

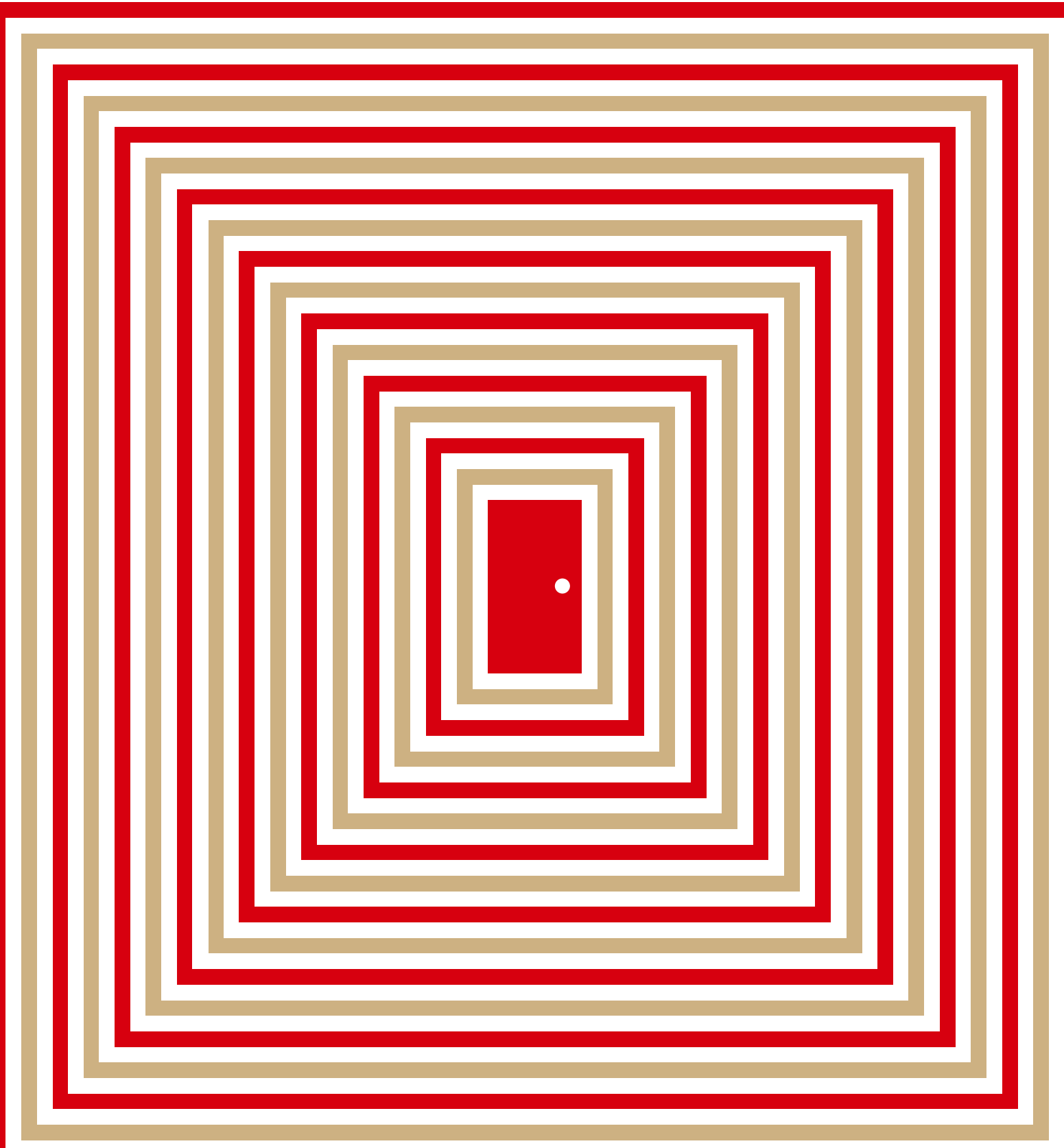
2017

White Paper on Small and Medium Enterprises in Japan

SME Life Cycle

– Continuity in the Next Generation –

National Association of Trade Promotion for Small and Medium Enterprises



Outline of the 2017 White Paper on Small and Medium Enterprises in Japan

Part I of this report analyzes recent SME trends, and examines the life cycle and productivity of SMEs and the employment environment and labor shortage situation surrounding SMEs.

Based on the information presented in Part I, Part II focuses on the life cycle of SMEs and the human resources that support them, and analyzes their startup, business succession, growth through new business development, and initiatives for acquiring human resources.

Part I Developments among SMEs in fiscal 2016

● Current state of SMEs

The Japanese economy is continuing to improve, and the environment surrounding SMEs and micro-businesses is also showing a trend toward improvement.

However, the degree of improvement varies according to enterprise size, industry, region, and other such factors, and various issues also exist, such as the sluggish growth of capital investment and sales. Furthermore, there still remains a disparity in the transaction environment between large enterprises and SMEs.

● The life cycle and productivity of SMEs

The number of enterprises in Japan is declining, but while the number of small enterprises marked a significant decline from 2009 to 2014, the number of medium enterprises increased over the same period. With a conspicuous increase in number of workers, medium enterprises are gradually strengthening their presence in Japan's economy.

Trends in the components of the life cycle of enterprises, including market entries and exits, are imposing a large impact on overall SME productivity in Japan. Entries have boosted SME productivity as a whole, but the upward effect has shrunk in recent years, in part due to market exits by high-productivity enterprises, which have pushed down overall productivity.

● The employment environment and labor shortage in SMEs

Amid an improving employment environment in Japan, the unemployment we see today could be said to be a structural unemployment caused by mismatches. For example, underlying this structural unemployment is a mismatch in occupations for which enterprises seek applicants and occupations that are sought by job seekers. Under this situation, SMEs that offer attractive jobs and flexible working styles are being chosen as a place of employment.

Part II SME life cycle

● New business startup/establishment

Entrepreneurial hopefuls and people making startup preparations face different concerns according to gender, age, and other such attributes, but even those who have become entrepreneurs had not been able to receive the startup support they needed, in many cases. After startup, entrepreneurs continue to face various issues at each stage of growth of their business. For smooth business startup, entrepreneurial hopefuls and people making startup preparations need to acquire information on the support they require to resolve their respective issues, and to utilize those support schemes to their benefit. After

business startup, it is also important for enterprises to achieve the growth they envision by procuring funds and acquiring personnel as appropriate to each growth stage.

● **Business succession**

In order for a company president to begin preparing for business succession, approaches need to be made by people around the president. Prompted by such approaches, the president could then develop an awareness of business succession at an early stage, and seek the optimal method of handing down the business in consultation with people and institutions in an advisory capacity, such as advising certified public accountants/tax accountants, financial institutions, and societies or chambers of commerce and industry.

Business transfers, sale and integration (M&A) are important options to enterprises that do not have a candidate successor but wish to continue their business. With regard to M&A schemes, various issues need to be addressed, but measures and preparations have yet to make progress. It is important to business presidents that their advisors grasp latent needs and develop a support framework that can address diverse issues, in cooperation with M&A specialists.

There is also a certain ratio of business presidents who choose to close their business, mainly among micro businesses. When closing their business, some presidents wish to transfer the operations and assets of their company to another company. In such cases, it is important to create a cycle in which the management resources of such enterprises are inherited by the next generation.

● **Encouraging new business development**

Enterprises that succeed in developing a new business place emphasis on marketing. Those that engage in marketing activities up to the evaluation and verification stages gain the benefits of increased profitability and strong employee motivations. Personnel shortage may be an issue in new business development, but to achieve future growth, it is important for SMEs with limited management resources to actively engage in new business development, while also considering utilizing external resources.

New technologies such as IoT and new economic schemes such as the sharing economy, are not yet being utilized to a large degree by SMEs, but enterprises that utilize them are experiencing increased sales and reduced operational costs, which lead to growth opportunities for SMEs.

● **Overcoming the personnel shortage**

SMEs that succeed in acquiring personnel do so by clearly defining their company's management policy, accurately assessing the type of personnel they seek, giving information about themselves to potential personnel by the most effective means, and utilizing diverse recruitment methods.

The difficulty in acquiring personnel is expected to continue, but many SMEs are employing diverse personnel by offering flexible working styles, and are working to increase operational efficiency by improving their workplace environments and operational processes so that these personnel can work comfortably. It is also important that SMEs leverage their flexibility to promote IT, energy conservation, and the effective utilization of external resources as part of their internal reform, and initiate further growth despite a shortage of personnel.

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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 “small enterprises” refers to “small enterprises” as defined under Article 2, Paragraph 5 of said act. In addition, “medium enterprises” refers to SMEs other than small enterprises. (More specifically, SMEs and small enterprises may roughly be categorized as follows.)

Industry	SMEs (meet one or more of the following conditions)		Small 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

[Small 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. The phrase “Recompiled from” that is used in this paper indicates that the results shown have been independently calculated by the Small and Medium Enterprise Agency using questionnaire data obtained from various statistical surveys.

(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 small enterprises. 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 small enterprises. In consideration of sample sizes and response rates, moreover, the results concerning small 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 2016

Chapter 1

Current state of SMEs

Section 1 Current state of Japan's economy

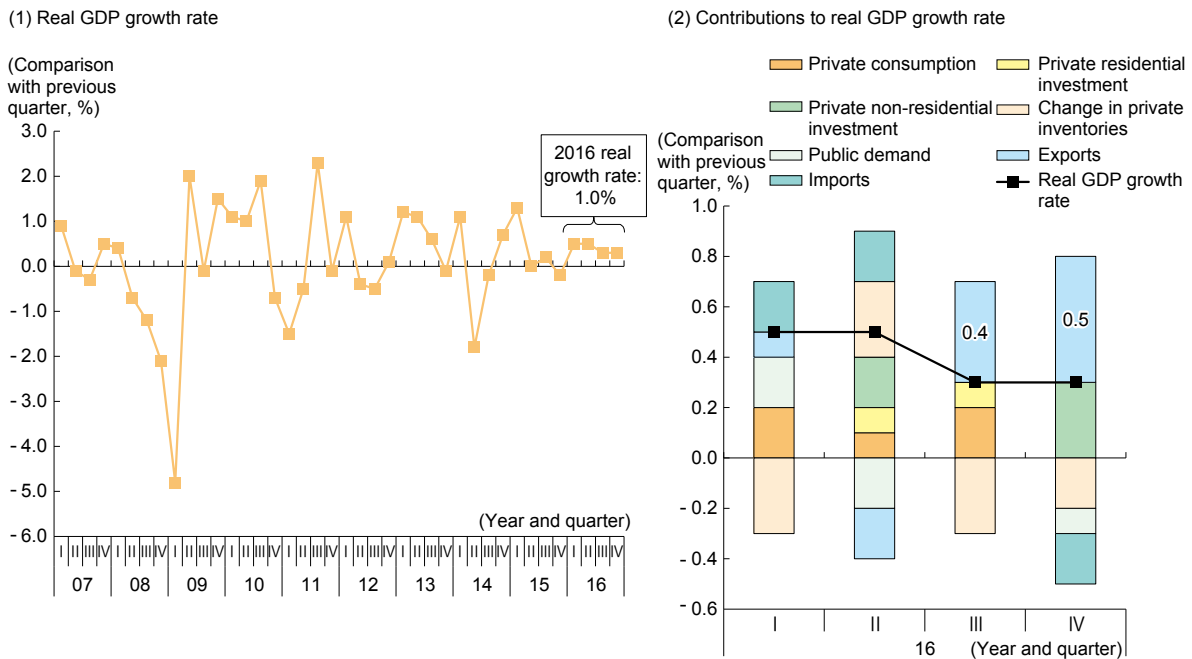
The Japanese economy has been continuing on a gradual recovery trend since the end of 2012 despite the impact of the consumption tax increase, mainly owing to increased corporate profits and an improvement in the employment environment. This section will outline recent developments in the Japanese economy.

First, let us examine the trend in Japan's real GDP growth, as a measure of economic growth (Fig. 1-1-1). A solid trend was observed, with 2016 marking positive growth for the fourth consecutive quarter and annual growth rate was 1.0%, exceeding 1% for the first time in

three years since 2013.

In terms of demand categories, personal consumption showed positive growth from the first to third quarters, and leveled off in the fourth quarter. The steady trend thereafter shifted downward, however, due to the impacts of the Kumamoto Earthquake of April 2016. Nevertheless, export picked up mainly with regard to electronic components and devices to Asian markets, and contributed to the positive growth of real GDP in the third quarter and beyond.

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 2016" (announced March 8, 2017).

Next, let us examine the actual business conditions of 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*) (Fig. 1-1-2).

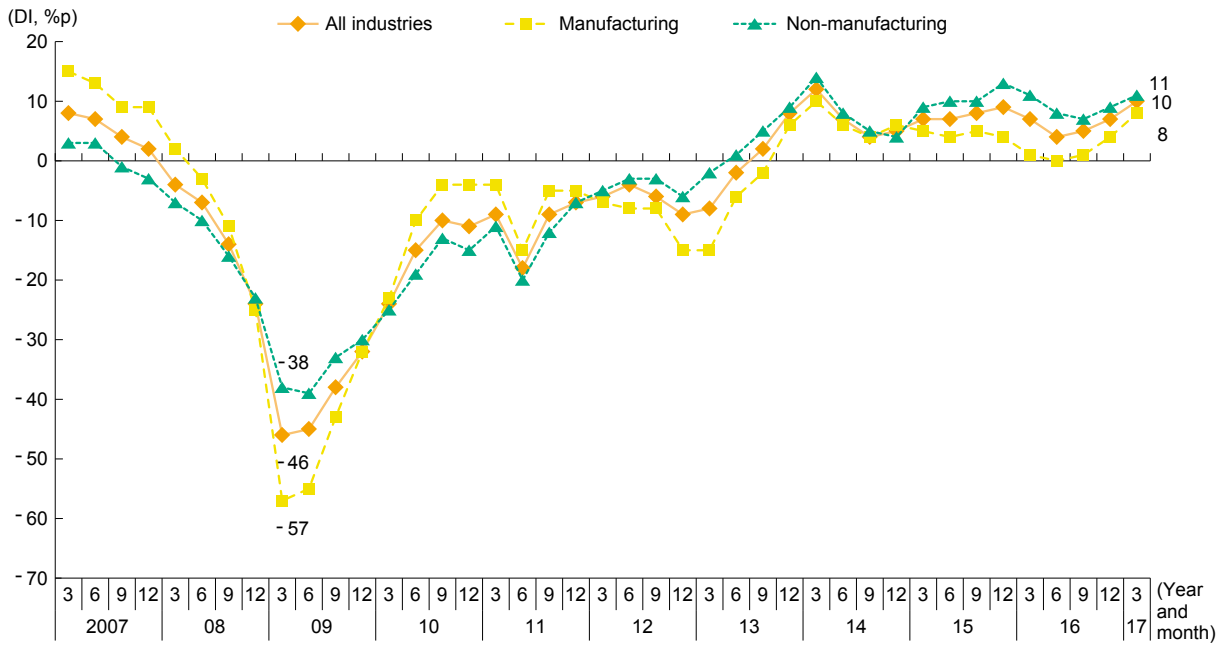
From 2013 to 2015, the business conditions DI fluctuated

due to the consumption tax increase, but showed a rising trend on the whole. In 2016, surveys conducted in March and June revealed a decline in business conditions in the manufacturing and non-manufacturing industries in the context of economic deceleration in emerging countries and a slowdown in consumption. In the latter half of 2016,

however, exports picked up and prompted an improvement in the manufacturing industries, marking an increase by 1 point in the September survey and an increase by 3 points in the December survey. In the non-manufacturing industries as well, the business conditions DI declined by 1 point in September due to weather factors, but rose by 2 points in December. In the latest survey conducted in

March 2017, business conditions improved in both the manufacturing and non-manufacturing industries. As a whole, the business conditions DI remained above 0 throughout 2016, and the percentage of companies that described business conditions as “good” surpassed the percentage of those that described them as “poor.”

Fig. 1-1-2 Business conditions DI by industry



Source: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan).

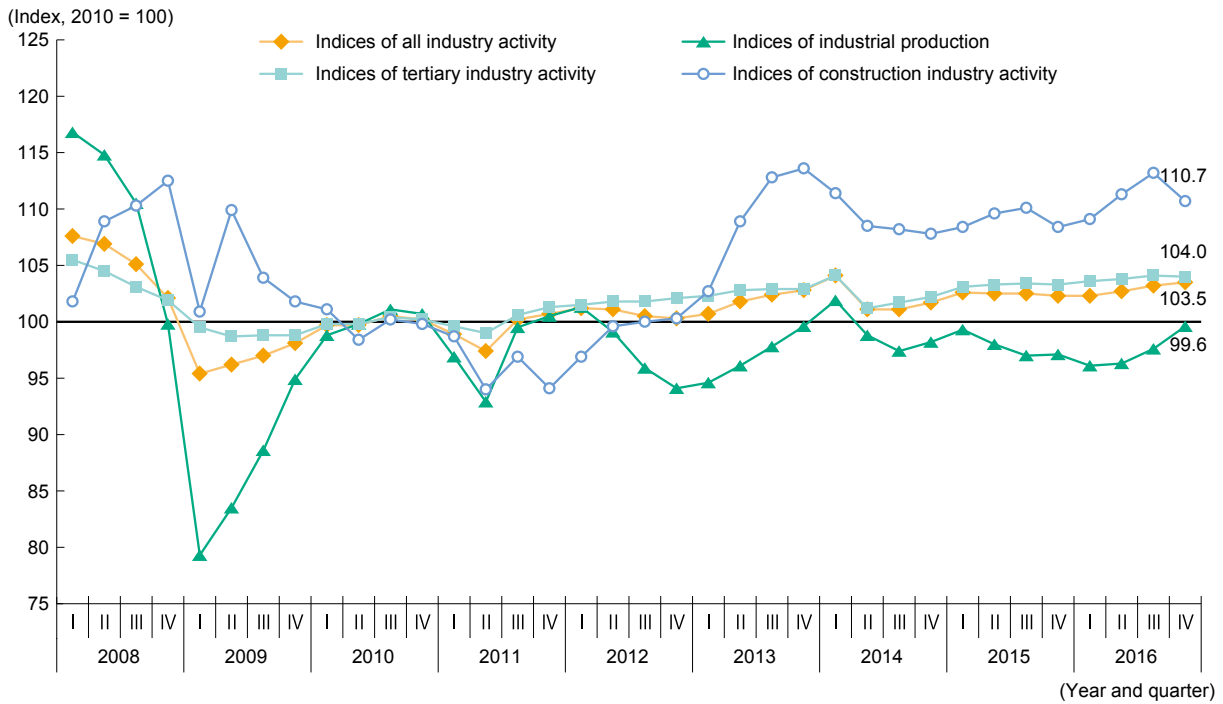
Note: Business conditions DI is calculated as the percentage (%) of companies that described recent business conditions as “good,” minus the percentage (%) of companies that described them as “poor.”

Furthermore, a look at actual corporate activities in the manufacturing industries shows that the indices of industrial production were on a rising trend in 2016, and in the fourth quarter recovered to the level of the first quarter of 2014 (Fig. 1-1-3). With respect to tertiary industries, the indices for tertiary industry activity also showed a gradual rising trend in 2016, and hovered at the same level as the first quarter of 2014. Similarly, the

indices of construction industry activity showed a rising trend of activities in the industry, with the exception of the fourth quarter.

The indices of all industry activity, which combines the above three indices and represents the overall status of corporate activities in Japan, also rose gradually through the year, and reflected the increased activity of actual corporate activities particularly in the latter half of 2016.

Fig. 1-1-3 Indices of all industry activity



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

Real GDP showed positive growth throughout the year, and corporate business conditions showed gradual improvement. Actual corporate activities also picked up,

such that the Japanese economy could be said to be on a gradual recovery trend.

Section 2 Current state of SMEs

As seen in the previous section, the Japanese economy is on a gradual recovery trend. However, in this section,

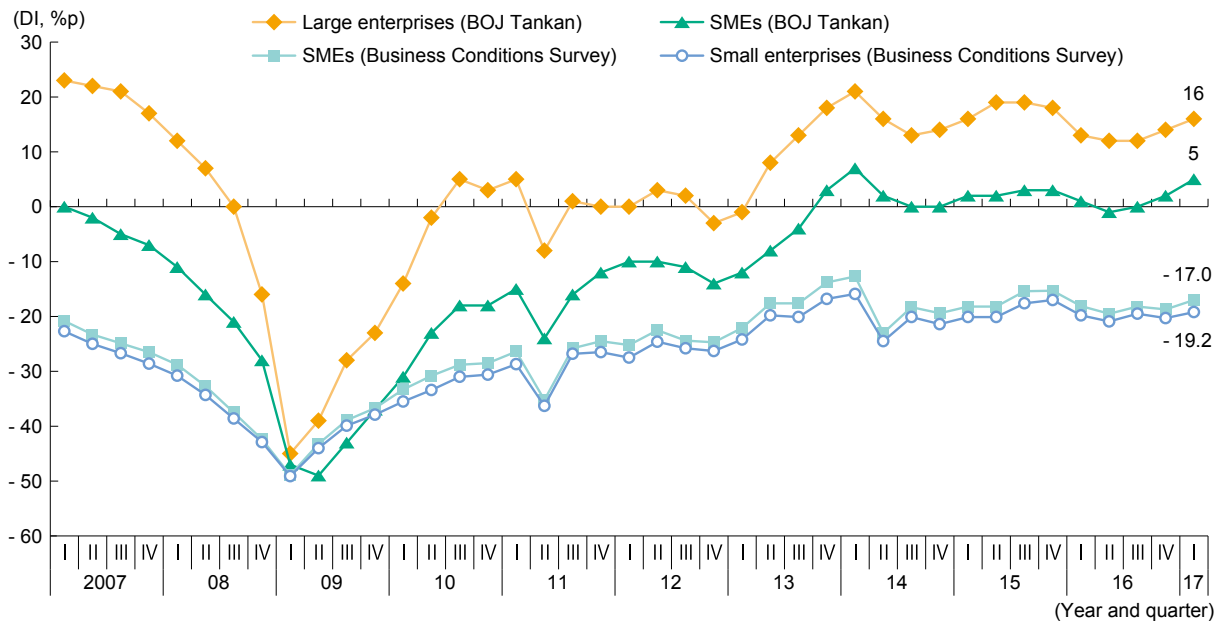
we will examine issues that SMEs face, with a particular focus on SME business conditions.

1. Business conditions of SMEs

Here, let us examine corporate business conditions in terms of large enterprises, SMEs and micro-businesses, according to the BOJ Tankan and the *Survey on SME Business Conditions* (hereinafter, Business Conditions Survey) conducted by the SME Agency and SMRJ. As 80% of the enterprises surveyed in the Business Conditions Survey are small enterprises, it can assess small enterprise trends that cannot be grasped by the BOJ Tankan.¹⁾

According to both the BOJ Tankan and Business Conditions Survey, the business conditions DI of SMEs largely fluctuated accompanying the consumption tax increase in April 2014, and showed a gradual rise up to the fourth quarter of 2015 (Fig. 1-1-4). After entering 2016, it dropped for two consecutive quarters due to the impacts of the Kumamoto Earthquake of April 2016 and other factors, but picked up thereafter, such that both surveys marked a rise in the first quarter of 2017 as an indication of a recovery trend.

Fig. 1-1-4 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” compared to the previous quarter.
 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.

When comparing the business conditions DI of large enterprises and SMEs according to the BOJ Tankan, and mid-sized and small enterprises according to the Business

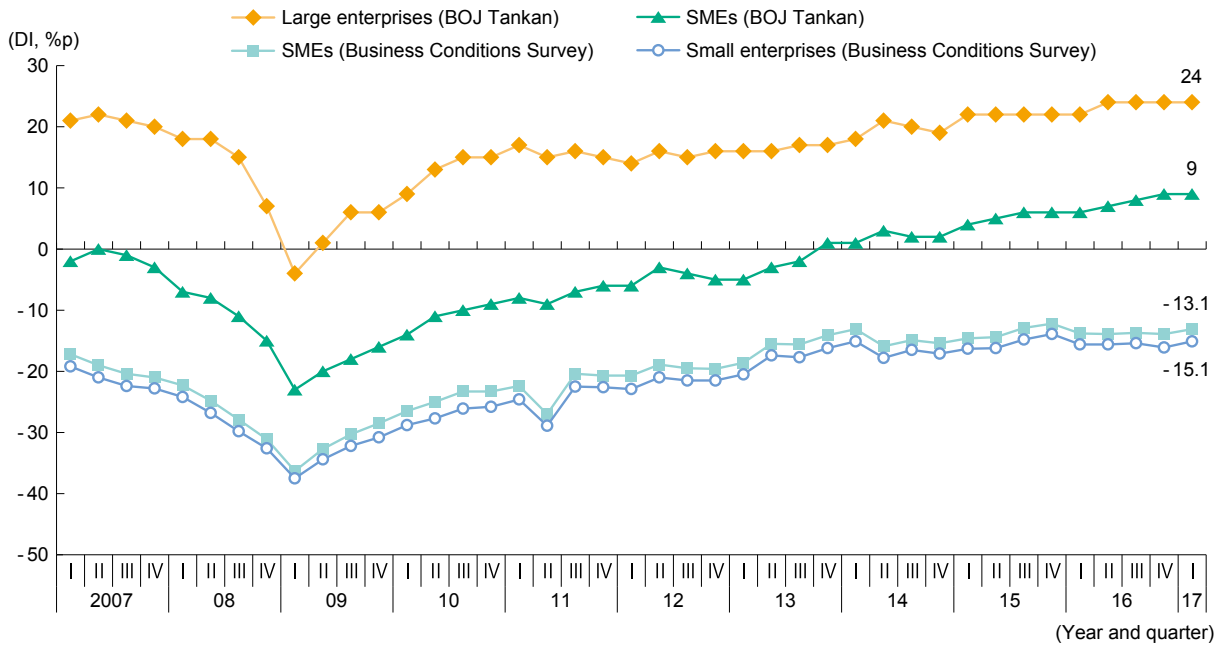
Conditions Survey, both surveys show that smaller enterprises have a lower index level and face relatively stricter business conditions.

1) 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 SMEs. On the other hand, the Business Conditions Survey does not include large enterprises, but some 80% of the enterprises surveyed are small enterprises.

Next, let us examine the financial status of SMEs. When we look at the financial position DI according to the BOJ Tankan and the Business Conditions Survey as we did with business conditions, both surveys show a steady improvement after the Lehman crisis, surpassing the level before the crisis in 2007 (Fig. 1-1-5). In the BOJ Tankan,

the financial status of SMEs marked a 9-point increase and the highest level in 26 years since the 1990 bubble economy period. This improvement comes on the back of improved corporate earnings and a more flexible lending attitude among financial institutions.

Fig. 1-1-5 Financial position DI by enterprise size



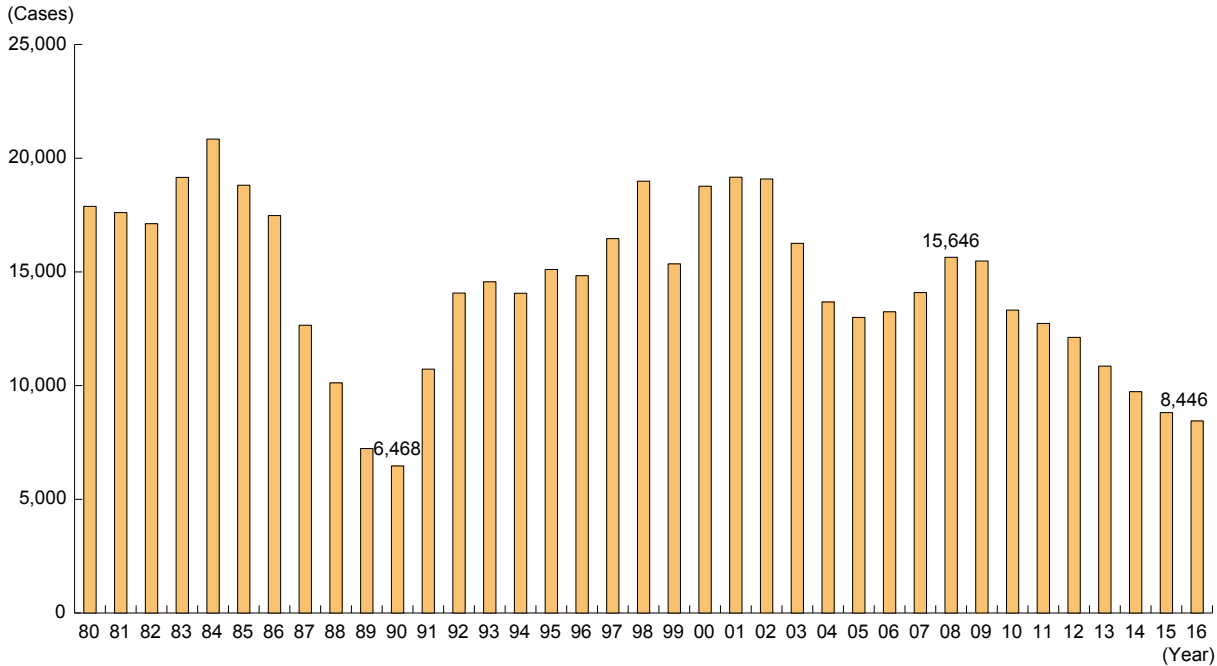
Sources: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan); SME Agency and SMRJ, *Survey on SME Business Conditions*.

- Notes:
1. The financial position DI of the BOJ Tankan is calculated as the percentage (%) of enterprises that said their financial position is “favorable,” minus the percentage of those that said it is “unfavorable.”
 2. The financial position DI of *Survey on SME Business Conditions* 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” compared to the previous quarter.
 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.

In relation to financial status, let us take a look at the number of corporate bankruptcies. In 2016, there were 8,446 cases of bankruptcies, dropping below the 10,000

mark for the third consecutive year following 2014 and 2015 and marking the lowest level in 26 years since the 1990 bubble economy period (Fig. 1-1-6 (1)).

Fig. 1-1-6 (1) Number of bankruptcies

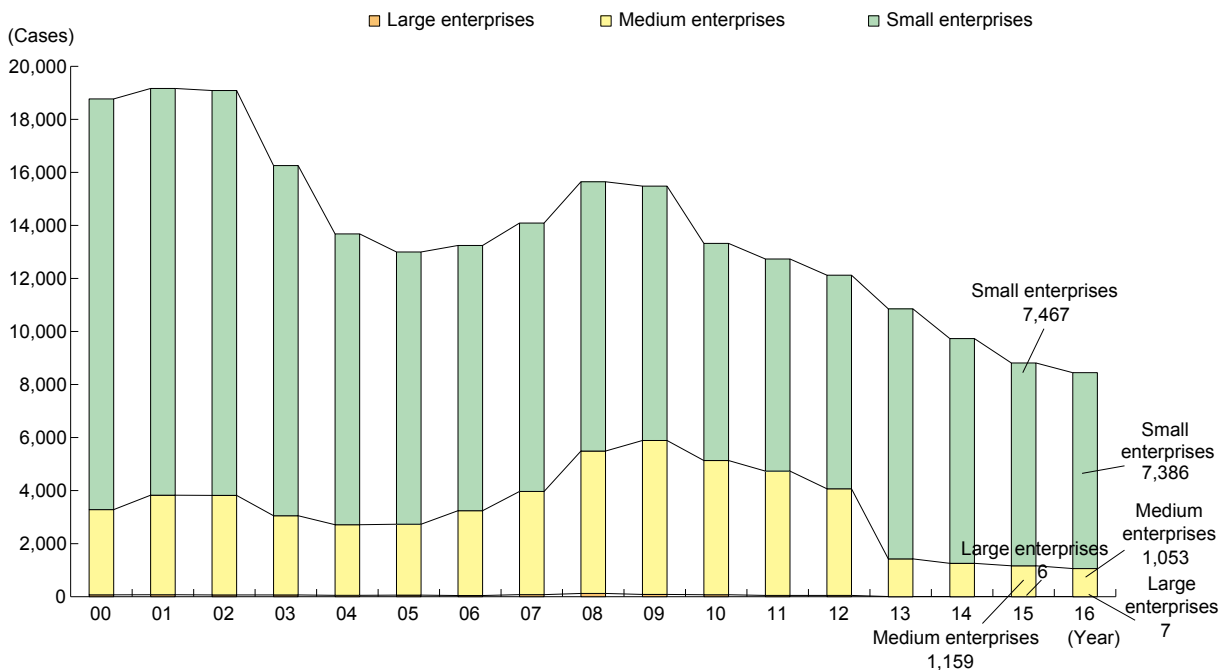


Source: Tokyo Shoko Research, Ltd., *Business Failure News (Monthly)*.

The breakdown of the number of bankruptcies in 2016 by enterprise size was such that there were 7 cases of bankruptcies among large enterprises (up 16.7% from the previous year), 1,053 cases among SMEs (down 9.1% from the previous year), and 7,386 cases

among small enterprises (down 3.4% from the previous year). A particularly significant decrease in the number of bankruptcies was seen among medium enterprises, followed by a steady decrease also among small enterprises (Fig. 1-1-6 (2)).

Fig. 1-1-6 (2) Number of bankruptcies by enterprise size



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.

Next, when we look at the ordinary profits of large enterprises and SMEs, we see that ordinary profits in

2016 surpassed the record high level achieved in 2015 and continued to trend at the highest level ever (Fig. 1-1-7).

Fig. 1-1-7 Ordinary profits by enterprise size



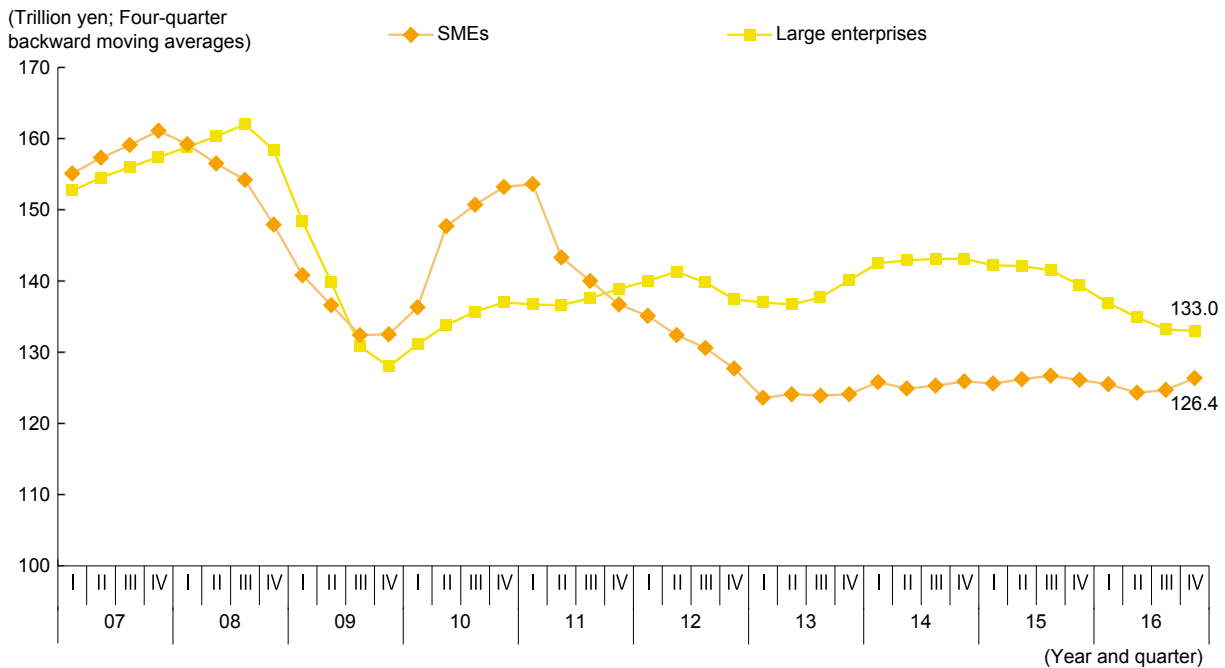
Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

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.

While operating profits maintained a high level, sales tended to level off among both large enterprises and

SMEs (Fig. 1-1-8).

Fig. 1-1-8 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.

As we have seen thus far, the business conditions and financial status of SMEs showed an improvement, the number of bankruptcies declined, and operating profits remained high. Judging by these factors, the situation surrounding SMEs as a whole could be said to

be improving. At the same time, however, the degree of improvement among enterprises that are small in size is smaller compared to medium enterprises, despite the improvement trend. This suggests that many enterprises are still facing difficult circumstances.

2. Business conditions of SMEs by industry and region

Next, let us examine changes in the business conditions of SMEs in 2016 as surveyed by the Business Conditions Survey, by industry and region.

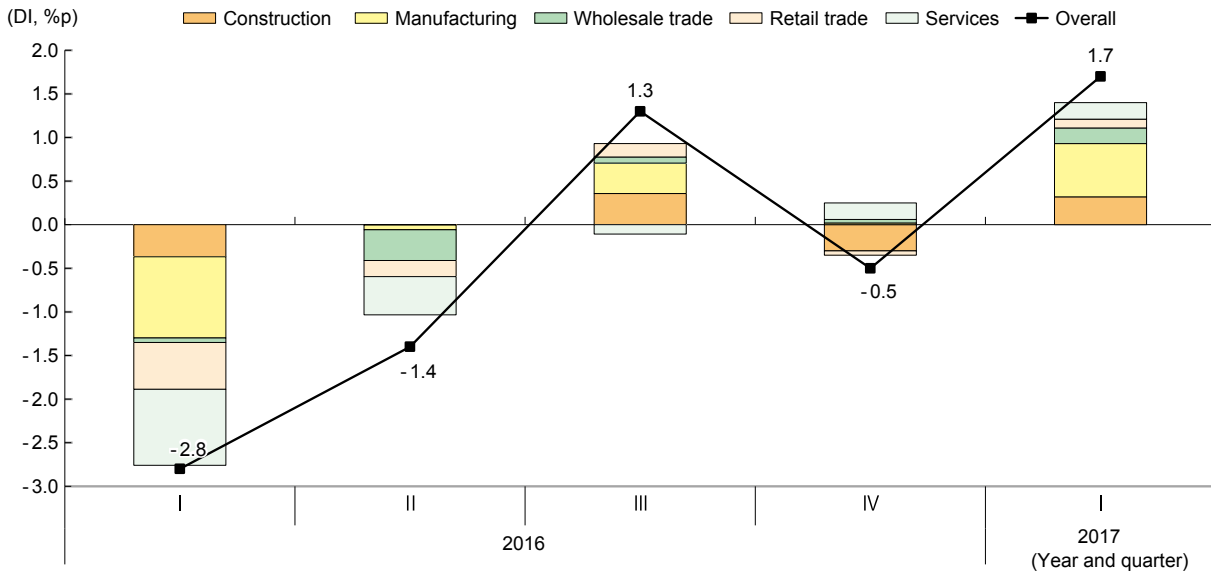
In the first quarter of 2016, business conditions dropped 2.8 points compared to the previous quarter, mainly in the manufacturing and service industries, which suffered poor sales of winter articles, given the mild winter (Fig. 1-1-9). The second quarter saw a 1.4-point drop, mainly in the service and wholesale trade industries, considered an impact of the Kumamoto Earthquake that occurred on April 14, 2016. In the third quarter, there was a 1.3-point increase compared to the previous quarter, mainly owing to the progress of post-earthquake restoration work and recovery of productions in the construction and manufacturing industries. Among the service industries, the increase was mainly attributed to the post-earthquake restoration and recovery of inbound demand in the accommodations industry. The fourth quarter marked

a 0.5-point drop compared to the previous quarter, as a result of business conditions mainly in the construction industry and particularly the accommodations industry among the service industries, which were affected by the earthquake that struck central Tottori Prefecture on October 21, 2016.

Additionally, throughout the year in 2016, there were constant voices of concern about the deceleration of the economy in emerging countries, the decline in domestic demand due to the falling population, and the shortage of workers.

The first quarter of 2017 marked a 1.7-point increase in business conditions compared to the previous quarter, owing to improved business conditions in the manufacturing industries, where signs of recovery were seen in the production of automobiles and production machinery components.

Fig. 1-1-9 Breakdown of the business conditions DI by industry (Survey on SME Business Conditions)



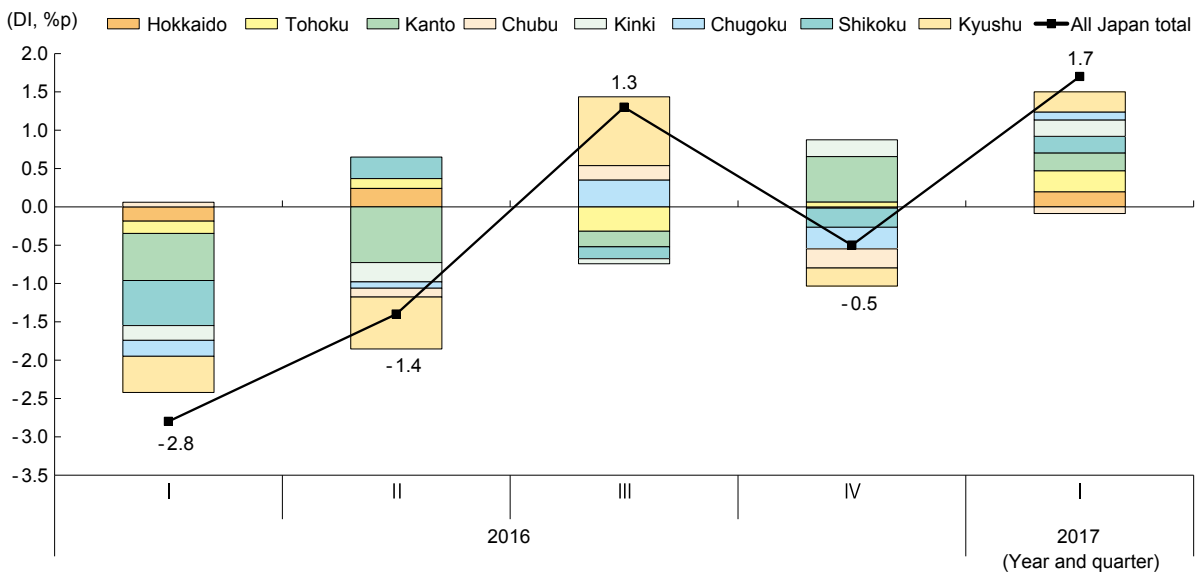
Source: SME Agency and SMRJ, *Survey on SME Business Conditions*.

- Notes:
1. 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” compared to the previous quarter.
 2. Due to the nature of seasonal adjustment, the sum of the stacks of figures for each industry does not correspond to the total of all industries.

Next, when we examine the business conditions of SMEs by region, we see that the Kyushu region contributed the most to pushing down the index, as an impact of the Kumamoto Earthquake that occurred in the second quarter of 2016 (Fig. 1-1-10). However,

in the following third quarter, the same Kyushu region contributed the most to pushing up the index, as a reaction to the previous quarter. In the fourth quarter, business conditions in the Chugoku region pushed down the total, due to the impacts of the Central Tottori Earthquake.

Fig. 1-1-10 Breakdown of the business conditions DI by region (Survey on SME Business Conditions)



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

- Notes:
1. 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” compared to the previous quarter.
 2. Due to the nature of seasonal adjustment, the sum of the stacks of figures for each industry does not correspond to the total of all industries.

Column 1-1-1 Countermeasures for SMEs affected by the 2016 Kumamoto Earthquake

The 2016 Kumamoto Earthquake that occurred in April 2016 wrought severe damage mainly to Kumamoto Prefecture, and affected many SMEs.

To directly assess the plight of SMEs in the affected region and promote government-wide efforts to implement the necessary countermeasures, the Ministry of Economy, Trade and Industry established a Comprehensive SME Countermeasure Headquarters, with the METI Minister as director. It also stationed personnel in Kumamoto to assess the current situation of affected SMEs.

METI also took prompt measures to provide financial support to SMEs and micro-businesses affected by the Kumamoto Earthquake. They included the provision of disaster recovery loans from governmental financial institutions, the provision of Safety Net Guarantee No. 4 from the Credit Guarantee Corporation, requests to governmental financial institutions for considerations in modifying existing loan repayment conditions, and the provision of mutual aid disaster loans to small enterprises. Special consultation centers were also established to respond to inquiries from businesses. Additionally, as measures to facilitate additional funding, disaster-related credit guarantees and reduced-interest disaster recovery loans were set up as a special provision to the Small and Medium-sized Enterprise Credit Insurance Act approved under the Act on Special Financial Support to Deal with the Designated Disaster of Extreme Severity.

Furthermore, in consideration of the fact that damage from the earthquake was wide-ranging and catastrophic, and that Japan's economy was at risk of stagnating due to damage to the supply chain, a measure was taken to provide group subsidies for the restoration of facilities and equipment of SMEs and other such groups, from the FY2016 Reserve Fund of the Kumamoto Earthquake Restoration etc. Schemes were also created for the provision of financial support through governmental financial institutions, such as the establishment of the 2016 Kumamoto Earthquake Special Loan System, and the necessary budgets were allocated to ensure early reconstruction from the earthquake, such as the Micro Business Sustainability Subsidy for cultivation of sales channels by micro businesses in the Kyushu region.

In addition to the above, requests were made to relevant organizations to give special considerations to subcontractor SMEs, the due dates for application to public subsidies were extended, experts were dispatched to support the management of affected SMEs, a guidebook was published and distributed to disseminate information on support measures for affected SMEs, and special pages for support information were created within the website of SME Agency and Mirasapo, a portal site for SME support.

Fig. Column 1-1-1 Countermeasures for SMEs affected by the 2016 Kumamoto Earthquake

Response to inquiries and consultations	<ul style="list-style-type: none"> • Establishment of special consultation centers • Dispatch of experts
Financial support	<ul style="list-style-type: none"> • 2016 Kumamoto Earthquake special loans • Safety Net Guarantee No. 4 • Fund loan program for management improvement of small businesses (Marukei loans) • Disaster-related guarantees • Mutual aid disaster loans to small enterprises
Subsidies	<ul style="list-style-type: none"> • SME Group Subsidy (Post-disaster recovery project on joint facilities of small and medium business associations, etc.) • Program for earthquake recovery in shopping districts • Recovery project on joint facilities of small and medium business associations, etc.
Requests, etc. to relevant institutions	<ul style="list-style-type: none"> • Requests to relevant organizations for special consideration to subcontractor SMEs • Requests for considerations regarding opportunities for SMEs to receive orders from the public sector • Flexibility of fund loans for management improvement of micro businesses (Marukei loans)
Other (modification of procedures, etc.)	<ul style="list-style-type: none"> • Extension of due dates for application to public subsidies • Requests to business associations, etc. that engage in mutual aid businesses, to relax procedures • Extension of due dates for submission of application forms and reports based on the Act on Facilitation of Succession of Management of Small and Medium Sized Enterprises • Flexibility in the requirement of SME organizations to convene a general meeting of representatives
Publicity and information provision	<ul style="list-style-type: none"> • Publication and distribution of a guidebook for affected SMEs • Provision of information via the website of SME Agency, twitter, and Mirasapo

3. SME Issues

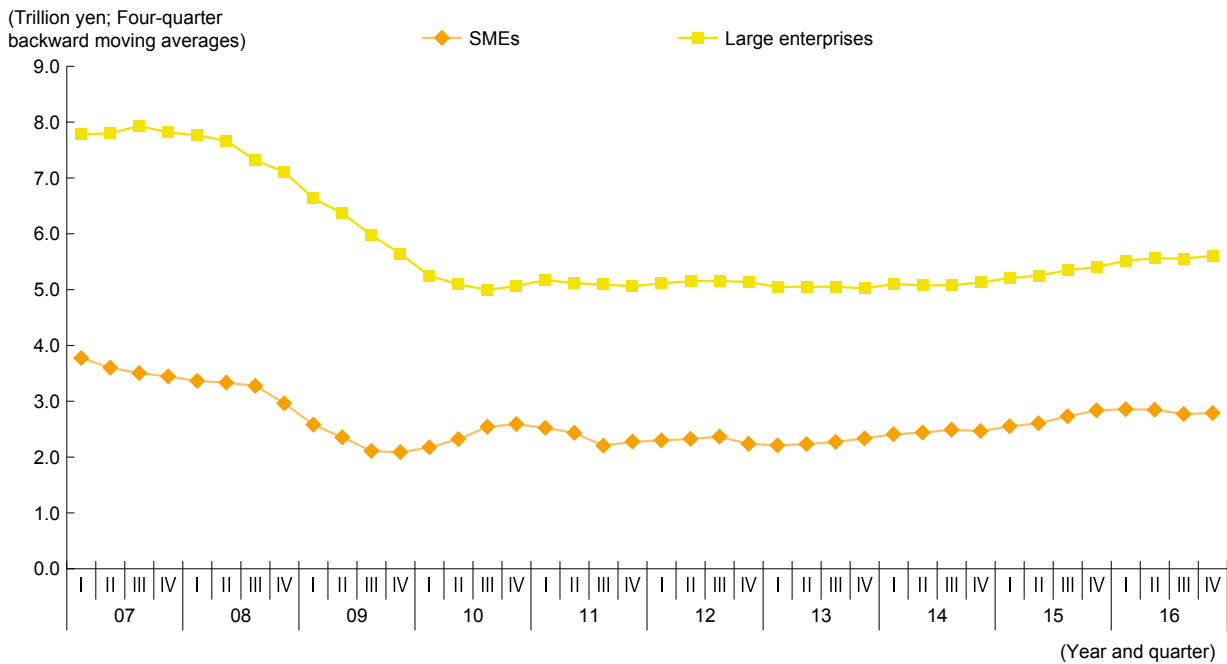
Below, we shall analyze the issues that SMEs face, particularly with regard to (1) capital investment trend, (2) status of overseas expansion, and (3) status of transactions.

(1) Capital investment trend

First, let us take a look at the trend in capital investment among SMEs. Investment amount dropped significantly from 2008 to 2009, due in part to the impacts of the Lehman crisis. It thereafter showed signs of leveling

off, but shifted to a slight increase among both large enterprises and SMEs (Fig. 1-1-11). Nevertheless, it remained below the 2007 level before the Lehman crisis.

Fig. 1-1-11 Capital investment by enterprise size

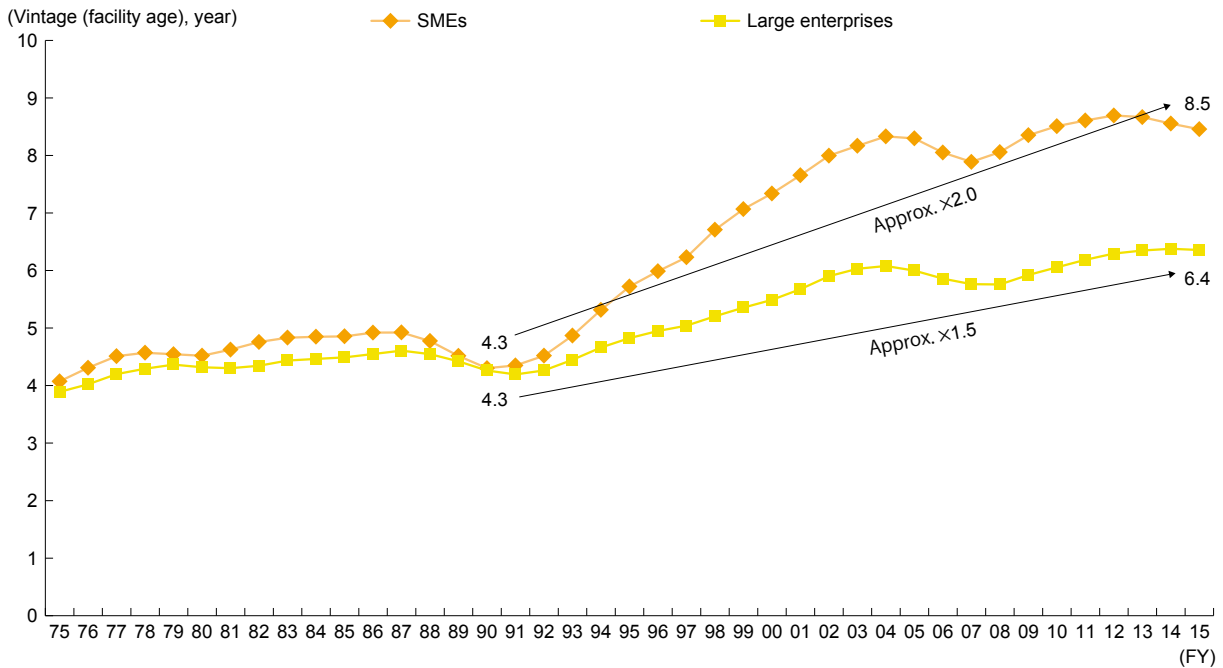


Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.
 Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥10 million or more and less than ¥100 million.

Next, we shall examine the degree of aging of facilities, or the number of years that has passed since a facility was newly constructed. At present, capital investment by SMEs is increasing, so the degree of aging is gradual, but when compared to 1990, when the age, or “vintage”

of facilities was basically the same in both SMEs and large enterprises, facilities in large enterprises have aged approx. 1.5-fold, while those in SMEs have aged approx. 2.0-fold, indicating particularly a larger proportion of aging facilities in SMEs (Fig. 1-1-12).

Fig. 1-1-12 “Vintage” of facilities by enterprise size



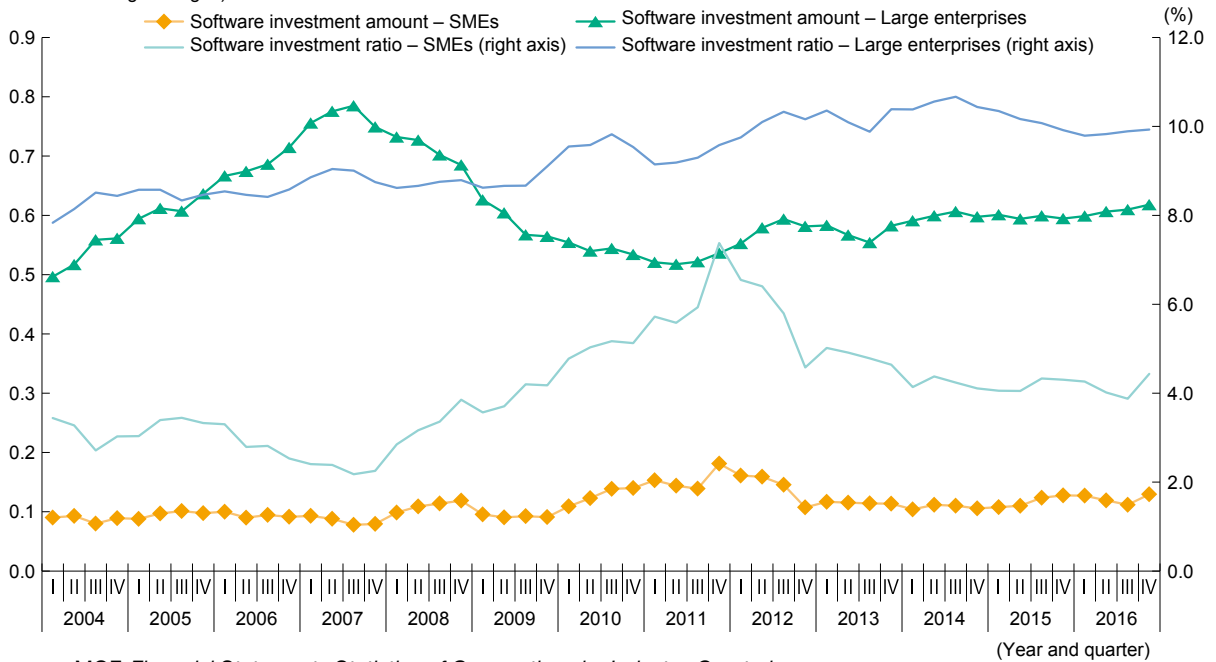
Source: Prepared by SME Agency using MOF, *Financial Statements Statistics of Corporations by Industry, Annually* and based on Shoko Research Institute, *SME Competitiveness and Capital Investment*.

Of all investments, indicators for IT-related investment show that SME investment in software has remained unchanged over the past decade or so, but large enterprises have increased their investment in software in recent years (Fig. 1-1-13). The ratio of software investment to overall

capital investment also shows a higher rate of software investment by large enterprises, with large enterprises marking a ratio slightly below 10% and SMEs a ratio of around 4%.

Fig. 1-1-13 Software investment amount and software investment ratio

(Trillion yen/four-quarter backward moving averages)



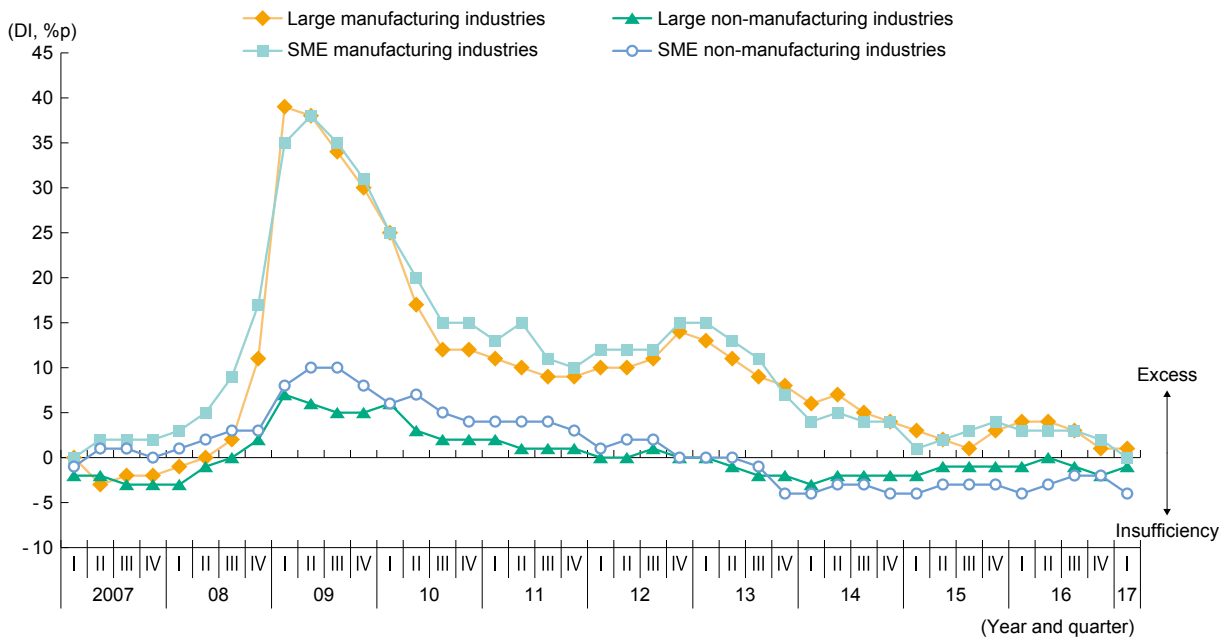
Source: MOF, *Financial Statements Statistics of Corporations by Industry, Quarterly*.

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.

Capital investment by SMEs is gradually increasing, but has yet to return to the level before the Lehman crisis. Facilities are aging at a greater rate than large enterprises, and software investment is practically at a standstill. Owing to these circumstances, the sense of having

excess facilities has abated in both large enterprises and SMEs in recent years, and has even shifted to a sense of insufficiency among non-manufacturing industries (Fig. 1-1-14).

Fig. 1-1-14 Production and operational facility DI by enterprise size and industry



Source: BOJ, *Short-Term Economic Survey of Enterprises in Japan* (BOJ Tankan).

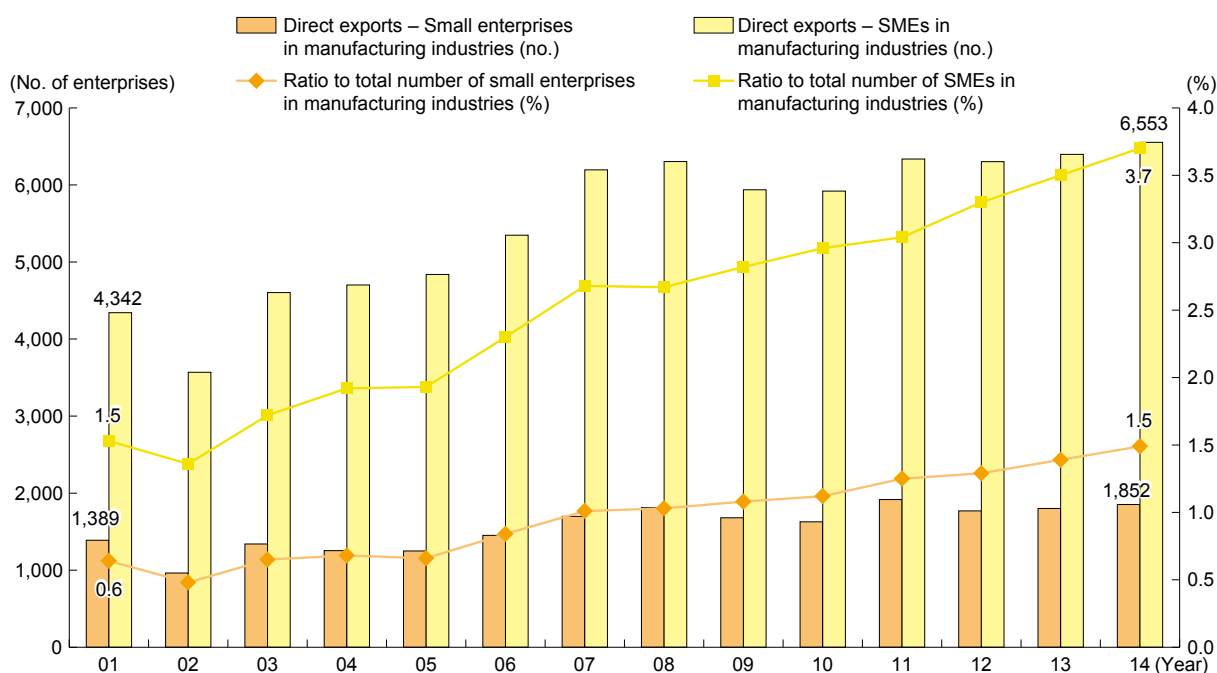
Note: Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of ¥20 million or more and less than ¥100 million.

(2) Status of overseas expansion by SMEs

Among all SMEs, the number of enterprises that engage in direct export in the manufacturing industries is increasing, and totaled 6,553 enterprises in 2014 (Fig. 1-1-15). The ratio of such enterprises to SME manufacturing industries as a whole has also risen for six consecutive years since 2009, but still remained at a low 3.7% in 2014. In terms of actual export value, the export

value of SMEs increased by 3.1 trillion yen from FY2001 to 2014, but during the same period, the export value of large enterprises increased by ¥25.6 trillion. The ratio of export value to sales increased from 9.7% to 12.8% among large enterprise, and from 2.3% to 3.7% among SMEs, indicating that the export-to-sales ratio of large enterprises increased more than SMEs over the past 15 years (Fig. 1-1-16).

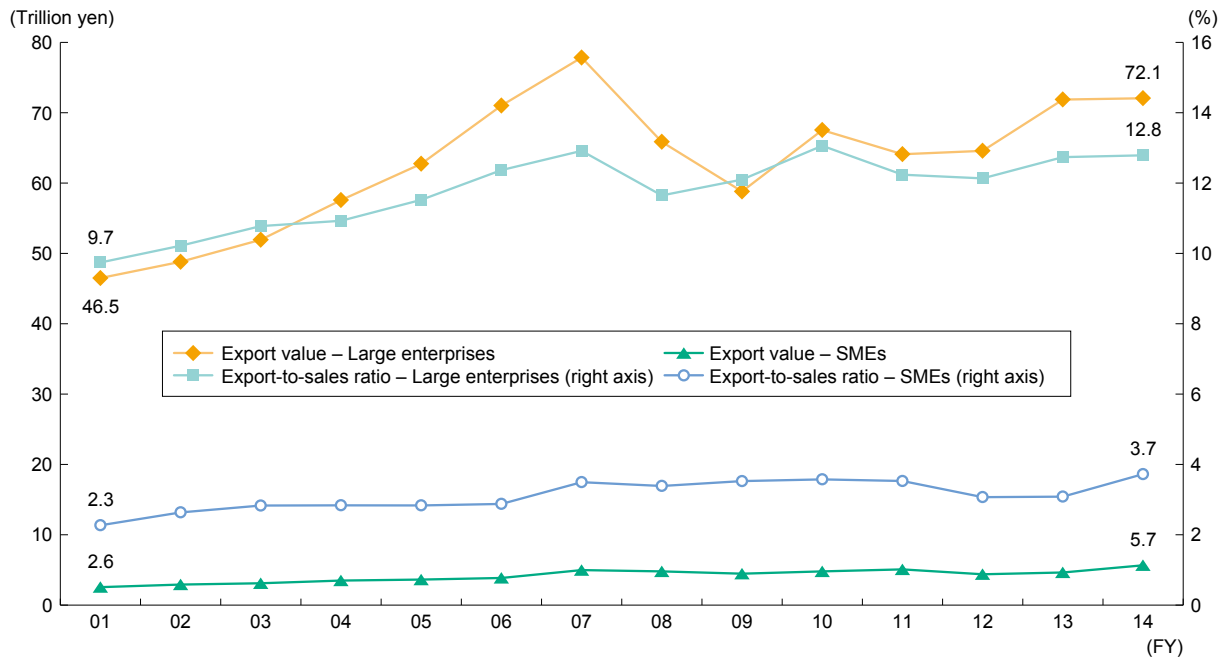
Fig. 1-1-15 Number of enterprises engaging in direct export in the manufacturing industries, by enterprise size



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

- Notes:
1. Statistics for units of businesses with four or more workers have been recalculated into enterprise units.
 2. According to the *2014 Census of Manufactures* (recompiled), manufacturing businesses with four or more workers were included among 177,069 SMEs and among 124,019 micro businesses.

Fig. 1-1-16 Export value and export-to-sales ratio (by enterprise size)



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

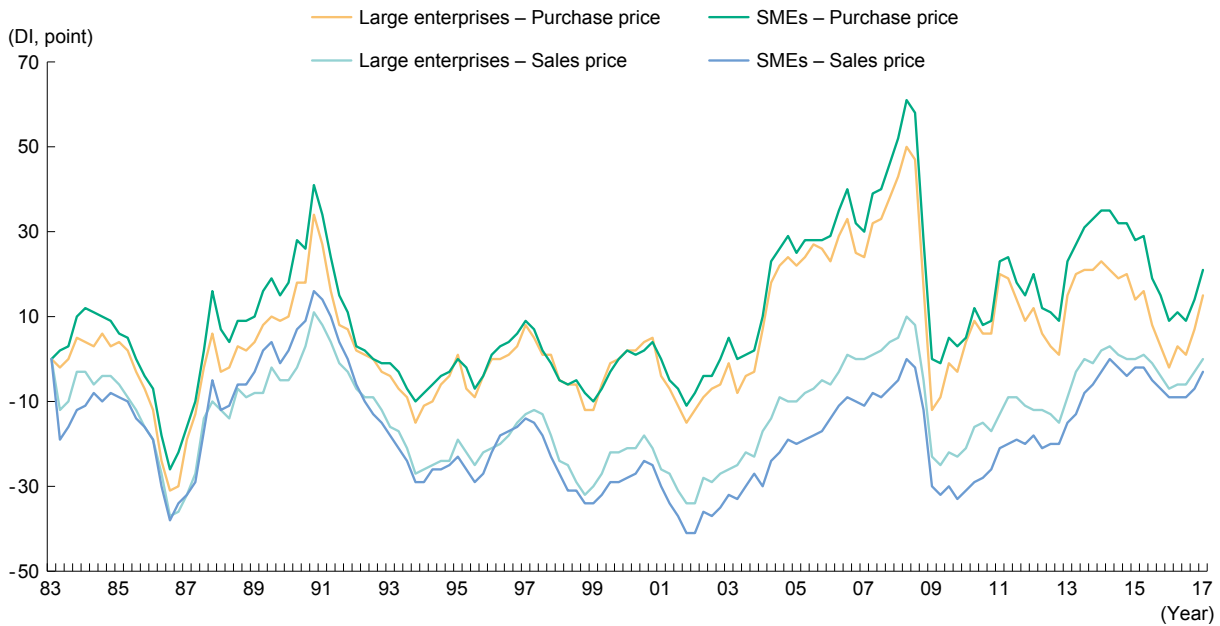
(3) Status of SME transactions

Next, to examine the status of SME transactions, and particularly the situation regarding cost transfers, we shall take a look at the trends in the purchase price DI and sales price DI by enterprise size. From around 2014, purchase price DI began to drop, also bringing down sales price DI along with it, but in recent years, both purchase price DI and sales price DI have turned to an increase (Fig. 1-1-17 (1)). With regard to the terms-of-trade index, which is obtained by subtracting purchase price DI from sales price DI, the terms of trade of large enterprises and SMEs

fluctuated in much the same manner from the 1980s to 1990s, and little difference was observed between the two. Thereafter in the 2000s, a difference began to gradually emerge between large enterprises and SMEs, particularly due to the growing negative margin. The difference remains as yet.

When purchase price is on the rise but the index is in the negative, there is the possibility that purchasing price is not being properly passed on to sales price, which means that SMEs face a more severe transaction environment than large enterprises.

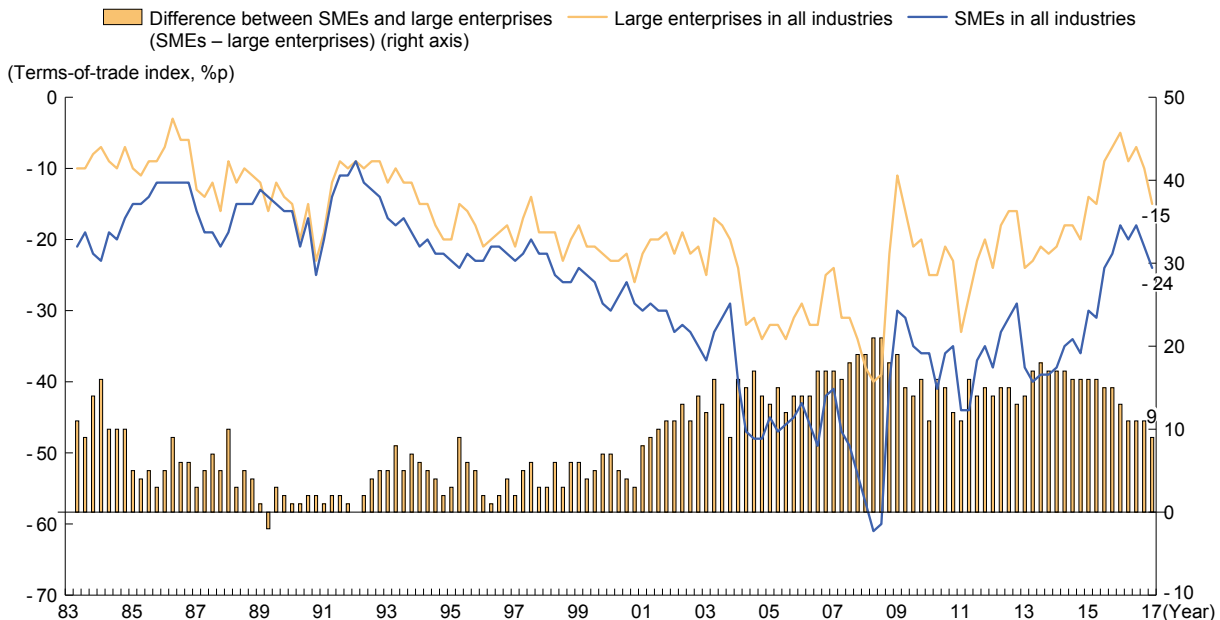
Fig. 1-1-17 (1) Purchase price DI and sales price DI by enterprise size



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. Purchase price DI equals the ratio of respondent enterprises that say the purchase price of major raw materials or major products have “risen” compared to the previous quarter, minus the ratio of those that say it has “dropped.”
 3. Sales price DI equals the ratio of respondent enterprises that say the sales price of major products or services have “risen” compared to the previous quarter, minus the ratio of those that say it has “dropped.”

Fig. 1-1-17 (2) 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.

Section 3 Summary

The Japanese economy in fiscal 2016 continued on a gradual recovery trend, and SMEs and micro-businesses also enjoyed a steadily improving business climate, which boosted their business conditions and financial status, brought record high ordinary profits, and brought the number of bankruptcies down to the lowest in 26 years.

However, the degree of improvement was small for small enterprises. It widely varied according to industry and region, and was also affected by external factors such as earthquakes and the weather.

In addition, capital investment by SMEs failed to reach the level before the Lehman crisis, facilities were progressively aging, and overseas expansion were hardly

achieved at the rate of large enterprises. Given that enterprises are achieving record high ordinary profits today, SMEs and micro-businesses need to aim for greater growth by addressing the above issues. For example, they need to make capital investments that would resolve the issue of aging facilities, and make efforts to cultivate new demand in Japan and overseas to overcome the slow growth in sales.

Furthermore, the transaction conditions of SMEs and micro-businesses must also be improved hereafter, as there is still a large gap between the transaction environment of large enterprises and SMEs.

Column 1-1-2 Basic Policies for Future-oriented Trade Practices (Seko Plan)

To achieve a positive economic growth cycle, transaction conditions for SMEs and micro-businesses must be improved. In September 2016, Mr. Hiroshige Seko, Minister of Economy, Trade and Industry, released "Basic Policies for Future-oriented Trade Practices" (Seko Plan) as a package of measures for improving transaction conditions. This column introduces initiatives related to these measures.

Inter-ministerial liaison conference on improving transaction conditions of subcontractor SMEs (December 2015 –)

A liaison conference (chairman: Mr. Seko, Deputy Chief Cabinet Secretary (then)) was established in the Prime Minister's Office in December 2015, to assess the actual state of transactions by subcontractor SMEs and examine the necessary improvements in transaction conditions from the perspective of developing an environment that is conducive to increasing wages in SMEs and micro-businesses. The conference has been held 11 times as of March 2017.

Corporate surveys and interviews about subcontracts (December 2015 – August 2016)

Between December 2015 and March 2016, the actual state of subcontract transactions was investigated by means of a written survey to more than 15,000 large enterprises, an online survey to some 10,000 SMEs, and interview surveys with some 200 subcontractor SMEs.

Based on the results of the above surveys implemented up to March 2016, interviews were held with 95 large enterprises in industries where issues were deemed to exist (automobile manufacturing, construction, truck transportation (incl. shipping operators)), regarding their procurement policies and initiatives for fair transactions.

Basic Policies for Future-oriented Trade Practices (released September 15, 2016)

The "Basic Policies for Future-oriented Trade Practices" (Seko Plan) were released, with the objective of promoting fair trade between main subcontracting enterprises and subcontractors, enhancing added values, and improving the overall trade environment through the entire supply chain.

Fig. Column 1-1-2 Basic Policies for Future-oriented Trade Practices

Basic Policies for Future-oriented Trade Practices

Sept. 2016
Ministry of Economy,
Trade and Industry

3 Basic policies

- (1) Strictly deal with inappropriate actions by main subcontracting enterprises and **realize fair trade environments.**
- (2) Disseminate and establish desirable trade practices and other actions that contribute to **fair trade and improvement of added value for both main subcontracting enterprises and subcontractors.**
- (3) Make efforts to **improve trade environments across entire supply chains and developing environments favorable for wage raises.**

3 Priority issues Thoroughly enforce measures to prevent main subcontracting enterprises from compelling their subcontractors to pay expenses that the main subcontracting enterprises are required to bear.

Optimization of price determining methods Requests for 〇% cost reductions across the board, no consideration for increases in labor costs, etc.	Optimization of cost burden Imposing the storage of molds free of charge for prolonged periods after completion of mass production, etc.	Improvement of terms of payment High ratio of receiving payments by promissory note, having no choice but to pay discounted costs, etc.
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Defining and strictly implementing cross-industry rules (horizontal axis)

Item	Specific policy
Strengthen the enforcement of the Subcontractor Act (revision of operation standards)	Add case examples of violations, to strengthen the collection of information regarding violations and prevent violations. [Propose to the Fair Trade Commission to include case examples of such violations as improper cost reduction activities and imposition of the storage cost of molds]
Promote fair trade and enhance added values (revision of promotion standards) *Act on the Promotion of Subcontracting Small and Medium-sized Enterprises	Define preferable trade practices, and request main subcontracting enterprises to adopt those practices (cooperation in increasing productivity of business partners, consideration regarding rises in labor costs, fair trade through the entire supply chain, etc.). [To be revised within the fiscal year]
Improve the terms of payment of subcontracting fees (notification, review of promotion standards)	Request main subcontracting enterprises to improve the terms of payment of subcontracting fees (payment in cash as a basic rule, prevention of unilateral imposition of the burden of discounts, shortening of the payment period of promissory notes, etc.). [To be reviewed within the fiscal year, first time in approx. 50 years]
Place greater weight on surveys and inspections of the Subcontractor Act	Implement written surveys under the Subcontractor Act with a focus on cost reductions, molds, and promissory notes, and conduct special on-site inspections. [To be implemented within the fiscal year]

Formulation of industry-specific voluntary action plans (vertical axis)

- (1) Among industries that formulate subcontracting guidelines, first request the automobile industries, which have a broad subcontracting structure, **to formulate and steadily execute a voluntary action plan** for promoting fair trade and enhancing added values through the entire supply chain, and **follow up on their efforts.** [To be formulated within the fiscal year]
- (2) **Revise industry-specific subcontracting guidelines, and include best practices** in coordination and cooperation between main subcontracting businesses and subcontractors. [To be revised within the fiscal year]

Defining and strictly implementing cross-industry rules (December 14, 2016)

- (1) Operation standards concerning the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (partial revision announced via the Japan Fair Trade Commission's Secretary General Notice No. 15 of Dec. 14, 2016)
The Fair Trade Commission increased the number of case examples of violations such as improper cost reduction activities and the imposition of the storage cost of molds, from 66 case examples to 141.
- (2) Promotion standards based on the provision in Article 3 Paragraph 1 of Act on the Promotion of Subcontracting Small and Medium-sized Enterprises (Ministry of Economy, Trade and Industry Announcement No. 290 of Dec. 14, 2016)
The following items were added as preferable trade practices between main subcontracting enterprises and subcontractors.
 - (i) Cooperation in increasing productivity
 - (ii) Guarantee of reasonableness regarding requests for cost reductions
 - (iii) Reflection of increased labor cost on transaction value
 - (iv) Optimization of the storage and management of molds (cost of storage due to reasons attributable to the main subcontracting enterprise to be borne by the main subcontracting enterprise)
 - (v) Compliance with industry-specific subcontracting guidelines, formulation and execution of voluntary action plans, etc.
- (3) About the payment method of subcontract fees (Dec. 14, 2016; 20161207; No. 1, Japan Fair Trade Commission Inter-enterprise Trade Division No. 140, Director-General of Small and Medium Enterprise Agency, Secretary General of the Japan Fair Trade Commission)
Main subcontracting enterprises that are large enterprises were requested to take the initiative in executing the following items.
 - (i) Pay subcontract fees in cash as much as possible.
 - (ii) For payments by promissory note, determine the subcontract fee upon sufficient consultation so that discounts are not borne by the subcontractors.
 - (iii) Make promissory notes payable within 120 days after sight (90 days in the textiles industry) as a matter of course, and strive to make them payable within 60 days in the future.

Formulation of industry-specific voluntary action plans, etc.

- (1) Among industries that formulate subcontracting guidelines, the automobile industries, which have a broad subcontracting structure, will be requested to formulate and steadily execute a voluntary action plan for promoting fair trade and enhancing added values through the entire supply chain, and their efforts will be followed up.
As of the end of March 2017, 13 organizations in 8 industries have formulated a voluntary action plan.
- (2) Based on the revision to the operation standards concerning the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, industry-specific subcontracting guidelines have been revised, and best practices in coordination and cooperation between main subcontracting enterprises and subcontractors have been added.

Door-to-door surveys by transaction inspectors (subcontract G-men) (January 2017 –)

The Small and Medium Enterprise Agency will newly assign "subcontract G-men" to interview as many as 2,000 or more subcontractor SMEs per year. Information obtained through these interviews will be shared with order-placing businesses and industrial organizations as necessary, on the premise of confidentiality, to strongly urge initiatives for promoting fair trade.

Chapter 2

Life cycle and productivity of SMEs

As reviewed in the previous chapter, the situation surrounding SMEs is improving, but the degree of improvement differs according to region and industry, and issues such as a slowdown in sales and aging facilities persist among SMEs.

In order for the Japanese economy to continue to grow hereafter despite the expected decline in population, it is important for SMEs to increase productivity and gain stronger earning power.

However, SMEs in Japan face various issues that make productivity increases difficult, such as the lack of new market entries, the aging of SME business managers and an increase in market exits. Changes in the life cycle of enterprises, from the birth of new enterprises, or new entries, through the growth of continuing enterprises (expansion of market share and development of new businesses), to the exit of enterprises due to bankruptcy or closure, are thought to have a large influence on overall SME productivity in Japan. Therefore, in this chapter, we will first review trends in the elements composing the life cycle of SMEs, such as entry, growth, bankruptcy and exit, and quantitatively analyze the impacts they have on SME productivity in Japan.

Section 1 Present state of market entries and exits

In this section, we will examine the degree of impact that market entries and exits of enterprises have on the number of enterprises and workers in Japan, and the

changes in the rate of entries and exits, and analyze the present state of exiting enterprises using the database of Tokyo Shoko Research, Ltd.

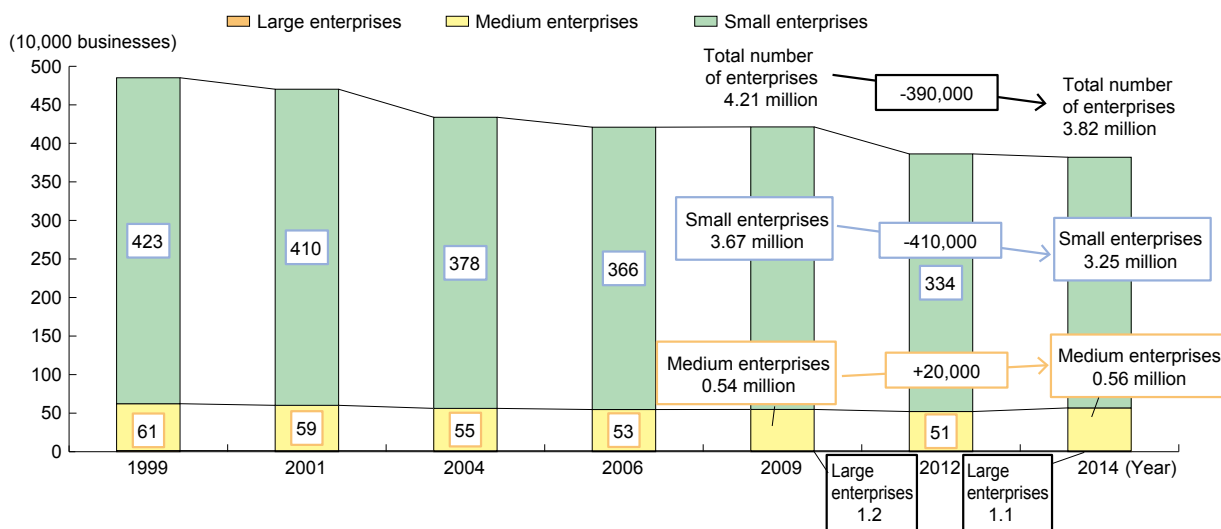
1. Changes in the numbers of enterprises and workers caused by market entries and exits

The number of enterprises in Japan has been consistently declining since 1999, and decreased by 390,000 enterprises over the five years from 2009 to 2014 (Fig. 1-2-1). In terms of enterprise size, this figure

is a result of a decrease of 410,000 small enterprises, an increase of 20,000 medium enterprises¹⁾, and a decrease of some 800 large enterprises.

1) Medium enterprises here refer to SMEs as defined by the Small and Medium-sized Enterprise Basic Act that do not fall under the category of small enterprises as also defined by the said Act.

Fig. 1-2-1 Number of enterprises by enterprise size



Sources: MIC, 1999, 2001, 2004 and 2006 Establishment and Enterprise Census; 2009 and 2014 Economic Census for Business Frame and MIC, METI, 2012 Economic Census for Business Activity.

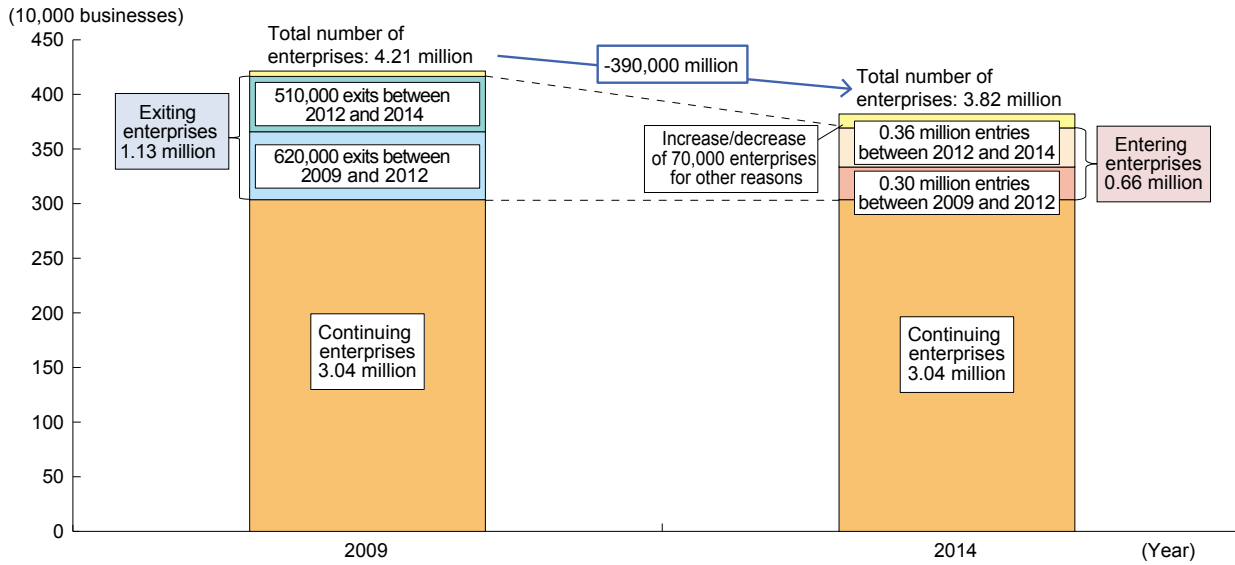
- Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors
 2. The *Economic Census* is based on an expanded scope of businesses and enterprises based on administrative records such as commercial and corporate registration records, and adopts a “head office 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.

From the perspective of entries and exits, the changes in the number of enterprises between 2009 and 2014 are attributed to 0.66 million enterprises that have entered the market and 1.13 million enterprises that have exited the market (Fig. 1-2-2). A breakdown of these figures reveals there were 300,000 entries and 620,000 exits between 2009 and 2012, but 360,000 entries and 510,000 exits

between 2012 and 2014, corresponding to an overall increase of 60,000 entries and a decrease of 110,000 exits.

As of 2014, enterprises that newly entered the market within the past five years account for approximately 17% of the total number of enterprises, indicating that new enterprises are emerging at a certain rate, even while the total number of enterprises is on a decline.

Fig. 1-2-2 Breakdown of changes in the number of enterprises (2009 – 2014)

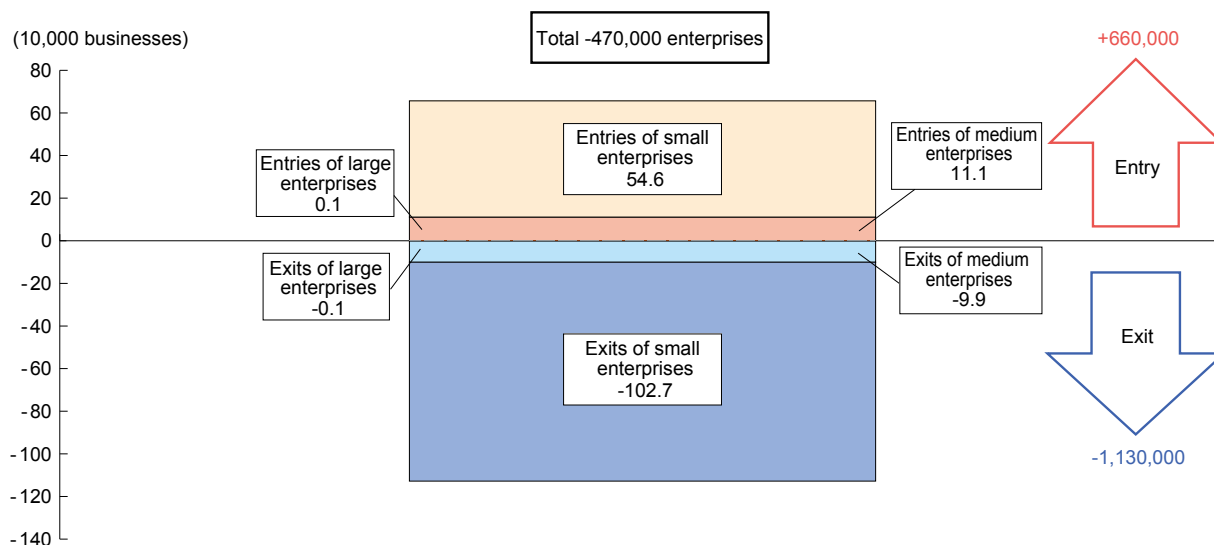


Sources: Recompiled from MIC, 2009 and 2014 Economic Census for Business Frame and MIC, METI, 2012 Economic Census for Business Activity.

- Notes:
1. Number of enterprises = Number of companies + Business establishments of sole proprietors
 2. Among enterprises whose corporate information could not be confirmed for both years of comparison using the Economic Census of the relevant years, 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, such as enterprises that increased or decreased due to mergers, spin-offs or other such reason, and enterprises whose business type changed to or from a primary industry were categorized as “other.”
 3. 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.

Of the breakdown of the change in the number of enterprises from 2009 to 2014, a look at entries and exits by enterprise size reveals that there were more exits than entries among small enterprises, with 546,000 entries

and 1,027,000 exits, but more entries than exits among medium enterprises, with 111,000 entries and 99,000 exits (Fig. 1-2-3).

Fig. 1-2-3 Breakdown of entries and exits by enterprise size (2009 – 2014)

Sources: Recompiled from MIC, *2009 and 2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

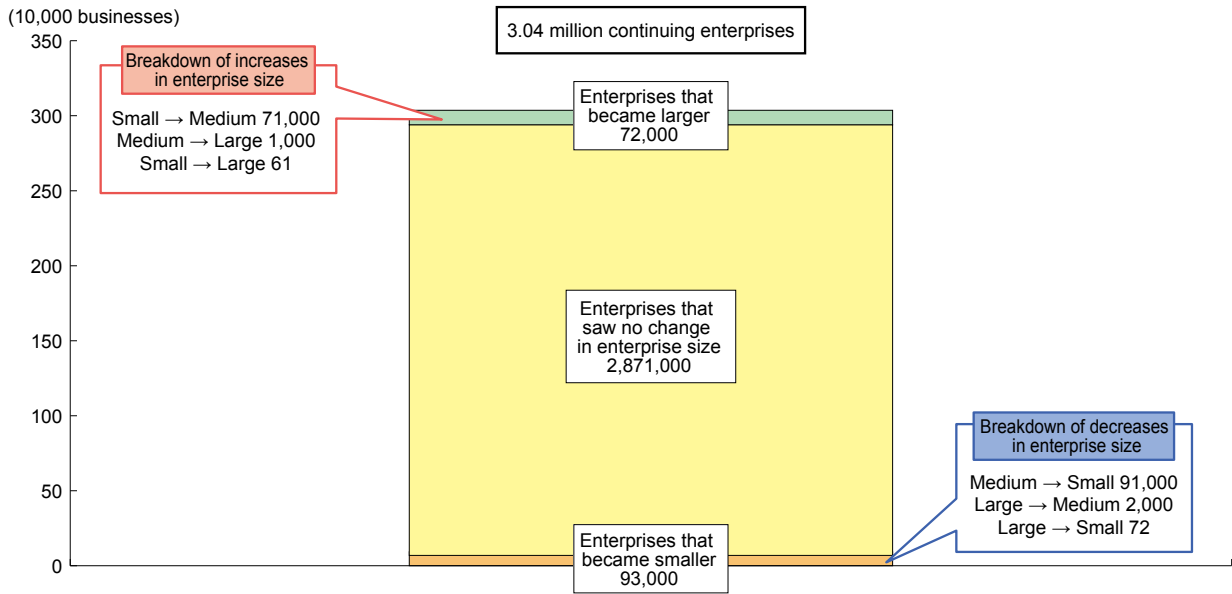
- Notes:
1. Among enterprises whose corporate information could not be confirmed for both years of comparison using the *Economic Census* of the relevant years, those whose offices are said to have all entered the market are regarded as "entries," and those whose offices are said to have all exited the market are regarded as "exits."
 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.
 3. Entries are the sum of the number of entries between 2009 and 2012 and between 2012 and 2014. The same applies to exits.

Next, let us look at the change in enterprises sizes from 2009 to 2014. Of the 3.04 million continuing enterprises, there was no change in size in approximately 95% of enterprises, or 2.87 million enterprises²⁾ (Fig. 1-2-4). Meanwhile, some 72,000 enterprises increased in size, and 93,000 enterprises decreased in size, mostly attributed

to small enterprises growing into medium enterprises, and medium enterprises downsizing to small enterprises. A change from medium enterprise to large enterprise was seen in 1,000 enterprises, and a change from large enterprise to SME was seen in 2,000 enterprises.

2) "Change in size" here refers to changes that accompany a shift among the small, medium and large enterprise classifications according to the requirements in capital and number of employees based on the Small and Medium-sized Enterprise Basic Act. Therefore, even if the number of workers increases drastically, there are SMEs that remain an SME if their amount of capital does not change.

Fig. 1-2-4 Changes in the enterprise size of continuing enterprises (2009 – 2014)



Sources: Recompiled from MIC, *2009 and 2014 Economic Census for Business Frame* and MIC, METI, *2012 Economic Census for Business Activity*.

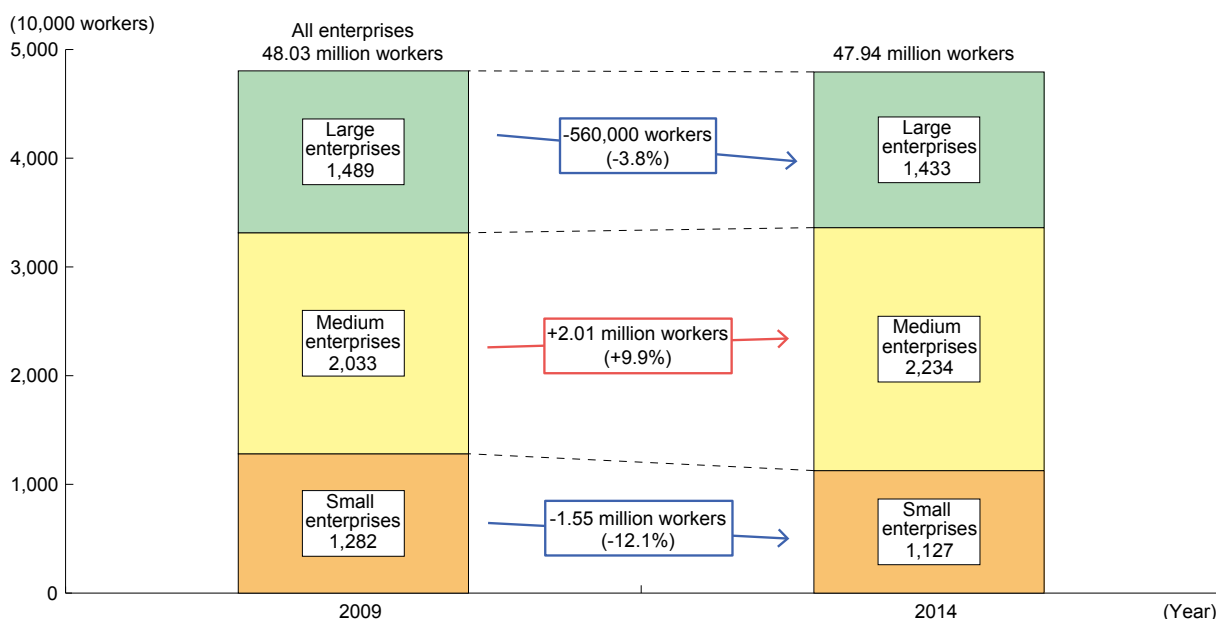
Note: “Continuing enterprises” here refer to enterprises that were confirmed as existing in the July 2009, February 2012 and July 2014 surveys.

Next, we shall examine the impacts of entries and exits on employment.

First, an overview of changes in the total number of workers from 2009 to 2014 by enterprise size shows an increase of 2.01 million workers in medium enterprises,

but a decrease of 0.56 million workers in large enterprises and a decrease of 1.55 million workers in small enterprises, corresponding to an overall decrease from 48.03 million to 47.94 million workers (Fig. 1-2-5).

Fig. 1-2-5 Changes in the numbers of workers by enterprise size (2009 – 2014)



Sources: Recompiled from MIC, 2009 and 2014 Economic Census for Business Frame.

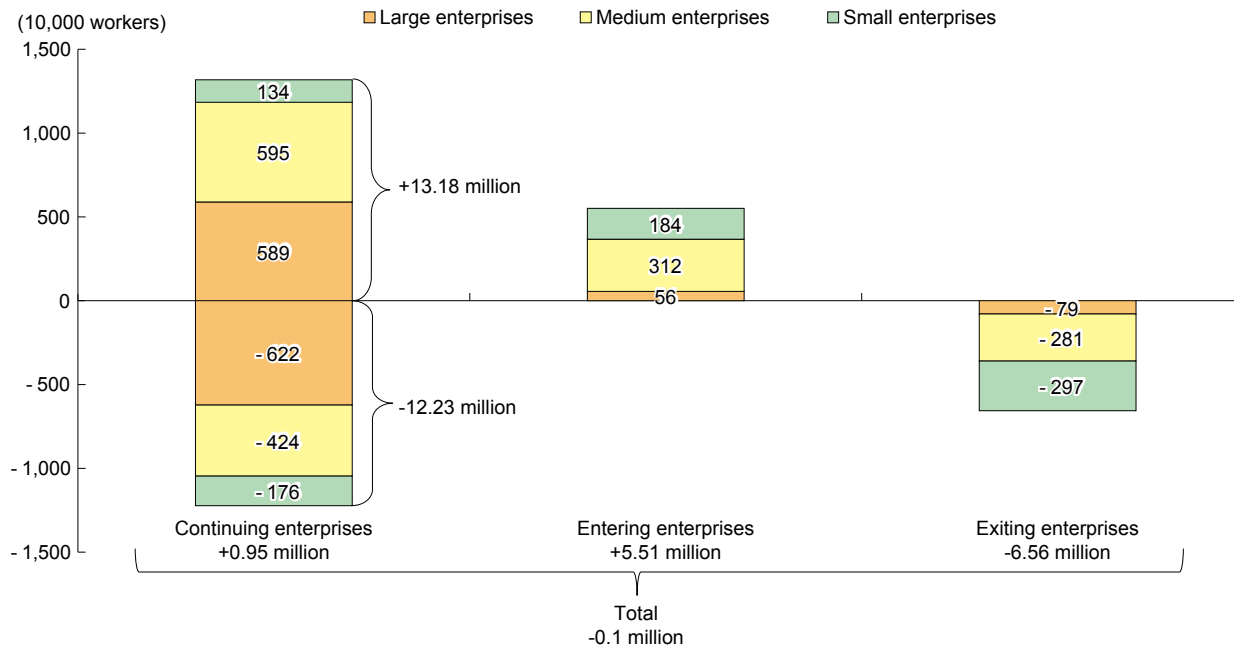
To examine the characteristics of enterprises that have a changing number of workers, let us look at increases and decreases in the number of workers in continuing enterprises, as referring to enterprises that existed from 2009 to 2014, entering enterprises, as referring to enterprises that have entered the market after 2009, and exiting enterprises, as referring to enterprises that exited the market between 2009 and 2014.

Fig. 1-2-6 shows that between 2009 and 2014, there was an increase of 13.18 million workers and a decrease of 12.23 million workers in continuing enterprises, corresponding to an overall increase of 0.95 million workers. At the same time, there was an increase of 5.51 million workers among entering enterprises, and

a decrease of 6.56 million workers among exiting enterprises. This shows that entries and exits have a certain degree of impact on changes in the overall number of workers.

Let us look at the above in terms of enterprise size. Among entries, the largest increase in number of workers was seen in medium enterprises, and accounted for approximately 57% of the total increase in workers generated by entries. Among exits, the largest decrease in number of workers was seen in small enterprises, accounting for approximately 45% of the total decrease in workers due to exits. Among continuing enterprises, the number of workers decreased in large enterprises and small enterprises, but increased in medium enterprises.

Fig. 1-2-6 Changes in the numbers of workers in terms of entering, exiting and continuing enterprises (2009 – 2014)



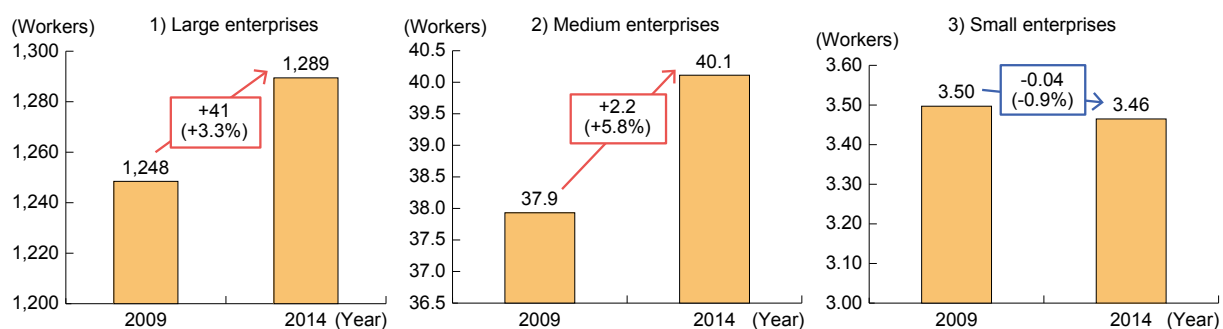
Sources: Recompiled from MIC, 2009 and 2014 Economic Census for Business Frame and MIC, METI, 2012 Economic Census for Business Activity.
 Note: The figures for the enterprise size of continuing enterprises are figures as of 2009.

Above, we examined changes in the numbers of enterprises and workers according to entering, exiting and continuing enterprises, but next let us examine how the number of workers per enterprise changed from 2009 to 2014 as a result of the above changes (Fig. 1-2-7).

Among large enterprises, the numbers of enterprises and workers both decreased, but because the decrease in number of enterprises was larger than the decrease in number of workers, the number of workers per enterprise ultimately increased by 3.3%. Among medium enterprises, the numbers of enterprises and workers both increased, and because the increase in number of workers was larger than the increase in number of enterprises, the number of workers per enterprise ultimately increased by 5.8%.

Among small enterprises, the numbers of enterprises and workers both decreased, and because the decrease in number of workers was slightly larger than the decrease in number of enterprises, the number of workers per enterprise resulted in a 0.9% decrease.

The numbers of enterprises and workers decreased in small enterprises, but the same numbers increased in medium enterprises, and the number of workers per large enterprise and medium enterprise also increased. Therefore, despite the decreasing number of enterprises, the total number of workers decreased only slightly, owing to the increase in the number of workers in relatively large enterprises.

Fig. 1-2-7 Changes in the number of workers per enterprise, by enterprise size (2009 – 2014)

	Large enterprises			Medium enterprises			Small enterprises		
	No. of enterprises	No. of workers	No. of workers per enterprise	No. of enterprises	No. of workers	No. of workers per enterprise	No. of enterprises	No. of workers	No. of workers per enterprise
2009	12,000	14,890,000	1,248	536,000	20,330,000	37.9	3,665,000	12,820,000	3.50
2014	11,000	14,330,000	1,289	557,000	22,340,000	40.1	3,252,000	11,270,000	3.46
Change	-1,000	-560,000	+41	+21,000	+2,010,000	+2.2	-413,000	-1,550,000	-0.04
Rate of change	-6.8%	-3.8%	+3.3%	+3.9%	+9.9%	+5.8%	-11.3%	-12.1%	-0.9%

Sources: Recompiled from MIC, *2009 and 2014 Economic Census for Business Frame*.

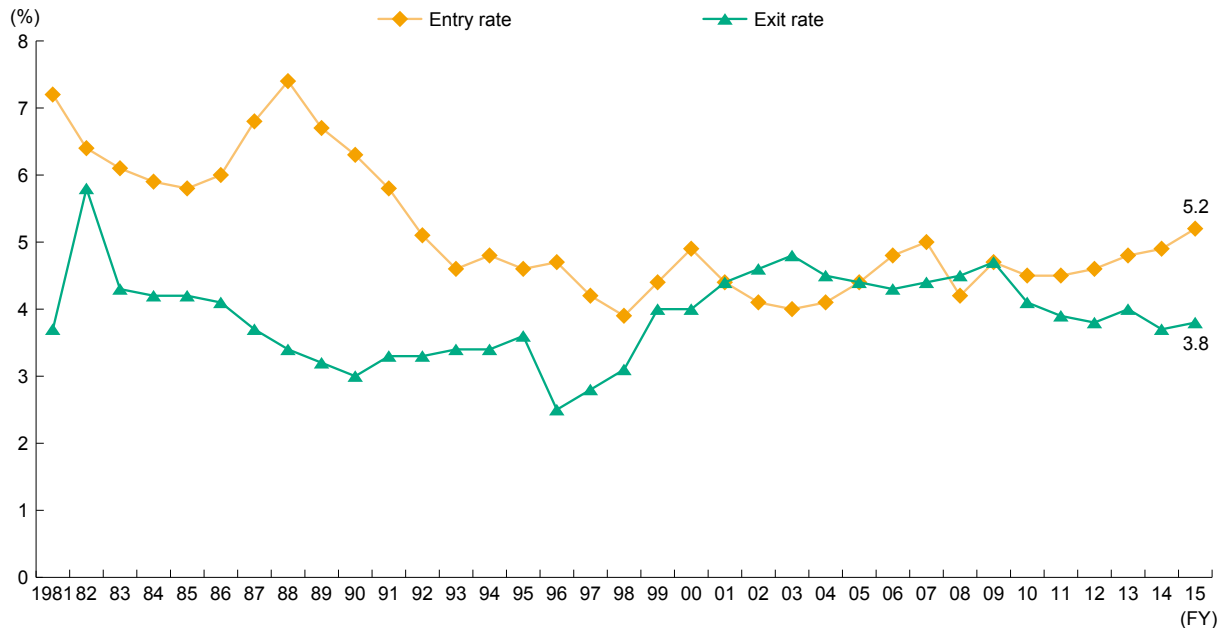
2. Changes and the present state of entry and exit rates

Here, we examine trends in market entries and exits in Japan by looking at entry and exit rates calculated based on the Ministry of Health, Labour and Welfare's *Annual Report on Employment Insurance Programs*³⁾. The entry rate in Japan stood at the 6 to 7% level in the 1980s, but declined after fiscal 1989, and maintained a level below 5% from fiscal 1993 to 2014 (Fig. 1-2-8). In fiscal 2015, it was 5.2%, and rose above the 5% mark for the first time since 1993.

When examining the exit rate using the same index, we see that it was roughly 3 to 4% from the second half of the 1980s to the first half of the 1990s, and thereafter hovered at around the 4 to 5% level, with a higher rate of exits than entries in some years after 2002. The most recent figure shows a somewhat low rate of 3.8%.

3) Entry and exit rates based on the *Annual Report on Employment Insurance Programs* regard the establishment and dissolution of employment relationships in a business establishment as entries and exits, respectively. For this reason, entries and exits cannot be verified by enterprise units, and entries by sole business owners with no employees, for example, cannot be assessed. Nevertheless, the index is used in this analysis, as it is implemented every year, and because it is also used in Japan Revitalization Strategy 2016 (approved by the Cabinet on June 2, 2016) as a KPI of entry and exit rates.

Fig. 1-2-8 Entry and exit rates



Source: MHLW, *Annual Report on Employment Insurance Programs*.

- Notes:
1. Entry rates according to the *Annual Report on Employment Insurance Programs* are the number of business establishments that were newly covered by employment insurance in the relevant fiscal year, divided by the number of insurance-covered business establishments as of the end of the previous fiscal year.
 2. Exit rates according to the *Annual Report on Employment Insurance Programs* are the number of business establishments whose employment insurance coverage expired in the relevant fiscal year, divided by the number of insurance-covered business establishments as of the end of the previous fiscal year.
 3. Insurance-covered business establishments are the number of business establishments that are covered by labor insurance under an employment insurance (Article 5 of the Employment Insurance Act).

In fiscal 2015, entry rate was 5.2% and exit rate was 3.8%, but the rates differ according to industry, so let us examine the entry/exit rates of each industry. Fig. 1-2-9 shows the entry/exit rates of each industry along the horizontal axis and exit rates along the vertical axis. The size of the circle for each industry indicates the number of insurance-covered business establishments in the industry.

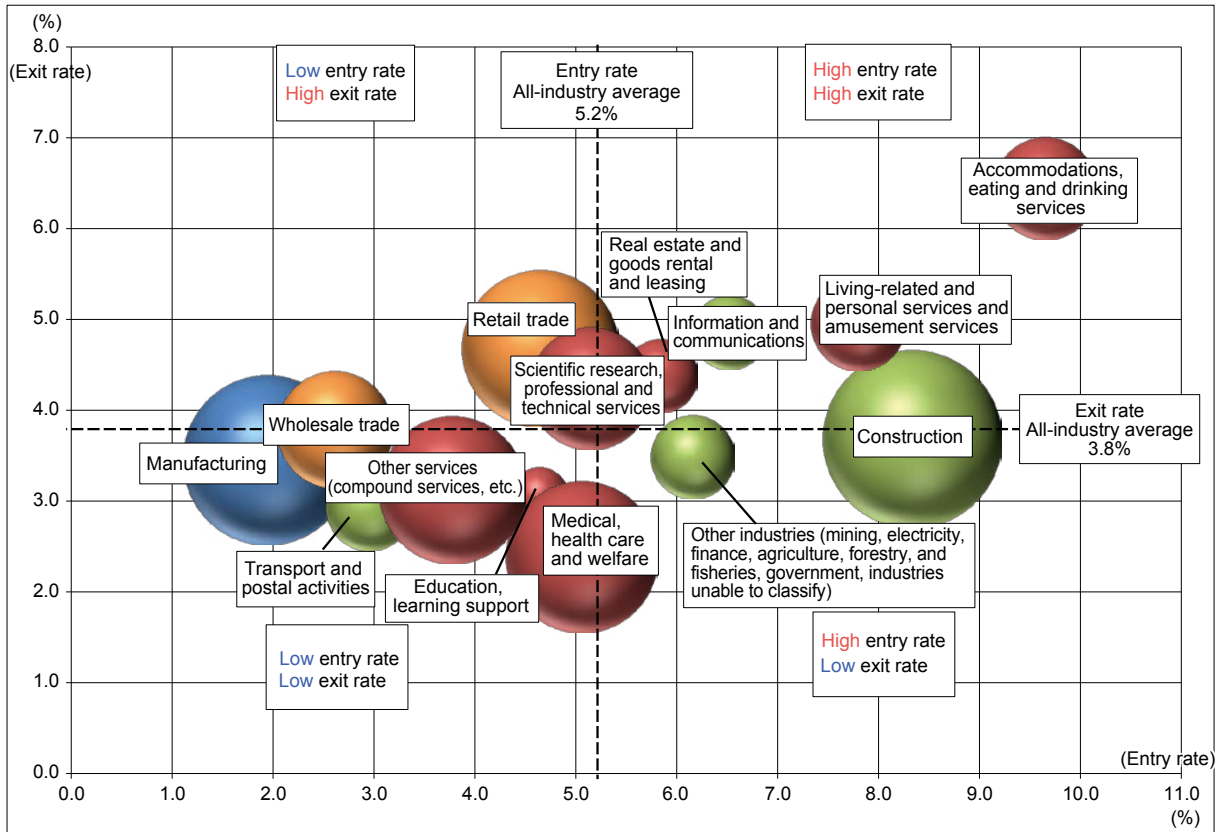
With respect to entry rate, the manufacturing industries had the lowest rate at 1.9%, and largely drove down the overall entry rate, also with their large number of business establishments. On the other hand, the accommodations, eating and drinking services industry had the highest entry rate at 9.7%, followed by the construction industry and the living-related and personal services and amusement services industry. The accommodations, eating and drinking services industry not only had the highest entry rate, but also a certain number of business establishments. Similarly, the construction industry had the second highest entry rate and the largest number of business establishments. Thus, it could be said that these two

industries contributed to boosting the overall entry rate.

With respect to exit rate by industry, there was little difference among the industries. The medical, health care and welfare industry had the lowest exit rate at 2.4%, and contributed to lowering the overall exit rate. The accommodations, eating and drinking services industry had the highest exit rate at 6.4%, and drove up the overall exit rate. The manufacturing industries and construction industry, which greatly differed in their entry rates, had exit rates that were generally at the same level.

A comparison of entry and exit rates by industry shows that entry and exit rates both exceed the average in the accommodations, eating and drinking services industry and the living-related and personal services and amusement services industry, which also have a high turnover of business establishments, while the construction industry has a high entry rate and low exit rate, and the manufacturing industries and the wholesale trade industry have a low entry rate and a low exit rate.

Fig. 1-2-9 Distribution of entry and exit rates by industry (fiscal 2015)



Source: MHLW, *Annual Report on Employment Insurance Programs*.

- Notes:
1. Entry rates according to the *Annual Report on Employment Insurance Programs* are the number of business establishments that were newly covered by employment insurance in the relevant fiscal year, divided by the number of insurance-covered business establishments as of the end of the previous fiscal year.
 2. Exit rates according to the *Annual Report on Employment Insurance Programs* are the number of business establishments whose employment insurance coverage expired in the relevant fiscal year, divided by the number of insurance-covered business establishments as of the end of the previous fiscal year.
 3. Insurance-covered business establishments are the number of business establishments that are covered by labor insurance under an employment insurance (Article 5 of the Employment Insurance Act).

Next, a look at entry and exit rates by prefecture reveals that Okinawa has the highest entry rate, followed by Saitama, Chiba, Kanagawa and Fukuoka (Fig. 1-2-10). An existing study gives a number of factors that influence regional entry rates. They include demand-side factors such as the rates of increase in population and income; human capital factors such as the population age composition, the ratio of university graduates, and the ratio of specialists; and factors related to the industrial

composition of the region⁴⁾. In terms of industrial composition, Okinawa, which had the highest entry rate, had the largest ratio of businesses in the accommodations, eating and drinking services industry of all prefectures, indicating that the composition of businesses may have an influence on the entry rate of each prefecture. Exit rate was the highest in Shiga, followed by Kyoto, Fukuoka, Hokkaido and Chiba.

4) In Okamuro, Hiroyuki and Nobuo Kobayashi, "Determinants of regional variations in the business start-up ratio," municipal-level data is used to analyze the determining factors of entry rates of private business establishments in the latter half of the 1990s, and show that demand, expenses, human capital, capital procurement, industrial aggregation and structures, and other factors (enterprise size structures, access to transportation, public services) all have a significant influence on entry rates.

Fig. 1-2-10 Entry and exit rates by prefecture (fiscal 2015)

	Entry rate	Exit rate		Entry rate	Exit rate		Entry rate	Exit rate
Hokkaido	4.2%	4.3%	Ishikawa	4.3%	3.5%	Okayama	4.8%	3.7%
Aomori	3.6%	3.7%	Fukui	3.7%	3.3%	Hiroshima	4.4%	3.6%
Iwate	3.4%	3.4%	Yamanashi	4.7%	3.5%	Yamaguchi	4.1%	3.6%
Miyagi	5.3%	3.3%	Nagano	4.0%	4.0%	Tokushima	4.2%	2.9%
Akita	2.8%	3.5%	Gifu	4.6%	3.7%	Kagawa	4.3%	3.2%
Yamagata	3.4%	3.2%	Shizuoka	4.6%	3.9%	Ehime	4.5%	3.8%
Fukushima	5.3%	3.1%	Aichi	6.1%	4.0%	Kochi	4.1%	3.6%
Ibaraki	5.3%	3.3%	Mie	5.3%	3.6%	Fukuoka	6.1%	4.4%
Tochigi	4.4%	3.3%	Shiga	4.3%	4.9%	Saga	4.7%	3.6%
Gunma	5.1%	3.8%	Kyoto	4.7%	4.6%	Nagasaki	4.1%	3.6%
Saitama	6.8%	3.5%	Osaka	5.9%	3.6%	Kumamoto	5.3%	3.2%
Chiba	6.5%	4.3%	Hyogo	5.2%	4.2%	Oita	4.6%	4.0%
Tokyo	5.6%	3.7%	Nara	4.7%	4.3%	Miyazaki	4.8%	4.1%
Kanagawa	6.3%	4.1%	Wakayama	4.5%	3.1%	Kagoshima	4.3%	3.5%
Niigata	3.1%	3.4%	Tottori	4.2%	3.5%	Okinawa	7.0%	3.7%
Toyama	3.7%	3.5%	Shimane	3.3%	4.2%	Total	5.2%	3.8%

Source: MHLW, 2015 Annual Report on Employment Insurance Programs.

- Notes:
1. Entry rate = The number of business establishments that were newly covered by employment insurance in the relevant fiscal year, divided by the average number of insurance-covered business establishments in the previous fiscal year × 100
 2. Exit rate = The number of business establishments whose employment insurance coverage expired in the relevant fiscal year, divided by the average number of insurance-covered business establishments in the previous fiscal year × 100
 3. Insurance-covered business establishments are the number of business establishments that are covered by labor insurance under an employment insurance (Article 5 of the Employment Insurance Act).

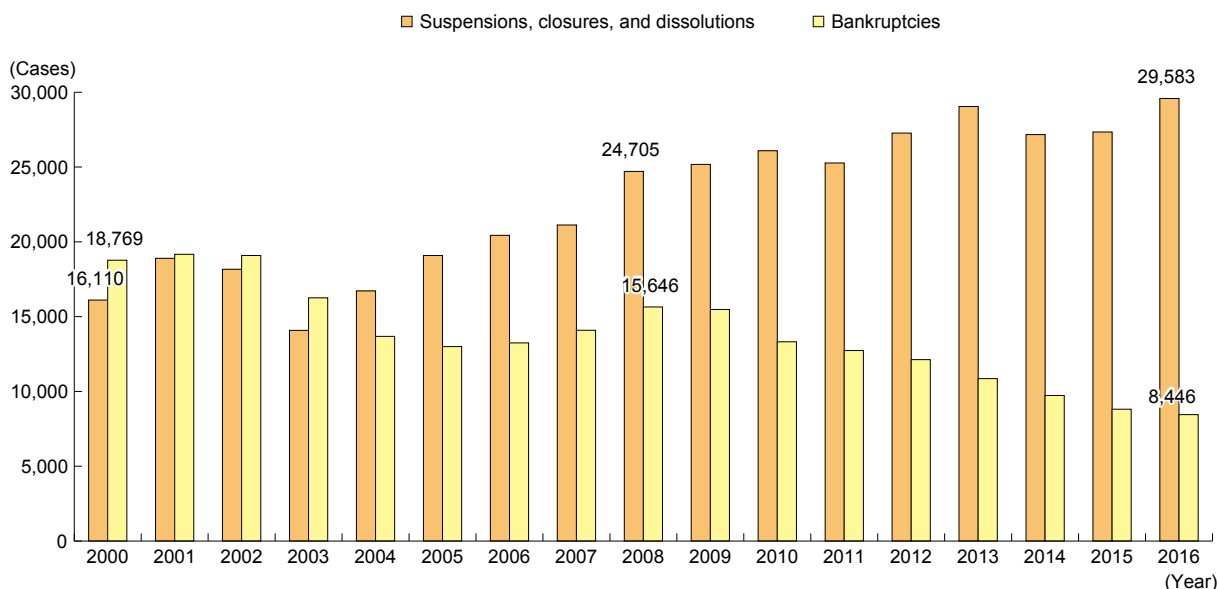
3. Present state of market exits

Up to here, we examined trends in market entries and exits using the *Economic Census* and the *Annual Report on Employment Insurance Programs*, but exit trends are in some ways difficult to assess from public statistics⁵⁾. For this reason, we shall examine the present state of exits using Tokyo Shoko Research's *Survey of Business Suspensions, Closures and Dissolutions*, which identifies and tabulates enterprises that have suspended business, closed or dissolved, from a database of 2.63 million

enterprises.

First, let us compare the yearly number of suspensions, closures and dissolutions with the number of bankruptcies. Bankruptcies peaked in 2008 and gradually declined thereafter, remaining below the 10,000 level for three consecutive years. Suspensions, closures and dissolutions, on the other hand, reached a record high in 2016, corresponding to nearly double the figure in 2000 (Fig. 1-2-11).

5) The *Economic Census for Business Frame* and *Business Activity* are implemented every two to three years, so it does not cover enterprises that have entered and exited the market in years between surveys. The *Annual Report on Employment Insurance Programs* is published every year, but provides statistics in business establishment units. Additionally, transfers of business establishments and merger of enterprises are categorized as exits in some cases.

Fig. 1-2-11 Number of suspensions, closures, dissolutions, and bankruptcies

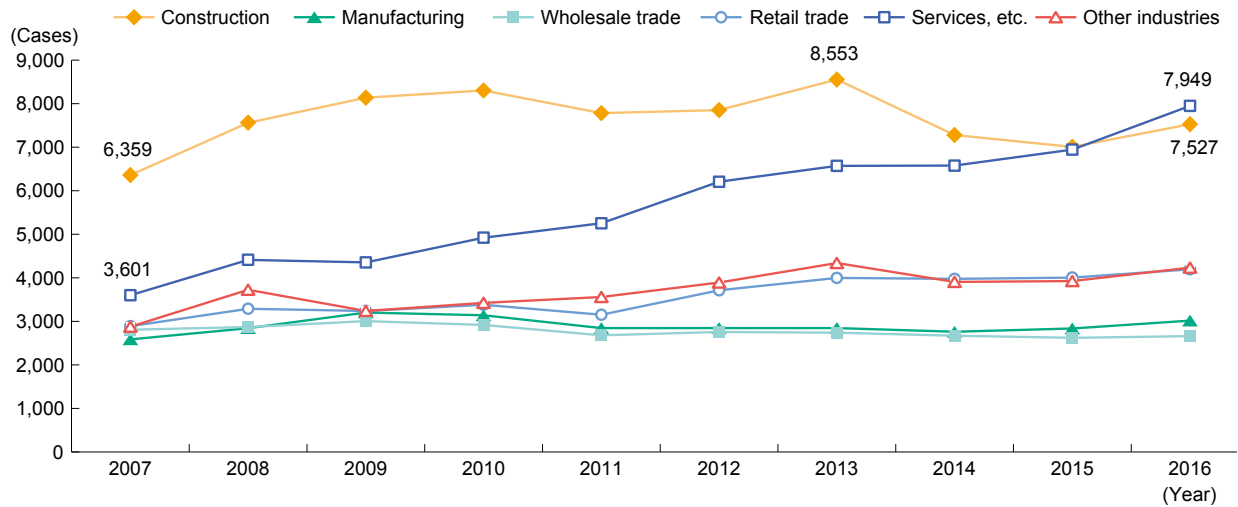
Source: Tokyo Shoko Research, Ltd., *2016 Survey of Business Suspensions, Closures and Dissolutions*.

- Notes:
1. Business suspension and closure refers to the termination of business with more assets than liabilities, without taking any particular procedures.
 2. Dissolution refers to the termination of business and the commencement of the necessary settlement procedures for extinguishing the corporate status of the enterprise. Such enterprises basically have more assets than liabilities, but they may be found to have a capital deficit after dissolution, in which case they are retabulated as a bankruptcy.
 3. Bankruptcy refers to a state where an enterprise has fallen into a state where it is unable to pay its debts and cannot continue engaging in economic activities. Voluntary liquidation (including suspension of transactions) is also categorized as a bankruptcy.

By industry, the construction industry had the largest number of business suspensions, closures and dissolutions during the period from 2007 to 2015, with the number still increasing in 2016 (Fig. 1-2-12). In 2016, however, the services, etc. industry had the largest number and double the number compared to ten years ago, owing to a continuous increase since 2007. The manufacturing industries and the wholesale trade industry remained unchanged, and the retail trade industry showed a slightly increasing trend.

In the services, etc. industry, a detailed look at the types of businesses that particularly increased compared to ten years ago shows that, with the exclusion of business types with special characteristics⁶⁾, there were increases in the numbers of clinics of medical practitioners (+335), eating places (+271), engineering and architectural services (+210), business consultants and pure holding companies (+186), and dental clinics (+169), among others.

6) NPOs not classified elsewhere (+1,090) and political organizations (+419) have been excluded.

Fig. 1-2-12 Numbers of business suspensions, closures and dissolutions by industry

Source: Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

Note: Other industries include the agriculture, forestry, fishery and mining industries, the finance and insurance industry, the real estate industry, the transport industry, and the information communication industry.

* Businesses with particularly large increases in the services, etc. industry (top ten businesses)

Middle classification	Small classification	2007	2016	Increases
Medical, health care and welfare	Clinics of medical practitioners	38	373	+335
Eating and drinking places	Eating places	172	443	+271
Scientific research, professional and technical services	Engineering and architectural services	297	507	+210
Services, n.e.c.	Business services, n.e.c.	174	371	+197
Scientific research, professional and technical services	Business consultants and pure holding companies	4	399	+186
Medical, health care and welfare	Dental clinics	213	173	+169
Scientific research, professional and technical services	Miscellaneous professional services	182	347	+165
Medical, health care and welfare	Welfare services for the aged and care services	2	194	+156
Electricity, gas, heat supply and water	Production, transmission and distribution of electricity	38	145	+143
Services, n.e.c.	Automobile maintenance services	156	265	+109

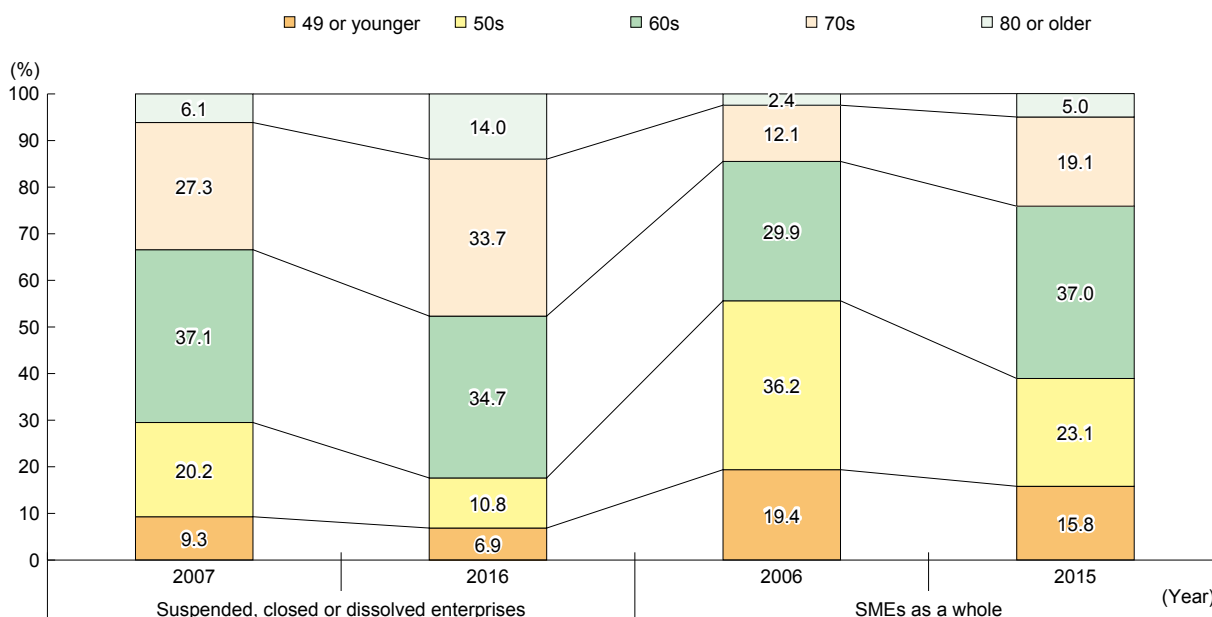
With regard to the ages of managers of suspended, closed or dissolved enterprises, managers were aged 60 or older in 82.4% of enterprises in 2016, and marked a record high rate. Compared to ten years ago, the ratio of managers between ages 70 and 79 and age 80 or older also increased, such that managers were 80 or older in 14.0% of enterprises, also marking a record high (Fig. 1-2-13). Meanwhile, the proportion of managers between ages 50 and 59 halved, and those aged 49 or younger declined

slightly, indicating the aging of managers in enterprises that suspended business, closed or dissolved within the past ten years.

The ages of SME managers as a whole⁷⁾ also showed a decline in the ratio of managers aged 59 and younger and an increase in the ratio of managers aged 60 and older. The volume zone has also shifted from the 50 to 59 age range to the 60 to 69 age range, as an indication that managers of SMEs as a whole are aging progressively.

7) The ages of SME managers here are based on a comparison between their ages in 2015 and ten years earlier in 2006, as 2015 is the latest year for which data is available at present.

Fig. 1-2-13 Changes in the composition ratio of the ages of managers of suspended, closed or dissolved enterprises



Source: Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

Next, let us examine the performance of suspended, closed or dissolved enterprises in terms of their profit rates before suspension or closure. Of the 84,091 suspensions, closures and dissolutions from 2013 to 2015, data on ordinary profit to sales ratio (hereinafter, profit ratio) immediately before closure⁸⁾ was available for 6,405 enterprises. Based on this data⁹⁾, a look at profit ratios before exit shows that 50.5% of enterprises exited the market in a surplus state, with a profit ratio of more than 0%, and that more than half the enterprises were in the black before exiting (Fig. 1-2-14). It also shows that 13.6% of enterprises had a profit ratio of 10% or more,

and 6.1% had a profit ratio of 20% or more, indicating that a certain ratio of enterprises had a high profit ratio before exiting.

