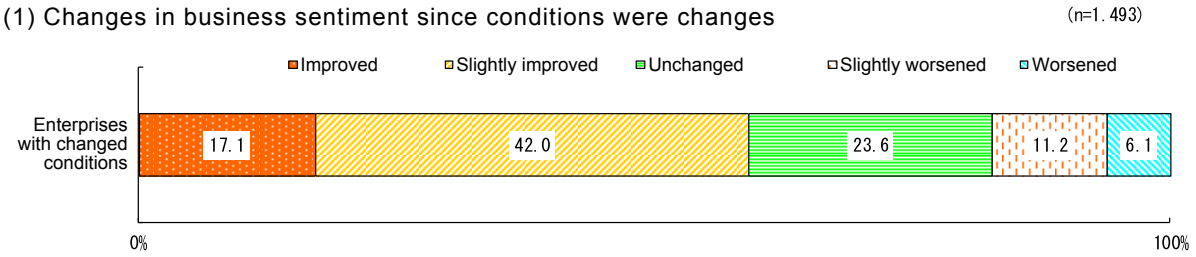
(3) Reasons business sentiment changed (relationship with financial institutions)

If we also look at the relationship with financial institutions, the highest proportion (50.7%) of enterprises where business conditions improved chose "Were able to get any kind of advice from financial institutions", whereas for enterprises where business conditions worsened, the commonest response (70.7%) was "Did not procure funding for the future from financial institutions". Whereas enterprises where business conditions worsened felt that a lack of funding was the cause of the worsening business conditions, enterprises where business conditions improved thought the fact that they were able to get advice of various sorts from financial institutions was the reason why their business conditions improved.

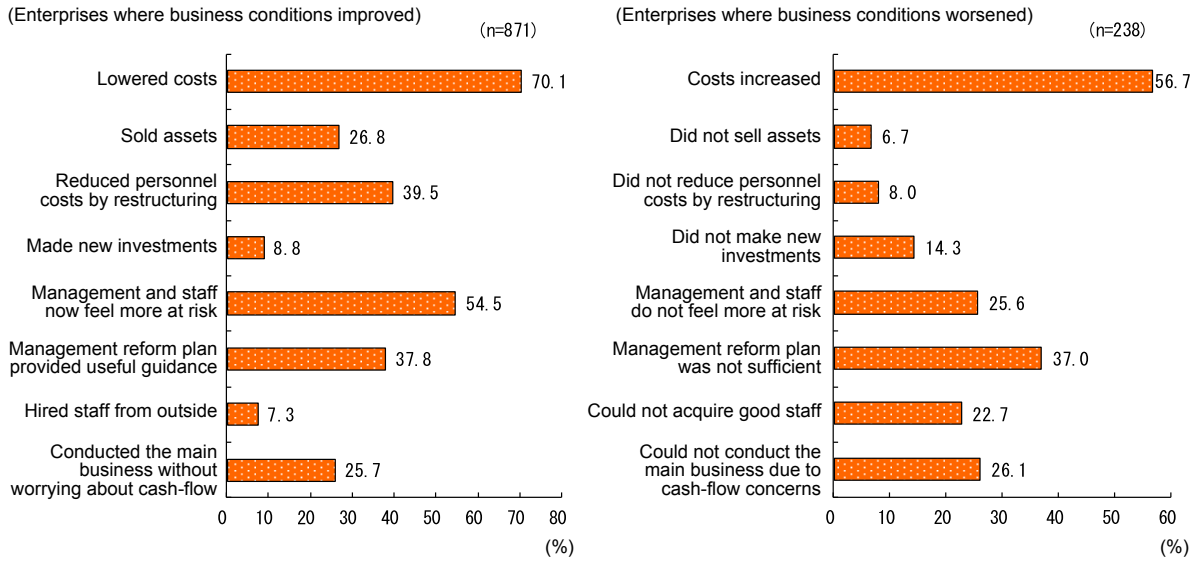
There is no doubt that funding for growth is absolutely essential if an enterprise is going to improve their business situation. But it is also the case that being able to get advice from financial institutions, not just financial assistance, and receiving the management support services provided by financial institutions to resolve the management issues shared during their consultations, also provide a quick route to improved business conditions.

Fig. 2-5-71 Business sentiment after condition changes and the reasons for its fluctuations

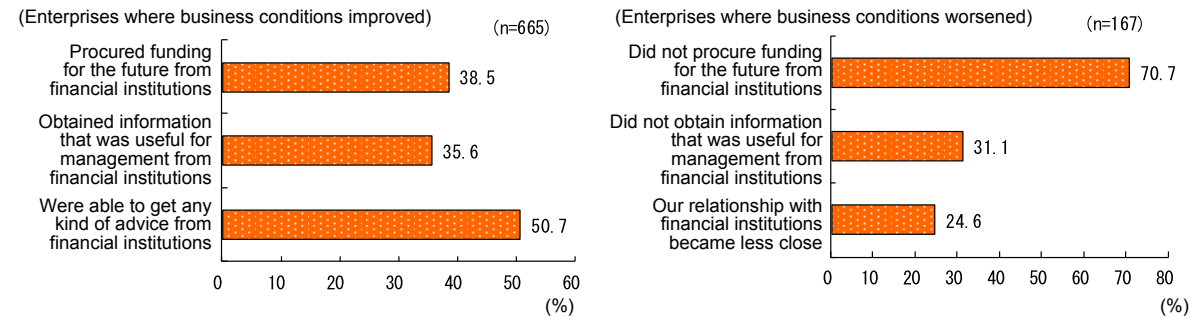
(1) Changes in business sentiment since conditions were changes



(2) Reasons conditions improved/worsened (own company's measures)



(3) Reasons conditions improved/worsened (relationship with financial institutions)



Source: RIETI, *Survey of Finance Fact-finding After Expiration of the SME Finance Facilitation Act*.
Notes: 1. Data totals are for enterprises whose changes were first accepted after the Financing Facilitation Act was enacted.
2. Total does not always equal 100% as multiple responses were possible.

Case 2-5-6 Komiya Shoten, Ltd. (Chuo City, Tokyo)

A company that has extricated itself from changes in borrowing conditions and begun its march to growth

Komiya Shoten, Ltd. (employees: 10; capital: ¥3 million), based in Chuo City, Tokyo, is a manufacturer and wholesaler of Western-style umbrellas. The company has been in business for more than 80 years. While it may not have cutting-edge technology, it has maintained traditional methods and possesses refined techniques not easily imitated by other companies.

Starting around 1998, Komiya's market was snatched away from it by inexpensive products made overseas. Its performance swiftly worsened and it was hard-pressed for capital. Accordingly, in 2001 it sounded out its main bank about changing its borrowing conditions. The company was asked to draft a management improvement plan for paying back its debt in ten years, and it did so. It was able to get the bank to go along with revising the repayment terms as a result, including an extension on the borrowing period and a temporary reduction in principal repayments. The company also continued to reassess its management improvement plan as it endeavored to reorganize its operations.

At the time Komiya reorganized its operations, it received a proposal from financial institutions to condense its debts by selling off its headquarters building. However, after thinking about the company's business viability after such a sale (location requirements and rental rates after moving), it did not carry the proposal out. Instead, it first worked to condense its fixed costs, reducing labor costs by laying off 4 workers and renting out the first floor of its headquarters building. After the company's balance of payments rose from rock bottom, it hired the staff it again needed. It poured its energies into getting earnings to improve, making the most of its newly hired staff by shoring operations at its directly managed stores and beginning direct sales to the customer through the internet.

While Komiya's performance did not swiftly recover due to this undertakings, it did gradually improve thanks to the steady effort. Currently, it is getting so many orders that it cannot keep up solely with its staff and production has not caught up.

Even after performance improved, Komiya's main bank maintained its position on loan repayments unchanged. Mizuho Bank, however, was another story. It, too, had changed loan conditions, but now it offered to group together Komiya's debts and reduce the interest rates considerably. All of the loans were consolidated in 2014 with a view to facilitating financing, and with that Komiya's dealings with financial institutions were normalized. Furthermore, closer to home Komiya's business performance turned favorable. This produced demand for additional working capital, which it procured from Mizuho.

A reorganization of operations was completed and dealings with financial institutions organized thanks to a steady management improvement effort of this sort. Furthermore, the company's products were recognized by the Ministry of Economy, Trade and Industry (METI) as coming from one of the Wonder 500[18] business, another sign of how the company had begun its march toward new growth.

Komiya seems to have succeeded in its effort to reorganize operations because successor who joined it in 2000 made bold changes to the company's business practices. As to borrowing conditions and financing, the changes here were the product of a serious drive to revitalize management arising from repeated consultations with financial institutions.

It could be said that Komiya's efforts were given a boost by the quick-response support it got from a financial institution that took the form of encouraging advice on management improvement and, once those improvements were made, by that institution then swiftly normalizing dealings with it.

Some Komiya products

An umbrella made by hand by one of the company's artisans

18) "The Wonder 500" is a project being pursued by the Ministry of Economy, Trade and Industry. The initiative is aimed at invigorating local economies under the Cool Japan project based on the Comprehensive Strategy for Region-Building. As a project to discover "hometown specialties" and promote them in a coordinated fashion, the initiative calls for selecting "local products that are the pride and joy of Japan but not yet known outside of Japan" and then promote them around the world.

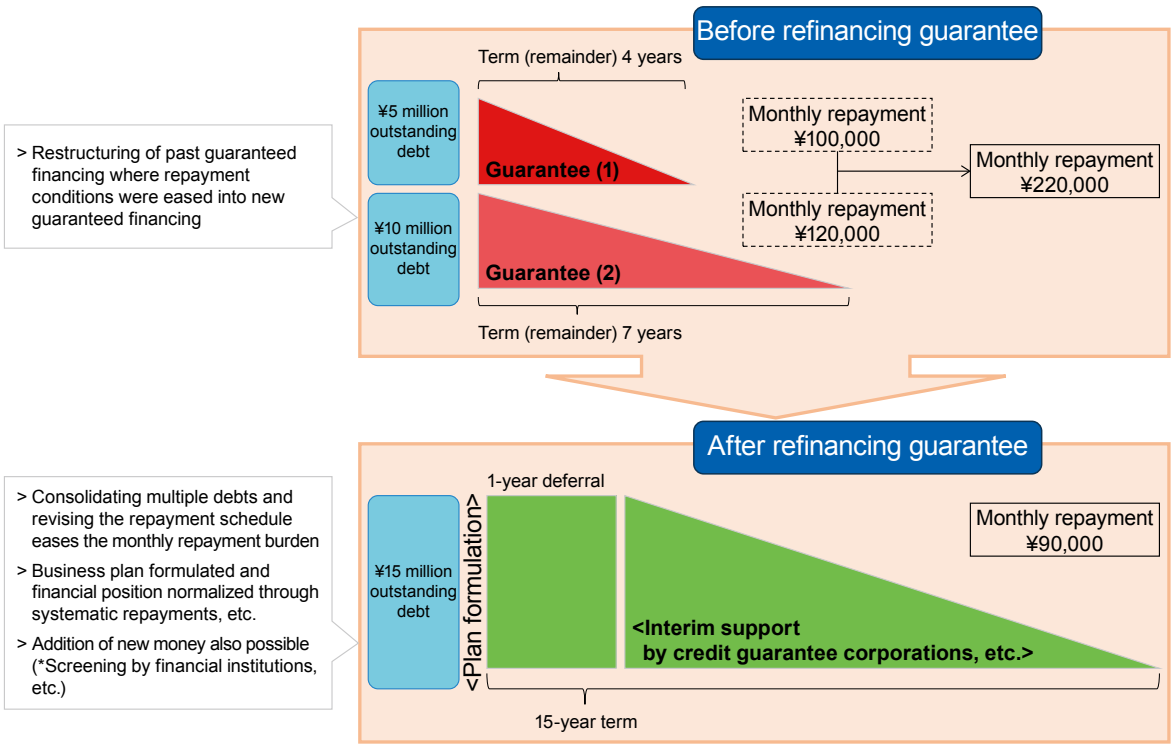
Column 2-5-2 The establishment of Guarantees for Refinancing by Changing and Improving Conditions

Under the 2015 supplementary budget enacted on January 20, 2016, the SME Agency created the System for Providing Guarantees for Refinancing by Changing and Improving Conditions.

This system is for SMEs who, despite their management's desire to improve business, are having difficulty obtaining pro-active financing support due to the easing of repayment conditions for past loans. Under the system, they can restructure previous guaranteed financing into new guaranteed financing. The system also permits them to restructure so as to add new funding or increase the amount of borrowing, though this is subject to screening by the financial institutions.

In the case of credit guaranteed financing by credit guarantee corporations, where repayment conditions have been eased due to worsening business conditions, businesses cannot in principle receive new credit guaranteed financing from credit guarantee corporations until they have fully paid off the borrowings on which the repayment conditions were eased. For enterprises to use this system, they must meet a number of prerequisite conditions. They must draft an explanation of the circumstances underlying the easing of their repayment conditions, they must formulate a business plan with the assistance of financial institutions and support agencies for business innovation[19], and they must issue progress reports on the formulated business plan once every quarter. Enterprises who meet these requirements should be able to restructure their finances and improve their cash-flow situation. By using this system to normalize their banking business, it is hoped that SMEs will be able to work in an environment that supports growth investment.

Fig. Column 2-5-2 (1) Schematic of guarantees for refinancing by changing and improving conditions



19) Support agencies for business innovation (approved support agencies) are public assistance institutions approved by the Japanese government for people with specialist knowledge or business experience of a set level or better who ensure that SMEs and micro-businesses receive consistent management advice, etc. Specifically, the people certified as approved support agencies are primarily SME support bodies such as Societies of Commerce and Industry and Chambers of Commerce and Industry, along with financial institutions and specialists such as certified public tax accountants, certified public accountants and lawyers.

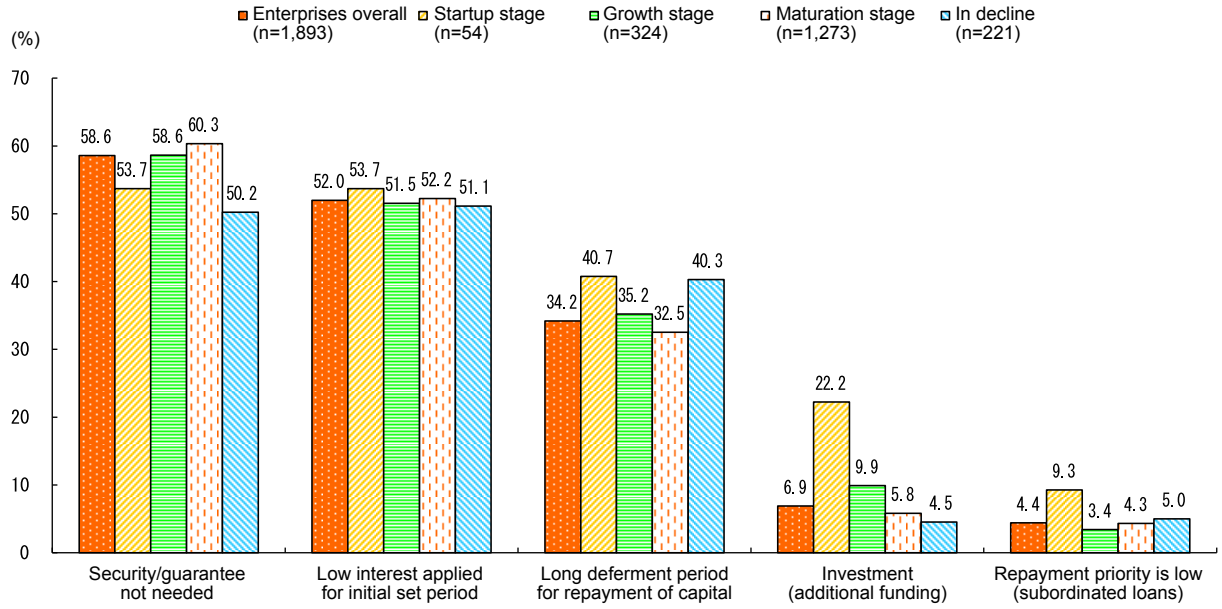
6. Greater diversity in funding procurement

Wish-list for financial institutions from enterprises investing in growth

Thus far, we have considered the necessity for funding growth investment by SMEs, and we finish by examining the funding conditions and properties that SMEs would prefer. Fig. 2-5-72 shows the conditions and properties that SMEs who are investing in growth would like from financial institutions. In each stage, more than 50% of the respondents selected the "Security/guarantee not needed" and "Low interest applied for initial set period" responses. The "Long deferment period for repayment of capital" response was also chosen by between 30% and 40% of respondents, showing that SMEs would like to have a long deferment period before they are required to start paying off the principal. By limiting the procurement costs, a set period of low interest would ease the cash-flow burden during the period immediately after an investment when it is unlikely that a growth investment would be helping with revenues. However, because this sort of growth investment funding poses a high level of risk for financial institutions, it is likely to be difficult for all growth investment to be funded by private financial institutions. To address this problem, risk money must be provided by policy-based financial institutions.

If we also look at enterprise growth according to growth stage, 22.2% of enterprises in the startup stage responded, "Investment (additional funding)", indicating that enterprises that are still relatively young tend to have a more flexible stance towards their funding strategy for additional investment. So, in order to raise funding for growth investment, we need to consider a diverse range of funding procurement options that go beyond simply borrowing from financial institutions.

Fig. 2-5-72 Wish-list of conditions and properties from financial institutions for growth investment



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Column 2-5-3 Enhancement of functions for supplying growth investment funding by policy-based financial institutions

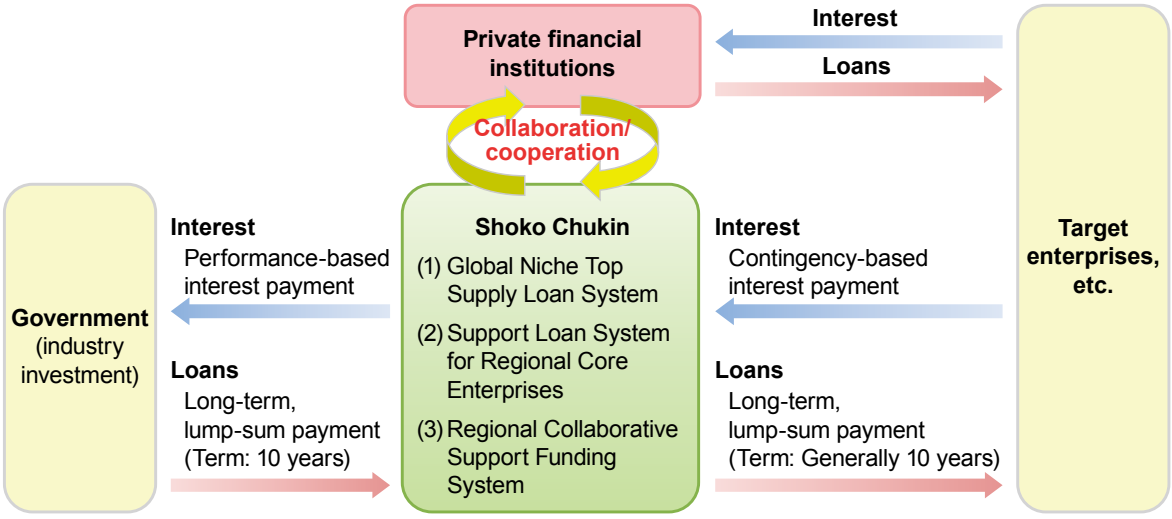
In this chapter, we have seen the high expectations that SMEs have of financial institutions with respect to growth investment aimed at resolving SMEs' management issues, and that their wishes, which include interest settings with contingency fees and financial products with lengthy deferral periods for capital repayments, differ from those of financial institutions regarding the nature of the funds they handle on a daily basis. This is due to a mismatch with respect to funding procurement, given the high business risks posed by growth investment, the long time frame until results are forthcoming and the potential for the funding procurement cycle to be longer than the investment recovery cycle. So it is important that this mismatch be corrected by sharing out the risks of providing funding for growth investment between private financial institutions and governmental financial institutions.

The Shoko Chukin Bank (Shoko Chukin) uses industrial investment loans set up as part of its fiscal investment and loan program to target assistance for growth investment by SMEs. Specifically, it established the Global Niche Top Supply Loan System (GNT Supply Loan System) and the Support Loan System for Regional Core Enterprises and collaborates with private financial institutions to provide financial support to enterprises engaging in innovation and global expansion.

Under the GNT Supply Loan System, funding is supplied to global niche top (GNT) enterprises[20] and candidate GNT enterprises to finance long-term growth investment (setting up offshore facilities, capital investment, R&D investment, etc.) that will ensure they maintain a high level of competitive superiority. The Support Loan System for Regional Core Enterprises is designed to support regional core enterprises[21] that meet certain quantitative requirement, such as a set number of employees. The System helps such enterprises deal with business downturns such as reduced sales due to changes in the business environment resulting from declining populations and shrinking markets. Given the increasing importance of factors such as "innovation (establishing new business, etc.)" and "pro-active management reforms", the System funds for growth investment initiatives such as strategic revitalization and new business expansion. In April 2016, the "Regional Collaborative Support Funding System" will be established to provide enterprise partnerships and business cooperatives that use local resources with the long-term funding they need for initiatives such developing new markets and restructuring or establishing partnerships.

These systems are designed to resolve the mismatch in funding procurement through contingency-based interest payment settings and long-term lump-sum payment models. They also offer support in cooperation with private financial institutions, with governmental financial institutions picking up those high risk financing options that private financial institutions are loathe to address when acting singly. In this way, governmental and private financial institutions can use complementary or cooperative models to fund growth investment by SMEs in ways that support SMEs' earning power by offering them a broader range of risk-based funding.

<Schematic diagram of the Shoko Chukin support loan systems>



20) Global niche top enterprise refers to an enterprise that has adopted a strategy of becoming the top business in a specific sector (the niche top enterprise) and that is expanding globally. A candidate enterprise is an enterprise that has adopted a strategy of becoming the top business in its niche area and aims to become the global niche top enterprise. Given the changes in industrial structures, enterprises of this type, by utilizing their own strengths to develop international markets rather than acting as subcontractors to large enterprises, are expected to play a key role in driving Japan's economy.

21) A regional core enterprise is a core medium enterprise or SME with clearly established skills, expertise and brand power. These regional core enterprises do business with many SMEs and other businesses in regional areas and act as hubs for regional economies by providing extensive employment opportunities in regional areas, etc. And by generating innovation, regional core enterprises are also likely to spur wide-ranging innovation among the local enterprises with which they work.

<Overview of the Shoko Chukin support loan systems>

	GNT Support Loan System	Support Loan System for Regional Core Enterprises	Regional Collaborative Support Funding System
Established	April 2014	April 2015	April 2016 (planned)
Target enterprises	Enterprises adopting niche top strategies in a specific field who are: (1) Global niche top enterprises (2) Enterprises aiming to be global niche top enterprises	Enterprises (regional core enterprises) with significant influence on regional economies through regional employment and knock-on effects in client SMEs	Business cooperatives and enterprise partnerships that utilize local resources
Applicable funding	(1) Establishing overseas subsidiaries (2) Expanding overseas subsidiaries (3) Expanding channels into overseas markets Funding required for the above overseas business expansion	(1) Developing new business (2) Funding required for pro-active management reform	Funding required for initiatives aimed at cooperation or restructuring and new business expansion using local resources that is likely to flow on to regional economies
Repayment method	Limited temporary repayment (lump-sum repayment in a limited period)		
Interest rate	Contingency fees (interest rate set by Shoko Chukin if successful, 0.6% if not)		
Loan term	Generally 10 years		
Results	[FY2014] 112 loans, ¥13.5 billion [FY2015 (as at end March)] 143 loans, ¥15.296 billion	[FY2015 (as at end March)] 62 loans, ¥8 billion	

[Construction of a dedicated plant to supply parts to a French manufacturer (Kikuchi Gear Co., Ltd.)]

Kikuchi Gear Co., Ltd. (employees: 151; capital: ¥30 million) has its head office located in Ashikaga City in Tochigi Prefecture and is a gear manufacturer that supplies a variety of high-quality products to a wide range of industrial sectors. Its products range from general purpose gears to high-precision gears with specialized functions and configurations that are accurate down to the micron level. In 2009, the company gained the JISQ9100 certification that is the product quality control standard for the aerospace sector and started manufacturing for the aerospace industry.

Following its success in developing techniques that permit consistent machining of extremely challenging materials such as titanium aluminide alloy, Kikuchi Gear secured a long-term contract to manufacture and supply low-pressure turbine blades to a major French aircraft engine manufacturer. Consequently, they constructed a new dedicated plant to manufacture aircraft components, started delivering parts, drew up a business plan detailing their efforts to boost aircraft-related sales and made new investments aimed at further growth. Shoko Chukin were highly impressed with the company's plan to establish a presence in a specific sector in the overseas market and utilized the Global Niche Top Supply Loan System to fund the construction of a dedicated factory to supply aircraft components. They also cooperated with private financial institutions by providing collaborative financing together with two regional financial institutions, the Ashikaga Bank and the Ashikaga Oyama Shinkin Bank.

Through this investment in growth and by using its own strengths to breaking into the international market, there is every prospect that the company will further boost its international competitiveness.

[Establishment of a flexible production system for automotive components (Kanae Kogyo Co., Ltd.)]

Kanae Kogyo Co., Ltd. (employees: 179; capital: ¥365 million) based in Fujinomiya City, Shizuoka Prefecture, is a Tier II manufacturer of automotive components for Japan's car manufacturers. It is a regional core enterprise surrounded by a large number of partner companies centered around the cities of Fujinomiya and Fuji. In an automotive industry that has seen increasing globalization and dispersal of the car manufacturers' production facilities, it is vital that suppliers respond to increasingly diverse production requirements. For this reason, Kanae Kogyo built a flexible production system that both increases the efficiency of their component production processes and allows variable-lot production of multiple models. They also formulated a business plan detailing their efforts to build the production system and develop molding techniques that would enable then to set themselves apart from competitors in the same industry in terms of quality, delivery and cost.

Shoko Chukin, foreseeing increases in purchasing from the collaborating enterprises in the area and rises in outside machining orders, praised the plan as one that would help to increase employment and revitalize the regional economy. They cooperated with a regional financial institution, the Shimizu Bank, to supply the funding needed to enhance the company's production system for automotive components. To provide the financing, Shoko Chukin used the Support Loan System for Regional Core Enterprises.

This investment in growth is expected to both resolve the management issues the company currently faces and help financial institutions to revitalize the regional economy.

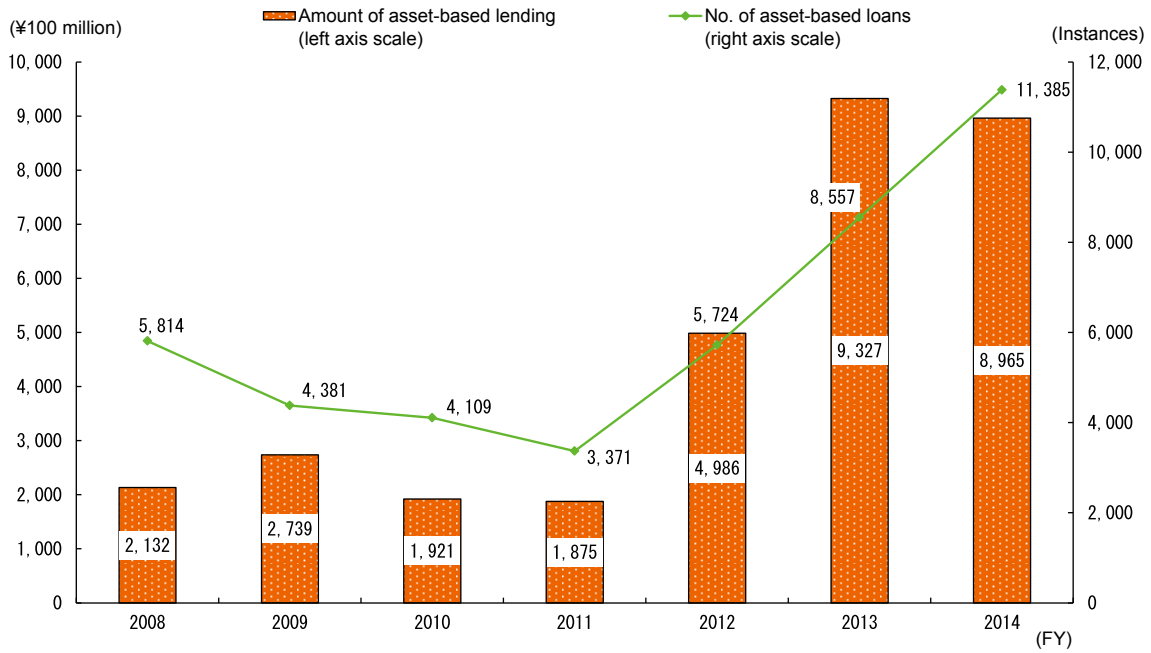
Diversification of funding procurement

One likely avenue for diversifying funding procurement is the use of financing that is secured by assets (asset-based lending or ABL). Asset-based lending (ABL) is a financing method that uses inventory, accounts receivable or machinery and equipment (hardware) owned by the enterprise as security. The security for financing by financial institutions in the past has primarily been "mortgage-backed", but the fall in security values due to declining real estate values has meant that financial institutions have been required to transition away from financing that relies too heavily on real estate. This shift has led to the increasing adoption of ABL in recent years.

The advantages put forward for enterprises using ABL are that funding procurement can be tailored to whether enterprises are growing or contracting and that borrowings can respond to the working capital required by the enterprise itself. That is, when sales rise, the accompanying increases in inventory and accounts receivable allow the corresponding amount of working capital to be procured.

Fig. 2-5-73 shows the trends in the amount of ABL financing and the number of loans. Starting in FY2012, there was a rapid rise in the amount of financing, with the figure rising to ¥932.7 billion in FY2013 before dipping slightly down to ¥896.5 billion in FY2014. When we look at the number of loans, there was a downward trend from FY2008 to FY2011, but since FY2012 there have been increases each year of just under 3,000 loans. The recent fall in the amounts loaned coupled with the rise in the number of loans show that loans are getting progressively smaller.

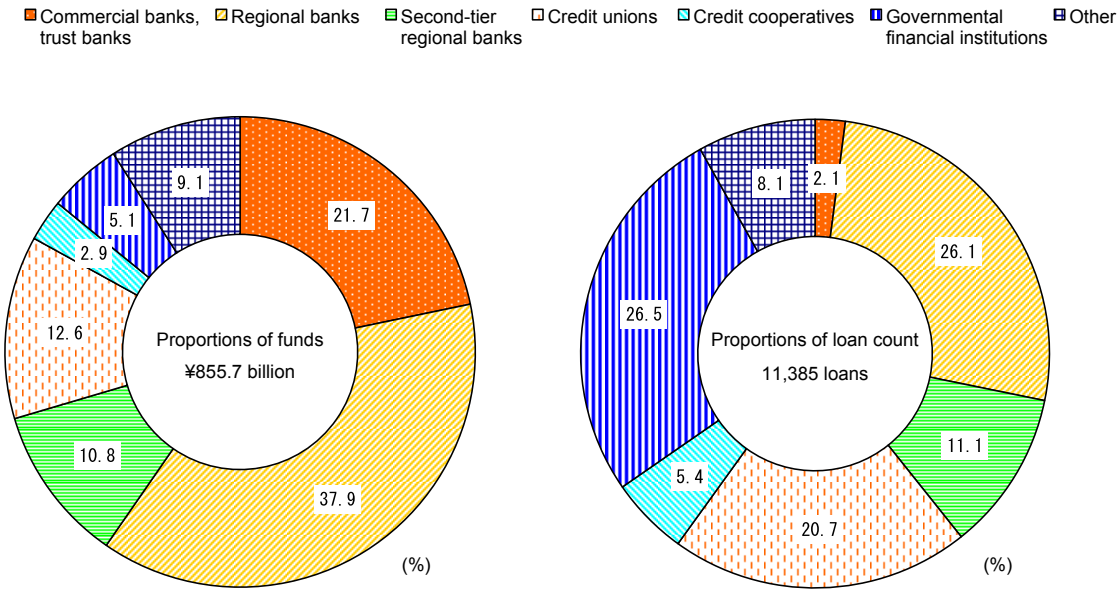
Fig. 2-5-73 Trends in ABL lending amounts and loan numbers



Source: METI report, *Study into the current status of ABL and the business responses in industrial financing given the revisions to obligations legislation and the issues with promoting the broader adoption of ABL*.
Note: Totals for the amounts of lending are for financing implemented in each fiscal year.

Next, we look at the amounts of ABL financing and the number of loans as a proportion of the financing by each type of financial institution (Fig. 2-5-74). The figure shows that regional banks topped the ranks in terms of both amounts and numbers of loans, accounting for 37.9% of the total amount loaned and 26.1% in terms of the number of loans. Also, if we look at the collective total for all regional financial institutions (regional banks, second-tier regional banks, credit unions and credit cooperatives), they account for 64.2% of the total amount loaned and 63.3% on the basis of loan numbers, showing that the adoption of ABL is primarily happening through regional financial institutions.

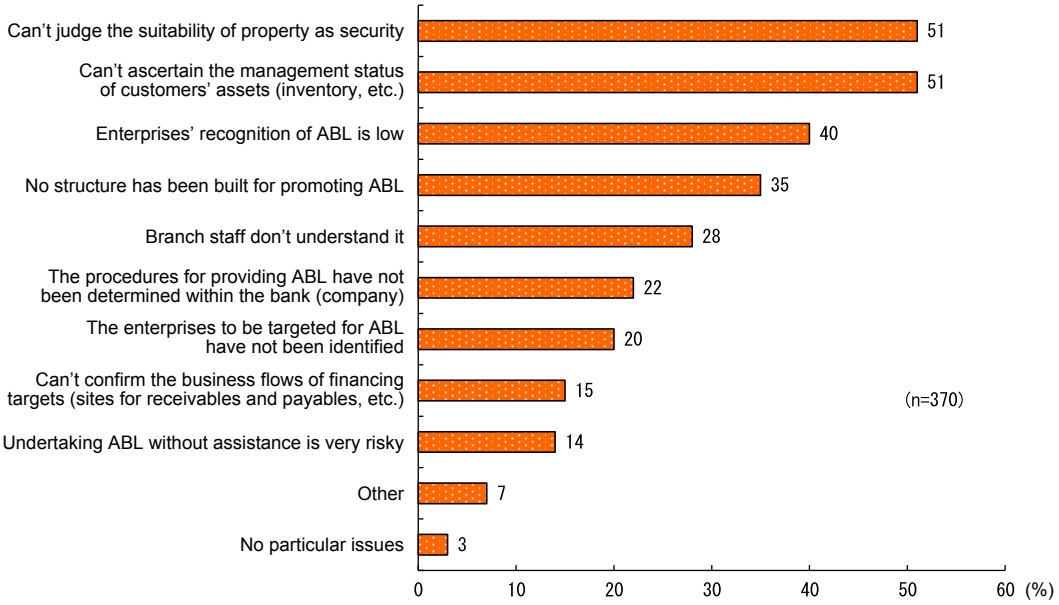
Fig. 2-5-74 Proportions of ABL lending totals and ABL loans implemented by financial institution type



Source: METI report, *Study into the current status of ABL and the business responses in industrial financing given the revisions to obligations legislation and the issues with promoting the broader adoption of ABL*.
Note: Credit unions includes the Shinkin Central Bank, and the Other category includes responses where no type was given.

So we have seen that the number of ABL loans implemented and the amounts actually lent are increasing and that the primary channel is regional financial institutions. Next, we will consider the problems with the promotion of ABL financing. Fig. 2-5-75 shows the issues faced when candidates for ABL financing are investigated. The "Can't judge the suitability of property as security", "Can't ascertain the management status of customers' assets (inventory, etc.)" and "Enterprises' recognition of ABL is low" all rate highly. Reasons given for not being able to clearly determine enterprises' business flows include not being able to determine whether assets owned by the enterprise, such as their accounts receivable and inventory, are appropriate as security, and not being able to judge whether the enterprise is managing those assets properly. The importance of overcoming problems such as these has been recognized in this section, and the business viability of enterprises and their management issues need to be identified, and a more in-depth understanding of the enterprises themselves is needed. However, the level of recognition within the enterprises themselves is also low, but that problem is expected to be resolved as the market for ABL grows in size, so it is important to proceed steadily with ABL programs and promote their used so that enterprises understand the benefits offered by ABL.

Fig. 2-5-75 Issues faced when candidates for ABL financing are investigated



Source: METI report, *Study into the current status of ABL and the business responses in industrial financing given the revisions to obligations legislation and the issues with promoting the broader adoption of ABL*.
Note: Total does not always equal 100% as multiple responses were possible.

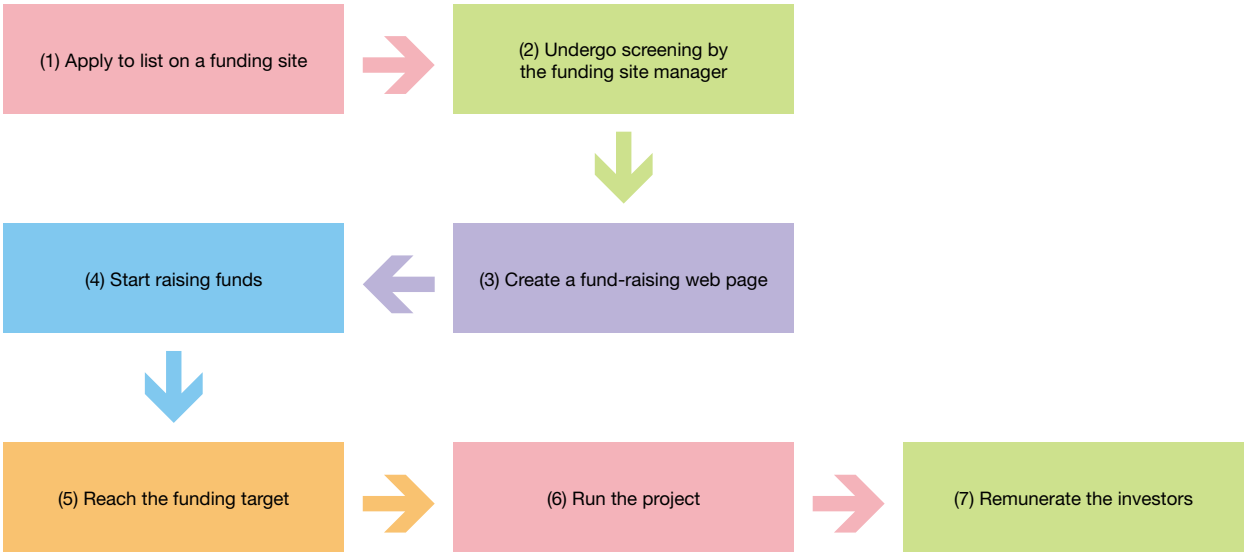
Multi-sourcing in funding procurement

Thus far, we have looked at the financial institutions that one would most expect to be the sources of funding procured by SMEs. But recently, new funding procurement methods other than financial institutions have been increasingly prominent. One specific method, known as "crowd funding", involves using IT-based funding procurement to raise funds from large numbers of unspecified people via the Internet. Crowd funding provides a mechanism whereby people considering procuring funds use a fund-raising website on the Internet to set up a fund-raising page that can be visited by large numbers of unspecified people so that funds can be collected from those people[22] (Fig. 2-5-76).

The benefit for SMEs of using crowd funding is that, where a business has difficulty procuring funding from financial institutions because, for instance, their business is difficult to assess, or the company has only just been founded, or only a small amount of funding is needed, they can procure funding by touting their company's project on a fund-raising website. Also, by describing their company's efforts on a fund-raising site, it also serves as advertising for the company and can also be seen as a marketing exercise.

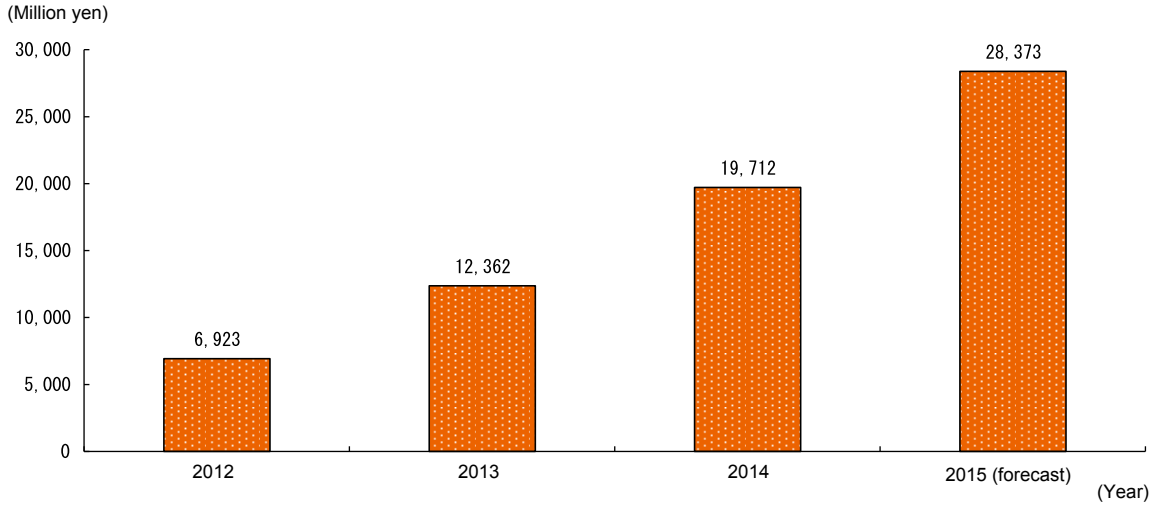
22) See the *2014 White Paper on Small and Medium Enterprises in Japan*, Part III, Chapter 5, Section 2 for more detailed information on crowd funding.

Fig. 2-5-76 Crowd funding process (example)



Next, we look at trends in crowd funding. Fig. 2-5-77 shows the trends in the size of the crowd funding market in Japan, with an anticipated market size of ¥28,373 million in 2015, representing expansion of 1.5x over the previous year.

Fig. 2-5-77 Trends in the crowd funding market size in Japan



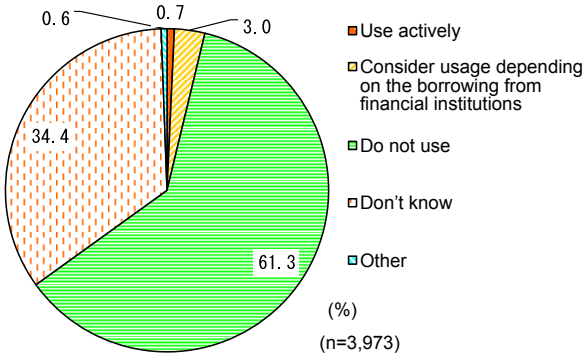
Source: Yano Research Institute, *2015 Survey of Japan's Crowd Funding Market*.

Next, we examine the use of crowd funding by SMEs. Fig. 2-5-78 (1) looks at SMEs who have used crowd funding as a means of procuring funding, showing that no more than 1.1% have ever actually used crowd funding. Fig. 2-5-78 (2) looks at respondents' intentions to use crowd funding in the future and shows that the proportion of those who actively use crowd funding, even when combined with those enterprises who consider using it, is just 3.7%. This is high compared with the proportion actually using crowd funding, but still constitutes a very low level of use. Also, 34.4% of enterprises responded "Don't know" when asked about their future intentions, showing that recognition of crowd funding itself is low.

Fig. 2-5-78 SMEs actual use of crowd funding to raise funds and their future intentions

(1) Experience using crowd funding to raise funds

(2) Future intention to use crowd funding to raise funds



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

So, this shows that while levels of crowd funding recognition are low among SMEs, there are still some enterprises who have in fact successfully developed their own products using crowd funding. It seems that, through the use of such diverse funding procurement methods, the range of possible avenues for enterprises to find their own solutions to their problems is growing steadily broader.

Case 2-5-7 Nitto Co., Ltd. (Yokohama City, Kanagawa Prefecture)

A company using crowdfunding to pursue new product development

Nitto Co., Ltd. (employees: 40; capital: ¥10 million), based in Yokohama City, Kanagawa Prefecture, is a company whose principal business is the manufacture of metal press products. In recent years, it has diversified the way it procures capital by using crowdfunding.

In the past, Nitto had been a small company with no more than 10 or so employees. Since 2004, however, it has increased its size through mergers and acquisitions. It now has four times as many employees, and has put together a corporate structure capable of handling all stages of product development including design, prototyping, and mass production. This enabled it to make proposals to major manufacturers to accommodate manufacturing and handle mass production. Getting involved with product development for its business partners also led to it acquiring little by little the know-how for product planning and development. Such was the situation when in 2011 Nitto began to plan its own products.

The company was able to come up with ideas for new products to develop, but it worried when it came to how to commercialize them and sell them on its own. Then, Nitto came across an event being held in April 2012 by the MONOist information portal website for manufacturing and craftsmanship. While the product was not the one Nitto had initially come up with, it submitted for the event a smartphone accessory it had made separately as an experiment and posted a video of the product to the event website. The response to the video was greater than anticipated, and the company decided it would become their first product.

Nitto learned about crowdfunding from Kouji Miki, whose company enmono Co. Ltd. had been helping on company's own product development. Nitto became curious about crowdfunding, and between that and its increasing desire to take on the endeavor of developing its own product the decision was made to use the approach.

The initial capital procurement goal set was for ¥500,000. Nitto would not even be able to make the molds for that amount, but it was their first fundraising attempt with this approach and so it set its sights low. Ultimately, by the time the deadline for making donations had been reached the company had raised ¥1.3 million from 200 people. It was the first instance in Japan of a company using crowdfunding to sell its own product. The product went into general release in August 2012, and to date 32,000 units have been sold.

Using crowdfunding had numerous impacts, including: (1) Nitto was able to take into account various opinions and requests made through the internet that led polishing up its product; (2) by opening the doors on the manufacturing process while hearing the opinions offered, the company was able to create fans for the product before it went on sale; and (3) the project was taken up in magazine articles and the like, with the result that the company did not have to spend money on an advertising campaign.

On the other hand, Nitto did also have to express its gratitude to project donors. The donors were all individuals, and the task of expressing thanks required some effort. It was not the kind of job that could just be assigned to a designated staffer, and so it was a struggle for staff to do so while still performing their regular duties.

Using crowdfunding had positive effects for Nitto's business, and it also served as a form of publicity. In fact, it also led to offers to manufacture the cover for smartphones, and the company's network of contacts increased. Nitto's own products now account for 8% of the company's sales. Given that the profit margin is high for the company's own products compared to that for parts manufacturing, they also have improved its earnings structure.

Following the development of this product, Nitto in 2013 turned again to crowdfunding to develop a new one. In 2014, the company developed the Kurumiru, the smartphone accessory it had in mind from the start.

Thanks to the results achieved with these development projects, Nitto has been approached by a trading house that handles medical equipment about developing medical instruments. New product development in this area has been proceeding in the form of collaborative research with a university. These efforts helping the company move toward breaking into the medical field that has been one of its dreams.

Using crowdfunding like this served to diversify Nitto's capital procurement approaches, and also served as a step toward developing its own products.

Nitto's iPhone Trick Cover product

Nitto's own Kurumiru product

Summary of Section 2

In this section, we have discussed the need to fund growth investment by SMEs. SMEs face a wide range of management issues, and growth investment is important if they are going to overcome those management issues and continue to grow. We also confirmed the importance of the role played by financial institutions as the sources of funding for this growth investment. When we analyzed the relationships between SMEs and financial institutions, we showed that the information provided by financial institutions to SMEs varies depending on the financial institution type. SMEs have working relationships with a wide variety of financial institutions and this is useful in allowing them to gather the different types of information specific to each financial institution type. Differences exist between enterprises and financial institutions in terms of their recognition of their sharing of enterprise management issues, and it is anticipated that these differences will dissipate in time.

To further deepen the ties between SMEs and financial institutions, financial institutions need to better understand the business operations of SMEs so that they can accurately assess their viability. Enterprises and financial institutions are equally aware of this, and it is important both that enterprises provide financial institutions with information and that the financial institutions improve their skills as financial managers. However, it is difficult for any financial institution to ascertain the viability of an enterprise solely with its own management resources, and it may well be more useful for financial institutions to gain an understanding of enterprises' businesses by collaborating with third parties when necessary.

It also cannot be said that all financial institutions are able to provide the types of product desired by enterprises, so it is also important for enterprises to consider procuring funding from sources other than financial institutions, according to their preferred funding model, and that their funding procurement be more diverse and multi-faceted.

It is likely that financial institutions, in the course of assessing the viability of SMEs, will unearth new management issues, and it is to be hoped that the financial institutions will be given support in areas other than finance to help deal with these management issues. In the next section, we will analyze the management support services offered by financial institutions.

Section 3 Enhancing systems to support the growth of SMEs

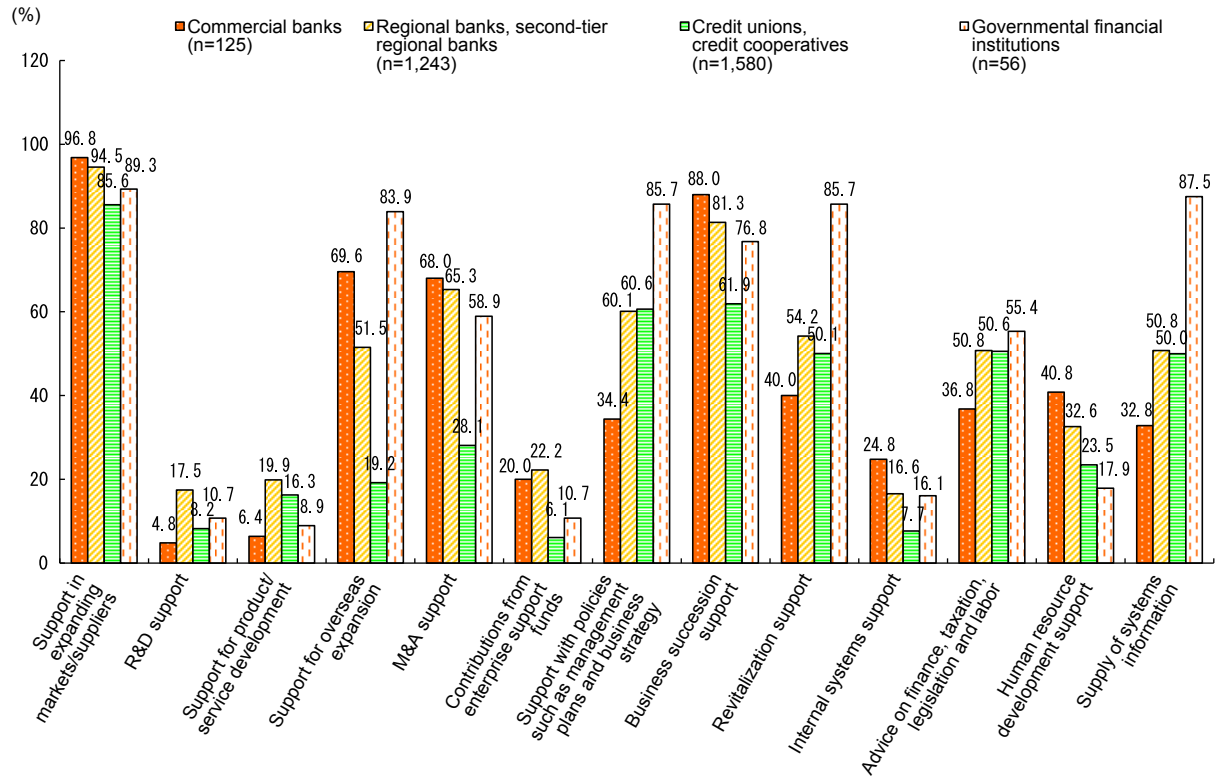
In the previous section, we discussed the need for the provision of funding for further growth by SMEs, but at the same time as financial institutions provide such funding, they are also expected to offer various other forms of management support to address management issues that cannot be resolved solely through financing. In this section, we will analyze the status of the management support services offered by financial institutions.

1. Details of the management support services offered by financial institutions

Management support services that financial institutions think their customers want

We will begin by looking at the approaches to management support services from the financial institutions' perspective. Fig. 2-5-79 shows the management support services that financial institutions think their customers require. The "Support in expanding markets/suppliers", "Business succession support" and "Support with policies such as management plans and business strategy" responses were highly rated overall. If we also look at the different types of financial institution, apart from the items just mentioned, commercial banks rated "Support for overseas expansion" highly, regional banks and second-tier regional banks rated "M&A support" well, and governmental financial institutions ranked "Supply of systems information" high. These differences are most likely due to the fact that different types of financial institution deal with customers who are at different growth stages and are differently oriented towards business expansion. As such, the financial institutions experience customer needs for management support services that are in line with those customers' particular characteristics.

Fig. 2-5-79 Management support services that financial institutions think customers require



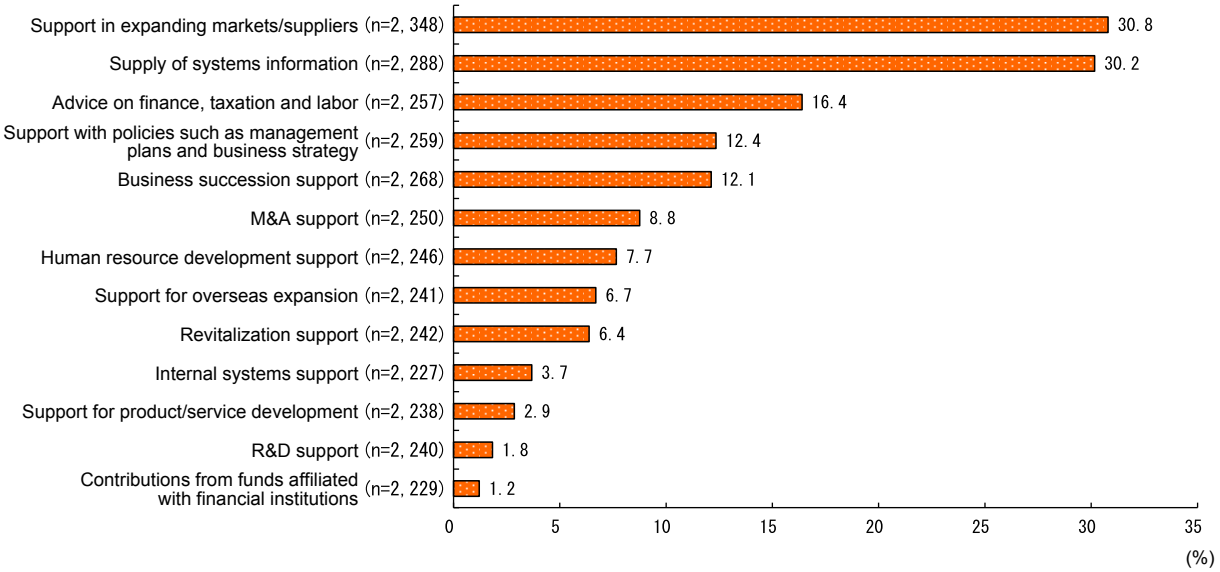
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Details of the management support services used by enterprises

Next, we look in detail at each of the responses from the perspectives of both enterprises and financial institutions. Here, of the growth stages experienced by SMEs, we focus primarily on enterprises in the maturation stage[23], which is when profitability growth in particular starts to slow and numerous issues arise around where growth is going to come from next. Fig. 2-5-80 shows the management support services actually used from the perspective of the enterprises themselves. A high proportion of enterprises use services such as "Support in expanding markets/suppliers", "Supply of systems information" and "Advice on finance, taxation and labor". These services probably include specific advice on using business matching, obtaining information on subsidies and other financial advice. The high proportions of enterprises accessing these services may well be because these items relate to "market development", which enterprises have raised as a management issue. On the other hand, few enterprises use services such as "Human resource development support" or "Internal systems support" that address "Worker retention", which is another management issue for enterprises.

23) See Fig. 2-5-33 for information on the enterprise growth stages.

Fig. 2-5-80 Management support services used by enterprises in the maturation stage

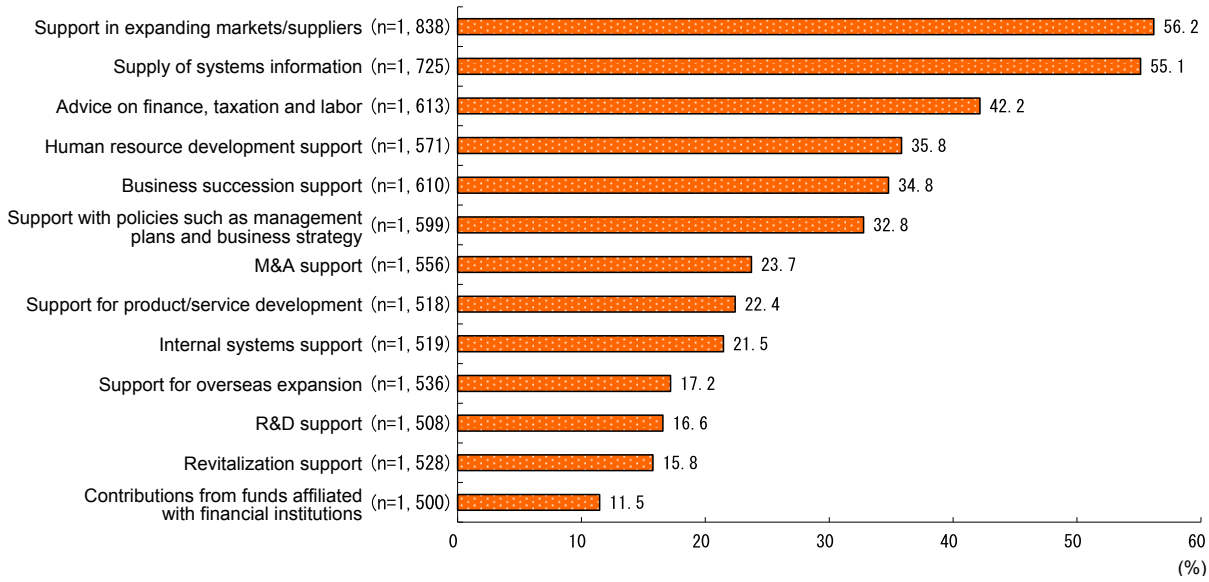


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Management support services enterprises expect in the future

Next, we examine the management support services that enterprises expect financial institutions to provide (Fig. 2-5-81). The figure shows that a high proportion of enterprises expect to have the "Support in expanding markets/suppliers" and "Supply of systems information" services that so many of them currently use. They also have high expectations of "Human resource development support", which is a service that is not frequently used at present, suggesting that enterprises strongly expect financial institutions to help them resolve staff shortages, which they nominate as a management issue. Accordingly, financial institutions, while continuing to provide business matching, advice on subsidies and policy information, must also offer support that enables enterprises to resolve their staffing shortages.

Fig. 2-5-81 Future management support services expected by enterprises in the maturation stage

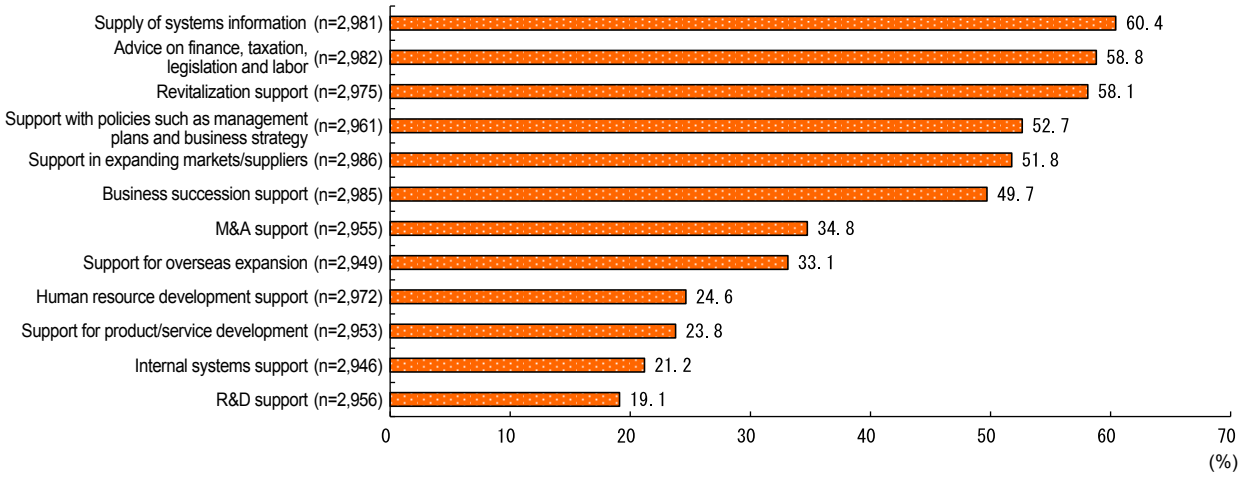


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Status of management support service responses to enterprises in the maturation stage

Next, we consider the status of management support service responses to enterprises in the maturation stage from the perspective of the financial institutions. Fig. 2-5-82 shows the status of the responses by financial institutions in terms of management support services for enterprises in the maturation stage. The figure shows high levels of engagement in "Supply of systems information", "Advice on finance, taxation, legislation and labor" and "Revitalization support", indicating strong programs in services that are areas of specialty for the financial institutions themselves. However, there are low levels of engagement in "Human resource development support", which is a strong area of need among enterprises. Presumably, the reason for this is that there is little affinity between financial institutions and support for human resource development, so it is not easy for the financial institutions to provide that service to enterprises.

Fig. 2-5-82 Management support services that financial institutions supply to enterprises in the maturation stage



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Totals for the respective items are for the proportions of financial institutions who responded "Able to respond" or "Somewhat able to respond".

If we look at the results according to financial institution type, a high proportion of the larger commercial banks, regional banks and second-tier regional banks nominated "Support in expanding markets/suppliers", presumably because they offer programs that utilize an extensive network of customers (Fig. 2-5-83). Among credit unions and credit cooperatives, "Revitalization support" is one of the top choices, indicating that they are targeting their support to enterprises struggling with business downturns. "Supply of systems information" is top choice for governmental financial institutions, presumably because they have a public obligation to actively provide enterprises with policy information and information on subsidies, etc. From the above, we can conclude that the programs providing management support services exploit the respective strengths of the different types of financial institution.

Fig. 2-5-83 Status of management support service responses to enterprises in the maturation stage

	Commercial banks (n=118–121)	Regional banks, second-tier regional banks (n=1,231–1,243)	Credit unions, credit cooperatives (n=1,532–1,564)	Governmental financial institutions (n=55–56)
Supply of systems information	73.3	**66.2**	**53.7**	**96.4**
Advice on finance, taxation, legislation and labor	71.9	**65.9**	**51.4**	80.4
Revitalization support	70.0	64.5	**50.8**	**92.7**
Support with policies such as management plans and business strategy	60.8	54.5	49.5	83.6
Support in expanding markets/suppliers	**75.2**	**65.3**	38.3	74.5
Business succession support	**89.3**	64.0	34.3	76.8
M&A support	72.7	51.9	17.4	50.9
Support for overseas expansion	**73.6**	47.2	**16.4**	**87.5**
Human resource development support	55.0	**29.0**	18.7	**28.6**
Support for product/service development	**28.0**	31.3	17.6	**21.4**
R&D support	**25.0**	**28.1**	**11.3**	**23.2**
Internal systems support	**52.1**	**23.8**	**16.2**	33.9

Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Notes:
1. Totals for the respective management support service items are for the numbers of "Able to respond" or "Somewhat able to respond" responses. The three services with the highest proportions are shaded in red, and the three services with the lowest proportions are shaded in blue.
2. Total does not always equal 100% as multiple responses were possible.
3. The management support services that financial institutions supply to enterprises in the maturation stage as shown in Fig. 2-5-82 are ranked sequentially starting from the highest scoring item.

So we have seen that, while the financial institutions continue to provide management support services that utilize the strengths they offer in their particular fields of specialty, areas in which enterprises are seriously in need of support and that are not reached by the management support services from financial institutions, it is crucial that financial institutions cooperate with other support agencies capable of offering functionally complementary services.

Case 2-5-8 Taiyo Seiki Iron Works Co., Ltd. (Osaka City, Osaka Prefecture)

A company growing by getting management support services from financial institutions

Taiyo Seiki Iron Works Co., Ltd. (employees: 170; capital: ¥100 million), based in Osaka City, Osaka Prefecture, is a manufacturer and wholesaler that deals in hanging ring and metal lashing products like shackles and hooks. The company has been getting management support services from financial institutions in its drive to improve earnings power. In business for more than 70 years, it has dealings with a diverse range of financial institutions, including city banks, regional banks, credit unions, and public sector financial institutions. For that reason, its trust-based relationships with such institutions are strong, and it can communicate the business challenges it faces. Specifically, the challenges it sees are in how to improve earnings by making management more efficient and how to develop personnel.

In 2005, Taiyo Seiki told one of its then-banking partners UFJ Bank (now the Bank of Tokyo-Mitsubishi UFJ) that improving business efficiency was becoming an issue. In response, the bank provided an introduction to a private consultancy, which resulted in Taiyo pursuing a business reorganization project and adopting Enterprise Resource Planning (ERP). ERP is a method for uniformly and centrally managing the resources used the various divisions and businesses that comprise a company, including procurement and purchasing, manufacturing and production, distribution and inventory control, sales, personnel and payroll, and finance and accounting. Previously, the company had used paper forms in many of its operations, including for its ordering system. The resulting situation was such that it could an accurate grasp of its inventory only once a year. This problem was resolved with the adoption of ERP, resulting in a major increase in the efficiency of its business.

In 2011, the topic of improving distribution efficiency came up during an information exchange session Taiyo Seiki had with Resona Bank. The bank introduced Taiyo to a consultant specializing in distribution and the company moved forward to reorganize this part of its business. It created a distribution center and brought together all of the distribution operations that it had situated around the country. These moves to improve efficiency led to a reduction in fixed costs.

Taiyo Seiki's earnings improved thanks to such support that was conducive to increasing business efficiency. When it came to issues related to training personnel however, no specific advice was forthcoming from the financial institutions. Instead, the company got assistance from a number of consultants it searched out on its own, and in 2012 launched its training initiative. The goal of the initiative was to train the personnel on track to become the company's next generation of leaders. It invited employees in managerial or section chief posts to apply for one of the yearlong program's 14 slots. Every month, the selected employees would given the opportunity to study management and business skills. The initiative has run for 4 years so far, and 55 employees have taken part. Furthermore, in fiscal 2015 10 of the top personnel who went through the program were chosen to engage in another yearlong program to further cultivate their knowledge about management. The staff who passed the final examination would also be put into consideration for being chosen for executive positions.

On the matter of such management improvements, Taiyo Seiki Executive Managing Director Ota explains, "When you think about business challenges in terms of importance and urgency, improvements in management are coupled to earnings so the degrees of importance and urgency are both high. Training personnel, on the other hand, is important but not that urgent. This is why many [SME] businesspersons postpone dealing with it." Having made this observation, he also mentions the difficulties with training and the importance of the perspective one takes: "We've been working on training personnel, but in fact only about 10 percent of these employees successfully gone through it. All we can do is keep steadily plugging away and keep the long-term perspective in mind."

Ota also touched on relations with financial institutions in connection with such initiatives, point out that the stance these institutions take toward them is an issue as well: "Training personnel requires making efforts with that long-term perspective. Proposals for such projects may not be very appealing for financial institutions that are pursuing short-term earnings." At the same time, he held out his hope that such entities would improve their capacity for providing consulting services: "Financial institutions do grasp the business challenges facing SMEs, and they can give them advice. The advice they offer would prove valuable even if the only thing they did was to look into a company's training efforts and inform it of effective efforts that other companies have undertaken."

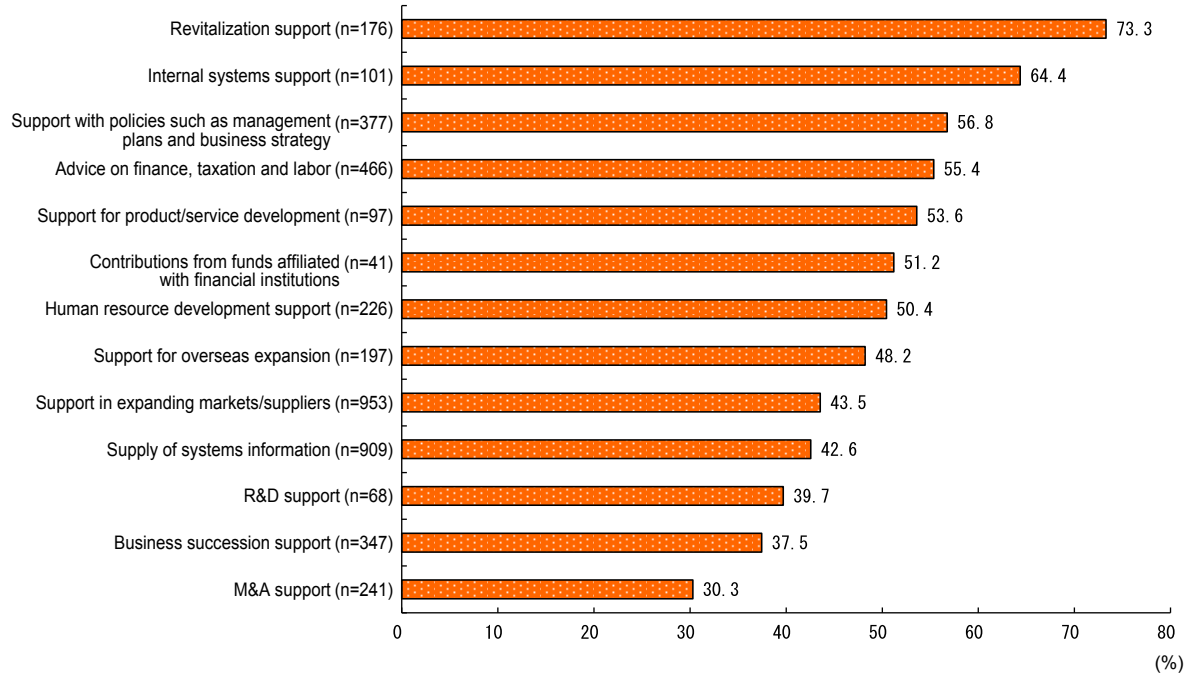
A Taiyo Seiki heavy round sling being put to use at a bridge-building site

2. Effects of management support services

Effects enjoyed by enterprises through the use of management support services

Next, we analyze the effects of management support services. Fig. 2-5-84 shows the proportions of enterprises who experienced actual effects by using management support services. High proportions of enterprises found that "Revitalization support" and "Internal systems support" were effective, but the proportions were low for "M&A support" and "Business succession support". The graph arranges the management support services sequentially in order of rate of use, but compared with items with high rates of use, those with low rates of use generally have higher proportions of enterprises who found them to be effective. This may be because the lower the rate of use for an item, the more obvious the management issues troubling the enterprise, which enables the financial institution to provide a more satisfactory management support service.

Fig. 2-5-84 Proportions of enterprises who experienced actual effects by using management support services



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Totals are calculated for those enterprises who used management support services and responded that they were effective.

Next, we analyze those effects in more detail. Fig. 2-5-85 shows the effects of the management support services delivered by financial institutions. High proportions of enterprises nominated "Increase in sales", "Improved financial details" and "Increase in profit" as effects. However, the proportions for "Improved satisfaction levels among company customers", "Provision of internal management systems" and "Improved employee morale" are lower than for the other items. This is probably because, in terms of whether enterprises have utilized the management support services, the proportions of enterprises who have used the "R&D support", "Support for product/service development", "Internal systems support" and "Human resource development support" services are low.

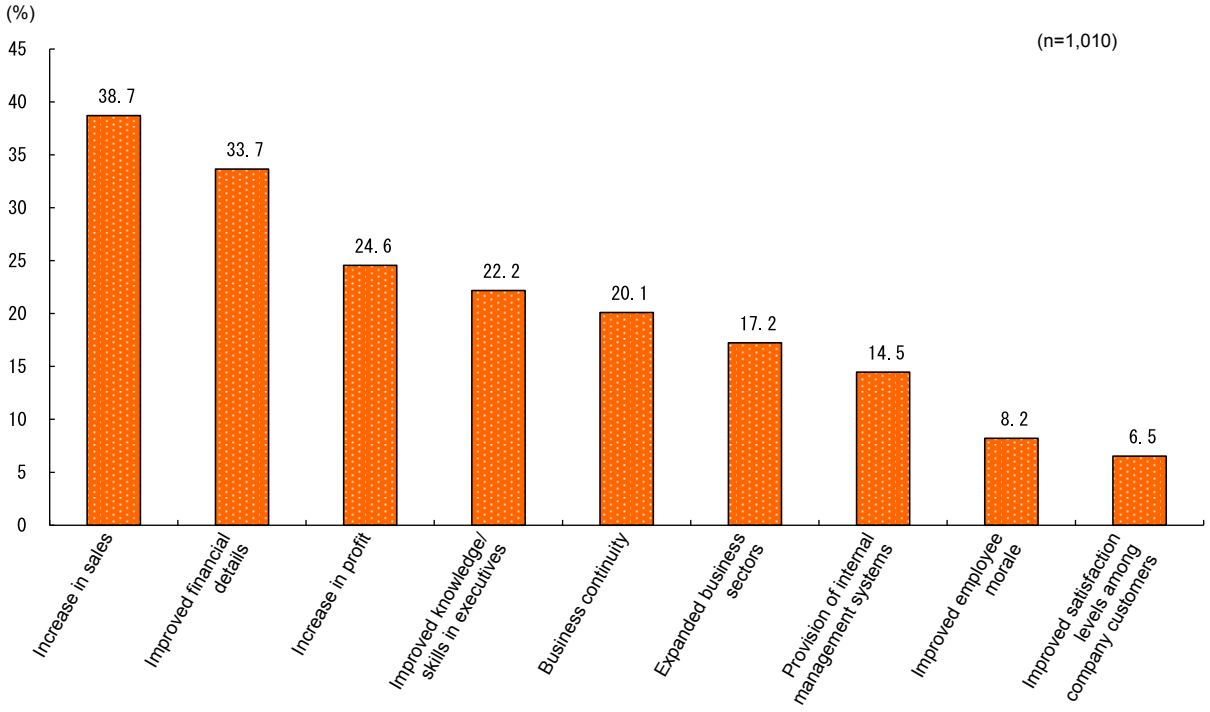
Next, we will inspect these effects according to the management support service items used. Fig. 2-5-86 lists each of the management support services that enterprises used and nominated as being effective, and looks at the nature of those effects[24]. A high proportion of enterprises receiving "Support in expanding markets/suppliers" experienced an "Increase in sales", and the same is true for "Expanded business sectors" among enterprises receiving "Support for overseas expansion"

24) It must be noted that, because this question did not ask about the effects according to management support service, we cannot ignore the possibility that some effects may be reflected from the use of other management support services.

and "Business continuity" in enterprises who received "Business succession support". These and other outcomes demonstrate a strong correspondence between support services and effects, suggesting that the targeting of management support services provided by financial institutions is very accurate.

From this, we can probably conclude that, as well as working to improve the accuracy of management support services with high rates of use, we also need initiatives to raise recognition levels for management support services with low rates of use so that those rates of use are lifted.

Fig. 2-5-85 Effects enjoyed by enterprises through the use of management support services



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-5-86 Effects according to management support service

	Increase in sales	Increase in profit	Improved satisfaction levels among company customers	Expanded business sectors	Business continuity	Improved financial details	Provision of internal management systems	Improved knowledge/ skills in executives	Improved employee morale
Support in expanding markets/suppliers (n=438)	**74.9**	40.4	8.0	20.8	11.2	20.5	7.8	16.2	6.2
Support for product/service development (n=48)	**66.7**	41.7	22.9	33.3	14.6	39.6	12.5	27.1	20.8
Support for overseas expansion (n=104)	38.5	22.1	6.7	**43.3**	12.5	16.3	25.0	22.1	7.7
M&A support (n=78)	47.4	39.7	10.3	**55.1**	15.4	28.2	10.3	15.4	7.7
Support with policies such as management plans and business strategy (n=216)	31.0	27.8	6.0	13.9	25.9	**61.6**	19.4	23.6	8.3
Business succession support (n=135)	27.4	20.7	7.4	16.3	**60.0**	34.1	17.8	28.9	4.4
Revitalization support (n=131)	22.9	28.2	9.2	7.6	48.9	**83.2**	16.8	14.5	5.3
Internal systems support (n=65)	29.2	21.5	6.2	20.0	24.6	40.0	**63.1**	38.5	12.3
Advice on finance, taxation, legislation and labor (n=273)	26.4	22.7	10.3	12.5	19.0	**50.5**	28.2	46.2	12.1
Human resource development support (n=129)	32.6	17.8	10.9	17.1	12.4	26.4	34.1	**48.8**	36.4
Supply of systems information (n=388)	30.2	21.9	8.0	16.0	17.3	**38.7**	21.9	35.8	10.8

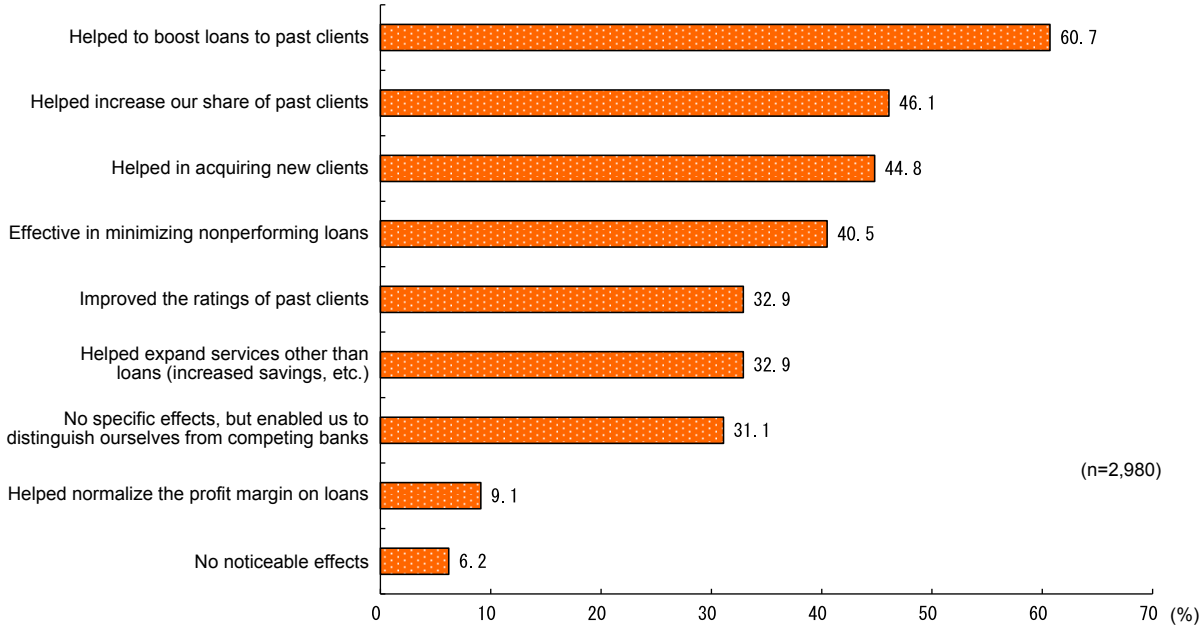
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Notes: 1. Totals for the effects of each management support service are calculated for enterprises who experienced the respective effects.
2. The three highest ranked management support services are colored, with the value for the top-ranked service shown in bold.

Effects of the management support services on financial institutions

Below, we analyze the effects that providing management support services had on the financial institutions themselves. Fig. 2-5-87 shows the effects that providing management support services had on the financial institutions, according to financial institution type. A high proportion of financial institutions responded "Helped to boost loans to past clients", "Helped increase our share of past clients" and "Helped in acquiring new clients", while less than 10% responded "No noticeable effects", showing that providing management support services clearly had secondary effects for the financial institutions involved.

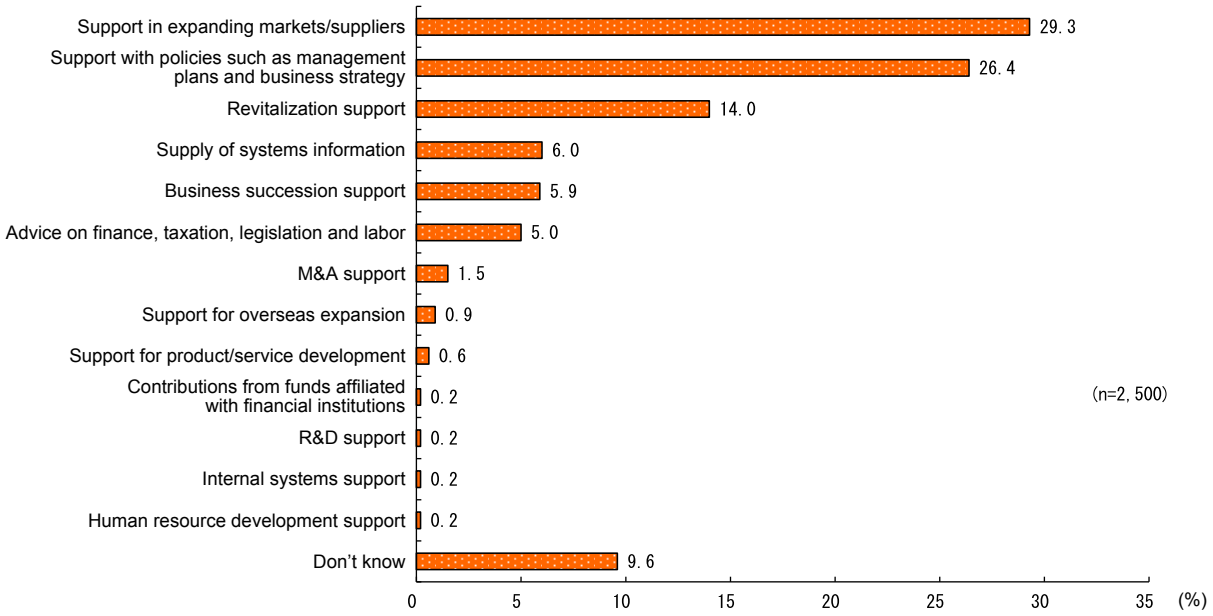
Of the management support services that had the effects already discussed, Fig. 2-5-88 shows those initiatives with the strongest effects. The proportions were high for "Support in expanding markets/suppliers" and "Support with policies such as management plans and business strategy", and it is likely that these measures resulted in effects such as increased sales and improved finances. Measures such as these also strengthened the relationships between financial institutions and enterprises, and one can assume that financial institutions also benefited from effects such as increases in the number of loans and new customers. In this way, despite declines in loans to SMEs in the medium- and long-term, resolving enterprises' management issues through these sorts of management support services can generate a virtuous cycle that improves the relationship between financial institutions and enterprises.

Fig. 2-5-87 Effects enjoyed by financial institutions through management support service programs



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-5-88 Management support service initiatives with the greatest effects for financial institutions



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-5-9 Osaka City Shinkin Bank (Osaka City, Osaka Prefecture)

A credit union putting extra effort into its matching efforts to improve their success rate

Osaka City Shinkin Bank (OCSB), based in Osaka City, Osaka Prefecture, uses its own business model to proactively lend support to SMEs seeking to solve the problems of opening new sales channels.

Around 10 years ago, OCSB launched its City Shinkin Plus business matching program in an effort to pair its SME customers with major manufacturers. The credit union had observed that many SMEs in the prefecture had superb technological capabilities, but lacked situations and opportunities to make the most of that prowess. Staff from OCSB's Corporate Assistance Department then visited major manufacturers in the prefecture and, having signed confidentiality agreements and other such necessary contracts, created a mechanism for its SME business partners to get technological opportunities and create new businesses with the goal of commercialization within two to three years. The mechanism was such that the Corporate Assistance Department would sort out the technological opportunities and then present them to SMEs. The credit union would pair major manufacturers with those companies that could solve the issues these opportunities contained or could develop products in collaboration with the major manufacturer, and then coordinate the technologies involved. One success story to date is that of proposing that a component used in molding for extruding be shifted to press working and getting it supplied at considerably lower cost from an overseas source. The dealings that resulted was beneficial both to the major manufacturer and the SME.

Another such initiative that is underway has entailed getting a large enterprise to provide licensable patents and devices (semifinished products), and then supporting one of OCSB's SME business partners in its effort to use them to develop new products. The proposal entailed putting a special film the major manufacturer made to use on showcases—a niche field that the large enterprise never considered or due to its small size enter. It resulted in the two enterprises doing business with each other.

From October 2007 to December 2015, these efforts to support partner SMEs in developing new markets generated 821 proposals to 5 major manufacturers. Of course, 483 led to business negotiations, and 87 to deals to use elemental technologies from those large enterprises.

One of the factors that assists such efforts at matching has been the keyword-search database that OCSB has created. The database includes information in 32 categories, including the equipment a company owns, its technology, and the aims of its executives. It also carries photos of a company's products and summary of its business. The entries are exhaustively detailed, using defined rules and keywords. Liaison officers in each branch handle the basic information in the database, and specialist staff from the Corporate Assistance Department visit companies to register them. The database is used to find matches between technological opportunities offered by major manufacturers and technological data about business partner SMEs.

The Corporate Assistance Department has also drafted a "Technology Handbook" and distributed it to liaison officers to make collecting the basic information possible. One of the women working at the Department was charged with compiling the handbook, but despite being quite far from the shop floors where these various technologies are used she produced a book that allows the reader to understand technological terminology from the rudiments up. Furthermore, as a tool to assist the liaison officers in collecting information, worksheets were created to standardize how information is collected in the branches describing a company's business. This makes it easier for the liaison officers and businesspersons to communicate.

The goal of this project has been to improve the GDP of the region that is OCSB's base. It is based on the idea that a business will not be a lasting one if it is not pursued as a business and made into a profitable one. The result of these efforts in this area has been an expansion in the financing the OCSB provides. These are loans to business partner SMEs that have gotten orders from large enterprises as a result of this project, so OCSB is able to respond in the right place and at the right time with its loans. OCSB realized loans focused on business growth with less competition with other financial institutions.

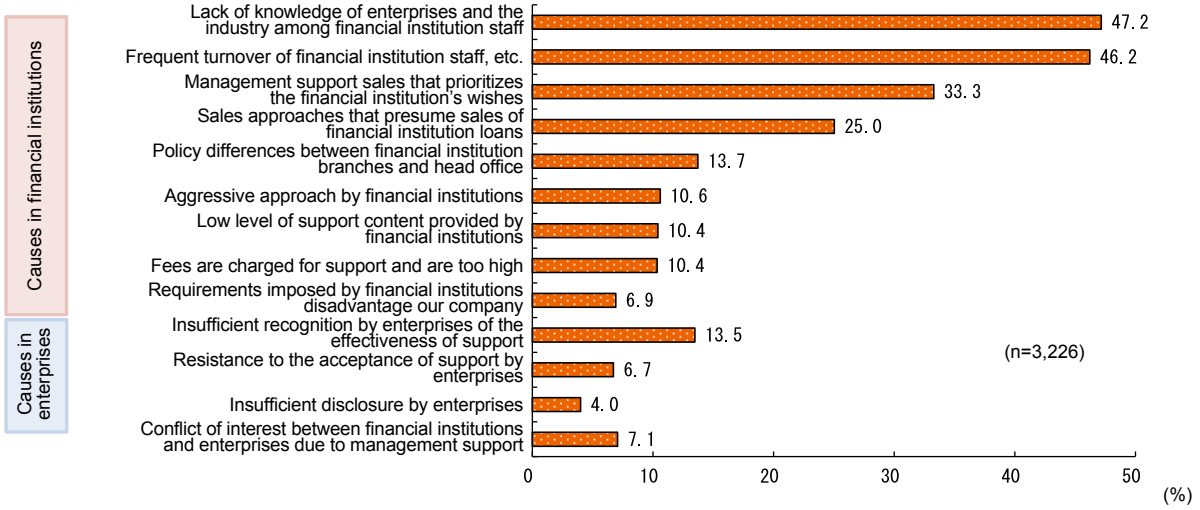
Corporate Assistance Department Assistant Manager Toshiyuki Hibino says one of the factors behind the project's success is that "initiatives like this fulfill the primary responsibility of a credit union as a local financial institution. The very foundations of OCSB are its relationships of trust with the local community and business partner SMEs that it has shaped over many years. This program was developed for that very reason. Even if other organization attempt a similar undertaking, it will be very difficult for them to pull off given the lack of those fundamental trust relationships."

Management support such as this that calls for a financial institution to spend some time on leads to the opening of new markets for SMEs and for the institution to loans to be made to its partners SMEs so they can grow. It is an undertaking whose mutual benefits are considerable.

Future issues with the promotion of management support services

Next, we look at issues with the provision of management support services from viewpoints of both enterprises and financial institutions. If we begin with the enterprises' perspective, a high proportion responded, "Frequent turnover of financial institution staff, etc." and "Lack of knowledge of enterprises and the industry among financial institution staff" (Fig. 2-5-89). The responses around lack of knowledge accord with the views expressed by financial institutions, but the proportion of financial institutions who feel that staff turnover is an issue is not high. This shows that the viewpoints of financial institutions and enterprises differ in some respects and are aligned in others, indicating that it is important to strengthen the relationships between financial institutions and enterprises.

Fig. 2-5-89 Factors seen by enterprises as barriers to receiving management support services

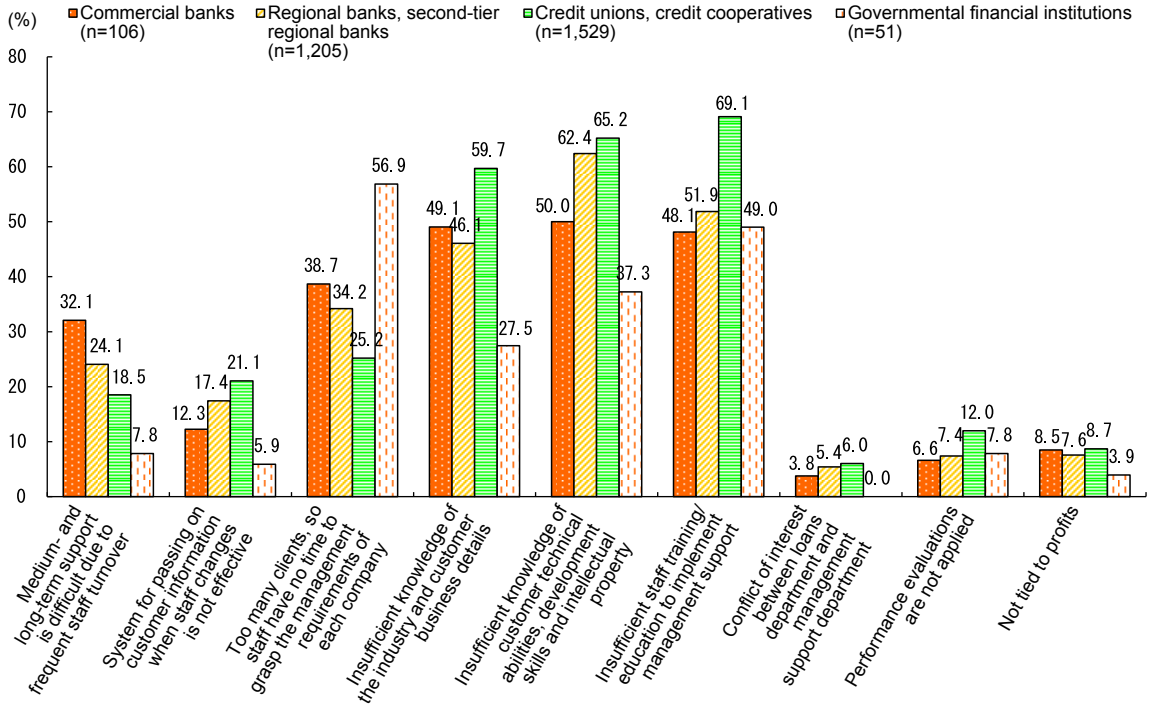


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-5-90 shows the issues with the promotion of management support services from the perspective of financial institutions. In general, many financial institutions responded that a lack of education and training acts as a barrier for staff involved in providing management support, as does a lack of knowledge in areas such as customers' businesses, their industry and their technical and development capabilities. The largest proportion of credit unions and credit cooperatives also responded that education and training were lacking, suggesting that the problem is with the way financial institution types are structured and that support for training credit union and credit cooperative staff is needed. Also, as shown in Fig. 2-5-43, the highest proportion of governmental financial institutions saw the large number of clients as an issue, indicating that the burden imposed by having so many clients needs to be alleviated.

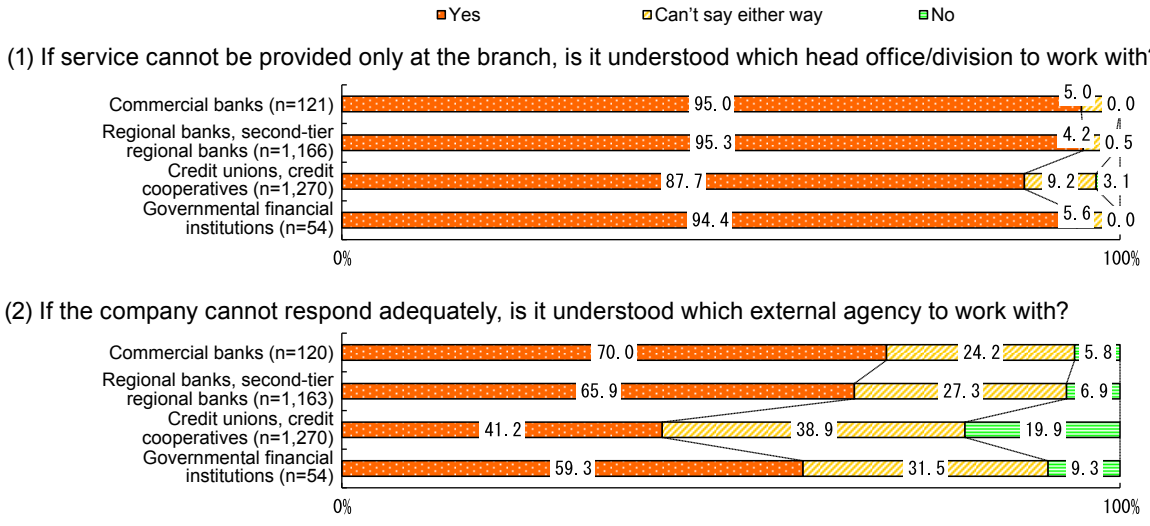
Next, we look at systems where financial institutions are unable to provide management support services only at branches. Where the branch cannot handle a situation, almost all financial institutions know which department in their head office they should contact (Fig. 2-5-91 (1)). But where problems cannot be dealt with within financial institutions and they need to cooperate with outside consultants or firms, the proportion who know which outside specialists or specialist agency to work with is 70% among commercial banks, regional banks and second-tier regional banks, and 40% among credit unions and credit cooperatives (Fig. 2-5-91 (2)). It seems likely that, within branches, staff do not have direct contact with specific outside specialists or specialist agencies. Below, we look at financial institutions' cooperation with other specialist agencies, etc. in the provision of management support services.

Fig. 2-5-90 Issues with the promotion of management support services



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-5-91 Systems where financial institutions are unable to provide management support services only at branches



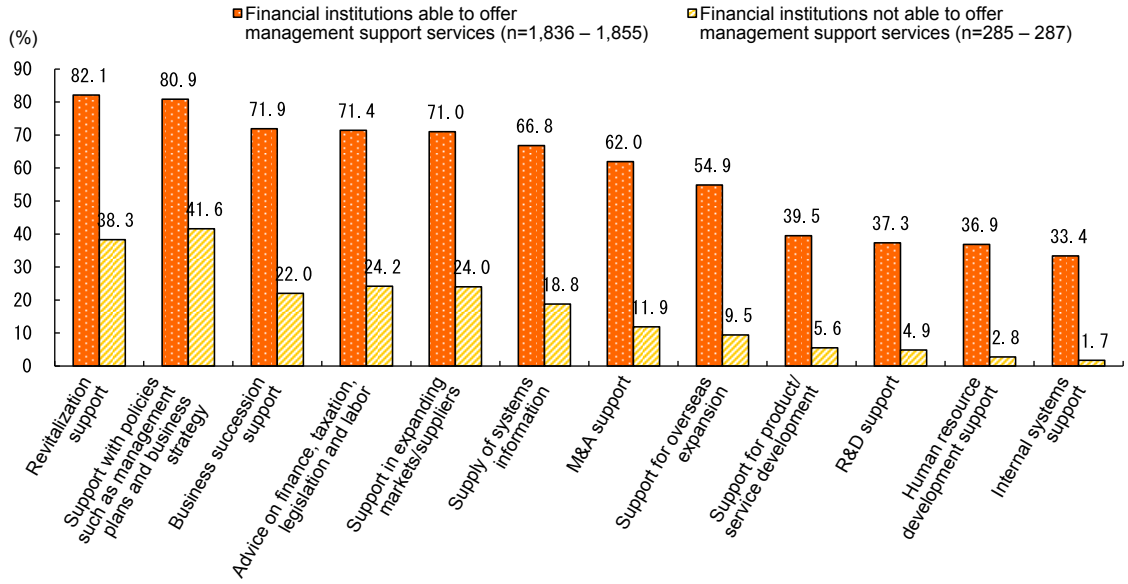
Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.
Notes: 1. Totals were calculated with "Fully able" and "Somewhat able" responses taken as "Able (Yes)", and with "Somewhat unable" and "Almost completely unable" taken as "Unable (No)".
2. Totals only calculated for responses from financial institution branches.

3. Importance of management support services in cooperation with third parties

Status of cooperation in management support services

Below, we look in detail at the status of cooperation with outside consultants and agencies when management support services are delivered. Fig. 2-5-92 shows the status of cooperation with outside specialists and outside specialist agencies according to the status of management support service provision. From this, we can confirm that the financial institutions who responded that they are able to offer management support services, compared with those that cannot, are actively cooperating with third parties for all the services listed. This cooperation with outside specialists and outside specialist agencies no doubt helps to improve the delivery of management support services to enterprises in fields where the financial institutions alone cannot respond.

Fig. 2-5-92 Status of cooperation with third parties according to the status of management support service delivery

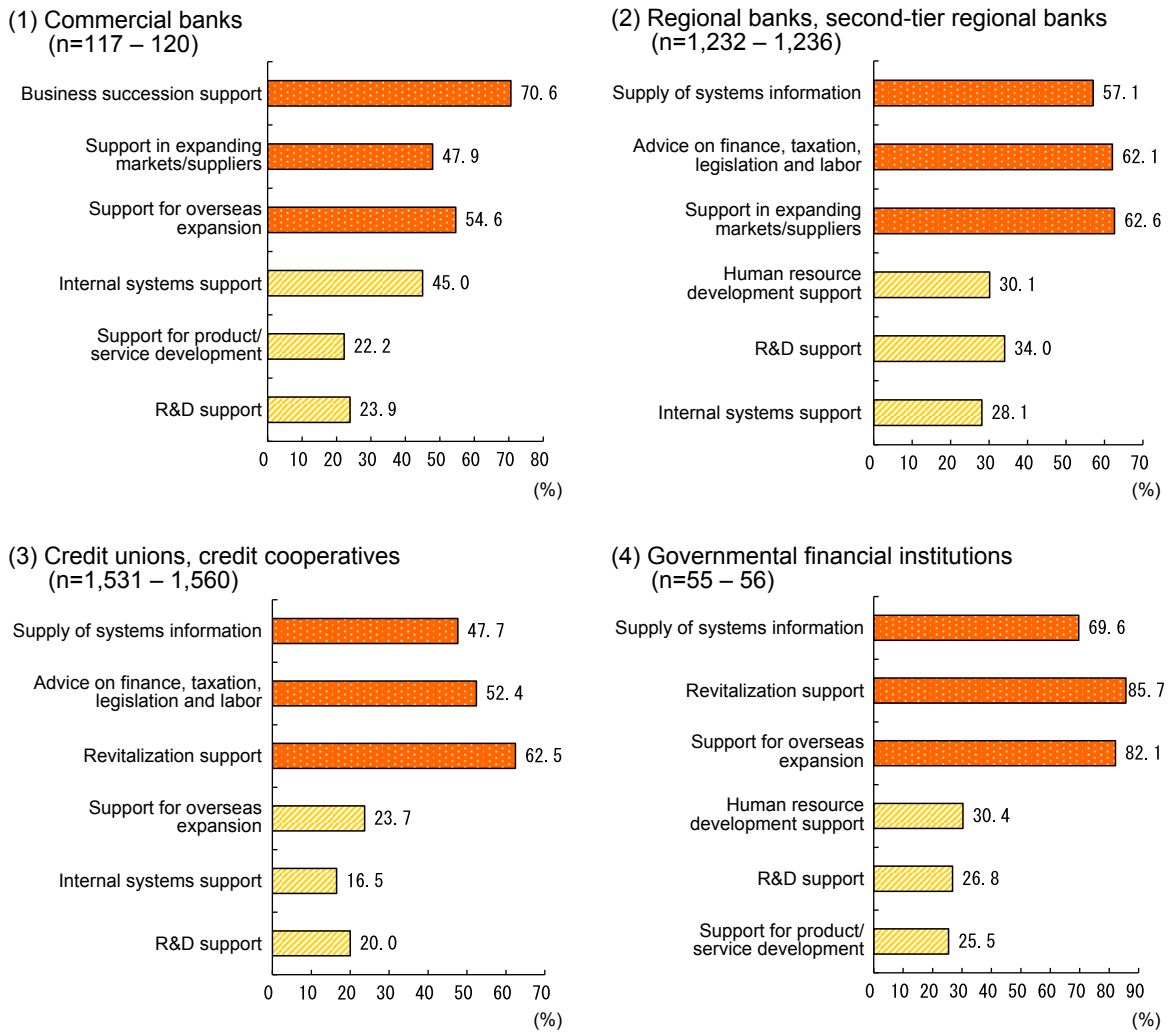


Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Notes: 1. In terms of overall management support service capability, financial institutions who gave the "Able to respond" or "Somewhat able to respond" response are taken to be "Financial institutions able to offer management support services", and those who gave the "Somewhat unable to respond" and "Almost completely unable to respond" are taken to be "Financial institutions not able to offer management support services".
2. Totals for the respective items are for the proportions of financial institutions who responded "Fully able to cooperate" or "Somewhat able to cooperate".

We will also examine the status of cooperation according to financial institution type. Fig. 2-5-93 shows the status of cooperation with third parties for the three items with the highest and lowest levels of engagement by financial institution type. For almost every item across all financial institution types, there is active cooperation with third parties on items with high levels of engagement, and no cooperation with third parties on items with low levels of engagement. This shows that, even in cases where financial institutions cannot respond to enterprises' management issues for structural reasons or because of the particular characteristics of the financial institution type, by cooperating with other outside specialists or outside specialist agencies, they can deliver management support services and assist enterprises in resolving their management issues.

Fig. 2-5-93 Status of cooperation in management support services



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Notes: 1. The figure takes the three items with the highest and lowest proportions of engagement by financial institutions in management support services provided to enterprises in the maturation stage as shown in Fig. 2-5-83, and calculates totals for the status of cooperation with other outside specialists or outside specialist agencies in those items.
2. Totals for the management support services are calculated with financial institutions who responded "Fully able to cooperate" or "Somewhat able to cooperate" taken to be financial institutions able to cooperate.

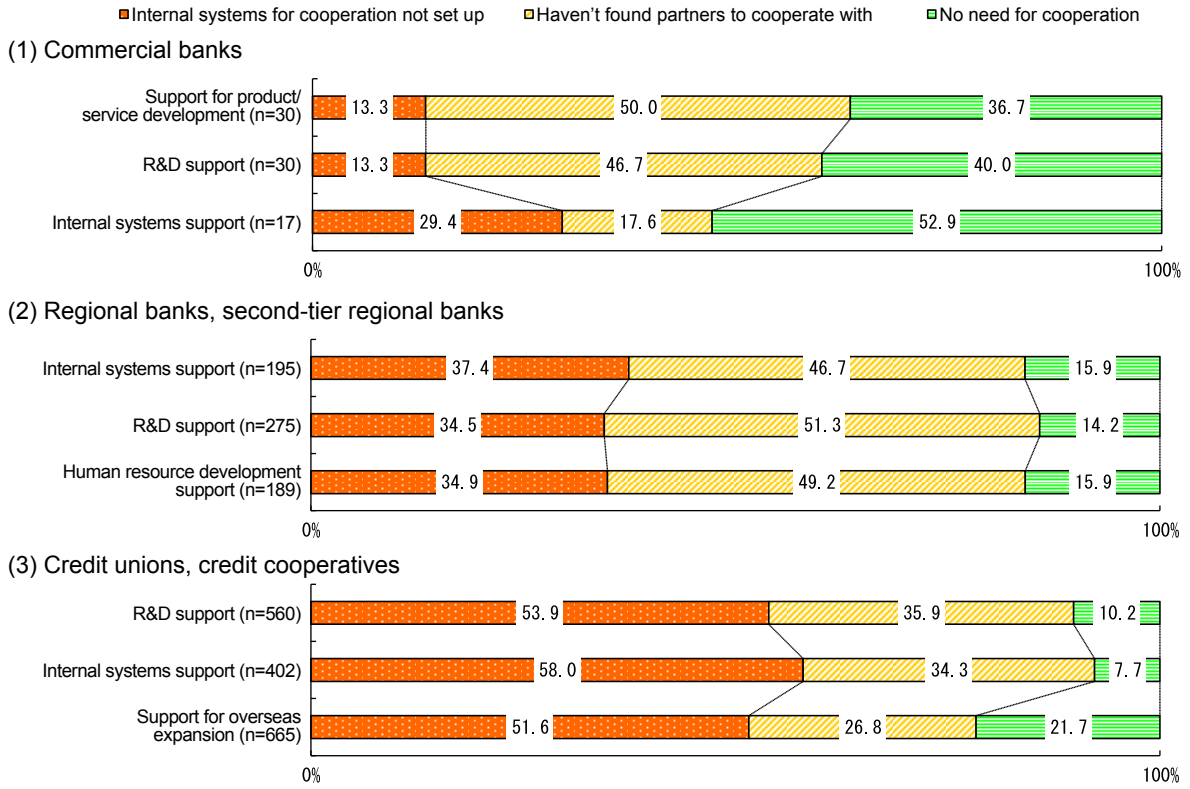
Issues with cooperation

So, what are the reasons for not cooperating with these outside specialists and specialist agencies. Fig. 2-5-94 shows the reasons why the different financial institution types cannot cooperate with third parties for the three management support services with the lowest levels of engagement. Compared with other financial institution types, commercial banks constituted a high proportion of the financial institutions who responded "No need for cooperation". Even so, a high proportion of enterprises responded "Haven't found partners to cooperate with" for the "Support for product/service development" and "R&D support" items. And while regional banks and second-tier regional banks feel that cooperation is necessary, a high proportion of financial institutions responded "Haven't found partners to cooperate with".

Credit unions and credit cooperatives made up a high proportion of the financial institutions who responded "Internal systems for cooperation not set up". This gives the impression that while commercial banks, regional banks and second-tier regional banks have systems in place for cooperation, they still fail to cooperate because they cannot find suitable cooperation partners. By contrast, among credit unions and credit cooperatives, over 50% of financial institutions cannot cooperate for reasons to do with internal systems, suggesting that they do not find it easy to set up systems with the limited staff available within the organization.

So it seems that it is difficult for financial institutions to assist all enterprises in addressing their management issues, and while support through cooperation with third parties would be ideal, some financial institutions with limited management resources find it difficult to provide such cooperative systems. To resolve this situation, there need to be compromises not just on the part of the financial institutions, but also by specialists and specialist agencies with which the financial institutions will work. Below, we look at the features of the approved support agencies for business innovation (approved support agencies)[25] that are the mainstay of management assistance for enterprises and examine the cooperation between financial institutions and a variety of approved support agencies.

Fig. 2-5-94 Reasons for the lack of cooperation with third parties in management support services



Source: Mizuho Research Institute Ltd., *Survey of Fund Raising by Small and Medium Enterprises* (December 2015), commissioned by the SME Agency.

Notes: 1. The reasons for being unable to cooperate in the three items with the lowest proportions of management support service involvement among the different financial institution types were calculated for financial institutions who responded that they were "Somewhat unable" and "Almost completely unable" to cooperate with outside specialists/ agencies.
2. Governmental financial institutions were excluded from the calculations as the number of responses obtained was insufficient.

4. Enhancing the support systems for SMEs

Support sectors and content in which approved support agencies specialize

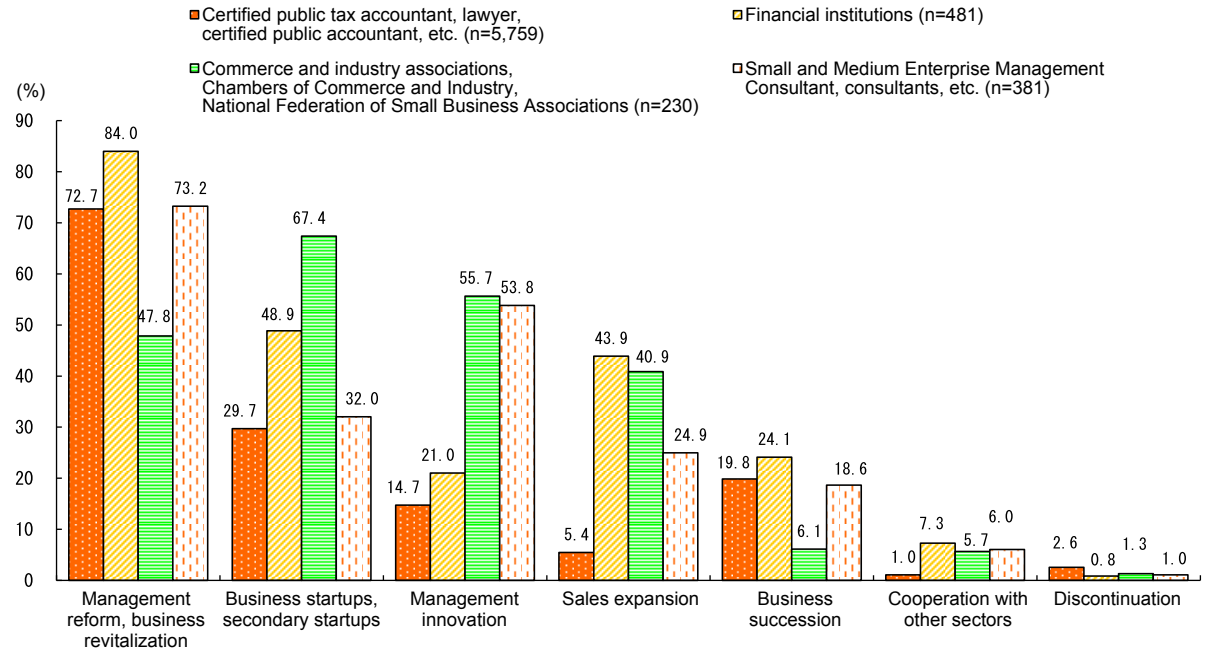
In this section, we look at the features of the approved support agencies for business innovation ("approved support agencies") that are the prime providers of assistance to SMEs based on the results of a *Random Survey of Approved Support Agencies for Business Innovation* conducted by the SME Agency in July 2015.

25) Support agencies for business innovation (approved support agencies) are public assistance institutions approved by the Japanese government for people with specialist knowledge or business experience of a set level or better who ensure that SMEs and micro-businesses receive consistent management advice, etc. Specifically, the people certified as approved support agencies are primarily SME support bodies such as Societies of Commerce and Industry and Chambers of Commerce and Industry, along with financial institutions and specialists such as certified public tax accountants, certified public accountants and lawyers.

Our analysis of the results divides the approved support agencies into four groups: certified public tax accountants, lawyers and certified public accountants ("certified public tax accountants, etc."), financial institutions, Commerce and industry associations, Chambers of Commerce and Industry and National Federation of Small Business Associations ("SME support bodies, etc.") and small and medium enterprise management consultant and other consultants ("SME management consultants, etc.").

We begin by looking at the support sectors in which approved support agencies specialize (Fig. 2-5-95). The highest proportion of certified public tax accountants, etc., financial institutions and SME management consultants, etc. specialize in assisting with "Management reform, business revitalization". The highest proportion of SME support bodies, etc. specialize in assistance for "Business startups, secondary startups". High proportions of SME support bodies, etc. and SME management consultants, etc. also specialize in support for "Management innovation", whereas the proportions are low among certified public tax accountants, etc. and financial institutions. Also, certified public tax accountants, etc. alone recorded a low level for "Sales expansion" compared with other approved support agencies.

Fig. 2-5-95 Support sectors in which approved support agencies specialize



Source: SME Agency, *Random Survey of Approved Support Agencies for Business Innovation*.
Notes: 1. "Certified public tax accountant, lawyer, certified public accountant, etc." includes certified public tax accountancy firms, legal firms and auditing firms.
2. Categories with low response numbers are omitted.
3. Total does not always equal 100% as multiple responses were possible.

Next, we look at the specific content of the support in which approved support agencies specialize (Fig. 2-5-96). Among all the approved support agencies, a proportion of over 50% responded "Business plan formulation, financial analysis" or "Financial position", and response levels were also high for items closely related to "Management reform, business regeneration", which is an area of specialization for many approved support agencies.

Also, almost 50% of the approved support agencies (except for the tax accountants, etc.) support "Trading area expansion", which will help resolve the problem of market development that so many SMEs nominated as a management issue.

When we look at the items chosen by over 20% of the respondents, certified public tax accountants, etc. chose three items, suggesting that they specialize in particular fields. But financial institutions chose 6 items, SME support bodies, etc. chose 9 items and SME management consultants, etc. chose 8 items, which shows that they provide a far broader range of specialist support services than certified public tax accountants, etc.

Fig. 2-5-96 Support content in which approved support agencies specialize

	Certified public tax accountant, lawyer, certified public accountant, etc. (n=5,439)	Financial institutions (n=481)	Commerce and industry associations, Chambers of Commerce and Industry, National Federation of Small Business Associations (n=226)	Small and Medium Enterprise Management Consultant, consultants, etc. (n=369)
Business plan formulation, financial analysis	**80.2**	**88.6**	**73.0**	**85.9**
Financial position	**65.5**	**69.2**	**69.0**	**58.0**
Knowledge of management	**27.2**	**26.2**	**44.7**	**44.4**
Policy utilization	7.2	**42.8**	**46.5**	**33.1**
Trading area expansion	6.3	**46.6**	**49.1**	**44.7**
Overseas Expansion	1.7	12.9	6.2	6.8
Use of IT (information and communications, increased value-adding)	3.2	8.1	**22.6**	19.2
Use of IT (internal management and greater efficiency)	9.2	0.8	5.3	15.4
Product development	1.6	12.1	**26.1**	**24.9**
Regional resource utilization	1.3	8.1	**22.6**	15.2
PR strategy, brand enhancement	2.0	7.1	**21.2**	19.2
Product design	0.5	2.7	6.6	3.3
Advertising design	0.4	2.5	5.3	3.5
Receivables protection/collection	3.2	2.5	1.8	3.8
Employment/Labor	7.6	5.4	19.0	12.7
Legislation	9.6	4.0	7.1	6.5
Work site improvements, increased productivity	9.0	**21.0**	13.7	**35.8**
Improvement of service provision processes	2.1	4.2	8.0	**21.4**
Intellectual property	0.6	3.1	4.4	6.8
Other support	7.2	23.1	11.9	17.6

Source: Recompiled from the SME Agency, *Random Survey of Approved Support Agencies for Business Innovation*.
Notes: 1. Items that scored 50% or higher are shaded in red, items that scored 30% to less than 50% are shaded in green, and items that scored 20% to less than 30% are shaded in blue. (Note that other items are excluded.)
2. Total does not always equal 100% as multiple responses were possible.

Management innovation/cooperation with other sectors using approved support agencies and the implementation status of management reforms

Next, we consider information such as the numbers of support enterprises in each support sector. Here, we classify support into two sectors: "management innovation/cooperation with other sectors" and "management reform sectors". We will also compare the management reform implementation status of financial institutions and certified public tax accountants, etc.[26], which were confirmed as playing a major role as consultation partners during the formulation by SMEs of management reform plans and growth investment.

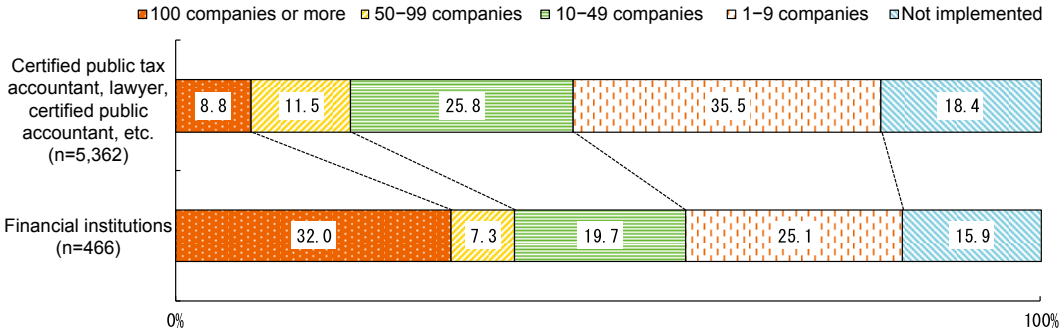
Firstly, we look at management innovation and cooperation with other sectors (Fig. 2-5-97). Compared with certified public tax accountants, etc., financial institutions support more companies in number to conduct management status analysis and assist with business plan formulation. This difference is most likely due to the difference in the sizes of financial institutions and certified public tax accountants, etc. in terms of employee numbers.

Next, we look at the status of the implementation of support for management reforms by approved support agencies (Fig. 2-5-98). As with management reforms and cooperation with other sectors, we see that there are more financial institutions actually engaged in assisting with management status analysis and supporting the formulation of business plans.

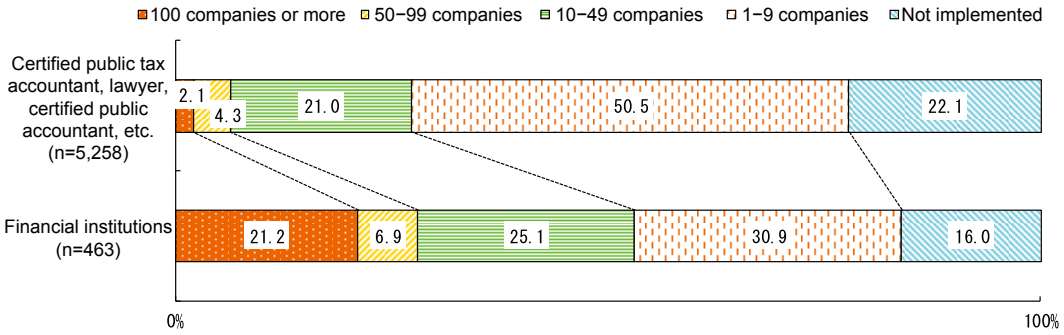
26) In this survey, certified public tax accountants, etc. includes lawyers as well as certified public tax accountants and certified public accountants, but certified public tax accountants and certified public accountants (including certified public tax accountancy firms and auditing firms) make up 98.7% of the total in the certified public tax accountants, etc. category. The characteristics of certified public tax accountants and certified public accountants are reflected strongly.

Fig. 2-5-97 Implementation status of management innovation/cooperation with other sectors by approved support agencies

(1) No. of companies supporting to analyze the yearly management status



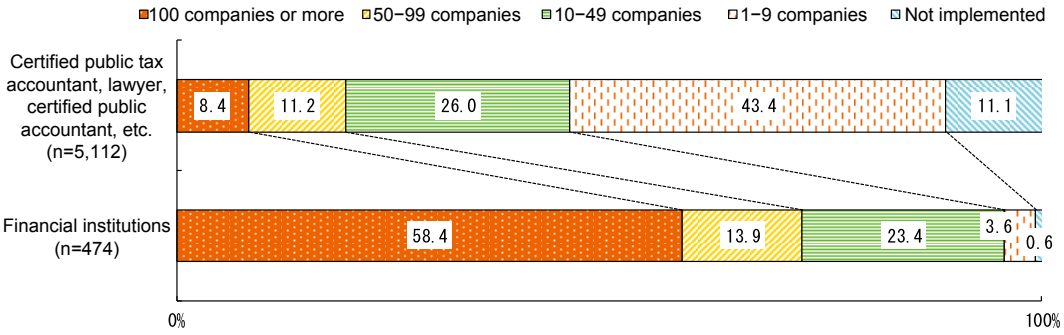
(2) No. of companies supporting to formulate yearly business plans



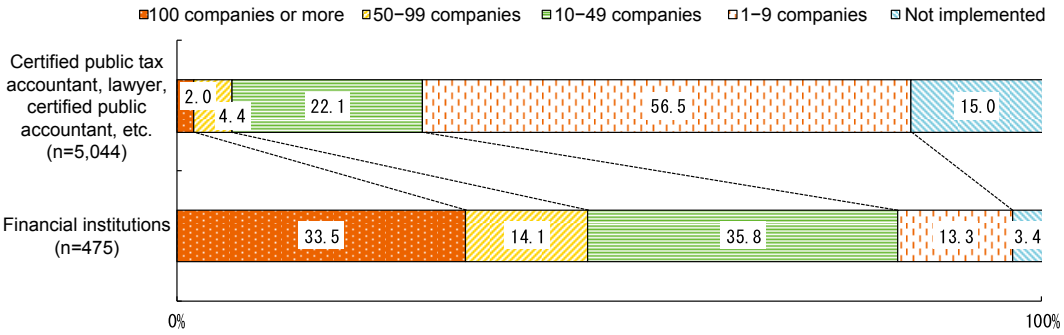
Source: Recompiled from the SME Agency, *Random Survey of Approved Support Agencies for Business Innovation*.

Fig. 2-5-98 Implementation status of management reform support by approved support agencies

(1) No. of companies supporting to analyze the yearly management status



(2) No. of companies supporting to formulate yearly business plans

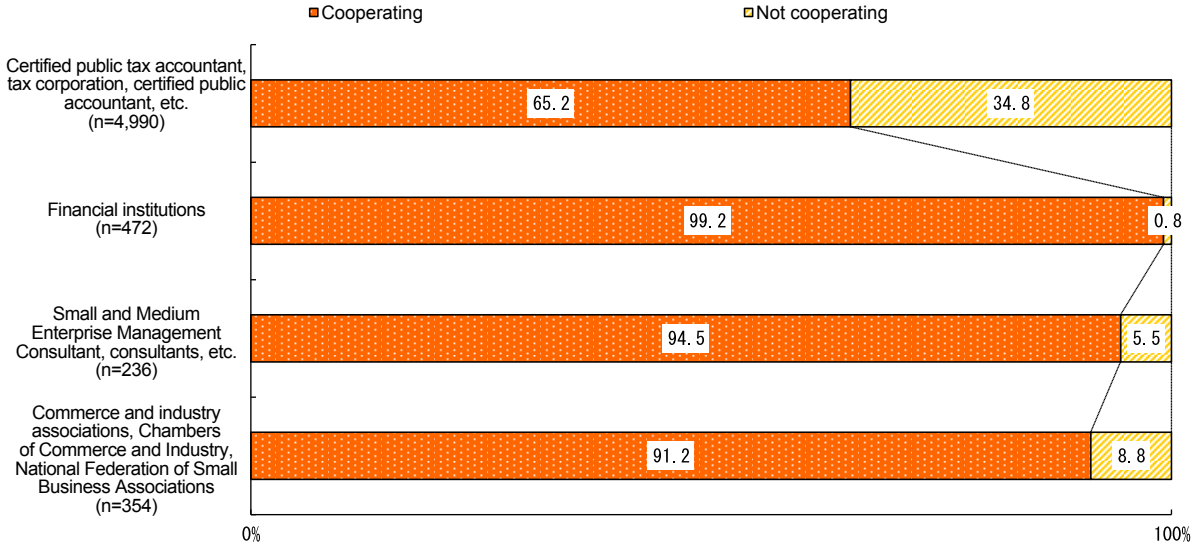


Source: Recompiled from the SME Agency, *Random Survey of Approved Support Agencies for Business Innovation*.

Status of cooperation in approved support agencies

Finally, we look at the status of cooperation in approved support agencies. If we start by looking at whether approved support agencies cooperate with other approved support agencies or outside support agencies when providing assistance to enterprises, over 90% of financial institutions, SME support bodies, etc. and SME management consultants, etc. cooperate. However this trend is somewhat weaker in certified public tax accountants, with only 65% or so cooperating (Fig. 2-5-99).

Fig. 2-5-99 Status of cooperation in approved support agencies



Source: Recompiled from the SME Agency, *Random Survey of Approved Support Agencies for Business Innovation*.

Next, we look in more detail at the partners whom approved support agencies cooperate (Fig. 2-5-100). The totals calculated here are for the three primary agencies nominated as cooperation partners among other cooperating approved support agencies and outside support agencies. Looking at the figure, we see that financial institutions and small business associations actively cooperate with approved support agencies that have different attributes to their own, and that there is a strong tendency for them to cooperate with outside support agencies that are closely related to them in terms of their regionality or specialty. SME management consultants, etc. primarily cooperate with approved support agencies that have attributes that are unlike their own. Certified public tax accountants, etc. very frequently cooperate with financial institutions, but are much less likely to cooperate with other approved support agencies or other outside support agencies.

Fig. 2-5-100 Cooperation partners for approved support agencies

		Certified public tax accountant, lawyer, certified public accountant, etc. (n=3,331)	Financial institutions (n=468)	Commerce and industry associations, Chambers of Commerce and Industry, National Federation of Small Business Associations (n=183)	Small and Medium Enterprise Management Consultant, consultants (n=150)
Cooperation between approved support agencies	Certified public tax accountant, lawyer, certified public accountant, etc.	31.8	51.4	29.8	49.2
	Financial institutions	85.6	28.9	79.0	63.4
	Commerce and industry associations, Chambers of Commerce and Industry, National Federation of Small Business Associations	21.9	37.0	27.8	46.2
	SME Management Consultants	14.7	39.6	45.4	30.5
Cooperating with other than approved support agencies	Prefectural and municipal governments, etc.	13.9	19.9	41.0	16.3
	Revitalization Support Councils	11.0	63.6	2.4	24.8
	Organization for Small & Medium Enterprises and Regional Innovation, Japan	6.3	14.3	12.7	5.4
	Other	6.1	22.7	8.3	9.1

Source: Recompiled from the SME Agency, *Random Survey of Approved Support Agencies for Business Innovation*.
Notes: 1. Items that scored 50% or higher are shaded in red and items that scored 30% to less than 50% are shaded in green. (Note that other items are excluded.)
2. Totals are calculated for up to three responses nominating primary cooperation partners.

Above, we examined the situation around the support provided to SMEs by approved support agencies and noted that aspects of that support differ depending on the attributes of the approved support agency, the support sector in which it specializes, the nature of the support provided and whether or not it involves cooperation. When we compare certified public tax accountants, etc. and financial institutions, which are the most likely consultation partners for SMEs in the formulation of management reform plans and growth investment, the support sectors and content that certified public tax accountants, etc. focus on tends to be limited to their own areas of expertise, and many of them cooperate with financial institutions when delivering support. The level of cooperation with other support agencies was generally low. However, we also saw that a set number of financial institutions, in addition to their own areas of expertise, also target their support to initiatives such as expanding sales and cooperate with a large number of support agencies.

Case 2-5-10 Toyokawa Shinkin Bank (Toyokawa City, Aichi Prefecture)

A credit union that focuses on developing executives by running a management cram school

Toyokawa Shinkin Bank, based in Toyokawa City, Aichi Prefecture, spends its energies on developing executives. As part of the work of its Management Support Department, the credit union in 2008 opened the "Kawashin Management Cram School" to instruct executives on such topics as financial analysis, formulating business plans, and managing intellectual assets.

In 2002, Toyokawa Shinkin had established an internal unit dedicated to providing corporate assistance and provided consulting to partner enterprises on such matters as business rehabilitation. However, the credit union came to sense there was a need for younger executives to have a venue for learning about prospective business, and so the cram school program was born. When financial institutions offer seminars of this sort, they frequently outsource them to external consultants. However, in Toyokawa Shinkin's case the credit union took it upon itself to handle everything from planning to operation. The reason for being so particular about the program is that the credit union had the idea it wanted the flexibility to match the school's offerings with the takers' own situations, and it also had a store of know-how geared toward the future.

Initially, Toyokawa Shinkin fumbled around with how to proceed. The focus was on lectures and on students drafting and giving presentations on "my company's future chronology." Most of the instructors were staff from the credit union's Management Support Department.

The content of the program gradually became more rounded out with each time it was held. The program came to include not only lecture-style offerings, but also included group discussion sessions. To induce industry-academia collaborations, it added tours of university laboratories and research offices. It also added program that induced senior management from the students' companies to take part so that managers would share their struggles with their own company's management.

As for operation of the program, Toyokawa Shinkin moved beyond its Management Support Department to get staff from its branch offices as well as from accountancy firms involved as well. They supported the students in doing financial analyses and working out management plans of their companies.

Starting in fiscal 2014, responsibility for operating the cram school was transferred to the newly established Regional Contribution Department. While it continued in that duty, the Management Support Department focused on providing assistance to individual companies. Working in collaboration with outside experts, this department took on drawing up management plans and on-site improvements.

The Management Cram School initiative served to improve the management capabilities of executives at Toyokawa Shinkin's business partners and contributed to performance improvements there. In the process, the credit union also fostered and developed the staff in its own Management Support Department and from its branches. By following up with executives from business partners through the program or at the individual companies where they offered their assistance, the branch employees were able to develop closer ties with them and learn about perspectives on management support.

The main reason why this initiative was successful is that it had a collaborative structure in which Toyokawa Shinkin's Management Support Department took the lead and outside experts compensated for those areas where something was lacking. In those collaborations with outside experts, the credit union focused on getting a sense of which areas they specialized in. By increasing its contacts with such experts and entering information about them into a database, Toyokawa Shinkin made it possible to provide even more appropriate support in the future. Furthermore, before the program got under way the Management Support Department undertook such initiatives as holding study groups in collaboration with accountancy firms and SME management consultants. The fact that it already developed relationships of mutual trust with these firms and individuals has also led to closer collaborations with experts.

Thus, it would seem that Toyokawa Shinkin is getting its ideas across to executives and its Management Cram School program is succeeding because the credit union is spending some effort to manage it internally while collaborating effectively with outside parties.

Summary of Section 3

In this section, we looked at the non-financial support provided by financial institutions, namely management support services, and examined the level of financial institutions' engagement in those services, the effects and the issues faced. We saw that services to support the expansion of markets and suppliers, such as business matching, and the provision of systems information, such as information on subsidies, attracted high rates of use. We also saw that that sort of support could be effective, with SMEs increasing their sales and improving their financial positions. On the other hand, we also noted that support from financial institutions for human resource development is lacking, even though it is greatly needed by enterprises, and that there are some areas where the needs of enterprises are not being met, which may give rise to issues in the future.

We also confirmed the importance of cooperation in providing management support services, and found that even so there are some situations where suitable cooperation partners cannot be found or cooperation is lacking because, for instance, the internal systems needed for cooperation are not provided. Clearly, it is important to stimulate active cooperation among support agencies to ensure that a full range of management support services is provided. SMEs, including debt-free enterprises that have only tenuous relationships with financial institutions, nominate certified public tax accountants, etc., as their most important consultation partners. However, while certified public tax accountants, etc. cooperate very closely with financial institutions, they seldom work with other approved support agencies.

Many approved support agencies primarily cooperate with financial institutions. It is also likely that debt-free enterprises, because they have so little contact with financial institutions, would primarily cooperate with partners such as certified public tax accountants, lawyers, attorneys and SME management consultants. In this way, approved support agencies, by cooperating so as to make use of the respective strengths of their partners, could well help to boost the effectiveness of their support for SMEs.

In this Chapter, we have seen how SMEs provide the appropriate information to financial institutions and the financial institutions then develop still closer cooperative arrangements with related agencies in order to offer financing based on feasibility assessments. This has the effect of broadening the options available for SMEs to fund growth investment. Providing assistance that involves cooperation among financial institutions and other support agencies to support the growth of SMEs may well enable those SMEs to steer a course towards growth and thereby improve their earning power.

Chapter 6

Management capabilities that determine SME earning power

In previous chapters, we have gained an overview of the changes in the economic structures confronting SMEs, while analyzing the factors that underlie successful investment in the programs that fund IT and overseas expansion as discussed in Chapters 2 and 3. We also focused on the people who play a leading role in investment and analyzed the outcomes of that investment. In Chapter 4, we also focused on the risk management that is indispensable to support measures aimed at boosting sales, analyzing the current situation around risk management by SMEs and issues for the future. Then, in Chapter 5, we looked more closely at the financial institutions that support business activity by SMEs and summarized the changes in the structures whereby finance moves around, analyzing the relationships between financial institutions and SMEs to tease out the importance of mutual understanding between the two.

This brings us to Chapter 6, where we focus on the management capabilities of enterprises. Business activity consists making a range of different decisions that will determine the future course of action for an enterprise. For example, in the case of the investments in IT or overseas expansion discussed above, judgments made by management or by individual managers determine whether the investment will proceed, and those outcomes can have a huge impact on the profitability of the enterprise. The backgrounds to the decisions made by enterprises are varied, as are the processes that lead to the decision-making, but it seems likely that there are common characteristics that apply to profitable enterprises. Conversely, it is also likely that enterprises that currently have little earning power are plagued by limitations on growth due to factors internal to the enterprise, and these factors lead to the differences in earning power compared with profitable enterprises.

Based on this awareness of the issues, this chapter will attempt to identify the particular characteristics of profitable enterprises and analyze the key elements that lead to growth in those enterprises, thereby promoting the growth of enterprises with strong growth potential. Specifically, Section 1 will identify the actual status of profitable enterprises as well as enterprises that have high potential to grow into profitable enterprises, and will analyze the differences in the characteristics of enterprises that are profitable and those that are not. In Section 2, we cover the rejuvenation of enterprises as one aspect of their growth and analyze the importance of revitalizing their "metabolism" to achieving growth.

Section 1 Growth in growing enterprises and the limiting factors

This section begins by outlining the status of those SMEs designated as "profitable enterprises" and as "enterprises with a high potential for growth" ("high growth potential enterprises")[1]. Then we go on to analyze the organizational structures in profitable enterprises and the levels of awareness within management or individual managers, and identify the characteristics of profitable enterprises.

1) The analysis in this section primarily uses the *Basic Survey of Japanese Business Structure and Activities* by METI. The reasons for this include the fact that the survey: (1) collects detailed data on the financial status of enterprises; and (2) permits multi-faceted analysis of investment behavior by enterprises. However, it must be noted that the survey does not address enterprises with fewer than 50 employees or enterprises with less than ¥30 million in capital or investments.

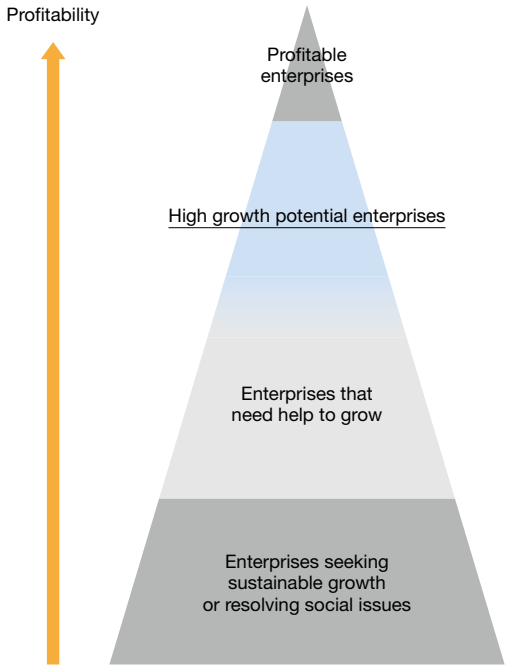
1. Identifying the status of growth enterprises and high growth potential enterprises

Fig. 2-6-1 shows our approach to the classification of the SMEs to be analyzed. Highly profitable enterprises are at the summit and immediately below those are high growth potential enterprises. Where an enterprise has issues with boosting its profitability or growth, there may well be factors that are limiting the growth of that enterprise.

One possible limiting factor is the investment behavior of the enterprise. To develop sustainably and increase their profitability, enterprises must build a platform for future growth by investing in ways that are appropriate for their particular needs and based on a medium- to long-term vision.

With this in mind, this section provides an overview of profitability among SMEs and shows that there is a certain number of SMEs that actually have higher profitability than large enterprises. Next, in an attempt to classify SMEs based on their profitability and investment procurement capacity, we look at recurring profit margin as an indicator of profitability and at ratios of equity to total assets as an indicator of enterprises' capacity to attract investment. We then look generally at the trends in profitability and investment behavior within those classifications.

Fig. 2-6-1 Schematic diagram of growth enterprise classification

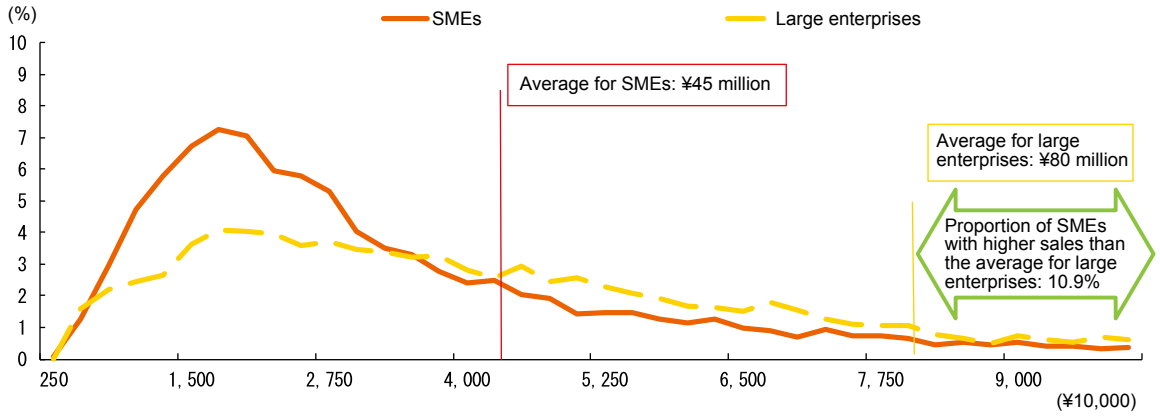


Distribution of sales per employee

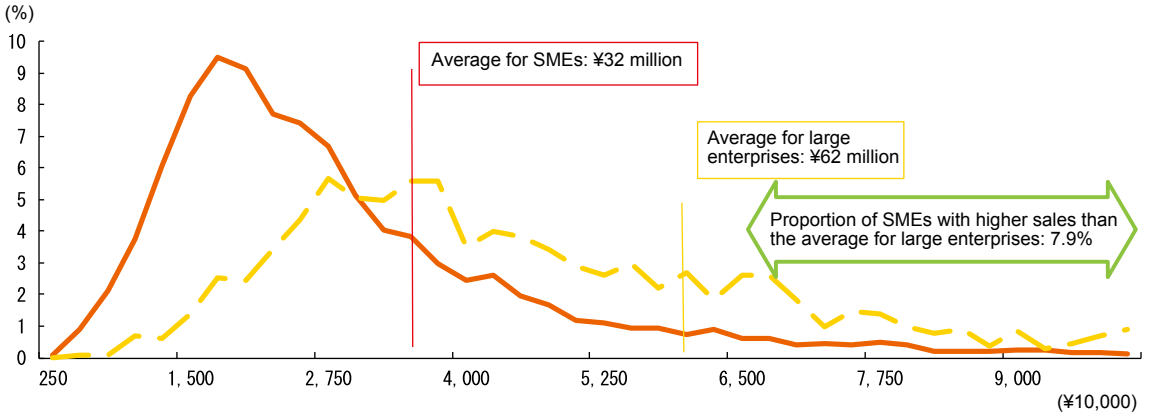
We begin by looking at the distribution of total sales per employee ("sales per person") (Fig. 2-6-2). While the sales per person in SMEs totals ¥45 million, the average figure for large enterprises is ¥80 million, showing that the average sales per person in SMEs is lower than that in large enterprises. Looking at the situation by industry, the average figure in the manufacturing industries is ¥32 million for SMEs and ¥62 million for large enterprises. In the non-manufacturing sector the average figure is ¥62 million for SMEs and ¥88 million for large enterprises. So even viewed from an industry-specific perspective, there is still a gap between SMEs and large enterprises. On the other hand, there are SMEs with higher figure than the average for large enterprises. Specifically, 10.9% of SMEs in all industries have higher sales per person than larger enterprises, and the equivalent figure in the manufacturing and non-manufacturing industries is 7.9% and 16.6% respectively.

Fig. 2-6-2 Distribution of sales per employee

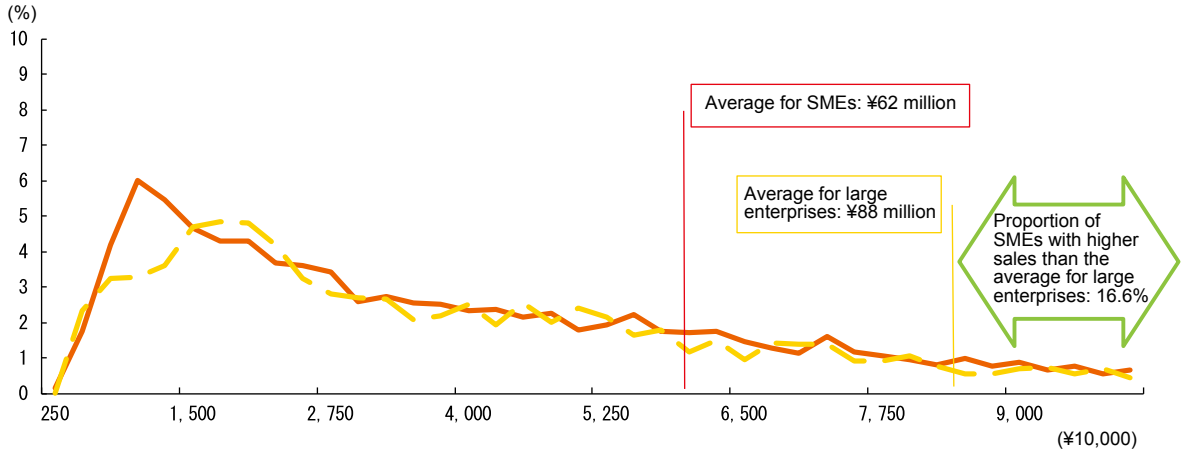
(1) All industries



(2) Manufacturing



(3) Non-manufacturing



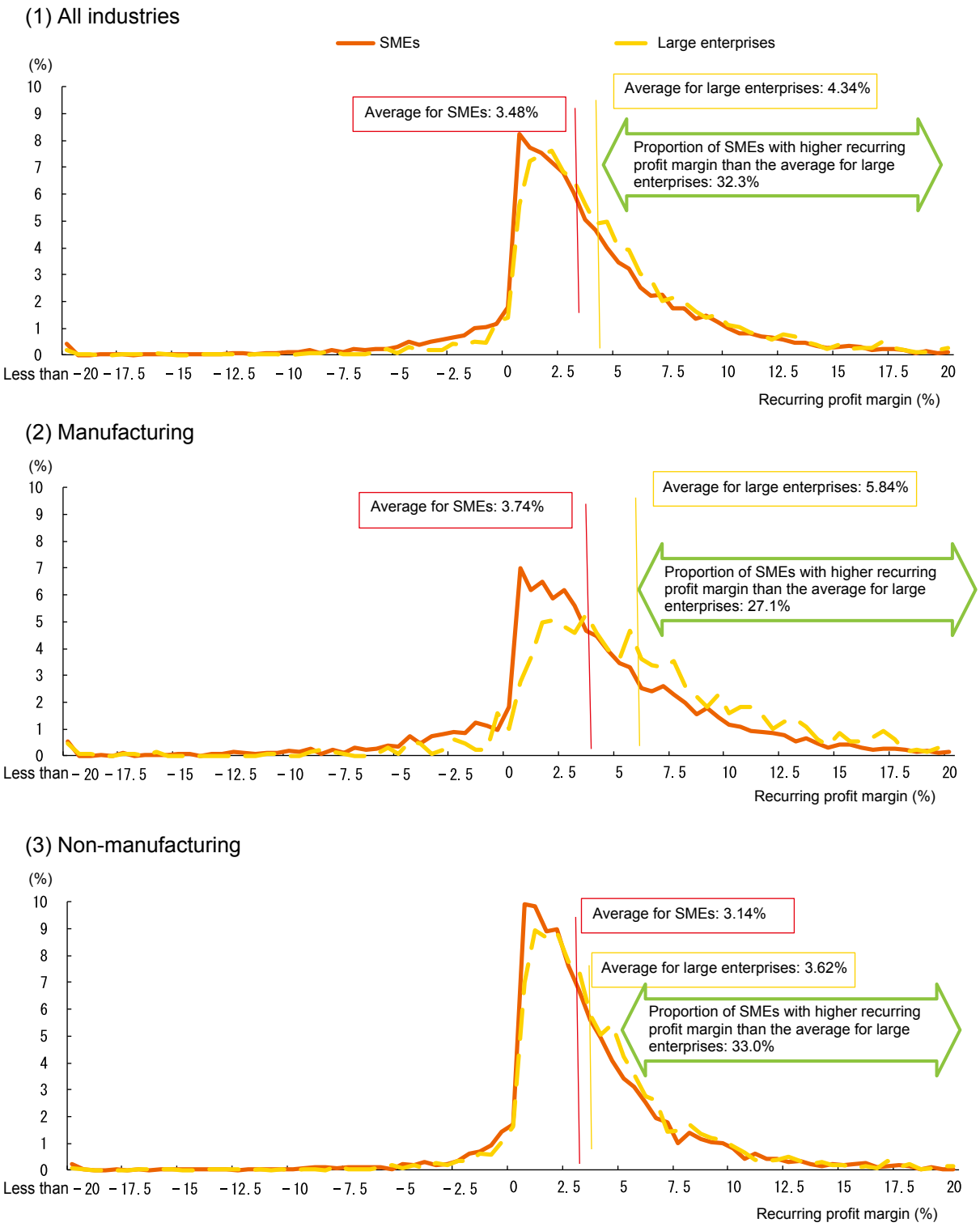
Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Note: It must also be noted that there are some large enterprises where the sales per person exceeds ¥100 million, accounting for 17.4% of the total in all industries, 10.4% in manufacturing and 20.8% in non-manufacturing industries.

Distribution of recurring profit margin

Next, we look at the distribution of recurring profit margins (Fig. 2-6-3). In all industries, the average value for the recurring profit margin among SMEs is 3.48%, while the average figure for large enterprises is 4.34%. There is also a high proportion of SMEs with a negative recurring profit margin, while large enterprises include a higher proportion with a positive recurring profit margin. When we break the figures down by industry, the average value in the manufacturing industries is 3.74% for SMEs and 5.84% for large enterprises.

In the non-manufacturing industries, the average value is 3.14% for SMEs and 3.62% for large enterprises. This indicates that overall, the average recurring profit margin is lower in SMEs than in large enterprises, though the disparity between SMEs and large enterprises is smaller in the non-manufacturing industries than in manufacturing. However, the figure also shows that some SMEs have higher figure than the average for large enterprises, comprising 32.3% of SMEs in all industries, 27.1% in manufacturing and 33.0% in non-manufacturing.

Fig. 2-6-3 Distribution of recurring profit margin



Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.

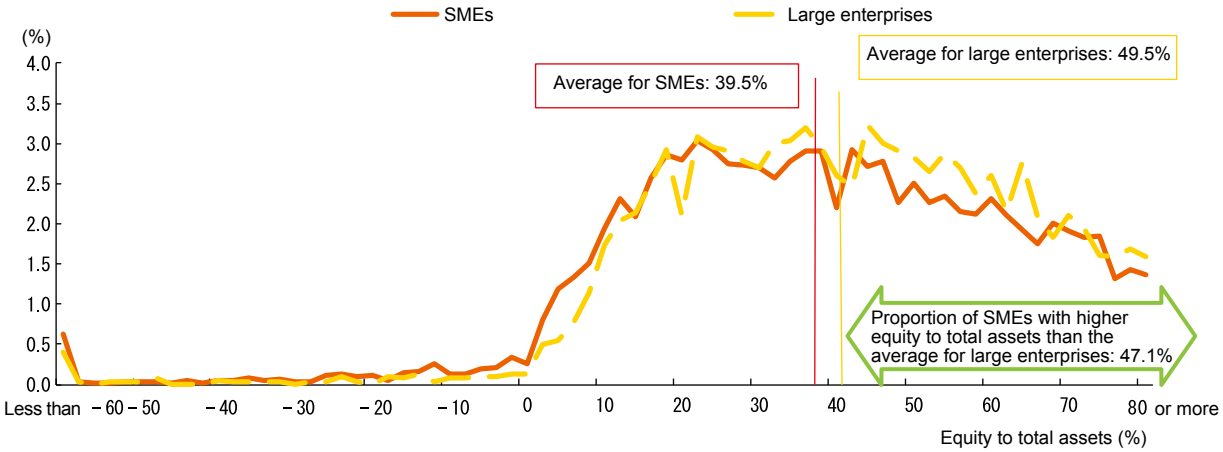
Distribution of equity to total assets

Finally, we look at the distribution of equity to total assets (Fig. 2-6-4). The average ratio of equity to total assets among SMEs is 39.5%, whereas the average figure for large enterprises is 41.7%, indicating that while SMEs tend to have lower average equity to total assets than large enterprises, the difference is minimal. When we break the figures down by industry, the average value in the manufacturing industries is 40.7% for SMEs and 49.5% for large enterprises, while the figures in the non-manufacturing industries are 38.0% for SMEs and 37.9% for large enterprises. So we see that there is a noticeable difference between SMEs and large enterprises in manufacturing, but virtually no difference at all in the non-manufacturing industries. There are also some SMEs with higher figure than the average for large enterprises, making up 47.1% of SMEs in all industries, 39.6% in manufacturing and 48.7% in non-manufacturing.

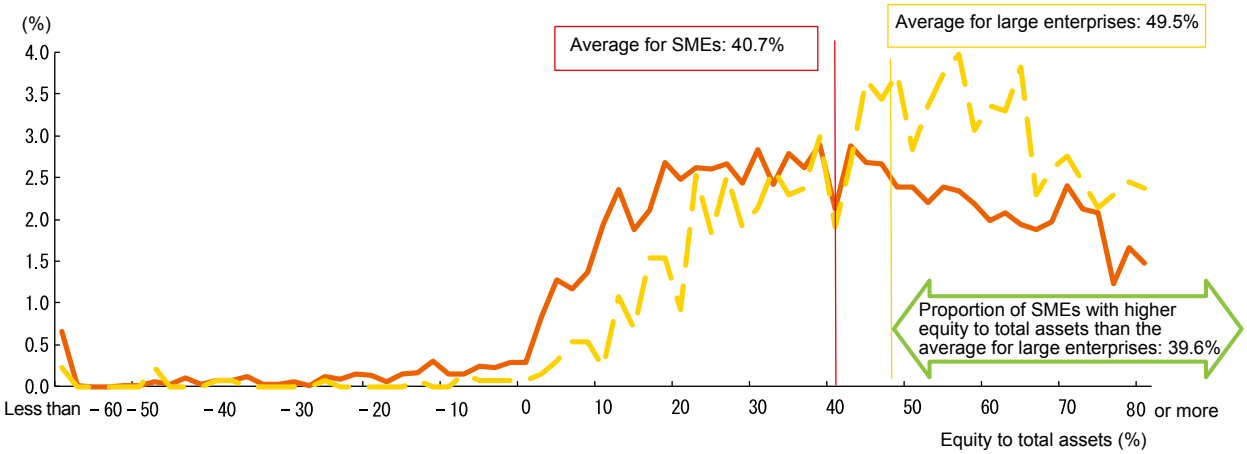
From the results shown in Fig. 2-6-2, Fig. 2-6-3 and Fig. 2-6-4, we have seen that overall, profitability and equity to total assets in SMEs is generally lower than the average figures for large enterprises, but that some of the SMEs have earning power and investment capability that is on a par with or superior to that of large enterprises. Below, we attempt to classify SMEs according to their profitability and ratio of equity to total assets based on these results.

Fig. 2-6-4 Distribution of equity to total assets

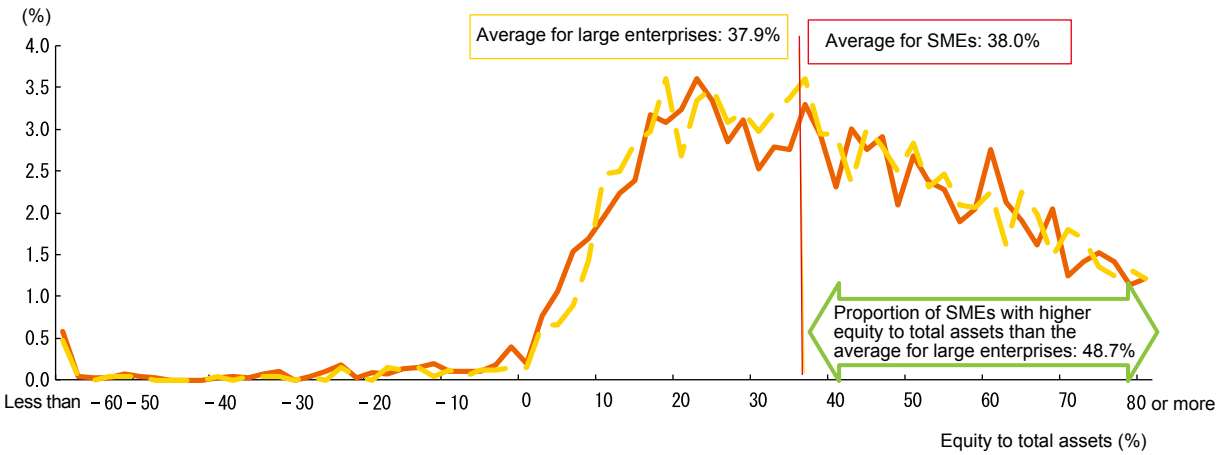
(1) All industries



(2) Manufacturing



(3) Non-manufacturing



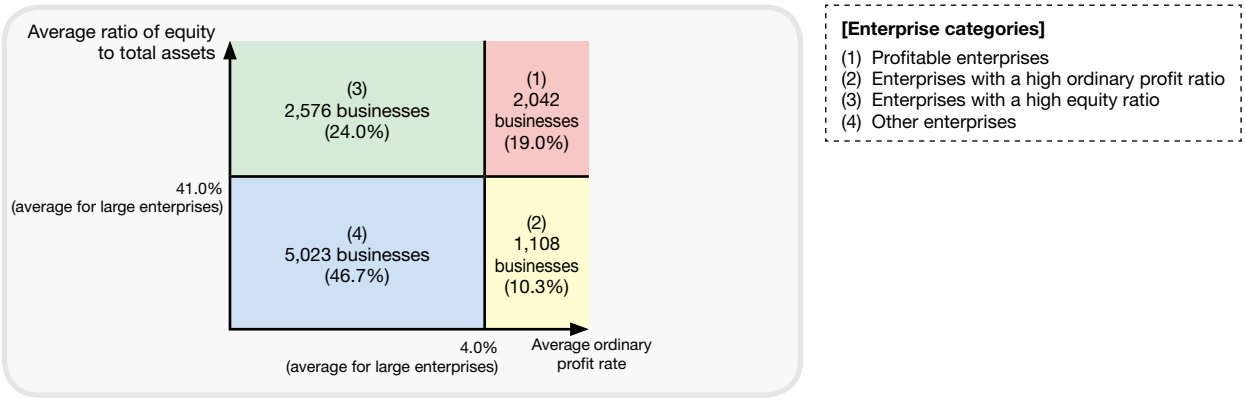
Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.

SME classification

Based on the analysis above, we will now consider those SMEs that are profitable or that have high growth potential. When we consider SMEs on the basis of the two indices of ordinary profit and equity to total assets, profitable enterprises are those that consistently make money. Accordingly, such enterprises are likely to have high rates of both ordinary profit and equity to total assets. When we define profitable enterprises as those with high rates of both ordinary profit and equity to total assets in this way, we can also suggest that enterprises with high equity to total assets but low ordinary profit rates, while they may not currently be as profitable as the more profitable enterprises, they still have the right level of stability for funding procurement.

So, in the analysis in this section, we want to use the average rates of ordinary profit and equity to total assets among large enterprises as the benchmark for classifying SMEs into four categories[2]. Fig. 2-6-5 shows the numbers and proportions of SMEs organized based on rates of ordinary profit and equity to total assets using the average values for large enterprises as indices. Bearing the above in mind, we can assume that enterprises located in area (1) are profitable enterprises, while those in areas (2) and (3) have high potential for growth. In this section, we analyze the differences in the financial characteristics and in the approaches adopted by management in the enterprises in the respective areas, based on the four categories in Fig. 2-6-5. From this point on, unless otherwise stated, analysis will assume that enterprises in (1) are defined as "profitable enterprises", enterprises in (2) are defined as "enterprises with a high ordinary profit ratio", enterprises in (3) are defined as "enterprises with a high equity ratio", and those in (4) are defined as "other enterprises".

Fig. 2-6-5 Classification of SMEs based on rates of ordinary profit and equity to total assets



[Manufacturing]

Enterprise categories	No. of enterprises	Proportion
(1) Profitable enterprises	1,066	17.3%
(2) Enterprises with a high ordinary profit ratio	633	10.3%
(3) Enterprises with a high equity ratio	1,329	21.6%
(4) Other enterprises	3,119	50.7%

[Non-manufacturing]

Enterprise categories	No. of enterprises	Proportion
(1) Profitable enterprises	976	21.2%
(2) Enterprises with a high ordinary profit ratio	475	10.3%
(3) Enterprises with a high equity ratio	1,247	27.1%
(4) Other enterprises	1,904	41.4%

Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Note: The upper left figure was compiled using statistics for all industries.

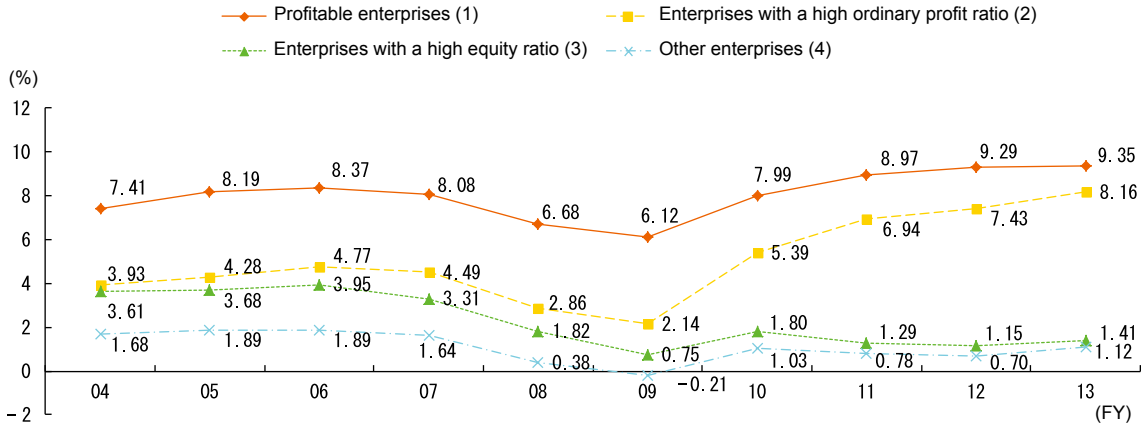
2) Here, panel data for a 10-year period was compiled and analyzed using data from the *Basic Survey of Japanese Business Structure and Activities* by METI. As a result, it must be noted that this data differs from the average values shown in Fig. 2-6-2, Fig. 2-6-3 and Fig. 2-6-4. Note also that the 10-year panel data population in Fig. 2-6-5 is classified based on average values for the last 3 years.

Trends in recurring profit margin rates, sales and ratios of equity to total assets

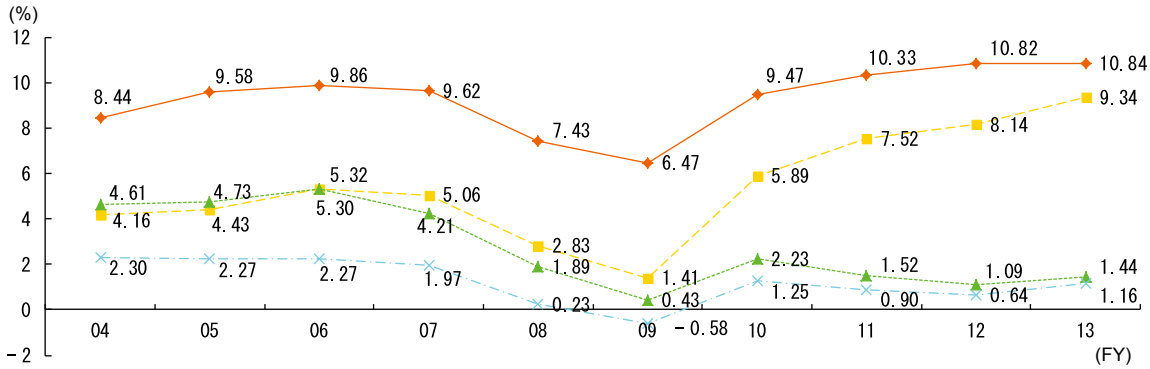
Firstly, we look at trends in recurring profit margin rates (Fig. 2-6-6). Looking at trends for all industries, we see that the levels for "Profitable enterprises (1)" are generally high. But looking specifically at "Enterprises with a high equity ratio (3)", the trend values from 2004 to 2009 closely match those for "Enterprises with a high ordinary profit ratio (2)". But from 2010 onwards, the values are significantly lower than those for "Enterprises with a high ordinary profit ratio (2)" and are generally trending downwards. Also, when we compare "Profitable enterprises (1)" with "Enterprises with a high equity ratio (3)", we see that the difference between the two tends to grow over time. Looking at trends by industry, in the manufacturing industries "Enterprises with a high equity ratio (3)", were at roughly the same level as "Enterprises with a high ordinary profit ratio (2)" until around 2009. But from 2010 onwards, as with the changes in all industries, "Enterprises with a high equity ratio (3)" trended much lower than "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)" and tended to go into decline. One distinctive feature of the non-manufacturing industries is that the level for "Profitable enterprises (1)" is relatively high. But when we look at "Enterprises with a high equity ratio (3)", we see that they scored consistently lower than "Enterprises with a high ordinary profit ratio (2)" during the 10-year period from 2004 to 2013.

Fig. 2-6-6 Trends in recurring profit margin

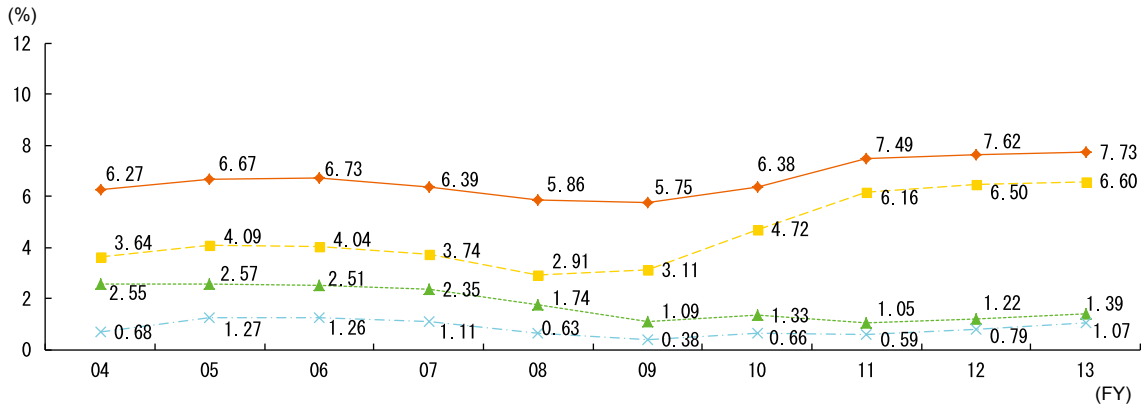
(1) All industries



(2) Manufacturing



(3) Non-manufacturing



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Note: The enterprise categories are as defined for Fig. 2-6-5.

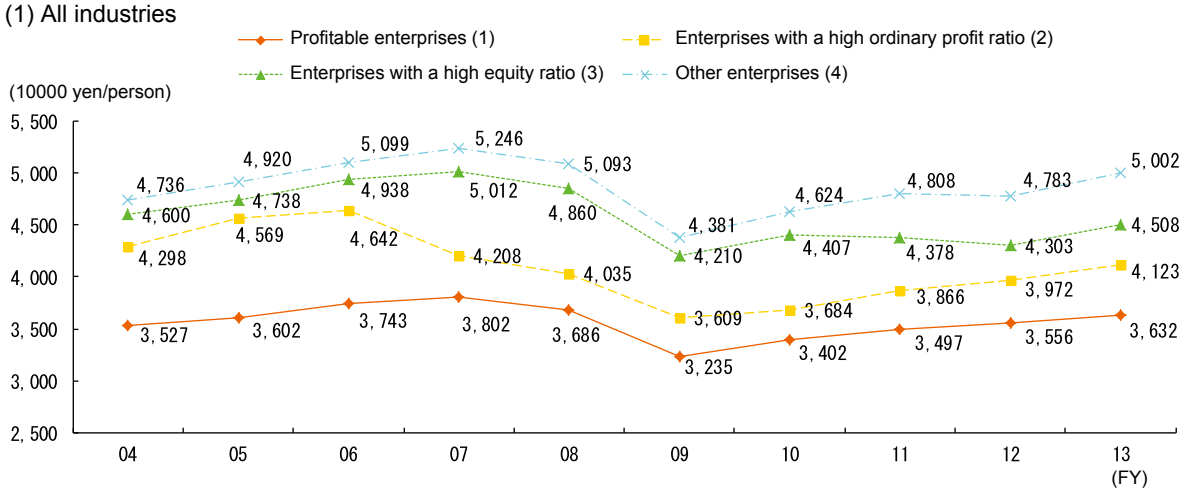
Secondly, we look at the trends in the average values for total sales per individual employee (Fig. 2-6-7). Looking at trends for all industries, we see that "Profitable enterprises (1)" are consistently at the lowest level. But the trend for "Enterprises with a high equity ratio (3)" is generally close to but slightly lower than for "Other enterprises (4)". But as with the changes in ordinary profit rates, there is a slight easing trend from 2009 onwards.

If we look at the trends by industry, there is little difference between "Profitable enterprises (1)" and "Other enterprises (4)" in the manufacturing industries, with both enterprise categories showing the same sort of movements in the 10-year period between 2004 and 2013. If we single out "Enterprises with a high equity ratio (3)", we see that it tends to be at the lowest level of all the categories.

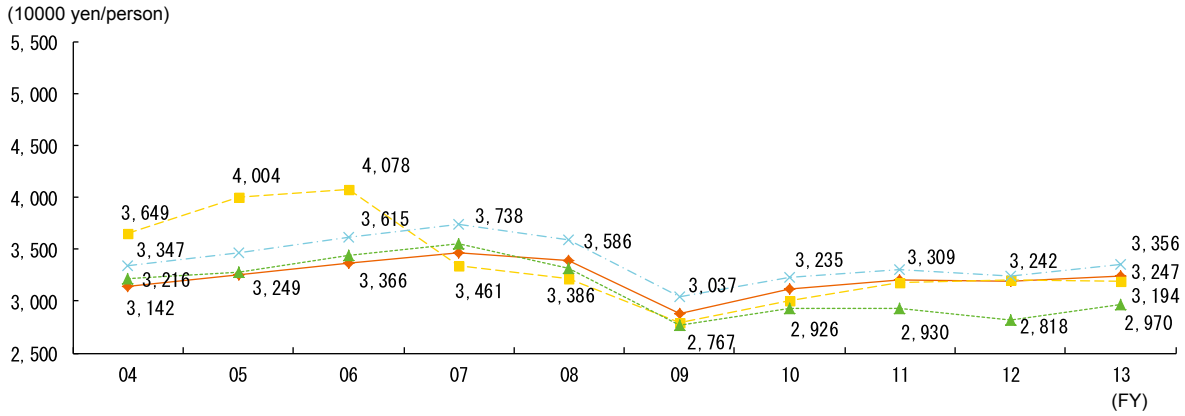
In the non-manufacturing industries, we note that there is a discrepancy between "Profitable enterprises (1)" and "Other enterprises (4)" in terms of the sales per person, amounting to a difference of around ¥30 million per person between the two categories. For "Enterprises with a high equity ratio (3)", the situation is similar to that for all industries, with the trend being generally close to but slightly lower than for "Other enterprises (4)". But there is also a slight softening trend from 2009 onwards.

Fig. 2-6-7 Trends in average sales per employee

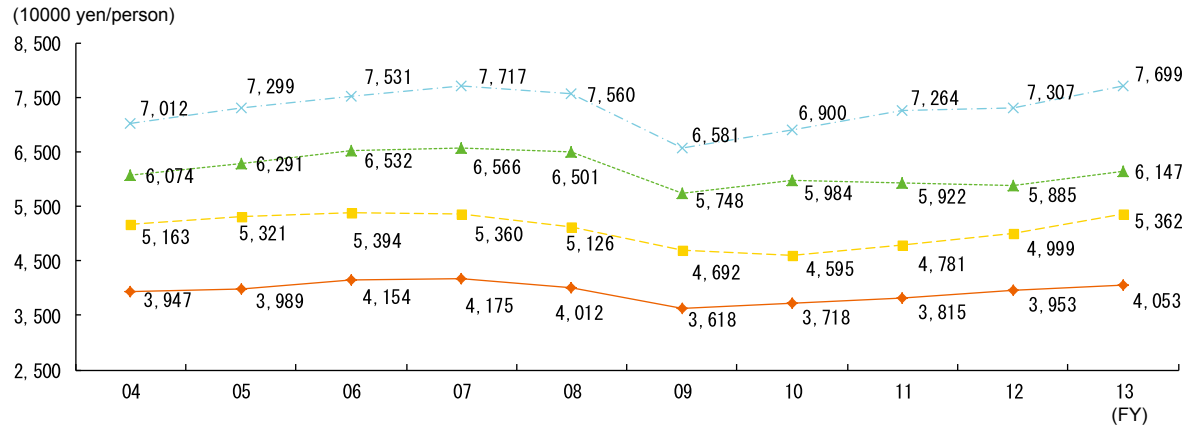
(1) All industries



(2) Manufacturing



(3) Non-manufacturing



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Note: The enterprise categories are as defined for Fig. 2-6-5.

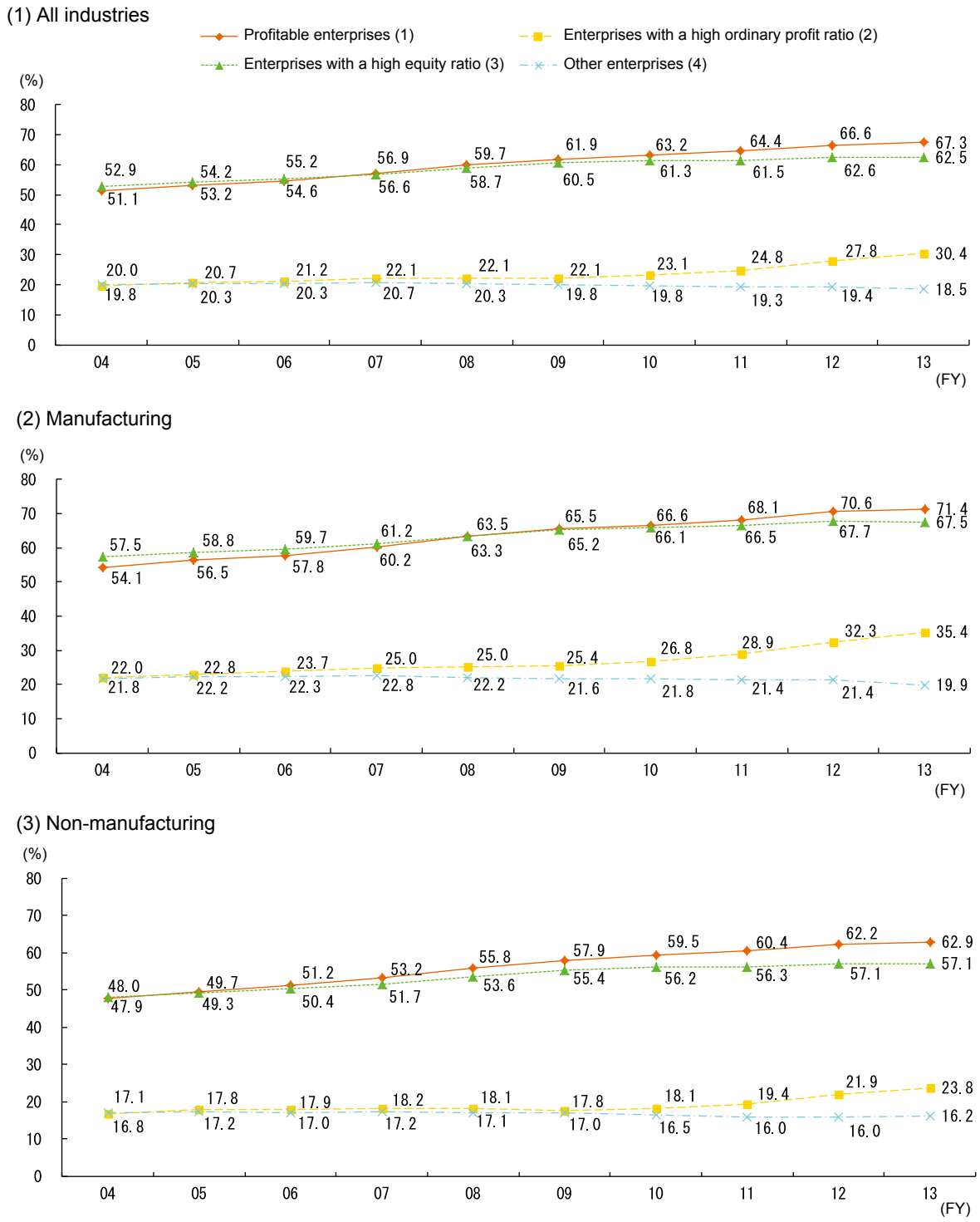
Thirdly, we look at the trends in equity to total assets (Fig. 2-6-8). Looking at the trends in all industries, there is a trend towards a growing difference in the ratio of equity to total assets between the "Profitable enterprises (1)" and "Enterprises with a high equity ratio (3)" categories and the "Enterprises with a high ordinary profit ratio (2)" and "Other enterprises (4)" categories. If we compare "Profitable enterprises (1)" and "Enterprises with a high equity ratio (3)", "Enterprises with a high equity ratio (3)" tended to be higher than "Profitable enterprises (1)" from 2004 to 2006, but from 2007 onwards the levels were reversed, with "Profitable enterprises (1)" showing a continuing higher trend than "Enterprises with a high equity ratio (3)". Looking at the "Enterprises with a high ordinary profit ratio (2)" and "Other enterprises (4)" categories, the former shows a generally rising trend, while the latter shows a declining trend.

Looked at by industry, "Enterprises with a high ordinary profit ratio (2)" show a rising trend in equity to total assets in the manufacturing industries, while "Other enterprises (4)" trends downwards in those industries, with a marked gap opening up between the two in recent years.

Looking at the non-manufacturing industries, while the trend is not as marked as in manufacturing, there is still a trend towards a growing difference in the ratio of equity to total assets between "Enterprises with a high ordinary profit ratio (2)" and "Other enterprises (4)".

Thus far, in Fig. 2-6-6, Fig. 2-6-7 and Fig. 2-6-8, we have looked at the trends in the recurring profit margins, sales per person and rates of equity to total assets for the enterprise categories defined in Fig. 2-6-5. Below, we look at the situation regarding investment behavior in those categories.

Fig. 2-6-8 Trends in rates of equity to total assets



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Note: The enterprise categories are as defined for Fig. 2-6-5.

Trends in investment behavior

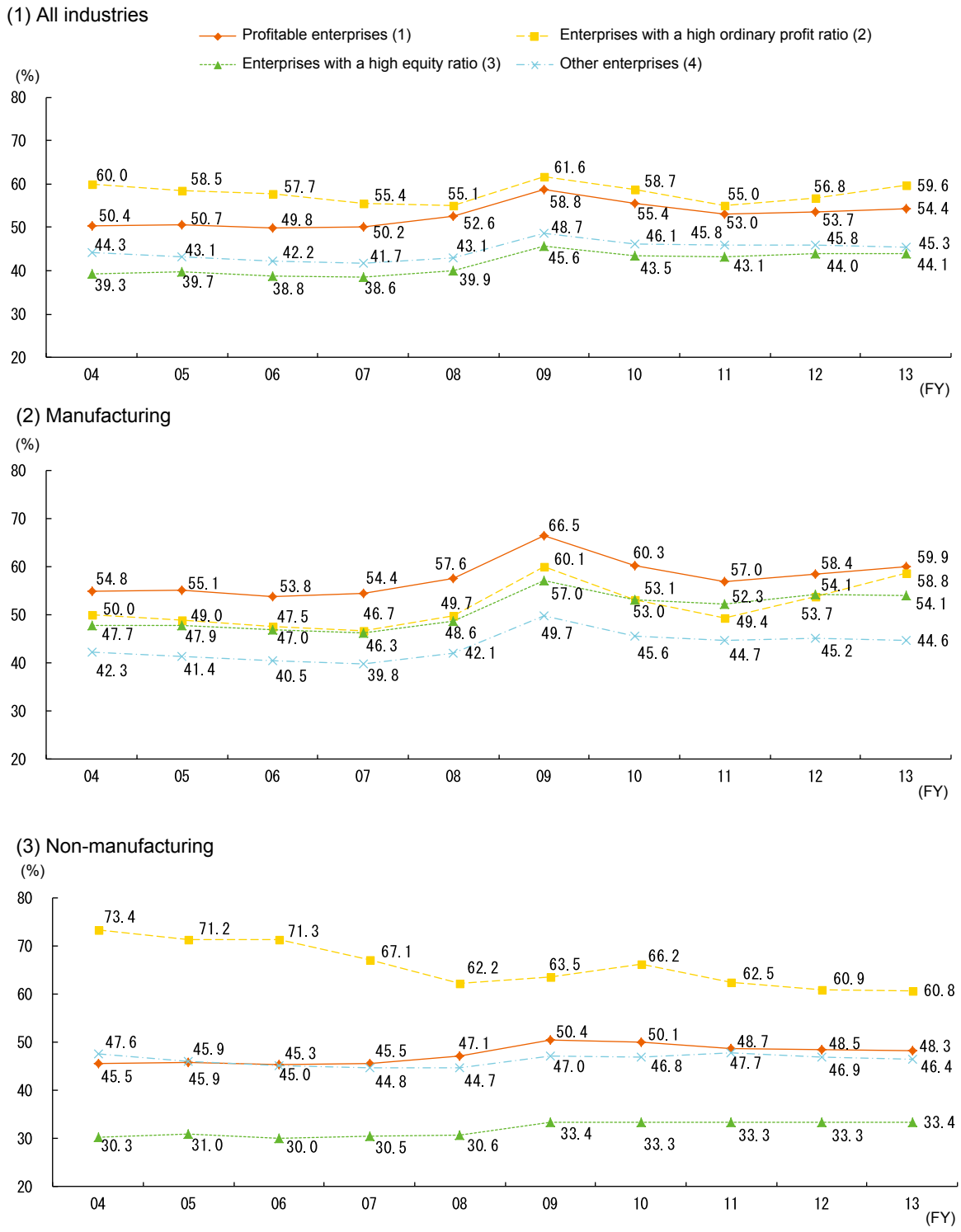
We begin by looking at the circumstances around the acquisition of fixed assets.

Fig. 2-6-9 shows the fixed asset acquisition costs as a proportion of total sales. This figure shows that across all industries, "Profitable enterprises (1)" spent a higher proportion on acquiring fixed assets than "Enterprises with a high equity ratio (3)", suggesting a positive tendency for profitable enterprises to invest in fixed assets. The level of acquisition is also high among "Enterprises with a high ordinary profit ratio (2)", clearly indicating that, like "Profitable enterprises (1)", they too actively invest in fixed assets.

If we look at specific industry trends, we see that "Profitable enterprises (1)" in manufacturing show high levels of investment. "Enterprises with a high equity ratio (3)" tend to be roughly on a par with "Enterprises with a high ordinary profit ratio (2)", suggesting that enterprises with higher profitability to be more likely to invest. In the non-manufacturing industries, "Enterprises with a high ordinary profit ratio (2)" show high levels of investment, and if we compare "Profitable enterprises (1)" and "Enterprises with a high equity ratio (3)", the "Profitable enterprises (1)" show a higher level, again suggesting fairly active investment.

In non-manufacturing, the trend is for enterprises with higher profitability to be more likely to invest, so while the trend is not as marked as in the manufacturing industries, there is still a tendency in non-manufacturing industries for high levels of profitability to lead to more active investment by enterprises. From this, we can conclude that there is a fixed correlation between an enterprise's earning power and its investment activity.

Fig. 2-6-9 Trends in fixed asset acquisition costs as a proportion of total sales



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.

Notes:
1. The enterprise categories are as defined for Fig. 2-6-5.
2. The fixed asset acquisition costs are calculated as the total of "owned fixed asset acquisition cost for the current period" and "intangible fixed asset acquisition cost for the current period".
3. The formula used to calculate fixed asset acquisition costs as a proportion of total sales is as follows:
   Fixed asset acquisition costs as a proportion of total sales = Fixed asset acquisition cost/Total sales

Next, we look at trends in capacity building expenditure as an indicator of investment in human resource development[3]. Fig. 2-6-10 shows capacity building expenditure as a proportion of total sales. The figure shows that in all industries, there is no marked difference overall between the different categories, but the expenditure levels are highest in "Profitable enterprises (1)".

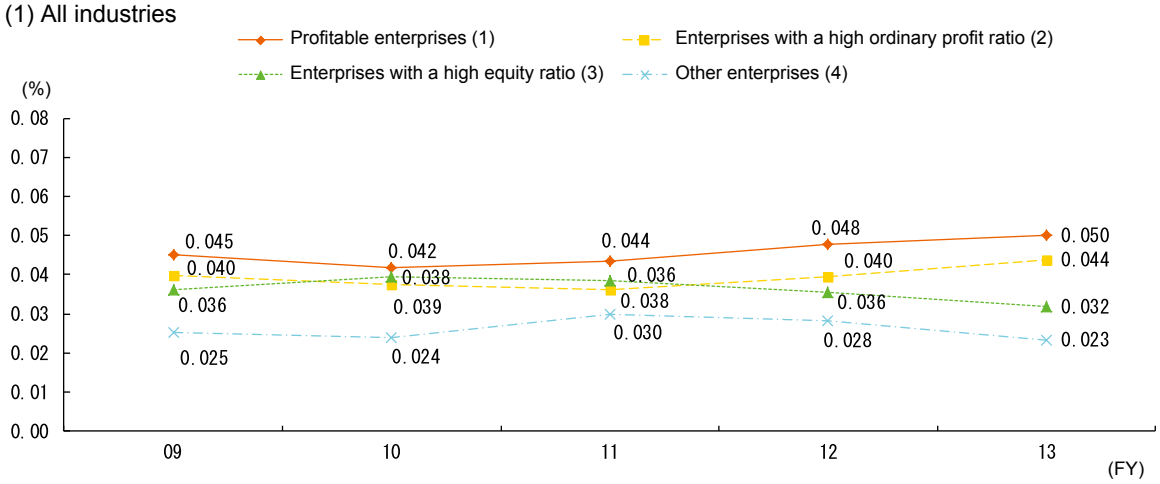
If we look specifically at the manufacturing industries, "Enterprises with a high equity ratio (3)" ranked higher than "Profitable enterprises (1)" between 2009 and 2012, indicating a high level of awareness of the importance of human resource development. However, the proportions decreased from 2012 to 2013. The trend in "Profitable enterprises (1)" however was for capacity building expenditure to rise, suggesting that those enterprises tend to also invest actively in the area of human resource development.

In non-manufacturing industries, the level is again high among "Profitable enterprises (1)", with "Enterprises with a high ordinary profit ratio (2)" ranked next highest. "Enterprises with a high equity ratio (3)" rank lower than "Enterprises with a high ordinary profit ratio (2)", indicating that one of the issues they face is their level of activity in human resource development. However, when we compare the trends in capacity building expenditure in non-manufacturing with those in the manufacturing industries, proportional expenditure is high among "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)", leading us to conclude that enterprises in non-manufacturing industries generally take a progressive attitude towards human resource development.

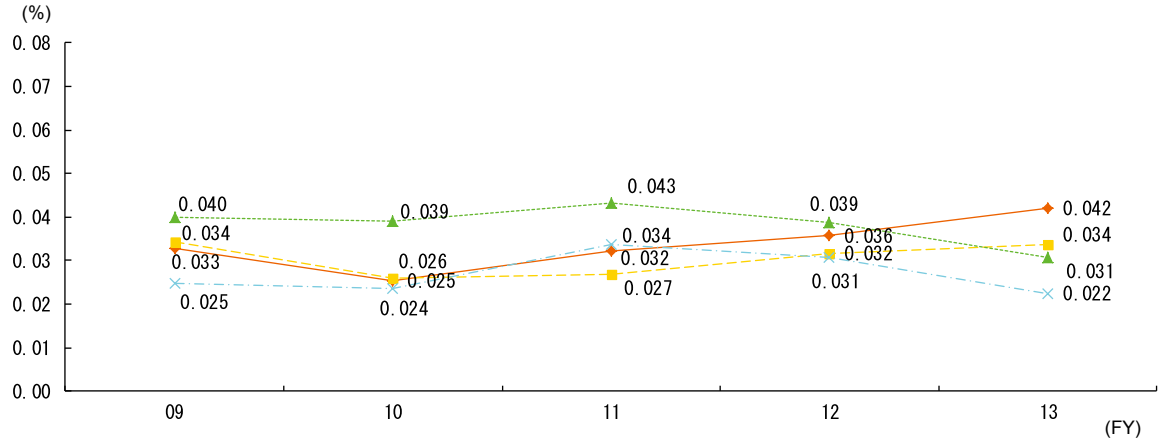
3) It must be noted that, due to limitations in the data, analysis of capacity building expenditure only covers a 5-year period.

Fig. 2-6-10 Trends in capacity building expenditure as a proportion of total sales

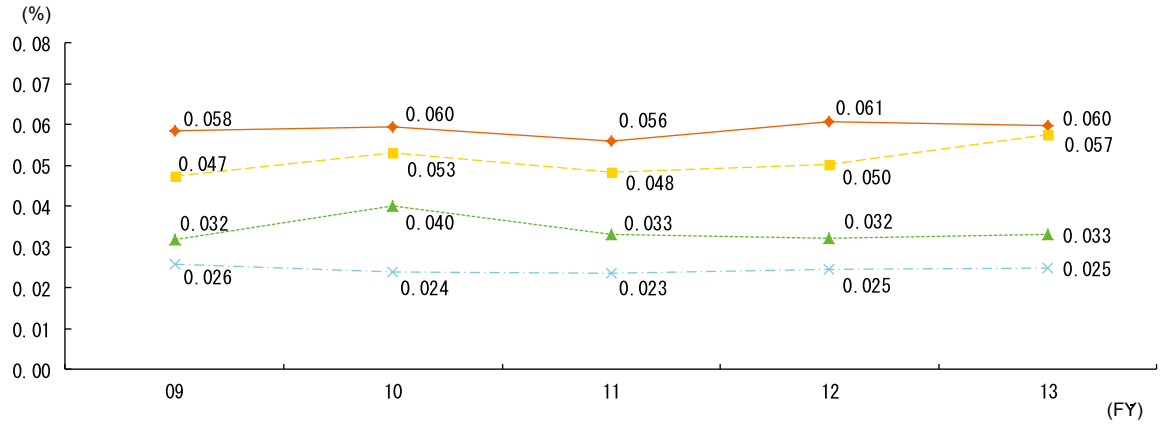
(1) All industries



(2) Manufacturing



(3) Non-manufacturing



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The enterprise categories are as defined for Fig. 2-6-5.
2. The formula used to calculate capacity building expenditure as a proportion of total sales is as follows:
Capacity building expenditure as a proportion of total sales = Capacity building expenditure/Total sales

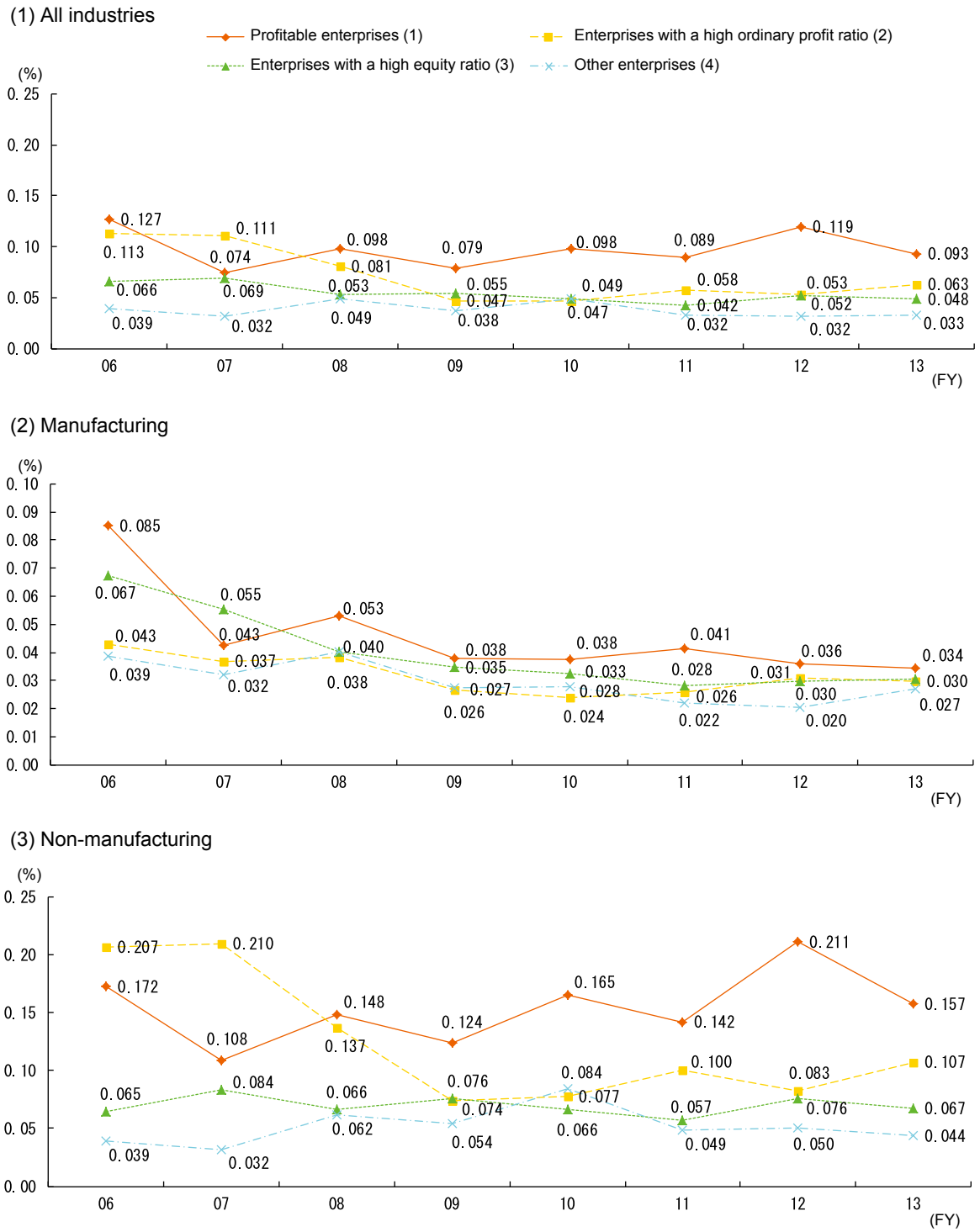
Finally, we look at proportional investment in IT (Fig. 2-6-11)[4]. In all industries, "Enterprises with a high ordinary profit ratio (2)" occupied the highest position from 2006 to 2007, but from 2008 onwards that position was taken over by "Profitable enterprises (1)". The figure also shows that "Enterprises with a high equity ratio (3)" were consistently at or near the 0.06% level.

If we look specifically at the manufacturing industries, we see that the proportions are generally decreasing, but that "Profitable enterprises (1)" recorded the highest levels. "Enterprises with a high equity ratio (3)" were next in line behind "Profitable enterprises (1)", suggesting that, compared with other types of investment, the trend is for relatively progressive investment in IT.

In the non-manufacturing sector, the level of investment by "Enterprises with a high ordinary profit ratio (2)" was high from 2006 to 2007, but declined subsequently. If we look specifically at "Profitable enterprises (1)", we see a slight increasing trend from 2007 onwards, indicating fairly active investment in IT, as with other types of investment. Compared with the manufacturing sector, investment as a proportion of total sales also tends to be high. When we look at "Enterprises with a high equity ratio (3)", they also were consistently at or near the 0.07% level.

4) It must be noted that, due to limitations in the data, the analysis of trends in proportional IT investment only covers a 7-year period.

Fig. 2-6-11 Trends in IT investment as a proportion of total sales



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The enterprise categories are as defined for Fig. 2-6-5.
2. The formula used to calculate IT investment as a proportion of total sales is as follows:
IT investment as a proportion of total sales = Amount invested in IT/Total sales

Characteristics of the enterprise categories

Based on the above analysis, we can summarize the characteristics of the enterprises in each category.

Firstly, one characteristic of "Profitable enterprises (1)" is that, in general, investment constitutes a high proportion of their total sales. "Profitable enterprises (1)" invest the profits that they make, and this seems to give rise to a virtuous cycle whereby that investment builds a platform for future growth.

Next, we focus our attention on "Enterprises with a high ordinary profit ratio (2)". If we begin by comparing them with "Profitable enterprises (1)" in terms of their ordinary profit ratios, there is a difference of 4 percentage points in 2005, but by 2014 this is just 1 percentage point, showing that the trend is for the difference to decrease. If we then look at investment as a proportion of total sales, we see that like "Profitable enterprises (1)", the level is high. From this we can conclude that their ability to make a profit enables them to also adopt a progressive attitude to investment.

Thirdly, when we look at the characteristics of "Enterprises with a high equity ratio (3)", we see that they have the same consistently high level of equity to total assets as "Profitable enterprises (1)". On the other hand, they tend to have low rates of investment relative to total sales. However, when we consider that they rank right behind "Profitable enterprises (1)" in the manufacturing industries in terms of their proportion of capacity building expenditure, they clearly tend to have a high awareness of the importance of human resource development. These results suggest that "Enterprises with a high equity ratio (3)" previously had high profitability and successfully built up their own capital base, but their profitability growth may have slowed because their proportion of actual investment was low.

Looking finally at "Other enterprises (4)", those enterprises with high average sales per employee also show consistently low rates of ordinary profit. In recent years in particular, this shows up in a widening gap between those enterprises and "Profitable enterprises (1)". This category also has low overall investment as a proportion of total sales. Because they have high sales per person and low profit ratios, we can conclude firstly that cutting down on expenditure is a key issue for them.

So, in this section, we have taken an overview of the differences in enterprise profitability by focusing on financial indicators such as ordinary profit and on expenditure in investment in fixed assets, etc. These results indicate that there is a direct correlation between high levels of profitability and high proportional investment, reconfirming the importance of investment as a path to building a platform for future growth in enterprises. In section 2, we look at the reasons why these differences in enterprise growth arise and delve more deeply into the limiting factors on growth through analysis that focuses on management awareness and other factors internal to enterprises.

2. The Characteristics of profitable enterprises and the required management stance

In section 1, we showed that some SMEs have profitability that is equivalent to or better than large enterprises, and we used rates of ordinary profit and equity to total assets to classify SMEs into categories. We then looked at trends in sales, recurring profit margins and the ratios of equity to total assets for those enterprises. We also looked at the investment behavior by the enterprises and analyzed the characteristics of the different enterprise categories.

So, in what ways do the managers at those enterprises differ in terms of their thinking with regard to investment? And what are the particular characteristics of the organizational culture at growth enterprises? Below, using the categories defined in Fig. 2-6-5, we will analyze the characteristics of management in the various enterprises, their approaches to investment and their investment status based on the findings from the *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities*[5].

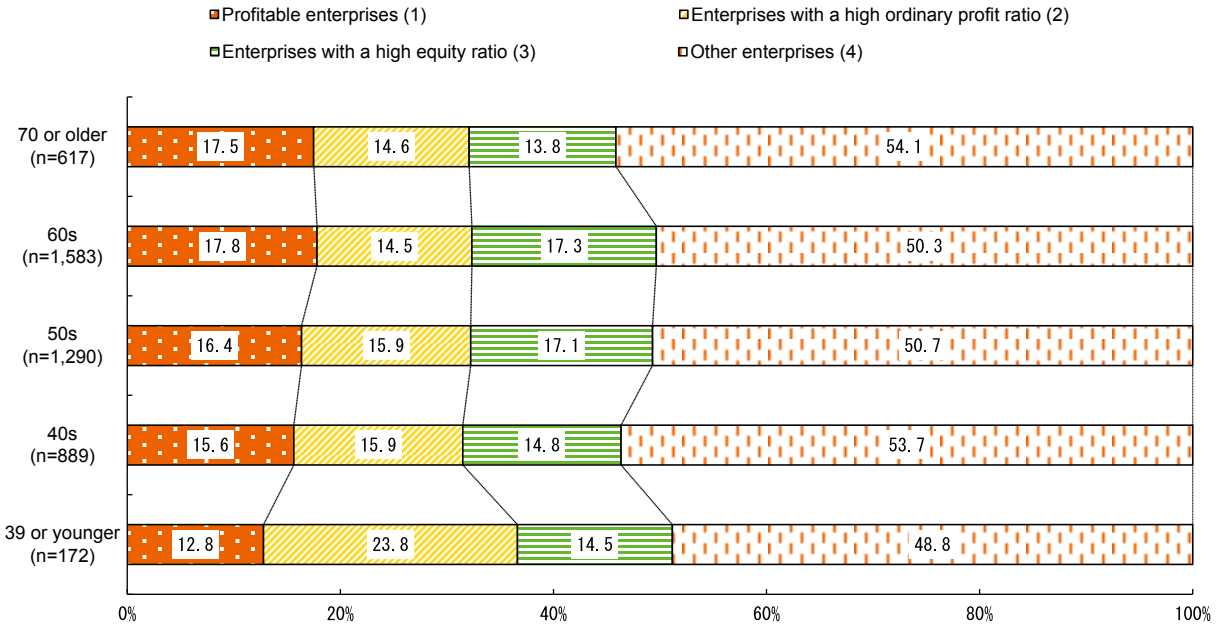
Age of management and of the enterprise

We begin by looking at the correlation between the age of the enterprise management and the enterprise category. Fig. 2-6-12 shows that the 39 or younger group had the largest proportion (23.8%) of "Enterprises with a high ordinary profit ratio (2)" compared with the other age groups. The 40s age group contains a relatively even distribution of enterprises in three categories: "Profitable enterprises (1)" (15.6%), "Enterprises with a high ordinary profit ratio (2)" (15.9%) and "Enterprises with a high equity ratio (3)" (14.8%).

5) Survey of 30,000 SMEs conducted by Teikoku Databank, Ltd. in December 2015, commissioned by the SME Agency. The response rate was 15.3%.

A similar trend can also be observed in the 50s age group. If we then look at the 60s age group, "Profitable enterprises (1)" make up 17.8% of the total, which is the highest proportion for that category of all the age groups. Thus, we can see a direct correlation between the earning power of an enterprise and the age of its management. In order for an enterprise to maintain its earning power, it appears that the management must be rejuvenated at the appropriate time. In section 2, we conduct a more detailed analysis of the correlation between rejuvenation, the age of the management and the enterprise's earning power.

Fig. 2-6-12 Correlation between management age and enterprise categories

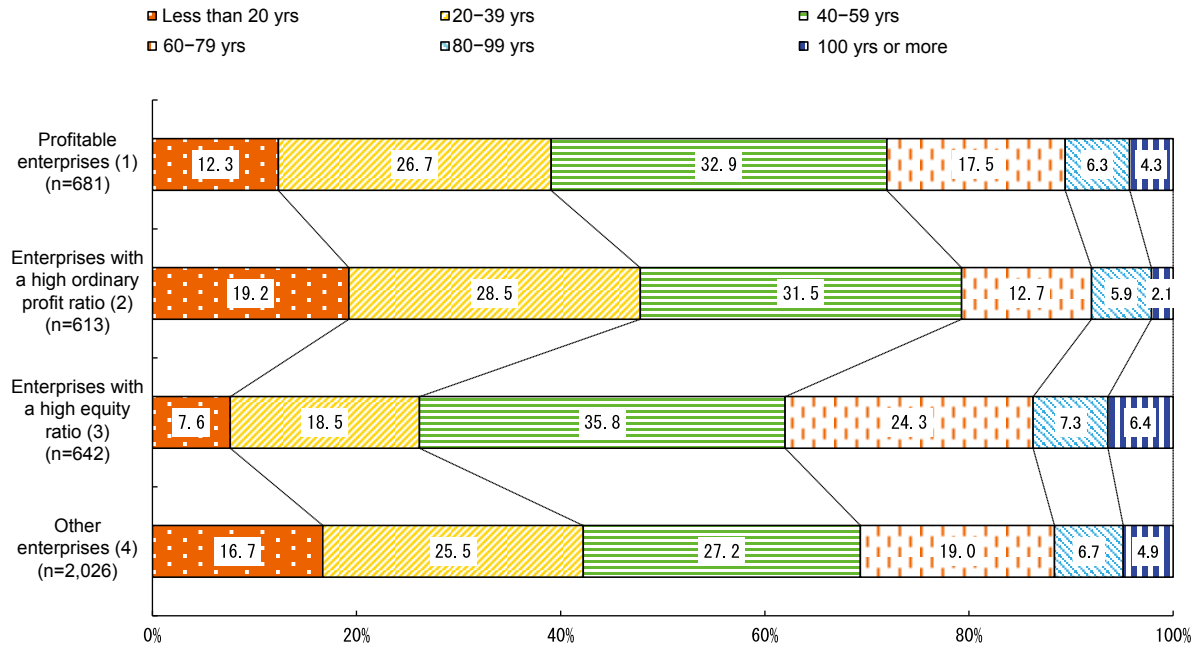


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: The enterprise categories are as defined for Fig. 2-6-5.

Next, we look at the distribution of enterprises in the different categories by the age of the business. Fig. 2-6-13 shows that roughly 40% of enterprises in the "Less than 40" group fall into the "Profitable enterprises (1)" category. It also shows that around 30% of enterprises are in the "40−59" group. If we then look specifically at "Enterprises with a high ordinary profit ratio (2)", those enterprises make up 19.2% of the "Less than 20" group and 28.5% of the "20−39" group. This shows that there tend to be more enterprises with a shorter time since startup in the "Enterprises with a high ordinary profit ratio (2)" category than in the other enterprise categories.

When we look at the third category, that of "Enterprises with a high equity ratio (3)", those enterprises tend to have been around for longer, with some 70% being more than 40 years old. In the final category, that of "Other enterprises (4)", the distinctive feature of those enterprises is the evenness of their distribution across all the enterprise ages up to the "Less than 80" group when compared with the other categories. In other words, the lack of distribution bias of the "Other enterprises (4)" category compared with the other enterprises suggests that that category includes a wide range of enterprises, from short-lived enterprises such as venture companies through to long-established enterprises.

Fig. 2-6-13 Distribution of enterprise age according to enterprise category



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: The enterprise categories are as defined for Fig. 2-6-5.

Enterprise growth stage and corporate culture

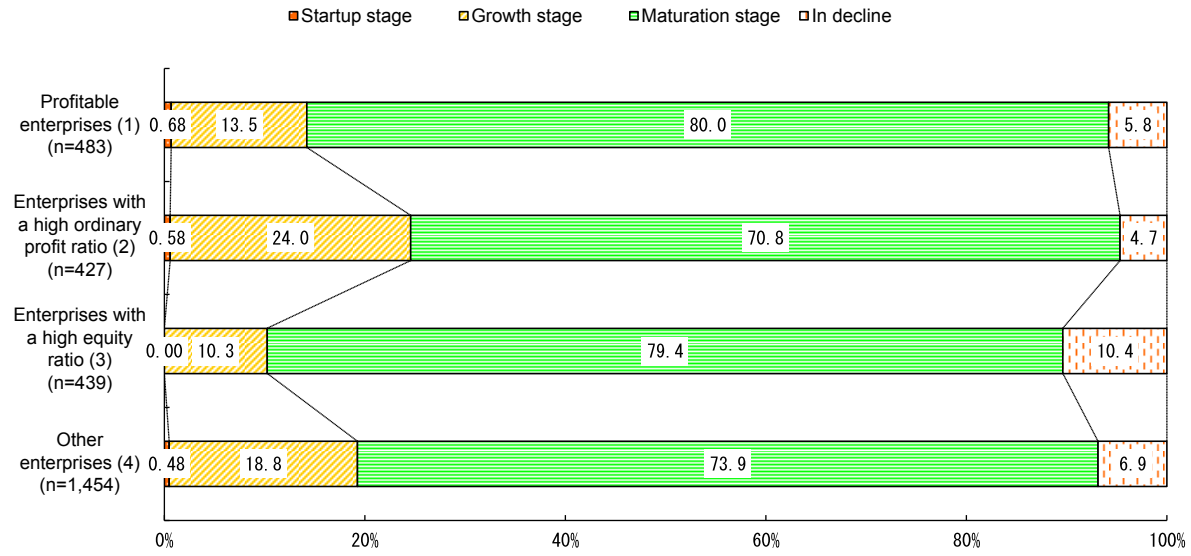
In this section, we will attempt to identify the stage of growth of enterprises as recognized by the enterprise's own management. In Section 1, we used the two indicators of ordinary profits and the ratio of equity to total assets to classify enterprises into four categories. In this section we explore the correlations between these categories and each enterprise's stage of growth as identified by the enterprise's own management. Fig. 2-6-14 shows the distribution of enterprise growth stages, as identified by management, for each enterprise category. Looking at the details for each enterprise category, "Profitable enterprises (1)" returned the highest number of all four categories for "Maturation stage", at 80.0%. But if we look at "Enterprises with a high equity ratio (3)", 10.4% of those enterprises responded "In decline", the highest number with that response in all four categories.

When we consider the correlation between stages of growth and the enterprise categories defined in Fig. 2-6-5, "Profitable enterprises (1)" have the highest rates of both ordinary profit and equity to total assets, giving them both profitability and stability. This combination is almost certainly why management at those enterprises so often rank their enterprises in the "Maturation stage".

Next, we focus our attention on "Enterprises with a high ordinary profit ratio (2)", a category in which many managers identify their enterprises as being in the "Growth stage". Of the four categories, "Enterprises with a high ordinary profit ratio (2)" show the greatest appetite for growth, and it may be that this leads to more active investment by those enterprises and consequently a lower ratio of equity to total assets. We will analyze this appetite for growth in more detail below, but when we consider the high profitability of the "Enterprises with a high ordinary profit ratio (2)" category, we can reasonably conclude that a desire among the management of those enterprises to grow their businesses is an important factor driving enterprise growth.

If we then look at our third category of "Enterprises with a high equity ratio (3)", their profitability is lower than that of "Profitable enterprises (1)" but they have equivalent rates of equity to total assets, suggesting that they are stable enterprises and many managers responded that their enterprises are in the "Maturation stage". When we consider that many of the "Enterprises with a high equity ratio (3)" are long-established enterprises with low levels of ordinary profits, as Fig. 2-6-13 shows, this may also have led to a tendency for many of those enterprises to choose the "In decline" response.

Fig. 2-6-14 Correlation between enterprise categories and growth stages



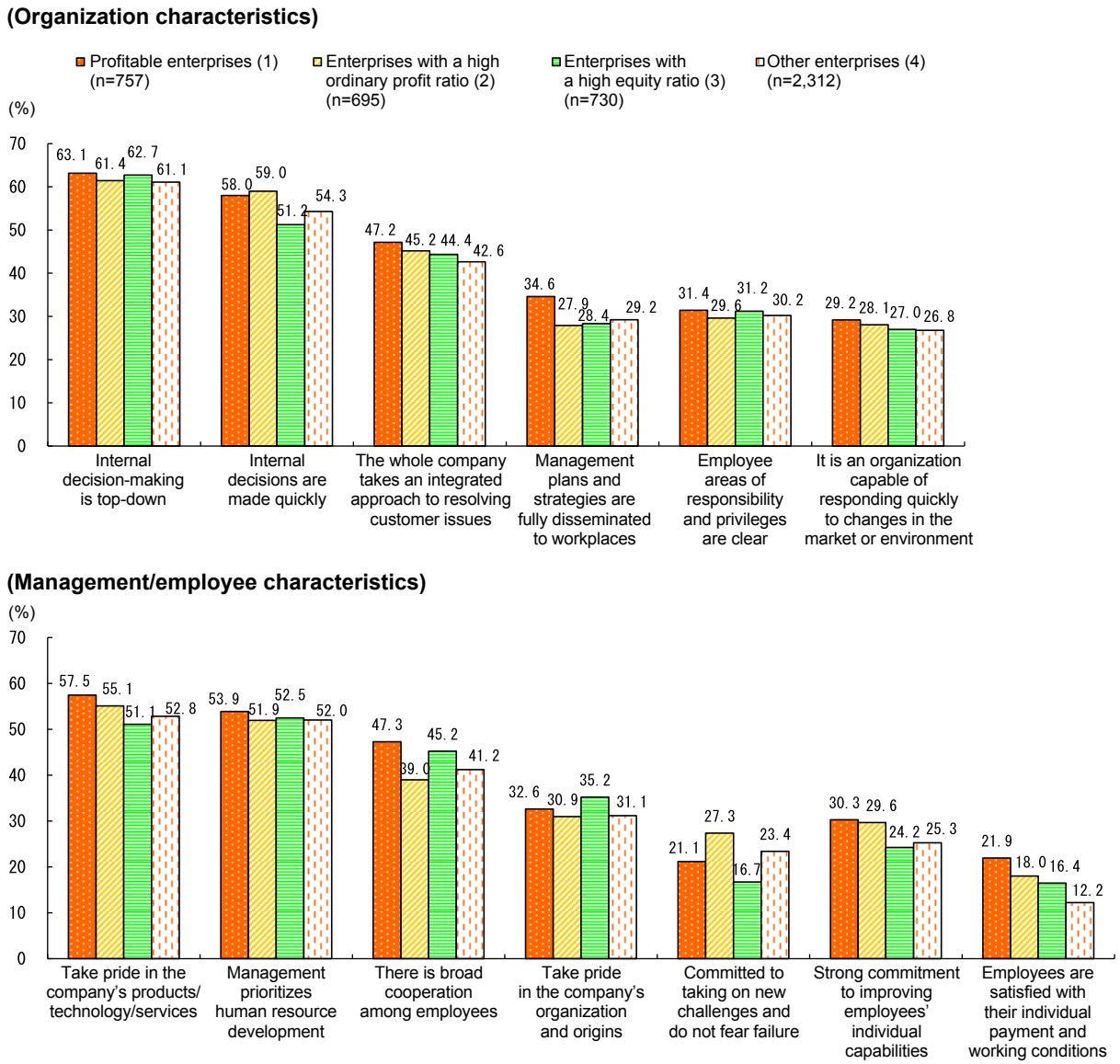
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. The stages of enterprise growth are as assessed by the management of the enterprises themselves.
2. The enterprise categories are as defined for Fig. 2-6-5.

Next, we look at the corporate culture. Fig. 2-6-15 shows that a corporate culture that accords with "Internal decision-making is top-down" and "Management prioritizes human resource development" is common to all enterprises. When we break the findings down by enterprise category, 34.6% of "Profitable enterprises (1)" chose the "Management plans and strategies are fully disseminated to workplaces" option, a higher proportion than for other enterprises, pointing to well-organized management in which the enterprise management formulates business plans and shares those plans fully with the entire company. The proportion who responded "Employees are satisfied with their individual payment and working conditions" was 21.9%, which was also a higher proportion than other enterprises, suggesting that employees in "Profitable enterprises (1)" are highly satisfied with the companies they work for.

Looking next at "Enterprises with a high ordinary profit ratio (2)", which have the same high levels of profitability as "Profitable enterprises (1)", 27.3% responded "Committed to taking on new challenges and do not fear failure", indicating a more aggressive posture towards their own enterprise's growth than other enterprise categories.

But what sort of characteristics do we find in "Enterprises with a high equity ratio (3)", which have low profitability and high ratios of equity to total assets. The same figure shows that "Take pride in the company's organization and origins" accounts for 35.2% of responses for "Enterprises with a high equity ratio (3)", which is a higher proportion than other enterprises. Conversely, "Committed to taking on new challenges and do not fear failure" made up only 16.7% of responses, which was a lower proportion than the other enterprise categories. So we can infer that while "Enterprises with a high equity ratio (3)" have confidence in their own history, resources and knowhow, they may have issues when it comes to trying new approaches to expanding into new businesses or breaking into new markets.

Fig. 2-6-15 Corporate culture according to enterprise category

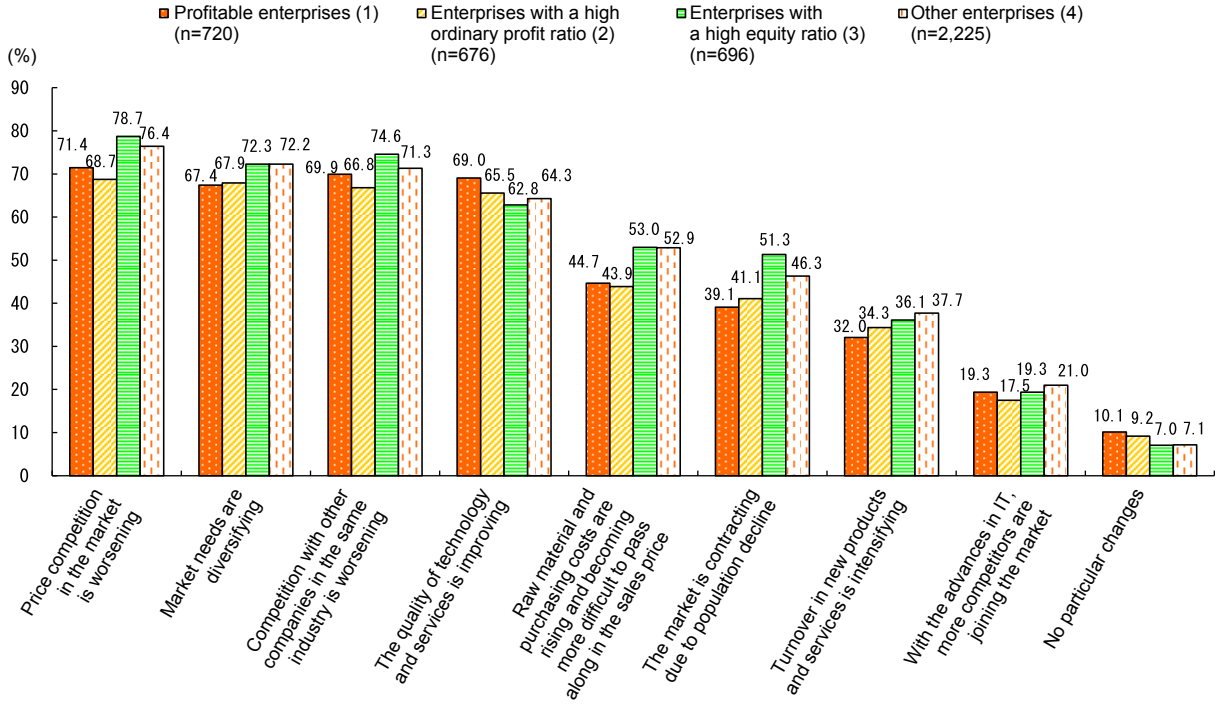


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

Management awareness of changes in the external environment and approach to growth

In this section, we will look at the changes in enterprises' competitive environment as they are identified by management. Fig. 2-6-16 shows the recognition of external environmental changes by enterprise category. The figure shows that "Enterprises with a high equity ratio (3)" and "Other enterprises (4)", which both have low profitability, have high proportions of the following responses: "Price competition in the market is worsening", "Market needs are diversifying", "The market is contracting due to population decline" and "Competition with other companies in the same industry is worsening". This indicates that many enterprises see the changes in the market as unfavorable. But many enterprises in the high-profit categories of "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)" responded, "The quality of technology and services is improving", which suggests that those enterprises tend to have a clear grasp of their own technology and services and of the direction in which the market is moving.