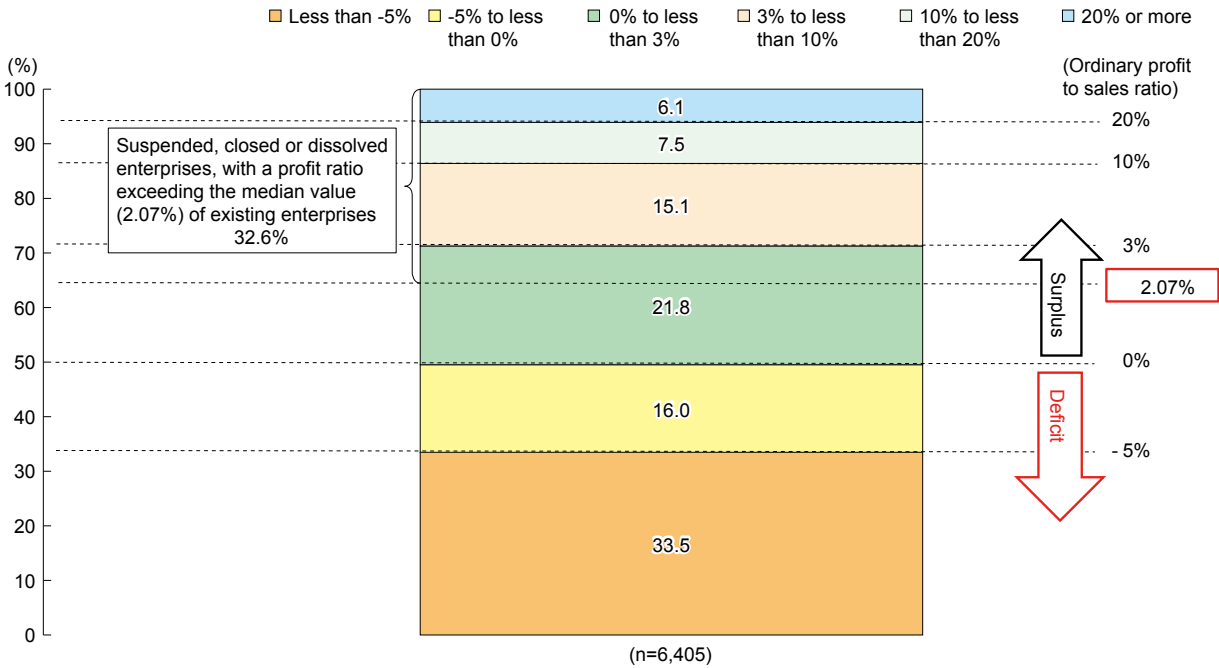
Compared with continuing enterprises¹⁰⁾, whose median ordinary profit ratio was 2.07%, as much as 32.6% of suspended, closed or dissolved enterprises had a profit ratio that surpassed the median ordinary profit ratio of continuing enterprises. In other words, roughly 30% of enterprises exited the market even while having a profit ratio that surpassed that of the average continuing enterprise.

8) More specifically, the latest ordinary profit to sales ratio was used for enterprises whose ordinary profit to sales ratio was available for the exit year or the year before that. It should be noted that when combining enterprises whose profit rates are not available, the ratio of enterprises that exited the market in a surplus state may fall.

9) In subsequent analyses, “agricultural, forestry and fishery cooperatives,” “NPOs not elsewhere classified,” “political organizations,” “assembly halls,” “business cooperatives,” “economic organizations,” “academic and cultural organizations,” and “slaughterhouses” (total 328 businesses) are excluded from among the 6,733 enterprises whose ordinary profit to sales ratio for the exit year or the year before that is available among enterprises that suspended business, closed or dissolved during the period from 2013 to 2015, from the perspective of eliminating special organizations that are not enterprises.

10) Continuing enterprises here refer to enterprises contained in the database during the period from 2013 to 2015, and the median ordinary profit ratio of continuing enterprises refers to the ordinary profit to sales ratio of the enterprise that comes in the middle when listing the enterprises contained in the database in order of the lowest profit ratio at each point in time.

Fig. 1-2-14 Ordinary profit to sales ratio of suspended, closed or dissolved enterprises



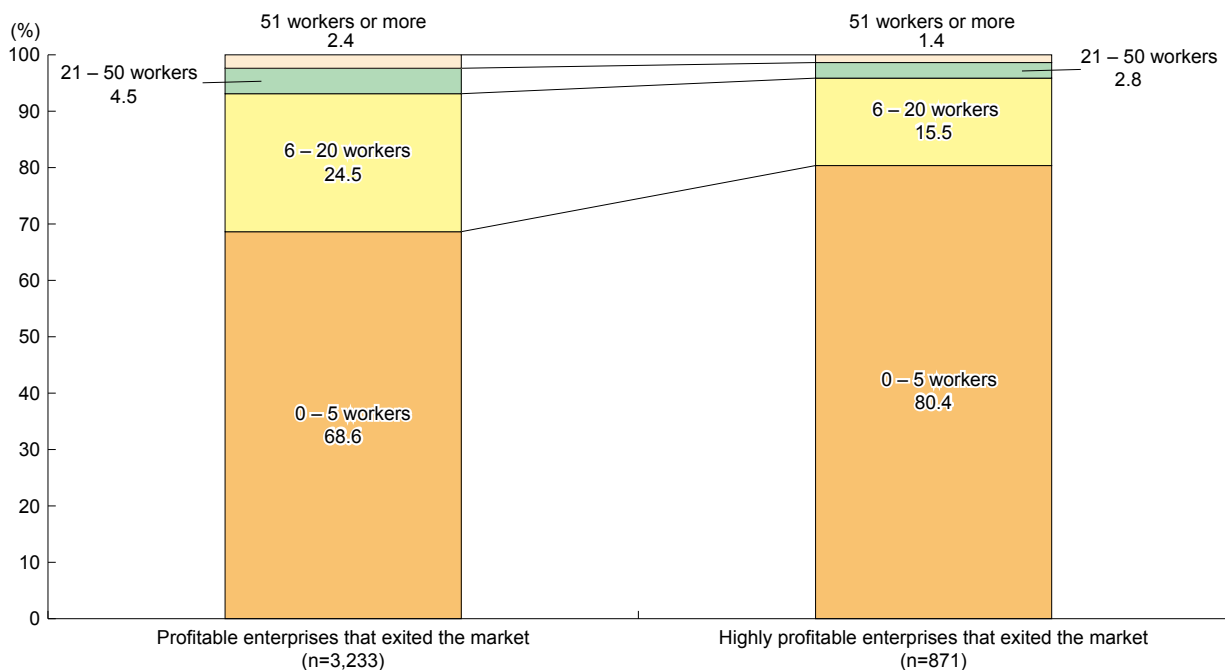
Source: Recompiled from Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

Above, we saw that even among suspended, closed or dissolved enterprises, a certain number of enterprises were in the black or had a high profit before exiting the market. Below, we will examine the characteristics of such enterprises.

First, let us compare enterprises that exited the market with a positive profit ratio before suspension, closure or dissolution (hereinafter, profitable enterprises) and enterprises that exited the market with a profit ratio of 10% or more (hereinafter, highly profitable enterprises),

in terms of their number of workers. Of all profitable enterprises, roughly 69% were small enterprises with five or less workers, and roughly 93% were SMEs with 20 or less workers. Of all highly profitable enterprises, roughly 80% were small enterprises with five or less workers, and roughly 96% were SMEs with 20 or less workers. This shows that profitable and highly profitable enterprises that exited the market were mostly small-scale enterprises (Fig. 1-2-15).

Fig. 1-2-15 Enterprise size of suspended, closed or dissolved enterprises (profitable and highly profitable enterprises)

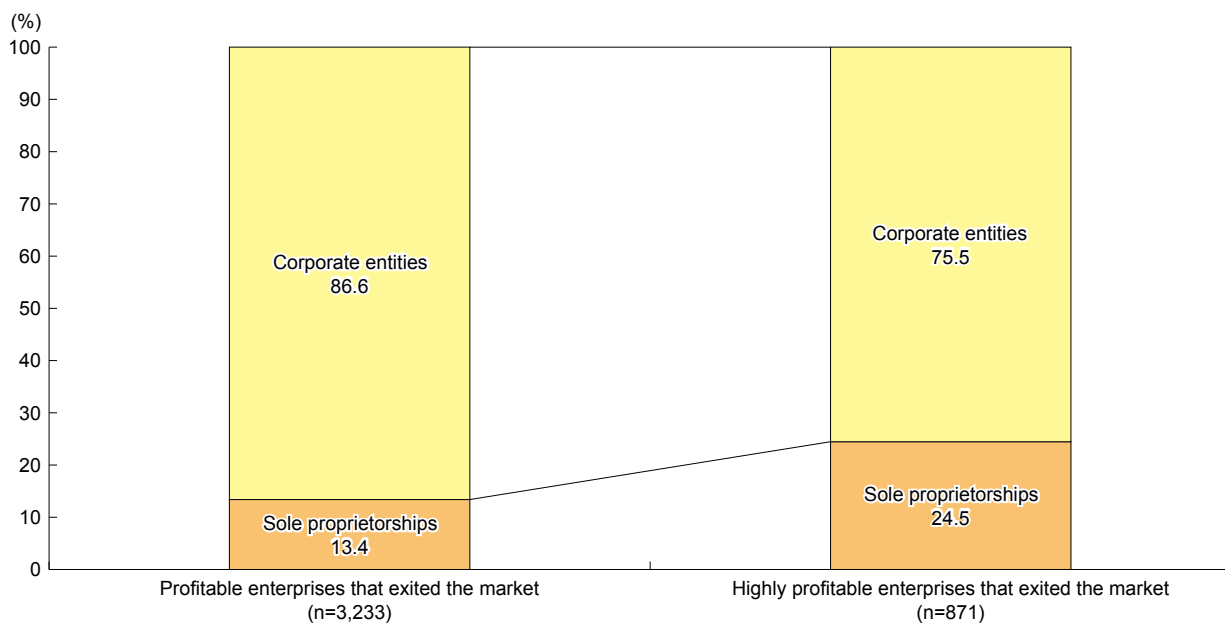


Source: Recompiled from Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

In terms of management organization, sole proprietorships made up roughly 13% of profitable enterprises and roughly 25% of highly profitable

enterprises that exited the market. Highly profitable enterprises had a higher ratio of sole proprietorships (Fig. 1-2-16).

Fig. 1-2-16 Management organization of suspended, closed or dissolved enterprises (profitable and highly profitable enterprises)

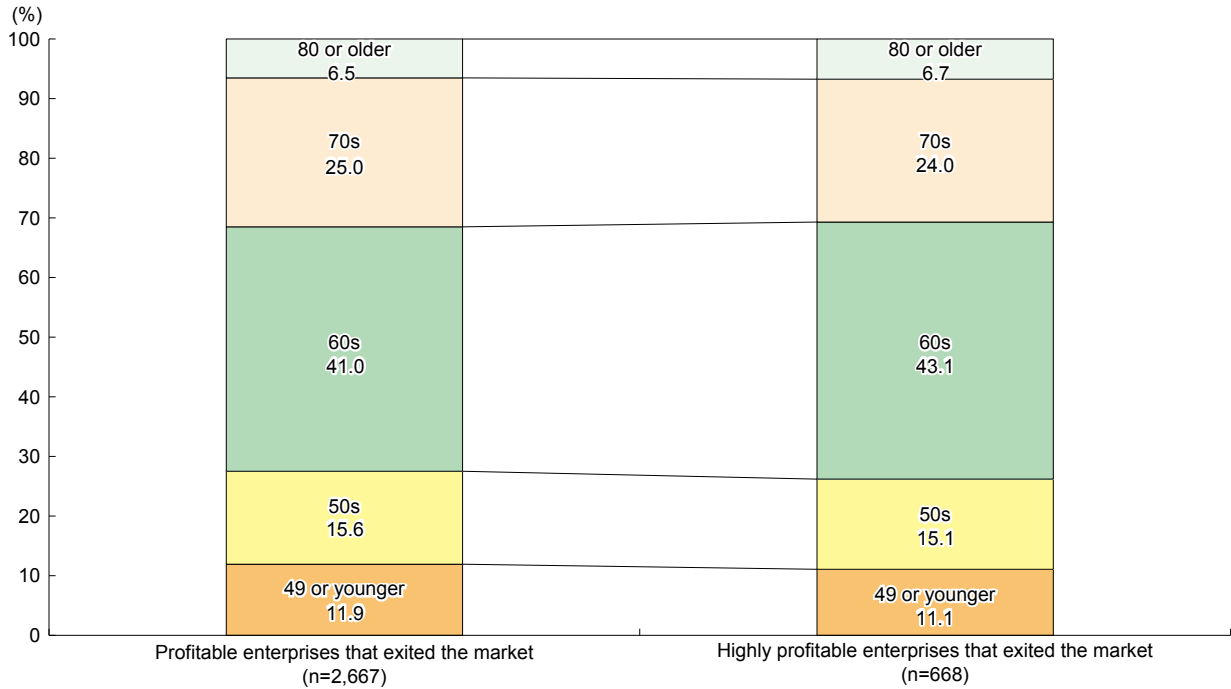


Source: Recompiled from Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

In terms of managers' ages, there was hardly any difference between profitable and highly profitable enterprises that exited the market. The largest ratio of

managers was in the 60s, followed by the 70s, such that managers aged 60 or older accounted for 70% of all managers (Fig. 1-2-17).

Fig. 1-2-17 Manager's age in suspended, closed or dissolved enterprises (profitable and highly profitable enterprises)

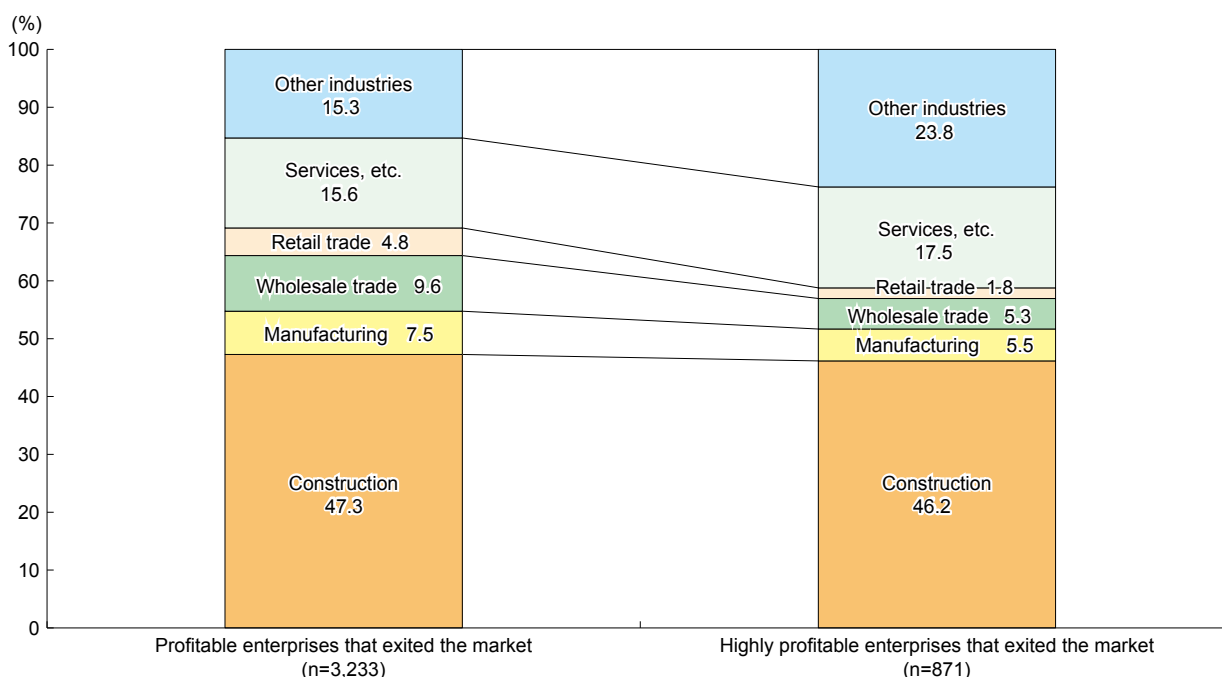


Source: Recompiled from Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

Lastly, in terms of industry, roughly half of both profitable and highly profitable enterprises that exited the market was in the construction industry, followed by the services, etc. industry. This was followed by the wholesale trade industry for profitable enterprises that exited the market, and by the manufacturing industries for highly profitable enterprises. A comparison of the two groups of

enterprises shows that highly profitable enterprises had a higher rate of exits in other industries, which includes the information communication industry and the finance and insurance industry, and the services, etc., and a lower rate of exits in the manufacturing, retail trade, and wholesale trade industries (Fig. 1-2-18).

Fig. 1-2-18 Industrial classification of suspended, closed or dissolved enterprises (profitable and highly profitable enterprises)



Source: Recompiled from Tokyo Shoko Research, Ltd., 2016 Survey of Business Suspensions, Closures and Dissolutions.

Highly profitable enterprises that exited the market are characterized by a high ratio of enterprises with a small number of workers, a relatively high ratio of sole proprietorships, and a relatively high ratio of enterprises in other industries and the services, etc. industry. To examine in detail the industrial classification of these enterprises, highly profitable enterprises that exited the market in the services industry and other industries have been listed in order of small classification industries with the largest number of enterprises, with the result that in the services industry, the largest number of enterprises was in engineering and architectural services, and in other industries, the largest number were financial products transaction dealers (Fig. 1-2-19).

The reasons for market exits are unknown, but the top-ranking industries, namely engineering and architectural

services, business consultants and pure holding companies, clinics of medical practitioners, financial products transaction dealers, and sales agents of buildings and houses and land subdividers and developers, are industries in which managers and employees mostly engage in operations that require a certain qualification or skill. This characteristic may have made business succession difficult.

In addition to the above, business dissolutions that are the result of a large enterprise reorganizing its subsidiaries may also be included among market exits. Otherwise, some SMEs that exited the market even while having a certain profit ratio and a certain number of employees may have chosen to exit the market due to the aging of their managers or the absence of successors.

Fig. 1-2-19 Breakdown of the industries of highly profitable enterprises that exited the market (top 5 small classification industries)

Services, etc. (n=152)		Other industries (n=207)	
Engineering and architectural services	27	Financial products transaction dealers	38
Business services, n.e.c.	21	Sales agents of buildings and houses and land subdividers and developers	37
Business consultants and pure holding companies	15	Real estate lessors	20
Clinics of medical practitioners	11	Computer programming and other software services	16
Miscellaneous professional services	10	Real estate managers	13

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

Section 2 Relationship between the life cycle and productivity of SMEs

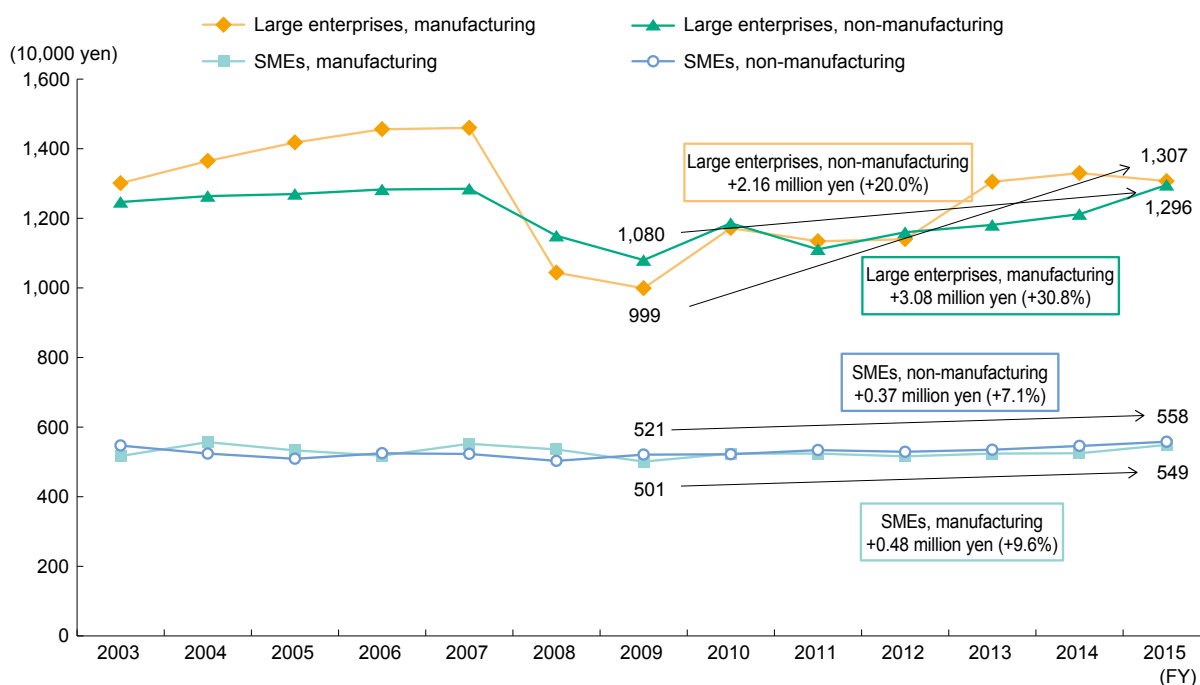
1. Labor productivity in large enterprises and SMEs

Up to here, we have examined the present state of market entries and exits by enterprises, but in this section, we shall analyze the impacts of such entries and exits on overall productivity in Japan.

First, added value per capita (labor productivity) among large enterprises had been gradually increasing from fiscal 2003 to 2007, and dropped in fiscal 2008 and

2009 due to impacts of the Lehman crisis, but returned to an increase thereafter (Fig. 1-2-20). On the other hand, labor productivity in SMEs remained virtually unchanged over the past 13 years, and a large difference in labor productivity has emerged between large enterprises and SMEs.

Fig. 1-2-20 Added value per employee (labor productivity), by enterprise size



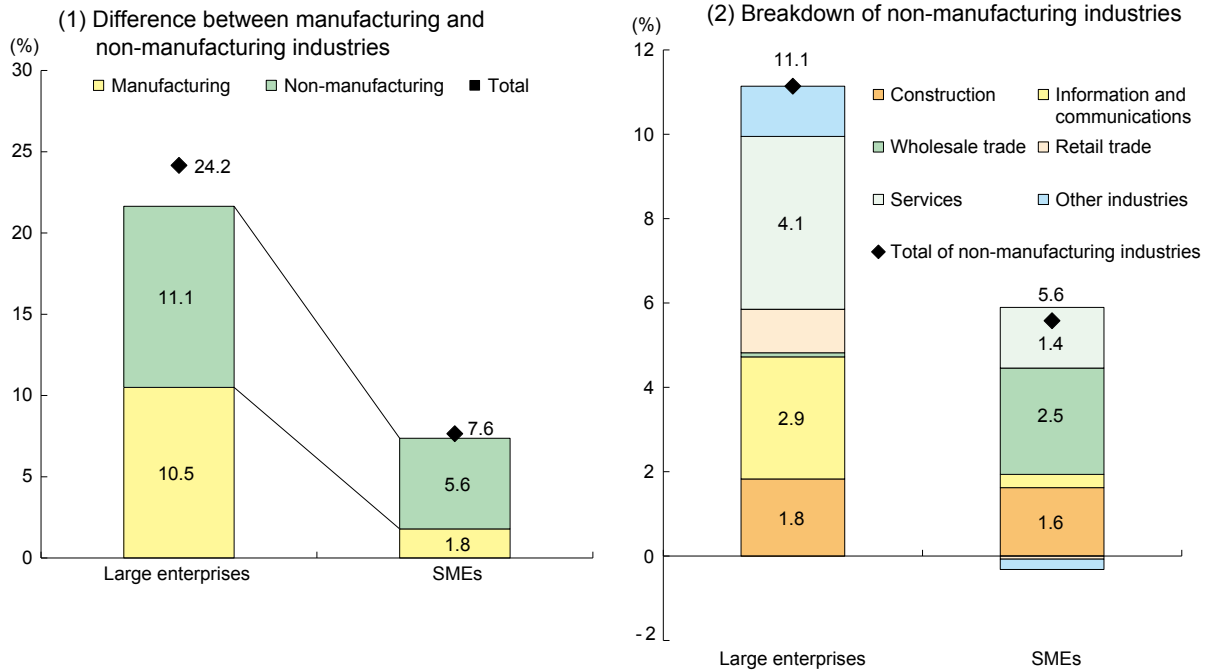
Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

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

Let us compare labor productivities in fiscal 2009, which marked the lowest level in recent years, and fiscal 2015, and examine which industries had an effect on increasing overall labor productivity, by separating the industries into manufacturing and non-manufacturing industries. Among large enterprises, labor productivity in both manufacturing and non-manufacturing industries increased at a similar rate. Among SMEs, however, the

increase was small in both industries, with barely an increase in SME manufacturing industries (Fig. 1-2-21). A focus on the non-manufacturing industries shows that among large enterprises, the services industry contributed to driving up overall labor productivity of non-manufacturing industries, but among SMEs, the increase in labor productivity in the services industry was not as large.

Fig. 1-2-21 Breakdown of labor productivity growth by industry (fiscal 2009 – 2015)



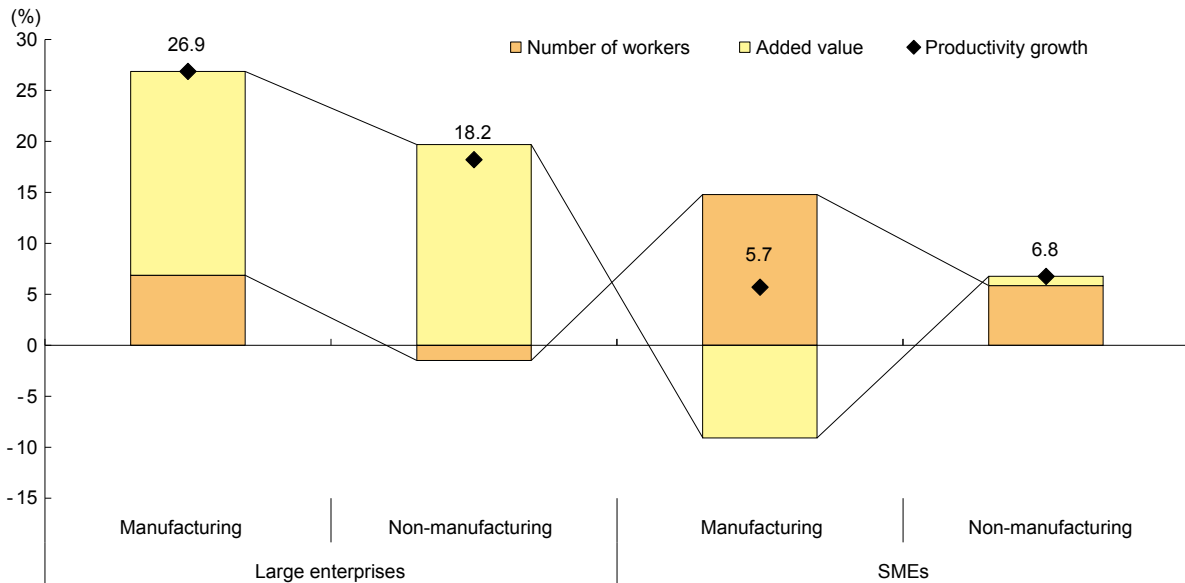
Source: Prepared based on MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

- Notes:
1. Large enterprises here refer to enterprises with a capital of ¥1 billion or more, and SMEs refer to enterprises with a capital of less than ¥100 million.
 2. The rate of change of each factor is calculated by logarithmic difference to indicate degree of contribution, so the total does not necessarily equal the overall rate of increase in productivity.

Changes in labor productivity can be broken down into two factors: the increase or decrease in added value, and the increase or decrease in number of workers. When the margin of increase in labor productivity is broken down into factors caused by an increase in added value and factors caused by a decrease in number of workers, we see that among large enterprises, both manufacturing and non-manufacturing industries largely increased their added

value, but among SMEs, the added value of manufacturing industries declined, and that of non-manufacturing showed an increase but not as large as large enterprises. On the other hand, when we look at labor productivity in terms of the number of workers, we see that the decline in the number of workers in manufacturing industries has boosted labor productivity (Fig. 1-2-22).

Fig. 1-2-22 Factors affecting labor productivity growth, by industry and enterprise size (fiscal 2009 – 2015)



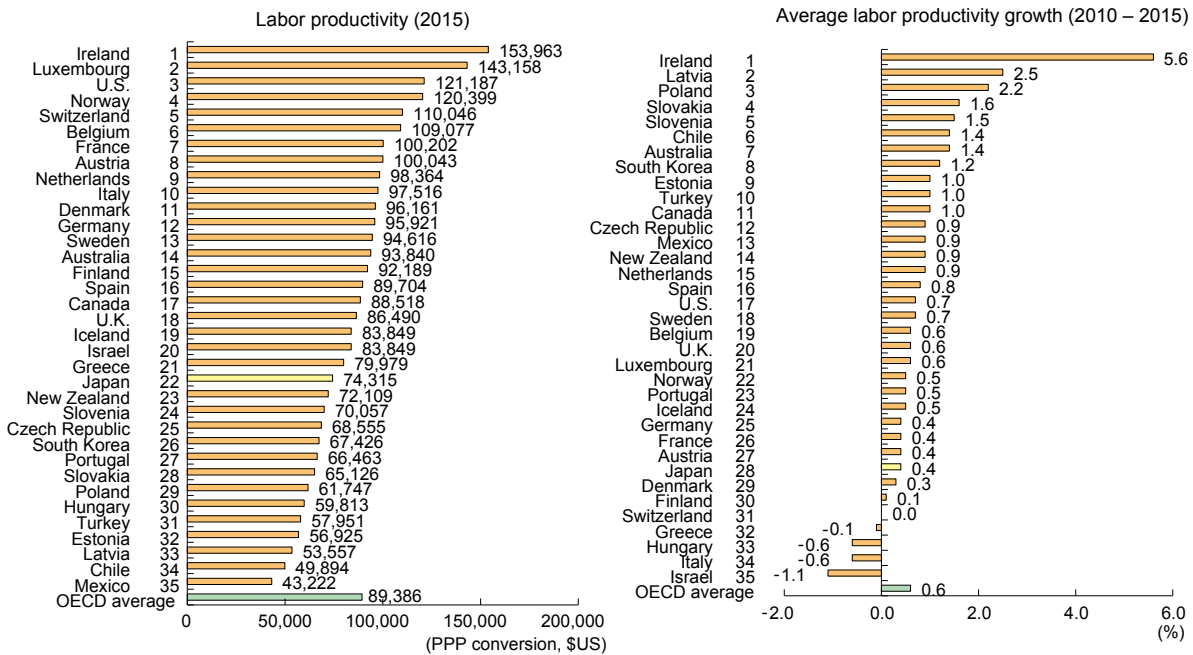
Source: MOF, *Financial Statements Statistics of Corporations by Industry, Annually*.

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.

In an international comparison of labor productivity, Japan ranked a low 22 among 35 OECD countries in

2015. At 0.4%, the rate of increase in Japan also ranked a low 28th (Fig. 1-2-23).

Fig. 1-2-23 Labor productivity of OECD member countries



Source: Japan Productivity Center, *Productivity Trends in Japan 2016*.

Notes: 1. Overall labor productivity is calculated as GDP / number of employees and converted to US dollars using purchasing power parity (PPP).
2. The necessary data for the above have been supplemented mainly by OECD statistical data and data from the statistics bureau in each country.

2. Change factors of labor productivity and total factor productivity (TFP)

Up to here, we analyzed the present state of market entries and exits and the productivity of enterprises in Japan. From here, we will examine the impacts of trends in the components of the life cycle of enterprises, such as entries, growth and expansion, bankruptcy and exits, on the productivity of SMEs in Japan as a whole, based on the “Project concerning the analysis of SME revitalization,” a project implemented by the Research Institute of Economy, Trade and Industry on commission by the SME Agency¹¹⁾. In this analysis, the rates of increase in the productivity of SMEs are examined in terms of three separate periods, from 2003 to 2007 (period 1), from 2007 to 2009 (period 2), and from 2009 to 2013 (period 3), using financial data of client SMEs which CRD Association has received from its members (credit guarantee associations and financial institutions), and breaking them down into contributing factors, such as changes in the productivity level of continuing enterprises (hereinafter, internal effect), changes in the market share of continuing enterprises (hereinafter, redistribution effect), market entries by new enterprises (hereinafter, entry effect), market exits by bankrupt enterprises (hereinafter, bankruptcy effect), market exits by closed enterprises (hereinafter, closure effect), and changes in industry by continuing enterprises (hereinafter, industry change effect)¹²⁾.

In this analysis, labor productivity and total factor productivity (TFP) are used as indicators of SME productivity. Labor productivity is a quantitative expression of how efficiently added values were generated per working hour. TFP is the total contribution of all factors to production that cannot be measured by the input of production elements such as capital and labor.

First, a look at labor productivity shows a 0.9% increase in period 1, a 1.8% decrease in period 2, and a 1.0% increase in period 3 (Fig. 1-2-24). In period 2, it dropped to a largely negative level due to impacts of the Lehman crisis, but showed a steady recovery in period 3, at a rate surpassing that before the Lehman crisis. In terms of the contribution of each effect in periods 1 and 3, the internal effect was the largest factor that boosted labor productivity, and the redistribution effect was the largest factor that drove down labor productivity. There were no changes in the positive/negative status of each effect through two periods, but the slight improvement in the redistribution effect and entry effect contributed to increasing the overall increase in labor productivity. At the same time, the internal effect decreased while remaining in positive territory, and labor productivity growth also decreased in continuing enterprises.

Next, let us look at TFP. TFP increased 0.5% in period 1, decreased 1.0% in period 2, and increased 0.2% in period 3 (Fig. 1-2-24). As with labor productivity, TFP growth rate dropped to a significant negative level in period 2 due to impacts of the Lehman crisis and recovered in period 3, but has yet to return to the level of period 1. In terms of the contribution of each effect in periods 1 and 3, the redistribution effect was the largest factor that boosted TFP, and the closure effect was the largest factor that drove it down. From period 1 to 3, the redistribution effect increased its positive margin, and the bankruptcy effect decreased its negative margin. This contributed to boosting TFP, but overall TFP growth rate declined as a result of the internal effect slipping into negative territory, and to entry effect decreasing its positive margin and the

11) Analysis conducted by Kenta Ikeuchi, Young Gak Kim, Hyeog Ug Kwon and Kyoji Fukao. See Appendix note 1-2-1 for details.

12) The definition of each type of enterprise in this section is as follows.

Continuing enterprise:

An enterprise for which data for both the reference year and comparison year exist, and that has not been verified as having fallen into business failure (neither de facto bankruptcy, bankruptcy, nor subrogation has occurred before the comparison year).

Entering enterprise:

Among enterprises for which data for the comparison year exists but data for the reference year does not, an enterprise that has been established within the three years preceding the reference year (e.g.: enterprises that newly entered the market during 2009-2013 are enterprises that have been established after 2006).

Exiting enterprise:

Among enterprises for which data for the reference year exists but data for the comparison year does not, an enterprise that does not fall under either enterprises that have shifted to a large enterprise or enterprises that have repaid their debts, as described below.

- Enterprises that have shifted to a large enterprise: Enterprises whose number of workers or amount of capital at the time of exit predicted using a regression model surpasses the requirements of SMEs (excluded from the analysis).
- Enterprises that have repaid their debts: Enterprises whose outstanding debt at the time of exit predicted using a regression model is below 0 (excluded from the analysis).

Bankrupt enterprise:

Among exiting enterprises, an enterprise that has fallen in de facto bankruptcy, bankruptcy or subrogation.

Closed enterprise:

Among exiting enterprises, an enterprise that does not fall under the conditions of a bankrupt enterprise (enterprise that has not fallen into de fact bankruptcy, bankruptcy or subrogation). Due to data constraints in this analysis, enterprises that relocate their head office, change their corporate name, achieve a growth surpassing that which is predicted by regression model, or become a subsidiary of another enterprise through M&A, are regarded as closed enterprises.

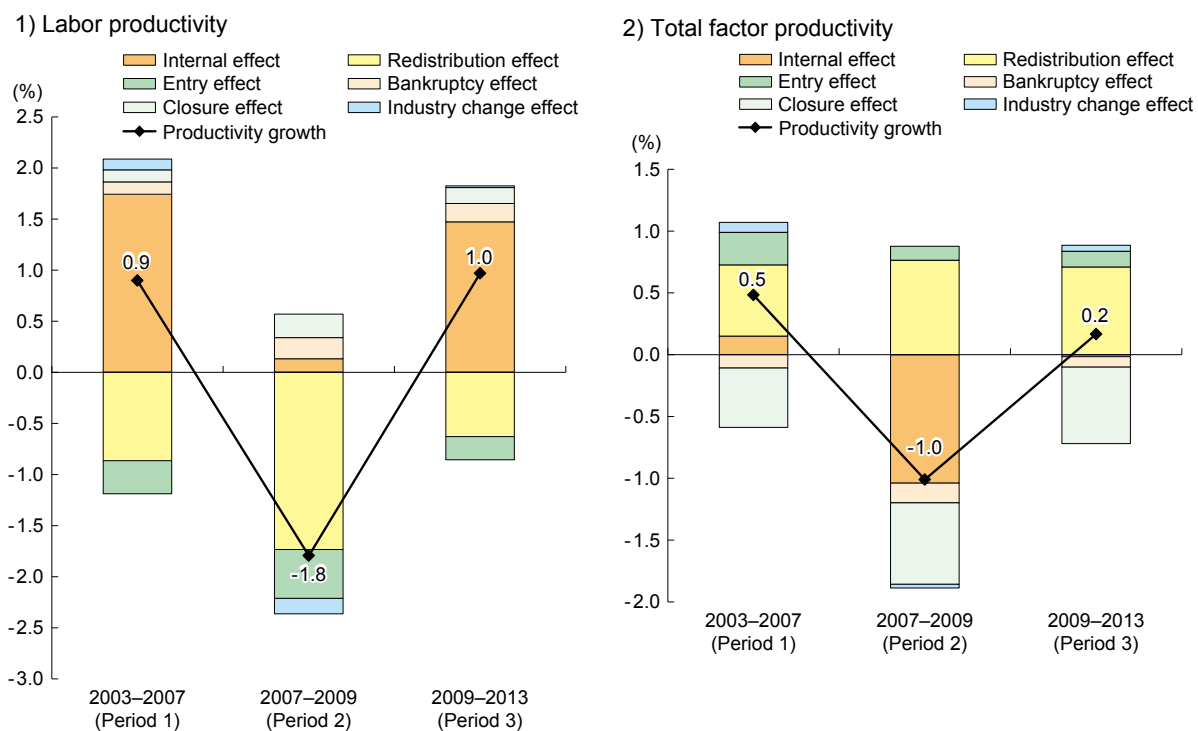
Industry changed enterprises:

Among continuing enterprises, an enterprise whose industry classification (JIP industrial classification) has changed from the reference year to the comparison year.

closure effect increasing its negative margin. The industry change effect maintained its slightly positive level through two periods, and enterprises that succeeded in changing

industries contributed to pushing up TFP growth rate in SMEs as a whole.

Fig. 1-2-24 Factors affecting the growth rate of labor productivity and total factor productivity (TFP)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: The growth rates of labor productivity and TFP are the growth in labor productivity and TFP from the reference year to the comparison year in each period converted to a yearly average growth rate for each period.

Thus far, we examined the growth rates of labor productivity and TFP in SMEs over three periods, and could say that fundamentally, “productivity growth = TFP growth + rate of capital redistribution × rate of increase in capital equipment ratio¹³⁾.” With respect to internal effect, TFP hovered at a negative level after period 2, but labor productivity gradually returned to the positive level of period 1. Behind this was the increase in capital equipment

ratio by continuing enterprises investing in machines and facilities, but from the perspective of increasing medium to long-term productivity, it is important to TFP to show a steady increase. Thus, we shall focus on TFP below, and compare and analyze the cause of change in TFP growth by enterprise size and industry, while also analyzing in detail the characteristics of SMEs that produce each effect.

3. Comparison of TFP change factors by enterprise size

First, we shall compare and analyze TFP change factors in large enterprises and SMEs through periods 1 to 3. TFP growth in large enterprises was measured using METI’s *Basic Survey of Japanese Business Structure and Activities*. For SMEs, it was measured using data provided by CRD Association as in the previous item, but only industries that correspond to the *Basic Survey of Japanese Business Structure and Activities* were analyzed, to allow comparisons with large enterprises. Additionally, the impact of both large enterprises and SMEs exiting the market was analyzed as an “exit effect” without distinguishing whether they exited due to bankruptcy or business closure¹⁴⁾.

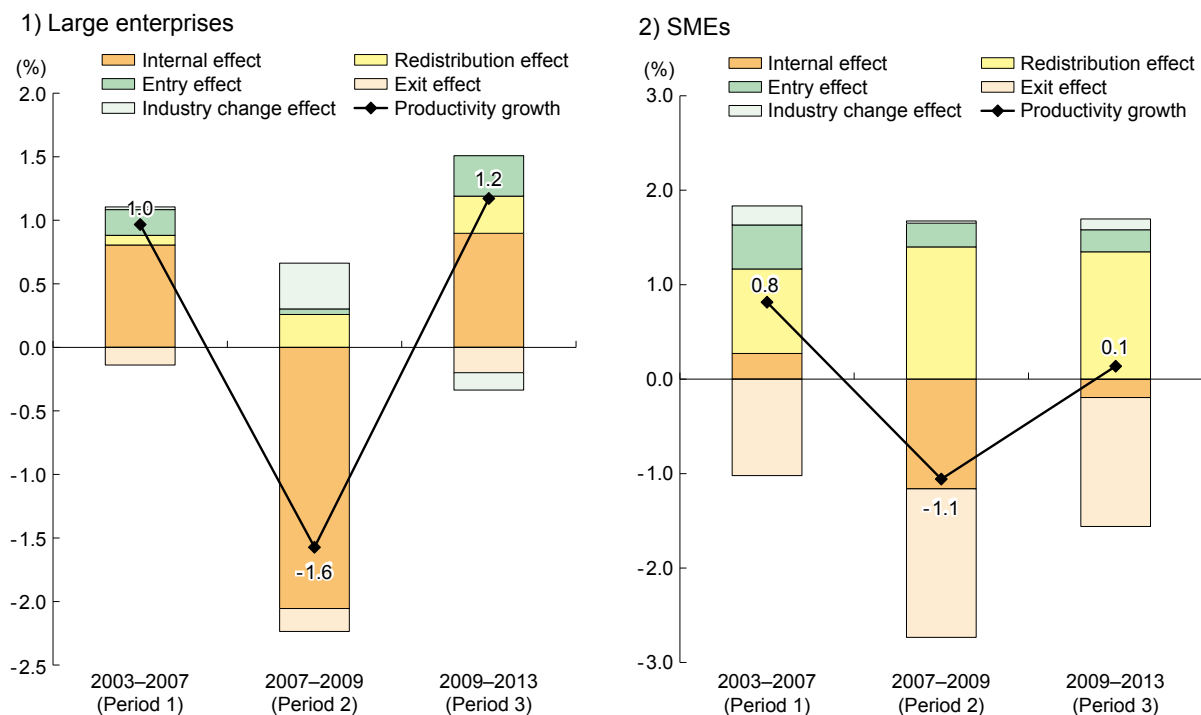
TFP growth was higher in large enterprises than SMEs in periods 1 and 3. In large enterprises, it dropped to a largely negative level in period 2 due to the impacts of the

Lehman crisis, but achieved a steady recovery in period 3 to a growth rate surpassing that before the Lehman crisis. In SMEs, however, TFP growth did not recover as well (Fig. 1-2-25). In terms of the contribution of each effect in periods 1 and 3, the internal effect in large enterprises and the redistribution effect in SMEs largely contributed to boosting TFP, while the exit effect largely contributed to pushing down TFP in both large enterprises and SMEs. The progress of recovery from period 1 to 3 differed between large enterprises and SMEs, such that in large enterprises, the internal effect, entry effect and redistribution effect showed an increase in positive margin, while in SMEs, the internal effect dipped to a negative level, the entry effect decreased its positive margin, and the exit effect increased its negative margin, with only the redistribution effect increasing its positive margin.

13) Capital equipment ratio refers to capital stock per working hour, and expresses the degree of investment in machines and facilities.

14) The analysis of large enterprises (using the *Basic Survey of Japanese Business Structure and Activities*) differs from the analysis of SMEs (using data provided by the CRD Association) in that it cannot distinguish between bankruptcy and closure among exiting enterprises. Therefore, for consistency between the two analyses, the distinction between bankrupt enterprises and closure enterprises was eliminated for both large enterprises and SMEs and treated as exiting enterprises. Additionally, among entering enterprises, the analysis of large enterprises was not restricted by year of establishment (the analysis of SMEs was restricted to enterprises that were established within three preceding years).

Fig. 1-2-25 Factors affecting TFP growth (large enterprises and SMEs)

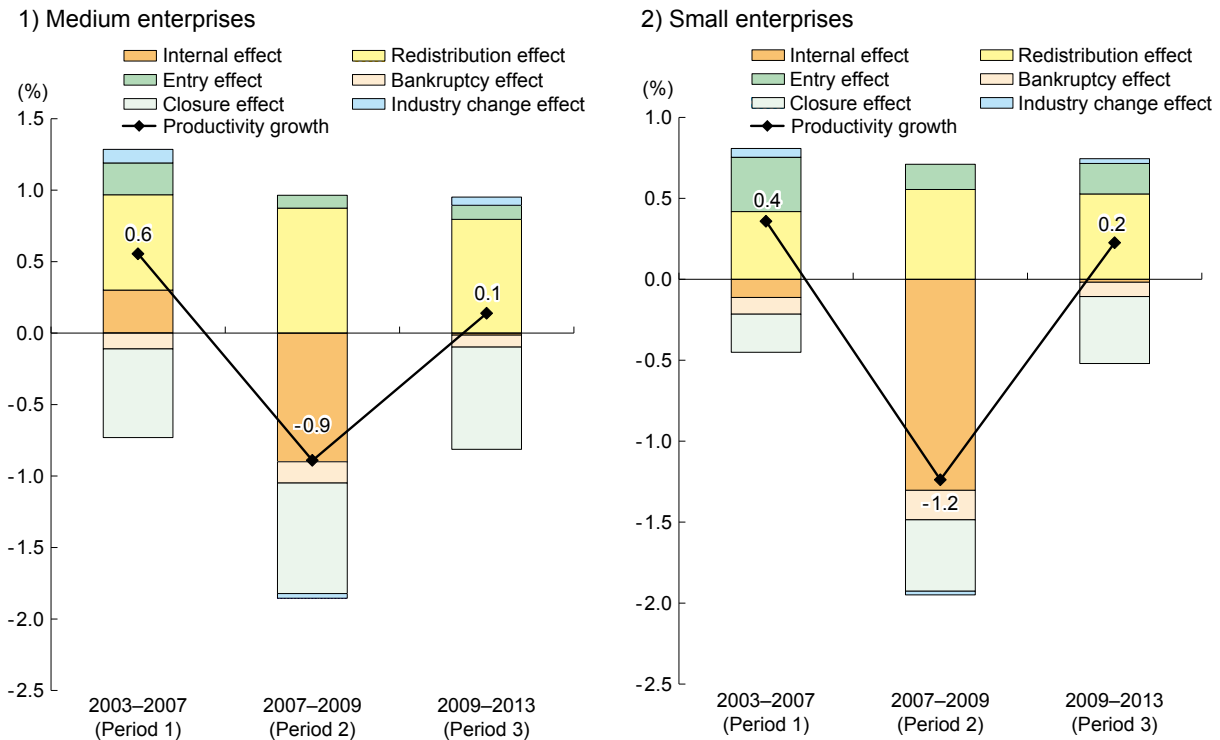


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.
 Notes: 1. TFP growth is the increase in TFP from the reference year to comparison year in each period converted to an annual average growth for each period.
 2. The TFP of large enterprises was measured using METI's *Survey of Japanese Business Structure and Activities*.
 3. The TFP of SMEs was measured using data provided by CRD Association, but only industries that correspond to the *Survey of Japanese Business Structure and Activities* were analyzed, to allow comparisons with large enterprises.

Next, changes in TFP growth from periods 1 to 3 will be compared and analyzed between medium and small enterprises. As with the previous item, the TFP of medium and small enterprises was measured using data provided by CRD Association, but bankruptcies and closures were distinguished from each other (Fig. 1-2-26).

TFP growth was higher in medium enterprises than small enterprises in period 1, but higher in small enterprises in period 3. Nevertheless, in both groups of enterprises, TFP dropped to a low negative level in period 2 due to the impacts of the Lehman crisis, recovered in period 3, but has yet to reach the growth rate of period 1. In terms of the contribution of each effect in periods 1 and 3, the redistribution effect contributed the most to pushing up TFP, and the closure effect contributed the

most to pushing it down in both periods in both medium and small enterprises. Additionally, from periods 1 to 3, the redistribution effect expanded its positive margin, the entry effect decreased its positive margin, and the closure effect expanded its negative margin in both medium and small enterprises, but a difference was seen regarding the internal effect. In small enterprises, the internal effect decreased its negative margin from period 1 to 3, but in medium enterprises, it dropped from a relatively high positive level to the negative. It could be said that the stagnation of productivity in continuing medium enterprises from periods 1 to 3 caused internal effect to drop to the negative for SMEs as a whole and prevented TFP from increasing.

Fig. 1-2-26 Factors affecting changes in TFP growth (medium and small enterprises)

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: TFP growth is the increase in TFP from the reference year to comparison year in each period converted to an annual average growth for each period.

4. Comparison of TFP change factors by industry

Here, we shall compare and analyze TFP change factors from periods 1 to 3 by industry.

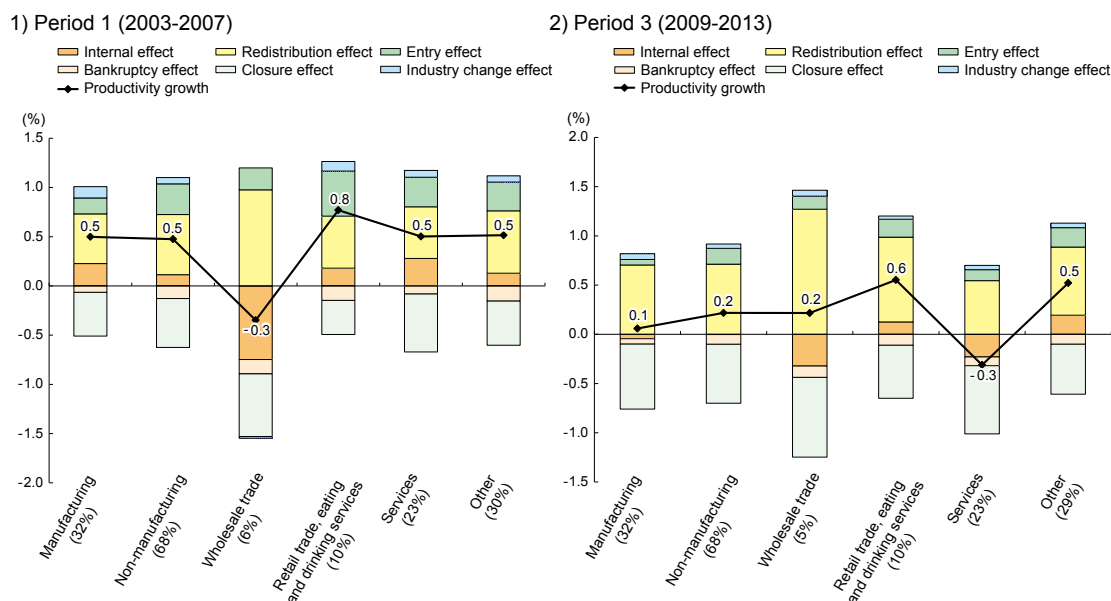
First, when TFP change factors are analyzed using the industrial classification based on the Small and Medium-sized Enterprise Basic Act, we see that TFP growth was about the same in both the manufacturing and non-manufacturing industries in period 1, but higher in the non-manufacturing industries in period 3 (Fig. 1-2-27). TFP growth slowed down from period 1 to 3 in both the manufacturing and non-manufacturing industries, but the drop seen in period 3 was larger in the manufacturing industries. This is attributed to the relatively large shift of the internal effect from positive to negative

in the manufacturing industries and the large increase in the negative margin of the closure effect also in the manufacturing industries. Ikeuchi, Kim, Kwon and Fukao (2013) point out that after the 1990s, the decline in the spillover effect¹⁵⁾ of the R&D efforts of large enterprises onto SME manufacturing industries may have caused the drop in the internal effect in SME manufacturing enterprises¹⁶⁾. Since investment in R&D by large enterprises lagged after 2009, the same phenomenon may have caused the internal effect in SME manufacturing industries to decline also after the Lehman crisis (Fig. 1-2-28).

15) Spillover effect is the sharing of the technologies and knowledge cultivated through research and development by large enterprises with SMEs through business transactions.

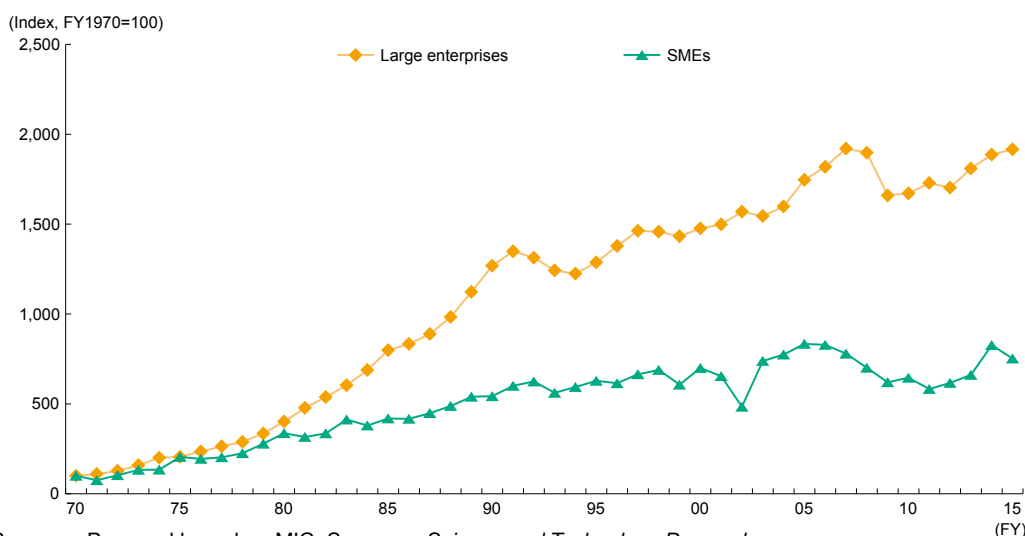
16) "Productivity dynamics and R&D spillovers in the Japanese manufacturing industry: An empirical analysis based on micro-level data" (Kenta Ikeuchi, Young Gak Kim, Hyeog Ug Kwon and Kyoji Fukao, RIETI Discussion Paper Series 13-J-036, 2013).

Fig. 1-2-27 Factors affecting changes in TFP growth (industrial classification based on the Small and Medium-sized Enterprise Basic Act)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.
 Notes: 1. TFP growth is the increase in TFP from the reference year to comparison year in each period converted to an annual average growth for each period.
 2. The parentheses () under the names of each industry show the average ratio of the gross output of each industry to the total of all industries. The figures are rounded off to the nearest whole number. For more information on gross output, see Appended note 1-2-1.

Fig. 1-2-28 R&D expenses in manufacturing enterprises (large enterprises and SMEs)



Source: Prepared based on MIC, *Survey on Science and Technology Research*.
 Notes: 1. Enterprises with 1 to 299 employees are classified as SMEs, and enterprises with 300 or more employees are classified as large enterprises.
 2. R&D expenses are the sum of R&D expenses for internal use and R&D expenses for external use.
 3. The figures are index values when FY1970 is given a value of 100.

The reason why TFP growth in the non-manufacturing industries dropped from period 1 to 3 is mainly because TFP growth in the services industry, which accounts for a large share, dropped to a negative over these periods. Let us analyze this fall in the services industry using the large industrial classification based on the Japan Standard

Industrial Classification¹⁷⁾ (Fig. 1-2-29). As major causes, TFP growth in the living-related and personal services industry, which accounts for a large share, marked a large drop into negative territory in period 3 and fell to the lowest level among all industries, and also dropped into negative territory in the other services industry, which

17) The system of industrial classification differs between the Small and Medium-sized Enterprise Basic Act and the Japan Standard Industrial Classification, so the analysis result does not necessarily correspond on a one-to-one basis.

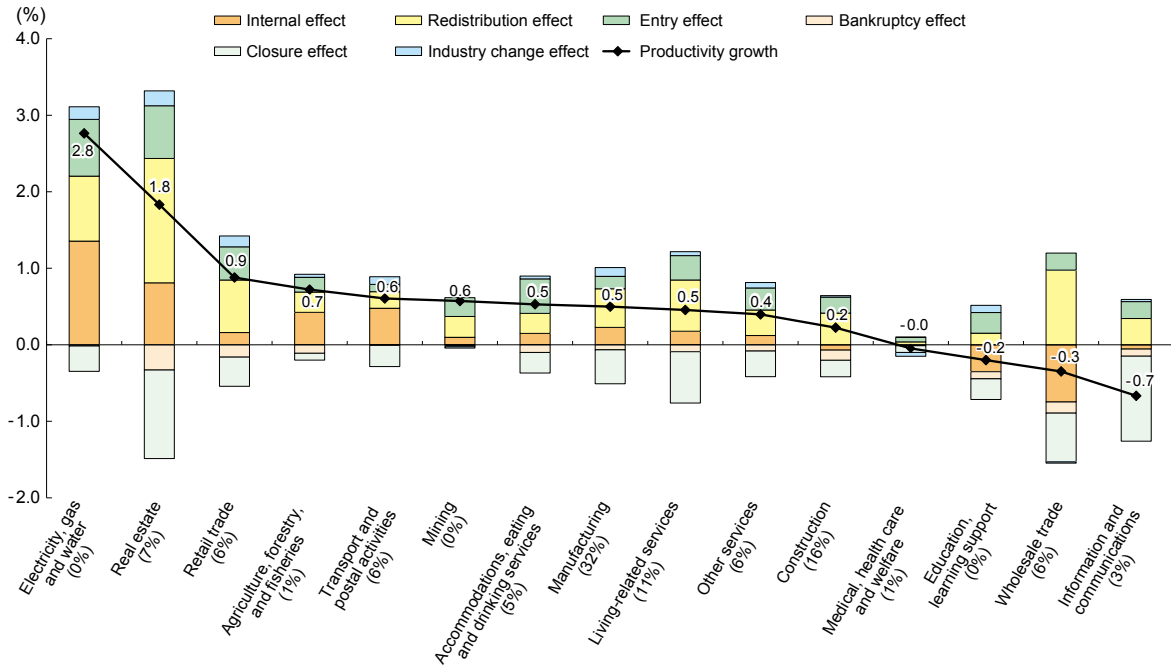
also accounts for relatively large share. Furthermore, in both industries, the entry effect declined significantly, and in the living-related and personal services industry, the internal effect fell significantly from positive to negative territory, as major factors.

While TFP growth dropped significantly in the

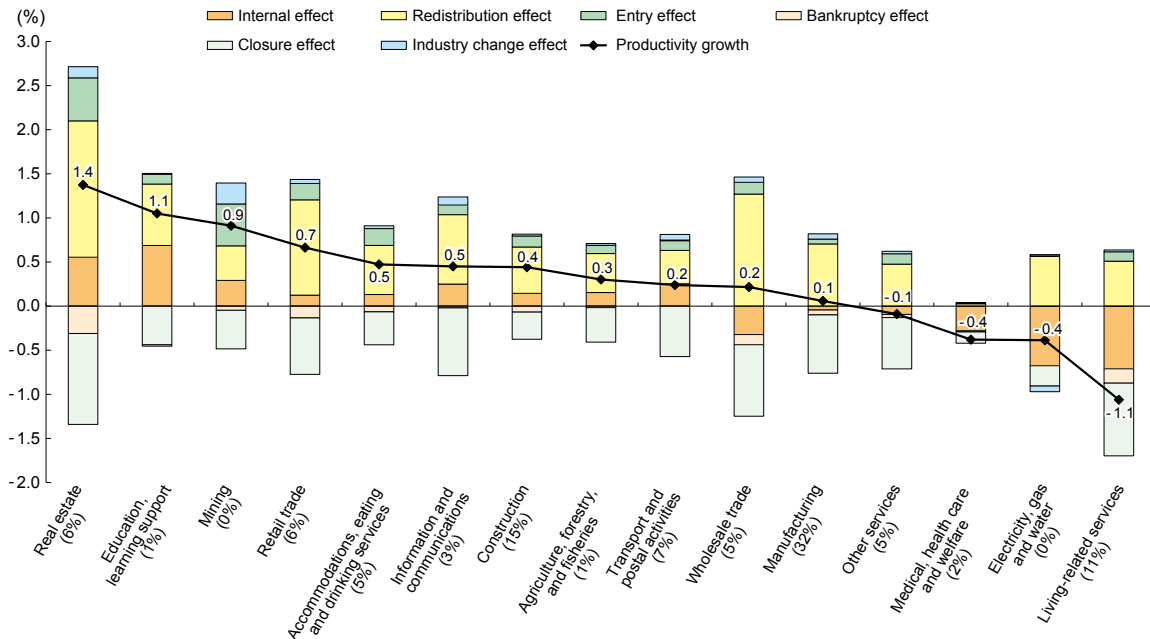
manufacturing and services industries after the Lehman crisis, it showed a relatively firm recovery in other industries. When analyzed using the large industrial classification based on the Japan Standard Industrial Classification, we see that TFP grew steadily in the construction and real estate industries from period 1 to 3.

Fig. 1-2-29 Factors affecting changes in TFP growth (large industrial classification based on the Japan Standard Industrial Classification)

1) Period 1 (2003-2007)



2) Period 3 (2009-2013)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

- Notes:
1. TFP growth is the increase in TFP from the reference year to comparison year in each period converted to an annual average growth for each period.
 2. The parentheses () under the names of each industry show the average ratio of the gross output of each industry to the total of all industries. The figures are rounded off to the nearest whole number. For more information on gross output, see Appended note 1-2-1.

5. SME characteristics that have a large influence on each effect

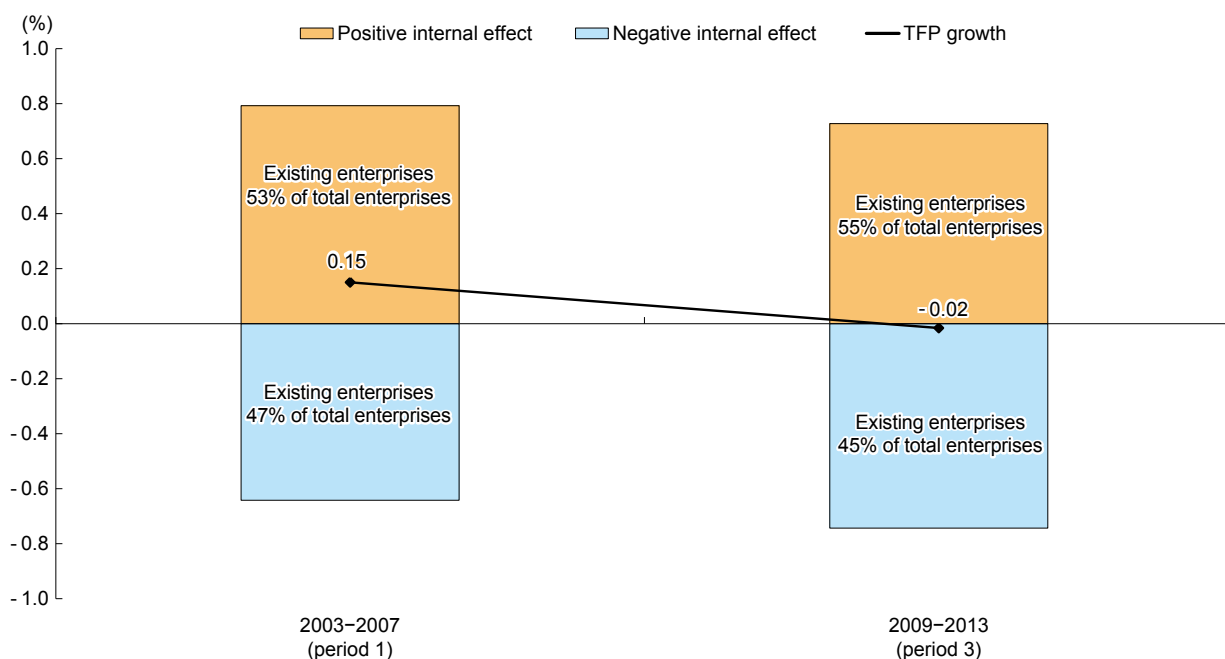
Thus far, we have analyzed changes in TFP growth in SMEs and the effects that affected the changes, by enterprise size and industry. Below, we shall analyze the specific characteristics of SMEs that contributed to bringing about these effects, in order of internal effect, redistribution effect, entry effect, bankruptcy effect and closure effect, divided into positive and negative effects.

(1) Internal effect

When the TFP of a continuing enterprise increases, its internal effect becomes positive, but when it decreases, internal effect becomes negative. The ratio of enterprises that brought about either a positive or negative internal

effect from period 1 to 3 did not change much. Roughly 50% of continuing enterprises pushed up overall TFP, and the remaining 50% pushed it down (Fig. 1-2-30). In period 1, the upward effect slightly surpassed the downward effect, so internal effect as a whole was positive, but in period 3, the positive effect declined somewhat and the negative effect increased, so the downward effect took over the upward effect by a slight amount and brought the overall effect into negative territory. From here, we shall analyze the internal effect with a focus on the characteristics of enterprises that bring about a positive or negative internal effect.

Fig. 1-2-30 Breakdown of the internal effect



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

A comparison of the industrial composition of continuing enterprises that have a positive internal effect with continuing enterprises that have a negative internal effect shows that in both periods 1 and 3, continuing enterprises that brought a negative internal effect had a

larger ratio of wholesale trade industries, but there was no major difference as a whole (Fig. 1-2-31 (1)). Additionally, a comparison of management indicators shows that in periods 1 and 3, continuing enterprises having a positive effect had a larger sales growth rate, and continuing

enterprises having a negative effect had a largely negative sales growth rate (Fig. 1-2-31 (2)). Meanwhile, fixed asset growth rate was stably positive in continuing enterprises having a negative effect, while dropping significantly in period 3 in continuing enterprises having a positive effect. It is thought that continuing enterprises having a negative effect make active capital investments, but these investments do not lead to an increase in sales,

so a slowdown in TFP occurs as a result. Furthermore, when considering the possible decline in the spillover effect of the R&D efforts of large enterprises onto SME manufacturing industries, as mentioned in “4. Comparison of TFP change factors by industry,” it is necessary for SMEs to engage in research and development themselves, in order to stably increase TFP in continuing enterprises.

Fig. 1-2-31 (1) Characteristics of existing enterprises (industrial composition)



Source: RIETI, Commissioned project concerning the analysis of SME revitalization.

Fig. 1-2-31 (2) Characteristics of existing enterprises (management indicators)

	2003-2007 (period 1)		2009-2013 (period 3)	
	Positive internal effect	Negative internal effect	Positive internal effect	Negative internal effect
No. of employees	13.6	10.5	15.5	12.8
Sales	290 million yen	320 million yen	300 million yen	370 million yen
Sales growth rate	9.8%	-14.2%	19.1%	-8.3%
Fixed asset growth rate	3.3%	4.6%	0.1%	4.4%

Source: RIETI, Commissioned project concerning the analysis of SME revitalization.

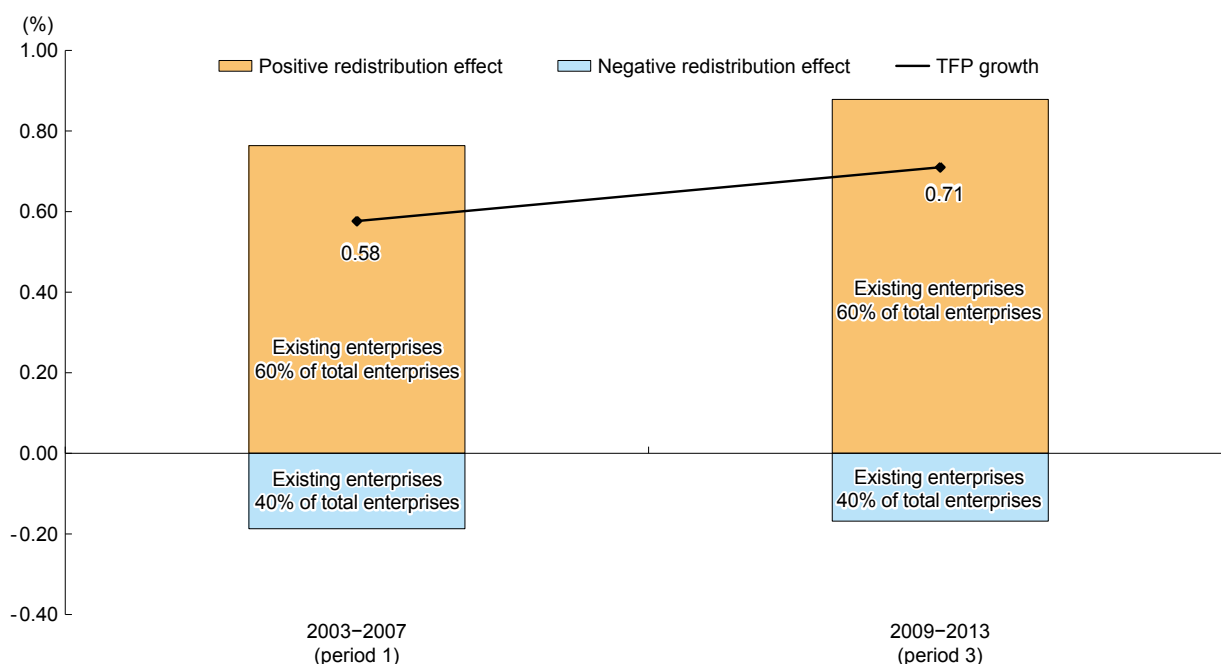
Note: The figures are the averages of enterprise that brought a positive and negative internal effect in periods 1 and 3. The numbers of employees are figures as of 2003 and 2009, respectively. Sales growth rate and fixed asset growth rate are rates of increase from 2003 to 2007 for the first period, and from 2009 to 2013 for the third period.

(2) Redistribution effect

When the share of continuing enterprises with a higher TFP than the industrial average increases, or when the share of continuing enterprises with a lower TFP than the industrial average decreases, redistribution effect becomes positive. Contrarily, when the share of continuing enterprises with a higher TFP than the industrial average decreases, or when the share of continuing enterprises with a lower TFP than the industrial average increases, redistribution effect becomes negative. The ratio of enterprises that brought about a positive or negative redistribution effect from period 1 to 3 did not

change much. Roughly 60% of continuing enterprises pushed up overall TFP, and the remaining 40% pushed it down, with the upward factor largely exceeding the downward factor (Fig. 1-2-32). As we have seen thus far, the redistribution effect contributed the most to increasing TFP in SMEs through the three periods, and its positive margin increased from period 1 to 3. This is attributed to the negative redistribution effect practically unchanging from periods 1 to 3, and an increase in the positive effect. Below we shall analyze the redistribution effect with a focus on the increase in the positive redistribution effect.

Fig. 1-2-32 Breakdown of the redistribution effect

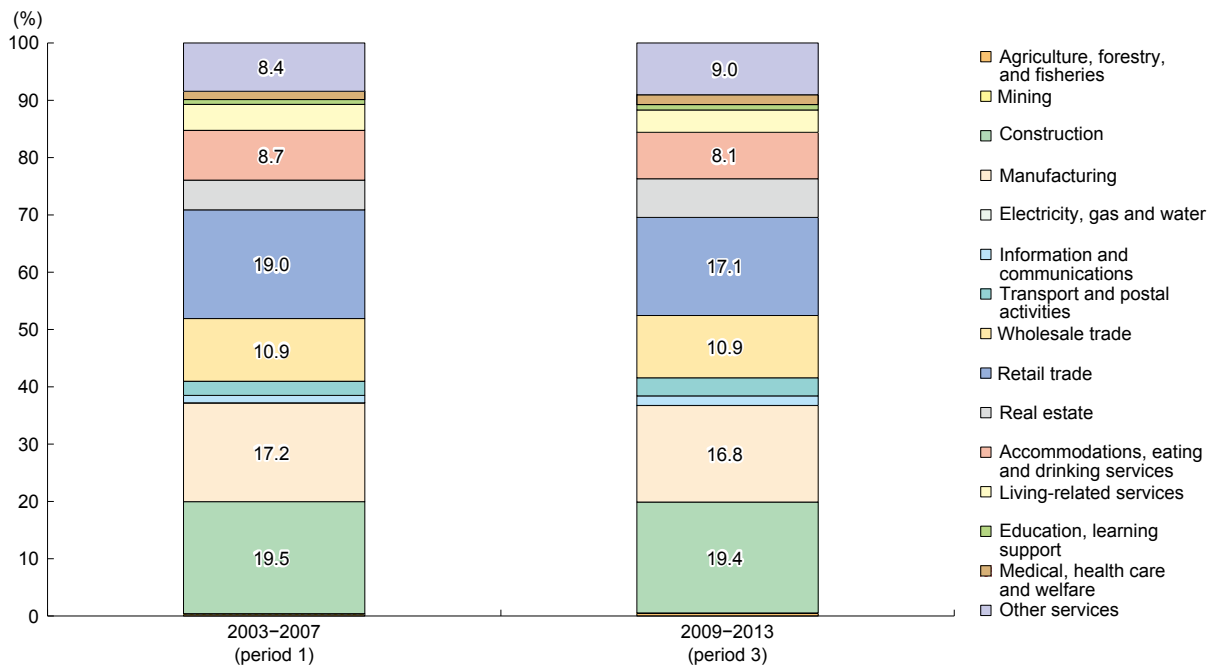


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization.*

The industrial composition of continuing enterprises having a positive redistribution effect generally remained unchanged between periods 1 and 3 (Fig. 1-2-33 (1)). A comparison of management indicators also show that sales growth ratio was practically zero in period 1 but marked a growth of almost 10% in period 3 (Fig. 1-2-33 (2)). From this, it is thought that in period 1, the redistribution effect was positive largely owing to a decline in the share of enterprises with a low TFP, but in period 3, the positive margin of the redistribution effect expanded owing to an increase in the share of enterprises with a high TFP.

In fact, from period 1 to 3, the ratio of enterprises that contributed to increasing TFP by reducing their share (enterprises with a low TFP) dropped from 26% to 16%, while the ratio of enterprises that contributed to increasing TFP by expanding their share (enterprises with a high TFP) increased from 34% to 44% (Fig. 1-2-34). It could be said that in periods 1 and 3, a sound competitive environment was secured among SMEs, but in period 3, a more preferable situation emerged in which enterprises with a high TFP actively increased their sales.

Fig. 1-2-33 (1) Characteristics of enterprises having a positive redistribution effect (industrial composition)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

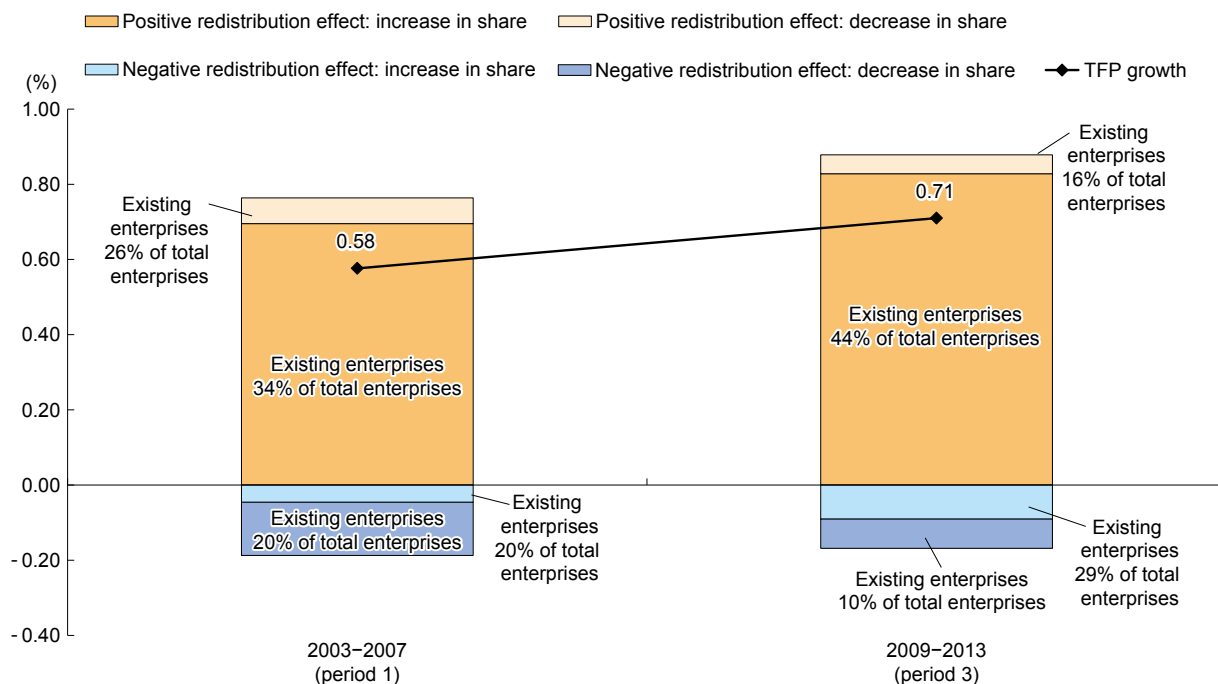
Fig. 1-2-33 (2) Characteristics of enterprises having a positive redistribution effect (management indicators)

	2003-2007 (period 1)	2009-2013 (period 3)
No. of employees	12.5	14.2
Sales	330 million yen	380 million yen
Sales growth rate	0.4%	9.5%
Fixed asset growth rate	5.3%	3.2%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: The figures are the averages of enterprise that brought a positive redistribution effect in periods 1 and 3. The numbers of employees are figures as of 2003 and 2009, respectively. Sales growth rate and fixed asset growth rate are rates of increase from 2003 to 2007 for the first period, and from 2009 to 2013 for the third period.

Fig. 1-2-34 Breakdown of the redistribution effect (details)



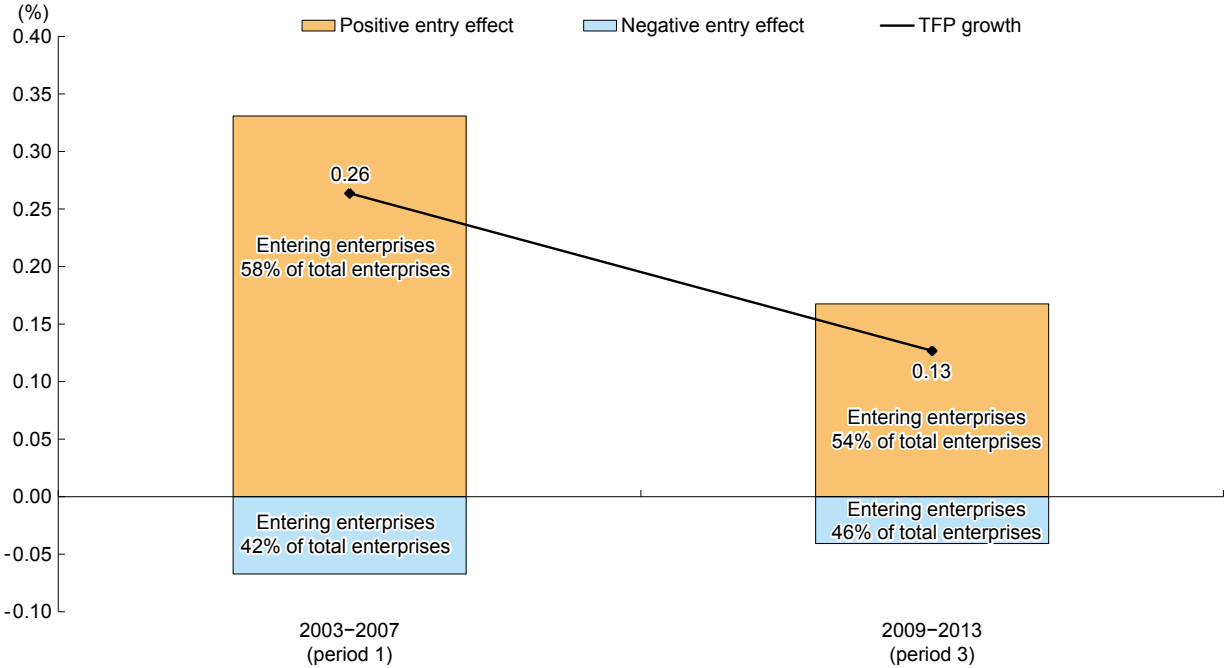
Source: RIETI, Commissioned project concerning the analysis of SME revitalization.

(3) Entry effect

When the TFP of an entering enterprise is higher than the industrial average, entry effect becomes positive, but when TFP is lower than the industrial average, entry effect becomes negative. The ratio of enterprises that brought about a positive or negative entry effect from period 1 to 3 did not change much. Roughly 50% of entering enterprises

pushed up overall TFP, and the remaining 50% pushed it down. Because the upward effect exceeded the downward effect, the overall entry effect became positive (Fig. 1-2-35). Furthermore, from period 1 to 3, the negative entry effect decreased, but the positive entry effect decreased even more, and led to a decrease in the overall entry effect.

Fig. 1-2-35 Breakdown of the entry effect (periods 1 and 3)

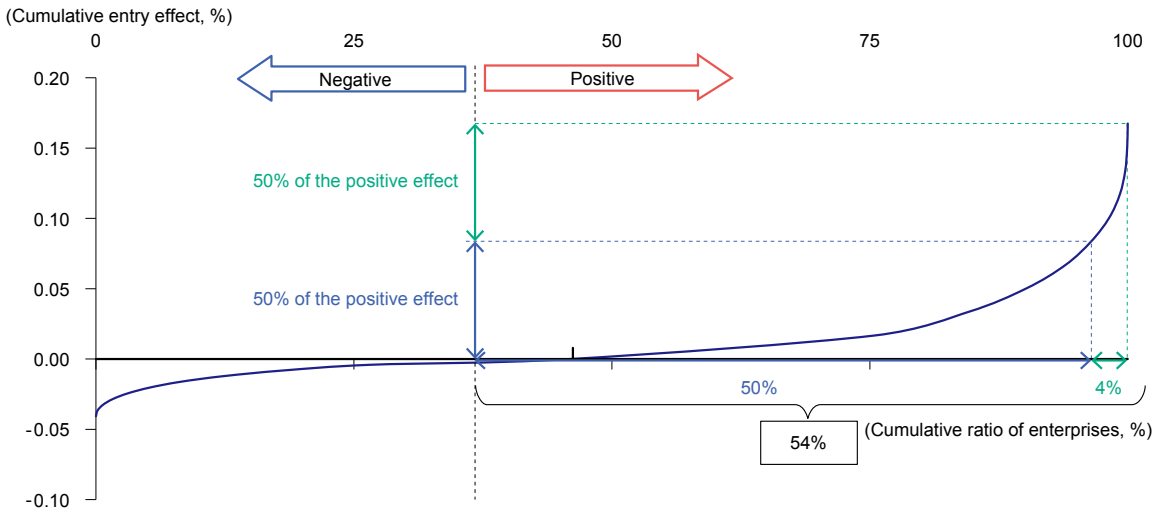


Source: RIETI, Commissioned project concerning the analysis of SME revitalization.

A distribution of entering enterprises in period 3 shows that roughly 4% of enterprises contributed to 50% of the positive effect, and 50% of enterprises contributed to the remaining 50% of the positive effect (Fig. 1-2-36). Therefore, below, we shall analyze the characteristics of enterprises according to three groups: approx. 4% of enterprises that contribute to 50% of the positive entry

effect (hereinafter, positive entering enterprises-1), approx. 50% of enterprises that contribute to the remaining 50% of the positive entry effect (hereinafter, positive entering enterprises-2), and entering enterprises that contribute to the negative entry effect (hereinafter, negative entering enterprises).

Fig. 1-2-36 Distribution of entering enterprises in period 3

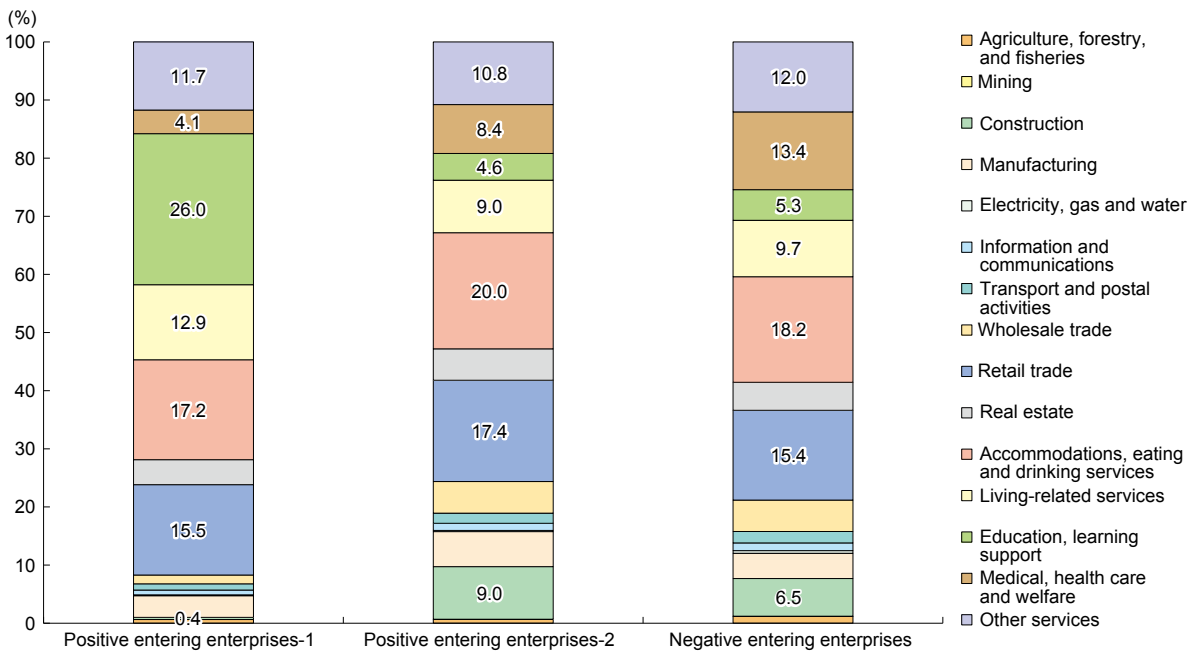


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization.*

First, a comparison of the industrial composition of the three groups of enterprises in period 3 shows that while positive entering enterprises-2 and negative entering enterprises had practically the same composition, positive

entering enterprises-1 had a higher ratio of enterprises in the education, learning support and a lower ratio of enterprises in medical, health care and welfare and construction (Fig. 1-2-37 (1)).

Fig. 1-2-37 (1) Characteristics of enterprises having a positive entry effect (industrial composition)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization.*

Next, let us compare the management indicators of the three groups of enterprises (Fig. 1-2-37 (2)). Positive entering enterprises-1 have an extremely large number of employees and sales compared to the other two groups. Positive entering enterprises-2 are smaller in size

compared to positive entering enterprises-1, but have larger sales per employees compared to negative entering enterprises, and the highest ordinary profit to sales ratio of the three groups. It could be said that positive entering enterprises-2 are small, but have strong earning power.

Fig. 1-2-37 (2) Characteristics of entering enterprises in period 3 (management indicators)

	Positive entering enterprises-1 (4%)	Positive entering enterprises-2 (50%)	Negative entering enterprises (46%)
No. of employees	26.5	4.9	9.6
Sales	1,540 million yen	130 million yen	80 million yen
Ordinary profit to sales ratio	3.6%	4.1%	-2.1%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: All figures are the averages of period 3. The numbers of employees, sales amounts and ordinary profit to sales ratio are figures as of 2013.

As discussed in “2. Change factors of labor productivity and total factor productivity (TFP),” entry effect dropped from period 1 to 3, due to the decrease in the positive entry effect during that period. To what degree entering enterprises have an impact on overall TFP growth is determined by three factors: the degree to which the TFP level of each entering enterprise deviates from the average level of TFP in their industry; the market share of each entering enterprise; and the ratio (entry rate) of entering enterprises to enterprises as a whole.

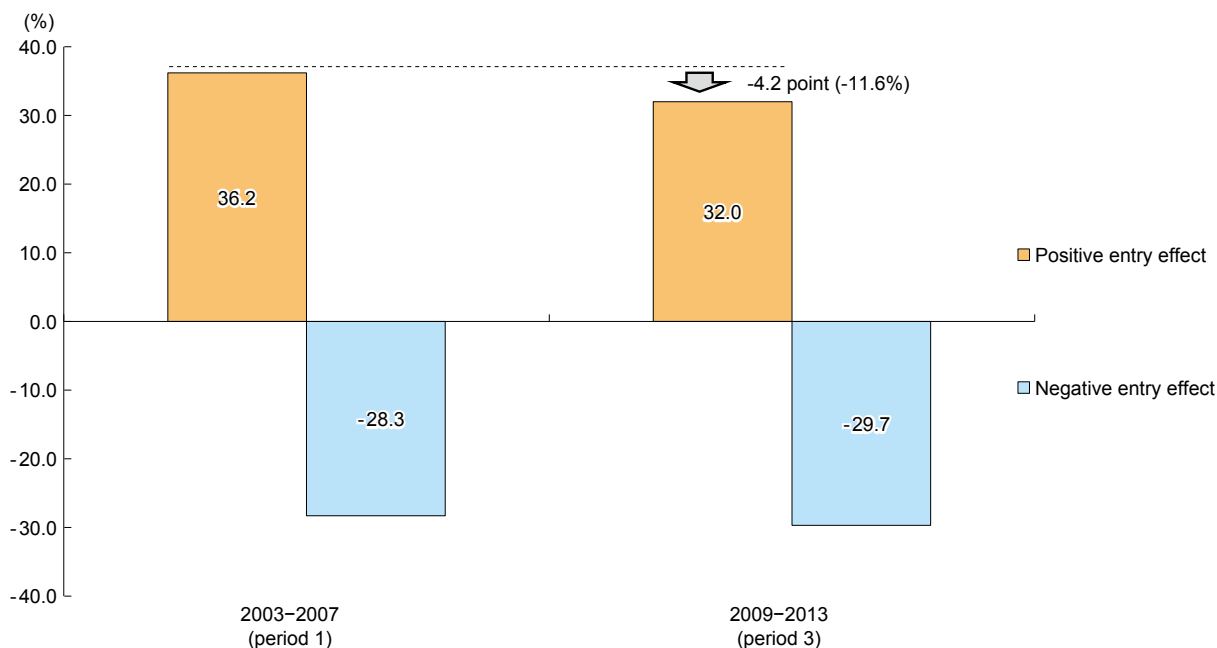
Therefore, by comparing the above three factors related to positive enterprises in periods 1 and 3, we shall estimate the reason why the positive entry effect decreased. First, the TFP level of positive entering enterprises surpassed the industrial average by 36.2% in period 1 and by 32.0% in period 3, such that the excess rate dropped by 4.2 point (11.6%) (Fig. 1-2-38). Second, the market share of

positive entering enterprises was 0.0036% in period 1 and 0.0029% in period 3, marking a decrease of 0.0007 point (19.4%) (Fig. 1-2-39). Lastly, the entry rate¹⁸⁾ of positive entering enterprises was 10.3% in period 1 and 6.3% in period 3, marking a drop of 4.0 point (38.8%) (Fig. 1-2-40).

From the above, it could be said that the decrease in positive entry effect was foremost influenced by the decline in the number of positive entering enterprises entering the market, followed by the decline in the market share of positive entering enterprises. Since it is not easy to increase the number of market entries by particularly large enterprises such as positive entering enterprises-1, as analyzed earlier, it is important to promote the entry of enterprises that are small but innovative, and account for the majority of positive entering enterprises.

18) Entry rate refers to the ratio of entering enterprises to total enterprises.

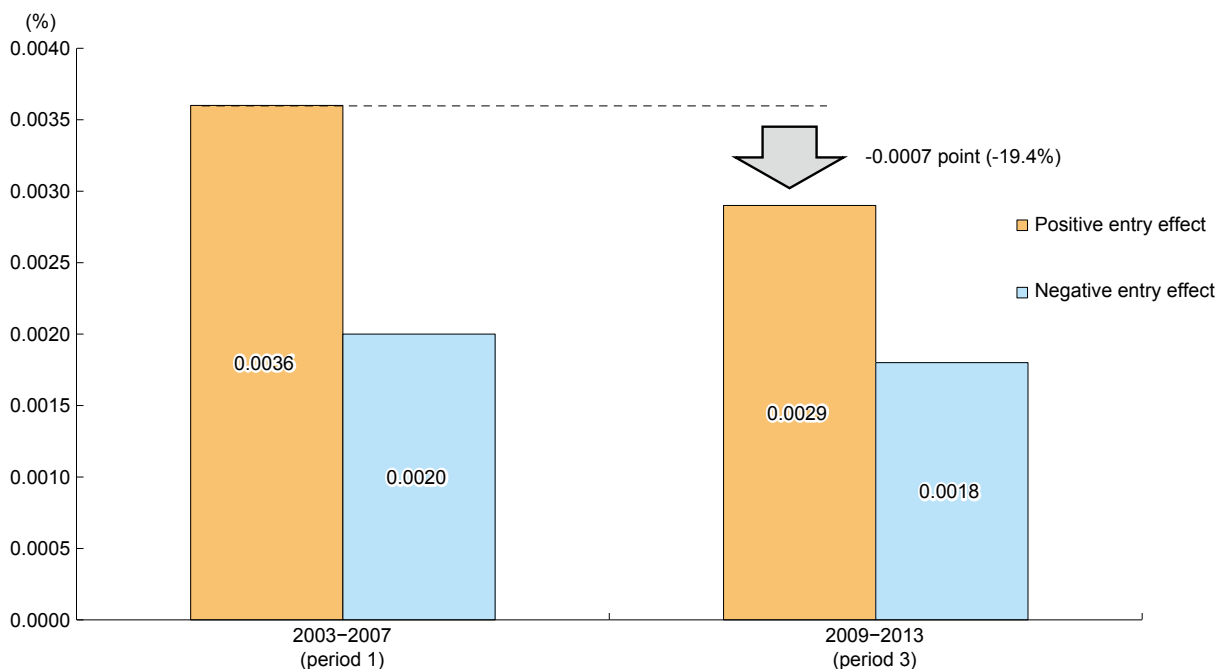
Fig. 1-2-38 TFP level of entering enterprises



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: The figures are average rates of deviation between the TFP of entering enterprises and the TFP level of their industries, as of 2013.

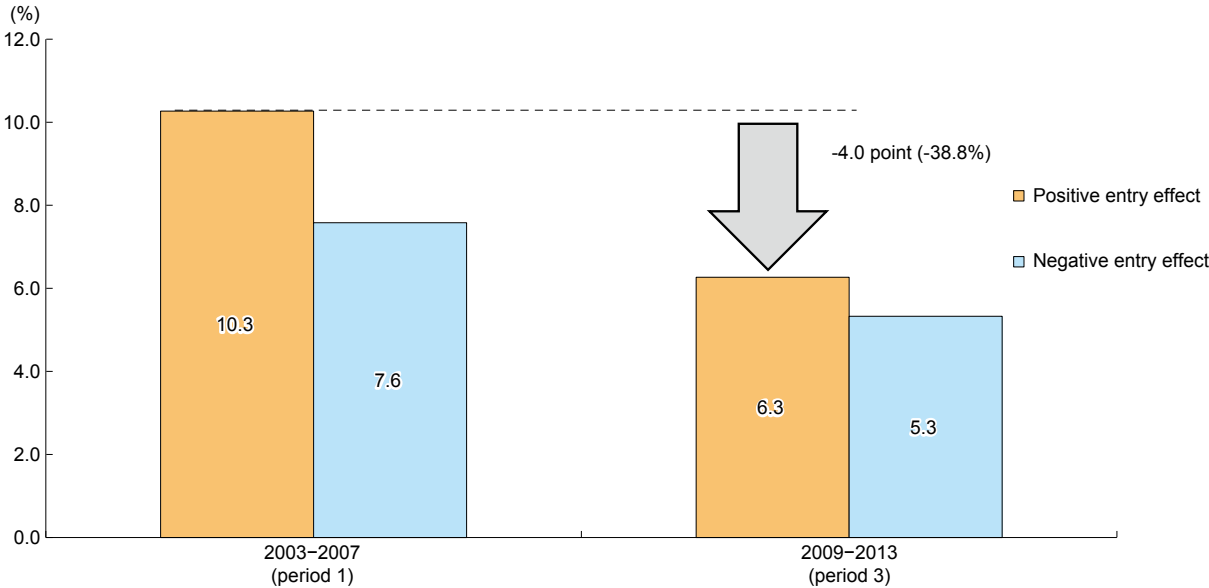
Fig. 1-2-39 Market share of entering enterprises



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Note: The figures are averages of the ratio of sales in each entering enterprises to sales in their industries, as of 2013.

Fig. 1-2-40 Entry rates



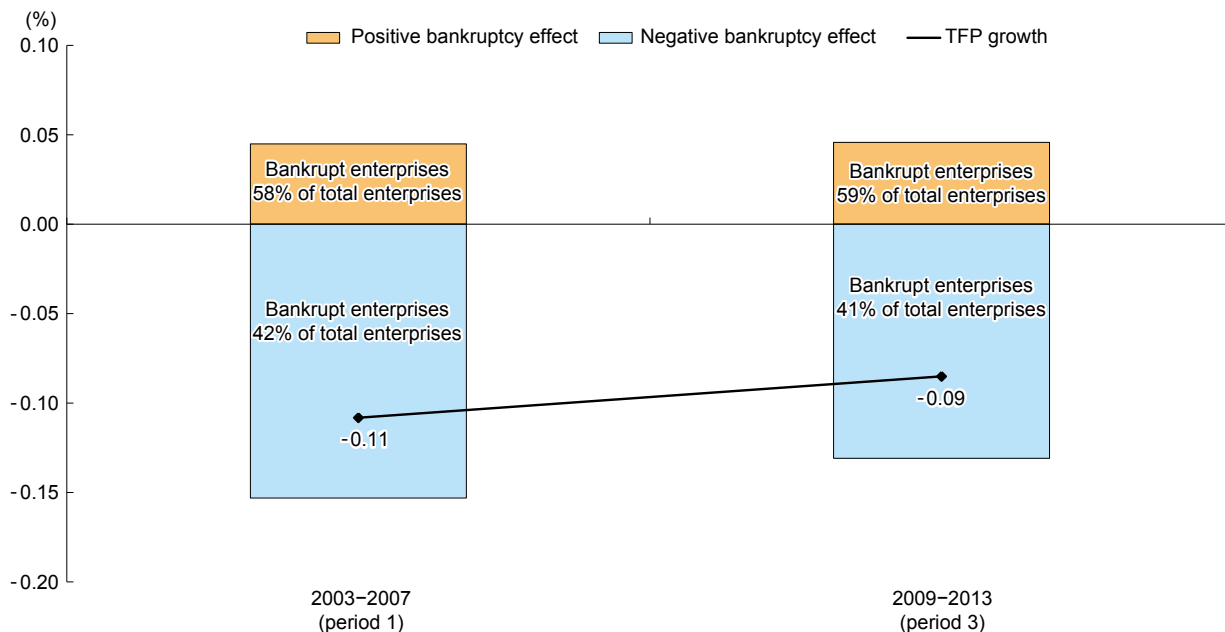
Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.
 Note: The figures are ratios of market entries to total enterprises, as of 2013.

(4) Bankruptcy effect

When the TFP of bankrupt enterprises is lower than the industrial average, bankruptcy effect becomes positive, but when it is higher than the industrial average, bankruptcy effect becomes negative. From period 1 to 3, the ratio of enterprises that contributed to either the positive or negative bankruptcy rate remained generally unchanged, with 60% of bankrupt enterprises pushing up

overall TFP, and the remaining 40% pushing it down (Fig. 1-2-41). Although the ratio of bankrupt enterprises that contributed to pushing up TFP is high, the bankruptcy of a few large enterprises caused the overall bankrupt effect to become negative. Below, let us examine the characteristics of the bankruptcy effect with a focus on large enterprises having a negative bankruptcy effect.

Fig. 1-2-41 Breakdown of the bankruptcy effect (periods 1 and 3)

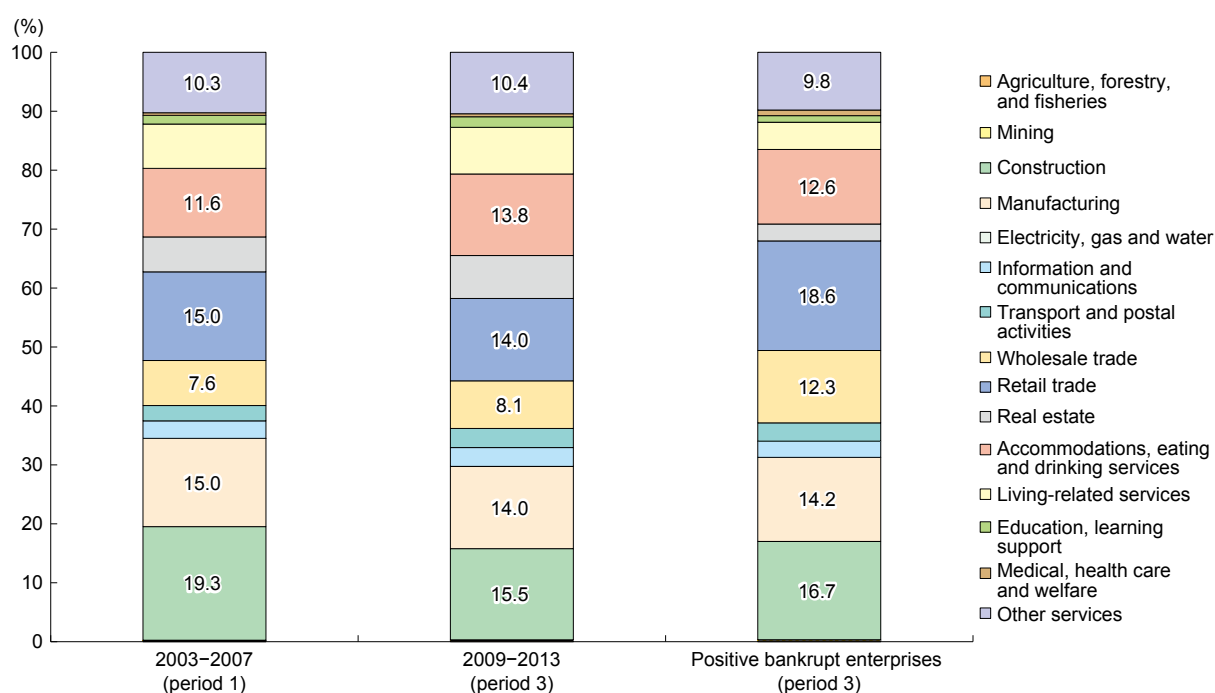


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

First, in periods 1 and 3, 10% of bankrupt enterprises accounted for more than 80% of the negative effect, and the bankruptcy of a few enterprises drove TFP down into negative territory. With respect to the industrial composition of these enterprises, no significant changes were seen from period 1 to 3, beside the slight increase in the ratio of enterprises in the accommodations, eating and drinking services industry and the real estate industry (Fig. 1-2-42 (1)). Meanwhile, enterprises having a large negative bankruptcy effect had a larger ratio of enterprises in the living-related and personal services industry and real estate industry, and a smaller ratio of enterprises in the wholesale trade industry compared to enterprises having a positive bankruptcy effect.

Next, a look at the management indicators of enterprises having a large negative bankruptcy effect shows that many of these enterprises have large sales

in proportion to their number of employees, as well as a steady growth in sales (Fig. 1-2-42 (2)). Additionally, among enterprises having a large negative bankruptcy effect, the ratio of enterprises that have fallen into a state of excess debts at the beginning of the period is small compared to enterprises having a positive bankruptcy effect, but enterprises that have not fallen into a state of excess debts at the beginning of the period have a larger ratio of total debt to total assets than positive bankrupt enterprises. Furthermore, enterprises with a large negative bankruptcy effect have a high fixed asset growth rate, so they actively borrow money and make investments, and in some cases go bankrupt as a result of taking too many risks. Such enterprises would push up the TFP of SMEs overall if they do not go bankrupt, so it is important to provide support and prevent them from inadvertently going bankrupt.

Fig. 1-2-42 (1) Characteristics of enterprises having a large negative bankruptcy effect (industrial composition)

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Fig. 1-2-42 (2) Characteristics of enterprises having a large negative bankruptcy effect (management indicators, etc.)

	2003-2007 (period 1)	2009-2013 (period 3)	Positive bankrupt enterprises (period 3)
Ratio to bankrupt enterprises	10%	10%	59%
Ratio to total negative bankruptcy effect	84%	86%	-
No. of employees	18.7	17.1	10.0
Sales	1.22 billion yen	0.98 billion yen	0.12 billion yen
Sales growth rate	8.3%	4.7%	-5.7%
Ordinary profit to sales ratio	1.2%	-1.2%	-9.7%
Fixed asset growth rate	8.8%	7.6%	1.2%
Excess debt ratio	24.1%	38.6%	70.1%
Ratio of debts to total assets *Non excess debt enterprises	84.0%	83.3%	80.0%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

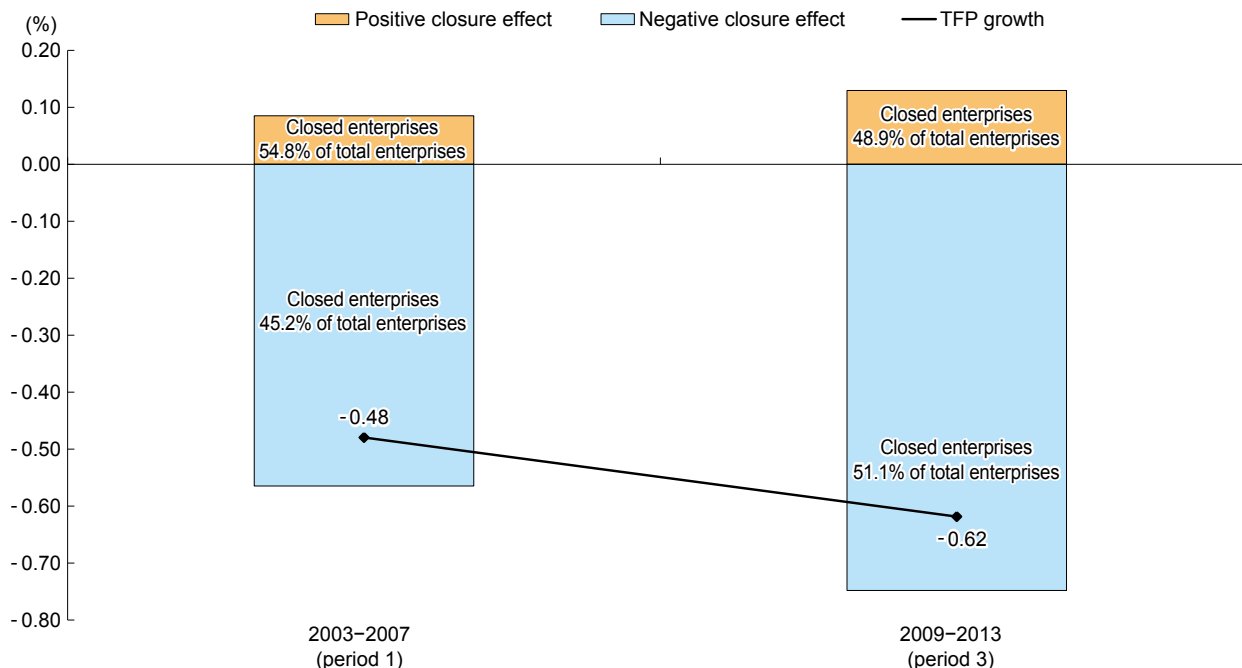
Note: The above figures are the averages of bankrupt enterprises. The number of employees, sales and ordinary profit to sales ratio are figures as of 2003 and 2009. Sales growth rate and fixed asset growth rate in period 1 are the average of the five years up to 2003, and the average of the five years up to 2009 in period 3.

(5) Closure effect

When the TFP of closed enterprises is lower than the industrial average, closure effect becomes positive, but when it is higher than the industrial average, closure effect becomes negative (Fig. 1-2-43). From period 1 to 3, the ratio of enterprises having a positive closure effect

dropped roughly 6%, and the ratio of enterprises having a negative closure effect increased roughly 6%. However, 50% of closed enterprises generally pushed up overall TFP, and the remaining 50% pushed it down. Because the downward effect was significantly larger than the upward effect, overall closure effect remained largely negative.

Fig. 1-2-43 Breakdown of the closure effect (periods 1 and 3)

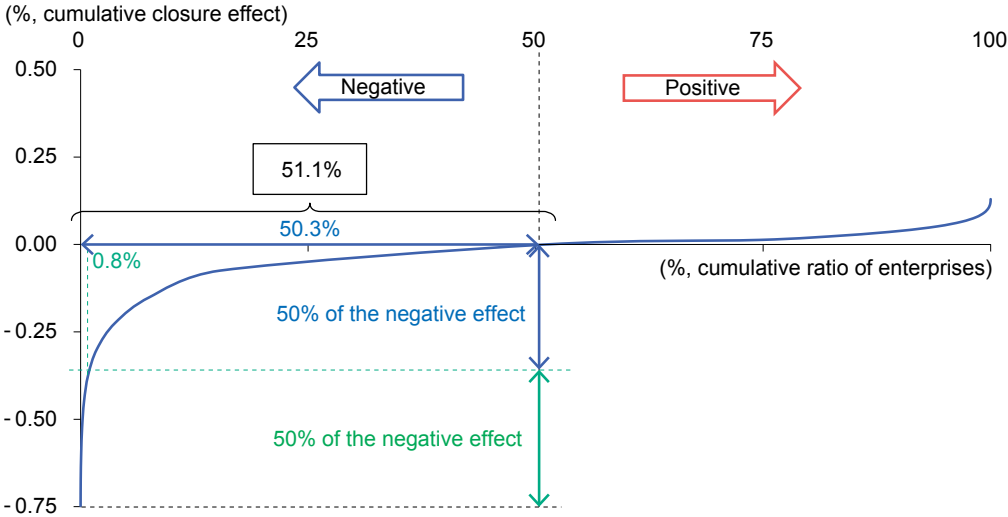


Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Next, when we look at the distribution of closed enterprises in period 3, we see that approximately 0.8% of enterprises contributed to 50% of the negative effect, and 50.3% of enterprises contributed to the remaining 50% (Fig. 1-2-44). Therefore, below, we shall analyze the characteristics of closed enterprises according to three groups: closed enterprises having a positive closure effect

(hereinafter, positive closed enterprises); approximately 0.8% of enterprises that contribute to 50% of the negative closure effect (hereinafter, negative closed enterprises-1); and 50.3% of enterprises that contribute to the remaining 50% of the negative effect (hereinafter, negative closed enterprises-2).

Fig. 1-2-44 Distribution of closed enterprises in period 3

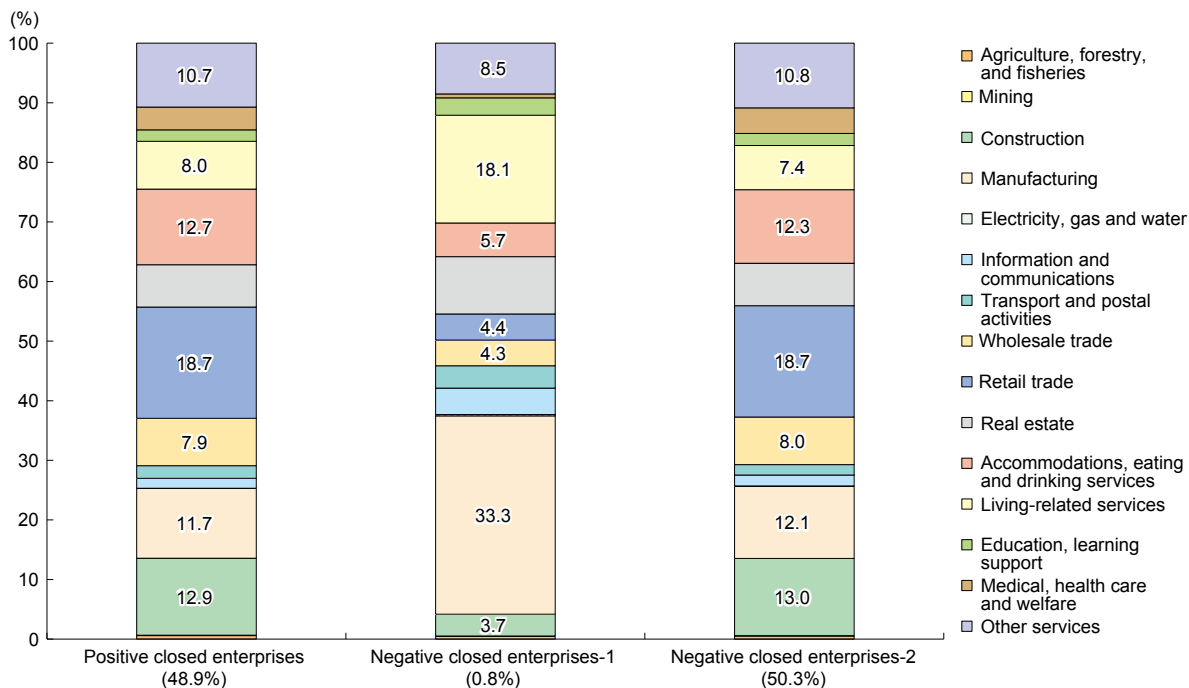


Source: RIETI, Commissioned project concerning the analysis of SME revitalization.

First, a comparison of the industrial composition of the three groups of enterprises in period 3 shows that positive closed enterprises and negative closed enterprises-2 have roughly the same industrial composition, while negative closed enterprises-1 have a larger ratio of enterprises

in the living-related and personal services industry and manufacturing industries and a lower ratio of enterprises in the accommodations, eating and drinking services industry, retail trade industry and construction industry (Fig. 1-2-45 (1)).

Fig. 1-2-45 (1) Characteristics of closed enterprises in period 3 (industrial composition)



Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

Next, let us compare the management indicators of the three groups of enterprises. First, positive closed enterprises have a lower sales growth rate and ordinary profit to sales ratio compared to the other two groups, and the exiting of such enterprises contributed to pushing up TFP (Fig. 1-2-45 (2)). Meanwhile, negative closed enterprises-1 have an extremely large number of employees and sales compared to the other two groups, and display high performance also in terms of sales growth rate, ordinary profit to sales ratio, and fixed asset growth rate. They also have a low excess debt ratio, and are clearly financially sound. In this analysis, enterprises that become a subsidiary of another enterprises through M&A are counted as closed enterprises, so it is possible that negative closed enterprises-1 have not actually

closed the company, but have become a target of M&A. Negative closed enterprises-2 have a lower sales growth rate and fixed asset growth ratio compared to continuing enterprises, but a higher ordinary profit to sales ratio. Their rate of having a successor is lower compared to continuing enterprises, but with average sales of 190 million yen, they fall below the 300 million yen sales level at which private M&A intermediaries generally emerge. Therefore, it is possible that they end up exiting the market, because they are out of the reach of private agencies and are unable to find a successor. From the perspective of increasing long-term productivity in Japan, it is important to facilitate the handover of the management resources of this group of enterprises.

Fig. 1-2-45 (2) Characteristics of closed enterprises in period 3 ((2) management indicators)

	Positive closed enterprises (48.9%)	Negative closed enterprises-1 (0.8%)	Negative closed enterprises-2 (50.3%)	Continuing enterprises (corresponds to negative closed enterprises-2)
No. of employees	8.7	94.5	6.4	11.2
Sales	90 million yen	6,590 million yen	190 million yen	340 million yen
Sales growth rate	-3.8%	3.5%	0.6%	1.4%
Ordinary profit to sales ratio	-1.1%	4.9%	3.9%	1.9%
Fixed asset growth rate	-0.5%	6.0%	1.0%	3.9%
Excess debt ratio	45.3%	6.2%	34.1%	30.4%
Rate of having a successor	40.8%	41.7%	42.0%	45.0%
Ratio of debts to total assets *Non excess debt enterprises	61.7%	63.8%	63.1%	70.5%

Source: RIETI, *Commissioned project concerning the analysis of SME revitalization*.

- Notes:
1. All figures are the average of each group of enterprises. The figures for number of employees, sales, ordinary profit to sales ratio, and rate of having a successor are figures as of 2009. The figures for sales growth rate and fixed asset growth rate are the average of the five years up to 2009.
 2. The figures for continuing enterprises are the average of enterprises having the same TFP and market share as negative closed enterprises-2.

Section 3 Summary

In this chapter, we analyzed the productivity and present state of market entries and exits of enterprises in Japan, and the impacts of the trends in the life cycle of SMEs on the productivity of SMEs as a whole in Japan.

The labor productivity of enterprises in Japan is stagnating, particularly in SMEs, and the slowdown in the manufacturing industries is especially conspicuous. When compared to large enterprises, any increase in labor productivity was brought about not by an increase in added value, but by the decrease in number of workers.

The number of enterprises in Japan is on a declining trend, dropping by 0.39 million enterprises from 2009 to 2014, due to a large decline in the number of small enterprises. On the other hand, the number of medium enterprises has increased. The large decline in the number of enterprises caused a decline in the number of workers in large enterprises and small enterprises, but the increase in the number of medium enterprises kept the total number of workers unchanged. As a result, the number of workers per enterprise increased noticeably in medium enterprises. During the period from 2009 to 2014, it could be said that medium enterprises increased their presence in terms of their numbers of enterprises and workers in Japan.

In consistency with the significant decline in the number of enterprises, business suspensions, closures and dissolutions in Japan marked a record high in 2016. The ratio of enterprises whose manager is aged 60 or older or aged 80 or older also reached a record high, indicating that the aging of managers is behind the increase in business suspensions, closures and dissolutions. Furthermore, among suspended, closed or dissolved enterprises, half of all enterprises for which their ordinary profit to sales ratio is available have exited the market with a surplus. Most of these enterprises were small enterprises.

The analysis thus far has revealed that the life cycle of enterprises, such as market entries and exits, has a large impact on the changes in number of enterprises and employees in Japan, but in this chapter, we also analyzed how trends in the component elements of the life cycle of enterprises, such as market entries and exits, had an impact on the productivity of SMEs in Japan as whole between period 1 (2003–2007) and period 3 (2009–2013).

Market entries boosted TFP in SMEs as a whole through the entry effect, but the upward effect is shrinking. Additionally, the increasing share of continuing enterprises with high productivity has pushed up overall TFP through the redistribution effect, but the TFP level of continuing enterprises is declining, and the internal effect is stagnating. Furthermore, the bankruptcy and closure of enterprises with high productivity has pushed down overall productivity, indicating that the closure effect had a particularly strong downward effect.

A comparison of changes in TFP by enterprise size shows a difference in the recovery of large enterprises and SMEs after the Lehman crisis (period 3). While large enterprises saw an increase in the positive margins of their internal effect and entry effect, SMEs failed to recover as well, due to the internal effect turning negative, the entry effect reducing its positive margin, and the closure effect expanding its negative margin. It is thought that the large stagnation in the productivity of continuing medium enterprises caused the internal effect of SMEs as a whole to drop, and thereby hindered TFP growth.

A comparison of changes in TFP in SMEs by industry shows that TFP growth has slowed down in both the manufacturing and non-manufacturing industries. A possible cause of the slowdown in TFP in manufacturing enterprises is the stagnation of the internal effect due to the decline in the spillover effect of the R&D efforts of large enterprises on SMEs. Behind the decline in TFP growth in the non-manufacturing enterprises is the shifting of the internal effect from positive to largely negative territory in the living-related and personal services industry, which accounts for a large share of the services industry, and the drop in TFP growth in the service industry to a negative.

We also analyzed the characteristics of SMEs that have brought about each effect. First, we saw that enterprises with a high TFP expanded their market share, and enterprises with a low TFP reduced their share, thereby increasing overall TFP and ensuring a sound competitive environment for SMEs. On the other hand, the TFP level of continuing enterprises has stagnated due to the fact that enterprises that make active investments were not able to expand their sales. Additionally, the effect of entering enterprises in boosting TFP has weakened, indicating the need to promote entries by enterprises that may be small but have high earning power. Furthermore, among enterprises that have exited the market due to bankruptcy or business closure, 50 to 60% were enterprises with a low TFP, but bankruptcies and closures by a few large enterprises with a high TFP have contributed to pushing down overall TFP.

Moreover, among closed enterprises with a high TFP, a group of relatively small enterprises is thought to have closed due to the absence of successors. Therefore, from the perspective of improving long-term productivity in Japan, it is necessary to facilitate the handover of the management resources of such enterprises.

Chapter 3

The employment environment and labor shortage in SMEs

The previous chapter analyzed how developments in the life cycle of SMEs impact the productivity of SMEs in Japan. This chapter analyzes the impact of today's labor shortage on each life stage of SMEs in reference to the present state of the employment environment in Japan and the underlying employment and industrial structures.

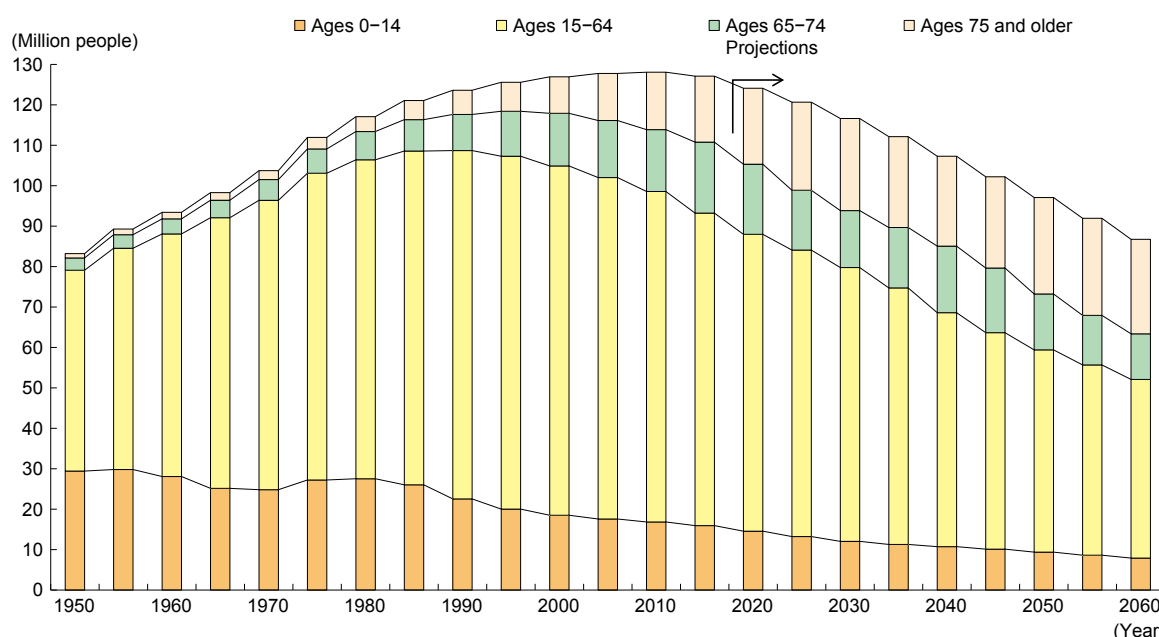
Section 1 The employment environment in Japan

1. Overview of the employment environment in Japan

First, let us review Japan's population and age structure. Japan's population increased after 1950, but has shifted to a decline in recent years, and is rapidly aging, as also evident by the declining ratio of the young population and working population and increasing ratio of the elderly

population (Fig. 1-3-1). Future population projections indicate that there will be a conspicuous increase in the elderly population, and particularly the population of elderly people over the age of 75.

Fig. 1-3-1 Population projections by age group



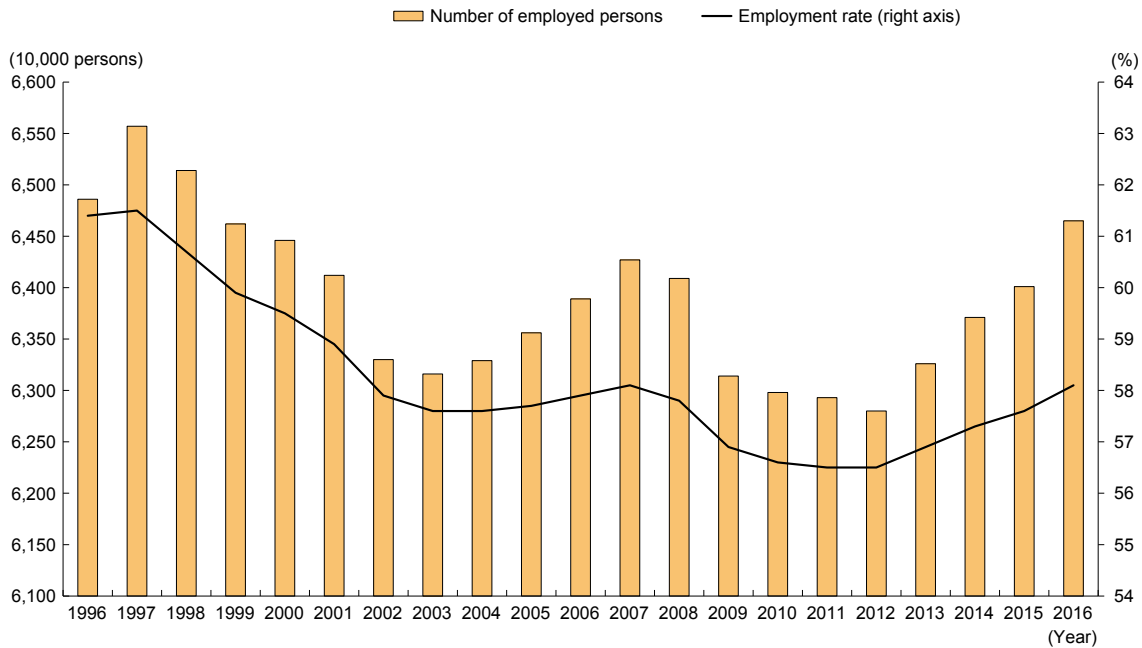
Sources: MIC, *Population Census*; National Institute of Population and Social Security Research, *Population Projections for Japan* (January 2012 projections).

- Notes:
1. Future population projections after 2020 are based on medium fertility (medium mortality) estimates.
 2. Populations up to 2015 are based on MIC, *Population Census* (people of uncertain age are proportionally distributed).

On the other hand, a look at the number of employed persons shows that a declining trend had continued due to a decline in the working population, but an increase has been seen in the past four years, owing to an increase in the employment rate (Fig. 1-3-2). When analyzed in terms

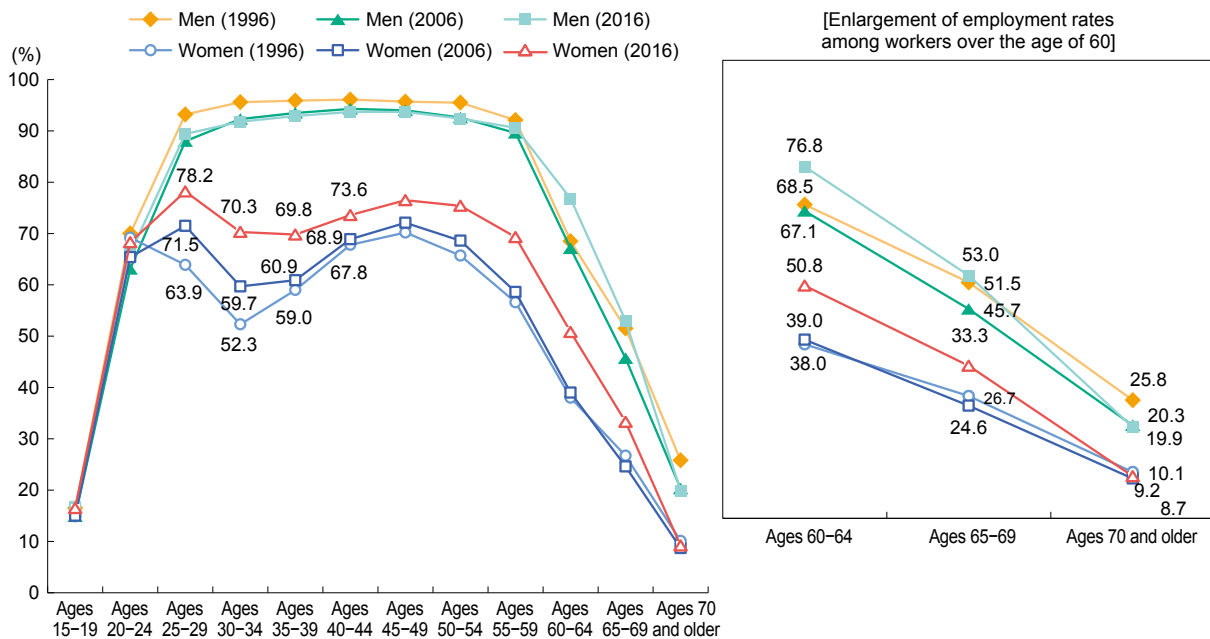
of age and gender, we see that there has been an increase in labor force participation particularly of relatively young elderly people in their 60s and women ages 25 to 44 who comprise the lower portion of the so-called M-curve, over the past twenty years (Fig. 1-3-3).

Fig. 1-3-2 Number of employed persons and employment rate



Source: MIC, Labor Force Survey.

Fig. 1-3-3 Changes in employment rate by age and gender (1996–2016)



Source: MIC, Labor Force Survey.

In terms of the overall unemployment rate, which represents the ratio of unemployed persons¹⁾ in the labor

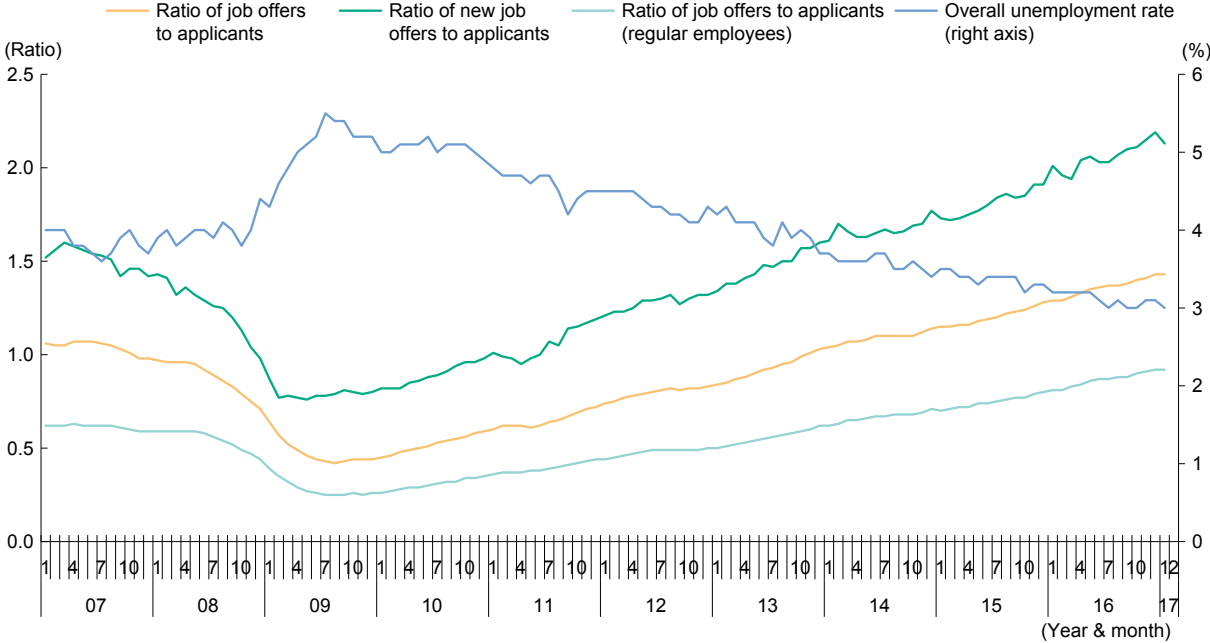
force²⁾, a declining trend has continued over the past several years, and has recently reached the lowest level in

1) Unemployed persons refer to those people who had no jobs during the survey period but could work immediately if a job were available, and were preparing to engage in activities or operations for seeking employment during the survey period.
 2) Labor force participation is the sum of employed and unemployed persons in the population above the age of 15.

22 years (Fig. 1-3-4). The ratio of job offers to applicants, which signify the demand-supply situation in the labor market, has continued to increase and reached the highest level in 25 years. Similar increases have also occurred in

the ratio of new job offers to applicants, the ratio of job offers to applicants, and the ratio of job offers to applicants for regular employees.

Fig. 1-3-4 Ratio of job offers to applicants and the unemployment rate

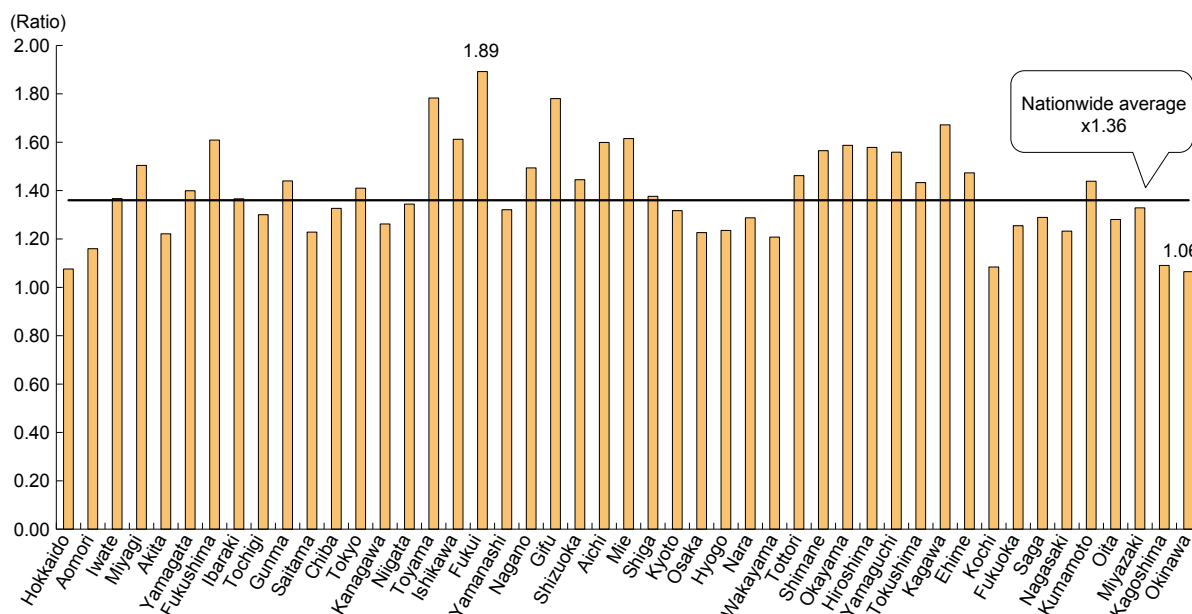


Sources: MHLW, *Employment Referrals for General Workers*; MIC, *Labor Force Survey*.

- Notes:
1. Figures are seasonally adjusted figures.
 2. Unemployment rates between March and August 2011 are interpolated estimates, as nationwide data do not exist for that period due to the impact of the Great East Japan Earthquake.

A regional analysis of the ratio of job offers to applicants shows that the ratio was over 1.0 in all 47 prefectures in 2016, indicating that the number of job

offers exceeded the number of applicants on a nationwide scale (Fig. 1-3-5).

Fig. 1-3-5 Ratio of job offers to applicants, by prefecture (by place of employment, 2016 average)

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

As seen above, the employment environment in Japan is improving, as indicated by the increase in the number of employed persons, a decline in the unemployment

rate, and a nationwide increase in the ratio of job offers to applicants.

2. Employment and industrial structures that underlie the employment environment (mismatch between enterprises and job seekers)

Below, we shall analyze the employment and industrial structures that underlie the present state of the employment environment as discussed above.

Here, we shall analyze two unemployment factors that accompany structural unemployment and business fluctuations by using the unemployment-vacancy analysis (UV analysis)³⁾ and breaking down the overall employment rate into equilibrium unemployment rate⁴⁾ and demand deficiency unemployment rate.

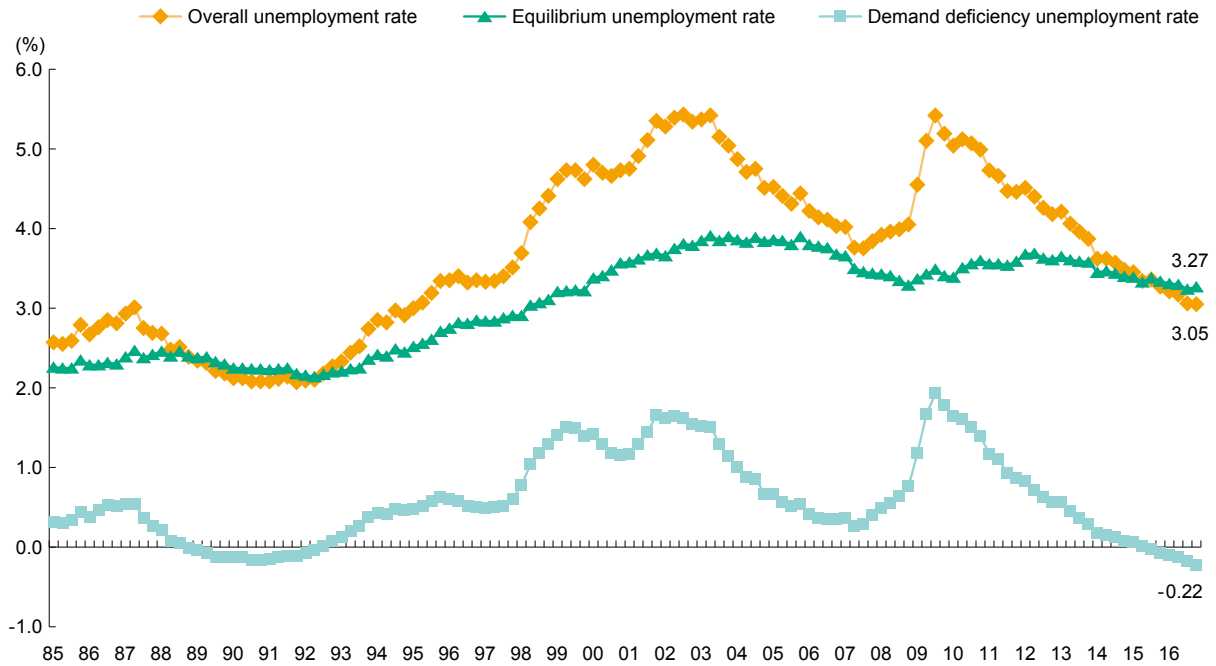
The results of a factor analysis show that unemployment rate is in the negative due to demand

deficiency, and that the unemployment we see today is a structural unemployment caused by a mismatch in abilities, qualifications, working conditions, etc. between enterprises and job seekers, and by the amount of time that is spent on labor mobility, including the amount of time that job seekers spend on job-seeking activities and the amount of time that enterprises spend on screening applicants (Fig. 1-3-6). The employment mismatch is thought to be related to occupation (line of work), age and type of employment. Here, let us examine in detail occupation (line of work) and type of employment.

3) For UV analysis in detail, refer Japan Institute for Labour Policy and Training, *Youthful Labor Statistics 2016*.

4) Equilibrium unemployment rate is the rate at which the unemployment rate (the ratio of unemployed persons to the total number of employed and unemployed persons) and vacancy rate (the ratio of the number of unfilled vacancies to the total number of employed persons and number of unfilled vacancies) are equal. The difference with overall unemployment rate is called demand deficiency unemployment rate.

Fig. 1-3-6 Factor analysis of unemployment rate



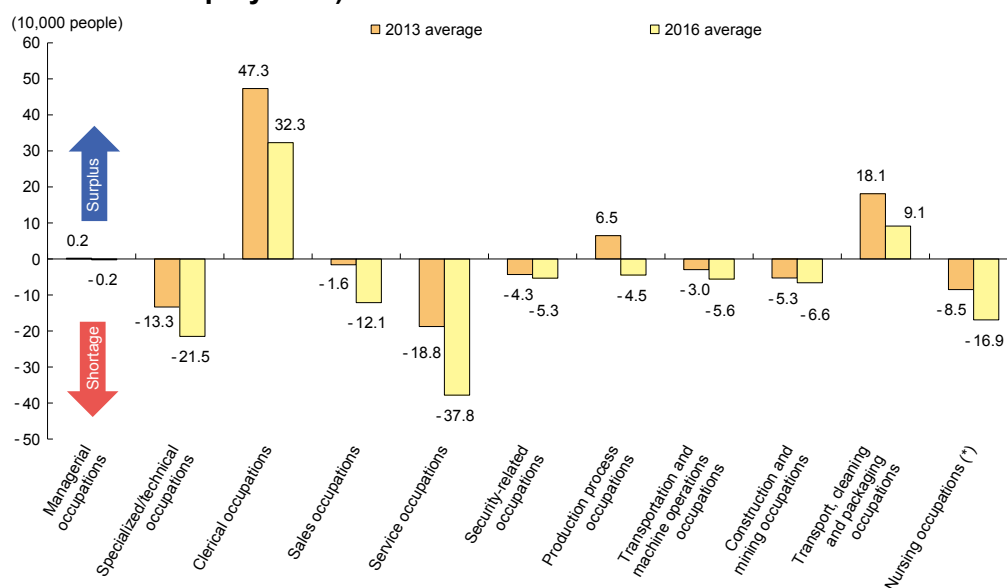
Source: Japan Institute for Labour Policy and Training, *Youthful Labor Statistics 2016*.
 Note: The data shows seasonally adjusted figures.

First, let us examine the mismatch between occupations for which enterprises seek applicants and occupations that are sought by job seekers. A look at the number of effective job seekers and the number of effective job offers by occupation shows that in both 2013 and 2016, the number of effective job seekers largely exceeded the number of effective job offers in clerical occupations, but largely fell short of the number of effective job offers in the services and specialized/technical occupations, as a clear example of the mismatch between enterprises and job seekers (Fig. 1-3-7 (1)). From 2013 to 2016, the shortage of workers increased in all occupations, beginning with the sales, services, and nursing occupations. However, in clerical occupations, the number of effective job seekers continued

to exceed the number of effective job offers, and thus the mismatch between occupations for which enterprises seek applicants and occupations that are sought by job seekers continued to exist.

Since the number of job seekers and job offers largely differ by occupation, let us examine the ratio of job offers to applicants from 2013 to 2016 by occupation. The ratio increased in all occupations over the past three years, and the number of effective job offers increased compared to the number of effective job seekers. However, it remained below 1 in the clerical occupation and the transport, cleaning, and packaging occupations, and the number of effective job seekers continued to exceed the number of effective job offers (Fig. 1-3-7 (2)).

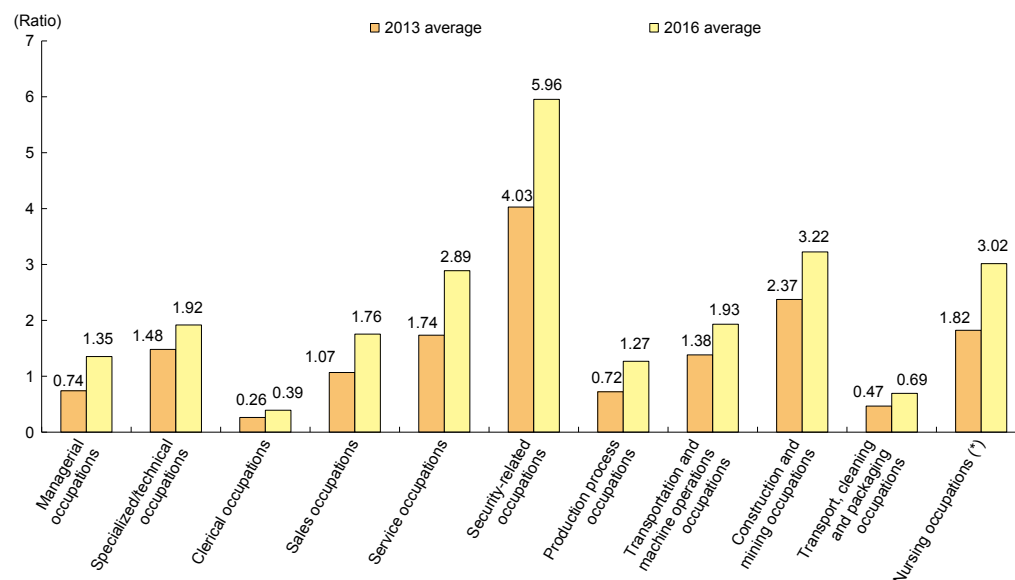
Fig. 1-3-7 (1) Difference between the number of effective job seekers and the number of effective job offers, by occupation (regular employment, including part-time employment)



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

- Notes:
1. The above data excludes agriculture, forestry and fishery occupations and occupations not able to be classified.
 2. The figures for nursing occupations are the sum of welfare facility instructors, other specialized social welfare occupations, housekeepers and domestic helpers, and nursing service occupations, based on the 2011 revised occupational classification of the Ministry of Health, Labour and Welfare, respectively extracted from specialized/technical occupations and services occupations.

Fig. 1-3-7 (2) Ratio of job offers to applicants by occupation (regular employment, including part-time employment)



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

- Notes:
1. The above data excludes agriculture, forestry and fishery occupations and occupations not able to be classified.
 2. The figures for nursing occupations are the sum of welfare facility instructors, other specialized social welfare occupations, housekeepers and domestic helpers, and nursing service occupations, based on the 2011 revised occupational classification of the Ministry of Health, Labour and Welfare, respectively extracted from specialized/technical occupations and services occupations.

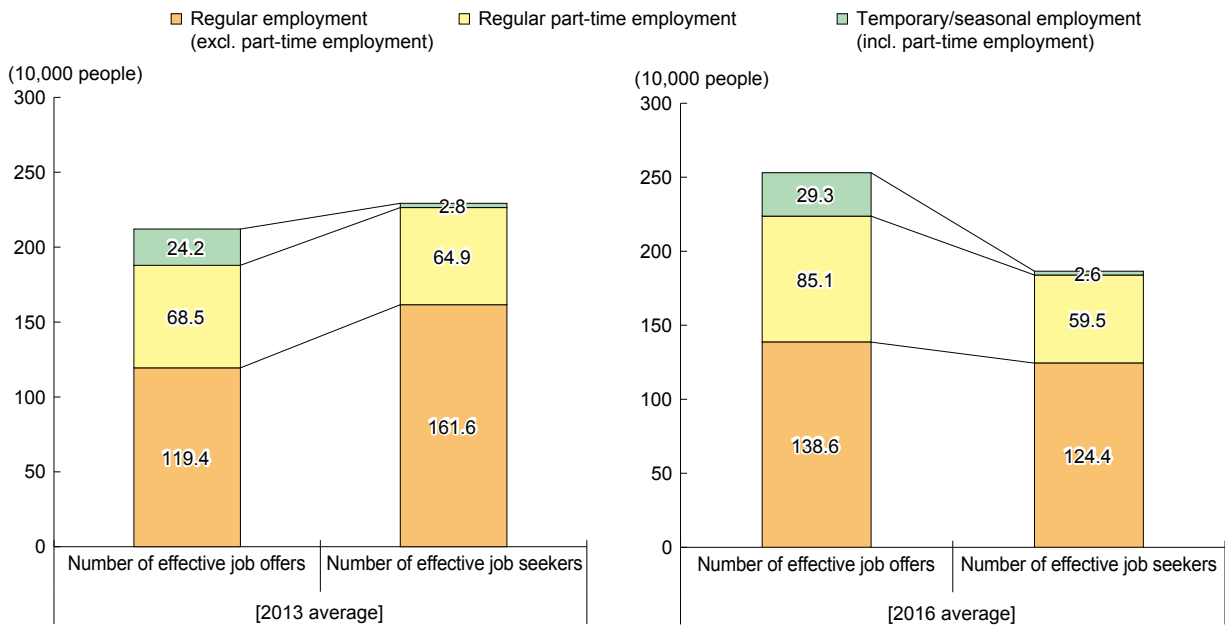
Next, let us examine the mismatch in type of employment between enterprises and job seekers. A

comparison of the number of effective job offers and the number of effective job seekers by type of employment

shows that in 2013, the number of job offers fell short of the number of job seekers for regular employment (excluding part-time employment)⁵⁾, but the number of job offers exceeded the number of job seekers for regular part-time employment⁶⁾ and temporary/seasonal employment (including part-time employment)⁷⁾, thus creating a possible mismatch in type of employment (Fig. 1-3-8). Thereafter, from 2013 to 2016, the number of job offers increased for all types of employment but the number of job seekers, and particularly those who seek regular employment (excluding part-time employment)

declined, such that the number of job offers exceeded the number of job seekers in all types of employment. This means that the mismatch in type of employment between enterprises and job seekers was somewhat mitigated from 2013 to 2016. In terms of the increase in the number of effective job offers from 2013 to 2016, a large increase was seen in regular part-time employment and temporary/seasonal employment (including part-time employment) compared to regular employment (excluding part-time employment).

Fig. 1-3-8 Numbers of effective job offers and effective job seekers by type of employment (2013–2016)



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

- Notes:
1. Regular employment (excluding part-time employment) refers to employment for an indefinite term or for more than four months under an employment contract, excluding part-time and seasonal employment, and thus differs from the employment of regular employees or regular personnel.
 2. Regular part-time employment refers to employment for an indefinite term or for more than four months under an employment contract, excluding seasonal employment.

We have seen that today’s unemployment in Japan amid an improving employment environment is a structural unemployment caused by mismatches, and that

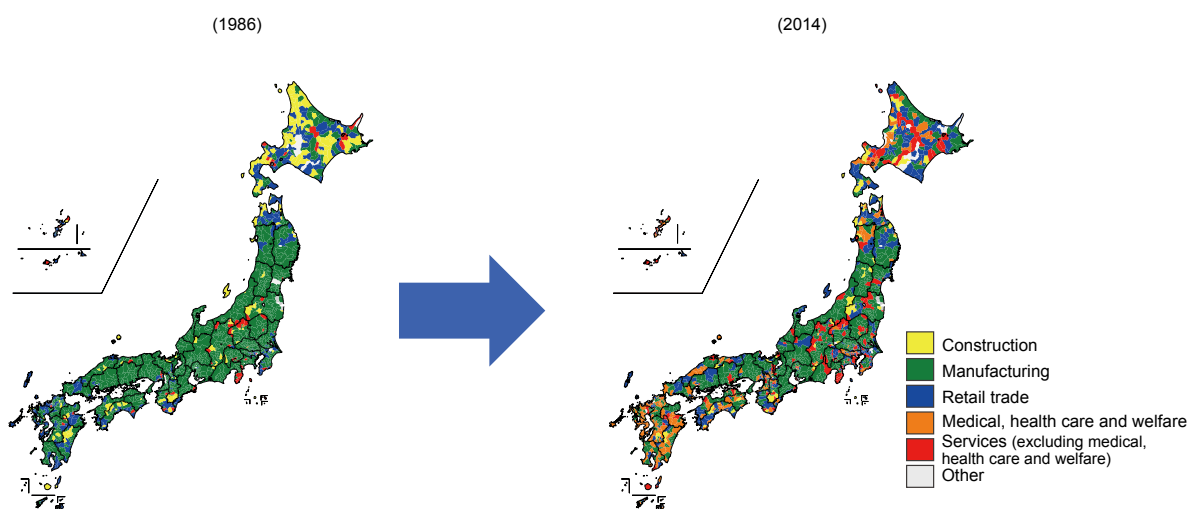
underlying this structural unemployment is a mismatch in occupations for which enterprises seek applicants and occupations that are sought by job seekers.

5) Regular employment (excluding part-time employment) refers to employment by workers who are employed for an indefinite term or for more than four months based on an employment contract, but excludes part-time employment.
 6) Regular part-time employment refers to employment by workers who work shorter hours per compared to the weekly working hours of ordinary workers employed by the same business establishment, and who are employed for an indefinite term or for more than four months.
 7) Temporary employment refers to employment by those who are employed work for an employment contract term of more than a month and less than 4 months as specified in an employment contract. Seasonal employment refers to employment by those who are employed for a specified fixed term (whether for less than 4 months or more than 4 months) in response to seasonal labor demand or over a seasonal holiday.

Column 1-3-1 Relationship between the number of job offers by type of employment and changes in industrial structure

Changes in the industrial structure in Japan is thought to be behind the large increase in the number of job offers by enterprises for regular part-time employment and temporary/seasonal employment (including part-time employment). A look at long-term changes in industries with the largest number of workers in each municipality shows that as of 1986, the manufacturing industries had the largest number of workers in the majority of municipalities in all regions excluding Hokkaido, Aomori, Kochi, Kyushu and Okinawa, but as of 2014, there has been a conspicuous increase in the number of municipalities in which the retail trade and services industries have the largest number of workers, and particularly in the medical, health care and welfare industries. This indicates a shift in the industrial structure from the manufacturing industries to services industries (Fig. Column 1-3-1 (1)).

Fig. Column 1-3-1 (1) Changes in regional industrial structures by number of workers (in units of municipality)

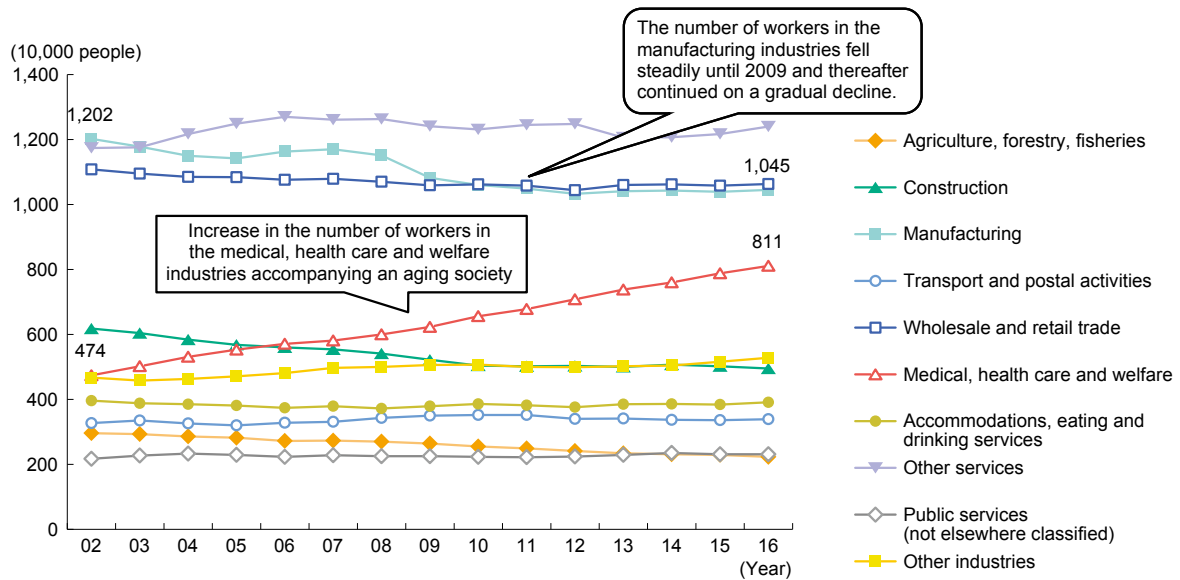


Sources: Recompiled from MIC, *Establishment and Enterprise Census of Japan*; and MIC, METI, *2012 Economic Census for Business Activity*.

- Notes:
1. Industries with the largest number of workers were extracted for each municipality, and the municipalities from which the industries were extracted were expressed by industry. Agriculture and other primary industries were also included within the scope of the survey.
 2. The industrial classification (large classification) for extracting the industries is based on the revised classification of March 2002. The industrial classification for 1986 and 2014 above represents a re-grouping of small industrial classifications.
 3. The services industries above include accommodations, eating and drinking services; education, learning support; compound services; and services (not elsewhere classified) in the large classification.
 4. In cases where there were multiple industries with the largest number of workers in a municipality, priority was placed on the industry with the largest number of business establishments.
 5. Other includes regions that were not included within the scope of the survey at the time of the survey.

This change in industrial structure also brought a large change to the structure of the nationwide number of workers in Japan. While the number of workers in the manufacturing industries is gradually declining, the number of workers in the medical, health care and welfare industry has continued to increase, and has almost doubled from 2002 (Fig. Column 1-3-1 (2)). This shows that the services industries are gaining greater weight in the employment structure in Japan.

Fig. Column 1-3-1 (2) Number of workers by industry

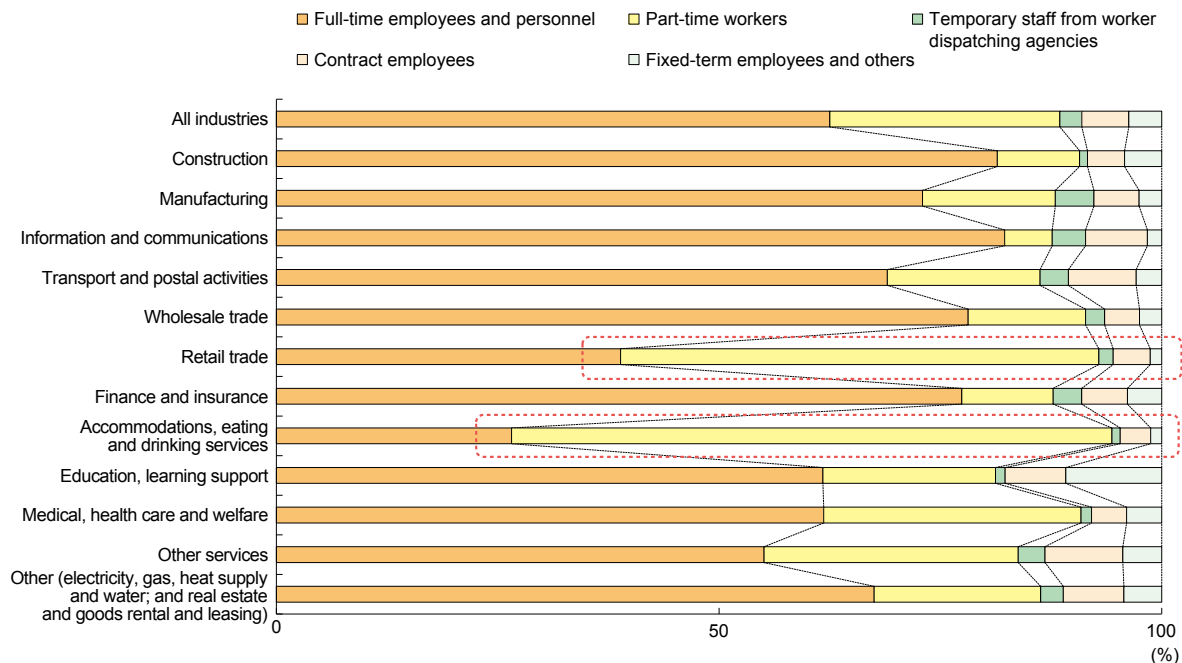


Source: MIC, Labor Force Survey.

- Notes:
1. Interpolated estimates are displayed for 2011, as the survey was suspended in Iwate, Miyagi and Fukushima prefectures due to the Great East Japan Earthquake.
 2. Accompanying the revision of the Japan Standard Industrial Classification (November 2007), the *Labor Force Survey* shows results according to the 12th revised industrial classification from the January 2009 survey, and retroactive results for 2007 and 2009.
 3. Other services here include scientific research, professional and technical services; living-related and personal services and amusement services; education, learning support; compound services; and services (not elsewhere classified). Other industries include mining and quarrying of stone and gravel; electricity, gas, heat supply and water; information and communications; finance and insurance; and real estate and goods rental and leasing.

With respect to the ratio of types of employment by industry, we see that the ratio of workers other than full-time employees and personnel is particularly high in the retail trade and accommodations, eating and drinking services industries, and the ratio of full-time employees is high in the manufacturing industries compared to the average of all industries (Fig. Column 1-3-1 (3)). In the services industries, production and consumption occur simultaneously in terms of both time and space, unlike in the manufacturing industries, which are able to maintain an inventory, so the need to respond to seasonal changes in demand might be related to the large numbers of part-time workers and temporary staff in the services industries. It is thought that the growing weight of the services industries, which are characterized by this high ratio of non-full-time workers accompanying the above-mentioned changes in industrial structure, is behind the large increase in the number of job offers for regular part-time employment and temporary/seasonal employment (including part-time employment).

Fig. Column 1-3-1 (3) Ratio of types of employment by industry (2016 average)



Source: MIC, *Labor Force Survey* (2016).

Notes: 1. Workers above exclude officers.

2. Other services include scientific research, professional and technical services; living-related and personal services and amusement services; compound services; and services not elsewhere classified.

Section 2 SME employment environment

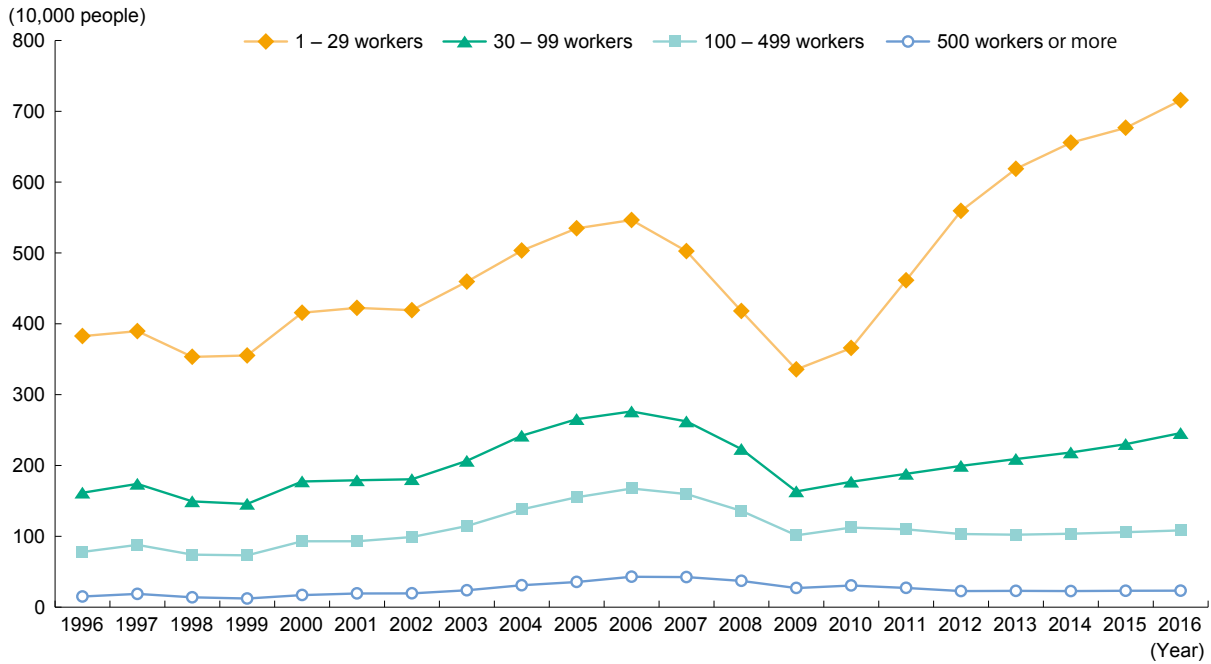
1. Labor shortage in SMEs

Thus far, we examined the present state of the employment environment in Japan and the underlying employment and industrial structures. Here, we shall examine the labor shortage situation, which has an impact on the life stage of SMEs, and discuss the employment trends of job seekers and factors related to job separation

and entry.

First, when we examine the number of new job offers by workforce size as an indication of the trend of job offers, we see that job offers particularly by business establishment with 29 workers or less have increased significantly since 2009 (Fig. 1-3-9).

Fig. 1-3-9 Number of new job offers by workforce size of business establishment

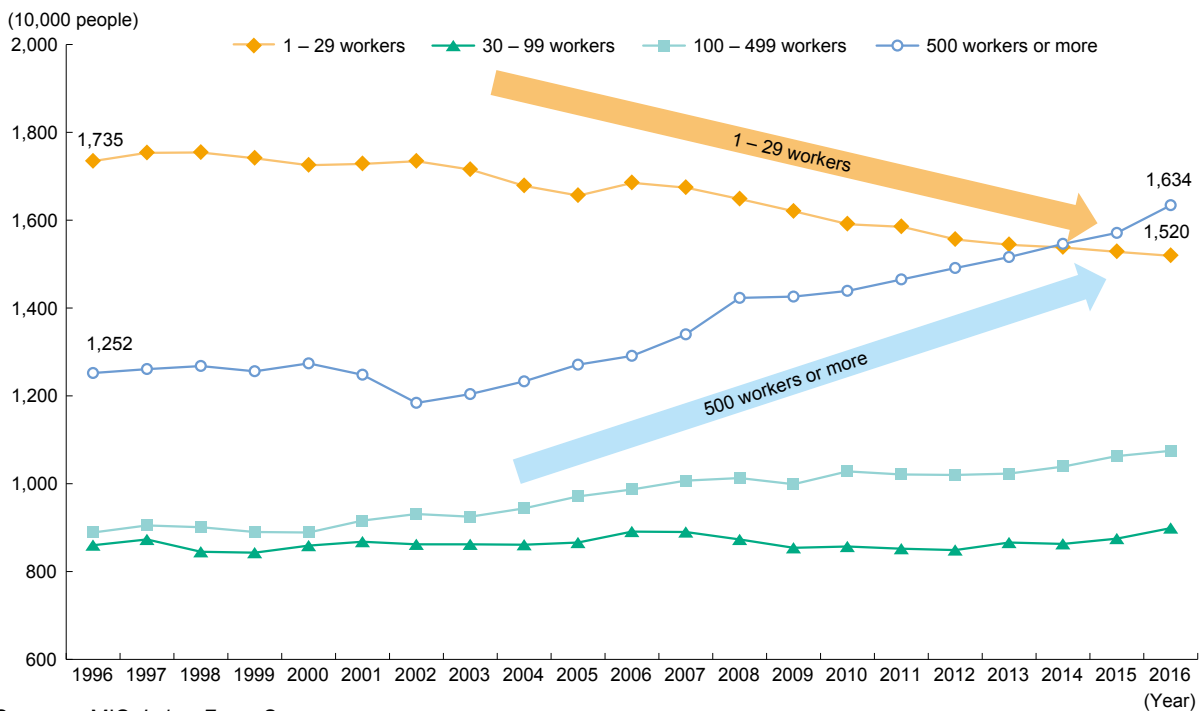


Source: MHLW, *Employment Referrals for General Workers*.

Next, we shall look at the actual number of workers by workforce size. Over the past twenty years, the number of workers in enterprises with 500 workers or

more increased by approximately 3.82 million, while the number of workers in enterprises with 29 workers or less decreased by approximately 2.15 million (Fig. 1-3-10).

Fig. 1-3-10 Number of non-agriculture or forestry workers by workforce size

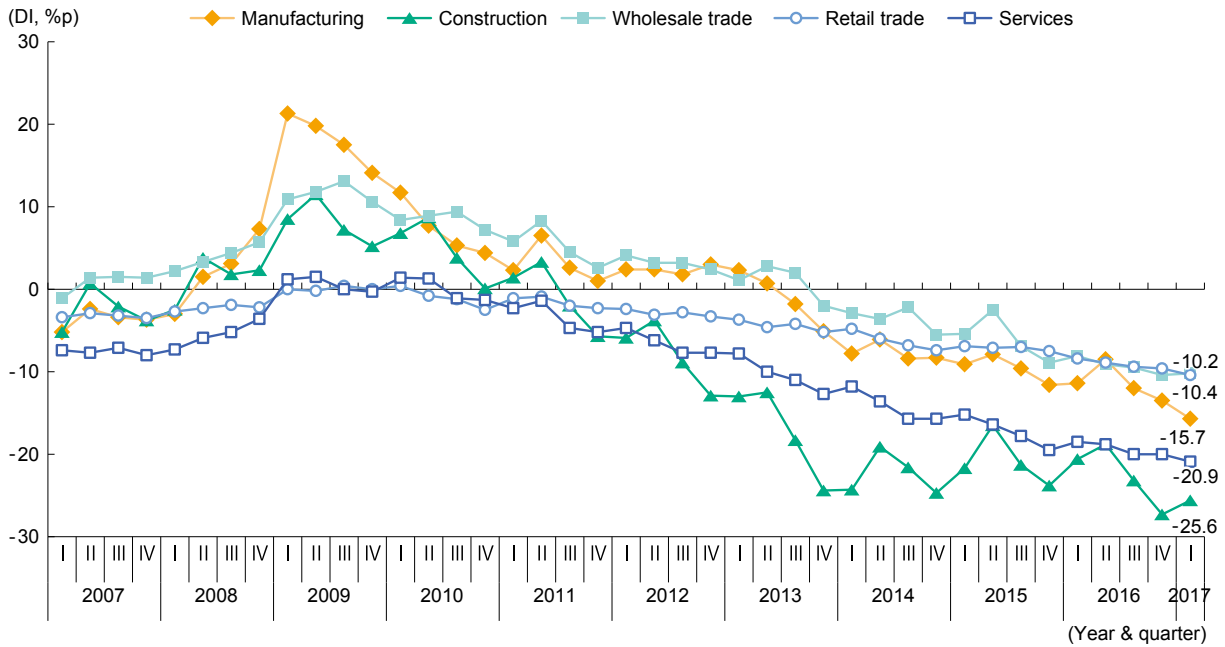


Source: MIC, *Labor Force Survey*.

When we examine the shortage and excess of employees in SMEs by industry, we see that a labor shortage has continued in all industries since 2013, and

there is a particularly strong sense of shortage in the construction and services industries (Fig. 1-3-11).

Fig. 1-3-11 DI for excess/shortage of employees by industry



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

Note: The DI for excess/shortage of employees is the percentage (%) of enterprises that said they have an excess of employees for the current term, minus the percentage (%) of enterprises that said they have a shortage.

2. Employment trends of job seekers and reasons for job separation and entry

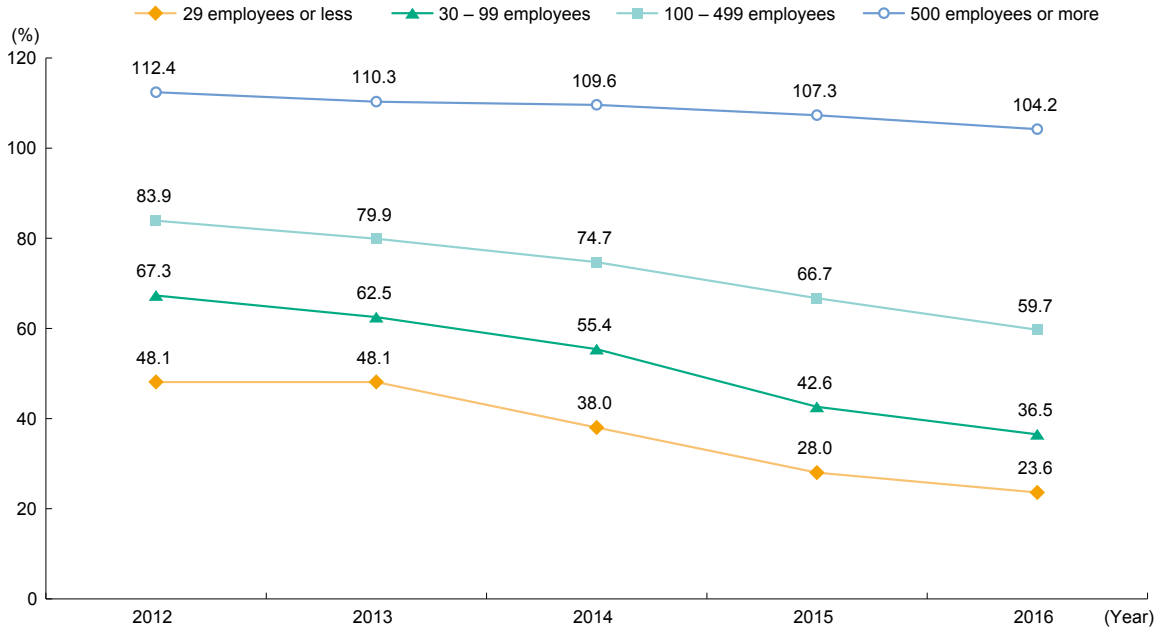
Above, we examined the serious labor shortage in SMEs. Here, we shall examine trends in workers who leave or enter an SME.

First, the ratio of placement to job opening⁸⁾ among new high school graduates declined over the past five

years in all sizes of workforce, and especially among workforce size with 29 employees or less, indicating that enterprises with a small number of employees are finding it difficult to secure high school graduates (Fig. 1-3-12).

8) Ratio of placement to job opening is an indicator of the rate at which job openings are filled.

Fig. 1-3-12 Ratio of placement to job opening among high school graduates, by workforce size

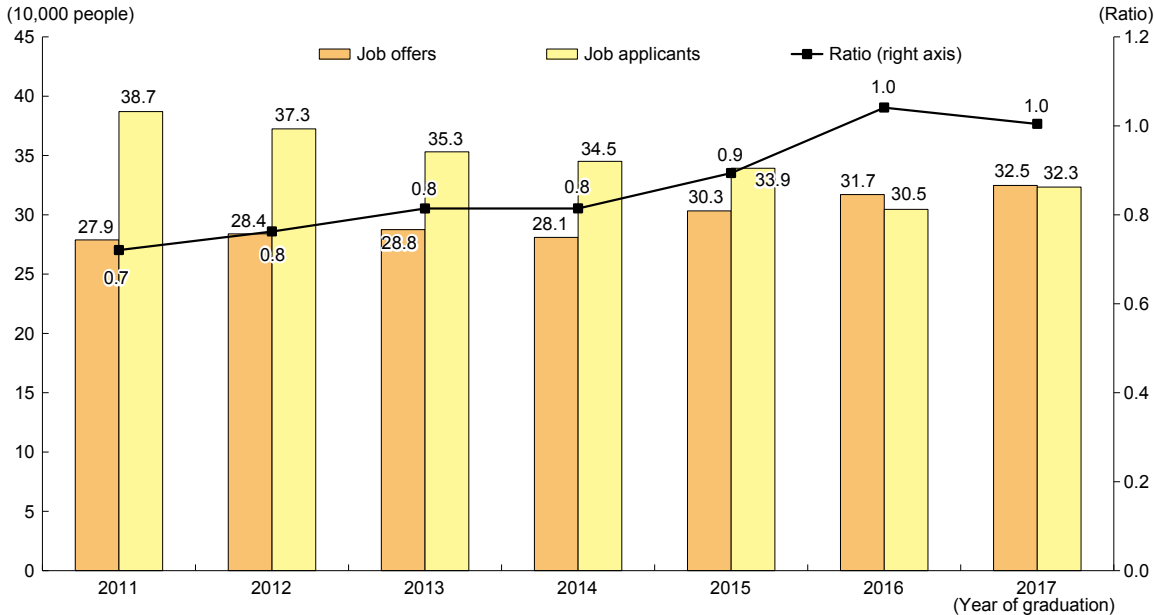


Source: MHLW, *Employment Referrals for New School Graduates*.
 Notes: 1. The above yearly figures for new school graduates are based on the number of job seekers handled by public employment security offices and schools and their status of employment.
 2. Ratio of placement to job opening = (number of job seekers employed / number of job openings) × 100

Next, let us examine the ratio of job offers to new university graduates. Among enterprises with 300 workers or more, the ratio falls below 1, and there are more job applicants than the number of job offers or mostly same in

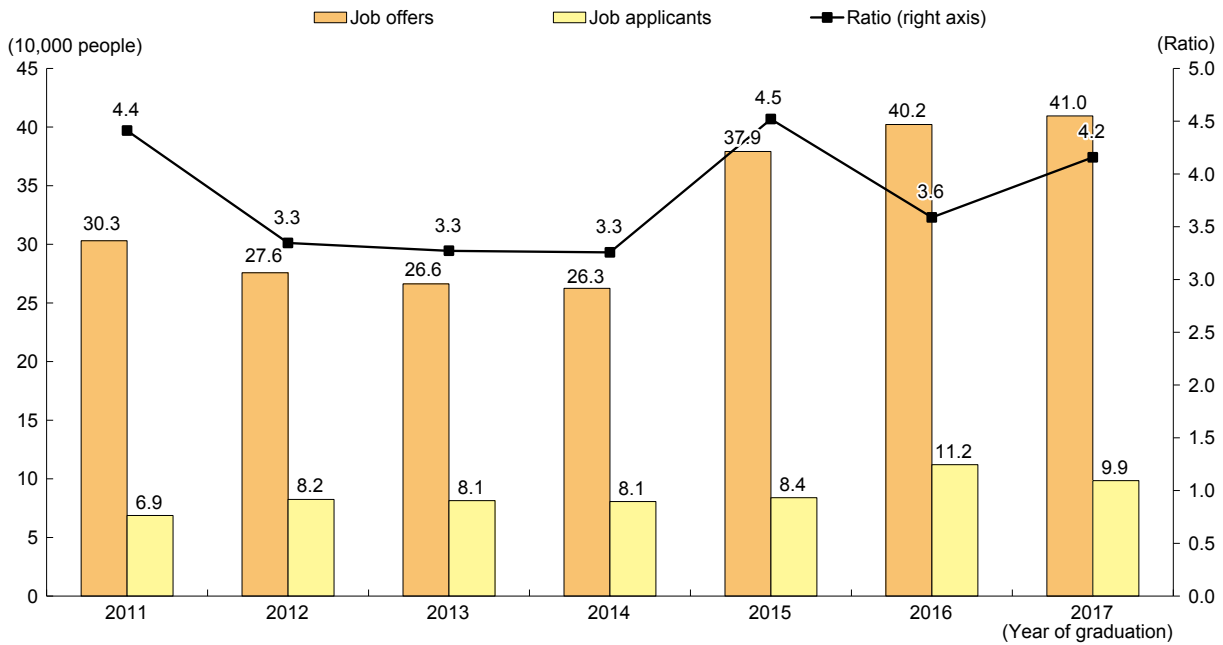
number, but among enterprises with 299 workers or less, the ratio is generally around 3 or 4, with more job offers than the number of job seekers (Fig. 1-3-13 (1), (2)).

Fig. 1-3-13 (1) Number of university graduate job applicants and prospective university graduate job applicants to enterprises with 300 workers or more



Source: Recruit Works Institute, *Works University Graduate Job Offers to Job Seekers Ratio Survey*.

Fig. 1-3-13 (2) Number of university graduate job applicants and prospective university graduate job applicants to enterprises with 299 workers or less



Source: Recruit Works Institute, *Works University Graduate Job Offers to Job Seekers Ratio Survey*.

Let us also take a look at the trends of workers who change jobs. Under the definition of SMEs as enterprises with 299 workers or less and large enterprises as those with 300 workers or more, workers who change jobs between SMEs and large enterprises increased as a whole from 2011 to 2015, but job changes between SMEs maintained a level trend, while job changes between large enterprises increased significantly, and job changes from SMEs to

large enterprises also increased considerably compared to changes from large enterprises to SMEs (Fig. 1-3-14).

The trend in job changes in 2015 shows that 500,000 workers switched from large enterprises to SMEs, and 980,000 switched from SMEs to large enterprises, such that among SMEs, there were more workers who left to work for a large enterprise than those who left a large enterprise to work for an SME.

Fig. 1-3-14 Number of workers changing jobs by size of present enterprise, in terms of the workforce size of their previous enterprise



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

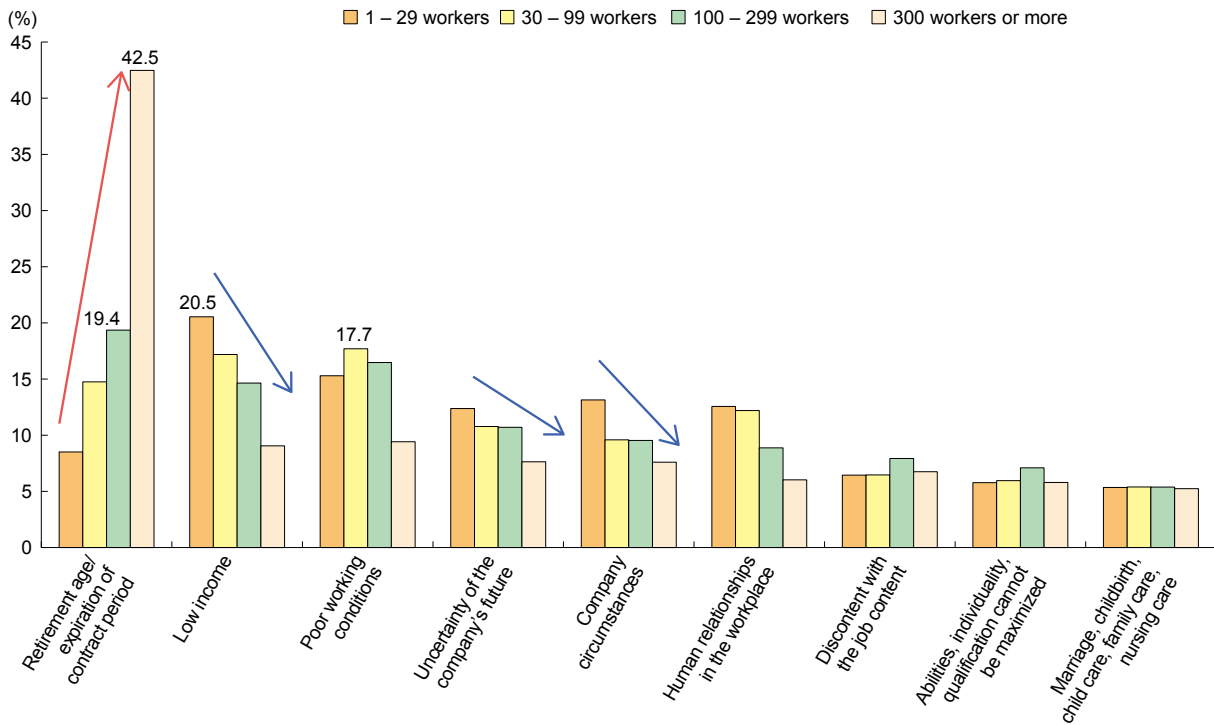
Next, let us examine the reasons why workers who change jobs choose a large enterprise as their next place of employment. First, with regard to the reasons for leaving their previous job, the largest reason by workforce size of previous enterprise was “low income” (20.5%) in enterprises with 1 to 29 workers, “poor working conditions” (17.7%) in enterprises with 30 to 99 workers, and “retirement age/expiration of contract period” (19.4%, 42.5%) in enterprises with both 100 to 299 workers and 300 workers or more (Fig. 1-3-15).

The ratios for “low income,” “uncertainty of the company’s future,” “company circumstances,” “human relationships in the workplace,” and “retirement age/expiration of contract period” as reasons for changing jobs particularly differed among workforce sizes. The ratio of the first four reasons declined as workforce size became larger, and the fifth reason increased as workforce

size became larger. In SMEs, the income aspect was the largest reason for leaving a job, and the ratio of separation due to feelings of uncertainty about the future and due to company circumstances was also higher compared to large enterprises. The largest reason for leaving a large enterprise, on the other hand, was retirement age/termination of contract period, indicating that many employees work until retirement age or until expiration of the term of a fixed-term employment.

The ratio of personal reasons, such as “marriage, childbirth, child care, family care and nursing care,” and reasons related to the job, such as “discontent with the job content” and “abilities, individuality, qualification cannot be maximized,” was a mere 5% or so in all workforce sizes, and did not show any large difference among workforce sizes.

Fig. 1-3-15 Ratio of reasons for job separation, by workforce size of previous enterprise



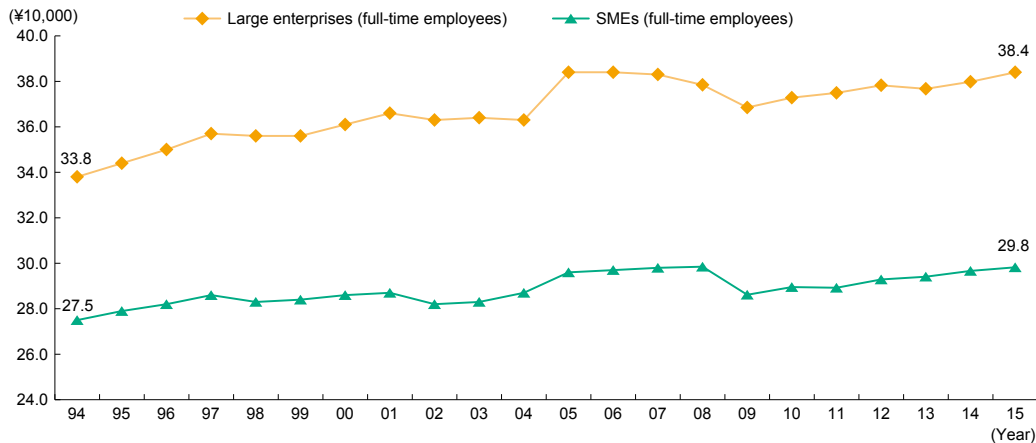
Source: Recompiled from MHLW, 2014 Survey on Employment Trends.

Note: Job separation reasons exclude “other reasons (incl. temporary transfers)” and “unidentified.”

In SMEs, “low income” was given as the reason for job separation at a high rate. When looking at the amount of salary by enterprise size, we see that a disparity in wages still exist between large enterprises and SMEs, ranging

from ¥275,000 to ¥298,000 in SMEs and from ¥338,000 to ¥384,000 in large enterprises in the past twenty years (Fig. 1-3-16).

Fig. 1-3-16 Salaries by enterprise size



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

- Notes:
1. The figures for full-time employees before 2004 are the figures for general workers who are employed for an indefinite term, and those for after 2005 are the figures for general workers who are full-time employees or personnel in a business establishment.
 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 or the same hours per day but fewer days per week than general workers in the same business establishment.
 4. Regular workers refer to workers who fall under either of the following descriptions.
 - (a) Those who are employed for an indefinite term or for a specified term of more than a month.
 - (b) Those who are employed daily or for a specified term within a month and who have worked more than 18 days per month during the two months prior to the survey month.
 5. Salary is the amount of cash that is routinely paid, and is the sum of the basic salary that is paid as the June salary every year and prescribed allowances, including overtime pay.
 6. Enterprises with a total of 299 regular workers or less (99 workers or less for wholesale trade, services, retail trade, and eating and drinking establishments) are considered as SMEs, and enterprises other than SMEs are considered as large enterprises.

A look at wage increases by workforce size shows that enterprises with 100 to 299 workers generally have lower wage increases compared to enterprises of other sizes

(Fig. 1-3-17). However, wages are steadily increasing in these enterprises, and the difference with other workforce sizes has begun to decrease in recent years.

Fig. 1-3-17 Wage increases (rate of average rate revision per worker)



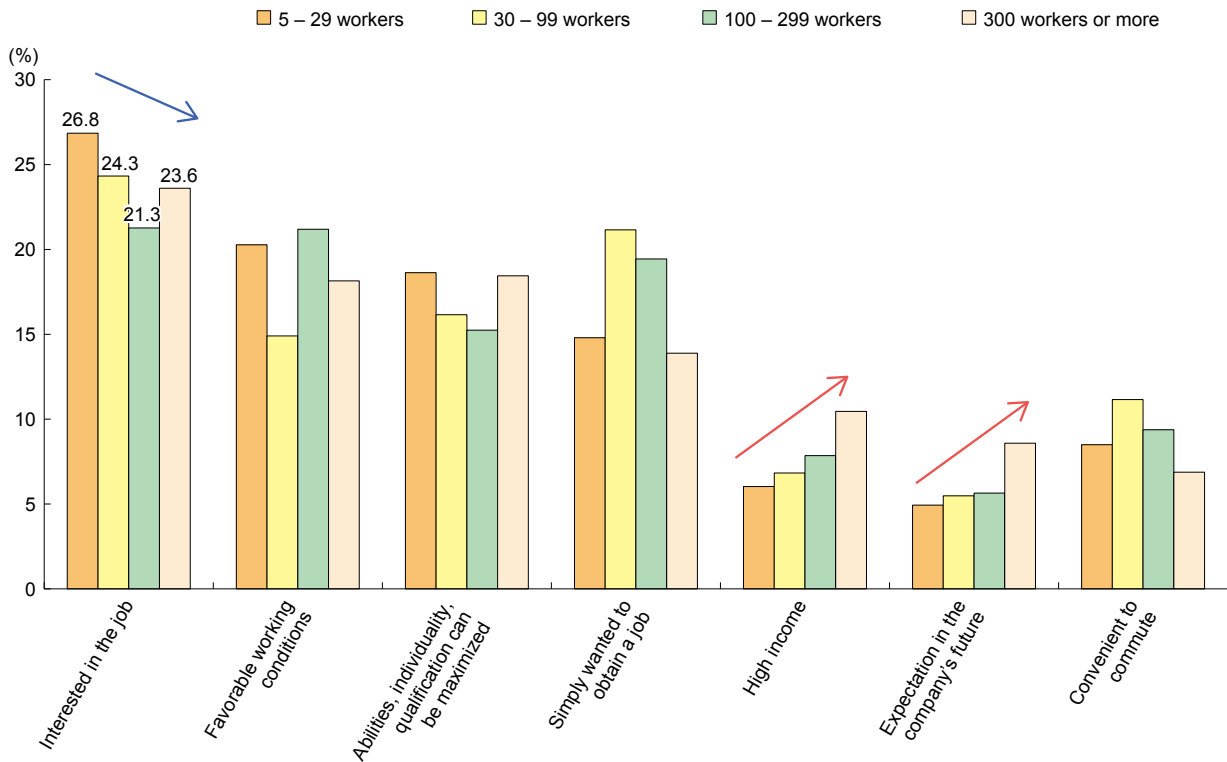
Source: MHLW, *Survey on Wage Increase*.

- Notes:
1. The above is a summary of enterprises that have revised their wages, enterprises that plan to revise their wages and have already determined the amount, and enterprises that do not plan to revise their wages.
 2. Wage revisions include revisions of regular raises, increases in basic pay, and allowances for all or some regular workers, and also include reduction of wages, such as decreases in basic pay, cuts in wages, etc.
 3. Regular workers in this survey refer to workers who are employed for an indefinite term.
 4. The rate of wage revision per worker is based on the weighted average of the number of regular workers.

Next, the largest reason for job entry by size of present workforce size is “interest in the job” in all workforce sizes, indicating that foremost importance is placed on the content of the job, regardless of workforce size (Fig. 1-3-18).

When we look at reasons that particularly differ between workforce sizes, we see that the ratios of “expectation in the company’s future” and “high income” are not necessarily high, but are higher among larger enterprises, in reverse of the reasons for job separation.

Fig. 1-3-18 Ratio of reasons for job entry, by workforce size of current enterprise



Source: Recompiled from MHLW, 2014 Survey on Employment Trends.
 Note: Job entry reasons exclude “other reasons (incl. temporary transfers)” and “unidentified.”

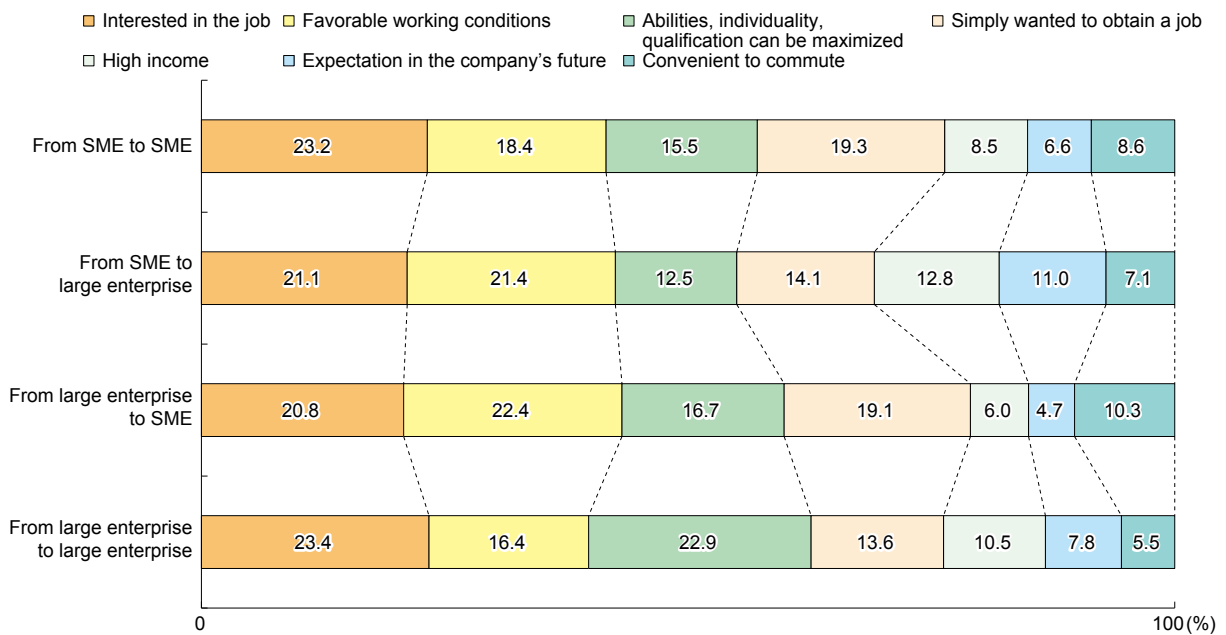
Thus far, we have examined the reasons for job separation and job entry by workforce size. Below, we

shall examine the reasons for job changes between SMEs and large enterprises.

The largest reason for switching from an SME to a large enterprise is “favorable working conditions” (21.4%), while the largest reason for switching from an SME to an SME is “interested in the job” (23.2%) (Fig. 1-3-19). Additionally, the ratio of reasons related to income and the future prospects of the company is higher among job switches from an SME to a large enterprise compared to changes from an SME to an SME.

Next, the largest reason for changing jobs from a large enterprise to an SME is “favorable working conditions” (22.4%), while the largest reason for changing from a large enterprise to a large enterprise is “interested in the job” (23.4%). Furthermore, the ratio of “simply wanted to obtain a job” (19.1%) as the reason for changing jobs is higher among workers changing jobs from a large enterprise to an SME.

Fig. 1-3-19 Ratio of reasons for job entry by size of previous and present enterprise



Source: Recompiled from MHLW, 2014 Survey on Employment Trends.

- Notes:
1. Job entry reasons exclude “other reasons (incl. temporary transfers)” and “unidentified.”
 2. Large enterprises here refer to enterprises with 300 workers or more. SMEs refer to enterprises with 299 workers or less.

Above, we found that while the number of SME job offers is increasing, the numbers of new graduates and workers changing jobs to SMEs are not increasing as much as large enterprises, such that the number of workers in SMEs is declining and there is a strengthening sense of labor shortage. Underlying this situation are issues related to the employment structure as a whole. For example,

there appears to be a mismatch between occupations for which enterprises seek workers, and occupations that are sought by job seekers, and a difference in working conditions that large enterprises and SMEs can provide in response to conditions sought by job seekers. In fact, the largest reason for job separation from an enterprise with a small number of workers is related to income,

as a reflection of the disparity that exists between large enterprises and SMEs in regard to actual wage levels and wage increases.

On the other hand, the reasons for job entry place weight on the job content in both large enterprises and SMEs, and the reasons for changing jobs from a large enterprise to an SME include interest in the job, and favorable working conditions such as working hours and holidays. Therefore, SMEs that offer attractive jobs

and flexible working styles have the potential to secure workers even amid a labor shortage.

It is also important for SMEs to address the shortage of workers by actively utilizing human resources that are not presently participating in the labor market, given that Japan's labor environment is in a state of structural unemployment and the working population is expected to decline in the future.

Section 3 Summary

Part I Chapter 2 focused on the life cycle of SMEs, including market entries and exits and the growth of continuing enterprises, and assessed the present state of SMEs, quantitatively analyzed the effects of the life cycle on SME productivity as a whole based on actual corporate data, and analyzed various changes over time and the characteristics of SMEs that have a large impact on SME productivity as a whole.

Part I Chapter 3 focused on human resources, which pose an issue throughout the life cycle of SMEs, and examined changes in the employment environment in Japan in the context of a rapidly aging society, as well

as analyzed the present state of labor shortage and factors behind the mismatch between enterprises and job seekers. As a whole, a wage disparity exists between large enterprises and SMEs, but it was found that workers choose SMEs as a place of employment if they offer attractive jobs and flexible working styles.

Part II will focus on the life cycle of SMEs and the human resources that support them, and analyze in detail their growth through startup, business succession and new business advancements, and their initiatives for securing human resources.

Column 1-3-2 Initiatives for realizing wage increases in SMEs

This column examines support policies that help SMEs create an environment that is conducive to increasing productivity as a means for realizing wage increases, and support policies that provide incentives for increasing wages.

[Support policies for productivity improvement]

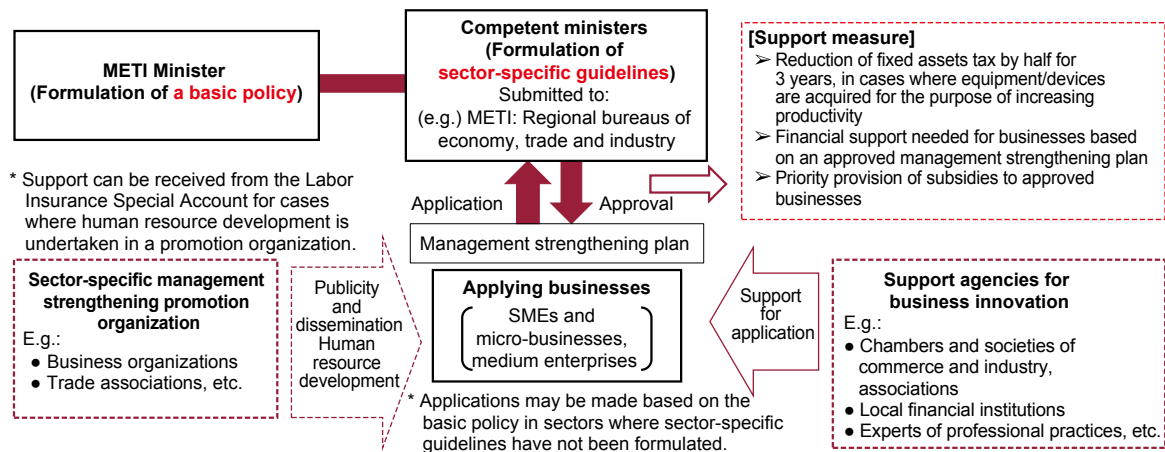
Act on Strengthening the Management of SMEs, etc.

The Act on Strengthening the Management of SMEs, etc. came into force on July 1, 2016, as a policy framework for increasing productivity in SMEs, etc. Under the Act, businesses can receive taxation and financial support measures by preparing a management improvement plan based on sector-specific guidelines and receiving approval for it.

More specifically, the scheme aims to achieve the following.

- (1) To have ministers governing each industry create guidelines based on best practices in productivity improvement for each industry.
- (2) To support SMEs and micro-businesses that engage in initiatives in line with these guidelines by providing financial and taxation measures, including a reduction of fixed assets tax.
- (3) To encourage the initiatives of SMEs and micro-businesses through the support of regional support organizations such as societies and chambers of commerce and industry and local financial institutions.

Fig. Column 1-3-2 (1) Scheme of the Act on Strengthening the Management of SMEs, etc.



Expansion of the fixed assets tax reduction measure, establishment of a tax system for strengthening SME management (FY2017 tax revision)

To support capital investment toward increasing productivity, the fixed assets tax reduction measure was expanded⁹⁾ to include devices and fixtures that are used in the services industries (refrigerated display shelves, assistive nursing wear, etc.) and facilities accompanying buildings (air-

9) In the special exemption of fixed assets tax, the tax reduction measure for facilities that have been newly included in the scope of the measure (devices and fixtures, facilities accompanying buildings, etc.) is limited to industries in which labor productivity is below the nationwide average in regions where the minimum wage is above the nationwide average (Saitama, Chiba, Tokyo, Kanagawa, Aichi, Kyoto, Osaka). In the other 40 prefectures, the measure applies to all industries.

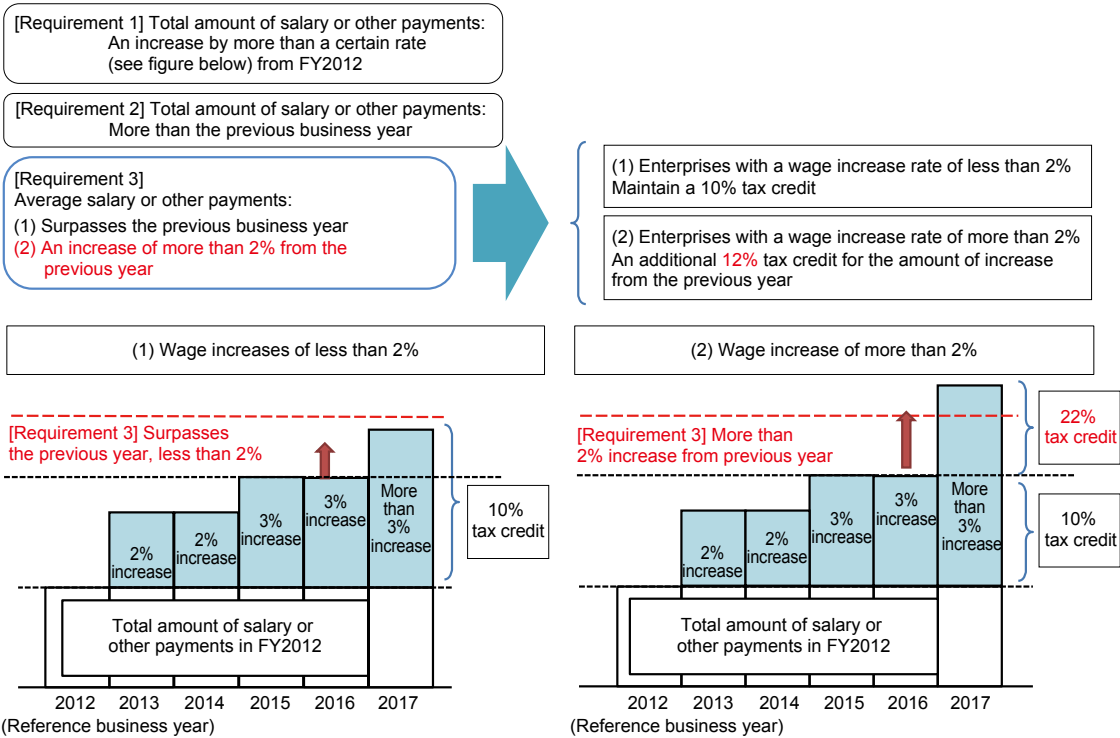
conditioning equipment, elevators, etc.) within the scope of facilities eligible for tax reduction, and a tax system for strengthening SME management was established within the corporate tax system.

[Establishment of an incentive for realizing wage increases]

Review of the income growth promotion tax system (FY2017 tax revision)

In addition to the support measure offered until fiscal 2016 (10% tax credit on increases in salary and other payments from FY2012), SMEs that have increased wages by more than 2% compared to the previous fiscal year will be eligible to receive an additional 12% tax credit on increases in salary and other payments from the previous year.

Fig. Column 1-3-2 (2) Key points of the expansion of the income growth promotion tax system



Column 1-3-3 Discussions toward diverse working styles

The Ministry of Economy, Trade and Industry launched study groups to assess the recent increase in flexible working styles represented by dual occupations, side businesses, and working styles that are not bound by employment relationships, and to identify issues from the perspective of invigorating the industries, including SMEs. This column introduces the information obtained from discussions in two study groups.

[Business startups and creation of new businesses through dual occupations and side businesses]

Study group on business startups and creation of new businesses through dual occupations and side businesses

(Present status of dual occupations and side businesses)

Promoting dual occupations and side businesses not only contributes to increasing market entries by potential entrepreneurs, but is also important to SMEs that face a shortage of workers.

According to the *FY2012 Employment Status Survey* of the Ministry of Internal Affairs and Communications, approximately 5.7% of employed workers (approx. 3.68 million) seek to engage in dual occupations or side businesses. It is worth noting that the middle and advanced age group of people in their 50s to 60s compose the volume zone of dual occupations and side businesses.

(Issues)

For one thing, business managers lack proper understanding of the advantages of dual occupations and side businesses, and for another, various risks and concerns exist regarding working hours, management of industrial accidents, leakage of information, etc.

Additionally, some employment regulations forbid dual occupations and side businesses. According to a survey conducted by the SME Agency in February 2015, approximately 85.3% of enterprises do not allow their employees to engage in dual occupations or side businesses.

(Response policies)

(1) Fostering social momentum through the introduction of best practices, corporate awards, etc.

The fact that dual occupations and side businesses have their advantages, and that risks are manageable, shall be disseminated through the introduction of best practices, recommendations, etc.

(2) Creation of “leading cases” in the regions

To create best practices in the regions, corporate employees who seek to engage in dual occupations or side businesses shall be supported in their efforts, under the FY2017 subsidy for enterprises that support business startups.

(3) Establishment of a consultation framework for managers and employees

A list of consultation centers that utilize an existing startup support system shall be created, to establish a framework for providing expert consultation to potential entrepreneurs who are considering starting a business through their dual occupation or side business.

(4) Coping with institutional issues

Model employment regulations shall be revised, and ministerial proposals on the formulation of guidelines concerning dual occupations and side businesses shall be implemented.

[Effective utilization of human resources through diverse working styles]

Study group on new working styles that are not bound by employment contracts

(Working styles that are not bound by employment relationships)

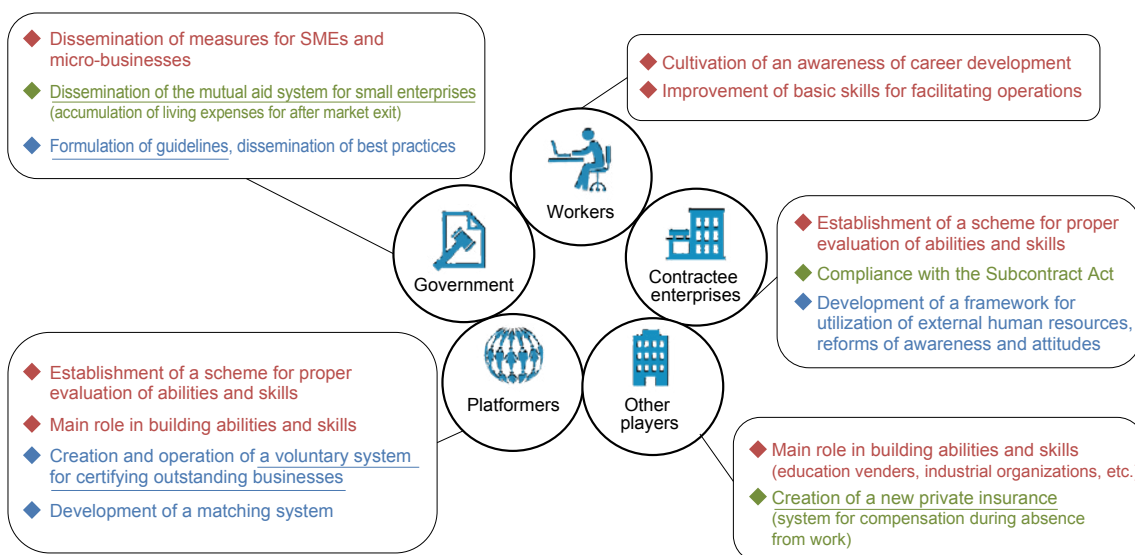
When considering future changes in Japan’s industrial structure, it will be important to embrace freelance/alliance work and other such working styles that are not bound by employment relationships as “optional” working styles to workers who voluntarily seek flexible working styles or who have constraints such as of child care or nursing care.

According to surveys of the Ministry of Economy, Trade and Industry conducted in FY2016¹⁰⁾, the majority of workers are “satisfied” and “wish to continue their present working style,” but only 20% of enterprises introduce freelance work.

(Issues and response policy)

Workers who are not bound by employment relationships, such as freelance workers, face different issues according to their skills, environment, and other such factors, and thus the support they require also differs.

Working styles that are not bound by employment relationships could be established as optional working styles by (1) providing skills improvement and educational training, (2) creating environments that provide a sense of security to workers, and (3) accelerating initiatives by enterprises.



* In the medium to long term, it will become necessary to deepen discussions on labor laws and social security.

10) FY2016 Industrial Economic Research Commissioned Project on “Survey of work style reforms in enterprises” (March 2017, Mizuho Information & Research Institute, Inc.) and FY2016 Industrial Economic Research Commissioned Project on “Survey on work style reforms that respond to new industrial structural changes” (March 2017, Nikkei Inc.)

Part II



SME life cycle

Chapter 1

New business startup/establishment

In Part I, we looked at the conditions for establishing businesses in Japan and at the importance of recurrence in the life cycles of SMEs, which are essential to the future growth of Japan's economy. In this chapter, we target the startup or establishment phase of that life cycle for more detailed analysis. Specifically, Section 1 will take an overall view of the conditions for establishing businesses in Japan in comparison with other countries, while in Section 2 we will analyze the conditions in the establishment phase for entrepreneurs interested in starting up a business and the problems they face. Then, in Section 3, we will look at the conditions in each of the growth stages during and after business establishment, and identify the problems that arise. This will enable us to consider the sorts of support policies that are required in order to increase the number of future businesses established.

Section 1 Conditions for establishing businesses in Japan

In this section, we will use various statistics and surveys to examine the conditions for establishing businesses in Japan over time and compare business startup activity

internationally to shed more light on the situation around business startups in Japan.

1. Conditions for establishing businesses in Japan

We begin by use the *Employment Status Survey* conducted by the Ministry of Internal Affairs and Communications (MIC) to gain an overview of the trends over several years in the conditions for the people responsible for establishing businesses, namely the entrepreneurial hopefuls who wanted to start up a business and the entrepreneurs who actually succeeded in doing so. We can then use this analyze the conditions for establishing businesses in Japan.

(1) Trends in people responsible for business startups

Fig. 2-1-1 shows the trends over time in the numbers of entrepreneurial hopefuls, people making startup preparations and entrepreneurs who are responsible for starting up businesses in Japan. The figure indicates a declining trend in the numbers of entrepreneurial

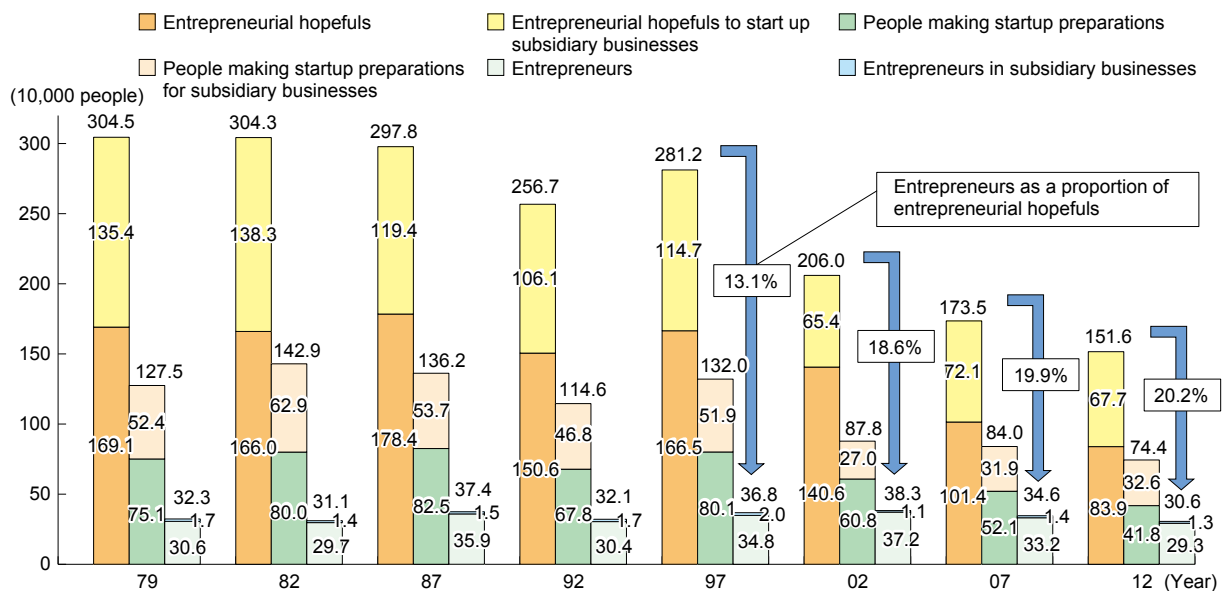
hopefuls and people making startup preparations from 1997 onwards, with the numbers of entrepreneurs falling steadily from 383,000 in 2002 to 346,000 in 2007 and down to 306,000 in 2012. On the other hand, the speed of decline among people making startup preparations and entrepreneurs is slower than for entrepreneurial hopefuls, such that the number of entrepreneurs as a proportion of entrepreneurial hopefuls actually rose between 1997 and 2012, increasing from 13.1% to 18.6%, 19.9% and then to 20.2%. So we can see that, while there was a marked decline in the number of entrepreneurial hopefuls, entrepreneurs have emerged in consistent numbers each year¹⁾.

1) In summarizing trends in the numbers of entrepreneurs here, "entrepreneurs" are defined as "those people who have changed jobs or found a new job within the last year who have also become officers of a company, etc. or self-employed persons." However, in the MIC *Employment Status Survey*, the "Did you start your own business?" query was only added as of the 2007 survey. If we single out those people who responded positively to the "Did you start your own business?" query in 2007 and 2012, the numbers of entrepreneurs who responded "Started the business myself" in 2007 and 2012 were 181,000 (including 7,000 who started subsidiary or secondary businesses) and 169,000 (including 6,000 who started subsidiary or secondary businesses) respectively. The figures for entrepreneurs shown in Fig. 2-1-1 do not single out those people who started up their own businesses, so we must bear in mind that they may include self-employed persons and people who became company CEOs through factors such as business succession, without themselves having started up the business.

If we also look at the figures for entrepreneurial hopefuls considering starting up secondary or subsidiary businesses or people making startup preparations for such businesses (hereinafter referred to as “entrepreneurial hopefuls to start up subsidiary businesses” and “people making startup preparations for subsidiary businesses” respectively), along with entrepreneurs who established secondary or subsidiary businesses (hereinafter “entrepreneurs in subsidiary businesses”), entrepreneurs hoping or preparing to start up subsidiary businesses as a proportion of all entrepreneurs hoping or preparing to start up a business have in each case been increasing since 2002. (People hoping to start up subsidiary businesses as a proportion of all entrepreneurial hopefuls made up

31.7% of the total in 2002, 41.6% in 2007 and 44.7% in 2012. People making startup preparations for subsidiary businesses as a proportion of all people making startup preparations made up 30.8% of the total in 2002, 38.0% in 2007 and 43.8% in 2012.) However, while entrepreneurs in subsidiary businesses have also been making up an increasing proportion of all entrepreneurs since 2002 (2.9% in 2002, 4.0% in 2007 and 4.2% in 2012), the proportions are lower than for entrepreneurial hopefuls and people making startup preparations. This indicates that even though there is an increased focus on starting up secondary or subsidiary businesses as a new way of working, few businesses are actually established in this way.

Fig. 2-1-1 People responsible for business startups



Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. “Entrepreneurial hopefuls” here refers to employed persons who responded that they are looking to change jobs and “wish to start their own business”, or unemployed persons who responded that they “wish to start their own business”.
 2. “Entrepreneurial hopefuls to start up subsidiary businesses” here refers to employed persons who responded that they are looking to change jobs and “wish to do other jobs plus the current one” or “wish to start their own business”.
 3. “People making startup preparations” here refers to entrepreneurial hopefuls who responded that they are “preparing to start a business”.
 4. “People making startup preparations for subsidiary businesses” here refers to those people hoping to start up a secondary or subsidiary business who responded that they are “preparing to start a business”.
 5. “Entrepreneurs” here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.
 6. “Entrepreneurs in subsidiary businesses” here refers to those who have changed jobs or found a new job within the last year and who have become officers of a company, etc. or self-employed persons, and who are also employed in other work that is different from their current job.

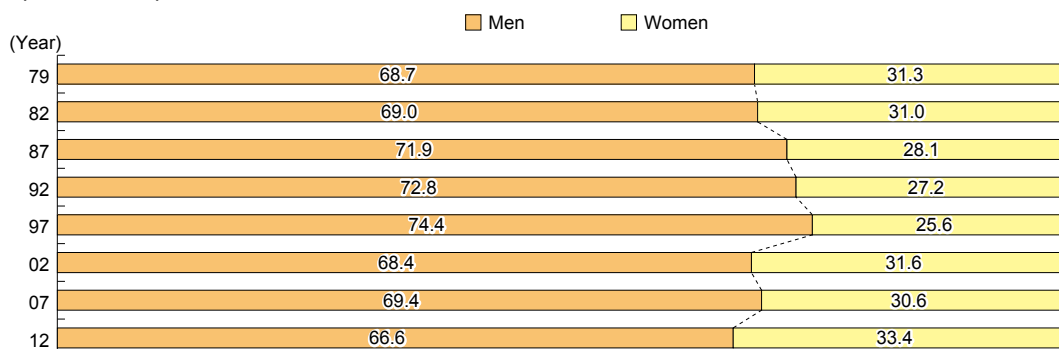
(2) Genders of entrepreneurial hopefuls and entrepreneurs

Fig. 2-1-2 shows the composition of entrepreneurial hopefuls and entrepreneurs by gender, indicating that while the proportion of women among entrepreneurial hopefuls tended to increase from 1997 onwards, female

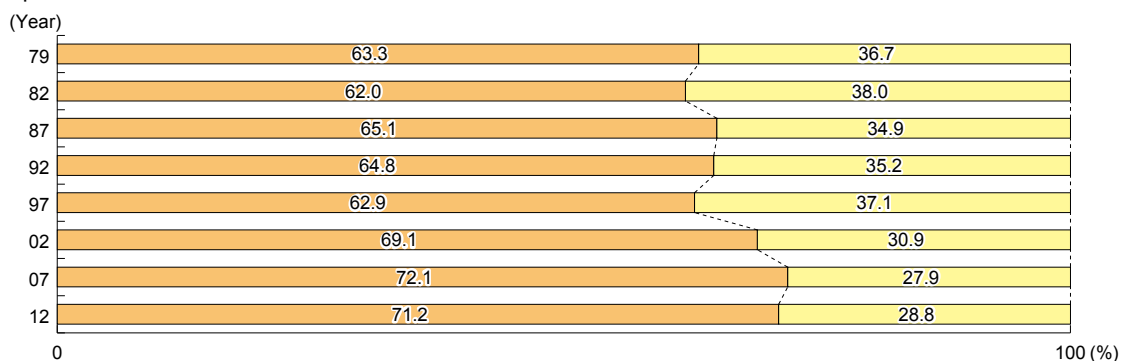
entrepreneurs as a proportion of all entrepreneurs declined over the same period. This suggests that more women have been considering establishing businesses as a way of working in recent years, but few of them have gone on to actually start up a business.

Fig. 2-1-2 Genders of entrepreneurial hopefuls and entrepreneurs

(1) Entrepreneurial hopefuls



(2) Entrepreneurs



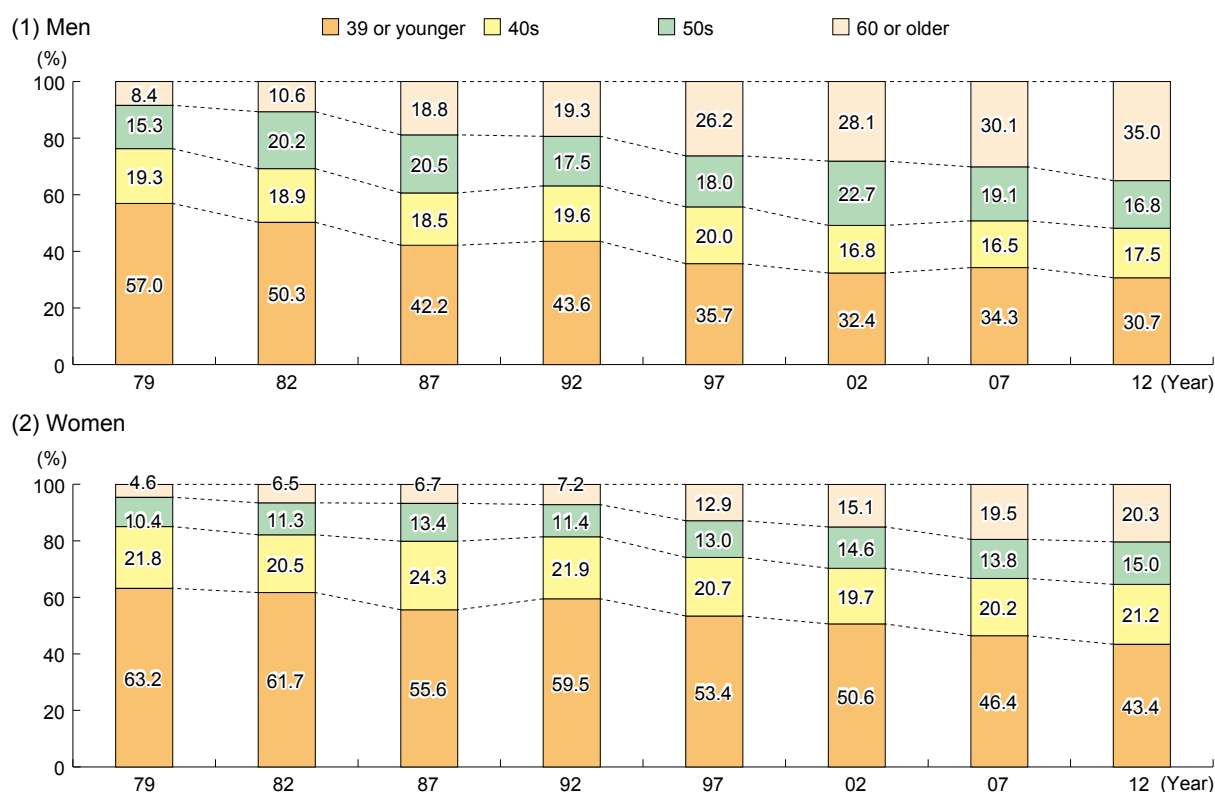
Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. "Entrepreneurial hopefuls" here refers to employed persons who responded that they are looking to change jobs and "wish to start their own business", or unemployed persons who responded that they "wish to start their own business".
 2. "Entrepreneurs" here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.
 3. Here, entrepreneurial hopefuls and entrepreneurs do not include entrepreneurs engaged in or hoping to start up secondary or subsidiary businesses.

(3) Ages of entrepreneurs by gender

Next, Fig. 2-1-3 shows the different ages of entrepreneurs according to their gender and clearly shows a trend among both men and women for entrepreneurs aged 60 or older to increase as a proportion of all entrepreneurs since 1979. More recently in 2012, the

proportion of entrepreneurs aged 60 or older was 35.0% for men compared with 20.3% for women, indicating that men make up a higher proportion than women. It seems likely that this is because more men than women have been in salaried positions and have reached retirement age before opting to establish a business as a second career.

Fig. 2-1-3 Ages of entrepreneurs by gender

Source: Recompiled from MIC, *Employment Status Survey*.

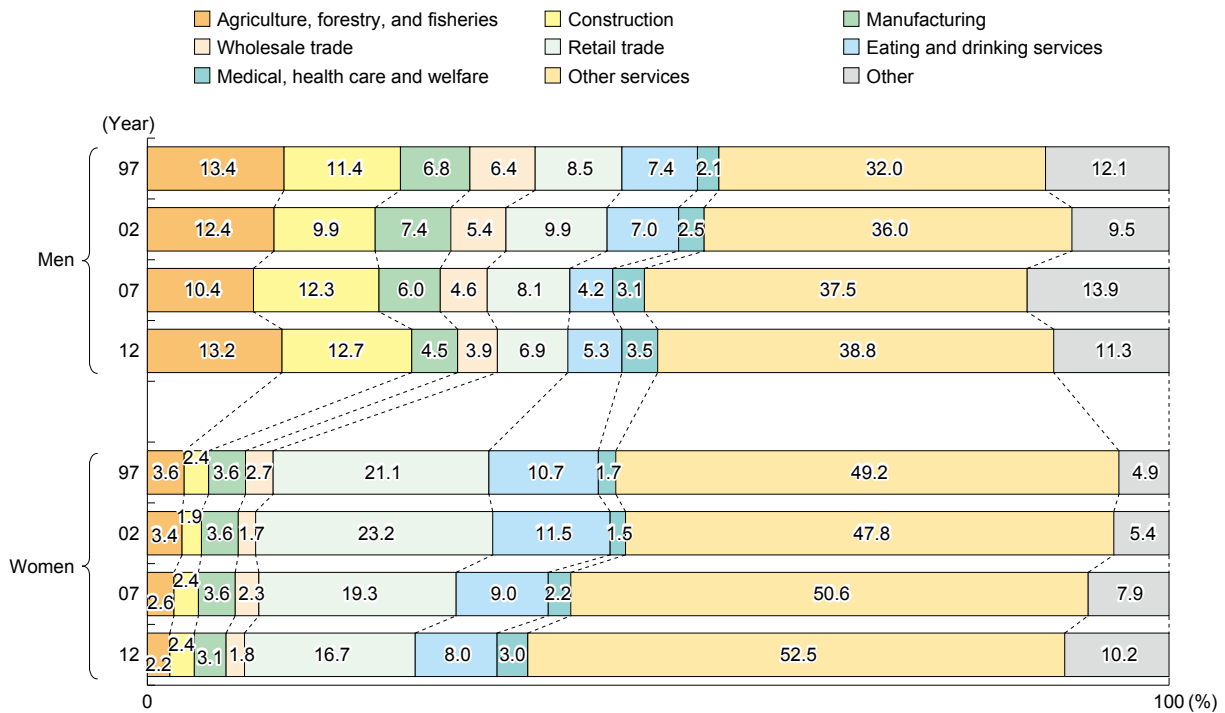
- Notes:
1. "Entrepreneurs" here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.
 2. Here, entrepreneurs do not include entrepreneurs engaged in secondary or subsidiary businesses.

(4) Composition of entrepreneurs by industry

Next, Fig. 2-1-4 shows the trends in the industry composition of entrepreneurs according to gender. The figure shows a higher proportion of men than women in the primary industries of agriculture, forestry and fisheries and in the construction industry. While the proportions have declined in recent years among both genders in manufacturing, wholesale trade, retail trade and eating and drinking services in recent years, but increasing in other services.

drinking services, the proportions in the service industries have been rising, particularly in scientific research, professional and technical services, living-related and personal services, amusement services and the education and learning support sector and medical, health care and welfare. Similar trends can be seen for women, with the proportion falling in retail trade and eating and drinking services in recent years, but increasing in other services.

Fig. 2-1-4 Business types of entrepreneurs by gender



Source: Recompiled from MIC, *Employment Status Survey*.

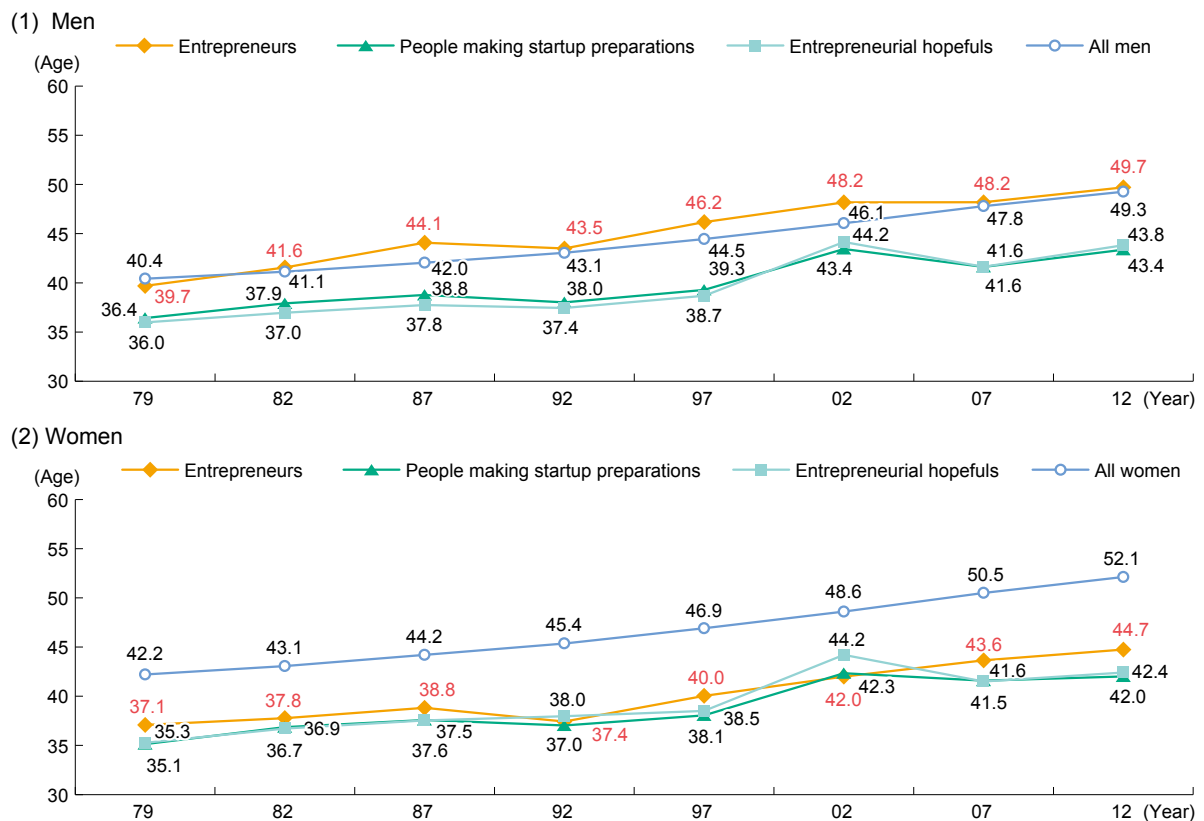
Note: "Entrepreneurs" here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.

(5) Average ages of entrepreneurs, people making startup preparations and entrepreneurial hopefuls

Fig. 2-1-5 shows the trends by gender in the average ages²⁾ of entrepreneurs, people making startup preparations and entrepreneurial hopefuls. The figure indicates that, due to population aging, the average ages of both men and women are rising among entrepreneurs, people making startup preparations and entrepreneurial hopefuls. Among

men, the average age across all men increased 8.9 years from 40.4 to 49.3 between 1979 and 2012. Among male entrepreneurs, the average age has increased even more rapidly over the same period, rising from 39.7 to 49.7, a jump of 10 years exactly. By comparison, among women the average age across all women increased 9.9 years from 42.2 to 52.1 between 1979 and 2012, but among female entrepreneurs, the average age increased only 7.6 years over the same period, rising from 37.1 to 44.7.

Fig. 2-1-5 Average ages of entrepreneurs, people making startup preparations and entrepreneurial hopefuls



Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. "Entrepreneurs" here refers to those who have changed jobs or found a new job within the last year and who have become officer of a company, etc. or self-employed persons.
 2. "People making startup preparations" here refers to entrepreneurial hopefuls who responded that they are "preparing to start a business".
 3. "Entrepreneurial hopefuls" here refers to employed persons who responded that they are looking to change jobs and "wish to start their own business", or unemployed persons who responded that they "wish to start their own business".
 4. Here, entrepreneurs, people making startup preparations and entrepreneurial hopefuls do not include entrepreneurs engaged in or preparing or hoping to start up secondary or subsidiary businesses.

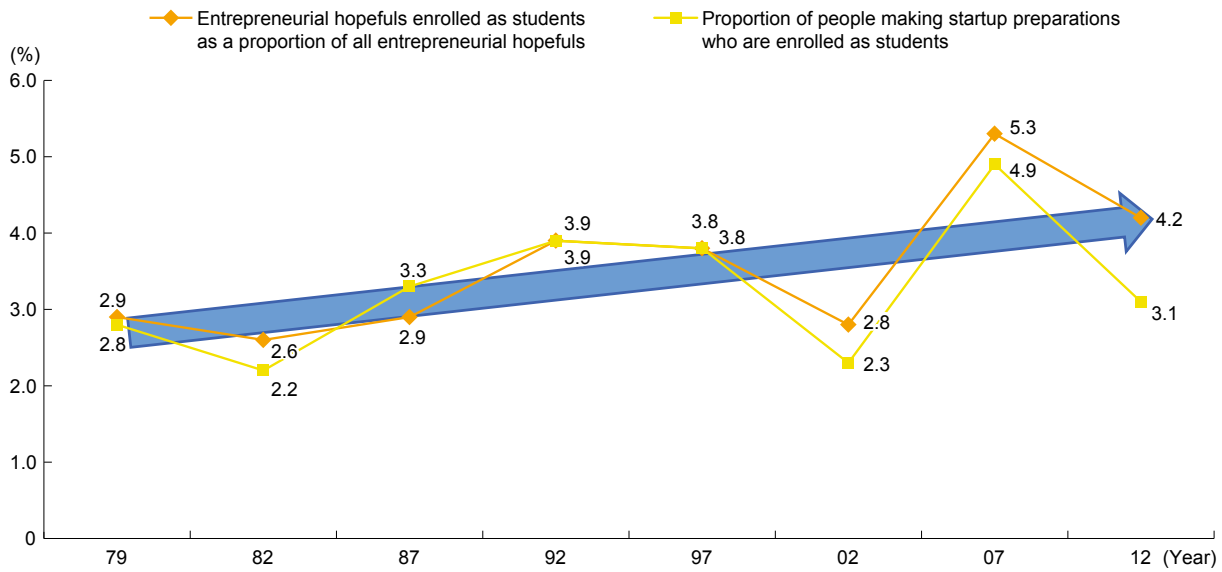
2) "Average age" as used here is an estimated value for average age calculated for entrepreneurs, people making startup preparations and entrepreneurial hopefuls respectively using the estimation multiplication factors calculated for each region, gender, age group and household type in the response samples from the MIC *Employment Status Survey* used to estimate the average age of the entire population.

(6) Changes in entrepreneurial awareness among students

In Fig. 2-1-3 above, we observed a declining trend among both genders in the proportion of entrepreneurs aged 39 or less. Here, based on Fig. 2-1-6, we look at the trends over time for students who are currently studying and are hoping to start up a business as a proportion of

all entrepreneurial hopefuls and for students who are currently studying and are making concrete preparations to start up a business as a proportion of all people making startup preparations. As the figure shows, there is a steadily growing intention to start up a business among students who are currently studying.

Fig. 2-1-6 Entrepreneurial awareness among enrolled students



Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. Here, “entrepreneurial hopefuls enrolled as students as a proportion of all entrepreneurial hopefuls” is calculated as the total number of people who are currently mainly attending school but who also work and want to change jobs and responded “wish to start their own business”, or people who do not work because they are currently attending school and also responded “wish to start their own business”, as a proportion of the total number of entrepreneurial hopefuls.
 2. Here, “proportion of people making startup preparations who are enrolled as students” here refers to those entrepreneurial hopefuls who are currently studying who responded that they are “preparing to start a business” as a proportion of all the people making startup preparations.
 3. Here, entrepreneurial hopefuls and people making startup preparations do not include people hoping or preparing to start up secondary or subsidiary businesses.

Column 2-1-1 High School Student Business Plan Grand Prix

Every year since FY2013, The Japan Finance Corporation (JFC) has held the annual “High School Student Business Plan Grand Prix” for high-school students, which aims to improve awareness of business startups in the young people who will carry that burden for the next generation. The competition promotes business startup training designed to foster the “ability to think and act for oneself”, something seen as essential in the real world (Fig. Column 2-1-1 (1)).

While there are many business ideas contests for university students and working adults, when high-school students become engaged in business planning, issues often arise around market surveys, marketing and income and expenditure planning. The JFC assists students with these issues by dispatching specialist employees working in actual business startup support programs who go out and give lectures to high schools, drawing on the expertise that JFC has gained by financing some 26,000 business startups every year and also support on business plan creation.

Fig. Column 2-1-1 (1) Outline of the Infinite Power of Creativity ∞, High School Student Business Plan Grand Prix

Aim	To promote business startup training that fosters the sort of “ability to think and act for oneself” that is needed in the real world
Qualification requirements	Individual students or groups of students from high schools (including the latter part of secondary education schools) anywhere in Japan
Eligible content	Plans of the following types that engage the free ideas and creative power of young people: <ul style="list-style-type: none"> • Business plans that make people’s lives better or that make the world work better • Business plans that resolve social issues such as regional or environmental problems
Business plan screening criteria	<ol style="list-style-type: none"> (1) Do the products and/or services reflect the wealth of ideas and viewpoints typical of high-school students? (2) Does the plan identify needs and propose specific customers (targets)? (3) Has the plan considered the required management resources (people, things, technology, expertise)? (4) Does the plan allow for sales and/or profitability that will at least ensure continuity?

Fig. Column 2-1-1 (2) looks at the trends in the numbers of high schools that have entered the High School Student Business Plan Grand Prix and shows that the number of entries is trending upwards year on year. The content of the plans is increasingly diverse and the standard is rising each year, with high-school students in regions faced with the problem of a shrinking population presenting entries such as business plans aimed at regional revitalization through collaboration with local industry and businesses by utilizing local resources. Other proposed business plans put forward by students at schools designated as Super Global High Schools under the Ministry of Education, Culture, Sports, Science and Technology (MEXT) SGH program bring an international perspective.

Entrepreneur training programs are also starting up under the joint auspices of regional high schools and local governments, including some regions where the Grand Prix is being seized on as an opportunity to hold regional business plan workshops or for local governments to initiate entrepreneur fostering programs for young people.

Fig. Column 2-1-1 (2) Numbers of high school entrants

	1st Grand Prix (FY2013)	2nd Grand Prix (FY2014)	3rd Grand Prix (FY2015)	4th Grand Prix (FY2016)
No. of high school entrants	151	207	264	324
No. of entries	1,546	1,717	2,333	2,662
No. of participating students (individuals)	3,362	4,927	6,915	7,520
No. of visiting JFC lectures held	82	148	183	241



Awards ceremony at the final screening in the 4th [The Infinite Power of Creativity ∞, High School Student Business Plan Grand Prix]

Case 2-1-1 Life is Tech, Inc.

A company that boosts the potential of diverse junior and senior high school students through programming and IT classes

Life is Tech, Inc. (employees: 33; capital: ¥518.48 million), based in Minato City in Tokyo, was founded in 2010.

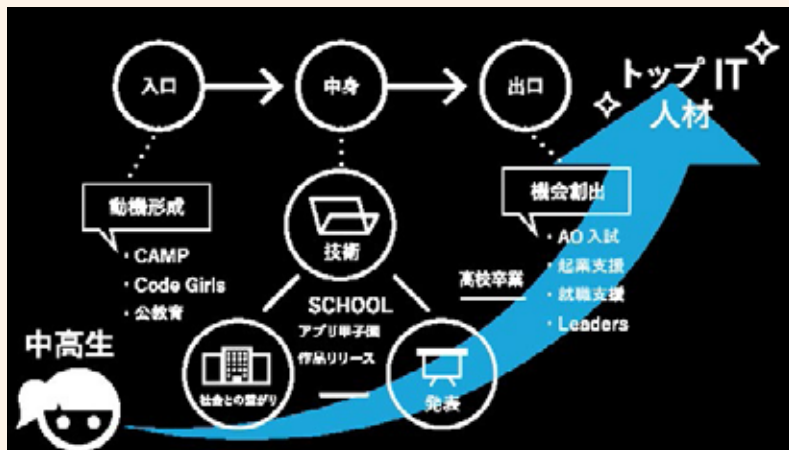
At present, the company's main activities include the planning and operation of programming and IT education camps and schools and the development and operation of online programming education services for junior and senior high school students. In 2014, Life is Tech became the first recipient of a Google RISE award (an award granted by Google to organizations throughout the world providing ICT education) in the East Asian region.

Life is Tech's mission and company vision is to boost the creativity and practical ability of diverse individual junior and senior high school students, and its practical tools to realize this goal are programming and IT education camps and schools.

As the "entrance," providing students with the opportunity to learn, the company holds camps at which students stay over on university campuses throughout the country during the extended spring, summer and winter vacations, and operates schools to which students commute in Tokyo, Osaka and other cities, offering content that provides a firm grounding in programming. The company also provides ample support for the "exit" of the junior and senior high school students who have studied with it, assisting them in matters including moving on to further study, finding employment and starting businesses. Life is Tech opens the path to future success, for example in employment with global enterprises.

The company's first camp was held in fiscal 2011, and was attended by 40 junior and senior high school students. Today, 3000 students attend the summer camp. At these camps, university students directly teach the junior and senior high school students about programming and information technology, and camp staff with a variety of professional affiliations offer both technological knowledge and communication skills, ensuring that there are a large number of repeat students, and that the number of students also continues to increase.

Life is Tech's President and CEO, Yusuke Mizuno, says emphatically, "Programming ability has significant potential to be more essential than language ability in countries throughout the world, and because of this, we have been strengthening our global expansion since 2015, for example by holding camps at overseas universities in countries such as Singapore. We are aiming to create a world in which 200,000 junior and senior high school students are creating using IT in Japan alone by 2020."



An image of the company's consistent support for programming and IT education from the "entrance" to the "exit"



A scene from one of Life is Tech's programming and IT education camps

2. International comparison of business startup conditions

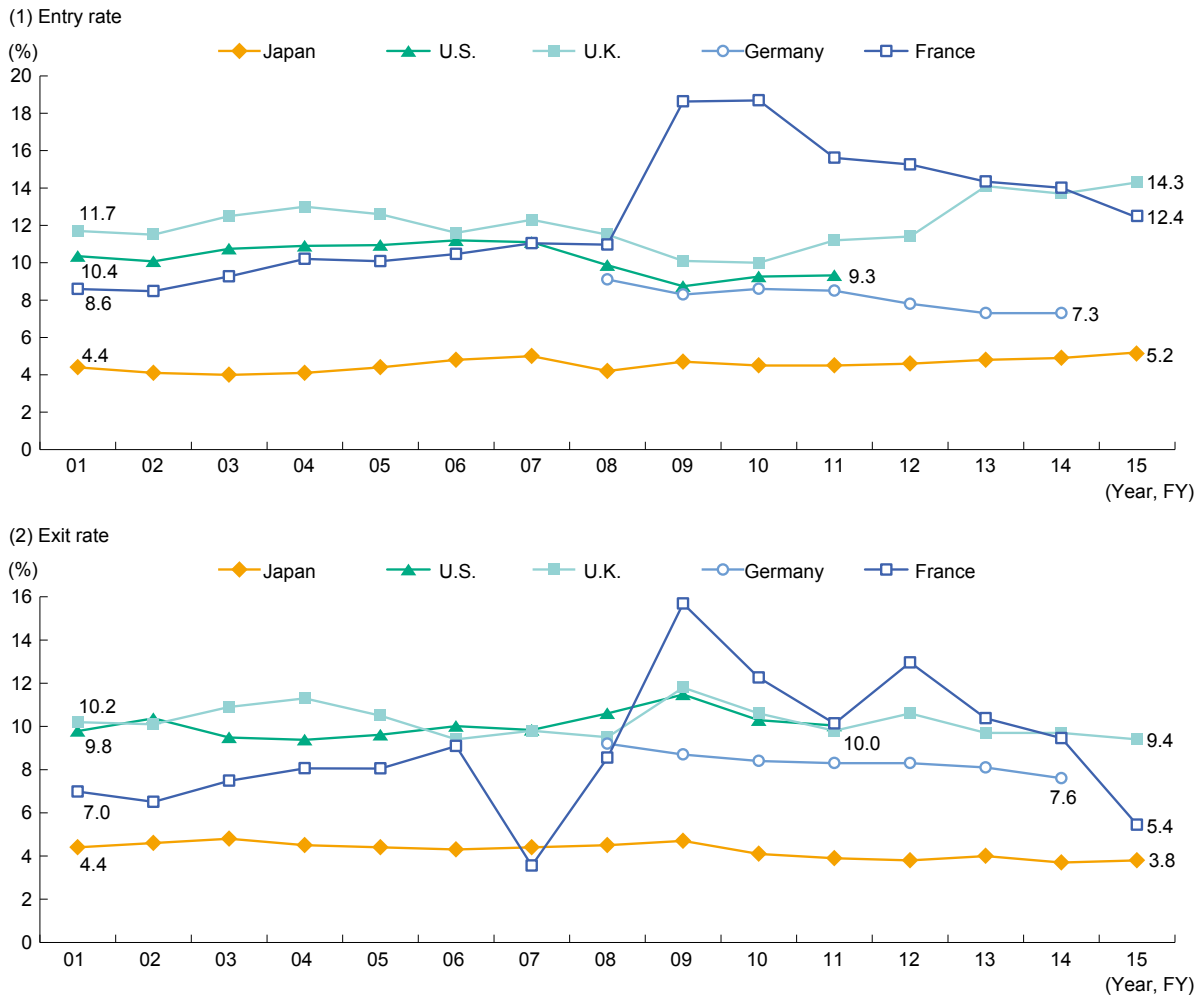
In this subsection, we will begin with an international comparison looking at entry rates and exit rates in Japan and those in Western countries. We will then focus more specifically on the process whereby businesses are actually established and compare Japan with other countries in terms of its awareness of and activities towards business startups in order to tease out the conditions for business startups in Japan.

(1) International comparison of entry and exit rates

We begin by using government statistics to check entry and exit rates in Japan and in the U.S. and the European nations of the U.K., Germany and France. Japan's entry and exit rates are calculated in a number of ways, but

the rates used for this international comparison between Japan and Western countries are calculated using the *Annual Report on Employment Insurance Programs* by the Ministry of Health, Labour and Welfare (MHLW), as was the case in Part I. Fig. 2-1-7 shows the trends in the entry rate and exit rate in Japan and in Western countries. The statistics are compiled differently in Japan and the other countries, so a simple straight comparison is not possible. However, the figure clearly shows that Japan's entry and exit rates between 2001 and 2015, at around 5% and around 4% respectively, are consistently very low in comparison with Western countries. By contrast, the recent entry rates in the U.K. and France are around 13%, which is almost 10 percentage points higher than Japan's rate.

Fig. 2-1-7 International comparison of entry and exit rates



Sources: Japan: Ministry of Health, Labour and Welfare, *Annual Report on Employment Insurance Programs (Fiscal year basis)*.
 U.S.: U.S. Small Business Administration, *The Small Business Economy*.
 U.K.: Office for National Statistics, *Business Demography*.
 Germany: Statistisches Bundesamt, *Unternehmensgründungen, -schließungen: Deutschland, Jahre, Rechtsform, Wirtschaftszweige*.
 France: INSEE, *Taux de création d'entreprises*.

- Notes:
1. Japan's entry and exit rate are calculated based on the establishment and discontinuance of businesses that provide employees with insurance (applicable businesses).
 2. The rate of business entries and exits for the U.S. is calculated based on the emergence and disappearance of employers.
 3. The rate of business entries and exits for the U.K. is calculated based on the number of companies registered as paying value-added tax (VAT) and pay-as-you-earn (PAYE) tax.
 4. Germany's entry and exit rates are calculated based on the number of companies that submit notifications of the establishment and discontinuance of business.
 5. France's entry and exit rates are calculated based on the number of companies registered into or removed from the SIRENRE register of companies and establishments.
 6. Because the characteristics of the statistics differs between countries, it is not possible to make simple comparisons.

(2) International comparison of entrepreneurial awareness

The processes leading up to the establishment of a business are: (1) People indifferent to business startups become interested; (2) specific preparations are made for business startup; and (3) actual business startup. Below, we will focus on the “process of becoming interested in a

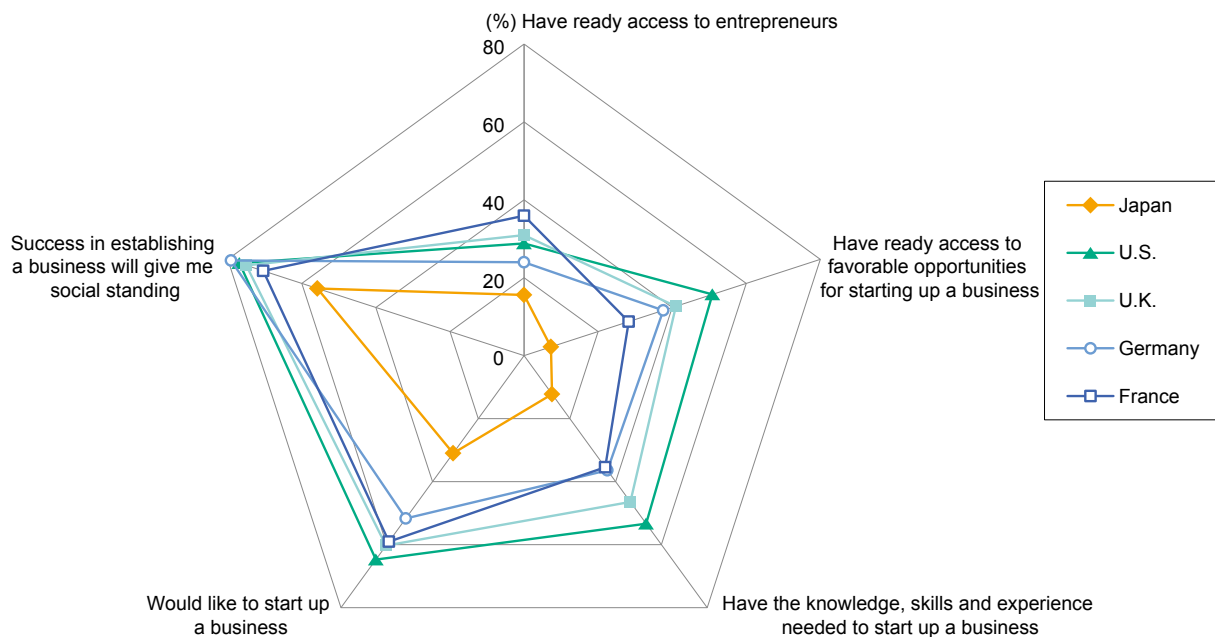
business startup (entrepreneurial awareness)” in (1) above and the “process of preparing for and starting up a business (entrepreneurial activity)” in (2) and (3) above. We will then compare those processes across different countries. To make an international processes comparison of entrepreneurial awareness and activity, we will look that those factors in Japan and in Western countries as shown by the results

of the Global Entrepreneurship Monitor (GEM)³⁾ surveys undertaken in the major countries around the world.

We begin by conducting an international comparison of entrepreneurial awareness. In the GEM surveys, adults between the ages of 18 and 64 are asked about their levels of entrepreneurial awareness and entrepreneurial activity. Fig. 2-1-8 shows the factors used to query the levels of entrepreneurial awareness. From Fig. 2-1-8, it is clear that

Japan has a far lower proportion of responses to all the queries than Western countries, particularly for “Have ready access to entrepreneurs” and “Have the knowledge, skills and experience needed to start up a business”. This indicates that the level of entrepreneurial awareness in Japan is especially low when compared with Western countries.

Fig. 2-1-8 International comparison of entrepreneurial awareness



Source: Formulated by the SME Agency from the *Report on the FY2015 'Survey of Entrepreneurial Spirit' Survey of Business Startup and Venture Support* (March 2016, Nomura Research Institute, Ltd.).

- Notes:
- Shows the results of the Global Entrepreneurship Monitor (GEM) surveys.
 - Here, the “Have ready access to entrepreneurs” response shows the GEM survey “indicator of entrepreneurial activity penetration” (the proportion who responded “Know someone who started up a new business in the last two years”).
 - Here, the “Have ready access to favorable opportunities for starting up a business” response shows the GEM survey “indicator of business opportunity recognition” (the proportion who responded “A good opportunity to start up a business will come up in the area where I live in the next six months”).
 - Here, the “Have the knowledge, skills and experience needed to start up a business” response shows the GEM survey “indicator of knowledge, skills and experience” (the proportion who responded “Have the knowledge, skills and experience needed to start up a new business”).
 - Here, the “Would like to start up a business” response shows the GEM survey “Assessment of career choice” (the proportion who responded “Most people in your country think that starting up a new business is a desirable career choice”).
 - Here, the “Success in establishing a business will give me social standing” response shows the GEM survey “Assessment of the social standing of entrepreneurs” (the proportion who responded “People who succeed in starting a new business gain respect and social standing in your country”).

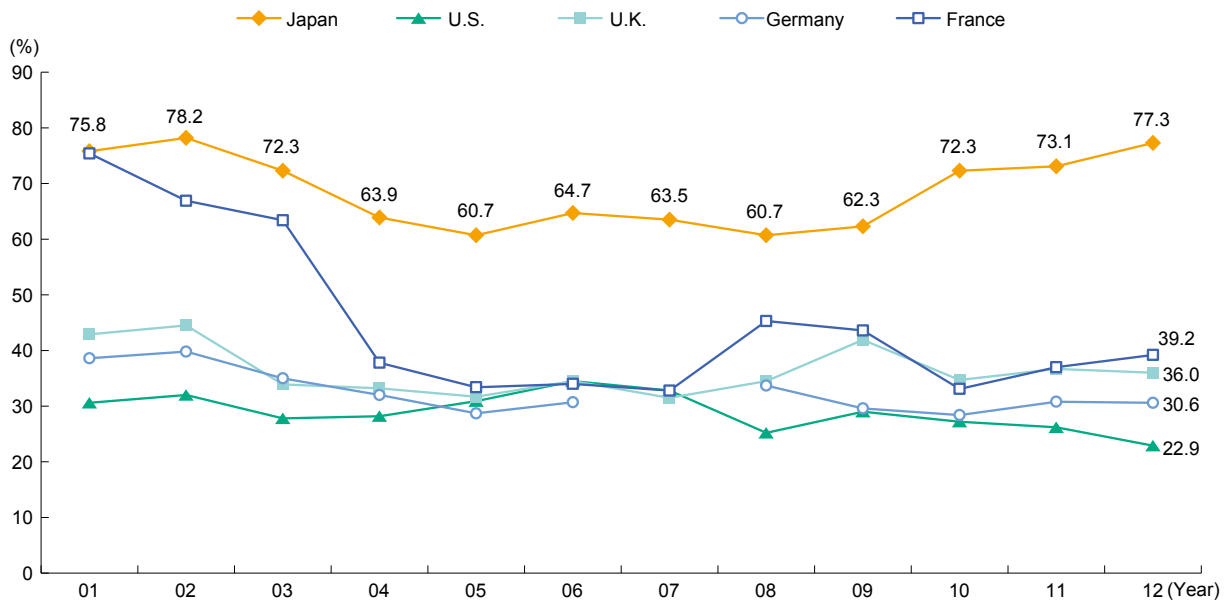
3) The GEM surveys have been conducted since 1999, primarily by Babson College in the U.S. and London University in the U.K. based on the premise that a country’s economic development is closely tied to entrepreneurial activity. The three main goals of the surveys are to identify: (1) whether there are differences between countries in their entrepreneurial activity; (2) whether economic activity and entrepreneurial activity are correlated; and (3) what are the factors that underlie the differences in entrepreneurial activity. From 10 countries, including Japan, initially in 1999, the number of participating countries and regions rose to 62 in 2015. The minimum number of samples per country is 2,000 (random sampling) and the same survey forms are used worldwide. Through these surveys, it is possible to draw international comparisons of entrepreneurial activity, entrepreneurial attitudes, the goals of entrepreneurial activity and the situation regarding activities that support business startups.

(3) Proportion of people not interested in business startups

Next, we will look more closely at three of the responses used to measure entrepreneurial awareness in Fig. 2-1-8 above, namely “Have ready access to entrepreneurs”, “Have ready access to favorable opportunities for starting up a business” and “Have the knowledge, skills

and experience needed to start up a business”. People who responded “No” to any of these three responses are defined in this subsection as “people not interested in business startups” and Fig. 2-1-9 shows the proportion of such people among all the respondents. The figure shows that Japan tends to have a higher proportion of people not interested in business startups than Western countries.

Fig. 2-1-9 Proportion of people not interested in business startups



Source: Formulated by the SME Agency from the *Survey of Entrepreneurial Spirit* report (March 2014, Venture Enterprise Center).

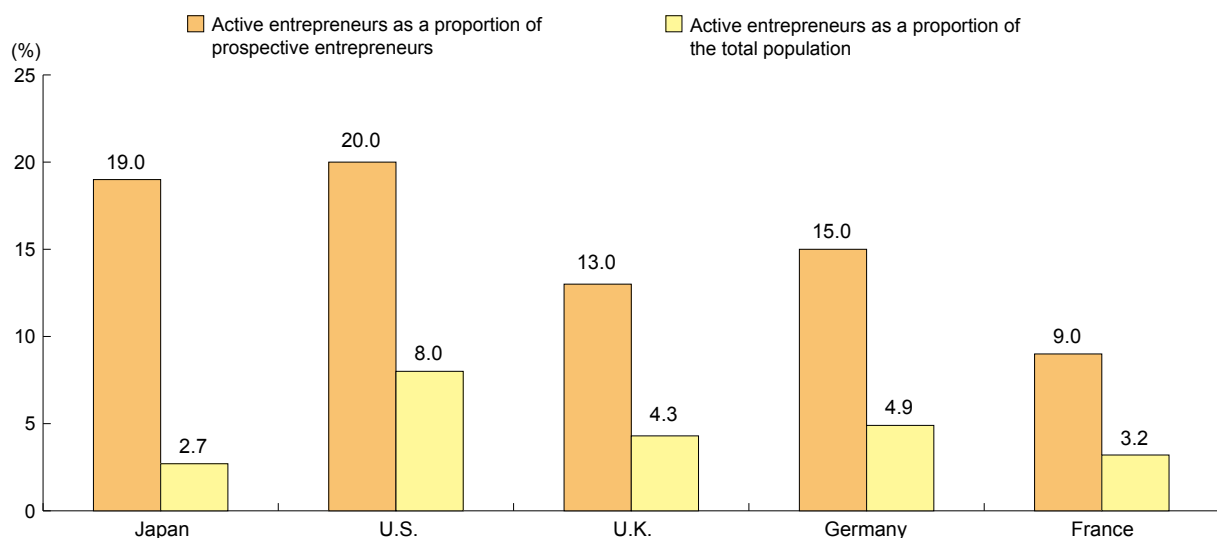
- Notes:
- Shows the results of the Global Entrepreneurship Monitor (GEM) surveys.
 - Here, “proportion of people not interested in business startups” is calculated as the proportion of people who responded in the negative to any one of the following three indicators: “indicator of entrepreneurial activity penetration”, “indicator of business opportunity recognition” and “indicator of knowledge, skills and experience”.

(4) Correlation between entrepreneurial awareness and entrepreneurial activity

Below, we look at the differences between Japan and Western countries with respect to the correlation between entrepreneurial awareness and entrepreneurial activity. Fig. 2-1-10 shows an international comparison of the number of people engaged in entrepreneurial activity (referred to in the remainder of this subsection as “active entrepreneurs”) as a proportion firstly of all the respondents and then of the people interested in business startups (referred to in the remainder of this

subsection as “prospective entrepreneurs”). Here, when we look at active entrepreneurs as a proportion of the total population, the level in Japan, like that for entrepreneurial awareness, is lower than in Western countries. On the other hand, if we look only at prospective entrepreneurs, the proportion of prospective entrepreneurs who go on to be actual active entrepreneurs is higher than in the U.K., Germany and France and on a par with the level in the U.S., as indicated by the number of active entrepreneurs as a proportion of prospective entrepreneurs.

Fig. 2-1-10 International comparison of the proportion of prospective entrepreneurs who engage in entrepreneurial activity



Source: Formulated by the SME Agency from *International Comparative Analysis of the Factors Influencing Entrepreneurial Activity* (March 2012, Research Institute of Economy, Trade and Industry (RIETI)).