Fig. 2-6-16 Recognition of changes in the competitive environment by enterprise category

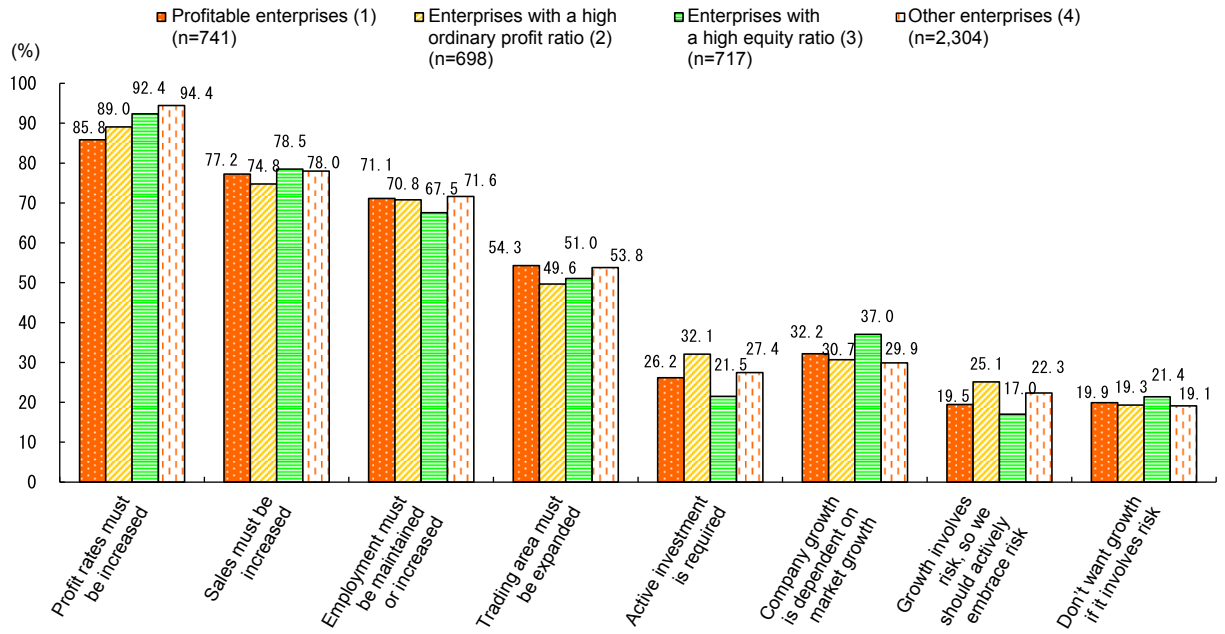


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

Next, we will try to look at enterprises' approach to growth. Fig. 2-6-17 shows management approaches to growth by enterprise category. The figure shows that all the enterprises surveyed had high rates of the "Profit rates must be increased" response, indicating a strong feeling that profit rates have to be increased in order to achieve enterprise growth. However, when we look at management's views on the means of achieving growth, the "Active investment is required" and "Growth involves risk, so we should actively embrace risk" responses were chosen by a high proportion of "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)", showing a bullish attitude towards growth among those enterprises. Conversely, a higher proportion of "Enterprises with a high equity ratio (3)" opted for the "Company growth is dependent on market growth" response than any of the other enterprises.

From the above, we can conclude that "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)" have high profitability as well as a very positive attitude to growth. But those "Enterprises with a high equity ratio (3)" that showed any intent with regard to growth tended to have a more conservative attitude than either "Profitable enterprises (1)" or "Enterprises with a high ordinary profit ratio (2)".

Fig. 2-6-17 Management approaches to growth by enterprise category



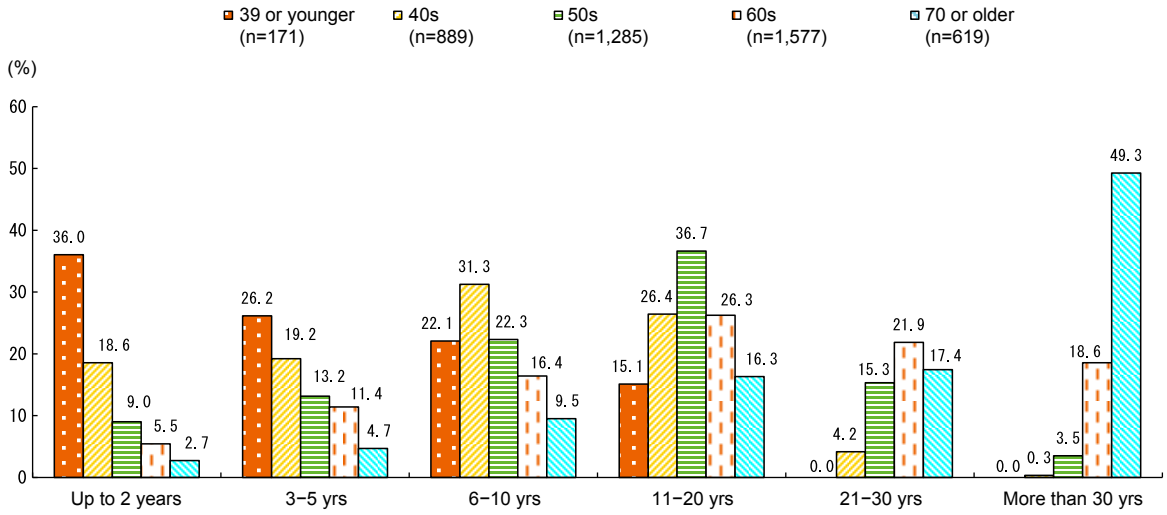
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

Column 2-6-1 Correlation between growth stages and the management terms of office and generation

How does management's awareness of the enterprise's growth stages differ according to differences in that management's term of office or their generational age when they took office? In this column, we will look at the correlation between the growth stages of an enterprise as perceived by management and the management's terms of office and generation.

We begin by looking at the correlation between the management's term of office and growth stages, bearing in mind trends in management's term of office in each age group. If we look at the correlation between management's term of office and their age groups shown in Fig. Column 2-6-1 (1), we can see a tendency for management's average time in the job to most commonly be in the "11–20 yrs" bracket, with managers in their 50s being the most common age group in that bracket. In the "6–10 yrs" bracket, the age group with the highest proportion is managers in their 40s with 31.3%, while in the "21–30 yrs" bracket the highest proportion is managers in their 60s with 21.9%. From this we can surmise that there are many instances where managers assume office while in their 30s.

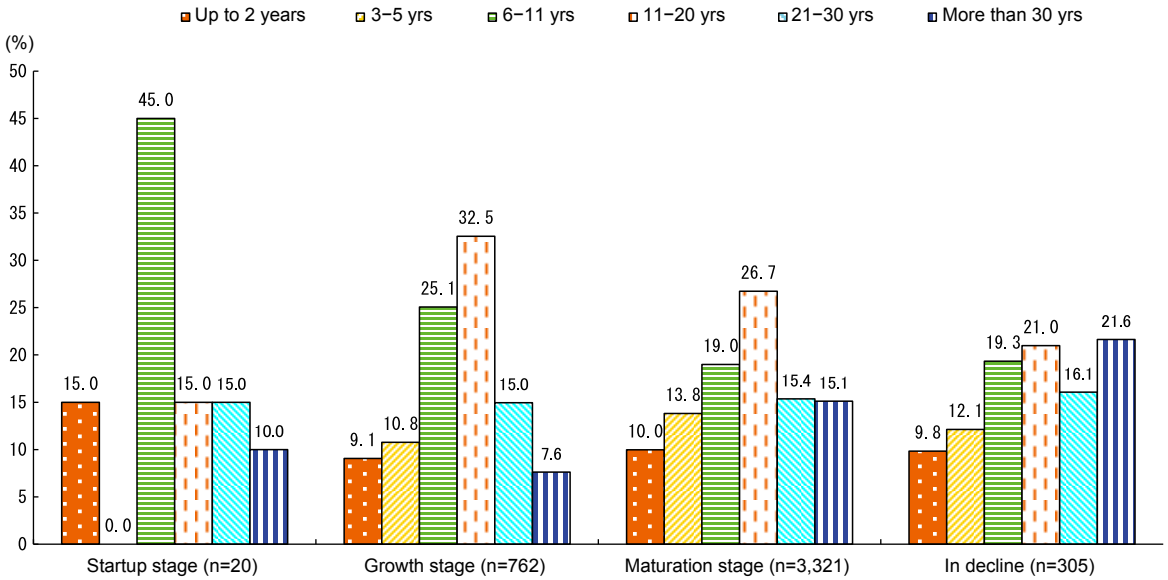
Fig. Column 2-6-1 (1) Management's term of office and age groups



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Next, we look at management's term of office according to growth stage. In Fig. Column 2-6-1 (2), we see that among the managers who opted for the "Growth stage" response, those with a term of office in the 6–10 yrs bracket made up the highest proportion. For "Maturation stage" the highest proportion were in the 11–20 yrs bracket and for "In decline", it was those with 11–20 yrs or more than 30 yrs of service in management. In other words, as enterprises transition from the growth stage through maturation and into decline, the term of office of the management also tends to increase in length. From this, we can conclude that, in order for an enterprise to have sustained growth, management must be rejuvenated at the appropriate time. We will now consider this from another perspective.

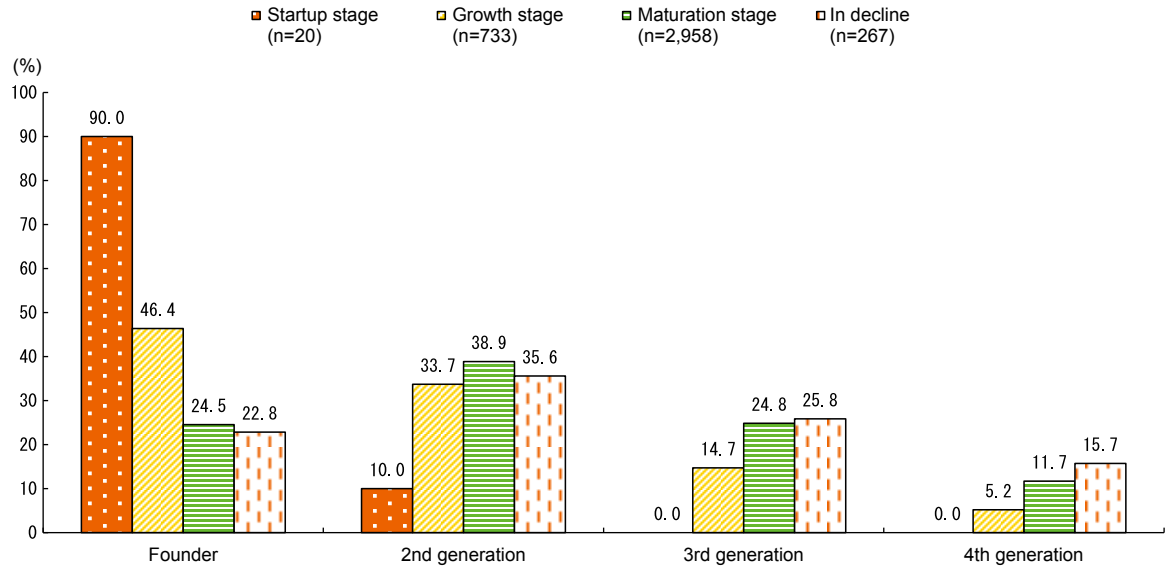
Fig. Column 2-6-1 (2) Management term of office by growth stage



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Fig. Column 2-6-1 (3) shows the correlation between growth stages and management generation. From this, it is clear that the highest proportion of managers are the second generation. When we look at the correlation with growth stages, the managers of enterprises in the growth stage are most often the founders. As management transitions from the founders to later generations, an increasing number of enterprises tend to be in the maturation stage or in decline. Fig. Column 2-6-1 (3) shows us that as management moves up through the generations, the number of enterprises in the growth stage tends to decline. It is also likely that as management transitions to later generations, the proportion of managers who respond that their enterprise is in the maturation stage or in decline also increases due to factors such as market maturation. For enterprises to grow sustainably, it also seems that as well as being rejuvenated at the appropriate times, they must at the same time re-evaluate the key drivers of their profitability in response to changes in their enterprises' market environments.

Fig. Column 2-6-1 (3) Correlation between growth stages and management generations



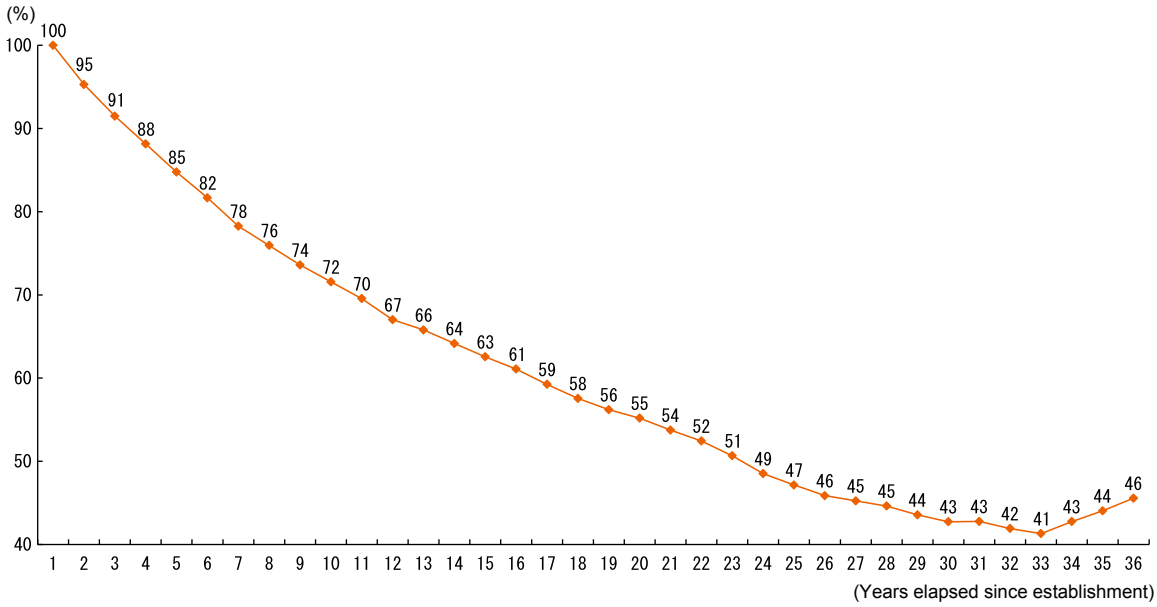
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Column 2-6-2 Enterprise survival rates and longevity

Thus far, we have used a variety of indicators to evaluate enterprise growth, and in the previous Column we examined and analyzed enterprise growth stages and the generations of the management. Now, we move on to the actual situation regarding the number of years for which enterprises survive in Japan.

Fig. Column 2-6-2 (1) shows the survival rates of enterprises in Japan for each year since the enterprise was established. The figure reveals that around 30% of all enterprises have gone out of business 10 years after starting up, and that figure rises to roughly 50% after 20 years, indicating the high attrition rates among enterprises after establishment.

Fig. Column 2-6-2 (1) SME survival rates



Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)*.
Notes:
1. Compiled only for enterprises for which corporate data is stored in the database.
2. Due to the extensive range of enterprises contained in the database, results may not match those in Fig. 3-1-11 in the 2011 White Paper.
3. Due to the time required to store data in the database, calculated survival rates may be higher than the actual survival rates.

It is no simple matter to accurately keep track of a continuously changing business environment and maintain profitability so that a business can continue into the long term. According to the Teikoku Databank, Ltd. database[6], in 2014 no more than 0.96% of all enterprises (13,081 businesses) were long-established concerns with a history of 100 years or more since being started up or established. Looking at the figures by industry, the largest proportion of these enterprises were in the wholesale and retail trade (6,461), followed by manufacturing (3,342) and then construction (1,109) (Fig. Column 2-6-2 (2)).

6) A private sector database containing corporate data for around 700,000 businesses in Japan. As such, it must be noted that this database is not a comprehensive record of all enterprises in Japan.

Fig. Column 2-6-2 (2) Long-established enterprises by industry

	100 or more years since startup or establishment (businesses)	Less than 100 years since startup or establishment (businesses)	Proportion of long-established enterprises (%)
Wholesale/Retail trade	6,461	319,188	1.98
Manufacturing	3,342	160,724	2.04
Construction	1,109	377,632	0.29
Transport and postal activities	128	42,726	0.30
Medical, health care and welfare	96	59,151	0.16
Real estate and goods rental and leasing	567	97,478	0.58
Information and communications	67	34,445	0.19
Accommodations, eating and drinking services	621	27,876	2.18
Finance and insurance	20	9,438	0.21
Services (not elsewhere classified)	209	103,329	0.20
Living-related and personal services and amusement services	139	26,835	0.52
Scientific research, professional and technical services	53	54,591	0.10
Agriculture and forestry	118	11,971	0.98
Mining and quarrying of stone and gravel	12	1,373	0.87
Fisheries	41	1,643	2.43
Electricity, gas, heat supply and water	0	972	0.00
Education, learning support	85	15,375	0.55
Compound services	13	5,970	0.22
Total	13,081	1,350,717	0.96

Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)*.
Notes: 1. The number of years since startup is calculated as at FY2014 (April 2014 to March 2015).
2. Compiled for those SMEs stored in the Teikoku Databank corporate database for which the startup or establishment years can be confirmed.

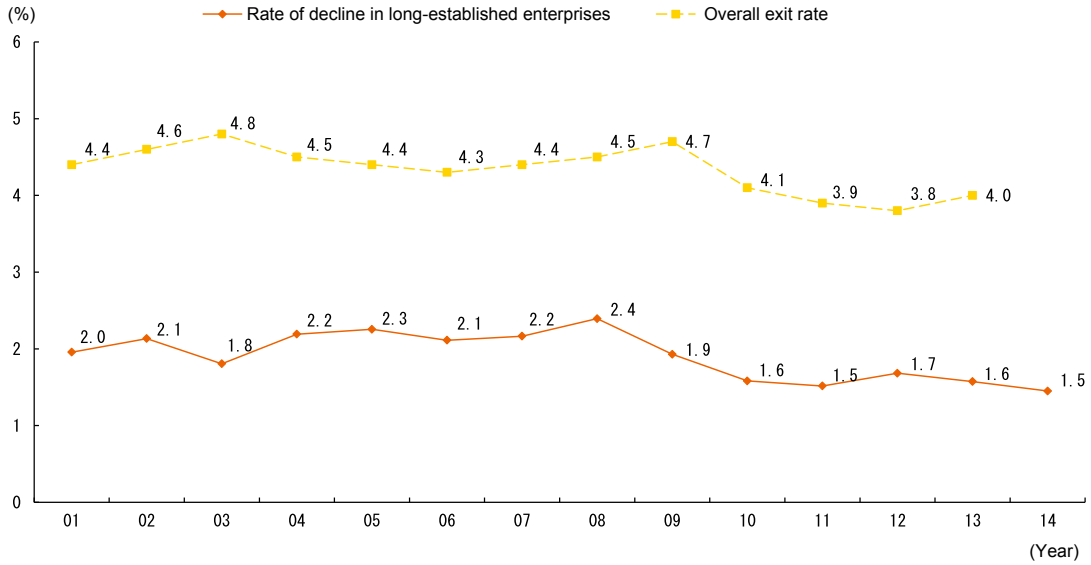
So, what is it that characterizes long-established enterprises that have successfully continued their businesses, overcoming the various business hazards in each era? In Fig. Column 2-6-2 (3), we look at the rate of decline of long-established enterprises[7] and compare it with the overall exit rate, noting that the rate for long-established enterprises is around 2% lower. Changes in the business environment for long-established enterprises are more pronounced than for more short-lived enterprises, suggesting that they have the capability to run a sustainable business.

At the same time, a comparison of total sales indicates that long-established enterprises tend to have lower sales than enterprises with histories of 100 years or less (Fig. Column 2-6-2 (4)). If we take the value for the year 2000 to be 100, by 2014, total sales by short-lived enterprises have reached 118, or slightly less than 20% growth.

However, sales growth in long-established enterprises actually fell by more than 20%, opening up a gap of around 40% between the two enterprise types.

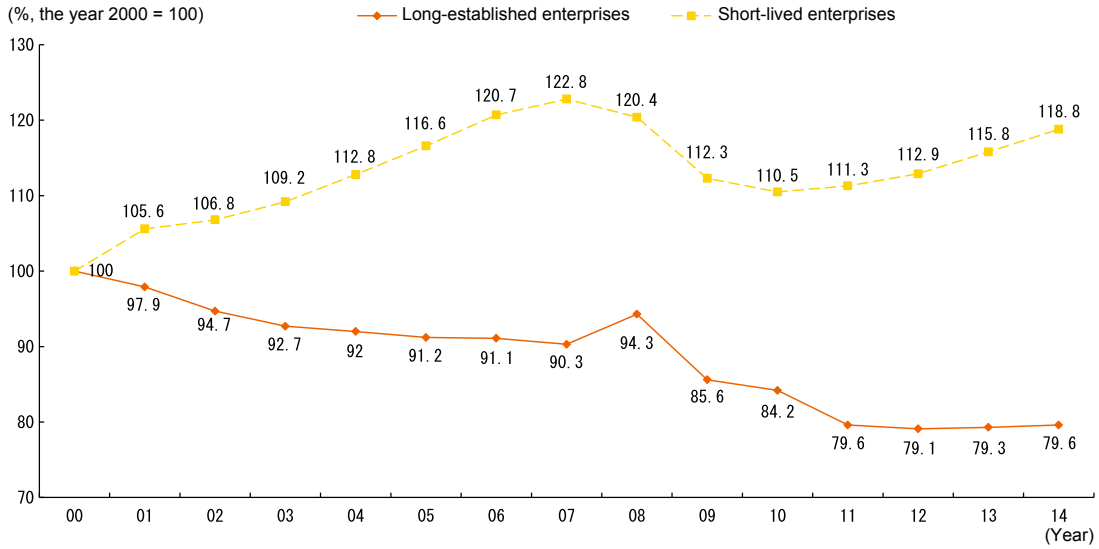
7) Here, long-established enterprises are defined as enterprises that, by the reference year, had been operating for at least 100 years since being founded.

Fig. Column 2-6-2 (3) Comparison of the exit rate (overall) and the rate of decline in long-established enterprises



Sources: Recompiled from MHLW, *Annual Report on Employment Insurance Programs* and Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)*.
Note: Comparison conducted with long-established enterprises defined as SMEs which, in 2000, had been operating for 100 years or more since being established.

Fig. Column 2-6-2 (4) Sales in long-established enterprises and short-lived enterprises



Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)*.
Note: Comparison conducted with long-established enterprises defined as SMEs which, in 2000, had been operating for 100 years or more since being established.

While one characteristic of long-established enterprises is that their sales growth is lower than that of short-lived enterprises, we see that they also tend to have consistent management over long periods. One could say that they conduct business over the long term while maintaining a reasonable level of sales. In this section, we have discussed investment intended to promote enterprise growth and focused on improvements in earning power. But there are also instances where the ability to pass the family business along to successive generations and stay true to the original intent in the midst of a changing business environment is given a higher priority than increasing sales and growing the business.

Maintaining consistent long-term management is also important as a point of view.

Case 2-6-1 Cerarica Noda Co., Ltd.

An old company that has survived by using tradition and being flexible to the times

Cerarica Noda Co., Ltd. (employees: 18; capital: ¥40 million), based in Aikawa Town in Kanagawa Prefecture, started business in 1832[8] during the Edo Period as a manufacturer of wax for traditional Japanese candles and hair oil. Historically, wax came from animals and plants, which secreted it for self-protection. The name Cerarica was formed by combining the Spanish words "cera" and "rica," meaning "wax" and "rich" respectively. It refers to wax derived from biological sources.[9]

Change came over time, however. The uses of biological wax gradually became more limited as petroleum wax appeared and consumer demand shifted to liquid hairdressing products. Eventually, current President Taizo Noda, noting the emergence of the information recording industry, started pitching products to major photocopier manufacturers. At that time, in the 1980s, a major American corporation was holding all the patents to dry-process copy machines. The engineers at a major company working to develop a uniquely Japanese plain paper copier recognized a property of biological wax, namely its sharpness in response to heat (i.e., heat fluctuations caused it to soften and harden easily). Cerarica Noda's wax came to be used as an additive for toner and other products.

Cerarica Noda was additionally developing and manufacturing a wide range of products taking advantage of the unique functionality and safety of biological wax. Those products included natural coatings for wooden construction[10] and raw materials, free of agricultural chemicals, for natural food additives and natural cosmetics. Cerarica Noda is an old company that, over its long history and in a variety of fields, has applied technologies making full use of the ancient, natural substance that is biological wax, and it has survived by being flexible to the times.[11]

Cerarica Noda's wax is used in a wide range of product from high tech to food

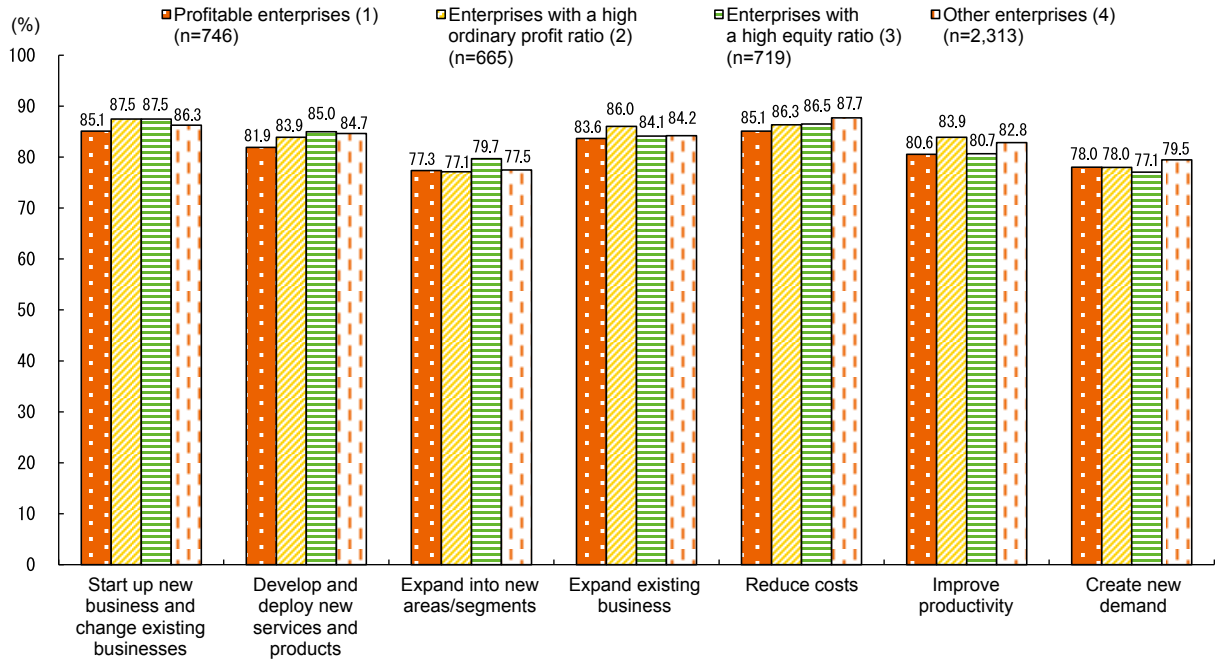
8) Company history based on Cerarica Noda web site (http://www.cerarica noda.com/b2b/com03.html). The company name at the time of founding was Noda Wax.
9) This is to distinguish biological wax from petroleum or synthetic wax.
10) In FY2000, these became the first products in the coatings field to win the Good Design Award in Japan. They are designed to help prevent sick building syndrome and the like.
11) The company is developing new fields with particular help from young employees, namely high school and graduate school graduates in their twenties.

Awareness among enterprises of behaviors that bring risk

In order for an enterprise to grow and increase its earning power, that enterprise must build a platform for growth. Such a growth platform can only be built through investment behavior that involves investing in infrastructure and in human resources. As already discussed, responses from more profitable enterprises stress the need for investment in growth and the management is also highly aware of the need for investment. But investment by enterprises is an uncertain activity and comes with certain risks. So when we analyze the status of investment behavior by enterprises, we must begin by looking at their awareness of behavior that entails risk to the enterprise ("risk-taking behavior") and the items that enterprises regard as important when engaging in risk-taking behavior.

Firstly, we will look at enterprises' awareness of risk-taking behavior. Fig. 2-6-18 shows the levels of awareness of risk-taking behavior according to enterprise category. This reveals that "Enterprises with a high ordinary profit ratio (2)" and "Enterprises with a high equity ratio (3)" are more likely than enterprises in the "Profitable enterprises (1)" and "Other enterprises (4)" categories to adopt an attitude that emphasizes risk-taking behavior. It also shows that "Enterprises with a high equity ratio (3)" have high levels of consciousness around "Start up new business and change existing businesses" and "Develop and deploy new services and products". A particular characteristic of this enterprise category is that a higher proportion responded "Expand into new areas/segments" than the other enterprises. If we look at "Enterprises with a high ordinary profit ratio (2)", a higher proportion responded "Expand existing business" than other enterprises, and they lean strongly towards the "Reduce costs" and "Improve productivity" responses. But when we compare "Profitable enterprises (1)" with the other enterprise categories, they are somewhat less inclined towards risk-taking behavior and tend to be strongly disposed towards "Start up new business and change existing businesses".

Fig. 2-6-18 Risk-taking behaviors seen as important according to enterprise category



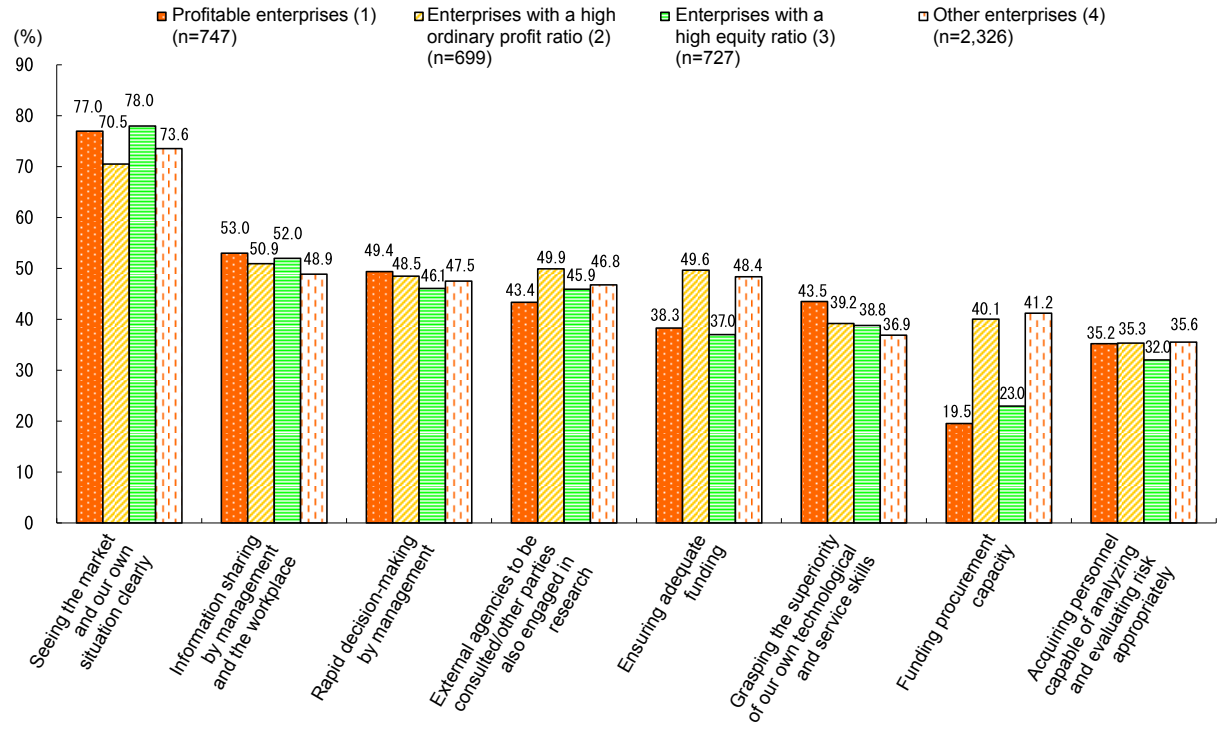
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

So, what are the factors behind enterprises deciding to choose risk-taking behaviors? Fig. 2-6-19 shows the results when enterprises were asked what they consider to be important when engaging in risk-taking behavior. Looking at the figure, we can see that when enterprises engaged in risk-taking behavior, they placed greatest emphasis on "Seeing the market and our own situation clearly". Focusing on the responses by enterprise category, the responses from "Profitable enterprises (1)" show a tendency to place importance on factors relating to the organizational structure and matters internal to the enterprise, such as "Information sharing by management and the workplace" and "Rapid decision-making by management". "Grasping the superiority of our own technological and service skills" also attracted a high response rate, indicating an intention to keep in mind a strategic approach to business when taking risks.

Looking next at "Enterprises with a high ordinary profit ratio (2)", 49.9% responded "External agencies to be consulted/other parties also engaged in research", showing a tendency to emphasize cooperation with external agencies. Other popular responses were "Ensuring adequate funding" and "Funding procurement capacity". This is most likely due to the recognition by enterprises in the "Enterprises with a high ordinary profit ratio (2)" category that they have low rates of equity to total assets. The "Other enterprises (4)" category also had similarly high response rates for "Ensuring adequate funding" and "Funding procurement capacity".

When we look at "Enterprises with a high equity ratio (3)", we see that, like "Profitable enterprises (1)", a high proportion selected the "Information sharing by management and the workplace".

Fig. 2-6-19 Factors considered important when engaging in risk-taking behavior according to enterprise category



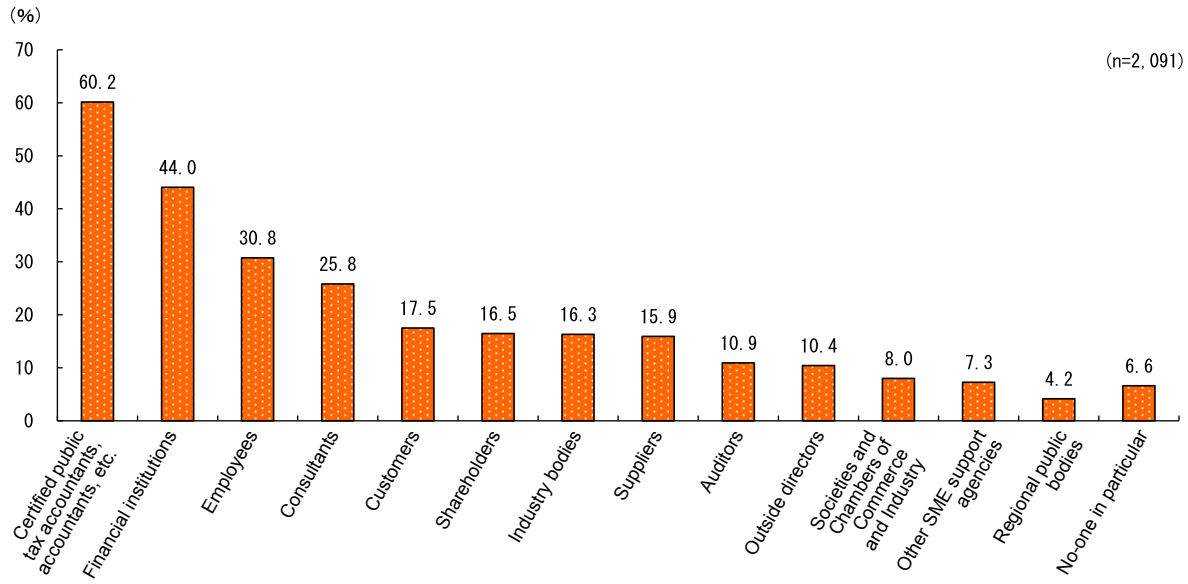
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

Here, "Enterprises with a high ordinary profit ratio (2)" tend to have a more positive attitude towards investment than the other enterprise categories and returned high rates of the "External agencies to be consulted/other parties also engaged in research" response. Accordingly, we will look specifically at what sorts of consultants and research partners they are considering. If we look again at Fig. 2-5-62 (cited earlier), the consultants and research partners most often engaged for risk-taking behavior are "Certified public tax accountants, accountants, etc.". They are followed by "Financial institutions" (44.0%) and "Employees" (30.8%). "Certified public tax accountants, accountants, etc." are well-known to SMEs and are likely to be the people SMEs would feel comfortable

consulting when looking at risk-taking behavior. Like "Certified public tax accountants, accountants, etc.", "Financial institutions" are also an important presence for SMEs, which is probably why they are ranked high as consultants and researchers by SMEs considering risk-taking behavior.

For SMEs, it is also important that all their employees are united in conducting business in accordance with the company's own vision, which is most likely why "Employees" are also ranked high as consultants and researchers for risk-taking behavior.

Fig. 2-5-62 (Cited earlier)
Consultation and research partners when engaging in risk-taking behavior



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Refer to Part II, Chapter 2 for details of the survey.

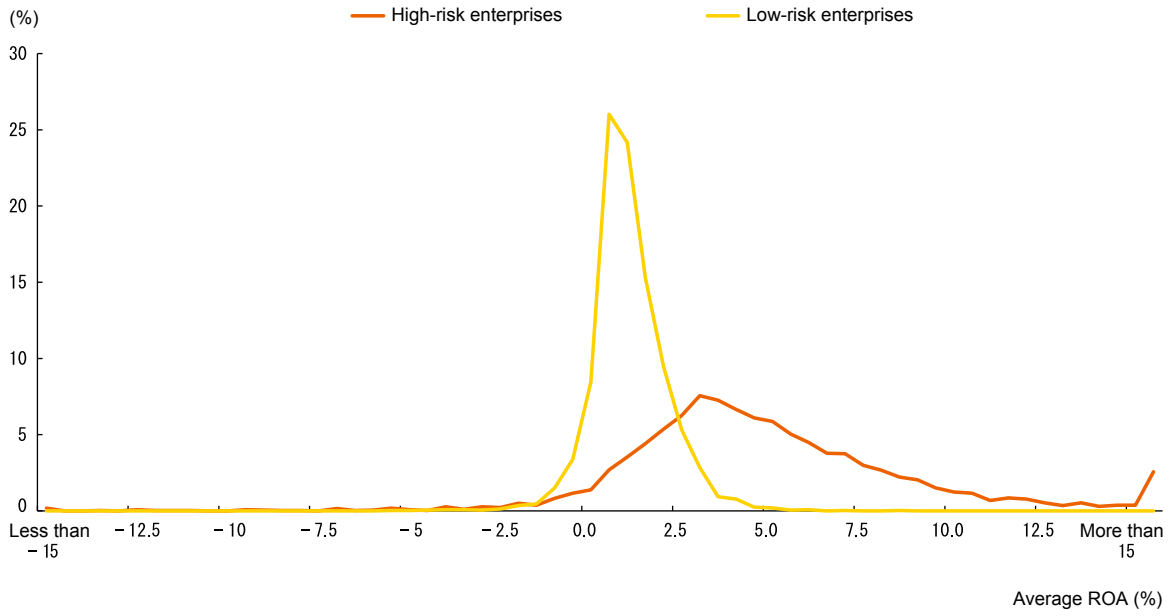
So far, we have looked at the approaches adopted by SMEs and the matters they consider important for risk-taking behavior. We have also identified the actual levels of engagement in such behavior and analyzed the factors SMEs regard as important when choosing risk-taking behavior. In the next section, we analyze the specific investment types that lead to risk-taking behavior.

Column 2-6-3 Enterprise growth and risk-taking behavior by enterprises

In this column, we will evaluate the risk-taking behavior by enterprises and consider the correlation between that risk-taking behavior and profits. When enterprises engage in risk-taking behavior, they do so on the assumption that it will significantly change their annual profit. So here, we will use fluctuations in enterprise profitability as an indicator for risk-taking behavior by enterprises. That is, we will assume that the larger the fluctuations in profitability, the greater the tendency for enterprises to take risks. In this discussion, we will use the figure for return on assets (ROA) to gauge enterprise profitability, and we will use the ROA standard deviation to measure variations in profitability[12].

Fig. Column 2-6-3 shows the correlation between risk-taking behavior and profitability among SMEs using these indicators. This figure classifies enterprises into high-risk enterprises with ROA variability that is at the mean value or higher, and low-risk enterprises with variability below the mean, and shows the ROA distribution among those two categories. Looking at the figure, it is immediately clear that the average ROA for high-risk enterprises is higher than that of low-risk enterprises. This leads us to conclude that, if risk-taking behavior by enterprises is gauged using ROA variations, enterprises who take risks have higher profitability than those who do not.

Fig. Column 2-6-3 Correlation between ROA and risk-taking behavior by enterprises



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. The variations in ROA assume the standard deviation in ROA for the period from 2009 to 2013 and take enterprises with a standard deviation equal to or higher than the mean value to be high-risk enterprises and those that are lower than the mean value to be low-risk enterprises.
2. The average ROA is taken to be the average value from 2009 to 2013.

12) In the *Annual Report on the Japanese Economy and Public Finance 2008*, variation in ROA was used as an indicator of risk-taking behavior among enterprises listed on the stock exchange in its consideration of the correlation between risk-taking behavior and profits.

Case 2-6-2 Mizukami Insatsu Co., Ltd.

Creating high added value by offering customers every aspect of printing, from marketing to logistics

Mizukami Insatsu Co., Ltd. (employees: 132; capital: ¥10 million), based in Shinjuku City in Tokyo Metropolis, works mainly in offset and specialty printing. Although the printing industry faces a shrinking market, the company has managed to grow its profitability for four straight business years. Its earning power is about five times that of its industry peers.

As a B2B enterprise, instead of market share, Mizukami Insatsu's concern is how to earn customers' mind share. It does not try to sell its products to large numbers of customers by competing on price. Rather, it tries to understand what added value customers are really looking for, and then supply it to them. What matters to Mizukami Insatsu is that each customer uses many of its products and stays with it a long time. To achieve that, the company works to increase points of contact with its customers while enhancing customer satisfaction. President Katsuya Kawai says that approach will create more opportunities for getting business, which in turn will promote company growth.

To make this concept a reality, President Kawai describes Mizukami Insatsu as "a company built to solve customers' 'bothersome' problems." This is to say that, though printing remains the company's core business, it sees itself as an information processing company. It works to create high added value as a full-service company capable of providing all printing-related processes to customers, since it can function also as a marketing department, logistics department, and more. Mizukami Insatsu also has a policy of doing 100% of its business in direct trade. It does not subcontract, so it can negotiate on prices and it sit down face to face with customers, talking as equals. This approach is likely a big reason Mizukami Insatsu's profitability is so much higher than its competitors.

Along with seeking high customer satisfaction, President Kawai also prioritizes employee satisfaction. This is because President Kawai sees customer satisfaction and employee satisfaction as adding up to perpetual growth for the business. As the President explains, enhancing employee satisfaction requires an environment that allows for both economic value (such as good salaries) and spiritual value (fulfilling work). In addition, about 120 hours of training are provided per capita every year to build individual employee skills and enhance customer satisfaction. The slogan for this training program is, "Let's be the company that does more study than anyone else in Japan." President Kawai's focus on training stems from this belief that each customer needs a different type of service, and staff who work with customers need to be able to judge for themselves how to meet these individual needs. This is an attitude that his employees share. Certainly, enhancing the quality of one's human resources will lead to further company profitability.

Asked about his vision going forward, President Kawai says, "My aim in raising both employee and customer satisfaction is to make this a company that both employees and customers choose. In other words, we want to be a business that attracts people and brings them together. I hope we will still be growing 10 or 20 years from now. I hope to make this a model for a new kind of business that is not entrapped in pre-existing concepts of what a small or medium enterprise or printing company should be."

Mizukami Insatsu exhibits at Gaishoku Business Week 2015, its first time at the trade fair

Case 2-6-3 Tree of Life Co., Ltd.

A pioneering enterprise building a new market in the herbal industry

Tree of Life Co., Ltd. (employees: 730; capital: ¥10 million), based in Shibuya City in Tokyo Metropolis, manufactures, retails, and wholesales a variety of products with a focus on herbs, a field it has helped to pioneer. The company helped establish a culture of herbs and aromatherapy in Japan, where it had not previously existed, and is growing just as these markets are expanding.

Current president Tadashi Shigenaga is the company's third leader. Under his predecessor, the company manufactured and sold Western tableware, but the prospects for that business started to seem uncertain when imports from China began to grow. At that time, the predecessor noticed the wide use of herbs in people's lifestyles while on a visit to the United States. Tree of Life began its herb business then with the determination to establish in Japan a culture that loves the gifts of nature.

It started by selling potpourri.[13] Tying up with a magazine for elementary school-age girls, it created a trend for consumers to make their own potpourri, and gradually an herb market was born in Japan. While the business was originally geared to the most enthusiastic customers, the generation that grew up making potpourri became adults and Tree of Life began direct sales in major cities throughout Japan and also formed partnerships. Over time, they managed to build a network that could not just sell but also teach consumers the attractiveness and uses of herbs and aromatherapy and introduce lifestyles embracing herbs and aromatherapy. As the market grew, so did the company. In addition, it worked with the Aroma Environment Association of Japan[14] to establish an aromatherapy qualifications certification system. Individuals with aromatherapy qualifications set up a mechanism for promoting aromatherapy and herbs, which helped to greatly expand the reach of the market. Even after that, Tree of Life continued trying to expand the market, for example through the Japan Medical Herb Association[15] and efforts to establish a medical herb examination system.[16]

Superfood products from Tree of Life

Therefore the strengths of the company have been that there was a network to take advantage of herbs from around the world and a system in place to give added value to those herbs by using them in day-to-day life. No other enterprise, anywhere in the world, has done as much to comprehensively develop the herb business, which is why Tree of Life gets so much herb-related information from around the world.

Asked about the factors behind his company's growth, President Shigenaga says that Tree of Life's investment has continued to stay focused on its core business, and that has allowed the company to expand this far. The company has a "total self-sufficiency" approach, handling all processes including raw material acquisition, product development, manufacturing, sales, and logistics. As Shigenaga says, Tree of Life takes responsibility for the products it has created. Additionally, to create the culture of herbs and aromatherapy, it suggests ways for consumers to enjoy them and provides places to get that experience, places that include shops, schools, and herb gardens. Through these tactics it develops products that address customer needs. Working this way, says Shigenaga, Tree of Life has deepened the culture of herbs and aromatherapy in Japan and has grown along with the market. Looking ahead, Tree of Life plans to focus on edible products. It plans to make products such as superfoods[17] a pillar of its business, alongside herbs and aromatherapy. Shigenaga hopes to enhance Tree of Life's social impact, raise its corporate value, and make it a company that employees find exciting to work for.

Aromatherapy products

13) Potpourri is a type of room fragrance made by mixing herbs, essential oils, etc., placing them in a container, and letting them mature.

14) The predecessor of the organization was the Aromatherapy Association of Japan, established in 1996 to promote and raise awareness of aromatherapy. In 2005, it won approval to incorporate under the jurisdiction of the Ministry of the Environment and became an incorporated association. It was newly established in 2012 as a public interest incorporated association. Here, aromatherapy refers to a form of naturopathy that uses plants and herbs to promote health and beauty.

15) Aiming to promote the use of herbs in health and healing, the association acquired legal personality as a specified nonprofit corporation in 2006. According to Tree of Life, it currently has about 10,000 members.

16) Examination takers have to learn basic knowledge about 15 types of medical herbs, including their safety and usefulness and how they are used. Here, medical herbs are herbs that have components that are used to maintain health.

17) Superfoods are natural foods that are more nutrient-rich than ordinary foods or have some nutrients in particularly high amounts. These have become popular among consumers in recent years.

Case 2-6-4 Aiya Co., Ltd.

A long-standing company that opened up a new market for matcha in food products

Aiya Co., Ltd. (employees: 100; capital: ¥30 million), based in Nishio City, Aichi Prefecture, is a manufacturer and seller of matcha (a premium type of powdered green tea) and was founded in 1888. The business created a new matcha market by converting matcha to food product use.

President and Director Yoshio Sugita says that for an enterprise to keep growing, it is important for it to identify what it has to change—and what it must not. In Aiya's case, what it must not change was the high-quality matcha that it ground in its mortars. What it had to change was the market it was in. The background to Aiya's story of opening up a market for matcha for food products was that the matcha it used, which is grown in Nishio City, was not well known. Aiya was able to open up the new market when it started producing a matcha for food product processing such as none of the competition had ever done, as a way of giving its high-quality matcha added value over those competitors.

Additionally, Aiya makes it a priority to meet customer needs. For example, it actively pursues business outside Japan, meaning that it has to sell products meeting the tastes of each overseas market. In Europe, for example, consumers like healthy choices, with a particular affinity for herb teas. There, Aiya promoted the fact that matcha, like herb teas, has plenty of health benefits. This helped matcha to more naturally find a place in the lives of Europeans. This is an example of President Sugita's idea of having to change some things and not change others.

When asked about his company's future outlook, President Sugita says, "I hope we can maintain our position as a leading matcha producer in Japan while being a pioneer elsewhere. I would particularly like to actively develop Southeast Asia as a new market." When asked why Aiya is looking overseas to find new markets, President Sugita says it is because no one else has done so. When the company started making matcha for food products, no one had ever done that. And no one had ever developed a new market. President Sugita took it as a challenge to develop a market that no one else had ever tried. But it was not a reckless challenge, because he was confident the market would embrace the product, knowing how good tea is for people's health.

The President's attitude of recognizing what his company must not change and actively challenging himself and his company to change what it must is one of Aiya's strengths.

Aiya's flagship store

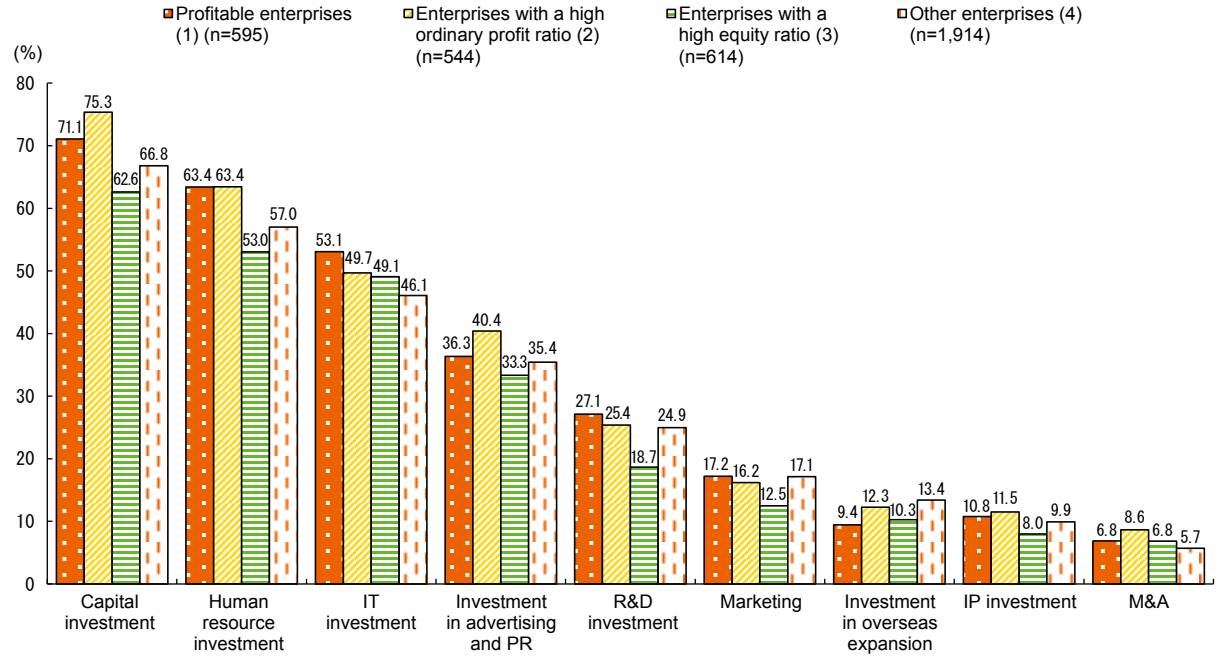
Identifying actual investment behavior

Below, we will look at the actual state of investment behavior by SMEs. Fig. 2-6-20 shows the investment behavior by enterprise category over the last three years. When we observe the general trends, we see high implementation rates for "Capital investment", "IT investment" and "Human resource investment".

Next, we look at the particular characteristics in each enterprise category. If we look first at "Profitable enterprises (1)", the figures for "IT investment" (53.1%) and "R&D investment" (27.1%) indicate that those enterprises tend to be more likely than other enterprises to engage in those sorts of investment. On the other hand, they tended to have lower rates for "Investment in overseas expansion" than other enterprises. Looking next at "Enterprises with a high ordinary profit ratio (2)", they generally lean more positively towards investment than other enterprises, and show particularly marked positivity towards "Capital investment" (75.3%) and "Investment in advertising and PR" (40.4%).

If we then look at the third category of "Enterprises with a high equity ratio (3)", they generally show a tendency towards lower levels of engagement in investment compared with the other enterprise categories.

Fig. 2-6-20 Investment activity in the last three years according to enterprise category

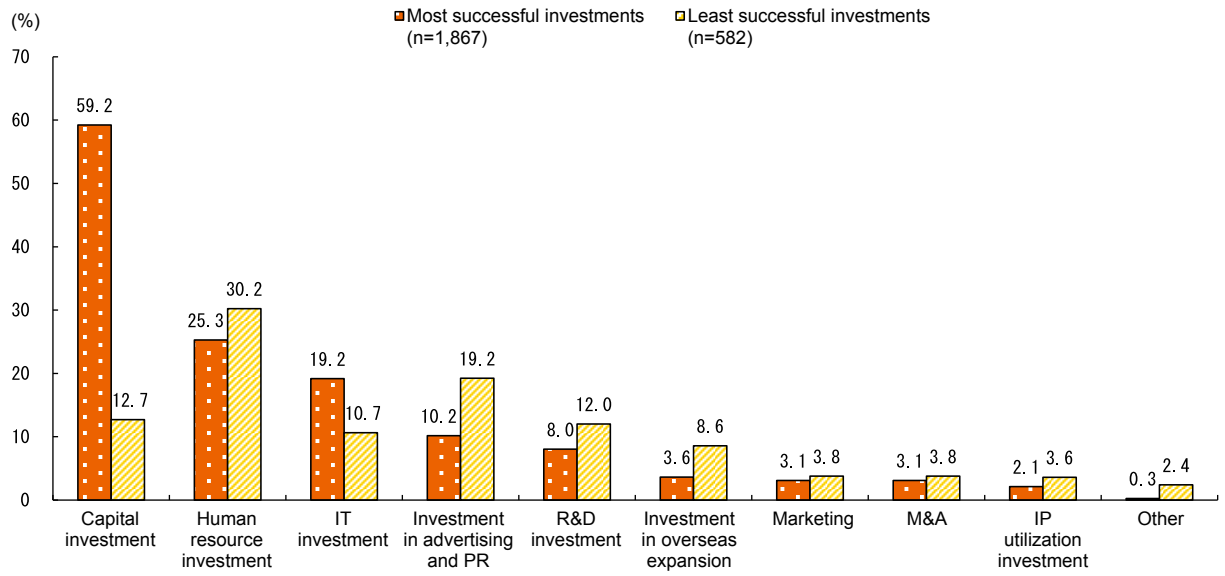


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

Next, Fig. 2-6-21 shows the most and least successful examples of the investment behavior shown by the responses in Fig. 2-6-20. This clearly shows that by far the most successful investments were those in the "Capital investment" category. Conversely, those with the greatest incidence of failure were in the "Human resource investment" category. As we saw in Fig. 2-6-20, "Human resource investment" had a high level of involvement of all investment behavior by enterprises. These results lead us to the conclusion that while enterprises are very conscious of the need for "Human resource investment", achieving success through such investment poses more problems than other types of investment. For instance, in the *2015 White Paper on Small and Medium Enterprises in Japan*, one of the main issues faced by SMEs in developing core human resources[18] was the dilemma posed by the lack of staff to conduct human resource development programs. One of the possible measures proposed for addressing this problem was human resource investment coupled with in-house staff deployment and the use of external agencies.

18) See the 2015 White Paper on Small and Medium Enterprises in Japan, P.240−241.

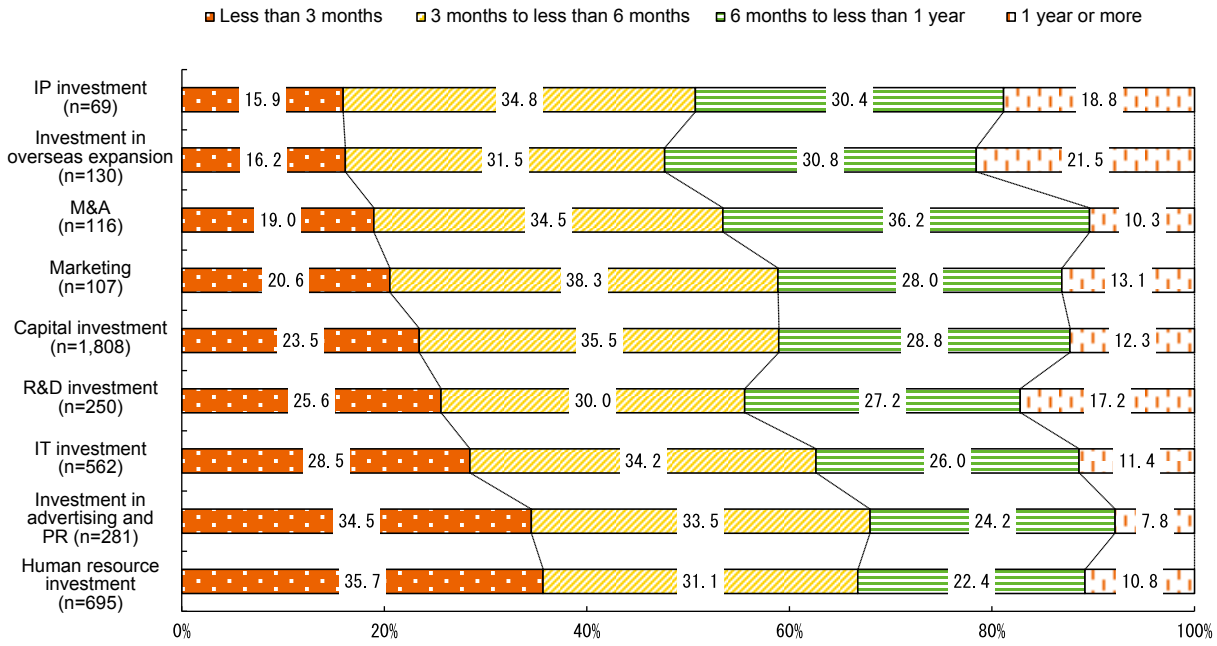
Fig. 2-6-21 Most and least successful investments



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Now, we look at the time required for enterprises to transition to the actual implementation of investments according to the different types of investment. Fig. 2-6-22 looks at the most successful investments in terms of the amount of time the managers or the management needed to consider whether or not to proceed with the investment. The figure shows many responses of "6 months to less than 1 year" for "IP investment", "Investment in overseas expansion" and "M&A", indicating that these types of investment tend to require longer periods of consideration. By contrast, the most frequent response for "IT investment", "Investment in advertising and PR" and "Human resource investment" was "Less than 3 months", showing that the time required for decision-making was relatively short. If we look specifically at "Capital investment", the commonest response (35.5%) was "3 months to less than 6 months", but relatively high proportions chose other responses, with 28.8% responding "6 months to less than 1 year" and 23.5% opting for "Less than 3 months". This level of responses for "Capital investment" may well be because the scale of capital investments is so wide-ranging.

Fig. 2-6-22 Time required for proceeding with the most successful investments

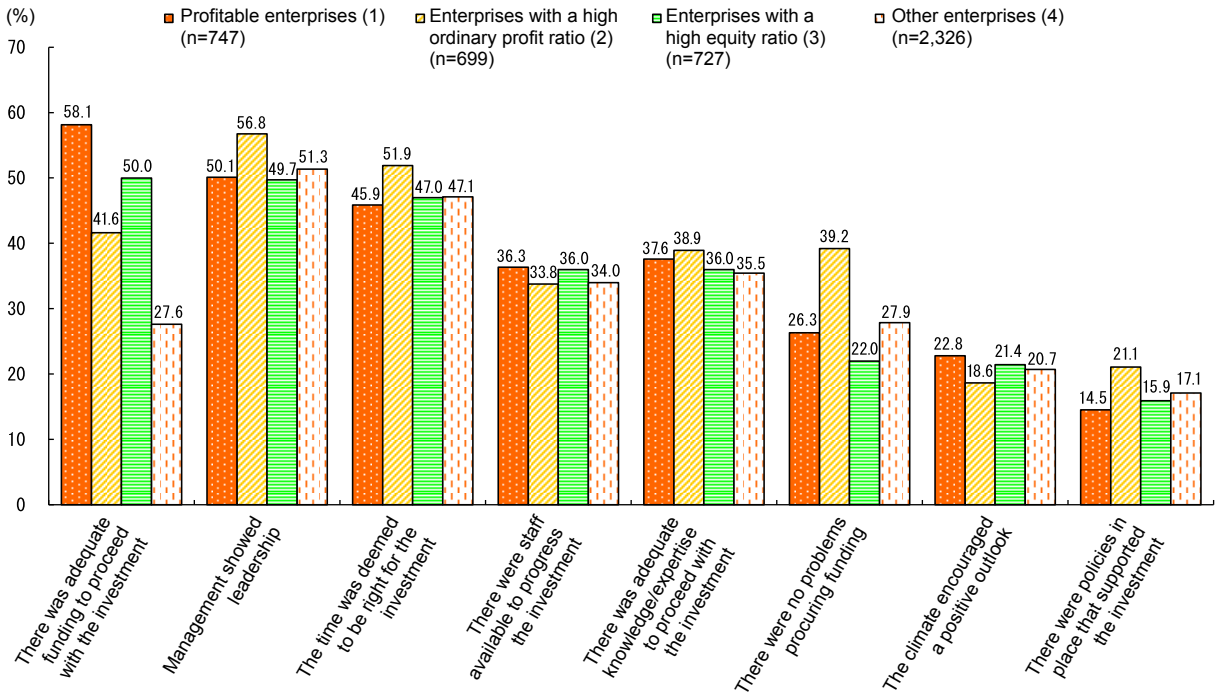


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

So, what sort of internal backing pushed these investments through to implementation? Fig. 2-6-23 shows these characteristics by enterprise category. In the figure, we can see that the highest proportion of responses by "Profitable enterprises (1)" went to "There was adequate funding to proceed with the investment" (58.1%). There were also relatively high proportions who opted for the "Management showed leadership" (50.1%) and "The time was deemed to be right for the investment" (45.9%) responses.

If we look next at "Enterprises with a high ordinary profit ratio (2)", which generally take a positive attitude towards investment, 56.8% chose "Management showed leadership" and 51.9% opted for "The time was deemed to be right for the investment". The high proportions attracted by these responses indicate a similar trend to "Profitable enterprises (1)". In addition, 39.2% chose "There were no problems procuring funding", indicating a high proportion of funding-related responses compared with other enterprises. In fact, a high proportion of both "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)" selected funding-related responses, indicating that any differences in their respective responses probably reflect differences in their rates of equity to total assets. So we can see that, for "Profitable enterprises (1)" and enterprises the actively investment-inclined "Enterprises with a high ordinary profit ratio (2)" category, the key factors are the capacity of the company itself to secure funding, the leadership provided by management and their ability to analyze and discern the appropriate timing for investment.

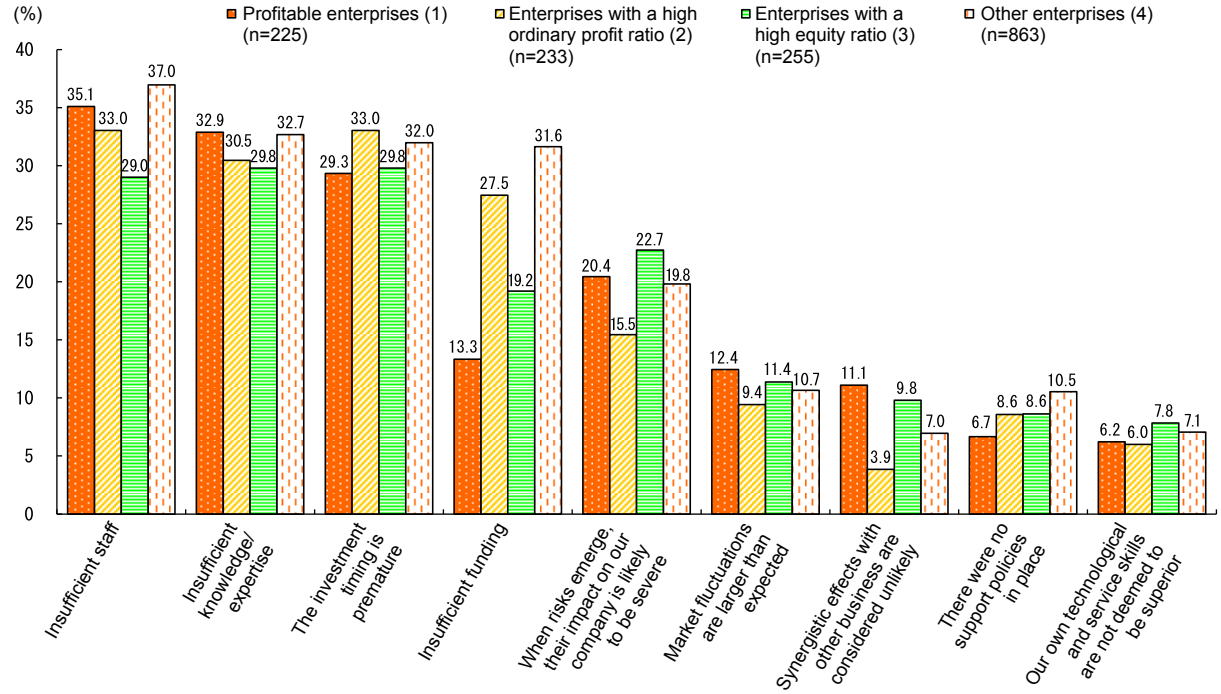
Fig. 2-6-23 Factors driving investment behavior according to enterprise category



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

Now, we take an opposite view and look at the factors that prevented investment behavior. Fig. 2-6-24 shows reasons behind investments that were considered once, but never implemented. Looking at the figure, factors to do with personnel, namely "Insufficient staff" and "Insufficient knowledge/expertise", attracted a high proportion of responses. The item relating to grasping market trends and the company's own skills and services, namely "The investment timing is premature", also garnered a high proportion of responses, with this trend being particularly marked among "Enterprises with a high ordinary profit ratio (2)". When we focus on the "Other enterprises (4)" category, 31.6% responded "Insufficient funding", showing that issues relating to financing were important. And when we look at "Enterprises with a high equity ratio (3)", 22.7% responded "When risks emerge, their impact on our company is likely to be severe", which is high compared with the figure for "Enterprises with a high ordinary profit ratio (2)". Fig. 2-6-17 revealed a tendency towards conservatism in the "Enterprises with a high equity ratio (3)" category, and Fig. 2-6-24 indicates a similar outcome.

Fig. 2-6-24 Reasons preventing the implementation of investment behavior by enterprise category



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

Thus far, we have looked at the situation regarding investment activity in the different enterprise categories, analyzing the reasons why enterprises decided to proceed and the factors that prevented investment during the stage where enterprises were considering their investment options.

So, where enterprises decided to actually proceed with the investment, how did instances where those investments succeeded differ from those where the investment ended in failure? Below, we will conduct an analysis of the factors that contributed to successful investment behavior by enterprises and those that led to failure.

Success factors and failure factors in investment behavior

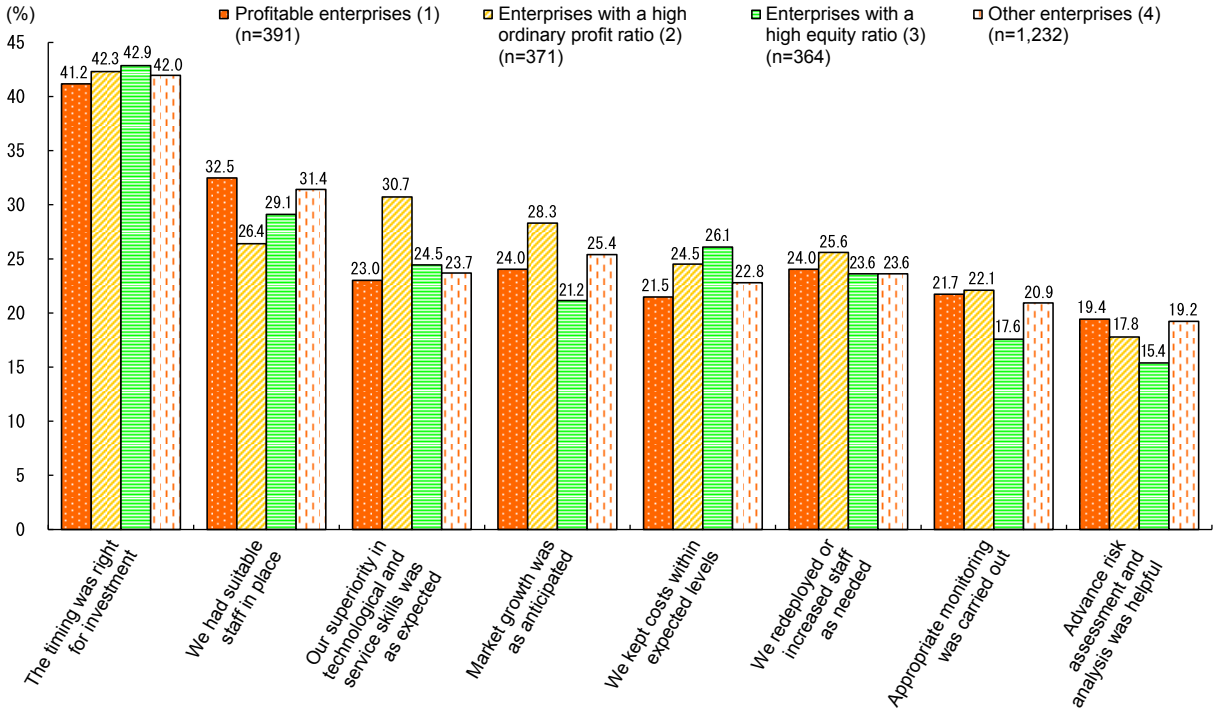
Fig. 2-6-25 shows the factors that led to success in investment behavior. The figure shows that, across all the enterprise categories, a high proportion responded "The timing was right for investment". This shows that the fact that the company had correctly evaluated its own products and/or services relative to market trends was seen by them as a key factor in the success of the investment.

If we then look at the particular characteristics for the different enterprise categories, we see that "Profitable enterprises (1)" tend to see staff-related factors ("We had suitable staff in place") and the pre-investment consideration process ("Advance risk assessment and analysis was helpful") as factors in their success. And while they were at roughly the same level as enterprises in the "Enterprises with a high ordinary profit ratio (2)" category, a relatively high proportion of profitable enterprises (21.7%) also responded "Appropriate monitoring was carried out". Focusing next on "Enterprises with a high ordinary profit ratio (2)", the proportion who opted for factors relating to advance assessment and analysis was higher than for the other enterprise categories, with 28.7% choosing "Market growth was as anticipated" and 30.7% selecting "Our superiority in technological and service skills was as expected". Also, as mentioned above, 22.1% responded "Appropriate monitoring was carried

out", which was high compared with "Enterprises with a high equity ratio (3)" and "Other enterprises (4)". This leads us to conclude that "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)" saw that, in addition to the investment timing, factors such as advance assessment and analysis at the investment planning stage and pro-active management during investment implementation were important.

However, when we look more closely at "Enterprises with a high equity ratio (3)", it is clear that cost-related factors ("We kept costs within expected levels") were highly rated.

Fig. 2-6-25 Success factors in investment behavior according to enterprise category

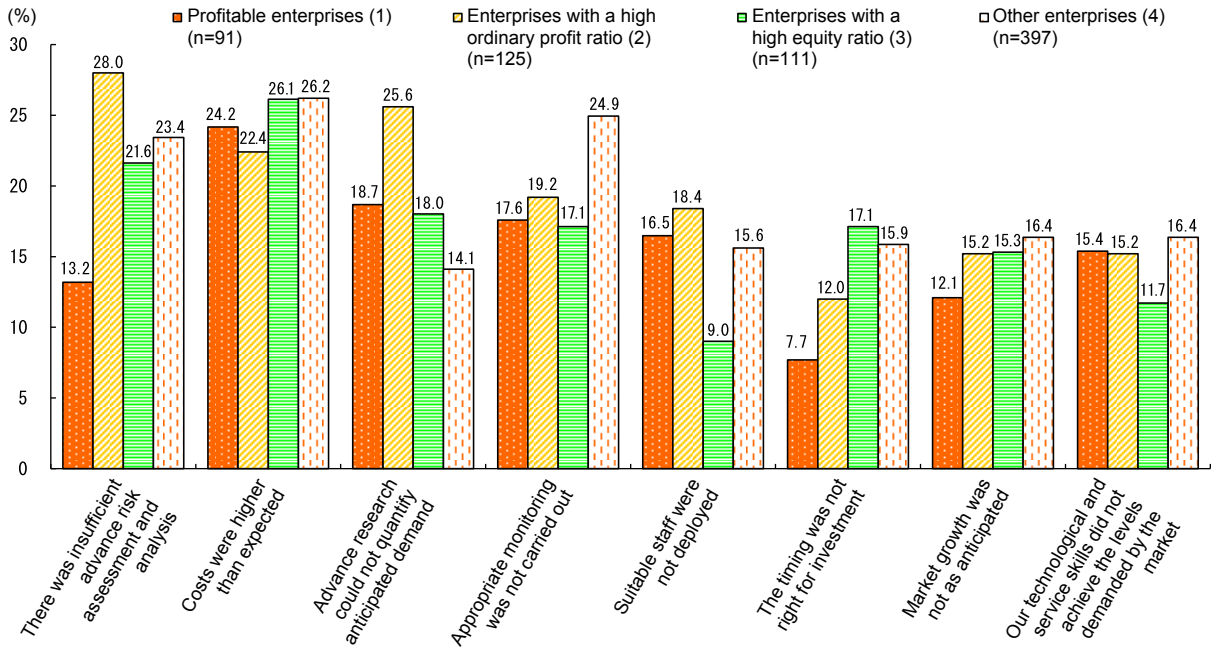


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

By contrast, Fig. 2-6-26 shows the factors underlying failed investments. The figure shows that a financing-related factor ("Costs were higher than expected") rates highly. And among "Enterprises with a high ordinary profit ratio (2)", the proportion opting for factors relating to pre-investment planning was high when compared with other enterprises, with 28.0% choosing "There was insufficient advance risk assessment and analysis" and 25.6% selecting "Advance research could not quantify anticipated demand". At the same time, 19.2% chose the "Appropriate monitoring was not carried out" option, a factor that applies to the investment implementation stage.

In Fig. 2-6-25 and Fig. 2-6-26, we have analyzed the success factors and failure factors for investment and identified a trend for profitable enterprises and enterprises in the "Enterprises with a high ordinary profit ratio (2)" category, which tend to take a positive approach to investment, to place considerable importance on advance assessment during the investment planning stage and on pro-active management during actual investment implementation. Below, we analyze some of the methods used for monitoring and advance assessment.

Fig. 2-6-26 Failure factors in investment behavior according to enterprise category



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. The enterprise categories are as defined for Fig. 2-6-5.

Case 2-6-5 Fuji Electronics Industry Co., Ltd.

Supplying customers with a foundation for competitiveness, continually growing by taking a long-term view

Fuji Electronics Industry Co., Ltd. (employees: 123; capital: ¥80 million), based in Yao City, Osaka Prefecture, was founded in 1960. The firm performs manufacturing and high-frequency thermal treatment of high-frequency induction heating devices and their components under contract to other businesses. Current President Hiroko Watanabe is the third leader of the company, having taken over the business in 2008. Following the company policy of "Contributing to society with our technology," Fuji Electronics Industry aims to "supply goods that will be a foundation for our customers' competitiveness."

President Watanabe stays focused on the direction her company needs to go, always taking a long-term view. Fuji Electronics Industry is continually investing to increase profitability, whether the current business conditions are good or bad. Because Fuji Electronics Industry is privately held, it runs its business without worrying about the short-term view of shareholders and the like. Aside from that, President Watanabe's way of thinking as executive has a big impact. As she says, the job of an executive is to "show leadership to employees and make investment decisions that focus on a time three to five years in the future." She adds, "You can't fall into the trap of pursuing short-term sales and competing on price. You have to make sure customers recognize the value of your products and be thinking about future transactions."

To take the medium- to long-term view and decide where to invest next, a business absolutely has to collect information. President Watanabe leverages the fact that her firm is independent and need not rely on business with any particular enterprise or financing source. She pays attention to several large enterprises when they tell her the direction of business going forward. Furthermore, she endeavors to integrate and analyze the information she collects so she can grasp industry trends in future. At the monthly marketing meetings, she shares the information she's heard with her site workers and tells them what fields she wants the company to target and what her management policies are going forward. Therefore, one of the strengths of this firm is that the executive herself uses a variety of information, checks the market trends and the direction the company should be going, and makes the investments the company needs to make at that time.

Moreover, President Watanabe's stance on investing whether the current business conditions are good or bad even held true during the Lehman crisis. That crisis caused sales of Fuji Electronics Industry's device manufacturing department to fall by half. Nonetheless, the company built equipment to be used in their own processing department, and it added on to its processing plant. It was thanks to decisions made by President Watanabe that the company invested and created work when business conditions were bad so that it would have stronger technology than its rivals when the economy was better. This type of investment, moreover, created work for the company's business partners during a difficult economy, which helped to solidify trusting relationships with them.

Looking ahead, Fuji Electronics Industry wants to start working in new fields. President Watanabe says she hopes the firm will keep its eye on market trends in the medium- to long-term and tackle those challenges suggested by customers and challenges the company has chosen for itself so that it can continue to supply goods that make its customers more competitive.

President Watanabe

Case 2-6-6 Makino Seiki Co., Ltd.

Aiming to endure and growing dramatically by developing new products and expanding overseas

Makino Seiki Co., Ltd. (employees: 111; capital: ¥479.25 million), based in Aikawa Town, Kanagawa Prefecture, is a machine tool manufacturer supplying tool and cutter grinders.[19] A company product has even been chosen to receive the "Long-Life Best Seller Award," given to machine tools with historical value. The firm also develops leading-edge technology like the CNC[20] tool and cutter grinder with 10-axis control, a world first. And it is proactively developing markets outside Japan.

Daisuke Shimizu, the current President, believes that Makino Seiki can fulfill its responsibilities to its customers by surviving so that it can meet customers' maintenance and repair needs, because the company's products are built to last and customers will use them for many years. To ensure the firm endures, therefore, he makes sure to invest in research to develop new products and is not frugal when it comes to investment that paves a way into new markets.

By the time President Shimizu took his post, the company already had bestselling products that the market had long embraced. However, factors like price competition with other companies had eroded profitability, and Shimizu understood there was a need for new products to create a foundation for profits. President Shimizu resolved to give the market a product with a fundamentally different construction than anything then available, and development commenced. While that development effort was successful, it took about two years before the new product started making a profit.

In addition, immediately after taking office, President Shimizu became keenly aware of the need to expand overseas, since the domestic market was contracting. He also felt that getting into those overseas markets could not wait until the markets had grown. Given the circumstances, he determined to go into business on the Asian continent, where he foresaw high growth in a latent market. First he tried opening up a market in China, but this did not have any immediate results. It took about five years for Makino Seiki products to really catch on in the Chinese market.

What Makino Seiki's two efforts had in common was that both took a certain amount of time to produce results. But President Shimizu was determined not to give up. As he tells it, this is because he felt confident both investments would be successful. He takes pride that the new product that created a new foundation for profitability, though intended for specific applications and specific users, really took customer needs into account. As for offshore markets, the company also gradually grew its profitability by approaching customers who did not have large competitors outside Japan and by giving customers added value they could not get from competitors, such as very thorough post-sale follow-up.

President Shimizu believes that continual investment is crucial for his company to endure and develop. As a case in point, Makino Seiki started operating a new plant in March 2016. Building the new plant required a very large investment for the company, but the President saw it as indispensable if the company were to continue producing high-quality products and meeting customer needs. He admits that some of his new initiatives have been opposed even within Makino Seiki, but one of the strengths of the firm would seem to be that the President has such a strong sense of resolution and leadership and is able to manage according to his own ideas in a consistent manner.

President Shimizu in front of new plant

19) Tool and cutter grinders are machines that grind cutting tools.
20) Computer numerical control, a means of controlling movement distance, speed, etc., in machine tools.

Case 2-6-7 Asada Mesh Co., Ltd.

Capturing a high world share through R&D investment attuned to changing times

Asada Mesh Co., Ltd. (employees: 259; capital: ¥80 million), based in Matsubara City in Osaka Prefecture, is a manufacturer of stainless steel wire mesh. The company makes components that are used, for example, to form electrodes in electronic components and are indispensable to screen printing. This requires strong technical expertise.

Matsubara City, where Asada Mesh is located, was once home to a flourishing Kawachi cotton manufacturing industry, but that industry eventually disappeared when cotton production became mechanized. Wire mesh production began to prosper in its place, and by the time Asada Mesh was founded, the region was producing wire mesh for sieves and filters. The executive managing the company traveled to Europe half a century ago to observe the industry there. He realized that his own company's existing products were in danger when he saw plants doing mass production with state of the art machinery. That experience convinced him to switch the foundation of his business to the production of high-detail, high-strength stainless steel mesh by using the delicate technologies of the Japanese.

Later, a trading company doing business with Asada Mesh told the company there was a need for screen printing in electronic product production processes. That is when the company started making and delivering mesh for screen printing. Plenty of other companies in the industry had given up making such products, since their development was highly complex and their future unknown. Asada Mesh, however, anticipated that demand would grow and concentrated its management resources on high-function stainless steel wire mesh. It subsequently focused on high-detail products and products of greater strength. The result today is that products with high added value, such as those for electronic components or solar cells, make up 75% of company sales. It even has the world's No. 1 share for products of 500 mesh[21] or higher. The market recognized Asada Mesh's outstanding technical expertise.

In 2007, Asada Mesh established a screen printing research lab.[22] There, it has focused on R&D from new angles. The firm has also begun a new marketing approach for customers in Japan and abroad that actively proposes company technology. With the technical support the company has on hand, it can quickly discover user needs and solve issues that come to its attention. This has helped it to expand the scope of screen printing applications and given a rapid boost to Asada Mesh's sales in recent years.

For a company to grow, it needs to grasp market needs this way, and to keep making R&D investment that meets market needs and keep opening up new markets.

Mesh production at Asada Mesh's factory in Kagoshima

21) 500 mesh means there are 500 meshes per inch. The higher the mesh, the finer the wires required, which makes manufacturing more complex.

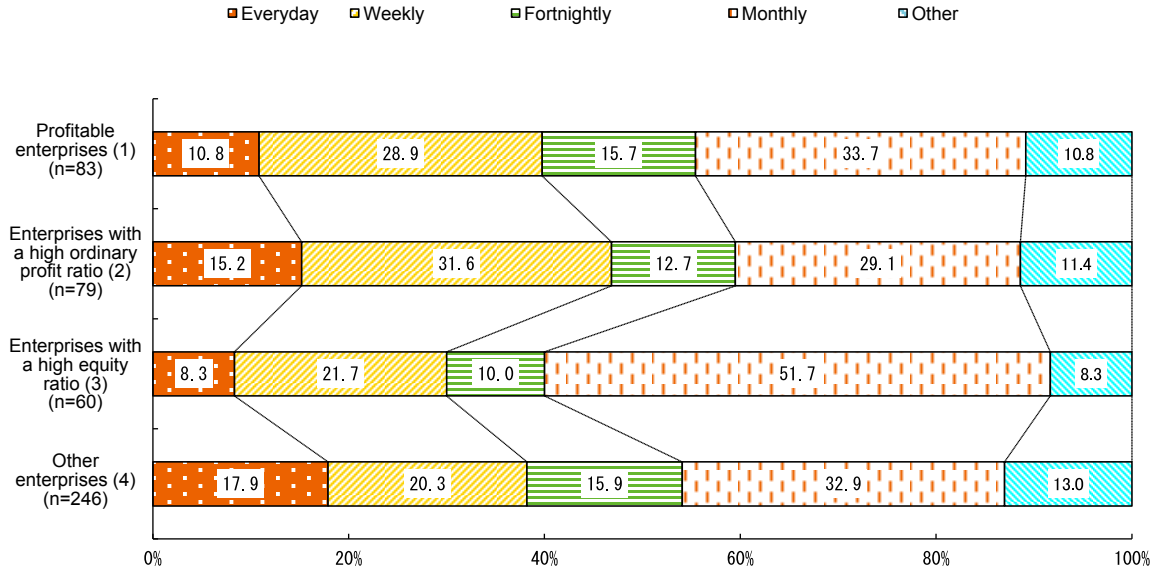
22) In October 2015, the lab was renamed the Open Innovation Hub. Here, Asada Mesh offers comprehensive screen printing technical support from platemaking to printing and analysis and proposes optimal meshes and newly developed products for customers' various applications.

The frequency of monitoring, those responsible and its effects

We begin by looking at the frequency of monitoring.

Fig. 2-6-27 shows the frequency of monitoring relating to investment behavior among the different enterprise categories. The figure shows that the highest proportions of the responses from "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)" were for "Weekly". However, more than 50% of "Enterprises with a high equity ratio (3)" responded "Monthly", suggesting that those enterprises may have had issues with managing staff and scheduling for their investments.

Fig. 2-6-27 Monitoring frequency according to enterprise category

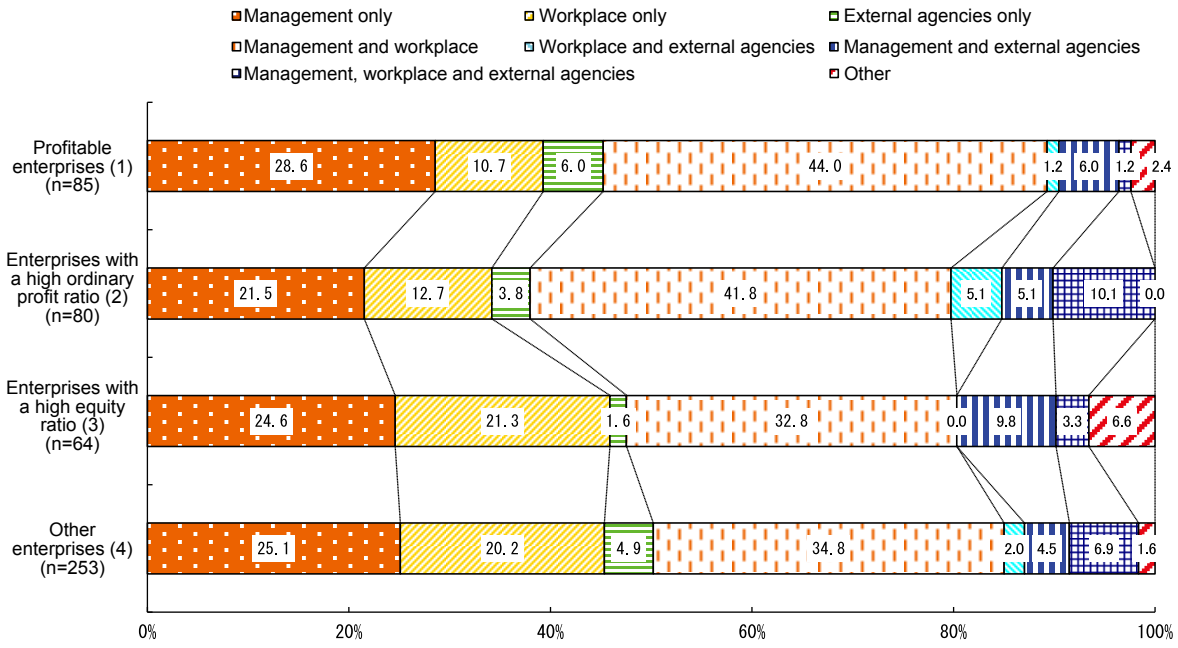


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Notes: 1. The enterprise categories are as defined for Fig. 2-6-5.
2. Here, monitoring refers to managing of investment costs and schedules and determining the progress of investments.

Next, we focus on the people who carry out the monitoring. Looking at Fig. 2-6-28, the overall trend across all the monitoring enterprises is for a high proportion of "Management and workplace" responses, suggesting an approach that stresses the importance of information sharing between management and the workplace. In the case of "Enterprises with a high ordinary profit ratio (2)", the "Workplace and external agencies" and "Management and external agencies" responses together attracted a total of 10.2%, indicating that those enterprises boosted their investment success rates by recruiting personnel from outside rather than relying solely on in-house staff.

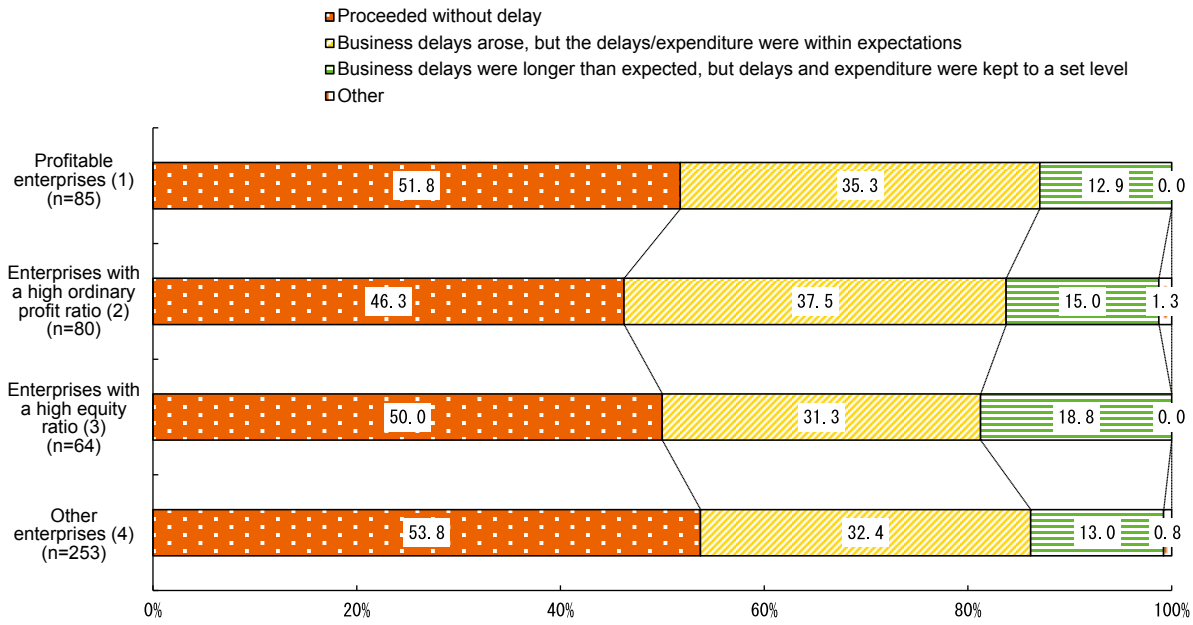
Fig. 2-6-28 Those conducting the monitoring according to enterprise category



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: The enterprise categories are as defined for Fig. 2-6-5.

Finally, Fig. 2-6-29 shows the monitoring outcomes. The figure shows that the largest proportion of responses chose "Proceeded without delay". It also shows that around 30% of all respondents selected "Business delays arose, but the delays/expenditure were within expectations", indicating that it is likely that conducting monitoring helped to improve the success rates of investments. When we focus specifically on "Enterprises with a high equity ratio (3)", 18.8% responded "Business delays were longer than expected, but delays and expenditure were kept to a set level", which is a higher proportion than other enterprises. So we can probably say that conducting monitoring, because it allows corrective measures to be taken promptly when unexpected situations arise, helps to get investments back on track and is one factor leading to investment success.

Fig. 2-6-29 Monitoring outcomes by enterprise category

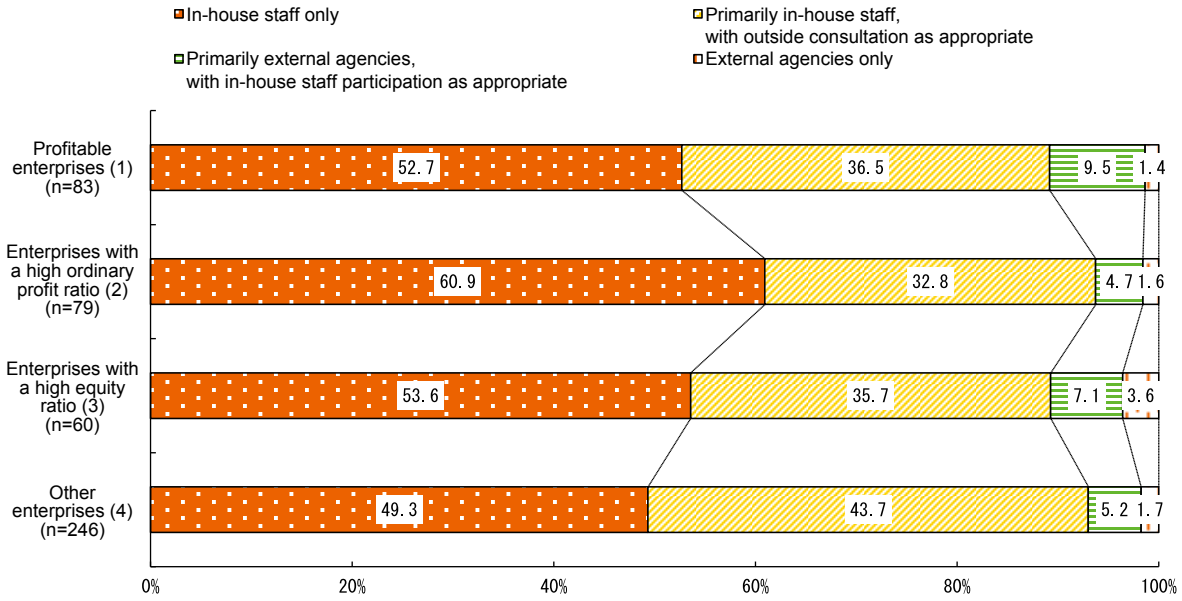


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: The enterprise categories are as defined for Fig. 2-6-5.

Advance assessment methods and outcomes

In this section, we will look at the methods used at the planning stage to assess investments in advance and the outcomes of those assessments. We begin by looking at the advance assessment methods. Fig. 2-6-30 clearly shows an overall trend for about 50% of all responses to be "In-house staff only". The proportions for the "Primarily in-house staff, with outside consultation as appropriate" response were all above the 30% mark, with 36.5% for "Profitable enterprises (1)", 32.8% for "Enterprises with a high ordinary profit ratio (2)" and 35.7% for "Enterprises with a high equity ratio (3)". The proportion was particularly high for the "Other enterprises (4)" category at 43.7%, showing that a number of enterprises also canvass the opinions of external agencies when deciding whether to proceed with investments.

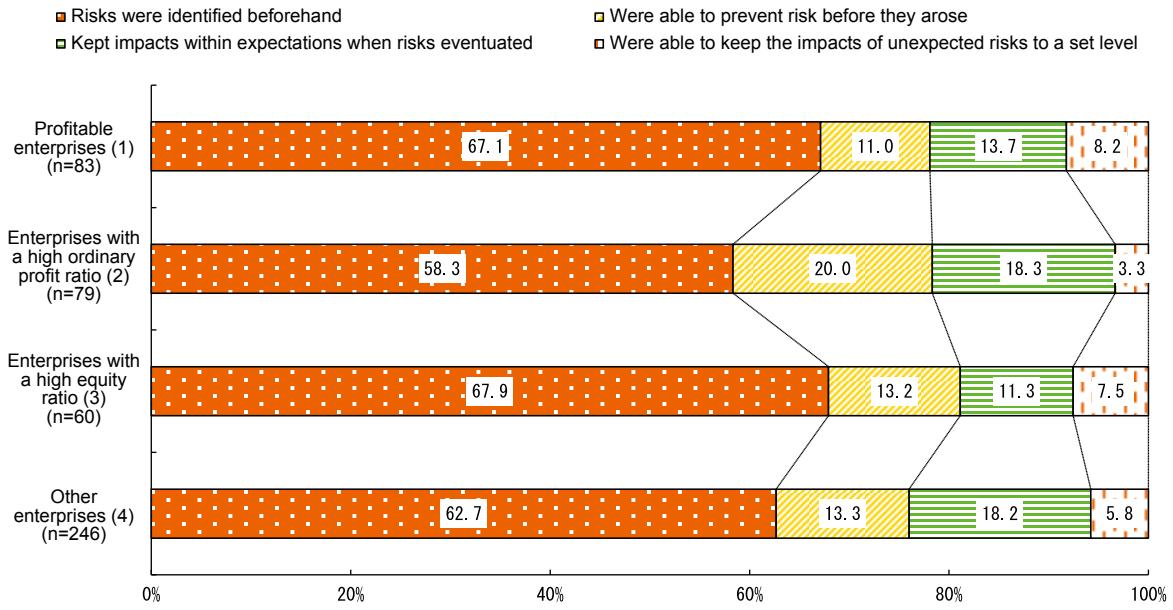
Fig. 2-6-30 Those conducting advance risk assessment according to enterprise category



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: The enterprise categories are as defined for Fig. 2-6-5.

Next, we consider the outcomes of advance risk assessment and analysis. In Fig. 2-6-31, we see that around 60% of respondents chose "Risks were identified beforehand" as the outcome of their analysis of the advance risk assessment. However, 20.0% of "Enterprises with a high ordinary profit ratio (2)" chose "Were able to prevent risk before they arose" and 18.3% opted for "Kept impacts within expectations when risks eventuated", which were higher levels for those two responses than either "Profitable enterprises (1)" or "Enterprises with a high equity ratio (3)". Enterprises in the "Other enterprises (4)" category also tended to have a higher proportion than "Profitable enterprises (1)" or "Enterprises with a high equity ratio (3)" for the "Kept impacts within expectations when risks eventuated" response, and this suggests that there may be scope for some improvement in the analysis of advance risk assessments by the "Enterprises with a high ordinary profit ratio (2)" and "Other enterprises (4)" categories.

Fig. 2-6-31 Outcomes of advance risk assessment and analysis by enterprise category



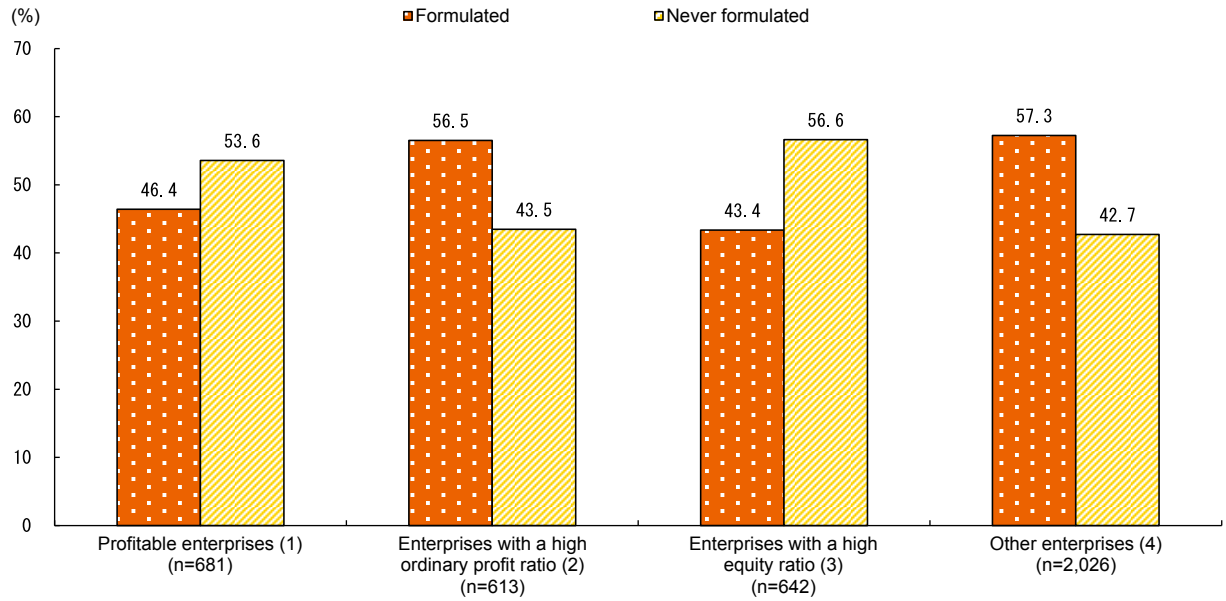
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: The enterprise categories are as defined for Fig. 2-6-5.

The above discussion reveals that monitoring evaluation and advance risk analysis are important measures in systematically progressing investment behavior, and that a high percentage of the enterprises who implement such measures recognize the value of their outcomes.

Status of systematic management

Where enterprises are boosting their earning power through investment, they can almost certainly improve their success rate by adopting a medium- to long-term perspective and formulating a business plan that sets out policies that they should work towards. Their investments should then be based on that plan. So this item focuses on medium- and long-term business plans and considers the relationship between the progress of the measures in medium- and long-term plans and profitability. We begin with an overview of the situation in terms of the rates at which medium- and long-term business plans are formulated. Fig. 2-6-32 shows formulation rates of 56.5% for "Enterprises with a high ordinary profit ratio (2)" and 57.3% for "Other enterprises (4)". However, the rates are just 46.4% for "Profitable enterprises (1)" and 43.4% for "Enterprises with a high equity ratio (3)", showing a tendency to be lower than the rates for "Enterprises with a high ordinary profit ratio (2)" and "Other enterprises (4)".

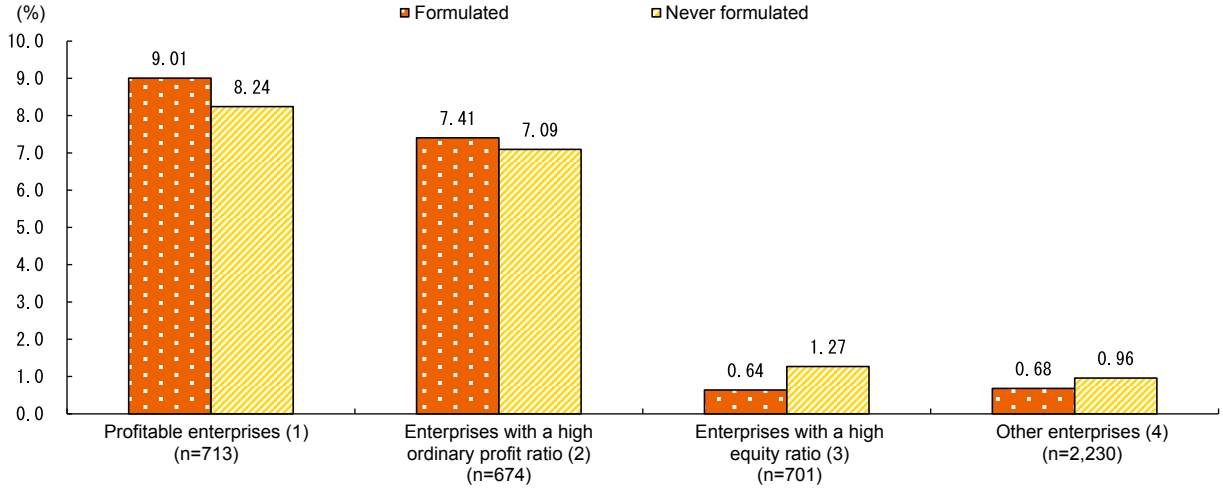
Fig. 2-6-32 Medium- and long-term business plan formulation by enterprise category



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. "Formulated" shows the combined total for the "Currently formulating" and "Previously formulated" responses.
2. The enterprise categories are as defined for Fig. 2-6-5.

Next, in Fig. 2-6-33, we look at the different enterprise categories to see whether the creation of a medium- and long-term business plan results in variations in profitability. The figure shows that, among "Profitable enterprises (1)" and "Enterprises with a high ordinary profit ratio (2)", which are both characterized by high levels of profitability, those enterprises that have formulated a medium- and long-term business plan tend to have higher profitability than those that have not. However, when we look at the "Enterprises with a high equity ratio (3)" and "Other enterprises (4)" categories, which generally have low profitability, we see that enterprises that have never formulated a medium- and long-term business plan tend to have higher profitability. The next step is to analyze these trend differences in low and high profitability from the perspective of whether the enterprises are engaged in investment behavior (Fig. 2-6-34).

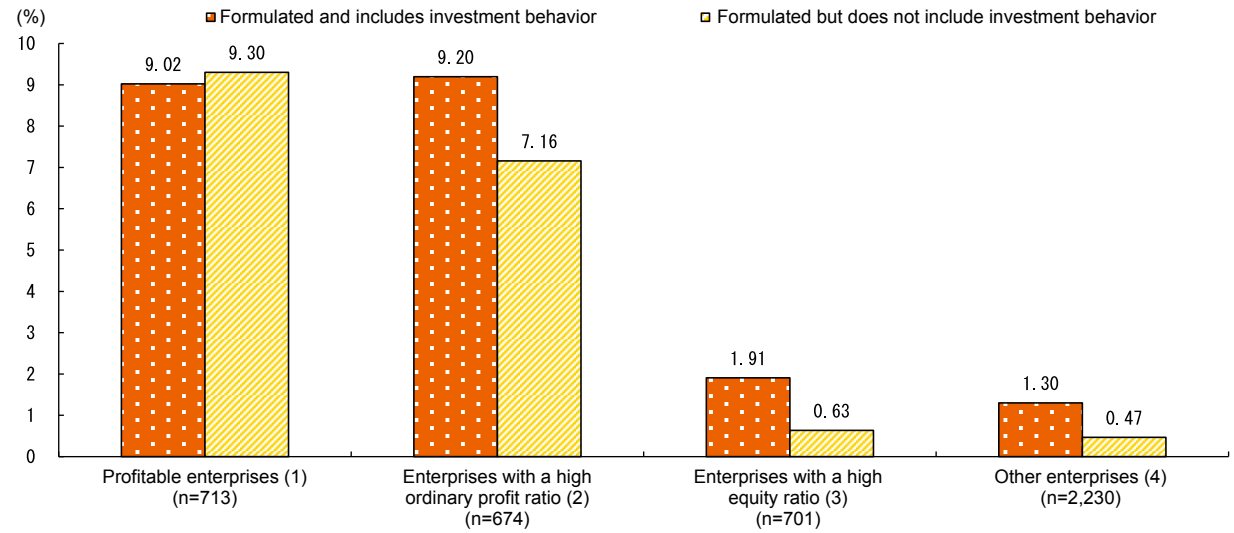
Fig. 2-6-33 Differences in ordinary profit rates by enterprise category according to medium- and long-term business plan formulation



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Notes: 1. "Formulated" shows the combined total for the "Currently formulating" and "Previously formulated" responses.
2. The enterprise categories are as defined for Fig. 2-6-5.

Looking at Fig. 2-6-34, there is little variation among "Profitable enterprises (1)", but clear differences can be seen for other enterprises depending on whether or not they have created a medium- and long-term business plan. This suggests that, by incorporating a plan for investment behavior into a medium- and long-term business plan, planning can be implemented with greater certainty and the results may be linked to profitability.

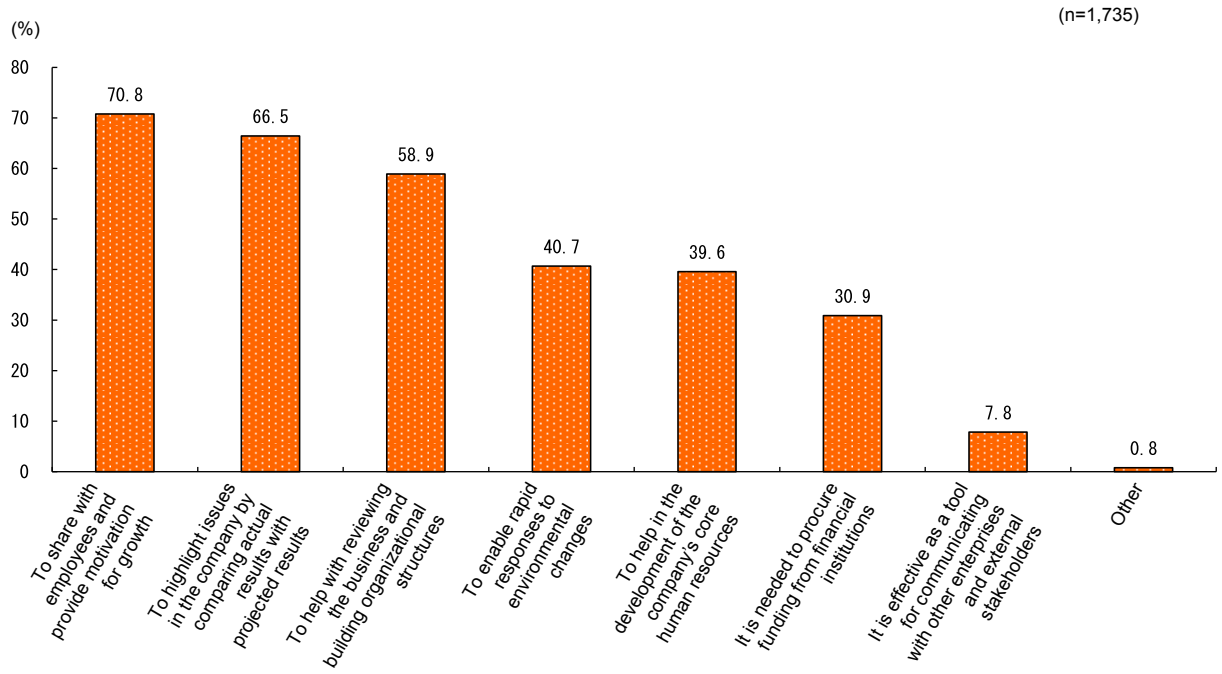
Fig. 2-6-34 Differences in ordinary profit rates by enterprise category depending on whether a medium- and long-term business plan is applied to investments



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: The enterprise categories are as defined for Fig. 2-6-5.

So, what are the circumstances that determine whether or not enterprises formulate a medium- and long-term business plan? Fig. 2-6-35 shows the reasons given for creating a medium- and long-term business plan. This shows that the highest proportion of respondents (70.8%) chose "To share with employees and provide motivation for growth". We have already discussed how systematic management is an issue, but these responses also show that managers are very conscious of the links between company unity and company growth and that this is crucial to the systematic implementation of management. A high proportion of respondents also chose "To highlight issues in the company by comparing actual results with projected results" and "To help with reviewing the business and building organizational structures", suggesting that the higher an enterprise's profitability, the more it tries to apply systematic management

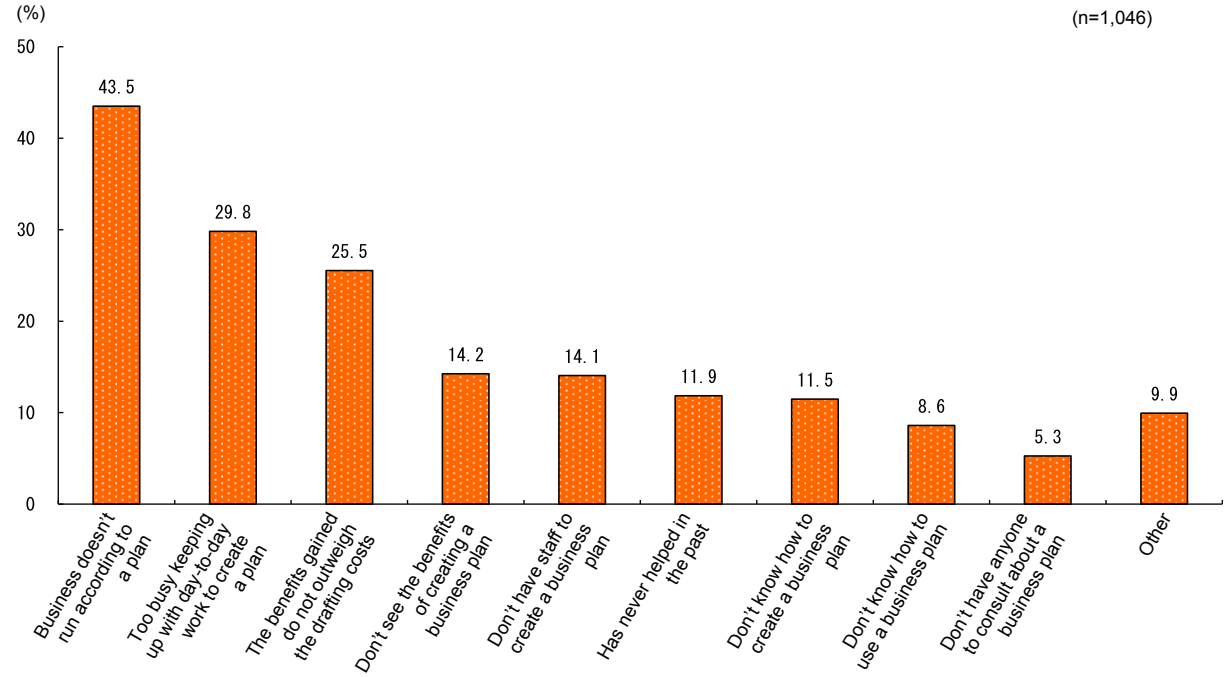
Fig. 2-6-35 Reasons for formulating medium- and long-term business plans



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Conversely, what are the reasons behind the failure of enterprises to create a medium- and long-term plan? Fig. 2-6-36 shows the reasons given for not formulating a medium- and long-term business plan. Looking at the figure, it is clear that many managers feel there is little to be gained from formulating a business plan, as indicated by the 43.5% who chose "Business doesn't run according to a plan" and the 25.5% who opted for "The benefits gained do not outweigh the drafting costs". A fairly high proportion (29.8%) chose "Too busy keeping up with day-to-day work to create a plan". As already discussed, we see that managers who formulate a medium- and long-term business plan recognize the effectiveness of the plan and tend to look for growth in the company as a whole. The fact that a high proportion of such managers also respond that their companies are in a growth stage suggests that there is a definite correlation between systematic management and enterprise growth. So we can conclude that conducting management in accordance with a business plan will be an issue in the future for SMEs.

Fig. 2-6-36 Reasons for not formulating medium- and long-term business plans



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Case 2-6-8 Kobayashi & Co., Ltd.

A firm that has stayed in the black for 64 years by following a policy of steady progress

Kobayashi & Co., Ltd. (employees: 568; capital: ¥80 million), based in Taito City in Tokyo Metropolis, sells synthetic resin products, both those that it manufactures and those it stocks from others.

The company was established in 1952. Current CEO Tatsuo Kobayashi is the second-generation leader of the company, having taken over the business in 1995. The company values steady management, as reflected in its policy of "Steady progress, not big leaps." The result has been 64 consecutive years of profitability.

Kobayashi & Co. started out as a wholesaler of plastic materials but evolved to develop and manufacture its own original products, such as KOBASOL.[23] In addition, it has a recycling business and handles non-petroleum-based materials, making it an all-round plastics company. Behind this company's history of growth is its founder's philosophy that "A firm cannot just suddenly grow. To grow, it is important for a business to practice steady management commensurate to its stature." A firm can rapidly expand its scale through M&A for example, but scale will not lead to profitability unless the company has the expertise to manage it. The same is true for capital investment. Large capital investments will not increase profitability if the business lacks the skill to sell its products and the capacity for management. Instead of taking a short-term approach to acquiring the needed capabilities, it's essential that the business take a medium- to long-term approach and acquire those capabilities one by one.

As it has pursued its business with that medium- to long-term approach, Kobayashi & Co. has prioritized the development of its human resources. Lifetime employment and a seniority system are highly valued practices at the company. The system was designed to reward employs who stay for a long time and produce results. Particularly outside of Japan, whereas other companies have experienced severe turnover, employees tend to stay with Kobayashi & Co. This is something that customers find praiseworthy and helps to build trust. It goes without saying that an organization is made up of people, but this means that a business will not grow if its people do not.

This steady philosophy even finds expression in Kobayashi & Co.'s business plan. The firm reconsiders its medium-term management plans every three years in addition to establishing yearly plans, which it shares with its employees. At all times, employees carry business card-sized slips on which the yearly policies are printed. Its practice of sharing its direction with all employees is another factor underlying the company's profitability.

Another strength of Kobayashi & Co. is its thorough practice of QCD balance.[24] Its Katsushika plant is set up to start production the same day if so requested by 3:00 p.m. It has also done business continuity planning. Taking a lesson from the Great East Japan Earthquake, it dispersed its production sites and is working to avoid disruption of product supplies to customers and therefore consumers. Initiatives with a focus on product quality and supply stability, not just price competitiveness, help to increase trust from trading partners and lead to new business. And while it is part of an industry marked by fierce cost competition, Kobayashi & Co. works to do business at an appropriate price with businesses that recognize the firm's value. It turns down business if it feels it cannot get an appropriate profit. This is because the company believes that if it continues providing good products to the market with the right QCD balance, it will win orders back. It values long-term relationships with businesses that recognize its value.

Kobayashi & Co. is very attentive to R&D. It collaborates with advanced research institutions at universities and so on, steadily developing new technologies and products. It makes an amount equivalent to 1% of sales available for R&D, which may be used freely. Among the attention-winning events of recent years, dining plates made of the firm's cornstarch and plastic resin biomass hybrid material Reseam ST[25] were used in the Japan Pavilion at Expo Milan 2015.

Kobayashi & Co.'s steady follow-through on its management principles—valuing human resources, the thorough practice of QCD, and the use of the PDCA cycle[26] in management planning—is certainly its strength.

CEO Kobayashi with company products

23) A PVC liquid compound material developed by Kobayashi & Co., Ltd., it is a type of organic compound. It has a wide range of applications from ordinary products like toys and daily goods to industrial products. It makes it possible to develop products meeting many needs.
24) An abbreviation for Quality, Cost, Delivery. It expresses the importance of the quality and cost of products in addition to how quickly they can be delivered.
25) A new material intended as a substitute for petroleum-based materials, it is gaining attention for helping to limit CO_2 in the atmosphere.
26) An abbreviation for Plan, Do, Check, Act. It is the idea that repeating these four steps can continually improve business processes.

Case 2-6-9 Material Co., Ltd.

Achieving sustained development and contributing to growth of its entire community through continued investment in human resources development

Material Co., Ltd. (employees: 16; capital: ¥20.01 million), based in Ota City in Tokyo Metropolis, manufactures, processes, and sells non-ferrous metal and specialty steels and designs industrial machinery. The strengths of the company include speed through every step up through delivery and the reliability of its products. Its sales were ¥20 million when established in 1992 but now reach about ¥1 billion.

President Junichi Hosogai says, "The job of an executive is to make investment to create an environment for developing people with good skills." Material's strengths are speed and reliability, but the important elements for putting them into practice are to help people gain master knowledge of materials and develop staff members' human qualities. To that end, President Hosogai holds "private school" every Friday to expand his workers' technical knowledge and give them spiritual instruction. He is also completely devoted to fostering and attending to his employees, checking up on their wellbeing every morning, for example. As President Hosogai tells it, "We started the Shitamachi Bobsleigh Network Project[27] because we felt it necessary to motivate our employees to build on their strengths." Talking about their dream of winning world attention for a product they handle helps to motivate his employees and build their human qualities.

The Shitamachi Bobsleigh Network Project has another aim as well. That aim is to bring new energy into Ota City, where Material is headquartered. At first, President Hosogai assumed that the declining number of competitors in his community would boost profitability for Material. Instead, he found that it was not just fewer competitors over time, but fewer SMEs in Ota City as a whole, a situation that led to declining technical skill and craftsmanship in the area. He started the project out of a sense of crisis that the impact would eventually hurt his own business. The bobsleigh project was intended to show the world the technical strength of SMEs in Ota City, which Hosogai believed would lead to more inquiries and orders for work from his own company. Additionally, Hosogai believes the project could make stronger local partnerships.

In 2011, Material got JIS Q 9100:2009 certification[28] with the aim of getting into the aerospace and defense markets. Although these markets are expected to grow in future, getting into them requires outstanding quality control and much knowledge of the law and other considerations. President Hosogai felt that if Material could get into a market with such high barriers to entry, it would show the world the company's high level of technology and knowledge. Now, Material is making a profit in these fields. As President Hosogai tells it, one of the challenges SMEs face is that they do not have enough knowledge to acquire certifications like JIS Q 9100:2009. As a result, SMEs without certification cannot objectively advertise their reliability. Even if they have advanced technical skill, they are not likely to get tapped by large enterprises as business partners, so they cannot make a profit this way. Going forward, it is going to be important for SMEs to get third-party certification like this to make them profitable, not as subcontractors for large enterprises, but in markets of their own.

Material has successfully opened new markets by building a mechanism for skilled human resources to develop, maintaining a high level of technical strength, and acquiring certifications, etc., necessary to use that strength. Furthermore, Material looks not only at its own growth but at the needs of its community. It is contributing to the growth of its community by forming frameworks for enterprise collaboration. Looking ahead 10 years, President Hosogai remarks, "I want this to be an attractive SME with enhanced technical strength and productivity."

President Hosogai and the Shitamachi bobsleigh

27) The Shitamachi Bobsleigh Network Project is an attempt to develop a made-in-Japan bobsleigh that can compete on the world stage. The project leaders include Material and small and medium workshops in Ota City.

28) A Japan Industrial Standard, JIS Q 9100:2009 was written based on the 9100 standard of the International Aerospace Quality Group (IAQG), without any change of technical content or structure.

Column 2-6-4 Status of SMEs' preparedness for risk

In this column, we look in more detail at the question discussed in Part II, Chapter 1 of SMEs' preparedness for risk, focusing on their awareness of the risks and their situation regarding countermeasures. As discussed in Chapter 4, amid a changing environment for SMEs, one of the key factors for SME management is preparing to deal with a variety of risks. In this column, we use the enterprise categories defined in Chapter 6, Section 1 to gain an overall perspective on SMEs' awareness with respect to preparing for risks and their progress in taking countermeasures against those risks (Fig. 2-1-24 (cited earlier)).

Let's begin by looking at some overall trends. We will take a more detailed look at the response rates later, but we can see that there are high levels of awareness of "Risks related to natural disasters", "Risks related to accidents and malfunctions of facilities/equipment" and "Product quality risks".

Next, we look at the particular characteristics in each enterprise category. If we begin by looking at "Profitable enterprises (1)", "Product quality risks" was the most popular response (78.0%), followed by "Risks related to accidents and malfunctions of facilities/equipment" (76.0%) and "Risks related to natural disasters" (73.4%). Compared with other enterprises, the "Profitable enterprises (1)" category notably had the highest proportion of respondents who selected "Information security risks".

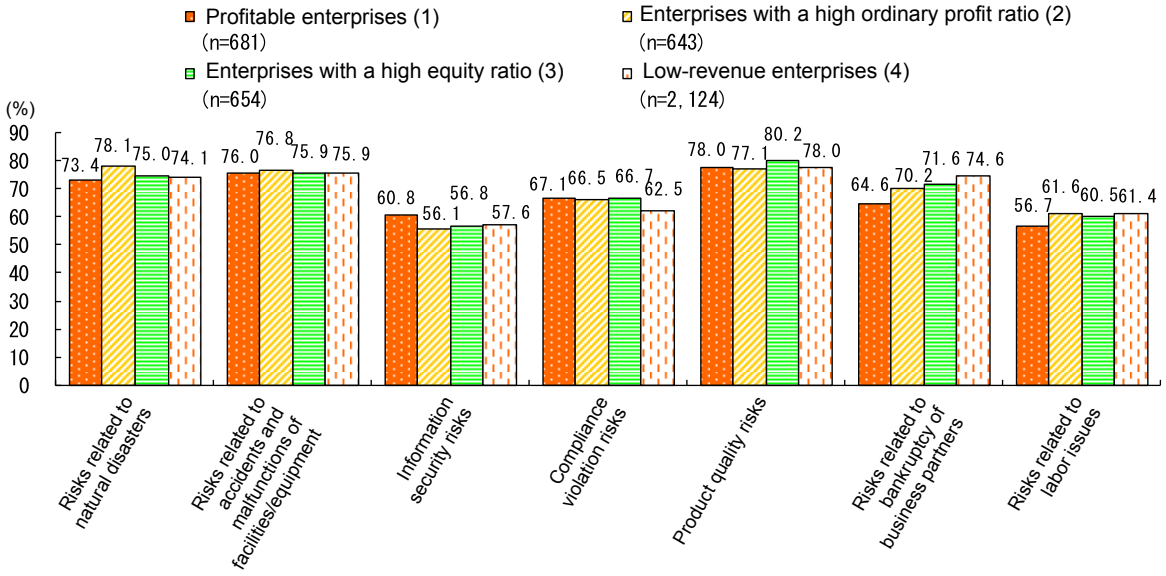
Looking next at "Enterprises with a high ordinary profit ratio (2)", "Risks related to natural disasters" was the most popular response (78.1%), followed by "Product quality risks" (77.1%) and then "Risks related to accidents and malfunctions of facilities/equipment" (76.8%). We also see that, compared with other enterprises, "Enterprises with a high ordinary profit ratio (2)" had the highest proportion of respondents who opted for "Risks related to natural disasters".

The third category looked at is "Enterprises with a high equity ratio (3)". Among "Enterprises with a high equity ratio (3)", the highest proportion (80.2%) chose the "Product quality risks" response, followed by "Risks related to accidents and malfunctions of facilities/equipment" (75.9%) and then "Risks related to natural disasters" (75.0%). Like "Profitable enterprises (1)", "Enterprises with a high equity ratio (3)" are also very conscious of "Product quality risks".

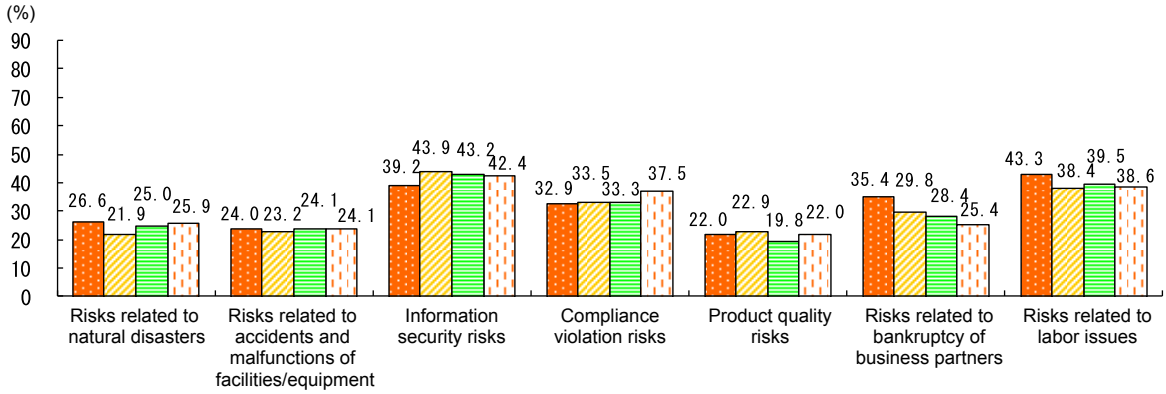
Looking finally at "Low-revenue enterprises (4)", "Product quality risks" was the most popular response (78.0%), followed by "Risks related to accidents and malfunctions of facilities/equipment" (75.9%) and "Risks related to bankruptcy of business partners" (74.6%). This indicates that "Low-revenue enterprises (4)" tend to be more conscious of "Risks related to bankruptcy of business partners" than the other enterprise categories.

Fig. 2-1-24 (Cited earlier) Attitude towards risk preparation, by company category

(1) Impacts are expected



(2) No impacts are expected



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Notes: 1. "Impact are expected" represents the sum of "Has a large impact" and "Has an impact" responses.
2. "No impact are expected" represents the sum of "Has a slight impact" and "Has almost no impact" responses.
3. "Other" responses are not presented here.
4. The enterprise categories are as defined for Fig. 2-6-5.

Next, we look at the status of risk countermeasures by SMEs (Fig. 2-1-25 (cited earlier)). If we begin by looking at overall trends, of the three risks with high recognition rates in Fig. 2-1-24 (cited earlier) ("Risks related to natural disasters", "Risks related to accidents and malfunctions of facilities/equipment" and "Product quality risks"), we see a trend for countermeasures to be prepared for "Risks related to accidents and malfunctions of facilities/equipment" and "Product quality risks". However, there appears to be little progress with countermeasures for "Risks related to natural disasters".

Next, we look at the results by enterprise category. Starting with "Profitable enterprises (1)", the response with the highest proportion for that category is "Product quality risks" (60.9%). This was followed by "Information security risks" (55.0%) and then "Risks related to accidents and malfunctions of facilities/equipment" (52.4%). The "Profitable enterprises (1)" had a higher proportion of responses than other enterprises for "Information security risks" in terms of their awareness of risks, and also has a high proportion of responses for risk countermeasures.

Next, when we look at "Enterprises with a high ordinary profit ratio (2)", the highest proportion of responses was for "Product quality risks" (55.9%), followed by "Risks related to accidents and malfunctions of facilities/equipment" (51.7%) and "Information security risks" (46.0%). The trends for the status of countermeasures are similar to those for "Profitable enterprises (1)", but with lower proportions of responses.

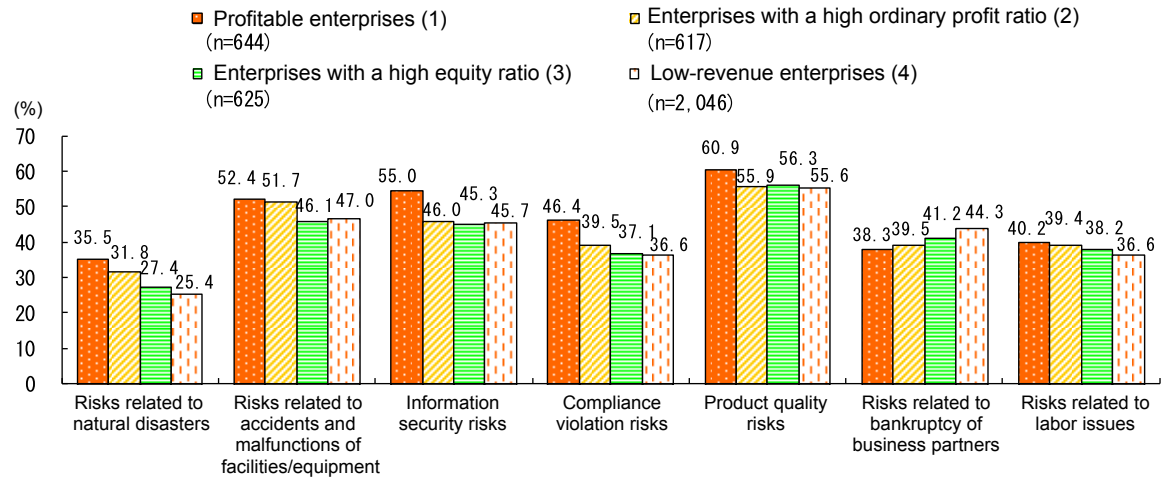
Thirdly, looking at "Enterprises with a high equity ratio (3)", the highest proportion of responses was for "Product quality risks" (56.3%), followed by "Risks related to accidents and malfunctions of facilities/equipment" (46.1%) and "Information security risks" (45.3%). The only response relating to the status of countermeasures that scored more than 50% was "Product quality risks", showing that the overall trend was for low levels of preparedness in terms of countermeasures.

Finally, looking at "Low-revenue enterprises (4)", the highest proportion of responses was for "Product quality risks" (55.6%), followed by "Risks related to accidents and malfunctions of facilities/equipment" (47.0%) and "Information security risks" (45.7%). Like "Enterprises with a high equity ratio (3)", the overall countermeasure status was low.

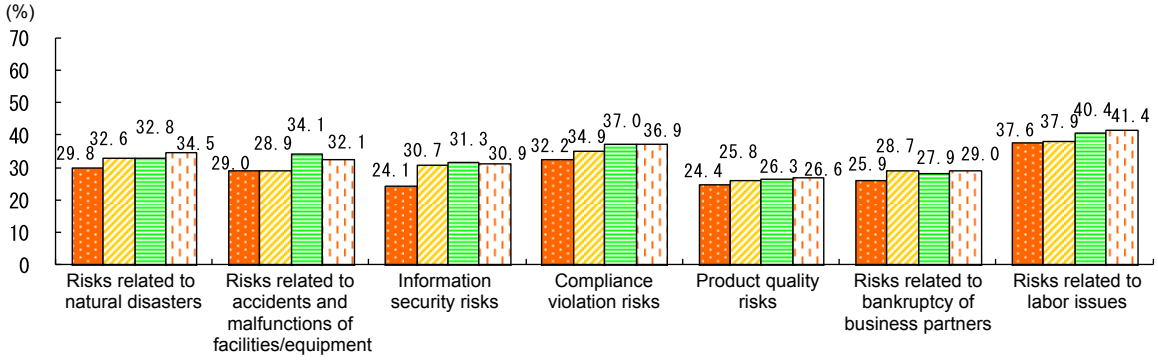
Summarizing the above, the trend seems to be that the higher the profitability of an enterprise, the greater its awareness of risks and countermeasures. However, we can also see that there is an overall tendency for enterprises to have made little progress with their risk countermeasures. This is particularly true with respect to "Risks related to natural disasters", where despite high levels of awareness of the impacts on business, the proportion of enterprises who have actual countermeasures in place is not high. Even among those enterprises that have not taken countermeasures, the proportion who responded "Risks related to natural disasters" is remarkably high. This suggests that progressing preparations against "Risks related to natural disasters" is an important issue. As we saw in Chapter 4, the formulation of a BCP not only boosts a company's preparedness against risks, it also increases the company's value as perceived by others. So it is important that enterprises take advantage of resources such as published manuals and seminars held by external agencies, and that their preparedness against risks be promoted through measures such as the formulation of BCPs.

Fig. 2-1-25 (Cited earlier) Measures against risks, by company category

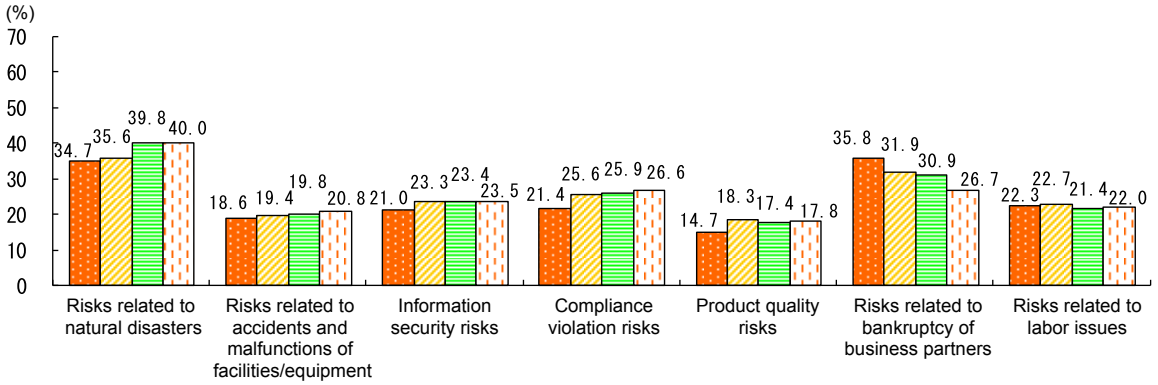
(1) Countermeasures have been taken



(2) Countermeasures are being considered



(3) No countermeasures have been taken



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Notes: 1. "Other" responses are not presented here.
2. The enterprise categories are as defined for Fig. 2-6-5.

Section 2 Managers' ages and earning power

In the previous section, we classified enterprises into four categories using ordinary profit and equity to total assets as indices and then looked at differences among the categories in their approaches to growth and their investment strategies.

In this section, we will focus our analysis on rejuvenation within enterprises as one aspect of enterprise growth.

Normally, rejuvenation among enterprises is frequently seen as being indicated by their participation in or withdrawal from the industry as a whole and business startups and shutdowns. But in this section, we will look at enterprise rejuvenation as indicated by the turnover of management and the recruitment of younger people into management positions, and we will analyze the correlation between the age groups to which managers belong and the profitability of the enterprises they manage. In the case of SMEs, the improvement or deterioration of the financial situation is often dependent on the capabilities of managers. The promotion of management rejuvenation could well be one of the most important issues for enterprise growth.

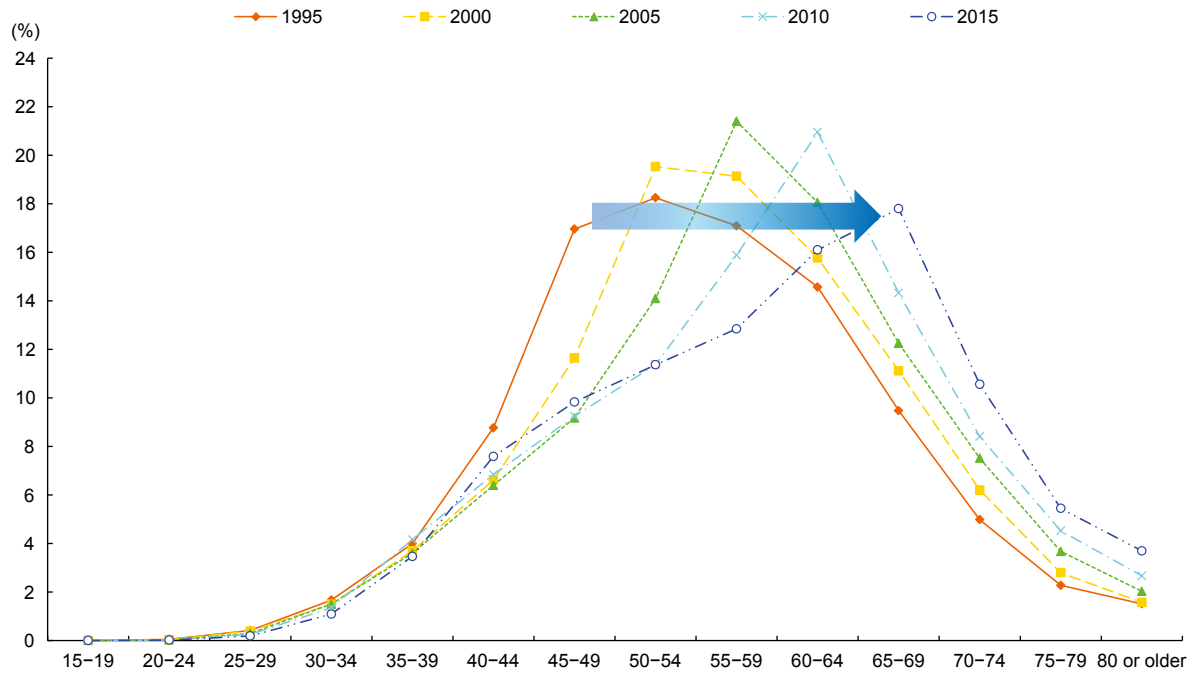
Bearing this in mind, this section will begin by examining the current situation with regard to management age groups. Based on this, we will then analyze the differences in the attitudes towards growth and appetites for investment according the age of the managers, and finally we will look at the impacts of manager replacement on performance.

1. Current age of management and differences in attitudes by manager age

Current age of management

Firstly, we look at the current situation regarding the age of the managers of SMEs. Fig. 2-6-37 shows the trend in the ages of representatives at five-year intervals since 1995. The figure shows that in 1995, the peak age for managers was 47, but that this peak shifted in the 2000s until, by 2015, the peak age had reached 66.

Fig. 2-6-37 Distribution of SME manager ages by age group

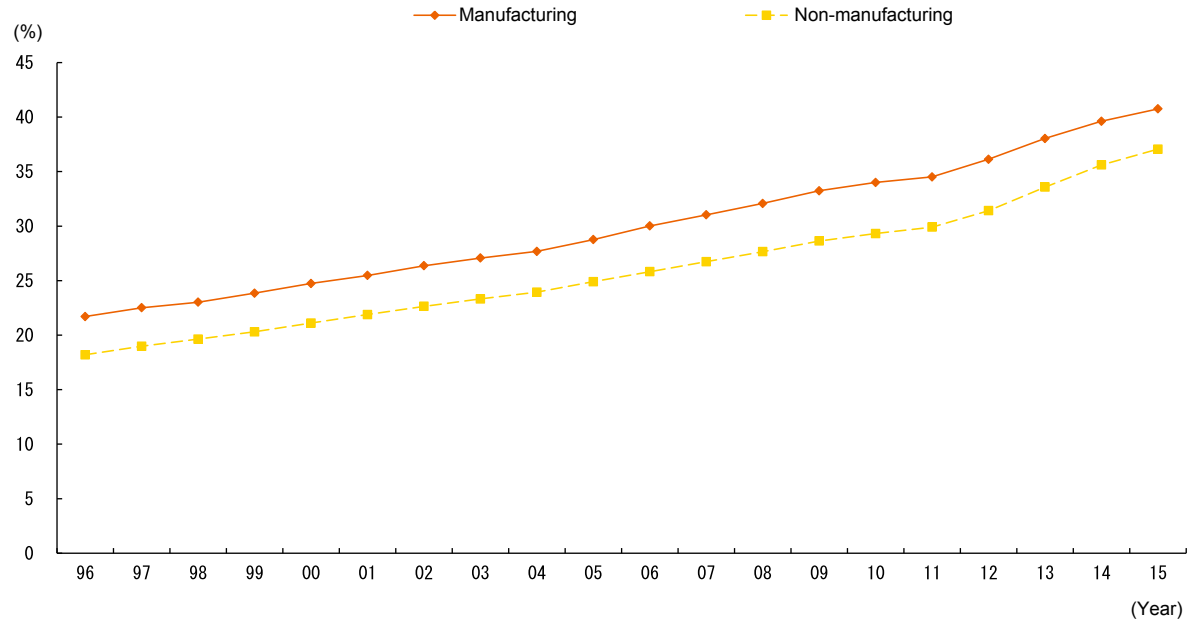


Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)*.

Next, Fig. 2-6-38 shows the trends in the proportions of managers in the 65 and older age groups according to industry.

In manufacturing, the proportion in the 65 and older age groups increased by around 15 percentage points, while in the non-manufacturing industries, we see an increase of around 10 percentage points. Fig. 2-6-38 clearly shows how managers are moving into older age groups in both manufacturing and non-manufacturing though there is about 5 percentage points gap between them.

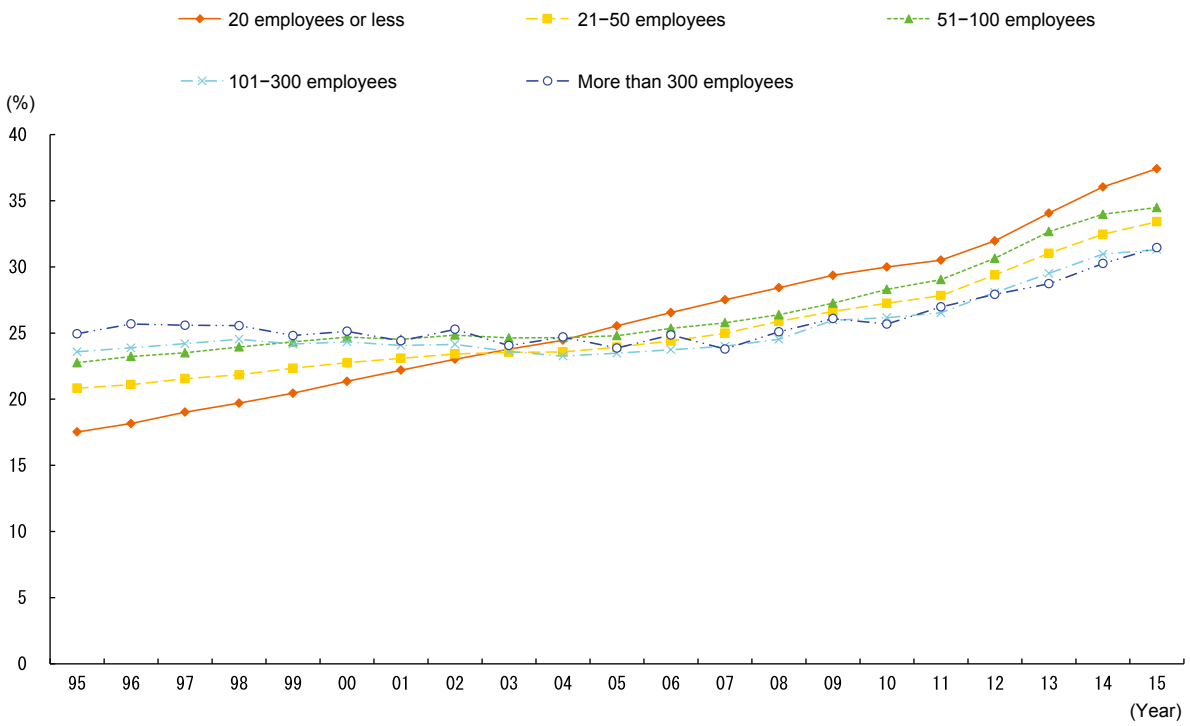
Fig. 2-6-38 Proportions of SME managers in the 65 and older age groups according to industry



Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)*.

We also look at trends over time in the proportions managers moving into older age groups relative to the number of employees in the enterprises (Fig. 2-6-39). The figure reveals that in 1995, enterprises with 20 employees or less had the lowest proportion of managers in the 65 and older age groups, but by 2015, the same sized enterprises had the highest proportion of managers in the 65 and older age groups. This indicates a tendency for smaller enterprises to be less likely to promote rejuvenation within the enterprise.

Fig. 2-6-39 Proportions of SME managers in the 65 and older age groups according to the number of employees

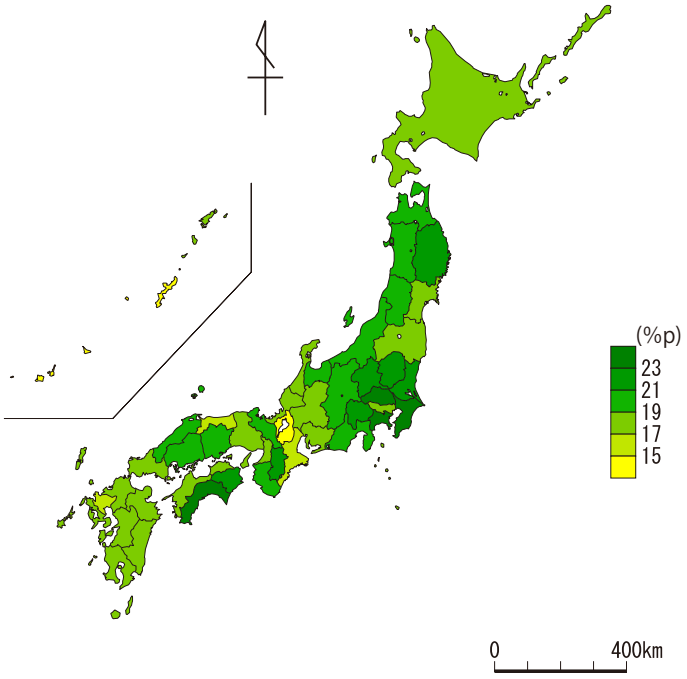


Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)*.

Column 2-6-5 Distribution of manager age groups by prefecture

In this Column, we look at the distribution of manager age groups in the different prefectures. Fig. Column 2-6-5 shows the changes in the ages of enterprise managers by prefecture between FY1995 and FY2015. For example, we can see that the proportion of managers aged 65 or more in Shiga prefecture increased by 15 percentage points between 1995 and 2015, which indicates a relatively low rate of aging in that region. When we look at the Tokyo metropolitan area, we see progressive aging, with the proportion of older managers increasing by 20 percentage points in almost every area.

Fig. Column 2-6-5 Proportions of SME managers in the 65 and older age groups according to prefecture (1995–2015)



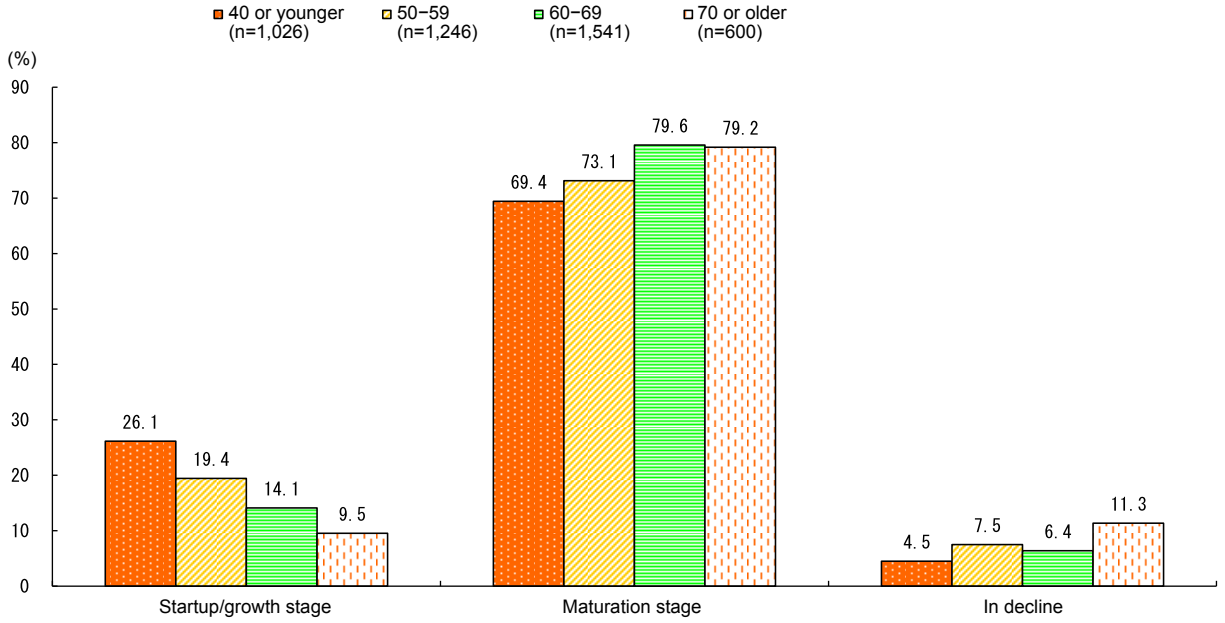
Source: Recompiled from Teikoku Databank, Ltd., *COSMOS2 (Corporate Profile Database)*.

2. Differences in managers' attitudes to growth by age group and the effects of management turnover on performance

Enterprise growth stages and managers' awareness of the external environment

Below, we will consider whether differences in the age groups of managers make a difference to their attitudes to growth and corporate culture. We begin by looking at the growth stages of enterprises according to the generational age of the managers. Fig. 2-6-40 shows that the younger the generation of the managers, the higher the proportion who responded that their enterprise is in the growth stage, and that as the managers age, more of them identify their enterprises as being in the maturation stage.

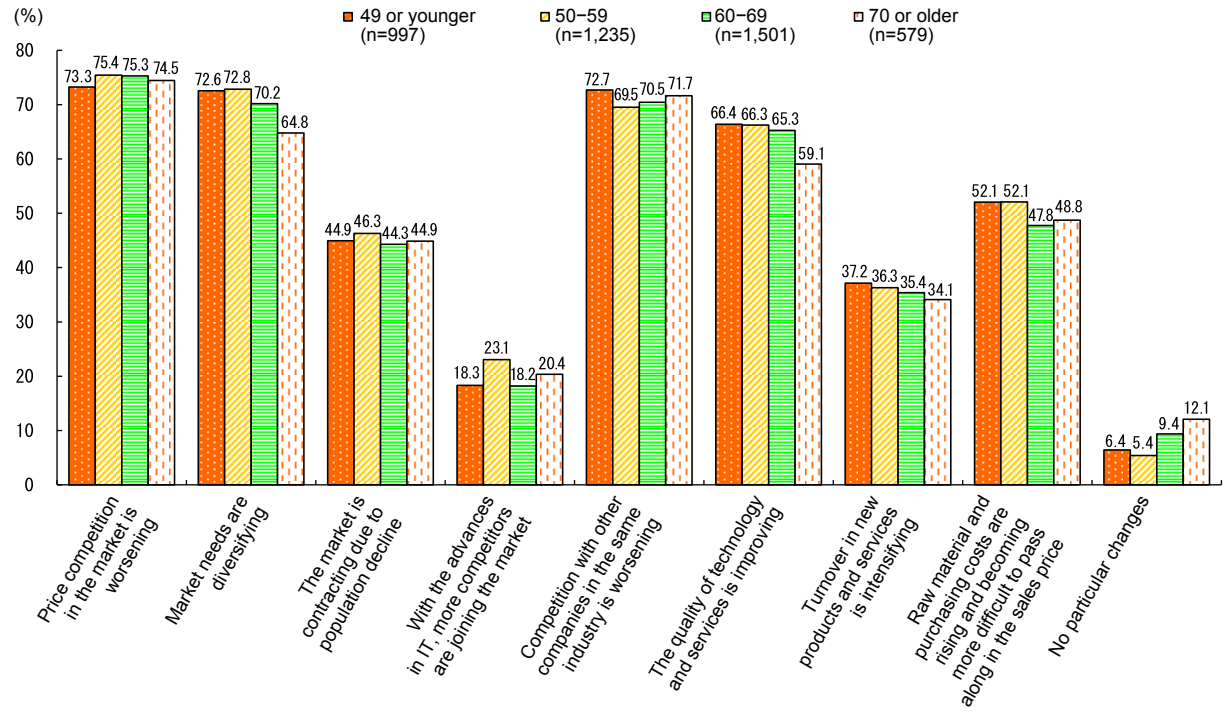
Fig. 2-6-40 Enterprise growth stages according to manager age



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: "Startup/growth stage" shows the combined total for those who responded "Startup stage" and "Growth stage".

Next, we move on to the level of recognition of changes in the competitive environment according to manager age. Looking at Fig. 2-6-41, we see that only a small proportion of managers aged 70 or more responded "Market needs are diversifying" or "The quality of technology and services is improving".

Fig. 2-6-41 Recognition of changes in the competitive environment by manager age

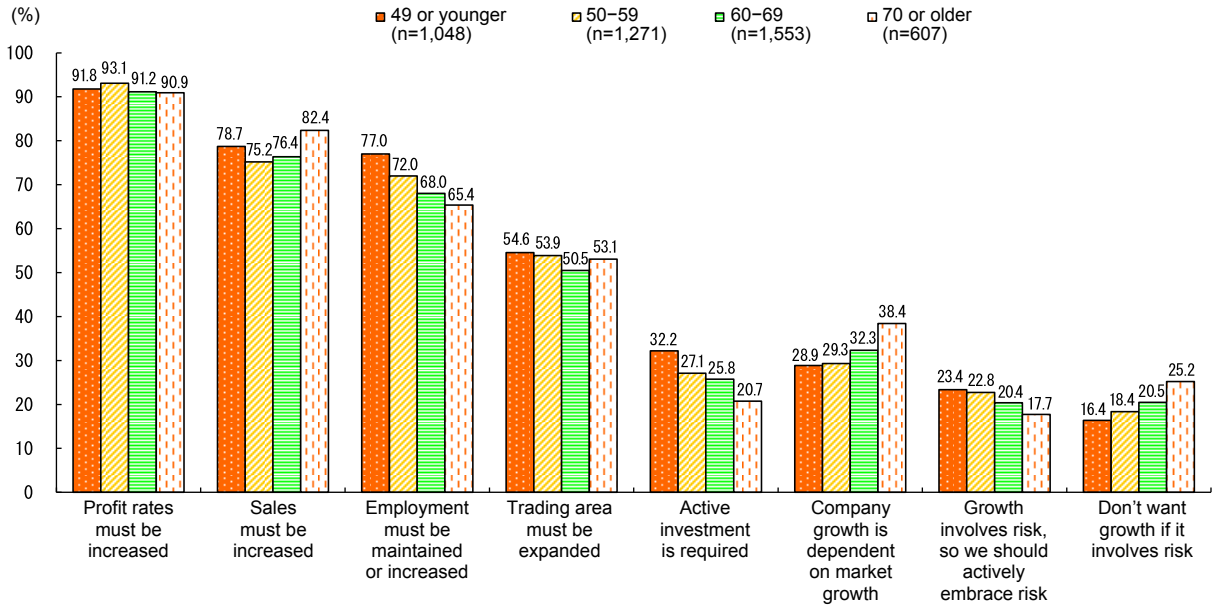


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Attitudes to Growth

The next area to examine is managers' attitudes to growth according to age. Fig. 2-6-42 shows that the "Profit rates must be increased" response accounted for a high proportion of choices across all age groups. However, the trend shows that the younger the managers, the higher the proportion who opted for "Active investment is required" and "Growth involves risk, so we should actively embrace risk". Conversely, the more senior the managers' age group, the higher the proportion who selected "Company growth is dependent on market growth" and "Don't want growth if it involves risk".

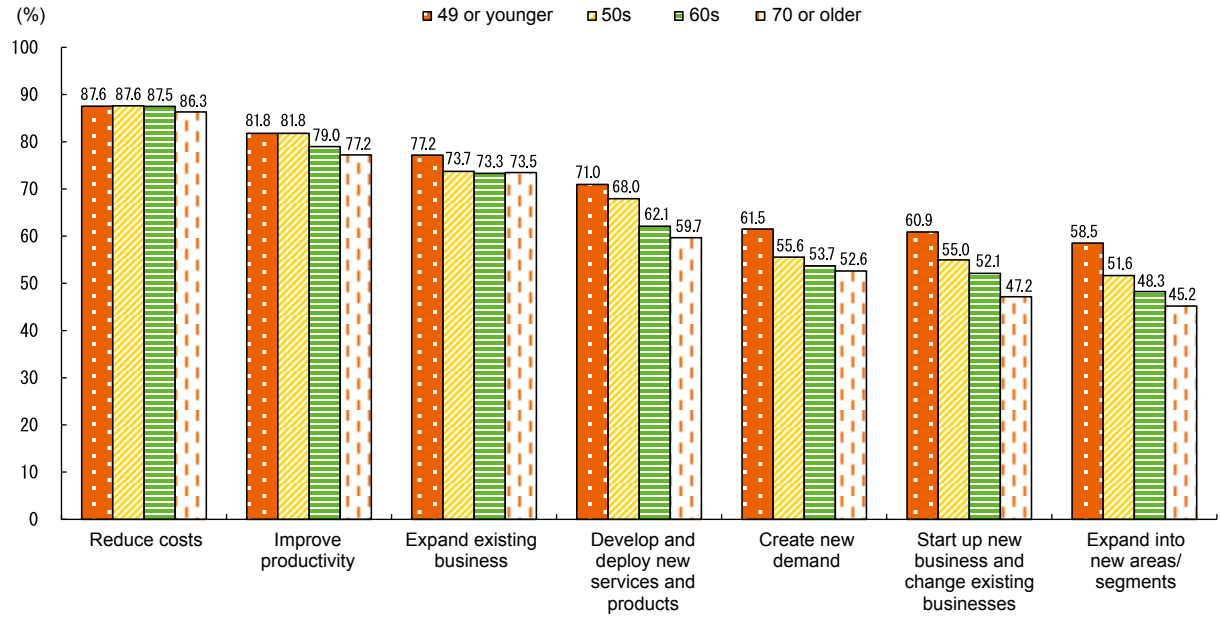
Fig. 2-6-42 Attitude towards growth according to manager age



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Next, we investigate respondents' appetites for future investment in growth (Fig. 2-6-43). When we look at the levels of appetite for investment in growth, there is strongly positive sentiment across all the age groups for investment that reduces costs or increases productivity. However, where the investment targets new initiatives, the strongest appetite is shown by the 49 or younger age group.

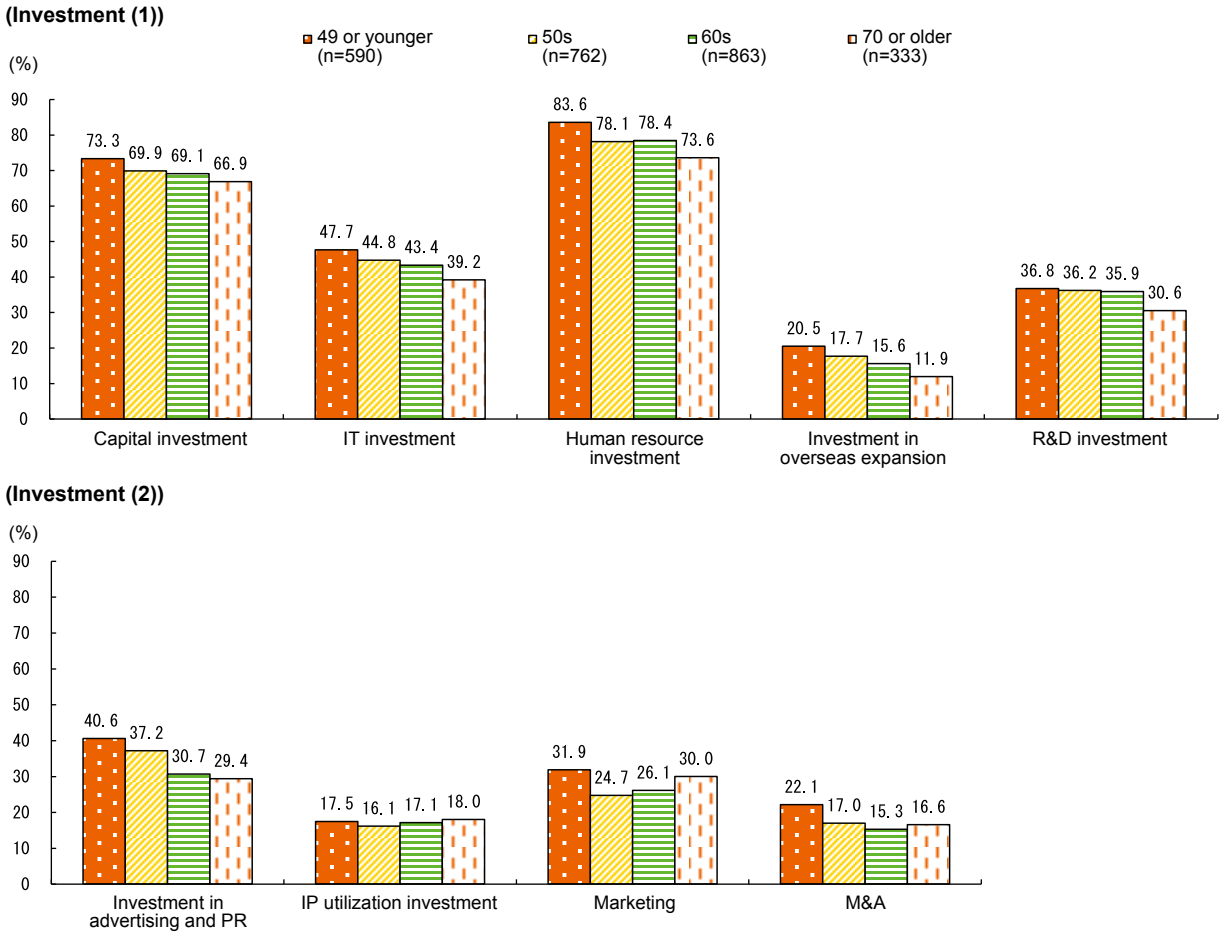
Fig. 2-6-43 Appetite for risk-taking behavior in the next 3 years according to manager age



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Next, in Fig. 2-6-44, we look at appetite for investment for the next 3 years by age group. Overall, the figure shows that as managers age, the proportion with an appetite for investment tends to decrease. But when we look at specific types of investment, we see that there is a consistently strong appetite for human resource investment across all age groups compared with other types of investment. On the other hand, none of the age groups tend to have much appetite for investment in overseas expansion or in IP utilization.

Fig. 2-6-44 Appetite for investment in the next 3 years according to manager age

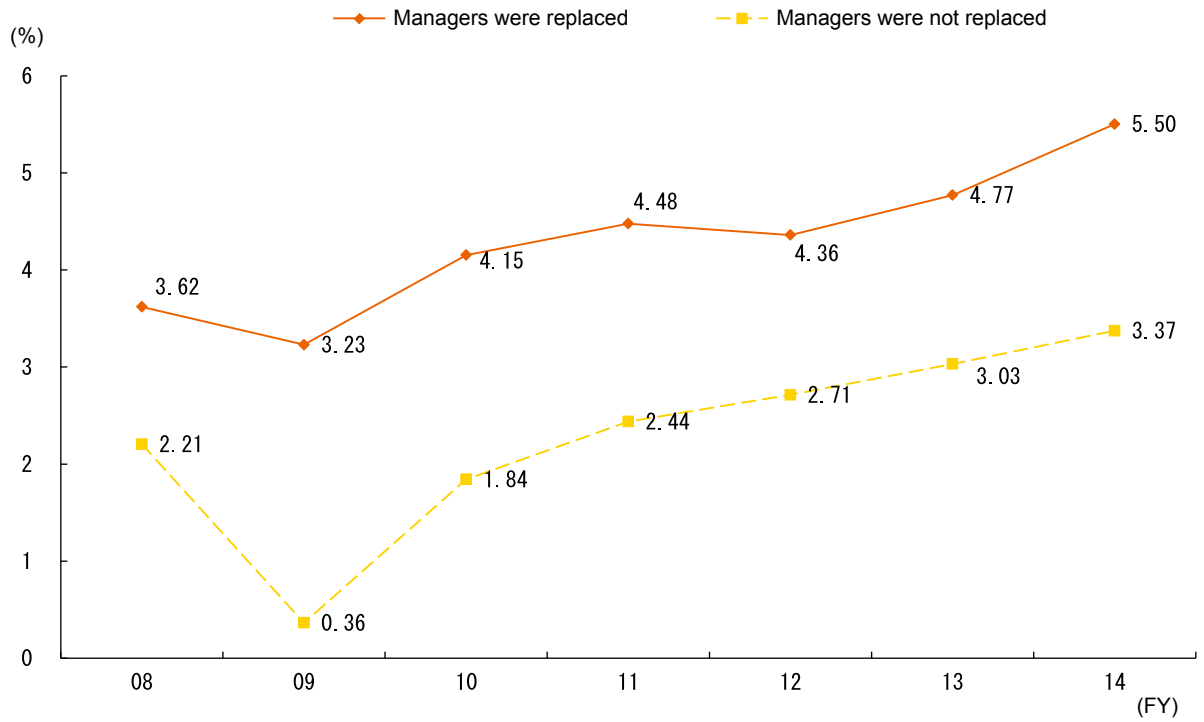


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Effects of Management Turnover

Here, we look at what effects replacing the management has on the performance of an enterprise. Fig. 2-6-45 shows the variations in the ordinary profit rate relative to manager replacement during the period from FY2007 to FY2008. Looking at the figure, it is clear that enterprises "Managers were replaced" experienced markedly larger increases in ordinary profit rate than enterprises where "Managers were not replaced", suggesting that manager turnover actually contributes to the profitability of an enterprise.

Fig. 2-6-45 Trends in ordinary profit rate depending on whether managers are replaced



Source: Recompiled from Teikoku Databank, Ltd., *COSMOS1 (Corporate Financial Database)* and *COSMOS2 (Corporate Profile Database).*

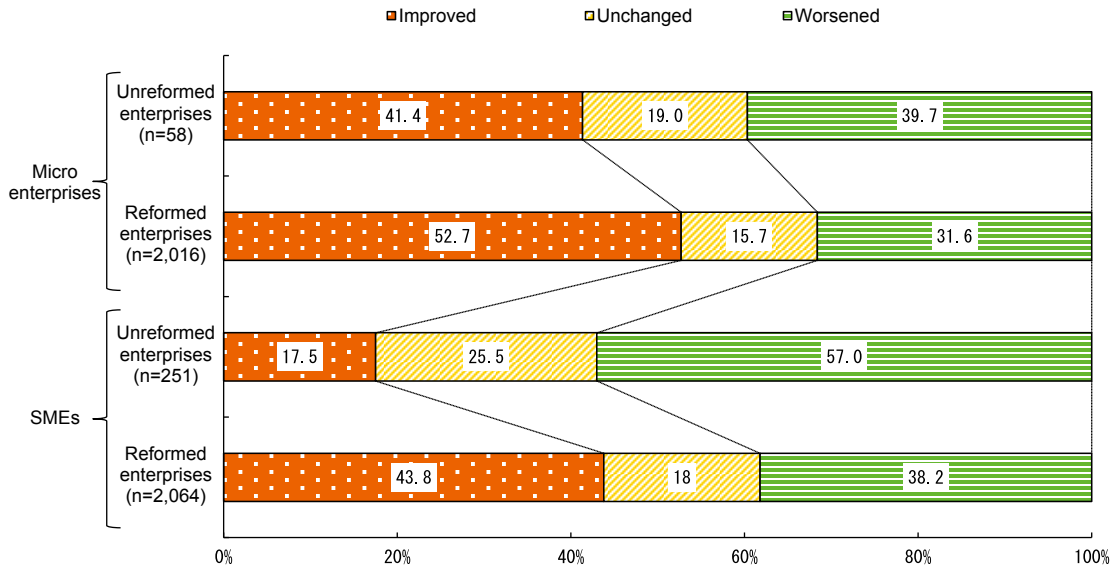
Note: "Managers were replaced" is calculated as an average value for enterprises where managers were replaced at SMEs with managers aged between 55 and 64 over the period from FY2007 to FY2008.

Column 2-6-6 Differences in post-succession performance according to management innovation initiative

In this section, we have analyzed the impacts of manager replacement on enterprise performance along with the differences in performance according to the age of the managers. But this column attempts to tease out whether any difference was made by initiatives aimed at management innovation by the new managers (the successors). Fig. Column 2-6-6 shows the results of a survey of the levels of performance improvement according to whether the successors implemented any management innovations. The figure shows that enterprises where the new management undertook initiatives to reform management had higher rates of performance improvement than enterprises where no measures were introduced. This applies particularly to micro enterprises, more than half of which reported performance improvements when innovations were introduced. By contrast, more than half of all SMEs where no management reforms were undertaken reported that business worsened.

The analysis in this section also indicates that replacing management with managers who are not elderly tends to lead to improved performance, but it is also clear that further improvements can be achieved if the successors implement management innovations[29].

Fig. Column 2-6-6 Post-succession performance according to management innovation initiative



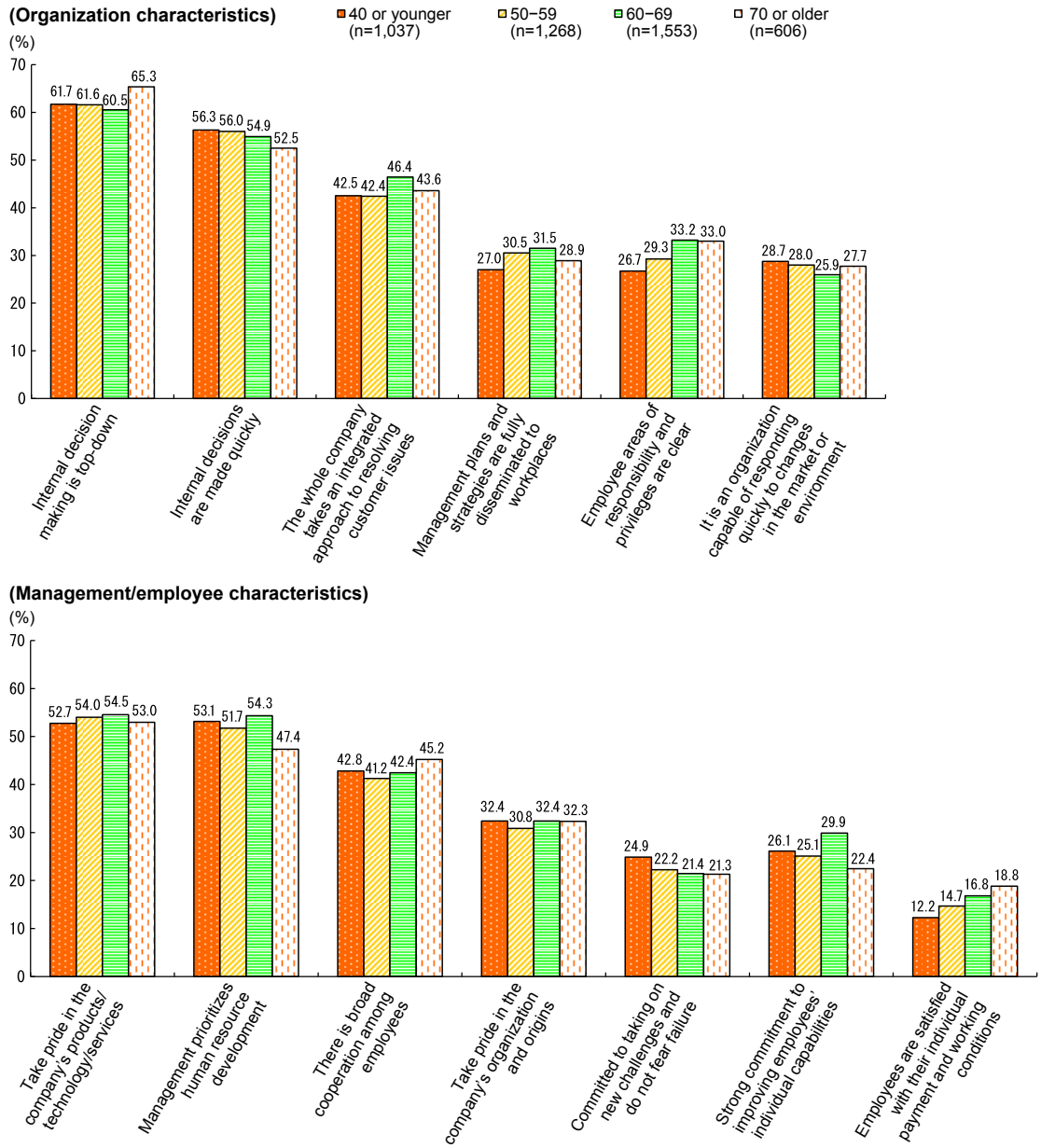
Source: Japan Finance Corporation (JFC) Research Institute, *SME Questionnaire Survey of Business Succession.*
Note: Micro enterprises are defined as enterprises with 19 or fewer employees, while SMEs are those with 20 employees or more.

29) See Japan Finance Corporation (JFC) Research Institute, *Japan Finance Corporation Collected Essays, Edition 29* (P.29–32).

Column 2-6-7 Management age and corporate culture

In this section, we have focused on the age of management and looked at the differences manager age makes to attitudes towards enterprise growth and appetites for investment. Now, we turn to the characteristics of enterprises' corporate culture according to the age of the management. Fig. Column 2-6-7 shows that a high proportion of younger managers tended to respond "Internal decisions are made quickly" and "It is an organization capable of responding quickly to changes in the market or environment", indicating a strong trend for them to be aware of agility as a characteristic of their enterprises. By contrast, the proportion of "The whole company takes an integrated approach to resolving customer issues", "Management plans and strategies are fully disseminated to workplaces" and "Employee areas of responsibility and privileges are clear" responses tend to be higher the more managers belong to the senior age groups, which indicates a strong trend for older managers to recognize systematic organization as a characteristic of their corporate culture.

Fig. Column 2-6-7 Corporate culture according to manager age

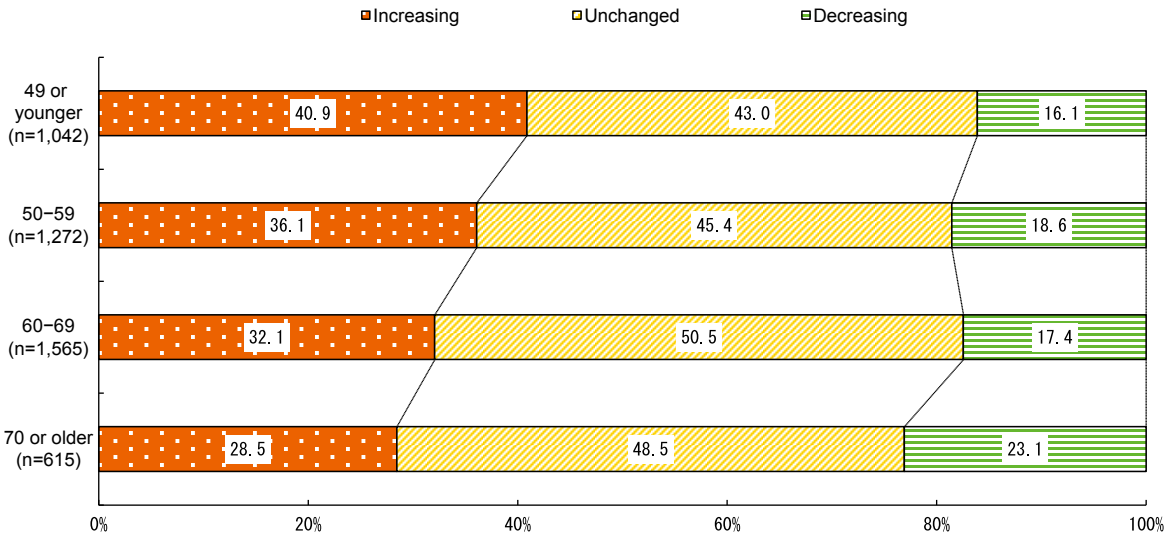


Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Column 2-6-8 Management age and future performance prospects

In this Column, we will try to identify differences in the expected outlook for future performance according the age of the management. Fig. Column 2-6-8 (1) shows future prospects for sales. The figure shows a clear trend for diminishing forecasts for increases in sales as the management grows older. Advancing age also appears to be accompanied by an increasing trend for managers to forecast declining sales.

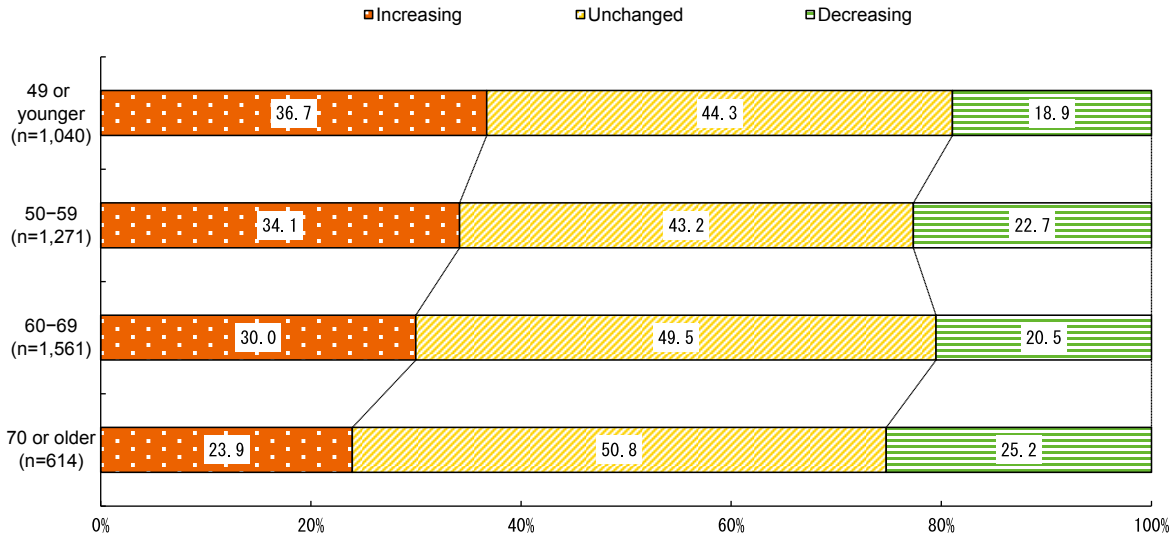
Fig. Column 2-6-8 (1) Predictions of future sales trends according to management age



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Next, in Fig. Column 2-6-8 (2), we look at the future prospects for ordinary profit. As with predictions of sales growth, the figure shows a trend for fewer forecast increases in ordinary profit as management grows older. And again, as the management age rises, there is a trend for increasing predictions of declines.

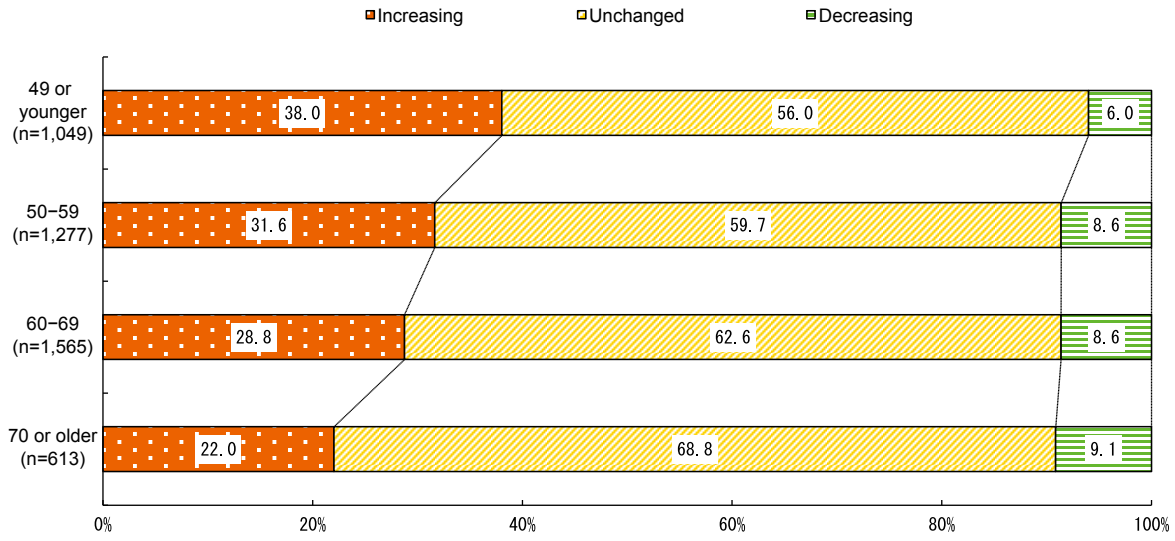
Fig. Column 2-6-8 (2) Predictions of future ordinary profit trends according to management age



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

If we also look at predictions of increases in employee numbers, the pattern again mimics that for predictions of sales and ordinary profit, with the figure showing a trend for fewer forecast increases in employee numbers as management grows older (Fig. Column 2-6-8 (3)). And again, as the management age rises, there is a trend for increasing predictions of declines.

Fig. Column 2-6-8 (3) Predictions of future trends in employee numbers according to management age



Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.

Case 2-6-10 Nihon Dento Kougyo Co., Ltd.

A plating company that took the occasion of a change of leadership to reform employee awareness and break into new fields, aiming to be an enterprise loved by society

Nihon Dento Kougyo Co., Ltd. (employees: 73; capital: ¥10 million), based in Saitama City in Saitama Prefecture, specializes in small-lot production of multiple varieties of products, with a key focus on plating and surface treatment. The firm took the occasion of the installation of current President Mami Ito to overhaul employee awareness and break into new business domains while taking advantage of their existing technologies.

At the time she took office, President Ito had no executive experience and not enough knowledge about plating. However, she recalled that her father, the founder of the company, had always valued relationships with employees and used that to power company growth. Her idea was that "Enhancing employee satisfaction will help the company grow." To turn that idea into reality, President Ito decided that "Enhancing employee satisfaction can't be a top-down effort. It's important that employees gain a stronger awareness of their own work and develop the power to make decisions." In recent years, therefore, Nihon Dento Kougyo has been putting more focus into strengthening employee training and developing leaders. As for strengthening employee training, President Ito felt that bringing in an outside perspective would help people see their jobs through new eyes, and she encourages her employees to actively participate in a variety of study groups meeting outside the firm. She also started recruiting employees interested in becoming leaders. The company started providing leader training from an outside teacher to those who stepped up, and six young employees are continuing the training today.

These initiatives have resulted in a big change of employee awareness compared to before. Recently, employees think about yearly policies for their own business areas and present them to other company members at the start of the fiscal year. Employees from other departments also offer their opinions in this setup. Another benefit is that employees have a greater sense of participating in management. For example, monthly profit and loss statements are shared with employees. If any business area is declining, they think not only about cost control, but how to add more value. Besides changing awareness, President Ito believes it is essential that employees, not just the President, look to the future and make decisions on important issues like future business development or capital investment. Making such important decisions is not easy without experience, of course, but with the help of existing leaders and through employee development, employees have greatly increased their experience grasping the issues and making decisions. Gradually, Nihon Dento Kougyo is forming a foundation for its future.

President Ito also feels it is Nihon Dento Kougyo's mission to build a business that can last a century, a goal she has shared with her employees. To get to the century mark, she believes that as the market changes, so must the company. This means that her business cannot afford to get stuck in their old ways of thinking and doing things. She is trying to create a corporate culture that actively adopts new ideas and initiatives and survives by being flexible to changes in the market.

Aside from reforming employee awareness to make a stronger organization, President Ito is working to expand the scope of Nippon Dento Kougyo's business. When she first became President, the company's main business was plating watch cases. Now they have expanded into a range of fields, including musical wind instruments, writing instruments, medical devices, and beauty instruments. Now she aims to develop businesses outside of plating, businesses that will "bloom in 10 years." The company has already begun a number of projects, including joint research with universities. Starting to work with one particular medical product was the start of the company's business expansion. Because of the technical difficulty of the product and the fact of its use in medical applications, any defect would have a major negative impact on the company, and for that reason some employees opposed the idea. President Ito, however, mobilized her staff with her passion and leadership until the business was successful. For a company to survive when the market is changing at a dizzying pace, each business has to maintain the excellence of its unique technologies while actively developing new markets and changing internally. To do that, it is important to have an executive with strong resolve promoting operations, to have employees who do their work with a sense of ownership, and to have a mindset that does not get stuck in old frameworks.

Speaking of her company's future, President Ito says, "A labor force of about 80 members is just right for Nihon Dento Kougyo's business model, which is based on small-lot production of multiple varieties of products. We want to have an appropriate replacement of employees and executives, pursue the kind of value only we can offer, and raise employee satisfaction to new heights. By doing this, we want to be a company that creates a positive cycle not just for ourselves but for society, so that the company will be loved by society."

President Ito with employees of Nihon Dento Kougyo

Case 2-6-11 Fukurokujyu Brewery Co., Ltd.

Upon change of leadership, sake brewer switches to an added-value strategy to restore profitability

Fukurokujyu Brewery Co., Ltd. (employees: 19; capital: ¥25 million), based in Gojome Town in Akita Prefecture and founded in 1688, is a brewer of *seishu* (refined sake). Current President Kouei Watanabe joined the company after graduating from university in 2001. He is the 16th generation of his family to run the business. Faced with declining sales, President Watanabe embarked on a reform of his company rather than sticking to tradition. The firm launched a new *seishu* and successfully restored and strengthened its profitability.

At the time he joined Fukurokujyu Brewery, it was marketing mainly to local liquor stores and wholesalers. The majority of the company's sales came from inexpensive *futsushu* (ordinary-quality sake)[30] sold within the same prefecture. Therefore the business faced a dire situation as the population was declining and consumer tastes were changing. Additionally, the company's approach to negotiating sale prices did not even try to convince customers of the product's quality and added value. The President grew skeptical of this approach and decided to make a refined sake of very high quality.

President Watanabe made large-scale capital investment in a warehouse, refrigerators, and the like to make a high-added-value sake completely different from the *futsushu* it had made up to then. He also tried to develop a more delicate taste by reconsidering his brewing methods, including storage after pasteurization. Another approach he adopted was to bypass the wholesalers and sell directly to liquor retailers. To do so, he searched for retailers who would really convey the value of his company's products. Moreover, when Watanabe became President in 2004, the company decided to break away from its old image. The company took the name Fukurokujyu Brewery Co., Ltd., replacing its old name of Watanabe Hikobee Shoten Co., Ltd. It then went on to finish its new product, Ippaku Suisei, in 2006.

One reason why Fukurokujyu Brewery's investment succeeded in reforming the company was that the executive did not take a top-down approach, imposing his own ideas and decisions on his employees. Rather, he first shared his ideas with the employees, incorporated their feedback, and corrected course in his management.

Another factor is that he expressed his own feelings about sake to his employees, telling them about the kind of sake he wanted to make and what kind of customer he wanted to target. As a result, all employees, even the *toji*,[31] were of the same mind. Finally, the executive personally learned market trends and information, which helped him to predict future market trends and be sure of the timing of his investment.

The added value strategy was so successful that Fukurokujyu Brewery now surpasses its past net sales and profitability even though it is only producing half as much. Aside from running his own company, President Watanabe is part of NEXT FIVE,[32] an association of five young sake brewers in Akita Prefecture. The group formed NEXT FIVE to make refined sake popular again. Members share opinions and technologies on brewing methods and the like that are considered trade secrets. NEXT FIVE has also continued to brew one type of refined sake together every year. Their collaborative product has been very popular among sake lovers. Participation in a group like this is one way President Watanabe shows his determination to teach the market the value of refined sake and not get stuck in tradition.

Even as its traditional technologies remain its foundation, Fukurokujyu Brewery has made big changes in its business policies and successfully restored its profitability. The effort has resulted in a new customer base for refined sake, even at a time when the market for the product is shrinking. Commenting on future initiatives, President Watanabe says that "The issue is how to increase the value of our products even more."

Fukurokujyu Brewery (the facility is a registered tangible cultural property of Akita Prefecture)

President Watanabe

30) Under Japan's liquor tax act, *futsushu* is any refined sake other than *tokutei meishoshu* (specially designated sakes, i.e., *honjozoshu* / pure-brew sake, *junmaishu* / sake made without added alcohol or sugar, and *ginjoshu* / sake brewed by low-temperature fermentation from white rice milled to 60%).

31) In a Japanese sake brewery, the *toji* or chief brewer has highest responsibility for the brewing process.

32) NEXT FIVE activities are designed to exchange technology and information as a stimulus to breweries. The group brews sake together once a year and holds events intended to promote Japanese sake.

Case 2-6-12 Amauchi Industry Co., Ltd.

A precision sheet metal working company that aims to no longer "wait for work" but instead "think and work" to meet customer needs

Amauchi Industry Co., Ltd. (employees: 25; capital: ¥21 million), based in Yokohama City in Kanagawa Prefecture, works mainly in precision sheet metal work as its pursues processing, product, and development opportunities. Under the leadership of current President Miwa Amauchi, the company decided to strike a new image. Instead of merely waiting for customers to come to it, the business aims to think about customer needs and do business accordingly. The company is growing under this policy.

President Amauchi joined the firm when it was hit by the Lehman crisis. In 2014 she became President. She worked on reforming the company from within to restore it. Among its important changes, it established a new vision and philosophy and actively got its message out. President Amauchi felt the company had superior technical skill, but to get back to profitability, it would be necessary for the organization to pull together as one. Therefore, by stating clear company principles and vision, she tried to share with her employees how the company could contribute to society and express her vision of what it could be. She tried to unite the company and build it into one that could contribute to customers.

Additionally, President Amauchi sensed the company had problems in its marketing capacity. She said, "At the time of my grandfather and father, manufacturing businesses were thriving and there was plenty of work. Thankfully, it was more than enough to handle the work in front of them." That led to a culture of "waiting for work"—not working until a customer placed an order. Employees were not cultivating new jobs and customers by acting proactively. However, nowadays when big changes are unavoidable, this old way of working does not apply. To survive, President Amauchi aimed to build a company that could think and act independently, by actively spreading company information to society and at the same time seeking out customer needs. Specifically, by using the Internet, holding workshops, and participating in R&D projects in collaborations with other businesses, Amauchi could demonstrate its technical skill to a wider audience and develop new customers and markets. For example, engineers of major companies also took part in some of Amauchi's workshops, which could lead to new customers in future. Additionally, while spreading information about the company, President Amauchi began to sense there were latent markets that could use her firm's technology. She notes, "Precision sheet metal work is a business with a visibility issue, but the market is broad-based."

At a precision sheet metal workshop, participants gets hands-on experience with bending

In the process of effecting these changes, some objected. They said that instead of spending time on long-term planning and pipe dreams, Amauchi should focus on building sales with work immediately available. However, President Amauchi saw that the market environment facing the company was clearly changing, and felt strongly that her business would not survive if it did not keep responding to the changes. Instead of giving up, she encouraged her executives and employees to understand the objectives of her long-term vision and her view of the future. People started to help establish a vision and cooperate with sample making and other projects to promote Amauchi's technology. This strong leadership on the part of the President has become a key part of the company's return to profitability.

Going forward, President Amauchi says the task is to build a brand for Amauchi Industry's precision sheet metal technology. Currently, the focus is on robotics but the company is also getting into the medical, aerospace, and other fields. She says, "We are here today because our customers fostered us with quite a bit of discipline. We plan to take on leading-edge areas and build up knowledge so we will be able to contribute to our customers in one way or another. As we do so, we will never forget to feel grateful."

Sample of a stainless steel product from Amauchi Industry (trescopic_box)

3. Summary

In this chapter, we have conducted an analysis to identify the characteristics of profitable enterprises and of management that will lead SMEs to grow into profitable enterprises. While not all profitable enterprises have a strong inclination towards investment, it is clear that the more enterprises are aware of the need to grow, the greater their appetite for investment. We have also shown that Japan has many enterprises that have strong latent potential to grow into "profitable enterprises". In order for these enterprises with their ample latent potential to translate that potential into actual growth, they need to focus on market trends and on their own areas of excellence. It is important for managers to put forward ideas for growth and to work with outside specialists such as financial institutions while uniting their organizations to push ahead with investment. At the same time, they should also be preparing for risk and drawing up methodical business succession plans as they work to boost their earning power.

Summary of the 2016 White Paper on Small and Medium Enterprises in Japan

In Part I, we demonstrated a number of trends among SMEs. These showed that, on the one hand ordinary profits have climbed to equal past peaks, business failures are in decline and the pace at which the number of SME businesses are declining has slowed, while on the other hand sales by SMEs are not increasing, growth in capital investment is softening, infrastructure is deteriorating and worker shortages are becoming increasingly severe.

Given this situation where ordinary profits have risen to historically high levels, it is vital that SMEs increase their earning power through measures such as labor savings, streamlining and sales expansion. So in Part II onwards, we conducted consistent analyses focusing on the earning power of SMEs. In Chapters 2 to 4, we analyzed the use of IT to improve productivity, overseas expansion as a way to expand sales and the role of risk management in supporting earning power. The analysis results showed a number of points held in common across all profitable enterprises, namely that the managers: (1) showed clear vision; (2) welcomed feedback from employees; (3) undertook human resource development; (4) used more advanced business processes, and; (5) pursued measured and systematic investment, etc.

In Chapter 5, we looked at the funding available to assist SMEs and showed that, while there is improvement in financial institutions' attitudes towards lending to SMEs, loans by financial institutions to SMEs are not growing as fast as loans to large enterprises. Also, though enterprises who borrow from financial institutions tend to have higher profitability than enterprises with no borrowings and both SMEs and financial institutions stress the importance of feasibility assessment-based funding as a future financing method, assessments tend to be based on the current financial information and assets in reserve. In addition, we also discussed the fact that, in order to proceed with financing based on feasibility assessments, enterprises need to effectively communicate information such as business plans to the financial institutions, and that support for the financial institutions themselves needs to be boosted through cooperation with other support agencies.

Then, in Chapter 6, we looked at management capabilities in profitable enterprises and showed that, while low-profit enterprises tended to have conservative attitudes towards investment, particularly with regard to capital investment and investment in human resource development, high-profit enterprises have a systematic and positive approach to investment and are generally engaging in measures to deal with risks. We also showed that, as the age of management rises, appetite for investment declines and there is a growing shift towards risk avoidance, while in enterprises where managers have been replaced, profit rates tend to increase, albeit only slightly.

Based on these findings, we would like to conclude this 2016 White Paper on Small and Medium Enterprises in Japan with the expectation that future managers will listen carefully to feedback from their workplaces, will clearly set out their management concepts and will work hand-in-hand with financial institutions and other external agencies to provide positive management. We also expect that they will positively engage in investment in growth, such as investment in IT and overseas expansion, and that they will take steps to boost productivity and rejuvenate their organizations so that they can increase their own earning power.

SME policies implemented in fiscal 2015

Contents

SME policies implemented in fiscal 2015

Chapter 1 Detailed support for SMEs in disaster-affected regions

Section 1 SME and micro-businesses measures with respect to the Great East Japan Earthquake

1. Great East Japan Earthquake Recovery Special Loan

[Fiscal 2015 budget: Included in ¥20.5 billion]

Since May 2011, there has been ongoing provision of the Great East Japan Earthquake Recovery Special Loan program, which is provided by the Japan Finance Corporation (JFC) (SME Unit and Micro Business and Individual Unit) and the Shoko Chukin Bank to assist SMEs and micro-businesses affected by the Great East Japan Earthquake with their cash-flow issues. Between the start of this program's operation on 23 May 2011 and the end of January 2016, a total of approx. 288,000 loans have been made with a total value of approx. ¥6 trillion. Those measures that were created in fiscal 2011 (measures as of 22 August 2011) for implementation by prefectural level foundations and similar institutions to effectively eliminate the burden of interest payments on loans received by SMEs and micro-businesses with business establishments located in restricted areas or similar zones when they were imposed following the nuclear accident in Fukushima, and for SMEs and micro-businesses with business establishments and other assets that were completely destroyed or swept away by the earthquake or tsunami, were continued in fiscal 2015.

2. Loan ceilings and lowering of interest rates on Managerial Improvement Loans (Marukei loans) and Managerial Improvement Loans for Environmental Health Business Loans (Eikei loans)

[Fiscal investment and loan program]

The loan ceilings for unsecured, unguaranteed and low-interest Marukei and Eikei loans provided by the JFC to micro businesses affected directly or indirectly by the Great East Japan Earthquake were raised continually (by ¥10 million separately from ordinary loans) and interest rates were lowered (by an additional 0.9% from the normal interest rate for each ¥10 million loaned separately, limited to 3 years from when the loan is taken out). Between April 2015 and the end of January 2016, a total of 547 Marukei and 11 Eikei loans were made, respectively worth ¥1.81 billion and ¥30 million.

3. Great East Japan Earthquake Recovery Emergency Guarantee

To assist SMEs and other businesses affected by the Great East Japan Earthquake, a new guarantee system was established in fiscal 2011 as a separate framework from existing ordinary guarantees, disaster-related guarantees and safety net guarantees. The system continued to be implemented in fiscal 2015 in specific disaster affected areas (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). Between the start of this program's operation on 23 May 2011 and the end of January 2016, a total of approx. 123,000 loans were made with a total value of approx. ¥2.5 trillion.

4. "Special Finance for Small and Medium Enterprises in the Specified Area" affected by the nuclear disaster

In order to assist SMEs and other businesses that have offices in regions affected by the nuclear power plant accident, long-term, interest-free, unsecured loans were offered to provide business funds (working capital and capital expenditure) required to continue or resume business in Fukushima prefecture.

Section 2 Countermeasures for the overlapping debt problem

1. Business revival assistance from Industrial Recovery Consultation Centers and Industry Reconstruction Corporations

[Fiscal 2015 budget: ¥3.06 billion]

In fiscal 2011, support for the revival of SMEs damaged by the Great East Japan Earthquake was enhanced by strengthening the SME Revitalization Support Councils and establishing Industrial Recovery Consultation Centers in the affected prefectures, and by establishing Industry Reconstruction Corporations to buy receivables, etc. Up to 26 February 2016, 4,989 consultations from business owners have been handled by Industrial Recovery Consultation Centers in each prefecture, including 4,859 consultations that were carried through to completion. A key achievement was the 902 cases where organizations such as financial institutions agreed to provide financial support, including 324 cases of debt-factoring.

2. Business revival assistance from the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake

To cope with the overlapping debt problems of earthquake-affected businesses, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake provided assistance such as helping to relieve the repayment burdens for existing

debts. Since it began operating on 5 March 2012, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake has so far received 2,416 consultations and in 662 of those cases has decided to support business owners to revive their businesses through measures such as debt-factoring (as of the end of February 2016).

3. **Reduction of interest burden during assessment of the potential for business regeneration**
[Fiscal 2015 budget: ¥18.4 billion]
This program supports the early business revival of SMEs and micro-businesses that have suffered damage in the Great East Japan Earthquake or the nuclear power plant accident in Fukushima, by reducing the interest burden of those who work with an Industrial Recovery Consultation Center to rebuilt their business. More specifically, with respect to businesses that have received assistance from an Industrial Recovery Consultation Center to formulate a regeneration plan, the program defrays the cost of interest they incur during the reconstruction process. The program was established in fiscal 2011 and was implemented ongoingly in fiscal 2015.

4. **Lease subsidy program to support SMEs in disaster-affected areas**
In order to reduce the burden of overlapping debt borne by disaster-affected SMEs, SMEs burdened with lease obligations due to leased equipment that was lost during the Great East Japan Earthquake are provided with subsidies equivalent to 10% of the cost of the new leases to re-install the equipment.

Section 3 Support for restoration of plants, etc.

1. **Post-disaster recovery project on joint facilities of small and medium business associations, etc.**
[Fiscal 2015 budget: ¥40 billion]
In order to promote the restoration and reconstruction of areas affected by the Great East Japan Earthquake, support was provided through the following subsidies:
(1) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of restoration work on facilities and equipment required for implementation of restoration work planned by groups of SMEs and approved by the prefecture as making an important contribution to the regional economy and maintaining employment; and
(2) Subsidization by the national government of (one half) the cost of disaster recovery projects such as for Societies of Commerce and Industry and other such instruction and consultation facilities for SMEs, and support recovery of facilities held by groups of disaster-affected SMEs and others.
Support was also provided for the implementation of new initiatives that aim to cultivate demand in new fields in cases where business resumption or continuation or recovery of sales was deemed to be difficult simply by restoring the abovementioned facilities.

2. **Loans for restoration and development of facilities and equipment**
Loans were provided by the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) in cooperation with the prefectures to provide funds needed for the repair and development of the facilities and equipment required for the implementation of prefecture approved restoration plans by SMEs that suffered damage caused by the Great East Japan Earthquake.

3. **Projects for maintenance of temporary facilities and subsidy program for the effective utilization of temporary facilities**
[Fiscal 2015 budget: Included in ¥1.42 billion]
So that SMEs affected by the Great East Japan Earthquake can resume business as quickly as possible, the SMRJ provided temporary factories and storefronts and essentially cost-free loans were provided to business owners via local governments. As of the end of December 2015, the construction of facilities has been completed at 585 locations in 52 municipalities in six prefectures. Additionally, from April 2014, subsidies have begun to be provided for costs required for the construction, relocation and removal of temporary facilities, and 13 projects have been subsidized under this program as of the end of January 2016.

4. **Program to create employment that promotes business recovery**
[Fiscal 2015 budget: ¥12.2 billion]
In order to create stable employment in disaster affected areas, support was provided in the area of employment in accord with industrial policies. Additionally, the system was expanded to so that relocation costs could be subsidized to a certain extent.

Section 4 Other measures

1. **Establishment of special help desks**
Special help desks were set up at offices of the JFC, the Shoko Chukin Bank, credit guarantee corporations, chambers of commerce and industry, federations of societies of commerce and industry, federations of small business associations, branches of the SMRJ, and bureaus of economy, trade and industry nationwide to provide business and financial advice to SMEs and other enterprises affected by the Great East Japan Earthquake.

2. **Navigation dial for SME phone consultations**
To help SMEs that do not know where to go for advice, a "Navi Dial for SME phone consultations" help line with a single number was provided that connects callers to their nearest Bureau of Economy, Trade, and Industry.

3. **Consideration for SMEs in disaster-affected regions by the government and other public agencies**
[Fiscal 2015 budget: Included in ¥550 million]
Under the "Basic Policy on State Contracts with Small and Medium Enterprises", which is formulated each fiscal year, consideration was again given to SMEs and micro-businesses in areas affected by the Great East Japan Earthquake and widely publicized. At the same time, to increase opportunities for SMEs in affected areas to receive orders, the government took initiatives to include such SMEs in estimate comparisons and holding pre-tender meetings in affected areas.

4. **Support provided by NEXI**
In April 2011, Nippon Export and Investment Insurance (NEXI) introduced the following measures to assist SMEs affected by the earthquake: (1) postponement of insurance policy procedures, (2) deferment, reduction or waiver of insured parties' obligations, and (3) reduction or elimination of the financial burden on insured parties. To deal with the damage caused by harmful rumors, NEXI also reviewed the coverage of trade insurance anew and published specific examples of losses arising from the restriction or prohibition of import of goods on the grounds of radioactive contamination, which would be covered by trade insurance. These examples include cases of importation being limited or prohibited by the introduction of new regulations and cases of illegal or discriminatory treatment by the government of destination country. Insurance coverage for overseas transactions of food and other items that are subject to harmful rumors is being continued today.

5. **Victims' Employment Development Subsidy Program**
[Fiscal 2015 budget: ¥1.93 billion]
Subsidies were provided employers who hire workers who lost their jobs due to the Great East Japan Earthquake and job seekers living in affected areas as a result of referrals from "Hello Work" employment offices and similar agencies, provided that such workers are expected to be employed continuously for a period of at least one year. Bonus subsidies were additionally provided to employers hiring 10 or more such workers.

6. **Guidance and advice on measuring radiation levels**
[Fiscal 2015 budget: ¥40 million]
As a countermeasure against harmful rumors regarding industrial and other products stemming from the Great East Japan Earthquake and nuclear disaster, a project was implemented for dispatching specialist teams that provide guidance and advice on measuring radiation levels. (The guidance and advice consisted of measuring surface contamination and radioactive nuclides on items such as industrial products, and providing information on those measurements together with guidance and advice.) Efforts were also made to disseminate proper understanding of radiation measurements of industrial products.

7. **Support for business matching and product development related to industrial products**
[Fiscal 2015 budget: ¥113 million]
To promote sustainable reconstruction of areas affected by the Great East Japan Earthquake and nuclear disaster and the revitalization of their economies, support was provided to all areas of Fukushima prefecture and areas inundated by the tsunami in Iwate and Miyagi prefectures in developing markets (business matching, product development, etc.) both in Japan and abroad for local products produced in those areas.

8. **Support for employment in response to earthquake disasters, etc.**
[Fiscal 2015 budget: ¥10.7 billion]
Recovery of employment in disaster-affected areas requires time, and many people who suffered damage have yet to return from where they evacuated. For this reason, a program was launched to provide temporary places of employment for these people and help them stabilize their living situation.

Chapter 2 Support for productivity improvement among SMEs

Section 1 Enhancement of technological capacity

1. **Strategic Core Technology Advancement Program**
[Fiscal 2015 budget: ¥12.87 billion]
Support was provided for R&D initiatives that SMEs and micro-businesses having an approved R&D plan under the SME Technological Advancement Act implement in cooperation with universities, public research organizations, and other such R&D institutions.

2. **Program to support collaborative efforts to strengthen competitiveness in commercial and service industries**
[Fiscal 2015 budget: ¥990 million]
Support was provided for the development of new service models by SMEs and micro-businesses through industry-academic-government collaboration, in accordance with a "plan for cross-field collaboration for new business development" approved under the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises.

3. **Promotion of R&D initiatives that build bridges with medium enterprises and SMEs**
[Fiscal 2014 supplementary budget: ¥1.42 billion]
Having specific outstanding technologies is sometimes not enough for medium enterprises and SMEs to achieve commercialization. It is therefore important to have institutions possessing outstanding basic technologies pass on their technologies to such enterprises and promote practical applications. Under this awareness, the New Energy and Industrial Technology Development Organization (NEDO) conducted a review of 144 public research organizations and other such R&D institutions nationwide as "bridge building R&D institutions" that can link innovative technology seeds with commercialization initiatives, and provided subsidies to medium enterprises and SMEs that engage in joint research by utilizing the capabilities of "bridge-building R&D institutions" (subsidy rate within 2/3, up to a ceiling of ¥100 million).

4. **The National Institute of Advanced Industrial Science and Technology (AIST)'s bridge-building initiatives for medium enterprises and SMEs**
[Included in the grant for AIST operating costs]
AIST supported the R&D initiatives of medium enterprises and SMEs by establishing a nationwide framework of cooperation such as through the appointment of an AIST innovation coordinator in public research organizations that possess knowledge of the needs of regional medium enterprises and SMEs, and by strengthening capacities to "bridge" innovative technology seeds of regional enterprises with commercialization initiatives.

5. **Comprehensive support for enhancement of core manufacturing technologies among SMEs**
Comprehensive support was provided through the Strategic Core Technology Advancement Program and special loans and guarantees to SMEs and micro-businesses with approved specific R&D plans that had been formulated in accordance with the advancement guidelines under the SME Technological Advancement Law.

6. **R&D promotion tax system (for strengthening the technological bases of SMEs)**
[Taxation scheme]
A tax credit equal to 12% of the total cost of testing and research expenses (not exceeding 25% of the total amount of corporation tax in the period concerned) was made available for R&D undertaken by SMEs and micro-businesses. A tax credit equal to 20% or 30% of the total cost of special testing and research expenses (testing and research performed jointly or entrusted to a university or such institution, or that are performed by receiving from an SME the right or approval to use its intellectual property) was also made available (not exceeding 5% of the total amount of corporation tax in the period concerned).
In addition to the above, a measure was taken whereby enterprises can choose either (1) a tax scheme that deducts an amount calculated by multiplying the rate of increase in testing and research expenses to the amount of increase (not exceeding 30%) in cases where the additional amount of testing and research expenses exceeds 5% of the average of the past three years, or (2) a tax scheme that deducts an amount calculated by multiplying a fixed rate to the excess amount in cases where the amount of testing and research expenditure exceeds 10% of average sales (not exceeding 10% of the total amount of corporation tax in the period concerned (until the end of fiscal 2016)).

7. **Support under the Small Business Innovation Research (SBIR) Program**
The provision of central government-allocated R&D spending for SMEs and micro-businesses was expanded and the commercialization of the

results of technological development activities was promoted, such as by designating specific subsidies for the development of new technologies leading to the creation of new industries, setting targets for expenditures, and formulating policies for measures to support the commercialization of development results achieved using specified subsidies. Additionally, to promote the commercialization of technology development outcomes, SMEs and micro-businesses were informed and encouraged to take advantage of the available commercialization support, such as the database of the technological capabilities of enterprises granted specific subsidies, and the low interest loans offered by the JFC. At the same time, the multistage selection process for the allocation of special subsidies was introduced and expanded.

8. **Cross-field collaboration for new business development**
[Fiscal investment and loan program]
Pursuant to the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises, authorization was provided for business plans that aim to develop and market new products and services by effectively combining the management resources (technology, markets, etc.) of SMEs and micro-businesses in different sectors, and SMEs and micro-businesses with such authorized plans were supported through the program to support collaborative efforts to strengthen competitiveness in commercial and service industries. Wide-ranging support was also provided through special loans and guarantees.

9. **Subsidy for supporting the innovation of manufacturing, commerce and services**
[Fiscal 2015 supplementary budget: ¥102.05 billion]
To create new service and manufacturing businesses that respond to needs in and outside of Japan, a budget was allocated to supporting capital investments by SMEs and micro-businesses that aim to develop innovative services and trial products and improve production processes in collaboration with approved support agencies.

10. **Program to promote business creation through medical-engineering collaborations**
[Fiscal 2015 budget: ¥3.19 billion]
To promote the network for supporting the development of medical equipment and to provide seamless support from the initial stages of development to commercialization, accompanying-style consultation was provided to approximately 250 collaboration initiatives. Support was also provided for the commercialization of 52 items of medical equipment through a demonstration program, to promote the development of medical equipment through collaborations between manufacturing SMEs and medical institutions.

11. **Enterprise vitality enhancement funding**
[Fiscal investment and loan program]
Japan Finance Corporation (JFC) provided loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors.

Section 2 Improvement of transaction conditions

1. **Countermeasure package for pass-throughs of increases in raw material and energy costs**
A cost pass-through countermeasure package was formulated and implemented, to ensure that increases in raw material and energy costs due to the depreciation of the yen are properly passed through. More specifically, the Guidelines for the Promotion of Fair Subcontracting Practices for a total of 14 industries were revised as of March 31, 2015, and best practices on pass-throughs of raw material and energy costs have been added. Additionally, lecture presentations on the Subcontractor Payment Act were held in 543 locations throughout Japan, and efforts were made to disseminate and provide knowledge of the Guidelines. Furthermore, onsite inspections were made at 533 large enterprises during the first half of fiscal 2015 based on the Subcontractor Payment Act.

2. **Stricter enforcement of the Subcontractor Payment Act**
[Fiscal 2015 budget: Included in ¥550 million]
To ensure fair treatment of subcontractors and protect their incomes, the Fair Trade Commission (FTC) and SME Agency collaborated closely in enforcing the Subcontractor Payment Act. In fiscal 2015, the FTC and SME Agency carried out audits of the documentation at principal contractors, and otherwise encouraged rigorous compliance with the Act. Additionally, in the "Subcontractor Fair Treatment Promotion Month" held in November, rigorous compliance with the Act was again encouraged by conducting special questioning. With the aim of securing the cash-flows of subcontractors as they moved into the financially busy period at the end of the year, active measures were taken to raise awareness of the Act by having the Minister of Economy, Trade and Industry and the FTC Commissioner jointly issue a statement calling for the fair treatment of subcontractors, with the statement being sent to the CEOs of principal contractors (around 200,000 companies) and the representatives of relevant business organizations (638 bodies).

3. **Strengthening consultation systems and raising awareness of the importance of fair subcontracting transactions**
[Fiscal 2015 budget: Included in ¥550 million]
Consultation services concerning SME transactions were provided by the 48 Subcontracting Help Centers set up throughout Japan (5,824 consultations and 743 free consultations by lawyers in fiscal 2015 (preliminary figures)). To prevent the occurrence of violations of the Subcontractor Payment Act, seminars were held targeting the procurement managers at principal contractors to further raise awareness of the Subcontractor Payment Act etc., while examples of initiatives by principal contractors were presented around the country and symposiums and other events were held to promote broader adherence to the Subcontractor Payment Act.

4. **Self-reliance support for SME and micro subcontractors**
[Fiscal 2015 budget: Included in ¥500 million]
Under the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises (hereinafter Act on the Promotion of Subcontracting), business plans designed to solve issues in collaborations between subcontracting SMEs and micro-businesses that are highly transaction-dependent on principal contractors were certified and supported in the form of subsidies, loans and special exemptions for guarantees. In regions where production centers of principal contractors have closed or downsized (or are slated to close), support in the form of subsidies was provided to subcontracting SMEs seeking to advance into new fields.

5. **Support for market expansion through subcontracting business mediation and business fairs**
[Fiscal 2015 budget: Included in ¥50 million]
Using Business Matching Stations (BMS), SMEs looking to solicit new clients were provided with information on orders for contract manufacturing issued and received between enterprises for business such as outsourced manufacturing in the SME's preferred industry and where the SME can provide the required equipment or technology. As of the end of March 2016, 26,831 companies were registered. Broad-area information sessions were also held at 8 venues to support new market development.

6. **Request for consideration toward small and medium subcontractors**
Courses and other events were organized to raise awareness of the general standards (development standards) that subcontractors and principal contractors are expected to observe under the Subcontracting Promotion Act. Additionally, with the aim of securing the cash-flows of subcontractors as they moved into the financially busy period at the end of the year, active measures were taken to raise awareness of the Act by having the Minister of Economy, Trade and Industry and the FTC Commission jointly issue a statement calling for the compliance with the development standards stipulated in the Act, with the statement being sent to the representatives of industrial organizations (864 bodies).

Section 3 Examination of policies by advisory councils, etc.

1. **Fundamental Issues Subcommittee**
SMEs in Japan must respond to rapid changes in the business environment, including labor supply constraints brought about by the aging of managers and employees, and future risks of declining demand. To discuss the basic direction of SME policies in response to these issues, the Fundamental Issues Subcommittee was established in the Small and Medium Enterprise Policy Making Council. In addition to analyzing the present state of issues facing SMEs, the Council discussed support measures and legal frameworks for comprehensive productivity improvement.

2. **Cabinet decision on the bill to partially amend the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises**
To strengthen the management of SMEs, micro-businesses, and medium enterprises in an environment of declining labor force and active international competition among enterprises, guidelines that outline initiatives for strengthening management capabilities were newly formulated for each business area by the competent minister. At the same time, a bill to partially amend the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises (Act for Strengthening the Management of SMEs, etc.) was approved at a Cabinet meeting on March 2016 and submitted to the Diet, to provide for measures that support the initiative.