- Notes:
- Shows the results of the Global Entrepreneurship Monitor (GEM) surveys.
 - Here, “active entrepreneurs as a proportion of prospective entrepreneurs” refers to active entrepreneurs (people making concrete preparations to start up a business plus the people who started up a business no more than 3.5 years ago) as a proportion of the people who responded “Have the knowledge, skills and experience needed to start up a business”.
 - Here, “active entrepreneurs as a proportion of the total population” refers to active entrepreneurs (people making concrete preparations to start up a business plus the people who started up a business no more than 3.5 years ago) as a proportion of the general adult population (aged 18 to 64).
 - The proportion of active entrepreneurs is a value calculated from individual data from 2001 to 2010.

The results above show that the level of entrepreneurial awareness in Japan is trending downwards in comparison to Western countries, but that when we look solely at prospective entrepreneurs, the proportion who go on to actually make business startup preparations is relatively high. This indicates that, in order to increase business startups in Japan, it is important to begin by sparking an

interest in entrepreneurship among people not interested in business startups. Another measure that is likely to be effective is enhancing the support available in each of the processes that lead to preparations for starting a business and then to actual business startups once people not interested in business startups have started to take an interest in establishing their own businesses.

Column 2-1-2 International comparison of entrepreneurial environments and business startup support policies

This column provides an overview of the entrepreneurial environment and business startup support policies in Western countries and looks at the correlation between those entrepreneurial environments and business startup support policies and entry rates. It will then focus on enterprise survival rates and compare those in Japan with those in Western countries.

Entrepreneurial environment

If we look at the entrepreneurial environments in Japan and Western countries, Japan lags behind most Western countries in terms of ease of business startup, placed 89th in the overall rankings. This is because the number of days taken to start up a business and the entry costs involved are higher in Japan than in Western countries. Moreover, when we compare Japan against countries such as U.S., the U.K. and France in factors such as entry costs, those countries can be seen as having environments that are more conducive to business startups than Japan.

Fig. Column 2-1-2 (1) International comparison of entrepreneurial environments

	Global ranking of ease of business startup	Procedural steps for business startup	Days taken to start up a business	Entry cost (%)
Japan	89	8	11.2	7.5
U.S.	51	6	5.6	1.1
U.K.	16	4	4.5	0.1
Germany	114	9	10.5	1.9
France	27	5	3.5	0.7

Source: World Bank, *Doing Business 2017*.

Note: Here, entry cost refers to amount as a proportion of per-capita income.

Business startup support policies

As shown in Fig. 2-1-7 above, the entry rates for the U.K. and France are 14.3% and 12.4% respectively, both far higher than the rate in Japan. Here, we will look at details and outcomes of the business startup support policies in the U.K. and France and look for any correlation with entry rates.

U.K.

The entry rate in the U.K. has risen steadily since 2010⁴⁾. This is in part a result of the full implementation of comprehensive support policies aimed at SMEs. For example, one of the key policies of the British Business Bank (BBB⁵⁾) has been the provision since 2012 of a “Start Up Loans” program, which offers financing accompanied by up to two years of mentoring support after business startup⁶⁾. Since its initial fiscal year, the program has provided 6,500 financing loans totaling £39.2 million⁷⁾. This is further supplemented by investment funds such as the UK Innovation Investment Fund (UKIIF), a venture capital fund for strategically important industries, and credit guarantee schemes such as the Enterprise Finance Guarantee (EFG) scheme⁸⁾.

The education sector also offers programs aimed at promoting entrepreneurship. In 2014, one-month programs were run in which children aged 5 to 11 were each given £5 and allowed to administer a business. Other schemes include enterprise-based teacher training for a more complete career education a scheme that issues “Enterprise Passports”, which act as a record of a people’s accomplishments and career training. Since around 2010, these initiatives have been continuing to boost young people’s interest in business startups⁹⁾.

- 4) Office of National Statistics “Business demography, UK: 2015” (<https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemography/2015>)
- 5) The British Business Bank was established in 2014 as a government-owned development bank tasked with implementing financial policies aimed at SMEs, including support for business startups. British Business Bank “Corporate Information and Subsidiary Companies” (<https://british-business-bank.co.uk/corporate-information>)
- 6) Start Up Loans “About The Loan” (<https://www.startuploans.co.uk/what-is-a-start-up-loan/>)
- 7) Prime Minister’s office and Department for Business, Innovation & Skills “Report on small firms 2010 to 2015 by Lord Young” (<https://www.gov.uk/government/publication/report-on-small-firms-2010-to-2015-by-lord-young>)
- 8) The future shape of small and medium business startup policy in the U.K., according to the Shoko Research Institute *Young Report* (2016) (<https://www.shokosoken.or.jp/chousa/youshi/28nen/28-3.pdf>)
- 9) Prime Minister’s office and Department for Business, Innovation & Skills “Report on small firms 2010 to 2015 by Lord Young” (<https://www.gov.uk/government/publications/report-on-small-firms-2010-to-2015-by-lord-young>)

In the U.K., social enterprises¹⁰⁾ make up roughly 6% of all SMEs, and their numbers have risen from 240,000 in 2010 to 300,000 in 2016. To improve access to finance for such social enterprises, a tax credit scheme for social investment was introduced in 2014 to provide greater diversity in fund-raising sources¹¹⁾.

France

In France, a business can be established just by submitting a simple application, using the "Auto-entrepreneur" system established in January 2009. Coupled with preferential tax treatment for enterprises that have just been established, this scheme saw the number of business startups by sole proprietors double during 2009 and 2010. In fact, around 320,000 sole proprietors started up businesses in 2009, rising to roughly 360,000 in 2010¹²⁾. The increase in the number of business startups dropped off again in 2011, but levels higher than before the introduction of the system were still maintained¹³⁾.

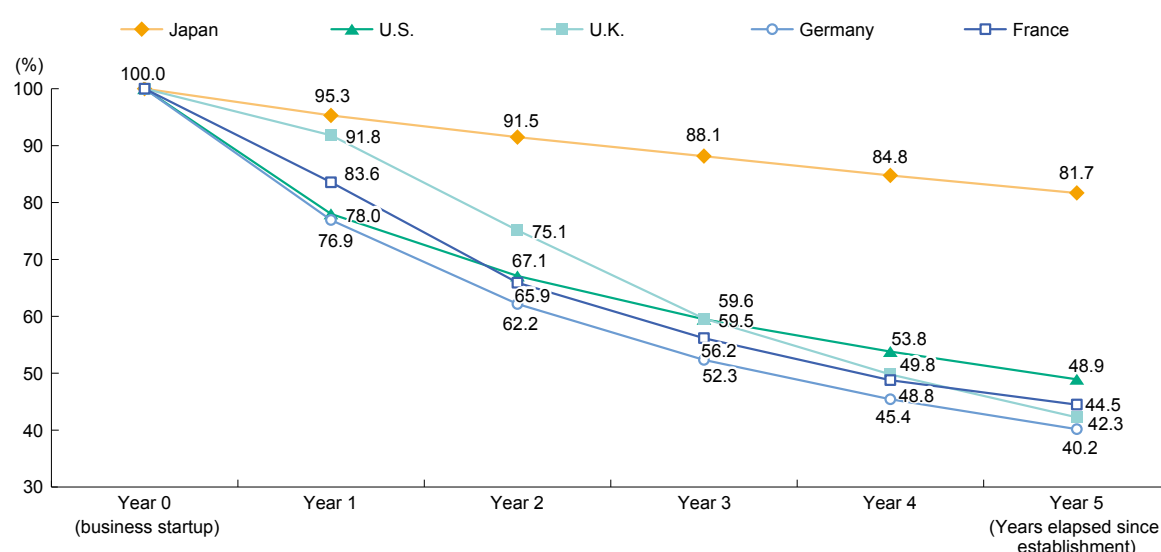
When we break down the people who started up a business using the system, 30% of the sole proprietors were not in work prior to starting up their business (including 6% who were retired and 5% who were students), and 40% were working individually in secondary or subsidiary businesses. One of the main reasons given for using the system was that it permitted a new business to be started up in addition the main business¹⁴⁾.

-
- 10) Social enterprises are defined in the U.K. as "businesses that trade primarily for social purposes rather than to maximize profits for their stakeholders or owners, and whose surplus profits are generally reinvested in the business or the community for social purposes". Department for Business, Innovation & Skills "A Guide to Legal Forms for Social Enterprise" (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31677/11-1400-guide-legal-forms-for-social-enterprise.pdf)
- 11) Prime Minister's office and Department for Business, Innovation & Skills "Report on small firms 2010 to 2015 by Lord Young" (<https://www.gov.uk/government/publications/report-on-small-firms-2010-to-2015-by-lord-young>)
- 12) <http://www.acoss.fr/home/observatoire-economique/publications/acoss-stat/acoss-stat-n214.html>
- 13) INSEE "Hors auto-entreprises, les créations d'entreprises augmentent en 2013" (<https://www.insee.fr/fr/statistiques/1280964>)
- 14) OECD The Missing Entrepreneurs (December 2013) p.202-203 (<http://www.oecd.org/publications/the-missing-entrepreneurs-9789264188167-en.htm>)

Enterprise survival rates after startup

We have seen already that both entry rates and exit rates are low in Japan compared with Western countries. So are there differences in the enterprises that are started up in Japan, where both entry rates and exit rates are low, and in Western countries, where both entry rates and exit rates are high. Here, we will compare survival rates after business startup across the various countries (Fig. Column 2-1-2 (2)). As is the case with entry rates and exit rates, the nature of the statistics and data for survival rates differs according to country, so simple comparisons cannot be made. However, the data we have shows that while 57.7% of enterprises in the U.K. and 55.5% of enterprises in France exit the market within five years of being established, no more than 18.3% of enterprises in Japan exit the market within five years of startup. This shows that, while the number of enterprises being started up in Japan may be lower than in Western countries, the proportion of those enterprises that do not exit the market after startup and continue trading for the long term tends to be higher in Japan than in Western countries.

Fig. Column 2-1-2 (2) International comparison of enterprise survival rates after startup



Sources: Japan: Recompiled from *COSMOS2 (Enterprise Overview File)* conducted by Teikoku Databank, Ltd.

U.S., Germany, France: Eurostat

U.K.: Office for National Statistics

- Notes:
- Enterprise survival rates for Japan are compiled only for enterprises for which corporate data is stored in the database. Also, due to the time required to store data in the database, calculated survival rates may be higher than the actual survival rates.
 - Survival rates in the U.S., the U.K., Germany and France are averaged values for enterprises established between 2007 and 2013.

Section 2 Conditions and issues faced in the establishment phase

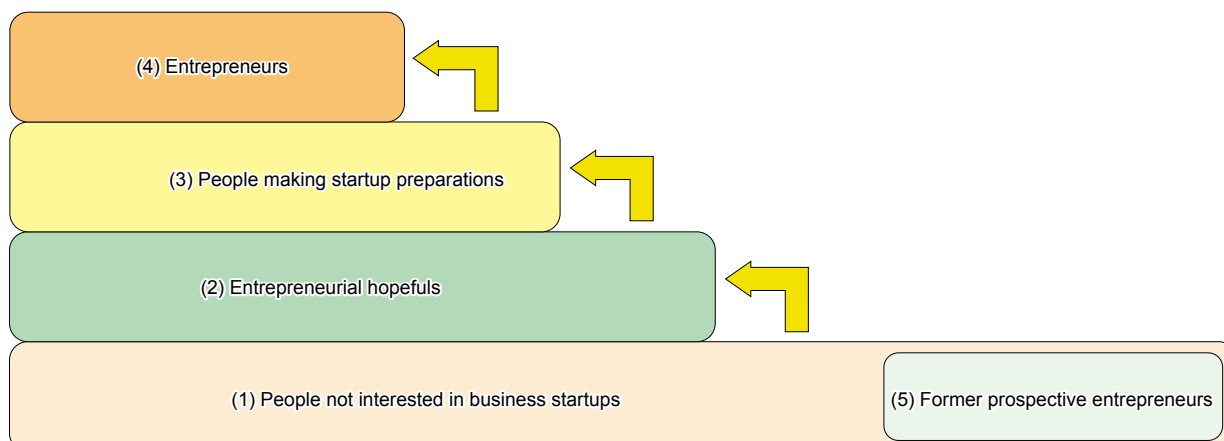
In the previous section, we conducted an international comparison of entrepreneurial awareness and entrepreneurial activity based on GEM surveys and observed that the proportion of people with no interest in business startups was higher in Japan than in Western countries, which results in a lack of entrepreneurial activity. In this section, we will use the *Survey of Awareness and Experience of Business Establishment and Startup*¹⁵⁾ to conduct a more detailed analysis. Specifically, we divide the processes in the business establishment phase into four stages, as shown in Fig. 2-1-11, and then summarize the conditions in each stage and the issues that arise. Our specific aims are to identify the respective conditions for four types of people: (1) people currently not interested in business startups (referred to in this section as “people not interested in business startups”); (2) people interested in and thinking about business startups who have not yet made any startup preparations (referred to in this section

as “entrepreneurial hopefuls”); (3) people who would like to start up a business and are currently making concrete preparations for business startup (referred to in this section as “people making startup preparations”); and (4) people who have actually started up a business (referred to in this section as “entrepreneurs”). We will also be analyzing the issues each group of people faces and the type of support policies or other measures they need in order to progress to the next stage. Among the people not interested in business startups, there is also a certain number of people in another category: (5) people who have previously been interested in starting up a business and aspired to do so, but who gave up on the idea and now are no longer interested in starting up a business (referred to in this section as “former prospective entrepreneurs”). We will analyze the conditions and issues facing these former prospective entrepreneurs also.

15) A survey conducted in December 2016 by Mitsubishi UFJ Research and Consulting Co., Ltd. on behalf of the SME Agency.

The Internet-based screening survey questioned men and women aged 18 to 69 throughout Japan. The survey method used a two-step approach with a screening survey followed by the main survey. The screening survey identified entrepreneurial hopefuls, people making startup preparations, entrepreneurs and former prospective entrepreneurs to be the targets for the main survey, ultimately obtaining responses from 4,125 main survey respondents.

The screening survey was also used to study overall trends, with samples collected from 18,000 of the screening survey respondents selected to give a balance in terms of gender and age group (35 or younger, 36 to 55 and 56 or older).

Fig. 2-1-11 Stages leading up to business establishment

- (1) People not interested in business startups: people not currently interested in starting up a business
 (2) Entrepreneurial hopefuls: people who are interested in and thinking about starting up a business but are not currently making concrete preparations
 (3) People making startup preparations: people who would like to start up a business and are currently making concrete preparations to start up a business
 (4) Entrepreneurs: people who have actually started up a business
 (5) Former prospective entrepreneurs: people previously interested in starting up a business who are now no longer interested in doing so
 (* People who once thought about starting up a business or who prepared to or hoped to start up a business without completing the preparations, and who now have no interest in starting up a business)

1. Current situation for business startups in Japan

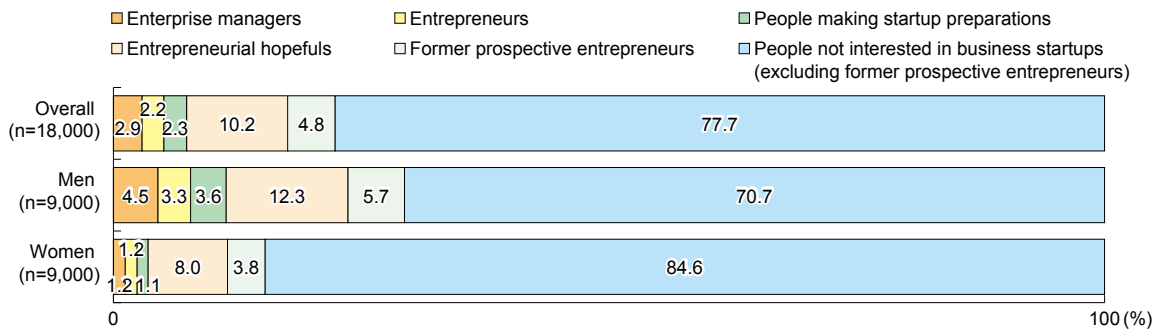
(1) Proportion of people not interested in business startups

We begin by looking at the proportion of people not interested in business startups in the survey (Fig. 2-1-12). If we also include former prospective entrepreneurs, around 80% of all the respondents were not interested in starting up a business. If we compare the genders, a slightly higher proportion of women are not interested in starting up a business. If we then look at the proportions by gender and age, we see higher proportions among enterprise managers 10 or more years after business startup and entrepreneurs within 10 years of business startup with proportions increasing in both genders in the older age brackets of 50s and 60 and older.

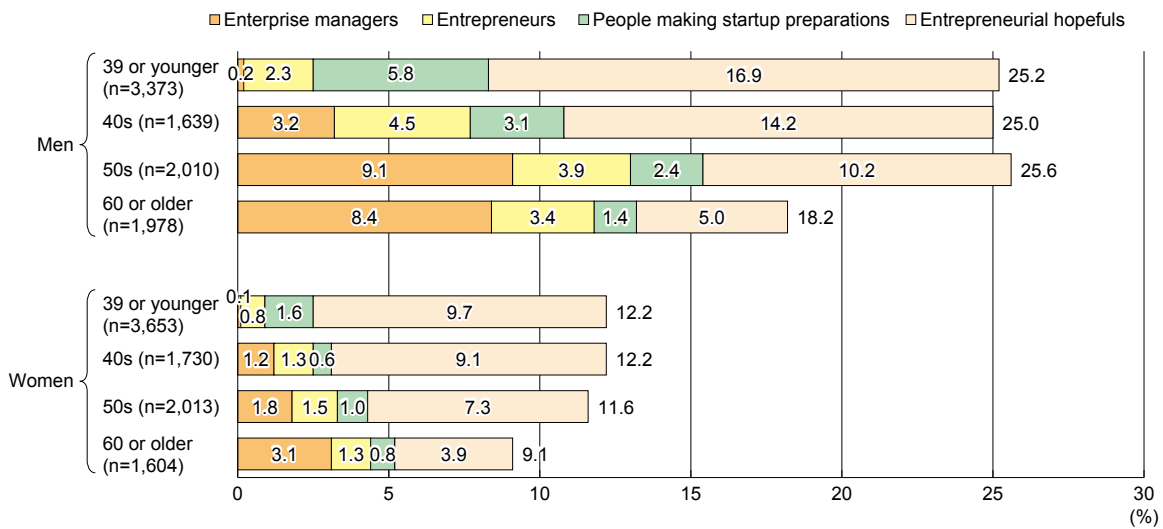
While the proportions of people who aspire to start up a business, such as entrepreneurial hopefuls and people making startup preparations, are higher among the younger age groups than among seniors, the proportions of enterprise managers and entrepreneurs increase as the age group rises. This suggests that people who aspire to start up a business go on to actually start up a business. On the other hand, the fact that there is a fairly constant number of entrepreneurial hopefuls and people making startup preparations in the 50 and older age group suggests that a set number of the people who aspire to start up a business do not quickly go on to establish a business due to problems or other reasons.

Fig. 2-1-12 Proportions of people with and without an interest in starting up a business

(1) Proportions by gender



(2) Distribution by gender and age group of enterprise managers, entrepreneurs, people making startup preparations and entrepreneurial hopefuls



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
- In this survey, “entrepreneurs” are people who have started up a business in the last 10 years, and “enterprise managers” are people who have started up a business that has been running for at least 10 years.
 - In (2), responses from former prospective entrepreneurs and people not interested in business startups (excluding former prospective entrepreneurs) are not shown.

2. Conditions for people not interested in business startups, excluding former prospective entrepreneurs

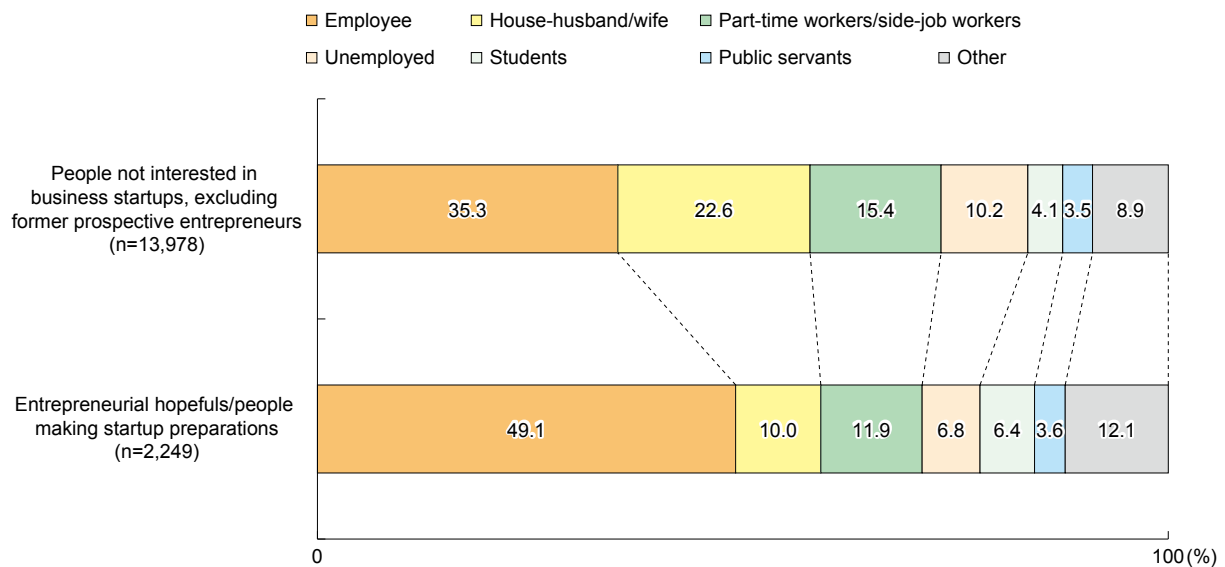
Next, we look at the people not interested in business startups other than former prospective entrepreneurs and compare them with entrepreneurial hopefuls and people making startup preparations to gain a clearer picture of the situation for those people not interested in business startups who are not former prospective entrepreneurs.

(1) Current occupations of people not interested in business startups, excluding former prospective entrepreneurs

Fig. 2-1-13 shows a breakdown of the current

occupations of people not interested in business startups who are not former prospective entrepreneurs and compares them with the occupations of entrepreneurial hopefuls and people making startup preparations. The figure shows that higher proportions of people other than former prospective entrepreneurs who are not interested in business startups are either a “House-husband/wife”, “Part-time workers/side-job workers” or “Unemployed” when compared with entrepreneurial hopefuls and people making startup preparations.

Fig. 2-1-13 Current occupations of people not interested in business startups, excluding former prospective entrepreneurs



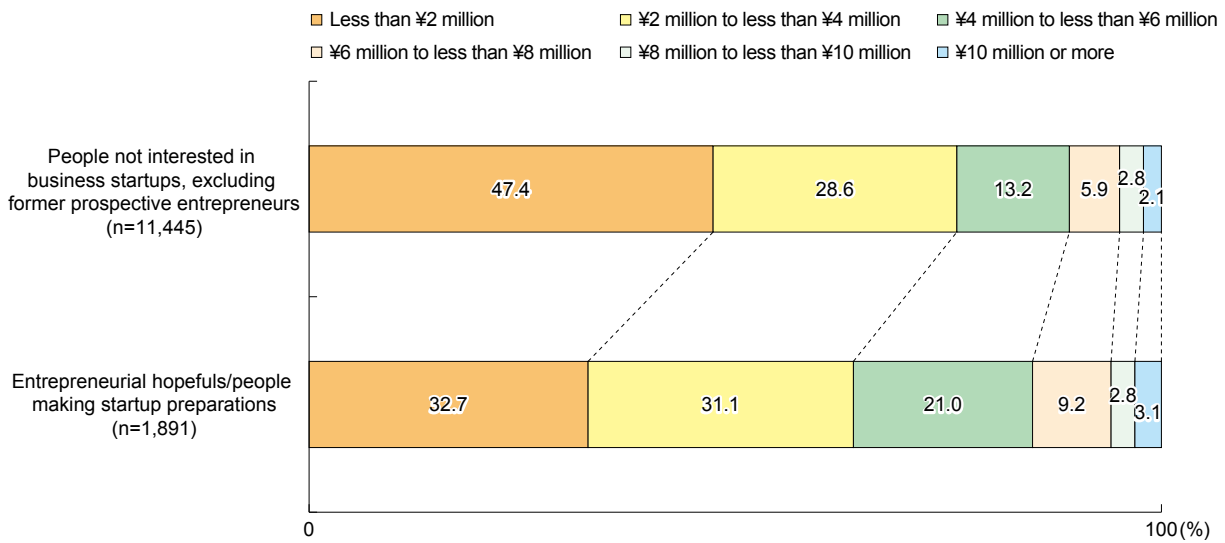
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

(2) Distribution by personal yearly income of people not interested in business startups, excluding former prospective entrepreneurs

Next, Fig. 2-1-14 shows the distribution of the personal yearly incomes of people not interested in business startups, excluding former prospective entrepreneurs. As we saw in Fig. 2-1-13 above, compared with entrepreneurial hopefuls and people making startup preparations, people

not interested in business startups who are not former prospective entrepreneurs include high proportions who fall into the house-husband/wife, part-time worker or side-job worker and unemployed categories. As a result, around half of all people not interested in business startups who are not former prospective entrepreneurs have yearly income of less than ¥2 million.

Fig. 2-1-14 Distribution by personal yearly income of people not interested in business startups, excluding former prospective entrepreneurs



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

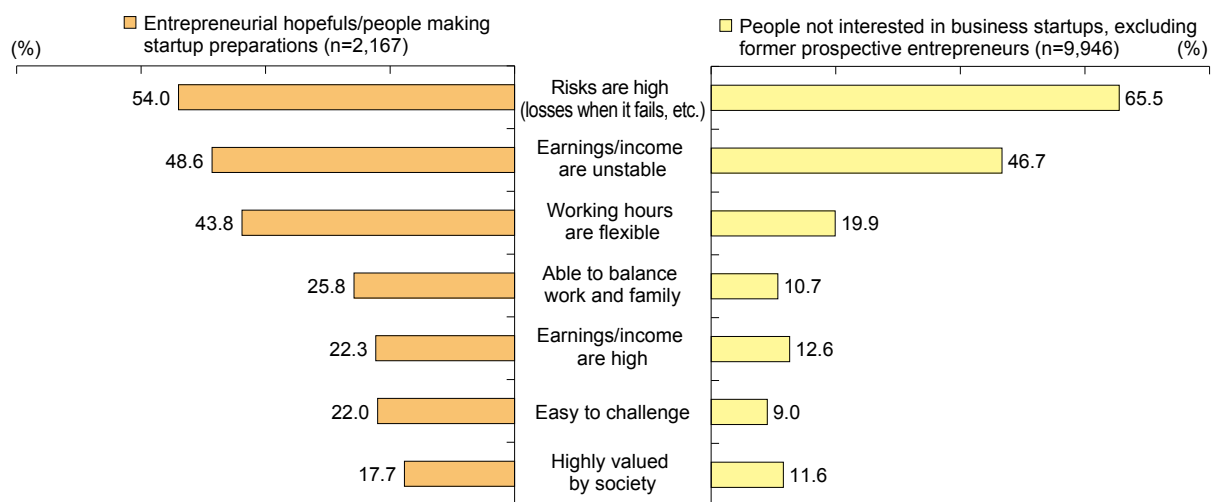
Note: Totals for the proportions exclude people who responded "Don't know".

(3) Impressions of business startups

Fig. 2-1-15 compares the respective impressions of starting up a business held by people not interested in business startups, excluding former prospective entrepreneurs, with those of entrepreneurial hopefuls and people making startup preparations. The figure shows that people not interested in business startups, excluding former prospective entrepreneurs, associate business startups with the two negative impressions of “Risks are high (losses when it fails, etc.)” and “Earnings/income are unstable”. However, while entrepreneurial hopefuls and people making startup preparations agree with people not interested in business startups, excluding

former prospective entrepreneurs, regarding “Risks are high (losses when it fails, etc.)” and “Earnings/income are unstable”, they also hold many positive impressions, including “Working hours are flexible”, “Able to balance work and family”, “Earnings/income are high” and “Easy to challenge”. Because a high proportion of people not interested in business startups, who have never had any interest in starting up a business, have such a negative impression of business startups, it seems likely that presenting such people with the positive aspects of business startups could result in people not interested in business startups developing a future interest in doing precisely that.

Fig. 2-1-15 Impressions of business startups held by people not interested in business startups, excluding former prospective entrepreneurs



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

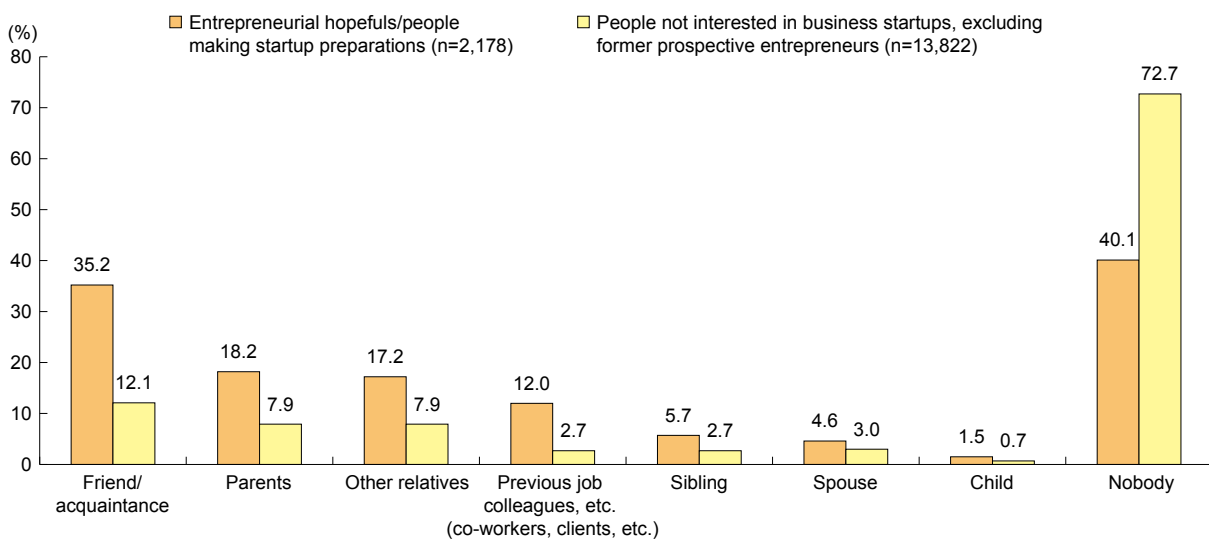
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. The chart lists the seven items with the highest proportion of responses from entrepreneurial hopefuls and people making startup preparations.

(4) Immediate environment of people not interested in business startups, excluding former prospective entrepreneurs

Next, Fig. 2-1-16 shows the responses when people not interested in business startups, excluding former prospective entrepreneurs, and entrepreneurial hopefuls and people making startup preparations were asked whether they had ready access to enterprise managers. The figure shows that a higher proportion of entrepreneurial hopefuls and people making startup preparations had enterprise managers in their immediate environment,

particularly “Friend/acquaintance” and “Parents”, than was the case for people not interested in business startups, excluding former prospective entrepreneurs. Conversely, around 70% of people not interested in business startups responded “Nobody”, suggesting that one of the reasons why such people are not interested in business startups is that there are no entrepreneurs or enterprise managers in their immediate circles, and so they have no way to form any concrete impressions regarding starting up and managing a business.

Fig. 2-1-16 Immediate environment of people not interested in business startups, excluding former prospective entrepreneurs



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

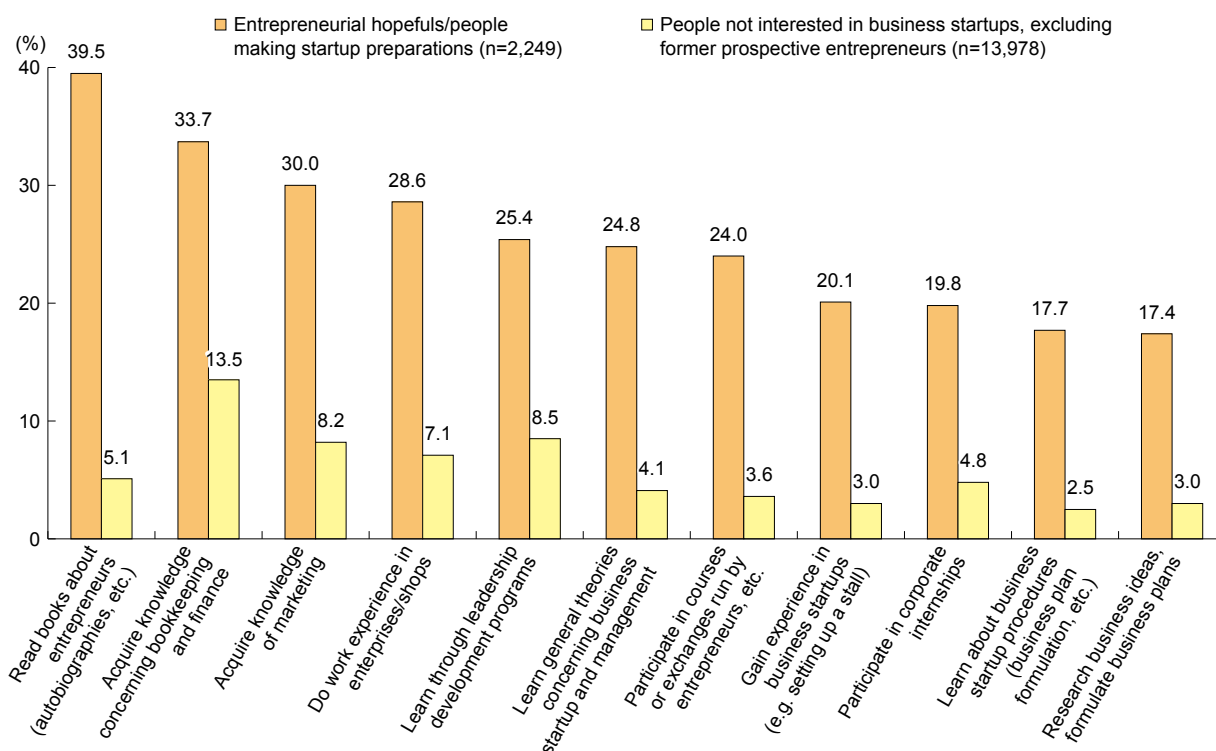
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “Other relatives” refers to family members other than parents, spouses, siblings and children.
 3. No “Other” category is presented here.

(5) Interest in entrepreneur education and business startups

To check whether training that relates to business startups has any impact on whether or not people are interested in starting up a business, Fig. 2-1-17 shows the details of educational initiatives such as training and other programs (referred to hereinafter as “entrepreneur education”) relating to management, business startups and employment that have been accessed by people not interested in business startups, other than former prospective entrepreneurs, and entrepreneurial hopefuls

or people making startup preparations. The figure shows that the proportion of people not interested in business startups, other than former prospective entrepreneurs, who have undergone entrepreneur education is far lower than for entrepreneurial hopefuls or people making startup preparations. From the fact that entrepreneurial hopefuls and people making startup preparations have taken various kinds of entrepreneur education, we can also surmise that receiving entrepreneur education is one of the factors that stimulates interest in starting up a business.

Fig. 2-1-17 Interest in entrepreneur education and business startups



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

The above comparison of people not interested in business startups, excluding former prospective entrepreneurs, and entrepreneurial hopefuls and people making startup preparations has shed some light on the situation of people not interested in business startups, excluding former prospective entrepreneurs. As we observed in Section 1, in comparison with other countries, a high proportion of people in Japan who have once taken an interest in starting up a business go on to make actual business startup preparations. This indicates that increasing the number of people who are interested in starting up a business is a likely catalyst for boosting actual business startups in Japan. And as we saw in Fig. 2-1-16, the immediate environment also has a

significant effect on interest in business startups. Having more entrepreneurs and enterprise managers nearby reinforces positive impressions of business startups and could stimulate greater interest in starting up businesses in people not interested in business startups, excluding former prospective entrepreneurs. For this reason, it is important firstly to provide assistance and an environment in which entrepreneurial hopefuls and people making startup preparations can quickly and easily establish businesses.

With this in mind, below we narrow the focus of our analysis to those entrepreneurial hopefuls and people making startup preparations.

3. Conditions and issues for entrepreneurial hopefuls and people making startup preparations

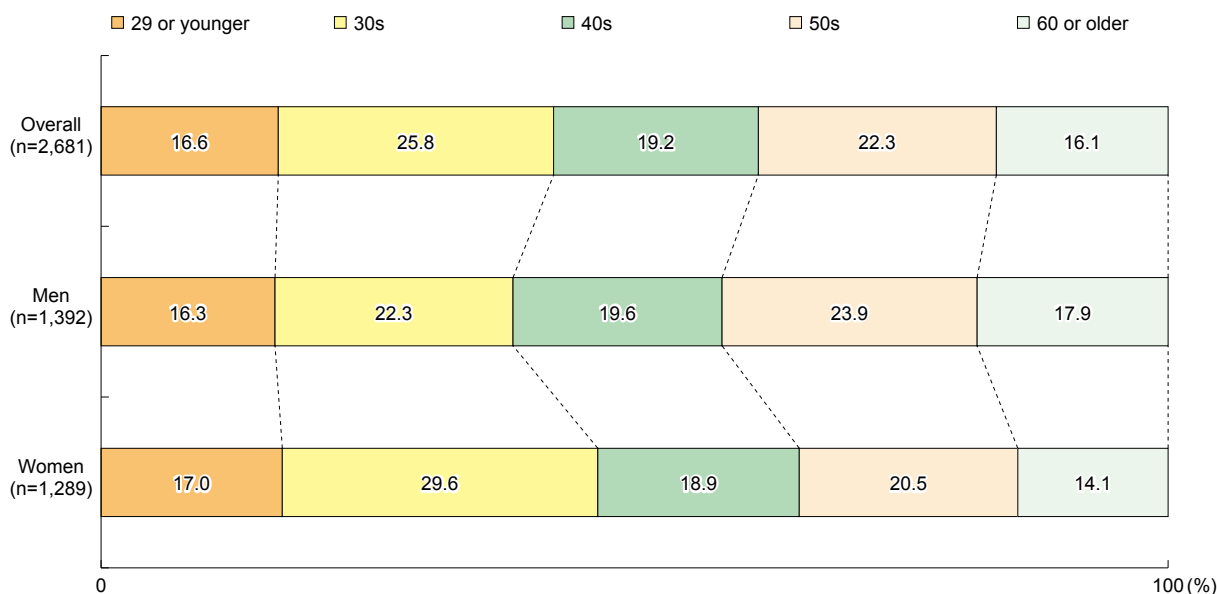
(1) Age breakdown by gender of entrepreneurial hopefuls and people making startup preparations

Here, we will identify the conditions and issues that face entrepreneurial hopefuls and people making startup preparations, along with the support policies used to move those would-be entrepreneurs along to the next stage in starting up businesses.

Firstly, Fig. 2-1-18 shows the age breakdown by gender for entrepreneurial hopefuls and people making startup preparations. The figure shows that roughly 70% of all entrepreneurial hopefuls and people making startup preparations are in the 30–59 age group. If we

look at the results by gender, a higher proportion of male entrepreneurial hopefuls and men making startup preparations are aged 40 and above, while a much higher proportion of female entrepreneurial hopefuls and women making startup preparations are aged 39 or less, almost half in fact. This shows that entrepreneurial hopefuls and people making startup preparations are widely distributed across the age groups, and it seems likely that the issues they face differ markedly depending on their gender and age. For this reason, here we will divide entrepreneurial hopefuls and people making startup preparations by the two axes of gender and age (34 or younger, 35–59 and 60 or older) and summarize the differences between the two.

Fig. 2-1-18 Age breakdown by gender of entrepreneurial hopefuls and people making startup preparations



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

(2) Triggers for interest in business startups among entrepreneurial hopefuls and people making startup preparations

Next, we will look at the factors that triggered an interest in business startups among entrepreneurial hopefuls and people making startup preparations, and identify any differences in the trends by gender and age group (Fig. 2-1-19).

If we begin by looking at men, those who answered “Influence of nearby entrepreneurs/managers” made up the highest proportion in the 34 or younger and 35–59 age groups, with the next highest proportion choosing the “Concerned about future prospects or worsening treatment at work” response in the 34 or younger age group and the “Couldn’t do what I wanted to at work” response in the 35–59 age group. Relatively high proportions of the 34 or younger age group also selected the “Advised to by people around me (family, friends, clients, etc.)” response, while the same was true for the “Had a commercially viable idea” response in the 35–59 age group. This suggests that men aged 34 or younger are interested in starting up a business due to a combination of dissatisfaction with or concern about their current workplace, the influence of nearby entrepreneurs or managers and advice to start up a business from those around them. However, men aged 35–59 seem to have a clearer image than the 34 or younger age group of the work they themselves would like to do, and an interest in starting up a business to make that image a reality. The highest proportions in the 60 or older age group chose “Have some free time”, followed by “Have to get a job (income)”. The “Influence of nearby entrepreneurs/managers” response, which attracted the

highest proportion of respondents in the 34 or younger and 35–59 age groups, was selected by a relatively low proportion of those in the 60 or older age group. This indicates that men aged 60 or older are not influenced by any entrepreneurs or managers around them and are choosing to start up businesses as a way of working and earning income after they reach retirement age.

If we now look at women, the highest proportion women in the 34 or younger and 35–59 age groups, like the men, selected “Influence of nearby entrepreneurs/managers”. Across women in all age groups, a higher proportion chose “Changing home situation (marriage/birth/nursing care, etc.)” than was true for men. This shows that, like men, women in the 34 or younger and 35–59 age groups are influenced by entrepreneurs and managers around them. But otherwise, more women than men tend to take an interest in starting a business due to changes in their home and family situation, namely marriage or divorce, childbirth and childcare, and sickness and nursing care. The highest proportion of women in the 60 or older age group, like the men, chose “Have some free time”, though the next highest proportion, like women in the other age groups, chose “Changing home situation (marriage/birth/nursing care, etc.)”. Whereas a high proportion of men aged 60 or older selected “Have to get a job (income)”, only a low proportion of women made that choice. From this we can infer that women aged 60 or older take an interest in starting up a business not to gain an income but because they have more free time due to changes in their home or family situation, such as reaching a particular juncture in their childcare or nursing care.

Fig. 2-1-19 Triggers for interest in business startups among entrepreneurial hopefuls and people making startup preparations according to gender and age group

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=425)	Influence of nearby entrepreneurs/managers (36.7%)	Concerned about future prospects or worsening treatment at work (19.8%)	Have to get a job (income) (19.3%)	Couldn't do what I wanted to at work (18.4%)	Advised to by people around me (family, friends, clients, etc.) (17.9%)
	35-59 (n=718)	Influence of nearby entrepreneurs/managers (34.7%)	Couldn't do what I wanted to at work (25.1%)	Concerned about future prospects or worsening treatment at work (24.9%)	Have to get a job (income) (18.4%)	Had a commercially viable idea (14.9%)
	60 or older (n=249)	Have some free time (30.1%)	Have to get a job (income) (20.5%)	Influence of nearby entrepreneurs/managers (18.9%)	Concerned about future prospects or worsening treatment at work (18.5%)	Had a commercially viable idea (17.3%)
Women	34 or younger (n=425)	Influence of nearby entrepreneurs/managers (38.4%)	Changing home situation (marriage/birth/nursing care, etc.) (23.5%)	Couldn't do what I wanted to at work (19.8%)	Have to get a job (income) (18.8%)	Advised to by people around me (family, friends, clients, etc.) (17.6%)
	35-59 (n=682)	Influence of nearby entrepreneurs/managers (25.8%)	Changing home situation (marriage/birth/nursing care, etc.) (25.7%)	Have to get a job (income) (22.3%)	Concerned about future prospects or worsening treatment at work (19.5%)	Have some free time (15.1%)
	60 or older (n=182)	Have some free time (26.4%)	Changing home situation (marriage/birth/nursing care, etc.) (20.3%)	Influence of nearby entrepreneurs/managers (20.3%)	Have to get a job (income) (17.0%)	Advised to by people around me (family, friends, clients, etc.) (15.9%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

From this, we can see that many entrepreneurial hopefuls and people making startup preparations have entrepreneurs and/or managers nearby, and the influence of those established entrepreneurs triggers their interest in starting up a business.

The above findings suggest that if we can facilitate business startups by the entrepreneurial hopefuls

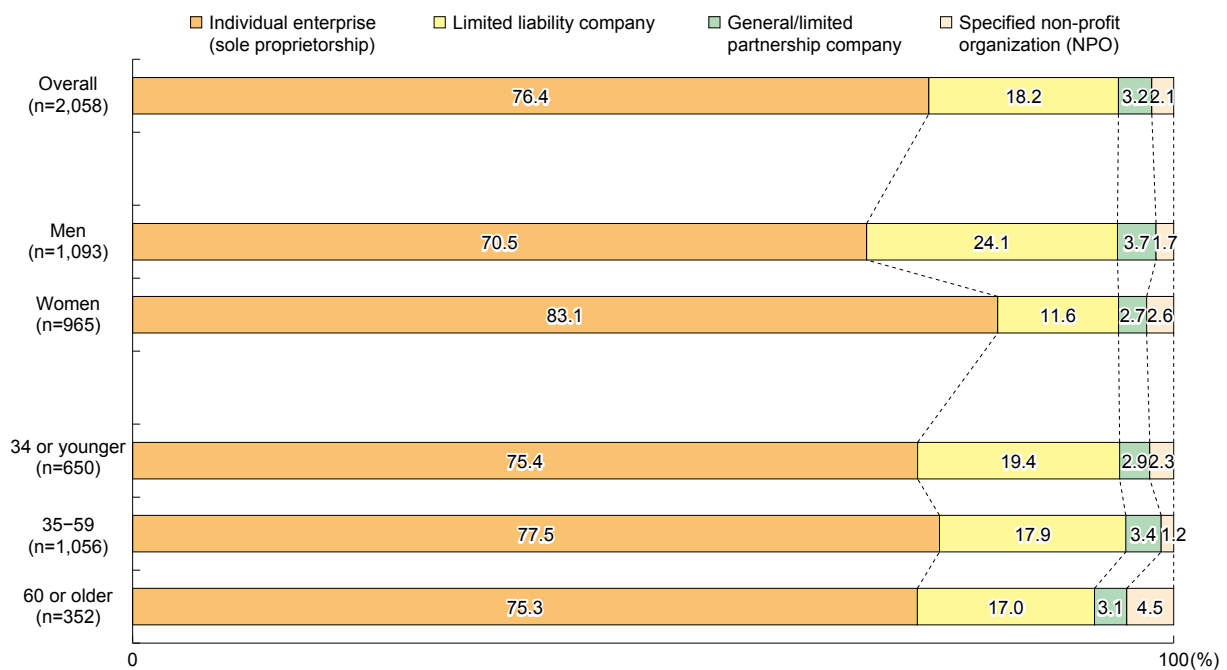
and people making startup preparations who are already interested in starting a business, the number of entrepreneurs around many of the people not interested in business startups will grow. This will generate a virtuous cycle in which the people not currently interested in business startups will become interested, which will in turn help to revitalize business startups in Japan.

(3) Business startups targeted by entrepreneurial hopefuls and people making startup preparations

Below, we will look at the conditions for entrepreneurial hopefuls and people making startup preparations, as well as the issues they encounter in starting up a business. Fig. 2-1-20 shows the types of enterprise being considered when businesses are started up according to gender and age group. If we begin by looking at the results according to gender, 24.1% of men responded “Limited liability company”, which was a higher proportion than

for women. Conversely, 83.1% of women responded “Individual enterprise (sole proprietorship)”, which was a high proportion when compared with men. These figures show that men and women consider starting up different types of company. If we then look at the characteristics of the different age groups, a higher proportion of the 34 or younger bracket chose “Limited liability company” compared with the other age groups, while the proportion of the 60 or older age group who selected “Specified non-profit organization” was slightly higher than the other age groups.

Fig. 2-1-20 Types of enterprise considered when starting up a business by gender and age group



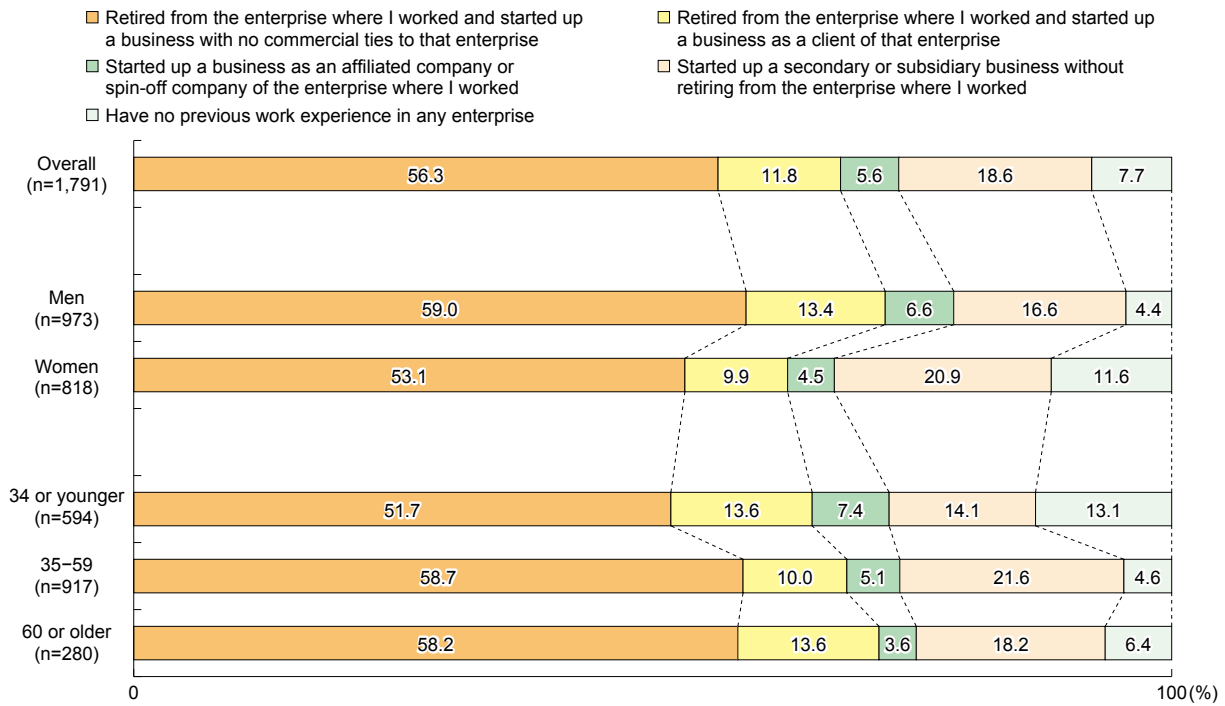
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. Totals for the proportions exclude people who responded “Haven’t decided” or “Other”.

Next, Fig. 2-1-21 shows the business startup scenarios being considered when businesses were started up, according to gender and age group. The figure shows that roughly 60% of all entrepreneurial hopefuls and people making startup preparations responded, “Retired from the enterprise where I worked and started up a business with no commercial ties to that enterprise”. But only 20% of the total responded, “Started up a secondary or subsidiary business without retiring from the enterprise where I worked”. Looking at the results by gender, higher proportions of women than men opted for the “Started up a secondary or subsidiary business without retiring from the enterprise where I worked” or “Have no previous work experience in any enterprise” response. If we then

look at the results by age group, the proportion who opted for “Have no previous work experience in any enterprise” was higher in the 34 or younger age group than in other age groups, but a lower proportion of that age group responded “Started up a secondary or subsidiary business without retiring from the enterprise where I worked” than was the case for the other age groups. On the other hand, the proportions in the 35–59 and 60 or older age groups who chose “Retired from the enterprise where I worked and started up a business with no commercial ties to that enterprise” were higher than for the 34 or younger cohort. This shows that the business startup scenarios differ according to gender and age group.

Fig. 2-1-21 Business startup scenarios considered when starting up a business by gender and age group



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

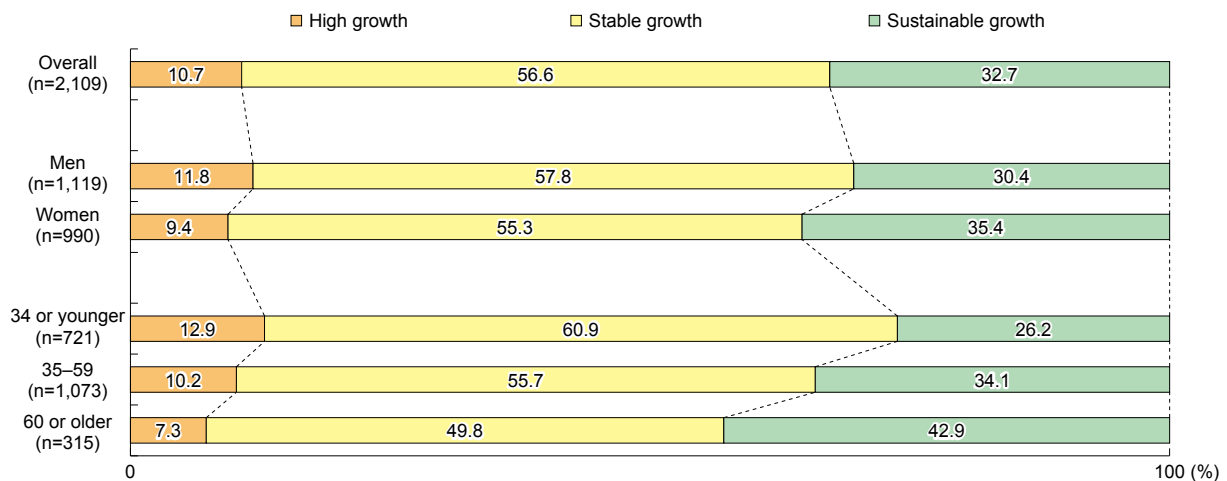
Notes: 1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. Totals for the proportions exclude people who responded “Haven’t decided” or “Other”.

(4) Target growth types after business startup for entrepreneurial hopefuls and people making startup preparations

Next, Fig. 2-1-22 shows the results when entrepreneurial hopefuls and people making startup preparations were asked which growth type they wanted to achieve after starting up a business. The questions regarding the desired growth type after starting up a business were to check the type of staffing or sales growth respondents had in mind after they had started up a business. Specifically, growth was classified into three types: high growth, stable growth and sustainable growth. High growth is defined as “a type that aims for a fast pace of employment and sales expansion with the option of listing the business on the stock exchange or of transferring or selling the business for a high value in the future”, stable growth

is defined as “a type that aims to achieve consistent growth in employment and sales over the medium- and long-term”, and sustainable growth is defined as “a type that essentially aims for business continuity and has no particular intention to significantly change employment or sales levels from when the business was founded.” Here, Fig. 2-1-22 shows that around 60% of respondents were aiming for stable growth, with only around 10% wanting high growth. If we look at the results by gender, higher proportions of men were aiming to achieve high growth or stable growth. Looked at by age group, the results show that the younger the age group, the higher the proportions who selected high growth and stable growth, while the more senior age group of 60 and older tended to have a high proportion who opted for sustainable growth.

Fig. 2-1-22 Target growth type after business startup by gender and age group



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. Here, “High growth” is defined as people who responded “aiming for a fast pace of employment and sales expansion with the option of listing the business on the stock exchange or of transferring or selling the business for a high value in the future”.
 3. Here, “Stable growth” is defined as people who responded “aiming to achieve consistent growth in employment and sales over the medium- and long-term”.
 4. Here, “Sustainable growth” is defined as people who responded “essentially aiming for business continuity with no particular intention to significantly change employment or sales levels from when the business was founded”.
 5. Totals for the proportions exclude people who responded “No particular impression”. (People who responded “No particular impression” comprised 572 (21.3%) out of the total population surveyed (n=2,681), 273 (19.6%) of the men (n=1,392), 299 (23.2%) of the women (n=1,289), 129 (15.2%) of the 34 or younger age group (n=850), 327 (23.4%) of the 35-59 age group (n=1,400), and 116 (26.9%) of the 60 or older age group (n=431)).

Above, we looked at the growth types envisioned by entrepreneurial hopefuls and people making startup preparations after their businesses have started up. Below, we identify the attributes of entrepreneurial hopefuls and

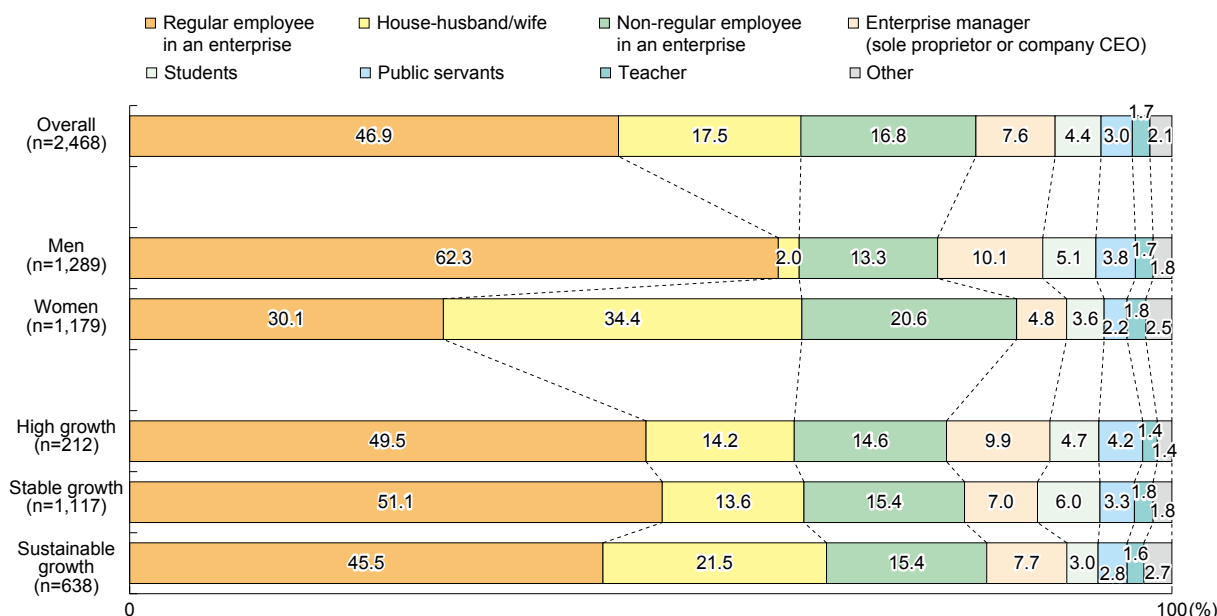
people making startup preparations based on the growth type (high growth, stable growth or sustainable growth) they were targeting after business startup.

(5) Current occupations of entrepreneurial hopefuls and people making startup preparations

Below, Fig. 2-1-23 shows the current occupations of entrepreneurial hopefuls and people making startup preparations according to gender and the growth type they wanted to achieve after starting up a business. If we begin by looking at the entire group, around half of all entrepreneurial hopefuls and people making startup preparations responded “Regular employee in an enterprise”. The fact that around 8% responded “Enterprise manager (sole proprietor or company CEO)” also shows that a certain number of entrepreneurial hopefuls and people making startup preparations already run a business or are attempting to start up another

business. If we now look at the results by gender, a higher proportion of men than women responded “Regular employee in an enterprise” or “Enterprise manager (sole proprietor or company CEO)”, whereas more women than men responded “House-husband/wife” or “Non-regular employee in an enterprise”. Looking next at the responses according to the growth type respondents wanted to achieve after starting up a business, around half across all the growth types responded “Regular employee in an enterprise”. However, the proportion of “Enterprise manager (sole proprietor or company CEO)” responses was higher in the high growth category than in other growth types. The same was true for “Student” in the stable growth type and for “House-husband/wife” in the sustainable growth type.

Fig. 2-1-23 Current occupation by gender and target growth type after business startup



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. Totals for people who left work to prepare for starting up a business and are currently unemployed show their previous status.
 3. Totals for the proportions exclude people who responded “Have never been employed”.

(6) Overseas education among entrepreneurial hopefuls and people making startup preparations

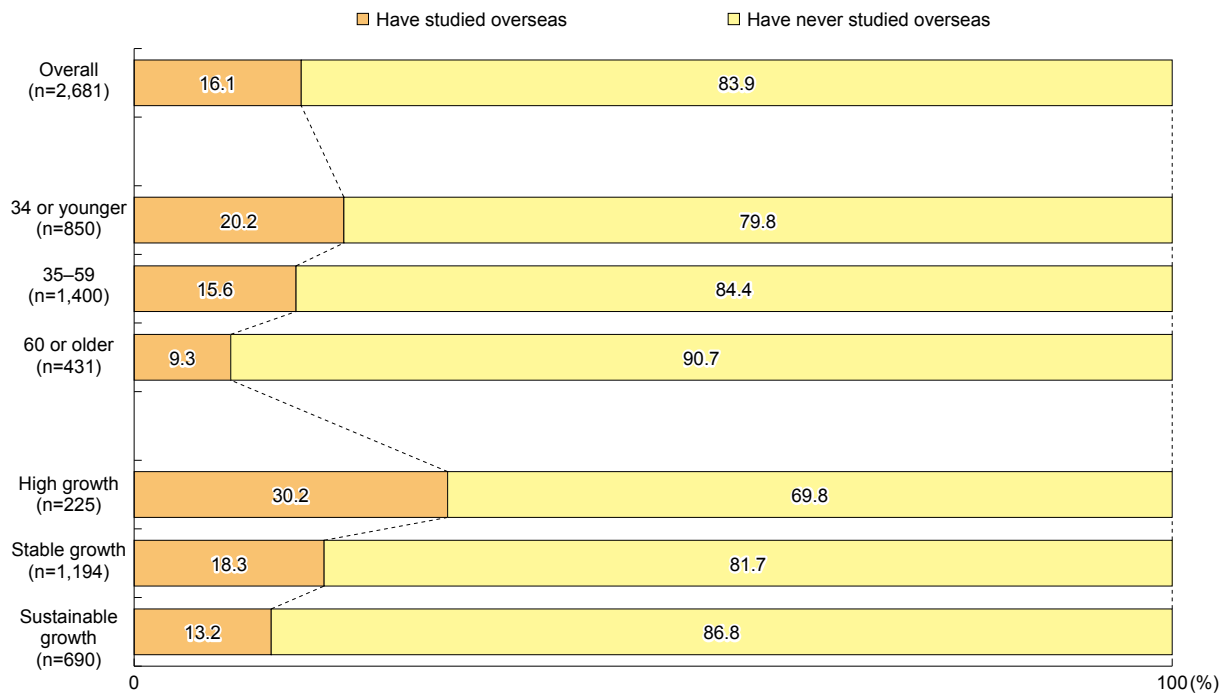
Fig. 2-1-24 looks at the levels of overseas education among entrepreneurial hopefuls and people making startup preparations. The figure shows that the younger

the age group, the higher the proportion of “Have studied overseas” responses. If we look at the responses by desired growth type after startup, the proportion of entrepreneurial hopefuls and people making startup preparations who responded “Have studied overseas” is higher among those targeting high growth than for other growth types.

This suggests that the proportions of respondents who have studied overseas are higher among entrepreneurial hopefuls and people making startup preparations in

younger age groups, and that the more overseas study experience respondents have, the more likely they are to try starting up businesses that target high growth.

Fig. 2-1-24 Overseas study experience by age group and target growth type after business startup



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Note: The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.

(7) Participation in the entrepreneur community

Here, we look at levels of participation in “entrepreneur communities”, which are gatherings of entrepreneurs and people interested in starting up a business, convened by organizations or individuals. Fig. 2-1-25 shows the results when respondents were asked about their participation in entrepreneur communities and their reasons for participating or not participating. The figure shows that participation rates are definitely not high, with 44.6% of all entrepreneurial hopefuls and people making startup preparations participating in entrepreneur communities. If we look at the responses according to the growth type targeted before business startup, participation rates increase progressively from sustainable growth to stable growth to high growth, with around 60% of entrepreneurial hopefuls and people making startup preparations who are targeting high growth participating in entrepreneur communities.

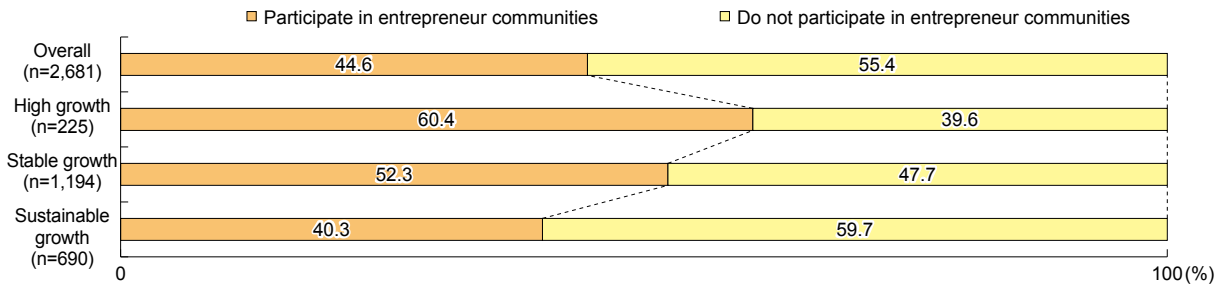
If we now look at people’s reasons for participating, a higher proportion entrepreneurial hopefuls and people making startup preparations who are targeting high growth responded “To get business tips” or “To gain the expertise needed to start up a business (how to formulate a business plan, etc.)” compared with those targeting other growth types. This indicates that such people actively participate in entrepreneur communities before starting up a business in order to acquire business-related tips and expertise. By contrast, a higher proportion entrepreneurial hopefuls and people making startup preparations who are targeting sustainable growth responded “To meet successful entrepreneurs/managers” compared with those targeting other growth types. From this, we can infer that such people participate in entrepreneur communities before starting up a business not to acquire business-related knowledge or expertise, but to establish contacts and networks.

Finally, if we look at people’s reasons for not participating in entrepreneur communities, the highest proportion of respondents opted for “Unaware that entrepreneur communities existed”. However, the proportion of entrepreneurial hopefuls and people making startup preparations who responded “I don’t feel like I would benefit from participating” is higher among those

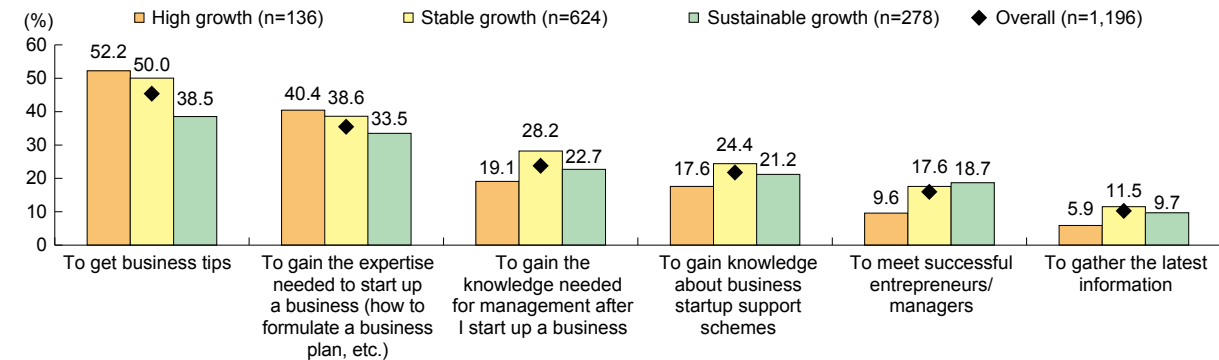
targeting high growth than for other growth types. So it seems that, compared with entrepreneurial hopefuls and people making startup preparations targeting other growth types, those aiming for high growth have higher rates of participation in entrepreneur communities. But it also appears to be the case that there is a set number of people who do not see the need for such external communities.

Fig. 2-1-25 Participation rates in entrepreneur communities by target growth type after business startup

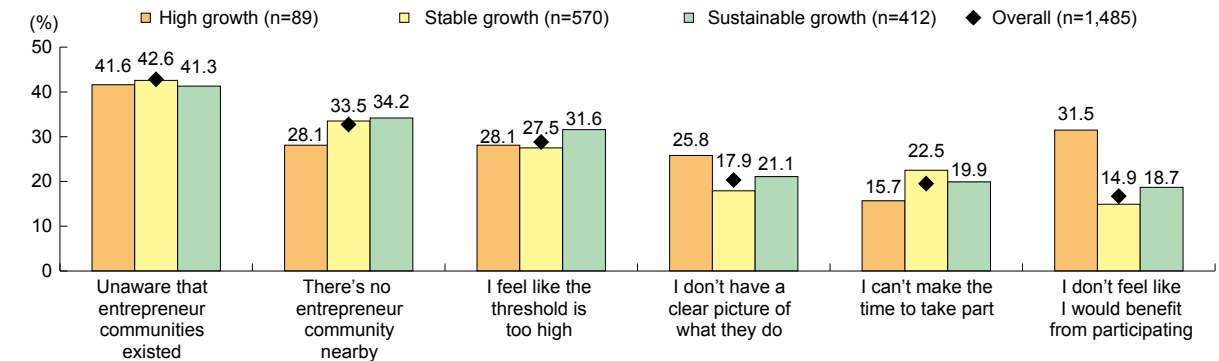
(1) Participation in entrepreneur communities



(2) Reason for participating in entrepreneur communities



(3) Reason for not participating in entrepreneur communities



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. (2) and (3) list the six items with the highest proportion of responses overall.
 3. The totals in (2) and (3) may not necessarily be 100% as multiple responses were possible.

(8) Reasons why entrepreneurial hopefuls have not started preparations for business startup

Below we focus on entrepreneurial hopefuls and people making startup preparations and identify the issues they each face and the support policies they use to progress to the next stage. Fig. 2-1-26 shows the reasons why entrepreneurial hopefuls do not start making concrete preparation to start up businesses according to gender and age group.

If we begin by looking at men, the “Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business” response drew the highest proportion of responses in the 34 or younger and 60 or older age groups. The next most popular responses in those age groups were “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)” followed by “I can’t see any way to procure funding (including subsidies and self-funding)”. However, the figure also shows that the most popular response in the 35–59 age group was “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)”, followed by “I can’t see any way to procure funding (including subsidies and self-funding)”. This indicates that male entrepreneurial hopefuls aged 34 or younger and 60 or older do not progress to the stage of preparing to start up a business because they lack the specialist knowledge and management knowledge or expertise required in business. We also learn that male entrepreneurial hopefuls in the 35–59 age group cannot begin their preparations for starting up a business because they are concerned about the losses when the business fails and because they are

unable to find sources of funding to start up a business.

If we now turn our attention to women, the response with the highest proportion across all age groups is “Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business”. This was followed by “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)” and then “I can’t see any way to procure funding (including subsidies and self-funding)” among women in the 34 or younger and 35–59 age groups, while a lower proportion of women aged 60 or older selected “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)” and a higher proportion of that age group selected “I can’t see any way to procure funding (including subsidies and self-funding)”. Also in the 60 or older age group, the proportion who chose “Changing home situation (marriage/birth/nursing care, etc.)” was higher than the other age groups. Compared with male entrepreneurial hopefuls, a higher proportion of female entrepreneurial hopefuls responded “I can’t picture starting up a business in any detail”. This shows that female entrepreneurial hopefuls are not preparing to start up a business because, compared with male entrepreneurial hopefuls, they do not have a concrete vision for their business startup and they lack the specialist knowledge and management knowledge needed in business. We can also see that female entrepreneurial hopefuls aged 59 or younger do not start preparing to start up a business due to concerns about the business startup itself, while the issues for women aged 60 or older are their inability to find funding sources and changes in their home or family situations.

Fig. 2-1-26 Reasons why entrepreneurial hopefuls have not started preparations for business startup according to gender and age group

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=210)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (33.3%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (29.0%)	I can't see any way to procure funding (including subsidies and self-funding) (23.8%)	I don't know in detail how to start up a business (19.5%)	I can't think of any specific ideas for products or services (16.7%)
	35-59 (n=333)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (33.0%)	I can't see any way to procure funding (including subsidies and self-funding) (29.1%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (26.7%)	I don't know in detail how to start up a business (15.6%)	I don't have any free time (13.2%)
	60 or older (n=111)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (28.8%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (26.1%)	I can't see any way to procure funding (including subsidies and self-funding) (22.5%)	I don't know in detail how to start up a business (21.6%)	I can't picture starting up a business in any detail (15.3%)
Women	34 or younger (n=214)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (33.2%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (28.5%)	I can't see any way to procure funding (including subsidies and self-funding) (25.7%)	I can't picture starting up a business in any detail (19.6%)	I don't have any free time (17.8%)
	35-59 (n=382)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (28.3%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (28.0%)	I can't see any way to procure funding (including subsidies and self-funding) (20.9%)	I can't picture starting up a business in any detail (20.7%)	I don't know in detail how to start up a business (16.0%)
	60 or older (n=107)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (29.9%)	I can't see any way to procure funding (including subsidies and self-funding) (25.2%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (20.6%)	Changing home situation (marriage/birth/nursing care, etc.) (19.6%)	I don't know in detail how to start up a business (18.7%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from entrepreneurial hopefuls.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(9) Reasons why people making startup preparations embarked on concrete measures

Here, we look at the responses when people making startup preparations were asked why they made the decision to begin concrete preparations, according to gender and age group, as shown in Fig. 2-1-27. The figure shows that for both genders and across all age groups, the highest proportion of respondents chose “My family understood and helped me start up the business”. Among men, the responses with the next highest proportions were “I had some specific ideas for products or services” followed by “I found people to advise me on starting up a business” in the 34 or younger age group, “I had built up

the knowledge and experience needed for a business” and then “I had some specific ideas for products or services” in the 35-59 age group, and “I had built up the knowledge and experience needed for a business” followed by “I had some free time” in the 60 or older age group.

If we look at the women who responded, we see that the highest proportion went to “My family understood and helped me start up the business”, followed in the case of the 34 or younger and 35-59 age groups by “Changing home situation (marriage/birth/nursing care, etc.)” and then “I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.)”. In the 60 or older age group, the next highest proportion selected “I

learned in detail how to start up a business”, followed by “I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.)”.

This shows that, in order for would-be entrepreneurs of either gender and in any age group to start concrete preparations for business startup, it is important that they have the understanding and cooperation of family members regarding the business startup. The data also

shows that the factors that trigger preparing for business startup in men are likely to be specific ideas for products and services along with acquiring the knowledge and experience needed in business. For women, the corresponding factors are likely to be changes in their family situation and prompting to start up a business from their friends and the other people around them.

Fig. 2-1-27 Reasons why people making startup preparations embarked on concrete measures according to gender and age group

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=210)	My family understood and helped me start up the business (32.4%)	I had some specific ideas for products or services (19.7%)	I found people to advise me on starting up a business (17.6%)	I learned in detail how to start up a business (16.5%)	I had a definite idea for an enterprise that will contribute to society (16.0%)
	35–59 (n=333)	My family understood and helped me start up the business (31.8%)	I had built up the knowledge and experience needed for a business (27.7%)	I had some specific ideas for products or services (16.9%)	I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.) (15.9%)	I found people to advise me on starting up a business (15.9%)
	60 or older (n=111)	My family understood and helped me start up the business (34.5%)	I had built up the knowledge and experience needed for a business (33.6%)	I had some free time (28.4%)	I learned in detail how to start up a business (16.5%)	Couldn't do what I wanted to at work (16.4%)
Women	34 or younger (n=214)	My family understood and helped me start up the business (32.3%)	Changing home situation (marriage/birth/nursing care, etc.) (20.3%)	I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.) (17.2%)	I found people to advise me on starting up a business (16.7%)	I had some specific ideas for products or services (14.1%)
	35–59 (n=382)	My family understood and helped me start up the business (29.1%)	Changing home situation (marriage/birth/nursing care, etc.) (20.7%)	I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.) (19.2%)	I had some specific ideas for products or services (18.8%)	I had some free time (18.0%)
	60 or older (n=107)	My family understood and helped me start up the business (30.6%)	I learned in detail how to start up a business (25.8%)	I was advised to by people around me (family, friends, clients, entrepreneurs, managers, etc.) (24.2%)	I had built up the knowledge and experience needed for a business (24.2%)	I found people to advise me on starting up a business (19.4%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(10) Details of the support policies people making startup preparations used when they began preparing

Fig. 2-1-28 shows the responses returned when people making startup preparations were asked about the support policies they used when they started their business startup preparations. If we begin by looking at men, the responses with the highest proportions across all age groups were “Provision of information concerning startups and management via the Internet” and “Advice

on business startups and management”. Other popular responses included “Courses to support business startups/management” in the 34 or younger and 35–59 age groups. However, the proportions who used “Support for various startup procedures” increased as the respondents’ ages increased. If we look next at women, the responses with the highest proportions across all age groups were “Advice on business startups and management”, followed by “Provision of information concerning startups and management via the Internet”. The proportions for

“Courses to support business startups/management” were relatively high in the 34 or younger and 35–59 age groups, while we also see that a set number of respondents in the 34 or younger and 60 or older age groups used “Support for balancing work and family, such as childcare facilities and assistance with housework and nursing”.

This suggests that when people making startup preparations being the process of preparing to start up their business, regardless of gender or age, they seek of advice on starting up and managing a business from family, friends, local entrepreneurs and managers and support

providers such as societies and chambers of commerce and industry, and they act on the basis of information on business startups they have collected via the Internet from websites such as the Mirasapo management support portal site. We also see that entrepreneurial hopefuls aged 59 or younger participate in seminars relating to business startup, such as those given by business startup schools, and that female entrepreneurial hopefuls in the 34 or younger and 60 or older age groups will use services such as childcare facilities and nursing care support.

Fig. 2-1-28 Details by gender and age group of the support policies people making startup preparations used when they began preparing

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=120)	Provision of information concerning startups and management via the Internet (54.2%)	Advice on business startups and management (48.3%)	Courses to support business startups/management (35.8%)	Building and coordinating support networks for entrepreneurs, etc. (24.2%)	Subsidies/grants to support business startups (23.3%)
	35–59 (n=177)	Advice on business startups and management (59.3%)	Provision of information concerning startups and management via the Internet (52.0%)	Courses to support business startups/management (33.3%)	Support for various startup procedures (27.1%)	Subsidies/grants to support business startups (26.6%)
	60 or older (n=57)	Provision of information concerning startups and management via the Internet (50.9%)	Advice on business startups and management (47.4%)	Support for various startup procedures (36.8%)	Courses to support business startups/management (24.6%)	Building and coordinating support networks for entrepreneurs, etc. (22.8%)
Women	34 or younger (n=126)	Advice on business startups and management (53.2%)	Provision of information concerning startups and management via the Internet (39.6%)	Courses to support business startups/management (31.0%)	Support for various startup procedures (23.8%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (23.0%)
	35–59 (n=149)	Advice on business startups and management (52.3%)	Provision of information concerning startups and management via the Internet (40.3%)	Courses to support business startups/management (26.8%)	Support for various startup procedures (20.1%)	Subsidies/grants to support business startups (20.1%)
	60 or older (n=38)	Advice on business startups and management (52.6%)	Provision of information concerning startups and management via the Internet (50.0%)	Building and coordinating support networks for entrepreneurs, etc. (28.9%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (26.3%)	Funding for renewed startups (23.7%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(11) Details of the support policies people making startup preparations wanted to use when they began preparing

Here, we will look at the support policies people making startup preparations would have liked to use when they began preparing to start up a business (Fig. 2-1-29). The figure shows that for both genders and across all

age groups, the highest proportion of respondents chose “Courses to support business startups/management”. If we look specifically at men, the next highest proportion in the 34 or younger age group chose “Financing to support business startups (excluding funding for renewed startups)”, those aged 35–59 chose “Investment to support business startups” and men aged 60 or older

chose “Support for balancing work and family, such as childcare facilities and assistance with housework and nursing”. This shows that the support policies men would have liked to use differ according to age group. Looking next at women, in all age groups they first chose “Courses to support business startups/management” and then “Subsidies/grants to support business startups”.

Among both men and women, high proportions chose options that support fund procurement, namely “Financing to support business startups (excluding funding for renewed startups)”, “Subsidies/grants to support business startups”, “Investment to support business startups” and “Funding for renewed startups”. Summarizing this data, it appears that when people making startup preparations actually started preparing to start up a business, regardless

of gender or age, they would have liked access to support policies that address funding procurement issues, such as financing, investment, subsidies and grants, along with educational courses that support business startups and management, such as those available at business startup schools. The data also confirms that when women making startup preparations actually started preparing to start up a business, they would have liked access to support for balancing work and family, such as childcare and nursing care facilities, as shown in Fig. 2-1-28. And as Fig. 2-1-29 shows, men also would have liked access to support for balancing work and family. This demonstrates that, to boost the numbers of people making startup preparations in the future, we need to further improve our support policies, including carefully tailored support programs.

Fig. 2-1-29 Details by gender and age group of the support policies people making startup preparations wanted to use when they began preparing

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=93)	Courses to support business startups/management (36.6%)	Financing to support business startups (excluding funding for renewed startups) (30.1%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (29.0%)	Advice on business startups and management (28.0%)	Investment to support business startups (23.3%)
	35-59 (n=133)	Courses to support business startups/management (42.9%)	Investment to support business startups (33.8%)	Subsidies/grants to support business startups (30.8%)	Financing to support business startups (excluding funding for renewed startups) (30.1%)	Advice on business startups and management (27.8%)
	60 or older (n=50)	Courses to support business startups/management (50.0%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (34.0%)	Subsidies/grants to support business startups (32.0%)	Support for personnel acquisition (32.0%)	Funding for renewed startups (30.0%)
Women	34 or younger (n=86)	Courses to support business startups/management (43.0%)	Subsidies/grants to support business startups (29.1%)	Support for personnel acquisition (27.9%)	Financing to support business startups (excluding funding for renewed startups) (26.7%)	Investment to support business startups (26.7%)
	35-59 (n=117)	Courses to support business startups/management (38.5%)	Subsidies/grants to support business startups (27.4%)	Financing to support business startups (excluding funding for renewed startups) (26.5%)	Rental services for private sector office space, office equipment, etc. (26.5%)	Advice on business startups and management (24.8%)
	60 or older (n=39)	Courses to support business startups/management (46.2%)	Subsidies/grants to support business startups (38.5%)	Investment to support business startups (30.8%)	Tax incentives for business startups (26.3%)	Financing to support business startups (excluding funding for renewed startups) (28.2%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(12) Reasons why people making startup preparations failed to start up a business

Next, we look at the reasons why people making startup preparations were unable start up their businesses. Fig. 2-1-30 shows the reasons why people making startup preparations failed to start up a business according to gender and age group. If we focus first on men, the

highest proportion across all age groups gave “Couldn’t procure funding” as their reason, followed by “Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business”. Other findings are that high proportions selected “Opposed by those around me (family, relatives, friends, acquaintances, entrepreneurs, managers, etc.)” in the 34 or younger age

group and “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)” in the 35 or older age group. Looking at women next, like men, the highest proportion across all age groups gave “Couldn’t procure funding” as their reason. The data also shows that, in the 34 or younger and 35–59 age groups, the proportion selecting “Changing home situation (marriage/birth/nursing care, etc.)” is higher than other age groups, and in the 60 or older cohort, the proportion selecting “Concerns about health/physical condition” is higher than the other age groups. In summary, the single commonest reason why people making startup preparations failed to

actually start up a business, regardless of gender and age, was that they were unable to procure funding. The data also shows that men were unable to start up a business because they lacked the required knowledge and expertise, those around them opposed the idea and they had concerns about securing staff. For women, various factors prevented them from starting up a business, including first and foremost their lack of required knowledge and expertise, changes in their home situation and concerns about their health and physical condition, and the reasons given differed by age group.

Fig. 2-1-30 Reasons why people making startup preparations failed to start up a business, according to gender and age group

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=166)	Couldn't procure funding (31.9%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (16.9%)	Opposed by those around me (family, relatives, friends, acquaintances, entrepreneurs, managers, etc.) (16.3%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (13.9%)	Couldn't find enough workers (12.7%)
	35-59 (n=259)	Couldn't procure funding (34.7%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (16.6%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (15.1%)	Couldn't secure good staff (administration, sales, technical, etc.) (12.7%)	Couldn't conduct market development/marketing (12.4%)
	60 or older (n=88)	Couldn't procure funding (31.8%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (21.6%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (18.2%)	Opposed by those around me (family, relatives, friends, acquaintances, entrepreneurs, managers, etc.) (12.5%)	I don't know in detail how to start up a business (11.4%)
Women	34 or younger (n=169)	Couldn't procure funding (31.9%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (21.6%)	Changing home situation (marriage/birth/nursing care, etc.) (17.8%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (17.2%)	Couldn't acquire the permits/qualifications needed for the business (16.6%)
	35-59 (n=228)	Couldn't procure funding (30.3%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (19.7%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (19.3%)	Changing home situation (marriage/birth/nursing care, etc.) (12.7%)	Couldn't develop products/services, etc. (11.4%)
	60 or older (n=49)	Couldn't procure funding (26.5%)	Couldn't conduct market development/marketing (26.5%)	Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business (20.4%)	Concerns about health/physical condition (18.4%)	Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.) (16.3%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(13) Details of the support policies used by entrepreneurs when starting up a business

Here, we look at exactly how entrepreneurs came to start up their businesses. Fig. 2-1-31 shows the responses by gender when entrepreneurs who had actually launched a business were asked about the support policies they used when they started up their business. Looking at the figure, the responses with the highest proportions across both genders were “Advice on business startups and management”, followed by “Provision of information concerning startups and management via the Internet” and then “Support for various startup procedures”. It also shows that male entrepreneurs are more likely to use “Courses to support business startups/management” than

their female counterparts, while higher proportions of female entrepreneurs use “Investment to support business startups” than their male counterparts. From this, it seems likely that when entrepreneurs of both genders start up a business, they seek advice from family and friends, from nearby senior managers and from support providers such as societies and chambers of commerce and industry and Yorozu support centers. Coupled with business startup and management consultations, they also use sources such as the Internet to collect their own information on business startup and management, and also seek help with procedural issues, such as assistance from support providers in formulating business plans.

Fig. 2-1-31 Details by gender of the support policies used by entrepreneurs when starting up a business

	1st	2nd	3rd	4th	5th
Men (n=83)	Advice on business startups and management (59.0%)	Provision of information concerning startups and management via the Internet (28.9%)	Support for various startup procedures (24.1%)	Courses to support business startups/management (18.1%)	Investment to support business startups (9.6%)
Women (n=64)	Advice on business startups and management (65.6%)	Provision of information concerning startups and management via the Internet (21.9%)	Support for various startup procedures (21.9%)	Investment to support business startups (17.2%)	Courses to support business startups/management (15.6%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from entrepreneurs.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(14) Details of the support policies entrepreneurs wanted to use when starting up a business

Next, Fig. 2-1-32 shows the results by gender for the support policies entrepreneurs would have liked to use when they started up their business but were unable to access. The figure shows that male entrepreneurs would have liked access to “Courses to support business startups/management”, followed by “Subsidies/grants to support business startups” and then “Advice on business startups and management”, while female entrepreneurs wanted access to “Subsidies/grants to support business startups”, followed by “Financing to support business startups” and then “Courses to support business startups/management”.

This indicates that among actual entrepreneurs there is a significant need among men for courses relating to starting up and managing a business, including business startup schools and business startup and management seminars. Among women, the needs are slightly different as they wanted grants and subsidies such as the New Business Support Fund and its successor, together with business-startup-related financing of the sort offered by private and governmental financial institutions. This suggests that women had more difficulty than men in obtaining support for funds procurement when starting up a business, whether it be grants, subsidies or other forms of financing.

Fig. 2-1-32 Details by gender of the support policies entrepreneurs wanted to use when starting up a business

	1st	2nd	3rd	4th	5th
Men (n=44)	Courses to support business startups/management (36.4%)	Subsidies/grants to support business startups (34.1%)	Advice on business startups and management (29.5%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (25.0%)	Support for various startup procedures (25.0%)
Women (n=44)	Subsidies/grants to support business startups (36.4%)	Financing to support business startups (34.1%)	Courses to support business startups/management (27.3%)	Support for balancing work and family, such as childcare facilities and assistance with housework and nursing (25.0%)	Rental services for private sector office space, office equipment, etc. (26.5%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from entrepreneurs.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

Above, we have analyzed the actual conditions and issues facing entrepreneurial hopefuls and people making startup preparations. The results show that, depending on gender and age group, there are differences in the issues faced in the process of starting up a business and in the ways support policies are utilized. We also learned that even among successful entrepreneurs, there were some who did not necessarily get the support they would have liked when launching their businesses. So it seems likely that we would be able to increase the proportions of successful business startups by ensuring that current entrepreneurial hopefuls and people making startup

preparations go through a process whereby each of them identifies the sorts of startup support policies that will address the issues they face and then consult with support providers such as societies and chambers of commerce and industry and Yorozu support centers, before going on to take advantage of financing, investment, subsidies and other support policies. For this to happen, it is important that the national government and support providers actively disseminate publicity on business startup support policies to entrepreneurial hopefuls and people making startup preparations.

Column 2-1-3 Business startup support policies

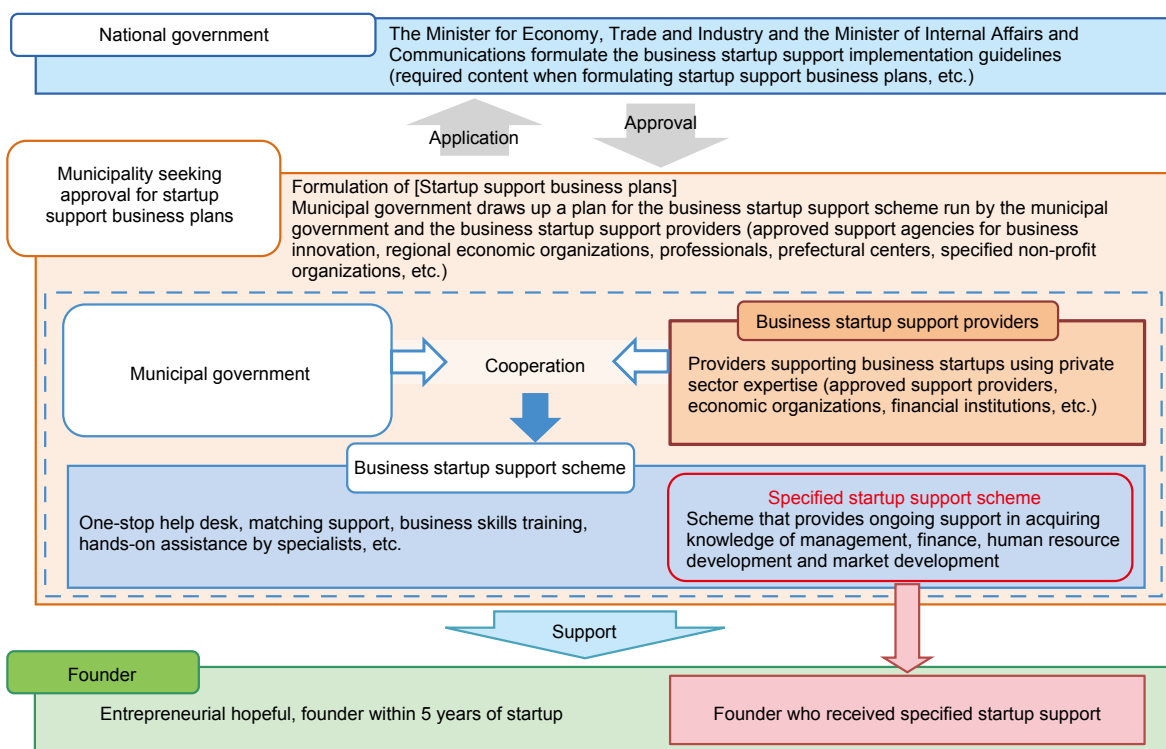
In this column, we will examine the business startup support policies in Japan.

[Business plan formulation scheme to support business startups in the Industrial Competitiveness Enhancement Act]

Under the Industrial Competitiveness Enhancement Act enacted on 20 January 2014, municipality governments and private sector businesses (regional financial institutions, specified non-profit organizations, societies and chambers of commerce and industry, etc.) are working together to provide support for business startups with the aim of promoting new businesses in regional Japan.

Specifically, municipal governments draw up business plans to assist with business startups based on the national government's "Business startup support implementation guidelines". These "startup support business plans" are submitted to the national government for approval, and the municipal government then works with the business startup support providers in accordance with the approved plans, providing specific business startup support such as setting up one-stop help desks and holding business startup seminars (Fig. Column 2-1-3 (1)).

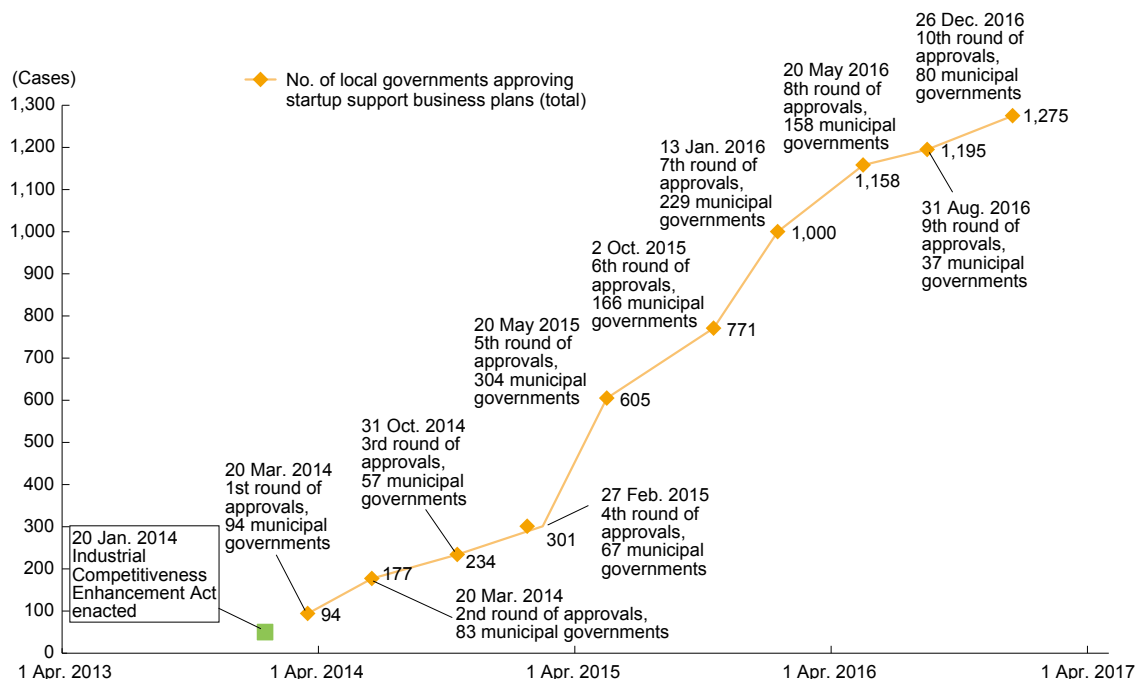
Fig. Column 2-1-3 (1) Overview of the regional business startup support scheme based on the Industrial Competitiveness Enhancement Act



In formulating plans, municipal governments must implement support measures with a clear grasp of the issues in their own regions and as part of a design for how they want the future to be. In implementing their plans, the utilization of private sector expertise and not merely that of the municipal government will enable business startup support that is practical and effective.

The current status of approvals for startup support business plans is that, as of the 10th round of approvals on 26 December 2016, 1,275 municipalities out of a total 1,741 have received approval (approval rate for all local governments of 73.2%, covering 95% of the population) (Fig. Column 2-1-3 (2)).

Fig. Column 2-1-3 (2) Startup support business plan formulation



Source: SME Agency data

[Startup Subsidy] (subsidy for business startups)

For entrepreneurs who wish to be accepted into a specified startup support scheme to start up a business, the costs of business startup are partly subsidized by a specified municipal government or approved business startup support providers under the Industrial Competitiveness Enhancement Act.

[Overview]

Aim	To revitalize regional economies by partially subsidizing the business startup costs incurred by people starting up new businesses, thereby promoting the creation of new demand and employment in the regions.
Eligible businesses	Businesses that meet all of criteria (1) to (3) below 1) A business run by a person starting up a new business that creates demand and employment using a business model that reveals hidden value and adapts existing technology 2) A business run by a person accepted into a specified startup support scheme as part of a startup support business plan before the business is completed 3) A business that employs at least one person while it is running
Maximum subsidy	¥2 million Note: ¥1 million if outside funding is not procured
Subsidy rate	One half of eligible costs

[Business startup support providers subsidy] (subsidy for business startup support providers)

The costs of programs to support business startups (including startup needs arising from secondary or subsidiary businesses) carried out by private sector support providers in cooperation with municipal governments and in accordance with a municipal government startup support business plan that has been approved by the national government are partially subsidized under the Industrial Competitiveness Enhancement Act.

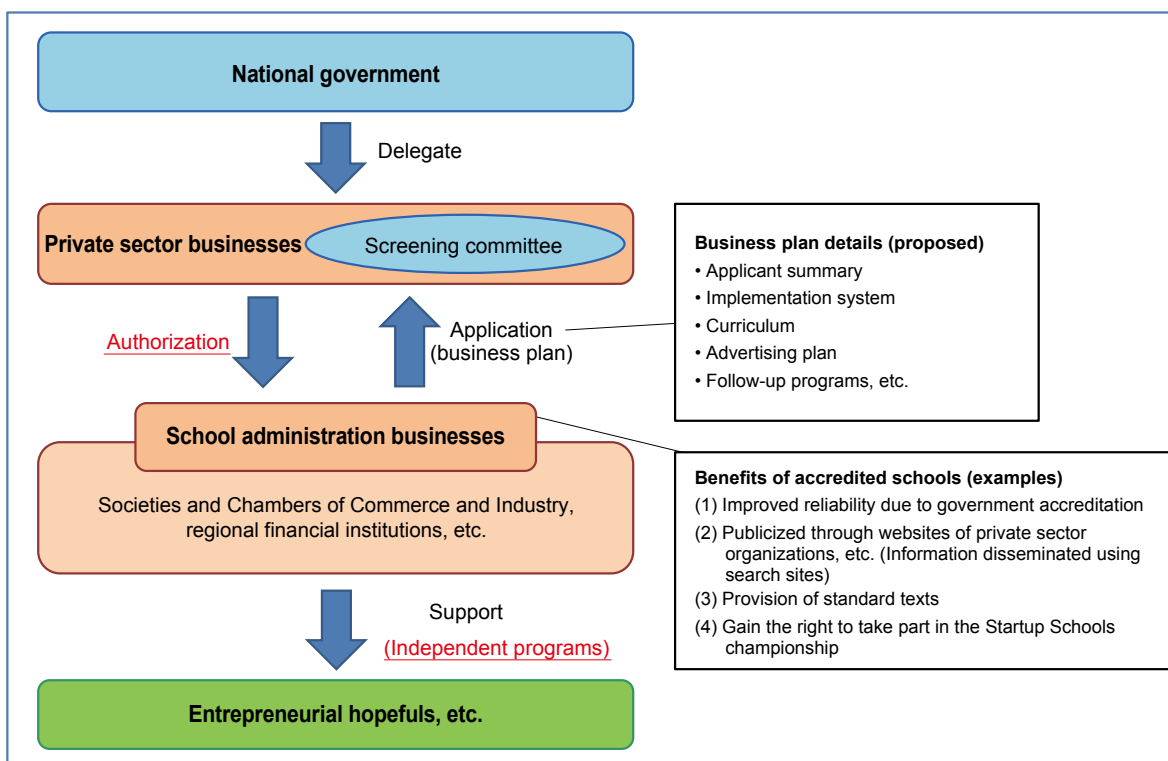
[Overview]

Eligible programs	Startup support programs (programs that include a specified startup support scheme) implemented by approved business startup support providers in cooperation with municipal governments under an approved startup support business plan
Maximum subsidy	¥10 million (subsidy of ¥1 million for small-scale business plans)
Subsidy rate	Two-thirds of eligible costs
Eligible costs	Personnel costs (new employees), specialist fees, travel expenses, equipment costs (less than ¥500,000 per unit), leasing costs (co-working space, etc.), advertising costs, subcontracting costs, etc. Note: Real estate acquisition costs, interior construction costs, communication costs (phone charges, etc.) and utility (heating, water, etc.) charges are not subsidized.

[Startup School Accreditation Scheme]

Started in FY2017, the Startup School Accreditation Scheme offers business startup schools that meet set standards Japanese government accreditation via private sector businesses entrusted with the task. Such accredited schools are run by school administration businesses and provide support ranging from teaching basic knowledge of matters required for business, such as finance and taxation, through to drawing up business plans. (This system takes over from the "Startup Schools" scheme that operated until FY2016 (a system under which private sector organizations entrusted by the national government with subcontracting to school administration businesses which in turn provided newly formulated national government support to entrepreneurial hopefuls).) (Fig. Column 2-1-3 (3)).

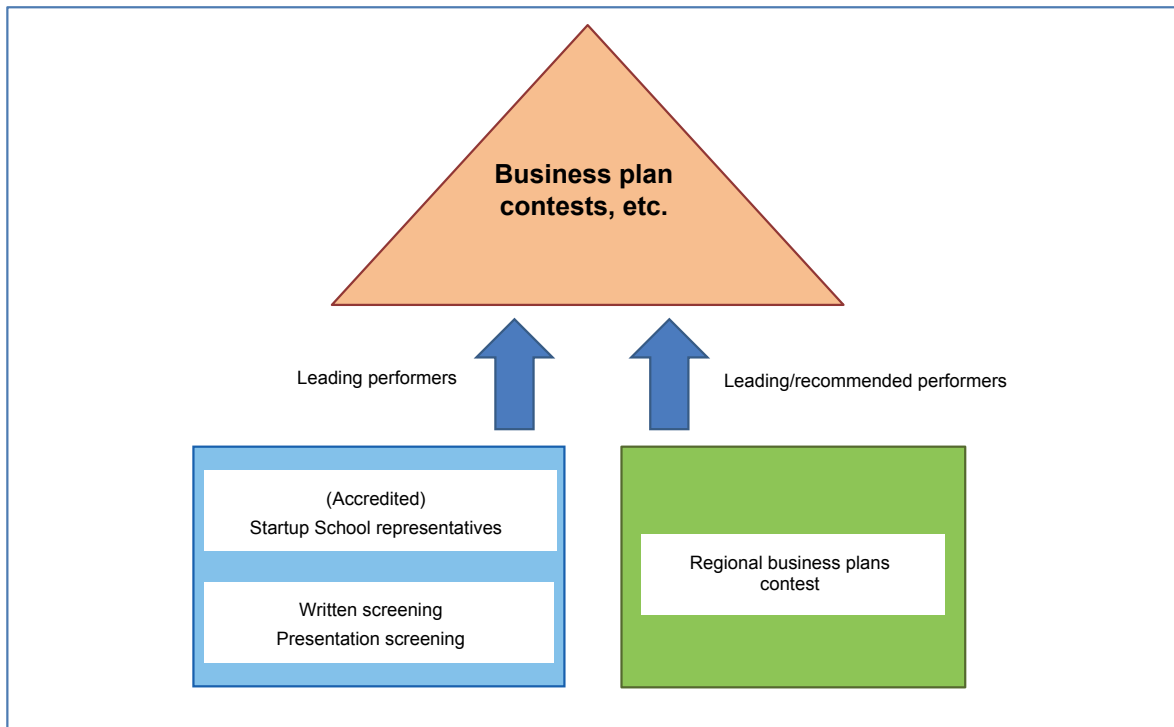
Fig. Column 2-1-3 (3) Startup School Accreditation Scheme



[Programs for discovering potential founders]

By bringing together representatives from accredited Startup Schools and leading performers and recommended participants in regional business plan contests for nationwide business plan contests, we are raising awareness of business startups throughout Japan and discovering potential new business founders (Fig. Column 2-1-3 (4)).

Fig. Column 2-1-3 (4) Schematic of the programs for discovering potential founders



4. Conditions for former prospective entrepreneurs and support that will rekindle interest in business startups

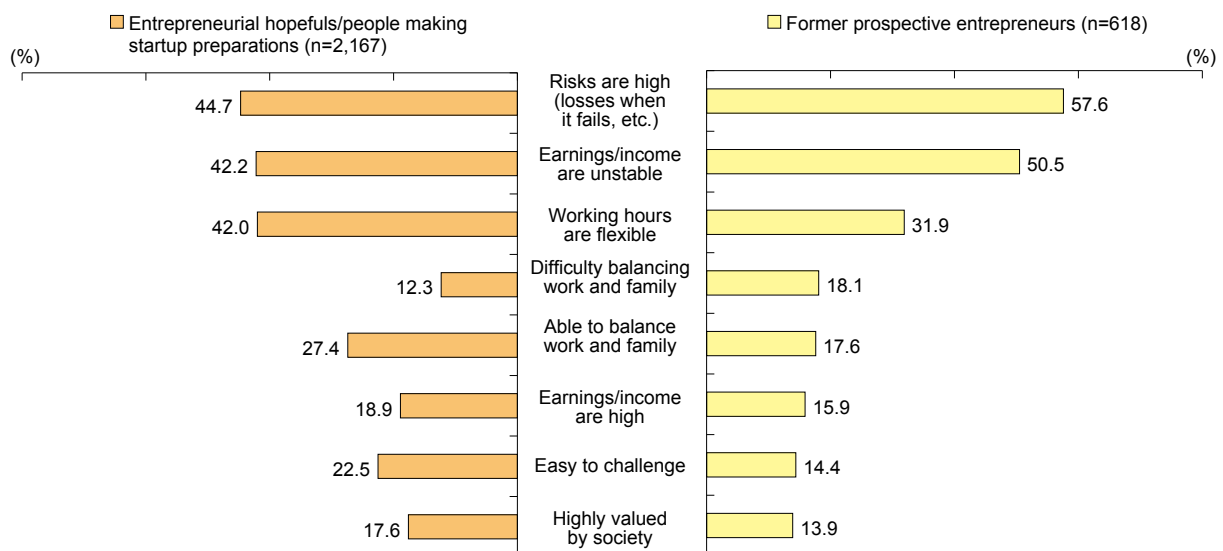
Here, we look again at people not interested in business startups, this time focusing on former prospective entrepreneurs who could again become entrepreneurial hopefuls or people making startup preparations. We will look at the actual situation for such people and also focus on entrepreneurial hopefuls and people making startup preparations who seriously considered abandoning or who did in fact abandon their business startups. Where prospective entrepreneurs considered abandoning their business startups but actually went on to start up a business, will look at who they consulted, and where they did in fact abandon their business startups at one time, we will try to identify what inspired them to try again. This will allow us to consider the types of support that might inspire former prospective entrepreneurs to once again

start up a business.

(1) Impressions of business startups held by former prospective entrepreneurs

We begin by looking at the current conditions for former prospective entrepreneurs. Fig. 2-1-33 compares the impressions that former prospective entrepreneurs have of business startups with those of entrepreneurial hopefuls and people making startup preparations. The figure shows that a significantly higher proportion of former prospective entrepreneurs than entrepreneurial hopefuls or people making startup preparations have negative impressions, such as “Risks are high (losses when it fails, etc.)” and “Earnings/income are unstable”.

Fig. 2-1-33 Impressions of business startups held by former prospective entrepreneurs



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.

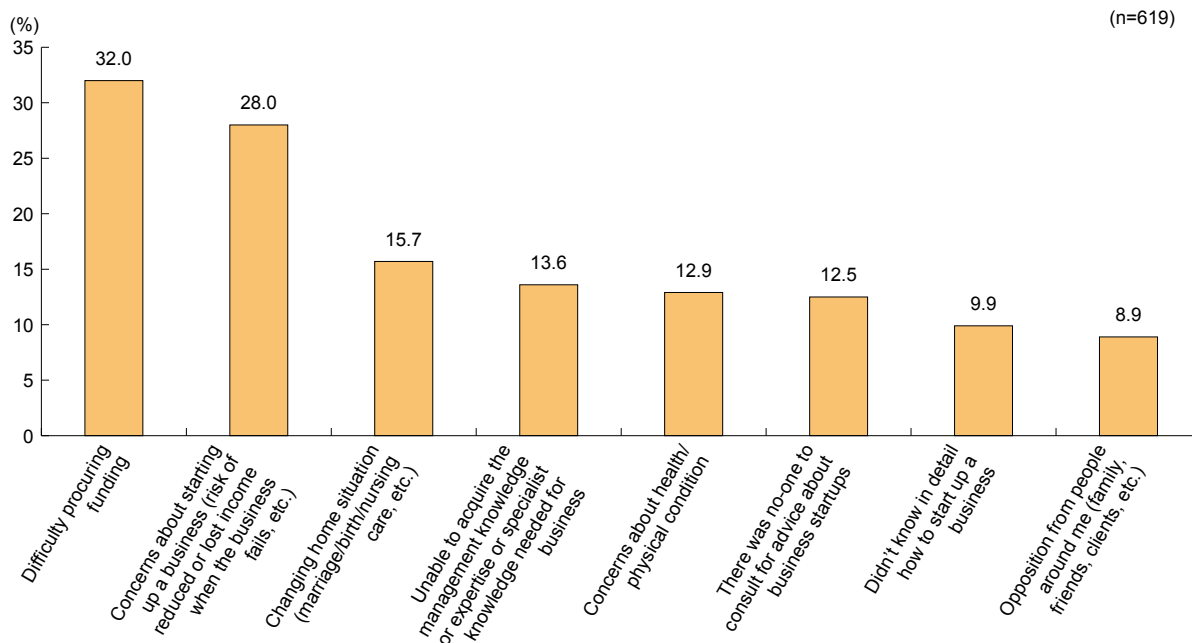
2. The chart lists the eight items with the highest proportion of responses from former prospective entrepreneurs.

(2) Reasons why former prospective entrepreneurs abandoned their business startups

Next, as shown in Fig. 2-1-34, we look at the results when former prospective entrepreneurs were asked for the reasons why they abandoned their business startups. The figure shows that the highest proportion of respondents

chose “Difficulty procuring funding”, followed by “Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)”. It is also clear that these two reasons were chosen by significantly more respondents than the other responses.

Fig. 2-1-34 Reasons why former prospective entrepreneurs abandoned their business startups



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

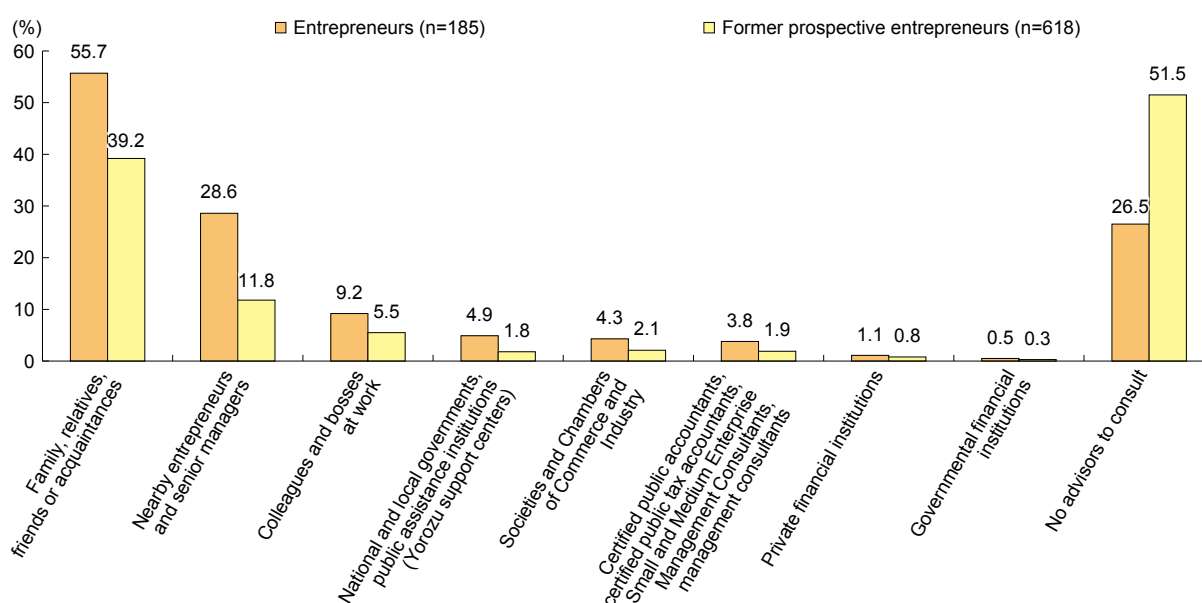
- Notes:
1. The chart shows the totals for responses from former prospective entrepreneurs.
 2. Total does not always equal 100% as multiple responses were possible.
 3. The chart lists the eight items with the highest proportion of responses.

(3) Advisors consulted when business startups were abandoned or likely to be abandoned

Here, we focus on entrepreneurs who seriously considered abandoning their business startups but then went on to start up a business anyway and look at the advisors they consulted when they were thinking of giving up (Fig. 2-1-35). The figure shows that, of the entrepreneurs who seriously considered abandoning their business startups but then went on to start up a business anyway, around 60% consulted “Family, relatives, friends

or acquaintances” and around 30% talked to “Nearby entrepreneurs and senior managers” when they were having doubts. However, of the former prospective entrepreneurs who actually did abandon their business startups, more than half responded, “No advisors to consult”, which suggests that the presence of advisors around entrepreneurs considering abandoning their ventures is an extremely important factor in preventing those startups from being abandoned.

Fig. 2-1-35 Advisors consulted when entrepreneurs considered abandoning business startups but did not, and those consulted when they did



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

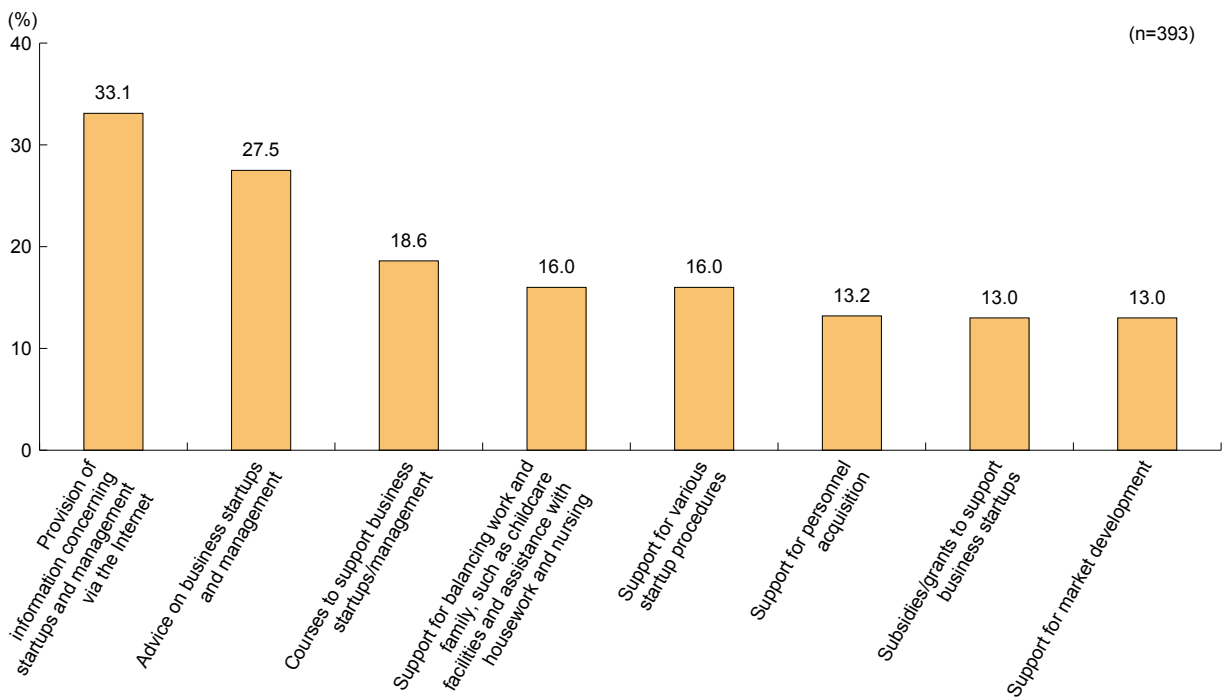
- Notes:
1. The chart shows the totals for responses from entrepreneurs who responded “Once considered abandoning a business startup, but didn’t abandon it”.
 2. Totals are for advisors consulted when entrepreneurs considered abandoning business startups but did not abandon them.
 3. Totals are for advisors consulted when former prospective entrepreneurs abandoned their business startups.
 4. No “Other” category is presented here.
 5. Total does not always equal 100% as multiple responses were possible.

(4) Details of support policies that inspired entrepreneurs and people making startup preparations to resume business startups they had once abandoned

Finally, we look at the support policies that inspired entrepreneurs and people making startup preparations who had once abandoned their business startups to resume starting up a business, as shown in Fig. 2-1-36. The figure shows that the use of various support policies inspired respondents to resume business startups that they had once abandoned, including firstly “Provision of information

concerning startups and management via the Internet” and also “Advice on business startups and management” and “Courses to support business startups/management”. These results again show that entrepreneurs and people making startup preparations who have once abandoned business startups are probably inspired to rediscover their enthusiasm and to resume business startups they have previously abandoned by seeing information about business startups on the Internet or by talking to family and friends or entrepreneurs and managers around them.

Fig. 2-1-36 Details of support policies that inspired entrepreneurs and people making startup preparations to resume business startups they had once abandoned



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals for responses from entrepreneurs and people making startup preparations who responded “Once abandoned a business startup”.
 2. Totals for the proportions exclude people who responded “None in particular”.
 3. The chart lists the eight items with the highest proportion of responses.
 4. Total does not always equal 100% as multiple responses were possible.

Above, we have reviewed the situation for former prospective entrepreneurs and the support policies that are effective in kindling their interest in resuming business startups, and inspiring people who have once abandoned a business startup to revisit starting up a business is key to increasing future business startups in Japan. To achieve this, we will need to go beyond current support agencies,

such as societies and chambers of commerce and industry, local governments and Yorozu support centers, and provide even better support agencies and communities that will foster the types of entrepreneur communities discussed in Fig. 2-1-25 above, where anyone wishing to start up a business can freely seek advice on their concerns.

Column 2-1-4 Conditions for renewed startups

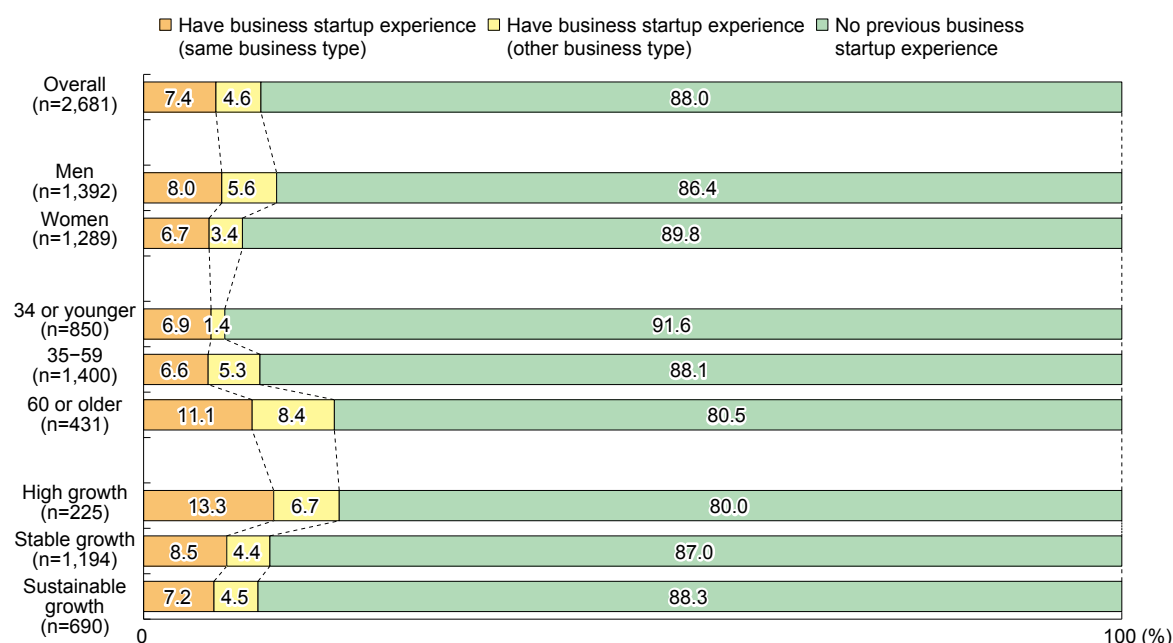
This column will provide an overview entrepreneurial hopefuls and people making startup preparations who have previously abandoned a business startup and are now aiming to resume that startup. In other words, entrepreneurial hopefuls and people making startup preparations now have some experience starting up a business (hereinafter referred to as “aspiring renewed startups” and “people making renewed startup preparations” respectively). Thus far in this document, we have analyzed the types of support that will promote trouble-free business startups and will inspire former prospective entrepreneurs to revisit the idea of starting up a business. But if we are going to increase the number of entrepreneurs in Japan, it is also important that we promote renewed startups by entrepreneurial hopefuls and people making startup preparations who have previously tried to start up a business and failed.

Presence of previous business startup experience

Fig. Column 2-1-4 (1) shows the results of querying entrepreneurial hopefuls and people making startup preparations both with and without past startup experience. The results are classified according to gender, age group and the desired growth type after startup. If we begin by looking at the results by gender, a higher proportion of men than women responded “Have business startup experience”. Looking next at the results by age group, more respondents in the 60 or older age group opted for “Have business startup experience” than in the other age groups. In terms of the types of business they were considering as a startup, a high proportion of respondents in all the age groups wanted to start up the same type of business they tried to start up before.

If we look at the responses by the desired growth type after startup, the proportion of “Have business startup experience” responses was higher among entrepreneurial hopefuls and people making startup preparations who are targeting high growth than was the case for those aiming for stable growth or sustainable growth.

Fig. Column 2-1-4 (1) Presence of previous business startup experience



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows only the totals for entrepreneurial hopefuls and people making startup preparations.
 2. Here, “Have business startup experience (same business type)” indicates the total proportions of respondents who have business startup experience in the same type of business that they are currently considering.
 3. Here, “Have business startup experience (other business type)” indicates the total proportions of respondents who have business startup experience in a type of business other than what they are currently considering.

Reasons why aspiring renewed startups and people making renewed startup preparations failed in their previous businesses

Next, Fig. Column 2-1-4 (2) shows the reasons why aspiring renewed startups and people making renewed startup preparations failed in their previous businesses, according to gender and age group. If we begin by looking at men, regardless of age group, the highest proportion gave "Cash-flow or funding procurement difficulties" as their reason. Other reasons given by high proportions of respondents were "Difficulty securing and training personnel" and "Difficulty acquiring the necessary equipment" in the 34 or younger age group. In the 35–59 and 60 or older age groups, high-scoring responses were "Earnings were too low", "Difficulty finding new customers and developing markets" and "Deteriorating performance". If we now look at the results among women, the highest proportions in the 34 or younger age group gave "Cash-flow or funding procurement difficulties" followed by "Difficulty finding new customers and developing markets" and then "Took too much time and physical effort" as their reasons. However, women in the 35–59 and 60 or older age groups picked "Earnings were too low" first, followed by "Family problems (marriage, birth, nursing care, etc.)" and then "Cash-flow or funding procurement difficulties". This shows that for men, difficulty with their cash-flow situation or with procuring funding was the single most significant reason. The fact that a high proportion of men aged 34 or younger gave difficulty securing staff or equipment as their reason suggests that they gave up their businesses because they could not secure management resources such as personnel or equipment as their business grew in size. This shows us that the reasons men gave up their businesses tend to diverge according to their age. Conversely, if we look at women, a key reason for giving up the business was not so much difficulty with cash-flow or funding procurement, but the fact that the earnings from the business were too low. The data also indicates that more women than men gave up their businesses because of changes in their home situations, such as marriage, divorce, birth, childcare and nursing care, and because their businesses imposed too great a burden in terms of time and physical effort.

Fig. Column 2-1-4 (2) Reasons why aspiring renewed startups and people making renewed startup preparations failed in their previous businesses

		1st	2nd	3rd	4th	5th
Men	34 or younger (n=71)	Cash-flow or funding procurement difficulties (53.3%)	Difficulty securing and training personnel (28.9%)	Difficulty acquiring the necessary equipment (28.9%)	Earnings were too low (24.4%)	Lack the management expertise (24.4%)
	35-59 (n=103)	Cash-flow or funding procurement difficulties (49.5%)	Earnings were too low (36.9%)	Difficulty finding new customers and developing markets (27.2%)	Deteriorating performance (26.2%)	Difficulty securing and training personnel (18.4%)
	60 or older (n=42)	Cash-flow or funding procurement difficulties (28.6%)	Earnings were too low (23.8%)	Deteriorating performance (23.8%)	Difficulty finding new customers and developing markets (19.0%)	Took too much time and physical effort (14.3%)
Women	34 or younger (n=26)	Cash-flow or funding procurement difficulties (42.3%)	Difficulty finding new customers and developing markets (23.1%)	Took too much time and physical effort (19.2%)	Difficulty securing and training personnel (15.4%)	Deteriorating performance (15.4%)
	35-59 (n=63)	Earnings were too low (39.7%)	Family problems (marriage, birth, nursing care, etc.) (33.3%)	Cash-flow or funding procurement difficulties (22.2%)	Took too much time and physical effort (20.6%)	Difficulty finding new customers and developing markets (15.9%)
	60 or older (n=42)	Earnings were too low (33.3%)	Cash-flow or funding procurement difficulties (33.3%)	Family problems (marriage, birth, nursing care, etc.) (26.2%)	Deteriorating performance (21.4%)	Lack the management expertise (21.4%)

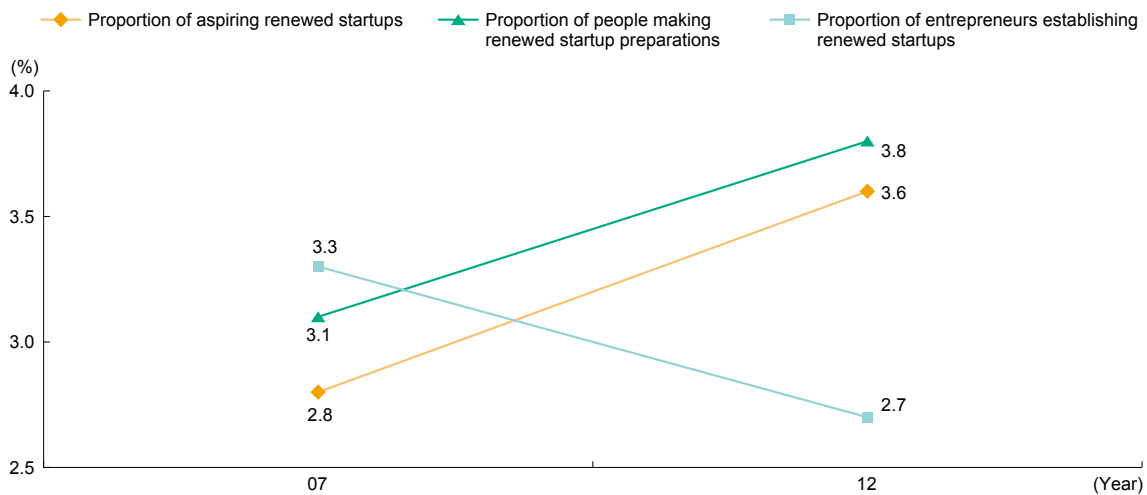
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals of responses from entrepreneurial hopefuls and people making startup preparations.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

People responsible for renewed startups

Fig. Column 2-1-4 (3) uses the MIC "Employment Status Survey" to show the respective figures for aspiring renewed startups as a proportion of all entrepreneurial hopefuls, people making renewed startup preparations as a proportion of all people making startup preparations, and entrepreneurs who established renewed startups as a proportion of all entrepreneurs. The figure shows that in 2012, 3.6% of all entrepreneurial hopefuls and 3.8% of all people making startup preparations were thinking of establishing a renewed startup. It also shows that 2.7% of all entrepreneurs actually established renewed startups. If we look at the changes from 2007 to 2012, aspiring renewed startups and people making renewed startup preparations have both increased as a proportion of entrepreneurial hopefuls and people making startup preparations respectively, but entrepreneurs establishing renewed startups have fallen as a proportion of all entrepreneurs. So, whereas the proportions of aspiring renewed startups and people making renewed startup preparations have risen over the last five years, the proportion of entrepreneurs who have actually established renewed startups has fallen over the same period. This leads us to conclude that, despite increased attention on renewed startups in recent years and a rise in the proportions of entrepreneurs considering renewed startups, there are many people who are failing to carry their startups through to completion.

Fig. Column 2-1-4 (3) People responsible for renewed startups



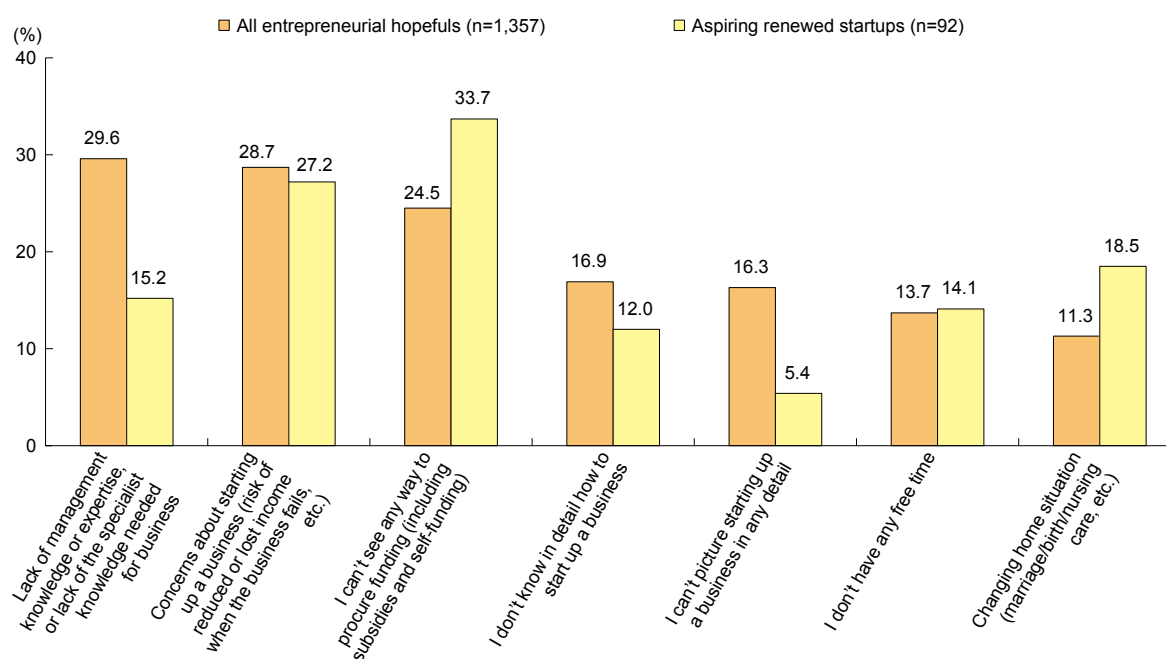
Source: Recompiled from MIC, *Employment Status Survey*.