Chapter 3 Support for overseas expansion by SMEs and micro-businesses

Section 1 Development of an information provision and consultation framework

1. **Program for supporting overseas expansion by SMEs and micro-businesses**
[Fiscal 2015 budget: ¥2.5 billion]
To support overseas expansion by SMEs and micro-businesses, the SMRJ and JETRO collaborated in providing strategic support through measures that respond to their needs at various stages of overseas expansion. They included support for the cultivation of overseas companies through the provision of information on overseas market trends and regulations, implementation of feasibility studies, and establishment of an export framework, as well as support for participation in trade fairs in Japan and overseas, support for the cultivation of overseas markets by inviting overseas buyers to Japan, and local support once companies advanced overseas. Support was also provided for the formulation of business restructuring plans by companies facing an issue regarding the management of overseas subsidiaries.

Section 2 Support for the development of new products and services

1. **Program for supporting hometown specialty products**
[Fiscal 2015 supplementary budget: Included in ¥3 billion]
Support was provided to SMEs and micro-businesses that engage in the development of new products and services that target markets in and outside of Japan and the development of new markets by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses. Support was also provided to businesses that pursue product development by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses in the form of information provision concerning consumer preferences surveyed by general incorporated associations and matching services.

2. **JAPAN Brand Development Assistance Program**
[Fiscal 2015 budget: Included in ¥1.61 billion]
To facilitate overseas expansion by SMEs, support was provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and participation in overseas trade fairs.

3. **Program for promoting global agricultural-commercial-industrial collaborations**
[Fiscal 2015 budget: ¥800 million]
To create overseas demand, support was provided to 16 demonstration projects and initiatives implemented through agricultural-commercial-industrial collaborations. Such collaborations are expected to use the technologies and expertise of commercial and industrial businesses to create advanced production systems (plant factories, etc.) or an integrated value chain linking production, processing, distribution and sales and achieve commercialization within three years.

Section 3 Other support policies for overseas expansion

1. **Global alliance support with medium enterprises and SMEs in Japan**
To support investment tie-ups between medium enterprises and SMEs in Japan and foreign enterprises, a framework was established in which Japan External Trade Organization (JETRO) acts as an intermediary in conveying the requests of foreign enterprises to relevant institutions (SMRJ, Shoko Chukin Bank, SBIC, etc.), matching medium enterprises and SMEs in Japan with foreign enterprises, and promoting the utilization of public and private funds.

2. **Funding for overseas expansion and business restructuring operations**
[Fiscal investment and loan program]
Loans were provided by the JFC (SME Unit and Micro Business and Individual Unit) to assist with the funding of SMEs that for business reasons need to expand overseas or restructure their overseas business to adapt to structural economic changes.

3. **Support for overseas subsidiaries to obtain capital, etc.**
Under the SME Business Capabilities Enhancement Support Bill, where SMEs had management innovation plans approved under the New Business Activity Promotion Act, the JFC provided loan guarantees to their overseas subsidiaries for loans from local financial institutions.

4. **Global Niche Market Top Support Lending Facility**
[Fiscal 2015 budget: ¥18 billion from the fiscal investment and loan program]
To support strategic overseas expansion by medium enterprises and SMEs who are aiming to make a global

impact by excelling in a specific field (global niche leader enterprises) and such candidate companies and SMEs, the Shoko Chukin Bank provided long-term, lump-sum repayment and successful interest payment-type loans under the Global Niche Market Top Support Lending Facility. Loans worth a total of ¥13.8 billion were provided to 126 enterprises in fiscal 2015 (as of February 29, 2016).

5. Support for development of human resources to cultivate new markets
[Fiscal 2015 budget: ¥810 million]
In a collaboration between the government and the private sector aimed at supporting economic growth in developing countries and assisting in overseas business expansion by Japanese enterprises, managers, engineers, and similar personnel from developing countries who are employed in management, manufacturing, operations, or similar areas, training was provided to 799 personnel, and 41 experts were dispatched to developing countries to provide instruction, etc. in fiscal 2015.

6. Trade investment promotion project
[Fiscal 2015 budget: Included in ¥1.4 billion]
The following three programs were implemented to secure markets in developing countries where rapid growth is anticipated in the future:
(1) Training was provided and specialists were dispatched to promote awareness of the superiority of Japan's technology with the aim of increasing the rate of infrastructure orders placed. Seven training programs were implemented and two specialists were dispatched in fiscal 2015.
(2) Overseas internships were provided to young Japanese workers to foster "international industry-ready personnel" with the aim of securing infrastructure business and developing overseas markets for SMEs. A total of 124 young workers were sent to 22 countries in fiscal 2015.
(3) Support was provided to Japanese companies engaging in the development of products and services that resolve social issues in developing countries in collaboration with universities, research institutes, NGOs or other companies in developing countries. Subsidies were provided to 11 projects in fiscal 2015.

7. Utilization of the private-sector collaborative volunteer program and matchups with returned JICA volunteers
[Fiscal 2015 budget: ¥160 million]
The Japan International Cooperation Agency (JICA) worked toward developing personnel capable of active involvement in the global community by utilizing the private-sector collaborative volunteer program to dispatch employees of private-sector enterprises to developing countries as Japan Overseas Cooperation Volunteers (JOCV) and JOCV Senior Overseas Volunteers in response to the needs of each enterprise. Additionally, to support the employment of returned JICA volunteers, match-ups were promoted between personnel with expert knowledge of a certain developing country and enterprises seeking such personnel.

8. Reduction and waiver of fees for credit checks on SMEs using trade insurance
To support the use of trade insurance by exporting SMEs, Nippon Export and Investment Insurance (NEXI) continued arrangements to bear the cost of providing credit information on business partners required when using trade insurance. Up to three credit checks had been provided for free since 2008, but the number was increased to eight in fiscal 2015, and the facility was used 503 times in fiscal 2015 (as of 25 January 2016).

9. Activities to expand and publicize use of trade insurance by SMEs (seminars, consultation events, etc.)
To promote the use of trade insurance by SMEs, the NEXI website for SMEs was renewed. Nationwide seminars and face-to-face consultation events were also held continuously under the sponsorship of NEXI, and instructors from NEXI were sent to lecture in seminars hosted by SME-related organizations and study meetings of affiliated regional banks in order to raise awareness and encourage wider use of trade insurance (72 instructors were dispatched). Furthermore, visits were made to 141 SMEs in the effort to increase awareness and promote the use of trade insurance.
As a result of the above initiatives, a total of 48 SMEs and medium enterprises became users of trade insurance. (* The numbers above are as of January 25, 2016.)
In fiscal 2015, a video and PR pamphlet of trade insurance were produced. The video was posted on the NEXI website and shown at various trade fairs and presentation meetings, and the pamphlet was distributed to enterprises and various locations.

10. Improvement of access to trade insurance
In December 2011, NEXI launched the "SME Overseas Business Support Network" in collaboration with 11 regional banks to provide support for overseas business expansion by SMEs. The numbers of cooperating institutions have increased yearly, and in fiscal 2013, a Credit Union Network was established with the participation of credit unions. In fiscal 2015, the addition of a total of 27 new banks and credit unions led to the creation of a network of 105 nationwide financial institutions.

Furthermore, the Trade Insurance and Investment Act was revised in 2014, and allowed NEXI to receive reinsurance from non-life insurance companies in Japan possessing a broad nationwide network. NEXI thus consulted with non-life insurance companies, and entered into a reinsurance agreement with two companies.

By creating a network with financial institutions and non-life insurance companies, NEXI will aim to improve access to trade insurance by regional SMEs and otherwise enhance its convenience.

11. Support for security export control

To ensure effective security trade control based on the Foreign Exchange and Foreign Trade Act, information sessions were held in 60 locations throughout Japan. Additionally, support was provided for the development of voluntary administration structures for security trade control at SMEs that engage in export and the provision of technology, by dispatching specialists through schemes such as the one-stop general support program for SMEs and micro-businesses.

12. Promotion of BOP business

[Fiscal 2015 budget: Included in the JETRO grant]

To promote "base of the pyramid" (BOP) business and volume zone business, JETRO provided consistent support to individual enterprises as appropriate to their business phase, by using local coordinators. Additionally, consultations were offered in Japan to Japanese enterprises that are considering BOP business in India or Bangladesh, and business meetings in Japan and local test marketing projects were implemented for Japanese enterprises aiming to cultivate the BOP/volume zone market in Myanmar and Kenya. In addition to the above, acceptability surveys were conducted in Nigeria and Bangladesh, and business demonstration projects were operated in Africa.

13. ODA match-up program for SME products and technologies

[Fiscal 2015 budget: ¥4.56 billion, Fiscal 2015 supplementary budget: ¥1.74 billion]

This program aims to apply the outstanding products and technologies of Japanese SMEs to the growth of developing countries via ODA, and thereby achieve a balance between the growth of developing countries and economic revitalization in Japan. In fiscal 2015, 130 projects were adopted under this program. (Survey of needs: 4; Basic survey: 22; Proposal survey: 66; Distribution and demonstration program: 38)

14. Support for overseas expansion by SMEs (provision of equipment that use SME products)

[Fiscal 2015 budget: Included in ¥160.5 billion]

Products from Japanese SMEs are donated to developing countries based on request from their governments and development needs, not only to support the development of developing countries, but also to increase recognition of such products. Specifically, lists of products from SMEs (not lists of individual brand names) are drawn up based on the development needs of the developing countries and shown to those countries in the form of packages for each of the various sectors, such as medical services, agriculture, and job training, and products are donated in accordance with the requests from the developing countries.

15. Program for facilitating the use of economic partnership agreements

[Fiscal 2015 budget: Included in ¥30 million]

To promote trade that utilizes the advantages of economic partnership agreements (EPA), a consulting service for businesses was launched in May 2015, to respond to inquiries concerning procedures related to rules of origin and certificates that are needed when using an EPA. (Approximately 1,700 consultations were received as of February 2016.) Seminars were also held throughout Japan (twelve seminars in ten locations nationwide) to foster greater understanding of EPAs.

16. Program for supporting the establishment of overseas markets by regional medium enterprises and SMEs

[Fiscal 2015 budget: Included in ¥1.49 billion]

A budget was allocated to realizing the initiatives of medium enterprises and SMEs to cultivate overseas markets by subsidizing part of the expenses (costs of employing specialists, registration agency expenses, etc.) that are needed by medium enterprises, SMEs and micro-businesses to advance into newly emerging countries.

Chapter 4 Support for sustainable development of micro businesses

Section 1 Strengthening the framework of accompanying-style management support

1. **Micro business promotion program**
[Fiscal 2015 budget: ¥4.65 billion]
Support for micro businesses was promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support was also provided for regional initiatives that aim to develop specialty products and markets.
To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chamber of commerce and industry cooperated with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets (survey & research businesses: 123; production businesses: 56 (first year) and 31 (second year)).

2. **Program to foster personnel and support personnel for micro businesses**
[Fiscal 2015 budget: ¥450 million]
Micro service businesses and human resources who bear the responsibility of revitalizing the regional service industry were matched up with successful enterprises (including enterprises in different industries) and successful regions, internship-type training programs that go beyond lectures were organized, and subsidies were provided to cover for expenses incurred by such match-ups and internships. Training sessions were also held throughout Japan with the objective of enabling business advisors who support micro businesses to analyze the strengths of each micro business and propose and implement measures tailored to those strengths. Particularly advanced support organizations were provided opportunities to acquire management support and other such knowhow.

Section 2 Support for market cultivation

1. **Support package programs for micro businesses**
[Fiscal 2015 supplement budget: ¥10 billion]
Micro businesses were supported in their initiatives to create a management plan through the use of locally-based commerce and industry associations that possess a nationwide network, and subsidies were provided to cover the costs of cultivating markets based on the management plan. Support was also provided to help micro businesses cultivate wide-area markets beyond their existing trade area by organizing specialty product fairs and business meetings and promoting sales via antenna shops in and outside of Japan and online sales.
Furthermore, to strengthen the management capabilities of micro businesses, support was provided to an initiative to dispatch supervisors from nationwide organizations to provide guidance and education toward raising the supporting abilities of management advisors.

Section 3 Development of the business environment

1. **Managerial Improvement Loans (Marukei Loans) for micro businesses**
[Fiscal 2015 budget: ¥3.98 billion] [Fiscal investment and loan program]
In order to provide financial support to micro businesses, the JFC provided unsecured and unguaranteed low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. Ongoing improvements were also implemented: (1) the term of loans was extended from five to seven years for working capital and from seven to 10 years for capital expenditure; (2) the deferment period was extended from six months to one year for working capital and from six months to two years for capital expenditure; and (3) the ceiling on loans was raised from ¥15 million to ¥20 million. Between April 2015 and the end of January 2016, a total of 36,200 loans were provided with a total value of ¥207.8 billion.

2. **Micro business management development support loans**
[Fiscal 2015 budget: ¥20 million]
[Fiscal investment and loan program]
To support sustainable business development by micro businesses, JFC offered low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry certified under a management development support plan. Between April 2015 to the end of January 2016, a total of 34 loans were provided with a total value of ¥210 million.

3. Program for developing an integrated database of micro businesses

[Fiscal 2015 budget: ¥200 million]

Information that support organizations have collected were integrated into an integrated database operated by SMRJ and analyzed, and a framework was established for the examination of support policies and provision of support information in response to the management issues of micro businesses.

Chapter 5 Promotion of regional economic revitalization and regeneration

Section 1 Strengthening management support frameworks

1. Programs promoting measures to support cooperative SME organizations
[Fiscal 2015 budget: ¥710 million]
Where partnerships or other associations work on management innovation and/or reforms through the National Federation of Small Business Associations, which is a dedicated agency assisting cooperative SME organizations, support was provided that includes partial subsidies for the costs of implementing those innovations or reforms, along with training for instructors. Support was also provided for optimizing the activities of associations (supervision organizations) that engage in the training of foreign intern trainees.

2. Support for capital investment through advancement programs integrated with business support
Where SMEs work jointly to establish business cooperatives in order to shore up their administrative platforms and improve their business environment, the SMRJ and prefectural governments collaborated to provide diagnoses and advice on business plans together with long-term, low-interest (or interest-free) loans to fund the required capital expenditure.

3. One-stop comprehensive support programs for SMEs and micro-businesses
[Fiscal 2015 budget: ¥3.9 billion]
"Yorozu support centers" have been set up in each prefecture as one-stop consultation centers for SMEs and micro-businesses facing various management issues, to provide professional detailed advice and to dispatch specialist advisors to deal with particularly advanced and specific management issues.

4. Program to foster personnel and support personnel for micro businesses
[Fiscal 2015 budget: ¥450 million]
Micro service businesses and human resources who bear the responsibility of revitalizing the regional service industry were matched up with successful enterprises (including enterprises in different industries) and successful regions, internship-type training programs that go beyond lectures were organized, and subsidies were provided to cover for expenses incurred by such match-ups and internships. Training sessions were also held throughout Japan with the objective of enabling business advisors who support micro businesses to analyze the strengths of each micro business and propose and implement measures tailored to those strengths. Particularly advanced support organizations were provided opportunities to acquire management support and other such knowhow. (Cited earlier)

5. Formulation of local benchmarks
Local benchmarks have been formulated as "health check-up" tools for assessing the business condition of enterprises.
They provide a basic framework that allows enterprise managers, financial institutions, support organizations, and other such relevant parties to assess the condition of enterprises and mutually engage in dialogue from the same perspective, and are expected to serve as the starting point of business assessment. The business conditions of an enterprises can be assessed by entering "financial information" (6 indicators*1) and "non-financial information" (4 perspectives*2) in a "reference tool" provided in Excel format. This allows early detection of changes in business conditions so that discussions and support can be implemented from an early stage.
(*1) 6 indicators:
(1) sales growth rate (sales sustainability), (2) operating profit ratio (profitability), (3) labor productivity (productivity), (4) EBITDA debt-to-equity ratio (soundness), (5) operating working capital turnover period (efficiency), (6) capital adequacy ratio (safety)
(*2) 4 perspectives:
(1) focus on the manager, (2) focus on relevant persons, (3) focus on the business, (4) focus on the internal control framework

Section 2 Utilization of local resources

1. Program for supporting hometown specialty products
[Fiscal 2015 budget: Included in ¥1.61 billion]
Support was provided to SMEs and micro-businesses that engage in the development of new products and services that target markets in and outside of Japan and the development of new markets by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses. Support was also provided to businesses that pursue product development by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses in the form of information provision concerning consumer preferences surveyed by general incorporated associations and matching services. (Cited earlier)

2. JAPAN Brand Development Assistance Program
[Fiscal 2015 budget: Included in ¥1.61 billion]
To facilitate overseas expansion by SMEs, support was provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and participation in overseas trade fairs. (Cited earlier)

3. Micro business promotion program
[Fiscal 2015 budget: ¥4.65 billion]
Support for micro businesses was promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support was also provided for regional initiatives that aim to develop specialty products and markets.
To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chamber of commerce and industry cooperated with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets (survey & research businesses: 123; production businesses: 56 (first year) and 31 (second year)). (Cited earlier)

4. Designation of traditional crafts
Under the Act on the Promotion of Traditional Craft Industries (referred to hereinafter as the Traditional Craft Industries Act), the three traditional craft products listed below were designated following surveys and investigations of craft products for which traditional craft product status has been requested, subject to the views of the Industrial Structure Council.
- Miyagi Prefecture "Sendai Tansu" (chests), Tokyo, etc. "Edo Bekko" (tortoiseshell products) and "Tokyo antimony crafts" designated on 18 June 2015.

5. Traditional Craft Product Subsidy Program
[Fiscal 2015 budget: ¥1.36 billion]
(1) Based on the Traditional Craft Industries Act, the following support was provided to promote the traditional crafts industries below.
1) Subsidization of the following programs undertaken by local manufacturing cooperatives and associations:
- Successor training programs
- Raw materials sourcing programs
- Design development programs
- Partnership development programs
- Local producer programs, etc.

2) Subsidization of the following programs undertaken by general incorporated associations and incorporated foundations under Article 23 of the Traditional Craft Industries Act:
- Programs to secure human resources and ensure transmission of skills and techniques
- Production district guidance programs
- Promotional programs
- Demand development programs, etc.

(2) The following support was provided to assist the reconstruction of government-designated traditional crafts in three prefectures (Iwate, Miyagi and Fukushima) devastated by the Great East Japan Earthquake:
1) Programs implemented in the three affected prefectures to revitalize areas of production, including the training of successors, development of demand, development of designs and the provision of information
2) Establishment and strengthening of the production base, including the development of facilities and the sourcing of raw materials, with a view to restoring traditional craft production in the three affected prefectures to its original level before the Great East Japan Earthquake

6. Program to promote the spread of traditional crafts
To promote public awareness of traditional crafts, November every year has been designated Traditional Crafts Month, and activities such as the national convention of the Traditional Crafts Month National Assembly are held to spread and increase awareness of traditional crafts. In fiscal 2015, the national convention was held in Toyama prefecture.

Section 3 Revitalization of shopping districts and city centers

1. Comprehensive support for the revitalization of local shopping districts
Pursuant to the Local Shopping District Revitalization Act, support measures were established for shopping districts with a government-approved revitalization project plan.

2. Development of human resources by the Japan Shopping District Support Center
Support was provided in the form of personnel training and transfer of expertise by the Japan Shopping District Support Center, an organization established jointly by four SME associations.

3. Program to support the operation of Councils for the Revitalization of Central Urban Districts
[Included in SMRJ subsidy program]
Support was provided for the provision of advisory

services, provision of information via websites and e-mail newsletters, and development of networks through organization of exchange events led by councils for the revitalization of city centers support centers established in the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) to assist the establishment and operation of such councils for the revitalization of city centers.

4. **Program to dispatch advisers for city center and shopping district revitalization**
[Included in SMRJ subsidy program]
Experts in a range of fields related to commercial revitalization registered with SMRJ were dispatched to help tackle various challenges faced by councils for the revitalization of city centers and shopping districts.

5. **Consultation and support for commercial revitalization in city centers**
[Included in SMRJ subsidy program]
In order to assist commercial revitalization initiatives being undertaken in city centers by councils for the revitalization of city centers and similar organizations, seminar planning support and instructors was supplied and advice, analyses, assistance with identification of issues, and information, etc. were provided to raise the efficacy of individual projects using the SMRJ's specialist know-how.

6. **Special deduction for income from land transfers**
[Taxation scheme]
Persons transferring land and similar assets to shopping center promotion associations and similar organizations approved under the Local Shopping District Revitalization Act for use in projects based on approved shopping district revitalization plans and similar initiatives were continuously allowed a special depreciation of up to ¥15 million for income from such transfers.

7. **Program to promote independence in regional commerce**
[Fiscal 2015 budget: ¥2.3 billion]
Support was provided for measures aimed at the formation of the regional communities that are the bedrock of activity in regional economies, such as community spaces, and for measures designed to rejuvenate shopping districts in line with the needs of regional residents, such as attracting shops and providing the incubation facilities that serve to promote regional economic activity. In fiscal 2015, 60 survey and analysis projects and 53 support projects were adopted.

8. **Strategic program for central urban district restoration**
[Fiscal 2015 budget: ¥600 million]
Priority assistance was provided to private projects (development of commercial facilities, etc.) that exhibit strong commitment by local residents and the local government, and that are expected to stimulate the economy not only in the relevant central urban district but in neighboring regions as well. Support was also provided to projects that aim to create an attractive central urban district fit to serve as a regional center, as well as for the utilization of specialist staff and other such initiatives.

9. **Taxation measures to revitalize central urban districts**
[Taxation scheme]
Under the "Specific private sector central urban district economic activity improvement program" set up under the revisions to the Act on the Vitalization of City Centers, (1) a special depreciation of 30% over 5 years was provided for the acquisition of a building and any incidental structures or equipment, and (2) a measure for the acquisition of an immovable property was taken that halves the registration and license tax payable when ownership of that immovable property is registered or a transfer is registered.

Section 4 Support for market and demand cultivation

1. **Micro business promotion program**
[Fiscal 2015 budget: ¥4.65 billion]
Support for micro businesses was promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support was also provided for regional initiatives that aim to develop specialty products and markets.
To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chamber of commerce and industry cooperated with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets (survey & research businesses: 123; production businesses: 56 (first year) and 31 (second year)). (Cited earlier)

2. **Support for cultivation of markets through exhibitions, business meeting events, and other events**
[Included in SMRJ subsidy program]
SMRJ provides support for the development and expansion of markets for products and services developed by SMEs and micro-businesses through agricultural-commercial-industrial collaborations or by using local resources, by organizing exhibitions, business fairs, and other such events.

3. **Market Development Coordination Program**
[Included in SMRJ subsidy program]
Market development experts with experience of working at trading companies, manufacturers, etc. ("market development coordinators") assigned to SMRJ helped SMEs with newly developed products, technologies, and services gain a foothold in new markets and acquire the capacity for market cultivation through the implementation of test marketing activities in the wider Tokyo and Kinki regions.

4. **Support program for market cultivation**
[Included in SMRJ subsidy program]
The SMRJ supported the market cultivation initiatives of SMEs and venture enterprises by promoting business match-ups between enterprises participating in SMRJ-sponsored trade fairs or concurrent events and buyers, and providing advice.

5. **Support for creation of new businesses**
[Included in SMRJ subsidy program]
Close, integrated support was provided to SMEs and other entities engaging in new business by stationing experts in marketing and other areas of business in SMRJ's 10 branches and offices across Japan to help formulate business plans based on the Regional Resource Utilization Promotion Act, Agricultural-Commercial-Industrial Collaboration Promotion Act, and New Business Activity Promotion Act.

6. **J-GoodTech**
[Included in SMRJ subsidy program]
The SMRJ provided support to SMEs seeking to cultivate markets in and outside of Japan, by connecting them to major domestic manufacturers and overseas enterprises via a website that posts information about Japanese SMEs boasting top-niche and only-one technologies and products.

Section 5 Human resource and employment measures

1. **Human resource countermeasures program for SMEs and micro-businesses**
[Fiscal 2015 budget: ¥1.61 billion]
To help SMEs and micro-businesses with few management resources acquire human resources, a budget was allocated to provide end-to-end support for initiatives to assess the needs of local SMEs and micro-businesses, excavate human resources sought by local businesses from among a diverse workforce that includes youths, women and seniors in and outside the region, and to introduce them and see through to their retention by SMEs and micro-businesses.

2. **Human resource development program at the Institute for Small Business Management and Technology**
[Included in SMRJ subsidy program]
Training was provided at nine Institutes for Small Business Management and Technology around Japan in improving the abilities of SME support personnel, as well as training for SME proprietors, managers, and people in similar positions designed to lead directly to the solution of business challenges.

3. **Support program for development of hometown producers**
[Fiscal 2015 supplementary budget: Included in ¥3.0 billion]
Support was provided to initiatives that aim to develop attractive products that involve local people and local resources into local brands and initiatives for developing human resources who could become central players in the cultivation of markets with a focus on overseas markets.

4. **Measures to maintain workers' employment**
[Fiscal 2015 budget: ¥19.27 billion]
Employment Adjustment Subsidies were provided to assist employers who were forced to downsize due to fluctuations in business conditions or other economic reasons but who have kept workers on by allowing workers to take temporary leave from work or enter training, or by transferring workers. Active steps were also taken to prevent fraudulent receipt of these subsidies, and efforts were made to ensure more appropriate disbursement by such means as actively carrying out on-site checks and publishing the names of employers who have committed fraud.

5. **Support for improvement of employment management toward the creation of attractive employment**
[Fiscal 2015 budget: ¥4.84 billion]
To support initiatives by companies to improve

employment management and create attractive employment conditions, subsidies were provided to fund SME organizations (business cooperatives, etc.) in key sectors whose improvement plans have been certified by the relevant prefectural governor pursuant to the Act on the Promotion of Improvement of Employment Management in Small and Medium-Sized Enterprises for Securing Manpower and Creating Quality Jobs, where they have implemented projects to improve their working environment. Subsidies were also provided for SMEs and micro-businesses in key sectors that introduced and implemented a new employment management system by changing their labor agreements and workplace regulations, or lowered the job separation rate of their employees.

6. Project for promoting the improvement of employment management plans to secure human resources in sectors that lack personnel
[Fiscal 2015 budget: ¥1.01 billion]
Support was provided for the creation of attractive workplaces, such as by supporting the introduction of employment management systems, in cases where business owners in sectors that lack personnel improve employee benefits and working environment or otherwise take measures to improve employment management and secure human resources.

(1) Model survey course
In sectors where employment management issues that need to be addressed by business owners are not yet clear, fine-tuned consultation was provided to business owners facing an employment management issue, to help them introduce and operate various models of employment management systems that contribute to resolving their issue.

(2) Practical awareness-raising course
Among sectors that lack sufficient personnel, demand for human resources is expected to increase particularly in the nursing and construction sectors.
Business owners in these sectors who face an issue in implementing improvement measures for employment management were offered consultation support, with the aim of promoting practical employment management improvement within the entire industry, or within regional network communities composed of business owners who are actively engaged in improving employment management.

7. Regional employment development fund
[Fiscal 2015 budget: ¥5.04 billion]
To create and provide stable regional employment, employers who build or establish an office in regions, etc. where employment opportunities are particularly lacking and who also employ regional job seekers are offered regional employment development funding in accordance with the cost of their establishment and the number of workers they employ.

8. Project for employment creation in strategic industries
[Fiscal 2015 budget: ¥9.21 billion]
To promote initiatives aimed at creating favorable and stable employment opportunities, a project for employment creation was launched for manufacturing industries and other strategic industries. The project will supplement regional projects for voluntary employment creation, and will be implemented in conjunction with industrial policies.

9. Tax system to promote employment
[Taxation scheme]
A tax measure was implemented that provides a tax credit of ¥400,000 for each employee receiving ordinary employment insurance in enterprises that satisfied requirements that include an increase in staffing of at least 10% and that employed at least 5 people (at least 2 people for SMEs) who received ordinary employment insurance in each fiscal year starting between 1 April 2011 and 31 March 2016.

10. Promotion of employment shifts with no loss of employment
[Fiscal 2015 budget: ¥34.94 billion]
Funds to assist workers seeking alternative employment (re-employment assistance payments) were provided to business owners commissioned as private-sector employment agencies to support the reemployment of employees who unavoidably lose their jobs due to business downsizing, etc. Re-employment support subsidies (walk-in personnel training support subsidies (human resource development support)) were also provided to business owners who conducted training for workers taken on as a result of transfers or workers who fall under a re-employment support plan. Furthermore, from fiscal 2015, re-employment support subsidies (walk-in personnel training support subsidies (early hiring support)) were provided to business owners who employed workers who fall under a re-employment support plan within three months of their displacement as non-fixed-term workers.

11. Regional human resources development program
A program was launched to support human resources development initiatives that aim to increase employment by promoting active participation by women, young people and the elderly, and promote wage increases and other improvements in working conditions in response to regional circumstances.

12. Welfare Worker Recruitment Project
[Fiscal 2015 budget: ¥1.46 billion]
To ensure a stable supply of high-quality personnel capable of supporting services in the welfare sector

(nursing, healthcare and day care), support was provided through services such as in-depth vocational counseling, job placements and counseling and advice for employers, to be provided mainly at a "Welfare Worker Corner" set up in key "Hello Work" centers throughout the country.

13. Promotion of the Youth Support Project
[Fiscal 2015 budget: Included in ¥510 million]
SMEs that display a positive attitude toward recruiting and developing young workers and actively publicize information about their company were designated as "youth support companies" and encouraged in their effort to disseminate information.

14. "Youth Yell" certification system based on the Act on Promotion of Youth Employment
[Fiscal 2015 budget: Included in ¥510 million]
Based on the Act on Promotion of Youth Employment (1970 Act no. 98), a system was launched in which the Minister of Health, Labour and Welfare certifies SMEs that display outstanding employment and management of youths as "youth yell" certification enterprises. By encouraging the information dissemination efforts of SMEs, the system supports the smooth employment of human resources sought by certified enterprises.

15. Subsidy for employment and retention of non-new graduates within three years after graduation
To expand, establish and promote employment application opportunities among non-new graduates and dropouts as new graduates, a "subsidy for employment and retention of non-new graduates within three years after graduation, etc." was provided to business owners who newly offered job openings to non-new graduates or recruited non-new graduates as new graduates and retained them for a certain period of time.

16. Support for SMEs and micro-businesses in raising the minimum wage
[Fiscal 2015 budget: ¥2.41 billion]
The following support measures were provided to raise the minimum wage among SMEs and micro-businesses.
(1) "Comprehensive Minimum Wage Advice and Assistance Centers" were established throughout Japan (47 locations) as a one-stop portal for consultation on management reforms and work condition management, and provided consultation and dispatched experts free of charge.
(2) Subsidies were provided the initiatives of industry-specific SME organizations to increase wages (subsidy for industry-specific organizations: up to ¥20 million).
(3) Subsidies were provided to SMEs and micro-businesses that made a capital investment to increase labor productivity and increase the wages of workers who work for less than ¥800 an hour in their business establishments (subsidy for business improvement: up ¥1 million; to subsidy rate of 1/2 (3/4 for micro businesses with a workforce of 30 or less)). To enhance the usability of measure (1) above, "Comprehensive Minimum Wage Telephone Service Centers" were established in fiscal 2015 to provide consultation via telephone and email.

17. Regional Youth Support Station Program
[Fiscal 2015 budget: ¥3.72 billion]
To assist young people who are "NEET" (Not in Education, Employment or Training) or in similar circumstances, "Regional Youth Support Stations" have been set up, and a budget was allocated to provide a diverse employment assistance menu, including professional consultation by career consultants and various other programs. In fiscal 2015, the initiative was continued to be implemented nationwide, while also expanding the scope of support that is extended to users to help them retain their jobs or step up to a more stable career to a nationwide level, and strengthening employment assistance for achieving vocational independence.

18. Career-oriented personnel training program (universities, etc.) (Promotion of career education, etc.)
[Fiscal 2015 budget: ¥10 million]
In an initiative targeting career consultants and core staff in career centers at institutions such as universities, courses were held to deepen their understanding of the knowledge of career consulting and the career consultants on which it depends, as well as the methods for using that knowledge. The courses also covered tools that are helpful for employment assistance and career education as well as the knowledge regarding employment and work that is available from the Ministry of Health, Labour and Welfare (MHLW). As well as promoting career education at institutions such as universities, the program aimed to promote the utilization of career consultants at universities, etc.

Section 6 Support for new and secondary business startups

1. New and Secondary Business Startup Support Fund
[Fiscal 2015 budget: ¥760 million]
Support was provided to business startups by women and young people, and secondary startups by business owners closing their existing business in whole or in part and breaking new ground on occasion of succeeding a business from a predecessor, in the form of a subsidy that covers part of the loans for

shops, equipment costs, and other relevant costs (and including the costs of closing the existing business in the case of secondary startups).

2. **New Startup Loan Program**
[Fiscal investment and loan program]
Under this program, unsecured, unguaranteed loans are provided by the JFC to persons embarking on new ventures and persons who have just started up in business.

3. **Loan Program for Supporting Female, Young, and Senior Entrepreneurs**
[Fiscal investment and loan program]
To support the creation of new businesses by diverse entrepreneurs, the JFC (through its SME and Micro Business and Individual Units) provides low-interest loans to women, young people under the age of 30 and older people aged 55 or older, who have started a business within the past seven years or so. Between the establishment of the program in 1999 and the end of December 2015, the program has made 135,455 loans totaling ¥679.8 billion.

4. **Funding for renewed startups (lending-support schemes for renewed startups)**
[Fiscal investment and loan program]
By assessing entrepreneurs with failed businesses to determine factors such as their qualifications as managers and their business prospects, the JFC offered loans to candidates who faced difficult circumstances in relaunching their businesses.

5. **Guarantees for founders**
To boost lending to startup entrepreneurs by private financial institutions, a guarantee program was implemented, which specifically encourages credit guarantee corporations to provide guarantees to individuals who are starting up in business or who started up in business less than five years ago.

6. **Improving supply of "risk money" needed when starting a business**
The Innovation Network Corporation of Japan (INCJ) invested a total of ¥186.1 billion in 74 venture enterprises as of the end of January 2016. Additionally, where "risk money" was required when businesses start up or are developed, funds were supplied by making use of the Development Bank of Japan (DBJ) and the Shoko Chukin Bank.

7. **Fund Investment Program (Startup Support Fund, SME Growth Support Fund)**
The creation of investment funds operated by private sector investment companies to stimulate private funds was promoted through investment by SMRJ (up to one half of the total value of the fund concerned) with the aim of expanding the range of opportunities for investment in ventures (SMEs) at the startup or early growth stage and in SMEs pursuing growth through the development of new business. The Startup Support Fund now consists of 91 cumulative funds with a total cumulative investment of ¥150.8 billion invested in 2,381 enterprises (as of the end of March 2015). The SME Growth Support Fund now consists of 75 cumulative funds with a total cumulative investment of ¥435.6 billion invested in 801 enterprises (as of the end of March 2015).

8. **Program to support venture business creation**
[Fiscal 2015 budget: ¥340 million]
Intended for entrepreneurs and potential in-house entrepreneurs who are in charge of cultivating new businesses in large enterprises, this program aimed to develop human resources who could create new businesses from a high perspective, such as with an eye to advancing into global markets or resolving social issues, by sending them to Silicon Valley and other such locations that are known to produce the world's leading venture enterprises. In addition, through the Venture Business Creation Council, composed mainly of entrepreneurs, venture support personnel and large enterprises, the program promoted business matchings and provided forums for creating broad networks, awarded the Prime Minister's Award to venture enterprises that have made a significant contribution to creating innovation, and established a foundation for the creation of new businesses.

9. **Regional Startup Promotion Support Delegation Program**
[Fiscal 2015 budget: ¥440 million]
"Business Startup Schools" were held throughout Japan to provide support for uncovering a reserve of potential startups and assisting people hoping to launch new businesses, in everything from acquiring basic knowledge through to formulating a business plan. In addition, entrepreneurship education was enhanced such as by providing such education in universities and other higher education institutions and promoting exchanges with local entrepreneurs in primary and junior high schools, to expand the base of human resources who possess an entrepreneurial spirit based on creativity and an enterprising attitude.

10. **Angel tax system**
[Taxation scheme]
This system assists in the financing of newly founded venture enterprises by individual investors ("angels") by allowing individual investors who invest in an SME that satisfies certain requirements to receive a preferential treatment on income tax when the individual investor makes such an investment and

when shares in that enterprise are transferred. From the establishment of the system in 1997 through to the end of January 2016, the scheme has been used to invest a total of around ¥13.3 billion in 635 companies.

11. Taxation measures to promote venture investment in enterprises
[Taxation scheme]
This initiative allows companies that invest in a venture enterprise through a venture fund certified by the Minister for Economy, Trade and Industry under the Industrial Competitiveness Enhancement Act to accumulate provisional funding for losses of up to 80% of the amount invested and write off that fund as expenses.

12. Management Innovation Support Program
Support was provided for new business activities undertaken by SMEs through mechanisms such as low-interest loan programs and special credit guarantees for the implementation of approved management innovation plans prepared by SMEs planning to engage in new business activities to improve their business performance under the New Business Activity Promotion Act.

13. Construction of startup support system in the regions
Under the Industrial Competitiveness Enhancement Act, municipal governments worked with private-sector enterprises assisting with business startups to formulate a plan for a program assisting business startups in order to encourage startups in the regions. Where authorization has been obtained from the national government, business founders who have received startup assistance under the plan are supported through measures such as improved credit guarantees and tax incentives (reduction in registration and license tax related to the registration of incorporation of a kabushiki-kaisha), and support measures such as credit guarantees were also provided to enterprises that assist in business startups.

14. Subsidies for business generating regional economic activity
[Fiscal 2015 budget: ¥2.31 billion]
Subsidies were granted for expenditure by local governments to assist with costs such as the initial startup funding required by private sector businesses in the establishment phase. This was to establish a regional round table drawn from industry, academia, financial institutions and government, and to promote the "Local 10,000 Project" that aims to create region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.).

Section 7 Support for business succession

1. Program to promote businesses that resolve regional issues
[Fiscal 2015 budget: ¥60 million]
To promote the activities of businesses that seek to resolve the regional issues of social businesses/community businesses using business methods, guidelines were formulated for financial institutions and businesses with the aim of developing the funding environment, and symposiums were held in ten locations throughout Japan to promote their dissemination.

2. Business succession support
[Fiscal 2015 budget: Included in ¥4.48 billion]
To support SMEs and micro-businesses that are facing problems related to the lack of business successor, etc., the "Business Succession Help Desks" established at approved support agencies in each of the 47 prefectures provided information and advice on business successions, and "Business Succession Support Centers" were established in regions that have a well-developed support framework, to match up managers who are facing a succession problem with companies seeking to utilize such management resources to expand their business. Business Succession Support Centers have been established nationwide in fiscal 2015.

3. System of deferral and exemption of payment of inheritance tax and gift tax on non-listed shares (business succession taxation scheme)
[Taxation scheme]
The business succession taxation scheme is designed to help successors to acquire shares and other assets in non-listed companies approved by the Minister of Economy, Trade, and Industry, from their predecessors, whether through inheritance, gift, or testamentary gift. The scheme works by allowing the deferral of payment of inheritance tax and gift tax on the premise that the successor will continue the business and, in certain circumstances (e.g., the death of the successor), exemption from payment of the tax for a grace period. Approvals to qualify for this scheme commenced in fiscal 2009, and as of the end of December 2015, 827 approvals had been granted for inheritance tax and 431 approvals had been made for gift tax.
In the fiscal 2015 tax reform (enforced April 1, 2015), the business succession taxation system was expanded as follows. The following represents an example where shares of stock are given from the first generation to the second, and then the third.

(1) When the second generation gives shares of stock to the third generation after the business succession period (and the third generation agrees to the

application of a tax deferral), the second generation is exempted from payment of the deferred tax.

(2) During the business succession period, if the second generation resigns from the position of representative due to an unavoidable circumstance (*) and gives its shares to the third generation (and the third generation agrees to the application of a tax deferral), the second generation is exempted from payment of the deferred tax.

(3) In the above two cases, the third generation's gift tax deferral will become an inheritance tax with the death of the first generation. (It will not become an inheritance tax with the death of the second generation.)

* Unavoidable circumstances mainly refer to the following:

- The individual has received a psychiatric disorder certificate (limited to class 1 disorders)
- The individual has received a physical disability certificate (limited to class 1 and 2 physical disorders)
- The individual has received authorization to receive nursing care (limited to level 5 nursing care)

4. Review of the Small Enterprise Mutual Relief System

The Small Enterprise Mutual Relief System is a system for giving micro business owners a retirement benefit. To strengthen its function of facilitating business revitalization, mutual relief money related to the transfer of business within the family was increased.

5. Comprehensive support under the Management Succession Facilitation Act

The Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises incorporates comprehensive support for business successions, involving special treatment under the Civil Code to resolve the constraints on legally secured portions of successions. By the end of December 2015, 108 confirmations of qualification for this special treatment had been granted by the Minister of Economy, Trade, and Industry.

6. Support to facilitate business successions

[Included in SMRJ subsidy program]

Business succession support networks for providing wide-ranging and in-depth support for SME business successions have been developed throughout Japan, and various events were held to provide training for SME support providers and raise SME proprietors' awareness through business succession forums.

Section 8 Other regional revitalization measures

1. Support to encourage enterprises to locate in regional areas

[Fiscal 2015 budget: Included in ¥800 million]

Support was provided for action by regions to attract enterprises using their local features and to revitalize local industries under the Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc. (Act No. 40, 2007). Budgetary support was provided for the development of industrial facilities, and institutional support was provided through special provisions under the Factory Location Act, a low-interest loan program for SMEs operated through JFC, and tax allocations to local governments taking steps to attract enterprises to their regions.

2. Subsidies for business generating regional economic activity

[Fiscal 2015 budget: ¥2.31 billion]

Subsidies were granted for expenditure by local governments to assist with costs such as the initial startup funding required by private sector businesses in the establishment phase. This was to establish a regional round table drawn from industry, academia, financial institutions and government, and to promote the "Local 10,000 Project" that aims to create region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.). (Cited earlier)

3. Infrastructure development program for strategic industrial support

[Fiscal 2015 budget: ¥800 million]

Strategic sector coordinators were assigned to each strategic sector to match large enterprises and potential core enterprises, by providing wide-ranging information to potential core enterprises in consideration of the technical needs of large enterprises, providing information on the outstanding technologies of potential core enterprises to large enterprises, and supporting collaborations with local support organizations. Furthermore, in strategic sectors, support was provided for the development of corporate clusters and cooperation centers that possess support functions for human resource development and market cultivation, to promote the creation, development and innovation of potential core enterprises and peripheral enterprise groups that are rooted in their local communities.

4. **Taxation scheme to strengthen the regional location of enterprises**
[Taxation scheme]
In order to revitalize the regions, it is necessary to correct the over-concentration of population and industry in Tokyo and create good quality employment in the regions. Toward this end, the fiscal 2015 tax reform encouraged initiatives for relocation of the head office functions of enterprises from Tokyo to the regions and for the expansion and development of the regions. More specifically, certified enterprises were given a choice of either a 15% special depreciation deduction on the cost of acquisition of an office building (25% in the case of relocation) or a 4% tax credit on the cost of acquisition (7% in the case of relocation). Enterprises that create employment in the region were offered a special measure under the taxation scheme to promote employment and a local tax grant related to strengthening regional corporate centers.

5. **Support for advancement into new sectors**
[Fiscal 2015 budget: Included in ¥1.67 billion]
Able "project managers" provided consistent support to core enterprises, would-be core enterprises and their partners (medium enterprises and SMEs) that are rooted in their community. The support will range from the formulation of new business advancement concepts to the development of industry-academia partnerships and business partners during the development stages and cultivation of new markets.

6. **Building new regional cooperation from regional core cities**
[Fiscal 2015 budget: ¥200 million]
Support was provided for the policy and initiative of creating regional core city areas for maintaining vibrant social economies with a population of a certain size through downsizing and networking efforts between central cities of substantially large core urban regions and neighboring municipalities. From fiscal 2015, a local tax grant was offered to municipalities that have entered into a cooperation agreement and formulated a vision, in support of initiatives that contribute to driving economic growth in their area as a whole, amassing and strengthening advanced city functions, and enhancing lifestyle-related functions and services. As of the end of February 2016, regional core city areas have been created in five urban regions.

7. **Enterprise vitality enhancement funding**
[Fiscal investment and loan program]
Japan Finance Corporation (JFC) provided loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors. A total of ¥89 billion was loaned to 10,315 businesses in fiscal 2015 (as of the end of January 2016).

8. **Tax measure for expanding tax-free shops and enhancing their convenience**
[Taxation scheme]
In the fiscal 2015 tax reform, a new system was established, which allows shopping districts and shopping centers to outsource tax exemption procedures to businesses that operate tax-free service counters. This has made it possible to reach the minimum purchase amount by adding together the amounts of purchases at multiple stores in the same shopping district or shopping center.

9. **Loan program for supporting regional core enterprises**
[Fiscal 2015 budget: ¥8 billion from the fiscal investment and loan program]
Medium enterprises and SMEs that are core regional presences having a certain influence on their regional economy were supported in their initiatives to achieve innovation such as by advancing into a new sector or making strategic initiatives for management improvement. Under a loan program for supporting regional core enterprises, the Shoko Chukin Bank provided long-term, lump-sum repayment and successful interest payment-type loans to such enterprises. In fiscal 2015, loans were provided to 52 enterprises, worth a total of ¥6.6 billion (as of February 29, 2016).

Chapter 6 Development of the business environment

Section 1 Cash-flow assistance and business generation support

1. Detailed cash-flow assistance and business generation support

New lending systems were created and existing systems were expanded by the JFC and Shoko Chukin Bank under the fiscal 2014 supplementary budget that was approved on February 3, 2015. More specifically, generous cash-flow assistance that includes management support was offered to businesses facing cash-flow difficulties and business promoting investments in energy conservation in response to the impacts of rising raw material and energy costs.

Loans were also promoted for forward-looking regional initiatives, such as business startups by women and initiatives for smooth business succession, and for new businesses and employment creation by NPOs and other such organizations.

With respect to the credit guarantee system, Credit Guarantee Corporations in each region prepared to provide support that combines cash-flow assistance with management support under said supplementary budget. They will strengthen their initiatives for management support in cooperation with regional financial institutions, and promote refinancing guarantees through the management strengthening guarantee system, etc. Furthermore, prompt and flexible support was provided to SMEs and micro-businesses affected by disaster based on Safety-net Guarantee No. 4. The credit guarantee system responds to damage in the event of a natural disaster, and has been given greater flexibility in terms of its operational criteria, so that safety-net guarantees may be approved at the same time the Disaster Relief Act is applied.

The fiscal 2014 supplementary budget also provided for business generation support in the form of strengthening the support framework of SME Revitalization Support Councils in each region, and accelerating support for the formulation of drastic business regeneration plans by SMEs and micro-businesses.

2. Safety net loans

The safety net loan program provides loans worth up to a total of ¥720 million (from JFC's SME Unit and the Shoko Chukin Bank) and ¥48 million (from JFC's Micro Business and Individual Unit) to SMEs that have experienced, for example, a temporary decline in sales or profits caused by the effects of changes in the social or economic environment. Under the fiscal 2014 supplementary budget, an interest rate incentive was given to SMEs and micro-businesses experiencing cashflow difficulties amid the impacts of the high costs of raw materials and energy, in cases where their profit margin has declined or their severe business condition requires them to receive business support from an approved support agency. In fiscal 2015, 150,000 loans were made with a total value of ¥3.1 trillion (as of the end of January 2016).

3. Managerial Improvement Loans (Marukei Loans) for micro businesses

[Fiscal 2015 budget: ¥3.98 billion] [Fiscal investment and loan program]

In order to provide financial support to micro businesses, the JFC provided unsecured and unguaranteed low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. Ongoing improvements were also implemented: (1) the term of loans was extended from five to seven years for working capital and from seven to 10 years for capital expenditure; (2) the deferment period was extended from six months to one year for working capital and from six months to two years for capital expenditure; and (3) the ceiling on loans was raised from ¥15 million to ¥20 million. Between April 2015 and the end of January 2016, a total of 36,200 loans were provided with a total value of ¥207.8 billion. (Cited earlier)

4. Micro business management development support loans

[Fiscal 2015 budget: ¥20 million]
[Fiscal investment and loan program]

To support sustainable business development by micro businesses, Japan Finance Corporation (JFC) offered low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry certified under a management development support plan. Between April 2015 to the end of January 2016, a total of 34 loans were provided with a total value of ¥210 million. (Cited earlier)

5. Promotion of subordinated lending

[Fiscal 2015 budget: Included in ¥15 billion]

The subordinated lending program is a financing mechanism of the JFC, which solicits joint financing from the private sector to stabilize the financing of SMEs and micro-businesses by providing them with high-risk, long-term, "bullet loans" (capital funds) to enhance their financial underpinnings. Under

the fiscal 2014 supplementary budget, the program was expanded to newly provide loans for business succession and overseas expansion. In fiscal 2015, approx. 1,000 subordinated loans were provided, worth a total value of ¥59.8 billion (as of the end of February 2016).

(Note) Loans under this program are limited bullet loans. In the event that the SMEs or micro-business taking out the loan enters legal bankruptcy, its repayment precedence is subordinated to other claims. By designing the program so that the interest rate is tied to the success rate for loan repayments in each period, these subordinated loans can be taken to be equity in financial inspections.

6. SME and micro-business management enhancement loan/guarantee program
[Fiscal 2015 budget: ¥1.1 billion]

On the premise that support is being provided by approved support agencies, the management of SMEs and micro-businesses was strengthened through measures such as low-interest loans from the JFC (0.4% below the standard rate, or 0.65% below the standard rate for women, young people and senior business startups) for business startups, businesses diversification, and changes of business.

7. Encouragement of refinancing guarantees
[Fiscal 2015 supplementary budget: ¥1 billion]

Refinancing guarantees are promoted with the aim of encouraging credit guarantee corporations to consolidate multiple outstanding debts and relieve the repayment burdens at hand. In fiscal 2015 (up to the end of February 2016), 161,831 refinancing guarantees were approved, worth a total value of ¥3 trillion.

8. Safety-net Guarantees (Nos. 4 & 5)

Safety-net Guarantee Nos. 4 and 5 call for credit guarantee corporations to provide guarantees separate from ordinary guarantees to SMEs and micro-businesses experiencing a management instability due to either a natural disaster in the case of Safety-net Guarantee No. 4 or an industrial structural slowdown in the case of Safety-net Guarantee No. 5 (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans).

In fiscal 2014, the disaster designation criteria for Safety-net Guarantee No. 4 was reviewed in consideration of the marked damage caused by the increasing frequency of short-term downpours and other changes in disaster risks. This has allowed for greater flexibility and speed in the system. In fiscal 2015, 288 guarantees were approved under Safety-net Guarantee No. 4, totaling ¥4.7 billion (as of the end of February 2016).

Safety-net Guarantee No. 5 was actively provided to SMEs in designated industries whose average monthly sales, etc., for the latest three months fall by a set proportion or more compared with the same period in the previous year. In fiscal 2015, 24,733 guarantees were approved under Safety-net Guarantee No. 5, totaling ¥579.2 billion (as of the end of February 2016).

9. Expansion of SME credit insurance to NPOs that support local economies and employment

In recent years, NPOs have strengthened their presence as entities that support new employment and businesses in local communities, and are beginning to be acknowledged as main players capable of unearthing new local demand by resolving local issues and revitalizing local economies. As their activities hardly different from those of existing SMEs, the Small Business Credit Insurance Act was amended to newly include NPOs in the scope of SME credit insurances, and other such necessary measures were taken. The inclusion of NPOs in the scope of credit insurance from October 2015 has facilitated the financing of NPOs that engage in business activities related to medical care, welfare and childcare.

10. Program to assist with formulating management reform plans by approved support agencies

For SMEs and micro-businesses that are unable to formulate management reform plans on their own, approved support agencies (certified public tax accountants, lawyers, financial institutions, etc.) provided assistance in formulating management reform plans, as well as follow-up for those plans. Under the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises, the program defrayed part (two-thirds) of the costs incurred by those activities. Between April 2015 and the end of February 2016, 9,283 consultations were received, including 3,097 cases that were taken up by the program. This brought the total number of consultations received between the inception of the program (March 2013) to the end of February 2016 to 31,211, including 10,621 cases in which the formulation of reform plans has been completed.

11. SME Revitalization Support Councils
[Fiscal 2015 budget: Included in ¥4.48 billion + ¥1.8 billion carried over from the fiscal 2014 supplementary budget]

The SME Revitalization Support Councils established at the chambers of commerce and industry and similar entities in each prefecture provided SMEs and micro-businesses that had profitable businesses but faced financial problems with advice on solving their problems through consultation services, and assisted with the drafting of revitalization plans that also included coordination with relevant financial institutions and similar entities. Between April 2015

and the end of December 2015, the councils received 1,374 consultations and formulated 786 revitalization plans, for a total of 36,516 consultations and the formulation of 10,518 revitalization plans from their inception to the end of December 2015.
Additionally, subsidy projects were implemented to strengthen the support framework of SME Revitalization Support Councils and accelerate the assisted formulation of drastic revitalization plans by SMEs and micro-businesses.

12. SME Rehabilitation Plan through Succession (secondary companies)
Where an SME rehabilitation plan through succession is authorized under the Industrial Competitiveness Enhancement Act and business succession occurs as set out in that plan, measures were implemented to reduce the tax burden and support financing, along with special provisions for permissible succession. From April 2015 to the end of February 2016, eight such cases were approved, for a total of 31 cases since the system was established based on the Act on Special Measures concerning Industrial Revitalization (June 2009).

13. SME revitalization funds
In order to deliver the funds needed by SMEs to implement their revitalization plans and provide them with financing and management support, the SMRJ, regional financial institutions, and credit guarantee corporations in unison promoted the establishment and utilization of regional funds to assist local SMEs' revitalization efforts and national funds to assist SMEs' revitalization efforts over a wide area. Up to the end of February 2016, 43 funds have been established, amounting to approximately ¥136.4 billion in total. By the end of January 2016, the funds have invested approximately ¥68.6 billion in 332 companies.

14. Promotion of the use of "Guidelines for Personal Guarantees Provided by Business Owners"
[Fiscal 2015 budget: ¥100 million]
To promote the use of the "Guidelines for Personal Guarantees Provided by Business Owners" published on 5 December 2013, help desks were set up in the regional headquarters of the SMRJ in fiscal 2013, and there was ongoing implementation of the system for dispatching specialist advisors for people who want to use the guidelines. There was also ongoing implementation of financing and guarantee systems independent of business owner guarantees by public sector financial institutions created or enhanced in fiscal 2013. Additionally, to ensure the guidelines are absorbed and retained as part of financing practices, initiatives that should be widely taken were compiled into a collection of examples and published. Furthermore, explanatory meetings on the guidelines were held in 50 locations throughout Japan between September 2015 and December 2015 for SMEs and micro-businesses.

15. Enhanced management support for financial administration among SMEs
To promote support for the growth of enterprises and industries via financial administration, support for management reforms, productivity improvement and the financial standing of SMEs, financial institutions were encouraged to provide enhanced management support to SMEs. Based on the financial monitoring policy, they were encouraged to provide loans based on proper assessment (business assessment) of the business performance and growth potential of borrower companies without relying more than necessary on securities and guarantees, in addition to providing consultation services.

16. Promote liquidity of SMEs' export receivables covered by trade insurance
To promote the financing of SMEs, NEXI is collaborating with the Shoko Chukin Bank and the three megabanks to establish a scheme for transferring an export receivable covered by trade insurance from an SME to a financial institution and promoting the utilization of the scheme by SMEs.

17. Support for SMEs in Okinawa
Regarding support for SMEs in Okinawa delivered via the Okinawa Development Finance Corporation (ODFC), the operations and initiatives undertaken by JFC were performed as usual, while ODFC's own system of lending was expanded to meet the specific needs of businesses in Okinawa.

18. Adoption and application of "Basic procedures for SME accounting"
The adoption and application of the "Basic procedures for SME accounting" was promoted so as to encourage SMEs to clarify their business conditions, improve the ability of proprietors to explain their business, and strengthen their ability to obtain financing. As a dissemination measure, the 0.1% discount on credit guarantee rates was continued to be provided in fiscal 2015 to SMEs and micro-businesses that adopt the "Basic procedures" as their accounting rule.

Section 2 Enhancing financial capacity

1. Lowering of reduced tax rate for SMEs
[Taxation scheme]
This measure lowers the rate of corporate tax (19%) incurred on annual income amounts up to ¥8 million to 15%. Its effective period of application was extended two years under the fiscal 2015 tax reform.

2. **SME investment promotion tax system**
[Taxation scheme]
This system offers a 30% special depreciation or a 7% tax credit (the tax credit is not offered to corporate entities with a capital of more than ¥30 million) for the price of purchasing machinery or equipment. It also allows for immediate depreciation or provides a 10% tax credit (7% for corporate entities with a capital of more than ¥30 million) for the introduction of machinery and equipment that leads to productivity improvement.

3. **Special provision for inclusion of SMEs in charges against revenue of acquisition cost of petty sum depreciable assets**
[Taxation scheme]
The special provision that allows enterprises to include in full depreciable assets worth less than ¥300,000 in charges against revenue (limited to a total of ¥3 million a year) was continued to be offered.

4. **Carryover and refund carryback of loss**
[Taxation scheme]
The carryover of loss is a scheme that allows loss arising in the current business year to be deducted as a loss carried over from the amount of income in the following and subsequent business years. Under the fiscal 2015 tax reform, the carryover period was decided to be extended to 10 years (from 9 years under the current scheme) from fiscal 2017. The measure that allows businesses to receive a one-year carryback refund for losses arising in the current business year was continued.

5. **Taxation system for the revitalization of the commercial, service and agriculture/forestry/fishery industries**
[Taxation scheme]
The tax measure that allows SMEs in the commercial and service industries that acquire facilities based on advice on business improvement from a chamber of commerce and industry or other such institution to receive a 30% special depreciation deduction from the cost of acquisition or a 7% tax credit was continued (the tax credit is offered only to corporate entities with a capital of no more than ¥30 million). Under the fiscal 2015 tax reform, the effective period of the measure was extended two years.

6. **Special exemption from inclusion in charges against revenue of entertainment and social expenses, etc.**
[Taxation scheme]
The selective application of (1) the measure that permits entertainment and social expenses to be included in charges against revenue up to the fixed deduction amount (¥8 million) or (2) the measure that allows 50% of food and drink expenses to be included in charges against revenue was continued to be offered.

7. **Investment by Small and Medium Business Investment and Consultation Co., Ltd.**
In order to help enhance SMEs' capital adequacy and contribute to their sound growth and development, the Small and Medium Business Investment and Consultation Co., Ltd. operated a number of programs to assist in SME development. These include business consultations, assistance with business successions and investment programs involving the underwriting of shares, share warrants and corporate bonds with subscription warrants.

Section 3 Measures for pass-throughs of consumption tax

1. **Programs to enhance monitoring and inspection regimes for consumption tax imputation**
[Fiscal 2015 budget: Included in ¥3.87 billion]
To ensure that consumption tax is passed through appropriately, 474 "cost pass-through inspectors" were assigned throughout Japan. At the same time, to collect information such as on refusals to pass through the consumption tax, a large-scale written survey was carried out in conjunction with the Fair Trade Commission (FTC) in the effort to monitor and regulate acts of refusal to pass through the consumption tax.

Section 4 Measures for business stabilization

1. **Mutual Relief System for the Prevention of Bankruptcies of SMEs (Mutual Safety-net Relief System)**
[Included in SMRJ subsidy program]
The Mutual Relief System for the Prevention of Bankruptcies of SMEs is a system that provides unsecured, unguaranteed, low-interest loans to prevent a chain reaction of bankruptcies when the bankruptcy of a supplier or customer has made it difficult for an enterprise to recover moneys due on account. As of the end of December 2015, 398,000 companies were enrolled in the system, with 36,000 new subscribers in the period from April 2015 to end of December 2015 and new loans totaling ¥5.56 billion.

2. **Special Business Stability Consultation Centers**
[Fiscal 2015 budget: ¥37 million]
To assist in the resolution of the many and diverse administrative problems of SMEs facing management risks, special business stability advice centers have been established in key chambers of commerce and

industry and prefectural federations of societies of commerce and industry across the country. To facilitate management consultations related to business stability in a wide range of business sectors at these centers, support was provided to initiatives such as guidance programs run by the Japan Chamber of Commerce and Industry and the Central Federation of Societies of Commerce and Industry.

3. Promotion of wider adoption of BCPs by SMEs
[Fiscal investment and loan program]
To support the formulation and operation of BCPs by SMEs and micro-businesses and aim to further disseminate and establish the plans, the support project for strengthening business continuation among SMEs and micro-businesses, which was launched under the fiscal 2014 supplementary budget, was continued as a measure for supporting the formulation and operation of BCPs by SMEs and micro-businesses. Additionally, to enhance the dissemination and support framework, support was given to BCP training and seminars for support managers operated by SME-related bodies. Furthermore, low-interest loans were provided by the JFC for the establishment of disaster prevention facilities in accordance with BCPs formulated by SMEs and micro-businesses themselves.
[Financial results] (April 2015 to January 2016): 87 loans totaling ¥7.68 billion

4. Relief for damage caused by dumped imports
[Fiscal 2015 budget: ¥50 million]
Trade remedy measures include anti-dumping (AD) programs to provide relief to domestic industries impacted by dumped imports to Japan from foreign enterprises, including measures to ensure equitable market competition such as by imposing extra customs duties following a petition by the affected Japanese industry and an investigation by the government. An AD investigation into South Korean and Chinese manufactured potassium hydroxide was begun in May 2015, and is being pursued fairly and appropriately based on international rules and Japanese laws and regulations. Studies were also conducted to ensure that investigations are consistent with WTO conventions, and information sessions were held for enterprises.

Section 5 Measures concerning public demand

1. Formulation and dissemination of the "FY 2015 Policy on State Contracts with Small and Medium Enterprises"
[Fiscal 2015 budget: Included in ¥550 million]
The Government and Public Office Demand Act was revised to promote the participation of newly established SMEs and micro-businesses that have been newly established within the past ten years in receiving orders from the government/public sector. Additionally, the Policy on State Contracts with Small and Medium Enterprises was renamed the Basic Policy on State Contracts with Small and Medium Enterprises, and Cabinet approval was given on August 28 for setting 54.7% as the target contract ratio among SMEs and micro-businesses in fiscal 2015, and for roughly doubling the ratio of state contracts with new SMEs over the three years from fiscal 2015 to 2017, compared to fiscal 2014 (estimated at around 1%). As measures for increasing opportunities for SMEs to receive orders, the Basic Policy included a measure not to overly seek results from new SMEs, a measure to include new SMEs among requests for quotations for low-price negotiated contracts, and a measure to provide information to order-placing entities by developing and operating a procurement site where new SMEs register their products and services.
The following initiatives were implemented to fully disseminate the Basic Policy.

(1) The Minister for Economy, Trade and Industry issued a request regarding the Cabinet approval of the Basic Policy on State Contracts with Small and Medium Enterprises to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards (1,805 organizations), and also requested that they make efforts to increase opportunities for SMEs and micro-businesses to receive orders.
(2) From August to September, 50 information sessions (Councils to Promote Local Access to Public Sector Demand) were held throughout Japan to actively raise awareness of the Basic Policy in regional areas.
(3) A conference was organized to discuss policies for information sharing and cooperation regarding initiatives for promoting procurement from new SMEs in regional areas.
(4) A "Guide to Contracts in the Public Sector" was produced and distributed to central and local government agencies and other commerce and industry-related organizations.

2. Operation of the "Public Demand Portal Site" to expand opportunities for SMEs and micro-businesses to receive orders from the public sector
[Fiscal 2015 budget: Included in ¥550 million]
A Public Demand Information Portal Site has been operated that provides SMEs and micro-businesses with one-stop access to order information posted on national government and other local public websites in order to improve access by SMEs and micro-businesses to information on public sector orders.

Section 6 Promotion of human rights awareness

1. Human rights awareness

[Fiscal 2015 budget: ¥190 million]

In order to widely propagate respect for human rights and cultivate awareness of human rights among SMEs and micro-businesses, seminars and other awareness-raising activities were organized. Traveling consultation services and training programs were also offered to revitalize micro businesses in regions or industries where there are particularly large numbers of micro businesses that require concentrated support.

Chapter 7 Initiatives by industries and area

Section 1 Measures for SMEs in agriculture, forestry and fisheries

1. Promotion of diversification of primary producers into processing and distribution (sixth sector industrialization)

(1) Subsidy for sixth sector industrialization network activities
[Fiscal 2015 budget: ¥2.33 billion]
Support was provided for initiatives in which businesses make coordinated efforts that maximize regional characteristics and create a network to develop new products, cultivate markets and operate facilities for processing and marketing agriculture, forestry and fishery products. Support was also provided for sixth sector industrialization initiatives that are implemented by the entire region in line with sixth sector industrialization strategies and concepts of the municipality.

(2) Active utilization of the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan
Support was provided through measures such as investment for business activities aimed at sixth sector industrialization by agriculture, forestry and fishery businesses in cooperation with distribution and processing businesses through the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan (A-FIVE).

(3) Program for promoting the protection and utilization of intellectual properties
[Fiscal 2015 budget: ¥200 million]
A consultation center for supporting applications for registering geographical indications (GI Support Center) was established to provide support for consultations regarding the registration application of geographical indications, and support was provided for initiatives to strengthen measures against infringements of Japan's agriculture, forestry and fishery products and food products overseas.

(4) Comprehensive program to promote renewable energy to revitalize rural areas
[Fiscal 2015 budget: ¥200 million]
Growth in regional agricultural, forestry and fishery businesses was promoted by pursuing community-based initiatives to supply renewable energy and to feed the benefits of such initiatives back into local communities.

2. Support for small and medium agricultural, forestry, and fishery businesses

(1) Wood Industry Upgrading Promotion Fund and Forestry and Wood Industry Improvement Fund
[Fiscal 2015 commitment line: ¥70 billion]
In order to streamline lumber production and distribution, loans were provided through the Wood Industry Upgrading Promotion Fund, while loans through the Wood Industry Improvement Fund were provided to implement measures such as management reforms in the forestry and lumber industries.

(2) Interest subsidy for the installation of lumber processing facilities
[Fiscal 2015 budget: ¥10 million]
An interest subsidy was provided for borrowings required for the introduction of facilities toward adding value to lumber products and diversifying management, and for dismantling facilities and equipment accompanying the introduction of new facilities.

(3) Support for creation a framework in the wood industry by means of the Subsidy for Establishment of the Foundation for Forest and Forestry Regeneration
[Fiscal 2015 budget: Included in ¥2.7 billion]
To create a supply chain for stable and efficient supply in terms of cost, volume and quality, support was provided for the development of lumber processing and distribution facilities needed to realize schemes for wide-area distribution and regional circulation.

(4) Support for reorganization and development of the dairy industry by means of subsidies for building a strong agricultural industry and comprehensive measures for the revitalization of production areas
[Fiscal 2015 budget: Subsidies for building a strong agricultural industry: Included in ¥23.09 billion; Comprehensive measures for the revitalization of production areas: Included in ¥2.34 billion]
(Objectives of the measure)
- To promote a stronger management culture in the SME dairy industry, such as by restructuring and rationalizing dairy plants and enhancing sanitary control, toward contributing to business stabilization among dairy farmers, amid a stagnation in the consumption of milk.

(Overview of the measure)
- To reduce the production and selling costs of SMEs in the dairy industry and promote the advancement of sanitary standards, support was provided for the additional construction and closing down of dairy plant facilities and for the closing down of dairy plants in cases where it is not accompanied by the construction of new plants.

• To promote steady initiatives toward increasing the efficiency of collecting and transporting milk and restructuring the dairy industry, support was provided for assessing and examining regional issues, formulating specific plans, and rationalizing employees.

(5) Support for raising the standard of food manufacturing process management

To improve the safety of food products and gain the confidence of consumers, financial support was provided for the following initiatives under the Act on Temporary Measures concerning Sophistication of Management of Food Manufacturing Process: (1) Provision of infrastructure and equipment for HACCP introduction; and (2) Provision of infrastructure and equipment for hygiene and product quality control as preliminary steps towards HACCP introduction (advanced platform provision). (Fund for promoting advanced quality control in the food industry)

(6) Comprehensive export support project by JETRO

[Fiscal 2015 budget: ¥1.38 billion]

(Objectives of the measure)

• To implement initiatives for the promotion of exports in line with the "Export Strategies for Agriculture, Forestry and Fishery Products and Foods by Country and Item" (formulated Aug, 2013), through private-public cooperation toward achieving the target of ¥1 trillion by 2020.

(Overview of the measure)

• Through subsidies to the Japan External Trade Organization (JETRO), comprehensive business support for upstream to downstream operations of export businesses was strengthened.

(Changes from fiscal 2014)

• The "one-stop station for export consultation" was established to strengthen export consultation services, "marketing centers in emerging markets" were established to test-market the products of businesses that engage in export and provide feedback of local responses, and an "overseas liaison council" was established for resolving various bilateral issues that are difficult to resolve through the efforts of individual enterprises alone.

(7) Measures for export businesses

[Fiscal 2015 budget: ¥840 million]

(Objectives of the measure)

• To implement initiatives for the promotion of exports in line with the "Export Strategies for Agriculture, Forestry and Fishery Products and Foods by Country and Item" (formulated Aug, 2013), through private-public cooperation toward achieving the target of ¥1 trillion by 2020.

(Overview of the measure)

• Export organizations for each export category including marine products, rice and rice products, flowers, animal products, tea, and forestry products (wood) held examination committees in Japan, conducted overseas market surveys, and implemented initiatives for resolving issues regarding the export environment, with the objective of establishing the Japan brand.

• To create an export promotion framework based on cooperation among production regions, initiatives were implemented to extend export periods and promote relay exports through cooperation among production regions.

• To respond to requests for quarantine boarding that is sought by relevant countries and regions, the acquisition and renewal of international certifications, and realize transportation costs in accordance with the export conditions of each item, initiatives were implemented for the development and demonstration of an optimal export model.

(Changes from fiscal 2014)

• Overseas market surveys, development of export managers, and production region promotion meetings and other business meetings in Japan were abolished.

3. Support for R&D and other cross-field activities

(1) Promotion of studies of scientific technologies for the agriculture, forestry, fishery and food industries

[Fiscal 2015 budget: ¥5.24 billion]

R&D initiatives were promoted at each stage of technological development, including the basic stage involving the development of the technological seeds that will lead to innovative technologies and solutions for problems in the agriculture, forestry, fishery and food industries (elemental technologies that lead to the creation of new technologies, businesses and agribusiness); the application phase involving the further development of those seeds towards R&D for practical application; and the practical application stage in which technologies meet the requirements of key national policies and address the needs of the agriculture, forestry, fishery and food industries. The development of new varieties will also be promoted in response to the diverse needs of actual demands by utilizing the technical capabilities of industry, government and academia.

(2) Various forms of lending by JFC

[Fiscal investment and loan program]

Section 2 Measures for SMEs in the transport industry

1. Support for the warehousing industry

Upgrading of the physical distribution functions of facilities was promoted in order to encourage third party logistics (3PL) programs and more efficient distribution under the Law for Integration and Improvement of Physical Distribution. This is aimed at meeting the need for increasingly sophisticated physical distribution services as a response to changes in the socioeconomic environment.

2. Measures for the coastal and domestic passenger shipping industries

(1) Interim measures for coastal shipping
In order to ensure the smooth and steady implementation of interim measures for coastal shipping, support was provided by establishing a separate system of government guarantees for the loans required to fund these measures.

(2) Joint shipbuilding program
[Fiscal investment and loan program]
[Fiscal 2015 budget: ¥28.4 billion]
Through the joint shipbuilding program of the Japan Railway Construction, Transport and Technology Agency (JRTT), the construction of ships with high policy significance, such as ships that contribute to greenifying coastal shipping or contribute to the maintenance and activation of remote island routes, was promoted.

3. Measures for small and medium shipbuilders and related manufacturers
[Fiscal 2015 budget: (1) Included in ¥50 million; (2) ¥16 billion (fiscal 2013 budget); (3) Included in ¥810 million; (4) ¥100 million]

(1) In addition to taking steps to develop a safety net for business stabilization, (1) [courses aimed at modernizing management techniques were held in eight locations nationwide, and a health and safety manager training course was also held to help prevent industrial accidents].

(2) All 37 shipyards and shipbuilders on the Pacific coast of Tohoku together suffered devastating damage in the Great East Japan Earthquake, as did many shipbuilding-related businesses. The Ministry of Land, Infrastructure and Transport, in cooperation with the SME Agency and other relevant ministries and agencies, supported the utilization of the Subsidy for Restoration and Reconstruction of (Groups of) SMEs, and helped in the procurement of materials and equipment needed for the prompt recovery of their facilities. Additionally, to promote the reconstruction of local shipbuilding industries that make a significant contribution to the fishery industry in disaster-affected areas, a fund was established for groups of small and medium shipbuilding businesses that contribute to the fishery industry in areas where the industry is a core industry but face reconstruction difficulties due to ground subsidence, as well as for assisting with the costs of constructing and repairing facilities to be used jointly by the businesses and for constructing berthing facilities. A total of 19 businesses in 8 projects were selected to receive a subsidy of ¥11.42 billion in total, and two of those subsidized businesses received a subsidy upon their completion. (2) Subsidy for reconstruction assistance projects in the shipbuilding industry

(3) Subsidies were provided for 32 research and development projects (including 11 involving the participation of SMEs) for marine resource development technologies that contribute to the strategic growth of Japan's maritime industries and for world-leading marine environment technologies for reducing CO2 from vessels. (3) Subsidy for R&D for technologies related to the maritime industry

(4) To deepen understanding of the shipbuilding industry and attract a larger number of young people to the industry, shipyard tours, shipyard internships for high school and university students, and educational study groups composed of local high school teachers and shipbuilding companies were held. (Ongoing, new) As an urgent and temporary measure from April 2015 to the end of fiscal 2020, a program for accepting foreign shipbuilding workers was introduced, which allows prospective workers who have completed technical intern training to work for up to three years in the shipbuilding industry. Under this program approximately 900 foreign workers worked in the shipbuilding industry as of January 2016. (4) Recruitment and development of human resources in the shipbuilding industry

Section 3 Measures for small and medium building contractors and realtors

1. Support program for revitalization of regional construction industries
[Fiscal 2015 budget: ¥190 million]
To support small, medium-sized and second-tier construction companies and construction-related companies (surveying, construction consultancy and geological surveying businesses) that support local communities such as by improving, maintaining and operating social capital and contributing to disaster prevention and mitigation, revitalization support advisors such as human resource development specialists and SME business consultants provided wide-ranging advice to help resolve management issues and technical issues such as construction management.

2. Financial support in the construction industry

(1) Implementation of the Local Construction Management Enhancement Loan Program
To further facilitate funds procurement by construction companies acting as the main contractor, the operating period of the Local Construction Management Enhancement Loan Program, which allows small and medium-sized construction enterprises and second-tier construction companies to receive a loan from loan businesses in proportion to the construction work using the contract value credit from public works as collateral, was extended. The program aims to secure

loan funds and reduce procurement interest rates by attaching a loan guarantee to sublease funds that loan businesses borrow from financial institutions when providing a loan.

(2) Implementation of the Subcontracting Receivables Protection Support Program

The operating period of the Subcontracting Receivables Protection Support Program, which was implemented to facilitate the procurement of funding and the protection of receivables held by building subcontractors and similar enterprises, was extended. The main purpose of this program is to minimize risk and compensate for losses by small, medium-sized and second-tier building subcontractors when a receivable payable to a building subcontractor by the main building contractor for subcontracted building work is guaranteed by a factoring company.

3. Support for overseas business expansion in the construction industry

[Fiscal 2015 budget: ¥40 million]

Seminars on formulating overseas expansion strategies were held for business managers, and a mission was dispatched to Indonesia, to support overseas expansions by second-tier and SME construction companies. Overseas Business Forum 2016 and individual consultation meetings were organized for enterprises in the construction and real estate industries, and initiatives were implemented for introducing the latest information via a database of overseas construction and real estate markets and for supporting overseas expansions through the use of intellectual properties.

4. Financial measures for small and medium realtors

Loan guarantee programs designed to provide guarantees for business loans for regional revitalization and for loans to fund joint initiatives by small and medium realtors were continued so as to supplement credit and facilitate financing of small and medium realtors.

5. Regional housing greenification program

[Fiscal 2015 budget: ¥11 billion]

To strengthen the regional production framework for wooden housing and reduce environmental burden, support was provided for the development of energy efficient and durable wooden housing and buildings through groups comprising businesspersons in related fields involved at all stages from provision of materials through to design and implementation.

6. Program for developing a framework for wooden housing construction techniques

[Fiscal 2015 budget: ¥600 million]

Support was provided for initiatives related to the development of new carpenters and implementation of courses on renovation techniques for enhancing the technical level of skilled carpenters.

Section 4 Measures for the environmental sanitation business

1. Measures for the environmental sanitation business

[Fiscal 2015 budget: ¥1.03 billion]

Subsidies was provided to environmental sanitation associations, the national environmental sanitation guidance center, and prefectural environmental sanitation guidance centers, to promote the creation of safe and comfortable lifestyle environments from the perspective of sanitation. Support was provided specifically for rehabilitating the management of environmental sanitation businesses such as the hairdressing, dry cleaning and restaurant businesses, maintaining and improving sanitation standards, and protecting user and consumer interests. In fiscal 2015, a plan will be formulated that maximizes the strengths and characteristics of environmental sanitation businesses, and particular focus will be placed on initiatives that aim to establish and promote a virtuous cycle in the industry as a means for breaking away from the structural negative cycle entrapping environmental sanitation businesses, revitalizing the industry, and driving sustainable development.

2. Loans for ES businesses

[Fiscal 2015 budget: ¥2.18 billion]

The JFC provided low-interest loans (environmental sanitation loans) with the aim of improving and otherwise promoting public health, by providing financial assistance to environmental sanitation businesses.

Under the fiscal 2015 budget, the terms of the loans were improved, such as by lowering the interest rate on loans for barrier-free facilities, and under the fiscal 2015 supplementary budget, the interest rate on loans was lowered for businesses that employ young people in the regions or relocate their head office to the regions.

Chapter 8 Other SME policies

Section 1 Environmental and energy measures

1. **Administrative support for the system for certifying greenhouse gas reductions by SMEs (J-Credit Scheme)**
[Fiscal 2015 budget: ¥580 million]
The J-Credit Scheme is a system for certifying the amounts of greenhouse gas emission reductions achieved through capital investment by SMEs as "credits", and assistance was provided with administering the scheme and formulating business plans.
This program also develops the foundation for the carbon offset mechanism whereby CO2 emissions from products and services are offset with carbon credits, by taking advantage of the "visualization" of carbon emissions from products by the Carbon FootPrint (CFP) system, and promoted demand for the credits created under the J-Credit Scheme. By boosting low-energy investments by SMEs and promoting the circulation of funds in Japan through the use of these credits, the program achieved a good balance between the environment and economy.

2. **Promotion of environment-conscious business activities based on the "visualization" of CO2 emissions and carbon credits**
[Fiscal 2015 budget: ¥100 million]
Support was provided to disseminate carbon offset products, by operating a system that certifies the products and services of SME and micro-businesses that use the Carbon Footprint system to visualize and offset the amount of carbon dioxide that is emitted from them throughout their lifecycle with carbon credits, and providing a dedicated label (chestnut mark) as proof of certification.
Collection of the dedicated label has promoted the operation of schemes to return environmentally friendly products and services to schools and other local organizations, encouraged consumers to purchase environmentally friendly products, and gave a boost to eco-conscious business activities by SMEs and micro-businesses. Thirty three businesses participated in this system through 104 schemes.

3. **Environment and Energy Measure Fund (for anti-pollution measures)**
To promote anti-pollution measures by SMEs, the JFC provides low-interest loans to businesses who install pollution prevention equipment. In fiscal 2015, the period of the scheme was extended to 31 March 2016 upon conducting a necessary review.

[Financial results] (April 2015 to January 2016)

	Projects	Funding
Atmospheric pollution related	4 projects	¥111 million
Water contamination related	3 projects	¥57 million
Industrial waste/ recycling-related	53 projects	¥4.183 billion

4. **Anti-pollution tax system**
[Taxation scheme]
The anti-pollution tax system supports the anti-pollution initiatives of businesses, including SMEs, by offering measures such as a special exemption from the tax base for anti-pollution equipment (wastewater or liquid waste treatment facilities) and a special depreciation measure for the acquisition of anti-pollution equipment. The special exemption from the tax base for anti-pollution equipment (wastewater or liquid waste treatment facilities) was extended two years from its expiration at the end of fiscal 2015.

5. **Energy Use Rationalization Business Support Program**
[Fiscal 2015 budget: ¥41 billion]
This program subsidized the costs required for energy conservation and power peak countermeasures that are implemented when enterprises replace their energy-saving facilities and systems in their plants and offices, improve their manufacturing processes or otherwise make modifications. From fiscal 2015, energy-conservation initiatives that cut across multiple plants were included in the scope of the program.

6. **Program to promote the installation of designated equipment to rationalize energy use**
[Fiscal 2015 budget: ¥2.61 billion]
To promote the introduction of energy-saving facilities and certain top-runner equipment, an interest subsidy was provided to businesses receiving financing from private financial institutions. The program was operated through collaboration with local financial institutions, to encourage active investment in energy conservation by regional SMEs and medium enterprises.

7. **Program for promoting the introduction of energy-saving measures**
[Fiscal 2015 budget: ¥550 million]
This program implemented measures such as assessments to identify potential energy savings by SMEs and similar businesses, and the case examples

and information on energy-saving technologies gained from them were disseminated via a range of media.

8. **Program for promoting investments in energy-saving and productivity innovations among SMEs**
[Fiscal 2015 supplementary budget: ¥44.2 billion]
The upgrading of facilities to high-efficiency energy-saving facilities was supported by establishing a system for simple application according to the energy-saving effect of each facility to be introduced, as a means for enhancing business productivity and energy conservation performance and strengthening competitiveness of SMEs.

9. **Taxation scheme to promote environment-related investment**
[Taxation scheme]
The taxation scheme that offers individuals and corporate entities that file a blue tax return a 30% special depreciation or a 7% tax credit (SMEs only) during the first year for the cost of acquiring facilities that contribute to promoting energy conservation and recycling was continued to be offered. Additionally, the scheme that allows a special depreciation (immediate depreciation) of the cost of acquiring solar or wind power generation facilities in addition to the normally allowed depreciation limit, if those facilities are thereafter used for business, was extended a year under the fiscal 2015 tax reform.

10. **Program to create a fund to promote regional low-carbon investment**
[Fiscal 2015 budget: ¥4.6 billion]
In order to call in private funding to low-carbon projects such as renewable energy projects that are likely to be profitable but lack sufficient private funding due to risks stemming from long lead times or long investment recovery periods, funding was provided from the low-carbon investment promotion fund.

11. **Eco-Lease promotion program**
[Fiscal 2015 budget: ¥1.8 billion]
The widespread adoption of low-carbon devices was supported by subsidizing part of the total lease payment and promoting the utilization of a no-deposit "lease" scheme among SMEs that have difficulty coping with the very high initial investment costs (deposits) of installing low-carbon devices.

12. **Eco-Action 21**
Eco-Action 21 has approved and registered 7500 businesses as of the end of December 2015. To provide an environmental management system that is readily accessible to second-tier businesses and small and medium enterprises, an examination for the revision of the Eco-Action 21 Guidelines was begun. Based on the Eco-Action 21 scheme, a program dedicated to CO2 reduction was operated on a test basis, and 250 second-tier companies and SMEs commenced environmental management.

Section 2 Promotion of IT

1. **Lending by governmental financial institutions for investment in IT (IT Fund)**
[Fiscal investment and loan program]
The JFC acted as a reliable source of lending to enable SMEs to keep up with changes in the business environment associated with the spread of and changes in IT and digital content.
In fiscal 2015 (as of the end of January 2016), loans were provided to 2,493 projects, amounting to a total of ¥27.2 billion.

Section 3 Measures on intellectual property

1. **Surveys of technical trends of patent application**
[Fiscal 2015 budget: ¥1.17 billion]
To assist in the development of R&D strategies and IP strategies in Japan's industries, trends in patent applications were surveyed and were made publicly available via such sources as the Japan Patent Office's website.
In fiscal 2015, 20 technological themes were surveyed, mainly related to technical sectors that are garnering social attention, such as information security technologies, and technical sectors in which patent applications by China are rapidly increasing, such as designs and user interfaces of information terminals.

2. **Support for international patent applications by SMEs**
[Fiscal 2015 budget: ¥630 million]
In order to encourage SMEs to file strategic applications for international patents, subsidies were provided to partially defray the costs incurred (such as application fees to overseas patent offices, expenditure on hiring Japanese agents and local agents overseas, and translation costs) by SMEs aspiring to expand their business overseas. In addition to prefectural SME support centers, support was also provided by JETRO as a nationwide regional implementation body.

3. **Promotion of the wider use of IP systems**
[Fiscal 2015 budget: ¥80 million]
Information sessions were held for individuals, tailored according to their different levels of knowledge and expertise on the intellectual property system. These included sessions outlining the IP system and explaining basic knowledge for beginners, along with

sector-specific sessions with more specialized content for people with some experience, looking at topics such as the examination criteria for patents, designs, and trademarks, the application of the trial system and procedures for international applications. Information sessions on legal reforms were also held, to widely explain the latest changes to IP-related laws and regulations.
In fiscal 2015, 57 information sessions for beginners were held in 47 prefectures, and 62 information sessions for working-level personnel were held in major cities throughout Japan, in addition to 33 information sessions on legal reforms.

4. **Program supporting measures by SMEs to counter overseas infringement**
[Fiscal 2015 budget: ¥120 million]
To promote the timely and appropriate exercise of industrial property rights overseas by SMEs, the costs required for an investigation of imitation products through to procedures for issuing warning statements and government seizure against the manufacturer of imitation products were subsidized through JETRO. The program supported 23 cases in fiscal 2015, corresponding to double the number in fiscal 2014. Additionally, from fiscal 2015, a new measure was implemented to subsidize the cost of consulting with a lawyer and the cost of a lawsuit in the case where an SME is sued overseas for infringement of intellectual property by a local company. This measure was applied to 2 cases.

5. **Patent strategy portal site**
[Fiscal 2015 budget: ¥10 million]
The patent strategy portal site on the Patent Office's website provided online access to "data for self-analysis", which includes individual data on the number of patent applications, the number of examination requests, and the patent allowance rate over the preceding 10 years, for applicants who have applied for a password.

6. **Reductions in patent fees for SMEs**
SMEs actively pursuing R&D continued to be subsidized through the reduction by half of examination request fees and patent charges (for 10 years from the first year).
Two measures were implemented from 2014 for small and medium venture enterprises and micro businesses. One measure reduces examination request fees, patent charges (for 10 years from the first year), and administrative charges for overseas patents (administrative charges for investigations, forwarding and preliminary examinations) by one third, and the other measure subsidizes amounts equivalent to two-thirds of the amount paid in international patent administration fees and handling fees.

7. **Accelerated examination and accelerated appeal examination system**
In cases where the applicant or appellant is an SME or micro business, a system was adopted whereby examinations and appeal examinations could be fast tracked by filing an "explanation of situation for accelerated examination" or "explanation of situation for accelerated appeal examination." In fiscal 2015, as many as 12,412 businesses applied for accelerated examination (as of the end of December, 2015).

8. **Provision of a one-stop IP service for SMEs (General IP Help Desks)**
[Fiscal 2015 budget: ¥2.19 billion; Included in INPIT subsidy]
"General IP Help Desks" have been established in each prefecture and staffed by support staff in order to provide a one-stop service for on-the-spot resolution of IP concerns and problems encountered by SMEs in the course of business administration. The use of IP by SMEs was further promoted by such means as using IP experts to work with SMEs to jointly resolve highly specialist issues, collaborating with SME support agencies and similar organizations, and identifying SMEs and other enterprises that are not making effective use of IP.
In fiscal 2015, the support framework was strengthened, such as by principally doubling the number of lawyers assigned to all help desks, and augmenting specialists who provide support in regard to employee invention regulations pursuant to the fiscal 2015 amendment to the Patent Act. The help desks supported approximately 140,000 cases in fiscal 2015 (as of January 2016).

9. **Development of a one-stop support framework for trade secrets ("Trade secret/IP strategy consultation center—Trade secret hot line—")**
[Fiscal 2015 budget: Included in INPIT subsidy]
The "Trade secret/IP strategy consultation center—Trade secret hot line—" that was newly established in the National Center for Industrial Property Information and Training (INPIT) on February 2, 2015 cooperated with the IP comprehensive support center in responding to consultations mainly from SMEs through IP experts. The consultations dealt with specific IP strategies, such as the open/close strategy that involves the rights of patents and confidentiality of trade secrets, as well as methods of managing confidential trade secrets and leaks and outflows of trade secrets. Particularly with respect to cases of leakage and outflows of trade secrets, information security measures and cyberattacks, the consultation center maintained its framework of responding to consultations in cooperation with the National Police Agency and Information Technology Promotion Agency, Japan (IPA), in accordance with the content

of the consultation. Seminars on trade secrets and intellectual properties were also organized, and activities were implemented for dissemination and awareness-raising regarding trade secrets through the development of e-learning contents.

10. Emerging Country IP Information Databank
[Fiscal 2015 budget: ¥30 million; Included in INPIT subsidy]
This is an informational website aimed at legal and IP managers in Japanese enterprises doing business in developing countries and similar regions. Its purpose is to provide a wide range of IP information for various developing countries, including information on application procedures, examination and litigation procedures, licensing procedures and statistical and institutional trends.
In fiscal 2015, new content was created focusing primarily on the Middle East and Africa areas (No. of content items as of the end of February 2016: 1,467).

11. Dispatch of Global IP Producers
[Fiscal 2015 budget: Included in INPIT subsidy]
The National Center for Industrial Property Information and Training (INPIT) has dispatched experts in IP management ("Global IP Producers") to assist SMEs and other enterprises with promising technologies that are likely to drive overseas expansion. These Global IP Producers support overseas business expansion by SMEs through the use of intellectual property, by assisting in the formulation of IP strategies tailored to the nature of the overseas operations and factors such as the situations and systems in the target countries.
In fiscal 2015, five Global IP Producers provided support to 282 businesses (as of the end of February 2016).

12. On-site and TV interview examinations
[Fiscal 2015 budget: ¥20 million]
To provide support to staff in small and medium venture enterprises throughout Japan, onsite interview examinations were held by inspectors sent to interview venues across Japan, and TV interview examinations were held via the Internet using the applicants' own PCs.

13. Program to support the analysis and utilization of patent information by SMEs
[Fiscal 2015 budget: ¥140 million]
To promote the utilization of intellectual property rights by SMEs, including their effective R&D and acquisition of rights, support was provided for the comprehensive analysis of patent information in response to needs at the R&D, application and examination request stages, not only to SMEs, but also to regional public organizations, public research organizations, and associations and chambers of commerce and industry.

14. Promotion of intellectual property financing
[Fiscal 2015 budget: ¥100 million]
A comprehensive initiative was implemented to "visualize" the value and assessment of businesses that utilize SME intellectual property and promote financing by financial institutions. For example, by creating IP business assessment documents that provide information on the value and assessment of such businesses visualized by a research company and providing the document to financial institutions that lack personnel who specialize in IP matters, the initiative aimed to ensure that such businesses are properly taken into consideration in judgments regarding financing to SMEs. Support was provided for the creation of 150 IP business assessment documents.
Measures were also implemented for disseminating and supporting IP management.

15. Program for promotion of businesses that utilize Japanese intellectual properties
[Fiscal 2015 budget: ¥560 million]
The following initiatives were implemented via JETRO, to support the promotion of overseas business expansion through the use of intellectual properties of medium enterprises and SMEs.
(1) Support was provided for the creation of business models that lead to license businesses overseas, and event and business opportunities were provided via seminars and training programs in Japan held by specialists and multiple occasions for individual interviews overseas.
(2) Support was provided, such as by arranging opportunities for business meetings with business partner candidates, through participation in trade fairs and business meetings in overseas.
(3) Advice was provided through intellectual property specialists, with a view to preventing the outflow of technologies.
(4) The attractiveness of Japanese medium enterprises and SMEs having prospective intellectual properties was widely communicated overseas in multiple languages, with careful consideration to prevent the outflow of technologies.

16. Program for strengthening capacities to support the intellectual properties of regional SMEs
[Fiscal 2015 budget: ¥150 million]
To promote the protection and utilization of the intellectual properties of SMEs through detailed support in consideration of the various issues and regional characteristics of SMEs, pioneering and advanced initiatives for supporting intellectual properties were sought by Bureaus of Economy, Trade and Industry, and support was provided to 15 initiatives that emphasize the establishment of wide-area pioneering schemes.

17. Provision of patent information

In response to advanced and diversified user needs for patent information, the Industrial Property Digital Library (IPDL) was revamped, and a new service for patent information provision called Japan Platform for Patent Information (J-PlatPat) was launched in March 2015. Through a user-friendly interface, J-PlatPat allows searches through official bulletins for patents in Japan, utility model patents, designs, and trademarks, and inquiries regarding the progress of patent applications.

Furthermore, to enable foreign patent documents and particularly the increasing numbers of Chinese and South Korean patent documents to be searched in Japanese, the Chinese and Korean Document Translation and Search System was launched in January 2015, and the Foreign Patent Information Service (FOPISER) was launched in August 2015 for referencing patent information in the ASEAN and foreign countries that are prominent destinations of overseas expansion by Japanese enterprises.

Section 4 Promotion of standardization

1. Promotion of the strategic utilization of standardization by medium enterprises and SMEs

Under the Standardization System for New Market Creation that is based on the 2015 revision of the Japan Revitalization Strategy and IP Promotion Plan 2015, the Japan Industrial Standards Committee (JISC) approved the standardization of nine proposals made by medium enterprises and SMEs, May and December 2015 and January 2016.

Furthermore, local government bodies, industrial promotion organizations, regional finance institutions, and university and public research institutions (partner institutions) cooperated with the Japanese Standards Association (JSA) in creating and launching the Standardization Support Partnership in November 2015 to provide information and advice concerning the strategic utilization of standardization in each region.

Section 5 Promotion of surveys and public information activities

1. Publicizing of policy

To publicize SME policy, pamphlets and leaflets summarizing the main points were produced and distributed to local governments, SME support agencies and financial institutions, etc. Further publicity was generated by issuing information via Mirasapo (portal site for SME support) and organizing "One-day SME Agency" events.

(1) Publication of booklets

Guidebooks for utilizing SME policies have been produced, including the "Guide to the Use of SME Policy," which contains an introduction of more than 200 policies, and pamphlets on specific policies. These have been distributed to a wide range of interested parties, including SMEs, local government bodies, SME support agencies (commerce and industry associations, chambers of commerce and industry, etc.), financial institutions, and certified public tax accountants, lawyers, certified public accountants, and SME management consultants who provide support to SMEs.

(2) Organization of "One-day SME Agency" events

Co-hosted by the SME Agency and host prefectures, these events were held both to explain the latest measures to local SMEs and deepen their understanding of the measures. The events also provided a forum for exchanges of ideas and interaction, which contributed to future revisions and improvements in SME policy. These events have been held every year since 1964 and were held in Okinawa prefecture and Fukushima prefecture in fiscal 2015.

(3) Publicity using the Internet

1) Website based publicity

The SME Agency website hosted up-to-date information on SME measures, information on public offerings, and publicity materials such as flyers and booklets. In fiscal 2015, the website received around 35 million page views for the year.

2) E-mail newsletters

The e-mail newsletter was produced in association with SME support agencies and sent out to subscribers every Wednesday. It showcased dynamic SMEs and contained policy information, local updates and information on topics such as surveys and research reports. The e-mail newsletter has roughly 89,000 registered readers (as of the end of December 2015).

(4) "Mirasapo" (portal website for supporting the future of SMEs and micro-businesses)

Through the Mirasapo site, the latest support information, information on how to apply for subsidies, case examples of the utilization of support schemes, etc. were delivered to nationwide SMEs in a timely and easy-to-understand manner. (Membership: 93,000 enterprises; Mirasapo e-mail newsletter subscribers: 59,000 enterprises; as of January 2016).

2. Production of the White Paper on Small and Medium Enterprises in Japan and the White Paper on Small Enterprises

In order to ascertain the current situation of SMEs and the challenges that they face, an annual report (2015 White Paper on Small and Medium Enterprises in Japan) was produced in accordance with the provisions of Article 11 of the Small and Medium-sized Enterprise Basic Act. Also to ascertain the current

situation of small enterprises and the challenges they face, an annual report (2015 White Paper on Small Enterprises) was produced in accordance with the provisions of Article 12 of the Small Enterprises Promotion Act.

3. **Basic Survey of Small and Medium Enterprises**
   The Basic Survey of Small and Medium Enterprises was conducted in accordance with the provisions of Article 10 of the Small and Medium-sized Enterprise Basic Act, and provided statistics concerning management and financial information such as SME sales figures and numbers of workers employed by SMEs.

4. **Publication of the Survey on SME Business Conditions**
   The Survey on SME Business Conditions is published quarterly by the SMRJ to ascertain business trends among SMEs.

SME policies planned for fiscal 2016

Contents

SME policies planned for fiscal 2016

Chapter 1 Detailed support for SMEs in disaster-affected regions

Section 1 Cash-flow assistance

1. **Great East Japan Earthquake Recovery Special Loan**
   [Fiscal 2016 budget: Included in ¥15.7 billion]
   Since May 2011, there has been ongoing provision of the Great East Japan Earthquake Recovery Special Loan program, which is provided by the Japan Finance Corporation (JFC) (SME Unit and Micro Business and Individual Unit) and the Shoko Chukin Bank to assist SMEs and micro-businesses affected by the Great East Japan Earthquake with their cash-flow issues. Those measures that were created in fiscal 2011 (measures as of 22 August 2011) for implementation by prefectural level foundations and similar institutions to effectively eliminate the burden of interest payments on loans received by SMEs and micro-businesses with business establishments located in restricted areas or similar zones when they were imposed following the nuclear accident in Fukushima, and for SMEs and micro-businesses with business establishments and other assets that were completely destroyed or swept away by the earthquake or tsunami, will be continued in fiscal 2016. (Ongoing)

2. **Loan ceilings and lowering of interest rates on Managerial Improvement Loans (Marukei loans) and Managerial Improvement Loans for Environmental Health Business Loans (Eikei loans)**
   [Fiscal investment and loan program]
   The loan ceilings for unsecured, unguaranteed and low-interest Marukei and Eikei loans provided by the JFC to micro businesses affected directly or indirectly by the Great East Japan Earthquake will be raised continually (by ¥10 million separately from ordinary loans) and interest rates will be lowered (by an additional 0.9% from the normal interest rate for each ¥10 million loaned separately, limited to 3 years from when the loan is taken out). (Ongoing)

3. **Great East Japan Earthquake Recovery Emergency Guarantee**
   To assist SMEs and other businesses affected by the Great East Japan Earthquake, a new guarantee system was established in fiscal 2011 as a separate framework from existing ordinary guarantees, disaster-related guarantees and safety net guarantees. The system will continue to be implemented in fiscal 2016 in specific disaster affected areas (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). (Ongoing)

4. **"Special Finance for Small and Medium Enterprises in the Specified Area" affected by the nuclear disaster**
   In order to assist SMEs and other businesses that have offices in regions affected by the nuclear power plant accident, long-term, interest-free, unsecured loans will be offered to provide business funds (working capital and capital expenditure) required to continue or resume business in Fukushima prefecture. (Ongoing)

Section 2 Countermeasures for the overlapping debt problem

1. **Business revival assistance from Industrial Recovery Consultation Centers and Industry Reconstruction Corporations**
   [Fiscal 2016 budget: ¥2.56 billion]
   Support will continue to be provided for the revival of SMEs damaged by the Great East Japan Earthquake via Industrial Recovery Consultation Centers in the affected prefectures, which were established in fiscal 2011 by strengthening the framework of the SME Revitalization Support Councils in each disaster-affected prefecture, and Industry Reconstruction Corporations, which engages in accounts receivable financing. (Ongoing)

2. **Business revival assistance from the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake**
   To cope with the overlapping debt problems of earthquake-affected businesses, the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake will provide assistance such as helping to relieve the repayment burdens for existing debts. (Ongoing)

3. **Reduction of interest burden during assessment of the potential for business regeneration**
   This program supports the early business revival of SMEs and micro-businesses that have suffered damage in the Great East Japan Earthquake or the nuclear power plant accident in Fukushima, by reducing the interest burden of those who work with an Industrial Recovery Consultation Center to rebuild their business. More specifically, with respect to businesses that have received assistance from an Industrial Recovery Consultation Center to formulate a regeneration plan, the program defrays the cost of interest they incur during the reconstruction process. The program was established in fiscal 2011 and will continue to be implemented in fiscal 2016. (Ongoing)

4. Lease subsidy program to support SMEs in disaster-affected areas

In order to reduce the burden of overlapping debt borne by disaster-affected SMEs, SMEs burdened with lease obligations due to leased equipment that was lost during the Great East Japan Earthquake will be provided with subsidies equivalent to 10% of the cost of the new leases to re-install the equipment. (Ongoing)

Section 3 Support for the restoration of plants, etc.

1. Post-disaster recovery project on joint facilities of small and medium business associations, etc.

[Fiscal 2016 budget: ¥29.0 billion]

In order to promote the restoration and reconstruction of areas affected by the Great East Japan Earthquake, support will be provided through the following subsidies:

(1) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of restoration work on facilities and equipment required for implementation of restoration work planned by groups of SMEs and approved by the prefecture as making an important contribution to the regional economy and maintaining employment; and

(2) Subsidization by the national government of (one half) the cost of disaster recovery projects such as for Societies of Commerce and Industry and other such instruction and consultation facilities for SMEs, and support recovery of facilities held by groups of disaster-affected SMEs and others.

Support will also be provided for the implementation of new initiatives that aim to cultivate demand in new fields in cases where business resumption or continuation or recovery of sales was deemed to be difficult simply by restoring the abovementioned facilities. (Ongoing)

2. Loans for restoration and development of facilities and equipment

Loans will be provided by the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ) in cooperation with the prefectures to provide funds needed for the repair and development of the facilities and equipment required for the implementation of prefecture approved restoration plans by SMEs that suffered damage caused by the Great East Japan Earthquake. (Ongoing)

3. Projects for maintenance of temporary plants and stores

[Fiscal 2016 budget: Included in ¥830 million]

Maintenance support will continue to be provided to SMEs that must depend on temporary facilities to resume business in regions where full-scale reconstruction has yet to commence. Additionally, toward effective utilization of such temporary facilities, subsidies will continue to be provided to disaster-affected municipalities for costs required for the construction, relocation, dismantlement and removal of temporary facilities. (Ongoing)

4. Program to create employment that promotes business recovery

[Fiscal 2016 budget: ¥4.06 billion]

In order to create stable employment in disaster affected areas, support will be provided in the area of employment in accord with industrial policies. (Ongoing)

Section 4 Other measures

1. Establishment of special help desks

Special help desks that are set up at offices of the JFC, the Shoko Chukin Bank, credit guarantee corporations, chambers of commerce and industry, federations of societies of commerce and industry, federations of small business associations, regional head offices of the SMRJ, and bureaus of economy, trade and industry nationwide will provide business and financial advice to SMEs and other enterprises affected by the Great East Japan Earthquake. (Ongoing)

2. Navigation dial for SME phone consultations

To help SMEs that do not know where to go for advice, a "Navi Dial for SME phone consultations" help line with a single number will be provided that connects callers to their nearest Bureau of Economy, Trade, and Industry. (Ongoing)

3. Consideration for SMEs in disaster-affected regions by the government and other public agencies

[Fiscal 2016 budget: ¥990 million]

Under the "Basic Policy on State Contracts with Small and Medium Enterprises", which is formulated each fiscal year, consideration will again be given to SMEs and micro-businesses in areas affected by the Great East Japan Earthquake, and will be publicized as follows. (Ongoing)

(1) The Minister for Economy, Trade and Industry will issue a request regarding the Cabinet approval of the Basic Policy on State Contracts with Small and Medium Enterprises to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards, and will also request that they make efforts to increase opportunities for SMEs and micro-businesses to receive orders.

(2) Information sessions (Councils to Promote Local Access to Public Sector Demand) will be held throughout Japan to actively raise awareness of the Basic Policy in regional areas.

(3) A "Guide to Contracts in the Public Sector" will be produced and distributed to central and local government agencies and other commerce and industry-related organizations.

4. Support provided by NEXI

In April 2011, Nippon Export and Investment Insurance (NEXI) introduced the following measures to assist SMEs affected by the earthquake: (1) postponement of insurance policy procedures, (2) deferment, reduction or waiver of insured parties' obligations, and (3) reduction or elimination of the financial burden on insured parties. Additionally, to deal with the damage caused by harmful rumors, NEXI will publish specific examples of losses arising from the restriction or prohibition of import of goods on the grounds of radioactive contamination, which would be covered by trade insurance. These examples include cases of importation being limited or prohibited by the introduction of new regulations and cases of illegal or discriminatory treatment by the government of destination country. Furthermore, a help desk will be set up within NEXI to provide consultation regarding damage caused by harmful rumors to insured and uninsured businesses alike. (Ongoing)

5. Victims' Employment Development Subsidy Program

[Fiscal 2016 budget: ¥220 million]

Subsidies will be provided to employers who hire workers who lost their jobs due to the Great East Japan Earthquake and job seekers living in affected areas as a result of referrals from "Hello Work" employment offices and similar agencies, provided that such workers are expected to be employed continuously for a period of at least one year. Additional bonus subsidies will also be provided to employers hiring 10 or more such workers. (Ongoing)

6. Guidance and advice on measuring radiation levels

[Fiscal 2016 budget: ¥30 million]

As a countermeasure against harmful rumors regarding industrial and other products stemming from the Great East Japan Earthquake and nuclear disaster, a project will be implemented for dispatching specialist teams that provide guidance and advice on measuring radiation levels. (The guidance and advice will consist of measuring surface contamination and radioactive nuclides on items such as industrial products, and providing information on those measurements together with guidance and advice.) (Ongoing)

7. Industry-academia-government collaboration support project for Fukushima Prefecture, etc.

[Fiscal 2016 budget: ¥100 million]

In Fukushima and Miyagi Prefectures, where harmful rumors stemming from the Great East Japan Earthquake and nuclear disaster are still in effect, product development and market cultivation efforts will be promoted by providing opportunities for collaboration between disaster-affected enterprises and universities, public research institutions or major companies, and assisting in the development of trial products. (New)

8. Program for employment support in response to the nuclear disaster

[Fiscal 2016 budget: ¥4.24 billion]

A program will be implemented to provide temporary places of employment to people in Fukushima Prefecture who have been affected by the nuclear disaster, to help them stabilize their living situation. (New)

9. Support for employment in response to earthquake disasters, etc.

A program will be implemented to provide temporary places of employment to people in earthquake-struck regions to help them stabilize their living situation. (Ongoing)

Chapter 2 Support for productivity improvement among SMEs

Section 1 Enhancement of technological capacity

1. **Strategic Core Technology Advancement and Collaboration Program**
[Fiscal 2016 budget: ¥13.97 billion]
Support will be provided for R&D initiatives that SMEs and micro-businesses having an approved R&D plan under the SME Technological Advancement Act implement in cooperation with universities, public research organizations, and other such R&D institutions.
Support was provided for the development of new service models by SMEs and micro-businesses through industry-academic-government collaboration, in accordance with a "plan for cross-field collaboration for new business development" approved under the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises. (Ongoing)

2. **Promotion of R&D initiatives that build bridges with medium enterprises and SMEs**
[Fiscal 2015 supplementary budget: ¥1.1 billion]
Having specific outstanding technologies is sometimes not enough for medium enterprises and SMEs to achieve commercialization. It is therefore important to have institutions possessing outstanding basic technologies pass on their technologies to such enterprises and promote practical applications.
The New Energy and Industrial Technology Development Organization (NEDO) will thus conduct a review of 144 public research organizations and other such R&D institutions nationwide as "bridge building R&D institutions" that can link innovative technology seeds with commercialization initiatives, and will provide subsidies to medium enterprises and SMEs that engage in joint research by utilizing the capabilities of "bridge-building R&D institutions" (subsidy rate within 2/3, up to a ceiling of ¥100 million). (Ongoing)

3. **The National Institute of Advanced Industrial Science and Technology (AIST)'s bridge-building initiatives for SMEs**
[Included in the grant for AIST operating costs]
AIST will support the R&D initiatives of medium enterprises and SMEs by establishing a nationwide framework of cooperation such as through the appointment of an AIST innovation coordinator in public research organizations that possess knowledge of the needs of regional medium enterprises and SMEs, and by strengthening capacities to "bridge" innovative technology seeds of regional enterprises with commercialization initiatives. (Ongoing)

4. **Comprehensive support for enhancement of core manufacturing technologies among SMEs**
Comprehensive support will be provided through the Strategic Core Technology Advancement Program and special loans and guarantees to SMEs and micro-businesses with approved specific R&D plans that had been formulated in accordance with the advancement guidelines under the SME Technological Advancement Law. (Ongoing)

5. **R&D promotion tax system (for strengthening the technological bases of SMEs)**
[Taxation scheme]
A tax credit equal to 12% of the total cost of testing and research expenses (not exceeding 25% of the total amount of corporation tax in the period concerned) will be made available for R&D initiatives undertaken by SMEs and micro-businesses. A tax credit equal to 20% or 30% of the total cost of special testing and research expenses (testing and research performed jointly or entrusted to a university or such institution, or that are performed by receiving from an SME the right or approval to use its intellectual property) will also be made available (not exceeding 5% of the total amount of corporation tax in the period concerned).
In addition to the above, a measure will be taken whereby enterprises can choose either (1) a tax scheme that deducts an amount calculated by multiplying the rate of increase in testing and research expenses to the amount of increase (not exceeding 30%) in cases where the additional amount of testing and research expenses exceeds 5% of the average of the past three years, or (2) a tax scheme that deducts an amount calculated by multiplying a fixed rate to the excess amount in cases where the amount of testing and research expenditure exceeds 10% of average sales (not exceeding 10% of the total amount of corporation tax in the period concerned (until the end of fiscal 2016)). (Ongoing)

6. **Support under the Small Business Innovation Research (SBIR) Program**
The provision of central government-allocated R&D spending for SMEs and micro-businesses will be expanded and the commercialization of the results of technological development activities will be promoted, such as by designating specific subsidies for the development of new technologies leading to the creation of new industries, setting targets for expenditures, and formulating policies for measures to

support the commercialization of development results achieved using specified subsidies. Additionally, to promote the commercialization of technology development outcomes, SMEs and micro-businesses will be informed and encouraged to take advantage of the available commercialization support, such as the database of the technological capabilities of enterprises granted specific subsidies, and the low interest loans offered by the JFC. At the same time, the multistage selection process for the allocation of special subsidies will be expanded. (Ongoing)

7. Cross-field collaboration for new business development

[Fiscal investment and loan program]

Pursuant to the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises, authorization will be provided for business plans that aim to develop and market new products and services by effectively combining the management resources (technology, markets, etc.) of SMEs in different sectors. Wide-ranging support will be provided to such SMEs through subsidies, as well as special loans and guarantees. (Ongoing)

8. Program to promote business creation through medical-engineering collaborations

[Fiscal 2016 budget: ¥3.5 billion]

Accompanying-style consultation will be provided to promote the network for supporting the development of medical equipment and to provide seamless support from the initial stages of development to commercialization. In fiscal 2016, support will also be provided for the commercialization of 50 items of medical equipment through a demonstration program, to promote the development of medical equipment through collaborations between manufacturing SMEs and medical institutions. (Ongoing)

9. Enterprise vitality enhancement funding (for manufacturing enterprises)

[Fiscal investment and loan program]

Japan Finance Corporation (JFC) will provide loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors. (Ongoing)

Section 2 Improvement of transaction conditions

1. Improvement of the transaction conditions of SME subcontractors

To widely improve the transaction conditions of SME subcontractors, a large-scale survey is being conducted on large enterprises and SMEs under the Liaison Council of Ministries and Agencies Concerned with the Improvement of the Transaction Conditions of SME Subcontractors. Based on the results of the survey, the necessary measures will be taken hereafter. (New)

2. Stricter enforcement of the Subcontractor Payment Act

[Fiscal 2016 budget: Included in ¥990 million]

To ensure fair treatment of subcontractors and protect their incomes, the Fair Trade Commission (FTC) and SME Agency will collaborate closely in enforcing the Subcontractor Payment Act. In fiscal 2016, the two institutions will carry out a document-based audit of principal contractors, and promote rigorous compliance with the Act by collecting information through a Declaration and Information Desk that receives information and reports concerning breaches of the Subcontractor Payment Act. Additionally, in the "Subcontractor Fair Treatment Promotion Month" to be held in November, rigorous compliance with the Act will be encouraged by conducting special questioning. With the aim of securing the cash-flows of subcontractors as they move into the financially busy period at the end of the year, active measures will be taken to raise awareness of the Act by having the Minister of Economy, Trade and Industry and the FTC Commissioner jointly issue a statement calling for the fair treatment of subcontractors, with the statement being sent to the CEOs of principal contractors (around 200,000 companies) and the representatives of relevant business organizations (approx. 600 bodies). (Ongoing)

3. Strengthening consultation systems and promoting fair subcontracting transactions

[Fiscal 2016 budget: Included in ¥990 million]

Consultation services concerning SME transactions will be provided by the 48 Subcontracting Help Centers that will be set up throughout Japan (5,473 consultations and 681 free consultations by lawyers in fiscal 2014). Additionally, under the fiscal 2015 supplementary budget, individual guidance sessions and seminars will be held to provide managers and sales representatives of SME subcontractors the knowhow of cost negotiation that they need to negotiate costs with the procurement department of principal contractors. To prevent the occurrence of violations of the Subcontractor Payment Act, seminars will also be held targeting the procurement managers at principal contractors to further raise awareness of the Subcontractor Payment Act etc., while examples of initiatives by principal contractors will be presented around the country and symposiums and other events will be held to promote broader adherence to the Subcontractor Payment Act. Furthermore, nationwide information sessions will be held on the guidelines

for building better business relationships between principal contractors and subcontractors (Guidelines for the Promotion of Fair Subcontracting Practices; 16 industries under the Ministry of Economy, Trade and Industry, the Ministry of Land, Infrastructure, Transport and Tourism, and the Ministry of Internal Affairs and Communications). (Ongoing)

4. **Self-reliance support for SME and micro subcontractors**
[Fiscal 2016 budget: Included in ¥990 million]
Under the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises, business plans designed to solve issues in collaborations between subcontracting SMEs and micro-businesses that are highly transaction-dependent on principal contractors will be certified and supported in the form of subsidies, loans and special exemptions for guarantees. In regions where production centers of principal contractors have closed or downsized (or are slated to close), support in the form of subsidies will be provided to subcontracting SMEs seeking to advance into new fields. (Ongoing)

5. **Support for market expansion through subcontracting business mediation and business fairs**
[Fiscal 2016 budget: Included in ¥990 million]
Using Business Matching Stations (BMS), SMEs looking to solicit new clients will be provided with information on orders for contract manufacturing issued and received between enterprises for business such as outsourced manufacturing in the SME's preferred industry and where the SME can provide the required equipment or technology. Broad-area information sessions will also be held to support new market development. (Ongoing)

6. **Request for consideration toward small and medium subcontractors**
[Fiscal 2016 budget: Included in ¥990 million]
Courses and other events will be held to promote greater awareness of the general standards (development standards) that subcontractors and principal contractors are expected to observe under the Subcontracting Promotion Act. Additionally, a statement calling for consideration toward subcontractors will be sent to the representatives of relevant business organizations. (Ongoing)

Chapter 3 Support for overseas expansion by SMEs

Section 1 Development of an information provision and consultation framework

1. Program for supporting overseas expansion by SMEs and micro-businesses
[Fiscal 2016 budget: ¥1.43 billion]
To support overseas expansion by SMEs and micro-businesses, the SMRJ and JETRO will collaborate in providing strategic support through measures that respond to their needs at various stages of overseas expansion. They include support for the cultivation of overseas companies through the provision of information on overseas market trends and regulations, implementation of feasibility studies, and establishment of an export framework, as well as support for participation in trade fairs in Japan and overseas, support for the cultivation of overseas markets by inviting overseas buyers to Japan, support for the organization of seminars on the certificate of origin system and establishment of consultation desks, and local support once companies advanced overseas. Support will also be provided for the formulation of business restructuring plans by companies facing an issue regarding the management of overseas subsidiaries. (Ongoing)

Section 2 Support for the development of new products and services

1. JAPAN Brand Development Assistance Program
[Fiscal 2016 budget: Included in ¥1 billion]
To facilitate overseas expansion by SMEs, support will be provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and participation in overseas trade fairs. (Ongoing)

2. Program for the creation of a global value chain through agriculture-commerce-industry collaboration
[Fiscal 2015 supplementary budget: ¥1 billion]
Support will be provided to projects that are implemented by joint businesses composed of private businesses, such as trade firms, and research institutions to resolve issues in the process of agricultural production, processing, distribution and overseas sales through the use of the advanced technologies and knowhow of commerce and industry, and the results of such projects will be widely disseminated. (New)

Section 3 Other support policies for overseas expansion

1. Global alliance support with medium enterprises and SMEs in Japan
To support investment tie-ups between medium enterprises and SMEs in Japan and foreign enterprises, relevant institutions such as the Japan External Trade Organization (JETRO), SMRJ, Shoko Chukin Bank, and SBIC will continue to promote matching services and other such global alliance initiatives. (Ongoing)

2. Funding for overseas expansion and business restructuring operations
[Fiscal investment and loan program]
Loans will be provided by the JFC (SME Unit and Micro Business and Individual Unit) to assist with the funding of SMEs that for business reasons need to expand overseas or restructure their overseas business to adapt to structural economic changes. (Ongoing)

3. Support for overseas subsidiaries to obtain capital, etc.
Under the SME Business Capabilities Enhancement Support Bill, where SMEs have management innovation plans approved under the New Business Activity Promotion Act, the JFC will provide loan guarantees to their overseas subsidiaries for loans from local financial institutions. (Ongoing)

4. Global Niche Market Top Support Lending Facility
[Fiscal 2016 budget: ¥13 billion from the fiscal investment and loan program]
To support strategic overseas expansion by medium enterprises and SMEs who are aiming to make a global impact by excelling in a specific field (global niche leader enterprises) and such candidate companies and SMEs, the Shoko Chukin Bank will provide long-term, lump-sum repayment and successful interest payment-type loans under the Global Niche Market Top Support Lending Facility. (Ongoing)

5. Program for cultivation of emerging markets based on technical cooperation
[Fiscal 2016 budget: Included in ¥2.4 billion]
The following three initiatives were implemented to support Japanese companies acquire emerging markets
(1) Support will be provided to managers and engineers in developing countries who engage in management, manufacturing, operations, etc., by offering training

programs in Japan and guidance by dispatched experts.

(2) To resolve the lack of "global human resources" who will play central roles in overseas expansion initiatives, which is an issue among medium enterprises and SMEs, young Japanese workers will be given opportunities for overseas internships, and foreign workers will be given opportunities for internships in Japanese companies.

(3) Subsidies will be provided to Japanese companies engaging in the development of products and services that resolve social issues in developing countries in collaboration with universities, research institutes, NGOs or other companies in developing countries. (New)

6. Support for human resource development toward promoting the export of low-carbon technologies

[Fiscal 2016 budget: Included in ¥900 million]

To contribute to the reduction of greenhouse gases, support will be provided for human resource development overseas toward promoting (1) the operations and maintenance management of energy infrastructure and (2) the energy conservation of production processes in the plants of local Japanese companies overseas, with the ultimate aim of promoting the global expansion of the advanced low-carbon technologies of Japanese companies. (Ongoing)

7. Utilization of Japan Overseas Cooperation Volunteers and the private-sector collaborative volunteer program

[Fiscal 2016 budget: ¥160 million]

The Japan International Cooperation Agency (JICA) will work toward developing personnel capable of active involvement in the global community by utilizing the private-sector collaborative volunteer program to dispatch employees of private-sector enterprises to developing countries as Japan Overseas Cooperation Volunteers (JOCV) and JOCV Senior Overseas Volunteers in response to the needs of each enterprise. Additionally, to support the employment of returned JICA volunteers, match-ups will be promoted between personnel with expert knowledge of a certain developing country and enterprises seeking such personnel. (Ongoing)

8. Reduction and waiver of fees for credit checks on SMEs using trade insurance

To support the use of trade insurance by exporting SMEs, Nippon Export and Investment Insurance (NEXI) will continue its arrangements to bear the cost of providing credit information on business partners required when using trade insurance. (Ongoing)

9. Activities to expand and publicize use of trade insurance by SMEs (seminars, consultation events, etc.)

To promote the use of trade insurance by SMEs, seminars and face-to-face consultation events will be held continuously under the sponsorship of NEXI, and instructors from NEXI will be sent to lecture in seminars hosted by SME-related organizations and study meetings of affiliated regional banks in order to raise awareness and encourage wider use of trade insurance. (Ongoing)

10. Improvement of access to trade insurance

In December 2011, NEXI launched the "SME Overseas Business Support Network" in collaboration with 11 regional banks to provide support for overseas business expansion by SMEs.

Furthermore, the Trade Insurance and Investment Act was revised in 2014, and allowed NEXI to receive reinsurance from non-life insurance companies in Japan possessing a broad nationwide network.

By creating a network with financial institutions and non-life insurance companies, NEXI will aim to improve access to trade insurance by regional SMEs and otherwise enhance its convenience. (Ongoing)

11. Support for security export control

Support will be provided for the development of voluntary administration structures for security trade control at SMEs that engage in export and the provision of technology, by holding information sessions on effective security trade control based on the Foreign Exchange and Foreign Trade Act and dispatching specialists through schemes such as the one-stop general support program for SMEs and micro-businesses. (Ongoing)

12. Promotion of BOP business

[Included in the JETRO grant]

To promote "base of the pyramid" (BOP) business and volume zone business, JETRO will provide individual support to enterprises by utilizing local coordinators to ensure consistent support appropriate to their business phase. Additionally, consultations will be offered to Japanese enterprises that are considering BOP business, marketing support will be provided through the implementation of acceptability surveys, and market development support will be provided through test marketing initiatives, to promote active participation in BOP and volume zone businesses. Furthermore, demonstration projects will continue to be implemented in support of enterprises that aim to establish a business base in Africa. (Ongoing)

13. ODA match-up program for SME products and technologies
[Fiscal 2016 budget: Included in ¥149.05 billion]
This program aims to apply the outstanding products and technologies of Japanese SMEs to the growth of developing countries via ODA, and thereby achieve a balance between the growth of developing countries and economic revitalization in Japan. (Ongoing)

14. Support for overseas expansion by SMEs (provision of equipment that use SME products)
[Fiscal 2016 budget: Included in ¥162.9 billion]
Products from Japanese SMEs are donated to developing countries based on request from their governments and development needs, not only to support the development of developing countries, but also to increase recognition of such products. Specifically, lists of products from SMEs (not lists of individual brand names) are drawn up based on the development needs of the developing countries and shown to those countries in the form of packages for each of the various sectors, such as medical services, agriculture, and job training, and products are donated in accordance with the requests from the developing countries. (Ongoing)

15. New Export Nation Consortium
[Fiscal 2015 supplement budget: ¥5.99 billion]
To support the overseas expansion of medium enterprises and SMEs, a consortium has been established, widely composed of support organizations such as JETRO, SMRJ, NEDO, and financial institutions. It provides comprehensive support, from the development of technologies to market cultivation, through experts who offer close assistance to enterprises and the utilization of various support schemes. (New)

16. Dissemination and awareness-raising of the TPP certificate of origin system
[Fiscal 2015 supplement budget: ¥480 million]
To take the opportunity of the TPP to expand exports, it was deemed necessary to increase the understanding of the rules of origin among SMEs that seek to expand their markets overseas. Thus, guidelines will be published, seminars will be held, and consultation desks will be established with the objective of disseminating and increasing awareness of the self-certification system of the certificate of origin among businesses. (New)

Chapter 4 Support for sustainable development of micro businesses

Section 1 Strengthening the framework of accompanying-style management support

1. Micro business promotion program
[Fiscal 2016 budget: ¥5.15 billion]
Support for micro businesses will be promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support will be provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support will also be provided for regional initiatives that aim to develop specialty products and markets.
To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chamber of commerce and industry will cooperate with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets. (Ongoing)

Section 2 Development of the business environment

1. Managerial Improvement Loans (Marukei Loans) for micro businesses
[Fiscal 2016 budget: ¥3.98 billion]
[Fiscal investment and loan program]
In order to provide financial support to micro businesses, the JFC will provide unsecured and unguaranteed low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. Ongoing improvements will also be implemented: (1) the term of loans will be extended from five to seven years for working capital and from seven to 10 years for capital expenditure; (2) the deferment period will be extended from six months to one year for working capital and from six months to two years for capital expenditure; and (3) the ceiling on loans will be raised from ¥15 million to ¥20 million. (Ongoing)

2. Micro business management development support loans
[Fiscal 2016 budget: ¥20 million]
[Fiscal investment and loan program]
To support sustainable business development by micro businesses, JFC will offer low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry certified under a management development support plan. (Ongoing)

3. Program for developing an integrated database of micro businesses
[Fiscal 2016 budget: ¥200 million]
Information that support organizations have collected will be integrated into an integrated database operated by SMRJ and analyzed, and a framework will be established for the examination of support policies and provision of support information in response to the management issues of micro businesses. (Ongoing)

Chapter 5 Promotion of regional economic revitalization and regeneration

Section 1 Strengthening management support frameworks

1. Programs promoting measures to support cooperative SME organizations
[Fiscal 2016 budget: ¥680 million]
Where partnerships or other associations work on management innovation and/or reforms through the National Federation of Small Business Associations, which is a dedicated agency assisting cooperative SME organizations, support will be provided that includes partial subsidies for the costs of implementing those innovations or reforms, along with training for instructors. Support was also provided for optimizing the activities of associations (supervision organizations) that engage in the training of foreign intern trainees. (Ongoing)

2. Support for capital investment through advancement programs integrated with business support
Where SMEs work jointly to establish business cooperatives in order to shore up their administrative platforms and improve their business environment, the SMRJ and prefectural governments will collaborate to provide diagnoses and advice on business plans together with long-term, low-interest (or interest-free) loans to fund the required capital expenditure. (Ongoing)

3. One-stop comprehensive support programs for SMEs and micro-businesses
[Fiscal 2016 budget: ¥5.47 billion]
The support framework for SMEs and micro-businesses will be expanded and strengthened by setting up "Yorozu support centers" in each prefecture as one-stop consultation centers for SMEs and micro-businesses facing various management issues, augmenting support personnel, and establishing satellite offices.
Specialist advisors will be dispatched to deal with particularly advanced and specific management issues. (Ongoing)

4. Promoting the utilization of local benchmarks
The dissemination and utilization of local benchmarks that were formulated in fiscal 2015 will be promoted among support organizations including financial institutions, and business managers. Follow-up initiatives will also be taken to collect and analyze further examples of the utilization of local benchmarks and basic data, and to collect best practices. At the same time, the local benchmarks will be linked to relevant ministries and agencies and policies. (Ongoing)

Section 2 Utilization of local resources

1. Program for supporting hometown specialty products
[Fiscal 2016 budget: ¥1 billion]
Support will be provided to SMEs and micro-businesses that engage in the development of new products and services and the development of new markets by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses. Support will also be provided to businesses that pursue product development by utilizing regional resources and collaborating with agriculture, forestry and fishery businesses in the form of information provision concerning consumer preferences surveyed by general incorporated associations and matching services. (Ongoing)

2. JAPAN Brand Development Assistance Program
[Fiscal 2016 budget: Included in ¥1 billion]
To facilitate overseas expansion by SMEs, support will be provided under this program such as for the formulation of strategies built on collaboration among multiple SMEs and the strengths of those SMEs (raw materials, technologies, etc.), product development based on those strategies and participation in overseas trade fairs. (Ongoing) (Cited earlier)

3. Micro business promotion program
[Fiscal 2016 budget: ¥5.15 billion]
Support for micro businesses will be promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support will be provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support will also be provided for regional initiatives that aim to develop specialty products and markets.
To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chamber of commerce and industry will cooperate with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets. (Ongoing) (Cited earlier)

4. Designation of traditional crafts

Under the Act on the Promotion of Traditional Craft Industries (referred to hereinafter as the Traditional Craft Industries Act), a traditional craft will be designated, or a change in designation will be made, following surveys and investigations of craft products for which traditional craft product status has been requested, subject to the views of the Industrial Structure Council. (Ongoing)

5. Traditional Craft Product Subsidy Program
[Fiscal 2016 budget: ¥1.25 billion]

(1) Based on the Traditional Craft Industries Act, the following support will be provided to promote the traditional crafts industries below.
   1) Subsidization of the following programs undertaken by local manufacturing cooperatives and associations:
      - Successor training programs
      - Raw materials sourcing programs
      - Design development programs
      - Partnership development programs
      - Local producer programs, etc.
   2) Subsidization of the following programs undertaken by general incorporated associations and incorporated foundations under Article 23 of the Traditional Craft Industries Act:
      - Programs to secure human resources and ensure transmission of skills and techniques
      - Production district guidance programs
      - Promotional programs
      - Demand development programs, etc.

(2) The regional branding of traditional crafts will be promoted.
   To help attract tourists to regions where traditional crafts are produced and cultivate overseas markets, support will be provided to initiatives that aim to invite designers or other external human resources to such regions. (Ongoing)

6. Program to promote the spread of traditional crafts

To promote public awareness of traditional crafts, November every year is designated Traditional Crafts Month, and activities such as the national convention of the Traditional Crafts Month National Assembly are held to spread and increase awareness of traditional crafts. (Ongoing)

Section 3 Revitalization of shopping districts and city centers

1. Comprehensive support for the revitalization of local shopping districts

Pursuant to the Local Shopping District Revitalization Act, support measures will be established for shopping districts with a government-approved revitalization project plan. (Ongoing)

2. Development of human resources by the Japan Shopping District Support Center

Support will be provided in the form of personnel training and transfer of expertise by the Japan Shopping District Support Center, an organization established jointly by four SME associations. (Ongoing)

3. Program to support the operation of Councils for the Revitalization of Central Urban Districts
[Included in SMRJ subsidy program]

Support will be provided for the provision of advisory services, provision of information via websites and e-mail newsletters, and development of networks through organization of exchange events led by councils for the revitalization of city centers support centers established in SMRJ to assist the establishment and operation of such councils for the revitalization of city centers. (Ongoing)

4. Program to dispatch advisers for city center and shopping district revitalization
[Included in SMRJ subsidy program]

Experts in a range of fields related to commercial revitalization registered with SMRJ will be dispatched to help tackle various challenges faced by councils for the revitalization of city centers and shopping districts. (Ongoing)

5. Consultation and support for commercial revitalization in city centers
[Included in SMRJ subsidy program]

In order to assist commercial revitalization initiatives being undertaken in city centers by councils for the revitalization of city centers and similar organizations, seminar planning support and instructors will be supplied and advice, analyses, assistance with identification of issues, and information, etc. will be provided to raise the efficacy of individual projects using the SMRJ's specialist know-how. (Ongoing)

6. Special deduction for income from land transfers
[Taxation scheme]

Persons transferring land and similar assets to shopping center promotion associations and similar organizations approved under the Local Shopping District Revitalization Act for use in projects based on approved shopping district revitalization plans and similar initiatives will be continuously allowed a special depreciation of up to ¥15 million for income from such transfers. (Ongoing)

7. **Program to support the promotion of inbound visitors to shopping districts and town centers**
[Fiscal 2015 supplement budget: ¥1 billion]
Support will be provided to initiatives for developing an environment conducive to attracting the shopping demand of foreign tourists to shopping districts, etc. (New)

8. **Program to support commercial revitalization in local communities and town centers**
[Fiscal 2016 budget: ¥2.03 billion]
Support will be provided to initiatives for revitalizing regional commerce in towns (town centers) that engage in compacting the town and in shopping districts that maintain and strengthen local community functions and shopping functions. Such initiatives include the development of commercial facilities and initiatives to attract stores to vacant store spaces. (Ongoing)

9. **Taxation measures to revitalize central urban districts**
[Taxation scheme]
Under the "Specific private sector central urban district economic activity improvement program" set up under the revisions to the Act on the Vitalization of City Centers, (1) a special depreciation of 30% over 5 years will be provided for the acquisition of a building and any incidental structures or equipment, and (2) a measure for the acquisition of an immovable property will be taken that halves the registration and license tax payable when ownership of that immovable property is registered or a transfer is registered. In the fiscal 2016 tax reform, the effective period of measure (2) will be extended two years. (Ongoing)

Section 4 Support for market and demand cultivation

1. **Micro business promotion program**
[Fiscal 2016 budget: ¥5.15 billion]
Support for micro businesses will be promoted through the "accompaniment" style of support provided by societies and chambers of commerce and industry in line with management development support plans that are certified based on the Small Business Support Act, and support will be provided for the formulation of business plans and market development in consideration of demand by micro businesses. Support will also be provided for regional initiatives that aim to develop specialty products and markets.
To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chamber of commerce and industry will cooperate with businesses to provide wide-ranging support for programs that develop special regional products and tourism and to develop those markets. (Ongoing) (Cited earlier)

2. **Support for cultivation of markets through exhibitions, business meeting events, and other events**
[Included in SMRJ subsidy program]
SMRJ will support the development and expansion of markets for products and services developed by SMEs and micro-businesses through agricultural-commercial-industrial collaborations or by using local resources, by organizing exhibitions, business fairs, and other such events. (Ongoing)

3. **Market Development Coordination Program**
[Included in SMRJ subsidy program]
Market development experts with experience in working at trading companies, manufacturers, etc. ("market development coordinators") assigned to SMRJ will help SMEs with newly developed products, technologies, and services gain a foothold in new markets and acquire the capacity for market cultivation through the implementation of test marketing activities in the wider Tokyo and Kinki regions. (Ongoing)

4. **Support program for market cultivation**
[Included in SMRJ subsidy program]
The SMRJ will support the market cultivation initiatives of SMEs and venture enterprises by promoting business match-ups between enterprises participating in SMRJ-sponsored trade fairs or concurrent events and buyers, and providing advice. (Ongoing)

5. **Support for creation of new businesses**
[Included in SMRJ subsidy program]
Close, integrated support will be provided to SMEs and other entities engaging in new business by stationing experts in marketing and other areas of business in SMRJ's 10 branches and offices across Japan to help formulate business plans based on the Regional Resource Utilization Promotion Act, Agricultural-Commercial-Industrial Collaboration Promotion Act, and New Business Activity Promotion Act. (Ongoing)

6. **J-GoodTech**
[Included in SMRJ subsidy program]
The SMRJ will support SMEs seeking to cultivate markets in and outside of Japan, by connecting them to major domestic manufacturers and overseas enterprises via a website that posts information about Japanese SMEs boasting top-niche and only-one technologies and products. (Ongoing)

Section 5 Human resource and employment measures

1. Human resource countermeasures program for SMEs and micro-businesses
[Fiscal 2016 budget: ¥1.81 billion]
To help SMEs and micro-businesses with few management resources acquire human resources, a budget will be allocated to provide end-to-end support for initiatives to excavate human resources sought by SMEs and micro-businesses in each region according to regional characteristics, and to introduce them and see through to their retention. Additionally, Kaizen instructors will be developed and dispatched, and human resources who could play a central role in SME service industries, manufacturing sites, and urban development, and human resources who will support micro businesses will be developed. (Ongoing)

2. Human resource development program at the Institute for Small Business Management and Technology
[Included in SMRJ subsidy program]
Training will be provided at nine Institutes for Small Business Management and Technology around Japan in improving the abilities of SME support personnel, as well as training for SME proprietors, managers, and people in similar positions designed to lead directly to the solution of business challenges. (Ongoing)

3. Support program for development of hometown producers
[Fiscal 2016 budget: Included in ¥1 billion]
Support will be provided to initiatives that aim to develop attractive products that involve local people and local resources into local brands and initiatives for developing human resources who could become central players in the cultivation of markets with a focus on overseas markets. (Ongoing)

4. Measures to maintain workers' employment
[Fiscal 2016 budget: ¥8.26 billion]
Employment Adjustment Subsidies will be provided to assist employers who were forced to downsize due to fluctuations in business conditions or other economic reasons but who have kept workers on by allowing workers to take temporary leave from work or enter training, or by transferring workers. Active steps will also be taken to prevent fraudulent receipt of these subsidies, and efforts will be made to ensure more appropriate disbursement by such means as actively carrying out on-site checks and publishing the names of employers who have committed fraud. (Ongoing)

5. Support for improvement of employment management toward the creation of attractive employment
[Fiscal 2016 budget: ¥6.1 billion]
To support initiatives by companies to improve employment management and create attractive employment conditions, subsidies will be provided to fund SME organizations (business cooperatives, etc.) whose improvement plans have been certified by the relevant prefectural governor pursuant to the Act on the Promotion of Improvement of Employment Management in Small and Medium-Sized Enterprises for Securing Manpower and Creating Quality Jobs, where they have implemented projects to improve their working environment. Subsidies will also be provided to SMEs and micro-businesses that introduced and implemented a new employment management system by changing their labor agreements and workplace regulations, or lowered the job separation rate of their employees. (Ongoing)
In fiscal 2016, the above support will be expanded as follows.
(1) The scope of the above subsidies will be extended to business owners in sectors other than key sectors.
(2) A subsidy will be newly created for employment and management systems for care workers. It will be provided to business owners of nursing care businesses, where they have appointed an employment administrator and established a wage system (formulation of a wage table, etc.) by modifying their labor agreement or employment regulations. Business owners will be required to set a target regarding employee job separation rate after completion of the plan period to measure the effect of the system. ¥600,000 will be provided if the target is achieved after a year of the plan period, and another ¥900,000 will be provided if the job separation rate has not increased after three years of the plan period.

6. Project for promoting the improvement of employment management plans to secure human resources in sectors that lack personnel
[Fiscal 2016 budget: ¥880 million]
Support will be provided for the creation of attractive workplaces, such as by supporting the introduction of employment management systems, in cases where business owners in sectors that lack personnel improve employee benefits and working environment or otherwise take measures to improve employment management and secure human resources.
(1) Model survey course
In sectors where employment management issues that need to be addressed by business owners are not yet clear, fine-tuned consultation will be provided to business owners facing an employment management issue, to help them introduce and operate various models of employment management systems that

contribute to resolving their issue. Case examples of model initiatives obtained in this process of consultation will be examined and analyzed in terms of their introduction effect and knowhow, and effective employment management improvement policies will be explored based on the characteristics of each sector and widely disseminated for awareness-raising.

(2) Practical awareness-raising course
Among sectors that lack sufficient personnel, demand for human resources is expected to increase particularly in the nursing and construction sectors.
Business owners in these sectors who face an issue in implementing improvement measures for employment management will be offered consultation support, with the aim of promoting practical employment management improvement within the entire industry, or within regional network communities composed of business owners who are actively engaged in improving employment management. (Ongoing)

7. Regional employment development fund
[Fiscal 2016 budget: ¥3.32 billion]
To create and provide stable regional employment, employers who build or establish an office in regions, etc. where employment opportunities are particularly lacking and who also employ regional job seekers will be offered regional employment development funding in accordance with the cost of their establishment and the number of workers they employ. (Ongoing)

8. Project for employment creation in strategic industries
[Fiscal 2016 budget: ¥9.34 billion]
To promote initiatives aimed at creating favorable and stable employment opportunities, a project for employment creation will be implemented for manufacturing industries and other strategic industries. The project will supplement regional projects for voluntary employment creation, and will be implemented in conjunction with industrial policies. (Ongoing)

9. Extension of the tax system to promote employment
[Taxation scheme]
Where enterprises have satisfied certain requirements and have created high-quality employment (full-time, non-fixed-term employment) in regions that lack employment opportunities (Employment Development Promotion Regions based on the Act on Promotion of Job Opportunities in Certain Regions) in each fiscal year starting between 1 April 2016 and 31 March 2018, a tax measure will be implemented that provides a tax credit of ¥400,000 for each increase in employee.
(Changes from fiscal 2015)
The applicable period of this measure will be extended two years, upon reviewing the increased number of employees, from an increase in the number of generally insured persons under employment insurance within an enterprise as a whole, to an increase in the number of non-fixed-term workers and full-time workers in business establishments located in Employment Development Promotion Regions. (Ongoing)

10. Promotion of employment shifts with no loss of employment (labor insurance special account)
[Fiscal 2016 budget: ¥13.2 billion]
Funds to assist workers seeking alternative employment (re-employment assistance payments) will be provided to business owners commissioned as private-sector employment agencies to support the reemployment of employees who unavoidably lose their jobs due to business downsizing, etc. Re-employment support subsidies (walk-in personnel training support subsidies) will also be provided to business owners who employed workers who fall under a re-employment support plan as non-fixed-term workers within three months of their displacement, or provided training to such workers after employing them.
Furthermore, to enable workers to acquire stable employment opportunities even after the age of 65, labor movement facilitation subsidies (subsidies for supporting career realization) will be provided to lifelong employment companies (companies that allow continuous employment after the age of 65) that take on workers who have voluntarily transferred from another company wishing to make a career change, and to business owners that take on workers transferring from another company and provide training to such workers. (Ongoing)

11. Welfare Worker Recruitment Project
[Fiscal 2016 budget: ¥1.68 billion]
"Welfare Worker Corners" will be expanded, and matching services will be strengthened in the welfare sector (nursing, healthcare and day care). (Ongoing)

12. Promotion of the Youth Support Project
[Fiscal 2016 budget: Included in ¥720 million]
SMEs that display a positive attitude toward recruiting and developing young workers and actively publicize information about their company will be designated as "youth support companies" and encouraged in their effort to disseminate information. (Ongoing)

13. "Youth Yell" certification system based on the Act on Promotion of Youth Employment
[Fiscal 2016 budget: Included in ¥720 million]
Based on the Act on Promotion of Youth Employment (1970 Act no. 98), a system will be launched in which

the Minister of Health, Labour and Welfare certifies SMEs that display outstanding employment and management of youths as "youth yell" certification enterprises. By encouraging the information dissemination efforts of SMEs, the system supports the smooth employment of human resources sought by certified enterprises. (Ongoing)

14. Subsidy for employment and retention of non-new graduates within three years after graduation
[Fiscal 2016 budget: ¥510 million]
To expand, establish and promote employment application opportunities among non-new graduates and dropouts as new graduates, a "subsidy for employment and retention of non-new graduates within three years after graduation, etc." will be provided to business owners who newly offered job openings to non-new graduates or recruited non-new graduates as new graduates and retained them for a certain period of time. (Ongoing)

15. Support for SMEs and micro-businesses in raising the minimum wage
[Fiscal 2016 budget: ¥1.1 billion]
The following support measures will be provided to improve productivity toward raising the minimum wage among SMEs and micro-businesses.
(1) "Comprehensive Minimum Wage Advice and Assistance Centers" will be established throughout Japan (47 locations) as a one-stop portal for consultation on management reforms and work condition management, to provide consultation and dispatched experts free of charge.
(2) Subsidies (up to ¥20 million) will be provided to industry-specific SME organizations to cover the expenses required for conducting market surveys and developing business models in their effort to expand their market with an eye to increasing wages.
(3) Subsidies will be provided to SMEs and micro-businesses in 40 nationwide prefectures that made a capital investment to increase labor productivity and increase the wages of workers who work for less than ¥800 an hour in their business establishments (subsidy rate of 1/2 (3/4 for micro businesses with a workforce of 30 or less)).
To enhance the usability of measure (1) above, consultation centers will open for business on a larger number of days, and the length of expert dispatch services will be extended from fiscal 2016. (Ongoing)

16. Regional Youth Support Station Program
[Fiscal 2016 budget: ¥3.7 billion]
"Regional Youth Support Stations" have been set up to support the vocational independence of young people who are "NEET" (Not in Education, Employment or Training) or in similar circumstances, and offers a diverse employment assistance menu, including professional consultation by career consultants and various other programs. Additionally, a retention and step-up program will provide follow-up services to help those who have obtained employment through the Support Station retain their jobs, and provide nationwide support to help them step up to a more stable career. In fiscal 2016, Support Stations will be established in 160 locations throughout Japan and will continue to provide support that is needed. At the same time, cooperation will be strengthened with schools and other such institutions to expand the support to early leavers from school and provide seamless support. (Ongoing)

17. Dissemination and promotion of career consulting services
The utilization of career consulting (offering advice and guidance in response to consultations concerning occupational selection by workers, occupational life planning, or the development and improvement of occupational capacities) will be disseminated and promoted by spreading and deepening understanding about the utilization of career consultants in private employment agencies, employment support organizations, personnel management and human resource development departments in companies, and career education in schools, and through consultations and support that encourage companies to provide career development support. (Ongoing)

Section 6 Support for new and secondary business startups

1. New and Secondary Business Startup Support Fund
[Fiscal 2016 budget: Included in ¥850 million]
Subsidies will be provided to business owners who start a business that aims to provide new products and services that create new regional demand, to cover the costs of starting the business, and to business owners of secondary startups who discontinue their existing business in whole or in part on occasion of a business succession and foray into a new field, to cover the costs of starting the new business and closing the existing business (legal procedural costs, inventory disposal, etc.). (Ongoing)

2. Support for businesses that support business startups
[Fiscal 2016 budget: Included in ¥850 million]
Support will be provided to startup support businesses that engage in business to support startups of designated businesses under the Industrial Competitiveness Enhancement Act, where they provide startup support services based on an approved business startup support plan (continuous management guidance to business

owners, business upskilling training, operations of co-working spaces, etc.) or undertake initiatives to enhance the quality of their startup support services. (Ongoing)

3. New Startup Loan Program
[Fiscal investment and loan program]
Under this program, unsecured, unguaranteed loans will be provided by the JFC to persons embarking on new ventures and persons who have just started up in business. (Ongoing)

4. Loan Program for Supporting Female, Young, and Senior Entrepreneurs
[Fiscal investment and loan program]
The JFC (through its SME and Micro Business and Individual Units) will apply preferential interest rates to loans offered to women, young people under the age of 30 and older people aged 55 or older, who have started a business within the past seven years or so, to support the creation of new businesses by diverse entrepreneurs. (Ongoing)

5. Funding for renewed startups (lending-support schemes for renewed startups)
[Fiscal investment and loan program]
By assessing entrepreneurs with failed businesses to determine factors such as their qualifications as managers and their business prospects, the JFC will offer loans to candidates who face difficult circumstances in relaunching their businesses. (Ongoing)

6. Guarantees for founders
To boost lending to startup entrepreneurs by private financial institutions, a guarantee program will be implemented, which specifically encourages credit guarantee corporations to provide guarantees to individuals who are starting up in business or who started up in business less than five years ago. (Ongoing)

7. Improving supply of "risk money" needed when starting a business
The supply of "risk money" that is required to start up or develop a business will continue to be promoted by making use of the Innovation Network Corporation of Japan (INCJ), the Development Bank of Japan (DBJ) and the Shoko Chukin Bank. (Ongoing)

8. Fund Investment Program (Startup Support Fund, SME Growth Support Fund)
The creation of investment funds operated by private sector investment companies to stimulate private funds will be promoted through investment by SMRJ (up to one half of the total value of the fund concerned) with the aim of expanding the range of opportunities for investment in ventures (SMEs) at the startup or early growth stage and in SMEs pursuing growth through the development of new business. (Ongoing)

9. Program for strengthening cooperation in the global venture ecosystem
[Fiscal 2016 budget: ¥410 million]
Startup communities in Japan will be revitalized by promoting business collaborations and network creations through the activities of the Venture Business Creation Council, composed mainly of entrepreneurs who are the bearers of new business creation, venture enterprises, large enterprises, and venture support personnel (VCs, etc.). Additionally, the creation of networks with Silicon Valley will be promoted under the Project for Bridging Silicon Valley and Japan, by sending entrepreneurs and personnel from medium enterprises and SMEs to Silicon Valley and holding US-Japan exchange events. (Ongoing)

10. Business Startup Schools
[Fiscal 2016 budget: ¥850 million]
Nationwide support organizations will hold Business Startup Schools to provide startup guidance through to the creation of a business plan and follow up on activities up to the start of business. A business plan contest will also be held among those who participate in the schools. (Ongoing)

11. Angel tax system
[Taxation scheme]
To promote the financing of newly founded venture enterprises by individual investors ("angels"), measures will continue to be taken to increase recognition of this taxation scheme and develop an environment that is conducive to promoting business startups. (Ongoing)

12. Taxation measures to promote venture investment in enterprises
[Taxation scheme]
This initiative allows companies that invest in a venture enterprise through a venture fund certified by the Minister for Economy, Trade and Industry under the Industrial Competitiveness Enhancement Act to accumulate provisional funding for losses of up to 80% of the amount invested and write off that fund as expenses.
Measures for widespread dissemination will continue to be taken, so that the system is utilized effectively, and many attractive venture enterprises emerge in Japan. (Ongoing)

13. Management Innovation Support Program
Support will be provided for new business activities undertaken by SMEs through mechanisms such as low-interest loan programs and special credit

guarantees for the implementation of approved management innovation plans prepared by SMEs planning to engage in new business activities to improve their business performance under the New Business Activity Promotion Act. (Ongoing)

14. Construction of startup support system in the regions

To realize overseas market cultivation by SMEs, support will be provided where a group of SMEs work together to formulate a strategy based on the advantages and disadvantages of their materials and technologies, and endeavor to develop products or participate in overseas trade fairs based on that strategy. (Ongoing)

15. Subsidies for business generating regional economic activity

[Fiscal 2016 budget: ¥1.61 billion]

Subsidies will be granted for expenditure by local governments to assist with costs such as the initial startup funding required by private sector businesses in the establishment phase. This is to establish a regional round table drawn from industry, academia, financial institutions and government, and to promote the "Local 10,000 Project" that aims to create region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.).

Based on the results of the fiscal 2015 Autumn review, focus will be placed on relevant businesses from the perspectives of whether they are public, new, and have potential as a model, and a system of local expense burden will be introduced to a certain extent while giving consideration to financially weak local governments in disadvantaged regions, to effectively promote local Abenomics throughout Japan. (Ongoing)

16. Construction of support networks among female entrepreneurs

[Fiscal 2016 budget: Included in ¥200 million]

The Ministry of Economy, Trade and Industry will support business startups by women, by creating female entrepreneur support networks composed mainly of local financial institutions, industrial support organizations, and startup support organizations, in ten nationwide locations. Within each network, a framework will be established that could steadily support women at all stages of entrepreneurship and novice female entrepreneurs who face an issue related to business growth, to bridge them over to existing support policies for entrepreneurs and otherwise provide detailed response to women's needs. (New)

17. Lifelong startup support subsidy

[Fiscal 2016 budget: ¥870 million]

To create employment opportunities for middle-aged and older people and promote the realization of a society where people can remain active throughout their lives, a subsidy will be provided to middle-aged and older entrepreneurs to cover part of the expenses required to start a business, including the costs of recruiting and employing workers and providing education and training. (New)

Section 7 Support for business succession

1. Business succession support

[Fiscal 2016 budget: Included in ¥5.84 billion]

To support SMEs and micro-businesses that are facing problems related to the lack of business successor, etc., "Business Succession Support Centers" established at approved support agencies in each of the 47 prefectures will provide information and advice on business successions, and offer business matchings through M&As and other such business schemes. In fiscal 2016, initiatives will be implemented to encourage businesses to realize systematic business succession at an early stage, and the support framework for business matchings will be strengthened to include even smaller-scale M&As deals and others. (Ongoing)

2. System of deferral and exemption of payment of inheritance tax and gift tax on non-listed shares (business succession taxation scheme)

[Taxation scheme]

The business succession taxation scheme is designed to help successors to acquire shares and other assets in non-listed companies approved by the Minister of Economy, Trade, and Industry, from their predecessors, whether through inheritance, gift, or testamentary gift. The scheme works by allowing the deferral of payment of inheritance tax and gift tax on the premise that the successor will continue the business and, in certain circumstances (e.g., the death of the successor), exemption from payment of the tax for a grace period. Approvals to qualify for this scheme commenced in fiscal 2009, and as of the end of December 2015, 827 approvals had been granted for inheritance tax and 431 approvals had been made for gift tax. (Ongoing)

3. Small Enterprise Mutual Relief System

The Small Enterprise Mutual Relief System is a system for giving micro business owners a retirement benefit. Ongoing efforts will be made to promote enrollment in the system and ensure steady supply of mutual aid money. (Ongoing)

4. **Comprehensive support under the Management Succession Facilitation Act**
The Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises incorporates comprehensive support for business successions, involving special treatment under the Civil Code to resolve the constraints on legally secured portions of successions. Confirmations of qualification for this special treatment will be granted by the Minister of Economy, Trade, and Industry. (Ongoing)

5. **Support to facilitate business successions**
[Included in SMRJ subsidy program]
Business succession support networks for providing wide-ranging and in-depth support for SME business successions will be developed throughout Japan, and various events will be held to provide training for SME support providers and raise SME proprietors' awareness through business succession forums. (Ongoing)

Section 8 Other regional revitalization measures

1. **Support to encourage enterprises to locate in regional areas**
To promote action by regions to attract enterprises using their local features and to revitalize local industries under the Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc. (Act No. 40, 2007), institutional support is planned to be implemented through special provisions under the Factory Location Act, a low-interest loan program for SMEs operated through JFC, and tax allocations to local governments taking steps to attract enterprises to their regions. (Ongoing)

2. **Subsidies for business generating regional economic activity**
[Fiscal 2016 budget: ¥1.61 billion]
Subsidies will be granted for expenditure by local governments to assist with costs such as the initial startup funding required by private sector businesses in the establishment phase. This is to establish a regional round table drawn from industry, academia, financial institutions and government, and to promote the "Local 10,000 Project" that aims to create region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.).
Based on the results of the fiscal 2015 Autumn review, focus will be placed on relevant businesses from the perspectives of whether they are public, new, and have potential as a model, and a system of local expense burden will be introduced to a certain extent while giving consideration to financially weak local governments in disadvantaged regions, to effectively promote local Abenomics throughout Japan. (Ongoing) (Cited earlier)

3. **Taxation scheme to strengthen the regional location of enterprises**
[Taxation scheme]
In order to revitalize the regions, it is necessary to correct the over-concentration of population and industry in Tokyo and create good quality employment in the regions. Toward this end, initiatives for relocation of the head office functions of enterprises from Tokyo to the regions and for the expansion and development of the regions will be promoted. More specifically, certified enterprises will be given a choice of either a 15% special depreciation deduction on the cost of acquisition of an office building (25% in the case of relocation) or a 4% tax credit on the cost of acquisition (7% in the case of relocation). Enterprises that create employment in the region will be offered a special measure under the taxation scheme to promote employment and a local tax grant related to strengthening regional corporate centers. Under the fiscal 2016 tax reform, the special measure for the taxation scheme to promote employment will be able to be applied redundantly with the tax credit system that is provided for increases in the payment of employee salaries. (Ongoing)

4. **Program for creation and support of regional core enterprises**
[Fiscal 2016 budget: ¥2.05 billion]
To support the initiatives of potential regional core enterprises to foray into new sectors or businesses and promote their growth, support will be provided for the creation of nationwide networks with external resources (universities, cooperating enterprises, financial institutions, etc.) using support personnel. Additionally, for further growth of regional core enterprises, support personnel will provide hands-on support for formulating business strategies, cultivating markets, and other such business activities. (New)

5. **Promotion of new regional cooperation through the creation of regional core cities**
[Fiscal 2016 budget: ¥130 million]
Support will be provided for the policy and initiative of creating regional core city areas for maintaining vibrant social economies with a population of a certain size through downsizing and networking efforts between central cities of substantially large core urban regions and neighboring municipalities. In addition to offering a local tax grant, from fiscal 2016, the development of core facilities for undertaking initiatives that benefit and drive the entire region will be included in the scope of industrial bonds for regional revitalization. (Ongoing)

6. Enterprise vitality enhancement funding
[Fiscal investment and loan program]
Japan Finance Corporation (JFC) will provide loans for funds needed to modernize management and rationalize the distribution systems of SME commercial businesses and service businesses, promote the advancement of basic manufacturing technologies of SMEs, and develop SME subcontractors.
The following expansion measures will be implemented in fiscal 2016.
(1) Expansion of the low-interest loan system for SMEs in the retail trade industry (tax-free shops, tax-free agencies, etc.) that respond to inbound demand by making a capital investment to accommodate foreign visitors to Japan.
(2) Expansion of the low-interest loan system to businesses in the real estate leasing industry in city-center regions (restricted to urban development companies specified in Article 15 Paragraph 1 of the Act on Vitalization in City Center). (Ongoing)

7. Loan program for supporting regional core enterprises
[Fiscal 2016 budget: ¥7 billion from the fiscal investment and loan program]
Medium enterprises and SMEs that are core regional presences having a certain influence on their regional economy will be supported in their initiatives to achieve innovation such as by advancing into a new sector or making strategic initiatives for management improvement. Under a loan program for supporting regional core enterprises, the Shoko Chukin Bank will provide long-term, lump-sum repayment and successful interest payment-type loans to such enterprises. (Ongoing)

8. Taxation scheme for expanding the tax-free system to foreign tourists visiting the regions
[Taxation scheme]
The tax-free system for foreign tourists will be expanded under the fiscal 2016 tax reform. The minimum purchase amount for tax-free sales will be lowered, and where a large-scale retail store is located within a shopping district and is a member of the shopping district, a measure will be provided that allows a tax-free desk to be installed for the large-scale retail store and the shopping district as a single designated commercial facility. (New)

9. Loan system for supporting regional collaborations
[Fiscal 2016 budget: ¥3 billion from the fiscal investment and loan program]
Business cooperative associations and enterprise partnerships that utilize local resources will be supported in their initiatives to develop a new business, utilize local resources, form a business tie-up or restructure their organization, through a loan system that provides long-term, lump-sum repayment and successful interest payment-type loans via the Shoko Chukin Bank. (New)

10. Support program for increasing unit consumption price in globalizing regions
[Fiscal 2015 supplement budget: ¥100 million]
With the aim of increasing unit consumption price in the regions, support will be provided for the formulation of strategies for exploring and experimenting with new services for tourists and for developing attractive towns that stimulate consumption based on an analysis and identification of target foreign tourists and their preferences and needs. (New)

Chapter 6 Development of the business environment

Section 1 Cash-flow assistance and business generation support

1. Detailed cash-flow assistance

New lending systems and guarantee systems were created and existing systems were expanded by public financial institutions under the fiscal 2015 supplementary budget that was approved on January 20, 2016. More specifically, the JFC provides loans at lower interest rates than usual, for cases where capital investments are made by SMEs and micro-businesses that contribute to regional revitalization by creating employment in the region. Additionally, Credit Guarantee Corporations provide guarantees (refinancing guarantees) that consolidate multiple outstanding debts into a single amount, to facilitate new loans to SMEs and micro-businesses that have received a change in loan repayment conditions but show strong promise of achieving management improvement. (Ongoing)

2. Safety net loans

The safety net loan program provides loans worth up to a total of ¥720 million (from JFC's SME Unit and the Shoko Chukin Bank) and ¥48 million (from JFC's Micro Business and Individual Unit) to SMEs that have experienced, for example, a temporary decline in sales or profits caused by the effects of changes in the social or economic environment. Under the fiscal 2016 budget, an interest rate incentive will be given to SMEs and micro-businesses experiencing cashflow difficulties, in cases where their severe business condition requires them to receive business support from an approved support agency. (Ongoing)

3. Managerial Improvement Loans (Marukei Loans) for micro businesses

[Fiscal 2016 budget: ¥3.98 billion]

[Fiscal investment and loan program]

In order to provide financial support to micro businesses, the JFC will provide unsecured and unguaranteed low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry and prefectural federations of societies of commerce and industry. Ongoing improvements will also be implemented: (1) the term of loans will be extended from five to seven years for working capital and from seven to 10 years for capital expenditure; (2) the deferment period will be extended from six months to one year for working capital and from six months to two years for capital expenditure; and (3) the ceiling on loans will be raised from ¥15 million to ¥20 million. (Ongoing) (Cited earlier)

4. Micro business management development support loans

[Fiscal 2016 budget: ¥20 million]

[Fiscal investment and loan program]

To support sustainable business development by micro businesses, Japan Finance Corporation (JFC) will offer low-interest loans to micro businesses that receive management guidance from societies and chambers of commerce and industry certified under a management development support plan. (Ongoing) (Cited earlier)

5. Promotion of subordinated lending

[Fiscal 2016 budget: Included in ¥15.8 billion]

The subordinated lending program is a financing mechanism of the JFC, which solicits joint financing from the private sector to stabilize the financing of SMEs and micro-businesses by providing them with high-risk, long-term, "bullet loans" (capital funds) to enhance their financial underpinnings. It will continue to be implemented in fiscal 2016. (Ongoing)

(Note) Loans under this program are limited bullet loans. In the event that the SMEs or micro-business taking out the loan enters legal bankruptcy, its repayment precedence is subordinated to other claims. By designing the program so that the interest rate is tied to the success rate for loan repayments in each period, these subordinated loans can be taken to be equity in financial inspections.

6. SME and micro-business management enhancement loan/guarantee program

[Fiscal 2016 budget: ¥1.6 billion]

On the premise that support is being provided by approved support agencies, the management of SMEs and micro-businesses will be strengthened through measures such as low-interest loans from the JFC (0.4% below the standard rate for women, young people and senior business startups) for business startups, businesses diversification, and changes of business. (Ongoing)

7. Encouragement of refinancing guarantees

[Fiscal 2016 supplementary budget: ¥1 billion]

In addition to continuously providing previously-offered refinancing guarantees, a new refinancing guarantee will be promoted among SMEs and micro-businesses that have high potential for achieving management improvement and whose managers demonstrate strong motivation but cannot receive forward-looking financial aid due to a change in repayment conditions. The new refinancing guarantee will promote the refinancing of existing guaranteed

loans as new guaranteed loans and allow new money to be added. (Ongoing)

8. Safety-net Guarantees (Nos. 4 & 5)
Safety-net Guarantee Nos. 4 and 5 call for credit guarantee corporations to provide guarantees separate from ordinary guarantees to SMEs and micro-businesses experiencing a management instability due to either a natural disaster in the case of Safety-net Guarantee No. 4 or an industrial structural slowdown in the case of Safety-net Guarantee No. 5 (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). (Ongoing)

9. Program to assist with formulating management reform plans by approved support agencies
To promote business improvement among SMEs and micro-businesses that are unable to formulate management reform plans on their own, the program will defray part of the costs (two-thirds) incurred by approved support agencies (certified public tax accountants, lawyers, financial institutions, etc.) under the Act for Facilitating New Business Activities of Small and Medium-sized Enterprises for providing assistance to SMEs and micro-businesses in formulating management reform plans and following up on those plans. (Ongoing)

10. SME Revitalization Support Councils
[Fiscal 2016 budget: Included in ¥5.84 billion]
The SME Revitalization Support Councils established at the chambers of commerce and industry and similar entities in each prefecture will provide SMEs and micro-businesses that have profitable businesses but face financial problems with advice on solving their problems through consultation services, and will assist with the drafting of revitalization plans that also include coordination with relevant financial institutions and similar entities. (Ongoing)

11. SME Rehabilitation Plan through Succession (secondary companies)
Where an SME rehabilitation plan through succession is authorized under the Industrial Competitiveness Enhancement Act and business succession occurs as set out in that plan, measures will be implemented to support financing, along with special provisions for permissible succession. (Ongoing)
*The special measure concerning registration and license tax will be terminated under the fiscal 2016 tax reform.

12. SME revitalization funds
In order to deliver the funds needed by SMEs to implement their revitalization plans and provide them with financing and management support, the SMRJ, regional financial institutions, and credit guarantee corporations in unison will promote the establishment and utilization of regional funds to assist local SMEs' revitalization efforts and national funds to assist SMEs' revitalization efforts over a wide area. (Ongoing)

13. Promotion of the use of "Guidelines for Personal Guarantees Provided by Business Owners"
[Fiscal 2016 budget: ¥100 million]
To promote the use of the "Guidelines for Personal Guarantees Provided by Business Owners" published on 5 December 2013, help desks that have been set up in the regional headquarters of the SMRJ in fiscal 2013 and the specialist dispatch desk for people who wish to use the guidelines will continue to be operated. Financing and guarantee systems independent of business owner guarantees by public sector financial institutions will also continue to be implemented. Additionally, to ensure the guidelines are absorbed and retained as part of financing practices, initiatives that should be widely taken will continue to be collected and published. Furthermore, explanatory meetings on the guidelines will be held for SMEs and micro-businesses. (Ongoing)

14. Enhanced management support for financial administration among SMEs
Based on the financial monitoring policy, financial institutions will be encouraged to promote productivity improvement and smooth business succession in regional industries and enterprises through loans and business support, by amending their lending attitude that relies more than necessary on security and guarantees, and ensuring proper assessment of the business performance and growth potential of borrower companies. (Ongoing)

15. Promote liquidity of SMEs' export receivables covered by trade insurance
To promote the financing of SMEs, NEXI will collaborate with the Shoko Chukin Bank and the three megabanks to promote the utilization of a scheme for transferring an export receivable covered by trade insurance from an SME to a financial institution. (Ongoing)

16. Support for SMEs in Okinawa
Regarding support for SMEs in Okinawa delivered via the Okinawa Development Finance Corporation (ODFC), the operations and initiatives undertaken by JFC will be performed as usual, while ODFC's own system of lending will be expanded to meet the specific needs of businesses in Okinawa. (Ongoing)

17. Adoption and application of "Basic procedures for SME accounting"
The adoption and application of the "Basic procedures for SME accounting" will be promoted so as to

encourage SMEs to clarify their business conditions, improve the ability of proprietors to explain their business, and strengthen their ability to obtain financing. As a dissemination measure, the 0.1% discount on credit guarantee rates will continue to be provided in fiscal 2016 to SMEs and micro-businesses that adopt the "Basic procedures" as their accounting rule. (Ongoing)

Section 2 Enhancing financial capacity

1. **Lowering of reduced tax rate for SMEs**
[Taxation scheme]
This measure that lowers the rate of corporate tax (19%) incurred on annual income amounts up to ¥8 million to 15% will be implemented. (Ongoing)

2. **SME investment promotion tax system**
[Taxation scheme]
This system offers a 30% special depreciation or a 7% tax credit (the tax credit is not offered to corporate entities with a capital of more than ¥30 million) for the price of purchasing machinery or equipment. It also allows for immediate depreciation or provides a 10% tax credit (7% for corporate entities with a capital of more than ¥30 million) for the introduction of machinery and equipment that leads to productivity improvement. (Ongoing)

3. **Special provision for inclusion of SMEs in charges against revenue of acquisition cost of petty sum depreciable assets**
[Taxation scheme]
The special provision that allows enterprises to include in full depreciable assets worth less than ¥300,000 in charges against revenue (limited to a total of ¥3 million a year) will continued to be offered. Under the fiscal 2016 tax reform, enterprises with more than 1,000 employees will be excluded from scheme, but the applicable period of the scheme itself will be extended two years. (Ongoing)

4. **Carryover and refund carryback of loss**
[Taxation scheme]
The carryover of loss is a scheme that allows loss arising in the current business year to be deducted as a loss carried over from the amount of income in the following and subsequent business years. Under the fiscal 2016 tax reform, the carryover period was decided to be extended to 10 years (from 9 years under the current scheme) from fiscal 2018. The measure that allows businesses to receive a one-year carryback refund for losses arising in the current business year will be continued. Under the fiscal 2016 tax reform, the effective period of the measure will be extended two years. (Ongoing)

5. **Taxation system for the revitalization of the commercial, service and agriculture/forestry/fishery industries**
[Taxation scheme]
The tax measure that allows SMEs in the commercial and service industries that acquire facilities based on advice on business improvement from a chamber of commerce and industry or other such institution to receive a 30% special depreciation deduction from the cost of acquisition or a 7% tax credit will be continued (the tax credit is offered only to corporate entities with a capital of no more than ¥30 million). (Ongoing)

6. **Special exemption from inclusion in charges against revenue of entertainment and social expenses, etc.**
[Taxation scheme]
The selective application of (1) the measure that permits entertainment and social expenses to be included in charges against revenue up to the fixed deduction amount (¥8 million) or (2) the measure that allows 50% of food and drink expenses to be included in charges against revenue will continued to be offered. Under the fiscal 2016 tax reform, the effective period of the measure will be extended two years. (Ongoing)

7. **Investment by Small and Medium Business Investment and Consultation Co., Ltd.**
In order to help enhance SMEs' capital adequacy and contribute to their sound growth and development, the Small and Medium Business Investment and Consultation Co., Ltd. will operate a number of programs to assist in SME development. These include business consultations, assistance with business successions and investment programs involving the underwriting of shares, share warrants and corporate bonds with subscription warrants. (Ongoing)

8. **Reduction in the fixed assets tax on new acquisitions of machinery and equipment**
Where an SME acquires new machinery or equipment (management improvement facility) (cost of more than ¥1.6 million, productivity increase of 1% (sales commencement within 10 years), etc.) that is specified in a management capability enhancement plan that has been formulated and approved based on the Act for Strengthening the Management of SMEs, etc., a measure will be provided to reduce the tax base of the imposed fixed assets tax by one-half over a period of three years. (New)

Section 3 Measures for pass-throughs of consumption tax

1. **Programs to enhance monitoring and inspection regimes for consumption tax imputation**
[Fiscal 2016 budget: ¥3.21 billion]
To ensure that consumption tax is passed through appropriately, 474 "cost pass-through inspectors" will be assigned throughout Japan. At the same time, to collect information such as on refusals to pass through the consumption tax, a large-scale written survey will be carried out in conjunction with the Fair Trade Commission (FTC) in the effort to monitor and regulate acts of refusal to pass through the consumption tax. (Ongoing)

Section 4 Measures for reduced consumption tax rate system

1. **Support for the introduction of cash registers and system renovations among SMEs in the retail trade industry**
[Fiscal 2015 reserve fund: ¥99.58 billion]
Measures will be taken to help businesses prepare for the introduction and operation of the reduced consumption tax rate system and prevent confusion. More specifically, (1) support for introducing cash registers that are compatible with multiple tax rates will be provided to SMEs in the retail trade industry, and (2) support for system renovations will be provided to SMEs in the retail trade and wholesale trade industries that use electronic ordering systems that are not compatible with multiple tax rates. (New)

2. **Consultation desks for inquiries regarding the reduced consumption tax rate system**
[Fiscal 2015 supplementary budget: ¥17 billion]
Toward the smooth implementation of the reduced consumption tax rate system, detailed support will be provided in cooperation with SME organizations, etc. Seminars and forums will be held, consultation desks will be established, specialists will be dispatched to provide itinerary guidance, and such support measures will be disseminated via pamphlets and other such media. At the same time, cost pass-through consultation desks will also be established, in response to the consumption tax increase that is stipulated in the Act to Amend the Consumption Tax Act, etc., to Make Fundamental Reform of the Tax System for Securing Revenue to Fund the Increased Cost of Social Security (Act No. 68 of 2012). (New)

Section 5 Measures for business stabilization

1. **Mutual Relief System for the Prevention of Bankruptcies of SMEs (Mutual Safety-net Relief System)**
[Included in SMRJ subsidy program]
The Mutual Relief System for the Prevention of Bankruptcies, which provides loans to prevent a chain reaction of bankruptcies accompanying the bankruptcy of a supplier or customer, will continue to be promoted among SMEs and will continue to provide steady loans. (Ongoing)

2. **Special Business Stability Consultation Centers**
[Fiscal 2016 budget: ¥37 million]
To facilitate management consultations at special business stability advice centers that have been established in key chambers of commerce and industry and prefectural federations of societies of commerce and industry across the country, support will continue to be provided to initiatives such as guidance programs run by the Japan Chamber of Commerce and Industry and the Central Federation of Societies of Commerce and Industry. (Ongoing)

3. **Promotion of wider adoption of BCPs by SMEs**
[Fiscal investment and loan program]
To strengthen the capacities of SMEs and micro-businesses to continue business in the event of an emergency and increase their corporate value, ongoing support will be given to promote the formulation and operation of BCPs. Low-interest loans will also be provided by the JFC for the establishment of disaster prevention facilities in accordance with BCPs formulated by SMEs and micro-businesses themselves. (Ongoing)

4. **Relief for damage caused by dumped imports**
[Fiscal 2016 budget: ¥50 million]
Trade remedy measures include anti-dumping (AD) programs to provide relief to domestic industries impacted by dumped imports to Japan from foreign enterprises, including measures to ensure equitable market competition such as by imposing extra customs duties following a petition by the affected Japanese industry and an investigation by the government. An AD investigation into South Korean and Chinese manufactured potassium hydroxide was begun in May 2015, and is being pursued fairly and appropriately based on international rules and Japanese laws and regulations. Studies will also be to ensure that investigations are consistent with WTO conventions, and information sessions will be held for enterprises. (Ongoing)

Section 6 Measures concerning public demand

1. Formulation and dissemination of the "FY2016 Basic Policy on State Contracts with Small and Medium Enterprises"

[Fiscal 2016 budget: Included in ¥990 million]

Measures for achieving the target rate of state contracts with new and existing SMEs and for increasing opportunities for SMEs to receive orders will be approved by the Cabinet.

The following initiatives will also be implemented to ensure widespread dissemination of the basic policy.

(1) The Minister for Economy, Trade and Industry will issue a request regarding the Cabinet approval of the Basic Policy on State Contracts with Small and Medium Enterprises to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards, and will also an make effort to increase opportunities for SMEs and micro-businesses to receive orders.

(2) Information sessions (Councils to Promote Local Access to Public Sector Demand) will be held throughout Japan to actively raise awareness of the Basic Policy in regional areas.

(3) A conference will be organized to discuss policies for information sharing and cooperation regarding initiatives for promoting procurement from new SMEs in regional areas.

(4) A "Guide to Contracts in the Public Sector" will be produced and distributed to central and local government agencies and other commerce and industry-related organizations. (Ongoing)

2. Operation of the "Public Demand Portal Site" to expand opportunities for SMEs and micro-businesses to receive orders from the public sector

[Fiscal 2016 budget: Included in ¥990 million]

A Public Demand Information Portal Site will be operated that provides SMEs and micro-businesses with one-stop access to order information posted on national government and other local public websites in order to improve access by SMEs and micro-businesses to information on public sector orders. (Ongoing)

Section 7 Promotion of human rights awareness

1. Human rights awareness

[Fiscal 2016 budget: ¥190 million]

Toward the promotion of sound economic activities, human rights awareness seminars and other awareness-raising activities will be organized for businesses. Traveling consultation services and training programs will also be offered to revitalize micro businesses in regions or industries where there are particularly large numbers of micro businesses that require concentrated support. (Ongoing)

Chapter 7 Initiatives by industries and area

Section 1 Measures for SMEs in agriculture, forestry and fisheries

1. Promotion of diversification of primary producers into processing and distribution (sixth sector industrialization)

(1) Subsidy for sixth sector industrialization network activities
[Fiscal 2016 budget: ¥2.03 billion]
Support will be provided for initiatives in which agriculture, forestry and fishery create a network with diverse businesses to develop new products, cultivate markets and operate facilities for processing and marketing agriculture, forestry and fishery products. Support will also be provided for sixth sector industrialization initiatives that are implemented by the entire region in line with sixth sector industrialization strategies and concepts of the municipality. (Ongoing)

(2) Active utilization of the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan
Support will be provided through measures such as investment for business activities aimed at sixth sector industrialization by agriculture, forestry and fishery businesses in cooperation with distribution and processing businesses through the Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan (A-FIVE). (Ongoing)

(3) Promotion of the utilization of intellectual properties
[Fiscal 2016 budget: ¥170 million]
Support was provided for the registration applications relating to the geographical indication (GI) protection system and for their dissemination and awareness-raising. Support was also provided for the creation of regional brands and businesses by utilizing GIs, and for strengthening measures against infringements of Japan's agriculture, forestry and fishery products and food products overseas. (New)

(4) Comprehensive program to promote renewable energy to revitalize rural areas
[Fiscal 2016 budget: ¥100 million]
In regions where the program has been implemented by fiscal 2015, growth in regional agricultural, forestry and fishery businesses will be promoted by pursuing community-based initiatives to supply renewable energy and to feed the benefits of such initiatives back into local communities. (Ongoing)

2. Support for small and medium agricultural, forestry, and fishery businesses

(1) Wood Industry Upgrading Promotion Fund and Forestry and Wood Industry Improvement Fund
[Fiscal 2016 budget: ¥70 billion]
In order to streamline lumber production and distribution, loans will be provided through the Wood Industry Upgrading Promotion Fund, while loans through the Wood Industry Improvement Fund will be provided to implement measures such as management reforms in the forestry and lumber industries. (Ongoing)

(2) Interest subsidy for the installation of lumber processing facilities
[Fiscal 2016 budget: ¥4 million]
An interest subsidy will be provided for borrowings required for the introduction of facilities toward adding value to lumber products and diversifying management, and for dismantling facilities and equipment accompanying the introduction of new facilities. (Ongoing)

(3) Support for creation a framework in the wood industry by means of the Subsidy for Establishment of the Foundation for Forest and Forestry Regeneration
[Fiscal 2016 budget: ¥6.14 billion]
Support was provided for the development of lumber processing and distribution facilities that are needed for creating a stable and efficient supply chain in terms of cost, volume and quality. (New)

(4) Support for reorganization and development of the dairy industry by means of subsidies for building a strong agricultural industry and comprehensive measures for the revitalization of production areas
[Fiscal 2016 budget: Subsidies for building a strong agricultural industry: ¥20.79 billion; Comprehensive measures for the revitalization of production areas: ¥2.05 billion]
(Objectives of the measure)
- To promote a stronger management culture in the SME dairy industry, such as by restructuring and rationalizing dairy plants and enhancing sanitary control, toward contributing to business stabilization among dairy farmers amid a stagnation in the consumption of milk.

(Overview of the measure)
- To reduce the production and selling costs of SMEs in the dairy industry and promote the advancement of sanitary standards, support will be provided for the additional construction and closing down of dairy plant facilities and for the closing down of dairy plants in cases where it is not accompanied by the construction of new plants.

- To promote steady initiatives toward increasing the efficiency of collecting and transporting milk and restructuring the dairy industry, support will be provided for assessing and examining regional issues, formulating specific plans, and rationalizing employees. (Ongoing)

(5) Support for raising the standard of food manufacturing process management

To improve the safety of food products and gain the confidence of consumers, financial support will be provided for the following initiatives under the Act on Temporary Measures concerning Sophistication of Management of Food Manufacturing Process: (1) Provision of infrastructure and equipment for HACCP introduction; and (2) Provision of infrastructure and equipment for hygiene and product quality control as preliminary steps towards HACCP introduction (advanced platform provision). (Fund for promoting advanced quality control in the food industry) (Ongoing)

(6) Comprehensive export support project by JETRO

[Fiscal 2016 budget: ¥1.48 billion]

(Objectives of the measure)

- To implement initiatives for the promotion of exports in line with the "Export Strategies for Agriculture, Forestry and Fishery Products and Foods by Country and Item" (formulated Aug, 2013; hereinafter referred to as "Country and Item-specific Export Strategies"), through private-public cooperation toward achieving the target of ¥1 trillion by 2020.

(Overview of the measure)

- Through subsidies to the Japan External Trade Organization (JETRO), comprehensive business support for upstream to downstream operations of export businesses will be strengthened.

(Changes from fiscal 2015)

- Mainly in regions that have high potential for an expansion of exports, "marketing centers in emerging markets," which test-market the products of businesses that engage in export and provide feedback of local responses, will be established through public invitation that is also extended to private businesses, instead of through the provision of designated subsidies to JETRO.
- Experts will be appointed to respond to businesses that have an inquiry regarding exports that utilize geographical indications (GI). (Ongoing)

(7) Measures for export businesses

[Fiscal 2016 budget: ¥840 million]

(Objectives of the measure)

- To promote exports in line with the "Export Strategies for Agriculture, Forestry and Fishery Products and Foods by Country and Item," toward achieving the target of ¥1 trillion in the export of agricultural, forestry and fishery products and foods.

(Overview of the measure)

- Export organizations for each export category including marine products, rice and rice products, flowers, animal products, tea, forestry products (wood), and fruits will support initiatives for holding examination committees in Japan, conducting overseas market surveys, and resolving issues regarding the export environment, with the objective of establishing the Japan brand.
- Organizations of major export localities and relevant business in Japan that handle various processed foods and organizations that handle multiple categories of items at the regional bloc scale will be supported in their initiatives to organize domestic study meetings, conduct overseas market surveys and cultivate overseas markets with the objective of creating a year-round or long-term stable supply framework.
- To respond to requests for quarantine boarding that is sought by relevant countries and regions, acquire and renew international certifications, and realize transportation costs in accordance with the export conditions of each item, initiatives will be implemented for the development and demonstration of an optimal export model.

(Changes from fiscal 2015)

- Among the initiatives for establishing the Japan brand, the subsidy amount for domestic review meetings will be changed from a fixed amount to half the incurred cost, and the subsidy amount for the management of logo marks by item will be changed from a fixed amount to three-fourths of the incurred cost.
- Initiatives for market cultivation and sales promotion overseas will be included among the initiatives for establishing the Japan brand (subsidy amount of 1/2) (Ongoing)

3. Support for R&D and other cross-field activities

(1) Promotion of studies of scientific technologies for the agriculture, forestry, fishery and food industries

[Fiscal 2016 budget: ¥3.21 billion]

R&D initiatives will be promoted at each stage of technological development, including the basic stage involving the development of the technological seeds that will lead to innovative technologies and solutions for problems in the agriculture, forestry, fishery and food industries (elemental technologies that lead to the creation of new technologies, businesses and agribusiness); the application phase involving the further development of those seeds towards R&D for practical application; and the practical application stage in which technologies meet the requirements of key national policies and address the needs of the agriculture, forestry, fishery and food industries. The development of new varieties will also be promoted in response to the diverse needs of actual demands

by utilizing the technical capabilities of industry, government and academia. (Ongoing)
(2) Various forms of lending by JFC
[Fiscal investment and loan program] (Ongoing)

Section 2 Measures for SMEs in the transport industry

1. Support for the warehousing industry

To meet the needs for increasingly sophisticated physical distribution services and truck drivers as a response to changes in the socioeconomic environment, greater efficiency of physical distribution will be promoted under the Law for Integration and Improvement of Physical Distribution, toward upgrading the physical distribution functions of facilities and achieving greater operational efficiency. (Ongoing)

2. Measures for the coastal and domestic passenger shipping industries

(1) Interim measures for coastal shipping
In order to ensure the smooth and steady implementation of interim measures for coastal shipping, support will be provided by establishing a separate system of government guarantees for the loans required to fund these measures. (Ongoing)
(2) Joint shipbuilding program
[Fiscal investment and loan program]
[Fiscal 2016 budget: ¥18.7 billion]
Through the joint shipbuilding program of the Japan Railway Construction, Transport and Technology Agency (JRTT), the construction of ships with high policy significance, such as ships that contribute to greenifying coastal shipping or contribute to the maintenance and activation of remote island routes, will be promoted. (Ongoing)

3. Measures for small and medium shipbuilders and related manufacturers

[Fiscal 2016 budget: (1) Included in ¥50 million; (2) ¥16 billion (fiscal 2013 budget); (3) Included in ¥640 million; (4) ¥90 million)

(1) In addition to taking steps to develop a safety net for business stabilization, (1) [courses aimed at modernizing management techniques will be held, and a health and safety manager training course was also held to help prevent industrial accidents]. (Ongoing)
(2) All 37 shipyards and shipbuilders on the Pacific coast of Tohoku together suffered devastating damage in the Great East Japan Earthquake, as did many shipbuilding-related businesses. The Ministry of Land, Infrastructure and Transport, in cooperation with the SME Agency and other relevant ministries and agencies, will provide support for the utilization of the Subsidy for Restoration and Reconstruction of (Groups of) SMEs, and for the procurement of materials and equipment needed for the prompt recovery of their facilities. (Ongoing) Additionally, to promote the reconstruction of local shipbuilding industries that make a significant contribution to the fishery industry in disaster-affected areas, a fund has been established for groups of small and medium shipbuilding businesses that contribute to the fishery industry in areas where the industry is a core industry but face reconstruction difficulties due to ground subsidence, as well as for assisting with the costs of constructing and repairing facilities to be used jointly by the businesses and for constructing berthing facilities. A total of 19 businesses in 8 projects have been selected to receive a subsidy of ¥11.42 billion in total. Support will continue to be provided to businesses receiving the subsidy, to ensure proper implementation of the subsidy. (2) Subsidy for reconstruction assistance projects in the shipbuilding industry (Ongoing)
(3) Subsidies will be provided for research and development projects for marine resource development technologies that contribute to the strategic growth of Japan's maritime industries and for world-leading marine environment technologies for reducing CO2 from vessels. (3) Subsidy for R&D for technologies related to the maritime industry (Ongoing)
(4) To deepen understanding of the shipbuilding industry and attract a larger number of young people to the industry, shipyard internships will be promoted, and efforts will be made to produce attractive educational materials for high school students who are studying shipbuilding. (Ongoing, New) The utilization of foreign workers will also be continuously promoted, to optimize the program for accepting foreign shipbuilding workers. (4) Recruitment and development of human resources in the shipbuilding industry (Ongoing)

Section 3 Measures for small and medium building contractors and realtors

1. Support program for revitalization of regional construction industries

[Fiscal 2016 budget: ¥170 million]

To support small, medium-sized and second-tier construction companies and construction-related companies (surveying, construction consultancy and geological surveying businesses) that support local communities such as by improving, maintaining and operating social capital and contributing to disaster prevention and mitigation, revitalization support advisors such as human resource development specialists and SME business consultants will provide wide-ranging advice to help resolve management issues and technical issues such as construction management.

For initiatives that provide models for contributing to securing and developing workers and increasing productivity, ongoing support will be provided by a team of support specialists for the formulation of a plan and up to the achievement of the goal as a priority measure, and part of the costs incurred during execution of the plan will be subsidized.
Furthermore, best practices that contribute to productivity improvement will be visualized based on knowledge acquired through priority support initiatives and revitalization support advisors, and a "production management model" for the construction industry will be created in reference to productivity improvement initiatives that are implemented in other industries but are applicable to the construction industry, for utilization also in the support scheme of this program. Additionally, seminars and individual consultations will be held to provide knowledge of best practices and production management models, and efficient and effective online education programs and methods will be developed and administered on a test basis. (New)

2. Financial support in the construction industry

(1) Implementation of the Local Construction Management Enhancement Loan Program
To further facilitate funds procurement by construction companies acting as the main contractor, the Local Construction Management Enhancement Loan Program, which allows small and medium-sized construction enterprises and second-tier construction companies to receive a loan from loan businesses in proportion to the construction work using the contract value credit from public works as collateral, will continue to be implemented. The program aims to secure loan funds and reduce procurement interest rates by attaching a loan guarantee to sublease funds that loan businesses borrow from financial institutions when providing a loan.

(2) Implementation of the Subcontracting Receivables Protection Support Program
The Subcontracting Receivables Protection Support Program will also continue to be implemented, to facilitate the procurement of funding and the protection of receivables held by building subcontractors and similar enterprises. The main purpose of this program is to minimize risk and compensate for losses by small, medium-sized and second-tier building subcontractors when a receivable payable to a building subcontractor by the main building contractor for subcontracted building work is guaranteed by a factoring company. (Ongoing)

3. Support for overseas business expansion in the construction industry
[Fiscal 2016 budget: ¥70 million]
To support overseas expansions by second-tier and SME construction companies, support will be provided as appropriate to the overseas expansion stage of each enterprise. For example, market surveys will be conducted in the relevant country, and the possibilities of Japanese construction enterprises to expand into overseas construction markets will be analyzed. Based on the results of these activities, nationwide seminars on formulating overseas expansion strategies will be held for business managers of second-tier and SME construction companies considering an expansion into a foreign country, and missions will be dispatched to relevant countries. In addition to the above, support will be provided for their participation in overseas trade fairs, and initiatives for disseminating and introducing the latest information will be implemented via practical seminars on overseas construction industries, and a database of overseas construction and real estate markets. (Ongoing)

4. Financial measures for small and medium realtors
Loan guarantee programs designed to provide guarantees for business loans for regional revitalization and for loans to fund joint initiatives by small and medium realtors will be continued so as to supplement credit and facilitate financing of small and medium realtors. (Ongoing)

5. Regional housing greenification program
[Fiscal 2016 budget: ¥11 billion]
To strengthen the regional production framework for wooden housing and reduce environmental burden, support will be provided for the development of energy efficient and durable wooden housing and buildings through groups comprising businesspersons in related fields involved at all stages from provision of materials through to design and implementation. (Ongoing)

6. Program for developing a framework for wooden housing construction techniques
[Fiscal 2016 budget: ¥510 million]
Support will be provided for initiatives related to the development of new carpenters and implementation of courses on renovation techniques for enhancing the technical levels of skilled carpenters. (Ongoing)

Section 4 Measures for the environmental sanitation business

1. Measures for the environmental sanitation business
[Fiscal 2016 budget: ¥1.03 billion]
Subsidies will be provided to environmental sanitation associations, the national environmental sanitation guidance center, and prefectural environmental sanitation guidance centers, to promote the creation of safe and comfortable lifestyle environments from

the perspective of sanitation. Support was provided specifically for rehabilitating the management of environmental sanitation businesses such as the hairdressing, dry cleaning and restaurant businesses, maintaining and improving sanitation standards, and protecting user and consumer interests. In fiscal 2016, support was provided for management improvement among environmental sanitation businesses, with priority focus on collecting and compiling examples of best practices that contribute to productivity improvement, and on the implementation of model projects that provide detailed management advice and guidance in response to business type, size, and regional characteristics (model project for productivity improvement among environmental sanitation businesses). (Ongoing)

2. Loans for ES businesses

[Fiscal 2016 budget: ¥2.5 billion]

The JFC will provide low-interest loans (environmental sanitation loans) with the aim of improving and otherwise promoting public health, by providing financial assistance to environmental sanitation businesses. In fiscal 2016, the scope of the loans for working capital related to earthquake resistance work will be expanded, and measures will continue to be taken to meet the demands for funding by environmental sanitation businesses. (Ongoing)

Chapter 8 Other SME policies

Section 1 Environmental and energy measures

1. Administrative support for the system for certifying greenhouse gas reductions by SMEs (J-Credit Scheme)
[Fiscal 2016 budget: ¥440 million]
The J-Credit Scheme is a system for certifying the amounts of greenhouse gas emission reductions achieved through capital investment by SMEs as "credits", and assistance is provided with administering the scheme and formulating business plans.
This program also develops the foundation for the carbon offset mechanism whereby CO2 emissions from products and services are offset with carbon credits, by taking advantage of the "visualization" of carbon emissions from products by the Carbon FootPrint (CFP) system, and promoted demand for the credits created under the J-Credit Scheme. By boosting low-energy investments by SMEs and promoting the circulation of funds in Japan through the use of these credits, the program aims to achieve a good balance between the environment and economy. (Ongoing)

2. Environment and Energy Measure Fund (for anti-pollution measures)
[Fiscal investment and loan program]
To promote anti-pollution measures by SMEs, low-interest loans will continue to be provided by JFC based on a review of relevant anti-pollution facilities and interest rates. (Ongoing)

3. Anti-pollution tax system
[Taxation scheme]
The anti-pollution tax system will continue to be implemented, to support the pollution prevention initiatives of SMEs and micro-businesses. (Ongoing)

4. Energy Use Rationalization Business Support Program
[Fiscal 2016 budget: ¥51.5 billion]
This program subsidizes the costs required for energy conservation and power peak countermeasures, and energy conservation measures that cut across multiple businesses through the replacement of existing facilities and systems in plants and offices, other modifications aimed at improving manufacturing processes. Close attention is paid to compliance with the Energy Conservation Act, to ensure priority support to high-level energy conservation initiatives. (Ongoing)

5. Program to promote the installation of designated equipment to rationalize energy use
[Fiscal 2016 budget: ¥2.7 billion]
To promote the introduction of energy-saving facilities and the installation of top-runner equipment before it reaches its target fiscal year, an interest subsidy will be provided to businesses receiving financing from private financial institutions. The program will be operated through collaboration with local financial institutions, to encourage active investment in energy conservation by regional SMEs and medium enterprises that actively engage in energy conservation. (Ongoing)

6. Program for promoting the introduction of energy-saving measures
[Fiscal 2016 budget: ¥750 million]
The program will aim to laterally expand the use of energy-saving measures by diagnosing the energy and power saving potential of SMEs and medium businesses and widely disseminating information on energy-saving case examples and technologies. Additionally, to promote energy-saving initiatives that have been proposed through the diagnosis, a "regional energy conservation consultation platform" will be established to provide detailed consultation on energy conservation in each region. (Ongoing)

7. Taxation scheme to promote environment-related investment
[Taxation scheme]
To realize the energy mix that was formulated in fiscal 2015, the fiscal 2016 tax reform will extend the applicable period of the scheme two years, upon prioritizing additional investment in geothermal and woody biomass power generation plants and other such relevant facilities. (Ongoing)

8. Program to create a fund to promote regional low-carbon investment
[Fiscal 2016 budget: ¥6 billion]
In order to call in private funding to low-carbon projects such as renewable energy projects that are likely to be profitable but lack sufficient private funding due to risks stemming from long lead times or long investment recovery periods, funding will be provided from the low-carbon investment promotion fund. (Ongoing)

9. Eco-Lease promotion program
[Fiscal 2016 budget: ¥1.8 billion]
The widespread adoption of low-carbon devices will be supported by subsidizing part of the total lease

payment and promoting the utilization of a no-deposit "lease" scheme among SMEs that have difficulty coping with the very high initial investment costs (deposits) of installing low-carbon devices. (Ongoing)

10. Eco-Action 21

The Eco-Action 21 scheme, which is readily accessible to second-tier enterprises and SMEs, will continue to be promoted, and a draft for revising the Eco-Action 21 guidelines will be made and examined. In addition, efforts will be made to increase the number of second-tier enterprises and SMEs that engage in environmental management by continuing to run trial programs specifically aimed at reducing CO2. (Ongoing)

Section 2 Promotion of IT

1. Lending by governmental financial institutions for investment in IT (IT Fund)

[Fiscal investment and loan program]

The JFC will act as a reliable source of lending to enable SMEs to keep up with changes in the business environment associated with the spread of and changes in IT. (Ongoing)

Section 3 Measures on intellectual property

1. Surveys of technical trends of patent application

[Fiscal 2016 budget: ¥900 million]

Survey results that contribute to R&D strategies and IP strategies in Japan's industries will be made publicly available via such sources as the Japan Patent Office's website. Based on the results of surveys on market trends and patent application trends, these surveys will mainly focus on technical sectors that have potential to capture the market and technical sectors that ought to be promoted by the government in its science and technology policies. Also based on the results of surveys on market trends and patent application trends, information on selected technical sectors that are expected to create a new market in designated countries will be provided to Japanese industries to benefit their formulation of R&D, IP and business strategies. (Ongoing)

2. Support for international patent applications by SMEs, etc.

[Fiscal 2016 budget: ¥630 million]

In order to encourage SMEs to file strategic applications for international patents, subsidies will be provided to partially defray the costs incurred (such as application fees to overseas patent offices, expenditure on hiring Japanese agents and local agents overseas, and translation costs) by SMEs aspiring to expand their business overseas. In addition to prefectural SME support centers, support will also be provided by JETRO as a nationwide regional implementation body. In fiscal 2016, the initiative will be expanded to an even larger number of prefectural SME support centers. (Ongoing)

3. Promotion of the wider use of IP systems

[Fiscal 2016 budget: ¥80 million]

Information sessions will be held for individuals, tailored according to their different levels of knowledge and expertise on the intellectual property system. These include sessions outlining the IP system and explaining basic knowledge for beginners, along with sector-specific sessions with more specialized content for people with some experience, looking at topics such as the examination criteria for patents, designs, and trademarks, the application of the trial system and procedures for international applications. Information sessions on legal reforms will also be held, to widely explain the latest changes to IP-related laws and regulations.

In fiscal 2016, information sessions for beginners will be held in 47 prefectures, and information sessions for working-level personnel will be held in major cities throughout Japan. (Ongoing)

4. Program supporting measures by SMEs, etc. to counter overseas infringement

[Fiscal 2016 budget: ¥130 million]

To promote the timely and appropriate exercise of industrial property rights overseas by SMEs, the costs required for an investigation of imitation products through to procedures for issuing warning statements and government seizure against the manufacturer of imitation products will be subsidized through JETRO, and a subsidy will also be provided to cover the cost of consulting with a lawyer and the cost of a lawsuit in the case where an SME is sued overseas for infringement of intellectual property by a local company. In fiscal 2016, a new measure will be offered to subsidize the cost needed to implement trials for the invalidation or rescission of misappropriated trademark registrations. (Ongoing)

5. Patent strategy portal site

[Fiscal 2016 budget: ¥10 million]

The patent strategy portal site on the Patent Office's website will provide online access to "data for self-analysis", which includes individual data on the number of patent applications, the number of examination requests, and the patent allowance rate over the preceding 10 years, for applicants who have applied for a password. (Ongoing)

6. Reductions in patent fees for SMEs

SMEs actively pursuing R&D will continue to be subsidized through the reduction by half of

examination request fees and patent charges (for 10 years from the first year).
Two measures will continue to be implemented for small and medium venture enterprises and micro businesses. One measure reduces examination request fees, patent charges (for 10 years from the first year), and administrative charges for overseas patents (administrative charges for investigations, forwarding and preliminary examinations) by one third, and the other measure subsidizes amounts equivalent to two-thirds of the amount paid in international patent administration fees and handling fees. (Ongoing)

7. Accelerated examination and accelerated appeal examination system
In cases where the applicant or appellant is an SME or micro-business, a system will be adopted whereby examinations and appeal examinations could be fast tracked by filing an "explanation of situation for accelerated examination" or "explanation of situation for accelerated appeal examination." (Ongoing)

8. Provision of a one-stop IP service for SMEs (General IP Help Desks)
[Fiscal 2016 budget: Included in INPIT subsidy]
"General IP Help Desks" have been established in each prefecture and staffed by support staff in order to provide a one-stop service for on-the-spot resolution of IP concerns and problems encountered by SMEs in the course of business administration. The use of IP by SMEs will be further promoted by such means as using IP experts to work with SMEs to jointly resolve highly specialist issues, collaborating with SME support agencies and similar organizations, and identifying SMEs and other enterprises that are not making effective use of IP. In fiscal 2016, the National Center for Industrial Property Information and Training (INPIT) will become the main implementing body of the program, and the scope of support will be expanded to include medium enterprises. The support framework will also be strengthened by further augmenting specialists who provide support in regard to employee invention regulations. (Ongoing)

9. Development of a one-stop support framework for trade secrets ("Trade secret/IP strategy consultation center—Trade secret hot line—")
[Fiscal 2016 budget: Included in INPIT subsidy]
The "Trade secret/IP strategy consultation center—Trade secret hot line—" that was newly established in the National Center for Industrial Property Information and Training (INPIT) on February 2, 2015 cooperates with the IP comprehensive support center in responding to consultations mainly from SMEs through IP experts, and will continue to do so in fiscal 2016. The consultations dealt with specific IP strategies, such as the open/close strategy that involves the rights of patents and confidentiality of trade secrets, as well as methods of managing confidential trade secrets and leaks and outflows of trade secrets. Particularly with respect to cases of leakage and outflows of trade secrets, information security measures and cyberattacks, the consultation center will maintain its framework of responding to consultations in cooperation with the National Police Agency and Information Technology Promotion Agency, Japan (IPA), in accordance with the content of the consultation. Furthermore in fiscal 2016, activities for dissemination and awareness-raising regarding trade secrets will be strengthened through seminars on trade secret and intellectual property strategies and e-learning contents, and the services of the consultation will be widely disseminated to promote their utilization by SMEs. (Ongoing)

10. Emerging Country IP Information Databank
[Fiscal 2016 budget: ¥1 million; Included in INPIT subsidy]
This is an informational website aimed at legal and IP managers in Japanese enterprises doing business in developing countries and similar regions. Its purpose is to provide a wide range of IP information for various developing countries, including information on application procedures, examination and litigation procedures, licensing procedures and statistical and institutional trends. (Ongoing)

11. Dispatch of Global IP Producers
[Fiscal 2016 budget: Included in INPIT subsidy]
The National Center for Industrial Property Information and Training (INPIT) dispatches experts in IP management ("Global IP Producers") to assist SMEs and other enterprises with promising technologies that are likely to drive overseas expansion. These Global IP Producers support overseas business expansion by SMEs through the use of intellectual property, by assisting in the formulation of IP strategies tailored to the nature of the overseas operations and factors such as the situations and systems in the target countries. (Ongoing)

12. On-site and TV interview examinations
[Fiscal 2016 budget: ¥20 million]
To provide support to staff in small and medium venture enterprises throughout Japan, onsite interview examinations will be held by inspectors sent to interview venues across Japan, and TV interview examinations will be held via the Internet using the applicants' own PCs. (Ongoing)

13. Program to support the analysis and utilization of patent information by SMEs
[Fiscal 2016 budget: ¥140 million]
To promote the utilization of intellectual property rights by SMEs, including their effective R&D and acquisition of rights, support will be provided for the comprehensive analysis of patent information in response to needs at the R&D, application and examination request stages, not only to SMEs, but also to regional public organizations, public research organizations, and associations and chambers of commerce and industry. (Ongoing)

14. Promotion of intellectual property financing
[Fiscal 2016 budget: ¥100 million]
A comprehensive initiative will be implemented to "visualize" the value and assessment of businesses that utilize SME intellectual property and promote financing by financial institutions. For example, by creating IP business assessment documents that provide information on the value and assessment of such businesses visualized by a research company and providing the document to financial institutions that lack personnel who specialize in IP matters, the initiative aims to ensure that such businesses are properly taken into consideration in judgments regarding financing to SMEs.
Support will also be provided in disseminating knowledge of IP management. (Ongoing)

15. Program for promotion of businesses that utilize Japanese intellectual properties
[Fiscal 2016 budget: ¥360 million]
The following initiatives will be implemented via JETRO, to support the promotion of overseas business expansion through the use of intellectual properties of medium enterprises, SMEs and regional organizations that have acquired a regional collective trademark.
(1) Candidate partners of license businesses with Japanese enterprises possessing outstanding intellectual properties will be listed up through a survey, and the information will be utilized in business meetings mentioned in (2) and (3) below.
(2) Support will be provided for the creation of business models and the formulation of brand strategies that lead to license businesses overseas, and event and business opportunities will be provided via seminars and training programs in Japan held by specialists and multiple occasions for individual interviews overseas.
(3) Support will be provided, such as by arranging opportunities for business meetings with business partner candidates, through participation in trade fairs and business meetings in Japan and overseas.
(4) Advice will be provided through intellectual property specialists, with a view to preventing the outflow of technologies.
(5) The attractiveness of Japanese medium enterprises and SMEs having prospective intellectual properties and regional organizations that have acquired a collective trademark will be widely communicated overseas in multiple languages, with careful consideration to prevent the outflow of technologies. (Ongoing)

16. Program for strengthening capacities to support the intellectual properties of regional SMEs
[Fiscal 2016 budget: ¥200 million]
To promote the protection and utilization of the intellectual properties of SMEs through detailed support in consideration of the various issues and regional characteristics of SMEs, pioneering and advanced initiatives for supporting intellectual properties will be sought by Bureaus of Economy, Trade and Industry, and support will be provided for their implementation. In fiscal 2016, a new measure will be offered to support initiatives that primarily aim to resolve priority issues that are difficult to address collectively by the government. (Ongoing)

17. Subsidy for trade insurance against IP lawsuits overseas
[Fiscal 2016 budget: ¥60 million]
To allow SMEs to take measures against IP lawsuits overseas, an overseas IP lawsuit insurance system will be established and operated by a membership of nationwide SMEs, to provide funds to cover for the cost of IP lawsuits overseas.
Subsidies will be granted to a nationwide organization of SMEs, to subsidize 1/2 the premium of overseas IP lawsuit insurances. By reducing the burden of paying the insurance premium, the program encourages subscription by SMEs. (New)

18. Dispatch of business producers for regional revitalization
[Fiscal 2016 budget: ¥100 million]
A new program to dispatch "business producers" will be launched in fiscal 2016. With the objective of expanding business functions in the regions, "business producers" will support the development of an environment that is conducive to creating businesses, by helping to identify hidden needs that could lead to business, procure business capital by matching the needs with seeds through the creation and utilization of a regional network that includes financial institutions, and cultivate a market. (New)

19. Provision of patent information
In response to advanced and diversified user needs for patent information, the Industrial Property Digital Library (IPDL) has been revamped, and a new service for patent information provision called Japan Platform for Patent Information (J-PlatPat) was launched in March 2015. Through a user-friendly interface,

J-PlatPat allows searches through official bulletins for patents in Japan, utility model patents, designs, and trademarks, and inquiries regarding the progress of patent applications.
Furthermore, to enable foreign patent documents and particularly the increasing numbers of Chinese and South Korean patent documents to be searched in Japanese, the Chinese and Korean Document Translation and Search System was launched in January 2015, and the Foreign Patent Information Service (FOPISER) was launched in August 2015 for referencing patent information in the ASEAN and foreign countries that are prominent destinations of overseas expansion by Japanese enterprises.
All services are offered free of charge via the Internet. (Ongoing)

Section 4 Promotion of standardization

1. Promotion of the strategic utilization of standardization by medium enterprises and SMEs

Under the Standardization System for New Market Creation that is based on the 2015 revision of the Japan Revitalization Strategy and IP Promotion Plan 2015, standardization of the outstanding technologies and products of medium enterprises and SMEs will be promoted, and local government bodies, industrial promotion organizations, regional finance institutions, and university and public research institutions (partner institutions) will continue to cooperate with the Japanese Standards Association (JSA) in implementing the Standardization Support Partnership to provide information and advice concerning the strategic utilization of standardization in each region. (Ongoing)

Section 5 Promotion of surveys and public information activities

1. Publicizing of policy

To publicize SME policy, pamphlets and leaflets summarizing the main points will be produced and distributed to local governments, SME support agencies and financial institutions, etc. Further publicity will be generated by issuing information via Mirasapo (portal site for SME support) and organizing "One-day SME Agency" events.

(1) Publication of booklets
Guidebooks for utilizing SME policies have been produced, including the "Guide to the Use of SME Policy," which contains an introduction of more than 200 policies, and pamphlets on specific policies. These will be distributed to a wide range of interested parties, including SMEs, local government bodies, SME support agencies (commerce and industry associations, chambers of commerce and industry, etc.), financial institutions, and certified public tax accountants, lawyers, certified public accountants, and SME management consultants who provide support to SMEs. (Ongoing)

(2) Organization of "One-day SME Agency" events
Co-hosted by the SME Agency and host prefectures, these events will be held both to explain the latest measures to local SMEs and deepen their understanding of the measures. They will also provide a forum for exchanges of ideas and interaction, and contribute to future revisions and improvements in SME policy. These events have been held every year since 1964. (Ongoing)

(3) Publicity using the Internet
1) Website based publicity
The SME Agency website will post up-to-date information on SME measures, information on public offerings, and publicity materials such as flyers and booklets. (Ongoing)
2) E-mail newsletters
An e-mail newsletter will be produced in association with SME support agencies and sent out to subscribers every Wednesday. It introduces dynamic SMEs and contains policy information, local updates and information on topics such as surveys and research reports. (Ongoing)

(4) "Mirasapo" (portal website for supporting the future of SMEs and micro-businesses)
Through the Mirasapo site, the latest support information, information on how to apply for subsidies, case examples of the utilization of support schemes, etc. will be delivered to nationwide SMEs in a timely and easy-to-understand manner. (Ongoing)

2. Production of the White Paper on Small and Medium Enterprises in Japan and the White Paper on Small Enterprises

In order to ascertain the current situation of SMEs and the challenges that they face, an annual report (2016 White Paper on Small and Medium Enterprises in Japan) will be produced in accordance with the provisions of Article 11 of the Small and Medium-sized Enterprise Basic Act. Also to ascertain the current situation of small enterprises and the challenges they face, an annual report (2016 White Paper on Small Enterprises) will be produced in accordance with the provisions of Article 12 of the Small Enterprises Promotion Act. (Ongoing)

3. Basic Survey of Small and Medium Enterprises

The Basic Survey of Small and Medium Enterprises will be conducted in accordance with the provisions of Article 10 of the Small and Medium-sized Enterprise Basic Act, to obtain statistics concerning management and financial information such as SME sales figures and numbers of workers employed by SMEs. (Ongoing)

4. Publication of the Survey on SME Business Conditions

The Survey on SME Business Conditions that is conducted by the SMRJ will be published quarterly to ascertain business trends among SMEs. (Ongoing)

Appended notes

Contents

Appended note 1-2-1 Numbers of SMEs by prefecture and enterprise size (2012 → 2014)

	SMEs		Of which mid-size enterprises		Of which micro enterprises	
	Increase/decrease in numbers	Rate of change	Increase/decrease in numbers	Rate of change	Increase/decrease in numbers	Rate of change
Hokkaido	-2667	-1.8%	+1910	+8.5%	-4577	-3.6%
Aomori	-806	-1.9%	+302	+5.4%	-1108	-3.1%
Iwate	-46	-0.1%	+528	+9.8%	-574	-1.7%
Miyagi	+2120	+3.4%	+1243	+13.0%	+877	+1.7%
Akita	-1206	-3.4%	+215	+4.9%	-1421	-4.6%
Yamagata	-1403	-3.4%	+184	+3.7%	-1587	-4.4%
Fukushima	-321	-0.5%	+938	+11.7%	-1259	-2.4%
Ibaraki	-1441	-1.7%	+675	+6.4%	-2116	-2.9%
Tochigi	-1746	-2.7%	+502	+6.4%	-2248	-4.0%
Gunma	-1868	-2.7%	+615	+7.2%	-2483	-4.1%
Saitama	-2392	-1.4%	+1649	+7.4%	-4041	-2.7%
Chiba	-822	-0.6%	+1598	+8.6%	-2420	-2.2%
Tokyo	+4707	+1.1%	+10152	+12.2%	-5445	-1.5%
Kanagawa	-188	-0.1%	+3038	+10.0%	-3226	-1.9%
Niigata	-3010	-3.7%	+396	+3.9%	-3406	-4.8%
Toyama	-1086	-3.0%	+244	+4.7%	-1330	-4.2%
Ishikawa	-1027	-2.4%	+407	+7.2%	-1434	-3.9%
Fukui	-803	-2.6%	+302	+7.7%	-1105	-4.1%
Yamanashi	-806	-2.5%	+210	+5.9%	-1016	-3.5%
Nagano	-1254	-1.6%	+563	+6.4%	-1817	-2.6%
Gifu	-1986	-2.7%	+623	+6.4%	-2609	-4.0%
Shizuoka	-2645	-2.1%	+711	+4.3%	-3356	-3.0%
Aichi	-2931	-1.3%	+3098	+8.4%	-6029	-3.3%
Mie	-868	-1.6%	+500	+6.6%	-1368	-2.9%
Shiga	-304	-0.8%	+470	+8.9%	-774	-2.5%
Kyoto	-1417	-1.7%	+870	+7.5%	-2287	-3.1%
Osaka	-5388	-1.8%	+3978	+8.6%	-9366	-3.8%
Hyogo	-119	-0.1%	+2038	+9.0%	-2157	-1.6%
Nara	+190	+0.6%	+329	+7.2%	-139	-0.5%
Wakayama	-1343	-3.7%	+273	+6.5%	-1616	-5.0%
Tottori	-371	-2.2%	+148	+6.1%	-519	-3.5%
Shimane	-714	-3.0%	+183	+6.0%	-897	-4.4%
Okayama	-1048	-1.9%	+642	+7.8%	-1690	-3.6%
Hiroshima	-1790	-2.0%	+828	+6.4%	-2618	-3.5%
Yamaguchi	-1181	-2.9%	+263	+4.5%	-1444	-4.1%
Tokushima	-579	-2.2%	+172	+5.6%	-751	-3.2%
Kagawa	-724	-2.2%	+307	+7.0%	-1031	-3.6%
Ehime	-1006	-2.2%	+319	+5.4%	-1325	-3.3%
Kochi	-597	-2.3%	+193	+6.3%	-790	-3.4%
Fukuoka	+556	+0.4%	+2291	+9.8%	-1735	-1.4%
Saga	-436	-1.7%	+192	+5.2%	-628	-2.9%
Nagasaki	-942	-2.2%	+364	+6.2%	-1306	-3.5%
Kumamoto	-640	-1.2%	+463	+6.2%	-1103	-2.4%
Oita	-570	-1.6%	+339	+6.6%	-909	-2.9%
Miyazaki	-582	-1.6%	+392	+8.1%	-974	-3.0%
Kagoshima	-959	-1.8%	+453	+6.9%	-1412	-3.1%
Okinawa	+753	+1.5%	+744	+10.8%	+9	+0.0%
Total	-43706	-1.1%	+46854	+8.4%	-90560	-2.8%

Sources: Recompiled from MIC, *2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

Appended note 1-3-1 Calculation of labor productivity and TFP by enterprise size[1)]

Labor productivity and total factor productivity (TFP) by enterprise size and industry, as mentioned in Part I Chapter 3, are estimated by the method shown below, using METI's *Basic Survey of Japanese Business Structure and Activities*. Note that enterprise size groupings are determined by applying the standards for capital and employee numbers by industry, pursuant to the definition provided in the Small and Medium-sized Enterprise Basic Act (see Introductory notes). With regard to the estimation of total factor productivity, it is normally preferable to take into consideration such factors as operating rate of facilities and working hours and eliminate cyclical factors, but they are not taken into consideration here due to the statistical constraints of enterprise size groupings.

1. Labor productivity

   Labor productivity = Value added[2)] / Total number of employees in the head office + offices other than the head office

2. Total factor productivity (TFP)

   When taking capital and labor as production factors and assuming the Cobb-Douglas production function, the relationship among value added[3)] (Y), total factor productivity (A), asset (K), labor (L), and labor share (α) is as follows.

$$Y=A\times K^{(1-\alpha)}\times L^{\alpha} \quad \cdots (1)$$

In Figs. 1-3-8 and 1-3-9, equation (1) was logarithmically differentiated to derive equation (2), to compare the growth rate of total factor productivity.

$$\frac{A'}{A}=\frac{Y'}{Y}-(1-\alpha)\frac{K'}{K}-\alpha\frac{L'}{L} \quad \cdots (2)$$

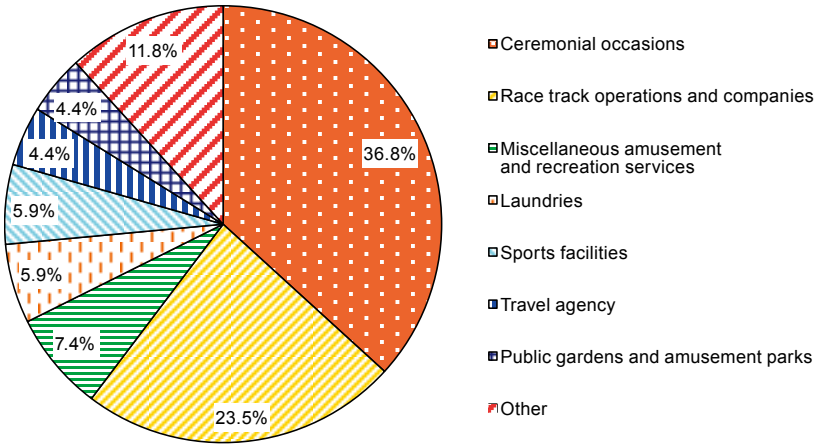
(Reference) The following data was adopted from the *Basic Survey of Japanese Business Structure and Activities*.
Value added (Y)[4)] =
(1) Operating profit + (2) Rent of movable property and real estate + (3) Personnel costs + (4) Taxes and public impositions

(1) Net sales − Cost of sales − General administrative expenses (Selling, general and administrative expenses) = Operating profit
(2) Rent of movable property and real estate
(3) Total salary + Welfare expense = Personnel cost
(4) Taxes and public impositions

Labor force (L) = Total number of employees in the head office and offices other than the head office
Asset (K) = Tangible fixed assets (incl. land)
Labor share (α) = (Total salary + Welfare expense) / Value added
Capital share ($1-\alpha$) =1 − (Total salary + Welfare expense) / Value added

1) The estimation of total factor productivity is based on Shoko Research Institute's *Trends in Earning Power and Productivity among SMEs*.
2) Value added is expressed as the real amount after eliminating the impacts of cost fluctuations using a GDP deflator (2005 basis).
3) Same as above.
4) Depreciation costs were eliminated, in consideration of making comparisons with corporate statistics that do not include depreciation costs within the value added amount.