- Notes:
1. Here, the "proportion of aspiring renewed startups" refers to the totals, as a proportion of all entrepreneurial hopefuls, for the respondents who selected "officers of a company, etc. or self-employed persons" as their position in their previous workplace, those who quit their jobs due to "Corporate bankruptcy or branch closure" or "Business slowdown and concerns about the future", those people engaged in work who wanted to change jobs and responded "Want to start my own business" or unemployed persons who responded "Want to start my own business".
 2. Here, "proportion of people making renewed startup preparations" refers to the total for aspiring renewed startups who responded "Making startup preparations" as a proportion of the people making startup preparations.
 3. Here, "proportion of entrepreneurs establishing renewed startups" refers to the totals, as a proportion of all entrepreneurs (people who changed their jobs or began new jobs in the last year and who are currently officers of a company, etc. or self-employed persons), for respondents who were "officers of a company, etc. or self-employed persons" in their previous workplaces and who quit their positions due to "Corporate bankruptcy or branch closure" or "Business slowdown and concerns about the future" and who changed their jobs or began new jobs in the last year and are currently officers of a company, etc. or self-employed persons.
 4. Here, entrepreneurial hopefuls, people making startup preparations and entrepreneurs do not include people who have engaged in or are preparing or hoping to start up secondary or subsidiary businesses.

Reasons why aspiring renewed startups have not started preparations for business startup

Now, we turn our attention to the issues face by aspiring renewed startups and people making renewed startup preparations as they try to restart their businesses. Fig. Column 2-1-4 (4) shows the reasons why aspiring renewed startups have not started preparations for business startup. The figure shows that a higher proportion of aspiring renewed startups selected "I can't see any way to procure funding (including subsidies and self-funding)" and "Changing home situation (marriage/birth/nursing care, etc.)" than was the case for entrepreneurial hopefuls generally. However, because they had previous experience with business startups, the proportions who selected "Lack of management knowledge or expertise, or lack of the specialist knowledge needed for business" and "I can't picture starting up a business in any detail" were lower than among other entrepreneurial hopefuls. This suggests that aspiring renewed startups have the knowledge and expertise they need and have a clear picture of their business startup, but are not actually making preparations for their startups because they have no prospects of procuring funding due to the lingering effects of liabilities and other issues from their past businesses.

Fig. Column 2-1-4 (4) Reasons why aspiring renewed startups have not started preparations for business startup



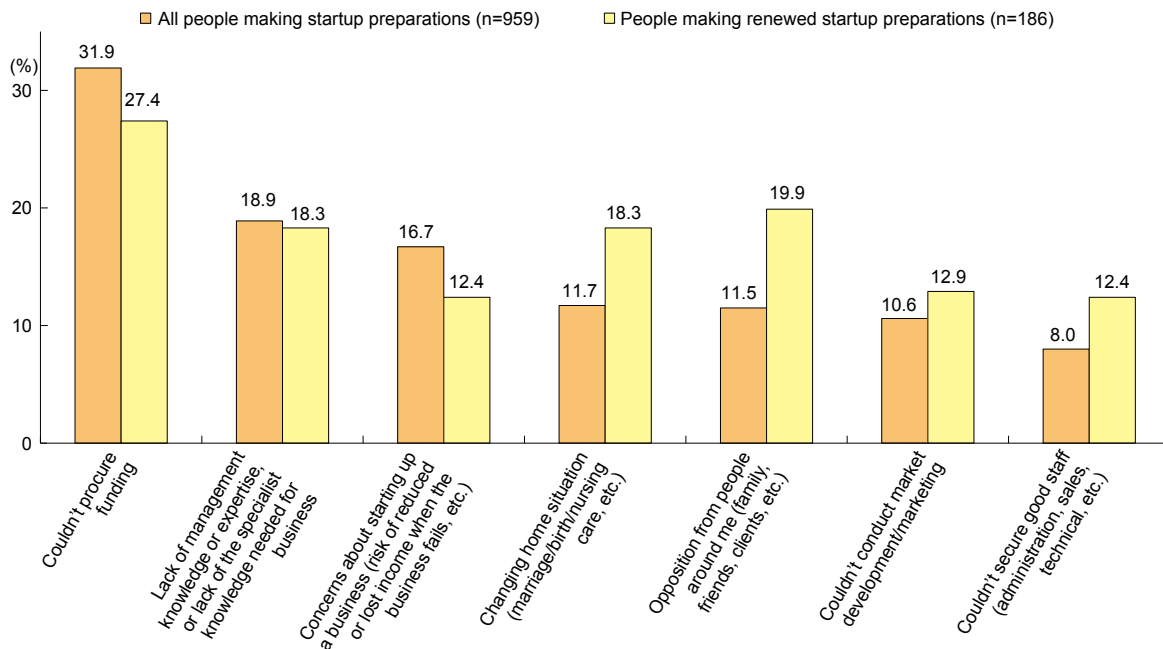
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from aspiring renewed startups.
 2. Totals for the proportions exclude people who responded "None in particular".
 3. The chart lists only the seven items with the highest proportion of responses.
 4. Total does not always equal 100% as multiple responses were possible.

Reasons why people making renewed startup preparations have not started up businesses

Next, we look specifically at people making renewed startup preparations and compare them with people making startup preparations generally to identify the reasons why they are unable to start up their businesses (Fig. Column 2-1-4 (5)). The figure shows that the highest proportion of people making renewed startup preparations gave "Couldn't procure funding" as their reason, followed by "Opposition from people around me (family, friends, clients, etc.)". If we also compare them with people making startup preparations generally, a lower proportion of people making renewed startup preparations selected "Concerns about starting up a business (risk of reduced or lost income when the business fails, etc.)", but a higher proportion cited reasons such as "Opposition from people around me (family, friends, clients, etc.)", "Changing home situation (marriage/birth/nursing care, etc.)" and "Couldn't secure good staff (administration, sales, technical, etc.)". This suggests that people making renewed startup preparations have relatively fewer concerns about starting up a business due to their previous experience, but still fail to actually start up their businesses because they cannot procure funding, face opposition from people around them, particularly family and friends, or cannot find high-quality staff.

Fig. Column 2-1-4 (5) Reasons why people making renewed startup preparations have not started up businesses



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Awareness and Experience of Business Establishment and Startup* (December 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals of responses from people making renewed startup preparations.
 2. Totals for the proportions exclude people who responded "None in particular".
 3. The chart lists only the seven items with the highest proportion of responses.
 4. Total does not always equal 100% as multiple responses were possible.

Funding for renewed startups (lending-support schemes for renewed startups)

Entrepreneurs with previous experience in business and a history of business failure are given the financing they need to renew their startups by the Japan Finance Corporation (JFC) (Fig. Column 2-1-4 (6)).

Fig. Column 2-1-4 (6) Overview of funding for renewed startups (lending-support schemes for renewed startups)

Eligible borrowers	<p>People who are starting up a new business or who started up a business in the last seven years and meet all the following criteria:</p> <ol style="list-style-type: none"> 1) Are individuals with a record of failure in business or companies run by managers with a record of failure in business 2) Are organized such that losses from business failures are unlikely to impact on new businesses 3) Had businesses that failed for reasons/circumstances that were unavoidable
Loan uses	Capital expenditure or working capital required to start up a new business or for a business started up previously
Maximum amounts loaned	<p>SME Unit: ¥720 million (including ¥250 million for working capital) Micro Business and Individual Unit: ¥72 million (including ¥48 million for working capital)</p>
Loan interest rate	<ul style="list-style-type: none"> • Working capital and land acquisition funding: Standard and special interest rates • Working capital and capital expenditure by women or people aged less than 30 or aged 55 or older (excluding land acquisition funding): Special interest rate • Working capital and capital expenditure for people demonstrating innovation in technology, expertise, etc.* (excluding land acquisition funding): Special interest rate <p>*Note: Set requirements must be fulfilled</p>
Loan term	<p>Capital expenditure: Up to 20 years <deferred up to 2 years> Working capital: Up to 7 years <deferred up to 2 years></p>
Applicable financial institutions	<p>Japan Finance Corporation (SME Unit and Micro Business and Individual Unit) Okinawa Development Finance Corporation</p>

Section 3 Conditions and issues faced following the establishment phase

In this section, we use data from the “*Survey of Business Startup/Establishment Conditions*¹⁶⁾” to quantify the three growth types discussed earlier (high growth, stable growth and sustainable growth) by looking at enterprises after startup and taking the number of years since startup, the number of employees and the sales growth rates. We also classify the growth of enterprises after startup into three

stages: the establishment stage, the initial growth stage and the stability and expansion stage, and then analyze the problems that each growth type faces in each stage of their growth and the support policies they used¹⁷⁾. Using this analysis, we will then consider the types of support policies needed by the respective enterprises to achieve the growth type they are targeting.

1. Enterprise conditions by growth type

(1) Classification of growth types after startup

In the analysis in this section, established enterprises are classified into three growth types: “high growth”, “stable growth” and “sustainable growth”. We began by looking at approx. 3,000 enterprises who responded to the questionnaire survey and had been established five or more years ago but no more than 10 years ago. According to the current sizes of the surveyed enterprises, there were classified as either micro businesses or medium enterprises as defined in the Small and Medium Enterprises Basic Law. The results were used to compare the sizes of enterprises at startup with their current sizes and enterprises that had not changed in size or had grown smaller were classified as “sustainable growth” enterprises, indicating that they were micro businesses that had remained micro businesses, or medium enterprises that had either remained medium enterprises or become micro businesses. Next,

enterprises that had grown in size since startup were classified as “stable growth” enterprises, meaning that they were micro businesses that had become medium enterprises. Finally, we focused on enterprises that were listed on emerging markets (TSE Mothers, Centrex, FSE Q-board, JASDAQ or SSE Ambitious). We calculated the rates of sales growth for the listed enterprises from startup to 5–10 years since startup and compared them with the sales growth rates between startup and the present for other enterprises that responded to the survey. Based on this, we took enterprises that were listed on emerging markets and increased their sales growth rates, regardless of any changes in enterprise size, to be “high growth” enterprises¹⁸⁾. Fig. 2-1-37 shows a schematic of the three growth types. Below, we summarize the conditions for enterprises of the three growth types (high growth, stable growth and sustainable growth)¹⁹⁾.

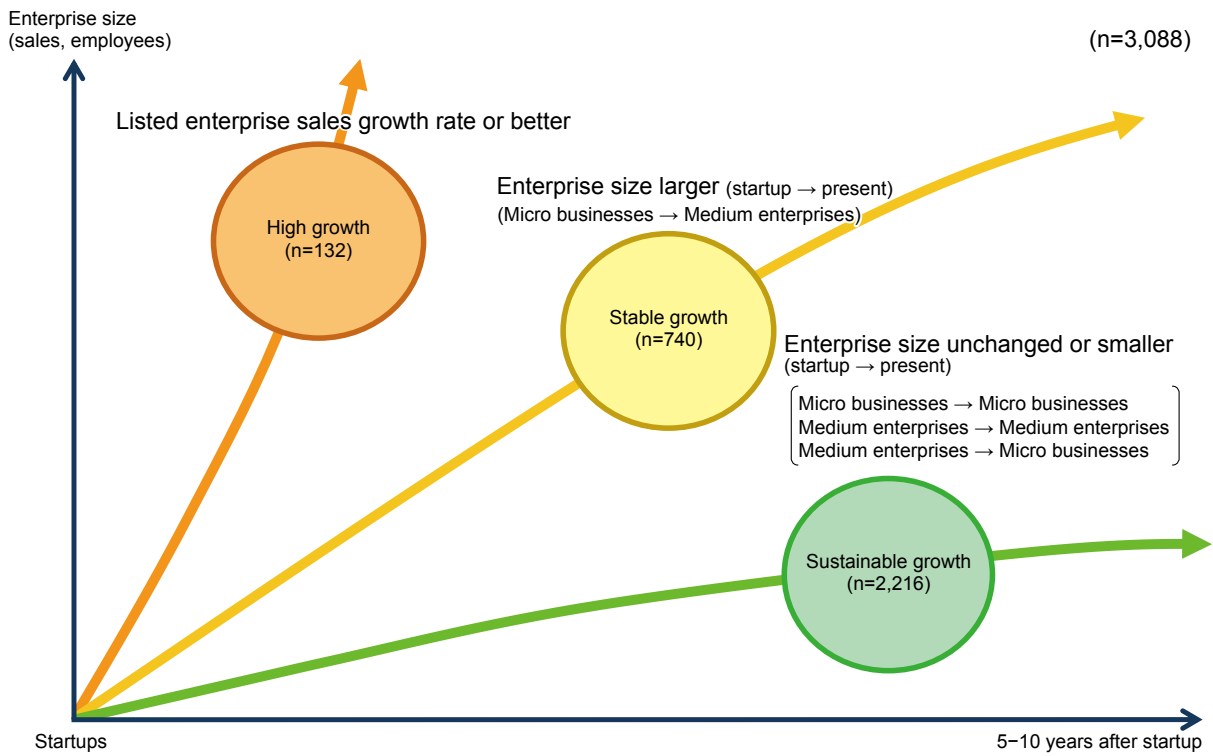
16) A survey conducted in November 2016 by Mitsubishi UFJ Research and Consulting Co., Ltd. on behalf of the SME Agency. The questionnaire was delivered by post and surveyed 30,000 companies and sole proprietorships (including 1,000 specified non-profit organizations) founded between January 2006 and January 2011. The return rate for the survey was 10.9%.

17) For more detailed information on the initial growth stage, refer to Section 3, subsection 2 below.

18) For data on listed enterprises, refer to the *FY2011 Survey of Capitalization Strategies in Venture Enterprises* (Teikoku Databank, Ltd., February 2012) on behalf of the METI Outsourced Surveys Unit (http://www.meti.go.jp/meti_lib/report/2012fy/E002011.pdf).

19) While the growth types are quantitatively classified in this section, some survey response options involve enterprises that cannot be classified into any of the growth types. As a result, the total sample count for the three growth types differs from the overall total sample count.

Fig. 2-1-37 Schematic of the growth types following startup



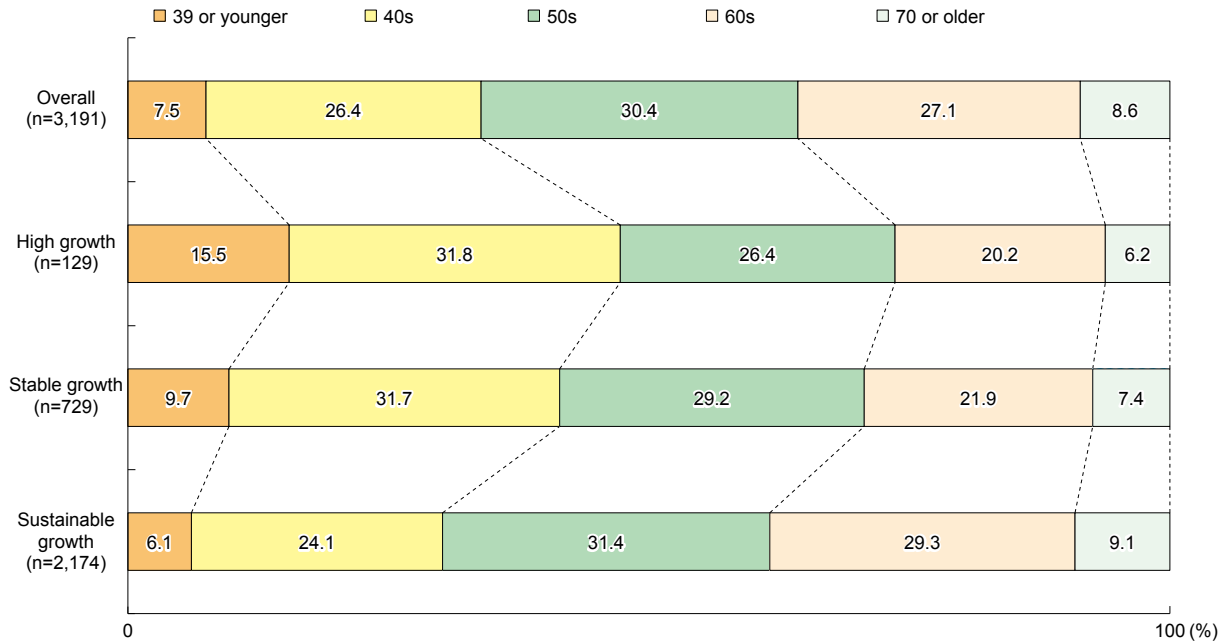
Section 3

(2) Entrepreneur age distribution by growth type

Firstly, Fig. 2-1-38 shows the age distribution of entrepreneurs according to growth type. The figure shows that around half of all entrepreneurs in high growth

enterprises are aged 49 or less, while the proportion of entrepreneurs aged 50 or older is higher in stable growth and sustainable growth enterprises.

Fig. 2-1-38 Entrepreneur age distribution by growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Where multiple managers are jointly running a business, the age calculated is that of the primary manager.

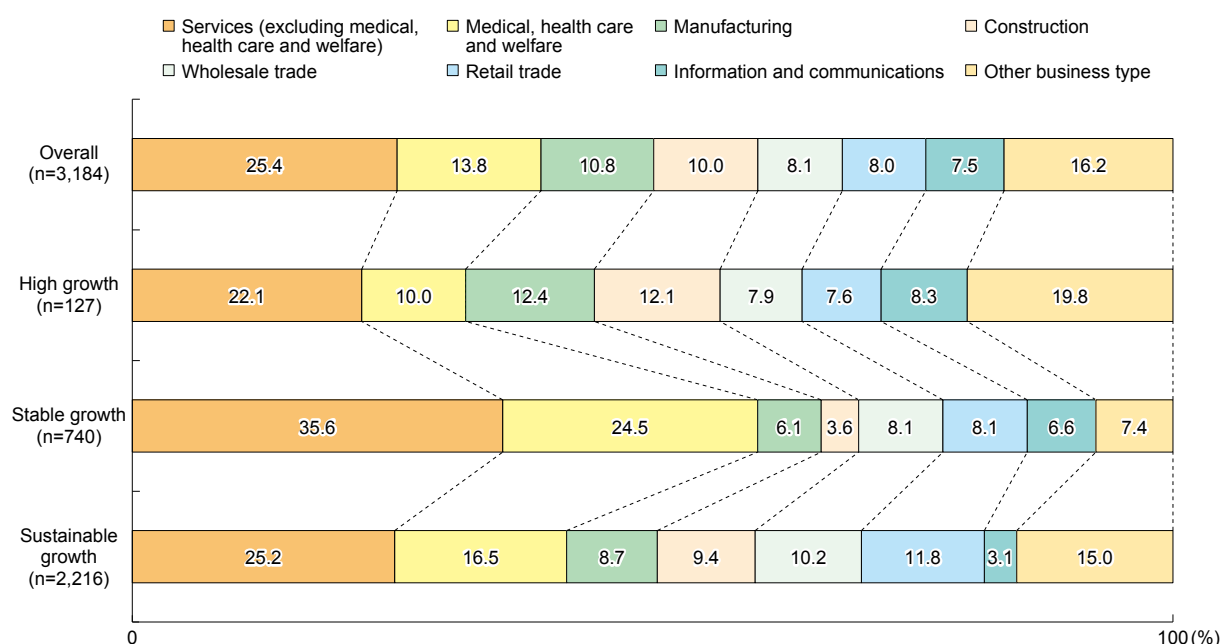
(3) Distribution of main business types by growth type

Next, we look at the major industries in which established enterprises are operating according to growth type (Fig. 2-1-39).

The figure shows that, overall, a high proportion of the enterprises are in “Services (excluding medical, health care and welfare)” and “Medical, health care and welfare”. When looked at by growth type, there are higher proportions of high growth enterprises in

“Information and communications,” “Manufacturing” and “Construction” than other growth types. We also see that stable growth enterprises make up around 60% of the all enterprises in “Services (excluding medical, health care and welfare)” and “Medical, health care and welfare”. Finally, sustainable growth enterprises, like stable growth enterprises, are well represented in “Services (excluding medical, health care and welfare)” and “Medical, health care and welfare”, but are also present in high proportions in “Wholesale trade” and “Retail trade”.

Fig. 2-1-39 Distribution of main business types by growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

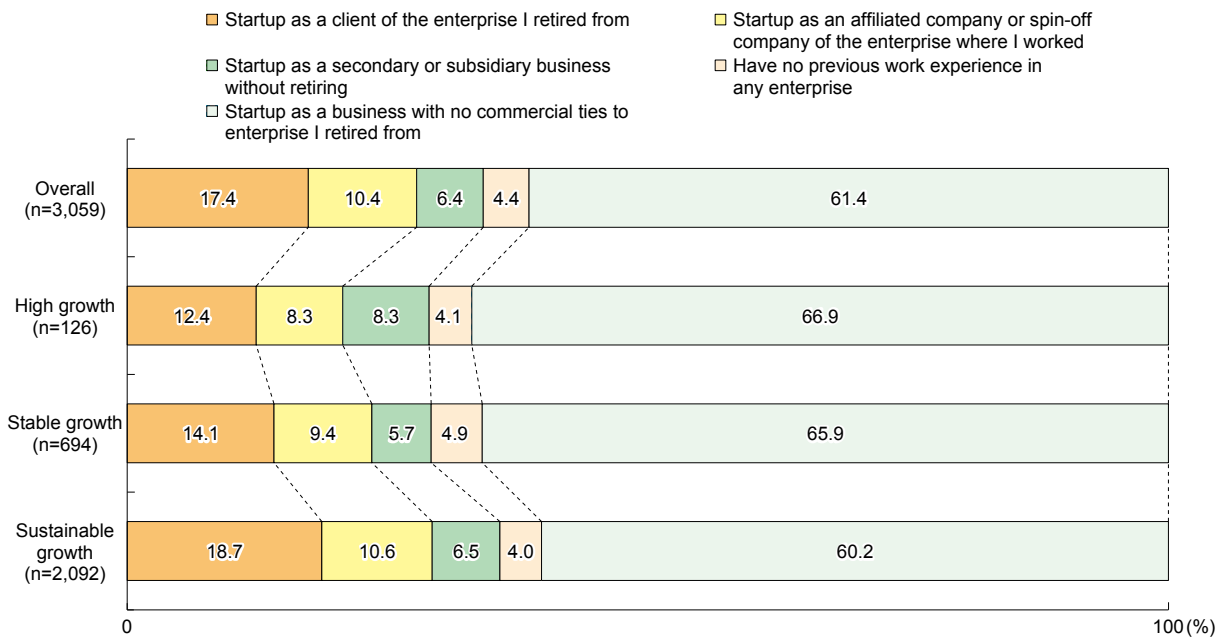
Note: Figures are calculated for the major industries (those present in the highest proportions that have the highest overall sales in the last business period).

(4) Startup types and employment experience before startup according to growth type

Next, we look at how businesses were started up. Fig. 2-1-40 shows enterprise types and entrepreneurs' experience of employment prior to business startup according to growth type. The figure shows that across all growth types, roughly 60% of entrepreneurs responded "Startup as a business with no commercial ties to enterprise I retired from". If we look at the results

by growth type, the proportion of entrepreneurs in sustainable growth enterprises who responded "Startup as a client of the enterprise I retired from" or "Startup as an affiliated company or spin-off company of the enterprise where I worked" was higher than for other growth types. Conversely, a high proportion of entrepreneurs in high growth enterprises responded "Startup as a secondary or subsidiary business without retiring".

Fig. 2-1-40 Startup types and employment experience before startup according to growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

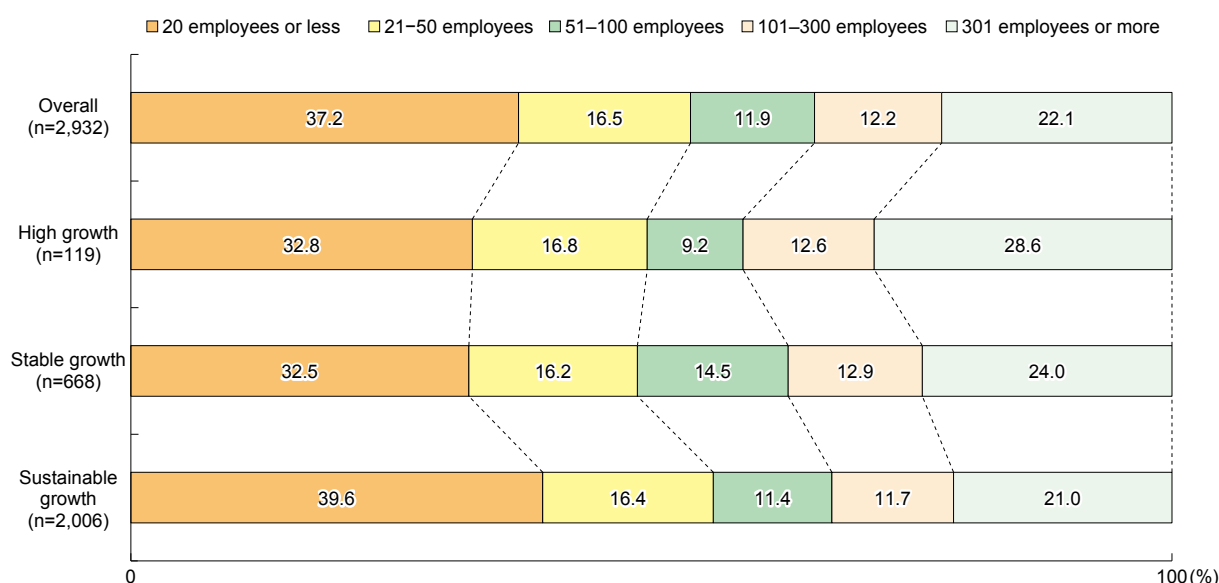
Note: Totals calculated for the proportions exclude people who responded "Other".

(5) Employed enterprise size before startup according to growth type

Here, we look at the places where entrepreneurs were employed before they started up their businesses. Fig. 2-1-41 shows the number of full-time workers and employees at the enterprises where entrepreneurs were employed before starting up their businesses, with the results ordered by growth type. This figure shows that

the proportion of entrepreneurs in sustainable growth enterprises who worked in small-scale enterprises that employed 20 or fewer staff was higher than the proportions for other growth types. However, it also shows that a high proportion of entrepreneurs in high growth enterprises were employed in relatively large enterprises that employed 301 or more staff.

Fig. 2-1-41 Number of full-time workers and employees at pre-startup workplaces according to growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

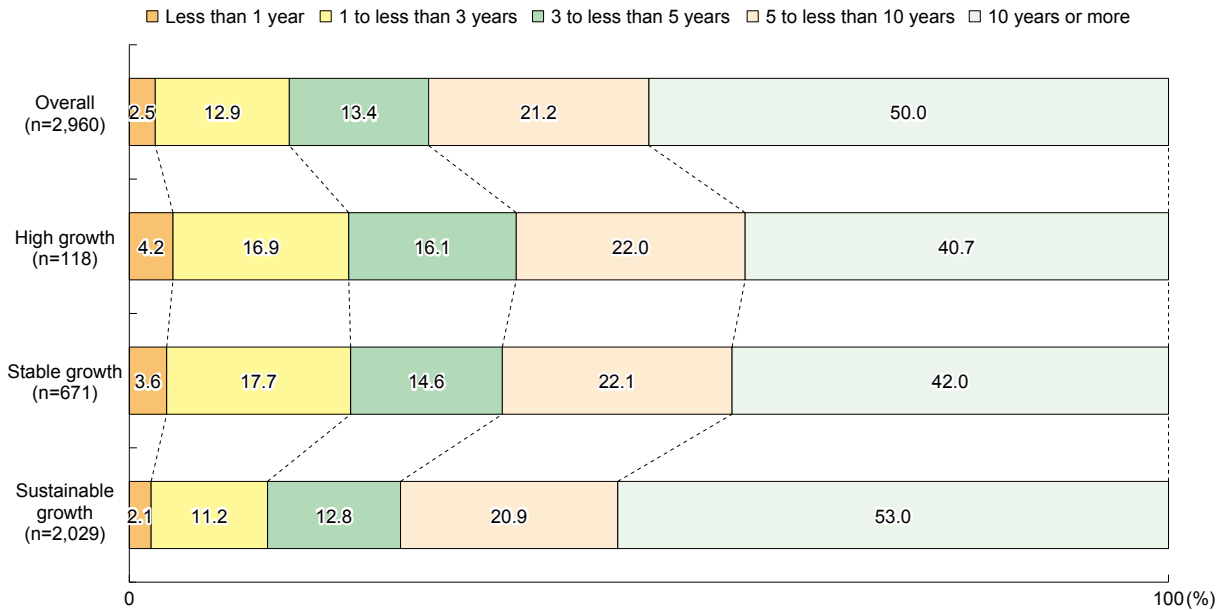
- Notes:
1. Here, "full-time workers and employees" does not include managers, executives, unpaid family workers or dispatched workers or subcontractors, but does include part-time workers and side-job workers.
 2. Totals are calculated for people who were employed before starting up a business.
 3. Totals for people who left work to prepare for starting up a business and were unemployed before starting up a business show their previous employment status.

(6) Period of employment before startup according to growth type

Next, we look at the periods for which entrepreneurs were employed at their workplaces before they started up a business. The data shows that 50% of all the entrepreneurs replied "10 years or more", showing that the entrepreneur built up relatively extensive experience of employment before starting up their own businesses

(Fig. 2-1-42). Looking at the data by growth type, whereas around 75% of all entrepreneurs at sustainable growth enterprises were employed for 5 years or more, around 40% of all entrepreneurs at high growth and stable growth enterprises were employed at their workplaces for less than 5 years before starting up a business, a relatively short period of employment that indicates they were somewhat independent.

Fig. 2-1-42 Period of employment before startup according to growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for people who were employed before starting up a business.
 2. Totals for people who left work to prepare for starting up a business and were unemployed before starting up a business show their previous employment status.

(7) Catalysts for interest in business startups by gender and age group

Below, we look at what it was that triggered entrepreneurs’ interest in starting up their businesses. Fig. 2-1-43 shows the catalysts for interest in business startups according to gender and age group. If we begin by looking at men, those who answered “Influence of nearby entrepreneurs/managers” made up the highest proportion in the 49 or younger age group, with the next highest proportions choosing the “Couldn’t do what I wanted to at work” response and then the “Concerned about future prospects or worsening treatment at work”. In the 50–59 age group, the proportion who opted for “Concerned about future prospects or worsening treatment at work” was higher than in the 49 or younger cohort, but the proportion who chose “Influence of nearby entrepreneurs/managers” was smaller. Looking finally at the 60 or older age group, the highest proportion chose “Influence of nearby entrepreneurs/managers” followed by “Advised to by people around me (family, friends, clients, etc.)”. By contrast, only a low proportion chose the “Couldn’t do what I wanted to at work” response, which was a popular option among entrepreneurs aged 59 or younger. This shows that while men tended to be influenced by other

entrepreneurs and managers around them, those aged 49 or younger and in the 50–59 age group became drawn to starting up a business because they were frustrated at their workplaces. The data also shows that, as men become older, the recommendations and influence of people around them are increasingly important in stimulating interest in starting a business.

Looking next at women, the highest proportion of women aged 49 or younger opted for “Advised to by people around me (family, friends, clients, etc.)”, followed by “Changing home situation (marriage/birth/nursing care, etc.)” and then “Influence of nearby entrepreneurs/managers”. A relatively high proportion also chose “Found friends to start up the business with me”, which did not arise in other age groups. This suggests that women aged 49 or younger, as well as experiencing marriages, births and other changes in their domestic arrangements, came into more contact with other entrepreneurs and managers active in their circles and also encountered more friends with the same interests, and these factors then stimulated their own interest in starting up a business.

Next, we see that among women aged 50–59, as with those 49 and younger, high proportions chose “Advised to by people around me (family, friends, clients, etc.)”,

followed by “Changing home situation (marriage/birth/nursing care, etc.)”, while a high proportion also chose “Couldn’t do what I wanted to at work”. Looking finally at women aged 60 or older, the highest proportion chose “Couldn’t do what I wanted to at work”, while the proportion opting for “Changing home situation (marriage/birth/nursing care, etc.)” was smaller than in women aged 59 or less. There was also a relatively high proportion who selected “Acquiring the permits/qualifications to run the business”. We also observe that, across all the age groups, a higher proportion of women than men responded “Advised to by people around me (family, friends, clients, etc.)”.

This data shows that more women than men are spurred to take an interest in business startups by suggestions from people around them, particularly friends and family. It also shows that women in the younger age group have their interest in starting a business sparked due to the influence of other entrepreneurs and managers around them, by recommendations from others around them, and due to changes in their family situations. As women transition in to older age groups, the triggers for developing an interest in starting a business change to acquiring the permits and qualifications to run a business and the fact that, in their current workplaces, they cannot achieve what they want using those permits and qualifications.

Fig. 2-1-43 Catalysts for entrepreneurs’ interest in business startups by gender and age group

		1st	2nd	3rd	4th	5th
Men	49 or younger (n=961)	Influence of nearby entrepreneurs/managers (40.7%)	Couldn’t do what I wanted to at work (29.2%)	Concerned about future prospects or worsening treatment at work (27.5%)	Advised to by people around me (family, friends, clients, etc.) (20.3%)	Had a commercially viable idea (16.6%)
	50–59 (n=809)	Concerned about future prospects or worsening treatment at work (35.7%)	Couldn’t do what I wanted to at work (28.4%)	Influence of nearby entrepreneurs/managers (27.3%)	Advised to by people around me (family, friends, clients, etc.) (19.5%)	Had a commercially viable idea (16.9%)
	60 or older (n=949)	Influence of nearby entrepreneurs/managers (25.2%)	Advised to by people around me (family, friends, clients, etc.) (21.9%)	Concerned about future prospects or worsening treatment at work (21.7%)	Had a commercially viable idea (21.5%)	Couldn’t do what I wanted to at work (19.9%)
Women	49 or younger (n=75)	Advised to by people around me (family, friends, clients, etc.) (33.3%)	Changing home situation (marriage/birth/nursing care, etc.) (25.3%)	Influence of nearby entrepreneurs/managers (22.7%)	Found friends to start up the business with me (21.3%)	Couldn’t do what I wanted to at work (20.0%)
	50–59 (n=107)	Advised to by people around me (family, friends, clients, etc.) (37.4%)	Changing home situation (marriage/birth/nursing care, etc.) (29.0%)	Couldn’t do what I wanted to at work (23.4%)	Influence of nearby entrepreneurs/managers (20.6%)	Acquiring the permits/qualifications to run the business (17.8%)
	60 or older (n=99)	Couldn’t do what I wanted to at work (30.3%)	Advised to by people around me (family, friends, clients, etc.) (26.3%)	Acquiring the permits/qualifications to run the business (24.2%)	Changing home situation (marriage/birth/nursing care, etc.) (22.2%)	Had a commercially viable idea (21.2%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from entrepreneurs.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(8) Catalysts for interest in business startups by growth type

Next, Fig. 2-1-44 shows the catalysts for entrepreneurs' interest in business startups according to growth type. The figure shows that the highest proportion of entrepreneurs in high growth enterprises selected "Influence of nearby entrepreneurs/managers", followed by "Advised to by people around me (family, friends, clients, etc.)" and then "Had a commercially viable idea". Like the entrepreneurs in high growth enterprises, the highest proportion of entrepreneurs in stable growth enterprises opted for "Influence of nearby entrepreneurs/managers", which was followed by "Couldn't do what I wanted to at work".

Looking lastly at entrepreneurs in sustainable growth enterprises, the highest proportion chose "Concerned about future prospects or worsening treatment at work", after which came "Influence of nearby entrepreneurs/

managers". The proportion who chose the "Have to get a job (income)" response was also high compared with entrepreneurs in other growth types. Based on these results, it seems that entrepreneur in high growth enterprises, who generally tend to be strongly influenced by other entrepreneurs and managers around them, develop an interest in starting up a business in order to grow their own ideas as a business, whereas entrepreneurs in stable growth enterprises do so because they cannot achieve what they want to in their current workplaces. In both cases, the catalysts for the business startups are forward-looking. By contrast, entrepreneurs in enterprises with sustainable growth tend to develop an interest in starting up a business due to unavoidable factors such as needing to get a job or some unease over their employer's future prospects or how they are being treated at work.

Fig. 2-1-44 Catalysts for interest in business startups among entrepreneurs according to growth type

	1st	2nd	3rd	4th	5th
High growth (n=125)	Influence of nearby entrepreneurs/managers (37.6%)	Advised to by people around me (family, friends, clients, etc.) (24.8%)	Had a commercially viable idea (24.0%)	Concerned about future prospects or worsening treatment at work (23.2%)	Couldn't do what I wanted to at work (19.2%)
Stable growth (n=724)	Influence of nearby entrepreneurs/managers (34.3%)	Couldn't do what I wanted to at work (30.8%)	Concerned about future prospects or worsening treatment at work (24.3%)	Advised to by people around me (family, friends, clients, etc.) (21.0%)	Had a commercially viable idea (20.4%)
Sustainable growth (n=2,128)	Concerned about future prospects or worsening treatment at work (27.9%)	Influence of nearby entrepreneurs/managers (27.7%)	Couldn't do what I wanted to at work (24.5%)	Advised to by people around me (family, friends, clients, etc.) (22.3%)	Have to get a job (income) (17.4%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from entrepreneurs.
 2. The table shows the five items with the highest proportion of responses for each category.
 3. Total does not always equal 100% as multiple responses were possible.

(9) Comparison of the triggers for interest in business startups in entrepreneurs as opposed to entrepreneurial hopefuls and people making startup preparations

So, what are the differences in the factors that trigger an interest in starting up a business for entrepreneurs who actually started a business, and those for entrepreneurial hopefuls and people making startup preparations who did not? Here, Fig. 2-1-45 compares the factors that triggered an interest in starting up a business in entrepreneurs with the corresponding factors in entrepreneurial hopefuls and people making startup preparations. This comparison shows that “Influence of nearby entrepreneurs/managers” was the choice of a high proportion of respondents in all three groups. It also shows that the proportions

of entrepreneurs who chose “Concerned about future prospects or worsening treatment at work”, “Advised to by people around me (family, friends, clients, etc.)” or “Had a commercially viable idea” were especially high compared with entrepreneurial hopefuls and people making startup preparations. But the proportions of entrepreneurial hopefuls and people making startup preparations choosing “Couldn’t do what I wanted to at work”, “Have to get a job (income)” or “Changing home situation (marriage/birth/nursing care, etc.)” were higher than for entrepreneurs. These findings also show that encouragement to start up a business from those around you is an important catalyst for converting an interest in business startups into an actual established business.

Fig. 2-1-45 Comparison entrepreneurs, entrepreneurial hopefuls and people making startup preparations with respect to the triggers for interest in business startups

	1st	2nd	3rd	4th	5th
Entrepreneurs (n=3,128)	Influence of nearby entrepreneurs/managers (30.1%)	Concerned about future prospects or worsening treatment at work (26.5%)	Couldn't do what I wanted to at work (25.5%)	Advised to by people around me (family, friends, clients, etc.) (21.8%)	Had a commercially viable idea (18.3%)
Entrepreneurial hopefuls/people making startup preparations (n=2,681)	Influence of nearby entrepreneurs/managers (30.9%)	Couldn't do what I wanted to at work (20.0%)	Have to get a job (income) (19.7%)	Concerned about future prospects or worsening treatment at work (18.4%)	Changing home situation (marriage/birth/nursing care, etc.) (17.5%)

Source: Entrepreneurs: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Entrepreneurial hopefuls/people making startup preparations: *Survey of Awareness and Experience of Business Establishment and Startup* conducted on behalf of the SME Agency (Mitsubishi UFJ Research and Consulting Co., Ltd, December 2016)

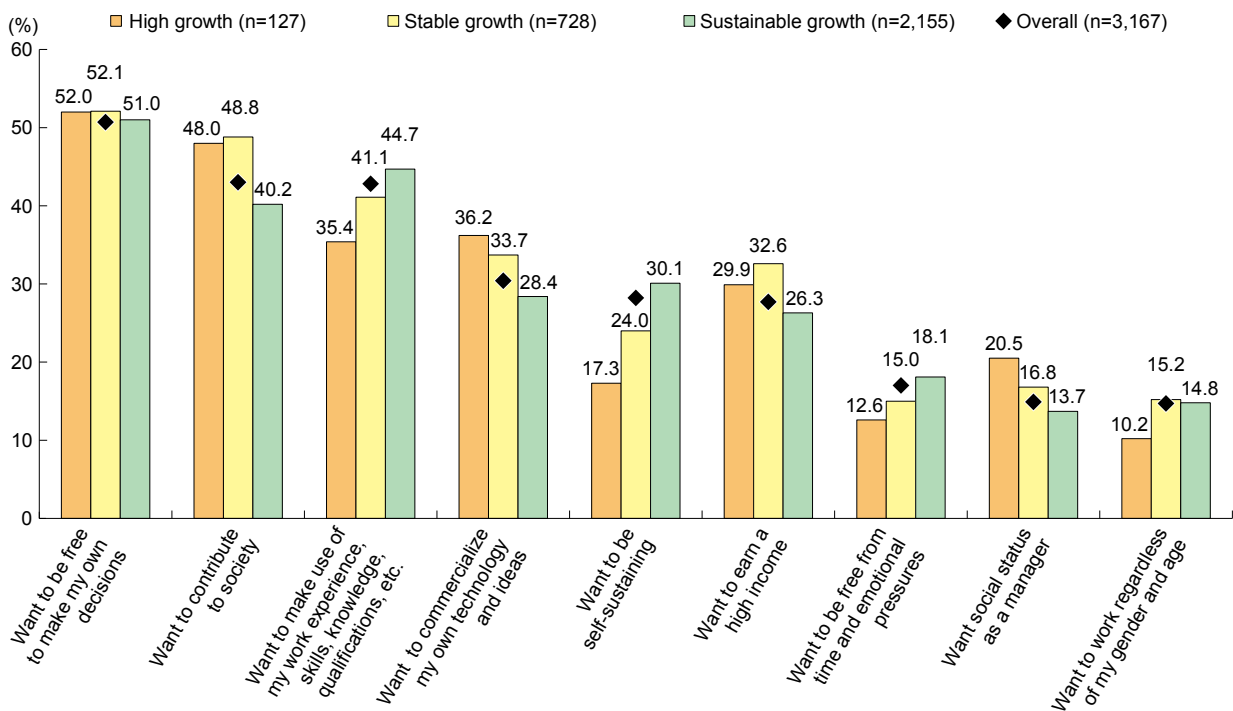
Notes: 1. The table shows the five items with the highest proportion of responses for each category.
2. Total does not always equal 100% as multiple responses were possible.

(10) Business startup goals by growth type

Here, we look at the goals entrepreneurs have when starting up a business, as shown in Fig. 2-1-46. The results show that, as a general trend, “Want to be free to make my own decisions” attracted the most responses, followed by “Want to contribute to society” and then “Want to make use of my work experience, skills, knowledge, qualifications, etc.”. Looking at the results by growth type, the responses that garnered higher proportions for entrepreneurs in high growth enterprises compared with the other growth types were “Want to commercialize my own technology

and ideas” and “Want social status as a manager”. The corresponding responses for entrepreneurs in stable growth enterprises were “Want to earn a high income” and “Want to contribute to society”, while those responses for entrepreneurs in sustainable growth enterprises were “Want to commercialize my own technology and ideas”, “Want to be self-sustaining” and “Want to be free from time and emotional pressures”. From this, it is clear that the purpose for which a business is started up shapes its subsequent path to growth.

Fig. 2-1-46 Business startup goals by growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

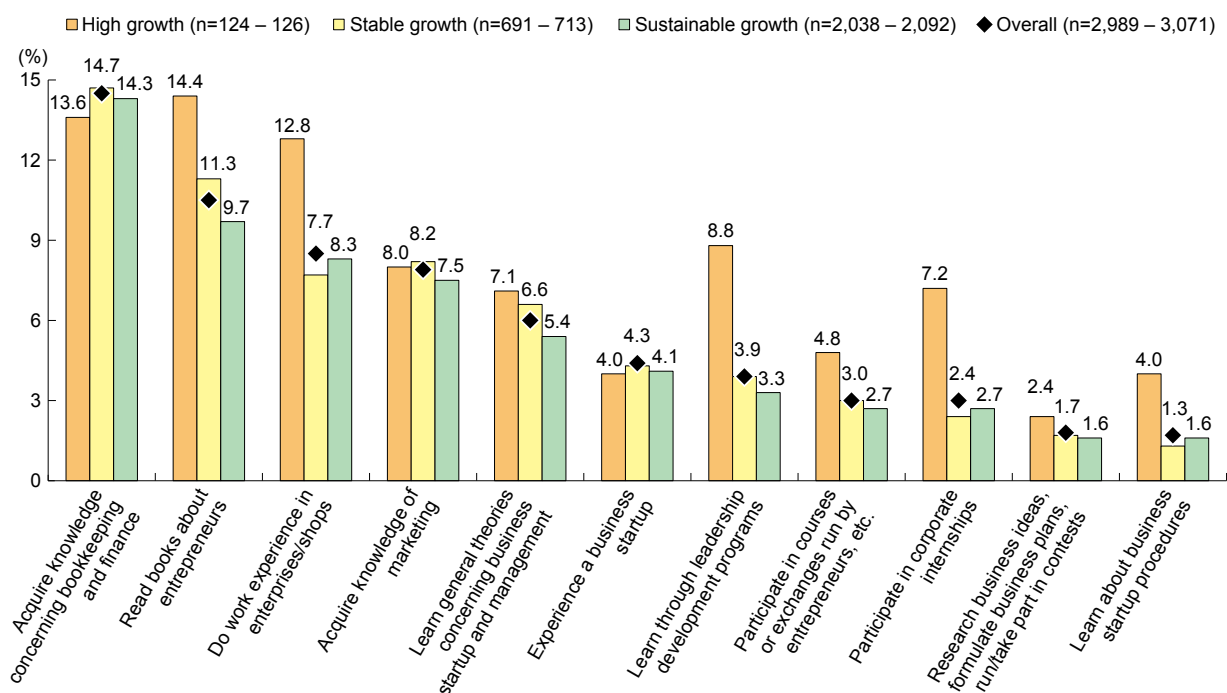
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. No “Other” or “No particular goal” category is presented here.

(11) Details of entrepreneur education received at school according to growth type

Next, we look at the content of the entrepreneur education courses taken by entrepreneurs while at school. Fig. 2-1-17 in the previous section looked at the proportions of entrepreneurial hopefuls and people making startup preparations who had received entrepreneur education. Those findings showed that entrepreneurial hopefuls and people making startup preparations who wished to start up a business, once they were adults, probably received various forms of entrepreneur education as part of their preparations for business startup. So, to tease out the correlations between the entrepreneur education they received and their interest in starting up a business or actually establishing a business due to that entrepreneur education, we look here at the proportions of entrepreneurs who received entrepreneur education while at school (primary, junior high or high school, technical college or school, junior college, university or graduate school)

(Fig. 2-1-47). The results show that, across all the queries, entrepreneurs in high growth enterprises generally had higher rates of entrepreneur education while at school than those in the other growth types. The data also shows that the “Read books about entrepreneurs”, “Do work experience in enterprises/shops”, “Learn through leadership development programs” and “Participate in corporate internships” responses in particular were selected by more entrepreneurs in high growth enterprises than in other growth types. This suggests that acquiring knowledge about finance, bookkeeping and marketing and learning about management theory through classes and lectures at school, along with learning-type education such as reading books by entrepreneur, is effective in getting a business established. However, it also shows that this probably needs to be supplemented by experience-based programs such as workplace experience, which is also effective in establishing business startups.

Fig. 2-1-47 Details of entrepreneur education received at school according to growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for respondents who were educated at any school (primary, junior high or high school, technical college or school, junior college, university or graduate school).
 2. Total does not always equal 100% as multiple responses were possible.

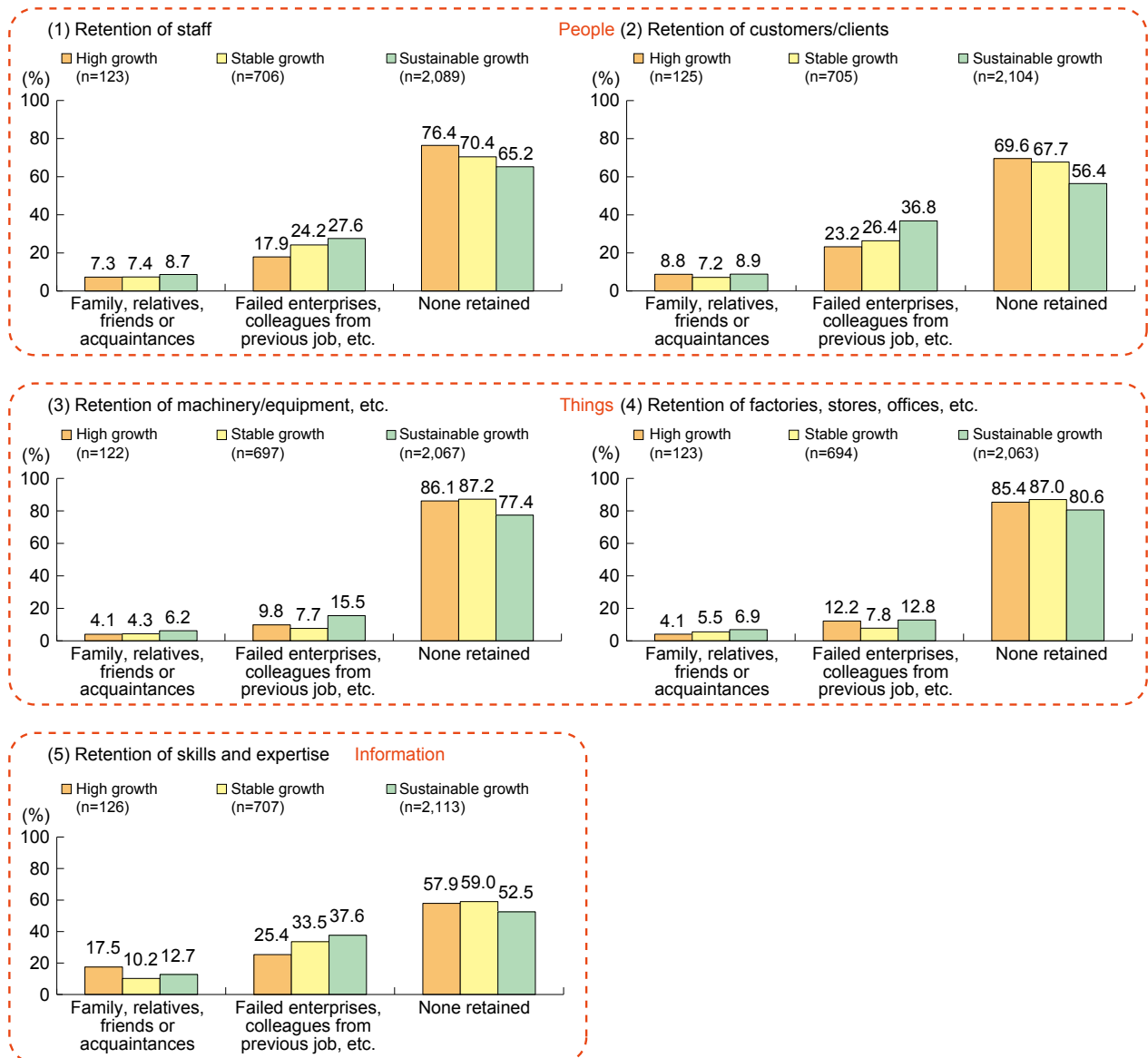
(12) Management resources retained during business startup

Fig. 2-1-48 examines the management resources need to run a business, such as people, things, funds and information, and looks at whether such resources were retained from family, friends, clients at previous workplaces, colleagues or failed enterprises, according to growth type. Of those resources, “funds” will be subjected to a detailed analysis in subsection 3 onwards below, but the results obtained here show firstly that “people”, namely employees, customers and clients, are more often retained from failed enterprises and people involved in previous workplaces than from family, relatives, friends or acquaintances. The data also shows that stable growth and sustainable growth enterprises retain higher proportions of resources than high growth enterprises. Looking next at “things”, such as machinery, equipment, factories, stores and offices, we see that a lower proportion than “people”

is retained by all growth types, and that there are some enterprises, primarily sustainable growth enterprises, that retain such resources from failed enterprises and people involved in previous workplaces. Looking finally at “information”, specifically skills and expertise, these resources are primarily retained by sustainable growth enterprises from failed enterprises and people involved in previous workplaces. The data also shows that the proportion who responded “None retained” is the lowest for these resources across all growth type when compared with the “people” and “things” management resources.

From the above, we can see that established enterprises, particularly sustainable growth enterprises, tend to retain management resources when they are started up, primarily “information” in the form of the skills and expertise needed for the business, and “people” in the form of employees and customers.

Fig. 2-1-48 Management resources retained during business startup



Section 3

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Column 2-1-5 Conditions for social business startups

In Japan, population decline and aging coupled with the changing employment structure are giving rise to a range of social issues, including childcare, nursing care and depopulation, particularly in regional Japan. Given this environment, there are increasing numbers of businesses (hereinafter referred to as “social businesses”) whose aim it is to resolve the issues that our regions and communities face. If social and regional issues, particularly those relating to support for childcare and nursing care, are addressed by social businesses, this could well provide an environment in which younger people and women in particular would find it increasingly easy to start up a business.

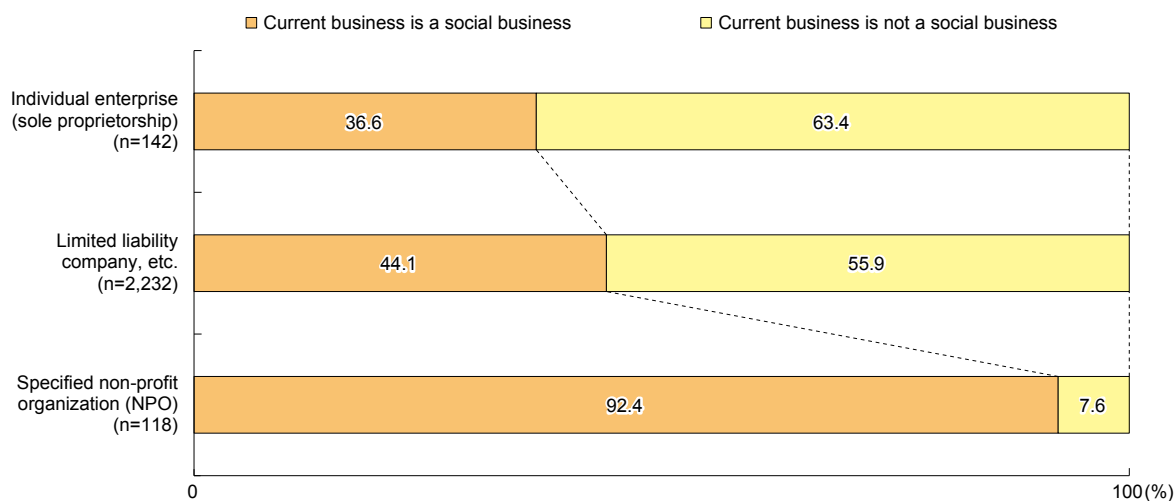
Accordingly, it is important for the number of future enterprises that operate as social businesses to grow.

In this column, we will summarize the conditions for entrepreneurs whose principal businesses operate as social businesses (hereinafter referred to as “social business entrepreneurs”) and the issues they must overcome to successfully establish a business.

Proportions of social business entrepreneurs

We begin by looking at social business entrepreneurs as a proportion of all entrepreneurs according to enterprise type (Fig. Column 2-1-5 (1)). The figure shows that social business entrepreneurs make up 36.6% of individual enterprises (sole proprietorships) and 44.1% of limited liability companies respectively, whereas they comprise 92.4% of all specified non-profit organizations. This highlights the fact that social business entrepreneurs make up an especially high proportion of specified non-profit organizations when compared with individual enterprises (sole proprietorships) and limited liability companies.

Fig. Column 2-1-5 (1) Proportions of social business entrepreneurs by current enterprise types

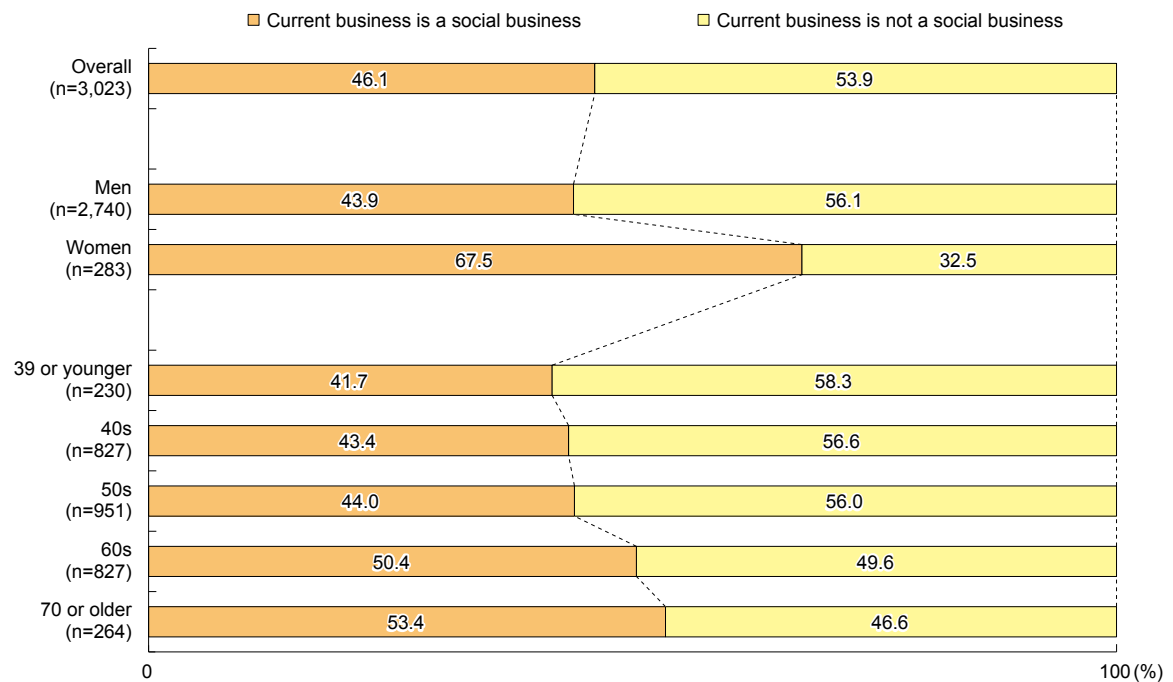


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. In this column, a “social business” is a business established with the aim of addressing social and/or regional issues.
 2. In this column, people who replied to the question “Is your current business a social business?” with the “Yes” or “Mostly” response are counted in the “Current business is a social business” category, and people who replied “Not really” or “Not at all” are counted in the “Current business is not a social business” category.
 3. In this column, “social business entrepreneur” refers to an entrepreneur whose principal business is a social business.
 4. Here, “limited liability company” also includes general partnership and limited partnership companies.

Next, Fig. Column 2-1-5 (2) shows the proportions of social business entrepreneurs according to gender and age group. The figure indicates that around half of all social business entrepreneurs recognize that the businesses they run are social businesses. Looking at the results by gender, women make up a higher proportion of social business entrepreneurs than men. By age group, we can see that at entrepreneurs grow older, the proportion of social business entrepreneurs gradually increases.

Fig. Column 2-1-5 (2) Proportions of social business entrepreneurs by gender and age group



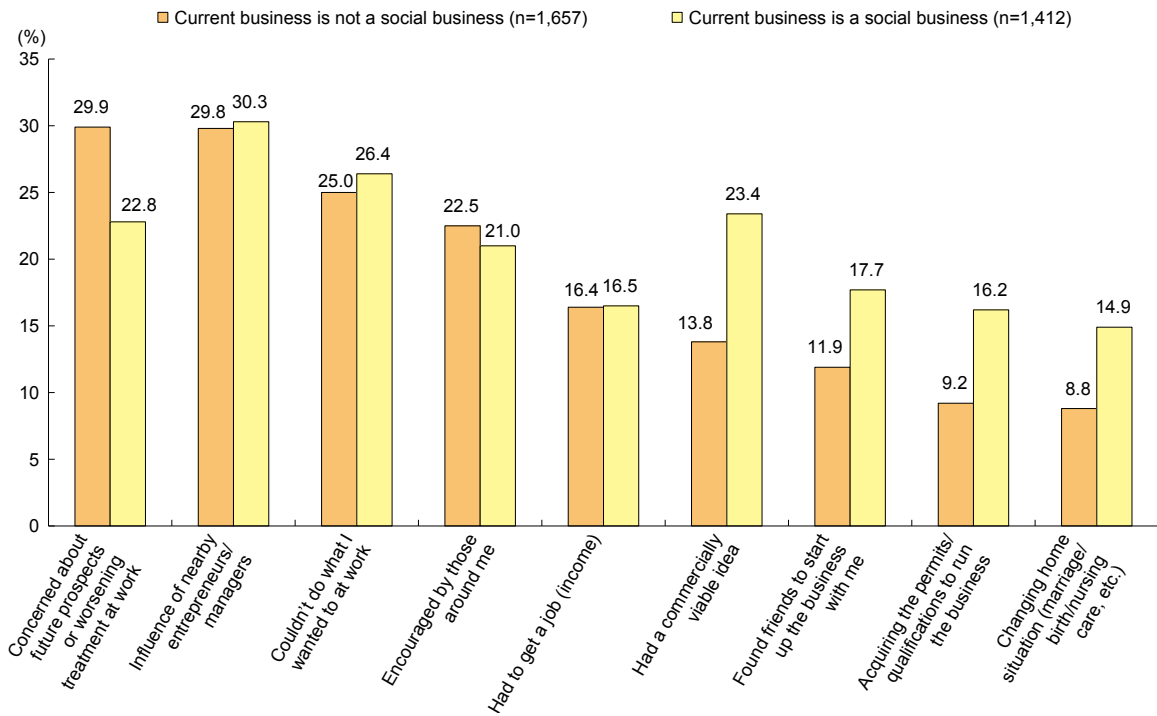
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Triggers for interest in business startups among social business entrepreneurs

Fig. Column 2-1-5 (3) looks at the factors that triggered an interest in starting up a business in social business entrepreneurs and compares social business entrepreneurs with entrepreneurs whose businesses are not primarily social (hereinafter referred to as “non-social business entrepreneurs”). The figure shows that the highest proportion of non-social business entrepreneurs chose “Concerned about future prospects or worsening treatment at work”, while the highest proportion of social business entrepreneurs chose “Influence of nearby entrepreneurs/managers” followed by “Couldn’t do what I wanted to at work”, showing that the factors triggering an interest in starting up a business are different for social business entrepreneurs and non-social business entrepreneurs.

Social business entrepreneurs also had notably higher response rates than non-social business entrepreneurs for the “Had a commercially viable idea”, “Found friends to start up the business with me” and “Acquiring the permits/qualifications to run the business” factors. These results suggest that social business entrepreneurs are most likely to develop an interest in starting up a business due to positive factors such as the influence of other entrepreneurs and managers around them, their inability to achieve their goals in their current job, an idea of their own that they want to commercialize, friends they have found to start up the business with, or having the permits and/or qualifications they need to run the business.

Fig. Column 2-1-5 (3) Triggers for interest in business startups among social business entrepreneurs



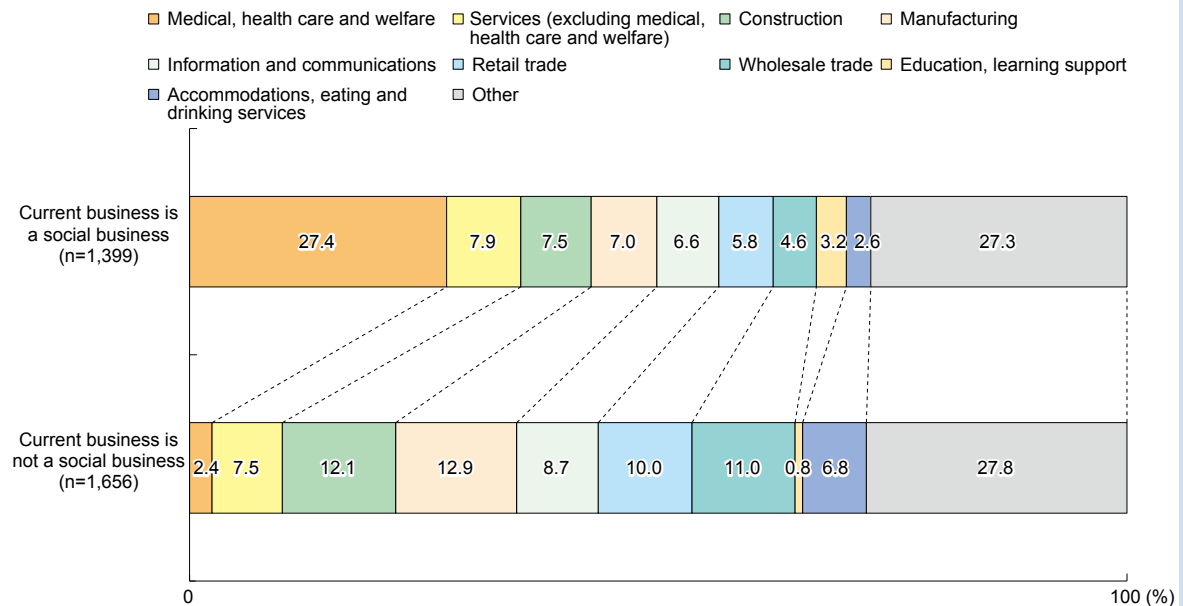
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Distribution of social business entrepreneurs in the major industries

Fig. Column 2-1-5 (4) compares social business entrepreneurs and non-social business entrepreneurs in terms of the main industries in which social business entrepreneurs engage. The figure shows that the highest proportion of social business entrepreneurs (27.4%) are in "Medical, health care and welfare", followed by "Services (excluding medical, health care and welfare)". For "Education, learning support", they exceed the proportion of non-social business entrepreneurs.

Fig. Column 2-1-5 (4) Distribution of social business entrepreneurs in the major industries



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Figures are calculated for the major industries (those industries that have the highest overall sales in the last business period).

Social business support funding

Through its social business support funding, the Micro Business and Individual Unit of the Japan Finance Corporation (JFC) provides the funding required by entrepreneurs running businesses aimed at addressing the issues faced by regional communities. These issues include nursing care and welfare for the elderly and those with disabilities, parenting support, regional revitalization and environmental protection (Fig. Column 2-1-5 (5)).

Fig. Column 2-1-5 (5) Overview of social business support funding schemes

Eligible borrowers	People in either of the following categories: 1. Incorporated NPOs 2. People not in incorporated NPOs who are either (1) or (2) below (1) People operating childcare service businesses or nursing care service businesses ^(*) (2) People operating business aimed at addressing social issues ^(**)
Loan uses	Capital expenditure or working capital needed to conduct the business
Maximum amounts loaned	¥72 million (including ¥48 million for working capital)
Loan interest rate	Standard rate However, people in the following categories qualify for a special interest rate: (1) People operating childcare service businesses or nursing care service businesses (2) Approved incorporated NPOs (including incorporated NPOs with provisional approval) (3) People operating business aimed at addressing social issues
Loan term	Capital expenditure: Up to 20 years <deferred up to 2 years> Working capital: Up to 7 years <deferred up to 2 years>
Applicable financial institutions	Japan Finance Corporation (JFC), Micro Business and Individual Unit

Notes: *1: Refers to welfare services for the aged and care services, child welfare services and welfare services for disabled persons as listed in the Japanese Standard Industrial Classification.
*2: Must meet set requirements stipulated by the JFC.

Case 2-1-2 AWAE Co., Ltd.

A company that increases the appeal of Japan's regional areas and promotes regional revitalization as a business.

AWAE Co., Ltd. (employees: 7; capital: ¥10 million), located in Minami Town, Tokushima Prefecture, was established in 2013 to work in the field of regional revitalization.

Company president Motoharu Yoshida was born in the town of Minami. After graduating from university, he founded CypherTec Inc., a company involved in product development in the area of technologies for the protection of digital data, in Tokyo in 2003. However, despite registering with employment sites, Mr. Yoshida found it difficult to obtain the personnel he needed. Considering that he might find staff if he turned his attention to regional areas, he established a satellite office in Minami in 2008 and commenced advertising. As a result, he was successful in attracting a diverse range of personnel, steering his business on the right course and increasing earnings.

At the same time, the arrival of a Tokyo IT company raised considerable expectations on the part of the local residents. Mr. Yoshida's initial intention in returning to Minami was simply to secure staff for his company, but learning of the difficulties of the local people, who would offer land to use when he wanted to grow vegetables and boats when he wished to go fishing, he came to feel that he would like to return their generosity. This was his impetus in establishing AWAE Co., Ltd. (Mr. Yoshida is today the Representative Director of both AWAE Co., Ltd. and CypherTec Inc.). Mr. Yoshida established the company as a business corporation rather than an NPO because he felt that if it was not able to make a profit and operate as a business, it would not be considered socially necessary.

Mr. Yoshida believes that by making maximal use of regional resources and increasing the appeal of the region, rather than a one-way movement of people from the region to the city, his company will be able to create a flow of people from the city to the region, producing a circulation of population. He also believes that achieving a "win-win-win" scenario for the region, the authorities, and private companies will be an important element in realizing this goal, and to this end the region, the authorities, and private companies have jointly established a consultative committee, and are providing support to individual migrants to the region, working not merely to encourage migration, but to provide wide-ranging assistance to new residents, from lifestyle to employment, following their move.

Concrete projects that the company is conducting in Minami at present as it seeks to boost the appeal of the region include operating a digital archive that preserves local streetscapes as digital data, operating Odori Kitchen, which offers a stylish presentation of local agricultural products, editing "Minami," a local PR magazine, and managing a local renovation business. In addition, in order to realize the "win-win-win" scenario mentioned above, the company is also conducting initiatives including providing support for the establishment of satellite offices and the founding of businesses in the region, fostering creators, and providing training for local municipal employees.

In the future, says Mr. Yoshida, "We hope to extend the model of success realized in Minami to other regions and create a framework covering an even broader area, extending finally to the entire country."



AWAE's President, Motoharu Yoshida



A communal meeting-place for local residents, renovated by AWAE

Column 2-1-6 Startups in diverse formats

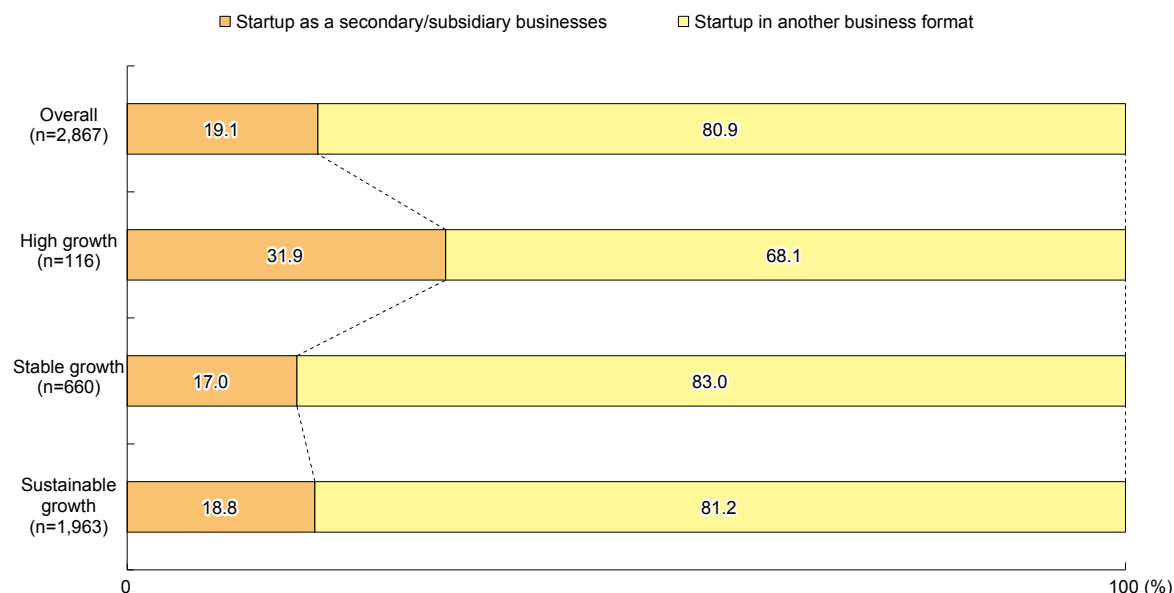
There has been increasing attention in recent years on secondary/subsidiary businesses as one approach to starting up a business. Another new type of business startup gaining prominence is the “freelance²⁰⁾” startup, where an individual works using his or her own technology, ability and skills without being part of a larger organization.

In this column, we gain an overview of the more diverse formats for business startup, specifically secondary/subsidiary and freelance startups.

Proportions of secondary/subsidiary business startups by growth type

Firstly, we look at the conditions for entrepreneurs starting up secondary/subsidiary businesses. Fig. Column 2-1-6 (1) shows entrepreneurs starting up secondary/subsidiary businesses as a proportion of all entrepreneurs according to their current growth type 5–10 years after the business was established. Looking at the figure, we can see that roughly 20% of all entrepreneurs chose the secondary/subsidiary business format when setting up their business. If we look at the results by growth type, a higher proportion of entrepreneurs targeting high growth selected the secondary/subsidiary business format than was the case for those aiming for stable or sustainable growth.

Fig. Column 2-1-6 (1) Proportions of secondary/subsidiary business startups by growth type



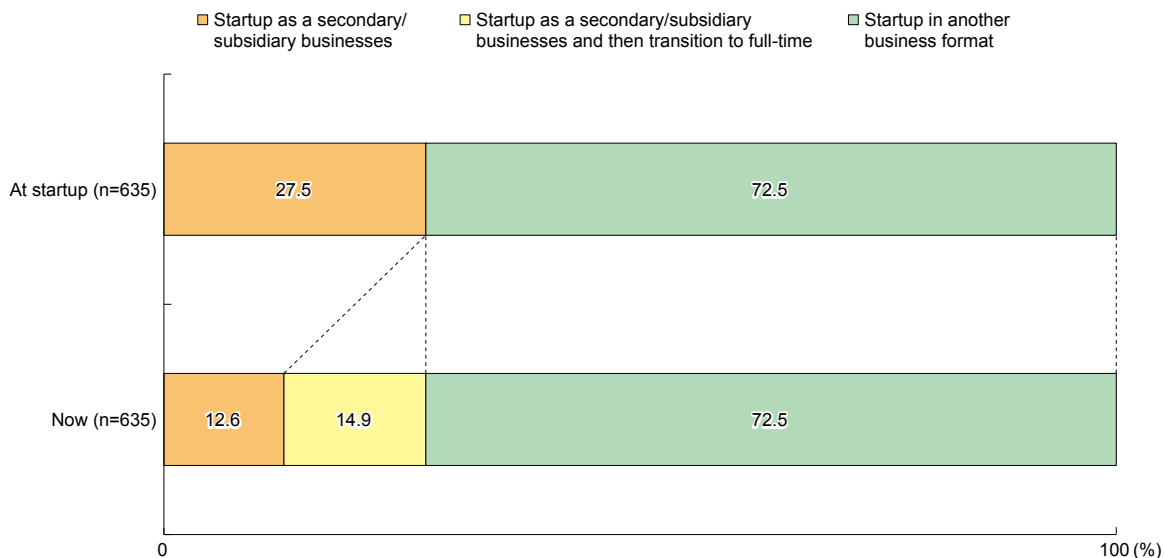
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

20) Because “freelance” businesses are generally not clearly defined, for the purposes of this white paper, they are defined as “businesses operating through the provision by the business owner of his or her own skills and/or capabilities without being part of any specific organization and without employing any permanent staff, and where the business owners recognize the businesses they run as ‘freelance’”.

Breakdown of enterprise types at startup and currently

Next, we use the findings of the "FY2016 Survey of Business Startups and Startup Awareness²¹⁾" conducted by the JFC's Research Institute to examine the conditions for secondary/subsidiary business startups when they were founded and now. These findings show that, of the entrepreneurs who started up a business as a secondary/subsidiary business, around half discontinued the secondary/subsidiary business format after some time and transitioned to a format in which they worked full-time in the business they had founded.

Fig. Column 2-1-6 (2) Breakdown of enterprise types at startup and currently



Source: Formulated by the SME Agency from the *FY2016 Survey of Business Startups and Startup Awareness* (November 2016, JFC Research Institute)

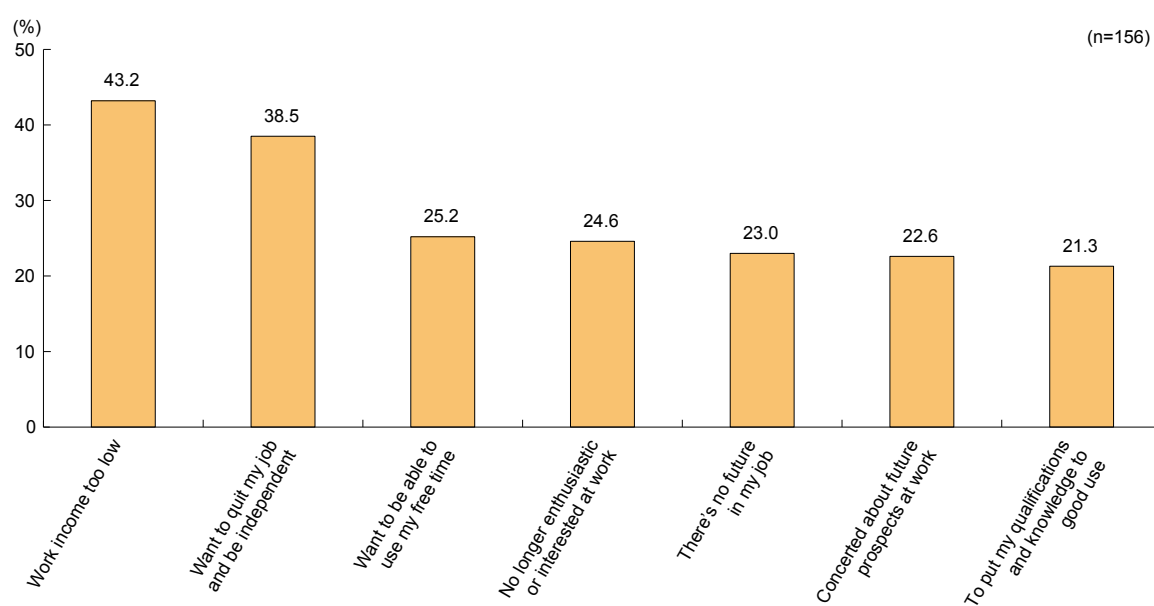
Note: Totals are calculated for responses regarding secondary/subsidiary business types at startup and currently as they apply to male and female entrepreneurs aged 18 to 69 who replied that they had started up their own businesses in or after 2011.

21) A questionnaire-based survey of 317,861 Internet-monitored respondents aged 18-69 conducted throughout Japan in November 2016 by the Research Institute of the Japan Finance Corporation (JFC).

Reasons for starting up a business in secondary/subsidiary format

We have also used the same survey to examine the reasons why entrepreneurs who established secondary/subsidiary businesses used that particular format for their business startups. The results show that the most frequently selected reason was "Work income too low", followed by "Want to quit my job and be independent" and then "Want to be able to use my free time" (Fig. Column 2-1-6 (3)). We also see that a high proportion of the entrepreneurs who started up secondary/subsidiary businesses did so to supplement their earnings from their main job, which places the emphasis on their main occupation. However, after gaining some experience in the secondary/subsidiary business, a similarly high proportion were trying to make the business their main occupation.

Fig. Column 2-1-6 (3) Reasons for starting up a business in secondary/subsidiary format



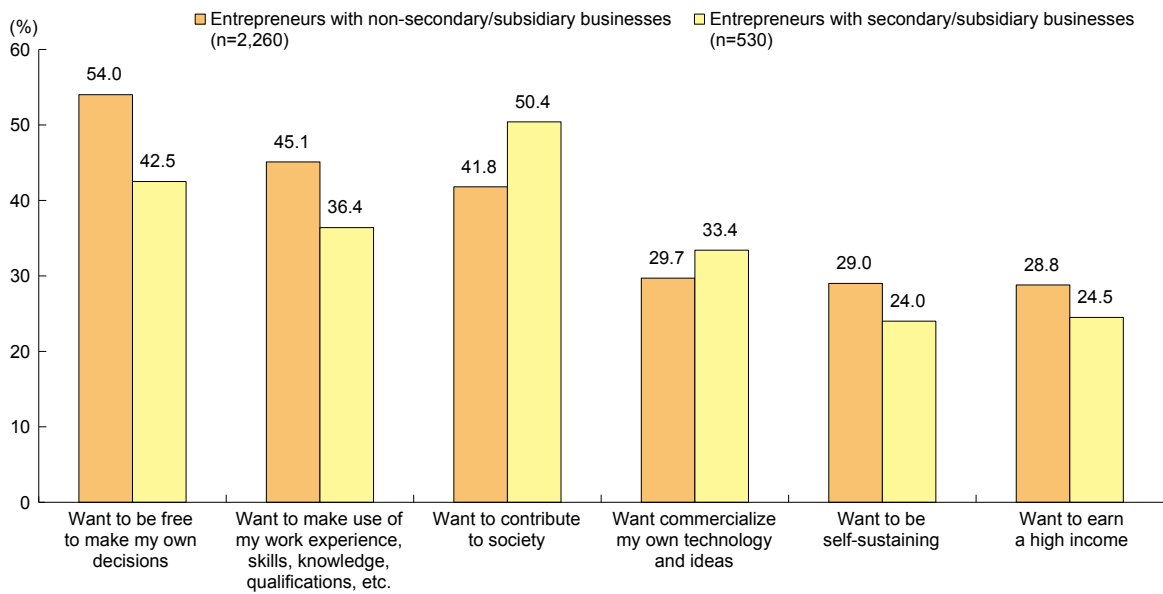
Source: Formulated by the SME Agency from the FY2016 Survey of Business Startups and Startup Awareness (November 2016, JFC Research Institute)

- Notes:
1. Totals are calculated for those male and female entrepreneurs throughout Japan aged 18 to 69 who replied that they had started up their own businesses in or after 2011 and who started up secondary/subsidiary businesses.
 2. The chart lists the seven items with the highest proportion of responses.
 3. Total does not always equal 100% as multiple responses were possible.

Aims of businesses started up in secondary/subsidiary format

Next, we compare the aims of entrepreneurs who started up their businesses as secondary/subsidiary businesses (hereinafter referred to as “entrepreneurs with secondary/subsidiary businesses”) with those of entrepreneurs who did not (hereinafter referred to as “entrepreneurs with non-secondary/subsidiary businesses”). This comparison shows that, while high proportions of entrepreneurs with non-secondary/subsidiary businesses selected “Want to be free to make my own decisions” and “Want to make use of my work experience, skills, knowledge, qualifications, etc.,” the highest proportions of entrepreneurs with secondary/subsidiary businesses selected “Want to contribute to society”, and the proportions who selected “Want to contribute to society” and “Want commercialize my own technology and ideas” were higher when compared with entrepreneurs with non-secondary/subsidiary businesses (Fig. Column 2-1-6 (4)).

Fig. Column 2-1-6 (4) Aims of businesses started up in secondary/subsidiary format



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. The chart shows the six items with the highest proportion of responses from entrepreneurs with non-secondary/subsidiary businesses.

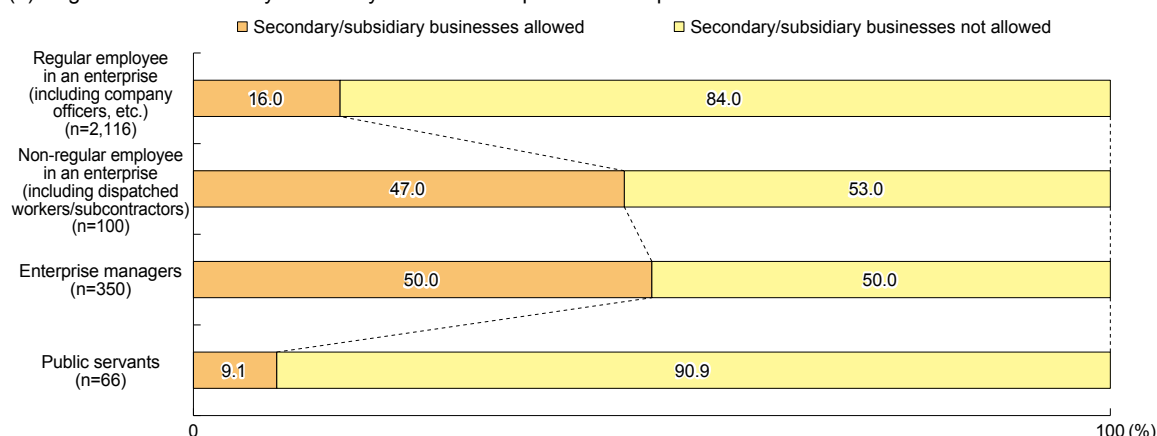
Regulation of secondary/subsidiary businesses in previous workplace work rules

Below, we will consider the types of workplaces from which entrepreneurs with secondary/subsidiary businesses started up their businesses.

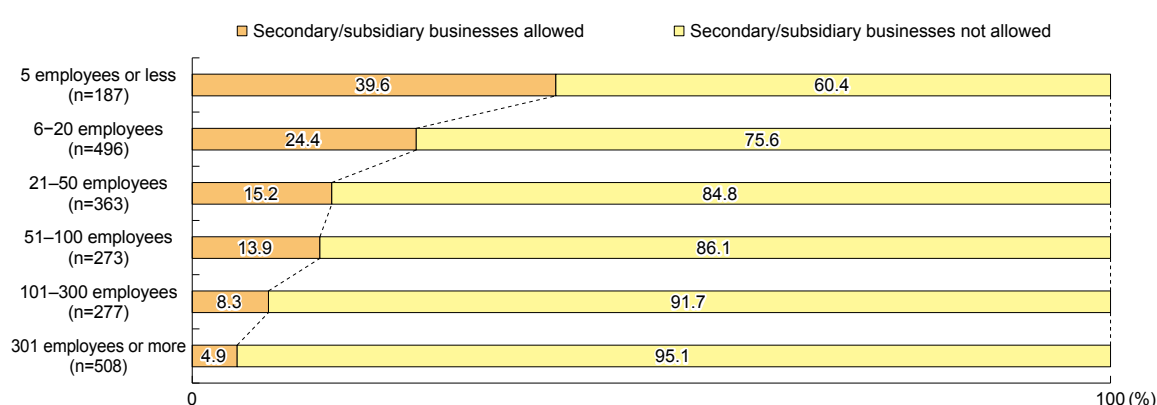
We will begin by looking at the regulation of secondary/subsidiary businesses in the work rules for the entrepreneur's workplace before he or she started up that secondary/subsidiary business, as shown in Fig. Column 2-1-6 (5). The figure shows that, while around half of the responses from a "Non-regular employee in an enterprise (including dispatched workers/subcontractors)" or "Enterprise manager" stated that secondary/subsidiary businesses were allowed, roughly 80% of the responses from a "Regular employee in an enterprise (including company officers, etc.)" stated that secondary/subsidiary businesses were not allowed. Also, if we look at the regulation of secondary/subsidiary businesses in work rules for people who had been regular employees in an enterprise in their workplaces before starting up a business, the breakdown by number of employees in the workplace reveals that, as the number of employees rises, an increasing proportion responded that secondary/subsidiary businesses were not permitted.

Fig. Column 2-1-6 (5) Regulation of secondary/subsidiary businesses in previous workplace work rules

(1) Regulation of secondary/subsidiary businesses in previous workplace work rules



(2) Regulation of secondary/subsidiary businesses in work rules according to number of previous workplace employees



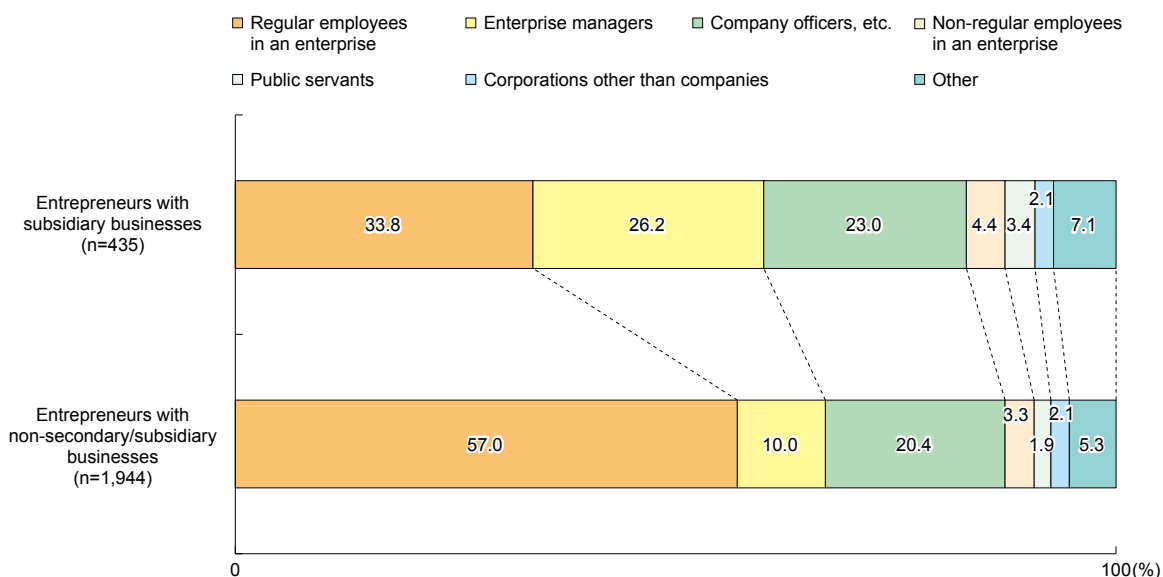
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The totals in (1) are for responses from all entrepreneurs regarding the regulation of secondary/subsidiary businesses in the work rules of their workplace immediately prior to business startup.
 2. The totals in (2) are for responses from entrepreneurs who responded that their position in their workplace immediately prior to business startup was "Regular employee in an enterprise (including company officers, etc.)"

Positions in the main business of entrepreneurs with secondary/subsidiary businesses and the positions of entrepreneurs with non-secondary/subsidiary businesses prior to business startup

If we now look at the positions in the main business of entrepreneurs with secondary/subsidiary businesses, we can see that the position occupied by the highest proportion of entrepreneurs with secondary/subsidiary businesses was "Regular employee in an enterprise" (Fig. Column 2-1-6 (6)). The proportion of entrepreneurs with secondary/subsidiary businesses who held the position of "Enterprise managers" is also high compared with entrepreneurs with non-secondary/subsidiary businesses. This data shows that the highest proportion of entrepreneurs who start up secondary/subsidiary businesses do so while they are still employed in a workplace. It also shows that some secondary/subsidiary businesses are started up by entrepreneurs who are already running a business and start up the secondary/subsidiary business in order to conduct business that is separate to their main business.

Fig. Column 2-1-6 (6) Positions in the main business of entrepreneurs with secondary/subsidiary businesses and of entrepreneurs with non-secondary/subsidiary businesses prior to business startup



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

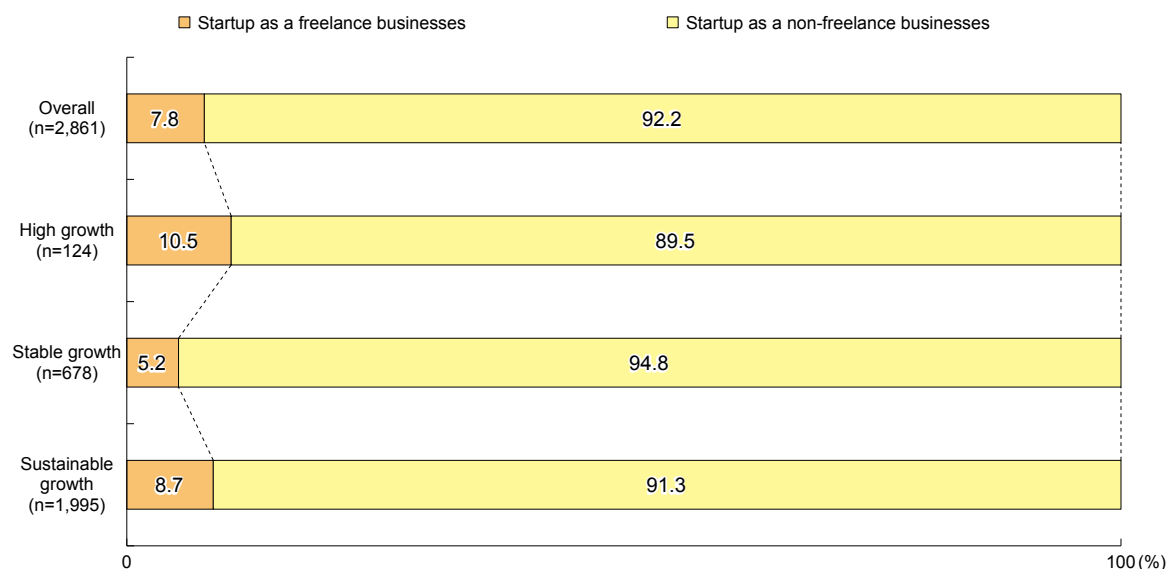
Note: Totals for entrepreneurs with non-secondary/subsidiary businesses are calculated for the positions in which they were employed immediately before starting up a business. Also, totals for people who left work to prepare for starting up a business or who were unemployed before starting up a business show their previous employment status.

Freelance business startups by growth type

Below, we look at businesses started up as freelance businesses. Fig. Column 2-1-6 (7) shows the proportions of businesses started up as freelance businesses according to growth type.

The figure shows that 7.8% of all entrepreneurs started up their businesses as freelance businesses. If we look at the results by growth type, a higher proportion of entrepreneurs targeting high growth selected the freelance business format than entrepreneurs aiming for stable or sustainable growth.

Fig. Column 2-1-6 (7) Proportions of freelance businesses startups according to growth type



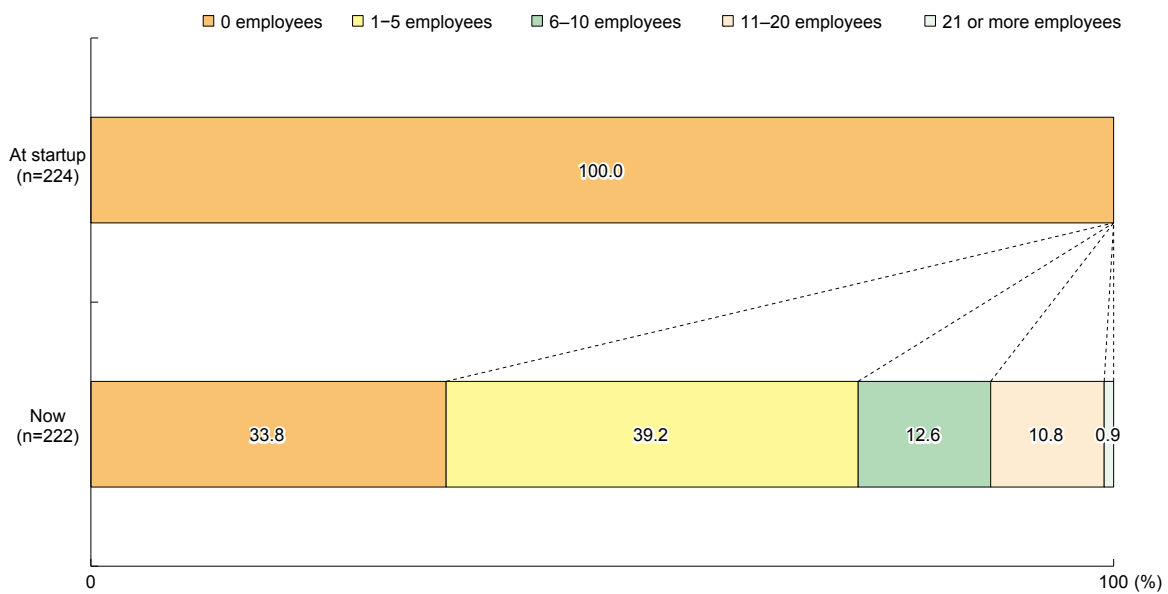
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. In this column, "freelance" refers to "businesses operating through the provision by the business owner of his or her own skills and/or capabilities without being part of any specific organization and without employing any permanent staff, and where the business owners recognize the businesses they run as 'freelance'".
 2. Here, totals are calculated for each growth type for businesses that were freelance at startup.

Enterprise sizes at startup and currently for entrepreneurs who started up freelance businesses

In Fig. Column 2-1-6 (2), we saw that entrepreneurs with secondary/subsidiary businesses tend to transition to working full-time in the secondary/subsidiary business, so here we examine that same trend after startup for freelance businesses. Fig. Column 2-1-6 (8) looks at entrepreneurs who started up freelance businesses and shows the current number of full-time workers and employees and the number at startup in established enterprises. The figure shows that, of entrepreneurs who started up freelance businesses, 70% of the entrepreneurs went on to employ staff and were no longer freelance.

Fig. Column 2-1-6 (8) Number of full-time workers and employees currently and at startup for entrepreneurs who started up freelance businesses



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Totals are calculated for the number of full-time employees and workers at enterprises run by entrepreneurs who started up freelance businesses.

In this column, we have looked at the conditions for differing types of business startup, specifically businesses that started up as secondary/subsidiary business and as freelance businesses. What these two business startups have in common is that they are both “businesses that start small”. By starting small with little or no initial investment needed, the risks posed by failure if the business fails to go as planned can probably be kept to a minimum. In the survey results shown so far, we have seen that there are many people, regardless of whether they are interested in starting up a business, who see business startups as carrying considerable risk due to the losses incurred if the business fails. However, as more people become aware of secondary/subsidiary and freelance models for business startups and recognize the low risks involved and the relative absence of hurdles to be overcome, they may come to have a new impression of business startups and this may broaden the base from which future business startups can develop.

2. Conditions and issues by growth type and growth stage

For businesses to succeed and grow after they start up, they must overcome the issues and difficulties that confront them at each growth stage after startup. Below, we first divide the growth process that businesses go through on the way to success after they start up in to the three stages shown below and then look at the differences

between the issues that each of the three enterprise types (high growth, stable growth and sustainable growth) face in each growth stage, and the respective measures being used. We will then consider the types of support that enterprises of each growth type need in order to grow successfully after startup.

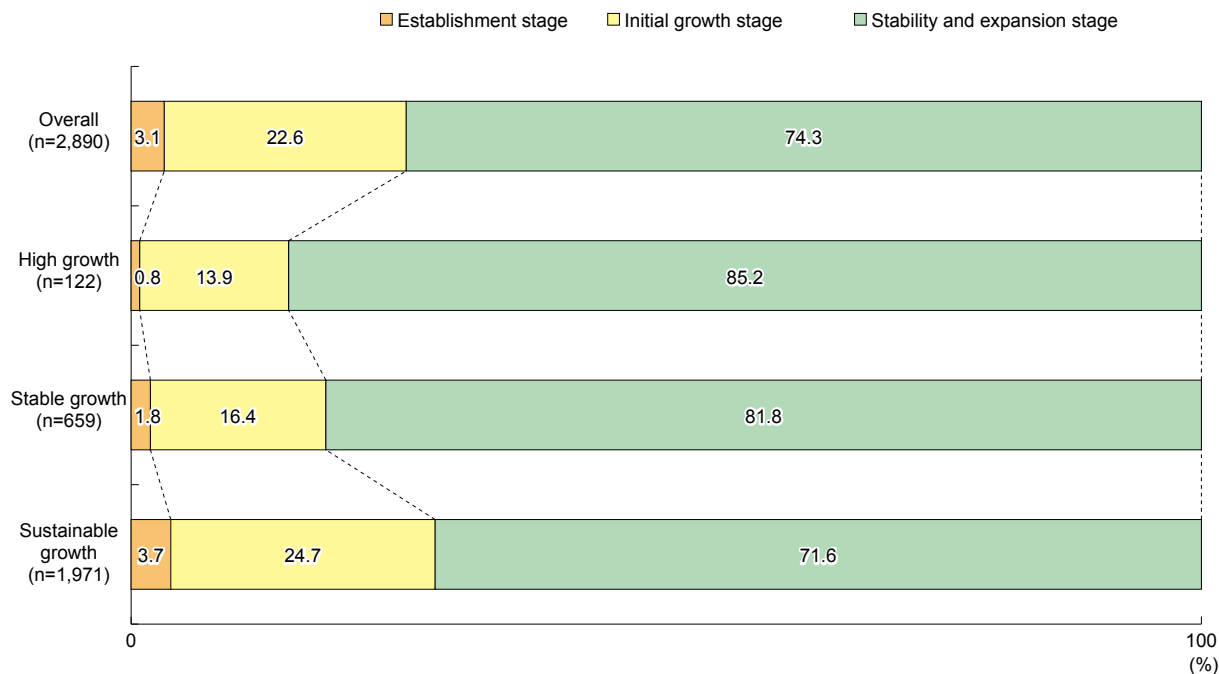
1. Establishment stage: Stage in which the business records no sales of products and/or services
2. Initial growth stage: Stage in which sales are recorded, but operating profit is still in negative territory
3. Stability and expansion stage: Stage in which sales are recorded and a positive operating profit is recorded in at least one period

(1) Current growth stages by growth type

Fig. 2-1-49 shows the results by growth type when enterprises were asked about their current growth stage 5–10 years after startup. The figure shows that around 75% of all the enterprises responded that they were in the stability and expansion stage. If we look at the characteristics according to growth type, around 70–85% of the enterprises have reached the stability and expansion

stage across each of the growth types. However, we also see that roughly 30% of sustainable growth enterprises, about 20% of stable growth enterprises and around 15% of high growth enterprises responded that they were currently in either the establishment stage or the initial growth stage, despite at least five years having elapsed since startup.

Fig. 2-1-49 Current growth stages by growth type



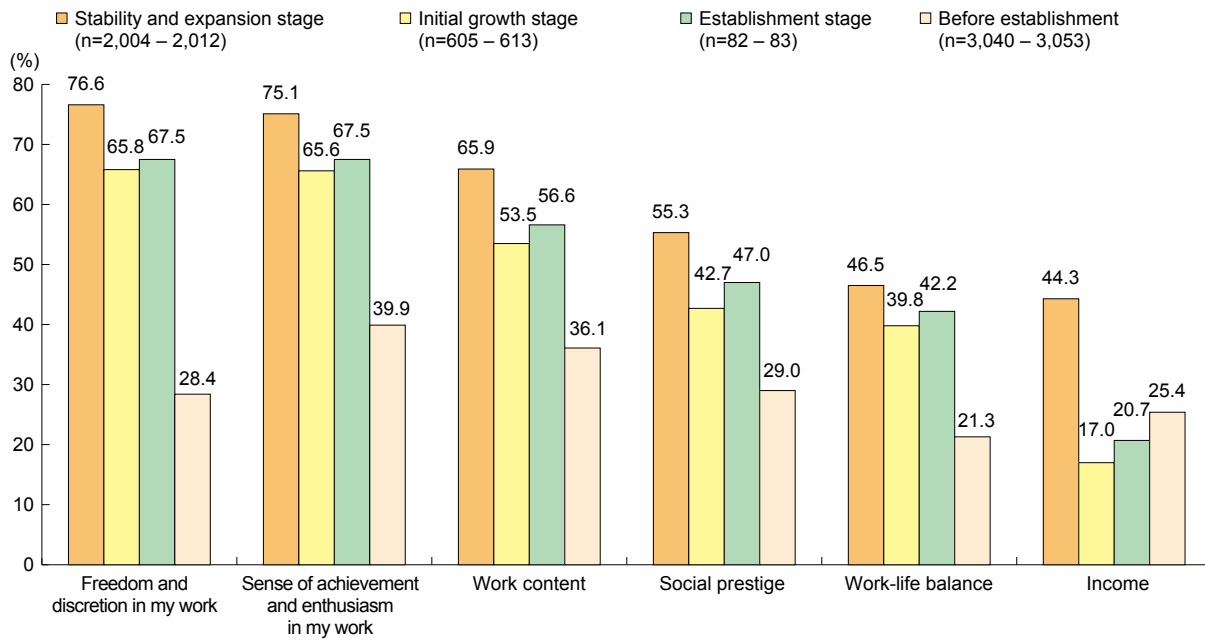
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

(2) Sense of satisfaction with work according to growth stage

Fig. 2-1-50 shows the responses when entrepreneurs were asked about their feelings of satisfaction with their work before business startup and at each of the growth stages after startup. The figure shows that, for all the criteria except income, the respondents' satisfaction with work in the establishment stage after startup was remarkably improved compared with before startup. By contrast, satisfaction with income was actually higher before startup than it was in the establishment stage after startup. In terms of the growth stages, if we compare the initial growth stage with the establishment stage, respondents in the initial growth stage were less satisfied than those in the establishment stage across all the criteria. These findings lead us to conclude that, in the

establishment stage, satisfaction levels are higher because the respondents are engaged in a business that was not possible in their workplace and they are happier than before starting up the business because they are able to work freely and make their own decisions. On the other hand, as will be shown in a more detailed analysis in the coming pages, starting up and operating a business raises various issues that must be faced, and in the initial growth stage this leads to a decline in the sense of satisfaction across all criteria compared with the establishment stage. Once businesses reach the stability and expansion stage, satisfaction levels in all the criteria again rise significantly, showing that established enterprises confront various issues in the establishment and initial growth stages, then resolve and overcome those issues so that they can move on to the stability and expansion stage.

Fig. 2-1-50 Sense of satisfaction with work according to growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals for the respective items are for the proportions who responded "Satisfied".
 2. Total does not always equal 100% as multiple responses were possible.

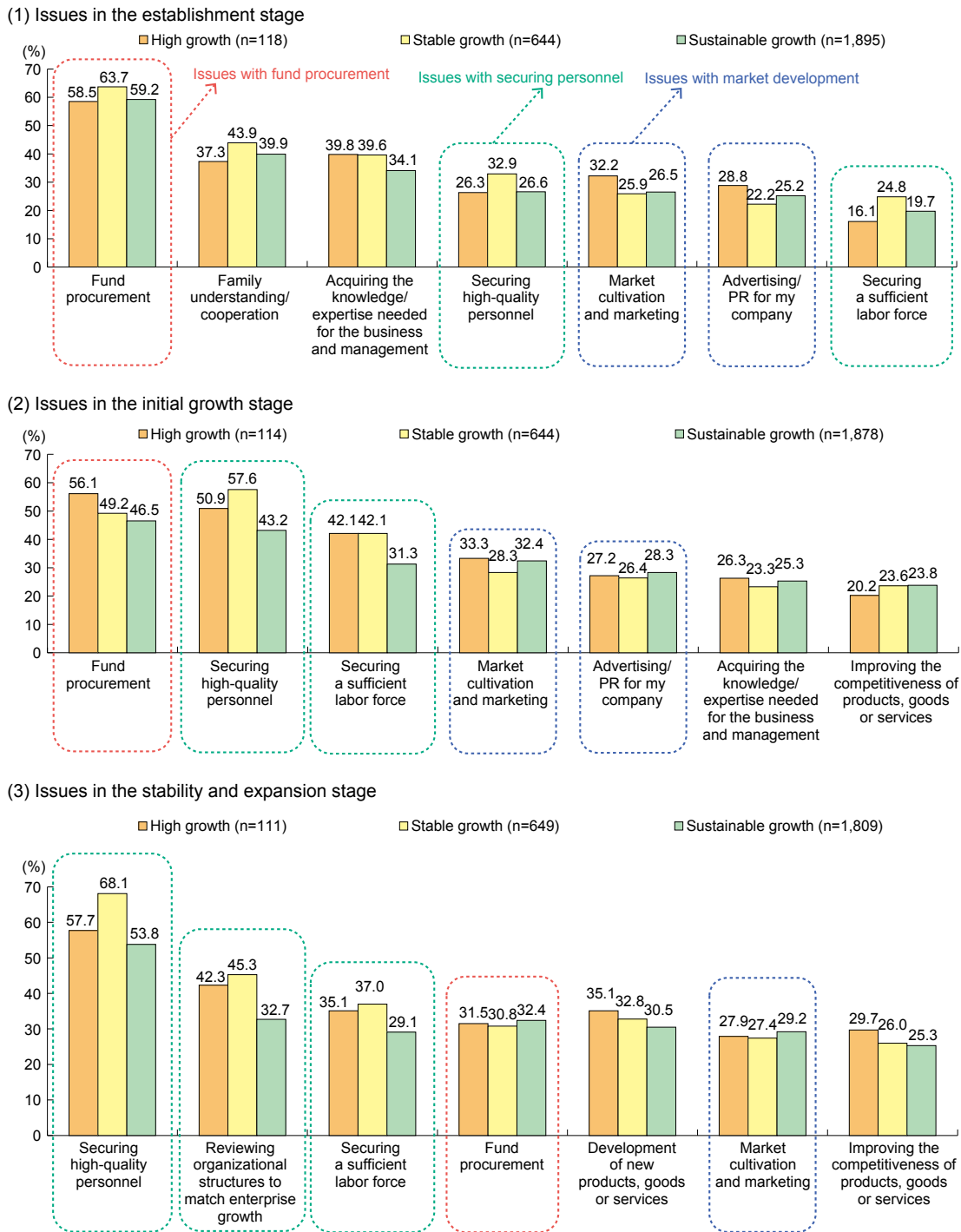
(3) Issues faced in each growth stage according to growth type

So, what are the respective issues that confront enterprises of each growth type in each of the establishment, initial growth and stability and expansion growth stages? Here, Fig. 2-1-51 shows the issues confronting high growth, stable growth and sustainable growth enterprises in each of the growth stages. If we begin by looking at the results by growth stage, in the establishment stage the highest proportion of enterprises opted for “Fund procurement” followed by “Family understanding/cooperation”. So we can see that the highest proportion of enterprises in the establishment stage chose “Fund procurement” and that they also had difficulty getting sufficient understanding from families regarding business startups, showing that a similarly large number of enterprises faced issues specific to the establishment stage. In the initial growth stage, the proportion of enterprises selecting “Fund procurement” is still high, as it was in the establishment stage, but issues relating to securing staff, namely “Securing high-quality personnel” and “Securing a sufficient labor force” also rate highly. Issues around market development, namely “Market cultivation and marketing” and “Advertising/

PR for my company” also attracted a relatively high proportion of responses. Finally, in the stability and expansion stage, the highest proportion goes to “Securing high-quality personnel”, followed by “Reviewing organizational structures to match enterprise growth” and then “Securing a sufficient labor force”, showing that the most challenging issues facing enterprises in the stability and expansion stage are securing personnel and arranging the structure of the organization. From this, we can see that the issues attracting a high proportion of responses change for each growth stage, with the prominent issues being fund procurement in the establishment stage, fund procurement and securing personnel in the initial growth stage, and securing personnel and arranging the organization structure in the stability and expansion stage.

The other finding is that the issue of market development, while not the most pressing issue, is one that is common to all of the growth stages. If we look at the characteristics of the issues according to enterprise growth type, we see that there are no major differences between the different growth stages in terms of the trends in the issues that enterprises face.

Fig. 2-1-51 Issues faced in each growth stage according to growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

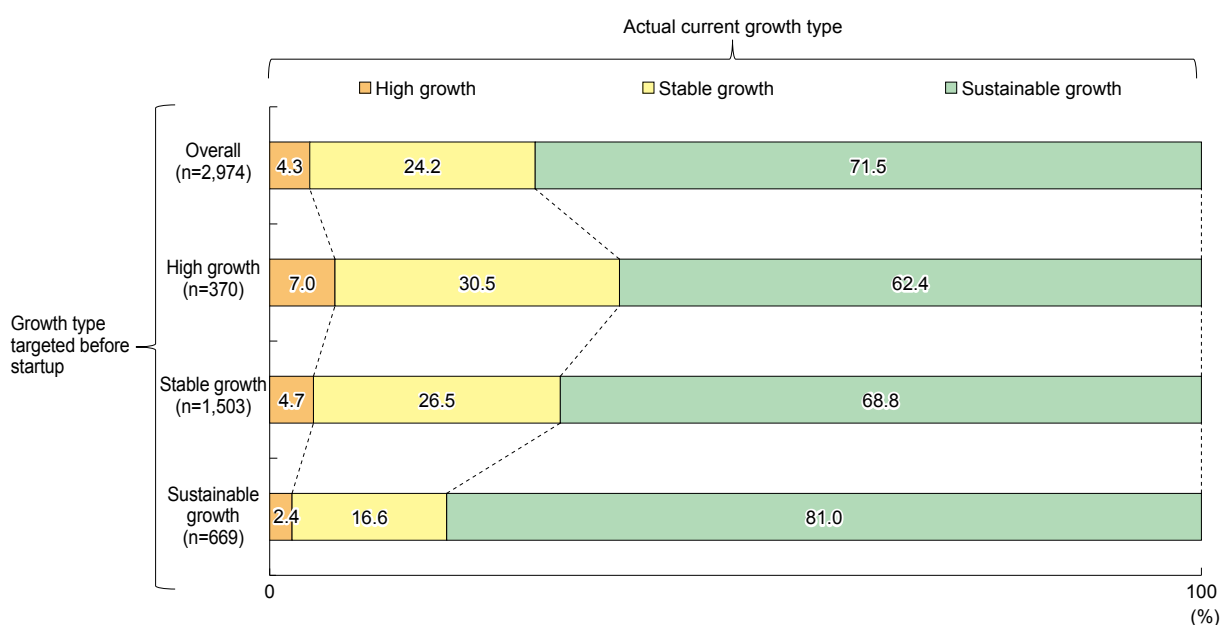
- Notes:
1. Totals for establishment stage issues are calculated from the existing issues for enterprises currently in the establishment growth stage as well as the issues faced by enterprises currently in the initial growth stage and stability and expansion stage when they were in the establishment stage.
 2. Totals for initial growth stage issues are calculated from the existing issues for enterprises currently in the initial growth stage as well as the issues faced by enterprises currently in the stability and expansion stage when they were in the initial growth stage.
 3. Totals for stability and expansion stage issues are calculated from the existing issues for enterprises currently in the stability and expansion stage.
 4. The charts show the seven items with the highest proportion of responses for each of the respective growth stages.
 5. Total does not always equal 100% as multiple responses were possible.

(4) Growth type targeted at startup and current growth type

Fig. 2-1-52 shows the correlation between the growth types enterprises were aiming for at startup and their current actual growth types. The figure shows that, of the established enterprises aiming for high growth, only 7.0% actually achieved the high growth they had envisioned, with the remainder becoming stable growth or sustainable growth enterprises. Of the enterprises trying for the stable growth model, 4.7% actually achieved high growth and 26.5% fulfilled their goal of becoming stable growth enterprises. The remaining 68.8% were unable to achieve their target growth levels and became sustainable growth enterprises. So, what were the differences in the efforts

made in each growth stage by the enterprises who successfully achieved their pre-startup growth types and those who failed to meet their targets? Below, we will look at the issues faced and the efforts made by high growth, stable growth and sustainable growth enterprises in each of the growth stages of establishment, initial growth and stability and expansion. We will also look at the high growth and stable growth enterprises who succeeded in achieving their high growth or stable growth targets, as well as the enterprises who were aiming to become high growth businesses and failed to meet that target, and then compare the efforts made at each growth stage and consider the issues involved and what sorts of support policies are required.

Fig. 2-1-52 Growth type targeted at startup and current growth type



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The growth types targeted before business startup were classified as follows: People who responded “a type that aims for a fast pace of employment and sales expansion with the option of listing the business on the stock exchange or of transferring or selling the business for a high value in the future” are taken to be high growth enterprises, those who responded “a type that aims to achieve consistent growth in employment and sales over the medium- and long-term” are taken to be stable growth enterprises, and those who responded “a type that essentially aims for business continuity and has no particular intention to significantly change employment or sales levels from when the business was founded” are taken to be sustainable growth enterprises.
 2. Current actual growth types are classified quantitatively.

Case 2-1-3 Nousouken Corporation

A company working to change the structure of agricultural produce distribution using IT in order to improve the nation's agriculture

Nousouken Corporation (employees: 63 [As of the end of February 2017]; capital: ¥199.21 million), located in Wakayama City, Wakayama Prefecture, collects agricultural produce from farmers and sells it on commission at special direct sale areas in city supermarkets, mainly in Tokyo and Osaka. Established as a venture company in 2007, the company was listed on the stock exchange in 2016. By bypassing wholesalers and other intermediaries, the company's business model directly connects farmers with consumers; as a result, it is able to offer consumers extremely fresh produce, to communicate the opinions of consumers to farmers, and (because it does not involve wholesalers and other intermediaries) to increase the profits that farmers realize. At present, Nousouken Corporation has approximately 6,000 farmers on its books. The farmers bring their produce to central pickup points, and are offered choices regarding everything from the price of the produce to the supermarkets where the produce is sold. Nousouken Corporation transports the food to its network of around 900 supermarkets throughout the country, which includes major chains. The use of IT is a distinctive feature of the company's distribution system. Barcode standards for agricultural produce differ for different supermarkets and retailers, but Nousouken Corporation has developed a unique barcode ticketing system that uses a single ticketing machine, but is compatible with the standards of each of the large supermarkets with which it does business. Not only this, but the company also collects sales data from each supermarket via the barcodes, enabling the farmers who grow the produce to track their daily sales figures right away. This groundbreaking system has enabled Nousouken Corporation to perform strongly since its foundation. In June 2016, the company was listed on the Mothers board of the Tokyo Stock Exchange, and since then has mounted initiatives including establishing business partnerships with major companies, steadily increasing its business performance while expanding the scope of its activities.

Nousouken Corporation's President and CEO, Tomomasa Oikawa, specialized in agricultural economics during his studies at Tokyo University of Agriculture, and came to experience a strong sense of crisis regarding the future of Japan's agricultural industry. As a result of the collapse of the bubble economy, Mr. Oikawa was not able to find employment in his desired industry, and with his marriage in 2003, he moved to Wakayama, where his wife's family operated a farm. His experience of the farm and of points of sale of produce made him keenly aware of a number of problems: the operators of farms are not able to determine prices for themselves and are not able to choose where their produce is sold, and additionally do not hear words of thanks from consumers. At the same time, on the side of the points of sale, there was the problem of a lack of awareness of who grew the produce where and when, and no understanding of the story behind the produce. Having experienced both sides, Mr. Oikawa believed that the way towards a solution of these issues was to reform the distribution of agricultural products. In 2007, he established his company.

Mr. Oikawa's capital at the time of founding his company was a mere ¥500,000. Thinking hard about what he would be able to do with this amount of money, he started a company to act as a sales representative for farmers. Under this business model, the company established contracts with farmers, and received ¥50,000 in compensation from the farmers for each new sales destination it developed for them. However, the farmers were reluctant to offer money, and Mr. Oikawa made a living by selling mandarins that they provided in lieu of money. Half a year after establishing the company, Mr. Oikawa gained a reputation as a person who could sell agricultural produce at a high price, and this led to a variety of business consultations. Among these consultations, it was suggested that it would be desirable to sell produce on weekdays at roadside stations, where agricultural produce was currently only being sold on weekends. Conjecturing that the people who visited roadside stations on the weekend had traveled from distant cities, Mr. Oikawa considered that if they were able to sell the produce sold at roadside stations in supermarkets, consumers would also buy it on weekdays. He obtained a loan of ¥5 million from the Japan Finance Corporation, allowing him to commence the direct sale of agricultural produce that is still his company's core business. Because a system in which they themselves set prices and choose where their produce is sold was an unprecedented new concept for farmers, Mr. Oikawa himself made frequent visits to farmers and supermarkets in Wakayama City, putting effort into sales activities to convince sales destinations. As a result, Nousouken Corporation established contracts with 20 farmers and two supermarkets in Wakayama City, and was able to commence direct sale of the farmers' produce. Following this, news of the company's activities began to spread by word of mouth, and as a result was taken up by newspapers, television, magazines and other media. The company's business partners

began to increase steadily, and it gradually expanded its business area from Wakayama to the Kansai region, and then to the entire country, steadily increasing its business outcomes as it did so.

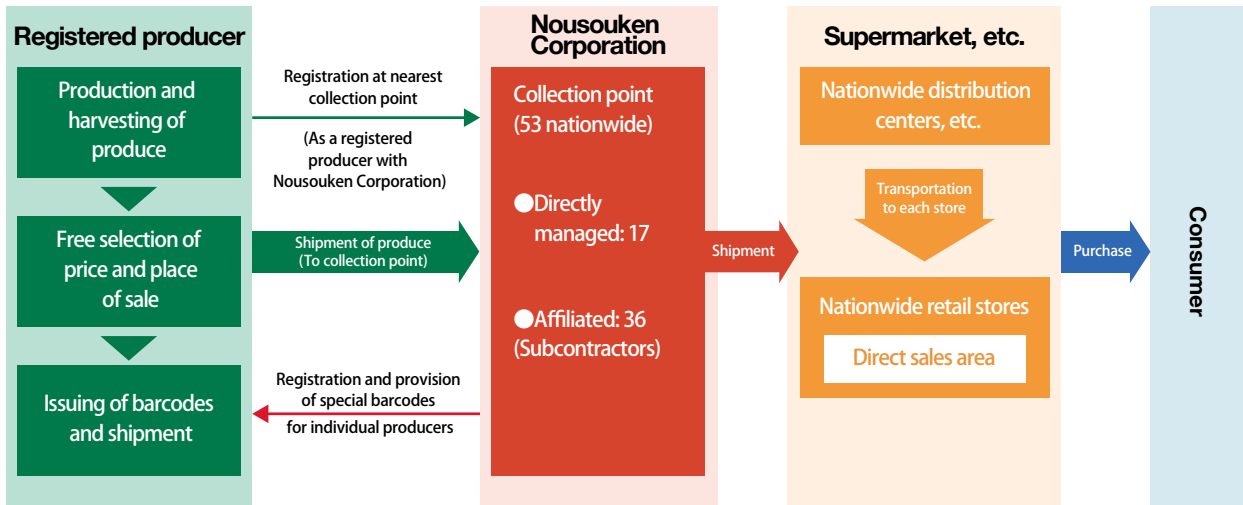
When the company's sales exceeded the ¥100 million mark, it found that the burden of creating emails to provide each individual farmer with information such as the amount of their daily sales increased, and the workload also increased for farmers because of the differences in barcode ticketing machines between different supermarkets. These problems weighed heavily on the company. In order to solve them, the company received subsidization from SMRJ and a fund established by Wakayama Prefecture and other entities to promote the health of small and medium enterprises in the prefecture, and proceeded to introduce IT into its business in addition to developing a barcode system, which promoted further growth.

In the future, in addition to extending the company's direct sales business to overseas markets, Mr. Oikawa wishes to expand his company's business to the sale of agricultural materials (seeds, etc.) and the management of restaurants, allowing it to be involved not only in distribution, but in all processes from production to consumption.

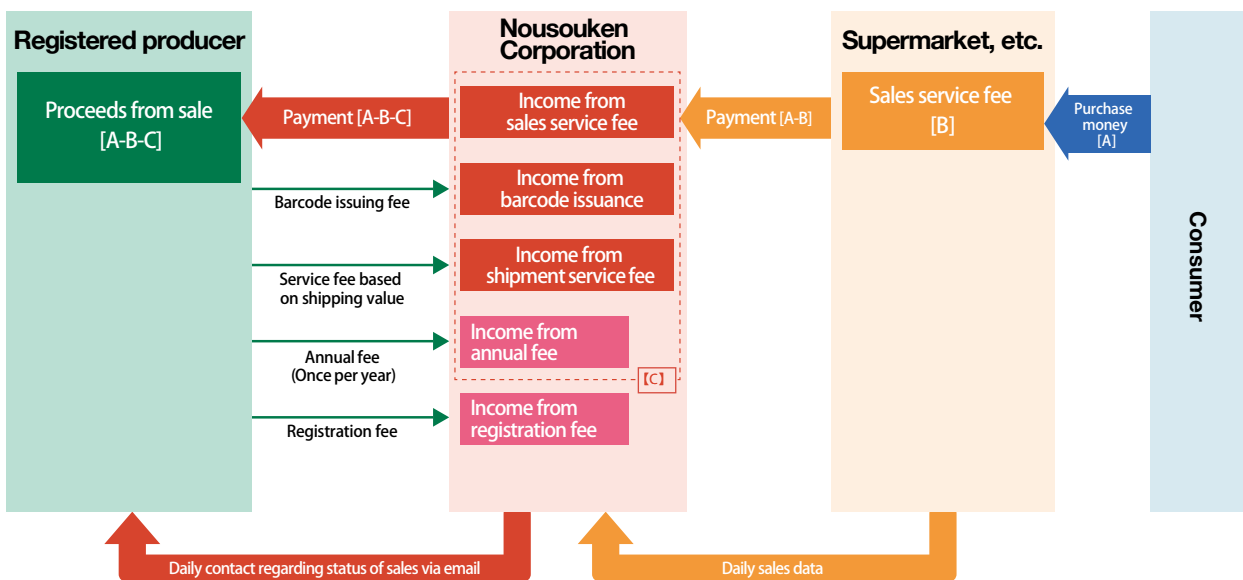
Speaking forcefully, Mr. Oikawa says "We supply a platform for information provision and physical distribution for farmers and supermarkets. Japanese agriculture will not improve unless systems of distribution in Japan change. It is necessary for farmers throughout the country to feel a sense of reward in growing produce, imagining the faces of the people who will eat it, and to sell their produce as the makers of that produce."

Overview of system for direct sale by farmers

<Flow of produce>



<Flow of fees and information>



Case 2-1-4 Robit Inc.

A company that has striven for rapid planning and development, and has succeeded in improving its technologies and procuring funding

Robit Inc. (employees: 6), located in Tokyo, is a company engaged in the development of IoT devices, robots, and similar products, seeking to create new value in both hardware and software. As its first product, the company brought out a retrofitted device allowing curtains to be opened and closed via a smartphone in summer 2016. The concept of the product was to replace the use of an alarm clock by allowing users to be woken pleasantly by the sun streaming in when the curtains were opened. The product was a hit, having sold 20,000 units in the period of around half a year since its introduction, and attracted attention to the company.

A brief introduction to the nature of the company at its foundation is in order. Robit Inc. was established by four students of Chuo University's Department of Electrical, Electronic and Communication Engineering. While studying, they entered a number of business contests, and their planning ability and the level of maturation of their prototype products saw them being awarded grand prizes. Recognizing the potential for starting a business in the area of manufacturing, they established their company in June 2014. At that time, three of the founders had begun working for major corporations (with the exception of Yuki Takahashi, now the CEO of the company, who was still studying). It was Mr. Takahashi who focused on development, with the other team members assisting after work and on weekends and holidays.

The team's capital for the establishment of their company was several million yen, made up of their prize money from business competitions and New and Secondary Business Startup Support Fund provided by the SME Agency. Because hardware development requires significantly more capital than software development, Mr. Takahashi sought funding from investors from the first stage of founding the new company. However, at that time the idea of a hardware start-up was not as common as it is today, and there was little interest from investors. Nevertheless, the team used their limited capital, experiencing numerous failures but rapidly working through the process of planning-development-failure again and again, until they improved their technologies and gained expertise, which gradually attracted the attention of investors.

As a result, the company was able to acquire the necessary capital for hardware development from an individual investor. Seizing this opportunity, the members of the team quit school and their jobs, and created a system allowing them to devote themselves to development full-time. And because their individual investor was also a business manager, they were able to receive management advice and introductions to essential human resources, enabling them to build up their foundations as an organization.

In summer 2015, one year after the establishment of the company, the members of the team arrived at the concept of the retrofitted automatic curtain opening and closing device mentioned above, and had reached the stage of commencing sale of the device a mere year following that.

Robit Inc. achieved success in the development and sale of an IoT device for consumers, but were not satisfied with this, turning their attention to their second and third products and services. The product they next started working on was the exact opposite of a consumer-oriented product. Known as "RACS SYSTEM," this was a system for the remote monitoring and operation of machine tools. The system has already made a considerable impact at trade fairs and the like, giving the team a solid response in their venture to expand their business into the BtoB area.



Case 2-1-5 Payke Inc.

Growing out of an attempt to solve problems for inbound tourists, a company that aims to create a platform business for consumer-oriented product databases

Payke Inc. (employees: 15; capital: ¥33 million), located in Naha City, Okinawa Prefecture, develops applications for overseas tourists visiting Japan, and provides consulting services in relation to business operation, product sales, and product development.

The company developed an application that allows users to scan product barcodes (JAN codes) using a smartphone or other information terminal and see product information in their native language. Because the system is able to display information including videos and pictures, word-of-mouth regarding the product, and allergy information in addition to bare product information, it encourages purchases by overseas tourists.

Payke Inc. was established in November 2014, and its business had its start in November 2015 in Okinawa Prefecture, a popular destination for foreign tourists. In attempting to open up sales channels, it narrowed its target range to souvenirs in Okinawa Prefecture, and commenced sales initiatives with a focus on souvenir makers. Making active use of media including regional PR magazines and local television programs, the company increased its recognition in the prefecture, and by building relationships of trust with its clients, it received introductions to new clients. In this way, it steadily expanded its client base. In around half a year from the commencement of its sales initiatives, the company had established contracts with almost all of the souvenir manufacturers in Okinawa Prefecture. As a result, the users of the company's services, in the main foreign tourists, also steadily increased, leading to a steady expansion of sales.