Appended note 1-3-2 Breakdown of SMEs in the living-related and personal services and amusement services that have a higher labor productivity than the average of large enterprises, by industry (in terms of industrial group)



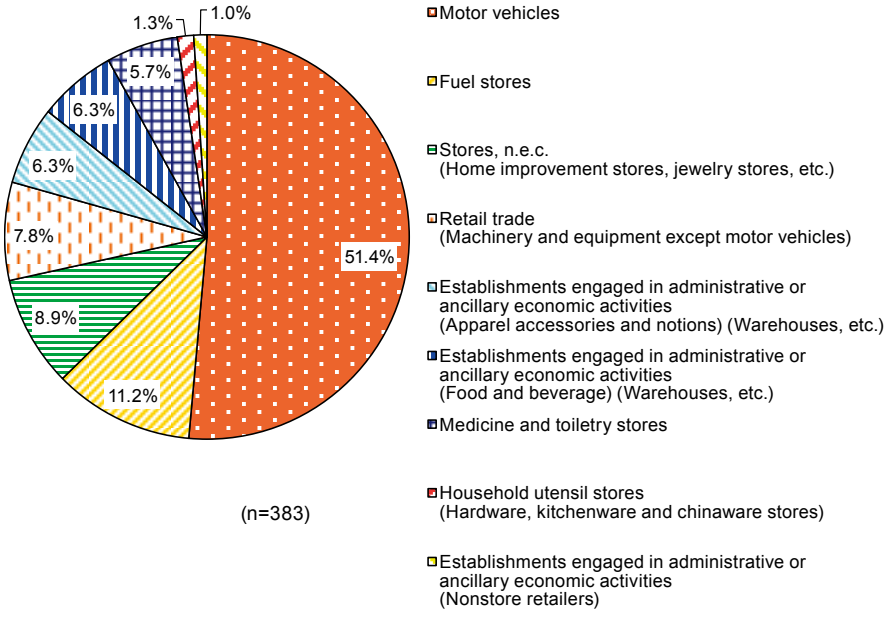
(Reference) Entire breakdown

Group name	Breakdown
Race track operations and companies	36.7%
Laundries	22.5%
Ceremonial occasions	16.4%
Miscellaneous laundry, beauty and bath services	4.8%
Sports facilities	4.8%
Miscellaneous amusement and recreation services	4.2%
Public gardens and amusement parks	3.2%
Travel agency	2.3%
Other	5.14%

(n=313)

Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Note: The above does not include SMEs with less than 50 employees or less than ¥30 million in paid-up capital (or investment fund).

Appended note 1-3-3 Breakdown of SMEs in the retail trade industry that have a higher labor productivity than the average of large enterprises, by industry (in terms of industrial group)



(n=383)

(Reference) Entire breakdown

Group name	Breakdown
Establishments engaged in administrative or ancillary economic activities (Food and beverage) (Warehouses, etc.)	26.6%
Motor vehicles	23.7%
Stores, n.e.c. (Home improvement stores, jewelry stores, etc.)	14.6%
Fuel stores	12.6%
Establishments engaged in administrative or ancillary economic activities (Apparel accessories and notions) (Warehouses, etc.)	8.1%
Retail trade (Machinery and equipment except motor vehicles)	5.8%
Medicine and toiletry stores	5.8%
Establishments engaged in administrative or ancillary economic activities (Nonstore retailers)	1.4%
Household utensil stores (Hardware, kitchenware and chinaware stores)	1.3%

(n=1,095)

Source: Recompiled from METI, *2014 Basic Survey of Japanese Business Structure and Activities*.
Note: The above does not include SMEs with less than 50 employees or less than ¥30 million in paid-up capital (or investment fund).

Appended note 1-3-4 Method for comparing the labor productivity of each country (U.K., France, Germany)

The international comparison of labor productivity in Fig. Column 1-3-2 (2) was calculated based on the concept described below, using data published by EUROSTAT and the Ministry of Finance's *Financial Statements Statistics of Corporations by Industry, Annually*[5].

$$\text{Labor productivity} = \frac{\text{Value added}^{1)}}{\text{Labor input}^{2)}}$$

1. Value added

○ U.K., France, Germany: EUROSTAT "Value added at factor cost"
http://ec.europa.eu/eurostat/web/structural-business-statistics/structural-business-statistics/sme

* EUROSTAT changed its industrial classification in 2005. The new classification corresponds to that used in this column as shown below[6].

Classification used in Fig. Column 1-3-2 (2)	In English	Industrial classification (NACE)	
		NACE Rev.1.1	NACE Rev.2 (2005–)
Manufacturing	Manufacturing	D	C
Wholesale/retail trade	Wholesale and retail trade	G	G
Accommodations, eating and drinking services	Accommodation and food service activities	H	I
Transport and information/communications	Transport, storage and communications	I	H, J

○ Japan: Gross value added has been recorded after adding up the "value added" and "depreciation costs" published in the *Financial Statements Statistics of Corporations by Industry, Annually*.

After obtaining the value added amount in each country, purchasing power parity (PPP) was used to enable comparisons, in consideration of changes in price levels in each country.

OECD. Stat "Purchasing power parties for GDP" http://stats.oecd.org/

2. Labor input

In this column, labor input was calculated based on amount of time, in consideration of the differences in working hours in each country.

○ U.K., France, Germany:

- EUROSTAT "Number of persons employed"
  http://ec.europa.eu/eurostat/web/structural-business-statistics/structural-business-statistics/sme
- EUROSTAT "Number of hours worked by (weekly)"
  http://ec.europa.eu/eurostat/web/microdata/european-union-labour-force-survey

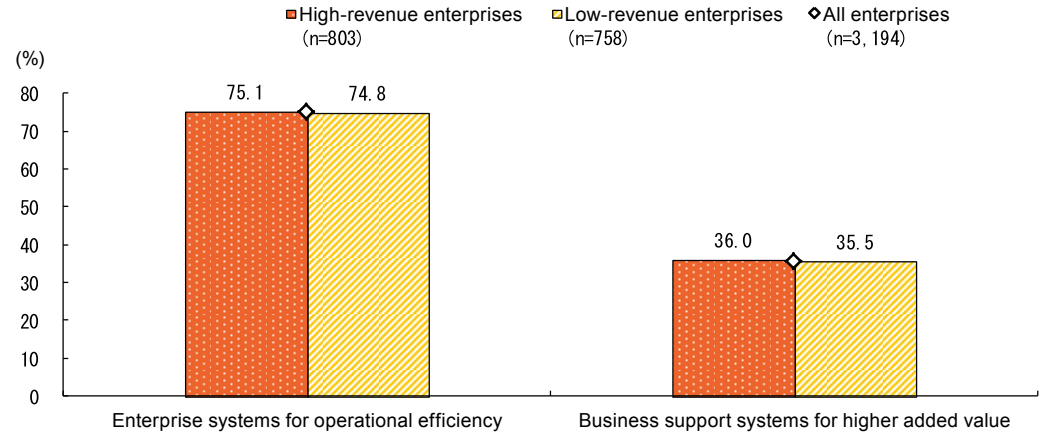
○ Japan: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*; MHLW, Monthly Labour Survey

5) For the classification of enterprise size, the standard of "250 workers" employed by EUROSTAT was applied to European countries. That is, enterprises with less than 250 workers were regarded as SMEs, and enterprises with more than 250 workers were regarded as large enterprises. For Japan, the standard of "¥100 million in capital" that is employed in the *Financial Statements Statistics of Corporations by Industry, Annually* was adopted. That is, enterprises with less than ¥100 million in capital were regarded as SMEs, and enterprises with more than ¥100 million in capital were regarded as large enterprises.

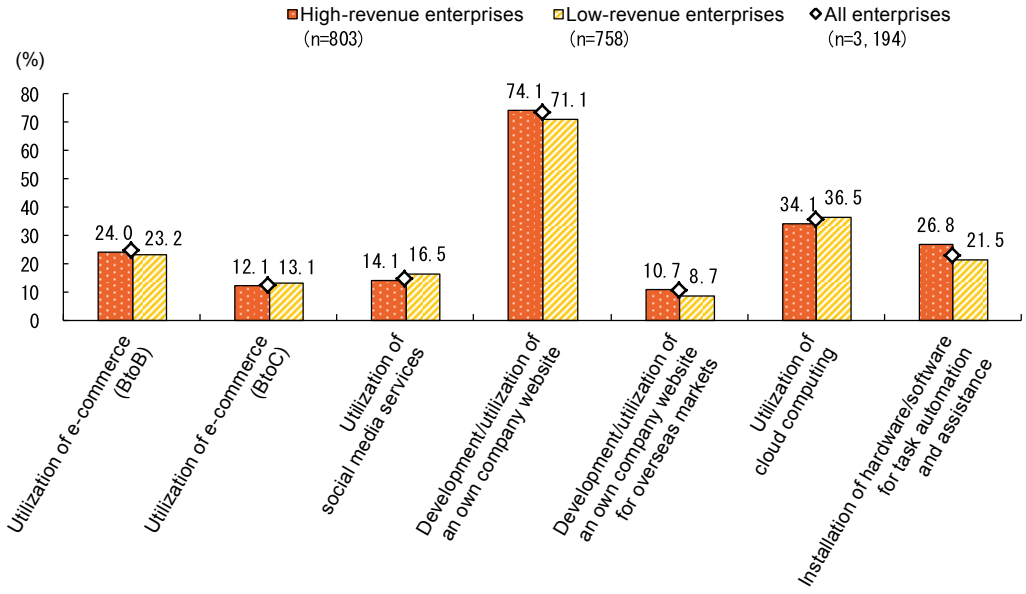
6) The classification is based on the following document:
http://ec.europa.eu/eurostat/documents/3859598/5902521/KS-RA-07-015-EN.PDF/dd5443f5-b886-40e4-920d-9df03590ff91?version=1.0

Appended note 2-2-1 Status of IT investment in terms of high and low-revenue enterprises

(1) Implementation status of systems for operational efficiency and higher added value

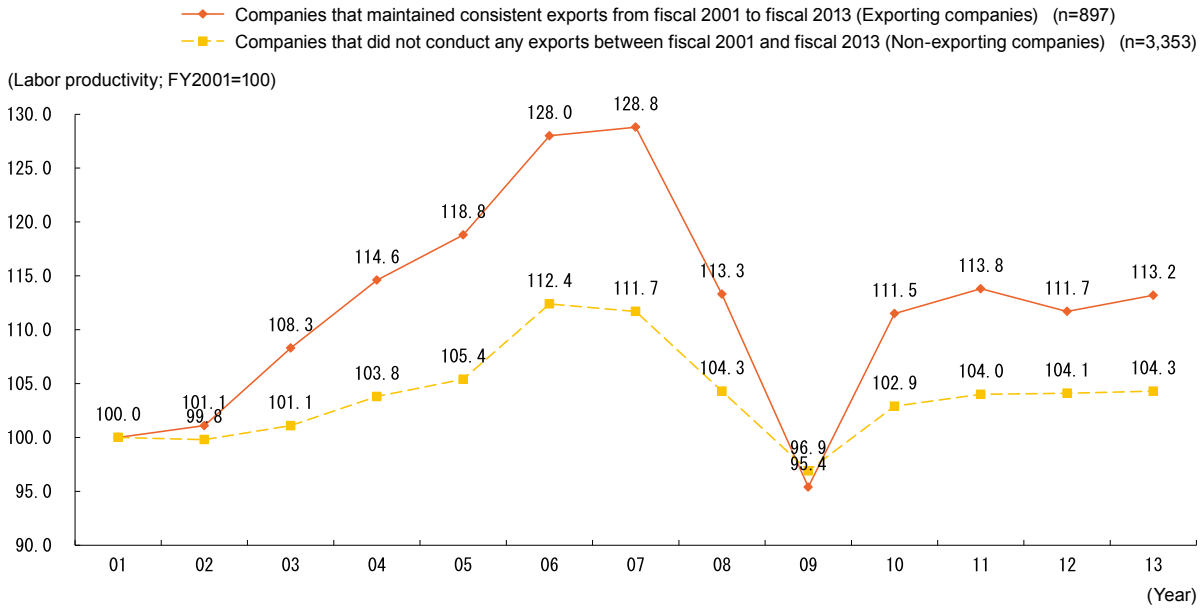


(2) Status of IT investments



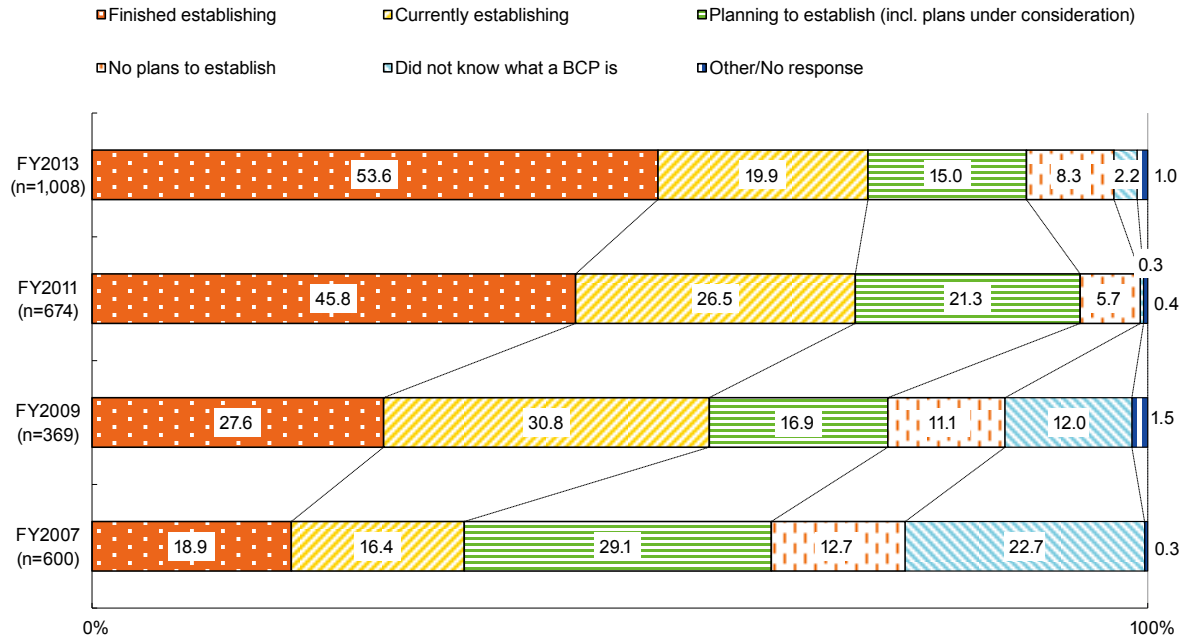
Source: Teikoku Databank, Ltd., *Questionnaire on Small and Medium Enterprises' Growth and Investment Activities* (December 2015), commissioned by the SME Agency.
Note: Total does not always equal 100% as multiple responses were possible.

Appended note 2-3-1 Labor productivity for exporting and non-exporting companies (SMMs)



Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.
Notes: 1. Aggregates results for SMEs only.
2. Labor productivity calculated as value added domestically divided by number of domestic employees.
3. Aggregates results for companies responding to the survey every fiscal year from fiscal 2001 to fiscal 2013.

Appended note 2-4-1 State of BCP establishment at large enterprises



Source: Cabinet Office, *Survey of the Actual State of Business Continuity and Disaster Prevention Initiatives of Enterprises*.

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Supplementary statistical data

Contents

Table 1 Number of business establishments and enterprises by industry and size (private, non-primary industry, 2014)

(1) Business establishments

Industry	Small and medium business establishments		Of which micro business establishments		Large business establishments		Total	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	1,977	99.8	1,788	90.3	3	0.2	1,980	100.0
Construction	514,841	100.0	484,558	94.1	238	0.0	515,079	100.0
Manufacturing	483,762	99.3	406,982	83.6	3,299	0.7	487,061	100.0
Electricity, gas, heat supply and water	4,429	98.3	2,883	64.0	77	1.7	4,506	100.0
Information and communications	65,233	98.5	39,493	59.6	1,003	1.5	66,236	100.0
Transport and postal activities	133,403	99.5	94,048	70.1	715	0.5	134,118	100.0
Wholesale and retail trade	1,385,909	98.5	909,394	64.6	21,326	1.5	1,407,235	100.0
Wholesale trade	379,073	99.1	221,195	57.9	3,281	0.9	382,354	100.0
Retail trade	1,006,836	98.2	688,199	67.1	18,045	1.8	1,024,881	100.0
Finance and insurance	86,693	99.6	68,938	79.2	322	0.4	87,015	100.0
Real estate and goods rental and leasing	383,956	99.9	362,638	94.4	284	0.1	384,240	100.0
Scientific research, professional and technical services	226,715	99.3	170,449	74.6	1,696	0.7	228,411	100.0
Accommodations, eating and drinking services	718,245	99.1	489,571	67.5	6,845	0.9	725,090	100.0
Living-related and personal services and amusement services	484,791	99.8	422,717	87.0	1,215	0.2	486,006	100.0
Education, learning support	168,022	98.9	117,628	69.2	1,934	1.1	169,956	100.0
Medical, health care and welfare	409,342	97.8	175,047	41.8	9,383	2.2	418,725	100.0
Compound services	33,817	97.3	18,189	52.3	946	2.7	34,763	100.0
Services (not elsewhere classified)	350,624	97.8	246,779	68.9	7,767	2.2	358,391	100.0
Non-primary industry total	5,451,759	99.0	4,011,102	72.8	57,053	1.0	5,508,812	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Agriculture, forestry and fisheries are not included.
2. Business establishments are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
3. The percentages of the total for micro business establishments indicate their proportion of the total number of business establishments.
4. Industries are classified according to the October 2013 revised system of industry classification.
5. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
6. Each figure includes business establishments with only temporary staff (total number of workers = 0).
7. The figures are those as of July 2014.

(2) Enterprises

Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	1,454	99.7	1,284	88.1	4	0.3	1,458	100.0
Construction	455,269	99.9	435,110	95.5	284	0.1	455,553	100.0
Manufacturing	413,339	99.5	358,769	86.4	1,957	0.5	415.296	100.0
Electricity, gas, heat supply and water	1,000	97.2	708	68.8	29	2.8	1,029	100.0
Information and communications	45,254	98.8	29,993	65.5	533	1.2	45,787	100.0
Transport and postal activities	73,136	99.7	53,255	72.6	251	0.3	73,387	100.0
Wholesale and retail trade	896,102	99.5	712,939	79.2	4,182	0.5	900,284	100.0
Wholesale trade	227,908	99.3	162,533	70.8	1,575	0.7	229,483	100.0
Retail trade	668,194	99.6	550,406	82.1	2,607	0.4	670,801	100.0
Finance and insurance	29,959	99.1	28,821	95.4	259	0.9	30,218	100.0
Real estate and goods rental and leasing	319,221	99.9	311,568	97.5	296	0.1	319,517	100.0
Scientific research, professional and technical services	188,455	99.7	160,861	85.1	622	0.3	189,077	100.0
Accommodations, eating and drinking services	544,281	99.9	464,989	85.3	759	0.1	545,040	100.0
Living-related and personal services and amusement services	382,304	99.9	353,250	92.3	542	0.1	382,846	100.0
Education, learning support	107,479	99.9	94,409	87.7	129	0.1	107,608	100.0
Medical, health care and welfare	210,326	99.9	416,427	69.5	258	0.1	210,584	100.0
Compound services	3,492	100.0	3,478	99.6	1	0.0	3,493	100.0
Services (not elsewhere classified)	138,157	99.3	96,393	69.3	1,004	0.7	139,161	100.0
Non-primary industry total	3,809,228	99.7	3,252,254	85.1	11,110	0.3	3,820,338	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
4. The classification of conditions in 3. includes the numbers of enterprises regarded as SMEs and micro enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
5. The percentages of the total for micro enterprises indicate their proportion of the total number of enterprises.
6. Industries are classified according to the October 2013 revised system of industry classification.
7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
8. The figures are those as of July 2014.

(3) Companies

Industry	SMEs		Of which micro enterprises		Large enterprises		Total	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	1,314	99.7	1,146	86.9	4	0.3	1,318	100.0
Construction	303,521	99.9	283,424	93.3	284	0.1	303,805	100.0
Manufacturing	268,552	99.3	214,231	79.2	1,957	0.7	270,509	100.0
Electricity, gas, heat supply and water	990	97.2	698	68.5	29	2.8	1,019	100.0
Information and communications	42,989	98.8	27,750	63.8	533	1.2	43,522	100.0
Transport and postal activities	54,966	99.5	35,111	63.6	251	0.5	55,217	100.0
Wholesale and retail trade	444,316	99.1	291,708	65.1	4,027	0.9	448,343	100.0
Wholesale trade	179,936	99.1	116,348	64.1	1,575	0.9	181,511	100.0
Retail trade	264,380	99.1	175,360	65.7	2,452	0.9	266,832	100.0
Finance and insurance	23,712	98.9	22,574	94.2	259	1.1	23,971	100.0
Real estate and goods rental and leasing	170,887	99.8	163,355	95.4	296	0.2	171,183	100.0
Scientific research, professional and technical services	86,128	99.3	65,648	75.7	607	0.7	86,735	100.0
Accommodations, eating and drinking services	108,051	99.3	57,230	52.6	721	0.7	108,772	100.0
Living-related and personal services and amusement services	68,886	99.2	44,376	63.9	536	0.8	69,422	100.0
Education, learning support	17,715	99.3	9,622	53.9	125	0.7	17,840	100.0
Medical, health care and welfare	39,000	99.5	13,869	35.4	187	0.5	39,187	100.0
Compound services	85	98.8	76	88.4	1	1.2	86	100.0
Services (not elsewhere classified)	88,693	98.9	48,083	53.6	1,000	1.1	89,693	100.0
Non-primary industry total	1,719,805	99.4	1,278,901	73.9	10,817	0.6	1,730,622	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Business establishments of sole proprietors are not included.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes)
4. The classification of conditions in 3. includes the numbers of enterprises regarded as SMEs and micro enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
5. The percentages of the total for micro enterprises indicate their proportion of the total number of enterprises.
6. Industries are classified according to the October 2013 revised system of industry classification.
7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
8. The figures are those as of July 2014.

Table 2 Number of enterprises and number of regular employees/workers by prefecture (private, non-primary industry, 2014)

(1) Number of enterprises

	SMEs		Of which micro enterprises		Large enterprises		Total	
	No.	% of total	No.	% of total	No.	% of total	No.	% of total
Hokkaido	151,123	99.8	128,686	85.0	279	0.2	151,402	100.0
Aomori	41,863	99.9	36.319	86.6	52	0.1	41,915	100.0
Iwate	38,665	99.8	33,263	85.9	72	0.2	38,737	100.0
Miyagi	61,685	99.8	52,151	84.4	134	0.3	61,819	100.0
Akita	35,098	99.9	30,666	87.3	32	0.1	35,130	100.0
Yamagata	40,874	99.8	35,940	87.8	64	0.2	40,938	100.0
Fukushima	61,566	99.9	53,545	86.9	70	0.1	61,636	100.0
Ibaraki	84,268	99.9	73,717	87.4	93	0.1	84,361	100.0
Tochigi	63,516	99.8	55,713	87.6	99	0.2	63,615	100.0
Gunma	68,792	99.9	60,220	87.4	97	0.2	68,889	100.0
Saitama	172,182	99.9	149,751	86.8	253	0.2	172,435	100.0
Chiba	128,900	99.8	110,411	85.5	226	0.2	129,126	100.0
Tokyo	447,659	99.0	364,265	80.6	4,538	1.2	452,197	100.0
Kanagawa	199,958	99.7	169,491	84.5	572	0.3	200,530	100.0
Niigata	80,499	99.8	70,248	87.1	146	0.2	80,645	100.0
Toyama	36,686	99.8	31,505	85.7	90	0.3	36,776	100.0
Ishikawa	42,807	99.8	37,193	86.7	88	0.2	42,895	100.0
Fukui	30,626	99.9	26,711	87.1	43	0.2	30,669	100.0
Yamanashi	32,485	99.9	28,906	88.9	38	0.1	32,523	100.0
Nagano	77,326	99.8	68,597	88.6	130	0.2	77,456	100.0
Gifu	74,446	99.9	64,763	86.9	96	0.1	74,542	100.0
Shizuoka	127,440	99.8	111,010	87.0	203	0.2	127,643	100.0
Aichi	220,767	99.7	183,800	83.0	644	0.4	221,411	100.0
Mie	54,826	99.8	47,246	86.0	85	0.2	54,911	100.0
Shiga	36,520	99.8	31,225	85.4	60	0.2	36,580	100.0
Kyoto	84,702	99.8	73,047	86.0	194	0.3	84,896	100.0
Osaka	292,993	99.6	246,927	84.0	1,106	0.4	294,099	100.0
Hyogo	154,646	99.8	132,006	85.2	303	0.2	154,949	100.0
Nara	33,296	99.9	28,749	86.3	27	0.1	33,323	100.0
Wakayama	36,270	99.9	32,099	88.4	26	0.1	36,296	100.0
Tottori	17,118	99.9	14,709	85.8	25	0.2	17,143	100.0
Shimane	23,542	99.9	20,508	87.0	21	0.1	23,563	100.0
Okayama	55,224	99.8	47,004	85.0	98	0.2	55,322	100.0
Hiroshima	87,414	99.8	74,540	85.1	164	0.2	87,578	100.0
Yamaguchi	40,991	99.9	35,091	85.5	49	0.1	41,040	100.0
Tokushima	26,911	99.9	23,816	88.4	25	0.1	26,936	100.0
Kagawa	32,743	99.8	28,357	86.4	62	0.2	32,805	100.0
Ehime	45,899	99.8	40,008	87.0	76	0.2	45,975	100.0
Kochi	26,373	99.9	23,326	88.4	26	0.1	26,399	100.0
Fukuoka	143,058	99.8	119,666	83.4	350	0.3	143,408	100.0
Saga	25,521	99.9	21,819	85.4	34	0.2	25,555	100.0
Nagasaki	43,745	99.9	37,851	86.4	49	0.1	43,794	100.0
Kumamoto	52,730	99.9	45,321	85.8	65	0.1	52,795	100.0
Oita	36,687	99.9	31,580	86.0	42	0.1	36,729	100.0
Miyazaki	36,909	99.9	32,074	86.8	35	0.1	36,944	100.0
Kagoshima	52,721	99.9	46,155	87.5	56	0.1	52,777	100.0
Okinawa	49,158	99.9	42,259	85.8	73	0.2	49,231	100.0
Total	3,809,228	99.7	3,252,254	85.1	11,110	0.3	3,820,338	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
4. The classification of conditions in 3. includes the numbers of enterprises regarded as SMEs and micro enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
5. The percentages of the total for micro enterprises indicate their proportion of the total number of enterprises.
6. Industries are classified according to the October 2013 revised system of industry classification.
7. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
8. The figures are those as of July 2014.

(2) Number of regular employees

	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total
Hokkaido	986,910	81.7	236,699	19.6	221,276	18.3	1,208,186	100.0
Aomori	244,072	89.3	60,858	22.3	29,298	10.7	273,370	100.0
Iwate	237,831	85.9	60,267	21.8	39,086	14.1	276,917	100.0
Miyagi	416,479	82.0	98,492	19.4	91,244	18.0	507,723	100.0
Akita	194,177	90.5	52,323	24.4	20,332	9.5	214,509	100.0
Yamagata	227,040	85.3	60,350	22.7	39,205	14.7	266,245	100.0
Fukushima	379,288	83.8	98,686	21.8	73,247	16.2	452,535	100.0
Ibaraki	491,046	84.7	141,134	24.4	88,523	15.3	579,569	100.0
Tochigi	356,846	83.3	100,961	23.6	71,491	16.7	428,337	100.0
Gunma	398,398	77.8	106,323	20.8	113,682	22.2	512,080	100.0
Saitama	1,086,987	78.8	279,438	20.3	292,372	21.2	1,379,359	100.0
Chiba	781,459	74.0	200,799	19.0	274,337	26.0	1,055,796	100.0
Tokyo	4,817,898	39.0	684,311	5.5	7,524,907	61.0	12,342,805	100.0
Kanagawa	1,404,473	70.2	311,030	15.5	597,108	29.8	2,001,581	100.0
Niigata	487,353	82.4	129,584	21.9	104,062	17.6	591,415	100.0
Toyama	247,854	79.5	61,487	19.7	63,965	20.5	311,819	100.0
Ishikawa	265,946	85.5	66,588	21.4	45,216	14.5	311,162	100.0
Fukui	182,289	86.9	50,511	24.1	27,520	13.1	209,809	100.0
Yamanashi	161,153	88.1	48,998	26.8	21,758	11.9	182,911	100.0
Nagano	415,655	82.9	113,992	22.7	85,788	17.1	501,443	100.0
Gifu	449,673	82.6	117,652	21.6	94,947	17.4	544,620	100.0
Shizuoka	798,008	79.6	201,179	20.1	205,090	20.4	1,003,098	100.0
Aichi	1,842,707	66.1	366,180	13.1	944,133	33.9	2,786,840	100.0
Mie	327,362	86.9	86,261	22.9	49,252	13.1	376,614	100.0
Shiga	226,504	81.6	55,319	19.9	50,941	18.4	277,445	100.0
Kyoto	522,455	71.2	122,973	16.8	210,843	28.8	733,298	100.0
Osaka	2,301,988	62.7	464,876	12.7	1,367,457	37.3	3,669,445	100.0
Hyogo	985,666	79.3	232,379	18.7	257,606	20.7	1,243,272	100.0
Nara	180,094	91.6	48,790	24.8	16,465	8.4	196,559	100.0
Wakayama	171,875	89.2	51,313	26.6	20,724	10.8	192,599	100.0
Tottori	104,335	94.6	26,663	24.2	5,989	5.4	110,324	100.0
Shimane	131,013	90.7	36,988	25.6	13,475	9.3	144,488	100.0
Okayama	380,130	80.7	88,570	18.8	90,976	19.3	471,106	100.0
Hiroshima	626,190	74.5	138,214	16.5	214,007	25.5	840,197	100.0
Yamaguchi	249,653	80.1	64,614	20.7	62,050	19.9	311,703	100.0
Tokushima	125,736	84.8	37,518	25.3	22,562	15.2	148,298	100.0
Kagawa	207,448	79.5	49,946	19.1	53,374	20.5	260,822	100.0
Ehime	265,849	84.1	71,404	22.6	50,092	15.9	315,941	100.0
Kochi	126,135	85.6	36,088	24.5	21,158	14.4	147,293	100.0
Fukuoka	1,031,005	75.3	219,993	16.1	338,340	24.7	1,369,345	100.0
Saga	147,849	87.7	39,276	23.3	20,729	12.3	168,578	100.0
Nagasaki	237,619	89.9	65,119	24.6	26,557	10.1	264,176	100.0
Kumamoto	304,595	89.4	81,005	23.8	36,247	10.6	340,842	100.0
Oita	213,163	82.5	56,459	21.9	45,116	17.5	258,279	100.0
Miyazaki	192,633	92.5	52,792	25.3	15,685	7.5	208,318	100.0
Kagoshima	274,510	87.1	78,383	24.9	40,785	12.9	315,295	100.0
Okinawa	259,327	84.5	67,832	22.1	47,570	15.5	306,897	100.0
Total	26,466,676	65.2	5,920,617	14.6	14,146,587	34.8	40,613,263	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. The figures shown indicate the total number of regular employees of companies and sole proprietors.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
4. The percentage of regular employees in micro enterprises is indicated as the ratio to the total number of regular employees.
5. Industries are classified according to the October 2013 revised system of industry classification.
6. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
7. The figures are those as of July 2014.
8. The number of regular employees includes regular employees overseas.

(3) Number of workers

	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total
Hokkaido	1,265,958	84.8	442,912	29.7	226,966	15.2	1,492,924	100.0
Aomori	318,762	91.4	118,692	34.0	29,993	8.6	348,755	100.0
Iwate	305,956	88.5	112,193	32.4	39,934	11.5	345,890	100.0
Miyagi	532,834	85.1	185,735	29.7	93,375	14.9	626,209	100.0
Akita	254,609	92.4	99,745	36.2	20,888	7.6	275,497	100.0
Yamagata	299,260	90.2	117,848	35.5	32,676	9.8	331,936	100.0
Fukushima	481,870	86.2	187,353	33.5	76,829	13.8	558,699	100.0
Ibaraki	643,250	87.8	263,090	35.9	89,201	12.2	732,451	100.0
Tochigi	472,300	86.8	192,721	35.4	71,988	13.2	544,288	100.0
Gunma	522,228	81.8	204,507	32.1	115,856	18.2	638,084	100.0
Saitama	1,405,272	80.9	527,337	30.4	331,961	19.1	1,737,233	100.0
Chiba	1,025,489	78.3	384,721	29.4	284,051	21.7	1,309,540	100.0
Tokyo	5,758,435	43.0	1,291,889	9.7	7,628,071	57.0	13,386,506	100.0
Kanagawa	1,787,764	75.3	593,870	25.0	586,833	24.7	2,374,597	100.0
Niigata	632,252	84.2	240,714	32.0	118,867	15.8	751,119	100.0
Toyama	313,878	83.1	111,447	29.5	63,757	16.9	377,635	100.0
Ishikawa	343,676	88.6	127,138	32.8	44,417	11.4	388,093	100.0
Fukui	237,607	89.6	94,688	35.7	27,636	10.4	265,243	100.0
Yamanashi	219,479	90.8	96,891	40.1	22,167	9.2	241,646	100.0
Nagano	556,251	86.3	226,338	35.1	88,029	13.7	644,280	100.0
Gifu	580,043	86.0	224,817	33.3	94,514	14.0	674,557	100.0
Shizuoka	1,016,324	83.5	378,926	31.1	201,364	16.5	1,217,688	100.0
Aichi	2,265,083	71.3	672,037	21.2	912,383	28.7	3,177,466	100.0
Mie	428,825	88.7	166,076	34.3	54,863	11.3	483,688	100.0
Shiga	297,596	85.2	108,748	31.1	51,722	14.8	349,318	100.0
Kyoto	684,206	76.3	247,761	27.6	213,001	23.7	897,207	100.0
Osaka	2,876,197	67.4	876,170	20.5	1,391,018	32.6	4,267,215	100.0
Hyogo	1,270,454	84.0	447,374	29.6	242,206	16.0	1,512,660	100.0
Nara	244,225	94.4	99,679	38.5	14,487	5.6	258,712	100.0
Wakayama	235,859	91.9	103,461	40.3	20,890	8.1	256,749	100.0
Tottori	134,974	95.7	50,336	35.7	6,113	4.3	141,087	100.0
Shimane	174,127	92.7	69,663	37.1	13,760	7.3	187,887	100.0
Okayama	484,797	83.9	166,571	28.8	93,173	16.1	577,970	100.0
Hiroshima	786,462	78.3	258,835	25.8	218,293	21.7	1,004,755	100.0
Yamaguchi	323,489	83.8	120,419	31.2	62,459	16.2	385,948	100.0
Tokushima	175,154	88.6	77,770	39.3	22,507	11.4	197,661	100.0
Kagawa	268,159	83.0	96,760	29.9	54,944	17.0	323,103	100.0
Ehime	350,127	87.1	138,161	34.4	51,860	12.9	401,987	100.0
Kochi	173,284	89.1	73,800	37.9	21,273	10.9	194,557	100.0
Fukuoka	1,305,475	79.0	419,767	25.4	346,490	21.0	1,651,965	100.0
Saga	193,854	90.8	74,634	34.9	19,755	9.2	213,609	100.0
Nagasaki	313,811	92.8	124,624	36.9	24,354	7.2	338,165	100.0
Kumamoto	401,899	91.5	155,783	35.5	37,282	8.5	439,181	100.0
Oita	278,516	85.8	107,513	33.1	46,240	14.2	324,756	100.0
Miyazaki	257,285	93.5	103,638	37.7	17,955	6.5	275,240	100.0
Kagoshima	373,417	88.2	155,737	36.8	50,139	11.8	423,556	100.0
Okinawa	339,038	87.3	129,677	33.4	49,112	12.7	388,150	100.0
Total	33,609,810	70.1	11,268,566	23.5	14,325,652	29.9	47,935,462	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. The figures shown indicate the total number of regular employees of companies and sole proprietors.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
4. The percentage of workers in micro enterprises is indicated as the ratio to the total number of workers.
5. Industries are classified according to the October 2013 revised system of industry classification.
6. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
7. The figures are those as of July 2014.

Table 3 Number of workers by industry and size (private, non-primary industry, 2014)

(1) Business establishments

Industry \ Size / Item	Small and medium business establishments		Of which micro business establishments		Large business establishments		Total	
	No. of workers	% of total	No. of workers	% of total	No. of workers	% of total	No. of workers	% of total
Mining and quarrying of stone and gravel	18,380	92.4	10,992	55.3	1,514	7.6	19,894	100.0
Construction	3,635,083	95.9	2,378,095	62.7	156,500	4.1	3,791,583	100.0
Manufacturing	6,702,804	73.0	2,199,376	23.9	2,485,321	27.0	9,188,125	100.0
Electricity, gas, heat supply and water	139,388	70.8	20,070	10.2	57,460	29.2	196,848	100.0
Information and communications	1,012,199	62.1	131,253	8.0	618,480	37.9	1,630,679	100.0
Transport and postal activities	2,815,618	86.7	650,751	20.0	432,666	13.3	3,248,284	100.0
Wholesale and retail trade	9,168,926	76.2	2,320,758	19.3	2,862,419	23.8	12,031,345	100.0
Wholesale trade	3,116,667	77.7	607,350	15.1	892,827	22.3	4,009,494	100.0
Retail trade	6,052,259	75.4	1,713,408	21.4	1,969,592	24.6	8,021,851	100.0
Finance and insurance	1,236,218	81.7	459,829	30.4	276,686	18.3	1,512,904	100.0
Real estate and goods rental and leasing	1,380,293	92.5	913,872	61.3	111,432	7.5	1,491,725	100.0
Scientific research, professional and technical services	1,248,243	69.9	404,505	22.6	538,465	30.1	1,786,708	100.0
Accommodations, eating and drinking services	4,753,672	86.6	1,323,760	24.1	735,899	13.4	5,489,571	100.0
Living-related and personal services and amusement services	2,235,192	89.1	1,063,798	42.4	273,303	10.9	2,508,495	100.0
Education, learning support	1,142,805	63.4	225,506	12.5	659,982	36.6	1,802,787	100.0
Medical, health care and welfare	4,795,577	66.6	481,361	6.7	2,407,529	33.4	7,203,106	100.0
Compound services	270,398	53.3	60,884	12.0	236,466	46.7	506,864	100.0
Services (not elsewhere classified)	2,605,339	55.9	557,387	11.9	2,058,992	44.1	4,664,331	100.0
Non-primary industry total	43,160,135	75.6	13,202,197	23.1	13,913,114	24.4	57,073,249	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Agriculture, forestry and fisheries are not included.
2. Business establishments are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
3. The percentages of the total for micro business establishments indicate their proportion of the total number of business establishments.
4. Industries are classified according to the October 2013 revised system of industry classification.
5. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
6. The figures are those as of July 2014.

(2) Enterprises (number of regular employees of companies and sole proprietors)

Size / Item / Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total
Mining and quarrying of stone and gravel	14,560	77.5	6,597	35.1	4,231	22.5	18,791	100.0
Construction	2,467,738	85.7	1,400,733	48.7	410,487	14.3	2,878,225	100.0
Manufacturing	5,681,828	62.0	1,343,064	14.6	3,487,977	38.0	9,169,805	100.0
Electricity, gas, heat supply and water	31,975	16.2	3,371	1.7	164,840	83.8	196,815	100.0
Information and communications	880,620	60.6	63,958	4.4	573,628	39.4	1,454,248	100.0
Transport and postal activities	2,084,844	72.3	276,857	9.6	800,064	27.7	2,884,908	100.0
Wholesale and retail trade	5,643,075	61.2	850,130	9.2	3,583,164	38.8	9,226,239	100.0
Wholesale trade	2,090,910	70.5	264,850	8.9	876,437	29.5	2,967,347	100.0
Retail trade	3,552,165	56.8	585,280	9.4	2,706,727	43.2	6,258,892	100.0
Finance and insurance	170,361	14.4	64,410	5.5	1,010,992	85.6	1,181,353	100.0
Real estate and goods rental and leasing	684,658	75.6	276,582	30.5	220,985	24.4	905,643	100.0
Scientific research, professional and technical services	751,933	66.8	215,485	19.1	373,431	33.2	1,125,364	100.0
Accommodations, eating and drinking services	2,738,473	68.7	618,333	15.5	1,247,530	31.3	3,986,003	100.0
Living-related and personal services and amusement services	1,345,409	77.8	330,449	19.1	382,994	22.2	1,728,403	100.0
Education, learning support	413,400	80.6	65,307	12.7	99,410	19.4	512,810	100.0
Medical, health care and welfare	1,356,495	88.2	265,541	17.3	182,005	11.8	1,538,500	100.0
Compound services	3,975	1.0	3,616	0.9	406,903	99.0	410,878	100.0
Services (not elsewhere classified)	2,197,332	64.7	136,184	4.0	1,197,946	35.3	3,395,278	100.0
Non-primary industry total	26,466,676	65.2	5,920,617	14.6	14,146,587	34.8	40,613,263	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. The figures shown indicate the total number of regular employees of companies and sole proprietors.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
4. The percentage of regular employees in micro enterprises is indicated as the ratio to the total number of regular employees.
5. Industries are classified according to the October 2013 revised system of industry classification.
6. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
7. The figures are those as of July 2014.
8. The number of regular employees includes regular employees overseas.

(3) Companies only (number of regular employees of companies)

Size / Item / Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total
Mining and quarrying of stone and gravel	14,264	77.1	6,359	34.4	4,231	22.9	18,495	100.0
Construction	2,309,996	84.9	1,244,948	45.8	410,487	15.1	2,720,483	100.0
Manufacturing	5,488,007	61.1	1,156,699	12.9	3,487,977	38.9	8,975,984	100.0
Electricity, gas, heat supply and water	31,969	16.2	3,365	1.7	164,840	83.8	196,809	100.0
Information and communications	878,686	60.5	62,268	4.3	573,628	39.5	1,452,314	100.0
Transport and postal activities	2,076,081	72.2	268,901	9.3	800,064	27.8	2,876,145	100.0
Wholesale and retail trade	4,930,367	58.0	539,652	6.3	3,569,681	42.0	8,500,048	100.0
Wholesale trade	2,027,182	69.8	218,311	7.5	876,437	30.2	2,903,619	100.0
Retail trade	2,903,185	51.9	321,341	5.7	2,693,244	48.1	5,596,429	100.0
Finance and insurance	166,474	14.1	60,523	5.1	1,010,992	85.9	1,177,466	100.0
Real estate and goods rental and leasing	647,818	74.6	240,913	27.7	220,985	25.4	868,803	100.0
Scientific research, professional and technical services	566,296	60.4	97,285	10.4	370,594	39.6	936,890	100.0
Accommodations, eating and drinking services	2,050,743	62.2	187,823	5.7	1,244,504	37.8	3,295,247	100.0
Living-related and personal services and amusement services	1,111,864	74.4	142,426	9.5	382,107	25.6	1,493,971	100.0
Education, learning support	313,568	76.0	16,247	3.9	98,816	24.0	412,384	100.0
Medical, health care and welfare	757,213	81.8	31,299	3.4	167,989	18.2	925,202	100.0
Compound services	428	0.1	105	0.0	406,903	99.9	407,331	100.0
Services (not elsewhere classified)	2,144,737	64.2	95,995	2.9	1,197,294	35.8	3,342,031	100.0
Non-primary industry total	23,488,511	62.5	4,154,808	11.1	14,111,092	37.5	37,599,603	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Business establishments of sole proprietors are not included.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
4. The percentage of regular employees in micro enterprises is indicated as the ratio to the total number of regular employees.
5. Industries are classified according to the October 2013 revised system of industry classification.
6. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
7. The figures are those as of July 2014.
8. The number of regular employees includes regular employees overseas.

(4) Enterprises (total number of workers of companies and sole proprietors)

Size / Item / Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total
Mining and quarrying of stone and gravel	18,168	85.2	9,423	44.2	3,150	14.8	21,318	100.0
Construction	3,390,493	89.2	2,237,415	58.8	412,522	10.8	3,803,015	100.0
Manufacturing	6,486,389	66.4	1,998,167	20.5	3,279,571	33.6	9,765,960	100.0
Electricity, gas, heat supply and water	34,590	17.3	4,608	2.3	165,874	82.7	200,464	100.0
Information and communications	979,521	62.8	113,266	7.3	579,402	37.2	1,558,923	100.0
Transport and postal activities	2,284,186	73.5	380,199	12.2	824,350	26.5	3,108,536	100.0
Wholesale and retail trade	7,303,086	66.5	2,008,511	18.3	3,675,997	33.5	10,979,083	100.0
Wholesale trade	2,557,628	74.5	541,928	15.8	876,683	25.5	3,434,311	100.0
Retail trade	4,745,458	62.9	1,466,583	19.4	2,799,314	37.1	7,544,772	100.0
Finance and insurance	222,123	17.9	112,145	9.0	1,021,775	82.1	1,243,898	100.0
Real estate and goods rental and leasing	1,209,578	84.0	772,029	53.6	230,379	16.0	1,439,957	100.0
Scientific research, professional and technical services	1,043,067	73.5	440,702	31.0	376,867	26.5	1,419,934	100.0
Accommodations, eating and drinking services	3,801,986	73.4	1,394,749	26.9	1,378,825	26.6	5,180,811	100.0
Living-related and personal services and amusement services	1,923,886	82.2	800,893	34.2	415,270	17.8	2,339,156	100.0
Education, learning support	603,498	84.1	205,170	28.6	113,926	15.9	717,424	100.0
Medical, health care and welfare	1,687,240	89.9	471,474	25.1	190,517	10.1	1,877,757	100.0
Compound services	9,450	2.3	9,067	2.2	407,019	97.7	416,469	100.0
Services (not elsewhere classified)	2,612,549	67.6	310,748	8.0	1,250,208	32.4	3,862,757	100.0
Non-primary industry total	33,609,810	70.1	11,268,566	23.5	14,325,652	29.9	47,935,462	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. The figures shown indicate the combined sum of total number of workers of companies and sole proprietors.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
4. The percentage of workers in micro enterprises is indicated as the ratio to the total number of workers.
5. Industries are classified according to the October 2013 revised system of industry classification.
6. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
7. The figures are those as of July 2014.

(5) Companies only (total of number of workers of companies)

Size / Item / Industry	SMEs				Large enterprises		Total	
			Of which micro enterprises					
	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total
Mining and quarrying of stone and gravel	17,661	84.9	8,977	43.1	3,150	15.1	20,811	100.0
Construction	3,014,569	88.0	1,863,619	54.4	412,522	12.0	3,427,091	100.0
Manufacturing	6,076,443	64.9	1,596,120	17.1	3,279,571	35.1	9,356,014	100.0
Electricity, gas, heat supply and water	34,573	17.2	4,591	2.3	165,874	82.8	200,447	100.0
Information and communications	974,414	62.7	108,444	7.0	579,402	37.3	1,553,816	100.0
Transport and postal activities	2,252,173	73.2	349,037	11.3	824,350	26.8	3,076,523	100.0
Wholesale and retail trade	5,908,798	61.7	1,063,072	11.1	3,661,819	38.3	9,570,617	100.0
Wholesale trade	2,421,852	73.4	426,024	12.9	876,683	26.6	3,298,535	100.0
Retail trade	3,486,946	55.6	637,048	10.2	2,785,136	44.4	6,272,082	100.0
Finance and insurance	210,414	17.1	100,436	8.2	1,021,775	82.9	1,232,189	100.0
Real estate and goods rental and leasing	980,035	81.0	543,867	44.9	230,379	19.0	1,210,414	100.0
Scientific research, professional and technical services	734,439	66.3	207,534	18.7	374,053	33.7	1,108,492	100.0
Accommodations, eating and drinking services	2,433,701	63.9	324,979	8.5	1,375,540	36.1	3,809,241	100.0
Living-related and personal services and amusement services	1,302,071	75.9	231,364	13.5	414,377	24.1	1,716,448	100.0
Education, learning support	380,453	77.1	40,522	8.2	113,289	22.9	493,742	100.0
Medical, health care and welfare	861,258	83.0	60,759	5.9	176,112	17.0	1,037,370	100.0
Compound services	558	0.1	216	0.1	407,019	99.9	407,577	100.0
Services (not elsewhere classified)	2,489,796	66.6	202,449	5.4	1,249,553	33.4	3,739,349	100.0
Non-primary industry total	27,671,356	65.9	6,705,986	16.0	14,288,785	34.1	41,960,141	100.0

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Business establishments of sole proprietors are not included.
2. Corporate bodies other than companies and agriculture, forestry and fisheries are not included.
3. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
4. The percentage of workers in micro enterprises is indicated as the ratio to the total number of workers.
5. Industries are classified according to the October 2013 revised system of industry classification.
6. Direct comparisons should not be made between the present findings and results obtained from the *Establishment and Enterprise Census* published in the supplementary statistical data for past *White Papers on SMEs* as the *Economic Census for Business Frame* (1) captures a greater range of business establishments and enterprises due to its use of commercial and corporate registers and other administrative records, and (2) it surveys enterprises and establishments en bloc by having head offices report information on their branches and other operations.
7. The figures are those as of July 2014.

Table 4 Trends in entry and exit rates (non-primary industries)

(1) Enterprises (sole proprietorships + corporate enterprises)

Year	Survey interval (months)	No. of enterprises at start of period	No. of entries	Entry survey period (months)	Increase in no. of enterprises	Annual average increase in no. of enterprises	Annual average no. of entries	Annual average no. of exits	Entry rate (%)	Exit rate (%)
75 - 78	37	4,682,092	681,775	29.5	355,485	115,292	277,332	162,040	5.9	3.5
78 - 81	36.5	5,037,577	739,996	30	318,925	104,852	295,998	191,146	5.9	3.8
81 - 86	60	5,356,502	1,039,351	54	72,096	14,419	230,967	216,548	4.3	4.0
86 - 91	60	5,428,598	853,991	54	-126,240	-25,248	189,776	215,024	3.5	4.0
91 - 96	63	5,302,358	967,779	81	-147,968	-28,184	143,375	171,559	2.7	3.2
96 - 99	33	5,154,390	507,531	33	-253,477	-92,173	184,557	288,147	3.6	5.6
99 - 01	27	4,900,913	638,289	27	-160,984	-71,548	283,684	334,755	5.8	6.8
As of 2001 (1993 classification)		4,739,929								
01 - 04	32	4,739,635	447,148	32	-360,347	-135,130	167,681	289,731	3.5	6.1
04 - 06	28	4,379,288	518,671	28	-138,962	-59,555	222,288	273,282	5.1	6.2
As of 2006 (2002 classification)		4,240,326								
09 - 12	31	4,252,897	154,998	31	-359,541	-139,177	59,999	260,177	1.4	6.1
12 - 14	29	3,891,356	436,037	29	-43,122	17,844	180,429	236,671	4.6	6.1

(2) Corporate enterprises (independent establishments and head offices, not including branches)

Year	Survey interval (months)	No. of corporate enterprises at start of period	No. of entries	Entry survey period (months)	Increase in no. of corporate enterprises	Annual average increase in no. of corporate enterprises	Annual average no. of entries	Annual average no. of exits	Entry rate (%)	Exit rate (%)
75 - 78	37	921,768	113,039	29.5	118,905	38,564	45,982	7,418	5.0	0.8
78 - 81	36.5	1,040,673	139,678	30	138,146	45,418	55,871	10,453	5.4	1.0
81 - 86	60	1,178,819	234,223	54	143,689	28,738	52,050	23,312	4.4	2.0
86 - 91	60	1,322,508	266,717	54	230,506	46,101	59,270	13,169	4.5	1.0
91 - 96	63	1,553,014	310,761	81	112,167	21,365	46,039	24,674	3.0	1.6
96 - 99	33	1,665,181	174,728	33	-6,801	-2,473	63,537	87,773	3.8	5.3
99 - 01	27	1,658,380	226,701	27	-50,570	-22,476	100,756	105,414	6.1	6.4
As of 2001 (1993 classification)		1,607,810								
01 - 04	32	1,607,648	155,161	32	-87,661	-32,873	58,185	88,739	3.6	5.5
04 - 06	28	1,519,987	197,819	28	-14,768	-6,329	84,780	83,972	5.6	5.5
As of 2006 (2002 classification)		1,505,219								
09 - 12	31	1,787,027	55,010	31	-100,375	-38,855	21,294	100,359	1.2	5.6
12 - 14	29	1,686,652	228,084	29	44,136	18,263	94,380	96,337	5.6	5.7

(3) Sole proprietorships (independent establishments, head offices and branches)

Year	Survey interval (months)	No. of sole proprietorships at start of period	No. of entries	Entry survey period (months)	Increase in no. of sole proprietorships	Annual average increase in no. of sole proprietorships	Annual average no. of entries	Annual average no. of exits	Entry rate (%)	Exit rate (%)
75 - 78	37	3,760,324	568,736	29.5	236,580	76,729	231,350	154,622	6.2	4.1
78 - 81	36.5	3,996,904	600,318	30	180,779	59,434	240,127	180,693	6.0	4.5
81 - 86	60	4,177,683	805,128	54	-71,593	-14,319	178,917	193,236	4.3	4.6
86 - 91	60	4,106,090	587,274	54	-356,746	-71,349	130,505	201,855	3.2	4.9
91 - 96	63	3,749,344	657,018	81	-260,135	-49,550	97,336	146,886	2.6	3.9
96 - 99	33	3,489,209	332,803	33	-246,676	-89,700	121,019	200,374	3.5	5.7
99 - 01	27	3,242,533	411,588	27	-110,414	-49,073	182,928	229,341	5.6	7.1
As of 2001 (1993 classification)		3,132,119								
01 - 04	32	3,131,987	291,987	32	-272,686	-102,257	109,495	200,991	3.5	6.4
04 - 06	28	2,859,301	320,852	28	-124,194	-53,226	137,508	189,310	4.8	6.6
As of 2006 (2002 classification)		2,735,107								
09 - 12	31	2,465,870	99,988	31	-261,166	-101,097	38,705	159,817	1.6	6.5
12 - 14	29	2,204,704	207,953	29	-87,258	-36,107	86,050	140,333	3.9	6.4

(4) Business establishments

Year	Survey interval (months)	No. of business establishments at start of period	No. of entries	Entry survey period (months)	Increase in no. of business establishments	Annual average increase in no. of business establishments	Annual average no. of entries	Annual average no. of exits	Entry rate (%)	Exit rate (%)
66 - 69	36	4,230,738	964,474	42	419,757	139,919	275,564	135,645	6.5	3.2
69 - 72	38	4,650,495	863,915	32	463,228	146,283	323,968	177,686	7.0	3.8
72 - 75	32.5	5,113,723	744,865	28.5	275,577	101,752	313,627	211,876	6.1	4.1
75 - 78	37	5,389,300	818,730	29.5	460,021	149,196	333,043	183,847	6.2	3.4
78 - 81	36.5	5,849,321	896,325	30	419,750	138,000	358,530	220,530	6.1	3.8
81 - 86	60	6,269,071	1,324,318	54	225,270	45,054	294,293	249,239	4.7	4.0
86 - 89	36	6,494,341	826,723	36	127,905	42,635	275,574	232,939	4.2	3.6
89 - 91	24	6,622,246	406,977	18	-80,505	-40,253	271,318	311,571	4.1	4.7
91 - 94	33.7	6,541,741	846,139	33.7	-9,761	-3,476	301,296	305,774	4.6	4.7
94 - 96	29.3	6,531,980	418,613	21	-29,056	-11,900	239,207	251,107	3.7	3.8
96 - 99	33	6,502,924	740,389	33	-318,095	-115,671	269,232	384,884	4.1	5.9
99 - 01	27	6,184,829	937,122	27	-65,768	-29,230	416,499	445,636	6.7	7.2
As of 2001 (1993 classification)		6,119,061								
01 - 04	32	6,118,721	691,029	32	-408,747	-153,280	259,136	392,019	4.2	6.4
04 - 06	28	5,709,974	846,368	28	-7,193	-3,083	362,729	369,309	6.4	6.5
As of 2006 (2002 classification)		5,702,781								
09 - 12	31	5,853,886	286,166	31	-430,968	-166,826	110,774	366,483	1.9	6.3
12 - 14	29	5,422,918	857,205	29	85,894	35,542	354,706	359,395	6.5	6.6

Sources: MIC, *Establishment and Enterprise Census* (up to 2006); *2009 Economic Census for Business Frame*; *2012 Economic Census for Business Activity*; *2014 Economic Census for Business Frame.*

Notes:
1. Here, entry rate refers to the ratio of "(1) the annual average number of business establishments (or enterprises) that were newly established" during a certain period to "(2) the number of business establishments (or enterprises) that already existed at the start of the period," and is obtained as (1)/(2). Exit rate similarly refers to the ratio of "(1) the annual average number of business establishments (or enterprises) that went out of business" during a certain term to "(2) the number of business establishments (or enterprises) that already existed at the start of the period," and is obtained as (1)/(2).
2. The numbers of entries and exits shown in Table 4 (1) and (2) were calculated by adding the numbers of independent establishments and head offices that have been newly established (or gone out of business), among business establishments that belong to a company.
3. The numbers of sole proprietorships that entered (exited) the market shown in Table 4 (1) and (3) were calculated by adding the numbers of business establishments that belong to a sole proprietor.
4. The number of business establishments that entered (exited) the market shown in Table 4 (4) is based on published value (see Reference 1.).
5. Unlike the numbers of enterprises shown in "Supplementary statistical data Table 1 (2) Enterprises" above, this table does not include business establishments that are branch offices of sole proprietorships, and is based on a different method of industrial classification. Thus, the figures do not match the numbers of enterprises at the beginning of the period shown in (1) above.

References
1. Survey results are quoted from: *Volume 1 Result of Establishments for Japan Table 7* for the 1999 survey; *Special Result concerning Changes and Conversions in Establishments for Japan (2) State of Changes in 1999-2001 Table 8* for the 2001 Survey; *Volume 1 Result of Establishments for Japan Table 10* for the 2004 survey; *Result of Establishment for Japan Table 46* for the 2006 Survey; *Result of Establishment for Japan: Industry cross-cutting results Table 32* of the 2012; and *Result of Establishment for Japan Table 32* for the 2014 Survey.
2. The number of entries in 1994-1996 is the number of business establishments established in and after 1995.
3. This survey was conducted as the *Establishment Census* until 1991, *Establishment Directory Maintenance* in 1989, and the *Establishment Directory Maintenance Survey* in 1994.
4. The classification of industries as of 2004 and as of 2006 is according to MIC, *Japan Standard Industrial Classification* (revised March 2002). Similarly, the classification of industries as of 2009 and 2012 is according to the *Japan Standard Industrial Classification* (revised November 2007), and the classification as of 2014 is according to the *Japan Standard Industrial Classification* (revised October 2013).
5. As the revision of the *Japan Standard Industrial Classification* in March 2002 resulted in the transfer of some industry groups between primary and non-primary industries, the annual average entry and exit rates in 2001-04 were calculated based on the number of enterprises and business establishments at the beginning of the period under the new system of classification (same for revision in 2007).

Table 5 Trends in entry and exit rates by industry (based on number of business establishments, annual average)

(Unit: %)

	Year	66 - 69	69 - 72	72 - 75	75 - 78	78 - 81	81 - 86	86 - 89	89 - 91	91 - 94	94 - 96	96 - 99	99 - 01	01 - 04	04 - 06	06 - 09	09 - 12	12 - 14
Non-primary industry total	Entry Rate	6.5	7.0	6.1	6.2	6.1	4.7	4.2	4.1	4.6	3.7	4.1	6.7	4.2	6.4	2.6	1.9	6.5
	Exit Rate	3.2	3.8	4.1	3.4	3.8	4.0	3.6	4.7	4.7	3.8	5.9	7.2	6.4	6.5	6.4	6.3	6.6
Manufacturing	Entry Rate	6.0	5.6	4.3	3.4	3.7	3.1	3.1	2.8	3.1	1.5	1.9	3.9	2.2	3.4	1.2	0.7	3.4
	Exit Rate	2.5	3.2	3.4	2.3	2.5	3.1	2.9	4.0	4.5	4.0	5.3	6.6	5.7	5.4	5.8	5.7	5.5
Wholesale trade	Entry Rate	6.5	8.1	8.0	6.8	6.4	5.1	4.8	3.2	5.0	3.3	4.9	6.6	3.9	5.6	2.1	1.3	6.2
	Exit Rate	6.5	3.8	5.3	3.7	3.8	3.7	4.1	3.2	5.0	5.3	7.4	7.5	7.0	6.4	6.6	5.9	6.8
Retail trade	Entry Rate	5.0	4.9	4.3	4.8	4.4	3.4	3.1	2.8	3.9	3.6	4.3	6.1	3.9	5.7	2.3	2.2	6.4
	Exit Rate	2.1	3.3	3.6	3.2	4.0	4.0	3.4	6.4	4.3	4.6	6.8	7.2	6.7	6.8	7.1	6.6	7.7
Services	Entry Rate	6.3	6.7	6.1	6.1	6.4	5.3	4.9	4.7	5.0	3.8	4.2	7.3	4.4	6.4	2.3	1.7	6.5
	Exit Rate	3.8	4.0	3.8	3.3	3.1	3.2	3.6	2.9	4.2	2.8	4.8	6.3	5.5	5.9	4.9	5.9	5.4

Sources: MIC, *Establishment and Enterprise Census and 2009 Economic Census for Business Frame*; MIC, METI, *2012 Economic Census for Business Activity*, Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes:
1. Entry and exit rates for business establishments include openings and closures of branches and plants, and openings and closures due to moves.
2. Rates were calculated based on the *Establishment and Enterprise Census* up to 2006, and the *Economic Census for Business Frame* for the period 2006-09 and the *Economic Census for Business Activity* for the period 2009-12. This survey was conducted as the *Establishment Census* until 1991, *Establishment Directory Maintenance* in 1989, and the *Establishment Directory Maintenance Survey* in 1994.
3. See Table 4 regarding the method of calculation of the entry and exit rates.
4. Direct comparisons cannot be made between the figures for 2006-09 and past figures due to differing definitions of entering establishments. Direct comparisons between the entry rates and exit rates for 2006-09 are also not possible due to the different ways in which entering and exiting establishments are defined.
5. “Services” in 2001-04, 2004-06 and 2006-09, 2009-12 consists of “services (not otherwise classified).”
6. The annual average entry and exit rates for 2001-04 and 2004-06 were calculated based on the *Japan Standard Industrial Classification* (revised March 2002). The annual average entry and exit rates for 2006-09 and 2009-12 were calculated based on the *Japan Standard Industrial Classification* (revised November 2007), and the annual average entry and exit rates for 2012-2014 were calculated based on the *Japan Standard Industrial Classification* (revised October 2013).

Table 6 Trends in entry and exit rates based on business establishments with employees

(Unit: %)

FY	81	82	83	84	85	86	87	88	89	90	91	92	93
Entry rate	7.2	6.4	6.1	5.9	5.8	6.0	6.8	7.4	6.7	6.3	5.8	5.1	4.6
Exit rate	3.7	5.8	4.3	4.2	4.2	4.1	3.7	3.4	3.2	3.0	3.3	3.3	3.4

94	95	96	97	98	99	00	01	02	03	04	05	06
4.8	4.6	4.7	4.2	3.9	4.4	4.9	4.4	4.1	4.0	4.1	4.4	4.8
3.4	3.6	2.5	2.8	3.1	4.0	4.0	4.4	4.6	4.8	4.5	4.4	4.3

07	08	09	10	11	12	13	14
5.0	4.2	4.7	4.5	4.5	4.6	4.8	4.9
4.4	4.5	4.7	4.1	3.9	3.8	4.0	3.7

Source: MHLW, *Annual Report on Employment Insurance Programs*.

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 × 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 × 100.
3. Business establishments covered by employment insurance are business establishments with established insurance status for labor insurance related to employment insurance (Article 5 of the Employment Insurance Law).

Table 7 Trends in number of incorporation registrations and company entry and exit rates

Year	55	56	57	58	59	60	61	62	63	64
No. of incorporation registrations	77,323	51,391	54,216	53,452	57,270	62,143	65,155	63,402	71,483	72,926
Company entry rate (%)	19.6	12.5	12.4	12.2	12.0	12.4	12.1	11.0	11.5	11.1
Company exit rate (%)	15.2	6.1	12.7	3.0	6.6	5.1	4.9	3.9	5.4	3.4

65	66	67	68	69	70	71	72	73	74
71,145	81,418	88,214	77,857	88,521	93,778	97,692	112,903	119,226	96,286
10.1	10.9	11.1	9.3	9.9	10.0	10.0	10.7	10.6	8.0
4.4	4.7	5.5	2.8	4.8	5.4	2.7	4.0	3.4	1.2

75	76	77	78	79	80	81	82	83	84
96,158	102,950	100,845	93,799	103,972	100,802	96,071	93,293	95,879	104,061
7.5	7.7	7.2	6.3	6.8	6.3	5.9	5.5	5.5	5.8
3.2	3.0	1.6	2.9	2.5	3.7	2.5	2.9	2.5	1.7

85	86	87	88	89	90	91	92	93	94
105,941	105,133	117,475	140,520	165,718	176,058	172,105	107,459	97,603	92,522
5.7	5.5	6.0	7.0	8.0	8.1	7.6	4.5	3.9	3.6
4.1	3.0	3.5	3.5	3.1	3.4	1.7	1.0	1.6	1.9

95	96	97	98	99	00	01	02	03	04
92,885	103,723	92,610	82,502	88,036	98,350	90,687	87,544	95,381	101,100
3.6	3.9	3.5	3.1	3.3	3.6	3.3	3.2	3.4	3.7
2.1	2.3	4.5	2.0	2.2	2.4	2.5	2.7	4.1	3.1

05	06	07	08	09	10	10 (*1)	11	12	13
103,545	115,178	101,981	92,097	86,016	87,916		89,664	91,942	96,659
3.7	4.1	3.6	3.2	3.0	3.4	3.1	3.5	3.6	3.8
3.1	3.4	2.7	3.2	3.1	4.2	3.8	3.7	3.5	3.5

Sources: MOJ, *Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties*; National Tax Agency, *National Tax Agency Annual Statistics Report*.

Notes:
1. Company entry rates = Number of incorporation registrations / Number of companies in previous year × 100.
2. Company exit rate = Company entry rate - Rate of increase. (=(number of companies in previous year + number of incorporation registrations - number of companies in current year) / number of companies in previous year × 100).
3. The number of incorporation registrations is from *Annual Registration Statistics* from 1955 to 1960, *Annual Report of Registration, Litigation and Civil Liberties* from 1961 to 1971, and *Annual Report of Statistics on Civil Affairs, Litigation and Civil Liberties* from 1972 onward.
4. The number of incorporation registrations is for each calendar year.
5. 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 cooperative associations.
6. The number of companies in the years before 2006 is the number of companies which completed the business year between February 1 of that year and January 31 of the following year. The number of companies from 2007 to 2009 is the number of companies as of June 30 of the following year. The number of companies in 2010 is the number of corporate fiscal years for which income tax returns were filed, aggregated in units of companies. In order to achieve continuity with 2009 figures, the rate of business entries and exits calculated with the number of companies defined as per the definition used for 2009 as the denominator is also shown. (*1)

Table 8 Number of business establishments and workers and value of shipments in manufacturing

(1) Number of business establishments

Year / No. of workers	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
4-9	213,308	198,411	190,640	206,808	186,111	186,698	161,085	144,216	150,551	130,041	143,094	121,626	117,259	126,964	108,813	99,883	112,463	94,320	87,496
10-19	76,789	74,823	72,639	73,743	70,132	67,724	71,678	67,719	65,823	64,046	57,383	60,515	62,441	60,189	56,194	54,439	51,608	52,897	51,962
20-99	82,099	80,991	79,645	78,181	74,710	72,562	69,321	65,351	64,003	63,326	62,368	62,256	63,862	61,553	57,501	56,694	56,361	56,022	55,525
100-299	11,823	11,721	11,703	11,422	11,066	11,049	10,807	10,348	10,376	10,505	10,630	10,775	11,113	10,872	10,061	10,093	9,631	9,917	9,869
300-999	3,062	3,046	3,014	2,972	2,876	2,859	2,854	2,748	2,715	2,710	2,776	2,891	3,026	2,943	2,754	2,818	2,633	2,643	2,720
1,000 or more	645	620	605	587	562	529	522	466	442	459	464	480	531	540	494	496	490	463	457
4-299	384,019	365,946	354,627	370,154	342,019	338,033	312,891	287,634	290,753	267,918	273,475	255,172	254,675	259,578	232,569	221,089	230,063	213,156	204,852
300 or more	3,707	3,666	3,619	3,559	3,438	3,388	3,376	3,214	3,157	3,169	3,240	3,371	3,557	3,483	3,248	3,314	3,123	3,106	3,177
Total	387,726	369,612	358,246	373,713	345,457	341,421	316,267	290,848	293,910	271,087	276,715	258,543	258,232	263,061	235,817	224,403	233,186	216,262	208,029

(2) Number of workers

Upper row: 1,000 workers, lower row: % of total

Year / No. of workers	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
4-9	1,272 12.3	1,199 11.9	1,155 11.6	1,231 12.5	1,119 11.9	1,111 12.1	957 10.8	860 10.3	879 10.7	777 9.6	852 10.4	731 8.9	712 8.4	746 8.9	650 8.4	603 7.9	664 8.9	571 7.7	534 7.2
10-19	1,061 10.3	1,036 10.3	1,007 10.1	1,021 10.4	971 10.4	938 10.2	976 11.0	921 11.1	894 10.9	870 10.7	792 9.7	824 10.0	849 10.0	819 9.8	765 9.9	742 9.7	708 9.5	721 9.7	709 9.6
20-99	3,192 30.9	3,152 31.2	3,107 31.3	3,044 30.9	2,921 31.1	2,846 31.0	2,722 30.7	2,579 31.0	2,533 30.8	2,508 30.9	2,479 30.4	2,480 30.1	2,541 29.8	2,457 29.4	2,303 29.8	2,276 29.7	2,271 30.4	2,255 30.4	2,243 30.3
100-299	1,897 18.4	1,879 18.6	1,881 18.9	1,834 18.6	1,776 18.9	1,776 19.3	1,739 19.6	1,664 20.0	1,675 20.4	1,696 20.9	1,712 21.0	1,743 21.2	1,800 21.1	1,767 21.1	1,639 21.2	1,640 21.4	1,554 20.8	1,607 21.6	1,609 21.7
300-999	1,539 14.9	1,528 15.1	1,511 15.2	1,484 15.1	1,427 15.2	1,417 15.4	1,405 15.8	1,337 16.1	1,328 16.1	1,321 16.3	1,353 16.6	1,425 17.3	1,488 17.5	1,445 17.3	1,350 17.5	1,378 18.0	1,290 17.3	1,304 17.6	1,340 18.1
1,000 or more	1,359 13.2	1,309 13.0	1,276 12.8	1,224 12.4	1,164 12.4	1,097 11.9	1,067 12.0	963 11.6	918 11.2	944 11.6	970 11.9	1,022 12.4	1,127 13.2	1,131 13.5	1,029 13.3	1,026 13.4	984 13.2	968 13.0	968 13.1
4-299	7,422 71.9	7,266 71.9	7,150 72.0	7,129 72.5	6,787 72.4	6,670 72.6	6,395 72.1	6,024 72.4	5,980 72.7	5,851 72.1	5,834 71.5	5,778 70.2	5,904 69.3	5,789 69.2	5,357 69.3	5,307 69.3	5,198 69.6	5,154 69.4	5,096 68.8
300 or more	2,898 28.1	2,837 28.1	2,787 28.0	2,708 27.5	2,591 27.6	2,513 27.4	2,471 27.9	2,300 27.6	2,247 27.3	2,264 27.9	2,323 28.5	2,448 29.8	2,615 30.7	2,576 30.8	2,379 30.7	2,404 31.4	2,274 30.4	2,272 30.6	2,307 31.2
Total	10,321 100.0	10,103 100.0	9,937 100.0	9,837 100.0	9,378 100.0	9,184 100.0	8,866 100.0	8,324 100.0	8,226 100.0	8,116 100.0	8,157 100.0	8,225 100.0	8,519 100.0	8,365 100.0	7,736 100.0	7,664 100.0	7,472 100.0	7,425 100.0	7,403 100.0

(3) Value of manufactured shipments

Upper row: ¥ billion, lower row: % of total

Year / No. of workers	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
4-9	13,750 4.5	13,491 4.3	13,400 4.1	13,722 4.5	12,194 4.2	12,198 4.1	10,250 3.6	9,103 3.4	9,055 3.3	8,450 3.0	9,283 3.1	8,361 2.7	8,750 2.6	8,852 2.6	7,105 2.7	6,684 2.3	8,402 2.9	7,129 2.5	6,818 2.3
10-19	16,318 5.3	16,314 5.2	16,492 5.1	16,280 5.3	15,001 5.1	14,742 4.9	14,733 5.1	13,384 5.0	12,986 4.7	13,039 4.6	12,429 4.2	13,097 4.2	14,415 4.3	14,158 4.2	11,840 4.5	11,452 4.0	12,226 4.3	11,876 4.1	11,866 4.1
20-99	67,531 22.1	68,957 22.0	70,216 21.7	67,443 22.1	63,630 21.8	63,915 21.3	61,267 21.4	57,135 21.2	57,163 20.9	59,035 20.8	59,991 20.3	61,152 19.4	65,405 19.4	65,659 19.6	55,103 20.8	55,394 19.2	57,331 20.1	57,349 19.9	57,617 19.7
100-299	59,541 19.5	60,761 19.4	63,917 19.8	60,493 19.8	59,724 20.5	62,770 20.9	60,568 21.1	58,154 21.6	59,069 21.6	63,787 22.5	64,630 21.9	68,120 21.6	70,278 20.9	70,450 21.0	58,174 21.9	61,558 21.3	61,903 21.7	63,853 22.1	63,638 21.8
300-999	70,635 23.1	73,377 23.4	76,835 23.8	72,455 23.7	68,720 23.6	73,269 24.4	70,269 24.5	66,184 24.6	69,312 25.4	71,187 25.1	76,880 26.0	84,539 26.9	87,286 25.9	86,389 25.7	67,693 25.5	77,781 26.9	72,956 25.6	74,365 25.8	77,074 26.4
1,000 or more	78,256 25.6	80,169 25.6	82,212 25.4	75,447 24.7	72,180 24.8	73,585 24.5	69,580 24.3	65,402 24.3	65,824 24.1	68,020 24.0	72,133 24.4	79,567 25.3	90,623 26.9	90,070 26.8	65,344 24.6	76,239 26.4	72,151 25.3	74,154 25.7	75,078 25.7
4-299	157,139 51.3	159,523 51.0	164,025 50.8	157,938 51.6	150,550 51.7	153,624 51.1	146,818 51.2	137,776 51.1	138,274 50.6	144,311 50.9	146,333 49.5	150,729 47.9	158,848 47.2	159,120 47.4	132,222 49.8	135,113 46.7	139,862 49.1	140,208 48.6	139,940 47.9
300 or more	148,890 48.7	153,546 49.0	159,047 49.2	147,902 48.4	140,900 48.3	146,854 48.9	139,849 48.8	131,586 48.9	135,136 49.4	139,207 49.1	149,013 50.5	164,106 52.1	177,909 52.8	176,459 52.6	133,037 50.2	154,020 53.3	145,107 50.9	148,520 51.4	152,153 52.1
Total	306,030 100.0	313,068 100.0	323,072 100.0	305,840 100.0	291,450 100.0	300,478 100.0	286,667 100.0	269,362 100.0	273,409 100.0	283,530 100.0	295,346 100.0	314,835 100.0	336,757 100.0	335,579 100.0	265,259 100.0	289,108 100.0	284,969 100.0	288,728 100.0	292,092 100.0

Sources: METI, *Census of Manufactures*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Based on statistics for business establishments. The "Total" may not correspond to the total value of the items as they have been rounded off.
2. Figures were basically recalculated from the "Industry" section data for each year.
3. Values for 2004 include the results (partial estimates) of the *2004 Supplemental Survey following the Niigata Chuetsu Earthquake*. However, figures in italics indicate figures that are solely from this survey, as those results of the Supplemental Survey are concealed. As a result, the total of each breakdown is not consistent with manufacturing industry total.
4. Changes to survey items mean that the values of manufactured shipments since 2007 are not continuous with those in previous years.
5. Revisions made to the figures published in the 2003-05 *Census of Manufactures* mean that they differ from those given in the Supplementary Statistical Data published in *White Papers on Small and Medium Enterprises in Japan* up to 2010.
6. Number of business establishments and workers of each year are figures as of December 31. However, for 2011, figures are as of February 1, 2012.

Table 9 Capital investment and value added in manufacturing

(1) Capital investment — Upper row: ¥ billion, lower row: % of total

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
30-99	1,734	1,962	2,137	1,975	1,659	1,522	1,712	1,416	1,399	1,465	1,608	1,850	1,970	1,871	1,472	1,207	1,207	1,461	1,452
	15.4	15.5	16.0	14.8	15.0	13.4	14.5	14.9	15.7	14.2	13.7	14.1	14.0	13.6	14.1	13.6	15.5	15.8	17.3
100-299	2,658	2,829	2,982	2,929	2,621	2,604	2,812	2,292	2,121	2,374	2,719	3,058	3,125	3,048	2,547	2,070	1,875	2,313	2,298
	23.6	22.4	22.3	22.0	23.6	23.0	23.7	24.1	23.8	23.0	23.2	23.3	22.3	22.1	24.4	23.3	24.1	25.0	27.4
300-999	3,209	3,906	4,052	4,195	3,271	3,529	3,571	2,859	2,606	2,915	3,343	4,140	4,184	3,925	3,121	2,901	2,186	2,754	2,288
	28.5	30.9	30.3	31.4	29.5	31.2	30.1	30.1	29.2	28.2	28.5	31.6	29.8	28.5	29.9	32.7	28.1	29.8	27.3
1,000 or more	3,643	3,936	4,210	4,244	3,539	3,670	3,751	2,942	2,792	3,586	4,058	4,048	4,741	4,937	3,289	2,704	2,522	2,719	2,345
	32.4	31.2	31.5	31.8	31.9	32.4	31.7	30.9	31.3	34.7	34.6	30.9	33.8	35.8	31.5	30.4	32.4	29.4	28.0
30-299	4,392	4,791	5,118	4,904	4,280	4,127	4,524	3,708	3,520	3,839	4,327	4,908	5,094	4,919	4,019	3,277	3,082	3,775	3,750
	39.1	37.9	38.3	36.8	38.6	36.4	38.2	39.0	39.5	37.1	36.9	37.5	36.3	35.7	38.5	36.9	39.6	40.8	44.7
300 or more	6,852	7,842	8,262	8,439	6,809	7,199	7,322	5,800	5,398	6,501	7,401	8,188	8,926	8,862	6,410	5,605	4,708	5,473	4,634
	60.9	62.1	61.7	63.2	61.4	63.6	61.8	61.0	60.5	62.9	63.1	62.5	63.7	64.3	61.5	63.1	60.4	59.2	55.3
Total	11,244	12,632	13,381	13,343	11,089	11,326	11,845	9,508	8,918	10,341	11,728	13,096	14,020	13,781	10,428	8,882	7,790	9,248	8,384
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(2) Investment per worker — (Unit: ¥1,000)

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
30-99	791	906	1,000	940	820	771	907	788	792	838	925	1,061	1,104	1,079	893	741	719	891	891
100-299	1,401	1,506	1,585	1,597	1,476	1,466	1,617	1,377	1,266	1,400	1,588	1,754	1,736	1,725	1,554	1,263	1,207	1,440	1,428
300-999	2,085	2,557	2,681	2,828	2,292	2,490	2,542	2,138	1,962	2,207	2,471	2,905	2,811	2,716	2,312	2,105	1,694	2,113	1,708
1,000 or more	2,680	3,006	3,300	3,466	3,041	3,347	3,516	3,056	3,041	3,799	4,185	3,959	4,208	4,366	3,198	2,636	2,563	2,809	2,423
30-299	1,074	1,184	1,274	1,247	1,127	1,100	1,247	1,071	1,023	1,115	1,254	1,408	1,421	1,405	1,222	1,003	953	1,163	1,158
300 or more	2,364	2,764	2,964	3,116	2,628	2,864	2,963	2,522	2,403	2,871	3,187	3,346	3,413	3,440	2,695	2,332	2,070	2,409	2,008
Total average	1,609	1,836	1,966	2,009	1,736	1,808	1,943	1,650	1,568	1,812	2,032	2,207	2,261	2,267	1,840	1,566	1,414	1,676	1,512

(3) Value added — Upper row: ¥ billion, lower row: % of total

No. of workers \ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
4-9	7,322	7,163	7,071	7,280	6,487	6,531	5,379	4,771	4,778	4,427	4,842	4,305	4,322	4,284	3,412	3,212	4,113	3,363	3,123
	6.2	6.0	5.9	6.4	6.0	5.9	5.2	4.9	4.8	4.4	4.7	4.0	4.0	4.2	4.2	3.5	4.5	3.8	3.5
10-19	7,453	7,458	7,482	7,452	6,869	6,760	7,114	6,514	6,317	6,283	5,917	6,169	6,488	6,134	5,204	5,011	5,533	5,132	4,993
	6.4	6.3	6.2	6.6	6.4	6.1	6.9	6.7	6.4	6.2	5.7	5.7	6.0	6.1	6.5	5.5	6.0	5.8	5.5
20-99	27,402	28,045	28,215	27,023	25,773	26,014	24,849	22,945	22,800	23,378	23,349	23,247	23,575	22,725	19,386	19,805	21,129	20,158	20,164
	23.4	23.5	23.5	23.9	23.9	23.6	24.1	23.5	23.1	23.1	22.5	21.6	21.7	22.4	24.1	21.8	23.1	22.8	22.4
100-299	22,935	23,227	23,977	22,482	22,502	23,168	22,266	21,483	22,209	23,512	23,648	23,842	23,365	21,973	18,478	20,308	20,799	20,007	20,402
	19.6	19.5	20.0	19.9	20.9	21.0	21.6	22.0	22.5	23.2	22.7	22.2	21.5	21.7	23.0	22.4	22.7	22.6	22.6
300-999	25,564	26,055	26,263	24,888	23,638	24,707	22,801	21,352	21,733	22,987	23,754	25,603	24,718	23,327	18,610	22,989	21,144	20,252	20,731
	21.8	21.8	21.9	22.0	21.9	22.4	22.1	21.9	22.1	22.7	22.8	23.8	22.7	23.0	23.2	25.4	23.1	22.9	23.0
1,000 or more	26,527	27,355	26,865	24,067	22,590	23,063	20,896	20,394	20,715	20,656	22,456	24,433	26,188	22,861	15,229	19,342	18,837	19,482	20,737
	22.6	22.9	22.4	21.3	20.9	20.9	20.2	20.9	21.0	20.4	21.6	22.7	24.1	22.6	19.0	21.3	20.6	22.0	23.0
4-299	65,113	65,894	66,745	64,238	61,631	62,472	59,608	55,713	56,104	57,600	57,756	57,562	57,750	55,116	46,480	48,336	51,574	48,661	48,681
	55.6	55.2	55.7	56.8	57.1	56.7	57.7	57.2	56.9	56.9	55.6	53.5	53.1	54.4	57.9	53.3	56.3	55.0	54.0
10-299	57,791	58,731	59,673	56,958	55,144	55,942	54,229	50,942	51,326	53,173	52,914	53,257	53,428	50,832	43,068	45,124	47,461	45,298	45,558
	49.3	49.2	49.8	50.3	51.1	50.7	52.5	52.3	52.1	52.5	50.9	49.5	49.2	50.2	53.6	49.8	51.8	51.2	50.5
300 or more	52,091	53,410	53,128	48,955	46,229	47,770	43,697	41,746	42,448	43,643	46,211	50,036	50,906	46,189	33,839	42,332	39,981	39,734	41,508
	44.4	44.8	44.3	43.2	42.9	43.3	42.3	42.8	43.1	43.1	44.4	46.5	46.9	45.6	42.1	46.7	43.7	45.0	46.0
Total	117,204	119,304	119,873	113,193	107,860	110,243	103,305	97,459	98,552	101,247	103,967	107,598	108,656	101,305	80,319	90,667	91,555	88,395	90,149
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: METI, *Census of Manufactures*; MIC, METI, *2012 Economic Census for Business Activity*.

Notes:
1. Based on statistics for business establishments. The "Total" may not correspond to the total value of the items as they have been rounded off.
2. Figures were basically recalculated from the "Industry" section data for each year.
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 (3), 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.
6. Values for 2004 include the results (including partial estimates) of the *2004 Supplemental Survey following the Niigata Chuetsu Earthquake*. Figures are only income amounts as variations in construction suspense accounts are not included in the survey. In addition, figures in italics indicate figures that are solely from this survey, as those results of the *Supplemental Survey* are concealed. As a result, the total of each breakdown is not consistent with manufacturing industry total.
7. Due to changes to survey items, the figures for value added since 2007 shown in (3) are not continuous with those for previous years.
8. Revisions made to the figures published in the 2003-05 *Census of Manufactures* mean that they differ from those given in the Supplementary Statistical Data published in *White Papers on Small and Medium Enterprises in Japan* up to 2010.
9. Number of workers of each year are figures as of December 31. However, for 2011, figures are as of February 1, 2012.

Table 10 Number of business establishments and workers and value of sales in wholesale trade

(1) Number of business establishments and workers — Lower row: % of total

No. of workers	No. of business establishments (1,000)									No. of workers (1,000)								
	1991	1994	1997	1999	2002	2004	2007	2011	2014	1991	1994	1997	1999	2002	2004	2007	2011	2014
1-2	101.8 (21.4)	90.4 (21.1)	83.1 (21.2)	95.5 (22.4)	84.7 (22.3)	86.4 (23.0)	77.2 (23.1)	73.0 (27.3)	69.2 (26.2)	177.5 (3.7)	158.2 (3.5)	144.1 (3.5)	155.4 (3.5)	143.5 (3.6)	145.2 (3.8)	128.8 (3.7)	116.0 (4.2)	110.5 (4.0)
3-4	123.3 (25.9)	103.0 (24.0)	94.1 (24.0)	98.2 (23.1)	88.7 (23.4)	89.7 (23.9)	78.4 (23.4)	62.0 (23.2)	60.1 (22.8)	424.8 (8.9)	356.4 (7.8)	325.4 (7.8)	339.8 (7.6)	306.8 (7.7)	309.7 (8.1)	270.8 (7.7)	212.0 (7.6)	206.8 (7.5)
5-9	132.1 (27.8)	120.1 (28.0)	109.0 (27.8)	118.1 (27.7)	105.4 (27.8)	102.9 (27.4)	90.8 (27.1)	68.0 (25.5)	68.4 (25.9)	861.1 (18.0)	786.0 (17.2)	714.4 (17.2)	774.1 (17.2)	690.5 (17.3)	674.0 (17.7)	595.0 (16.9)	445.0 (16.0)	449.6 (16.3)
10-19	70.5 (14.8)	67.8 (15.8)	61.8 (15.8)	67.2 (15.8)	59.7 (15.7)	57.3 (15.3)	52.1 (15.6)	38.0 (14.2)	39.1 (14.8)	937.9 (19.7)	901.8 (19.7)	823.2 (19.8)	895.4 (19.9)	795.3 (19.9)	764.2 (20.1)	695.4 (19.7)	509.0 (18.4)	521.7 (18.9)
20-49	36.4 (7.6)	36.0 (8.4)	32.7 (8.4)	35.4 (8.3)	30.9 (8.1)	29.6 (7.9)	27.6 (8.2)	20.0 (7.5)	20.5 (7.8)	1,066.1 (22.3)	1,055.4 (23.0)	960.6 (23.1)	1,038.4 (23.1)	904.9 (22.6)	866.8 (22.8)	809.9 (23.0)	594.0 (21.4)	598.9 (21.7)
50-99	8.4 (1.8)	8.4 (2.0)	7.6 (1.9)	8.1 (1.9)	7.1 (1.9)	6.5 (1.7)	6.1 (1.8)	4.0 (1.5)	4.4 (1.7)	567.6 (11.9)	565.2 (12.3)	514.5 (12.4)	546.4 (12.2)	477.9 (11.9)	433.2 (11.4)	408.9 (11.6)	294.0 (10.6)	297.3 (10.8)
1-99	472.5 (99.3)	425.7 (99.2)	388.4 (99.2)	422.5 (99.2)	376.4 (99.2)	372.4 (99.2)	332.1 (99.2)	265.0 (99.3)	261.7 (99.2)	4,034.8 (84.5)	3,823.1 (83.4)	3,482.3 (83.6)	3,749.4 (83.4)	3,319.0 (82.9)	3,193.1 (83.9)	2,908.8 (82.5)	2,169.0 (78.2)	2,184.7 (79.2)
100 or more	3.5 (0.7)	3.6 (0.8)	3.2 (0.8)	3.3 (0.8)	3.1 (0.8)	2.8 (0.8)	2.7 (0.8)	2.0 (0.7)	2.2 (0.9)	737.9 (15.5)	758.3 (16.6)	682.4 (16.4)	746.8 (16.6)	683.0 (17.1)	610.5 (16.1)	617.5 (17.5)	604.0 (21.8)	574.0 (20.8)
Total	476.0	429.3	391.6	425.9	379.5	375.3	334.8	267.0	263.9	4,772.7	4,581.4	4,164.7	4,496.2	4,002.0	3,803.7	3,526.3	2,773.1	2,758.8

(2) Total sales during the year and total sales during the year per worker — Lower row: % of total

No. of workers	Total sales during the year (¥ billion)									Total sales during the year per worker (¥10,000)								
	1991	1994	1997	1999	2002	2004	2007	2011	2014	1991	1994	1997	1999	2002	2004	2007	2011	2014
1-2	8,162 (1.4)	6,595 (1.3)	6,524 (1.4)	7,122 (1.4)	6,703 (1.6)	6,761 (1.7)	6,466 (1.6)	8,689 (2.6)	8,681 (2.4)	4,626	4,180	4,541	4,589	4,685	4,664	5,031	7,491	7,858
3-4	23,788 (4.2)	19,413 (3.8)	18,761 (3.9)	18,269 (3.7)	16,468 (4.0)	16,347 (4.0)	15,643 (3.8)	14,247 (4.2)	14,074 (4.0)	5,610	5,453	5,774	5,380	5,379	5,284	5,784	6,720	6,807
5-9	64,403 (11.2)	54,115 (10.5)	53,712 (11.2)	51,949 (10.5)	46,523 (11.3)	45,869 (11.3)	45,721 (11.1)	38,718 (11.4)	39,323 (11.0)	7,487	6,890	7,526	6,714	6,746	6,809	7,693	8,701	8,746
10-19	82,024 (14.3)	72,162 (14.0)	71,782 (15.0)	71,069 (14.3)	61,319 (14.8)	61,045 (15.1)	62,742 (15.2)	50,151 (14.7)	52,364 (14.7)	8,753	8,008	8,727	7,940	7,721	7,993	9,032	9,853	10,037
20-49	108,734 (19.0)	98,992 (19.2)	96,020 (20.0)	97,431 (19.7)	83,828 (20.3)	85,057 (21.0)	83,458 (20.2)	65,639 (19.3)	64,253 (18.0)	10,212	9,385	10,006	9,387	9,275	9,821	10,321	11,050	10,728
50-99	68,696 (12.0)	64,689 (12.6)	61,076 (12.7)	62,778 (12.7)	51,321 (12.4)	52,348 (12.9)	52,100 (12.6)	42,625 (12.5)	42,807 (12.0)	12,122	11,452	11,878	11,499	10,746	12,093	12,751	14,498	14,399
1-99	355,807 (62.1)	315,966 (61.4)	307,875 (64.2)	308,618 (62.3)	266,162 (64.4)	267,426 (66.0)	266,130 (64.4)	220,069 (64.6)	221,502 (62.1)	8,831	8,272	8,851	8,235	8,031	8,381	9,161	10,146	10,139
100 or more	217,358 (37.9)	198,351 (38.6)	171,939 (35.8)	186,835 (37.7)	147,192 (35.6)	138,071 (34.0)	147,402 (35.6)	120,369 (35.4)	135,150 (37.9)	29,468	26,181	25,212	25,022	21,567	22,627	23,896	19,929	23,544
Total	573,165	514,317	479,813	495,453	413,355	405,497	413,532	340,438	356,652	12,024	11,236	11,533	11,024	10,342	10,668	11,741	12,276	12,928

Sources: METI, *Census of Commerce*; MIC, METI, *2012 Economic Census for Business Activity*; MIC, *2014 Economic Census for Business Frame*.

Notes:
1. The figures for 1991 were tabulated according to the January 1984 revised system of industry classification, the figures for 1994-1999 according to the May 1993 revised system, the figures for 2002-2007 according to the March 2002 revised system, the figures for 2012 according to the November 2007 revised system, and the figures for 2014 according to the October 2013 revised system.
2. The 1999 survey was conducted at the same time as the MIC's *Establishment and Enterprise Census* (a simplified questionnaire was used for both surveys), which determines existing business establishments. 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.
5. Number of business establishments and workers of 2011 are figures as of February 1, 2012.

Table 11 Number of business establishments and workers and value of sales in retail trade

(1) Number of business establishments and workers — Lower row: % of total

No. of workers	No. of business establishments (1,000)									No. of workers (1,000)								
	1991	1994	1997	1999	2002	2004	2007	2011	2014	1991	1994	1997	1999	2002	2004	2007	2011	2014
1-2	847.2 53.2	764.8 51	709.0 49.9	685.0 48.7	603.4 46.4	568.8 45.9	503.8 44.3	351.0 44.8	316.7 40.8	1,381.3 19.9	1,240.0 16.8	1,146.0 15.6	1,035.1 12.9	966.3 12.1	906.8 11.7	795.1 10.5	557.8 10.1	498.5 8.6
3-4	416.9 26.2	370.9 24.7	350.3 24.7	317.2 22.5	297.6 22.9	284.1 22.9	252.7 22.2	171.9 22.0	168.6 21.8	1,404.5 20.2	1,256.1 17	1,186.6 16.1	1,076.0 13.4	1,011.4 12.7	962.4 12.4	859.1 11.3	583.4 10.5	574.5 9.9
5-9	214.0 13.4	222.6 14.8	212.4 15	226.8 16.1	218.7 16.8	207.7 16.8	201.8 17.7	133.3 17.0	146.0 18.8	1,336.9 19.3	1,405.2 19	1,342.5 18.3	1,448.8 18	1,404.5 17.6	1,334.9 17.2	1,302.2 17.2	859.9 15.5	947.3 16.3
10-19	71.9 4.5	89.6 6	93.5 6.6	111.9 8	114.8 8.8	112.4 9.1	114.4 10.1	75.8 9.7	88.0 11.4	948.2 13.7	1,187.2 16.1	1,248.3 17	1,503.8 18.7	1,543.0 19.4	1,516.5 19.5	1,543.1 20.4	1,029.3 18.6	1,193.6 20.5
20-49	33.1 2.1	42.0 2.8	43.3 3.1	51.9 3.7	50.7 3.9	50.2 4.1	49.6 4.4	37.3 4.8	42.3 5.5	956.4 13.8	1,200.9 16.3	1,232.2 16.8	1,470.3 18.3	1,439.8 18.1	1,421.6 18.3	1,403.7 18.5	1,068.5 19.3	1,204.0 20.7
1-49	1,583.1 99.5	1,489.9 99.3	1,408.5 99.2	1,392.8 99	1,285.1 98.9	1,223.1 98.8	1,122.3 98.6	769.2 98.3	761.6 98.2	6,027.3 86.9	6,289.4 85.2	6,155.7 83.7	6,534.0 81.4	6,364.9 79.8	6,142.2 79.1	5,903.3 77.9	4,098.8 74.0	4,418.0 76.0
50 or more	8.1 0.5	10.1 0.7	11.2 0.8	14.1 1	14.9 1.1	14.9 1.2	15.5 1.4	13.6 1.7	13.6 1.8	909.2 13.1	1,094.7 14.8	1,195.1 16.3	1,494.6 18.6	1,607.9 20.2	1,620.1 20.9	1,676.1 22.1	1,437.0 26.0	1,393.0 24.0
Total	1,591.2	1,499.9	1,419.7	1,406.9	1,300.1	1,238.0	1,137.9	782.9	775.2	6,936.5	7,384.2	7,350.7	8,028.6	7,972.8	7,762.3	7,579.4	5,535.8	5,810.9

(2) Total sales during the year and total sales during the year per worker — Lower row: % of total

No. of workers	Total sales during the year (¥ billion)									Total sales during the year per worker (¥10,000)								
	1991	1994	1997	1999	2002	2004	2007	2011	2014	1991	1994	1997	1999	2002	2004	2007	2011	2014
1-2	15,224 10.8	13,332 9.3	12,485 8.5	10,830 7.5	8,816 6.5	8,411 6.3	7,251 5.4	5,537 5.0	5,577 4.6	1,102	1,075	1,089	1,046	912	928	912	993	1,119
3-4	23,006 16.4	20,054 14	19,573 13.2	15,464 10.8	13,457 10	12,646 9.5	11,891 8.8	8,632 7.8	9,296 7.6	1,638	1,597	1,650	1,437	1,331	1,314	1,384	1,480	1,618
5-9	28,878 20.5	28,999 20.2	28,558 19.3	26,305 18.3	24,398 18.1	23,395 17.6	24,012 17.8	17,716 16.0	20,863 17.1	2,160	2,064	2,127	1,816	1,737	1,753	1,844	2,060	2,202
10-19	21,409 15.2	23,826 16.6	26,051 17.6	27,050 18.8	26,510 19.6	26,253 19.7	27,488 20.4	21,466 19.4	25,524 20.9	2,258	2,007	2,087	1,799	1,718	1,731	1,781	2,085	2,138
20-49	21,151 15	23,919 16.7	25,198 17.1	25,774 17.9	24,223 17.9	24,445 18.3	24,854 18.5	21,366 19.3	24,559 20.1	2,212	1,992	2,045	1,753	1,682	1,720	1,771	2,000	2,040
1-49	109,668 78	110,131 76.8	111,865 75.7	105,423 73.3	97,404 72.1	95,151 71.4	95,495 70.9	74,717 67.6	85,819 70.2	1,820	1,751	1,817	1,613	1,530	1,549	1,618	1,823	1,942
50 or more	30,971 22	33,194 23.2	35,878 24.3	38,410 26.7	37,706 27.9	38,128 28.6	39,210 29.1	35,773 32.4	36,358 29.8	3,406	3,032	3,002	2,570	2,345	2,353	2,339	2,489	2,610
Total	140,638	143,325	147,743	143,833	135,109	133,279	134,705	110,490	122,177	2,028	1,941	2,010	1,792	1,695	1,717	1,777	1,996	2,103

Sources: METI, *Census of Commerce*; MIC, METI, *2012 Economic Census for Business Activity*; MIC, *2014 Economic Census for Business Frame*.

Notes:
1. The figures for 1991 were tabulated according to the January 1984 revised system of industry classification, the figures for 1994-1999 according to the May 1993 revised system, the figures for 2002-2007 according to the March 2002 revised system, the figures for 2012 according to the November 2007 revised system, and the figures for 2014 according to the October 2013 revised system.
2. The 1999 survey was conducted at the same time as the MIC's *Establishment and Enterprise Census* (a simplified questionnaire was used for both surveys), which determines existing business establishments. 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. Number of business establishments and workers of 2011 are figures as of February 1, 2012.

Table 12 State of corporate bankruptcies

(1) No. of corporate bankruptcies and debts (Unit: no. of bankruptcies, ¥100 million)

Category \ Year		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of bankruptcies	Overall	16,255	13,679	12,998	13,245	14,091	15,646	15,480	13,321	12,734	12,124	10,855	9,731	8,812
	Enterprises with capital stock of under ¥100 million	15,877	13,392	12,755	13,011	13,826	15,257	15,130	13,074	12,543	11,958	10,731	9,611	8,729
Debts	Overall	115,818	78,177	67,035	55,006	57,279	122,920	69,301	71,608	35,929	38,346	27,823	18,741	21,123
	Enterprises with capital stock of under ¥100 million	57,651	53,656	47,209	37,598	37,264	42,732	38,223	26,778	27,915	22,076	18,544	14,498	15,292

(2) No. of bankruptcies and debts by industry (Unit: no. of bankruptcies, ¥100 million)

Industry \ Year		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Construction	No. of bankruptcies	5,113	4,002	3,783	3,855	4,018	4,467	4,087	3,523	3,391	3,002	2,421	1,965	1,686
	Debts	15,591	11,037	8,439	7,282	8,124	12,765	9,135	5,277	4,816	4,030	8,072	2,357	1,935
Manufacturing	No. of bankruptcies	2,787	2,195	1,971	1,856	2,022	2,341	2,619	2,095	1,901	1,790	1,690	1,403	1,290
	Debts	13,060	6,643	6,393	6,317	6,239	9,847	11,705	5,476	6,608	11,374	4,166	3,208	2,973
Commerce	No. of bankruptcies	4,573	3,811	3,512	3,664	3,893	4,068	3,885	3,258	3,130	3,221	2,969	2,639	2,556
	Debts	14,745	10,619	7,909	7,242	7,726	9,878	9,743	6,948	6,228	4,664	4,810	3,309	4,012
Real estate	No. of bankruptcies	574	518	485	465	463	575	596	441	420	367	315	340	273
	Debts	24,892	15,352	17,058	13,642	13,293	20,793	17,670	5,866	2,359	2,214	1,820	3,427	914
Financial and insurance	No. of bankruptcies	75	61	95	70	71	107	92	70	54	58	69	49	39
	Debts	8,096	1,982	3,065	1,571	2,243	54,885	9,563	13,198	2,805	4,424	2,213	743	1,788
Services	No. of bankruptcies	2,380	2,245	2,329	2,499	2,713	2,911	2,966	2,798	2,812	2,608	2,420	2,441	2,136
	Debts	31,919	29,408	21,009	15,094	16,083	10,705	8,370	14,752	6,504	7,884	4,314	3,743	4,502
Other	No. of bankruptcies	753	847	823	836	911	1,177	1,235	1,136	1,026	1,078	971	894	832
	Debts	7,515	3,136	3,162	3,858	3,572	4,047	3,115	20,091	6,608	3,755	2,428	1,954	5,000
Total	No. of bankruptcies	16,255	13,679	12,998	13,245	14,091	15,646	15,480	13,321	12,734	12,124	10,855	9,731	8,812
	Debts	115,818	78,177	67,035	55,006	57,279	122,920	69,301	71,608	35,929	38,346	27,823	18,741	21,124

(3) Breakdown of number of bankruptcies by cause (Unit: %)

Cause \ Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Slump in sales	62.9	65.8	65.2	63.4	64.9	65.2	69.4	74.8	73.5	70.7	68.8	68.9	67.6
Careless management	7.3	7.6	7.8	8.2	6.6	6.3	5.3	3.9	4.1	4.7	4.7	5.0	4.3
Chain reaction bankruptcy	8.2	7.3	6.9	7.1	7.1	7.7	6.5	5.8	5.6	5.9	5.6	5.7	6.3
Past difficulties	12.5	10.0	10.9	11.5	10.9	10.3	9.6	7.8	8.5	10.9	12.6	12.1	12.9
Other	9.1	9.2	9.2	9.8	10.5	10.5	9.2	7.8	8.3	7.8	8.2	8.3	9.0

Source: Tokyo Shoko Research, Ltd., *Bankruptcy White Paper*.
Notes: 1. Only enterprises with debts of at least ¥10 million are included.
2. (2) is tabulated using the revised industry code from fiscal 2004 onward. Data up to 2003 are not corrected retrospectively.
3. The figures in (3) do not necessarily sum to 100 due to rounding to one decimal place.

Table 13 Outstanding lending to SMEs by type of financial institution

(Unit: ¥ trillion)

Financial institution \ Year	2010				2011				2012			
Month	3	6	9	12	3	6	9	12	3	6	9	12
Domestically-licensed banks' banking accounts total	177.6	173.2	174.4	173.7	174.8	169.6	171.2	171.4	172.5	168.5	170.3	170.1
Domestically-licensed banks' trust accounts, etc.	0.7	0.6	0.7	0.6	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.5
Credit unions	42.1	41.4	41.7	42.0	41.5	41.0	41.4	41.6	41.3	40.7	41.1	41.0
Credit cooperatives	9.4	9.3	9.4	9.4	9.4	9.4	9.4	9.5	9.5	9.4	9.5	9.5
Private-sector financial institutions total	229.8	224.6	226.2	225.8	226.3	220.6	222.5	222.9	223.6	219.0	221.3	221.1
Private-sector financial institutions total (excluding trust accounts, etc.)	229.1	224.0	225.5	225.1	225.7	220.0	222.0	222.4	223.3	218.6	220.9	220.6
Shoko Chukin Bank	9.4	9.3	9.4	9.5	9.5	9.5	9.5	9.7	9.6	9.6	9.5	9.5
Japan Finance Corporation (Small and Medium Enterprise Unit)	6.2	6.2	6.2	6.3	6.4	6.4	6.4	6.5	6.4	6.4	6.4	6.5
Japan Finance Corporation (Micro Business and Individual Unit)	6.5	6.6	6.6	6.7	6.5	6.6	6.5	6.6	6.4	6.5	6.4	6.5
Government-affiliated financial institutions total	22.1	22.1	22.2	22.5	22.5	22.5	22.5	22.7	22.5	22.5	22.3	22.5
Total outstanding lending to SMEs	251.9	246.7	248.4	248.3	248.8	243.4	244.9	245.6	246.1	241.5	243.7	243.6
Total outstanding lending to SMEs (excluding trust accounts, etc.)	251.2	246.0	247.7	247.6	248.2	242.5	244.4	245.2	245.8	241.1	243.2	243.1

Financial institution \ Year	2013				2014				2015			
Month	3	6	9	12	3	6	9	12	3	6	9	12
Domestically-licensed banks' banking accounts total	172.0	168.0	171.1	173.2	174.9	170.8	174.5	176.8	178.9	176.1	179.7	182.4
Domestically-licensed banks' trust accounts, etc.	0.5	0.5	0.6	0.6	0.6	0.7	0.8	0.7	0.8	0.9	1.0	1.1
Credit unions	40.9	40.4	40.9	41.3	41.2	40.8	41.6	42.1	41.9	41.5	42.3	42.8
Credit cooperatives	9.6	9.5	9.6	9.7	9.8	9.7	9.9	10.0	10.0	10.0	10.1	10.2
Private-sector financial institutions total	222.9	218.3	222.1	224.8	226.5	222.1	226.7	229.5	231.7	228.5	233.1	236.5
Private-sector financial institutions total (excluding trust accounts, etc.)	222.4	217.9	221.5	224.2	225.8	221.4	225.9	228.8	230.9	227.6	232.1	235.4
Shoko Chukin Bank	9.5	9.5	9.4	9.5	9.4	9.5	9.4	9.6	9.5	9.5	9.5	9.6
Japan Finance Corporation (Small and Medium Enterprise Unit)	6.5	6.4	6.4	6.4	6.3	6.3	6.3	6.2	6.2	6.1	6.1	6.0
Japan Finance Corporation (Micro Business and Individual Unit)	6.4	6.4	6.4	6.5	6.4	6.3	6.3	6.4	6.3	6.2	6.2	6.2
Government-affiliated financial institutions total	22.4	22.4	22.2	22.4	22.2	22.1	22.0	22.2	21.9	21.8	21.7	21.9
Total outstanding lending to SMEs	245.3	240.7	244.3	247.2	248.6	244.2	248.6	251.7	253.5	250.3	254.8	258.4
Total outstanding lending to SMEs (excluding trust accounts, etc.)	244.8	240.3	243.7	246.6	248.0	243.5	247.9	251.0	252.7	249.4	253.8	257.3

Source: Compiled by the SME Agency from sources including BOJ, *Financial and Economic Statistics Monthly*.