The company was able to expand its business in this way with Okinawa as its base, but when it expanded its business to cities such as Tokyo and Osaka, it revised the strategies for the cultivation of markets that it had previously used in Okinawa. Specifically, rather than souvenir manufacturers, it commenced its sales initiatives by targeting retailers, in particular drug stores, where consumption by inbound tourists is focused in cities. Proposing a method of solving problems experienced by retailers, for example reducing the difficulties of interaction between store staff and compensating for shortages of manpower, by installing special terminals able to display information for the products on the shelves in multiple languages, Payke Inc. gradually increased its transactions with retailers in the cities. Product data for consumers is not only registered in-house by Payke Inc.; the system also allows manufacturers, including major corporations, to register their own product data. Because of this, the amount of registered data is increasing rapidly. The company also actively participates in business meetings and other events focusing on inbound tourism, and by this means is developing relationships with major companies, ensuring that its number of business partners in Japan's cities is increasing.

Payke Inc.'s system is also able to offer an "interest index" that shows which products consumers are interested in. In concrete terms, the system collects data in real time regarding when a product was purchased, who purchased it, where it was purchased, and what the product was. This allows retailers to select products, and manufacturers to conduct comparative analyses with competitive products. By utilizing these unique data, retailers are able to prove effects that lead to increased average customer spending and increased sales. As a result, the number of clients for the company's services using smartphones and tablets is rapidly increasing both in Japan and overseas.

Speaking with passion, Keisuke Furuta, Payke Inc.'s Representative Director and CEO, says "The secret to the success of our app was making a small start as rapidly as possible, with Okinawa as our target, narrowing our focus to solving problems related to consumption by inbound tourists. In the future, we intend to establish a platform for consumer-oriented databases in Japan and overseas, and to flexibly incorporate any necessary businesses and technologies."



An image of Payke Inc.'s application-based service for foreign tourists

Case 2-1-6 Knot Co., Ltd.

A company that has realized rapid growth in the watch market despite the significant barriers to entry using the nimble footwork available to a venture company

Knot Co., Ltd. (employees: 20; capital: ¥9.5 million), located in Musashino City in Tokyo, was founded in 2013 to manufacture and market original watches, based on the concept of connecting Japan and the world through Japanese quality.

In Japan's watch industry, a small number of major manufacturers possessing huge brand power and technological and manufacturing capacity have been an overwhelming market presence for many years, and it is said to be difficult for new watch manufacturers to enter the market. Nevertheless, Knot has done just that, and has established a unique brand in a short period, growing to achieve annual sales of more than ¥1.5 billion in Japan and overseas in 2016.

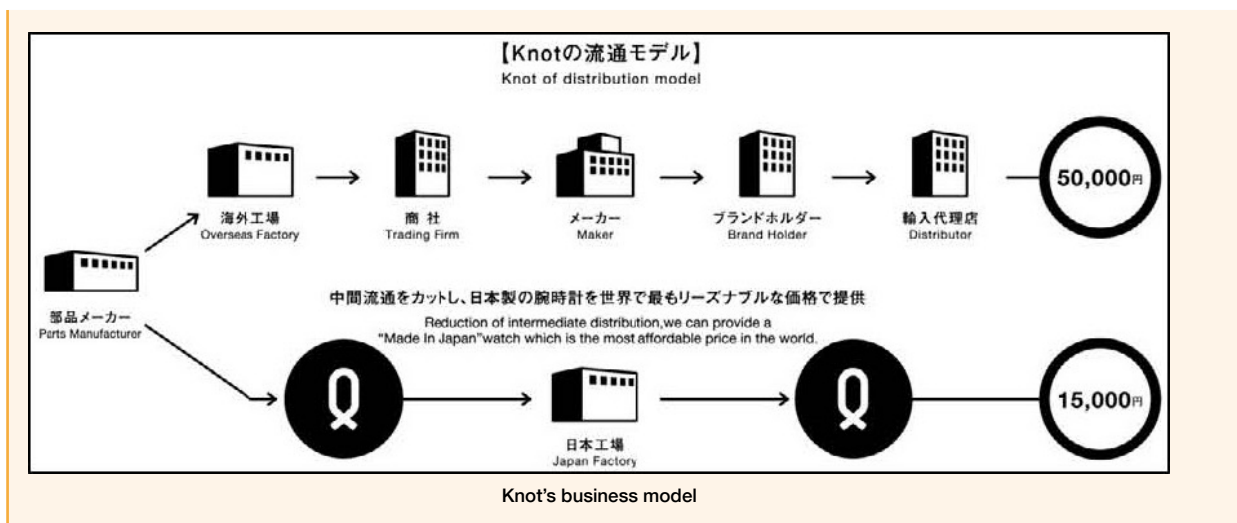
This growth has been realized as a result of the fortuitous coincidence of the experience, expertise, and persistence gained by Hiromitsu Endo, the company's President, in his past successful career with an agent for a European watch brand, and excellent timing. Three factors can be pointed to as the secret of the company's success.

The first of these is the fact that the company was established as a manufacturing retail business. It is standard practice for major watch manufacturers to sell the watches that they manufacture through sales companies and wholesalers and retailers. By contrast, Knot sells its products directly to consumers through directly managed outlets and the company website, enabling it to sell high-quality products at a lower price (the "real price") by reducing its margins for distribution.

The second factor in the company's success is its close cooperation with domestic watch factories that manufacture its products on commission, enabling it to create products that are "made in Japan." In recent years, major domestic manufacturers have transferred their production bases overseas, seeking cheap labor power, and there are an increasing number of cases of the component factories and assembly factories that formed their business partners being forced into closure. During Knot's establishment, the company sought out the few remaining watch factories in Japan, established cooperative ties with them, and succeeded in creating a domestic supply chain. "Made in Japan" is a mark of trustworthy quality, and is an important point of appeal for the brand not only among domestic consumers, but also among overseas consumers, particularly in the Asian region.

The third factor contributing to the company's success is the fact that it does not merely sell watches as "objects," but offers its customers the "experience" of customizing their watches. The straps used for the company's watches can be easily swapped, and it offers 8,000 combinations of faces and straps. In addition, in 2017, the company opened a new factory in Tokyo's Kichijoji, where its headquarters and flagship store are also located. The new factory offers a service enabling customers to freely choose elements of their watch according to their individual taste, even down to the dial and hands.

Knot has used the advantages that characterize venture companies - their nimble footwork, their freedom from the standard practices of their industries, and their closeness to consumers - to create unique strengths that differ from those of major corporations.



3. Issues and initiatives for high growth enterprises by growth stage

Below, we examine the respective issues confronted and the circumstances of the efforts made in each growth stage by enterprises who succeeded in actually achieving high growth, regardless of what growth type they envisioned as their target prior to business startup, focusing particularly on three factors: fund procurement, securing personnel and market development. We also look at their usage of measures such as support policies in each growth stage. We will also identify the differences in the efforts made in each growth stage by successful high growth enterprises and enterprises who targeted high growth and failed to achieve it.

(1) Issues with fund procurement at each growth stage for high growth enterprises

We begin by looking at the issue of fund procurement, which presents such a major obstacle in the establishment stage in particular.

Fund procurement is a simple expression that encompasses a wide range of financing methods, including borrowings from financial institutions in the form of loans or corporate bonds, venture capital and financing from personal investors, investment in the form of funds raised from family and friends, and the use of grants and subsidies from the national government and local governments.

Here, Fig. 2-1-53 shows the issues around fund procurement that confront high growth enterprises in each of the growth stages. The figure shows that the highest proportion of respondents chose “Couldn’t get financing” as the issue with borrowings in the establishment stage, whereas in the initial growth stage and stability and expansion stage, high proportions selected “Financing requirements mismatch” and “Complexity of procedures, etc.”. This suggests that in the establishment stage immediately after startup, the issue with borrowings is the

inability to get financing, while for enterprises that have progressed to the initial growth or stability and expansion growth stages gradually find it easier to get financing, the problem becomes the complexity of the procedures involved in procuring funding, such as preparing documentation and lengthy screening processes. The other problem they face is the mismatch in financing conditions and details, namely the amount of financing and the interest rates, the repayment period and the collateral and guarantee conditions. The result is that they are likely to find themselves unable to procure funding under the conditions they themselves had hoped for.

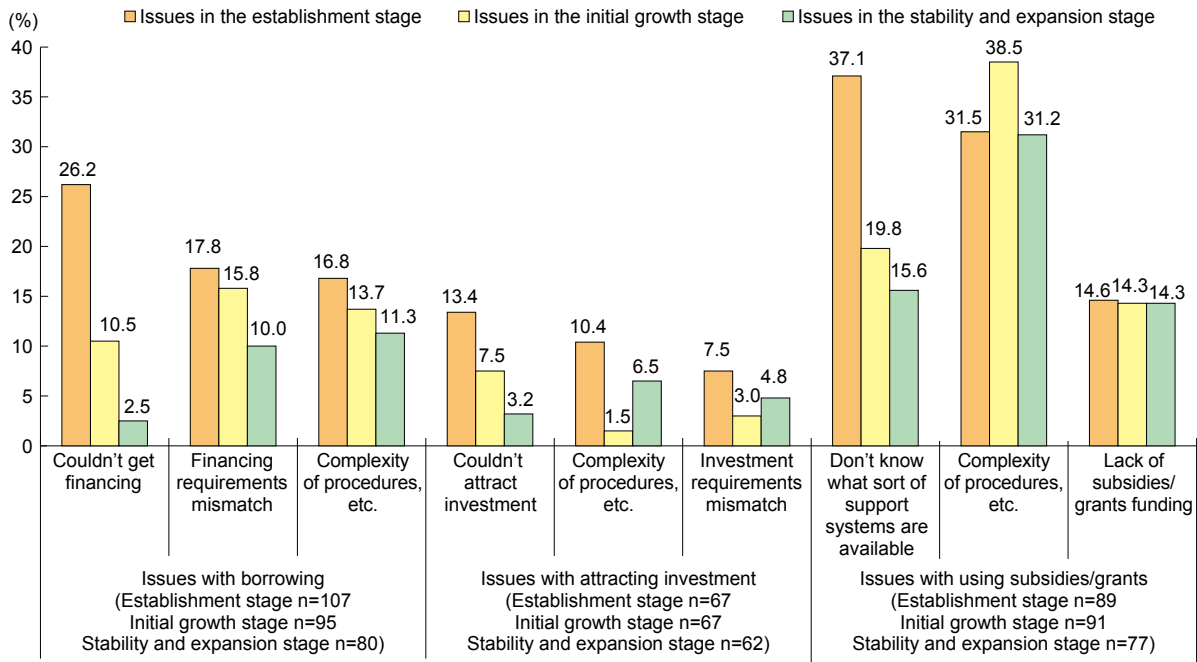
Looking next at the problem of attracting investment, the highest proportion of respondents in the establishment stage and initial growth stage chose “Couldn’t attract investment”, whereas in the stability and expansion stage, the highest proportion selected “Complexity of procedures, etc.”. This indicates that while businesses are in the establishment stage or have advanced to the initial growth stage and are most likely yet to turn a profit, it is far from simple to impress potential investors with the company’s business model or the future prospects of the business as an investment.

Looking lastly at grants and subsidies, a high proportion of respondents in the establishment stage chose “Don’t know what sort of support systems are available”, whereas in the initial growth stage and stability and expansion stage, the highest proportions selected “Complexity of procedures, etc.”. These findings indicate that as enterprises progress through the growth stages, they become better at recognizing grants and subsidies, but still cannot access grants and subsidies as they would like due to the complexity of the procedures, such as completing applications and preparing required documents such as business plans. Accordingly, it is important that entrepreneurs engaged in starting up a

business are actively provided with advertising and information. It is also vital that procedures be simplified

to ease the burden on entrepreneurs so that they can better access grants and subsidies.

Fig. 2-1-53 Issues with fund procurement at each growth stage for high growth enterprises



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for high growth enterprises who responded that they have had issues or are having issues when procuring funding.
 2. "No particular issues" responses are not presented here.
 3. Total does not always equal 100% as multiple responses were possible.

(2) Fund procurement methods used by high growth enterprises in each growth stage

Here, we look at the fund procurement methods used and not used by high growth enterprises in each of the growth stages and classify them and their usage into four categories: (1) External borrowings (from private financial institutions or governmental financial institutions); (2) internal borrowings (self-funding by managers themselves or funding from family, relatives, friends or acquaintances); (3) investment (venture capital, funds from individual investor or crowd funding²²⁾; and (4) subsidies/grants (using public subsidies/grants).

First, we look at the fund procurement methods used by high growth enterprises in each growth stage (Fig. 2-1-54). Looking at the figure, we see that “Self-funding by managers themselves” gained the highest proportion of responses in the establishment stage, followed by

“Borrowings from private financial institutions” and then “Borrowings from family, relatives, friends or acquaintances”. In the initial growth stage, “Borrowings from private financial institutions” is followed by “Self-funding by managers themselves” and then “Borrowings from governmental financial institutions”, while in the stability and expansion stage, “Borrowings from private financial institutions” leads, followed by “Borrowings from governmental financial institutions” and then “Self-funding by managers themselves”. These findings show that in the establishment stage, funding is provided by the entrepreneurs themselves or by their immediate family and relatives, but as businesses progress through the growth stages, an increasing percentage of funding is procured externally from private and governmental financial institutions.

Fig. 2-1-54 Fund procurement methods used by high growth enterprises in each growth stage

	1st	2nd	3rd	4th	5th
Fund procurement methods used in the establishment stage (n=125)	Self-funding by managers themselves (76.0%)	Borrowings from private financial institutions (39.2%)	Borrowings from family, relatives, friends or acquaintances (33.6%)	Borrowings from governmental financial institutions (28.8%)	Use of public subsidies/grants (14.4%)
Fund procurement methods used in the initial growth stage (n=119)	Borrowings from private financial institutions (71.4%)	Self-funding by managers themselves (45.4%)	Borrowings from governmental financial institutions (43.7%)	Use of public subsidies/grants (23.5%)	Borrowings from family, relatives, friends or acquaintances (20.2%)
Fund procurement methods used in the stability and expansion stage (n=104)	Borrowings from private financial institutions (73.1%)	Borrowings from governmental financial institutions (45.2%)	Self-funding by managers themselves (36.5%)	Use of public subsidies/grants (19.2%)	Borrowings from family, relatives, friends or acquaintances (13.5%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from high growth enterprises.
 2. The table shows the five items with the highest proportion of responses for each funding procurement methods used and not used in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

22) “Crowd funding” refers to an IT-based funding procurement method whereby funds are raised from an unspecified number of people via the Internet. 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.

(3) Fund procurement methods desired by high growth enterprises in each growth stage

Next, we will look at the fund procurement methods that high growth enterprises wanted to use but were unable to use in each growth stage, as shown in Fig. 2-1-55. Looking at the figure, we see that the highest proportion of responses in the establishment stage is for “Borrowings from private financial institutions”, followed by “Borrowings from governmental financial institutions” and then “Borrowings from private enterprise and other bodies”. In the initial growth stage, “Borrowings from private enterprise and other bodies” attracted the highest proportion, followed by “Venture capital or investment by investment partnerships, funds, etc.” and then “Investment by individual investors”. Looking lastly

at the stability and expansion stage, “Venture capital or investment by investment partnerships, funds, etc.” is followed by “Investment by individual investors” and then “Borrowings from private enterprise and other bodies”. The above data reveals that high growth enterprises in the establishment stage have a strong need for funding procurement through borrowings, particularly from private and governmental financial institutions. But as the enterprises move through the growth stages, they increasingly tend to prefer funding procurement through investment by sources such as venture capital and individual investors. However, as revealed above, there are in fact very few enterprises that are actually successful in attracting funding through investment, even when they reach the initial growth or stability and expansion stage.

Fig. 2-1-55 Fund procurement methods desired by high growth enterprises in each growth stage

	1st	2nd	3rd	4th	5th
Desired fund procurement methods in the establishment stage (n=31)	Borrowings from private financial institutions (58.1%)	Borrowings from governmental financial institutions (54.8%)	Borrowings from private enterprise and other bodies (41.9%)	Venture capital or investment by investment partnerships, funds, etc. (38.7%)	Investment by individual investors (35.5%)
Desired fund procurement methods in the initial growth stage (n=21)	Borrowings from private enterprise and other bodies (61.9%)	Venture capital or investment by investment partnerships, funds, etc. (61.9%)	Investment by individual investors (61.9%)	Borrowings from private enterprise, foundations and other bodies (57.1%)	Use of crowd funding (47.6%)
Desired fund procurement methods in the stability and expansion stage (n=14)	Venture capital or investment by investment partnerships, funds, etc. (78.6%)	Investment by individual investors (71.4%)	Borrowings from private enterprise and other bodies (71.4%)	Borrowings from private enterprise, foundations and other bodies (71.4%)	Use of crowd funding (64.3%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from high growth enterprises.
 2. The table shows the five items with the highest proportion of responses for each of the funding procurement methods that enterprises desired but could not use in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(4) Conditions on collateral/guarantees used when high growth enterprises received financing

Next, we look at the conditions that applied to collateral or guarantees when funding was procured through financing. Fig. 2-1-56 shows conditions by growth stage for the collateral or guarantees used when high growth enterprises procured funding through financing. The

figure shows that, in all the growth stages, the highest proportion selected “Guaranteed by representatives/executives” followed by “Guaranteed by credit guarantee corporations”. The percentages involved also show that half or more of all enterprises used their representatives or executives or a credit guarantee corporation to guarantee the financing.

Fig. 2-1-56 Conditions on the collateral/guarantees used by high growth enterprises receiving financing

	1st	2nd	3rd	4th	5th
Conditions on collateral/guarantees, etc. used in the establishment stage (n=85)	Guaranteed by representatives/executives (80.0%)	Guaranteed by credit guarantee corporations (50.6%)	Guaranteed by third parties (16.5%)	Real estate as collateral (16.5%)	Financing not guaranteed or secured (4.7%)
Conditions on collateral/guarantees, etc. used in the initial growth stage (n=113)	Guaranteed by representatives/executives (69.9%)	Guaranteed by credit guarantee corporations (60.2%)	Real estate as collateral (22.1%)	Financing not guaranteed or secured (11.5%)	Guaranteed by a surety company (10.6%)
Conditions on collateral/guarantees, etc. used in the stability and expansion stage (n=95)	Guaranteed by representatives/executives (69.5%)	Guaranteed by credit guarantee corporations (55.8%)	Real estate as collateral (23.2%)	Financing not guaranteed or secured (21.1%)	Guaranteed by a surety company (7.4%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from high growth enterprises.
 2. The table shows the five items with the highest proportion of responses for the conditions applicable to the collateral/guarantee that was or is being used in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(5) Conditions on the collateral/guarantees high growth enterprises wanted to use when receiving financing

Below, we look at the conditions that applied to collateral or guarantees that high growth enterprises wanted but were unable to use when funding was procured through financing (Fig. 2-1-57). In the establishment stage, the highest proportion went to “Guaranteed by representatives/executives” followed by “Financing not guaranteed or secured” and then “Guaranteed by credit guarantee corporations”. However, in the initial growth stage and the stability and expansion stage, the highest proportion of responses were for “Financing not guaranteed or secured” followed by “Receivables/credit as collateral” and then “Guaranteed by third parties”. From this, and

from looking at the collateral/guarantee conditions used to receive financing in Fig. 2-1-56 above, we can conclude that, because guarantees by representatives and executives, guarantees by credit guarantee corporations and the use of real estate as collateral are conditions of funding procurement in all the growth stages, it is likely that enterprises in the establishment stage wanted to procure funding with guarantees provided only by their representatives and/or executives. It also seems likely that, in the initial growth stage and the stability and expansion stage, many enterprises wanted to receive financing that was not guaranteed or secured or that was backed by collateral in the form of accounts receivable held by the enterprise or property such as inventory, machinery and equipment.

Fig. 2-1-57 Conditions on the collateral/guarantees high growth enterprises wanted to use when receiving financing

	1st	2nd	3rd	4th	5th
Conditions on collateral/guarantees, etc. desired in the establishment stage (n=23)	Guaranteed by representatives/executives (52.2%)	Financing not guaranteed or secured (43.5%)	Guaranteed by credit guarantee corporations (30.4%)	Guaranteed by third parties (26.1%)	Guaranteed by a surety company (21.7%)
Conditions on collateral/guarantees, etc. desired in the initial growth stage (n=14)	Financing not guaranteed or secured (57.1%)	Receivables/credit as collateral (28.6%)	Guaranteed by third parties (21.4%)	Guaranteed by representatives/executives (21.4%)	Guaranteed by a surety company (21.4%)
Conditions on collateral/guarantees, etc. desired in the stability and expansion stage (n=10)	Financing not guaranteed or secured (60.0%)	Receivables/credit as collateral (40.0%)	Guaranteed by third parties (40.0%)	Property as collateral (40.0%)	Guaranteed by credit guarantee corporations (55.8%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

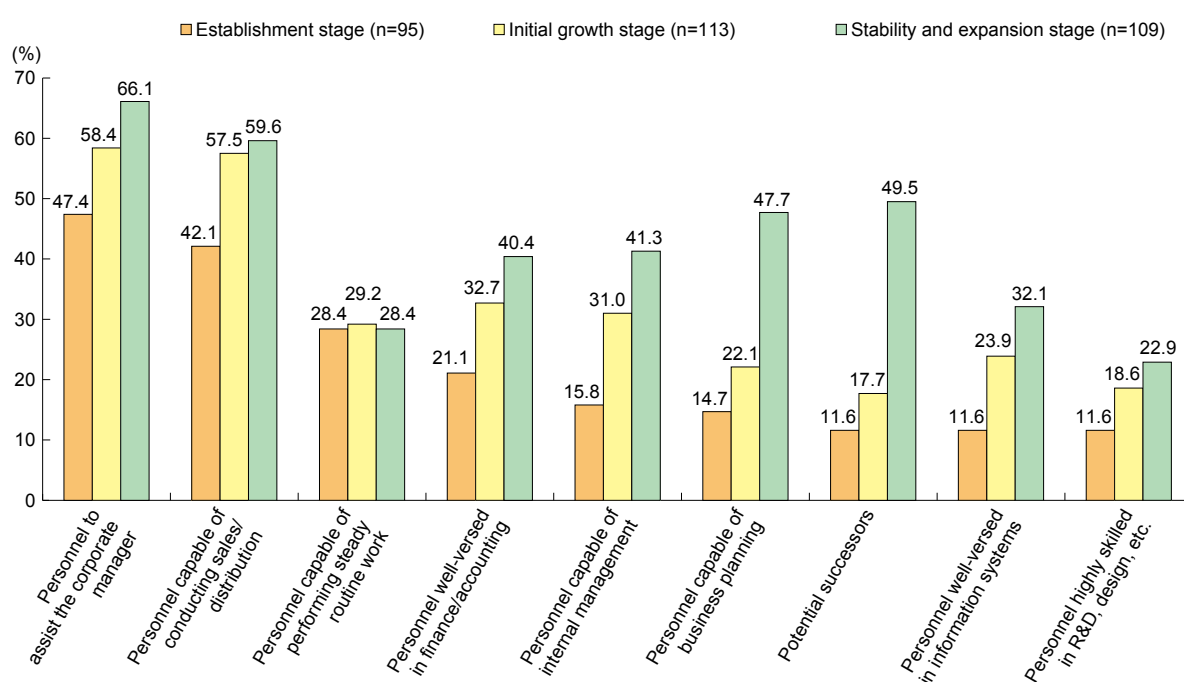
- Notes:
1. The table shows the totals for responses from high growth enterprises.
 2. The table shows the five items with the highest proportion of responses for the collateral/guarantee conditions that enterprises wanted but could not use or want but cannot use in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(6) In-house personnel required by high growth enterprises in each growth stage

Next, we consider the situation regarding steps taken to secure personnel in each of the growth stages. Fig. 2-1-58 shows the in-house personnel seen by high growth enterprises as necessary in each growth stage. The figure shows that “Personnel to assist the corporate manager” garnered the highest proportion of responses across all the growth stages, followed by “Personnel capable of conducting sales/distribution”. In terms of personnel

who varied according to growth stage, high proportions opted for “Personnel well-versed in finance/accounting” and “Personnel capable of internal management” in the initial growth stage, while “Potential successors” and “Personnel capable of business planning” were highly rated in the stability and expansion stage. The fact that the proportions of each of the in-house staff types needed increased as enterprises progressed through the growth stage shows that enterprises’ personnel requirements become more diverse as the enterprises grow.

Fig. 2-1-58 In-house personnel required by high growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

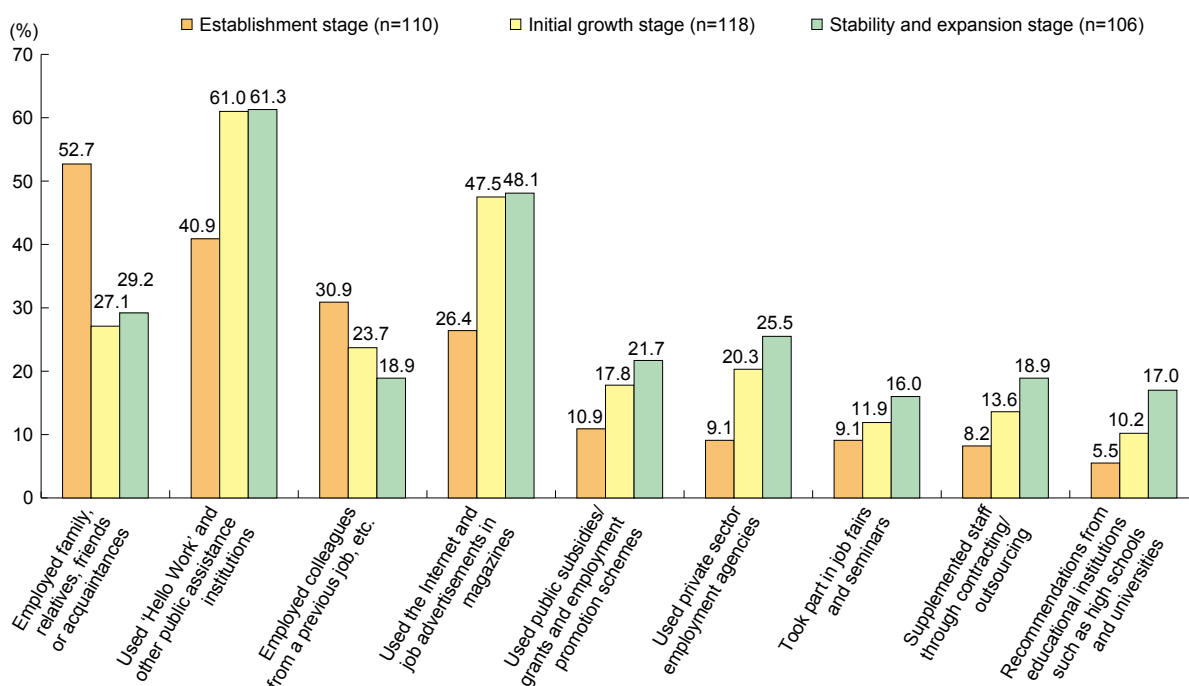
- Notes:
1. Totals are calculated for high growth enterprises who responded regarding in-house personnel that were or are necessary in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” category is presented here.

(7) Steps taken by high growth enterprises to secure personnel in each growth stage

If we also look at the methods used by high growth enterprises to acquire staff in each growth stage, the highest proportion in the establishment stage chose “Employed family, relatives, friends or acquaintances”, followed by “Used ‘Hello Work’ and other public assistance institutions” and “Employed colleagues from a previous job, etc.” (Fig. 2-1-59). In the initial growth stage and stability and expansion stage however, the highest proportions went to “Used ‘Hello Work’ and other public assistance institutions” followed by “Used the Internet and job advertisements in magazines”. When we look at the other personnel recruitment methods, particularly “Used private sector employment agencies” and “Used public subsidies/grants and employment promotion

schemes²³⁾”, the response rates for other approaches increase as enterprises progress through the growth stages. From these findings, we can see that high growth enterprises in the establishment stage mostly start out by staffing their businesses from among the people around them, namely their family, friends and colleagues and clients from their previous jobs. But, we saw previously in Fig 2-1-58, as the enterprises move into later growth stages, they increasingly need a more diverse workforce and so begin to access increasingly diverse recruitment methods. The approaches they used to try to secure a larger and more diverse workforce comprise public assistance institutions such as Hello Work, information distribution through various media channels, including the Internet and recruitment magazines, and using private sector employment agencies and job fairs.

Fig. 2-1-59 Steps taken by high growth enterprises to secure personnel in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for personnel recruitment methods that have been or are being employed by high growth enterprises in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” responses are presented here.

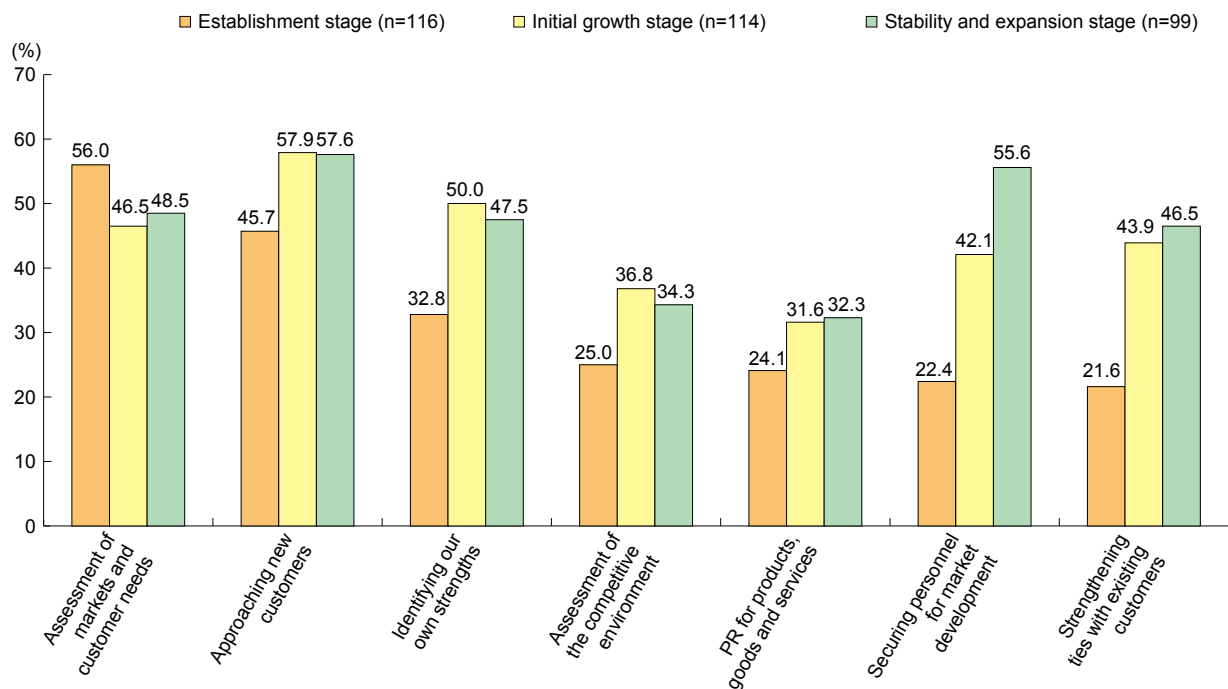
23) Here, “employment promotion schemes” refers to schemes whereby businesses that meet set criteria, such as having increased their number of employees by at least 5 persons (2 persons for SMEs) or by 10% or more during the relevant fiscal years, are able to apply tax credits to their corporate tax (income tax in the case of sole proprietorships).

(8) Issues with market development at each growth stage for high growth enterprises

Next, we look at the market development issues that confront high growth enterprises in each growth stage, as shown in Fig. 2-1-60. As the figure shows, “Assessment of markets and customer needs” attracted the highest proportion in the establishment stage, followed by “Approaching new customers” and “Identifying our own

strengths”. But in the initial growth stage and stability and expansion stage, the proportions for “Approaching new customers” and “Identifying our own strengths” are high and we can see that a rising proportion of respondents selected the “Securing personnel for market development” and “Strengthening ties with existing customers” as they progressed through the growth stages.

Fig. 2-1-60 Issues with market development at each growth stage for high growth enterprises



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

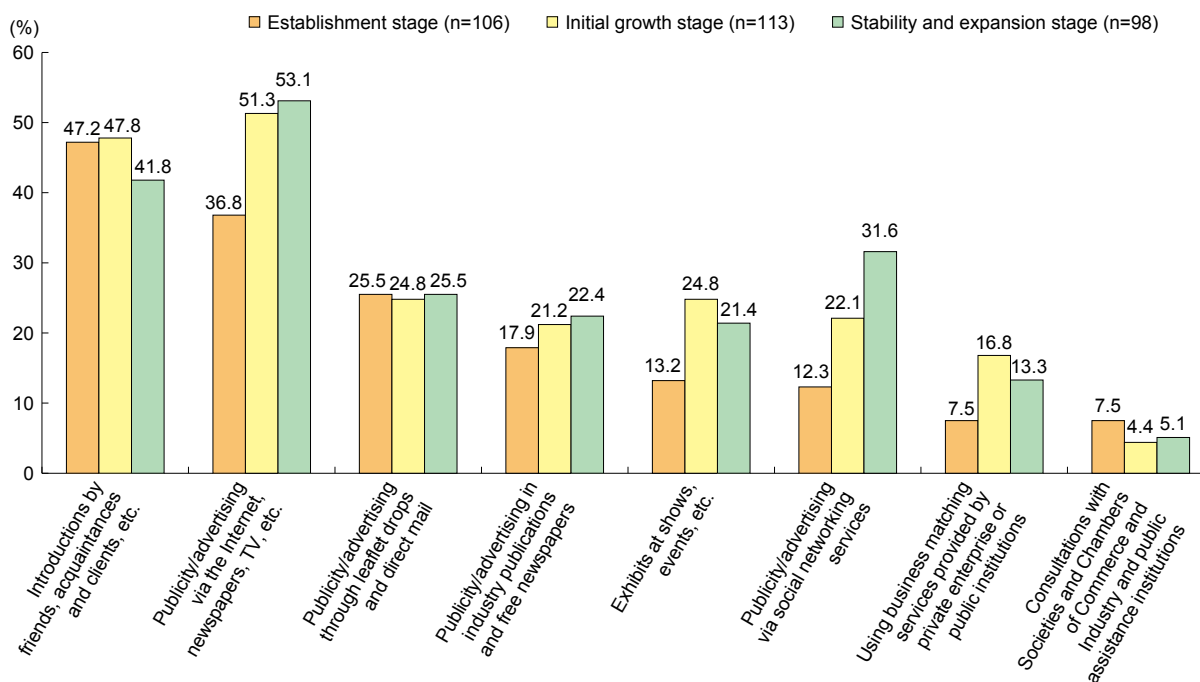
- Notes:
1. Totals are calculated for high growth enterprises who responded that they have had issues or are having issues with market development in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.

(9) Market development efforts by high growth enterprises in each growth stage

Below, Fig. 2-1-61 shows the methods used by high growth enterprises to develop their markets in each growth stage. The figure shows a high proportion for “Introductions by friends, acquaintances and clients, etc.” when the businesses started up. It also shows that as businesses progressed into the initial growth stage and stability and expansion stage, higher proportions opted for other approaches, particularly “Publicity/advertising via the Internet, newspapers, TV, etc.”

via the Internet, newspapers, TV, etc.” and “Publicity/advertising via social networking services”. These findings indicate that, in the immediate period during and after startup, high growth enterprises attract customers by following up on friends, acquaintances and other people close to them. But as they grow, enterprises pursue other methods of expanding their markets, primarily by using media such as the Internet, newspapers and TV to attract new customers, but also by using social networking services such as Twitter and Facebook.

Fig. 2-1-61 Market development efforts by high growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for market development methods that have been or are being employed by high growth enterprises in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” responses are presented here.

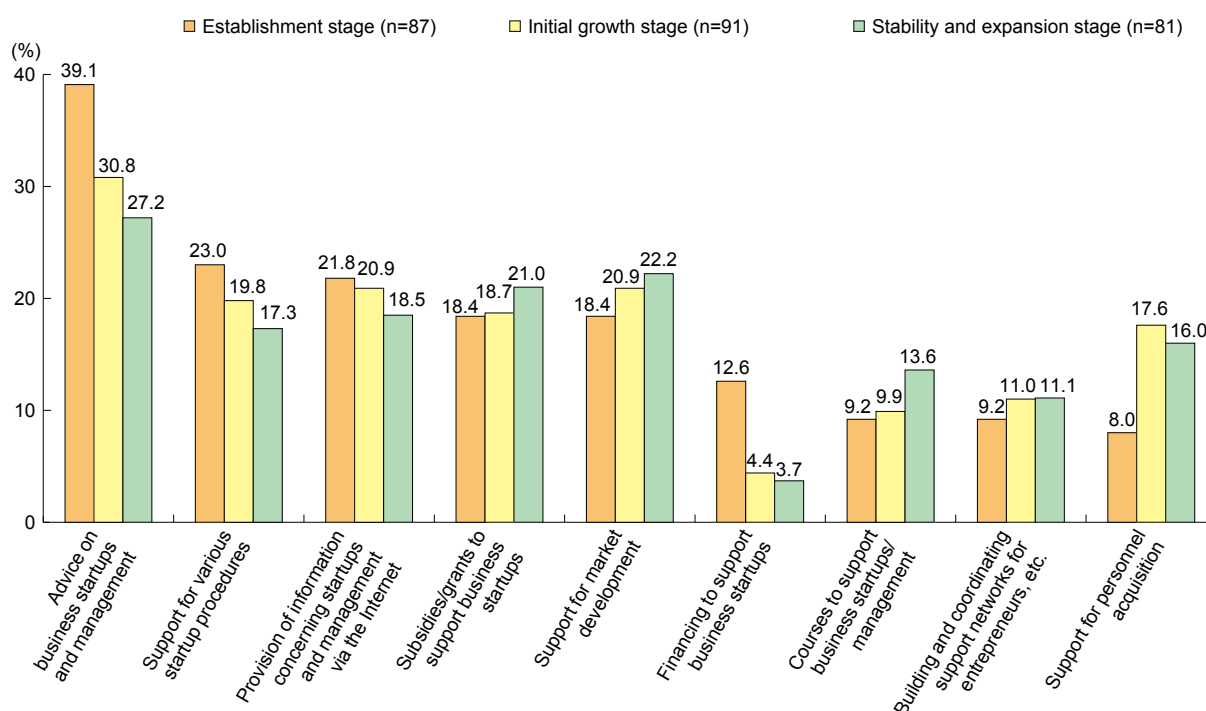
(10) Details of support policies used by high growth enterprises in each growth stage

Here, we will look at the support and other policy measures that high growth enterprises used in the different growth stages (Fig. 2-1-26). The figure shows that the policy with the highest proportion of responses in all the growth stages is “Advice on business startups and management”. The proportion using options such as “Advice on business startups and management”, “Support for various startup procedures”, “Provision of information concerning startups and management via the Internet” and “Financing to support business startups” declined as enterprises moved through the growth stages, whereas measures such as “Subsidies/grants to support business startups”, “Support for market development” and “Courses to support business startups/management” were used by an increasing proportion of the enterprises as they grew in size. Summarizing the above findings, high growth enterprises in the establishment phase immediately after startup seek out advice on business startups and management and also access support with business startup procedures such as approval processes and drawing up business plans. They also make use of

the startup-related funding on offer from private and governmental financial institutions. As they progress to the initial growth stage, enterprises use the Internet to collect information on business startups and management, particularly through management support sites such as Mirasapo, and also access support with personnel recruitment from human resource “banks” and job cafes. In addition, they use market development support services such as shows and Internet-based business matching, and take advantage of assistance such as public grants and subsidies from national and local governments.

Once businesses reach the stability and expansion stage, higher proportions use support policies in areas such as market development and the use of courses to support business management also accelerates, suggesting that businesses find dealing with management issues increasingly problematic as they grow in scale. So we see that the support policies used by high growth enterprises differ significantly depending the growth stage they are in, and that in order to achieve the growth they had envisioned, it is important that they make use of the appropriate support policies for each stage of their growth.

Fig. 2-1-62 Details of support policies used by high growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the nine items with the highest proportion of responses from high growth enterprises in the establishment stage.
 2. Total does not always equal 100% as multiple responses were possible.

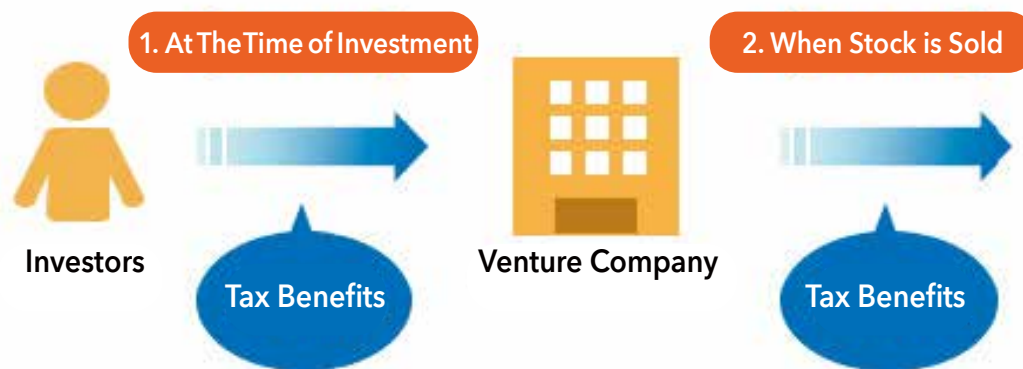
Column 2-1-7 Initiatives to support venture enterprises

In this column, we look at the support policies available to venture enterprises.

Angel tax system

Created in 1997 to promote investment in enterprises soon after they are started, Japan's angel tax system provides tax incentives to individual investors who invest in such enterprises. Specifically, the system allows individual investors who invested in a venture company to receive tax benefits both when they invest in and when they sell the stock. The same type of tax regime also applies to direct investment where funds are channeled through a civil law partnership or limited liability investment partnership.

Fig. Column 2-1-7 (1) Angel tax system schematic



1. Tax benefits

- Benefits receivable in the year of investment
 - Benefit A (for investment into enterprises less than three years old)**
A deduction from gross income.
(Amount of investment into target enterprise - ¥2,000) is deducted from gross income for that year.
(*The limit on the amount of investment subject to deduction is gross income × 40% or ¥10 million, whichever is lower)
 - Benefit B (for investment into enterprises less than 10 years old)**
A deduction from capital gains.
The amount invested into the enterprise is deducted from other capital gains for that year.
(*No limit on the amount of investment subject to deduction)
- Benefits available in the event of a loss from sale of stock
Aggregated with other profits on stock transfers (can be carried over for 3 years)

2. Application procedures

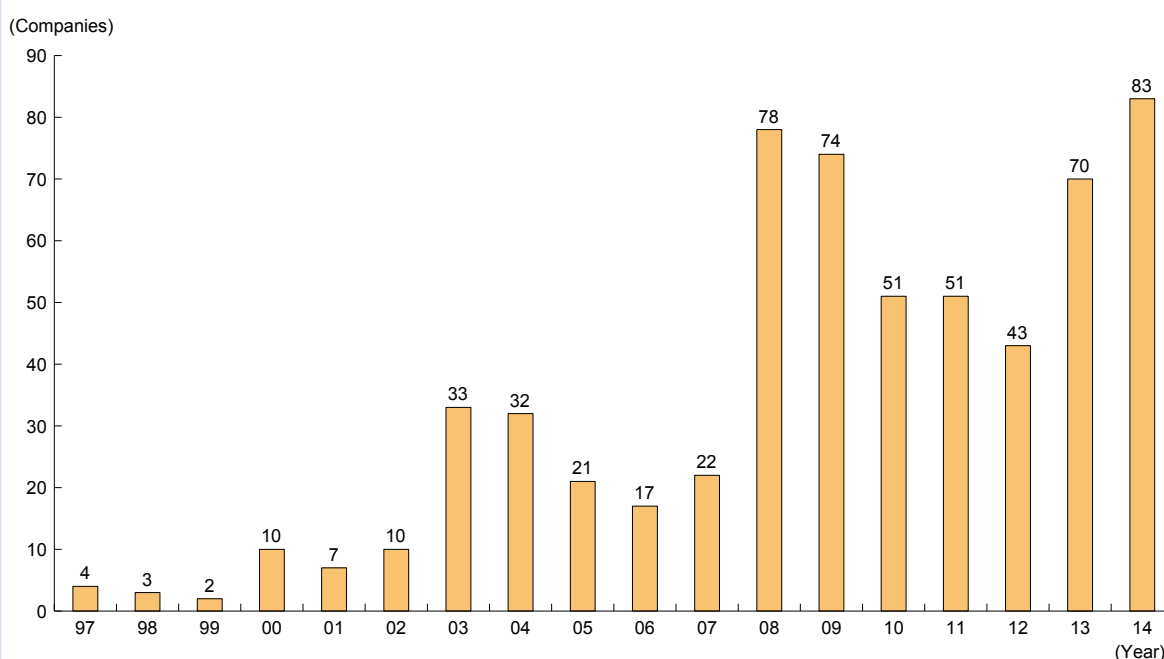
- (1) The enterprise receiving the investment issues a written confirmation, submits that document to the prefectural agency(*) and is granted a confirmation by the prefectural governor.
- (2) Enterprises receiving investment issue to individual investors' documentation needed to file tax returns.
- (3) Individual investors file their tax returns and receive tax benefits.

(*) With the enactment of the Fifth Omnibus Decentralization Act, application and consultation offices for the Angel tax system were relocated to the prefectures as of 1 April 2016. It is hoped that setting up the offices as prefectural agencies will make the system easier to access for applicants and those seeking advice and that by administering the system in conjunction with the support for business startups/venture businesses and SME policy being implemented by the prefectures, it will also ensure that the system is better tailored to actual regional conditions.

3. Outcomes

As shown in Fig. Column 2-1-7 (2), the number of companies using the Angel tax system trended upwards following system inception and peaked in FY2008 with the establishment of the tax deductions scheme before declining slightly. The government is therefore working to promote increased adoption of the Angel tax system by reducing the burden of procedures, creating pamphlets and websites and stepping up efforts to publicize the system, with the result that system use has trended upwards in the last few years.

Fig. Column 2-1-7 (2) Number of companies using the Angel tax system



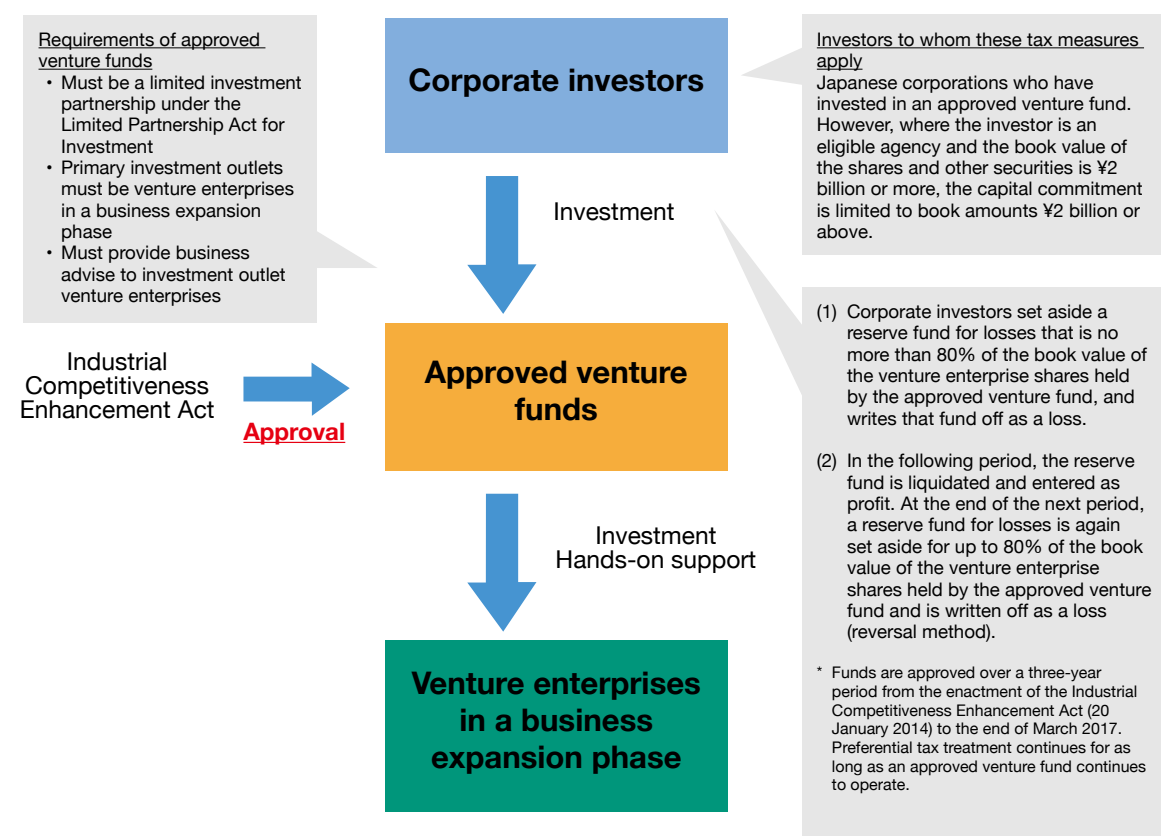
Source: Researched by METI.

[Taxation measures to promote venture investment in enterprises (Investment Loss Funding Reserve System for Newly Established Businesses)]

This system is designed to revitalize investment in venture enterprises that are in a business expansion phase by providing relief measures in the taxation system for companies (corporate investors) who have invested in approved venture funds where those investments are made via approved venture funds that have management support capability. Specifically, where a company invests in a venture enterprise via an approved venture fund, and where that fund primarily invests in venture enterprises in a business expansion phase and the fund's investment plan has been approved by the Minister for Economy, Trade and Industry under the Industrial Competitiveness Enhancement Act, the company can set aside a reserve fund for losses that is equal to no more than 80% of the book value of the venture enterprise shares held by the approved venture fund and can then include the reserved amount as a deductible expense (Fig. Column 2-1-7 (3)) (system prior to the FY2017 revisions to the taxation system).

As of the end of 2016, six funds had been approved by the Minister for Economy, Trade and Industry and this is expected to increase the supply of risk capital to venture enterprises via the approved venture funds.

Fig. Column 2-1-7 (3) Taxation schemes to promote venture investment in enterprises



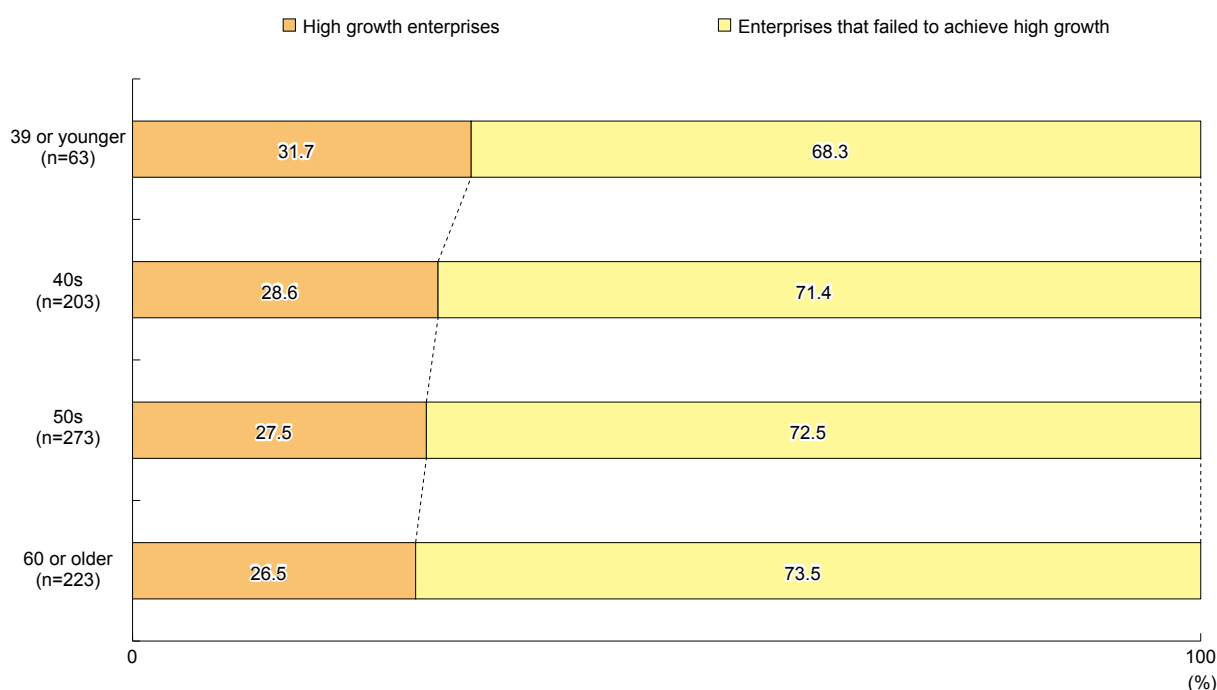
(11) Proportions of high growth enterprises and enterprises that failed to achieve high growth, according to manager age group

So, what differences can we observe between high growth enterprises and those enterprises who aimed for high growth, but failed to achieve it (hereinafter referred to as “enterprises that failed to achieve high growth”)? Below, we look how successful high growth enterprises

differed from enterprises that failed to achieve high growth in terms of their attributes and the efforts they made.

Firstly, Fig. 2-1-63 shows the proportions of high growth enterprises and enterprises that failed to achieve high growth according to the age groups of their managers. This shows that the proportion of enterprises that failed to achieve high growth tends to be lower when the managers are in the younger age groups.

Fig. 2-1-63 Proportions of high growth enterprises and enterprises that failed to achieve high growth by manager age group



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Next, we look at the differences between high growth enterprises and enterprises that failed to achieve high growth in terms of their efforts in the three areas of funding procurement, personnel recruitment and market development in each of the growth stages. We also compare the content of the support policies the two enterprise types utilized.

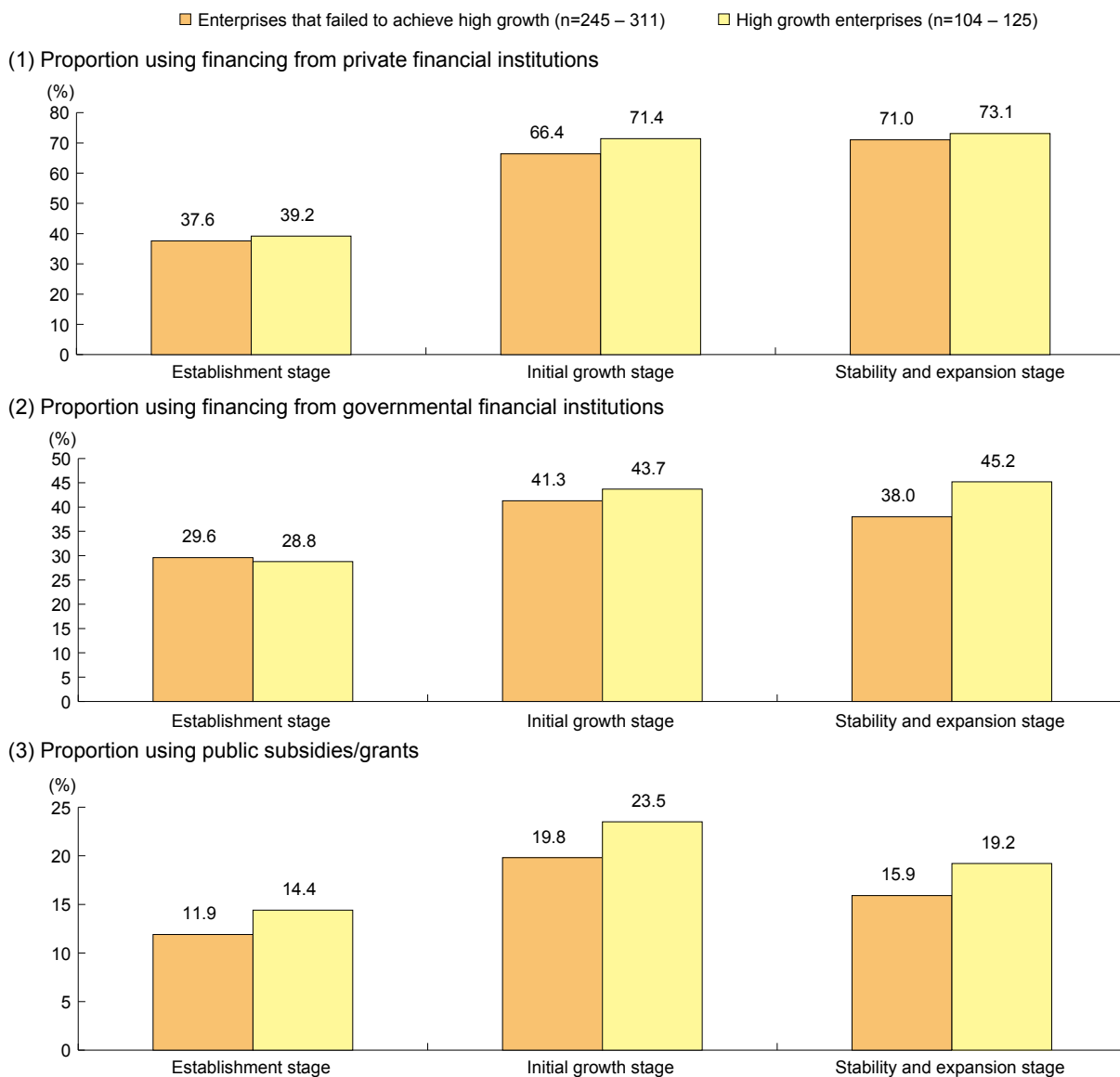
(12) Fund procurement methods used in each growth stage by high growth enterprises and by enterprises that failed to achieve high growth

First, we look at the efforts that high growth enterprises and enterprises that failed to achieve high growth made to procure funding in each growth stage (Fig. 2-1-64). This figure shows that, compared with enterprises that failed

to achieve high growth, fairly high proportions of high growth enterprises used funding raised from private and governmental financial institutions in the initial growth stage and the stability and expansion stage. We also see

a strong trend for high growth enterprises to consistently make use of public grants and subsidies other than financing from the establishment stage right through to the stability and expansion stage

Fig. 2-1-64 Fund procurement methods used in each growth stage by high growth enterprises and by enterprises that failed to achieve high growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

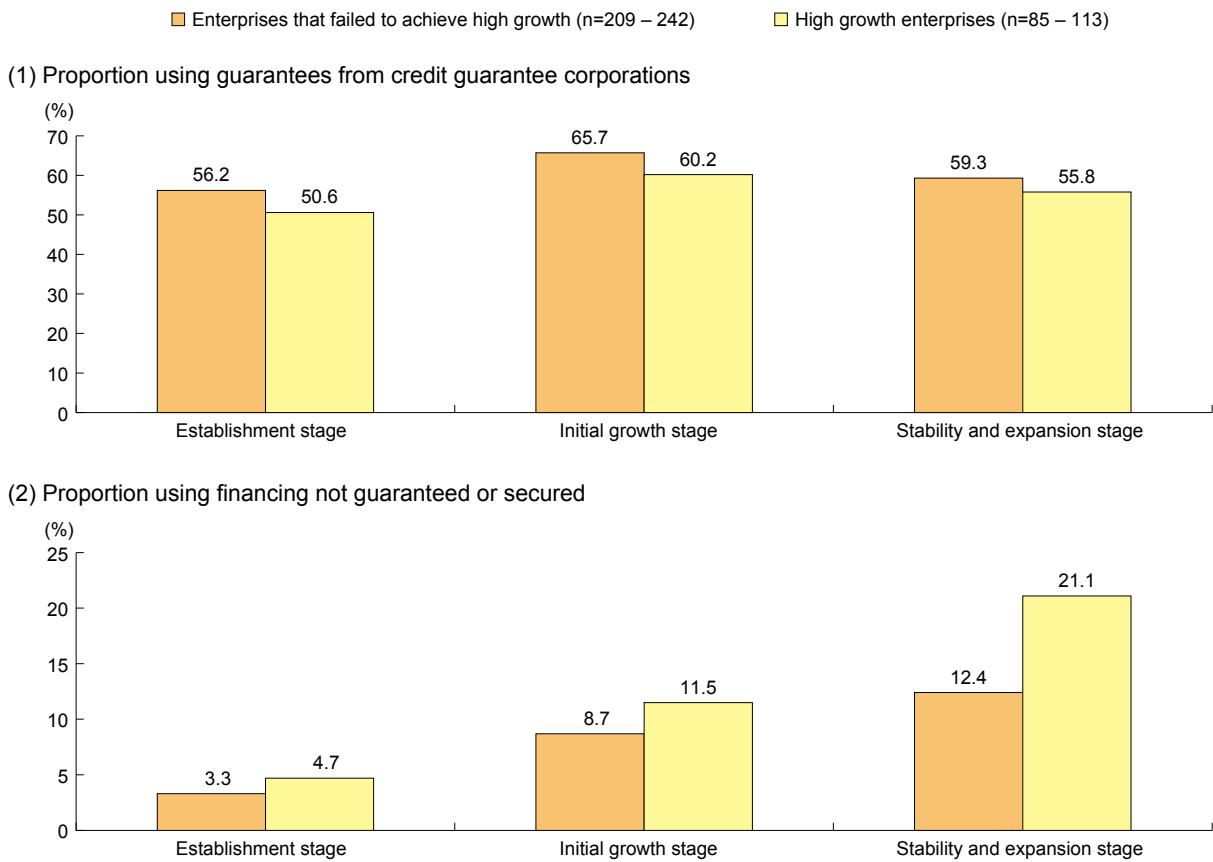
Note: Total does not always equal 100% as multiple responses were possible.

(13) Conditions on collateral/guarantees used when receiving financing by high growth enterprises and by enterprises that failed to achieve high growth

Next, we look at the conditions that applied to the collateral or guarantees used when funding was procured through financing and compare the usage proportions for high growth enterprises and enterprises that failed to achieve high growth (Fig. 2-1-65). The figure indicates that, compared with high growth enterprises, higher proportions of enterprises that failed to achieve high growth used the guarantees offered by credit guarantee corporations in all the growth stages. Conversely, the proportions of high growth enterprises who used financing that was not guaranteed or secured was high compared with

enterprises that failed to achieve high growth, particularly in the initial growth stage and stability and expansion stage. Also, as we saw in Fig. 2-1-56, in the establishment and initial growth stages, a high proportion of enterprises currently use conditions whereby the financing received is secured by representatives or executives, by credit guarantee corporations, or by collateral such as real estate. So it seems likely that in future, in order for more enterprises to have access to unsecured financing, they will need to have their future viability assessed by financial institutions, which means that the enterprises themselves will need to be able to clearly communicate their own strengths and issues, their business models and their future business prospects by formulating business plans and similar measures.

Fig. 2-1-65 Conditions on collateral/guarantees used when receiving financing by high growth enterprises and by enterprises that failed to achieve high growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

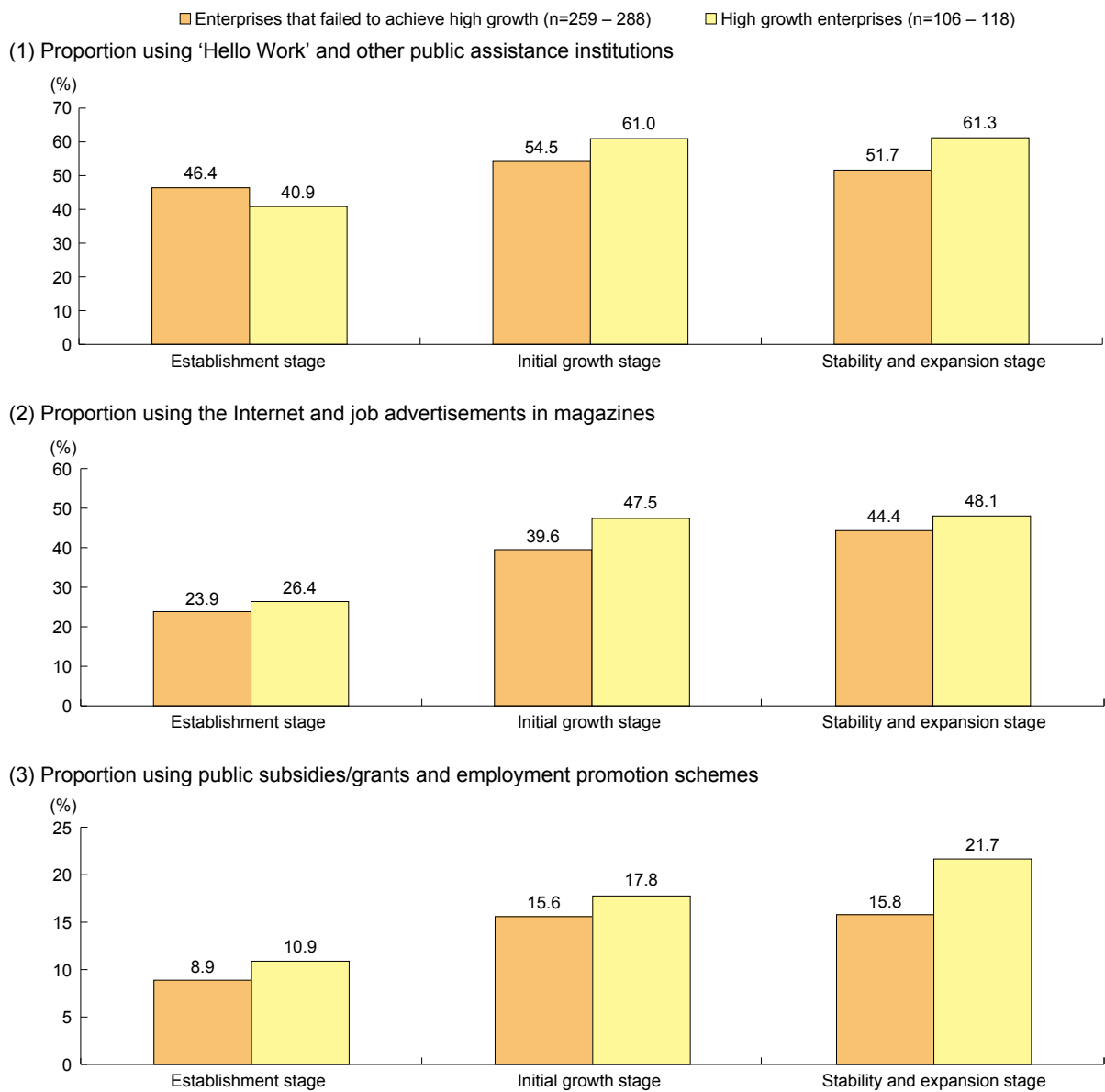
Note: Total does not always equal 100% as multiple responses were possible.

(14) Personnel recruitment initiatives adopted in each growth stage by high growth enterprises and by enterprises that failed to achieve high growth

Below, we look at the differences between high growth enterprises and enterprises that failed to achieve high growth in terms of their efforts to secure personnel in each growth stage (Fig. 2-1-66). The figure shows that,

compared with enterprises that failed to achieve high growth, high proportions of high growth enterprises recruited staff by using “‘Hello Work’ and other public assistance institutions”, “Internet and job advertisements in magazines” and “Public subsidies/grants and employment promotion schemes”, particularly in the initial growth stage and the stability and expansion stage.

Fig. 2-1-66 Personnel recruitment initiatives adopted in each growth stage by high growth enterprises and by enterprises that failed to achieve high growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

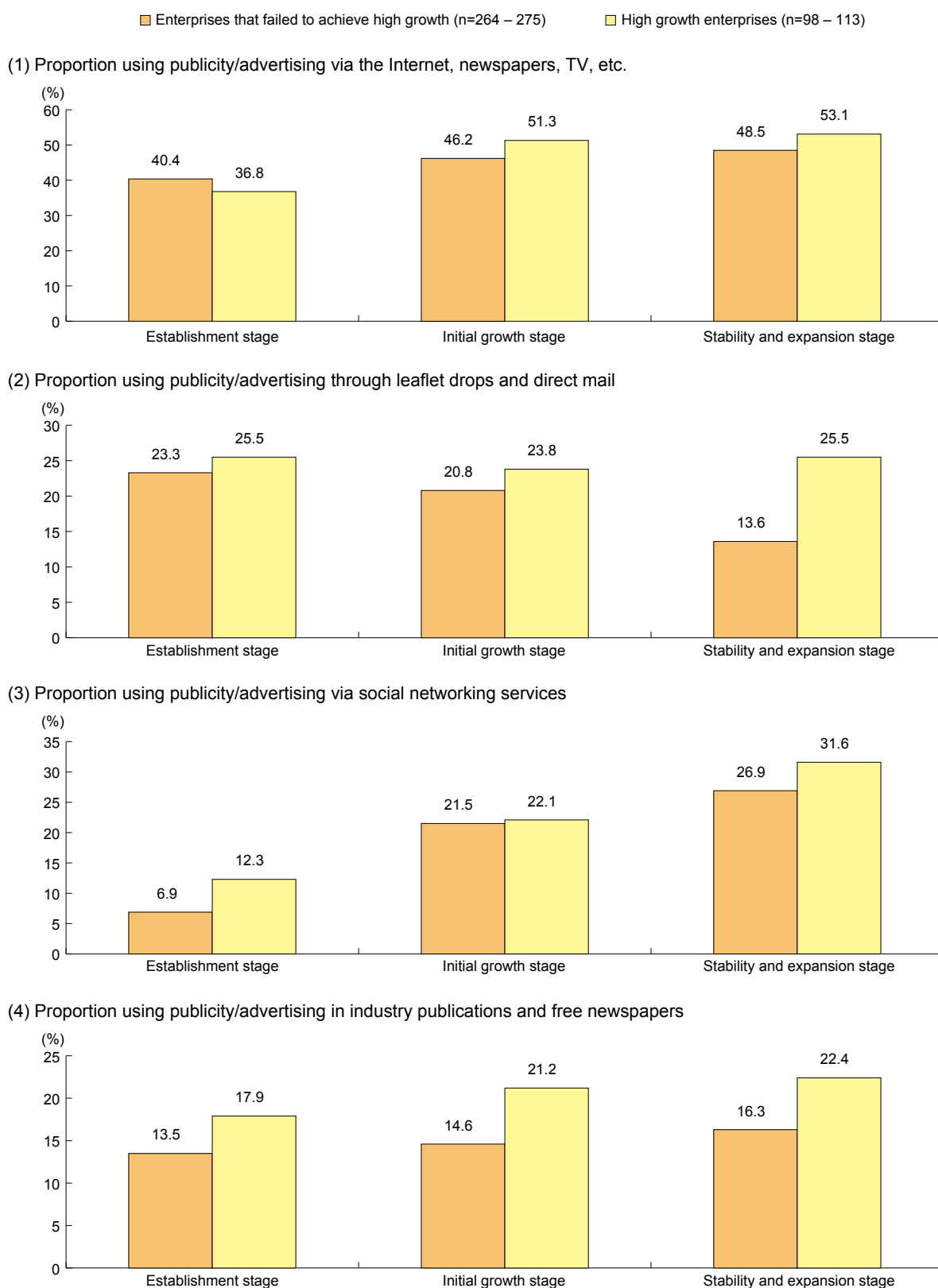
Note: Total does not always equal 100% as multiple responses were possible.

(15) Market development efforts made in each growth stage by high growth enterprises and by enterprises that failed to achieve high growth

Next, we we look at the differences between high growth enterprises and enterprises that failed to achieve high growth in terms of their efforts to develop and grow their markets in each growth stage (Fig. 2-1-67). The figure shows that in the initial growth stage and the stability and expansion stage, the proportion of high growth enterprises

who conducted publicity or advertising campaigns via the Internet, newspapers, TV or other media was high compared with enterprises that failed to achieve high growth. We can also see that, from the establishment stage right through to the stability and expansion stage, a consistently high proportion of high growth enterprises conducted publicity or advertising campaigns using leaflet drops, direct mail-outs, social networking services, industry publications or free newspapers.

Fig. 2-1-67 Market development efforts used in each growth stage by high growth enterprises and by enterprises that failed to achieve high growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

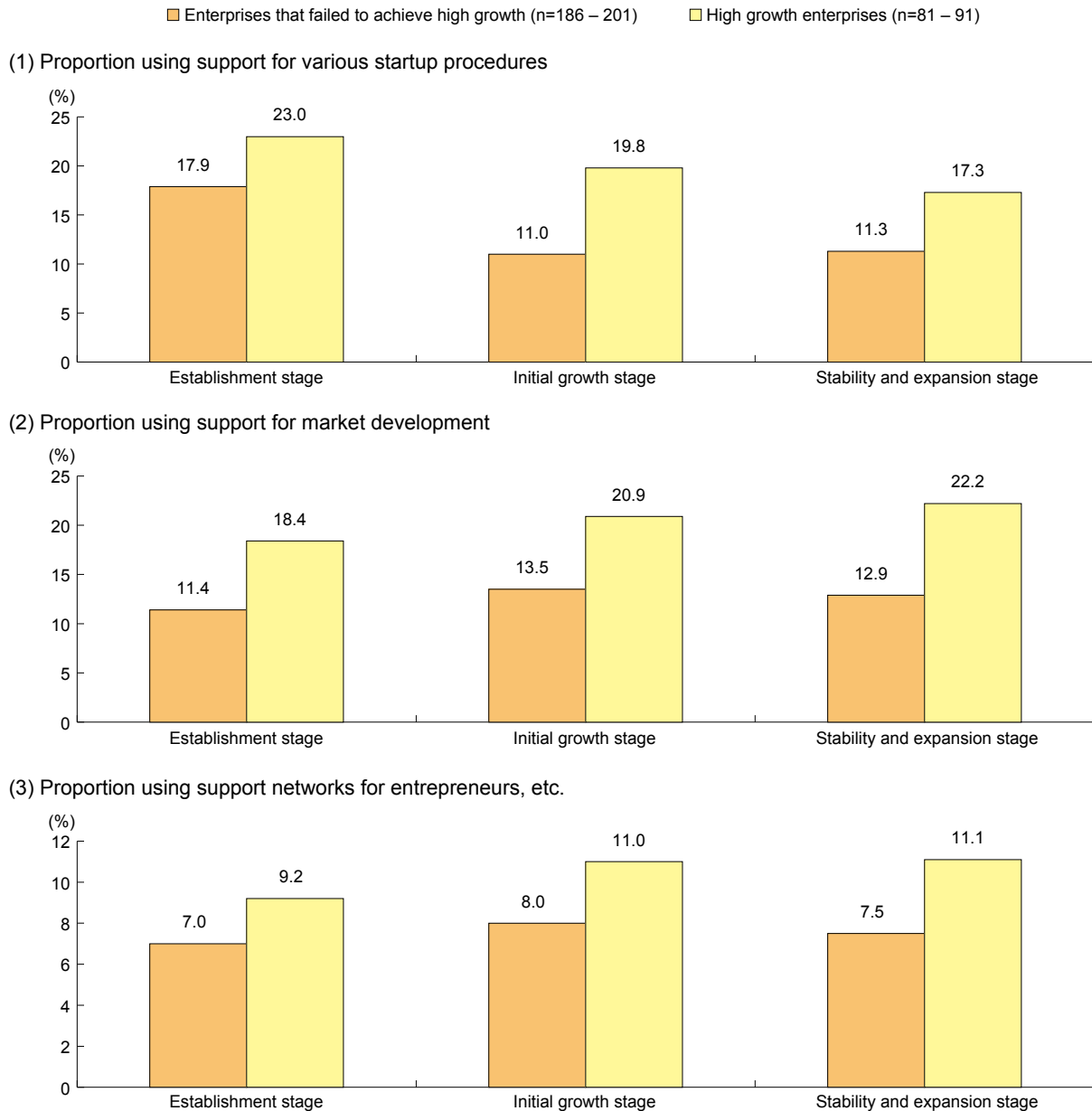
Note: Total does not always equal 100% as multiple responses were possible.

(16) Support policies used in each growth stage by high growth enterprises and by enterprises that failed to achieve high growth

Finally, we look at the differences in the content of the support policies used in each growth stage by high growth enterprises and enterprises that failed to achieve

high growth (Fig. 2-1-68). The figure reveals that high proportions of high growth enterprises use support for various business startup procedures, assistance with market development or support networks for entrepreneur in all the growth stages.

Fig. 2-1-68 Support policies used in each growth stage by high growth enterprises and by enterprises that failed to achieve high growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

In the preceding pages, we looked at the differences between high growth enterprises and enterprises that failed to achieve high growth in terms of their respective efforts in funding procurement, personnel recruitment and market development, and in terms of the support policies they used. The findings revealed that, compared with high growth enterprises, relatively low proportions of enterprises that failed to achieve high growth used public subsidies or grants and financing from private and governmental financial institutions, and in the stability and expansion stage they also made little or no recourse to unsecured financing. Coupled with this inability to readily procure outside funding is their failure to engage in a range of staff recruitment methods, particularly “Hello Work”, Internet-based recruiting and recruitment magazines in the initial growth stage. And in the market development sphere, whereas enterprises who achieved high growth conducted publicity and advertising campaigns using a range of media in their progress through the growth stages, including the Internet, social networking services, letterbox drops and industry newspapers, and also actively utilized market development support programs

such as exhibitions, business fairs and business matching services, enterprises that failed to achieve high growth were no more successful with these market development efforts or market development support programs than they were with their efforts to secure personnel. Enterprises that failed to achieve high growth were also relatively unable to use support with business startup procedures in comparison with high growth enterprises, particularly regarding assistance with corporate registration and approvals processes, drawing up business plans and completing grant applications, as well as post-startup assistance from entrepreneur support networks, such as exchanges with senior entrepreneur and managers. This suggests that this inability to use such support is one of the reasons why these enterprises were unable to achieve high growth.

These findings show that established enterprises aiming to become high growth enterprises need to procure funding through unsecured financing and must actively work to develop their markets if they are going to actually achieve high growth.

4. Issues and initiatives for stable growth enterprises by growth stage

Here, we examine the respective issues confronted and the circumstances of the efforts made in terms of fund procurement, securing personnel and market development by enterprises who succeeded in actually achieving stable growth, regardless of what growth type they envisioned as their target prior to business startup. We also look at their usage of measures such as support policies in each growth stage and, as with the high growth enterprises, at the differences between the efforts made by stable growth enterprises and those made by enterprises who aimed for stable growth but failed to achieve it.

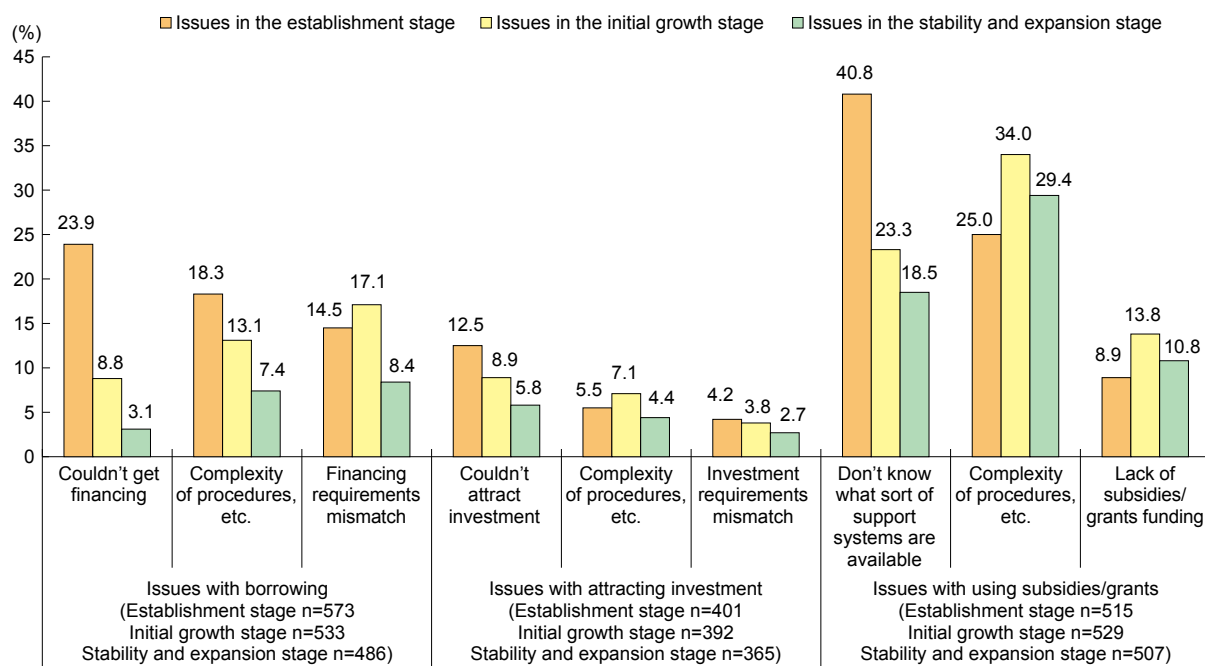
(1) Issues with fund procurement at each growth stage for stable growth enterprises

We begin by looking at the issues with funding procurement and the efforts made. Fig. 2-1-69 shows the issues faced by stable growth enterprises when procuring funds in each of the growth stages. The figure shows that, in terms of issues with borrowings, the highest proportion of respondents chose “Couldn’t get financing” in the establishment stage, whereas in the initial growth stage the response with the highest proportion was “Financing requirements mismatch” and in the stability and expansion stage it was “Complexity of procedures, etc.”. From this, we can see that the issue with borrowings in the establishment stage is the inability to obtain financing as the business at that point has no track record. But once enterprises move into the initial growth stage, there are many for whom the issue becomes the mismatch between the financing content and the financing conditions, namely the amount loaned, the interest rate, the repayment

period and the security or guarantee. In the stability and expansion stage, there are more enterprises for whom the issue is the complexity of the financing procedures, particularly preparing the necessary documentation and the time taken for screening.

If we look next at the issues around attracting investment, the response with the highest proportion in all the growth stages is “Couldn’t attract investment”. In the funding procurement issues shown in Fig. 2-1-53 above, we saw that more high growth enterprises in the stability and expansion stage opted for “Complexity of procedures, etc.” than “Couldn’t attract investment”. But the highest proportion of stable growth enterprises in the stability and expansion stage opted for “Couldn’t attract investment”, showing that attracting investment is a higher hurdle to overcome for stable growth enterprises than it is for high growth enterprises.

Finally, looking at issues with accessing subsidies and grants, the responses with the highest proportions are “Don’t know what sort of support systems are available” in the establishment stage, and “Complexity of procedures, etc.” in the initial growth stage and stability and expansion stage. This shows that many stable growth enterprises in the establishment stage are not aware of the available subsidies and grants and so are not able to take advantage of those offers. Enterprises in the initial growth stage and stability and expansion stage may be aware of the subsidies and grants, but the complexity of the application processes, particularly preparing business plans and other necessary documentation, probably prevents them from using those funding sources.

Fig. 2-1-69 Issues with fund procurement at each growth stage for stable growth enterprises

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for stable growth enterprises who responded that they have had issues or are having issues when procuring funding.
 2. "No particular issues" responses are not presented here.
 3. Total does not always equal 100% as multiple responses were possible.

(2) Fund procurement methods used by stable growth enterprises in each growth stage

Next, we look at the fund procurement methods used by stable growth enterprises in each growth stage, as shown in Fig. 2-1-70. The figure shows that “Self-funding by managers themselves” gained the highest proportion of responses in the establishment stage, followed by “Borrowings from family, relatives, friends or acquaintances” and then “Borrowings from private financial institutions”. In the initial growth stage and stability and expansion stage, the “Borrowings from private financial institutions” response attracted the highest proportions. Also, as enterprises progress through the growth stages, the proportions responding “Self-

funding by managers themselves” and “Borrowings from family, relatives, friends or acquaintances” decline, whereas the proportions choosing the “Borrowings from governmental financial institutions” response increase. These findings show that stable growth enterprises are raising funds in the establishment stage through self-funding by the managers themselves and by borrowing from people such as their family and friends, but as enterprises progress into the initial growth and stability and expansion stages, they are less likely to self-fund or to borrow from family and relatives, and an increasing number of enterprises turn to external funding sources such as financial institutions and public subsidies and grants.

Fig. 2-1-70 Fund procurement methods used by stable growth enterprises in each growth stage

	1st	2nd	3rd	4th	5th
Fund procurement methods used in the establishment stage (n=677)	Self-funding by managers themselves (82.3%)	Borrowings from family, relatives, friends or acquaintances (39.3%)	Borrowings from private financial institutions (39.3%)	Borrowings from governmental financial institutions (28.2%)	Use of public subsidies/grants (12.6%)
Fund procurement methods used in the initial growth stage (n=646)	Borrowings from private financial institutions (72.9%)	Self-funding by managers themselves (46.4%)	Borrowings from governmental financial institutions (40.9%)	Borrowings from family, relatives, friends or acquaintances (22.0%)	Use of public subsidies/grants (19.8%)
Fund procurement methods used in the stability and expansion stage (n=546)	Borrowings from private financial institutions (78.4%)	Borrowings from governmental financial institutions (42.6%)	Self-funding by managers themselves (40.2%)	Use of public subsidies/grants (22.9%)	Borrowings from family, relatives, friends or acquaintances (13.8%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from stable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for each funding procurement methods used or now using in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(3) Fund procurement methods desired by stable growth enterprises in each growth stage

Here, we look at the fund procurement methods that stable growth enterprises wanted to use but were unable to use by growth stage, as shown in Fig. 2-1-71. Looking at the figure, we see that the highest proportion of responses in the establishment stage is for “Borrowings from private financial institutions”, followed by “Borrowings from governmental financial institutions”. The highest proportion opted for “Use of public subsidies/grants” in the initial growth stage, and for responses such as “Venture capital or investment by investment partnerships, funds, etc.” or “Use of crowd funding” in the stability and expansion stage. If we compare these

findings with the fund-raising methods actually used, as shown earlier in Fig. 2-1-70, stable growth enterprises in the establishment stage have a strong need the capacity to borrow funds from financial institutions, but actually use sources such as self-funding by the managers themselves. Once they transition to the initial growth stage, they are able to access financing from financial institutions but new needs for public subsidies and grants increase. In the stability and expansion stage, enterprises would prefer to use various funding sources, such as venture capital, funding from individual investors and crowd funding, but in fact are unable to use investment and subsidies and are still procuring funding primarily through financing by financial institutions.

Fig. 2-1-71 Fund procurement methods stable growth enterprises wanted to use in each growth stage

	1st	2nd	3rd	4th	5th
Desired fund procurement methods in the establishment stage (n=179)	Borrowings from private financial institutions (45.3%)	Borrowings from governmental financial institutions (41.3%)	Use of public subsidies/grants (36.9%)	Venture capital or investment by investment partnerships, funds, etc. (34.6%)	Borrowings from private enterprise, foundations and other bodies (31.8%)
Desired fund procurement methods in the initial growth stage (n=126)	Use of public subsidies/grants (44.4%)	Borrowings from private enterprise, foundations and other bodies (43.7%)	Venture capital or investment by investment partnerships, funds, etc. (42.9%)	Investment by individual investors (39.7%)	Use of crowd funding (38.1%)
Desired fund procurement methods in the stability and expansion stage (n=110)	Venture capital or investment by investment partnerships, funds, etc. (44.5%)	Use of crowd funding (44.5%)	Use of public subsidies/grants (42.7%)	Borrowings from private enterprise, foundations and other bodies (40.0%)	Investment by individual investors (37.3%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from stable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for each of the funding procurement methods that enterprises desired but could not use in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(4) Conditions on collateral/guarantees used when stable growth enterprises received financing

Next, Fig. 2-1-72 shows the conditions that applied to collateral or guarantees that stable growth enterprises used when procuring funding through financing. The figure shows that the response selected by the highest proportion is “Guaranteed by representatives/executives” from the establishment stage right through to the stability and expansion stage, followed by “Guaranteed by credit guarantee corporations”. If we compare these findings with the conditions used when high growth enterprises received financing, as shown earlier in Fig. 2-1-56, a higher proportion of stable growth enterprises tend to opt

for “Guaranteed by a surety company” than is the case for high growth enterprises, but the proportion of stable growth enterprises selecting “Financing not guaranteed or secured” tends to be lower than among high growth enterprises. This suggests that, as with high growth enterprises, a high proportion of stable growth enterprises procure funding that is guaranteed by company representatives or executives or by credit guarantee corporations, and secure funding with real estate as the collateral. On the other hand, they tend to make less use of unsecured financing than is the case with high growth enterprises.

Fig. 2-1-72 Conditions on the collateral/guarantees used by stable growth enterprises receiving financing

	1st	2nd	3rd	4th	5th
Conditions on collateral/guarantees, etc. used in the establishment stage (n=475)	Guaranteed by representatives/executives (74.9%)	Guaranteed by credit guarantee corporations (54.7%)	Real estate as collateral (20.6%)	Guaranteed by third parties (9.9%)	Guaranteed by a surety company (5.7%)
Conditions on collateral/guarantees, etc. used in the initial growth stage (n=561)	Guaranteed by representatives/executives (69.5%)	Guaranteed by credit guarantee corporations (62.9%)	Real estate as collateral (21.0%)	Guaranteed by a surety company (9.6%)	Financing not guaranteed or secured (7.5%)
Conditions on collateral/guarantees, etc. used in the stability and expansion stage (n=521)	Guaranteed by representatives/executives (66.8%)	Guaranteed by credit guarantee corporations (57.4%)	Real estate as collateral (21.7%)	Financing not guaranteed or secured (16.7%)	Guaranteed by a surety company (7.7%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Notes: 1. The table shows the totals for responses from stable growth enterprises.

2. The table shows the five items with the highest proportion of responses for the conditions applicable to the collateral/guarantee that was or is being used in each growth stage.

3. Total does not always equal 100% as multiple responses were possible.

(5) Conditions on the collateral/guarantees stable growth enterprises wanted to use when receiving financing

Fig. 2-1-73 shows the results when stable growth enterprises were asked about the collateral or guarantee conditions they wanted to use when accessing financing in each growth stage but were not able to use. These findings show that the highest proportion chose “Financing not guaranteed or secured” in the establishment stage to all through the stability and expansion stage. In the initial growth stage and stability and expansion stage, “Receivables/credit as collateral” and “Real estate as

collateral” are also chosen. This shows that stable growth enterprises tend to prefer financing not guaranteed or secured consistently from the establishment stage to stability and expansion stage and in initial growth stage and stability and expansion stage, want to use receivables or credit they have or property like stock and manufacturing equipment as a collateral when receiving financing. Though in reality as mentioned before, usage rate of financing not guaranteed or secured is low and also financing using receivables/credit or property as a collateral is not widely used.

Fig. 2-1-73 Conditions on the collateral/guarantees that stable growth enterprises wanted to use when receiving financing

	1st	2nd	3rd	4th	5th
Conditions on collateral/guarantees, etc. desired in the establishment stage (n=107)	Financing not guaranteed or secured (48.6%)	Guaranteed by representatives/executives (44.9%)	Guaranteed by credit guarantee corporations (30.8%)	Guaranteed by third parties (28.0%)	Guaranteed by a surety company (24.3%)
Conditions on collateral/guarantees, etc. desired in the initial growth stage (n=76)	Financing not guaranteed or secured (65.8%)	Receivables/credit as collateral (34.2%)	Real estate as collateral (32.9%)	Property as collateral (32.9%)	Guaranteed by third parties (30.3%)
Conditions on collateral/guarantees, etc. desired in the stability and expansion stage (n=56)	Financing not guaranteed or secured (64.3%)	Receivables/credit as collateral (46.4%)	Property as collateral (39.3%)	Guaranteed by third parties (37.5%)	Real estate as collateral (37.5%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

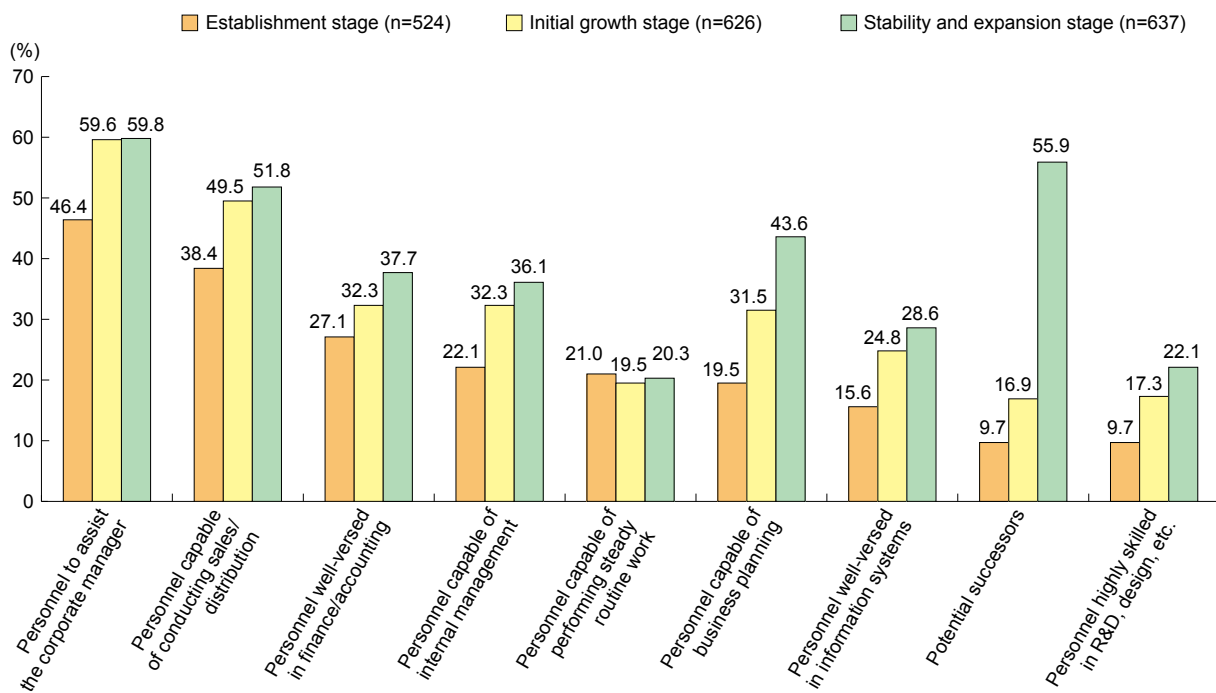
- Notes:
1. The table shows the totals for responses from stable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for the collateral/guarantee conditions that enterprises wanted but could not use or want but cannot use in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(6) In-house personnel required by stable growth enterprises in each growth stage

Below, we look at the situation regarding measures to recruit personnel. Fig. 2-1-74 shows the responses when stable growth enterprises were asked about their in-house personnel requirements in each growth stage. The figure shows that, in all the growth stages, the highest proportions of respondents selected “Personnel to assist the corporate manager”. We also see that all enterprises tend to have a growing need for in-house personnel as

they progress through the growth stages, with particularly high proportions selecting “Potential successors” and “Personnel capable of business planning” in the stability and expansion stage. This indicates that, as stable growth enterprises grow in size and maturity, issues surface around the future of the enterprises and their directions and approaches to expansion, with the apparent result that they feel a need to diversify their workforce by seeking out staff with skills in business planning and people who would be candidates as successors.

Fig. 2-1-74 In-house personnel required by stable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

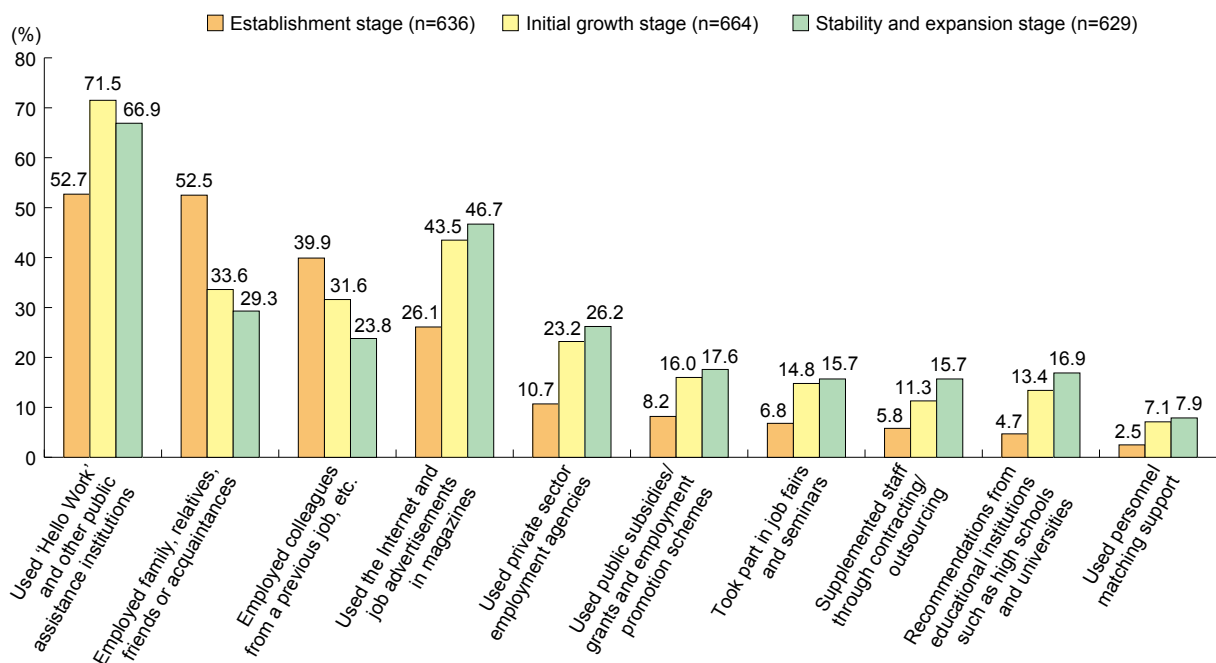
- Notes:
1. Totals are calculated for stable growth enterprises who responded regarding in-house personnel that were or are necessary in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” category is presented here.

(7) Steps taken by stable growth enterprises to secure personnel in each growth stage

Next, we look at the personnel recruitment methods employed by stable growth enterprises in each growth stage, as shown in Fig. 2-1-75. The figure shows that the response with the highest proportion across all the growth stages is “Used ‘Hello Work’ and other public assistance institutions”. We also see higher proportions for “Employed family, relatives, friends or acquaintances” and “Employed colleagues from a previous job, etc.” in the establishment stage than in the initial growth stage and stability and expansion stage, and that those proportions decline as

enterprises move through the growth stages. However, the proportions for some responses, particularly “Used ‘Hello Work’ and other public assistance institutions”, “Used the Internet and job advertisements in magazines” and “Used private sector employment agencies”, rise as enterprises move through the establishment stage, initial growth and stability and expansion stages. These findings indicate that stable growth enterprises, as they grow and mature, are increasingly likely to try to recruit more diverse staff through a range of methods, particularly “Hello Work”, the Internet and recruitment magazines.

Fig. 2-1-75 Steps taken by stable growth enterprises to secure personnel in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

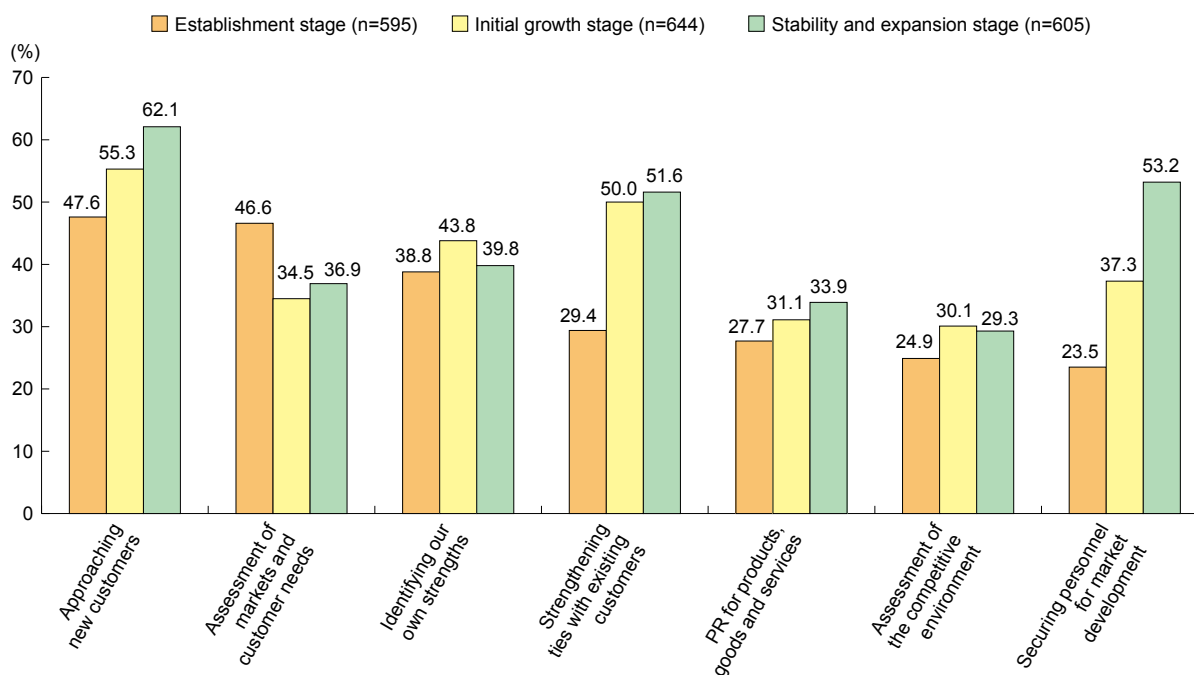
- Notes:
1. Totals are calculated for personnel recruitment methods that have been or are being employed by stable growth enterprises in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No "Other" responses are presented here.

(8) Issues with market development at each growth stage for stable growth enterprises

Here, we look at market development issues faced by stable growth enterprises in each of the growth stages and the status of their efforts to grow their markets. We begin by looking at the market development issues that stable growth enterprises confront in each growth stage, as shown in Fig. 2-1-76. The figure shows that the highest proportion opted for “Approaching new customers” in the establishment stage, followed by “Assessment of markets and customer needs” and then “Identifying our own strengths”. We also see that the proportions for the “Approaching new customers”, “Strengthening ties with existing customers”, “Securing personnel for market

development” and “PR for products, goods and services” responses increase as enterprises progress through the growth stages. The finding also suggest that stable growth enterprises may well have identified the needs of the market and of their customers at business startup and also identified their own strengths before going on to approach new customers. As enterprises reach the initial growth stage and the stability and expansion stage, it seems likely that they continue their efforts in approaching new customers and at the same time enhance their ties with their existing customer so as to boost the rate of repeat custom with those clients. They are also likely to recruit the staff they need to improve their market development capability.

Fig. 2-1-76 Issues with market development at each growth stage for stable growth enterprises



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

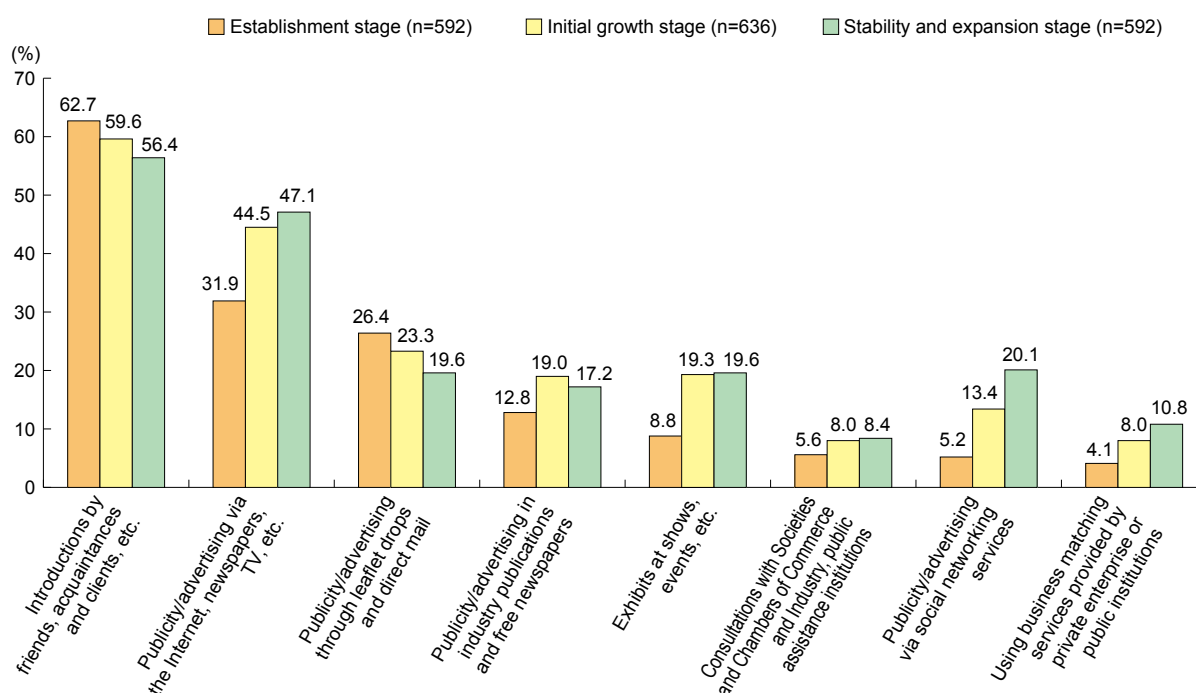
- Notes:
1. Totals are calculated for stable growth enterprises who responded that they have had issues or are having issues with market development in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.

(9) Market development efforts by stable growth enterprises in each growth stage

Below, Fig. 2-1-77 shows the methods used by stable growth enterprises to develop their markets in each growth stage. The figure shows that the highest proportion in all the growth stages was for “Introductions by friends, acquaintances and clients, etc.”. It also shows that as businesses progressed from the establishment stage through to the initial growth stage and stability and expansion stage, higher proportions opted for methods such as “Publicity/advertising via the Internet, newspapers, TV, etc.”, “Exhibits at shows, events, etc.” and “Publicity/advertising via social networking services”. And if we compare these findings with the market development efforts conducted by high growth enterprises, as seen earlier in Fig. 2-1-61, the option with the highest proportion among high growth enterprises changed from “Introductions by friends, acquaintances

and clients, etc.” to “Publicity/advertising via the Internet, newspapers, TV, etc.” as those enterprises moved through the growth stages. Stable growth enterprises, like high growth enterprises, also showed declining interest in “Introductions by friends, acquaintances and clients, etc.” but the proportions who selected other market development approaches, such as “Publicity/advertising via the Internet, newspapers, TV, etc.” and “Publicity/advertising via social networking services,” increased, while in the initial growth and stability and expansion stages, “Introductions by friends, acquaintances and clients, etc.” continued to retain the highest proportion. This shows that the primary method used consistently by stable growth enterprises from the establishment stage through to the stability and expansion stage is word-of-mouth recommendations and introductions and by friends, acquaintances and clients.

Fig. 2-1-77 Market development efforts by stable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

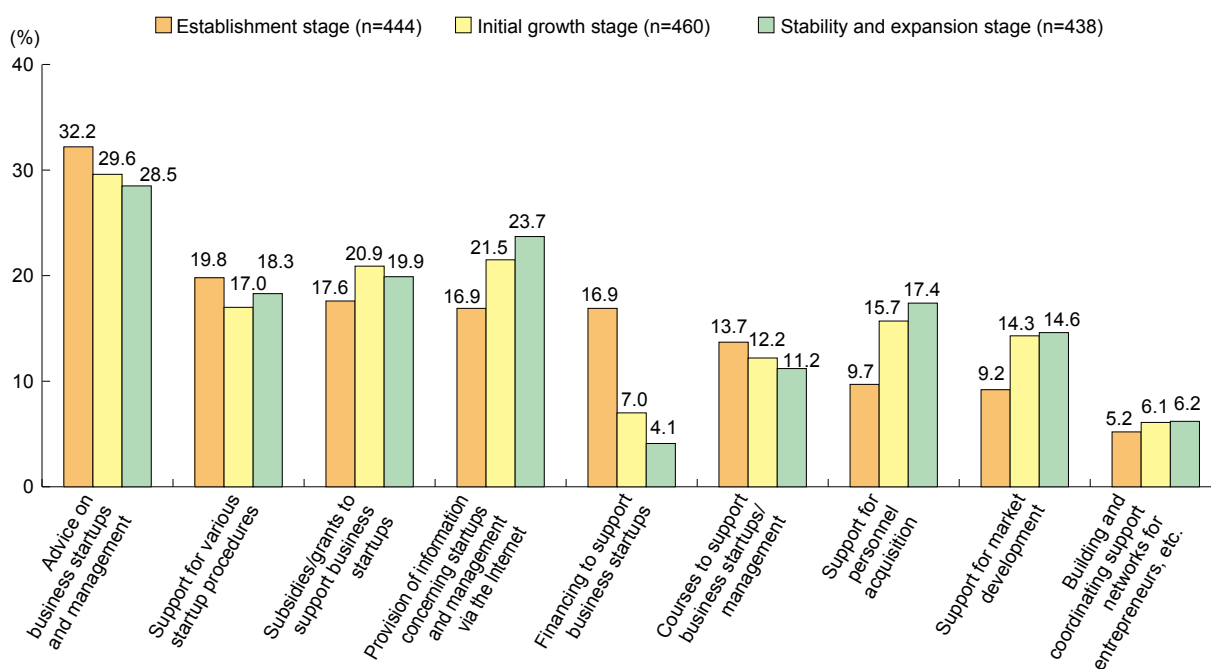
- Notes:
1. Totals are calculated for market development methods that have been or are being employed by stable growth enterprises in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” responses are presented here.

(10) Details of support policies used by stable growth enterprises in each growth stage

Finally, we look at the support and other policy measures that stable growth enterprises used in each of the growth stages (Fig. 2-1-78). The figure shows that the policy with the highest proportion of responses in all the growth stages is “Advice on business startups and management”. In the establishment stage, responses such as “Support for various startup procedures” and “Financing to support business startups” attracted higher proportions than in the initial growth and stability and expansion stages. In the initial growth stage, the proportions for “Provision of information concerning startups and management via the Internet”, “Subsidies/grants to support business startups”, “Support for personnel acquisition” and “Support for market development” were higher than in

the establishment stage. And in the stability and expansion stage, the proportions for measures other than “Advice on business startups and management”, “Financing to support business startups” and “Courses to support business startups/management” were generally higher than in the initial growth stage, indicating that enterprises in the stability and expansion stage are using many different support policies. This shows that stable growth enterprises, like high growth enterprises, use differing support policies as they progress through the growth stages and they use those policies to a greater extent. So, in order for enterprises to readily develop into stable growth enterprises after startup, it is probably important that they utilize the support policies that are appropriate for each respective growth stage.

Fig. 2-1-78 Details of support policies used by stable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

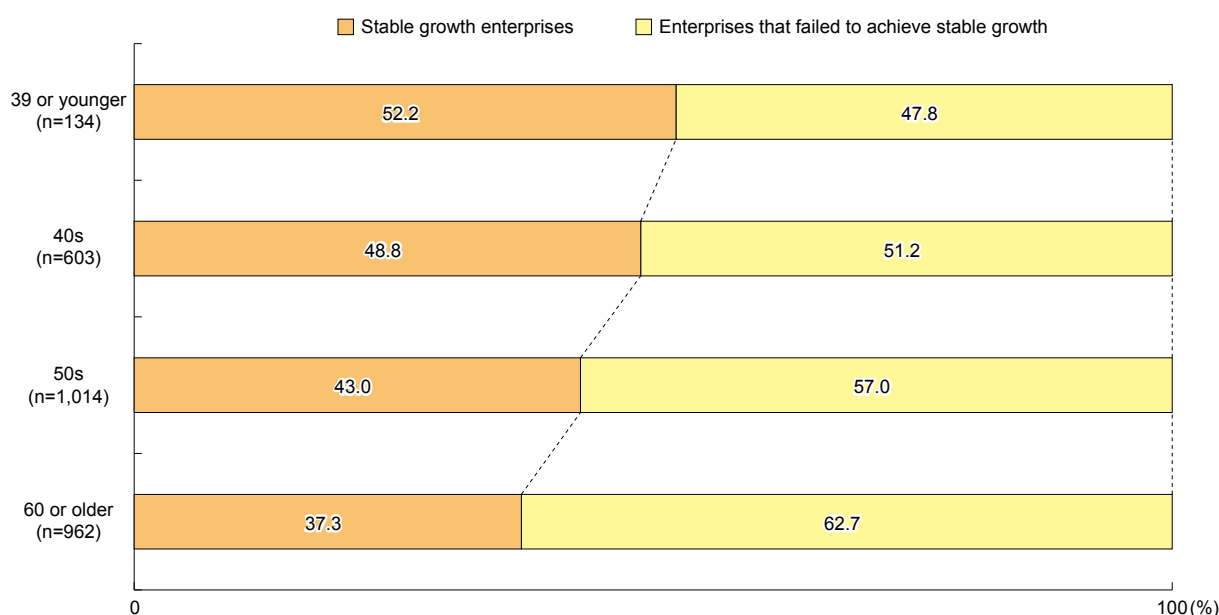
- Notes:
1. The chart shows the nine items with the highest proportion of responses from stable growth enterprises in the establishment stage.
 2. Total does not always equal 100% as multiple responses were possible.

(11) Proportions of stable growth enterprises and enterprises that failed to achieve stable growth, according to manager age group

Below, as we did for high growth enterprises, we focus on stable growth enterprises and enterprises that aimed to become stable growth enterprises but were unsuccessful in that regard (hereinafter referred to as “enterprises that failed to achieve stable growth”) and identify their

attributes and the meaningful efforts they made to become stable growth enterprises after startup. To begin with, Fig. 2-1-79 shows the proportions of stable growth enterprises and enterprises that failed to achieve stable growth, according to manager age group. The figure indicates that as manager age groups become younger, the proportion of enterprises that failed to achieve stable growth trends downwards.

Fig. 2-1-79 Proportions of stable growth enterprises and enterprises that failed to achieve stable growth by manager age group



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

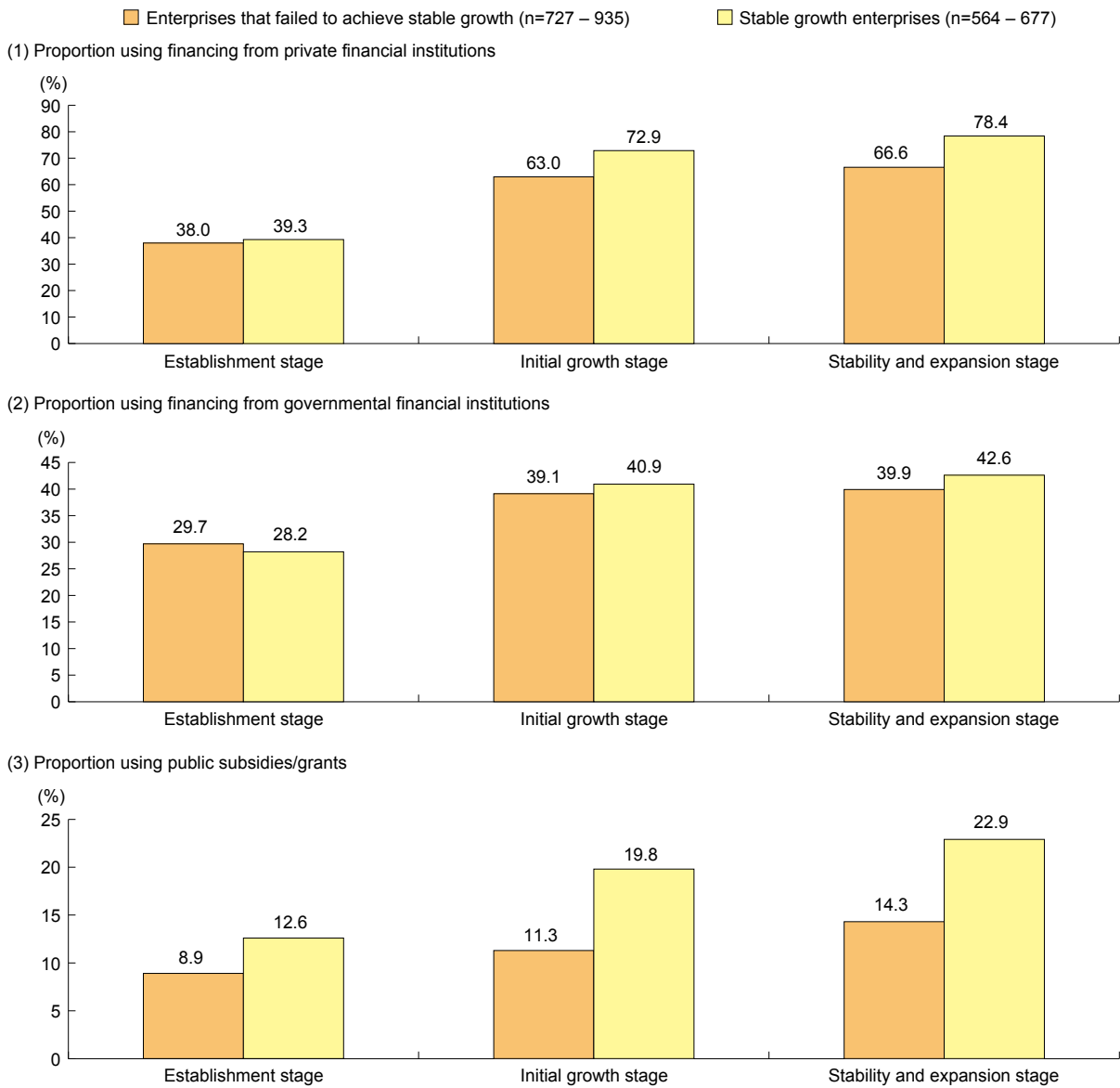
(12) Fund procurement methods used in each growth stage by stable growth enterprises and by enterprises that failed to achieve stable growth

Here, we look at the differences between stable growth enterprises and enterprises that failed to achieve stable growth in terms of the efforts they made in each growth stage, focusing in particular on the areas of funding procurement, personnel recruitment, market development and support policies.

We begin by looking at their efforts to procure funding

(Fig. 2-1-80). This figure shows that, compared with enterprises that failed to achieve stable growth, high proportions of stable growth enterprises used financing from private and governmental financial institutions in the initial growth stage and the stability and expansion stage. It also shows that, compared with enterprises that failed to achieve stable growth, a higher proportion of stable growth enterprises consistently made use of public grants and subsidies other than financing, and that this is true from the establishment stage right through to the stability and expansion stage.

Fig. 2-1-80 Fund procurement methods used in each growth stage by stable growth enterprises and by enterprises that failed to achieve stable growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

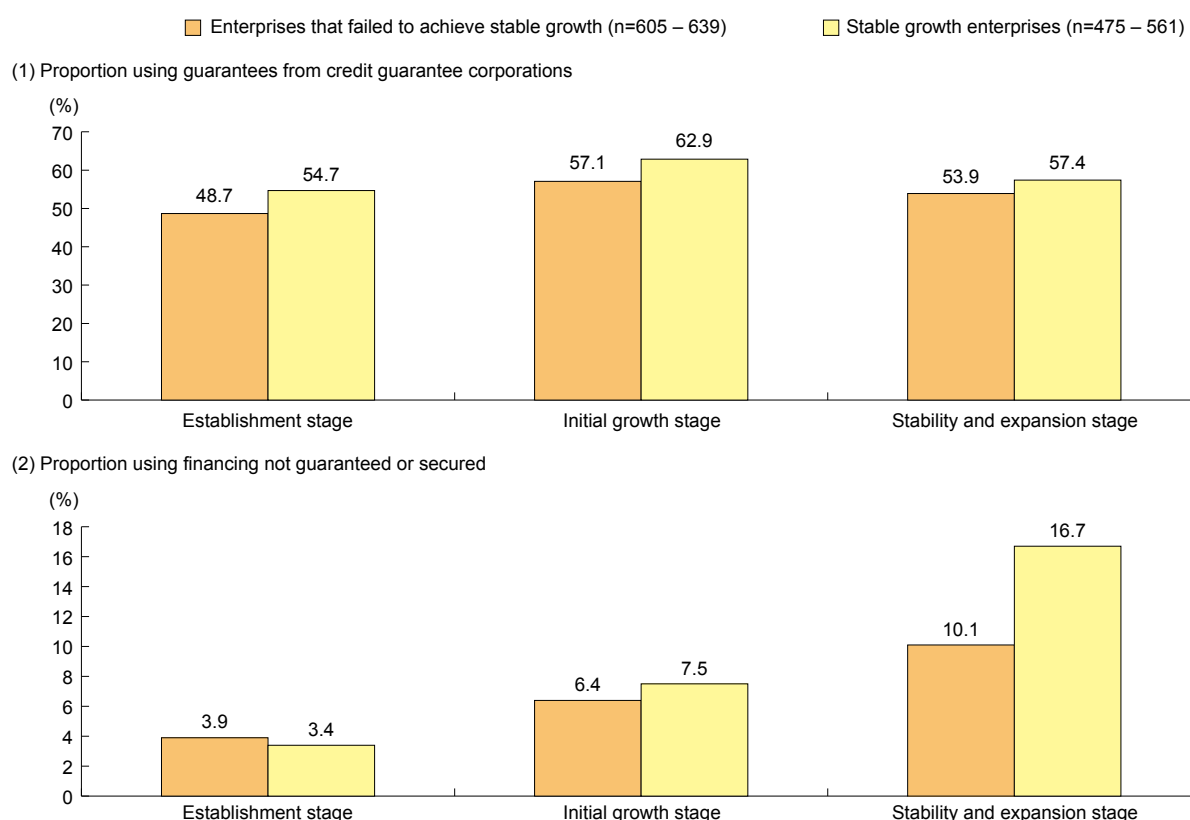
Note: Total does not always equal 100% as multiple responses were possible.

(13) Conditions on collateral/guarantees used when receiving financing by stable growth enterprises and by enterprises that failed to achieve stable growth

Next, Fig. 2-1-81 shows a comparison of stable growth enterprises and enterprises that failed to achieve stable growth in terms of the conditions that applied to the collateral or guarantees used when they procured funding through financing arrangements.

The figure shows that, compared with enterprises that failed to achieve stable growth, a higher proportion of stable growth enterprises used guarantees provided by credit guarantee corporations in each of the growth stages. It also shows that a higher proportion of stable growth enterprises used financing that was not guaranteed or secured than was true for enterprises that failed to achieve stable growth, particularly in the stability and expansion stage.

Fig. 2-1-81 Conditions on collateral/guarantees used when receiving financing by stable growth enterprises and by enterprises that failed to achieve stable growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

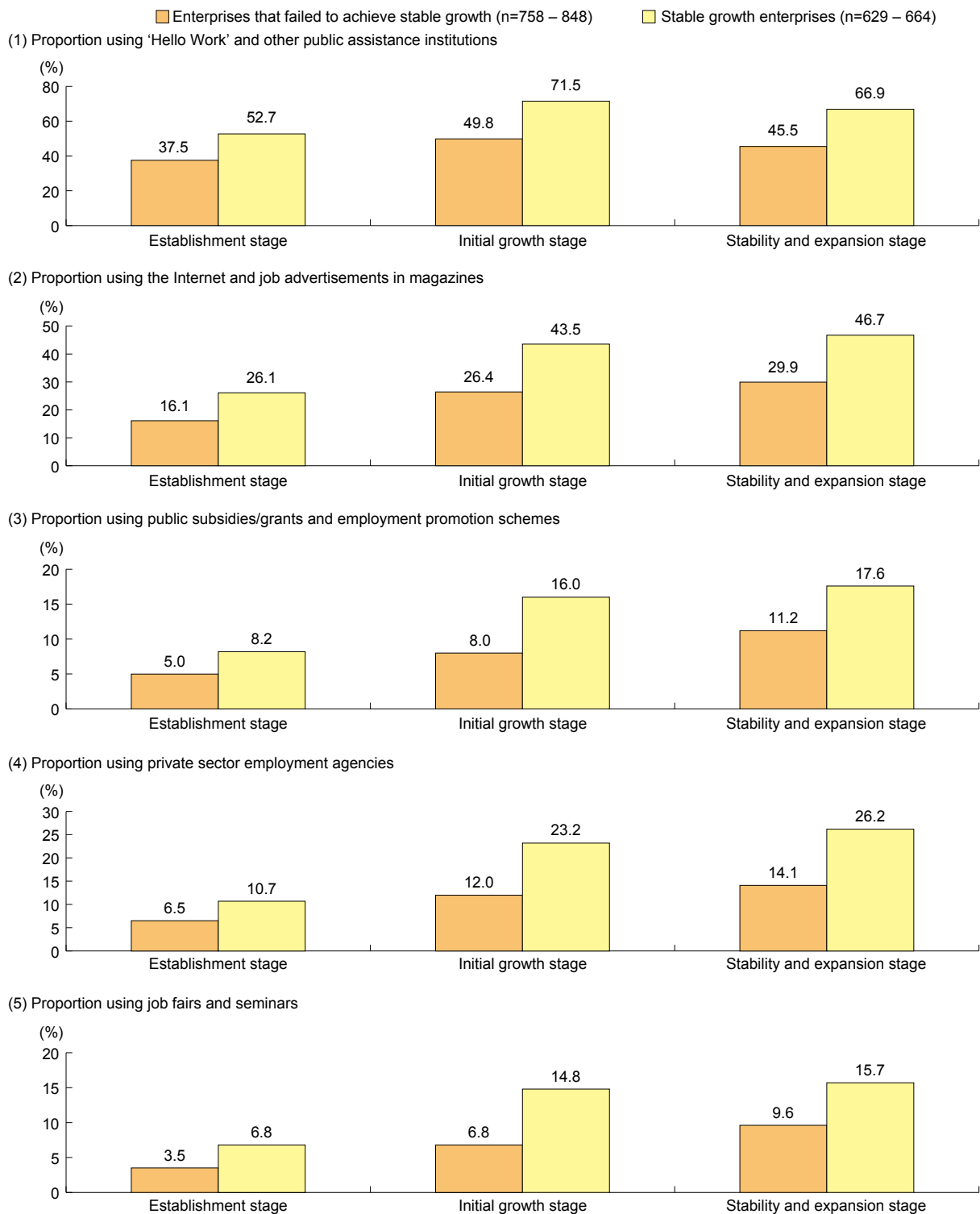
Note: Total does not always equal 100% as multiple responses were possible.

(14) Personnel recruitment initiatives adopted in each growth stage by stable growth enterprises and by enterprises that failed to achieve stable growth

Next, we look at the differences between stable growth enterprises and enterprises that failed to achieve stable growth in terms of their efforts to recruit personnel in each growth stage (Fig. 2-1-82). The figure shows that, compared with enterprises that failed to achieve stable growth, stable growth enterprises have consistently higher proportions for some personnel recruitment efforts from the establishment stage through to the stability and expansion stage. Specifically, these are “Used ‘Hello

Work’ and other public assistance institutions”, “Used the Internet and job advertisements in magazines”, “Used public subsidies/grants and employment promotion schemes”, “Used private sector employment agencies” and “Took part in job fairs and seminars”. The size of the gap between the enterprise types widens as they progress through the growth stages. And if we compare this data with the personnel recruitment efforts by high growth enterprises and enterprises that failed to achieve high growth shown earlier in Fig. 2-1-66, we see that in every growth stage, stable growth enterprises employed a more diverse range of methods to recruit staff than high growth enterprises.

Fig. 2-1-82 Personnel recruitment initiatives adopted in each growth stage by stable growth enterprises and by enterprises that failed to achieve stable growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

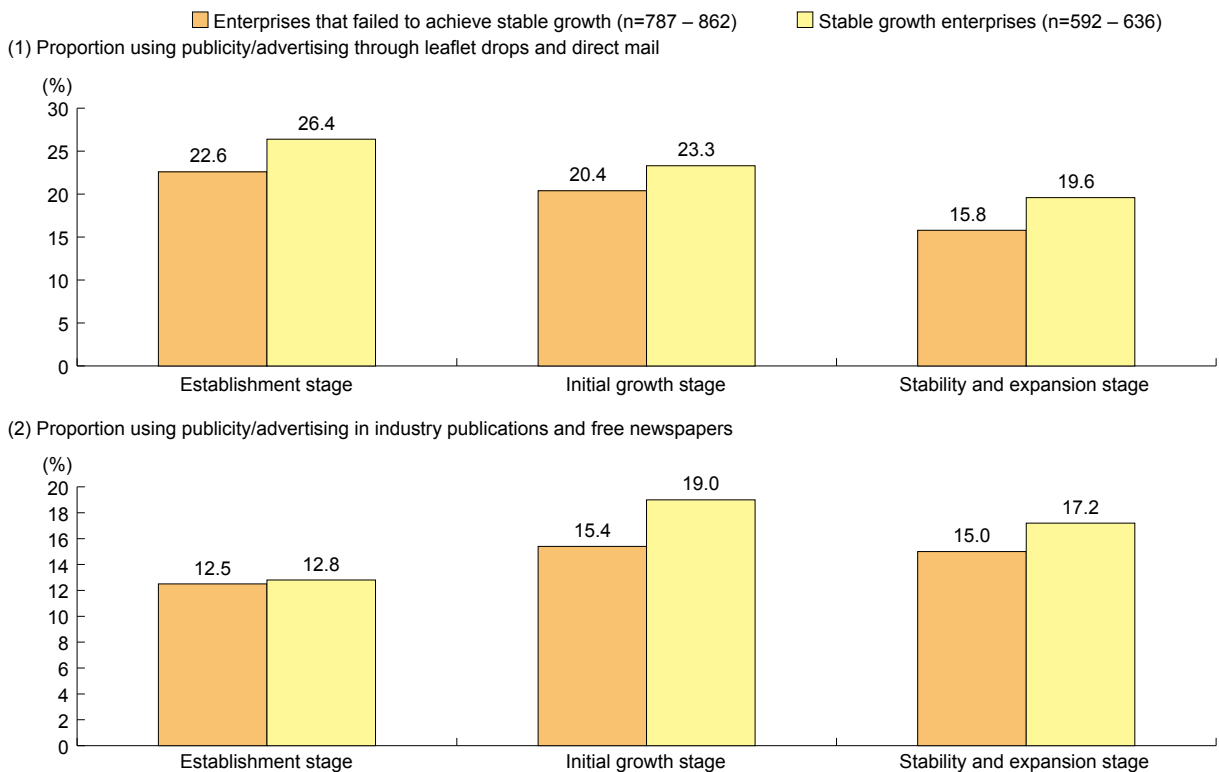
Note: Total does not always equal 100% as multiple responses were possible.

(15) Market development efforts made in each growth stage by stable growth enterprises and by enterprises that failed to achieve stable growth

Below, we look at the differences between stable growth enterprises and enterprises that failed to achieve stable growth in terms of their market development efforts in each growth stage, as shown in Fig. 2-1-83. The figure shows that the proportion of stable growth enterprises who

used leaflet drops and direct mail to grow their markets was consistently higher than for enterprises that failed to achieve stable growth in every growth stage. It also shows that, in the initial growth and stability and expansion stages, a higher proportion of stable growth enterprises used industry publications and free newspapers for market development than was the case for enterprises that failed to achieve stable growth.

Fig. 2-1-83 Market development efforts used in each growth stage by stable growth enterprises and by enterprises that failed to achieve stable growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

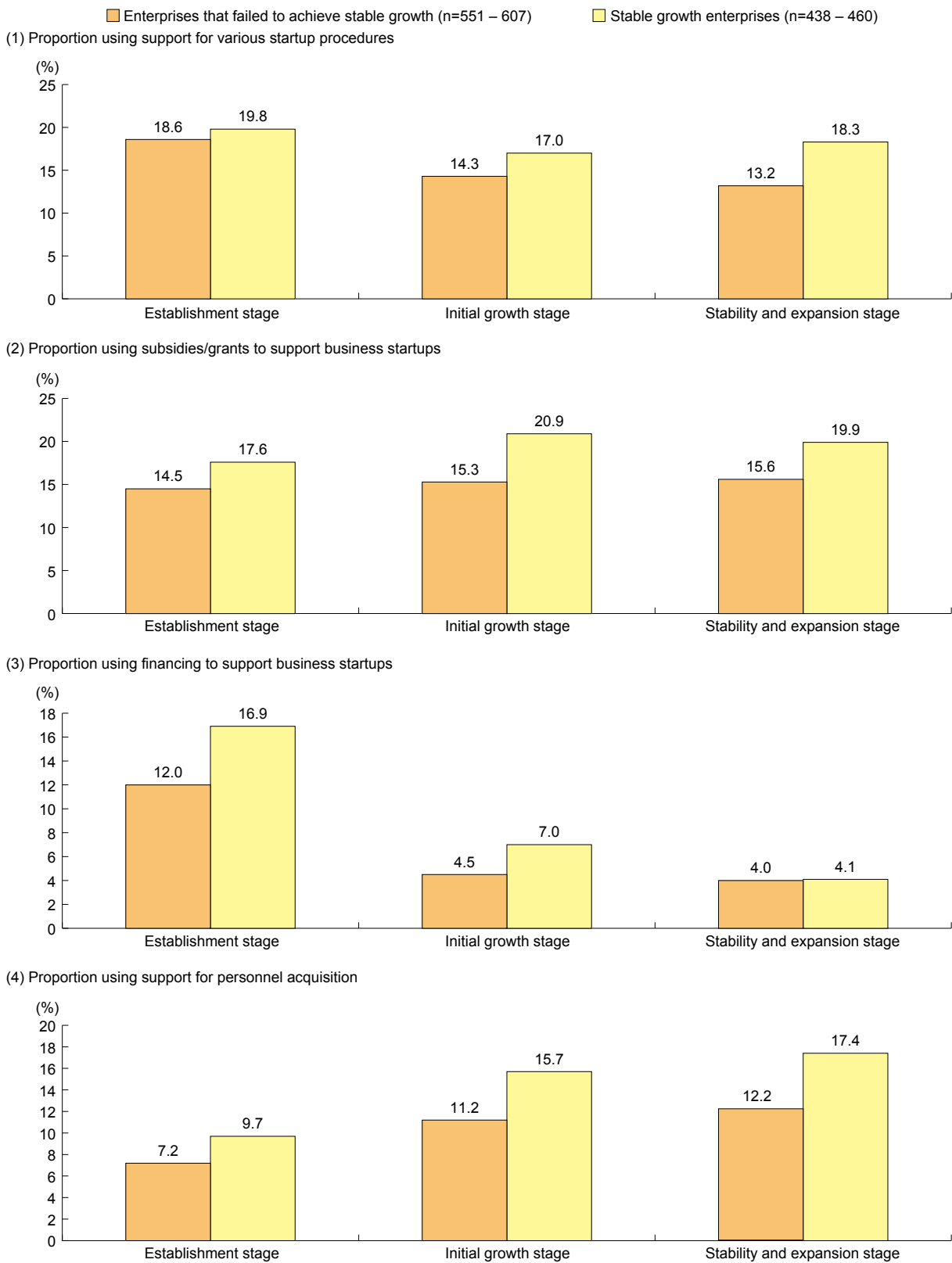
Note: Total does not always equal 100% as multiple responses were possible.

(16) Support policies used in each growth stage by stable growth enterprises and by enterprises that failed to achieve stable growth

Finally, we will compare the content of the support policies used in each growth stage by stable growth enterprises and enterprises that failed to achieve stable growth (Fig. 2-1-84). The figure shows that, starting with the establishment stage, a higher proportion of stable growth enterprises accessed the “Financing to support business startups” and “Subsidies/grants to support business startups” support policies compared with enterprises that failed to achieve stable growth. In

the initial growth stage, the proportion of stable growth enterprises is particularly high for the “Subsidies/grants to support business startups” and “Support for personnel acquisition” support policies. Finally, in the stability and expansion stage, stable growth enterprises show higher proportions than enterprises that failed to achieve stable growth for the “Support for personnel acquisition”, “Support for various startup procedures” and “Subsidies/grants to support business startups” support policies, showing that the content of the support policies used by stable growth enterprises differs in each growth stage.

Fig. 2-1-84 Support policies used in each growth stage by stable growth enterprises and by enterprises that failed to achieve stable growth



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

In the subsection above, we looked at the differences between stable growth enterprises and enterprises that failed to achieve stable growth in terms of their respective efforts in the areas of funding procurement, personnel recruitment and market development, and in terms of the support policies they used.

These findings indicate that, compared with enterprises that failed to achieve stable growth, those that did actually become stable growth enterprises did so by obtaining unsecured financing, primarily from private financial institutions, and by accessing subsidies and grants from national and local governments. They then used the surplus funds thus obtained to conduct ongoing market development from the establishment stage through to the stability and expansion stage through means such as leaflet drops and local free newspapers. In addition to their market development efforts, they also boosted their efforts to recruit personnel from the establishment stage

onwards using a range of approaches, including “Hello Work”, the Internet, recruitment magazines, private sector employment agencies and job fairs. The findings show that stable growth enterprises also tend to use a wide range of support policies from the establishment stage through to the stability and expansion stage, particularly where that support pertains to assistance with the procedures for business startups. By contrast, enterprises that aspired to stable growth at startup, but were not successful in attaining the growth they hoped for, failed because they were unable undertake these sorts of efforts. This suggests that enterprises that are established with the aim of achieving stable growth need to engage positively in efforts to develop markets, procure funding and, most particularly, recruit suitable personnel in each growth stage if they are going to grow as they would like after startup.

5. Issues and initiatives for sustainable growth enterprises by growth stage

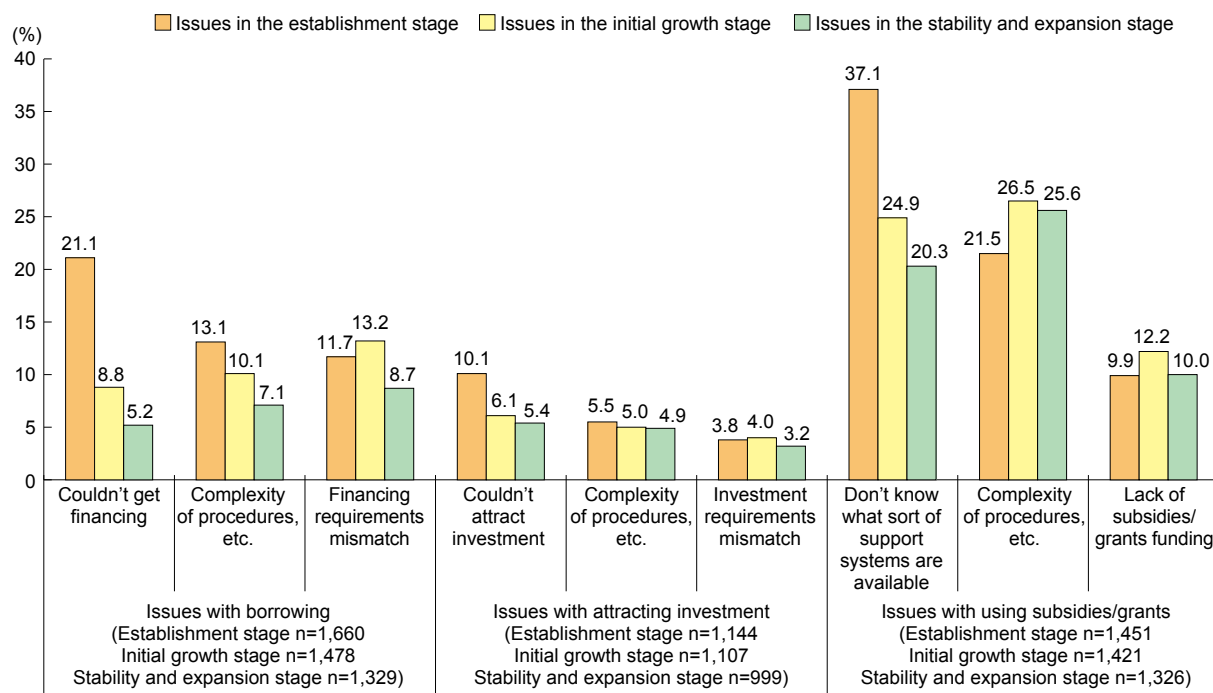
Finally, we will consider the respective issues confronted and the circumstances of the efforts made in each growth stage by sustainable growth enterprises with regard to fund procurement, personnel recruitment and market development. We also look at their usage of measures such as support policies in each growth stage.

(1) Issues with fund procurement at each growth stage for sustainable growth enterprises

We begin by focusing on funding procurement as an issue that established enterprises face in the establishment and initial growth stages and identify the funding procurement issues and the circumstances of the steps taken in each growth stage. Fig. 2-1-85 compares the different issues faced by sustainable growth enterprises when procuring funds, according to growth stage. Looking first at issues with borrowings, the highest proportion of respondents chose “Couldn’t get financing” in the establishment stage, whereas in the initial growth stage and the stability and expansion stage, the response with the highest proportion was “Financing requirements mismatch”, showing that the issues faced change as enterprises transition through the growth stages. If we then look at the issues around attracting investment, the

response with the highest proportion in all the growth stages is “Couldn’t attract investment”. Looking lastly at issues with using grants and subsidies, a high proportion of respondents in the establishment stage chose “Don’t know what sort of support systems are available”.

In the initial growth stage and stability and expansion stage, the highest proportions selected “Complexity of procedures, etc.”, which was also the funding procurement issue for stable growth enterprises shown earlier in Fig. 2-1-69. By contrast, we also see that, for sustainable growth enterprises, the proportion who responded “Don’t know what sort of support systems are available” did not decline in the initial growth stage and stability and expansion stage as it did for stable growth enterprises. Generally, this implies that there are many cases where enterprises in the establishment stage were unable to use subsidies or grants because they were unaware of their existence. However, in the case of sustainable growth enterprises, their awareness increases somewhat as they progress through the growth stages but is still lower than the level demonstrated by stable growth enterprises, suggesting that progress in increasing the take-up of subsidies and grants may be difficult.

Fig. 2-1-85 Issues with fund procurement at each growth stage for sustainable growth enterprises

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for sustainable growth enterprises who responded that they have had issues or are having issues when procuring funding.
 2. "No particular issues" responses are not presented here.
 3. Total does not always equal 100% as multiple responses were possible.

(2) Fund procurement methods used by sustainable growth enterprises in each growth stage

Below, we look at the fund procurement methods used by sustainable growth enterprises in each growth stage, as shown in Fig. 2-1-86. The figure shows that initially, “Self-funding by managers themselves” gained the highest proportion of responses in the establishment stage, followed by “Borrowings from private financial institutions” and then “Borrowings from family, relatives, friends or acquaintances”. In the subsequent initial growth and stability and expansion stages, the highest proportion goes to “Borrowings from private financial institutions”, followed by “Self-funding by managers themselves” and then “Borrowings from governmental financial institutions”. As the enterprises progress through

the growth stages, the proportions responding “Self-funding by managers themselves” and “Borrowings from family, relatives, friends or acquaintances” decline, whereas the proportions choosing the “Borrowings from private financial institutions”, “Borrowings from governmental financial institutions” and “Use of public subsidies/grants” responses increase. These results show that sustainable growth enterprises change their funding procurement methods as they progress through the growth stages. From raising funds in the establishment stage from the people around them, particularly from the managers themselves and from family and relatives, they transition to funding procurement through borrowings from outside financial institutions and the use of public subsidies and grants.

Fig. 2-1-86 Fund procurement methods used by sustainable growth enterprises in each growth stage

	1st	2nd	3rd	4th	5th
Fund procurement methods used in the establishment stage (n=1,956)	Self-funding by managers themselves (80.2%)	Borrowings from private financial institutions (34.9%)	Borrowings from family, relatives, friends or acquaintances (34.0%)	Borrowings from governmental financial institutions (25.2%)	Use of public subsidies/grants (8.9%)
Fund procurement methods used in the initial growth stage (n=1,798)	Borrowings from private financial institutions (59.0%)	Self-funding by managers themselves (52.5%)	Borrowings from governmental financial institutions (35.0%)	Borrowings from family, relatives, friends or acquaintances (20.8%)	Use of public subsidies/grants (13.1%)
Fund procurement methods used in the stability and expansion stage (n=1,517)	Borrowings from private financial institutions (61.6%)	Self-funding by managers themselves (48.5%)	Borrowings from governmental financial institutions (34.1%)	Use of public subsidies/grants (13.8%)	Borrowings from family, relatives, friends or acquaintances (13.6%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from sustainable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for each funding procurement methods used or now using in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(3) Fund procurement methods desired by sustainable growth enterprises in each growth stage

Next, we look at the fund procurement methods that sustainable growth enterprises wanted to use in each growth stage, as shown in Fig. 2-1-87. Looking at the figure, the highest proportion of responses in the establishment stage is for “Borrowings from private financial institutions”, followed by “Borrowings from governmental financial institutions” and then “Use of public subsidies/grants”. In the initial growth stage, high proportions opted for “Use of public subsidies/grants” and “Venture capital or investment by investment partnerships, funds, etc.” in the initial growth stage, and for “Use of public subsidies/grants” and “Use of crowd funding” in the stability and expansion stage. As enterprises progress through the growth stages, the proportions for “Borrowings from

private financial institutions” and “Borrowings from governmental financial institutions” generally decline, whereas the proportions for “Use of public subsidies/grants”, “Venture capital or investment by investment partnerships, funds, etc.” and “Use of crowd funding” increase.

These findings show us that sustainable growth enterprises wanted financing from financial institutions when they started up, but they actually funded themselves. As they grow and mature, they are able to access financing from financial institutions and public subsidies and grants but they also have strong needs for various financing options other than borrowings from financial institutions, such as venture capital, investment by individual investors and crowd funding, and they are not always able to use those other funding options.

Fig. 2-1-87 Fund procurement methods sustainable growth enterprises wanted to use in each growth stage

	1st	2nd	3rd	4th	5th
Desired fund procurement methods in the establishment stage (n=391)	Borrowings from private financial institutions (48.8%)	Borrowings from governmental financial institutions (48.6%)	Use of public subsidies/grants (43.5%)	Venture capital or investment by investment partnerships, funds, etc. (38.6%)	Investment by individual investors (36.1%)
Desired fund procurement methods in the initial growth stage (n=309)	Use of public subsidies/grants (49.5%)	Venture capital or investment by investment partnerships, funds, etc. (46.6%)	Borrowings from governmental financial institutions (44.3%)	Investment by individual investors (43.4%)	Use of crowd funding (43.0%)
Desired fund procurement methods in the stability and expansion stage (n=258)	Use of public subsidies/grants (51.2%)	Use of crowd funding (47.7%)	Venture capital or investment by investment partnerships, funds, etc. (46.9%)	Borrowings from governmental financial institutions (45.3%)	Investment by individual investors (44.2%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from sustainable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for each of the funding procurement methods that enterprises desired but could not use in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(4) Conditions on collateral/guarantees used when sustainable growth enterprises received financing

Here, Fig. 2-1-88 shows the conditions that applied in each growth stage to the collateral or guarantees used when sustainable growth enterprises procured funding through

financing. The figure shows that the response selected by the highest proportion in every growth stage, whether it be establishment, initial growth or stability and expansion, is “Guaranteed by representatives/executives”, followed by “Guaranteed by credit guarantee corporations” and then “Real estate as collateral”.

Fig. 2-1-88 Conditions on the collateral/guarantees used by sustainable growth enterprises receiving financing

	1st	2nd	3rd	4th	5th
Conditions on collateral/guarantees, etc. used in the establishment stage (n=1,238)	Guaranteed by representatives/executives (69.5%)	Guaranteed by credit guarantee corporations (45.3%)	Real estate as collateral (19.3%)	Guaranteed by third parties (8.9%)	Guaranteed by a surety company (5.9%)
Conditions on collateral/guarantees, etc. used in the initial growth stage (n=1,359)	Guaranteed by representatives/executives (66.4%)	Guaranteed by credit guarantee corporations (55.0%)	Real estate as collateral (17.7%)	Guaranteed by a surety company (8.8%)	Financing not guaranteed or secured (7.7%)
Conditions on collateral/guarantees, etc. used in the stability and expansion stage (n=1,201)	Guaranteed by representatives/executives (66.1%)	Guaranteed by credit guarantee corporations (50.7%)	Real estate as collateral (19.6%)	Financing not guaranteed or secured (10.9%)	Guaranteed by a surety company (8.8%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from sustainable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for the conditions applicable to the collateral/guarantee that was or is being used in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

(5) Conditions on the collateral/guarantees sustainable growth enterprises wanted to use when receiving financing

Fig. 2-1-89 shows the results when sustainable growth enterprises were asked about the collateral or guarantee conditions they wanted to use when accessing financing in each growth stage but were not able to use. These findings show that the highest proportion in the establishment stage opted for the “Guaranteed by representatives/executives” response, followed by “Guaranteed by credit guarantee corporations” and then “Financing not guaranteed or secured”. In the initial growth stage and stability and expansion stage, the highest proportion chose “Financing not guaranteed or secured”, after which came “Guaranteed by credit guarantee corporations” and then “Receivables/credit as collateral”. When we compare this with the collateral or guarantee conditions that stable growth enterprises wanted to use, as shown earlier in Fig. 2-1-73, the two enterprise types are the same in that they both gave the highest proportion to “Financing

not guaranteed or secured” in the initial growth stage and stability and expansion stage. However the options with the next highest proportions were “Receivables/credit as collateral” among stable growth enterprises, and “Guaranteed by credit guarantee corporations” among sustainable growth enterprises respectively.

This shows that, in the initial growth and stability and expansion stages, the financing option that both sustainable growth enterprises and stable growth enterprises want most is unsecured funding. However, many of those enterprises are unable to access unsecured financing and instead raise their funds using guarantees by representatives or executives or guarantees from credit guarantee corporations. The findings also show that sustainable growth enterprises prefer financing backed by guarantees from credit guarantee corporations rather than adopting unfamiliar approaches such as using accounts receivable as collateral, which is the preference of stable growth enterprises.

Fig. 2-1-89 Conditions on the collateral/guarantees that sustainable growth enterprises wanted to use when receiving financing

	1st	2nd	3rd	4th	5th
Conditions on collateral/guarantees, etc. desired in the establishment stage (n=280)	Guaranteed by representatives/executives (48.9%)	Guaranteed by credit guarantee corporations (42.9%)	Financing not guaranteed or secured (37.5%)	Guaranteed by a surety company (30.4%)	Guaranteed by third parties (30.0%)
Conditions on collateral/guarantees, etc. desired in the initial growth stage (n=211)	Financing not guaranteed or secured (43.1%)	Guaranteed by credit guarantee corporations (42.2%)	Receivables/credit as collateral (36.0%)	Property as collateral (35.1%)	Guaranteed by representatives/executives (34.6%)
Conditions on collateral/guarantees, etc. desired in the stability and expansion stage (n=197)	Financing not guaranteed or secured (47.7%)	Guaranteed by credit guarantee corporations (42.1%)	Receivables/credit as collateral (38.1%)	Guaranteed by representatives/executives (37.1%)	Guaranteed by a surety company (37.1%)

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The table shows the totals for responses from sustainable growth enterprises.
 2. The table shows the five items with the highest proportion of responses for the collateral/guarantee conditions that enterprises wanted but could not use or want but cannot use in each growth stage.
 3. Total does not always equal 100% as multiple responses were possible.

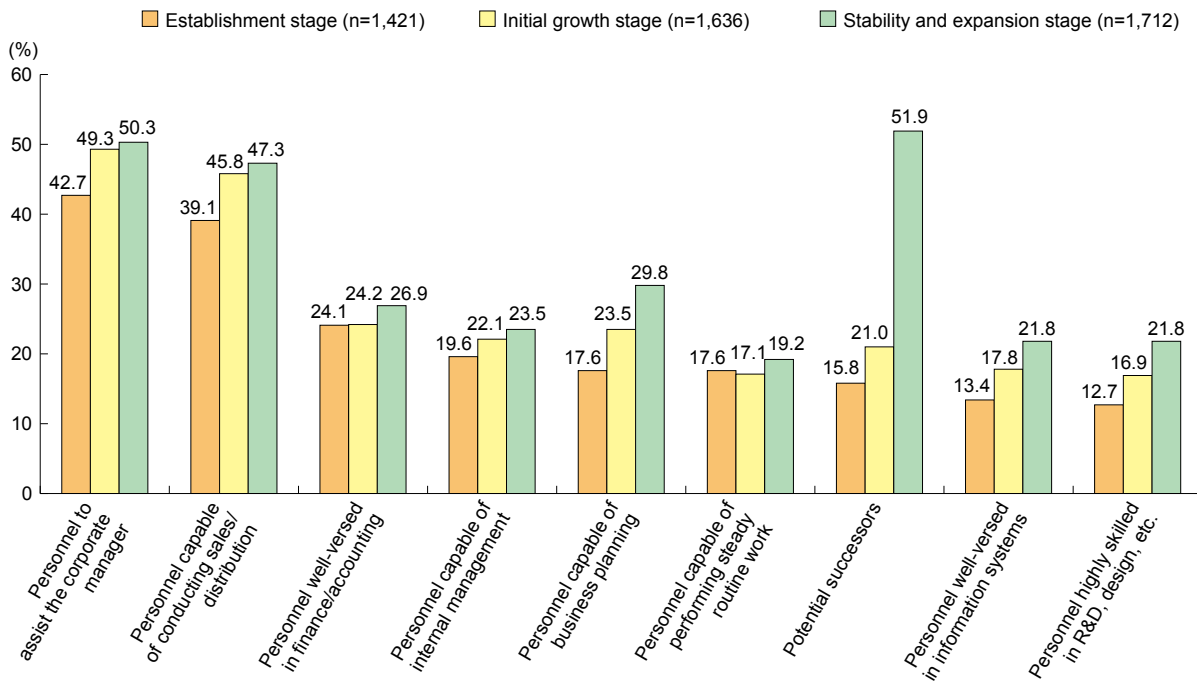
(6) In-house personnel required by sustainable growth enterprises in each growth stage

Next, we consider the circumstances of the efforts made by sustainable growth enterprises to recruit personnel in each of the growth stages.

Fig. 2-1-90 shows the in-house personnel required by sustainable growth enterprises in each growth stage. This figure shows that, in the establishment stage, the response chosen by the highest proportion of respondents

is “Personnel to assist the corporate manager”, followed by “Personnel capable of conducting sales/distribution” and then “Personnel well-versed in finance/accounting”. The figure also shows that the proportions of enterprises needing staff of all kinds increase as the enterprises grow and mature, particularly with respect to “Potential successors”, which attracts the highest proportion of responses in the stability and expansion stage.

Fig. 2-1-90 In-house personnel required by sustainable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

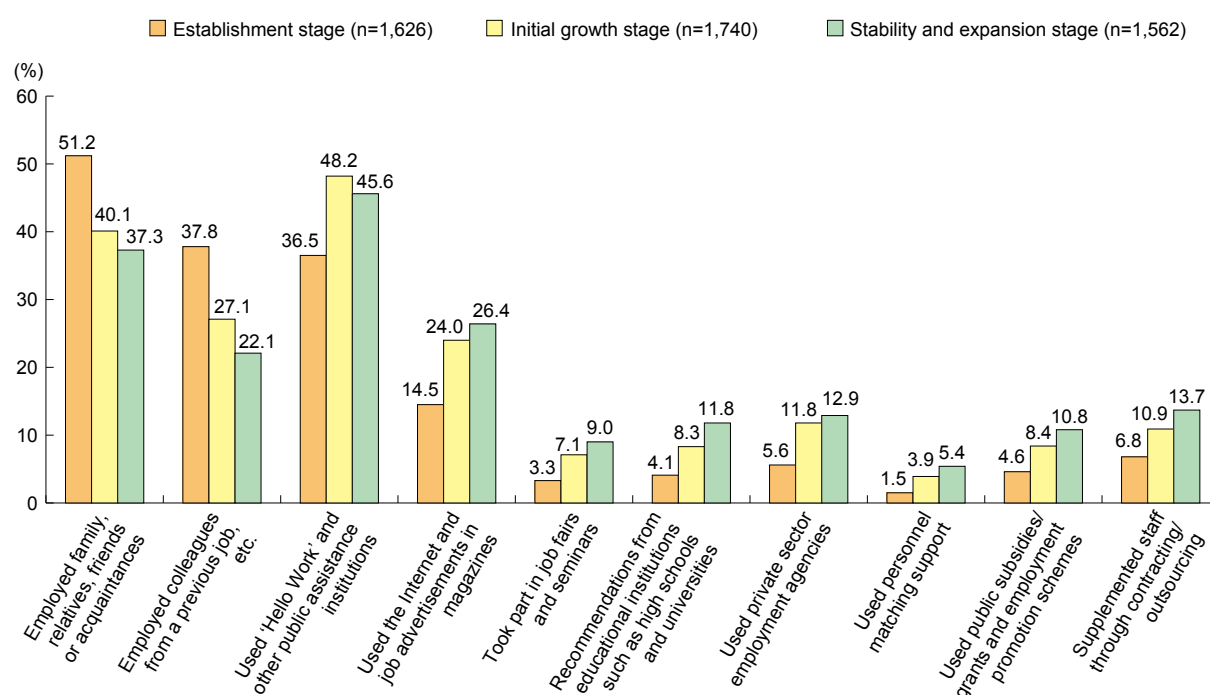
- Notes:
1. Totals are calculated for sustainable growth enterprises who responded regarding in-house personnel that were or are necessary in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” category is presented here.

(7) Steps taken by sustainable growth enterprises to secure personnel in each growth stage

We also look at the personnel recruitment methods employed by sustainable growth enterprises in each growth stage, as shown in Fig. 2-1-91. The figure shows that the highest proportions in the establishment stage are for “Employed family, relatives, friends or acquaintances” followed by “Employed colleagues from a previous job,

etc.” As enterprises advance through the growth stages, the proportions for “Employed family, relatives, friends or acquaintances” and “Employed colleagues from a previous job, etc.” decline, while the proportion of response for other measures, particularly “Used ‘Hello Work’ and other public assistance institutions” and “Used the Internet and job advertisements in magazines,” rise as enterprises move through the growth stages.

Fig. 2-1-91 Steps taken by sustainable growth enterprises to secure personnel in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. Totals are calculated for personnel recruitment methods that have been or are being employed by sustainable growth enterprises in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” responses are presented here.

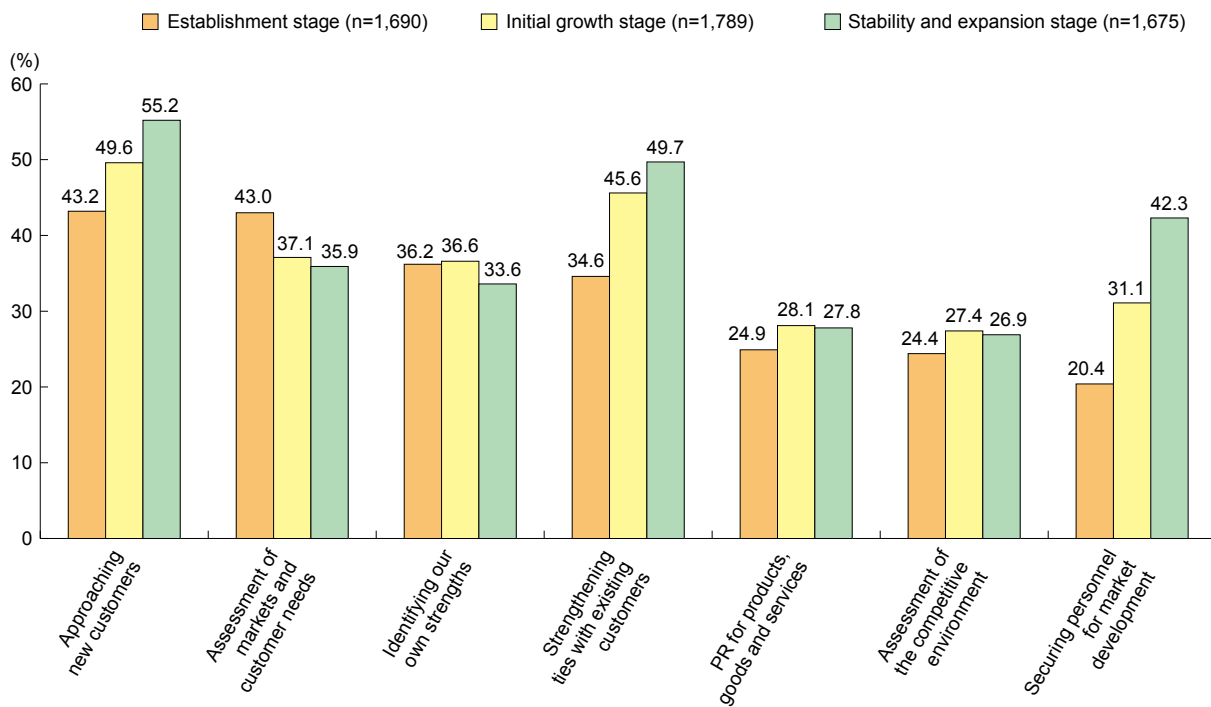
(8) Issues with market development at each growth stage for sustainable growth enterprises

Next, we look at the circumstances of the efforts made by sustainable growth enterprises to develop markets in each of the growth stages. We begin by looking at the market development issues, as shown in Fig. 2-1-92.

The figure shows that the highest proportion opted for

“Approaching new customers” in the establishment stage, followed by “Assessment of markets and customer needs” and then “Identifying our own strengths”. We also see that the proportions for the “Approaching new customers”, “Strengthening ties with existing customers” and “Securing personnel for market development” responses rise as enterprises progress through the growth stages.

Fig. 2-1-92 Issues with market development at each growth stage for sustainable growth enterprises



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

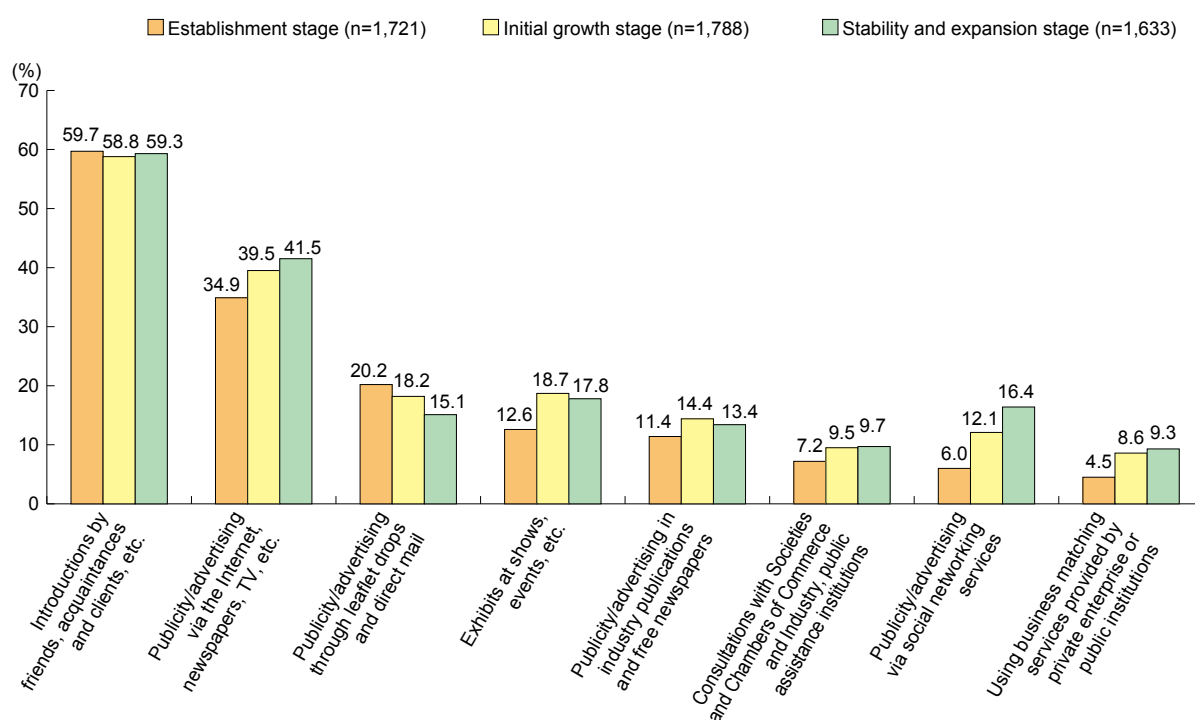
- Notes:
1. Totals are calculated for sustainable growth enterprises who responded that they have had issues or are having issues with market development in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.

(9) Market development efforts by sustainable growth enterprises in each growth stage

Below, Fig. 2-1-93 shows the methods used by sustainable growth enterprises to develop their markets in each growth stage. The figure shows that the highest proportion in all the growth stages was consistently for “Introductions by friends, acquaintances and clients, etc.”. It also shows that as enterprises advanced through the growth stages, the proportions who opted for “Publicity/advertising via the Internet, newspapers, TV, etc.” and “Publicity/advertising via social networking services” rose. In Fig. 2-1-61 above, we saw that the methods used by high growth enterprises in their market development efforts

shifted from “Introductions by friends, acquaintances and clients, etc.” to “Publicity/advertising via the Internet, newspapers, TV, etc.” as those enterprises moved through the growth stages. In the case of sustainable growth enterprises, the proportions for efforts using “Publicity/advertising via the Internet, newspapers, TV, etc.” and “Publicity/advertising via social networking services” gradually rose as those enterprises grew and matured, but “Introductions by friends, acquaintances and clients, etc.” consistently attracted the highest proportion of responses throughout the growth stages. This leads us to conclude that sustainable growth enterprises consistently use word of mouth as their principal market development method.

Fig. 2-1-93 Market development efforts by sustainable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

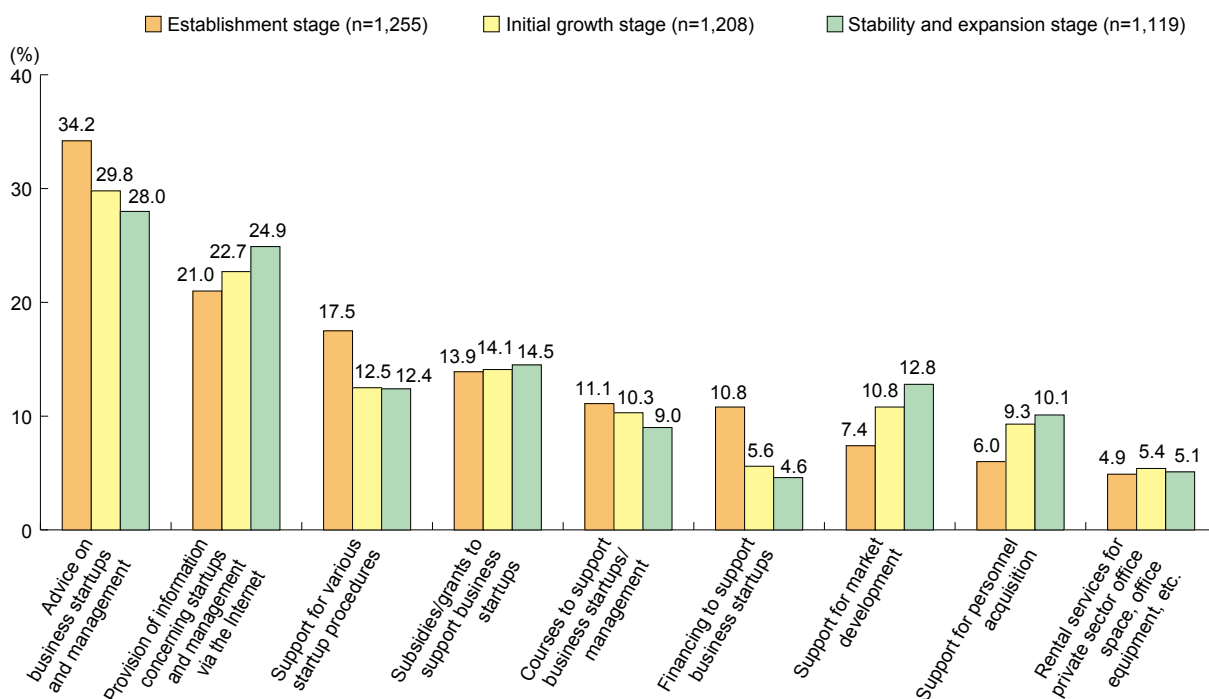
- Notes:
1. Totals are calculated for market development methods that have been or are being employed by sustainable growth enterprises in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” responses are presented here.

(10) Details of support policies used by sustainable growth enterprises in each growth stage

Finally, we look at the support and other policy measures that sustainable growth enterprises used in each of the growth stages (Fig. 2-1-94). The figure shows that the highest proportion in all growth stages went to “Advice on business startups and management”, followed by “Provision of information concerning startups and management via the Internet”. Also, the proportions for “Support for various startup procedures”, “Courses to

support business startups/management” and “Financing to support business startups” were higher than for other growth types in the establishment stage, and those proportions declined as enterprises progressed through the growth stages. On the other hand, the proportion of responses for “Provision of information concerning startups and management via the Internet”, “Support for market development” and “Support for personnel acquisition” rose as the enterprises advanced in age.

Fig. 2-1-94 Details of support policies used by sustainable growth enterprises in each growth stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the nine items with the highest proportion of responses from sustainable growth enterprises in the establishment stage.
 2. Total does not always equal 100% as multiple responses were possible.

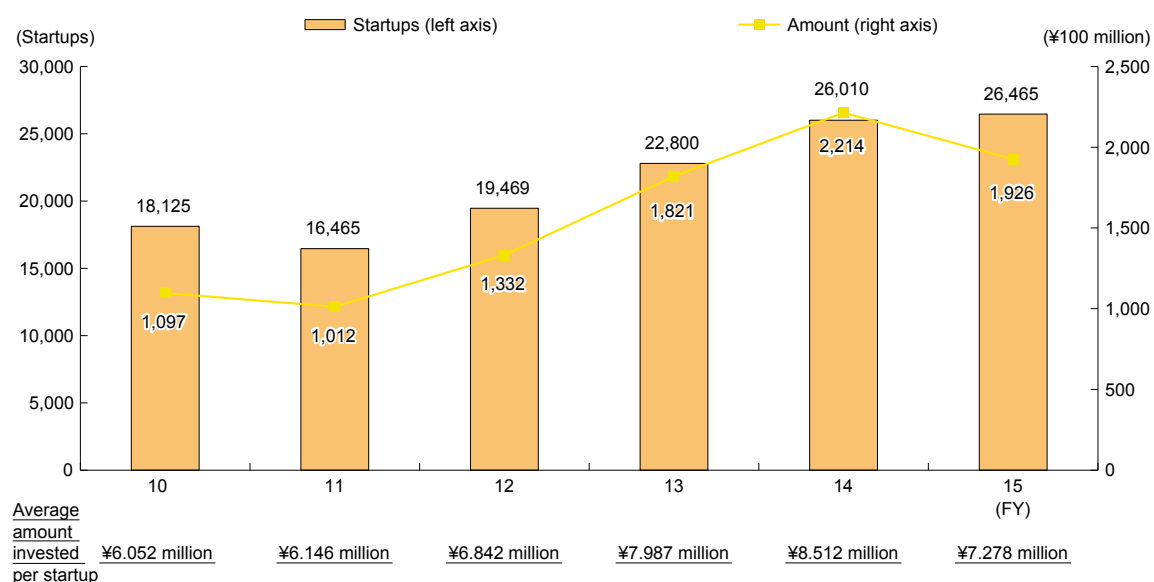
Above, we focused on sustainable growth enterprises, looking at the issues they face in each growth stage and the efforts they make, as well as their use of support policies. It seems clear that, in order for enterprises to successfully grow to become sustainable growth

enterprises after startup, they need to implement measures to procure funding, recruit personnel and expand their markets in each growth stage, and they must also actively take advantage of the support policies on offer, as we saw earlier in Fig. 2-1-93.

Column 2-1-8 Business startup financing schemes by governmental financial institutions

Thus far in this paper, we have looked in some detail at funding procurement methods and the types of collateral and guarantees used when funds are procured through financing. In this column, we summarize the use of financing schemes offered by the Japan Finance Corporation (JFC), one of the governmental financial institutions. The JFC, through its Micro Business and Individual Unit, offers financial support to people starting up new businesses and people in their first seven years since starting up a business in the form of the New Start-up Loan program. It also offers financing targeted at women and at men aged less than 30 or 55 or older through its Loans to Women/Youth/Senior Entrepreneurs program. (Refer to Appended notes 2-1-12 and 2-1-13 for an overview of the respective financing schemes.) Fig. Column 2-1-8 (1) shows the numbers of enterprises that accessed financing schemes such as the Support for Business Start-ups or Loans to Women/Youth/Senior Entrepreneurs programs either before startup or within one year of startup, together with the amounts loaned. The figure shows that the base number of enterprises has increased steadily since FY2011 and that the number of startup loans in FY2015 was again higher than in the previous fiscal year.

Fig. Column 2-1-8 (1) Financing figures for enterprises before or within one year of startup

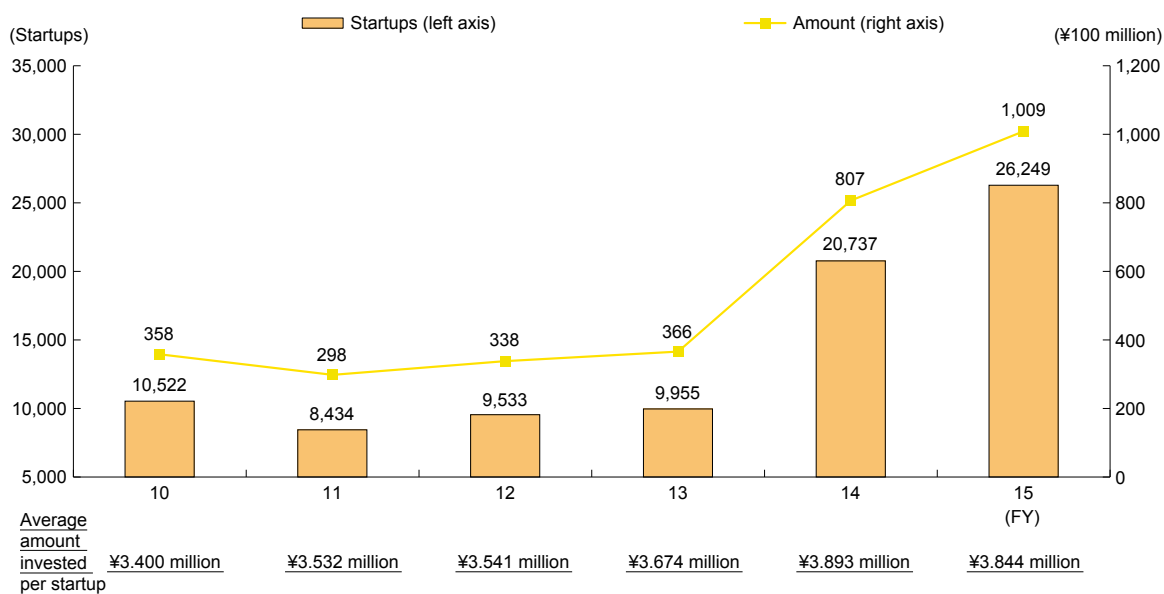


Source: Japan Finance Corporation (JFC)

When people starting up new businesses or people in their first seven years since starting up a business use the Support for Business Start-ups or Loans to Women/Youth/Senior Entrepreneurs programs discussed above, the JFC also offers no-guarantor, no-collateral loan financing through the New Start-up Loan program. (Refer to Appended note 2-1-14 for an overview of the New Start-up Loan program.) Fig. Column 2-1-8 (2) shows the financing figures for the New Start-up Loan program, showing a steadily rising trend in both the number of loans and the amounts loaned. In terms of the average amounts loaned per startup, the loan amounts under the New Start-up Loan program account for roughly half of the total amount shown in Fig. Column 2-1-8 (1), which indicates that the

enterprises accessing no-guarantor, no-collateral loan financing from the JFC are generally starting up their businesses by procuring funding in the form of loans in the order of ¥3 million or so. This clearly shows the significant role played by policy-based financing in promoting entrepreneurial activity.

Fig. Column 2-1-8 (2) Outcomes of the new startup loan program



Source: Formulated by the SME Agency using the Japan Finance Corporation (JFC), Annual Statistics of Business.
 Note: Here, "New Start-up Loan program" refers to those normal (direct) loans and environmental sanitation (direct) loans in the form of no-guarantor, no-collateral financing intended for people prior to business startup or people who have not completed two taxation periods since starting up a business.

Section 4 Summary

In this chapter, we conducted an analysis focusing on “business establishment and startup”. Specifically, we analyzed the processes by which business startups come about and confirmed that the issues that confront entrepreneurial hopefuls and people making startup preparations differ depending on their age and gender. We also confirmed that some entrepreneurs are not getting the support they need before starting up their businesses. We then showed that the issues faced after startup also vary depending on the growth stage, and that enterprises who succeeded in achieving their target growth did so by using different measures and by accessing different support policies in each growth stage from the enterprises who failed to achieve their target growth. It seems that it is important for all current entrepreneurial hopefuls or people making startup preparations to be aware of the types of support available for the issues that they face and that, by making use of that support, they can readily succeed in their business startups. In order for the

respective established enterprises to achieve the growth levels they had hoped for once they have started up, it is also important that they be aware of their own issues and that they use the appropriate support policies.

By providing and administering an environment and support policies that will enable current entrepreneurial hopefuls and people making startup preparations who are already interested in starting up a business to readily launch a business, and one that will also allow established enterprises to succeed in growing after startup as they had intended, we are likely to increase the number of entrepreneurs in Japan who achieve steady and sustained growth. It is also likely that an increased number of entrepreneurs will result in more entrepreneurs being close to those people who are not currently interested in business startups, and that this will give rise to a virtuous cycle whereby those disinterested people develop an interest in business startups and become part of the future revitalization of business startups in Japan.

Chapter 2

Business succession

As the presidents of SMEs and micro businesses get older, many presidents are having to deal with their own retirement and the succession of the next generation to their companies. While the presidents of some SMEs and micro businesses plan on a business succession by a family member, executive, or employee, others plan to hand off to the next generation by undertaking a business transfer, sale, or integration (M&A) with a third party. Additionally, as Part I showed, there are some SMEs and micro businesses that choose to close business given that their presidents are aging and finding a successor is difficult.

In this chapter, the concept of “business succession” is defined to include ordinary business succession as well as business transfer, sale, or integration (M&A) and business closure, and is analyzed accordingly. We will examine the state of preparation for business succession at SMEs and micro businesses and the associated challenges, paying attention to differences by scale and whether the enterprise is a corporation or sole proprietorship.

Section 1 State of preparation for business succession and associated challenges

This section analyzes business succession at SMEs and micro businesses. First, we will indicate the preparation processes necessary for business succession and give a summary of the actual state of preparation. Then, we will

separately consider the handover of management and the handover of assets and analyze the state of preparation and challenges with each of these.

1. Preparation processes necessary for business succession

In subsection 1 below, we look at the preparation processes necessary for business succession. First, we lay out the concepts and an overview of business succession, and summarize the current state of business succession. Then, we look at perceptions of the need for business succession preparation and consider that preparation.

(1) Overview of business succession

The phrase “business succession” does not have a precise definition, and the meaning varies depending on the person hearing it. For some, it means “securing a successor,” while for others it signifies a “problem of inheritance tax.” Therefore, we start here by laying out the concept of business succession. According to the Business Succession Guidelines¹⁾ established in 2016, business

succession refers to a “succession” of the “business” itself. Business succession of this type has three components: people (management), assets, and intellectual assets (less-visible management resources and strengths) (Fig. 2-2-1). These are the components that the president cultivates in his or her business, and their smooth handover to the next generation is critical.

In this chapter, the “business” to be handed over to the next generation is broadly divided into “management” and “assets.” Thus, the handover of these is analyzed respectively as “handover of management” and “handover of assets.”

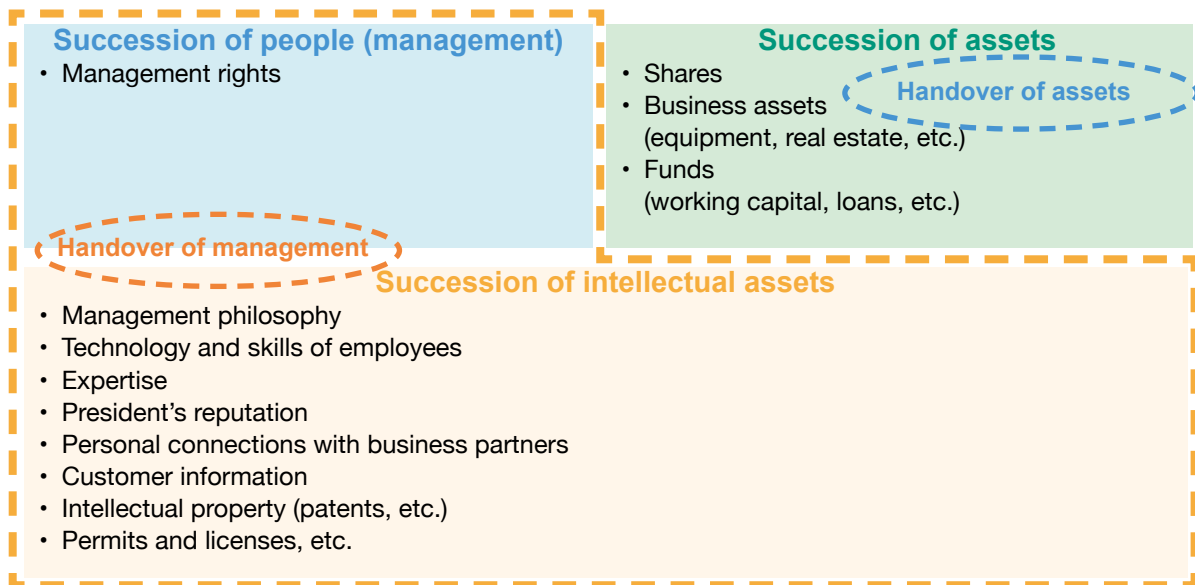
Here, “handover of management” means taking over management in place of the current president and succeeding to the enterprise’s management philosophy,

1) The Business Succession Guidelines were established by SME Agency in December 2016 to stimulate business of SMEs by facilitating business successions in light of such factors as the aging of SME presidents.

reputation, and other intellectual assets incidental to management. “Handover of assets” corresponds to the “succession of assets” in Fig. 2-2-1 and means succeeding to shares and business assets, especially those owned by the president. Among the reasons for analyzing these two types of handover separately, it is possible the person

who takes over management is different from the person who takes over assets.²⁾ Moreover, a clear separation of the challenges of handover of management (selecting a successor, getting the successor’s consent, etc.) from the challenges of handover of assets (purchasing the assets, paying taxes, etc.) will allow for a deeper analysis.

Fig. 2-2-1 The components of business succession



In addition, the Business Succession Guidelines mention three types of business succession: succession within family, succession by executive or employee, and handover to external party (M&A, etc.). In this chapter, cases that correspond to “handover to external party,” namely, a handover of business to someone outside the company (not a family member or an executive or employee) by means of transfer or sale of business is referred to as “business transfer, sale, or integration (M&A).” These cases, which are not included under “business succession” in this chapter, are separately analyzed in Section 2.

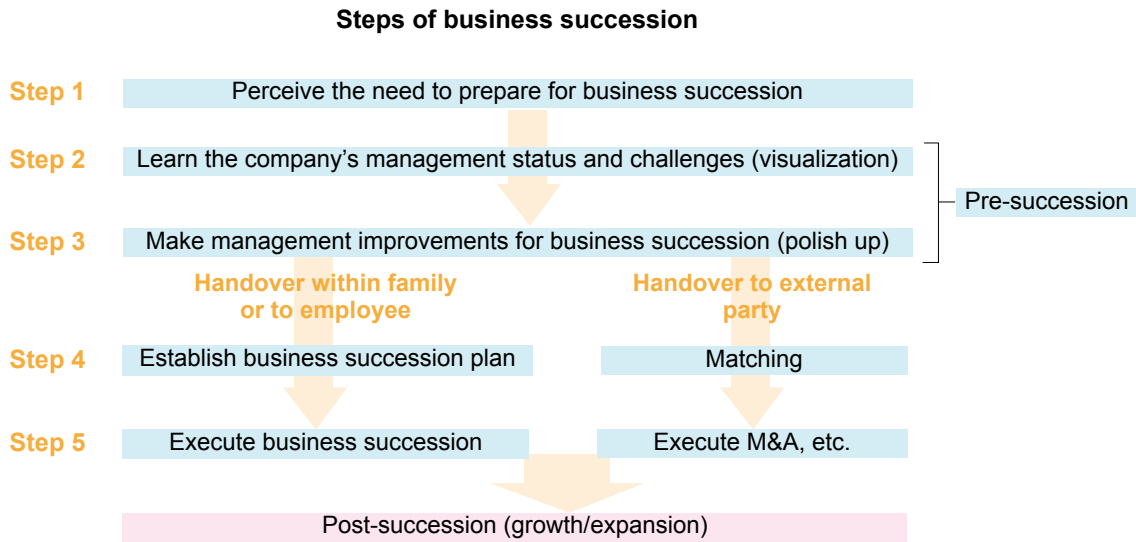
The handover of a business is one of the greatest milestones that SMEs and micro businesses will experience after their founding. A key point of the recently established Business Succession Guidelines is five steps explaining the process of preparation necessary for this business succession to go smoothly (Fig. 2-2-2). First, the president perceives the need to prepare for business succession early on. The president then learns the company’s management status and challenges and makes management improvements accordingly. Next, if the person taking over the enterprise is a family member or employee, a business succession plan is established and

2) For example, the plan may be for the president’s child to take over management in future, but the child may be too young or for some other reason the enterprise may choose to entrust management temporarily to an employee, executive, or outside person (an intermediate president). In that case, the president’s child may succeed to shares or other assets, so that different people succeed to management and shares.

the new president takes over management and assets. Or, if an external party is taking over, a process of matching is done to select that party, then if that party agrees, an

M&A happens. Performing these five steps is pointed out as important to ensuring a smooth business succession.

Fig. 2-2-2 Steps of business succession



We will look at what is involved in each of these steps, but in the subsection 2 and thereafter, steps 4 and 5 will be divided into “handover of management,” “handover of assets,” and “business transfer, sale, or integration (M&A).” In this part, we look in detail at steps 1–3, which are common to all business successions.

First, handing over management and assets to the successor takes time, so to “perceive the need to prepare for business succession” as in step 1 means that the

president perceives the need for preparation early on and thus needs to start that preparation. The Business Succession Guidelines point out that it is important for national and local governments and support organizations to prompt presidents approaching the age of 60 to prepare for succession.

Step 2, which is to “learn the company’s management status and challenges (visualization),” is broken down into learning the company’s management status and

learning its business succession challenges. Efforts to promote visualization of the company's management status include clarifying the relationship between company and individual in terms of assets, processing account settlements in an appropriate manner, practicing inventory control and control over management of department-specific profit or loss, and learning the company's strengths with "local benchmarks."³⁾ Some of the challenges of business succession are confirming whether there is a candidate successor, the relationship of the candidate successor to shareholders within family and to business partners, specifying what assets will be inherited, and calculating taxes. These will be analyzed in detail starting in subsection 2.

Step 3, which is to "make management improvements for business succession (polish up)," is an effort to make management improvements so the current president can hand over the business to the successor in good condition. Examples include building the competitiveness of the core business, putting internal organizations in place, disposing of unneeded assets and accumulated inventory, learning the company's financial condition and efforts to disclose it to external parties, and rehabilitating enterprises that are performing poorly.

These "perceptions of the need for business succession preparation" and "business succession preparation" will be discussed later in light of questionnaire results.

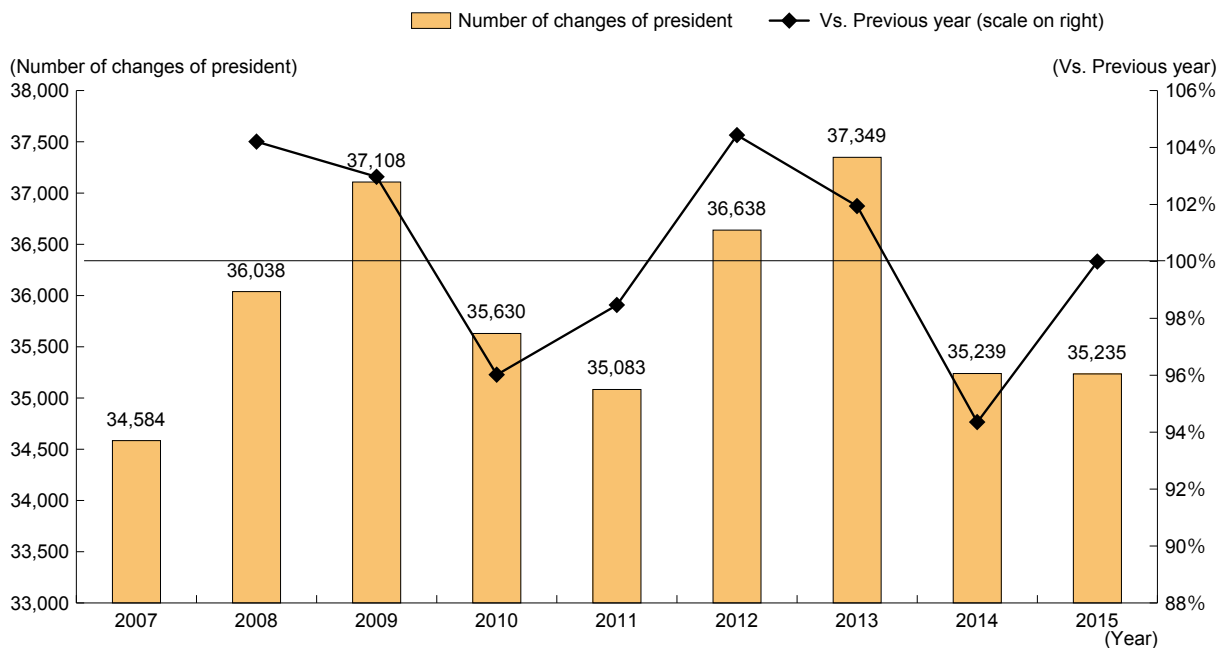
3) Local benchmarks are a tool for conducting so-called "enterprise health checkups." They were created to enable enterprise presidents, financial institutions, support organizations, and the like to have conversations about management from the same standpoint. They consist specifically of data on "financial information" (six indexes) and data on "non-financial information" (four perspectives). The "financial information" (six indexes) includes (1) rate of increase in sales, (2) operating profit margin, (3) labor productivity, (4) ratio of EBITDA (earnings before interest, taxes, depreciation, and amortization) to interest-bearing debts, (5) working capital turnover period, and (6) capital adequacy ratio. The "non-financial information" (four perspectives) includes (1) focus on presidents, (2) focus on parties concerned, (3) focus on business, and (4) focus on internal control systems.

(2) Current state of business succession

First, we look at the current state of business succession. There is no statistical data that captures an image of business succession in general, so our discussion here starts by looking at successions of presidents. A look at the trends in number of changes of president⁴⁾ in Fig.

2-2-3, which is based on enterprise data from Tokyo Shoko Research, Ltd., shows that since 2007, there have generally been about 35,000 changes annually, a level that has stayed flat. The trends do not indicate any increase in the number of changes of president even as the age of presidents has risen.

Fig. 2-2-3 Number of changes of president



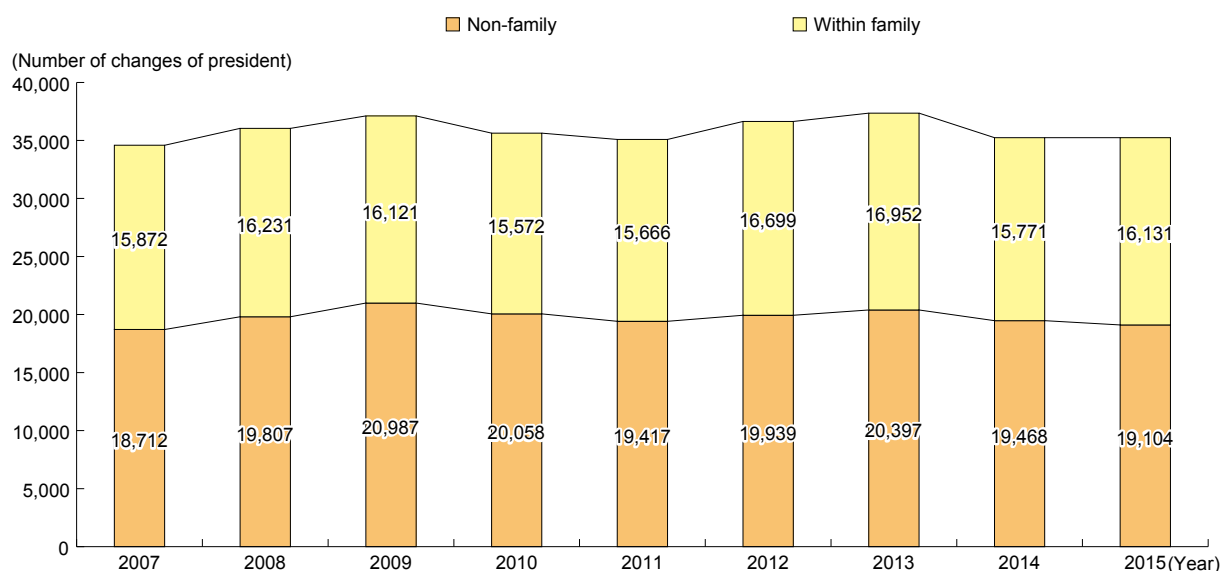
Source: Tokyo Shoko Research, Ltd.

4) The full names and dates of birth were used to determine when a change of president has happened. A change is recognized as occurring when the president has a different full name and date of birth than the president the year before.

Similarly, Fig. 2-2-4 shows the number of changes of president, categorized by whether there is a family relationship between the old and new presidents. Looking at the trends since 2007, it is not the case that there has been

an increase in the number of non-family successions,⁵⁾ but they are still more numerous than successions within family, making up more than 50%. Thus, non-family succession has become common even at SMEs.

Fig. 2-2-4 Trends in non-family successions



Source: Tokyo Shoko Research, Ltd.

Notes: 1. Data covers SMEs contained in enterprise database belonging to Tokyo Shoko Research, Ltd. that were known to be active as of December 2015 and changed presidents at least once between 2006 and 2015.

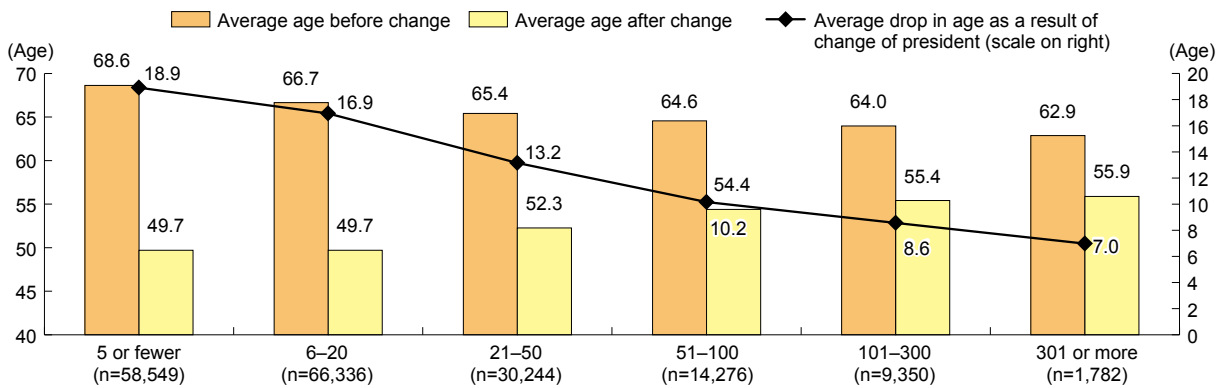
2. Here, "succession within family" aggregates enterprises that replaced president with a person with the same surname but different date of birth. Here, "non-family succession" aggregates enterprises that replaced president with a person with a different surname and different date of birth. Therefore, if the president was replaced with a family member with a different surname, that is counted as non-family succession, but if the president's surname changed because of marriage, etc., it is not counted in either group.

Next, we look at the actual conditions of changes of president at SMEs. First, we consider the average age of the president before and after change. Fig. 2-2-5 looks at the average age of the enterprise's president before and after the change, based on number of employees. The president's age before the change tends to be higher the smaller the number of employees, and the age tends to

be lower the greater the number of employees. On the other hand, the president's age after the change tends to be lower the smaller the number of employees, and higher the greater the number of employees. This means that the average drop in age as a result of change of president is smaller the greater the number of employees.

5) The 2014 *White Paper on Small and Medium Enterprises in Japan* looked at the trends over a longer span, starting in 1988, and found that non-family successions were increasing.

Fig. 2-2-5 Change in average age of president as a result of change of president (by number of employees)



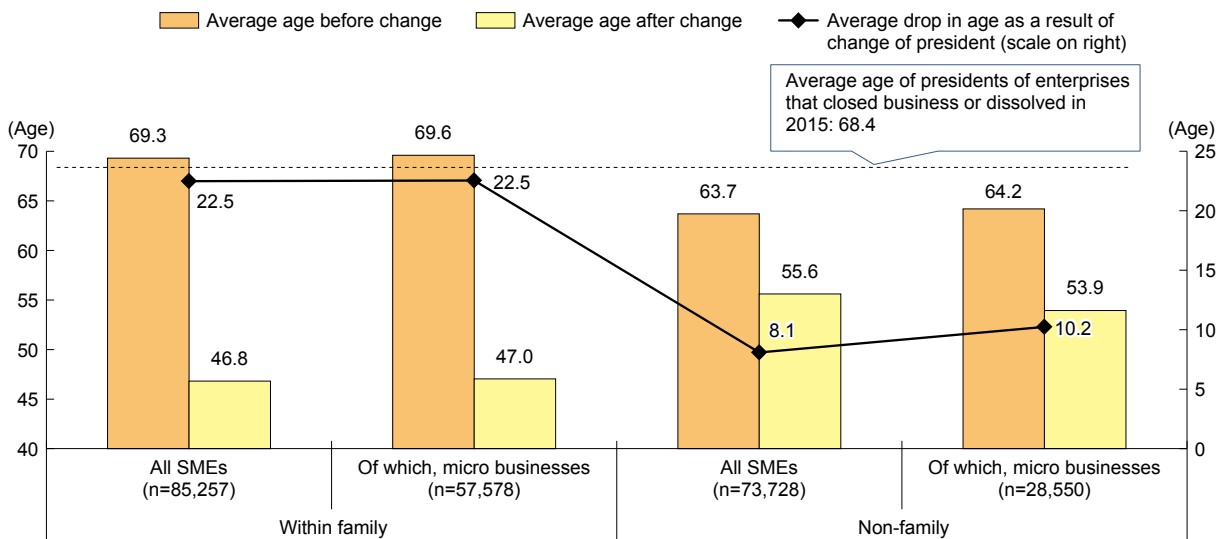
Source: Tokyo Shoko Research, Ltd.

Note: Data covers SMEs contained in enterprise database belonging to Tokyo Shoko Research, Ltd. that were known to be active as of December 2015 and changed presidents at least once between 2006 and 2015.

Next, we focus on similar data based on whether the new president comes from within the family or not (Fig. 2-2-6). When the change is within the family, the president’s average age before the change is high, at 69.3, leading to a drop of more than 20 years in age because

of the change. On the other hand, when the change is to non-family, the president’s average age before the change is younger, at 63.7, while the new president is 55.6 years old on average, older than the case of change within the family. The president’s average age at enterprises

Fig. 2-2-6 Average change of president’s age as a result of change of president (within family/non-family)



Source: Tokyo Shoko Research, Ltd.

Notes: 1. Data covers SMEs contained in enterprise database belonging to Tokyo Shoko Research, Ltd. that were known to be active as of December 2015 and changed presidents at least once between 2006 and 2015.

2. Here, “succession within family” aggregates enterprises that replaced president with a person with the same surname but different date of birth. Here, “non-family succession” aggregates enterprises that replaced president with a person with a different surname and different date of birth. Therefore, if the president was replaced with a family member with a different surname, that is counted as non-family succession, but if the president’s surname changed because of marriage, etc., it is not counted in either group.

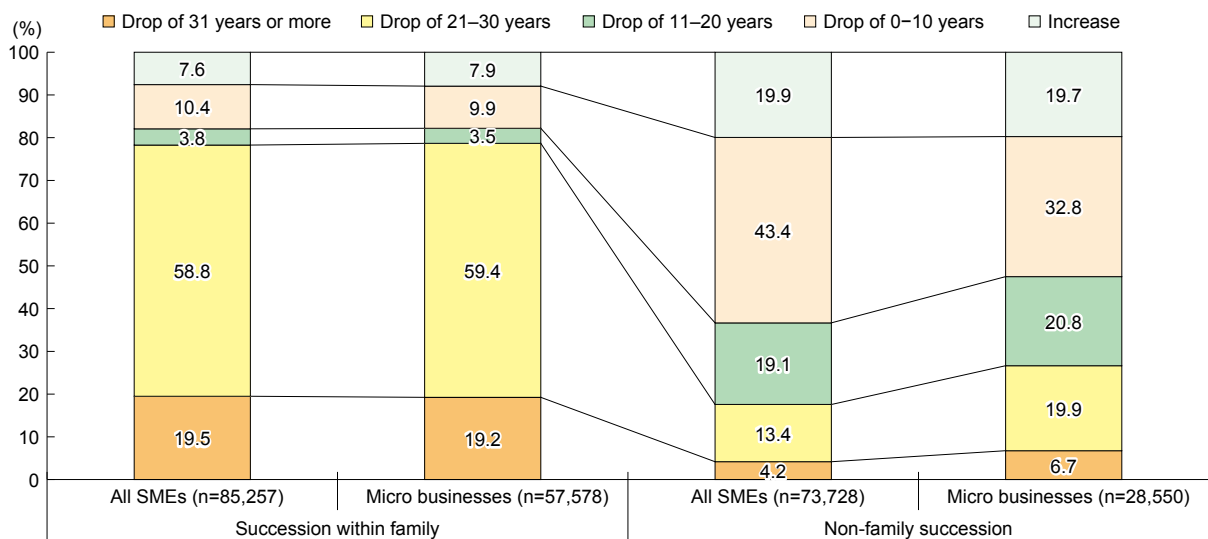
3. The average age of presidents of enterprises that closed business or dissolved in 2015 covers 16,049 SMEs for which the president’s date of birth was known.

that closed business or dissolved is 68.4, which is close to the 69.3 average age of presidents before change at enterprises where succession was within family. Thus, it is conjectured that the age of about 68–69 is the right time for presidents to retire. This figure offers one guideline for the process of business succession.

Fig. 2-2-7 looks at the distribution of change of president's age as a result of change of president based on whether the new president is within family or non-

family. Among successions within family, the percentage is highest for “drop of 21–30 years.” This is largely seen as making the leadership of the enterprise one generation younger, which is conjectured to mean succession by a child, etc. On the other hand, among non-family successions, the percentage is highest for “drop of 0–10 years.” This is taken as a succession to someone from roughly the same generation or a little younger.

Fig. 2-2-7 Distribution of change of president's age as a result of change of president (within family/non-family)



Source: Tokyo Shoko Research, Ltd.

- Notes:
1. Data covers micro businesses contained in enterprise database belonging to Tokyo Shoko Research, Ltd. that were known to be active as of December 2015 and changed presidents at least once between 2006 and 2015.
 2. Here, “succession within family” aggregates enterprises that replaced president with a person with the same surname but different date of birth. Here, “non-family succession” aggregates enterprises that replaced president with a person with a different surname and different date of birth. Therefore, if the president was replaced with a family member with a different surname, that is counted as non-family succession, but if the president's surname changed because of marriage, etc., it is not counted in either group.

In light of the above, in the case of succession within family, there is a tendency for the age of the president to be high prior to the change and lower after the change, so the enterprise is changing to a younger president. In the case of non-family succession, on the other hand, the change is largely to a president of the same generation. To look at it another way, we can view the average age

gap between presidents before and after the change as the period in which the president is in office. If we do that, it means that in cases of non-family succession, not very much time elapses before changes of presidents, and it is important for the enterprise to be constantly fostering someone to be the successor.

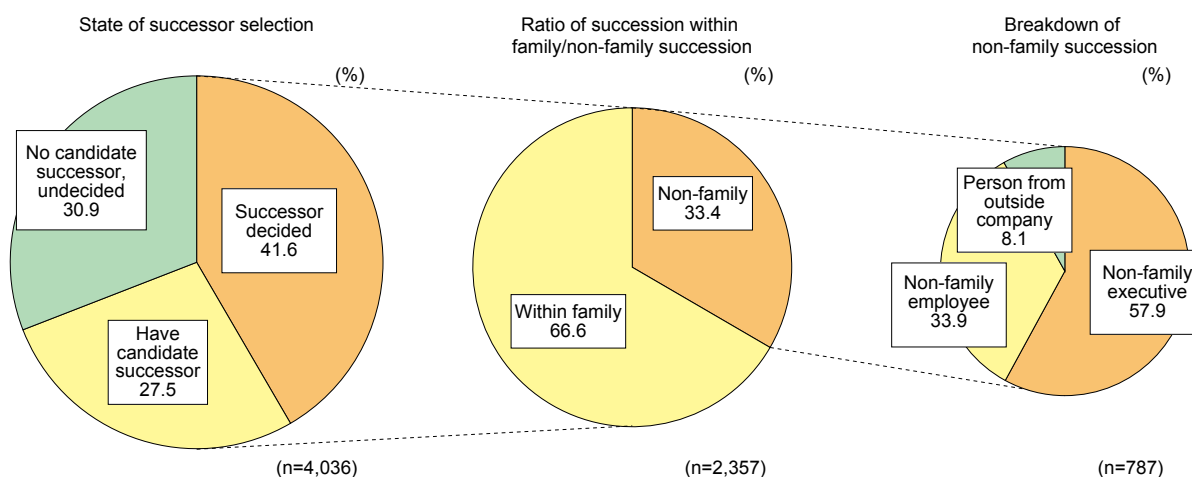
Up to this point, we have summarized the current state of president succession based on enterprise data from Tokyo Shoko Research, Ltd. From this point forward, we will consider what kinds of challenges SMEs and micro businesses see in securing successors and what efforts they are making to address them. We will analyze business succession at SMEs and micro businesses based on the “Questionnaire Survey on Enterprise Management Continuity”⁶⁾ (below, “questionnaire survey”). This questionnaire survey covered mainly SMEs and micro businesses with a president age 50 or older. Note that the circumstances of business succession may vary considerably based on the form of organization, i.e., whether the enterprise is a corporation or sole proprietorship. To make the subjects of comparison clearer, enterprises will be called “medium corporations,”

“small corporations,” or “sole proprietorships” in the rest of this chapter.

First, we overview the results of the questionnaire survey for medium corporations.⁷⁾

Fig. 2-2-8 shows the state of successor selection, ratio of succession within family/non-family succession, and breakdown of cases of non-family succession. More than 40% of enterprises have decided on a successor. These, combined with enterprises with a candidate successor, make up about 70% of the total. Categorizing these successors/candidate successors as within family or non-family, we find that the successor or candidate successor is non-family in 33.4% of cases. Further breaking down that group, 57.9% selected a “non-family executive” and 33.9% a “non-family employee.” So, the enterprises selected someone internal in the majority of cases.

Fig. 2-2-8 State of successor selection and current state of non-family succession (medium corporations)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregated figures are exclusive of those that answered, “intend to close business during my generation.”
 2. Aggregated figures are exclusive of those that answered, “other” regarding successor or candidate successor.
 3. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor.

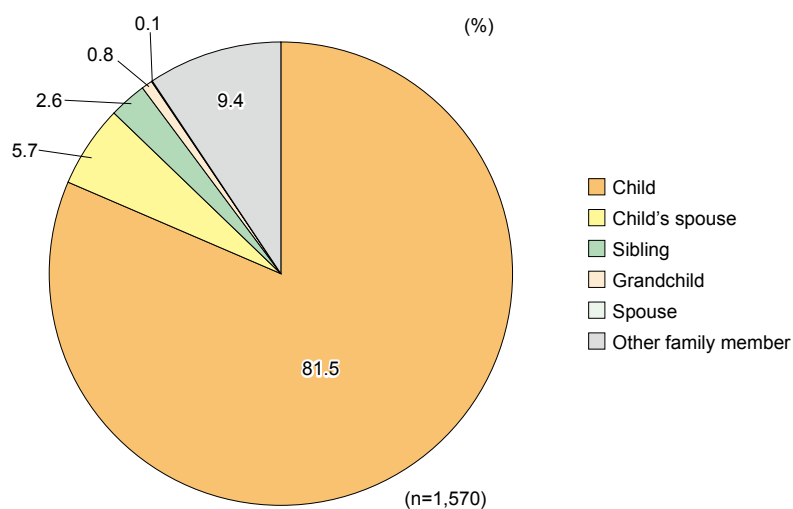
6) Commissioned by the SME Agency, Tokyo Shoko Research, Ltd. conducted a questionnaire survey of 15,000 SMEs in November 2016 (with a response rate of 28.7%) as well as an online questionnaire survey of micro businesses that are members of the Central Federation of Societies of Commerce and Industry or a chamber of commerce and industry (getting 3,984 valid responses).

7) As previously mentioned, there were two questionnaire surveys: one for medium corporations and one for micro businesses. The two had many questions in common, but the results of the two surveys have not been aggregated together.

Additionally, breaking down successions within family, we find that a child of the president was named successor or candidate successor in 81.5% of cases, meaning that

even at medium corporations, succession from parent to child remains a prominent choice (Fig. 2-2-9).

Fig. 2-2-9 Breakdown of successions within family (medium corporations)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

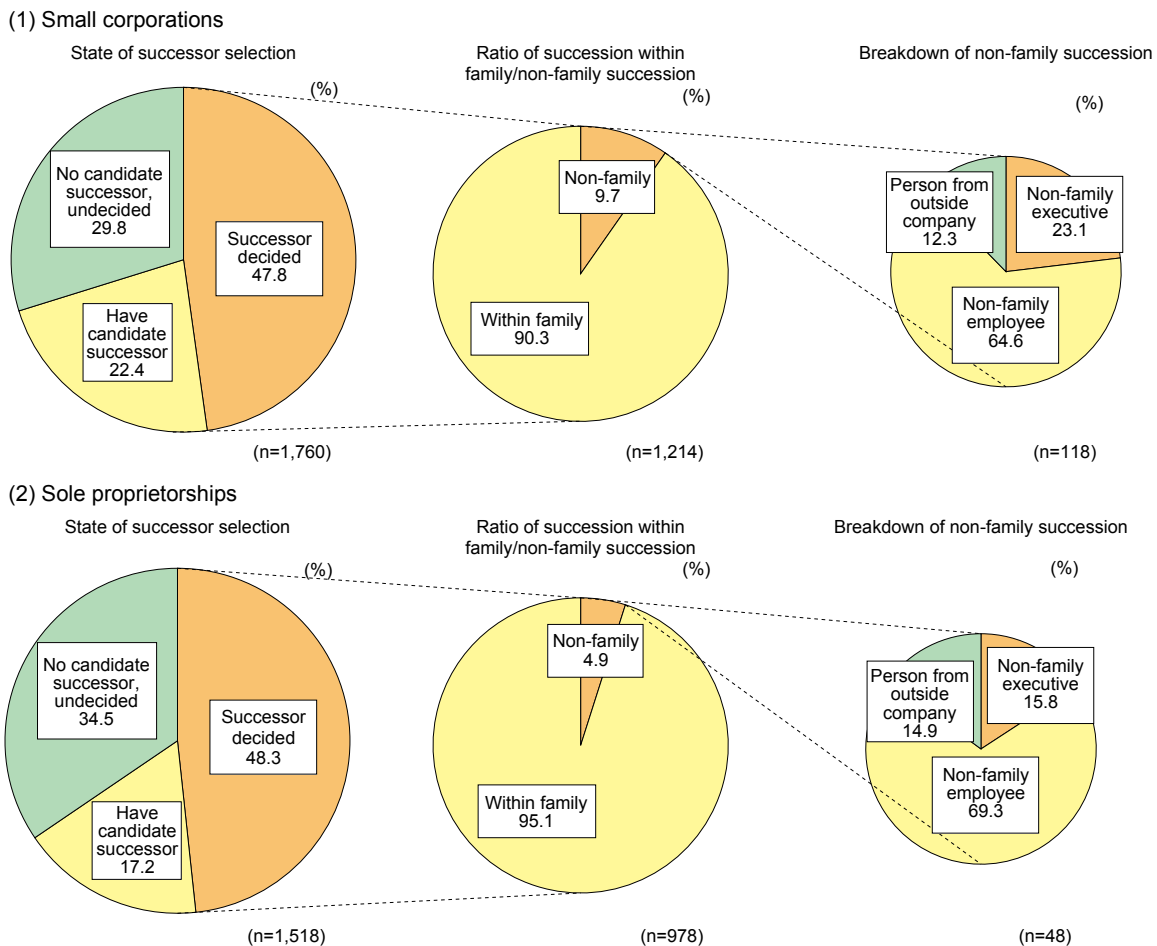
Note: Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.

We similarly overview the results of the questionnaire survey for micro businesses.

Fig. 2-2-10 shows the state of successor selection, ratio of succession within family/non-family succession, and breakdown of cases of non-family succession for presidents of micro businesses. Approximately half of enterprises have decided on a successor, both at small corporations and sole proprietorships. These, combined with enterprises with a candidate successor, make up about 70% of the total. Categorizing these successors/candidate successors as within family or non-family, we

find that the successor or candidate successor is non-family at 9.7% of small corporations and 4.9% of sole proprietorships, which is very low compared to medium corporations. This tells us that non-family succession is still not a prominent choice among micro businesses. Breaking down the cases of non-family succession, the most common choice was “non-family employee,” which was the choice of 64.6% of small corporations and 69.3% of sole proprietorships. Combining these with enterprises that chose a “non-family executive,” internal personnel became president in the majority of cases.

Fig. 2-2-10 State of successor selection and current state of non-family succession (small corporations and sole proprietorships)



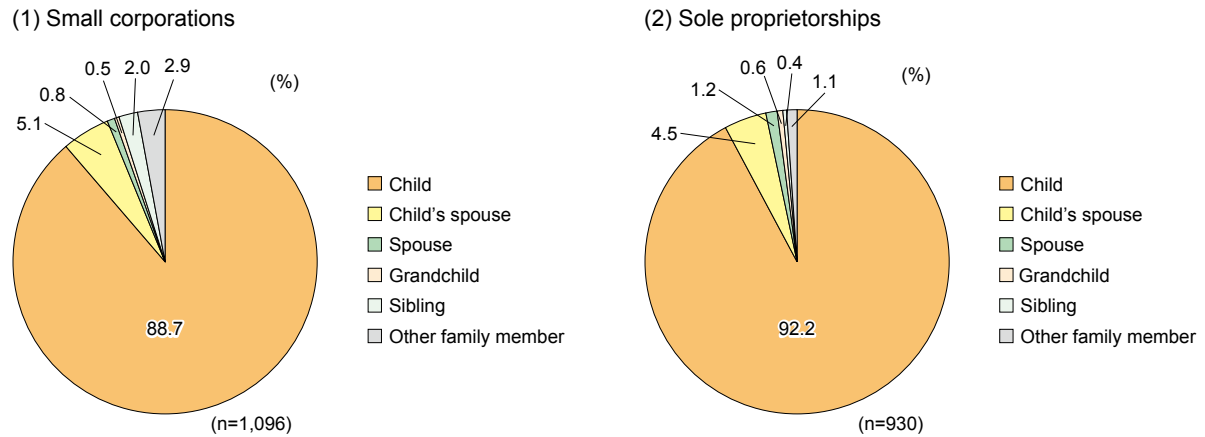
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregated figures are exclusive of those that answered, “intend to close business during my generation.”
 2. Aggregated figures are exclusive of those that answered, “other” regarding successor or candidate successor.
 3. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor.

Next, Fig. 2-2-11 breaks down succession within family at micro businesses. The percentage selecting a “child” as successor or candidate successor was 88.7%

at small corporations and 92.2% at sole proprietorships. Even at micro businesses, succession from parent to child is still the most prominent choice.

Fig. 2-2-11 Breakdown of successions within family (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

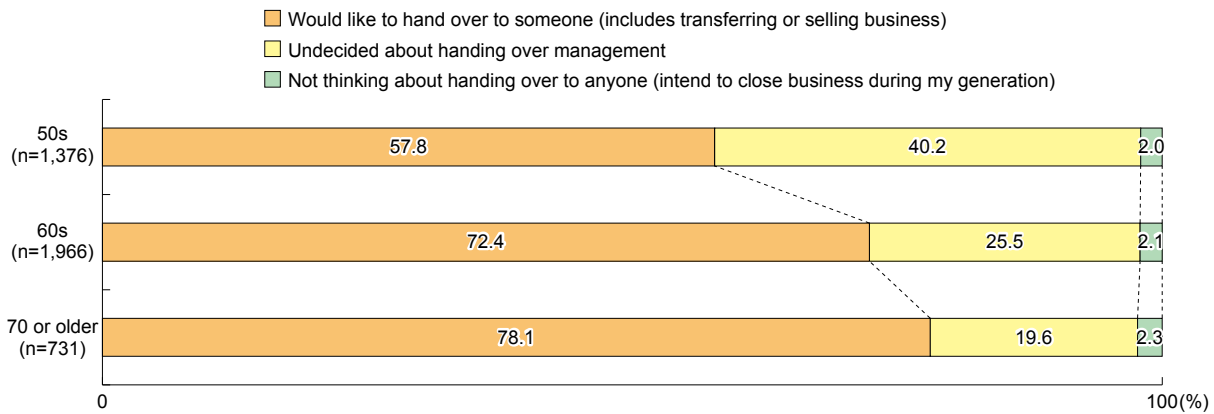
Note: Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.

(3) Perceiving the need to prepare for business succession

Starting here, we overview the steps before business succession, given the results of the questionnaire survey as preconditions. As the Business Succession Guidelines pointed out, the first step is to “perceive the need to prepare for business succession.” It is very important that the president perceive this.

First, we look at the situation at medium corporations. Fig. 2-2-12 shows the inclination of presidents to business succession, based on the president’s age. Even presidents in their 50s said that in time they “would like to hand over to someone” in 57.8% of cases, and this percentage rises with presidents’ age. Though the state of preparation is unknown, the results show that many presidents “would like to hand over to someone.”

Fig. 2-2-12 Inclination of presidents to business succession, based on their age

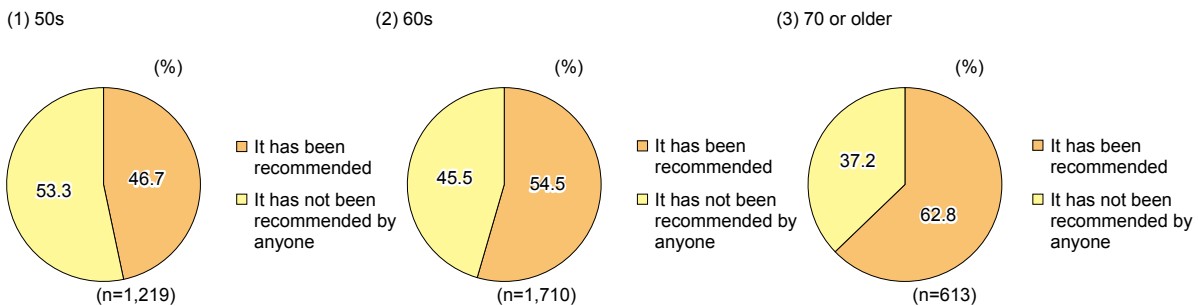


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at whether presidents of medium corporations were recommended by people around them to prepare to hand over management and assets. Fig. 2-2-13 considers the percentage of presidents that were recommended to prepare to hand over management and assets, based on the president’s age. Over half of presidents in their 50s said no one around them had made such a

recommendation, though as age rises, the percentage who have been recommended to do so by those around them rises. On the other hand, 45.5% of presidents age in their 60s and 37.2% of those age 70 or older had not been recommended to prepare by anyone, suggesting it is difficult for those around them to encourage the president to prepare.

Fig. 2-2-13 Percentage of presidents that were recommended to prepare to hand over management and assets, based on the president’s age (medium corporations)

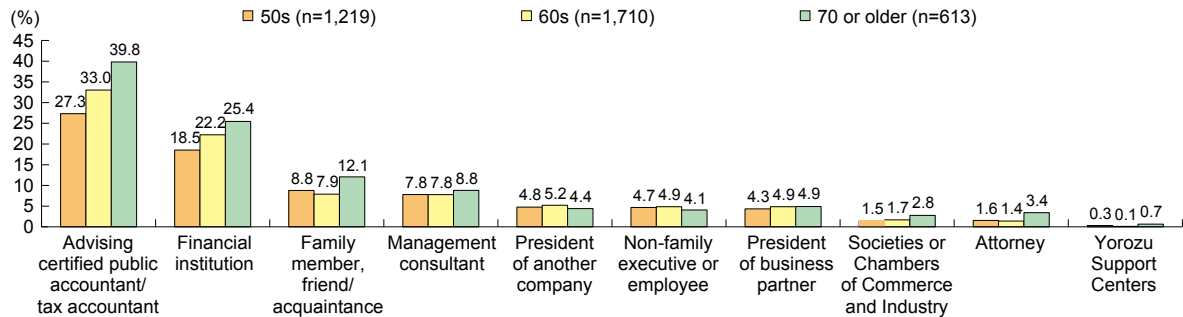


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-14 looks at who made the recommendation to prepare to hand over management and assets, based on the president's age. The most frequent answer was "advising

certified public accountant/tax accountant," followed by "financial institution" and "family member, friend/acquaintance."

Fig. 2-2-14 Who recommended to prepare to hand over management and assets, based on the president's age (medium corporations)



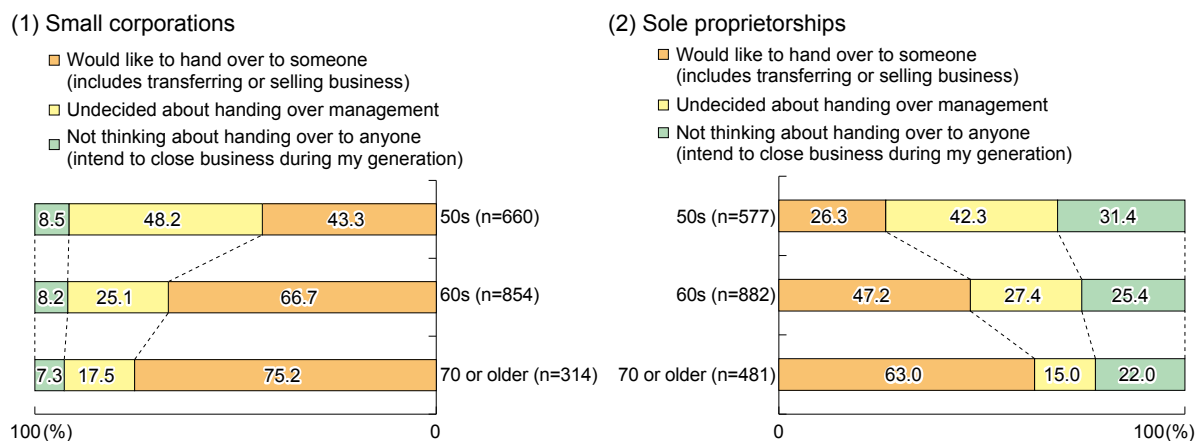
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, "management consultant" includes SME consultants, judicial scriveners, and administrative scriveners.
 3. The items "other" and "it has not been recommended by anyone" are not shown.

Next is a similar look at micro businesses. Fig. 2-2-15 shows the inclination of presidents to business succession, based on the president's age. Overall, a lower percentage of sole proprietorships than small corporations said they "would like to hand over to someone." At sole proprietorships, the younger the business owner, the

stronger the inclination to close the business, but as the age of the president rises, the greater the percentage that said they "would like to hand over to someone." Among presidents age 70 or older, 75.2% at small corporations and 63.0% at sole proprietorships said they would like to hand management over to someone.

Fig. 2-2-15 Inclination of presidents to business succession, based on their age (small corporations and sole proprietorships)



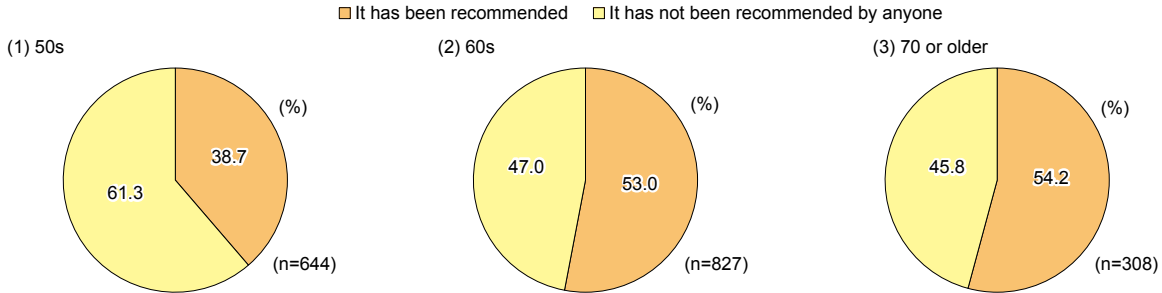
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-16 considers the percentage of presidents at micro businesses that were recommended by someone around them to prepare to hand over management and assets, based on the president's age. In enterprises at both scales, as the president's age rises, the higher the percentage that had been recommended to prepare. For those age 70

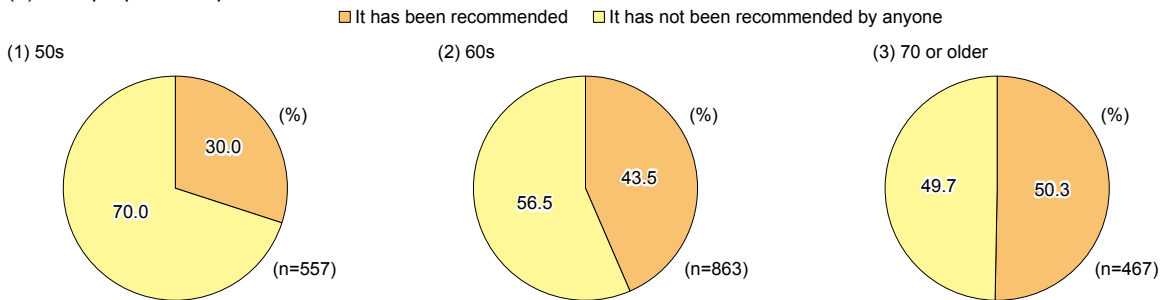
or older, however, the percentage at sole proprietorships was only about 50%, while at small corporations the figure was no more than 54.2%. Moreover, compared to medium corporations, few presidents of micro businesses had been recommended by those around to prepare to hand over management and assets.

Fig. 2-2-16 Percentage of presidents that were recommended to prepare to hand over management and assets, based on the president's age (small corporations and sole proprietorships)

(1) Small corporations



(2) Sole proprietorships

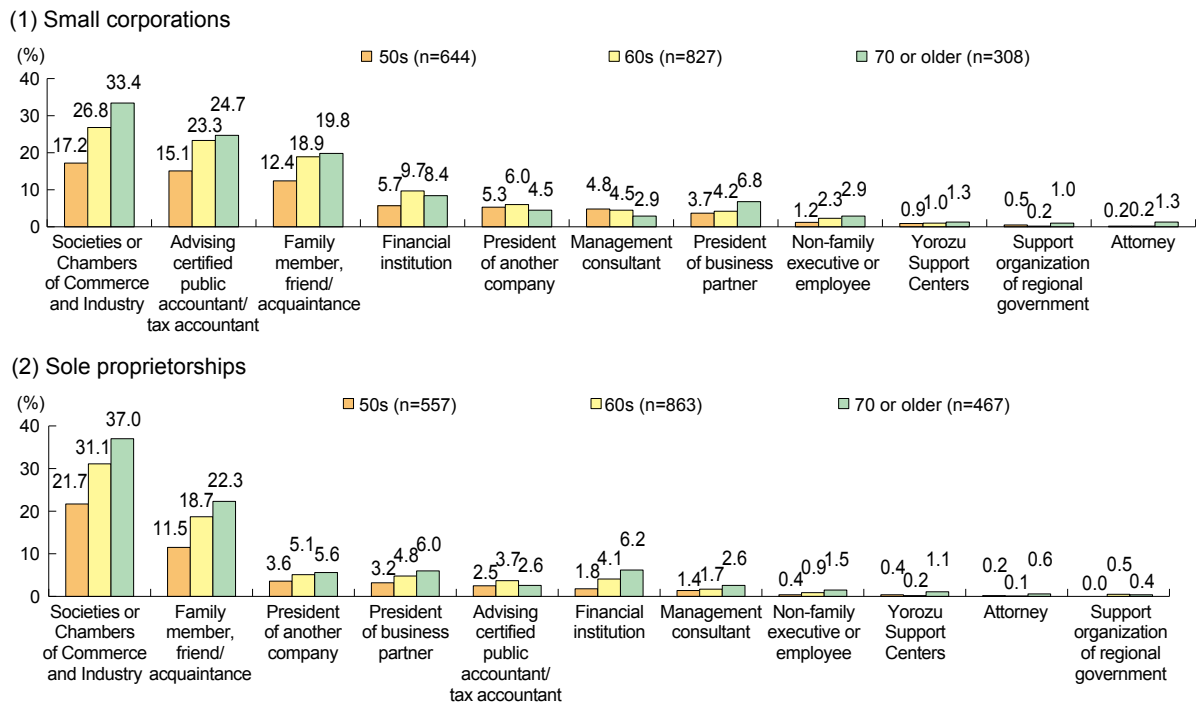


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-17 considers who recommended preparing to hand over management and assets at micro businesses, based on the president's age. At micro businesses, the most common answer was "societies or chambers of commerce and industry."⁸⁾ At small corporations, that answer was

followed by "advising certified public accountant/tax accountant" and "family member, friend/acquaintance," whereas at sole proprietorships, the next most common answers were "family member, friend/acquaintance" and "president of another company."

Fig. 2-2-17 Who recommended to prepare to hand over management and assets, based on the president's age (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, "management consultant" includes SME consultants, judicial scriveners, and administrative scriveners.
 3. The items "other" and "it has not been recommended by anyone" are not shown.

In light of the above, many presidents of SMEs and micro businesses "would like to hand [their businesses] over to someone," and encouragement from people around them is an important trigger for them to start preparing early to hand over management and assets. The percentage of presidents who have been recommended to do so by those around them rises the greater the

president's age, but advising certified public accountants/tax accountants and financial institutions need to start encouraging presidents at an earlier time, and support organizations like societies or chambers of commerce and industry need to do the same for micro businesses, to ensure a smooth business handover.

8) Caution should be taken concerning the survey of micro businesses, as it was given specifically to members of the Central Federation of Societies of Commerce and Industry or a chamber of commerce and industry.

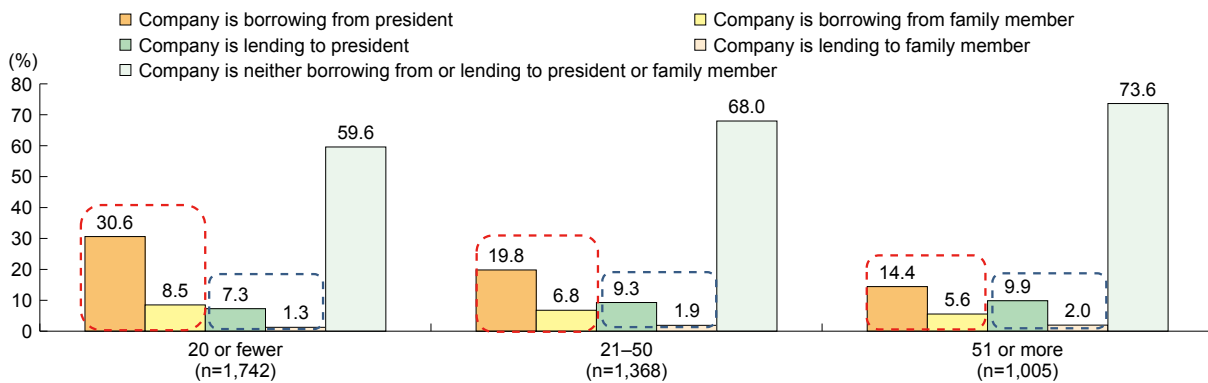
(4) Preparing for business succession (1)
“Clarifying the relationship between company and president/family members in terms of assets”

This part discusses clarifying the relationship between company and president/family members in terms of assets. Funds procurement is fundamental to the existence of a company and its business. Ideally, an enterprise should not have to depend on the personal assets of the president or the president’s family members. Getting funds in order, releasing the personal assets of the president and president’s family members from collateral and providing substitutes for those assets, and releasing the president and president’s family members from their personal guarantees are some of the things that need to be reconsidered to hand a company and its business over to the next generation. Below, we look at the borrowing

relationships between companies and presidents/family members and the current state of the use of personal assets as collateral and the use of presidents’ guarantees, as based on questionnaire survey results.

First, we look at the borrowing relationships between companies and their presidents/president’s family members as based on results of a survey of medium corporations (Fig. 2-2-18). The figure shows that percentage of companies that borrow funds from the president or president’s family members is highest among those with 20 or fewer employees and falls the greater the number of employees. Additionally, the percentage of companies with no such loans at all rises the greater the number of employees. This indicates that there is less of a borrowing relationship between companies and their presidents/president’s family members the greater the number of employees.

Fig. 2-2-18 Borrowing relationships between companies and their presidents/ president’s family members, by number of employees

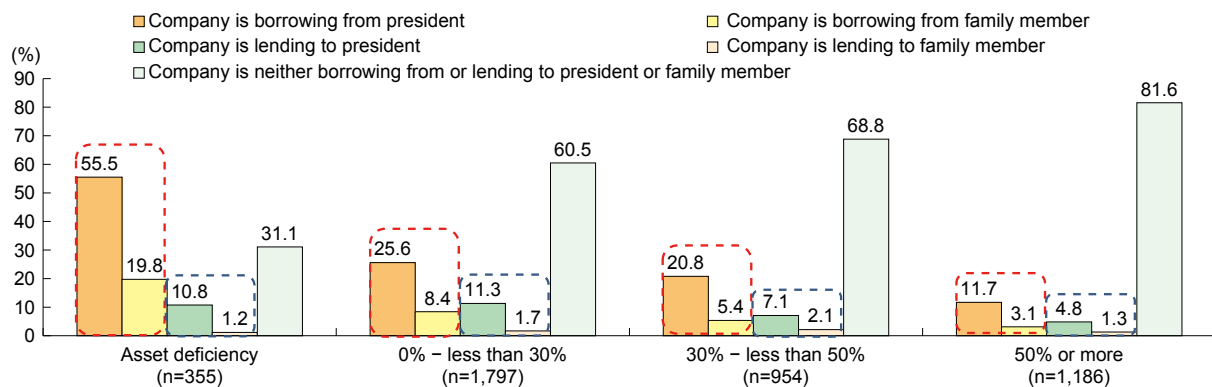


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-2-19 shows the borrowing relationships between companies and their presidents/president's family members, by capital adequacy ratio. More than half of enterprises with an asset deficiency have borrowed money from the president personally, but the higher the capital adequacy ratio, the lower the percentage of companies that have borrowed from their president/president's family members personally. This means that the higher

an enterprise's capital adequacy ratio, the higher the likelihood that it has no loans, and thus there is less of a borrowing relationship. A high percentage of enterprises with an asset deficiency borrow from the president or president's family members, so it is conjectured they have little funds procurement power and depend instead on loans from the president, etc.

Fig. 2-2-19 Borrowing relationships between companies and their presidents/ president's family members, by capital adequacy ratio



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

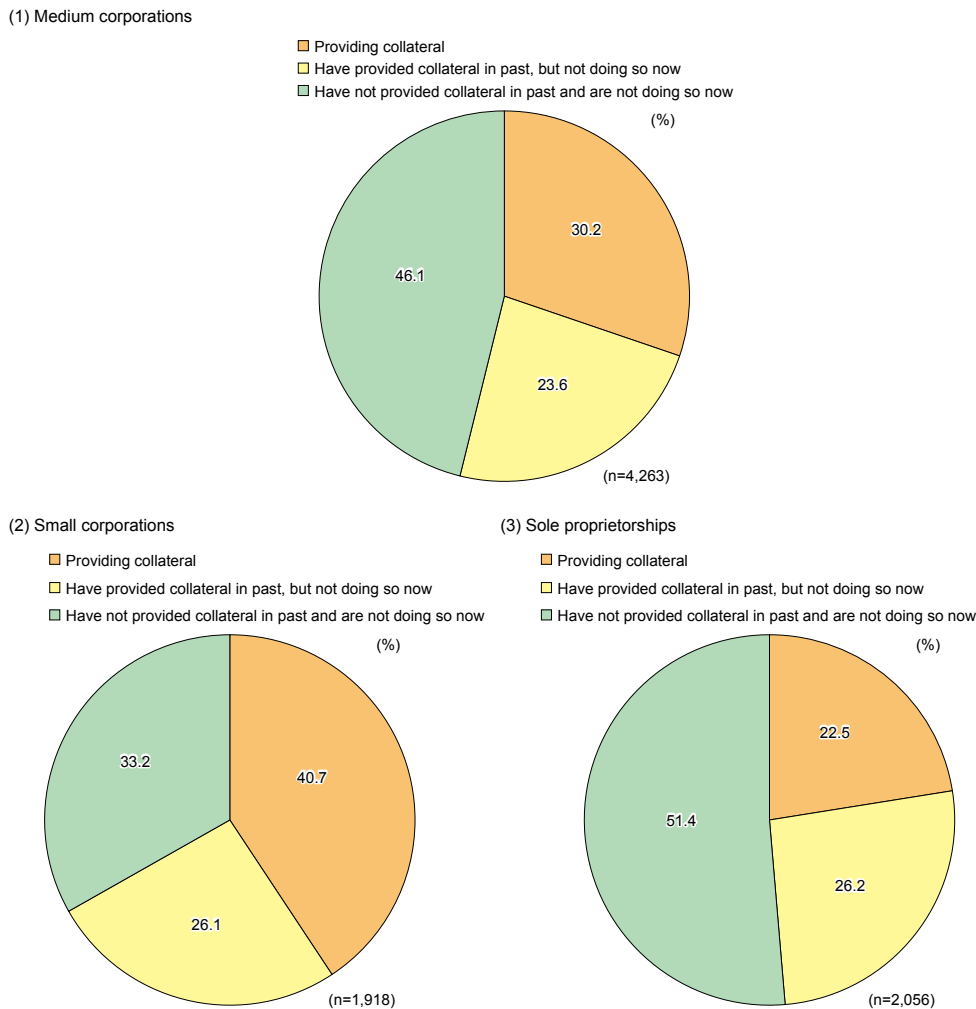
This suggests that at SMEs, the smaller the scale of the enterprise and the less progress the enterprise has made accumulating equity capital, the more the company is identified with the president/president's family members personally. The larger the scale of the enterprise and its

equity capital, there is less of a borrowing relationship between company and president/president's family members and the distinction between corporation and individuals becomes clearer.

Next, we look at the state of providing collateral. When procuring funds, the principle of collateral is to offer some asset that has a business use. It would seem that SMEs and micro businesses, however, offer personal assets without a business use as collateral because of the limitations they face in procuring funds. Fig. 2-2-20 looks at the percentage of enterprises at which the president or president’s family members provide personal assets exclusive of business assets as collateral, by form

of organization. The percentage providing personal assets other than business assets as collateral is 30.2% at medium corporations, 40.7% at small corporations, and 22.5% at sole proprietorships. The percentage of small corporations providing their financial institutions with personal assets other than business assets to procure funds is higher than the same for medium corporations and sole proprietorships.

Fig. 2-2-20 Percentage of enterprises at which the president or president’s family members provide personal assets exclusive of business assets as collateral, by form of organization



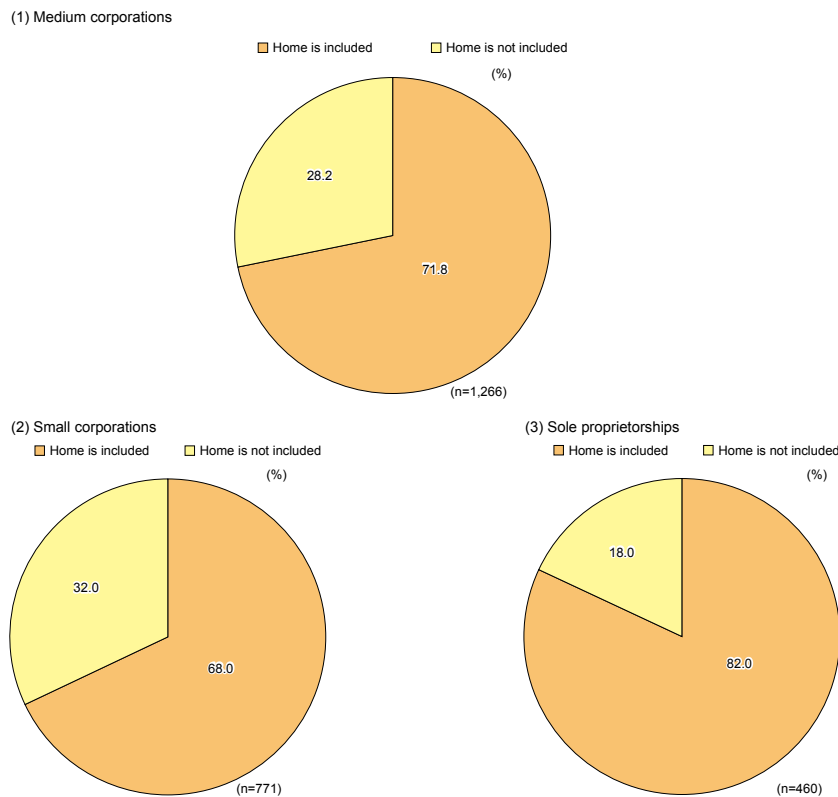
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: “(1) Medium corporations” aggregates surveys of medium corporations and “(2) small corporations” and “(3) sole proprietorships” aggregate surveys of micro businesses.

Fig. 2-2-21 looks at the percentage of those enterprises providing personal assets exclusive of business assets as collateral where that collateral includes the person’s home, by form of organization. About 80% of sole proprietorships provide a home as collateral, while about

70% of medium corporations and small corporations do so. At sole proprietorships, where the business is strongly identified with the president personally, the percentage that include their homes with collateral is very high.

Fig. 2-2-21 Percentage of enterprises where personal assets provided as collateral by president or family member includes the person's home, by form of organization



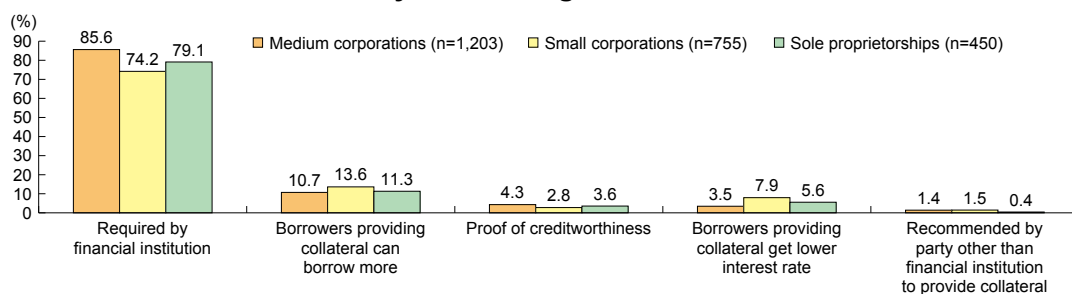
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- “(1) Medium corporations” aggregates surveys of medium corporations and “(2) small corporations” and “(3) sole proprietorships” aggregate surveys of micro businesses.
 - Aggregates those that answered, “providing collateral” regarding providing personal assets owned by president and/or president’s family as collateral.

Fig. 2-2-22 looks at the reasons why personal assets are provided as collateral, by form of organization. The most common answer was “required by financial institution,” while other answers included “borrowers

providing collateral can borrow more” and “borrowers providing collateral get lower interest rate.” Thus, it appears that personal assets are provided as collateral in order to procure funds.

Fig. 2-2-22 Reasons why the president or president's family members provide personal assets as collateral, by form of organization



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

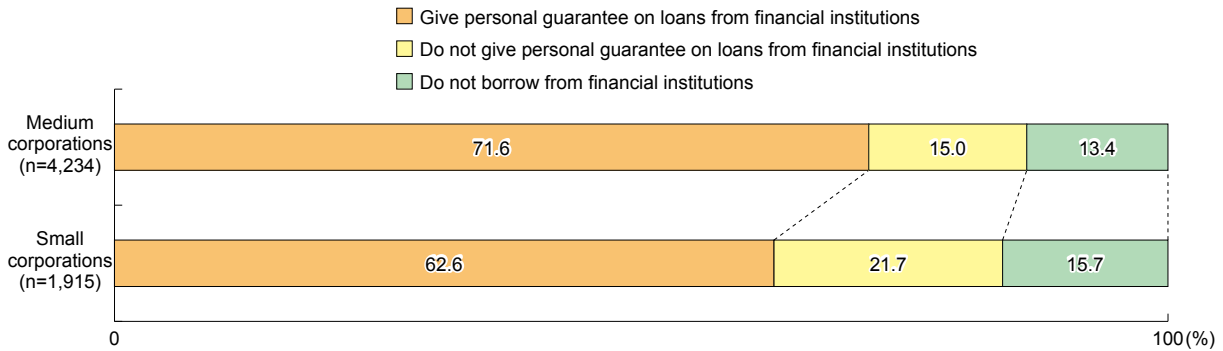
- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - “Medium corporations” aggregates surveys of medium corporations and “sole proprietorships” and “small corporations” aggregates surveys of micro businesses.
 - Aggregates those that answered, “providing collateral” regarding providing personal assets owned by president and/or president’s family as collateral.

Next, we look at the situation with personal guarantees on loans from financial institutions.

First, Fig. 2-2-23 considers the situation with personal guarantees based on whether the enterprise is a medium corporation or small corporation. The percentage saying

that they “give personal guarantee on loans from financial institutions” was 71.6% for medium corporations and 62.6% for small corporations. Therefore, there are many SMEs and micro businesses with loans that use personal guarantees.

Fig. 2-2-23 Situation with personal guarantees (medium corporations and small corporations)



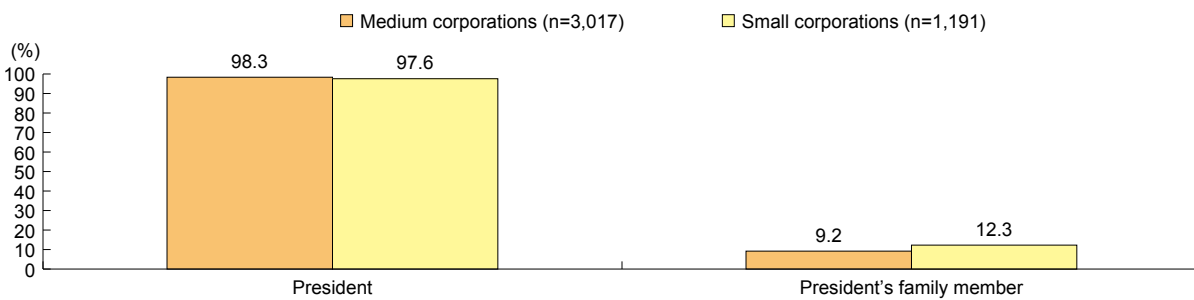
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: “Medium corporations” aggregates surveys of medium corporations and “small corporations” aggregates surveys of micro businesses.

Fig. 2-2-24 considers the person that gives a personal guarantee at enterprises that do so, based on whether the enterprise is a medium corporation or small corporation.

In the majority of cases, it is the president that gives a personal guarantee on loans, though in some cases it is a family member of the president.

Fig. 2-2-24 Person that gives personal guarantee (medium corporations and small corporations)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- 1. Total does not always equal 100% as multiple responses were possible.
- 2. Aggregates those that answered “give personal guarantee on loans from financial institutions” regarding personal guarantees on loans from financial institutions.
- 3. “Medium corporations” aggregates surveys of medium corporations and “small corporations” aggregates surveys of micro businesses.
- 4. Those that answered “executive or employee other than president or family member” and “other” are not shown.

Personal guarantees by the president facilitate funds procurement by imposing rules upon company management and supplementing the company's credit. Some point out, though, that such guarantees can interfere with the enterprise's dynamism, such as when the president wants to develop the business in a bold way, when a business is trying to rehabilitate quickly, or

when it is trying to effect a smooth business succession. Given those facts, the "Guideline for Personal Guarantees Provided by Business Owners"⁹⁾ (below, "Business Owners' Guarantee Guideline") was established in December 2013 and put in operation in February 2014 to promote financing independent of personal guarantees by presidents.

[Reference] Key points of "Guideline for Personal Guarantees Provided by Business Owners"

- (1) If certain conditions are met, for example, the roles of the corporation and the president are clearly separated, financial institutions shall not require the president's personal guarantee and shall consider appropriately reviewing and revising any existing guarantee contracts.
- (2) If the estimate of funds that can be recovered increases as a result of starting business rehabilitation, etc., early, financial institutions shall consider including free assets (¥990,000), and in addition an amount equivalent to living expenses for a certain period, homes that are not extravagant, etc., among the guarantor's residual assets.
- (3) Balances on guarantee obligations that cannot be fully paid back when fulfilling a guarantee obligation shall in principle be exempted.

If an SME or micro-business wishes to procure funds without a president's guarantee, they shall be required to be in a management status such that (1) the roles of the corporation and the president are clearly categorized and separate, (2) it is possible to pay back the loan with the corporation's assets and/or earnings, and (3) the corporation's financial information shall be disclosed in a timely and appropriate manner.

For their part, financial institutions are required to

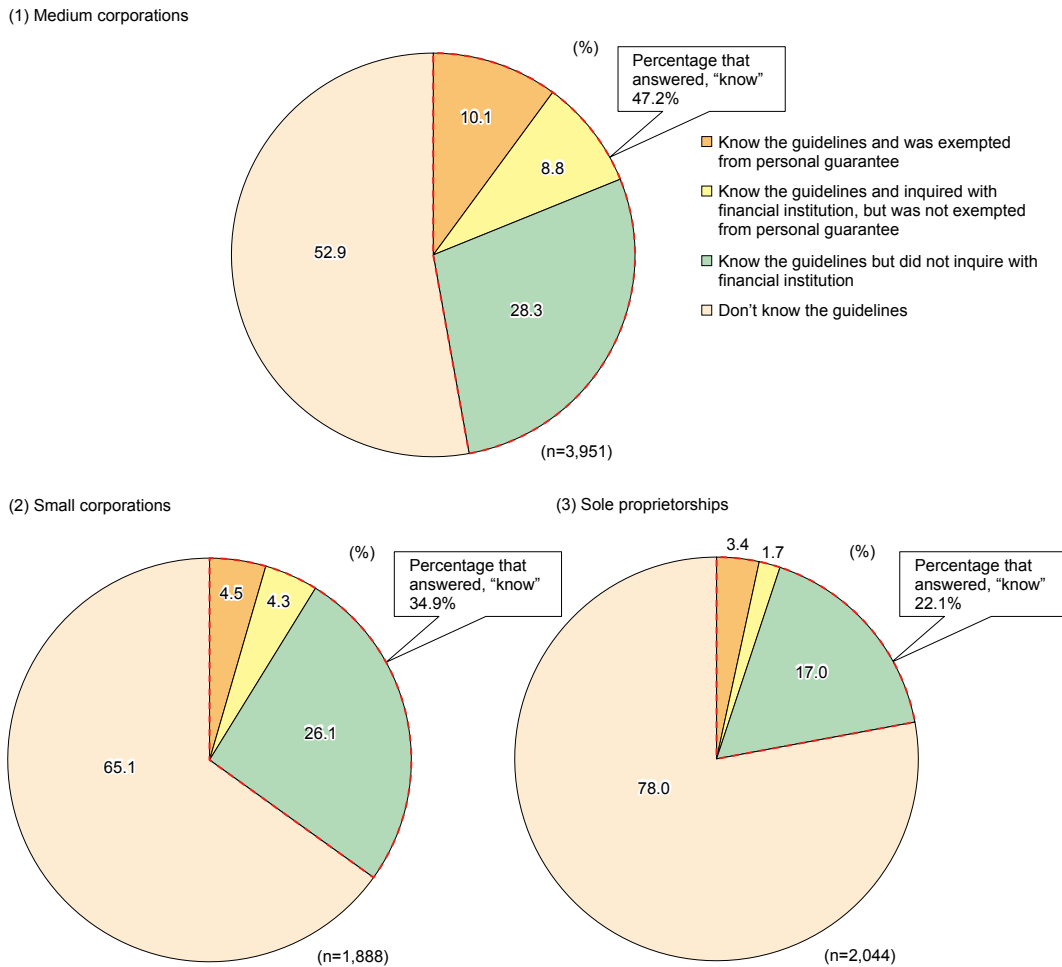
consider the possibility of not asking for the president's guarantee and the possibility of using alternative financing procedures that function similarly to the president's guarantee. If as a result of that consideration, the financial institution decides there is no choice but to ask for the president's guarantee, they are required to carefully and concretely explain the necessity of a guarantee contract and other matters to the debtor and/or guarantor and to set an appropriate guarantee amount.

9) Established by the "Research Committee on Guideline for Personal Guarantees Provided by Business Owners," overseen by the Japan Chamber of Commerce and Industry and Japanese Bankers Association.

Looking at recognition and usage of the Business Owners' Guarantee Guideline, among SMEs and micro businesses that have loans from financial institutions, 47.2% of medium corporations said they know about

the Guideline, but only 34.9% of small corporations and 22.1% of sole proprietorships know it. This indicates a need to further publicize and popularize use of the Guideline (Fig. 2-2-25).

Fig. 2-2-25 Recognition and usage of the Business Owners' Guarantee Guideline, by form of organization



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- “(1) Medium corporations” aggregates surveys of medium corporations and “(2) small corporations” and “(3) sole proprietorships” aggregate surveys of micro businesses.
 - Aggregated figures are exclusive of those that answered, “do not borrow from financial institutions.”

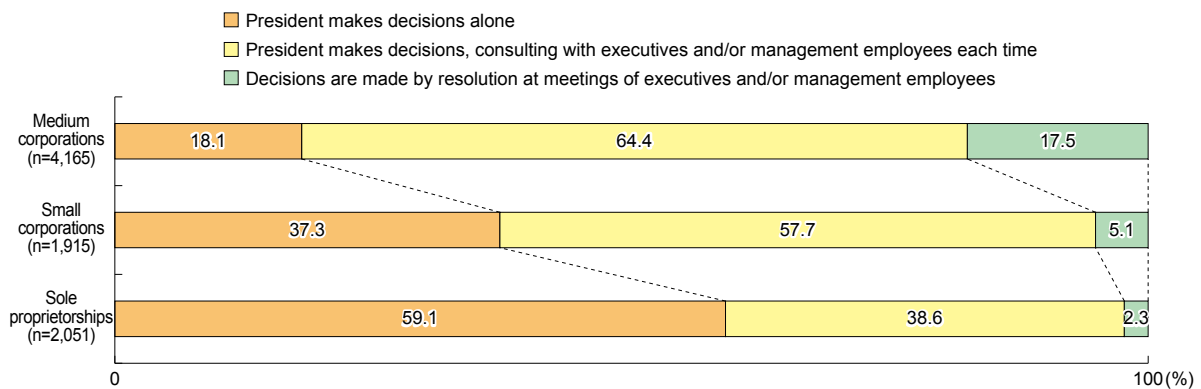
(5) Preparing for business succession (2)
“Establishing the internal organization”

It is necessary to establish an internal organization to ensure that the successor conducts management smoothly after the business succession. With that perspective, we now overview the organizations of SMEs and micro businesses with a focus on internal decision-making and the personnel, etc., that assist the president.

First, we look at internal decision-making based on form of organization (Fig. 2-2-26). The percentage answering

“president makes decisions alone” was a high 59.1% for sole proprietorships, but 37.3% at small corporations and 18.1% at medium corporations. Thus, the larger the enterprise, the lower the percentage that make decisions this way and the higher the percentage that, instead, make decisions by council or in consultation with executives or management employees. A large percentage of micro businesses depend on the president for decision-making, but enterprises that take the form of a corporation tend to make decisions organizationally.

Fig. 2-2-26 How important decisions are made internally, by form of organization



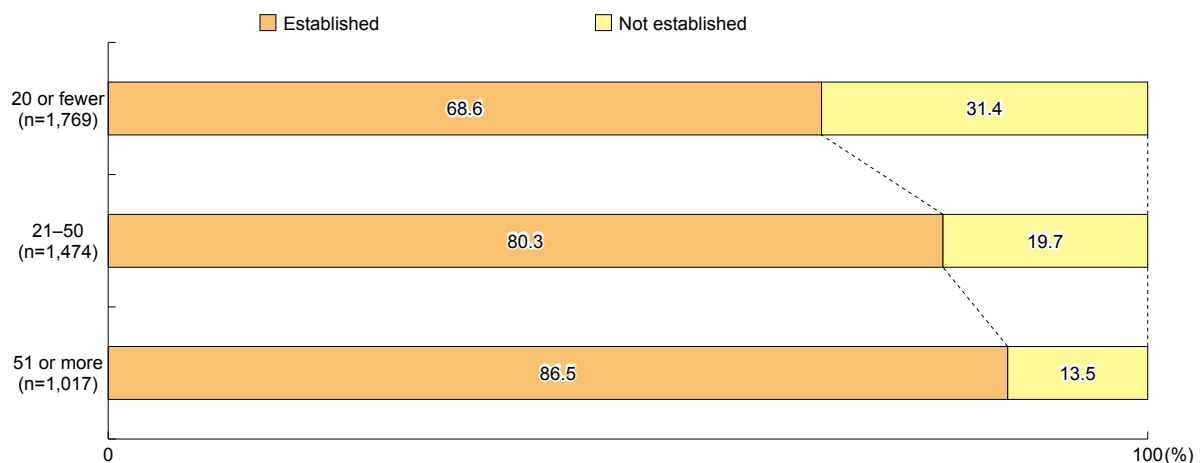
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: “Medium corporations” aggregates surveys of medium corporations and “sole proprietorships” and “small corporations” aggregates surveys of micro businesses.

Next, we look at the status of boards of directors as it concerns making important decisions internally at medium corporations. First, Fig. 2-2-27 shows the state of establishment of a board of directors by number of

employees at the enterprise. It shows that the percentage that have a board of directors rises at medium corporations the greater the number of employees.

Fig. 2-2-27 State of board of directors establishment, by number of employees

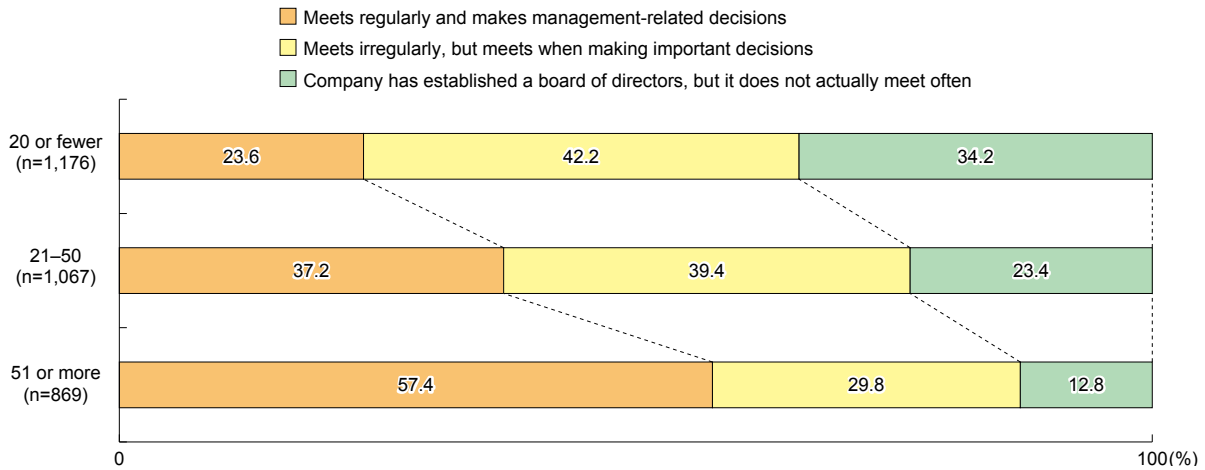


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-28 shows the state of discussions within boards of directors at enterprises that have one, by number of employees. The smaller the number of employees at medium corporations, the higher the percentage that answered, “it does not actually meet often.” As the number of employees rises, however, the higher the

percentage that answered that their board “meets regularly and makes management-related decisions.” It seems that the greater the number of employees, the more likely the enterprise uses its board of directors to make decisions organizationally.