Notes:
1. Outstanding lending to SMEs through domestically-licensed banking accounts, trust accounts, etc. indicates lending to enterprises (corporate enterprises and sole proprietorships) with capital stock of ¥300 million or less (¥100 million or less in wholesale trade, ¥50 million or less in retail trade, eating and drinking places, and services) or 300 or fewer regular employees (100 or fewer in wholesale trade and services, 50 or fewer in retail trade and eating and drinking places).
2. From June 1999 onward, domestically-licensed banks' trust accounts, etc. includes overseas branch accounts (to domestic borrowers).
3. Outstanding lending to SMEs by credit unions is total outstanding lending excluding lending to individuals, local governments, overseas yen loans and domestic loans transferred overseas.
4. Outstanding lending to SMEs by credit cooperatives is total outstanding lending including lending to individuals and local governments, etc.
5. Until September 2008, outstanding lending of the Japan Finance Corporation (Small and Medium Enterprise Unit) was the total outstanding lending by former Japan Finance Corporation for Small and Medium Enterprise. The outstanding lending does not include equipment loan lending and outstanding lending to small and medium business investment consultation companies.
6. Until September 2008, outstanding lending of the Japan Finance Corporation (Micro Business and Individual Unit) was the total outstanding lending by former National Life Finance Corporation.
7. Sources are as of the end of March 2015. Figures may be retroactively revised.

Table 14 Sales and operating costs of SMEs (surveyed industries)

(Unit: ¥ million)

Financial results for FY 2013	Total						
	Total	Corporate enterprises (no. of workers)					Sole proprietorship
			5 or fewer	6-20	21-50	51 or more	
No. of enterprises in parent population	3,185,491	1,503,501	963,135	368,309	109,964	62,094	1,681,989
No. of workers	27,362,718	22,819,551	3,925,110	5,114,846	4,070,292	9,709,303	4,543,168
Sales	492,822,162	469,225,650	78,180,275	108,225,244	90,545,244	192,274,887	23,596,512
Cost of sales	364,855,885	354,316,321	53,304,999	79,286,821	69,799,762	151,924,738	10,539,564
Cost of goods purchased	…	182,328,707	34,573,705	43,863,522	35,551,298	68,340,181	…
Material costs	…	47,970,871	3,465,229	7,903,367	8,467,022	28,135,253	…
Labor costs	…	32,214,459	2,426,194	5,285,564	6,461,494	18,041,208	…
Outsourcing costs	…	49,424,427	7,746,309	13,919,072	10,838,513	16,920,533	…
Depreciation costs	…	4,585,296	455,240	688,475	978,772	2,462,810	…
Other costs	…	37,792,559	4,638,322	7,626,821	7,502,663	18,024,753	…
Gross margin	127,966,277	114,909,330	24,875,276	28,938,423	20,745,482	40,350,149	13,056,948
Selling and general administrative expenses	111,747,878	102,614,233	23,010,510	26,600,450	18,712,606	34,290,666	9,133,645
Personnel costs	48,928,717	46,644,844	9,788,203	12,431,190	8,880,385	15,545,067	2,283,872
Rent	6,749,635	6,034,649	1,878,562	1,340,082	877,700	1,938,305	714,986
Utilities expense	…	2,244,119	561,296	615,037	374,530	693,256	…
Freight and packing costs	…	3,926,198	296,792	645,461	708,604	2,275,340	…
Sales commission	…	2,250,528	299,259	463,445	348,661	1,139,163	…
Advertising expenses	…	1,897,627	245,683	439,200	287,063	925,681	…
Entertainment expenses	…	1,486,231	489,716	466,611	246,757	283,148	…
Depreciation costs	5,953,793	5,098,799	1,334,978	1,300,921	844,266	1,618,633	854,994
Employee training costs	…	162,217	20,072	38,506	39,467	64,172	…
Taxes and public charges	3,372,964	2,866,727	963,809	795,869	477,390	629,659	506,237
Other costs	34,775,850	30,002,294	7,132,141	8,064,128	5,627,783	9,178,241	4,773,556
Operating profit	16,218,400	12,295,097	1,864,766	2,337,972	2,032,877	6,059,483	3,923,303
Non-operating profit and loss	…	2,497,939	340,094	605,530	685,602	866,713	…
Non-operating revenue	…	6,463,286	1,295,141	1,730,630	1,354,133	2,083,382	…
Non-operating expenses	…	3,965,347	955,047	1,125,101	668,531	1,216,668	…
Interest and discount expense	…	2,611,347	694,146	798,598	444,722	673,882	…
Other costs	…	1,354,000	260,901	326,503	223,809	542,787	…
Ordinary profit (ordinary loss)	18,716,339	14,793,036	2,204,860	2,943,502	2,718,478	6,926,196	3,923,303
Extraordinary profit	…	6,104,398	3,668,864	606,755	756,775	1,072,004	…
Extraordinary loss	…	4,181,712	744,135	879,236	860,121	1,698,220	…
Pretax net profit (pretax net loss)	…	16,715,722	5,129,589	2,671,021	2,615,132	6,299,980	…
After-tax net profit (after-tax net loss)	…	10,821,129	3,355,043	1,807,698	1,686,796	3,971,592	…

Source: SME Agency, *Basic Survey of Small and Medium Enterprises*.

Notes:
1. Survey results are estimates based on the *2014 Basic Survey of Small and Medium Enterprises (End-of-fiscal-year Results for Fiscal 2013) (Preliminary Report)* conducted in August 2014.
2. The number of enterprises in the parent population is the estimated figure as of August 2014 based on the *2012 Economic Census for Business Activity* taking into consideration entries, exits, and changes in size according to industry (medium group) and number of workers.
3. These results are the results of estimates of a survey of conditions among SMEs (including sole proprietorships) belonging to the following divisions of industry according to the *Japan Standard Industrial Classification*: construction, manufacturing, information and communications, transport and postal activities (excluding certain industries), wholesale trade, retail trade, real estate and goods rental and leasing, scientific research, professional and technical services (excluding certain industries), accommodations, eating and drinking services, living-related and personal services and amusement services, services (not elsewhere classified) (excluding certain industries).
4. "Other costs" under totals and sole proprietorships' selling and general administrative expenses includes utilities, freight and packing, sales charges, advertising costs, entertainment costs, and employee training costs.
5. The ordinary profit of sole proprietorships is income before deduction of employees' (family employees') pay.
6. Items that were not surveyed in the case of sole proprietorships are treated as unknown (indicated by "…" in the table).

Table 15 State of SME capital (balance sheet)

(Unit: ¥ million)

Financial results for FY 2013	Total				
	Total	5 or fewer	6-20	21-50	51 or more
No. of enterprises in parent population	1,503,501	963,135	368,309	109,964	62,094
No. of workers	22,819,551	3,925,110	5,114,846	4,070,292	9,709,303
No. of joint stock company	773,213	396,319	230,884	88,598	57,411
No. of enterprises that have set a restriction on transfer of shares	602,377	291,797	184,325	75,022	51,233
Assets	406,179,021	93,830,700	87,878,609	79,337,740	145,131,973
Liquid assets	220,829,869	42,036,877	49,331,869	45,985,413	83,475,710
Cash and deposits	85,749,111	20,744,487	19,821,554	17,088,752	28,094,318
Bills receivable and account receivable	62,517,924	8,039,693	12,485,765	13,784,099	28,208,368
Securities	4,750,920	926,863	648,725	1,236,697	1,938,634
Inventory assets	34,646,156	6,161,441	8,107,071	7,199,914	13,177,730
Other liquid assets	33,165,758	6,164,393	8,268,754	6,675,952	12,056,659
Fixed assets	184,181,842	51,533,809	38,266,674	33,107,602	61,273,757
Tangible fixed assets	132,933,911	33,709,999	29,443,153	24,919,405	44,861,354
Buildings, structures and accessory equipment for buildings	53,094,309	15,035,337	11,650,885	9,281,652	17,126,435
Machinery and equipment	14,223,524	1,902,711	2,703,340	2,409,667	7,207,805
Ships and vessels, motor vehicles and transport equipment, industrial tools, appliances, and fixtures	9,624,468	2,082,160	2,031,320	2,018,307	3,492,680
Leased assets	1,957,442	419,828	286,043	372,483	879,088
Land	65,137,059	16,546,927	15,177,374	12,579,483	20,833,275
Construction in progress	1,347,636	237,196	94,282	157,464	858,694
Other tangible fixed assets	2,162,659	378,449	593,203	363,488	827,520
Accumulated depreciation	-14,613,185	-2,892,610	-3,093,293	-2,263,139	-6,364,143
Intangible fixed assets	3,037,812	819,605	759,608	587,333	871,266
Investments and other assets	48,210,119	17,004,204	8,063,913	7,600,864	15,541,138
Deferred assets	1,167,309	260,014	280,065	244,724	382,505
Liabilities and net assets	406,179,021	93,830,700	87,878,609	79,337,740	145,131,973
Liabilities	254,930,856	66,846,645	53,759,509	50,638,164	83,686,538
Current liabilities	134,810,014	28,552,910	27,539,587	29,166,184	49,551,333
Bills for payment and accounts payable	48,247,861	6,103,426	9,026,738	11,315,580	21,802,116
Short-term borrowings (financial institutions)	29,846,285	5,970,728	6,749,479	6,332,775	10,793,303
Short-term borrowings (other than financial institutions)	13,068,310	7,064,289	2,722,983	1,187,809	2,093,229
Lease debts	470,802	66,385	109,606	103,288	191,523
Other current liabilities	43,176,756	9,348,082	8,930,780	10,226,732	14,671,162
Fixed liabilities	120,120,842	38,293,735	26,219,922	21,471,980	34,135,205
Corporate bonds	2,552,884	360,019	482,290	501,733	1,208,842
Long-term borrowings (financial institutions)	77,890,771	21,283,397	19,909,938	15,210,131	21,487,306
Long-term borrowings (other than financial institutions)	18,420,255	9,736,385	3,556,625	2,187,913	2,939,332
Lease debts	1,535,978	135,821	159,016	303,171	937,970
Other fixed liabilities	19,720,954	6,778,113	2,112,054	3,269,032	7,561,755
Net assets	151,248,165	26,984,055	34,119,100	28,699,576	61,445,435
Shareholders' equity	139,182,083	21,578,162	32,321,544	27,197,772	58,084,604
Capital funds	18,163,619	7,403,667	5,026,222	2,727,438	3,006,292
Capital surplus	7,517,338	992,159	943,908	1,936,092	3,645,179
Retained earnings	115,764,216	13,699,291	26,956,594	22,847,579	52,260,752
Own shares	-2,263,091	-516,955	-605,181	-313,337	-827,618
Other net assets	12,066,082	5,405,892	1,797,556	1,501,803	3,360,831

Source: SME Agency, *Basic Survey of Small and Medium Enterprises*.

Notes:
1. Survey results are estimates based on the *2014 Basic Survey of Small and Medium Enterprises (End-of-fiscal-year Results for Fiscal 2013) (Preliminary Report)* conducted in August 2014.
2. The number of enterprises in the parent population is the estimated figure as of August 2014 based on the *2012 Economic Census for Business Activity* taking into consideration entries, exits, and changes in size according to industry (medium group) and number of workers.
3. These results are the results of estimates of a survey of conditions among SMEs (including sole proprietorships) belonging to the following divisions of industry according to the *Japan Standard Industrial Classification*: construction, manufacturing, information and communications, transport and postal activities (excluding certain industries), wholesale trade, retail trade, real estate and goods rental and leasing, scientific research, professional and technical services (excluding certain industries), accommodations, eating and drinking services, living-related and personal services and amusement services, services (not elsewhere classified) (excluding certain industries).

Table 16 Financial status, profit status and key financial indices of corporate enterprises (median values)

(1) All industries (non primary industry)

Item \ Size		SMEs				Large enterprises			
Item \ FY		2011	2012	2013	2014	2011	2012	2013	2014
Finances and profits	Sales	44,150	45,500	45,300	47,800	2,510,800	2,568,450	2,673,850	2,732,900
	Total assets	57,900	57,900	58,900	60,850	2,159,600	2,245,700	2,314,400	2,336,500
	Value added	10,800	11,100	11,300	11,900	501,250	510,800	526,650	532,900
	(Personnel costs)	8,100	8,000	8,200	8,400	343,750	355,500	354,350	359,600
	(Interest expenses)	100	100	100	100	2,900	2,600	2,200	2,000
	No. of employees (including officers)	19	19	19	20	576	585	574	574
Key financial indices	Quick ratio	106.3	109.5	110.5	111.9	90.5	92.3	93.7	93.7
	Equity ratio	33.1	33.7	34.7	36.2	41.6	43.5	44.1	44.9
	Ratio of operating profit to total capital	1.7	1.8	1.9	2.1	3.4	3.5	3.9	3.9
	Ratio of ordinary profit to sales	1.8	2.1	2.3	2.5	3.1	3.4	3.8	3.9
	Total capital turnover	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.2
	Interest rate on borrowing	1.3	1.2	1.1	1.0	1.4	1.3	1.2	1.1
	Value-added ratio	26.3	26.3	26.1	26.2	22.1	21.8	22.0	21.9
	Labor productivity	523	526	533	542	824	840	872	888
	Capital-labor ratio	458	448	435	443	755	752	751	730
	Ratio of fixed assets to long-term capital	58.6	58.1	56.7	55.2	58.7	57.7	57.5	57.2
	Debt redemption period (years)	11.5	10.9	10.2	9.2	3.7	3.5	3.3	3.2

(2) Manufacturing

Item \ Size		SMEs				Large enterprises			
Item \ FY		2011	2012	2013	2014	2011	2012	2013	2014
Finances and profits	Sales	125,100	122,700	122,200	129,900	3,676,250	3,718,600	3,761,700	3,850,900
	Total assets	125,500	122,000	123,000	129,600	3,765,800	3,872,850	3,933,250	4,034,400
	Value added	27,500	25,600	25,600	27,700	717,900	698,950	724,650	753,800
	(Personnel costs)	22,200	21,200	20,900	22,300	527,400	519,550	526,850	526,400
	(Interest expenses)	200	200	200	200	5,600	5,100	4,700	3,800
	No. of employees (including officers)	50	48	48	49	788	794	783	778
Key financial indices	Quick ratio	107.8	110.0	109.0	111.3	91.2	92.5	95.4	96.5
	Equity ratio	34.0	34.5	35.7	36.9	48.0	49.4	50.6	51.8
	Ratio of operating profit to total capital	2.2	2.0	2.1	2.3	3.0	3.1	3.7	3.6
	Ratio of ordinary profit to sales	2.1	2.1	2.3	2.5	3.7	4.1	4.9	5.2
	Total capital turnover	1.1	1.1	1.1	1.1	0.9	0.9	0.9	0.9
	Interest rate on borrowing	1.3	1.2	1.1	1.0	1.3	1.2	1.1	1.0
	Value-added ratio	24.9	24.5	24.6	24.8	21.1	21.1	21.5	21.4
	Labor productivity	544	543	544	556	898	897	944	970
	Capital-labor ratio	594	591	583	581	1,075	1,088	1,072	1,066
	Ratio of fixed assets to long-term capital	57.0	56.8	56.9	54.5	62.9	62.5	61.5	61.9
	Debt redemption period (years)	8.9	9.2	9.0	8.0	3.3	3.4	3.2	3.0

(3) Wholesale and retail trade

Item \ Size		SMEs				Large enterprises			
Item \ FY		2011	2012	2013	2014	2011	2012	2013	2014
Finances and profits	Sales	50,871	55,400	50,450	56,500	3,003,000	3,044,500	3,199,000	3,304,100
	Total assets	37,500	36,700	34,950	39,550	1,718,700	1,772,600	1,854,900	1,867,400
	Value added	7,200	7,000	7,200	7,400	339,400	343,000	334,100	342,200
	(Personnel costs)	5,700	5,700	5,700	5,821	209,300	214,600	219,600	220,900
	(Interest expenses)	100	100	39	43	3,000	2,600	2,500	2,100
	No. of employees (including officers)	14	14	14	15	385	389	384	392
Key financial indices	Quick ratio	95.4	100.9	101.1	101.9	80.0	80.9	81.6	80.8
	Equity ratio	22.7	24.6	25.4	26.7	32.8	34.6	34.0	35.2
	Ratio of operating profit to total capital	1.3	1.4	1.4	1.4	3.4	3.2	3.5	3.2
	Ratio of ordinary profit to sales	0.8	0.9	0.9	1.0	2.1	2.0	2.2	2.0
	Total capital turnover	1.7	1.7	1.7	1.7	1.9	1.8	1.9	1.8
	Interest rate on borrowing	1.2	1.2	1.0	0.9	1.4	1.2	1.1	1.0
	Value-added ratio	13.3	13.2	13.2	12.7	13.5	13.1	12.9	13.0
	Labor productivity	482	496	479	484	759	755	784	774
	Capital-labor ratio	254	238	206	231	604	627	665	624
	Ratio of fixed assets to long-term capital	46.3	42.9	41.8	42.9	56.8	55.3	55.2	56.0
	Debt redemption period (years)	20.5	21.0	18.6	18.2	5.3	5.6	5.2	5.5

(4) Services

Item \ Size		SMEs				Large enterprises			
	FY	2011	2012	2013	2014	2011	2012	2013	2014
Finances and profits	Sales	25,300	26,400	27,150	27,700	842,900	961,000	902,800	935,400
	Total assets	35,900	36,300	36,950	39,100	751,700	856,450	847,200	905,500
	Value added	8,400	9,000	9,100	9,271	307,650	338,250	332,700	344,450
	(Personnel costs)	6,500	6,900	7,121	7,100	211,650	223,800	220,500	229,350
	(Interest expenses)	0	0	0	0	800	600	500	500
	No. of employees (including officers)	16	17	18	17	387	400	401	405
Key financial indices	Quick ratio	120.5	125.7	130.0	133.2	108.3	112.7	114.0	111.3
	Equity ratio	37.6	39.1	39.2	40.5	44.2	47.5	47.4	46.7
	Ratio of operating profit to total capital	1.6	1.7	1.7	1.8	4.2	5.2	5.2	5.2
	Ratio of ordinary profit to sales	2.5	2.8	2.9	2.9	4.0	4.8	4.8	5.3
	Total capital turnover	0.9	0.9	0.9	0.9	1.2	1.2	1.2	1.2
	Interest rate on borrowing	1.2	1.0	0.9	0.8	1.5	1.5	1.3	1.2
	Value-added ratio	38.1	37.9	37.5	38.1	41.3	41.6	42.2	41.5
	Labor productivity	485	491	495	48.1	742	799	785	811
	Capital-labor ratio	134	149	140	138	209	192	191	210
	Ratio of fixed assets to long-term capital	55.6	55.8	53.1	50.8	49.5	48.4	46.3	48.4
	Debt redemption period (years)	10.8	10.0	9.8	9.0	2.3	1.7	1.5	1.6

(5) Construction

Item \ Size		SMEs				Large enterprises			
	FY	2011	2012	2013	2014	2011	2012	2013	2014
Finances and profits	Sales	28,100	27,203	28,850	32,400	4,579,800	4,760,600	5,089,450	5,158,400
	Total assets	23,250	23,150	23,009	23,150	3,802,700	4,218,000	4,523,850	4,211,000
	Value added	5,400	5,500	6,089	6,400	761,000	753,600	845,550	893,800
	(Personnel costs)	4,900	4,700	5,000	5,300	601,400	597,350	633,300	635,900
	(Interest expenses)	63	31	17	9	3,000	3,750	3,500	3,000
	No. of employees (including officers)	13	13	13	13	846	793	820	831
Key financial indices	Quick ratio	111.2	115.4	117.0	117.4	110.5	110.5	108.6	111.2
	Equity ratio	31.1	32.1	31.9	33.7	41.2	40.3	40.1	41.9
	Ratio of operating profit to total capital	1.2	1.7	2.2	3.0	2.6	2.6	3.8	4.1
	Ratio of ordinary profit to sales	0.9	1.3	1.7	2.4	2.4	2.6	3.3	3.8
	Total capital turnover	1.3	1.4	1.4	1.5	1.2	1.2	1.2	1.3
	Interest rate on borrowing	1.5	1.3	1.2	1.1	1.6	1.5	1.4	1.3
	Value-added ratio	19.3	19.5	20.1	20.4	17.2	16.2	17.1	17.1
	Labor productivity	441	464	475	507	961	950	1,044	1,107
	Capital-labor ratio	280	267	267	258	739	739	744	668
	Ratio of fixed assets to long-term capital	42.4	41.0	38.6	38.1	48.4	49.9	50.2	47.8
	Debt redemption period (years)	18.9	13.2	9.6	7.1	4.2	4.1	2.3	2.1

Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Notes:
1. SMEs are defined as enterprises with capital of ¥300 million or less, or 300 or fewer regular employees (100 or fewer in wholesale trade and services, 50 or fewer in retail trade, eating and drinking places) or capital stock of ¥300 million or less (¥100 million or less in wholesale trade, and ¥50 million or less in retail trade and services). However for 2012, SMEs are defined as enterprises with capital of ¥300 million or less, or 900 or fewer regular employees in rubber goods manufacturing of the manufacturing industry and capital of ¥300 million or less, or 300 or fewer regular employees in software, information processing and service providing of the services industry and capital of ¥50 million or less, or 200 or fewer regular employees in inn and hotel. Large enterprises are all enterprises other than those defined as SMEs. Both SMEs and large enterprises are limited to corporation.
2. Value added = Net operating profit + Personnel costs (officers' pay, officers' bonuses, employees' pay, employee bonuses, employee benefits) + Interest expenses, etc. + Rent of movable property and real estate + Taxes and public impositions
   Quick ratio = Quick assets / Current liabilities × 100
   Quick assets = Cash and deposits + Trade receivables
   Equity ratio = Equity / Total capital × 100
   Ratio of operating profit to total capital = Operating profit / Total capital (average of beginning and end of period) × 100
   Ratio of ordinary profit to sales = Ordinary profit / Sales × 100
   Total capital turnover = Sales / Total capital (average of beginning and end of period)
   Interest rate on borrowing = Interest expenses, etc. / (Short-term and long-term borrowing + bonds + notes receivable discounted) (average of beginning and end of period) × 100
   Value-added ratio = Value added / Sales × 100
   Labor productivity = Value added / Number of employees
   Capital-labor ratio = Tangible fixed assets (excluding construction in progress, average of beginning and end of period) / Number of employees
   Ratio of fixed assets to long-term capital = Fixed assets / (Fixed liabilities + equity) × 100
   Debt redemption period (years) = (Short-term and long-term borrowing + bonds) (beginning and end of period average) / (Ordinary profit × 50% + depreciation costs + extraordinary depreciation costs - officers' bonus - interim dividends - dividends)
3. 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.
   Unit for number of employees (including officers): individual employees
   Debt redemption period: in years
   Other financial operating ratios are in percentage.
4. Figures are sample medians.
5. The fixed long-term conformity rate for enterprises whose denominator is negative is treated as infinite.
6. The debt redemption period (years) for enterprises whose denominator is negative is treated as 10,000 years.

Table 17 Financial status, profit status and key financial indices of micro enterprises (median values)

(1) All industries

Item	Size / FY	Micro enterprises				
		2010	2011	2012	2013	2014
Finances and profits	Sales	7,200	7,008	7,500	7,600	7,900
	Total assets	10,900	10,750	11,300	11,600	11,600
	Value added	1,816	1,800	2,000	2,000	2,000
	(Personnel costs)	1,485	1,400	1,437	1,400	1,400
	(Interest expenses)	0	0	0	0	0
	No. of employees (including officers)	5	4	4	4	4
Key financial indices	Quick ratio	111.7	111.2	111.6	113.7	118.9
	Equity ratio	26.0	27.2	27.3	28.6	30.8
	Ratio of operating profit to total capital	0.1	0.4	0.7	0.9	1.2
	Ratio of ordinary profit to sales	0.6	1.0	1.3	1.5	2.0
	Total capital turnover	0.8	0.8	0.8	0.9	0.9
	Interest rate on borrowing	0.8	0.6	0.4	0.4	0.2
	Value-added ratio	27.7	28.4	28.6	28.5	28.6
	Labor productivity	369.6	379.1	400.0	400.0	400.0
	Capital-labor ratio	283.3	288.5	290.7	278.2	258.3
	Ratio of fixed assets to long-term capital	63.0	62.1	62.2	60.2	58.5
	Debt redemption period (years)	23.7	21.5	20.3	18.5	15.3

(2) Manufacturing

Item	Size / FY	Micro enterprises				
		2010	2011	2012	2013	2014
Finances and profits	Sales	9,000	8,717	9,500	10,100	10,497
	Total assets	10,500	10,200	10,250	10,613	10,600
	Value added	2,400	2,500	2,700	2,700	2,800
	(Personnel costs)	2,400	2,300	2,400	2,404	2,400
	(Interest expenses)	0	0	0	0	0
	No. of employees (including officers)	7	7	7	7	7
Key financial indices	Quick ratio	117.8	120.3	122.6	122.6	128.7
	Equity ratio	20.4	20.0	22.1	22.8	26.0
	Ratio of operating profit to total capital	-0.4	0.0	0.4	0.6	1.3
	Ratio of ordinary profit to sales	0.0	0.5	0.7	0.9	1.5
	Total capital turnover	1.0	1.1	1.1	1.1	1.1
	Interest rate on borrowing	0.8	0.7	0.6	0.7	0.6
	Value-added ratio	27.8	28.6	28.6	28.4	29.5
	Labor productivity	347.5	360.0	371.4	366.7	387.6
	Capital-labor ratio	250.0	269.2	263.0	236.4	218.8
	Ratio of fixed assets to long-term capital	54.3	53.8	55.3	54.5	49.5
	Debt redemption period (years)	28.3	21.1	21.8	21.7	16.8

(3) Wholesale and retail trade

Item	Size / FY	Micro enterprises				
		2010	2011	2012	2013	2014
Finances and profits	Sales	6,095	6,186	6,300	5,416	6,000
	Total assets	4,607	5,000	4,984	4,656	4,913
	Value added	900	905	981	900	1,000
	(Personnel costs)	900	900	909	748	800
	(Interest expenses)	0	0	0	0	0
	No. of employees (including officers)	3	3	3	3	3
Key financial indices	Quick ratio	90.3	92.3	100.0	100.0	100.0
	Equity ratio	13.9	15.4	16.6	14.0	20.1
	Ratio of operating profit to total capital	-0.7	0.0	0.0	0.0	0.0
	Ratio of ordinary profit to sales	0.0	0.0	0.0	0.2	0.2
	Total capital turnover	1.4	1.4	1.5	1.4	1.5
	Interest rate on borrowing	0.0	0.0	0.0	0.0	0.0
	Value-added ratio	13.7	14.3	13.9	14.7	13.6
	Labor productivity	275.0	275.0	300.0	285.0	296.7
	Capital-labor ratio	104.4	107.1	105.9	89.1	100.0
	Ratio of fixed assets to long-term capital	50.0	47.0	40.2	42.1	40.2
	Debt redemption period (years)	61.5	58.6	72.0	47.5	35.5

(4) Services

Item	Size / FY	Micro enterprises				
		2010	2011	2012	2013	2014
Finances and profits	Sales	2,823	2,892	3,003	3,077	3,178
	Total assets	4,858	4,671	5,767	5,302	5,806
	Value added	984	1,000	1,000	961	1,025
	(Personnel costs)	700	700	774	700	700
	(Interest expenses)	0	0	0	0	0
	No. of employees (including officers)	3	3	3	3	3
Key financial indices	Quick ratio	100.0	101.2	100.0	107.5	113.5
	Equity ratio	26.9	31.0	31.8	33.3	34.4
	Ratio of operating profit to total capital	0.0	0.0	0.0	0.0	0.2
	Ratio of ordinary profit to sales	0.6	1.2	1.5	1.3	1.3
	Total capital turnover	0.7	0.8	0.7	0.7	0.8
	Interest rate on borrowing	0.0	0.0	0.0	0.0	0.0
	Value-added ratio	34.0	35.9	35.7	34.9	34.4
	Labor productivity	324.9	333.3	350.0	355.6	322.2
	Capital-labor ratio	71.4	66.7	80.5	57.1	57.1
	Ratio of fixed assets to long-term capital	61.1	55.5	61.3	52.2	51.4
	Debt redemption period (years)	35.5	26.7	22.3	33.5	24.2

(5) Construction

Item	Size / FY	Micro enterprises				
		2010	2011	2012	2013	2014
Finances and profits	Sales	12,300	11,900	12,327	12,900	14,500
	Total assets	9,400	9,000	9,200	9,700	10,100
	Value added	2,700	2,500	2,600	2,900	3,132
	(Personnel costs)	2,600	2,400	2,347	2,600	2,584
	(Interest expenses)	0	1	0	0	0
	No. of employees (including officers)	8	8	7	7	7
Key financial indices	Quick ratio	125.1	115.6	121.8	124.5	125.0
	Equity ratio	27.5	25.0	25.7	25.7	30.1
	Ratio of operating profit to total capital	0.0	0.5	1.2	1.5	2.5
	Ratio of ordinary profit to sales	0.3	0.4	0.8	1.1	1.9
	Total capital turnover	1.4	1.3	1.4	1.5	1.6
	Interest rate on borrowing	1.4	1.1	0.8	0.7	0.5
	Value-added ratio	21.6	21.2	21.5	22.0	22.5
	Labor productivity	360.0	359.8	385.1	400.0	426.3
	Capital-labor ratio	180.6	190.0	186.5	183.7	175.0
	Ratio of fixed assets to long-term capital	42.1	42.1	42.2	38.9	36.8
	Debt redemption period (years)	30.4	31.0	20.7	16.1	10.1

Source: Recompiled from MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

Notes:
1. Micro enterprises are defined as enterprises with 20 or fewer regular employees (5 or fewer in wholesale and retail trade, eating and drinking places and services (excluding accommodations and entertainment and recreation services for 2012)). However, limited to corporation.
2. Value added = Net operating profit + Personnel costs (officers' pay, officers' bonuses, employees' pay, employee bonuses, employee benefits) + Interest expenses, etc. + Rent of movable property and real estate + Taxes and public impositions
   Quick ratio = Quick assets / Current liabilities × 100
   Quick assets = Cash and deposits + Trade receivables
   Equity ratio = Equity / Total capital × 100
   Ratio of operating profit to total capital = Operating profit / Total capital (average of beginning and end of period) × 100
   Ratio of ordinary profit to sales = Ordinary profit / Sales × 100
   Total capital turnover = Sales / Total capital (average of beginning and end of period)
   Interest rate on borrowing = Interest expenses, etc. / (Short-term and long-term borrowing + bonds + notes receivable discounted) (average of beginning and end of period) × 100
   Value-added ratio = Value added / Sales × 100
   Labor productivity = Value added / Number of employees
   Capital-labor ratio = Tangible fixed assets (excluding construction in progress, average of beginning and end of period) / Number of employees
   Ratio of fixed assets to long-term capital = Fixed assets / (Fixed liabilities + equity) × 100
3. Figures for sales, total assets, value added (personnel costs, and interest expenses, etc.), labor productivity and capital-labor ratio are in units of ¥10,000.
   Unit for number of employees (including officers): individual employees
   Other financial operating ratios are in percentage.
4. Figures are population medians.
5. The fixed long-term conformity rate for enterprises whose denominator is negative is treated as infinite.
6. The debt redemption period (years) for enterprises whose denominator is negative is treated as 10,000 years.

Table 18 Business conditions DI by prefecture

(1) All industries

Change from previous quarter (seasonally adjusted)

Prefecture	2013		2014				2015				2016	Change from previous quarter
	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	
All Japan	-17.8	-13.6	-12.4	-23.4	-18.5	-19.1	-17.8	-18.7	-15.5	-15.1	-18.1	-3.0
Hokkaido	-12.8	-11.2	-13.4	-18.1	-17.1	-16.8	-16.4	-18.2	-15.9	-17.7	-23.4	-5.7
South/Central Hokkaido	-11.8	-8.2	-14.8	-16.2	-15.4	-15.0	-14.9	-17.9	-16.9	-18.3	-25.6	-7.3
North Hokkaido/Okhotsk	-14.5	-12.7	-10.6	-14.3	-15.4	-17.6	-15.0	-11.4	-20.3	-19.0	-20.6	-1.6
Tokachi, Kushiro, Nemuro	-15.3	-19.8	-9.4	-29.7	-25.4	-22.2	-19.6	-27.4	-9.5	-14.0	-17.1	-3.1
Tohoku	-18.2	-14.1	-15.7	-25.6	-20.0	-22.7	-21.6	-21.4	-19.0	-20.7	-22.3	-1.6
Aomori	-16.0	-17.0	-12.5	-25.0	-28.2	-24.1	-26.0	-19.1	-21.7	-24.1	-28.2	-4.1
Iwate	-14.9	-12.9	-15.4	-20.6	-18.9	-17.7	-16.9	-17.4	-17.9	-23.8	-16.6	7.2
Miyagi	-22.2	-18.5	-19.5	-24.3	-20.2	-26.3	-23.6	-23.0	-16.8	-21.0	-17.1	3.9
Akita	-23.6	-14.6	-17.1	-32.0	-24.4	-25.3	-28.9	-26.6	-20.5	-26.4	-21.1	5.3
Yamagata	-17.5	-10.0	-12.2	-17.5	-16.0	-20.8	-14.5	-16.6	-19.4	-15.3	-23.9	-8.6
Fukushima	-19.9	-13.2	-16.6	-27.1	-19.9	-22.5	-18.9	-20.7	-20.6	-16.8	-24.2	-7.4
Kanto	-18.6	-14.2	-15.0	-21.1	-17.8	-17.9	-15.6	-18.3	-16.0	-14.7	-16.7	-2.0
Ibaraki	-20.6	-18.5	-15.0	-18.5	-18.1	-17.3	-17.3	-16.4	-10.0	-18.5	-17.4	1.1
Tochigi	-16.3	-16.6	-17.4	-19.9	-20.7	-17.6	-18.1	-15.0	-20.5	-14.1	-20.9	-6.8
Gunma	-18.3	-13.5	-14.1	-18.6	-13.6	-20.7	-15.2	-20.6	-15.1	-15.3	-16.6	-1.3
Saitama	-20.3	-11.7	-10.8	-15.8	-12.5	-14.4	-10.5	-12.9	-15.2	-10.5	-17.9	-7.4
Chiba	-22.6	-12.6	-17.4	-15.9	-20.4	-21.3	-15.1	-21.6	-13.9	-12.3	-12.2	0.1
Tokyo	-11.1	-8.7	-10.3	-18.1	-13.8	-11.9	-11.6	-11.9	-13.7	-10.8	-10.6	0.2
Kanagawa	-15.7	-16.9	-17.2	-20.5	-15.0	-14.7	-12.9	-10.3	-15.2	-11.6	-12.8	-1.2
Niigata	-19.9	-15.4	-17.0	-27.0	-21.3	-22.9	-23.7	-26.3	-19.4	-19.4	-25.0	-5.6
Yamanashi	-23.0	-18.1	-23.4	-22.7	-23.2	-21.2	-13.1	-18.6	-14.1	-20.2	-20.9	-0.7
Nagano	-20.2	-17.8	-17.7	-23.2	-21.0	-21.8	-19.4	-20.4	-22.9	-20.9	-17.9	3.0
Shizuoka	-16.9	-13.5	-14.2	-25.2	-17.1	-17.5	-16.6	-22.8	-13.4	-10.2	-15.3	-5.1
Chubu	-14.7	-11.3	-10.4	-23.2	-18.9	-19.5	-17.0	-17.8	-16.5	-14.1	-19.6	-5.5
Toyama	-11.7	-9.1	-11.7	-14.2	-13.1	-15.3	-11.2	-10.4	-17.6	-16.4	-15.0	1.4
Ishikawa	-12.9	-5.5	-4.1	-28.1	-20.2	-18.7	-12.2	-9.1	-15.0	-9.8	-15.9	-6.1
Gifu	-19.2	-14.5	-8.3	-25.4	-22.1	-22.5	-18.1	-20.4	-20.2	-18.4	-22.9	-4.5
Aichi	-12.4	-11.5	-10.4	-18.7	-16.2	-16.4	-14.5	-14.3	-12.0	-9.3	-14.8	-5.5
Mie	-18.4	-13.5	-15.7	-26.7	-25.2	-25.5	-26.9	-24.8	-20.7	-19.2	-27.4	-8.2
Kinki	-18.6	-12.8	-7.9	-22.3	-15.5	-18.1	-17.1	-17.6	-15.2	-15.2	-16.5	-1.3
Fukui	-18.3	-9.4	-9.2	-17.8	-12.6	-15.2	-18.0	-15.0	-13.4	-13.4	-17.5	-4.1
Shiga	-16.8	-10.8	-0.4	-10.3	-18.0	-19.4	-16.5	-15.8	-14.9	-16.8	-15.5	1.3
Kyoto	-22.7	-16.0	-7.3	-18.2	-15.6	-18.5	-22.0	-23.7	-13.7	-15.1	-20.5	-5.4
Osaka	-16.5	-11.8	-6.6	-23.6	-15.3	-17.5	-16.9	-17.4	-16.0	-15.6	-19.4	-3.8
Hyogo	-19.6	-10.4	-11.1	-21.7	-15.1	-15.3	-9.4	-9.7	-12.3	-9.5	-12.8	-3.3
Nara	-21.5	-17.5	-13.2	-23.0	-14.7	-23.5	-24.4	-20.1	-15.1	-18.5	-19.4	-0.9
Wakayama	-20.7	-17.2	-12.5	-27.9	-21.4	-19.3	-23.9	-16.4	-22.8	-20.8	-16.3	4.5
Chugoku	-20.5	-16.5	-16.1	-22.9	-21.6	-22.8	-20.4	-17.6	-16.3	-17.0	-19.3	-2.3
Tottori	-16.5	-15.4	-15.0	-24.4	-16.0	-26.3	-26.1	-15.6	-13.6	-15.7	-17.8	-2.1
Shimane	-13.1	-4.8	-5.4	-24.8	-18.2	-24.2	-18.0	-17.1	-9.7	-22.3	-14.2	8.1
Okayama	-30.4	-26.4	-23.7	-22.4	-24.0	-19.9	-18.1	-18.4	-18.2	-17.6	-21.1	-3.5
Hiroshima	-17.9	-17.2	-15.4	-22.5	-23.3	-19.9	-20.9	-17.6	-15.1	-9.2	-20.5	-11.3
Yamaguchi	-21.5	-17.7	-18.7	-24.4	-21.9	-24.7	-19.8	-20.0	-20.8	-20.6	-21.5	-0.9
Shikoku	-20.2	-16.7	-11.9	-26.7	-20.8	-21.7	-19.0	-18.1	-17.9	-19.5	-18.5	1.0
Tokushima	-9.6	-12.7	-8.0	-26.3	-17.3	-22.1	-11.5	-15.0	-13.3	-19.0	-15.5	3.5
Kagawa	-19.5	-16.4	-17.1	-28.5	-16.6	-21.3	-24.3	-22.3	-17.5	-15.8	-24.6	-8.8
Ehime	-26.0	-22.5	-16.8	-25.1	-24.6	-22.9	-25.8	-18.7	-24.1	-21.6	-21.9	-0.3
Kochi	-22.2	-12.1	-9.9	-24.0	-21.4	-18.4	-17.9	-12.1	-11.4	-21.1	-15.4	5.7
Kyushu/Okinawa	-17.6	-13.6	-9.2	-23.3	-19.8	-18.7	-19.5	-17.5	-12.1	-11.0	-14.8	-3.8
Fukuoka	-20.5	-16.1	-10.8	-23.1	-21.5	-18.1	-19.1	-21.6	-16.7	-13.9	-15.3	-1.4
Saga	-17.1	-13.1	-11.4	-31.0	-24.4	-27.7	-27.9	-19.6	-13.2	-19.5	-14.0	5.5
Nagasaki	-24.4	-18.0	-11.3	-25.7	-22.3	-22.9	-22.3	-19.8	-15.0	-11.1	-17.7	-6.6
Kumamoto	-15.1	-13.9	-8.4	-16.4	-18.6	-19.7	-22.4	-14.7	-8.1	-3.5	-16.5	-13.0
Oita	-23.9	-11.9	-15.2	-29.7	-27.7	-25.6	-26.3	-21.9	-21.3	-21.2	-25.0	-3.8
Miyazaki	-21.5	-15.3	-12.5	-24.7	-20.1	-16.2	-23.6	-13.3	-9.6	-9.8	-11.9	-2.1
Kagoshima	-14.3	-12.9	-13.1	-21.2	-21.5	-19.3	-22.6	-13.9	-10.2	-11.2	-20.5	-9.3
Okinawa	0.8	-5.9	0.9	-2.7	2.1	0.2	-1.0	-1.1	8.0	6.8	-1.8	-8.6

(2) Manufacturing

Change from previous quarter (seasonally adjusted)

Prefecture	2013		2014				2015				2016	Change from previous quarter
	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	
All Japan	-13.9	-6.6	-4.4	-18.6	-12.0	-14.1	-14.1	-15.6	-12.8	-12.9	-16.8	-3.9
Hokkaido	-9.5	-4.5	-7.7	-4.9	-13.1	-11.5	-8.1	-7.7	-10.9	-13.1	-23.5	-10.4
South/Central Hokkaido	-6.2	1.9	-5.2	-3.2	-8.4	-8.5	-9.5	-6.0	-8.5	-9.7	-24.6	-14.9
North Hokkaido/Okhotsk	-10.1	-7.9	-13.9	-11.0	-16.2	-14.1	5.8	-7.6	-21.2	-21.3	-18.0	3.3
Tokachi, Kushiro, Nemuro	-23.2	-28.0	-9.0	-6.5	-30.3	-21.9	-21.2	-17.6	-8.6	-15.6	-20.9	-5.3
Tohoku	-13.2	-8.6	-6.7	-26.3	-9.4	-16.8	-16.3	-17.2	-18.6	-18.9	-19.6	-0.7
Aomori	-8.9	-14.1	-9.7	-32.6	-18.9	-33.9	-30.2	-16.6	-21.6	-2.9	-37.4	-34.5
Iwate	-0.8	-0.2	8.1	-15.7	4.6	-2.7	-9.0	-10.9	-6.5	-24.6	-15.2	9.4
Miyagi	-25.5	-18.3	-17.5	-32.3	-0.5	-12.9	-16.3	-25.9	-25.0	-25.1	-23.0	2.1
Akita	-20.7	-12.3	-15.7	-25.5	-21.3	-18.9	-15.1	-16.9	-16.4	-24.3	-11.2	13.1
Yamagata	-17.7	-3.9	9.7	-16.7	-22.1	-19.1	-12.5	-3.3	-16.5	-18.1	-23.6	-5.5
Fukushima	-13.6	-6.9	-14.0	-27.0	-8.5	-16.9	-17.9	-18.8	-34.2	-19.5	-14.7	4.8
Kanto	-16.1	-7.3	-5.7	-16.1	-10.1	-9.8	-12.5	-16.7	-13.1	-12.4	-17.6	-5.2
Ibaraki	-17.4	-13.5	-5.5	-6.3	-7.4	-9.0	-14.8	-7.6	-2.7	-17.9	-12.4	5.5
Tochigi	-9.5	-6.8	-6.7	-13.9	-9.1	-0.5	-9.7	-19.4	-21.7	-9.6	-17.7	-8.1
Gunma	-20.8	-10.4	-5.0	-19.3	-5.3	-12.2	-11.8	-21.3	-9.9	-10.1	-16.5	-6.4
Saitama	-30.0	-2.2	-9.5	-15.0	-5.0	-18.0	-18.4	-12.9	-13.0	-1.9	-19.6	-17.7
Chiba	-18.7	-1.6	-2.2	-6.2	-15.5	-17.4	-4.9	-23.8	-0.2	-15.3	-2.1	13.2
Tokyo	-10.3	-6.4	-2.9	-13.8	-6.5	-6.3	-16.4	-14.9	-16.5	-13.8	-22.9	-9.1
Kanagawa	-11.1	-10.2	-9.8	-11.1	-17.6	-1.1	-4.1	-4.9	-6.8	-18.0	-19.5	-1.5
Niigata	-11.9	-8.9	-0.8	-26.1	-8.3	-8.6	-14.5	-22.9	-14.9	-11.8	-18.5	-6.7
Yamanashi	-22.3	-1.2	-7.4	-17.3	-11.7	-11.8	-7.1	-11.4	-6.2	-15.8	-22.4	-6.6
Nagano	-17.2	-10.3	-10.8	-12.5	-17.2	-11.8	-5.2	-21.6	-34.2	-17.5	-18.6	-1.1
Shizuoka	-14.6	-5.6	-3.2	-24.4	-13.4	-13.2	-16.1	-23.8	-10.6	-6.6	-13.0	-6.4
Chubu	-7.3	-3.4	-1.7	-20.0	-11.2	-14.5	-14.5	-15.7	-15.4	-14.4	-16.0	-1.6
Toyama	-2.3	2.9	1.5	-7.4	-8.6	-12.4	-8.8	-11.3	-18.6	-24.9	-7.9	17.0
Ishikawa	1.8	2.8	-2.3	-19.4	5.9	-0.8	-16.2	-4.5	-4.5	-9.3	-14.9	-5.6
Gifu	-10.7	-6.3	9.0	-20.0	-9.4	-14.8	-10.1	-21.4	-16.4	-11.3	-20.7	-9.4
Aichi	-9.2	-8.3	-8.8	-18.1	-14.3	-15.3	-14.8	-10.8	-17.1	-11.4	-16.8	-5.4
Mie	-12.8	-1.2	-4.4	-29.6	-22.3	-23.7	-23.4	-21.8	-15.5	-18.7	-18.0	0.7
Kinki	-14.4	-4.7	1.5	-11.3	-4.9	-12.1	-13.9	-13.7	-8.8	-11.9	-12.9	-1.0
Fukui	-11.5	9.8	3.9	-0.9	0.9	-11.1	-9.7	-16.5	-6.5	-17.1	-14.1	3.0
Shiga	-27.7	-19.0	12.7	-0.9	-6.7	-9.9	-12.4	-20.9	-10.1	-21.8	-9.9	11.9
Kyoto	-18.9	-5.0	0.7	-13.6	-12.8	-13.1	-26.6	-24.9	5.1	-10.6	-22.4	-11.8
Osaka	-7.7	-2.6	4.8	-11.8	-4.7	-10.0	-10.0	-14.3	-9.8	-9.9	-17.7	-7.8
Hyogo	-22.5	-6.6	-1.9	-17.8	-0.9	-9.8	-6.4	1.1	-3.4	-5.5	-10.1	-4.6
Nara	-14.1	-10.5	-3.9	-9.0	-5.4	-22.6	-20.9	-10.5	-22.8	-16.8	-5.4	11.4
Wakayama	-9.3	-3.5	-6.2	-10.0	-9.2	-12.7	-20.3	-6.7	-12.1	-15.3	-8.9	-6.4
Chugoku	-15.5	-7.2	-9.0	-13.4	-16.1	-15.7	-10.3	-7.3	-11.3	-11.0	-15.3	-4.3
Tottori	-15.1	-3.8	-10.9	-11.1	-12.8	-13.7	-20.8	-8.1	-2.2	-5.2	-6.8	-1.6
Shimane	-10.8	7.1	1.8	-17.1	-8.1	-15.7	-2.4	9.4	-1.8	-12.7	-13.0	-0.3
Okayama	-22.7	-14.2	-15.8	-8.4	-17.2	-13.6	-10.5	-8.2	-12.9	-14.9	-17.6	-2.7
Hiroshima	-5.1	-1.6	1.0	-8.7	-17.2	-14.1	-13.7	-8.0	-15.6	-1.3	-11.4	-10.1
Yamaguchi	-21.9	-18.9	-21.5	-23.8	-19.0	-20.8	-6.7	-16.8	-17.3	-19.9	-22.5	-2.6
Shikoku	-16.0	-11.7	-3.6	-29.9	-21.8	-25.3	-20.8	-19.5	-19.1	-21.5	-19.2	2.3
Tokushima	-9.5	-7.3	0.3	-39.1	-19.4	-32.8	-20.8	-21.3	-20.3	-22.5	-15.6	6.9
Kagawa	-9.3	-4.4	-2.1	-17.6	-4.5	-23.2	-31.7	-21.3	-19.2	-15.0	-23.4	-8.4
Ehime	-22.9	-20.7	-22.2	-33.3	-33.5	-25.6	-22.6	-21.0	-21.1	-20.5	-25.5	-5.0
Kochi	-17.7	-12.1	14.8	-31.2	-23.4	-12.2	-9.4	-12.1	-12.4	-28.1	-14.2	13.9
Kyushu/Okinawa	-15.4	-8.8	-7.1	-22.0	-19.0	-18.3	-15.7	-17.0	-9.1	-8.7	-15.4	-6.7
Fukuoka	-21.8	-20.4	-11.1	-28.2	-23.4	-12.7	-10.7	-25.8	-16.0	-9.0	-15.4	-6.4
Saga	-10.8	0.3	-8.7	-22.1	-23.1	-34.2	-23.0	-10.6	-6.3	-22.4	-6.7	15.7
Nagasaki	-27.3	-12.8	-7.6	-19.6	-18.8	-29.1	-30.9	-12.5	-6.9	-13.9	-22.2	-8.3
Kumamoto	-10.7	-6.5	-6.7	-12.1	-14.7	-15.2	-12.5	-12.6	-8.4	-3.1	-16.0	-12.9
Oita	-24.6	-9.9	-5.4	-38.6	-26.0	-28.3	-25.9	-20.0	-17.5	-13.4	-33.5	-20.1
Miyazaki	-6.9	-8.2	2.0	-13.2	-18.7	-12.0	-23.7	-12.9	-4.5	-4.9	-10.5	-5.6
Kagoshima	-9.5	-3.7	-7.1	-15.3	-15.8	-13.6	-21.2	-18.7	-9.9	-12.9	-23.1	-10.2
Okinawa	-2.2	-10.5	-17.2	-15.1	-5.4	-10.1	8.9	-6.4	4.6	12.4	7.4	-5.0

(3) Non-manufacturing

Change from previous quarter (seasonally adjusted)

Prefecture	2013		2014				2015				2016	Change from previous quarter
	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	
All Japan	-18.9	-15.8	-15.2	-24.9	-20.4	-20.8	-19.3	-19.6	-16.4	-15.8	-18.8	-3.0
Hokkaido	-13.9	-13.2	-15.0	-21.5	-18.2	-18.3	-18.7	-21.1	-17.2	-18.9	-23.4	-4.5
South/Central Hokkaido	-13.6	-11.4	-17.7	-19.3	-17.3	-17.1	-16.6	-21.1	-19.3	-20.8	-25.9	-5.1
North Hokkaido/Okhotsk	-15.8	-15.1	-8.8	-15.6	-15.1	-19.6	-21.6	-13.1	-20.4	-18.6	-20.3	-1.7
Tokachi, Kushiro, Nemuro	-13.9	-17.2	-9.5	-34.3	-24.7	-21.5	-19.2	-31.1	-8.6	-12.4	-15.3	-2.9
Tohoku	-19.5	-15.8	-18.3	-26.0	-23.2	-24.5	-23.0	-23.3	-18.5	-21.1	-22.9	-1.8
Aomori	-17.4	-18.2	-13.6	-22.5	-30.5	-21.6	-25.0	-19.7	-21.3	-28.0	-28.6	-0.6
Iwate	-15.6	-17.2	-22.8	-26.6	-22.7	-22.7	-19.5	-22.8	-20.0	-23.1	-17.3	5.8
Miyagi	-20.7	-18.3	-19.8	-22.8	-26.4	-30.0	-25.3	-23.3	-13.2	-19.5	-14.9	4.6
Akita	-24.3	-15.4	-17.7	-34.5	-25.2	-27.4	-33.7	-29.5	-21.8	-26.9	-24.0	2.9
Yamagata	-15.5	-13.2	-18.2	-19.8	-12.0	-22.5	-13.8	-24.4	-19.0	-14.4	-20.9	-6.5
Fukushima	-21.6	-15.5	-17.7	-26.7	-23.0	-24.5	-19.9	-21.0	-16.4	-16.5	-27.4	-10.9
Kanto	-19.1	-16.5	-18.1	-22.9	-20.3	-20.7	-16.7	-18.8	-17.0	-15.4	-16.4	-1.0
Ibaraki	-22.2	-20.5	-19.1	-23.3	-23.0	-21.0	-18.4	-20.2	-13.1	-18.8	-19.5	-0.7
Tochigi	-19.0	-20.5	-20.5	-23.1	-25.6	-24.3	-20.4	-14.1	-20.0	-16.0	-21.9	-5.9
Gunma	-16.9	-14.5	-17.5	-18.8	-16.7	-23.9	-16.2	-20.9	-16.6	-17.2	-16.6	0.6
Saitama	-16.1	-14.9	-11.5	-17.3	-13.6	-13.2	-8.2	-13.9	-14.8	-13.1	-17.8	-4.7
Chiba	-24.0	-14.8	-20.3	-17.5	-21.8	-22.1	-16.9	-21.0	-17.2	-11.7	-14.3	-2.6
Tokyo	-12.0	-9.3	-12.3	-18.6	-16.5	-13.3	-10.5	-10.7	-13.2	-10.2	-7.7	2.5
Kanagawa	-16.9	-18.5	-18.6	-24.1	-13.9	-17.8	-14.5	-12.3	-16.8	-9.7	-11.1	-1.4
Niigata	-23.8	-17.9	-22.5	-27.7	-27.0	-28.9	-27.1	-27.9	-21.5	-22.5	-26.5	-4.0
Yamanashi	-24.2	-24.0	-29.3	-23.9	-28.3	-24.7	-15.2	-20.9	-17.7	-22.2	-20.2	2.0
Nagano	-21.1	-19.8	-19.7	-26.1	-22.0	-24.4	-23.3	-20.0	-20.0	-21.8	-17.7	4.1
Shizuoka	-17.8	-16.7	-18.7	-25.7	-18.6	-19.5	-16.8	-22.5	-14.7	-11.8	-16.4	-4.6
Chubu	-17.1	-14.2	-14.2	-23.7	-21.4	-21.3	-18.4	-17.6	-16.8	-14.3	-21.3	-7.0
Toyama	-15.6	-13.2	-16.7	-18.4	-14.8	-15.8	-11.7	-10.7	-17.2	-12.7	-17.8	-5.1
Ishikawa	-16.0	-7.4	-6.4	-29.7	-26.4	-23.3	-13.2	-9.5	-16.9	-9.5	-18.8	-9.3
Gifu	-22.1	-17.8	-14.4	-26.3	-26.6	-25.3	-21.4	-19.7	-21.3	-20.8	-24.3	-3.5
Aichi	-14.2	-12.7	-11.3	-18.3	-17.4	-16.9	-14.3	-15.3	-10.4	-8.3	-13.8	-5.5
Mie	-20.0	-17.3	-19.1	-26.4	-25.8	-25.9	-27.8	-25.6	-22.3	-19.5	-30.7	-11.2
Kinki	-20.1	-15.9	-11.6	-26.3	-19.2	-20.3	-18.6	-18.9	-17.6	-16.2	-18.0	-1.8
Fukui	-20.7	-16.0	-14.2	-23.0	-17.2	-16.7	-21.0	-14.6	-15.6	-12.1	-18.6	-6.5
Shiga	-12.8	-8.4	-6.5	-11.6	-21.8	-22.8	-19.6	-13.1	-15.8	-15.2	-18.4	-3.2
Kyoto	-23.8	-21.1	-11.2	-19.6	-16.3	-21.1	-21.0	-21.5	-20.8	-16.8	-19.9	-3.1
Osaka	-20.0	-15.7	-11.2	-28.4	-19.8	-20.6	-20.2	-18.5	-18.4	-17.8	-20.1	-2.3
Hyogo	-18.2	-11.3	-15.3	-22.9	-19.4	-17.1	-11.2	-13.7	-13.9	-11.5	-14.1	-2.6
Nara	-26.2	-20.3	-17.5	-26.8	-20.2	-24.0	-25.9	-21.6	-15.3	-19.8	-25.3	-5.5
Wakayama	-23.7	-21.1	-14.9	-34.7	-24.1	-21.1	-25.5	-20.8	-26.0	-22.5	-18.5	4.0
Chugoku	-22.2	-19.6	-18.0	-26.1	-23.5	-25.2	-23.3	-21.2	-17.9	-19.0	-20.5	-1.5
Tottori	-16.2	-19.6	-16.1	-30.4	-16.2	-30.7	-27.8	-18.5	-16.3	-19.0	-21.4	-2.4
Shimane	-14.9	-8.2	-7.4	-26.1	-22.0	-26.6	-22.1	-23.4	-12.8	-25.5	-15.1	10.4
Okayama	-34.9	-31.5	-27.0	-27.5	-28.0	-22.4	-21.3	-21.7	-21.1	-18.8	-22.5	-3.7
Hiroshima	-22.0	-22.2	-21.5	-26.9	-25.2	-21.7	-23.7	-20.7	-14.7	-11.9	-23.3	-11.4
Yamaguchi	-22.0	-17.9	-18.4	-22.9	-23.2	-26.0	-23.8	-19.9	-22.0	-21.2	-21.1	0.1
Shikoku	-21.7	-18.5	-15.3	-25.0	-20.5	-20.5	-18.7	-17.5	-17.3	-18.9	-18.5	0.4
Tokushima	-9.9	-14.8	-11.6	-20.8	-16.7	-18.2	-8.2	-13.5	-10.9	-17.9	-14.3	3.6
Kagawa	-24.8	-20.7	-22.9	-31.2	-22.6	-20.4	-21.7	-21.3	-18.4	-15.9	-25.1	-9.2
Ehime	-27.2	-23.1	-13.1	-23.8	-21.6	-22.1	-25.1	-19.3	-25.1	-21.5	-20.7	0.8
Kochi	-26.6	-11.5	-16.1	-21.2	-23.9	-19.4	-18.9	-11.1	-13.7	-18.3	-14.8	3.5
Kyushu/Okinawa	-18.0	-15.1	-10.1	-23.8	-19.8	-19.0	-20.9	-17.7	-12.5	-11.6	-14.9	-3.3
Fukuoka	-19.5	-14.9	-12.3	-20.9	-20.5	-19.4	-23.2	-19.9	-16.3	-14.7	-16.2	-1.5
Saga	-18.4	-17.8	-12.5	-33.1	-24.2	-26.6	-29.5	-21.4	-14.7	-18.7	-17.2	1.5
Nagasaki	-23.1	-19.8	-12.9	-26.8	-22.6	-21.6	-20.7	-21.2	-16.8	-10.6	-17.3	-6.7
Kumamoto	-15.9	-16.2	-10.6	-17.4	-19.5	-21.2	-27.8	-14.3	-7.9	-3.7	-17.0	-13.3
Oita	-22.3	-12.9	-18.8	-27.4	-26.7	-25.3	-27.2	-22.0	-21.8	-23.6	-22.4	1.2
Miyazaki	-26.1	-16.7	-17.2	-28.6	-20.5	-16.9	-23.9	-14.5	-10.9	-10.2	-12.1	-1.9
Kagoshima	-15.9	-16.3	-14.8	-24.3	-23.6	-20.4	-22.7	-11.2	-11.0	-10.2	-19.6	-9.4
Okinawa	2.2	-5.2	6.8	0.4	5.1	2.4	-3.4	0.5	9.5	5.4	-3.2	-8.6

Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

Table 19 No. of enterprises, regular employees, total no. of workers, sales and value added by industry, organization and no. of regular employees

(1) Number of enterprises (2014)

(businesses)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	128	9	1	2				140
Construction	148,320	2,949	417	56	6			151,748
Manufacturing	138,050	5,120	1,368	233	13	3		144,787
Electricity, gas, heat supply and water	10							10
Information and communications	2,210	41	11	3				2,265
Transport and postal activities	17,798	271	75	24	2			18,170
Wholesale trade	46,185	1,377	324	79	7			47,972
Retail trade	375,046	11,933	13,030	3,805	133	18	4	403,969
Finance and insurance	6,207	29	11					6,247
Real estate and goods rental and leasing	148,043	233	49	9				148,334
Scientific research, professional and technical services	95,213	5,525	1,294	271	24	13	2	102,342
Accommodations, eating and drinking services	406,933	23,065	5,426	805	35	4		436,268
Living-related and personal services and amusement services	307,816	4,035	1,299	246	22	6		313,424
Education, learning support	84,787	3,505	1,208	247	17	4		89,768
Medical, health care and welfare	132,558	30,443	6,938	1,204	183	59	12	171,397
Compound services	3,402	5						3,407
Services (not elsewhere classified)	48,310	840	217	83	14	4		49,468
Total	1,961,016	89,380	31,668	7,067	456	111	18	2,089,716

(businesses)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	673	286	187	129	27	11	5	1,318
Construction	200,237	52,839	30,348	15,194	3,208	1,436	543	303,805
Manufacturing	133,464	44,196	36,571	31,738	12,320	8,664	3,556	270,509
Electricity, gas, heat supply and water	477	99	122	143	77	60	41	1,019
Information and communications	25,570	5,202	4,520	4,154	1,870	1,481	725	43,522
Transport and postal activities	15,160	9,198	10,753	11,139	4,632	3,243	1,092	55,217
Wholesale trade	116,348	25,672	17,413	13,024	4,798	3,130	1,126	181,511
Retail trade	175,360	34,558	27,218	18,928	5,369	3,436	1,963	266,832
Finance and insurance	19,409	2,227	938	609	275	220	293	23,971
Real estate and goods rental and leasing	154,640	7,530	4,137	2,861	1,004	713	298	171,183
Scientific research, professional and technical services	65,648	9,555	5,616	3,645	1,171	751	349	86,735
Accommodations, eating and drinking services	50,829	21,999	17,507	11,277	3,746	2,372	1,042	108,772
Living-related and personal services and amusement services	38,546	10,747	8,350	6,817	2,821	1,576	565	69,422
Education, learning support	9,622	2,667	2,381	1,985	674	336	175	17,840
Medical, health care and welfare	13,869	7,785	8,139	6,353	1,951	865	225	39,187
Compound services	76	4	3	1		1	1	86
Services (not elsewhere classified)	48,083	13,332	9,994	9,251	4,127	3,313	1,593	89,693
Total	1,068,011	247,896	184,197	137,248	48,070	31,608	13,592	1,730,622

(businesses)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	801	295	188	131	27	11	5	1,458
Construction	348,557	55,788	30,765	15,250	3,214	1,436	543	455,553
Manufacturing	271,514	49,316	37,939	31,971	12,333	8,667	3,556	415,296
Electricity, gas, heat supply and water	487	99	122	143	77	60	41	1,029
Information and communications	27,780	5,243	4,531	4,157	1,870	1,481	725	45,787
Transport and postal activities	32,958	9,469	10,828	11,163	4,634	3,243	1,092	73,387
Wholesale trade	162,533	27,049	17,737	13,103	4,805	3,130	1,126	229,483
Retail trade	550,406	46,491	40,248	22,733	5,502	3,454	1,967	670,801
Finance and insurance	25,616	2,256	949	609	275	220	293	30,218
Real estate and goods rental and leasing	302,683	7,763	4,186	2,870	1,004	713	298	319,517
Scientific research, professional and technical services	160,861	15,080	6,910	3,916	1,195	764	351	189,077
Accommodations, eating and drinking services	457,762	45,064	22,933	12,082	3,781	2,376	1,042	545,040
Living-related and personal services and amusement services	346,362	14,782	9,649	7,063	2,843	1,582	565	382,846
Education, learning support	94,409	6,172	3,589	2,232	691	340	175	107,608
Medical, health care and welfare	146,427	38,228	15,077	7,557	2,134	924	237	210,584
Compound services	3,478	9	3	1		1	1	3,493
Services (not elsewhere classified)	96,393	14,172	10,211	9,334	4,141	3,317	1,593	139,161
Total	3,029,027	337,276	215,865	144,315	48,526	31,719	13,610	3,820,338

(2) Number of regular employees (2014) (people)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	146	75	17	58				296
Construction	129,297	20,951	5,537	1,593	364			157,742
Manufacturing	129,906	37,552	18,907	6,219	895	342		193,821
Electricity, gas, heat supply and water	6							6
Information and communications	1,384	305	156	89				1,934
Transport and postal activities	4,931	1,997	1,028	676	131			8,763
Wholesale trade	46,539	9,942	4,539	2,278	430			63,728
Retail trade	263,939	92,446	191,853	100,742	8,362	3,029	2,092	662,463
Finance and insurance	3,532	205	150					3,887
Real estate and goods rental and leasing	34,223	1,680	675	262				36,840
Scientific research, professional and technical services	118,200	40,320	17,890	7,600	1,627	2,174	663	188,474
Accommodations, eating and drinking services	423,284	168,531	74,048	21,770	2,320	803		690,756
Living-related and personal services and amusement services	177,704	29,523	18,004	6,931	1,383	887		234,432
Education, learning support	49,060	26,094	16,762	6,832	1,084	594		100,426
Medical, health care and welfare	234,242	224,220	93,856	34,490	12,474	9,607	4,409	613,298
Compound services	3,511	36						3,547
Services (not elsewhere classified)	40,189	6,054	2,979	2,402	971	652		53,247
Total	1,660,093	659,931	446,401	191,942	30,041	18,088	7,164	3,013,660

(people)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	1,413	2,264	2,682	4,021	1,930	1,595	4,590	18,495
Construction	407,422	400,862	436,664	459,595	220,049	231,625	564,266	2,720,483
Manufacturing	278,010	339,782	538,907	1,006,707	872,230	1,434,904	4,505,444	8,975,984
Electricity, gas, heat supply and water	739	772	1,854	4,556	5,474	9,518	173,896	196,809
Information and communications	39,088	39,838	66,823	133,721	132,686	247,245	792,913	1,452,314
Transport and postal activities	35,518	72,124	161,259	357,666	326,184	532,846	1,390,548	2,876,145
Wholesale trade	218,311	195,420	254,634	411,105	337,291	510,245	976,613	2,903,619
Retail trade	321,341	263,122	403,121	583,089	373,417	575,173	3,077,166	5,596,429
Finance and insurance	30,591	16,498	13,434	19,189	19,355	39,206	1,039,193	1,177,466
Real estate and goods rental and leasing	155,186	56,264	60,330	90,134	70,194	117,872	318,823	868,803
Scientific research, professional and technical services	97,285	72,079	81,271	113,257	82,362	124,970	365,666	936,890
Accommodations, eating and drinking services	115,711	169,856	255,909	352,590	261,270	388,699	1,751,212	3,295,247
Living-related and personal services and amusement services	76,533	82,349	122,625	217,625	197,937	250,575	546,327	1,493,971
Education, learning support	16,247	20,650	35,384	63,332	47,226	53,797	175,748	412,384
Medical, health care and welfare	31,299	60,759	121,795	199,618	134,313	133,677	243,741	925,202
Compound services	105	25	35	37		226	406,903	407,331
Services (not elsewhere classified)	95,995	101,864	147,594	298,645	292,744	558,780	1,846,409	3,342,031
Total	1,920,794	1,894,528	2,704,321	4,314,887	3,374,662	5,210,953	18,179,458	37,599,603

(people)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	1,559	2,339	2,699	4,079	1,930	1,595	4,590	18,791
Construction	536,719	421,813	442,201	461,188	220,413	231,625	564,266	2,878,225
Manufacturing	407,916	377,334	557,814	1,012,926	873,125	1,435,246	4,505,444	9,169,805
Electricity, gas, heat supply and water	745	772	1,854	4,556	5,474	9,518	173,896	196,815
Information and communications	40,472	40,143	66,979	133,810	132,686	247,245	792,913	1,454,248
Transport and postal activities	40,449	74,121	162,287	358,342	326,315	532,846	1,390,548	2,884,908
Wholesale trade	264,850	205,362	259,173	413,383	337,721	510,245	976,613	2,967,347
Retail trade	585,280	355,568	594,974	683,831	381,779	578,202	3,079,258	6,258,892
Finance and insurance	34,123	16,703	13,584	19,189	19,355	39,206	1,039,193	1,181,353
Real estate and goods rental and leasing	189,409	57,944	61,005	90,396	70,194	117,872	318,823	905,643
Scientific research, professional and technical services	215,485	112,399	99,161	120,857	83,989	127,144	366,329	1,125,364
Accommodations, eating and drinking services	538,995	338,387	329,957	374,360	263,590	389,502	1,751,212	3,986,003
Living-related and personal services and amusement services	254,237	111,872	140,629	224,556	199,320	251,462	546,327	1,728,403
Education, learning support	65,307	46,744	52,146	70,164	48,310	54,391	175,748	512,810
Medical, health care and welfare	265,541	284,979	215,651	234,108	146,787	143,284	248,150	1,538,500
Compound services	3,616	61	35	37		226	406,903	410,878
Services (not elsewhere classified)	136,184	107,918	150,573	301,047	293,715	559,432	1,846,409	3,395,278
Total	3,580,887	2,554,459	3,150,722	4,506,829	3,404,703	5,229,041	18,186,622	40,613,263

(3) Total number of workers (2014)

(people)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	336	91	19	61				507
Construction	341,930	25,607	6,259	1,758	370			375,924
Manufacturing	335,621	45,279	21,147	6,602	953	344		409,946
Electricity, gas, heat supply and water	17							17
Information and communications	4,472	358	176	101				5,107
Transport and postal activities	27,604	2,423	1,135	712	139			32,013
Wholesale trade	115,904	11,941	5,110	2,384	437			135,776
Retail trade	829,535	111,895	210,394	106,688	8,799	3,230	2,149	1,272,690
Finance and insurance	11,305	236	168					11,709
Real estate and goods rental and leasing	226,453	2,024	763	303				229,543
Scientific research, professional and technical services	233,168	46,520	19,377	7,911	1,652	2,149	665	311,442
Accommodations, eating and drinking services	1,060,933	201,659	82,201	23,394	2,568	815		1,371,570
Living-related and personal services and amusement services	557,704	35,224	19,882	7,445	1,560	893		622,708
Education, learning support	164,648	31,133	18,700	7,421	1,143	637		223,682
Medical, health care and welfare	410,715	262,218	103,379	36,598	13,072	9,937	4,468	840,387
Compound services	8,851	41						8,892
Services (not elsewhere classified)	108,299	7,297	3,512	2,634	1,011	655		123,408
Total	4,437,495	783,946	492,222	204,012	31,704	18,660	7,282	5,975,321

(people)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	2,748	2,968	3,261	4,497	2,075	1,744	3,518	20,811
Construction	812,061	527,504	524,054	516,003	236,720	241,843	568,906	3,427,091
Manufacturing	527,763	435,833	632,524	1,106,120	922,142	1,475,167	4,256,465	9,356,014
Electricity, gas, heat supply and water	1,428	962	2,201	5,116	5,866	9,827	175,047	200,447
Information and communications	80,543	50,727	77,593	147,032	140,751	256,577	800,593	1,553,816
Transport and postal activities	67,776	93,280	187,981	394,463	345,944	553,585	1,433,494	3,076,523
Wholesale trade	426,024	251,945	302,364	457,047	359,580	528,443	973,132	3,298,535
Retail trade	637,048	339,337	469,129	644,037	400,787	610,609	3,171,135	6,272,082
Finance and insurance	63,334	21,274	15,828	21,164	20,664	40,850	1,049,075	1,232,189
Real estate and goods rental and leasing	437,205	72,959	71,785	101,373	76,051	123,692	327,349	1,210,414
Scientific research, professional and technical services	207,534	93,413	96,108	126,717	88,476	132,286	363,958	1,108,492
Accommodations, eating and drinking services	236,777	220,650	302,485	401,561	295,241	435,175	1,917,352	3,809,241
Living-related and personal services and amusement services	149,094	105,930	145,441	246,438	218,505	272,492	578,548	1,716,448
Education, learning support	40,522	28,158	42,878	73,862	54,938	63,332	190,052	493,742
Medical, health care and welfare	60,759	77,685	140,789	220,938	143,794	141,396	252,009	1,037,370
Compound services	216	33	44	39		226	407,019	407,577
Services (not elsewhere classified)	202,449	140,937	186,941	352,980	323,677	614,823	1,917,542	3,739,349
Total	3,953,281	2,463,595	3,201,406	4,819,387	3,635,211	5,502,067	18,385,194	41,960,141

(people)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	3,084	3,059	3,280	4,558	2,075	1,744	3,518	21,318
Construction	1,153,991	553,111	530,313	517,761	237,090	241,843	568,906	3,803,015
Manufacturing	863,384	481,112	653,671	1,112,722	923,095	1,475,511	4,256,465	9,765,960
Electricity, gas, heat supply and water	1,445	962	2,201	5,116	5,866	9,827	175,047	200,464
Information and communications	85,015	51,085	77,769	147,133	140,751	256,577	800,593	1,558,923
Transport and postal activities	95,380	95,703	189,116	395,175	346,083	553,585	1,433,494	3,108,536
Wholesale trade	541,928	263,886	307,474	459,431	360,017	528,443	973,132	3,434,311
Retail trade	1,466,583	451,232	679,523	750,725	409,586	613,839	3,173,284	7,544,772
Finance and insurance	74,639	21,510	15,996	21,164	20,664	40,850	1,049,075	1,243,898
Real estate and goods rental and leasing	663,658	74,983	72,548	101,676	76,051	123,692	327,349	1,439,957
Scientific research, professional and technical services	440,702	139,933	115,485	134,628	90,128	134,435	364,623	1,419,934
Accommodations, eating and drinking services	1,297,710	422,309	384,686	424,955	297,809	435,990	1,917,352	5,180,811
Living-related and personal services and amusement services	706,798	141,154	165,323	253,883	220,065	273,385	578,548	2,339,156
Education, learning support	205,170	59,291	61,578	81,283	56,081	63,969	190,052	717,424
Medical, health care and welfare	471,474	339,903	244,168	257,536	156,866	151,333	256,477	1,877,757
Compound services	9,067	74	44	39		226	407,019	416,469
Services (not elsewhere classified)	310,748	148,234	190,453	355,614	324,688	615,478	1,917,542	3,862,757
Total	8,390,776	3,247,541	3,693,628	5,023,399	3,666,915	5,520,727	18,392,476	47,935,462

(4) Sales (2013)

(¥100 million)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	24	10	2	13	0	0	0	49
Construction	20,407	1,778	432	128	9	0	0	22,754
Manufacturing	12,512	2,099	973	316	82	25	0	16,008
Electricity, gas, heat supply and water	0	0	0	0	0	0	0	0
Information and communications	138	10	3	3	0	0	0	154
Transport and postal activities	856	123	43	26	11	0	0	1,059
Wholesale trade	12,358	1,470	610	195	181	0	0	14,814
Retail trade	47,301	9,296	17,462	6,306	314	71	1	80,752
Finance and insurance	584	27	33	0	0	0	0	644
Real estate and goods rental and leasing	9,758	92	21	6	0	0	0	9,877
Scientific research, professional and technical services	13,119	3,331	1,403	728	222	258	56	19,118
Accommodations, eating and drinking services	26,694	4,923	1,845	453	56	30	0	34,000
Living-related and personal services and amusement services	13,157	1,086	873	219	23	352	0	15,710
Education, learning support	2,222	430	284	150	11	16	0	3,112
Medical, health care and welfare	23,040	18,646	7,071	2,696	964	705	283	53,405
Compound services	182	1	0	0	0	0	0	183
Services (not elsewhere classified)	4,898	322	80	50	15	9	0	5,374
Total	187,248	43,643	31,137	11,290	1,890	1,465	341	277,013

(¥100 million)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	3,454	512	6,625	881	682	2,056	7,035	21,245
Construction	112,071	84,668	96,831	113,987	61,857	79,691	305,388	854,494
Manufacturing	67,590	53,476	85,557	186,404	182,887	375,598	2,501,049	3,452,561
Electricity, gas, heat supply and water	2,074	284	821	2,490	5,526	10,489	235,274	256,958
Information and communications	10,439	5,198	8,633	21,356	20,156	47,866	355,982	469,631
Transport and postal activities	11,174	10,871	20,470	43,069	41,698	72,593	328,052	527,927
Wholesale trade	163,658	111,733	154,386	257,689	275,039	430,956	1,373,414	2,766,875
Retail trade	87,858	54,742	65,511	88,409	65,622	129,310	741,724	1,233,176
Finance and insurance	22,390	2,984	3,313	9,315	6,765	36,227	716,429	797,423
Real estate and goods rental and leasing	58,591	15,931	14,670	25,722	22,087	37,662	155,893	330,555
Scientific research, professional and technical services	23,722	10,561	13,005	20,358	16,892	40,082	118,987	243,608
Accommodations, eating and drinking services	10,560	9,508	11,417	16,319	13,138	21,159	88,326	170,427
Living-related and personal services and amusement services	15,318	9,222	16,081	33,409	33,612	52,218	161,846	321,707
Education, learning support	1,526	928	1,437	3,495	2,561	2,749	11,607	24,303
Medical, health care and welfare	2,284	2,095	3,772	6,139	4,302	4,584	11,988	35,163
Compound services	20	97	8	6	0	1	27,740	27,870
Services (not elsewhere classified)	17,662	12,270	16,098	26,179	21,404	37,591	117,215	248,419
Total	610,391	385,080	518,634	855,229	774,227	1,380,835	7,257,950	11,782,344

(¥100 million)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	3,477	521	6,627	894	682	2,056	7,035	21,294
Construction	132,479	86,446	97,263	114,115	61,866	79,691	305,388	877,248
Manufacturing	80,101	55,576	86,530	186,720	182,970	375,623	2,501,049	3,468,569
Electricity, gas, heat supply and water	2,075	284	821	2,490	5,526	10,489	235,274	256,959
Information and communications	10,577	5,208	8,636	21,360	20,156	47,866	355,982	469,785
Transport and postal activities	12,030	10,994	20,513	43,095	41,709	72,593	328,052	528,986
Wholesale trade	176,016	113,203	154,996	257,883	275,220	430,956	1,373,414	2,781,689
Retail trade	135,160	64,038	82,973	94,715	65,936	129,381	741,726	1,313,929
Finance and insurance	22,973	3,011	3,346	9,315	6,765	36,227	716,429	798,067
Real estate and goods rental and leasing	68,348	16,022	14,691	25,728	22,087	37,662	155,893	340,432
Scientific research, professional and technical services	36,841	13,892	14,408	21,086	17,115	40,340	119,043	262,726
Accommodations, eating and drinking services	37,254	14,431	13,262	16,772	13,194	21,189	88,326	204,427
Living-related and personal services and amusement services	28,475	10,308	16,954	33,629	33,635	52,569	161,846	337,417
Education, learning support	3,748	1,357	1,721	3,646	2,572	2,765	11,607	27,415
Medical, health care and welfare	25,324	20,741	10,843	8,835	5,266	5,289	12,270	88,568
Compound services	202	97	8	6	0	1	27,740	28,053
Services (not elsewhere classified)	22,560	12,592	16,178	26,229	21,419	37,599	117,215	253,793
Total	797,639	428,722	549,771	866,519	776,116	1,382,300	7,258,290	12,059,357

(5) Value added (2011) (¥100 million)

Sole proprietorship	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	9	1	1	1	0	0	0	12
Construction	8,442	774	211	54	9	4	0	9,494
Manufacturing	6,119	1,030	483	150	25	3	0	7,811
Electricity, gas, heat supply and water	0	0	0	0	0	0	0	0
Information and communications	63	5	2	1	0	0	0	71
Transport and postal activities	390	64	26	9	4	0	0	494
Wholesale trade	3,225	356	143	34	3	0	0	3,761
Retail trade	15,318	2,444	4,063	1,585	90	17	0	23,517
Finance and insurance	274	6	2	0	0	0	0	282
Real estate and goods rental and leasing	5,172	48	14	9	0	0	0	5,242
Scientific research, professional and technical services	7,115	2,201	967	476	158	126	67	11,109
Accommodations, eating and drinking services	10,207	1,988	803	214	22	5	0	13,240
Living-related and personal services and amusement services	6,439	550	396	118	9	20	0	7,533
Education, learning support	1,003	230	163	107	23	2	0	1,528
Medical, health care and welfare	11,881	9,941	3,874	1,545	639	572	161	28,613
Compound services	106	1	0	0	0	0	0	108
Services (not elsewhere classified)	2,318	186	57	56	5	0	0	2,622
Total	78,083	19,827	11,205	4,360	987	749	227	115,437

(¥100 million)

Company	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	140	147	129	247	110	322	282	1,376
Construction	25,636	18,318	19,192	19,190	9,666	12,377	41,827	146,207
Manufacturing	19,687	16,781	25,871	47,483	44,918	79,503	320,873	555,114
Electricity, gas, heat supply and water	530	80	158	352	376	903	25,545	27,943
Information and communications	2,922	2,055	3,252	6,651	7,107	14,483	90,010	126,481
Transport and postal activities	2,733	3,120	6,435	13,725	12,161	18,870	81,924	138,969
Wholesale trade	22,936	13,492	17,061	27,404	21,943	37,124	77,208	217,169
Retail trade	20,210	11,194	13,338	17,216	11,280	20,767	100,268	194,273
Finance and insurance	4,514	961	1,044	1,577	1,486	4,349	132,966	146,898
Real estate and goods rental and leasing	20,863	4,082	4,340	6,784	5,062	8,455	26,379	75,965
Scientific research, professional and technical services	9,536	6,713	4,353	6,291	9,486	9,786	37,497	83,662
Accommodations, eating and drinking services	4,614	3,756	4,873	6,727	4,705	6,909	28,050	59,635
Living-related and personal services and amusement services	4,280	2,680	3,815	7,548	6,380	8,779	21,208	54,690
Education, learning support	664	488	728	1,557	1,224	1,245	4,964	10,869
Medical, health care and welfare	1,009	1,120	1,960	3,192	2,054	1,945	5,821	17,101
Compound services	14	3	0	1	1	9	6,685	6,713
Services (not elsewhere classified)	7,367	5,165	6,275	11,118	8,343	15,268	43,167	96,703
Total	147,654	90,156	112,823	177,063	146,302	241,094	1,044,674	1,959,767

(¥100 million)

Total enterprises (Sole proprietorship and company)	5 or fewer	6-10	11-20	21-50	51-100	101-300	301 or more	Total
Mining and quarrying of stone and gravel	149	148	130	248	110	322	282	1,388
Construction	34,078	19,093	19,403	19,244	9,674	12,381	41,827	155,700
Manufacturing	25,806	17,811	26,354	47,633	44,943	79,506	320,873	562,925
Electricity, gas, heat supply and water	530	80	158	352	376	903	25,545	27,943
Information and communications	2,986	2,060	3,254	6,652	7,107	14,483	90,010	126,553
Transport and postal activities	3,123	3,185	6,461	13,734	12,165	18,870	81,924	139,462
Wholesale trade	26,161	13,848	17,204	27,438	21,946	37,124	77,208	220,929
Retail trade	35,528	13,638	17,401	18,801	11,370	20,784	100,268	217,790
Finance and insurance	4,788	968	1,046	1,577	1,486	4,349	132,966	147,180
Real estate and goods rental and leasing	26,035	4,130	4,354	6,793	5,062	8,455	26,379	81,207
Scientific research, professional and technical services	16,650	8,914	5,320	6,768	9,644	9,912	37,564	94,771
Accommodations, eating and drinking services	14,821	5,743	5,677	6,941	4,728	6,914	28,050	72,874
Living-related and personal services and amusement services	10,719	3,230	4,211	7,666	6,389	8,799	21,208	62,222
Education, learning support	1,667	719	891	1,664	1,247	1,246	4,964	12,397
Medical, health care and welfare	12,890	11,061	5,834	4,737	2,693	2,517	5,981	45,714
Compound services	120	4	0	1	1	9	6,685	6,821
Services (not elsewhere classified)	9,686	5,351	6,332	11,174	8,347	15,268	43,167	99,325
Total	225,737	109,983	124,028	181,423	147,289	241,843	1,044,901	2,075,204

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.
Notes: 1. Number of enterprises = Number of companies + Business establishments of sole proprietors.
2. Industries are classified according to the October 2013 revised system of industry classification.

Table 20 No. of sole proprietor, unpaid family worker, officers with payment, regular employees and temporary employees by industry and size (2014)

(people)

	Sole proprietor	No. of unpaid family worker	No. of officers with payment	No. of regular employees	Regular employees and staffs	Part-timer	Temporary employees	Total no. of workers
SMEs	2,056,431	567,979	3,103,327	26,466,676	16,103,535	10,237,171	1,541,367	33,609,810
Mining and quarrying of stone and gravel	142	45	2,802	14,560	12,736	1,779	664	18,168
Construction	148,810	37,787	576,438	2,467,738	2,058,538	407,919	161,001	3,390,493
Manufacturing	142,915	51,267	533,953	5,681,828	4,115,788	1,491,722	150,744	6,486,389
Electricity, gas, heat supply and water	10	1	2,306	31,975	27,744	4,229	300	34,590
Information and communications	2,250	437	77,440	880,620	749,030	129,052	21,312	979,521
Transport and postal activities	17,983	4,095	111,034	2,084,844	1,573,435	507,316	70,323	2,284,186
Wholesale trade	47,245	17,101	344,924	2,090,910	1,543,773	532,460	72,125	2,557,628
Retail trade	398,002	154,521	444,032	3,552,165	1,504,703	2,038,787	205,413	4,745,458
Finance and insurance	6,197	1,347	41,384	170,361	130,568	37,429	5,198	222,123
Real estate and goods rental and leasing	145,707	42,249	305,372	684,658	443,751	238,248	34,251	1,209,578
Scientific research, professional and technical services	101,376	13,767	145,375	751,933	607,459	142,335	32,755	1,043,067
Accommodations, eating and drinking services	425,386	134,174	161,666	2,738,473	770,392	1,965,325	345,043	3,801,986
Living-related and personal services and amusement services	308,772	58,888	110,595	1,345,409	684,754	658,449	102,428	1,923,886
Education, learning support	90,252	11,197	28,260	413,400	144,982	268,253	60,554	603,498
Medical, health care and welfare	169,373	25,773	58,650	1,356,495	675,945	679,981	77,518	1,687,240
Compound services	3,259	682	109	3,975	1,231	2,744	1,425	9,450
Services (not elsewhere classified)	48,752	14,648	158,987	2,197,332	1,058,706	1,131,143	200,313	2,612,549
Of which micro enterprises	1,941,840	550,266	2,124,844	5,920,617	4,036,960	1,882,878	731,778	11,268,566
Mining and quarrying of stone and gravel	140	44	2,251	6,597	5,593	989	406	9,423
Construction	148,753	37,776	512,682	1,400,733	1,146,718	253,943	137,543	2,237,415
Manufacturing	142,652	51,227	378,423	1,343,064	933,273	409,503	83,089	1,998,167
Electricity, gas, heat supply and water	10	1	1,127	3,371	2,840	531	99	4,608
Information and communications	2,228	435	39,627	63,958	49,423	14,516	7,037	113,266
Transport and postal activities	17,954	4,082	61,026	276,857	228,380	48,425	20,332	380,199
Wholesale trade	45,465	16,764	188,319	264,850	190,547	74,226	26,607	541,928
Retail trade	369,909	147,230	269,873	585,280	366,935	218,265	94,371	1,466,583
Finance and insurance	6,197	1,347	37,137	64,410	45,359	19,015	3,090	112,145
Real estate and goods rental and leasing	145,593	42,222	285,844	276,582	200,462	76,081	21,827	772,029
Scientific research, professional and technical services	94,353	13,473	98,341	215,485	167,163	48,292	19,080	440,702
Accommodations, eating and drinking services	397,655	129,479	81,791	618,333	220,318	398,010	167,496	1,394,749
Living-related and personal services and amusement services	304,055	58,246	63,176	330,449	203,005	127,394	45,017	800,893
Education, learning support	84,958	10,484	13,072	65,307	20,120	45,181	31,355	205,170
Medical, health care and welfare	131,038	22,328	18,637	265,541	152,285	113,251	33,935	471,474
Compound services	3,254	682	94	3,616	1,131	2,485	1,421	9,067
Services (not elsewhere classified)	47,626	14,446	73,424	136,184	103,408	32,771	39,073	310,748
Large enterprises	349	44	72,350	14,146,587	8,437,630	5,358,018	457,261	14,325,652
Mining and quarrying of stone and gravel	0	0	168	4,231	2,612	369	1	3,150
Construction	0	0	3,705	410,487	366,603	39,444	2,770	412,522
Manufacturing	0	0	18,178	3,487,977	2,791,805	435,423	34,165	3,279,571
Electricity, gas, heat supply and water	0	0	577	164,840	158,487	6,249	561	165,874
Information and communications	0	0	4,392	573,628	518,435	53,258	3,317	579,402
Transport and postal activities	0	0	2,412	800,064	554,982	239,843	27,113	824,350
Wholesale trade	0	0	10,747	876,437	681,660	166,836	17,440	876,683
Retail trade	205	42	10,454	2,706,727	925,109	1,761,027	102,477	2,799,314
Finance and insurance	0	0	3,443	1,010,992	793,550	210,543	14,239	1,021,775
Real estate and goods rental and leasing	0	0	2,032	220,985	149,918	70,128	8,301	230,379
Scientific research, professional and technical services	14	1	4,332	373,431	278,932	81,746	11,842	376,867
Accommodations, eating and drinking services	46	1	2,926	1,247,530	218,395	1,025,960	131,497	1,378,825
Living-related and personal services and amusement services	6	0	3,190	382,994	148,289	232,092	31,693	415,270
Education, learning support	4	0	629	99,410	36,169	63,141	13,983	113,926
Medical, health care and welfare	71	0	678	182,005	98,357	83,646	7,765	190,517
Compound services	0	0	24	406,903	200,730	206,173	92	407,019
Services (not elsewhere classified)	3	0	4,463	1,197,946	513,597	682,140	50,005	1,250,208
Total	2,056,780	568,023	3,175,677	40,613,263	24,541,165	15,595,189	1,998,628	47,935,462
Mining and quarrying of stone and gravel	142	45	2,970	18,791	15,348	2,148	665	21,318
Construction	148,810	37,787	580,143	2,878,225	2,425,141	447,363	163,771	3,803,015
Manufacturing	142,915	51,267	552,131	9,169,805	6,907,593	1,927,145	184,909	9,765,960
Electricity, gas, heat supply and water	10	1	2,883	196,815	186,231	10,478	861	200,464
Information and communications	2,250	437	81,832	1,454,248	1,267,465	182,310	24,629	1,558,923
Transport and postal activities	17,983	4,095	113,446	2,884,908	2,128,417	747,159	97,436	3,108,536
Wholesale trade	47,245	17,101	355,671	2,967,347	2,225,433	699,296	89,565	3,434,311
Retail trade	398,207	154,563	454,486	6,258,892	2,429,812	3,799,814	307,890	7,544,772
Finance and insurance	6,197	1,347	44,827	1,181,353	924,118	247,972	19,437	1,243,898
Real estate and goods rental and leasing	145,707	42,249	307,404	905,643	593,669	308,376	42,552	1,439,957
Scientific research, professional and technical services	101,390	13,768	149,707	1,125,364	886,391	224,081	44,597	1,419,934
Accommodations, eating and drinking services	425,432	134,175	164,592	3,986,003	988,787	2,991,285	476,540	5,180,811
Living-related and personal services and amusement services	308,778	58,888	113,785	1,728,403	833,043	890,541	134,121	2,339,156
Education, learning support	90,256	11,197	28,889	512,810	181,151	331,394	74,537	717,424
Medical, health care and welfare	169,444	25,773	59,328	1,538,500	774,302	763,627	85,283	1,877,757
Compound services	3,259	682	133	410,878	201,961	208,917	1,517	416,469
Services (not elsewhere classified)	48,755	14,648	163,450	3,395,278	1,572,303	1,813,283	250,318	3,862,757

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.

Notes: 1. Enterprises are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
2. Industries are classified according to the October 2013 revised system of industry classification.

Table 21 No. of enterprises, regular employees, total no. of workers, sales and value added by industry, size and organization

(1) Number of enterprises (2014) (businesses)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	140	138	0	140
Construction	151,748	151,686	0	151,748
Manufacturing	144,787	144,538	0	144,787
Electricity, gas, heat supply and water	10	10	0	10
Information and communications	2,265	2,243	0	2,265
Transport and postal activities	18,170	18,144	0	18,170
Wholesale trade	47,972	46,185	0	47,972
Retail trade	403,814	375,046	155	403,969
Finance and insurance	6,247	6,247	0	6,247
Real estate and goods rental and leasing	148,334	148,213	0	148,334
Scientific research, professional and technical services	102,327	95,213	15	102,342
Accommodations, eating and drinking services	436,230	407,759	38	436,268
Living-related and personal services and amusement services	313,418	308,874	6	313,424
Education, learning support	89,764	84,787	4	89,768
Medical, health care and welfare	171,326	132,558	71	171,397
Compound services	3,407	3,402	0	3,407
Services (not elsewhere classified)	49,464	48,310	4	49,468
Total	2,089,423	1,973,353	293	2,089,716

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	1,314	1,146	4	1,318
Construction	303,521	283,424	284	303,805
Manufacturing	268,552	214,231	1,957	270,509
Electricity, gas, heat supply and water	990	698	29	1,019
Information and communications	42,989	27,750	533	43,522
Transport and postal activities	54,966	35,111	251	55,217
Wholesale trade	179,936	116,348	1,575	181,511
Retail trade	264,380	175,360	2,452	266,832
Finance and insurance	23,712	22,574	259	23,971
Real estate and goods rental and leasing	170,887	163,355	296	171,183
Scientific research, professional and technical services	86,128	65,648	607	86,735
Accommodations, eating and drinking services	108,051	57,230	721	108,772
Living-related and personal services and amusement services	68,886	44,376	536	69,422
Education, learning support	17,715	9,622	125	17,840
Medical, health care and welfare	39,000	13,869	187	39,187
Compound services	85	76	1	86
Services (not elsewhere classified)	88,693	48,083	1,000	89,693
Total	1,719,805	1,278,901	10,817	1,730,622

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	1,454	1,284	4	1,458
Construction	455,269	435,110	284	455,553
Manufacturing	413,339	358,769	1,957	415,296
Electricity, gas, heat supply and water	1,000	708	29	1,029
Information and communications	45,254	29,993	533	45,787
Transport and postal activities	73,136	53,255	251	73,387
Wholesale trade	227,908	162,533	1,575	229,483
Retail trade	668,194	550,406	2,607	670,801
Finance and insurance	29,959	28,821	259	30,218
Real estate and goods rental and leasing	319,221	311,568	296	319,517
Scientific research, professional and technical services	188,455	160,861	622	189,077
Accommodations, eating and drinking services	544,281	464,989	759	545,040
Living-related and personal services and amusement services	382,304	353,250	542	382,846
Education, learning support	107,479	94,409	129	107,608
Medical, health care and welfare	210,326	146,427	258	210,584
Compound services	3,492	3,478	1	3,493
Services (not elsewhere classified)	138,157	96,393	1,004	139,161
Total	3,809,228	3,252,254	11,110	3,820,338

(2) Number of regular employees (2014) (people)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	296	238	0	296
Construction	157,742	155,785	0	157,742
Manufacturing	193,821	186,365	0	193,821
Electricity, gas, heat supply and water	6	6	0	6
Information and communications	1,934	1,690	0	1,934
Transport and postal activities	8,763	7,956	0	8,763
Wholesale trade	63,728	46,539	0	63,728
Retail trade	648,980	263,939	13,483	662,463
Finance and insurance	3,887	3,887	0	3,887
Real estate and goods rental and leasing	36,840	35,669	0	36,840
Scientific research, professional and technical services	185,637	118,200	2,837	188,474
Accommodations, eating and drinking services	687,730	430,510	3,026	690,756
Living-related and personal services and amusement services	233,545	188,023	887	234,432
Education, learning support	99,832	49,060	594	100,426
Medical, health care and welfare	599,282	234,242	14,016	613,298
Compound services	3,547	3,511	0	3,547
Services (not elsewhere classified)	52,595	40,189	652	53,247
Total	2,978,165	1,765,809	35,495	3,013,660

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	14,264	6,359	4,231	18,495
Construction	2,309,996	1,244,948	410,487	2,720,483
Manufacturing	5,488,007	1,156,699	3,487,977	8,975,984
Electricity, gas, heat supply and water	31,969	3,365	164,840	196,809
Information and communications	878,686	62,268	573,628	1,452,314
Transport and postal activities	2,076,081	268,901	800,064	2,876,145
Wholesale trade	2,027,182	218,311	876,437	2,903,619
Retail trade	2,903,185	321,341	2,693,244	5,596,429
Finance and insurance	166,474	60,523	1,010,992	1,177,466
Real estate and goods rental and leasing	647,818	240,913	220,985	868,803
Scientific research, professional and technical services	566,296	97,285	370,594	936,890
Accommodations, eating and drinking services	2,050,743	187,823	1,244,504	3,295,247
Living-related and personal services and amusement services	1,111,864	142,426	382,107	1,493,971
Education, learning support	313,568	16,247	98,816	412,384
Medical, health care and welfare	757,213	31,299	167,989	925,202
Compound services	428	105	406,903	407,331
Services (not elsewhere classified)	2,144,737	95,995	1,197,294	3,342,031
Total	23,488,511	4,154,808	14,111,092	37,599,603

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	14,560	6,597	4,231	18,791
Construction	2,467,738	1,400,733	410,487	2,878,225
Manufacturing	5,681,828	1,343,064	3,487,977	9,169,805
Electricity, gas, heat supply and water	31,975	3,371	164,840	196,815
Information and communications	880,620	63,958	573,628	1,454,248
Transport and postal activities	2,084,844	276,857	800,064	2,884,908
Wholesale trade	2,090,910	264,850	876,437	2,967,347
Retail trade	3,552,165	585,280	2,706,727	6,258,892
Finance and insurance	170,361	64,410	1,010,992	1,181,353
Real estate and goods rental and leasing	684,658	276,582	220,985	905,643
Scientific research, professional and technical services	751,933	215,485	373,431	1,125,364
Accommodations, eating and drinking services	2,738,473	618,333	1,247,530	3,986,003
Living-related and personal services and amusement services	1,345,409	330,449	382,994	1,728,403
Education, learning support	413,400	65,307	99,410	512,810
Medical, health care and welfare	1,356,495	265,541	182,005	1,538,500
Compound services	3,975	3,616	406,903	410,878
Services (not elsewhere classified)	2,197,332	136,184	1,197,946	3,395,278
Total	26,466,676	5,920,617	14,146,587	40,613,263

(3) Total number of workers (2014) (people)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	507	446	0	507
Construction	375,924	373,796	0	375,924
Manufacturing	409,946	402,047	0	409,946
Electricity, gas, heat supply and water	17	17	0	17
Information and communications	5,107	4,822	0	5,107
Transport and postal activities	32,013	31,162	0	32,013
Wholesale trade	135,776	115,904	0	135,776
Retail trade	1,258,512	829,535	14,178	1,272,690
Finance and insurance	11,709	11,709	0	11,709
Real estate and goods rental and leasing	229,543	228,162	0	229,543
Scientific research, professional and technical services	308,628	233,168	2,814	311,442
Accommodations, eating and drinking services	1,368,285	1,069,770	3,285	1,371,570
Living-related and personal services and amusement services	621,815	569,529	893	622,708
Education, learning support	223,045	164,648	637	223,682
Medical, health care and welfare	825,982	410,715	14,405	840,387
Compound services	8,892	8,851	0	8,892
Services (not elsewhere classified)	122,753	108,299	655	123,408
Total	5,938,454	4,562,580	36,867	5,975,321

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	17,661	8,977	3,150	20,811
Construction	3,014,569	1,863,619	412,522	3,427,091
Manufacturing	6,076,443	1,596,120	3,279,571	9,356,014
Electricity, gas, heat supply and water	34,573	4,591	165,874	200,447
Information and communications	974,414	108,444	579,402	1,553,816
Transport and postal activities	2,252,173	349,037	824,350	3,076,523
Wholesale trade	2,421,852	426,024	876,683	3,298,535
Retail trade	3,486,946	637,048	2,785,136	6,272,082
Finance and insurance	210,414	100,436	1,021,775	1,232,189
Real estate and goods rental and leasing	980,035	543,867	230,379	1,210,414
Scientific research, professional and technical services	734,439	207,534	374,053	1,108,492
Accommodations, eating and drinking services	2,433,701	324,979	1,375,540	3,809,241
Living-related and personal services and amusement services	1,302,071	231,364	414,377	1,716,448
Education, learning support	380,453	40,522	113,289	493,742
Medical, health care and welfare	861,258	60,759	176,112	1,037,370
Compound services	558	216	407,019	407,577
Services (not elsewhere classified)	2,489,796	202,449	1,249,553	3,739,349
Total	27,671,356	6,705,986	14,288,785	41,960,141

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	18,168	9,423	3,150	21,318
Construction	3,390,493	2,237,415	412,522	3,803,015
Manufacturing	6,486,389	1,998,167	3,279,571	9,765,960
Electricity, gas, heat supply and water	34,590	4,608	165,874	200,464
Information and communications	979,521	113,266	579,402	1,558,923
Transport and postal activities	2,284,186	380,199	824,350	3,108,536
Wholesale trade	2,557,628	541,928	876,683	3,434,311
Retail trade	4,745,458	1,466,583	2,799,314	7,544,772
Finance and insurance	222,123	112,145	1,021,775	1,243,898
Real estate and goods rental and leasing	1,209,578	772,029	230,379	1,439,957
Scientific research, professional and technical services	1,043,067	440,702	376,867	1,419,934
Accommodations, eating and drinking services	3,801,986	1,394,749	1,378,825	5,180,811
Living-related and personal services and amusement services	1,923,886	800,893	415,270	2,339,156
Education, learning support	603,498	205,170	113,926	717,424
Medical, health care and welfare	1,687,240	471,474	190,517	1,877,757
Compound services	9,450	9,067	407,019	416,469
Services (not elsewhere classified)	2,612,549	310,748	1,250,208	3,862,757
Total	33,609,810	11,268,566	14,325,652	47,935,462

(4) Sales (2014) (¥100 million)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	49	35	0	49
Construction	22,754	22,617	0	22,754
Manufacturing	16,008	15,584	0	16,008
Electricity, gas, heat supply and water	0	0	0	0
Information and communications	154	146	0	154
Transport and postal activities	1,059	1,022	0	1,059
Wholesale trade	14,814	12,358	0	14,814
Retail trade	80,366	47,301	386	80,752
Finance and insurance	644	644	0	644
Real estate and goods rental and leasing	9,877	9,832	0	9,877
Scientific research, professional and technical services	18,804	13,119	314	19,118
Accommodations, eating and drinking services	33,914	26,995	86	34,000
Living-related and personal services and amusement services	15,358	14,050	352	15,710
Education, learning support	3,096	2,222	16	3,112
Medical, health care and welfare	52,417	23,040	988	53,405
Compound services	183	182	0	183
Services (not elsewhere classified)	5,365	4,898	9	5,374
Total	274,862	194,046	2,151	277,013

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	14,294	10,590	6,951	21,245
Construction	593,310	293,570	261,185	854,494
Manufacturing	1,234,925	206,623	2,217,637	3,452,561
Electricity, gas, heat supply and water	22,889	3,179	234,069	256,958
Information and communications	145,597	13,794	324,034	469,631
Transport and postal activities	263,232	42,515	264,695	527,927
Wholesale trade	1,304,257	163,658	1,462,618	2,766,875
Retail trade	533,837	87,858	699,339	1,233,176
Finance and insurance	85,363	28,686	712,060	797,423
Real estate and goods rental and leasing	178,070	82,610	152,486	330,555
Scientific research, professional and technical services	97,856	23,722	145,752	243,608
Accommodations, eating and drinking services	100,747	15,056	69,680	170,427
Living-related and personal services and amusement services	199,742	31,148	121,965	321,707
Education, learning support	15,276	1,526	9,027	24,303
Medical, health care and welfare	25,579	2,284	9,584	35,163
Compound services	131	20	27,740	27,870
Services (not elsewhere classified)	143,932	17,662	104,487	248,419
Total	4,959,036	1,024,503	6,823,308	11,782,344

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	14,343	10,626	6,951	21,294
Construction	616,064	316,188	261,185	877,248
Manufacturing	1,250,933	222,207	2,217,637	3,468,569
Electricity, gas, heat supply and water	22,890	3,180	234,069	256,959
Information and communications	145,751	13,940	324,034	469,785
Transport and postal activities	264,291	43,537	264,695	528,986
Wholesale trade	1,319,071	176,016	1,462,618	2,781,689
Retail trade	614,203	135,160	699,726	1,313,929
Finance and insurance	86,007	29,330	712,060	798,067
Real estate and goods rental and leasing	187,946	92,442	152,486	340,432
Scientific research, professional and technical services	116,660	36,841	146,066	262,726
Accommodations, eating and drinking services	134,661	42,051	69,766	204,427
Living-related and personal services and amusement services	215,101	45,199	122,316	337,417
Education, learning support	18,372	3,748	9,043	27,415
Medical, health care and welfare	77,996	25,324	10,572	88,568
Compound services	313	202	27,740	28,053
Services (not elsewhere classified)	149,297	22,560	104,496	253,793
Total	5,233,899	1,218,549	6,825,458	12,059,357

(5) Value added (2011) (¥100 million)

Sole proprietorship	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	12	11	0	12
Construction	9,494	9,427	0	9,494
Manufacturing	7,811	7,633	0	7,811
Electricity, gas, heat supply and water	0	0	0	0
Information and communications	71	66	0	71
Transport and postal activities	494	480	0	494
Wholesale trade	3,761	3,225	0	3,761
Retail trade	23,410	15,318	107	23,517
Finance and insurance	282	282	0	282
Real estate and goods rental and leasing	5,242	5,211	0	5,242
Scientific research, professional and technical services	10,917	7,115	193	11,109
Accommodations, eating and drinking services	13,213	10,319	27	13,240
Living-related and personal services and amusement services	7,512	6,758	20	7,533
Education, learning support	1,527	1,003	2	1,528
Medical, health care and welfare	27,881	11,881	732	28,613
Compound services	108	106	0	108
Services (not elsewhere classified)	2,622	2,318	0	2,622
Total	114,356	81,156	1,081	115,437

Company	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	1,122	415	253	1,376
Construction	112,241	63,146	33,966	146,207
Manufacturing	276,649	62,338	278,466	555,114
Electricity, gas, heat supply and water	2,838	767	25,105	27,943
Information and communications	49,866	4,114	76,615	126,481
Transport and postal activities	75,667	12,288	63,302	138,969
Wholesale trade	136,666	22,936	80,503	217,169
Retail trade	99,697	20,210	94,576	194,273
Finance and insurance	15,338	6,520	131,561	146,898
Real estate and goods rental and leasing	51,659	27,699	24,306	75,965
Scientific research, professional and technical services	40,715	9,536	42,947	83,662
Accommodations, eating and drinking services	36,664	6,324	22,971	59,635
Living-related and personal services and amusement services	39,090	6,946	15,600	54,690
Education, learning support	6,867	664	4,002	10,869
Medical, health care and welfare	11,965	1,009	5,136	17,101
Compound services	28	14	6,685	6,713
Services (not elsewhere classified)	60,537	7,367	36,166	96,703
Total	1,017,608	252,293	942,159	1,959,767

Total enterprises (Sole proprietorship and company)	SMEs	Of which micro enterprises	Large enterprises	Total
Mining and quarrying of stone and gravel	1,135	427	253	1,388
Construction	121,735	72,574	33,966	155,700
Manufacturing	284,459	69,971	278,466	562,925
Electricity, gas, heat supply and water	2,838	767	25,105	27,943
Information and communications	49,938	4,181	76,615	126,553
Transport and postal activities	76,160	12,769	63,302	139,462
Wholesale trade	140,426	26,161	80,503	220,929
Retail trade	123,107	35,528	94,684	217,790
Finance and insurance	15,619	6,802	131,561	147,180
Real estate and goods rental and leasing	56,901	32,910	24,306	81,207
Scientific research, professional and technical services	51,632	16,650	43,139	94,771
Accommodations, eating and drinking services	49,877	16,643	22,997	72,874
Living-related and personal services and amusement services	46,602	13,704	15,620	62,222
Education, learning support	8,393	1,667	4,004	12,397
Medical, health care and welfare	39,846	12,890	5,868	45,714
Compound services	136	120	6,685	6,821
Services (not elsewhere classified)	63,160	9,686	36,166	99,325
Total	1,131,964	333,449	943,240	2,075,204

Source: Recompiled from MIC, *2014 Economic Census for Business Frame*.
Notes: 1. Number of enterprises = Number of companies + Business establishments of sole proprietors.
2. Business establishments are classified according to the Small and Medium-sized Enterprise Basic Act (Act No. 154 of 1963) (see introductory notes).
3. Industries are classified according to the October 2013 revised system of industry classification.

Index of figures

Index of figures

Part II Chapter 2

Part II Chapter 3

Part II Chapter 5

Part II Chapter 6

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