Fig. 2-2-28 State of discussions within boards of directors, by number of employees



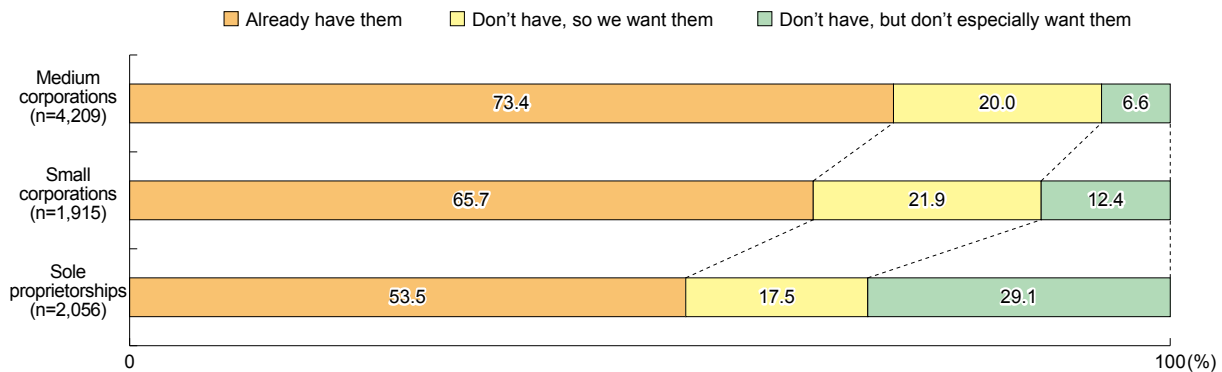
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered “established” regarding establishment of board of directors.

Next, we look at the personnel that assist the president (so-called right-hand persons). Fig. 2-2-29 looks at whether there are personnel to assist the president, based on form of organization. The percentage saying, “already have them” is 73.4% at medium corporations, 65.7% at small corporations, and 53.5% at sole proprietorships.

The percentage saying, “don’t have, so we want them” was 20.0% at medium corporations, 21.9% at small corporations, and 17.5% at sole proprietorships. Combining these with those that answered, “already have them” shows that there are many presidents who have or need someone to assist them.

Fig. 2-2-29 Enterprises that have or do not have personnel to assist the president, based on form of organization



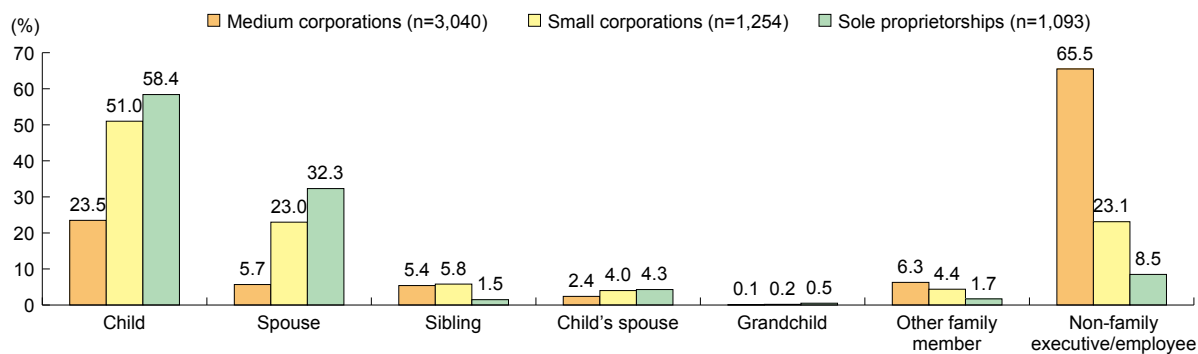
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: “Medium corporations” aggregates surveys of medium corporations and “sole proprietorships” and “small corporations” aggregates surveys of micro businesses.

Next, we look at what kind of personnel there are assisting with management. Fig. 2-2-30 looks at the relationship between current presidents and the personnel that assist them, based on form of organization. At micro businesses, a high percentage chose family members,

e.g., “child” or “spouse,” but the most common response at medium corporations was “non-family executive/employee,” showing that there is a big difference by form of organization.

Fig. 2-2-30 Relationship between presidents and the personnel that assist them, by form of organization



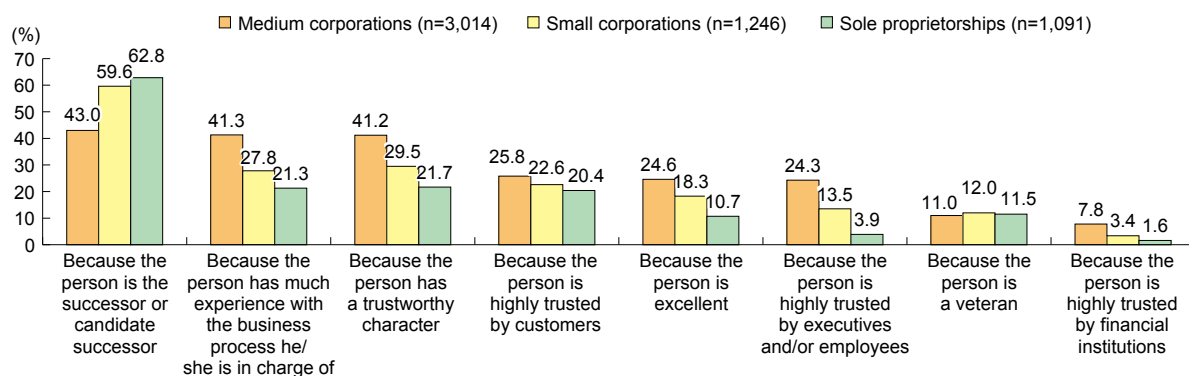
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered “already have them” regarding personnel to assist the president.
 3. “Medium corporations” aggregates surveys of medium corporations and “sole proprietorships” and “small corporations” aggregates surveys of micro businesses.

Fig. 2-2-31 looks at the reasons why SMEs and micro businesses that have personnel to assist the president consider those persons to be of assistance to the president, based on form of organization. The most common response was “because the person is the successor or candidate successor.” This was an especially strong tendency

at micro businesses. At SMEs and micro businesses, presidents’ assistants were known for their abundant experience and character, but it is conjectured that when successors and candidate successors get appointed as “right-hand persons” and assist with management, they are also being prepared to take over management.

Fig. 2-2-31 Reasons why persons who assist the president as considered as such, based on form of organization



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered “already have them” regarding personnel to assist the president.
 3. “Medium corporations” aggregates surveys of medium corporations and “sole proprietorships” and “small corporations” aggregates surveys of micro businesses.
 4. Those that answered “other” are not shown.

In light of the above, medium corporations are practicing organizational decision-making, but many micro businesses, especially sole proprietorships, rely on the president's judgment. Additionally, presidents that have personnel to assist them, regardless of number of employees and form of organization, conduct management together with their "right-hand persons," which includes

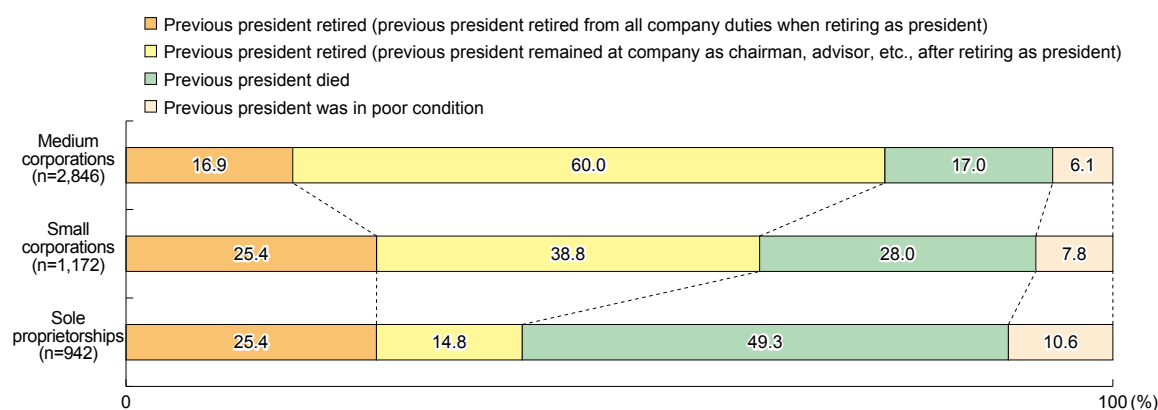
their successors. It is not so easy to establish such an organization or to secure personnel to assist the president, but it is important to build an organization focused on the handover to the successor and to pay attention to securing and fostering personnel to assist the president starting before the president has to deal with business succession.

Column 2-2-1 Problems faced during business handover

This column overviews what triggered the handover of a business to its second or later generation president and things that became problems when that happened.

First, Fig. Column 2-2-1 (1) shows what triggered the handover, by form of organization. At medium corporations and small corporations, "previous president retired" was usually the trigger, but at 59.9% of sole proprietorships, the trigger was "previous president died" or "previous president was in poor condition." There was a certain percentage that gave this answer even at medium corporations and small corporations, which could be part of the reason that there is a negative impression about business succession.

Fig. Column 2-2-1 (1) Triggers of business handover, by form of organization

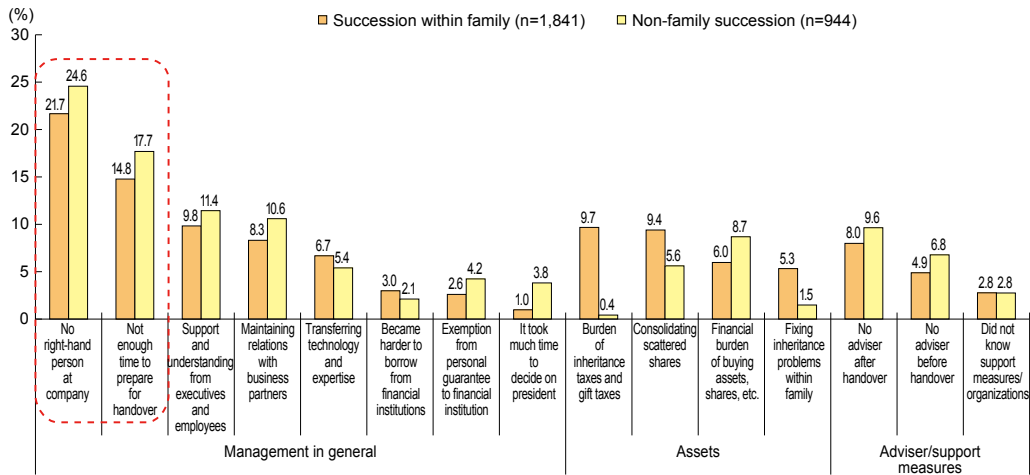


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. "Medium corporations" aggregates surveys of medium corporations and "sole proprietorships" and "small corporations" aggregates surveys of micro businesses.
 2. Aggregates those that answered second-generation or later president.

Next, Fig. Column 2-2-1 (2) asks what kinds of things became problems during business handover at medium corporations, based on whether it was succession within family or non-family succession. It shows that for management in general, the top answers were "no right-hand person at company" and "not enough time to prepare for handover." These responses were given by a higher percentage of enterprises where there was a non-family succession than a succession within family. On the assets side, a high percentage of those with a succession within family answered, "burden of inheritance taxes and gift taxes," while a high percentage of those with a non-family succession answered, "financial burden of buying assets, shares, etc."

Fig. Column 2-2-1 (2) Problems faced during business handover (medium corporations)

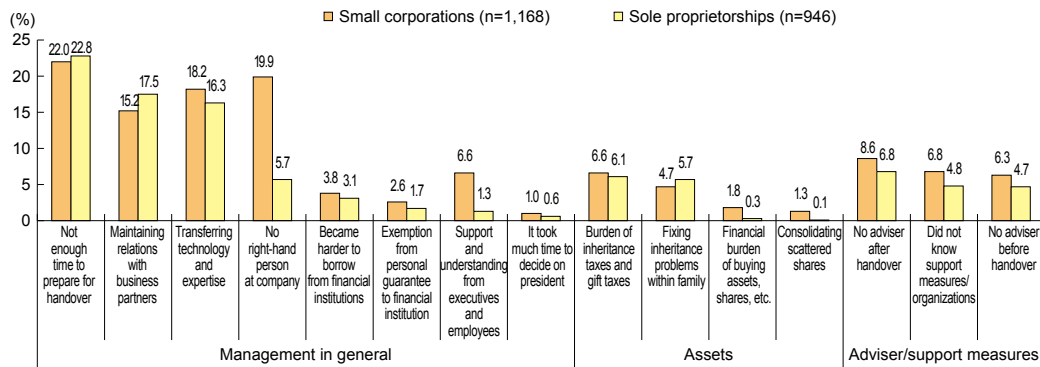


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Aggregates those that answered second-generation or later president.
 - Here, “succession within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor president’s relationship to previous president. Also, here, “non-family succession” refers to those that answered, “non-family executive” or “non-family employee” regarding successor president’s relationship to previous president. Aggregated figures are exclusive of those that answered, “other” regarding successor president’s relationship to previous president.
 - Those that answered “other” or “none in particular” are not shown.

Next, Fig. Column 2-2-1 (3) asks what kinds of things became problems during business handover at small corporations and sole proprietorships. For management in general, the top answers included “not enough time to prepare for handover,” “maintaining relations with business partners,” and “transferring technology and expertise.” Small corporations responded, “no right-hand person at company” at a higher rate than sole proprietorships.

Fig. Column 2-2-1 (3) Problems faced during business handover (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Those that answered “other” or “none in particular” are not shown.
 - Aggregates second-generation and later presidents.

Based on the above, there are many SMEs and micro businesses that see a lack of time to prepare and a lack of right-hand persons within the company as problems occurring during business handover. From this we can conclude that for a business succession to happen smoothly, it is helpful if the president handing over management perceives that succession will take time and starts establishing the internal systems and developing personnel in a planned way before actually handing over management to the successor.

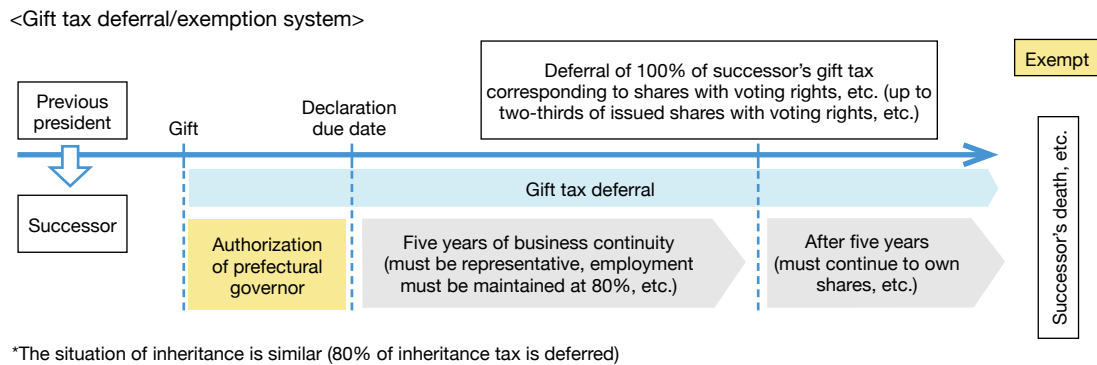
Column 2-2-2 Measures for business succession

This column gives an overview of business succession support measures that can be used to ensure a smooth business succession.

Comprehensive support based on Management Succession Facilitation Act

- **Exceptions under civil law concerning legally reserved portion**
 Successors who meet certain conditions (includes non-family successors) can qualify as exceptions under civil law as below by agreeing in writing with all claimants to legally reserved portion and taking the required procedures (getting the confirmation of the Minister of Economy, Trade and Industry and getting approval from family court).
 - (1) Exclusion of shares donated during the lifetime of the predecessor from being factored into the price of assets for calculating legally reserved portion
 The dispersion of shares upon inheritance can be prevented by leaving shares out of the scope of requests to reduce legally reserved portion.
 - (2) Pre-fixing the valuation of shares gifted during lifetime
 Increases in share value can be concentrated in management without worry of rising enterprise value, by not factoring it into the price of assets for calculating legally reserved portion.
- **Financial support**
 In cases where financing demand (e.g., assets for purchasing treasury stock or assets for paying taxes) or a decline in credibility results from business succession and creates an impediment to management, assuming the prefectural governor authorizes it, (1) the credit guarantee limit can be substantially expanded or (2) a loan can be given to the representative individual by the Japan Finance Corporation.
- **Business succession tax system**
 Payment of the portion of gift tax and inheritance tax corresponding to the taxation amount of unlisted shares, etc., that the successor acquires from the previous president by gift or inheritance will be deferred (100% of gift tax, 80% of inheritance tax) if the prefectural governor authorizes in respect to the Management Succession Facilitation Act and certain conditions continue to be met after that. (However, this provision applies only up to two-thirds of issued shares with full voting rights, including shares with voting rights that the successor already owned before the gift or inheritance.) In cases such as the successor subsequently dying, the deferred tax amount becomes exempt (Fig. Column 2-2-2).
 A revision has been made so that, starting in FY2017, the employment conditions (maintain 80% of the number of employees on average for five years) will apply even in cases where enterprises with fewer than five employees reduce their number of employees by one. In addition, employment conditions will be made more flexible in such cases as disaster or bankruptcy of major business partners. Additionally, enterprises will be able to make concurrent use with the taxation system for settlement at the time of inheritance, which will reduce the tax burden when the gift tax deferral is cancelled.

Fig. Column 2-2-2 Overview of business succession tax system



Aiming to use business succession as an opportunity for growth

• Business succession subsidies

Business successions (including cases that involve business rehabilitation) provide an opportunity to give support for the costs needed for capital investment, expansion of sales channels, closing existing businesses, etc., at (1) SMEs that take on management innovation and (2) SMEs that undertake to make a change of business (subsidy maximum ¥2 million in the case of (1) and ¥5 million in the case of (2), subsidy rate of 2/3).

Reference (Business Succession Guidelines)

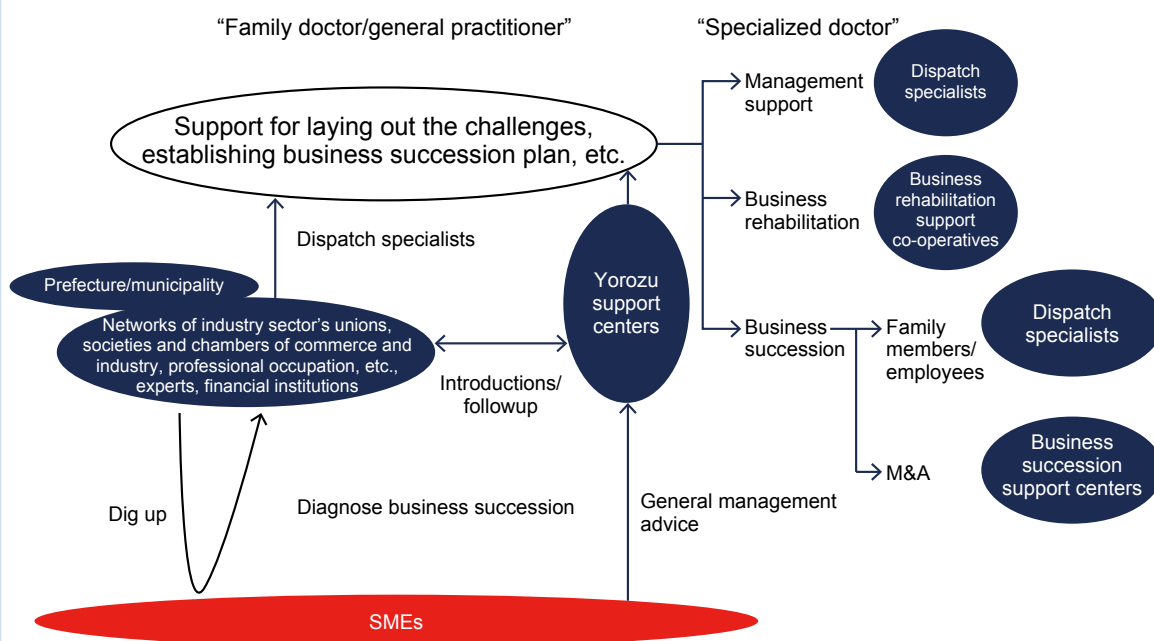
- (1) Importance of prompt and systematic efforts for business succession (performance of business succession diagnosis)
- (2) Presents five steps for business succession
- (3) Establishes Business Succession Guidelines, the main content of which involves strengthening systems for supporting business succession in local areas. In addition to the above, presents an overview of business succession and caution notes, measures for dealing with issues, etc. (SME Agency web site → Financial support → Business succession)

Column 2-2-3 Strengthening business succession support systems in local areas

- Business Succession Networks

Business Succession Networks are being built, mainly at the prefectural level, that consist of a variety of support organizations including societies and chambers of commerce and industry, professional specialists like certified public accountants and tax accountants, financial institutions, and more (Fig. Column 2-2-3 (1)). Another aim is to use tools like “business succession diagnoses” (Fig. Column 2-2-3 (2)) to uncover business succession needs with help from a support organization, and to build a system wherein SMEs can get seamless support up to the point where their challenges are solved by commissioning appropriate support organizations suited to specific challenges.

Fig. Column 2-2-3 (1) Strengthening business succession support systems



For those with successor problems

- Business succession support center¹⁰⁾

To ensure smooth business handovers and business successions at SMEs, “business succession support centers” in each prefecture give advice and information to solve problems and also help with matching.

10) A business succession support center is a specialized agency established to support SMEs and others by matching them with successors, based on the Act on Strengthening Industrial Competitiveness.

Fig. Column 2-2-3 (2) Business succession diagnosis (self-diagnosis)

Image **事業承継自己診断チェックシート**

以下の設問について、「いいえ」という回答があった方は、次ページをご覧ください。

Q1	事業計画を策定し、中長期的な目標やビジョンを設定して経営を行っていますか。	はい	いいえ
Q2	経営上の悩みや課題について、身近に相談できる専門家はいますか。	はい	いいえ
<p>【以下の中から、当てはまる設問へお進みください】</p> <ul style="list-style-type: none"> ・私には後継者がいる【子ども、親族、従業員】・・・☆へ ・私には後継者にしたい人材がいる【子ども、親族、従業員】・・・Q6～Q7へ ・私には後継者がいない・・・Q8～Q9へ 			
<p>☆後継者に対し将来会社を託すことを明確に伝え、後継者として事業を引継ぐ意思を確認しましたか。</p> <p>※「はい」の方はQ3～Q5を回答してください。 「いいえ」の方はQ6～Q7を回答してください。</p>			
Q3	後継者に対する教育・育成、人脈や技術などの引継ぎ等の具体的な準備を進めていますか。	はい	いいえ
Q4	役員や従業員、取引先など社内外の関係者の理解や協力が得られるよう取組んでいますか。	はい	いいえ
Q5	法務面や税務面、資金面などについて将来の承継を見据えた対策を進めていますか。	はい	いいえ
Q6	後継者の正式決定や育成、ご自身の退任時期の決定など、計画的な事業承継を進めるために必要な準備期間は十分にありますか。	はい	いいえ
Q7	後継者候補に承継の意向について打診をする時期や、ご自身がまだ打診をしていない理由は明確ですか。 (後継者候補が若く、打診するには早すぎる 等)	はい	いいえ
Q8	第三者に事業を引継ぐ（企業売却・事業譲渡等）場合の相手候補先はありますか。	はい	いいえ
Q9	企業売却・事業譲渡等の進め方についてご存知ですか。	はい	いいえ

※次ページには、支援機関の紹介等を掲載

Case 2-2-1 Otani Co., Ltd.

A company that advertised for a president due to difficulty in finding a management successor, but with succession within the family, is working to create an organization that looks toward the next generation

Otani Co., Ltd. (employees: 600 [main factory: 55; store sales: 545]; capital: ¥100 million), which has its headquarters in Niigata City, Niigata Prefecture, is a company that manufactures and sells seals and rubber stamps. Establishing the company at the age of 24 in 1966, company Chairman Katsuhiko Otani, now 74, has expanded the company to 135 seal stores throughout the country, mainly located in shopping malls, and has built the highest sales volume in the industry within a single generation.

When Mr. Otani reached the age of 55, he began to consider a successor. Setting the target of replacing himself as President in five years, when he would be 60, Mr. Otani first consulted with his three daughters, but none of them wished to take over the role. Similarly, none of the company's senior staff members were willing to succeed him. As a result, in summer 1998, when he was 56, Mr. Otani advertised for a President for his company on the Internet, something which was quite rare at that time. He received about 20 applicants, including individuals with experience as management in major corporations and as branch managers in banks. After repeated document screenings and interviews, Mr. Otani invited a candidate in his 50s with experience as a department manager in a large corporation to act as an executive of the company, with the understanding that he would be appointed President. Mr. Otani delegated a new business project to this candidate following his entry to the company, seeking to offer him the necessary experience as a manager. Despite the fact that the candidate possessed considerable ability in making presentations and conducting negotiations, as was to be expected of an individual with experience of management in a major corporation, the new project failed to get on track. As a result, the candidate was not appointed President, and left the company about four years later.

At this time, Mr. Otani reflected as follows: "The President of a family-operated SME also has to present personal guarantees, and personal assets as collateral, to financial institutions, and there were a number of hurdles that would have needed to be overcome for a third party from outside the company to take over as President. In this type of environment, it would have required a good deal of preparedness for someone outside the family to take the position of President."

As Mr. Otani faced the prospect of an extended period of difficulty in finding a successor before him, in 2010 his second-eldest daughter, Naoko Otani, offered to take over as his successor. Ms. Otani says, "Originally I had no intention of taking over, but I had grown up seeing both my parents involved in running the company, and I would sometimes be curious about my father's business. I knew nothing about the company or the industry, but I couldn't bear to think of a company that supported people's livelihoods going out of business simply because a successor could not be found."

In 2012, Naoko Otani was appointed President of the company, and initially felt that the company's organization was underdeveloped. She says, "Perhaps because the company Chairman is also the founder, the company organization was one in which the Chairman gave instructions, and employees followed those instructions. It was one-man operation in a good sense, having brought the company to this level in one generation. When the candidate for President came in from outside the company, our employees felt that he did nothing but give orders. If a person without a proven record attempts to give orders from above like the Chairman, employees will not follow. Although I'm the Chairman's daughter, I have no experience of being President or of the industry in general, and an organization in which I tried to do the same as the Chairman simply wouldn't function. Because of this, rather than an organization in which the President gives orders, I sought to realize one in which employees think and act for themselves." Even today, Ms. Otani visits the company's factories and stores, listening to the opinions of employees and seeking quietly to change employee awareness, encouraging them to think about problems and ways to make improvements. She feels that there is still a long way to go, but she now receives opinions from some of the company's employees. She says, "One of the management principles that comes from my father is to never stop offering the customer happiness, satisfaction and inspiration. When I see the devotion to service expressed by our tremendous store managers and the staff who deal day-to-day with our customers, I feel that this principle is strongly rooted, and this is a lesson for me. Employees who work in our manufacturing sites recognize better than I what are problems and what improvements can be made. My job is to get their opinions, and to establish an environment in which we can make improvements one after another."

Regarding the future succession of the business, Ms. Otani has this to say: "I believe that the employees who work for the company should give serious thought to the company's future. I would like executives to be appointed from among employees, and the future President to be cultivated from

among them. I believe that my role is to create an organization allowing me to pass on management to the next generation.” It seems that the roles demanded of the company’s Presidents differ with the generations. The founding President established the company, guided it onto its course, and oversaw its expansion; the second-generation President will create an organization enabling the company to continue into the future.



“Never stop offering the customer happiness, satisfaction and inspiration”
Company Chairman Katsuhiko Otani and company President Naoko Otani
stand before the company’s management principles and management
guidelines

2. State of preparation for and challenges with management handover

Management handover is an extremely important element of business succession. In order to maintain and develop the business fostered by the preceding president, maintain employment, and hold up the business's part of the supply chain, it is vital that a business select and get the approval of its successor at an early stage and take its time handing over responsibilities.

In subsection 2, we analyze the state of preparation for and challenges with management handover at SMEs and micro businesses. The analysis is done separately for medium corporations and micro businesses (small corporations and sole proprietorships).

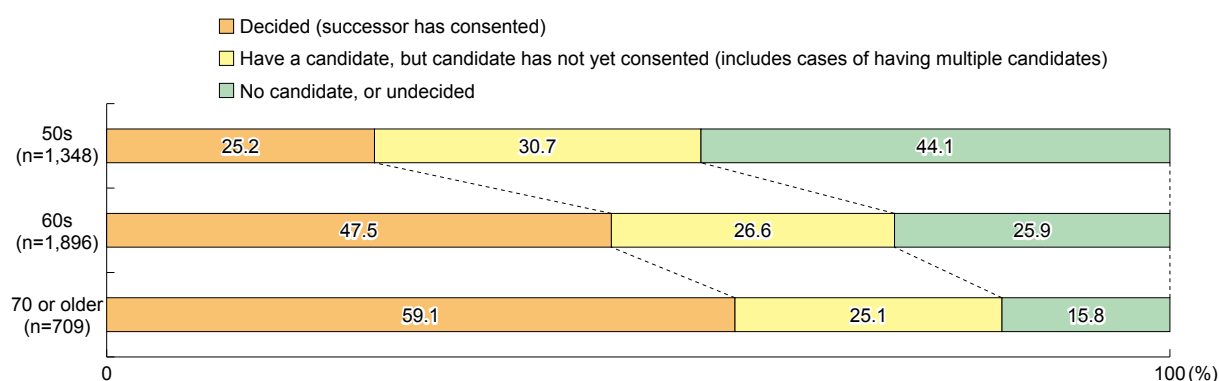
(1) Management handover at medium corporations

From this point, we look at management handover at medium corporations based on results of a questionnaire

survey of medium corporations. Among medium corporations, there are a certain percentage of SMEs considering handing over management to a non-family executive or employee, as Fig. 2-2-8 shows. Therefore, we also look at the differences between cases of succession within family and handover to non-family executive or employee.

First, we look at the status of selection of successor, by president's age (Fig. 2-2-32). Among presidents in their 50s, no more than 25.2% had decided on a successor, but that number rises to 59.1% for presidents age 70 or older. On the other hand, 40.9% of presidents age 70 or older had not decided on a successor, answering "have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)" or "no candidate, or undecided."

Fig. 2-2-32 Status of selection of successor, by president's age



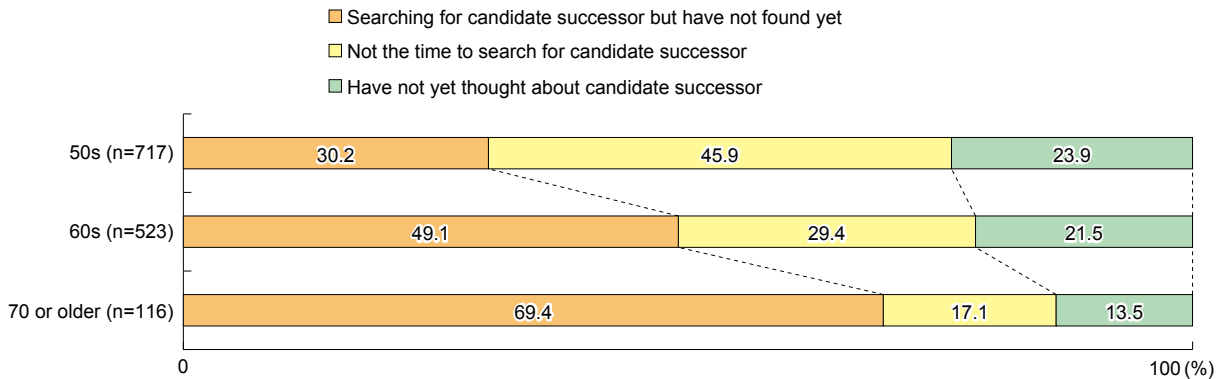
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "would like to hand over to someone (includes transferring or selling business)" or "undecided about handing over management" regarding inclination about business succession.

Fig. 2-2-33 asks those presidents who answered, “no candidate, or undecided” what they think about candidate successors. Only 30.2% of presidents in their 50s answered, “searching for candidate successor but have not found yet,” but 69.4% of presidents age 70 or older did so, showing that the greater the president’s age,

the higher the percentage looking for a successor. On the other hand, even among presidents age 70 or older, 13.5% said “have not yet thought about candidate successor.” Thus, a certain percentage of presidents exists that have not thought about business succession even as they grow older.

Fig. 2-2-33 Status of enterprises without a candidate successor, by president’s age



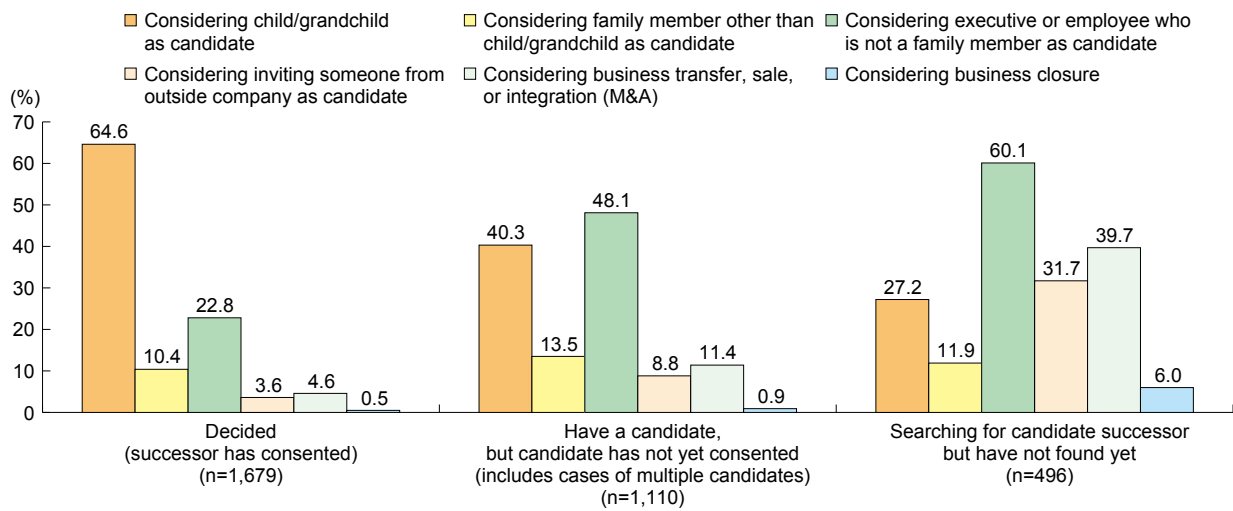
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “no candidate, or undecided” regarding successor to be entrusted with management.

Next, Fig. 2-2-34 looks at what kind of future presidents are considering as they select a successor, based on their successor selection status. The percentage answering, “considering child/grandchild as candidate” was high among enterprises described as “decided (successor has consented),” but it was only 40.3% among those described as “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” and just 27.2% among those described as “searching for candidate successor but have not found yet.” On the other hand, at enterprises that answered, “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates),” a high percentage were considering

a non-family succession, that is, a non-family executive or employee or a person from outside. Among enterprises that said, “searching for candidate successor but have not found yet,” there was a high percentage that, in addition to those scenarios, were considering a business transfer, sale, or integration (M&A). At enterprises where the successor was decided, it is conjectured that many made their decision at the stage of considering a family member. Enterprises where the successor was not decided, on the other hand, are thought to be considering a non-family successor (executive, employee, etc.) because they cannot consider family members as candidate successors.

Fig. 2-2-34 Scenarios considered when selecting successor, by successor selection status

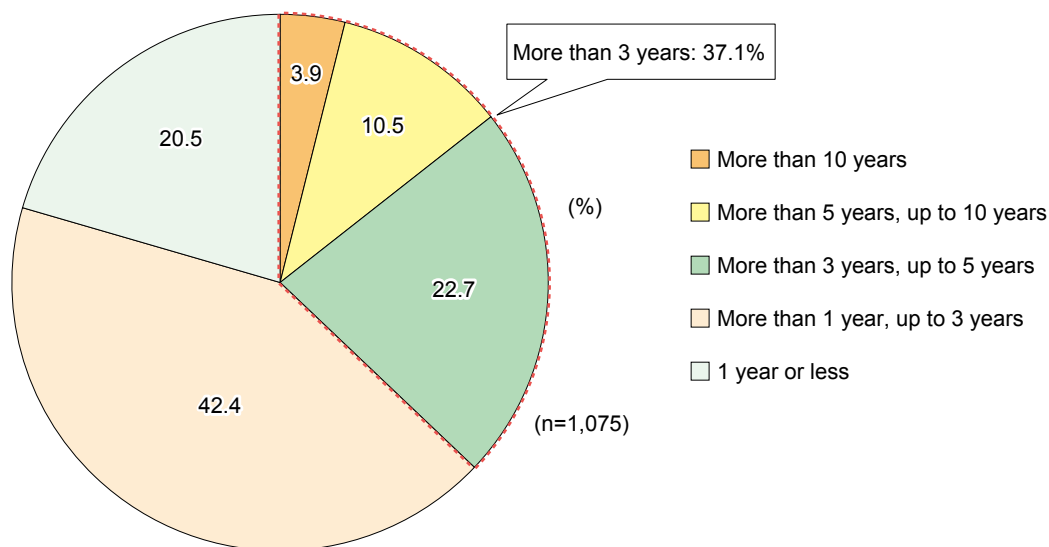


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Note: Total does not always equal 100% as multiple responses were possible.

Next, Fig. 2-2-35 looks at how much time it took from start of the successor selection process until the successor consented. 37.1% of medium corporations needed more than three years. Give that, after the successor consents, an enterprise must train the successor (e.g., teach the company’s expertise to the successor) and foster

personnel to assist the president, it is best if the successor selection process begins and the company starts preparing for management handover early.

Fig. 2-2-35 Time it took from start of successor selection process until the successor consented

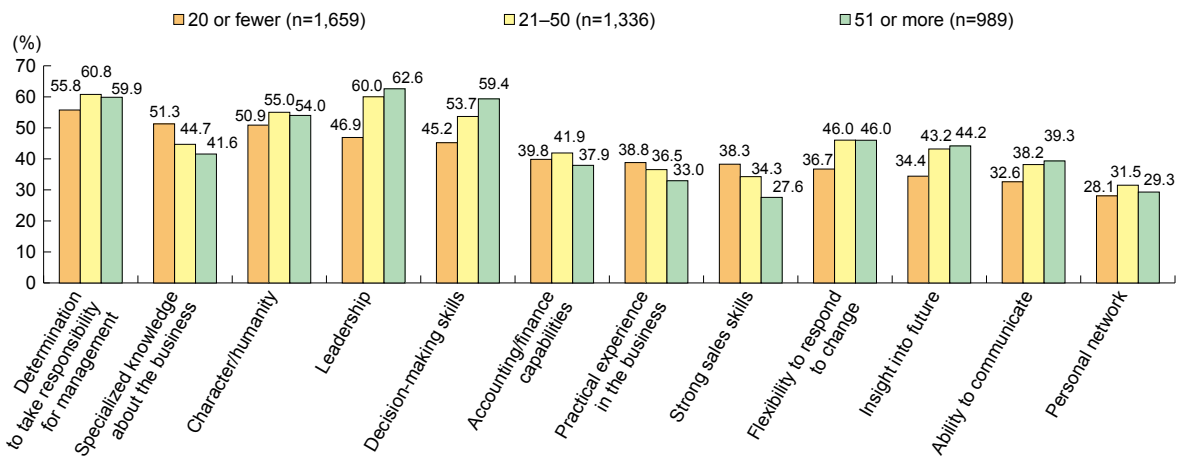


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Note: Aggregates those that answered, “decided (successor has consented)” regarding successor to be entrusted with management.

From this point, we look in detail at the points that presidents of medium corporations value when deciding on a successor. To begin, Fig. 2-2-36 looks at the qualities and capabilities that presidents sought in their successors, by number of employees. Seen overall, the most frequent

answer was “determination to take responsibility for management,” but among enterprises with 51 or more employees, the most common answer was “leadership.” The results reveal differences in the qualities expected of successors depending on number of employees.

Fig. 2-2-36 Qualities and capabilities sought in successors (by number of employees)

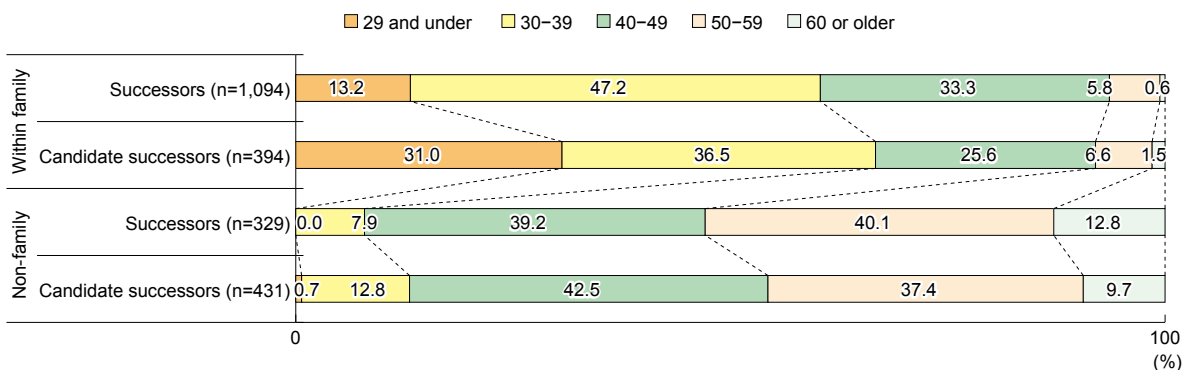


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Note: Total does not always equal 100% as multiple responses were possible.

It would appear that differences in how successors are selected occur based on whether the current president and successor/candidate successor have a family relationship. From this point, we analyze the process of getting to a decision on successor, with a focus on whether the successor/candidate successor is family or non-family. Fig. 2-2-37 looks at the age of successors/candidate successors by whether they are family or non-family. In the case of

succession within family, the most common answer for successor/candidate successor age was “30–39,” while for candidate successors the second most common was “29 and under.” For non-family succession, on the other hand, many successors and candidate successors were “40–49” and “50–59.” There appeared to be a successor/candidate successor age difference based on whether handover was within family or not.

Fig. 2-2-37 Age of successor/candidate successor

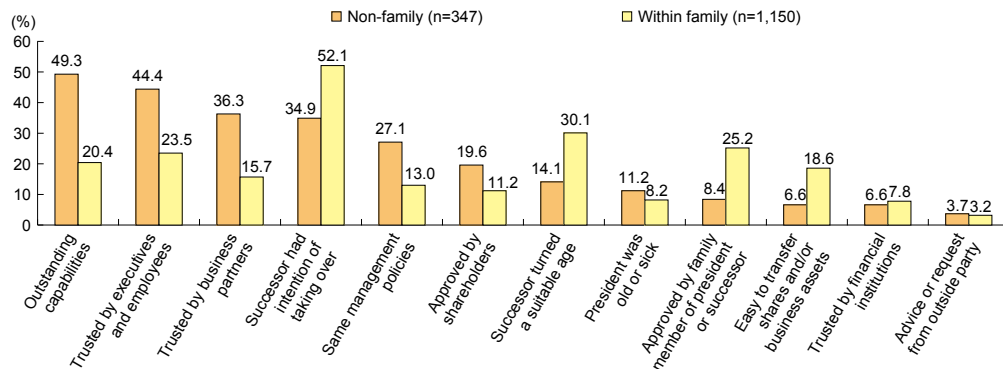


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Note: Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor or candidate successor.

Next, we consider the reasons for deciding on the successor, based on the relationship between the president and successor (Fig. 2-2-38). A leading reason in both family and non-family successions was “successor had intention of taking over,” but in enterprises where the successor came from within family, there was a greater emphasis on “successor turned a suitable age” and “approved by family member of president or successor”

than in enterprises where the successor was non-family. On the other hand, the results show that in cases of a non-family successor, there was a greater emphasis on the successor’s capabilities and qualities and the trust that others put in the successor, as evidenced by the answers “outstanding capabilities,” “trusted by executives and employees,” and “trusted by business partners.”

Fig. 2-2-38 Reasons for deciding on the successor (within family, non-family)



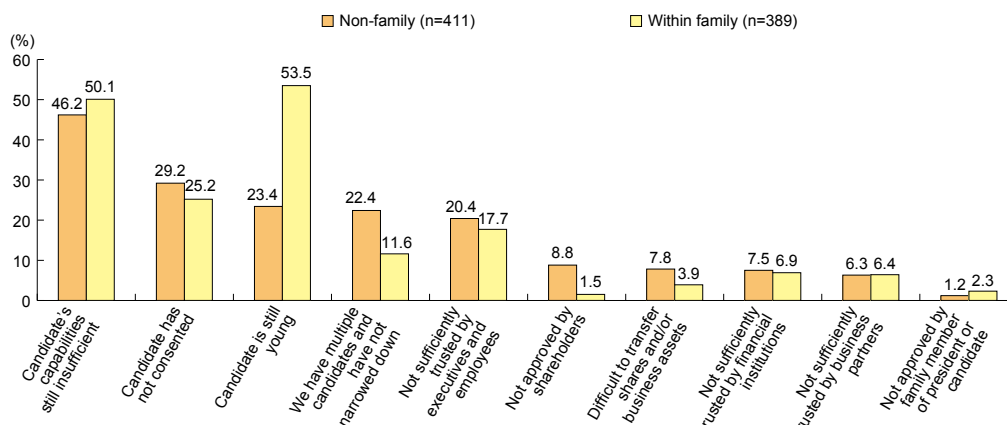
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor.

Next, we look at the reasons why some enterprises have a candidate successor but have not yet decided on the successor, based on whether the candidate successor is within the family or not (Fig. 2-2-39). In both situations, the answers, “candidate’s capabilities still insufficient”

and “candidate has not consented” were near the top. In cases where the candidate successor came from within family, however, the most common answer (53.5%) was “candidate is still young,” which was a bigger concern than in the case of a non-family candidate.

Fig. 2-2-39 Reasons why enterprises have not yet decided on the successor (within family, non-family)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

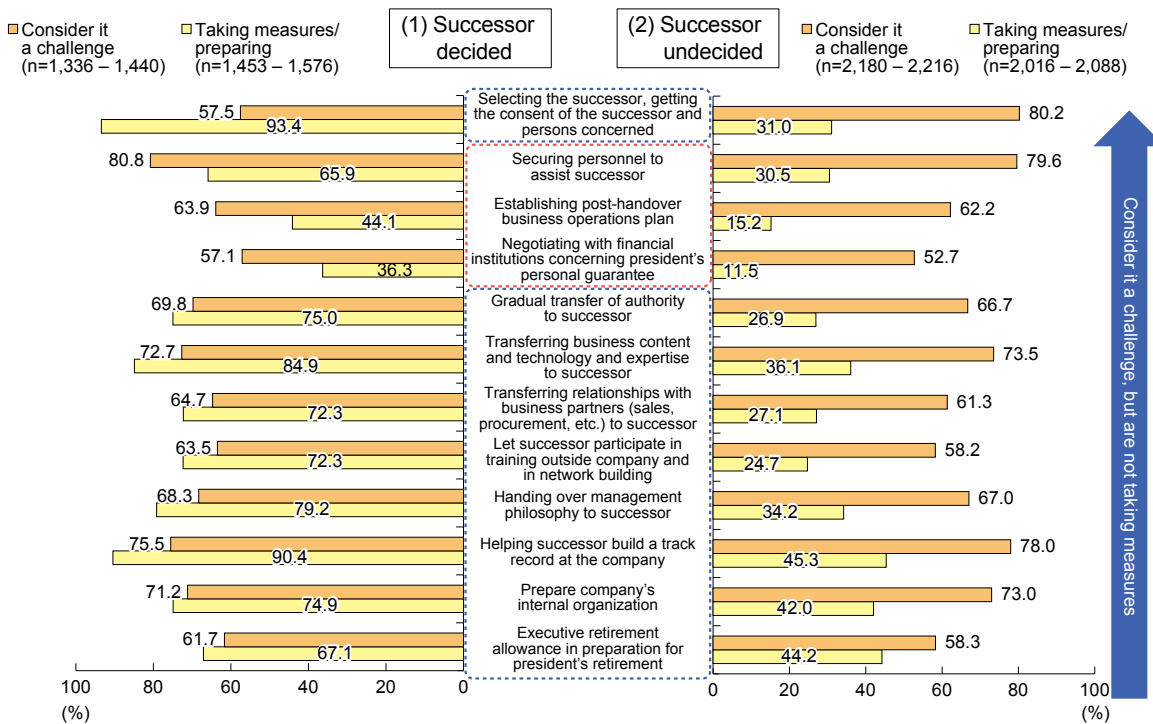
- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding candidate successor.

This part has looked at the reasons why enterprises decided on a successor or had not yet decided on a successor, but in those cases of succession within family, there was a high percentage that emphasized age (e.g., “successor turned a suitable age” or “candidate is still young”), suggesting that there is a right time (a “suitable age”) for the candidate to become the successor when succession is within family. This is consistent with the result from Fig. 2-2-37 that the age of successors is greater than the age of candidate successors.

Here, we look at the challenges enterprises face in handing over management, and their measures and state of preparation for dealing with those challenges, focusing on differences between enterprises where the successor was decided and enterprises where the successor was not. Fig. 2-2-40 looks at the management handover challenges enterprises face and their measures and state of preparation for dealing with those challenges. At enterprises where the successor was not decided, the most

common challenge was “selecting the successor, getting the consent of the successor and persons concerned,” and there was a big difference in the percentage that were taking measures and preparing. On the other hand, both enterprises that had and had not decided on a successor felt that “securing personnel to assist successor,” “establishing post-handover business operations plan,” and “negotiating with financial institutions concerning president’s personal guarantee” were challenges, but only a small percentage were taking measures and preparing. At enterprises where the successor was not decided, it is important first of all to select a successor and get the successor’s consent, but because it takes time to secure personnel to assist the successor and have conversations with the financial institution about personal guarantees, at the same time as securing a successor, it is also necessary to anticipate the future handover of management and take the needed measures and preparations systematically.

Fig. 2-2-40 Management handover challenges and measures and state of preparation for dealing with those challenges (enterprises where successor was/was not decided)



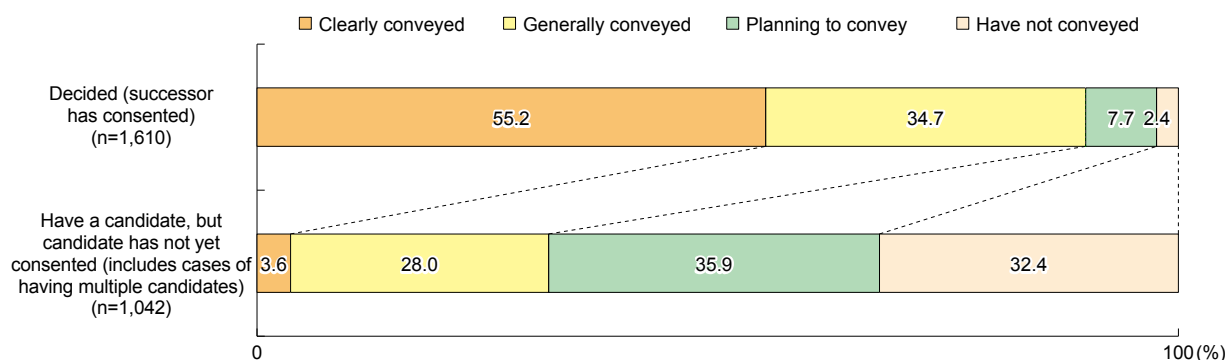
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”
 3. Items are ordered based on size of difference (largest to smallest) between percentage of enterprises that have not decided on successor that answered, “consider it a challenge” and percentage that answered “taking measures/preparing.”

To get the consent of the candidate successor, first an enterprise must convey its intention to transfer management to that person. Fig. 2-2-41 looks at the extent to which the intention to transfer management had been conveyed. Many enterprises where the successor was

not decided had not conveyed their intention to transfer management. Thus, it is important for current presidents to try to firmly convey their intention to transfer management to the successor.

Fig. 2-2-41 Conveyance of management handover intention to successor/candidate successor



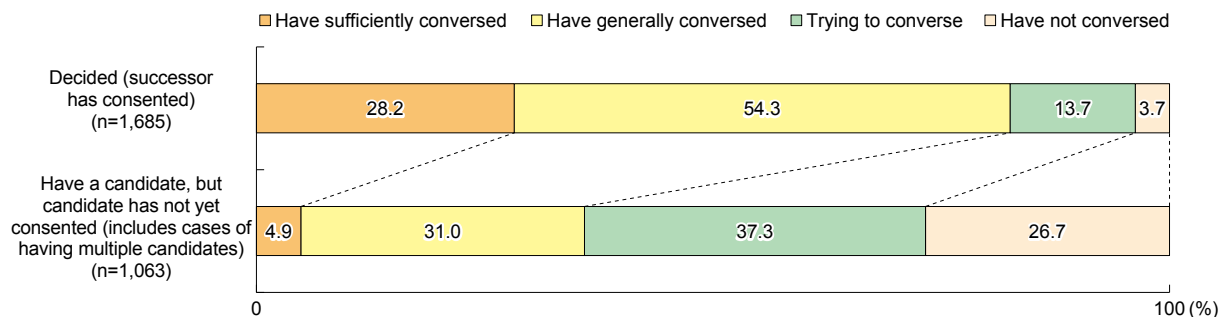
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at the conversations presidents have with the successor/candidate successor. Conversations with the successor/candidate successor refers to routine conversations about business and management in order to pass down intellectual assets, convey to the successor the intention of transferring management, and get the successor’s consent. Intellectual assets are, as listed in Fig. 2-2-1, invisible, intangible assets such as technology, skills, intellectual property (patents, brands, etc.), organizational strength, management philosophy, and customer networks. As such, intellectual assets are a company’s strength and source of value. Passing

these intellectual assets down to the next generation is indispensable for the maintenance and development of the business. It is also necessary for presidents to have routine conversations with the successors/candidate successors for the sake of letting the successors/candidate successors form the intention of taking over management.

First, we look at the state of conversations with successors/candidate successors. According to Fig. 2-2-42, a higher percentage of enterprises where the successor was decided had had conversations than was the case at enterprises where the successor was not decided.

Fig. 2-2-42 State of conversations with successors/candidate successors, based on successor selection status

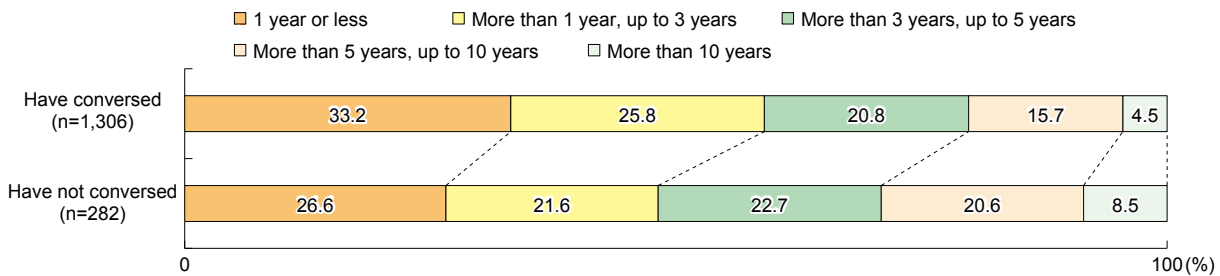


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at the effectiveness of such conversations with successors. Fig. 2-2-43 looks at how much time it took from start of the successor selection process until the successor consented at enterprises where the successor was decided, based on the state of conversations. Enterprises

that had had conversations tended to take less time from start of selection to successor's consent than was the case with enterprises that had not had conversations. It is conjectured that enterprises that have had conversations with the successor get the successor's consent more easily.

Fig. 2-2-43 Time it took from start of successor selection process until the successor consented, by state of conversations



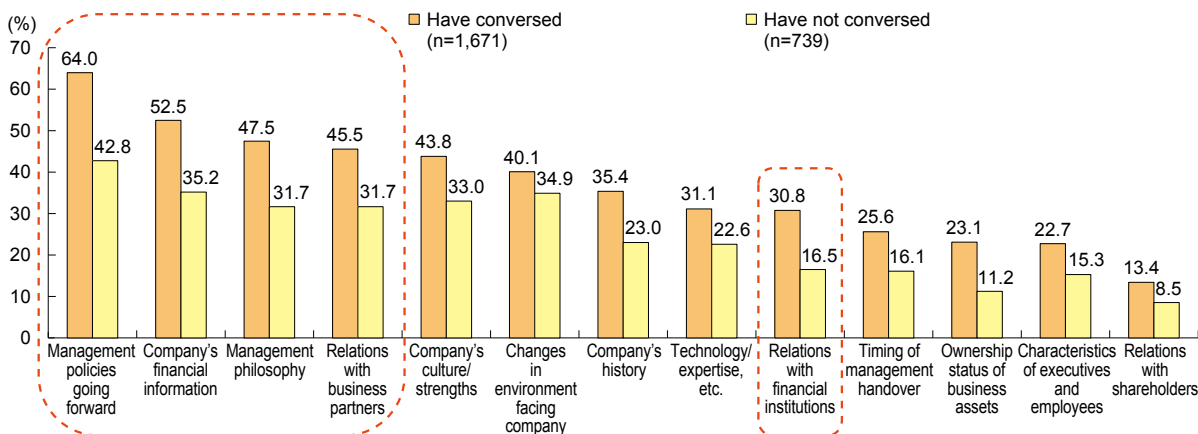
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates those that answered, “decided (successor has consented)” regarding successor to be entrusted with management.
 2. Here, “have conversed” refers to those that answered, “have sufficiently conversed” or “have generally conversed” regarding the state of their conversations with the successor. Also, here, “have not conversed” refers to those that answered, “trying to converse” or “have not conversed” regarding the state of their conversations with the successor.

Next, we examine the matters that presidents and their successors/candidate successors discussed in their conversations. Fig. 2-2-44 looks at the matters discussed in conversations with successors/candidate successors, by state of conversations. The most common matter discussed was “management policies going forward,”

followed by “company’s financial information,” “management philosophy,” and “relations with business partners.” Matters where there were very different results for enterprises that had had conversations and enterprises that had not had conversations include all of these, plus “relations with financial institutions.”

Fig. 2-2-44 Matters discussed in conversations with successors/candidate successors, based on conversations status



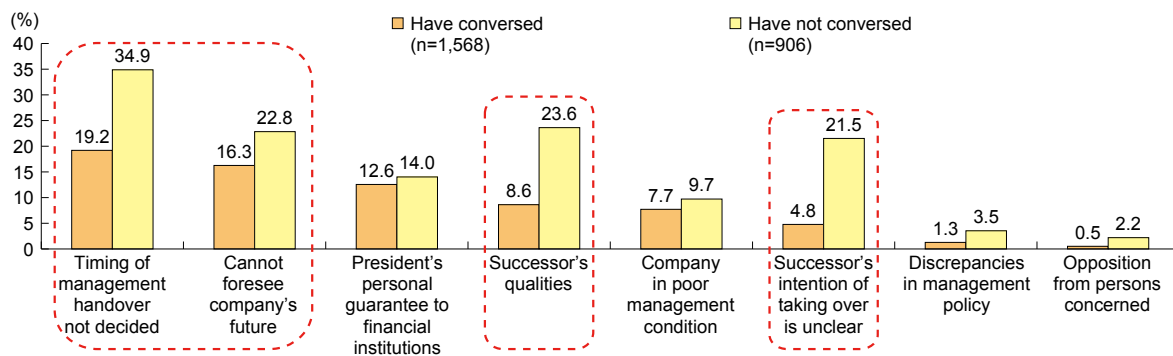
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.
 3. Here, “have conversed” refers to those that answered, “have sufficiently conversed” or “have generally conversed” regarding the state of their conversations with the successor or candidate successor. Also, here, “have not conversed” refers to those that answered, “trying to converse” or “have not conversed” regarding the state of their conversations with the successor or candidate successor.
 4. Those that answered “other” are not shown.

Fig. 2-2-45 looks at the obstacles to conversations with successors/candidate successors, by state of conversations. Focusing on enterprises that “have not conversed,” the most common answer was “timing of management handover not decided,” followed by “successor’s intention of taking over is unclear” and “successor’s qualities.” One matter that both groups had discussed was “president’s personal guarantee to financial

institutions.” Enterprises that had not had conversations also had problems concerning the successor, such as that person’s qualities and intention to take over, but there was also a problem concerning the current president: “timing of management handover not decided.” It is important to advance the business succession in a systematic way, with a clear schedule for doing so.

Fig. 2-2-45 Obstacles to conversations with successors/candidate successors, based on conversations status



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.
 3. Here, “have conversed” refers to those that answered, “have sufficiently conversed” or “have generally conversed” regarding the state of their conversations with the successor or candidate successor. Also, here, “have not conversed” refers to those that answered, “trying to converse” or “have not conversed” regarding the state of their conversations with the successor or candidate successor.
 4. Those that answered “other” or “none in particular” are not shown.

In light of the above, enterprises that clearly convey to the successor/candidate successor their intention to transfer management and have conversations with the successor have an easier time getting the successor’s consent. Taking on the responsibility for management is a big decision affecting the successor’s life. Even if the successor is a family member, insufficient or inconsistent communication between the president and successor/candidate successor, with the president assuming the successor/candidate successor has given implicit consent or “will of course take over,” can hinder a smooth business succession. If the enterprise entrusts management to a non-family employee, executive, etc., it is necessary to

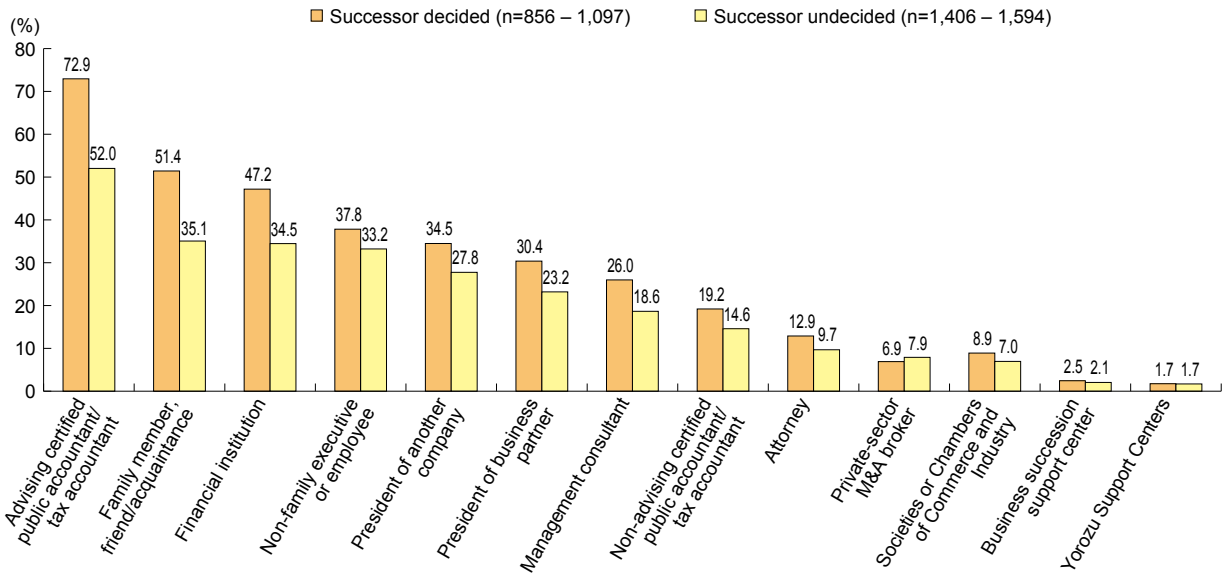
confirm the person’s intention to take over and get the consent of the family members of the successor/candidate successor. The conversations have to be even more thorough in these cases.

Up to this point, we have focused on the relationship between the current president and successor. Our conclusions were that management handovers involve a variety of management challenges, and accepting advice from others is important to ensure a smooth handover of management. Fig. 2-2-46 shows who enterprises have gone to in the past for business succession advice, based on whether the enterprise’s successor was decided or not. On the whole, enterprises where the successor

was decided sought more advice from others. When enterprises were asked who they went to for advice, the most frequent answer was “advising certified public

accountant/tax accountant,” followed by “family member, friend/acquaintance” and “financial institution.”

Fig. 2-2-46 Who enterprises have gone to in the past for business succession advice (enterprises where successor was/was not decided)



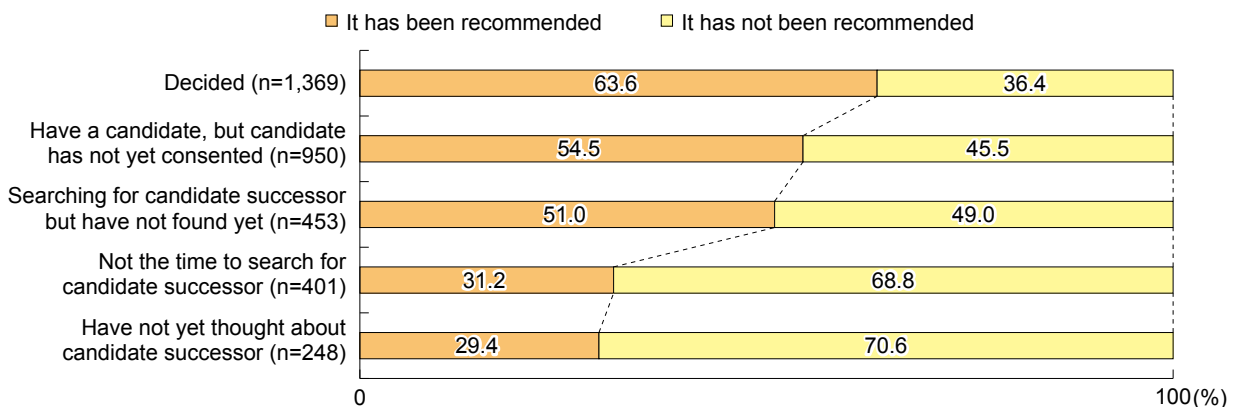
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 3. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Fig. 2-2-47 looks at the percentage of enterprises that were recommended by others to prepare for the handover of management and assets, based on successor selection status. A high percentage of enterprises that had made progress with successor selection responded, “it has been recommended” by others. On the other hand, for presidents

that are not thinking about handover of management and assets at an early date (i.e., those that answered, “not the time to search for candidate successor” or “have not yet thought about candidate successor”), some encouragement from others at an early time is effective.

Fig. 2-2-47 Percentage of presidents that were recommended to prepare to hand over management and assets, based on successor selection status

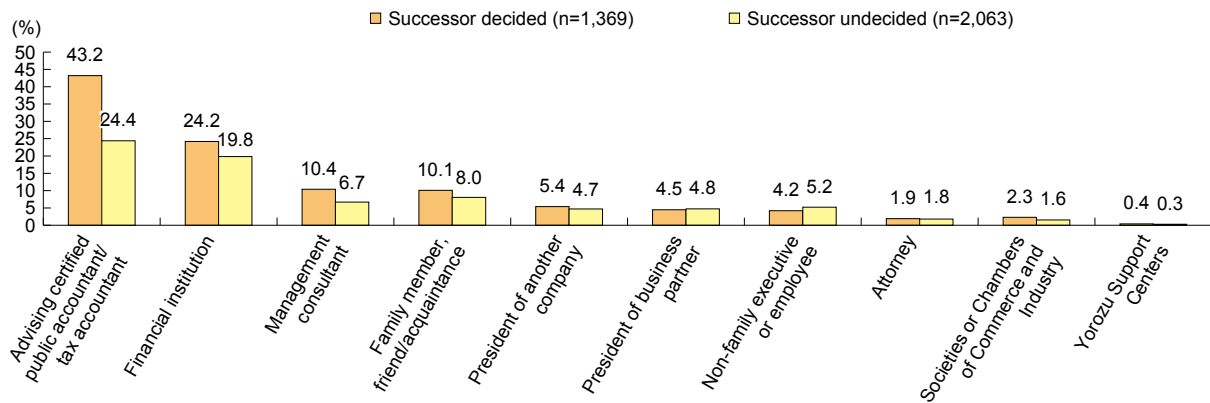


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-48 looks at who recommended to prepare to hand over management and assets, based on whether the successor was decided or not. At enterprises where the successor was decided, the recommendation to prepare for the handover of management and assets came from such sources as “advising certified public accountant/tax

accountant” and “financial institution.” Certified public accountants/tax accountants and financial institutions are a familiar presence to SMEs and therefore are expected to encourage those presidents whose successor is not decided to start preparing for business succession.

Fig. 2-2-48 Who recommended to prepare to hand over management and assets (enterprises where successor was/was not decided)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 3. The items “other” and “it has not been recommended by anyone” are not shown.

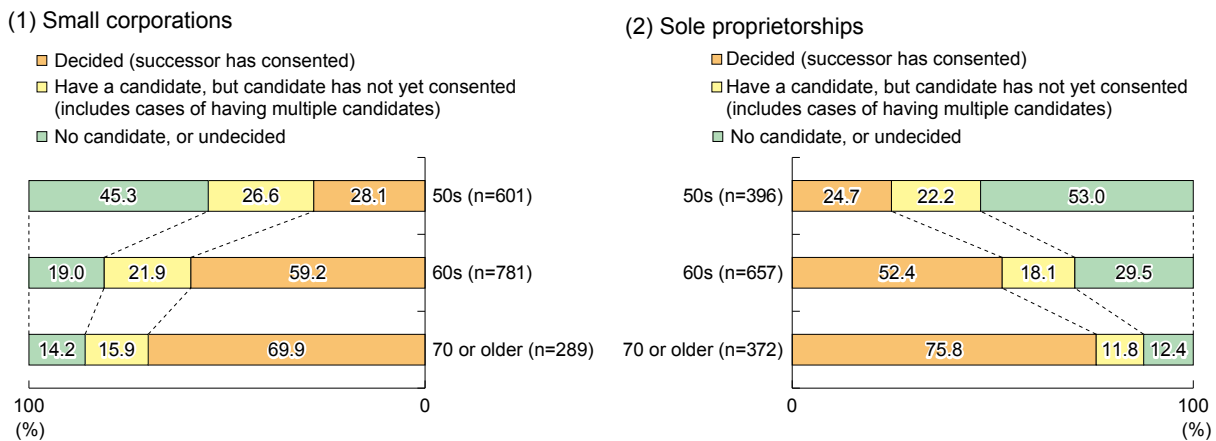
(2) Management handover at micro businesses

From this point, we look at management handover at micro businesses based on results of a questionnaire of micro businesses. Here, the analysis will particularly focus on differences between small corporations and sole proprietorships.

First, Fig. 2-2-49 considers the successor selection status based on the age of the president. The percentage of micro businesses where the successor was decided

was less than 30% when the presidents are in their 50s, but more than 50% with presidents in their 60s and roughly 70% with presidents age 70 or older. On the other hand, 30.1% of small corporations and 24.2% of sole proprietorships with presidents age 70 or older had not decided on a successor, answering, “have a candidate, but candidate has not yet consented” or “no candidate, or undecided,” though that is less than the 40.9% of medium corporations in the same situation.

Fig. 2-2-49 Successor selection status, based on president’s age (small corporations and sole proprietorships)

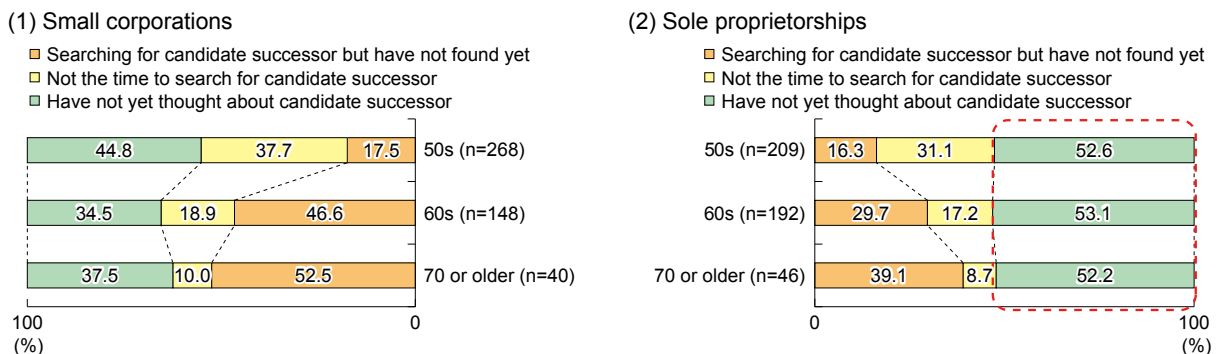


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Note: Aggregates those that answered, “would like to hand over to someone (includes transferring or selling business)” or “undecided about handing over management” regarding inclination about business succession.

Fig. 2-2-50 asks those micro businesses who answered, “no candidate, or undecided” what they think about candidate successors. Presidents responding, “searching for candidate successor but have not found yet” increase as the president’s age rises, but at sole proprietorships,

even with presidents of age 70 or older, more than 50% answered, “have not yet thought about candidate successor.” Presidents like these need to think about business succession earlier.

Fig. 2-2-50 Status of enterprises without a candidate successor, by president’s age (small corporations and sole proprietorships)

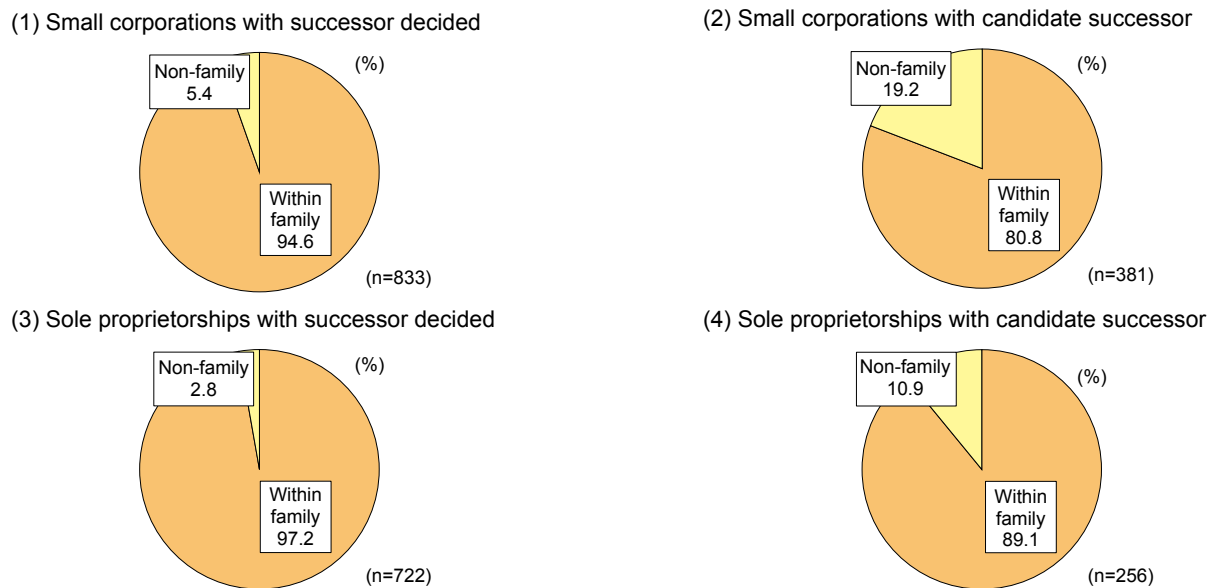


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Note: Aggregates those that answered, “no candidate, or undecided” regarding successor to be entrusted with management.

Next, Fig. 2-2-51 shows the percentage of successions within family and non-family successions, by successor decision status. Looking at micro businesses where the successor was decided, the succession was going to a non-family member at only 5.4% of small corporations and 2.8% of sole proprietorships. And at micro businesses with candidate successors, succession was going to a non-

family member at 19.2% of small corporations and 10.9% of sole proprietorships. This suggests that while a certain percentage of micro businesses exist that are considering a non-family member as a candidate successor, the actual percentage of non-family successions is low and non-family succession may be quite difficult for micro businesses.

Fig. 2-2-51 Percentage of successions within family and non-family successions, by successor decision status (small corporations and sole proprietorships)



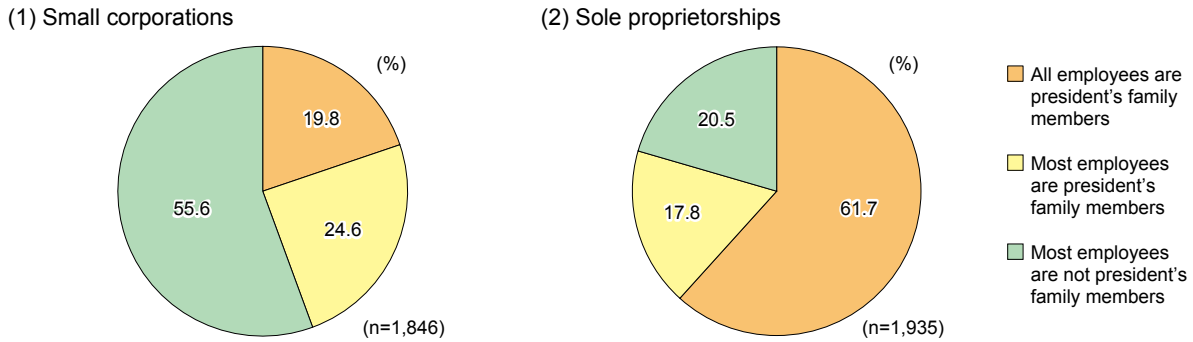
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates those that answered, “decided (successor has consented)” or “no candidate, or undecided” regarding successor to be entrusted with management.
 2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor or candidate successor.

As background to the fact that a high percentage of micro businesses are considering succession within family, Fig. 2-2-52 examines employee structure by form of organization. About 40% of small corporations are family-run, i.e., run mainly by the president’s family

members, while about 80% of sole proprietorships are family-run. It is conjectured that at family-run enterprises like these, it is hard to appoint employees or outside personnel as successors.

Fig. 2-2-52 Employee structure, by form of organization

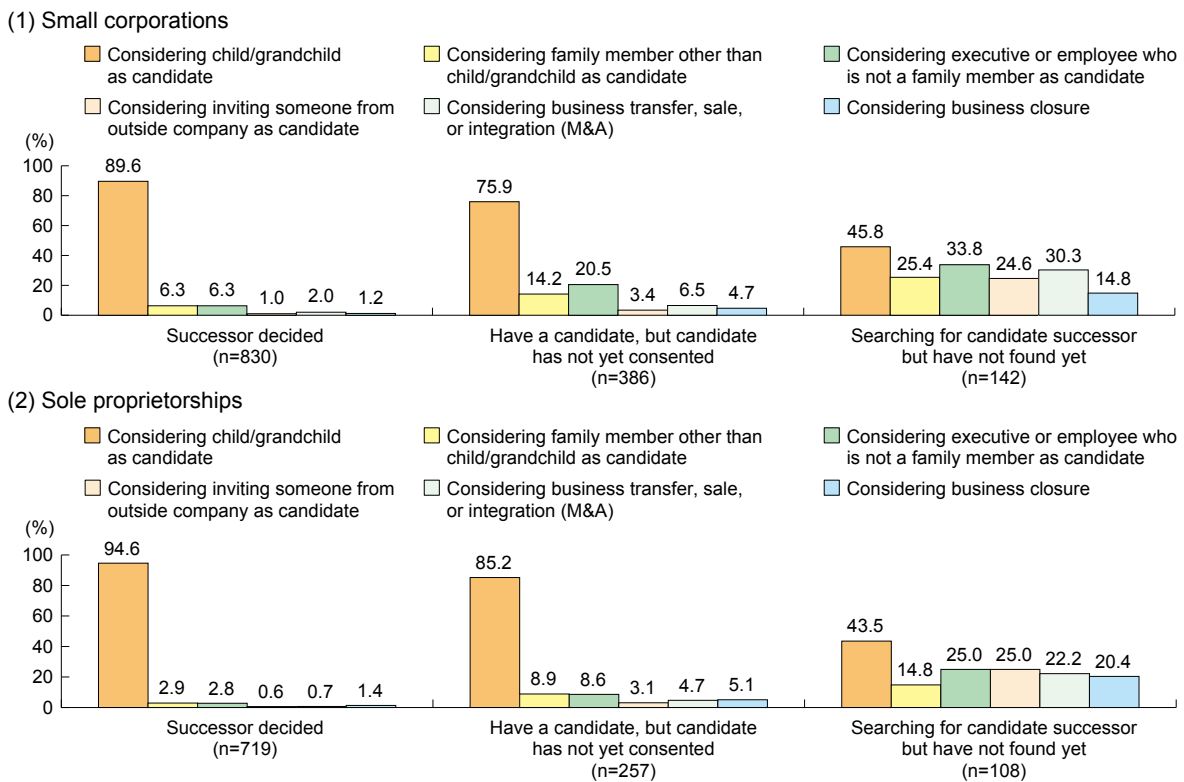


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at what future micro businesses were considering when selecting a successor. Fig. 2-2-53 looks at what scenarios they considered when selecting a successor, by successor selection status. A high percentage of enterprises that answered, “successor decided” were considering a child or grandchild as successor. A high

percentage of enterprises that answered, “searching for candidate successor but have not found yet” were considering not only a non-family executive or employee, but even a person from outside, or business transfer, sale, or integration (M&A).

Fig. 2-2-53 Scenarios considered when selecting successor, by successor selection status (small corporations and sole proprietorships)



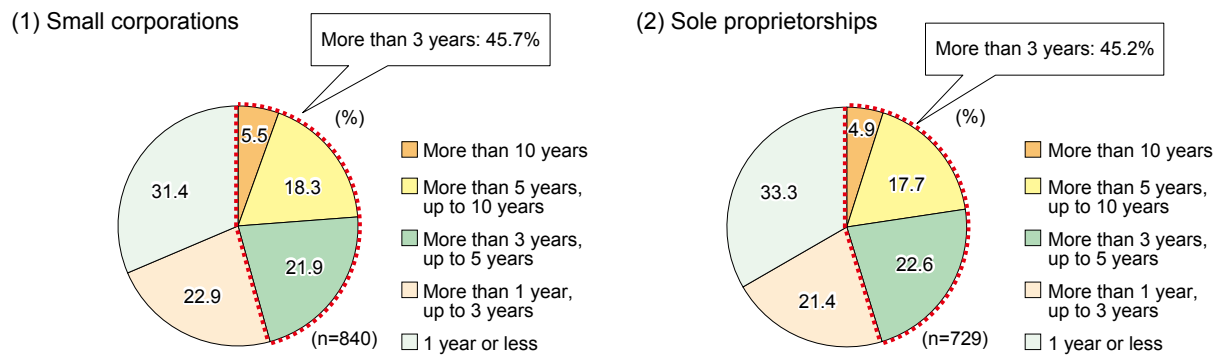
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-2-54 looks at how much time it took from start of the successor selection process until the successor consented at micro businesses. 45.7% of small corporations and 45.2% of sole proprietorships needed

more than three years. Given that, after the successor consents, an enterprise must train the successor and pass on the company's expertise to the successor, it is best if the successor selection process begins early.

Fig. 2-2-54 Time it took from start of the successor selection process until the successor consented at enterprises where the successor was decided (small corporations and sole proprietorships)



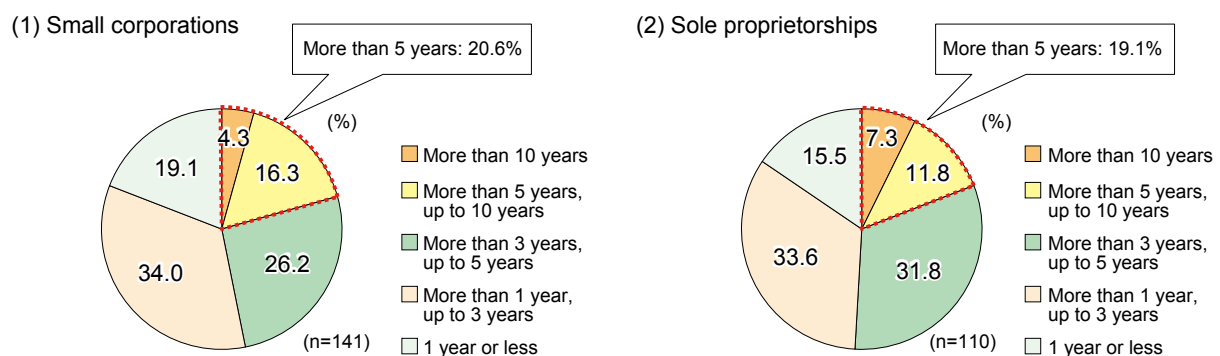
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "decided (successor has consented)" regarding successor to be entrusted with management.

Fig. 2-2-55 shows how much time had passed so far since the start of the selection process at enterprises that answered, "searching for candidate successor but have not found yet." At 20.6% of small corporations and 19.1% of

sole proprietorships, no candidate successor had been found even after more than five years since the start of the search. Thus, a certain percentage of micro businesses are struggling to secure a successor.

Fig. 2-2-55 How much time has passed so far since the start of the selection process at enterprises that were searching for a candidate successor but had not found one yet (small corporations and sole proprietorships)



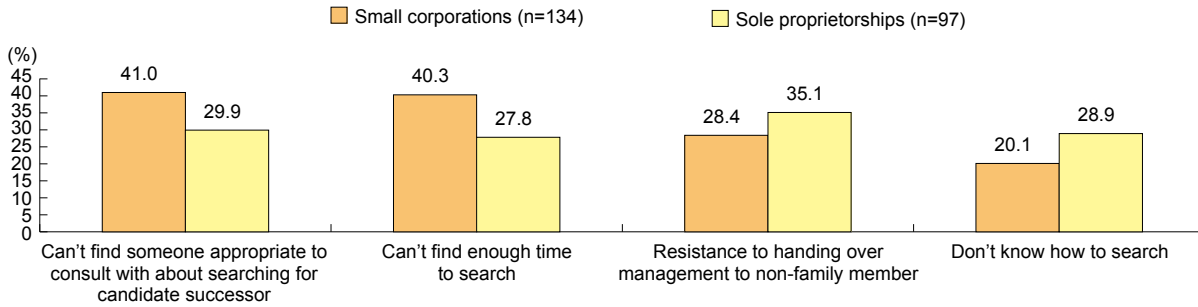
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "searching for candidate successor but have not found yet" regarding successor to be entrusted with management.

Fig. 2-2-56 looks at the reasons why the enterprises that answered, “searching for candidate successor but have not found yet” have not found candidate successors. The most common response (35.1%) from sole proprietorships was that there was “resistance to handing over management to non-family member.” At small corporations, the answers “can’t find someone appropriate to consult with about

searching for candidate successor” and “can’t find enough time to search” each got more than 40%. It appears that micro businesses are struggling to find successors because there is strong resistance to non-family succession, they have no one appropriate to consult with, and they do not have enough time to search.

Fig. 2-2-56 Reasons why enterprises have not found candidate successors (small corporations and sole proprietorships)



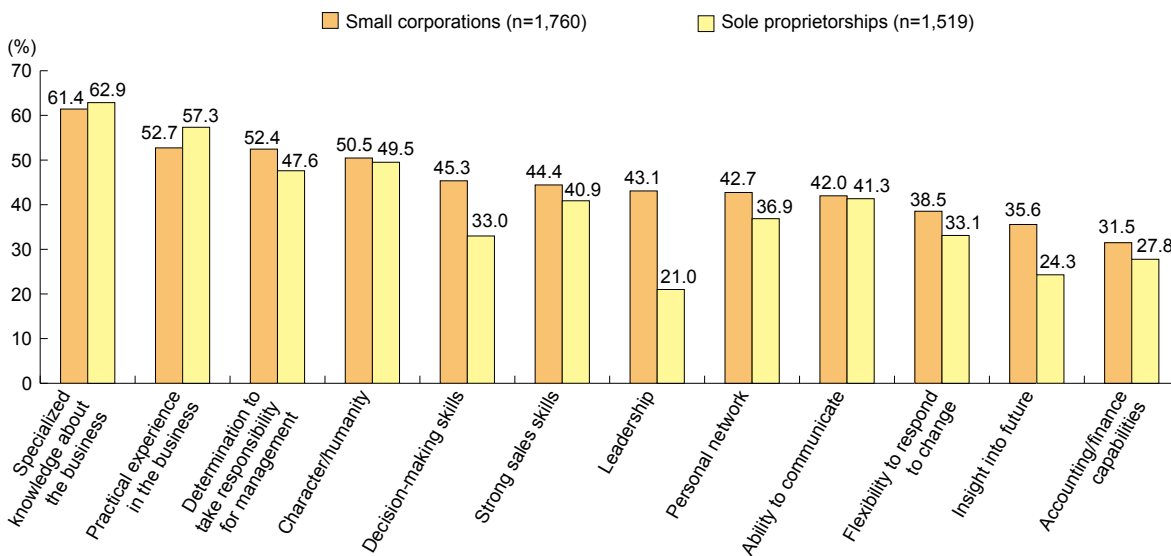
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “searching for candidate successor but have not found yet” regarding successor to be entrusted with management.

From this point, we look in detail at the points that micro businesses particularly consider when deciding on a successor. First, we look at the qualities and capabilities that micro businesses seek in successors, both at small corporations and at sole proprietorships (Fig. 2-2-57).

Points that both groups value are “specialized knowledge about the business” and “practical experience in the business.” However, small corporations tend to value “decision-making skills” and “leadership” more than sole proprietorships do.

Fig. 2-2-57 Qualities and capabilities sought in successors (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

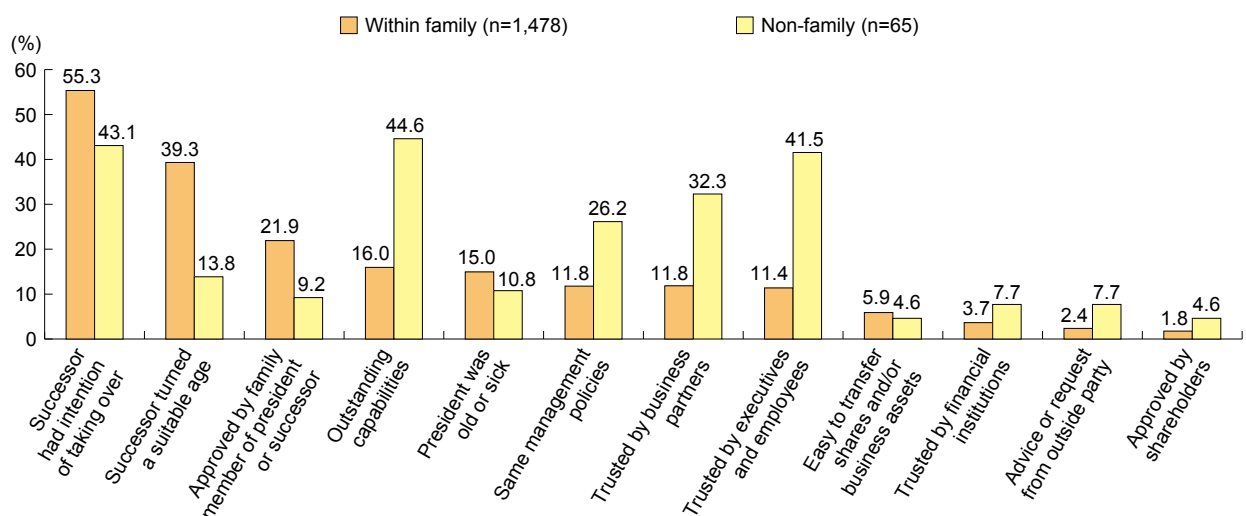
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.

When deciding on a successor, there appears to be a difference based on whether the current president and successor/candidate successor have a family relationship. Therefore, our analysis of the process by which the micro business reaches its successor decision will focus on whether the successor/candidate successor is within the family or not.

First, we look at the reasons for deciding on the successor, based on the relationship with the successor (Fig. 2-2-58). A frequent answer for both groups was

“successor had intention of taking over.” However, micro businesses that chose a family member as successor tended to value “successor turned a suitable age” and “approved by family member of president or successor,” while enterprises that chose a non-family successor most frequently chose answers like “outstanding capabilities,” “trusted by executives and employees,” and “trusted by business partners,” indicating that they value the successor’s qualities and the trust the successor has from others.

Fig. 2-2-58 Reasons for deciding on the successor at micro businesses (within family, non-family)



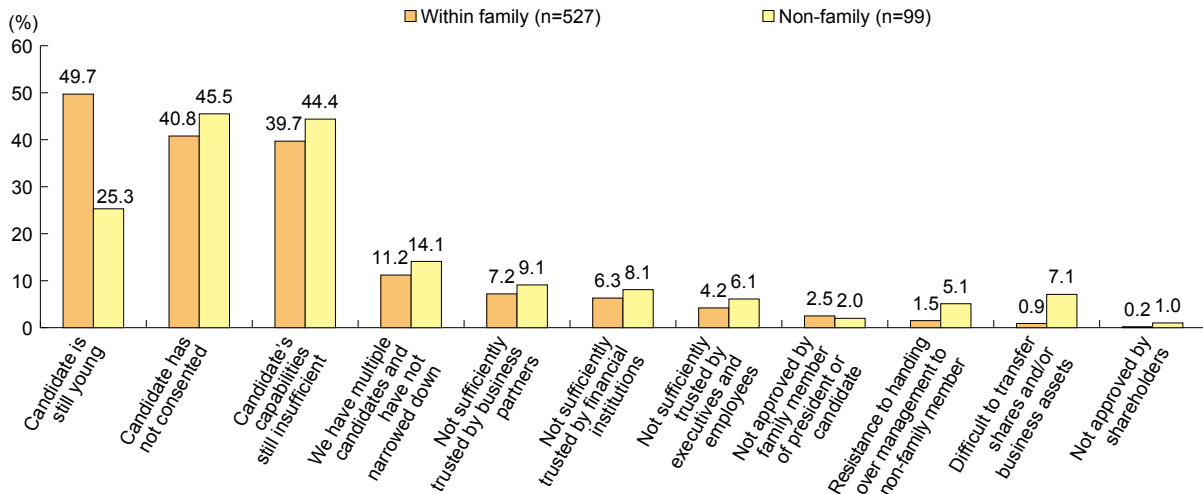
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor.
Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor.

Next, we look at the reasons why some enterprises have a candidate successor but have not yet decided on the successor, based on the relationship between the president and successor (Fig. 2-2-59). Both groups frequently mentioned, “candidate has not consented” and “candidate’s capabilities still insufficient.” However,

micro businesses that chose a family member as candidate successor most often responded, “candidate is still young,” thus putting a greater emphasis on the candidate’s age than was the case with enterprises that chose a non-family candidate successor.

Fig. 2-2-59 Reasons why successor not yet decided at micro businesses (within family, non-family)



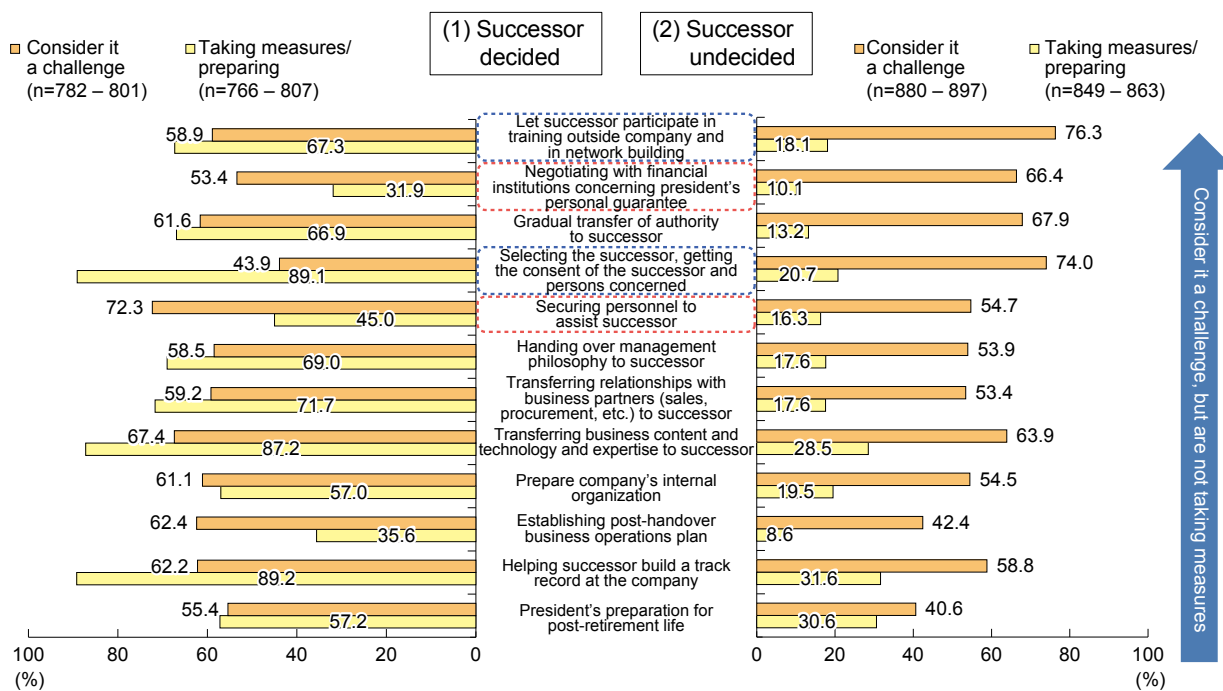
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes: 1. Total does not always equal 100% as multiple responses were possible.
- 2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding candidate successor.

Here, we look at the challenges enterprises face in handing over management to successors, and their state of measures and preparation for dealing with those challenges, focusing on differences between enterprises where the successor was decided and enterprises where the successor was not. Fig. 2-2-60 looks at the management handover challenges small corporations face and their state of measures and preparation for dealing with those challenges. Challenges common to enterprises where the successor was or was not decided include “negotiating with financial institutions concerning president’s personal

guarantee” and “securing personnel to assist successor.” Both groups, it seems, have been slow to take measures and prepare for these challenges. On the other hand, looking just at enterprises where the successor was not decided, this group considered the following to be challenges: “let successor participate in training outside company and in network building” and “selecting the successor, getting the consent of the successor and persons concerned.” However, only a small percentage were taking measures and preparing for these challenges.

Fig. 2-2-60 Management handover challenges that small corporations face, and their state of measures and preparation for dealing with them



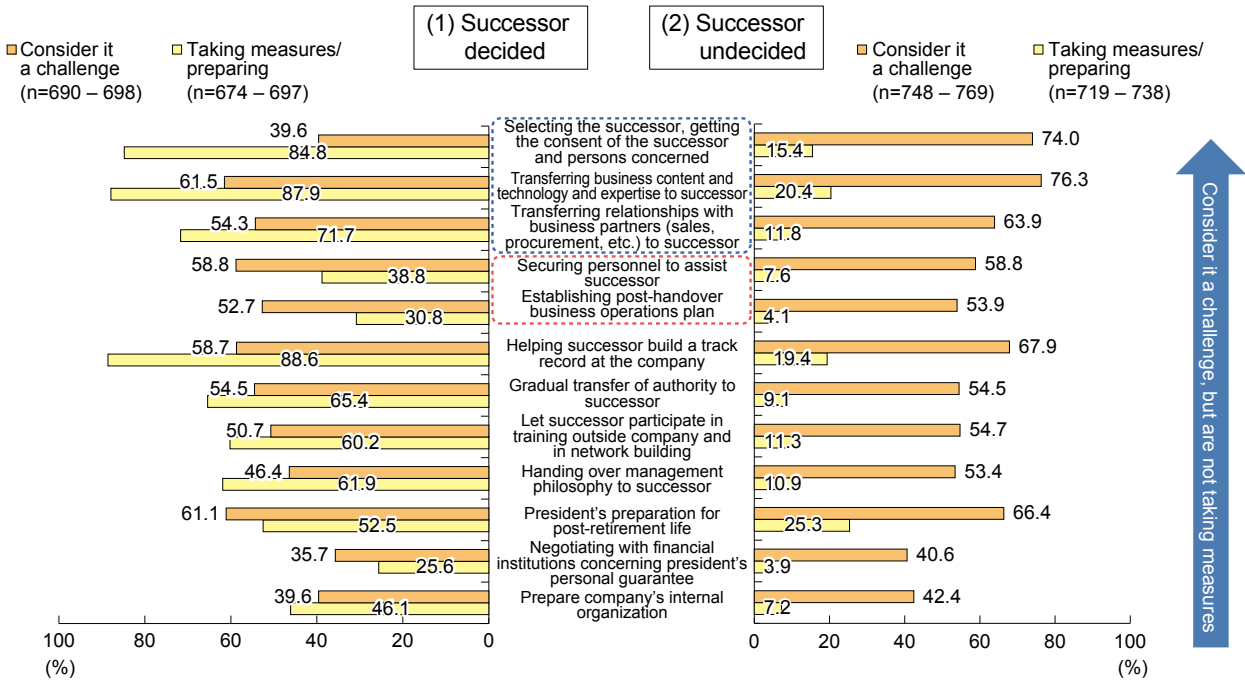
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - For each item, aggregates those that answered, "consider it a challenge" or "taking measures/preparing."
 - Items are ordered based on size of difference (largest to smallest) between percentage of enterprises that have not decided on successor that answered, "consider it a challenge" and percentage that answered "taking measures/preparing."

Fig. 2-2-61 looks at the management handover challenges sole proprietorships face and their state of measures and preparation for dealing with those challenges. Challenges common to enterprises where the successor was or was not decided include "securing personnel to assist successor" and "establishing post-handover business operations plan." Both groups again seem to have been slow to take measures and prepare for these challenges. Focusing just on enterprises

where the successor was not decided, on the other hand, frequently mentioned issues included "selecting the successor, getting the consent of the successor and persons concerned," "transferring business content and technology and expertise to successor," and "transferring relationships with business partners (sales, procurement, etc.) to successor." Here, too, only a small percentage of enterprises were taking measures or preparing.

Fig. 2-2-61 Management handover challenges that sole proprietorships face, and their state of measures and preparation for dealing with them



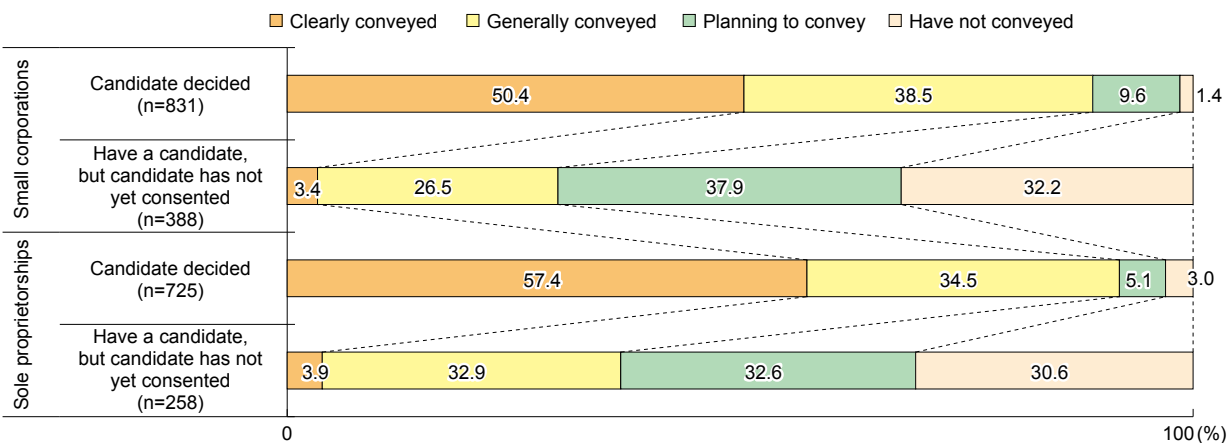
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - For each item, aggregates those that answered, "consider it a challenge" or "taking measures/preparing."
 - Items are ordered based on size of difference (largest to smallest) between percentage of enterprises that have not decided on successor that answered, "consider it a challenge" and percentage that answered "taking measures/preparing."

Business successions from parent to child happen often at micro businesses, but even between parent and child, to get the successor's consent, it is important first that the current president clearly convey to the successor the intention to transfer management. Fig. 2-2-62 looks at the

extent to which the intention to transfer management had been conveyed, based on the successor decision status. Many micro businesses where there was a candidate but the successor was not decided had not conveyed their intention to transfer management.

Fig. 2-2-62 Extent to which the intention to transfer management had been conveyed (small corporations and sole proprietorships)



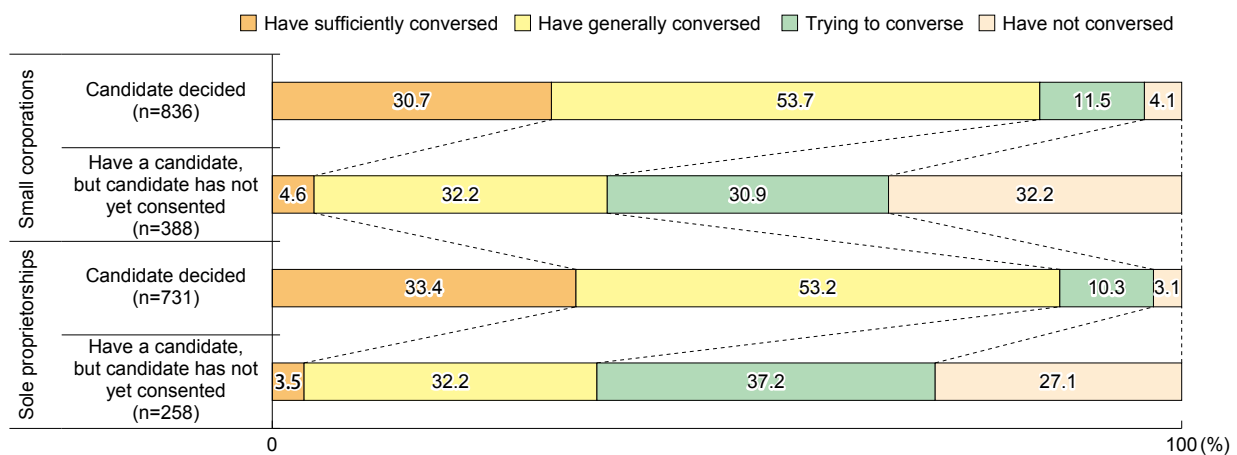
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at the conversations that micro businesses have with the successor/candidate successor. Conversations with the successor/candidate successor refers to routine conversations about business and management in order to pass down intellectual assets, convey to the successor the intention of transferring management, and get the successor's consent. Intellectual assets are, as listed in Fig. 2-2-1, invisible, intangible assets such as technology, skills, intellectual property (patents, brands, etc.), organizational strength, management philosophy, and customer networks. As such, intellectual assets are also a micro business's strength and source of value. Passing these intellectual assets down to the

next generation is indispensable for the maintenance and development of the business. It is also necessary for micro businesses that their presidents should have routine conversations with the successors/candidate successors for the sake of letting the successor/candidate successor form the intention of taking over management.

First, we look at the state of presidents' conversations with successors/candidate successors. According to Fig. 2-2-63, a higher percentage of micro businesses where the successor was decided had had conversations than was the case at micro businesses where the successor was not decided.

Fig. 2-2-63 State of conversations with successors/candidate successors (small corporations and sole proprietorships)

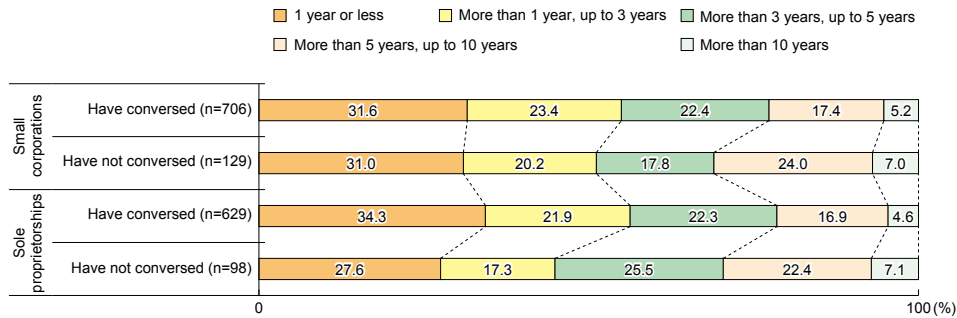


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at the effectiveness of conversations with successors. Fig. 2-2-64 looks at how much time it took from start of the successor selection process until the successor consented at enterprises where the successor was decided, based on the state of conversations. Overall, enterprises that had had conversations tended to take

less time from start of selection to successor's consent than was the case with enterprises that had not had conversations. It is conjectured that enterprises that have had conversations with the successor get the successor's consent more easily.

Fig. 2-2-64 Time it took from start of the successor selection process until the successor consented, based on state of conversations (small corporations and sole proprietorships)



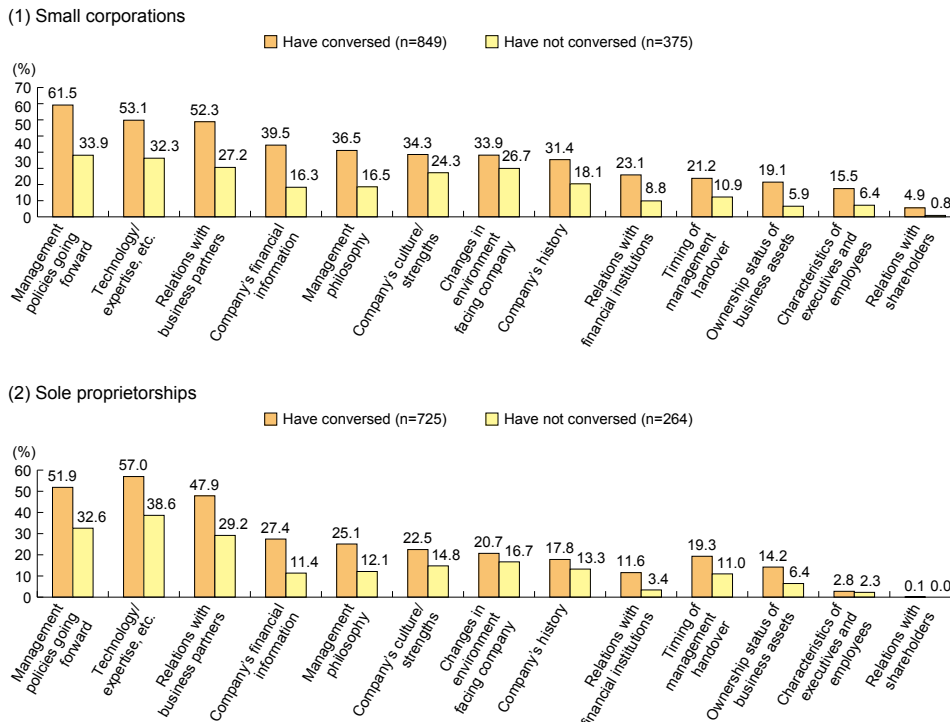
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates those that answered, “decided (successor has consented)” regarding successor to be entrusted with management.
 2. Here, “have conversed” refers to those that answered, “have sufficiently conversed” or “have generally conversed” regarding the state of their conversations with the successor. Also, here, “have not conversed” refers to those that answered, “trying to converse” or “have not conversed” regarding the state of their conversations with the successor.

Next, we examine the matters that were address in conversations with successors/candidate successors. Fig. 2-2-65 looks at the matters that small corporations and sole proprietorships discussed in conversations with successors/candidate successors, by state of

conversations. Matters addressed in conversations at many enterprises included, “management policies going forward,” “technology/expertise, etc.,” and “relations with business partners.”

Fig. 2-2-65 Matters discussed in conversations with successors/candidate successors, based on state of conversations (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

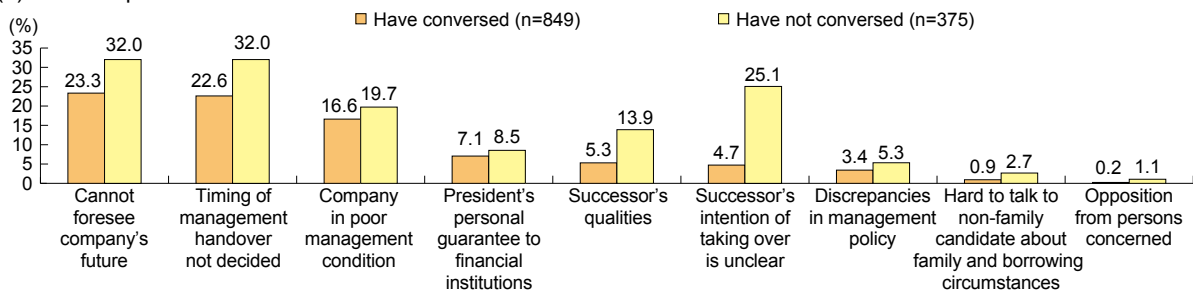
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.
 3. Here, “have conversed” refers to those that answered, “have sufficiently conversed” or “have generally conversed” regarding the state of their conversations with the successor/candidate successor. Also, here, “have not conversed” refers to those that answered, “trying to converse” or “have not conversed” regarding the state of their conversations with the successor/candidate successor.
 4. Those that answered “other” are not shown.

Fig. 2-2-66 looks at the obstacles to conversations with successors/candidate successors, by state of conversations. Focusing on enterprises that “have not conversed,” the most common answer was “cannot foresee company’s future,” followed by “timing of management handover not decided” and “successor’s intention of taking over is unclear.” Some problems mentioned concerned the

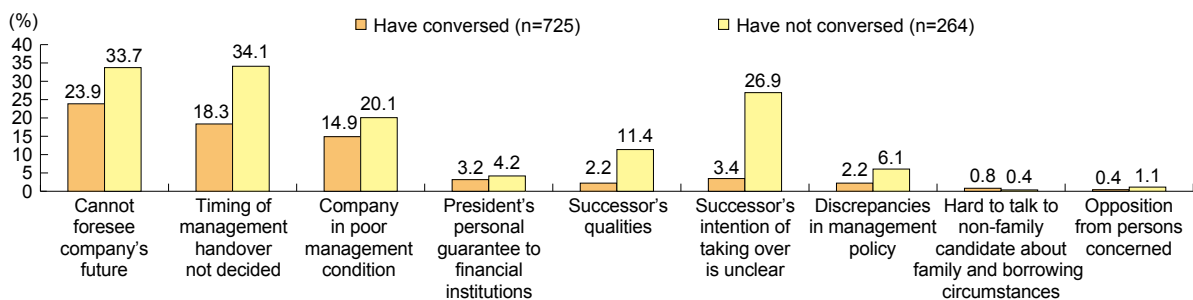
successor, such as that person’s qualities and intention to take over, but there was also a problem concerning the current president handing over management: “timing of management handover not decided.” It is important to advance the business succession in a systematic way, with a clear schedule for doing so.

Fig. 2-2-66 Obstacles to conversations with successors/candidate successors, based on state of conversations (small corporations and sole proprietorships)

(1) Small corporations



(2) Sole proprietorships



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “decided (successor has consented)” or “have a candidate, but candidate has not yet consented (includes cases of having multiple candidates)” regarding successor to be entrusted with management.
 3. Here, “have conversed” refers to those that answered, “have sufficiently conversed” or “have generally conversed” regarding the state of their conversations with the successor/candidate successor. Also, here, “have not conversed” refers to those that answered, “trying to converse” or “have not conversed” regarding the state of their conversations with the successor/candidate successor.
 4. Those that answered “other” or “none in particular” are not shown.

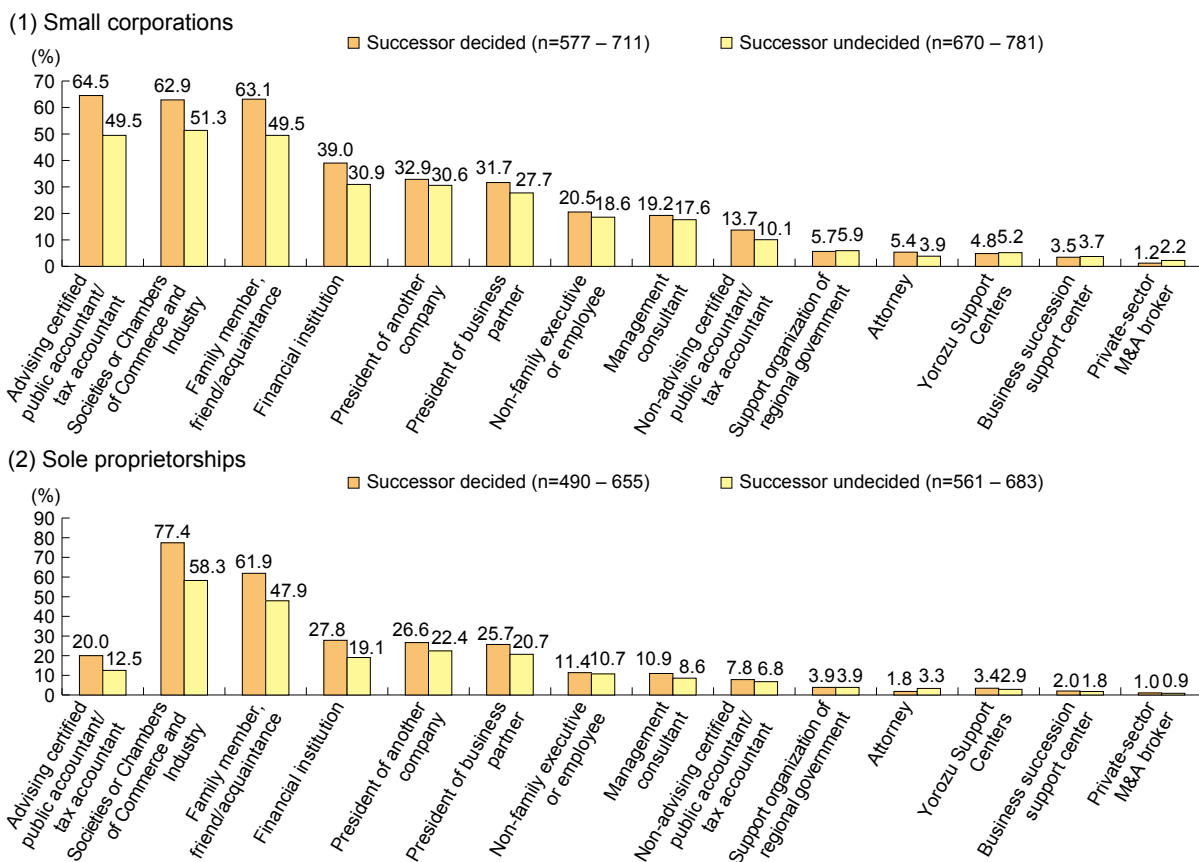
In light of the above, micro businesses that clearly convey to the successor/candidate successor their intention to transfer management and have conversations with the successor have an easier time getting the successor’s consent. Taking on the responsibility for management is a big decision affecting the successor’s life. Even if the successor is a family member, insufficient or inconsistent communication between the president and successor/candidate successor, with the president

assuming the successor/candidate successor has given implicit consent or “will of course take over,” can hinder a smooth business succession. If the enterprise entrusts management to a non-family employee, executive, etc., it is necessary to confirm the person’s intention to take over and get the consent of the family members of the successor/candidate successor. The conversations have to be even more thorough in these cases.

Up to this point, we have focused on the relationship between the current president and successor. Our conclusions were that management handovers involve a variety of management challenges, and accepting advice from others is important to ensure a smooth handover of management. Fig. 2-2-67 shows who presidents went to for advice in the past, based on the successor decision status. According to this, enterprises where the successor was not decided do not seek advice from those around them or from support organizations as often as enterprises that have decided. Focusing on who enterprises went to for

advice, the most frequent answer for small corporations was “advising certified public accountant/tax accountant,” followed by “societies or chambers of commerce and industry,” “family member, friend/acquaintance” and “financial institution,” while at sole proprietorships, the most common answer was “societies or chambers of commerce and industry,” followed by “family member, friend/acquaintance.” On the whole, sole proprietorships are less likely than small corporations to seek out advice. It is conjectured that the president in this case considers his or her successor without help from others.

Fig. 2-2-67 Who presidents went to for advice in the past, based on the successor decision status (small corporations and sole proprietorships)



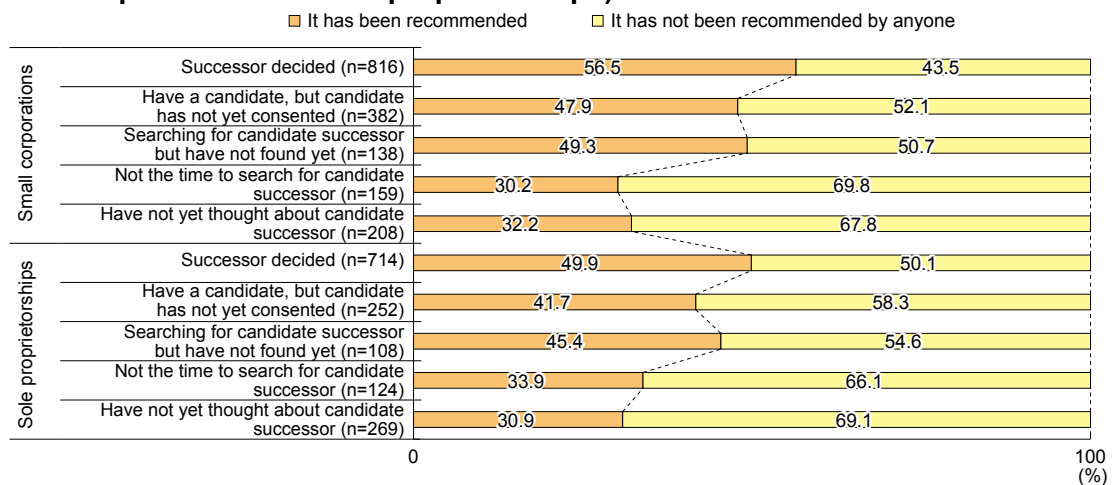
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes: 1. Total does not always equal 100% as multiple responses were possible.
 2. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Fig. 2-2-68, focusing on the encouragement presidents get from those around them, looks at the percentage of enterprises that were recommended by others to prepare for the handover of management and assets, based on successor selection status. It appears that a high percentage of micro businesses with the “successor decided” said

that “it has been recommended” by others. On the other hand, in those cases where presidents that said, “not the time to search for candidate successor” or “have not yet thought about candidate successor” are not thinking about handover of management and assets, they are not getting much encouragement from others around them.

Fig. 2-2-68 Percentage of presidents that were recommended to prepare to hand over management and assets, based on successor selection status (small corporations and sole proprietorships)

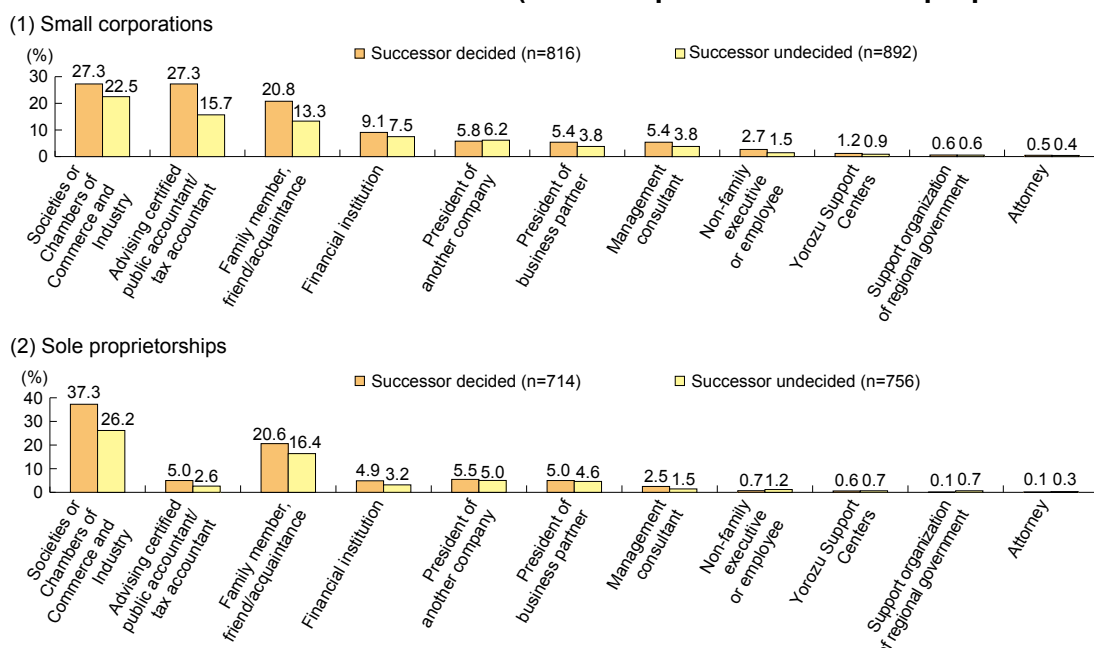


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-69 looks at who recommended to prepare to hand over management and assets, based on whether the successor was decided or not. In both cases, the most frequent responses were “societies or chambers of commerce and industry” and “family member, friend/acquaintance.” However, presidents at small corporations with successor decided were often recommended by their “advising certified public accountant/tax accountant,” “financial institution,” etc., to prepare to hand over

management and assets, but only a small percentage of sole proprietorships got a similar recommendation from such sources. It is possible that, in many cases, sole proprietorships do not have a relationship with an “advising certified public accountant/tax accountant” or “financial institution,” and even when they do, it is not a very close relationship. Even presidents of micro businesses could benefit from getting encouragement to prepare for business succession by those familiar to them.

Fig. 2-2-69 Who recommended to prepare to hand over management and assets, based on successor decision status (small corporations and sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 3. The items “other” and “it has not been recommended by anyone” are not shown.

(3) Summary of “handover of management”

Section 1, subsection 2 looked at the state of preparation and the challenges associated with the handover of management.

The successor is a critical element in the handover of management, and currently non-family successions happen at about one-third of medium corporations, but succession from parent to child is still the practice at most.

At enterprises where the successor is not decided, selecting the successor and getting the successor’s consent are the most important challenges. Presidents need to clearly convey to the successor/candidate successor their intention to transfer management and have conversations with the successor concerning the handover. Moreover, speaking generally, enterprises have not taken measures or prepared for such challenges as securing personnel to assist the successor and establishing a post-handover business operations plan. In light of these points,

presidents need to think about business succession, select a successor, and start preparing (e.g., establishing internal systems in anticipation of management handover) before they reach retirement age.

This research has also shown that a high percentage of enterprises where the successor is decided sought advice from those around them and were recommended by someone around them to prepare for business succession. A variety of challenges are associated with business succession, so it is important that the president not deal with them alone, but seek out advice from those familiar to them. Not only that, but advising certified public accountants/tax accountants, financial institutions, and familiar support organizations like societies or chambers of commerce and industry should encourage presidents to think about business succession. This will help management handovers proceed more smoothly.

Case 2-2-2 Autec Mechanical Co., Ltd.

A company that has worked to achieve smooth management succession over three generations

Autec Mechanical Co., Ltd. (employees: 41; capital: ¥55.7 million), located in Minami-Alps City, Yamanashi Prefecture, develops, designs, manufactures and markets labor-saving machinery and automatic machinery for high-speed assembly and inspection.

The company's founder and Chairman, Kunihide Ashizawa, desired to hand over management of the company when he turned 65. Mr. Ashizawa reached the age of 50 ten years after founding his company, and as it continued to grow and its employees increased, he commenced efforts to make his company a long-lasting one, the management of which would be passed to a worthy employee.

The development and design of labor-saving and automatic machinery requires a high level of technological ability, and from the foundation of his company Mr. Ashizawa had worked to increase its technological capacity and foster its human resources. He has found that the most effective means of doing so are management plan briefing sessions, which he initiated 18 years ago. By communicating his thinking regarding management to employees every term, he can be directly aware that managers and employees are working in the same direction. And by continuing these briefing sessions, Mr. Ashizawa has steadily fostered human resources possessing a management perspective.

Mr. Ashizawa selected Eiki Wakabayashi, one of the team members since the foundation of the company and now its President, to succeed him. In 2002, Mr. Wakabayashi, then 41, was appointed Managing Director, with the understanding that he would be the company's next President. Seven years later, Mr. Wakabayashi was appointed President, and Mr. Ashizawa became the company's Chairman. This was a result of Mr. Ashizawa's belief, based on his experience of founding his company when he was 41, that individuals should be promoted to top management (become executives) in their 40s. Looking back, Mr. Ashizawa reflects that "I was able to realize a smooth management succession because I had shared management principles with Mr. Wakabayashi from early on through the management plan briefing sessions and other means." Mr. Wakabayashi notes "Because there were plan documents, the direction for management was settled - it was an environment that made management easy."

Autec Mechanical has made active use of measures such as external training in order to cultivate its management successor. The company has been the subject of investment by the Tokyo Small and Medium Business Investment & Consultation Co., Ltd.¹¹⁾ (SBIC below), and Mr. Wakabayashi participated in the Business School for Next-generation Managers conducted by the SBIC. Mr. Ashizawa says that in addition to seeking to ensure that Mr. Wakabayashi acquired the necessary knowledge for management, he also wanted to send the message that he was entrusting the next manager of his business to the organization. Mr. Wakabayashi speaks of the importance of the connections he formed with other managers in the same situation as himself: "It was a group of candidates for management succession in the same circumstances as me, and we shared the problems and concerns of people who would take over management positions. The connections that I made with other managers at the business school remain strong today, more than 10 years later." In 2013, another candidate for management succession, Mr. Tezuka, head of the company's sales division (at that time 42; now Managing Director) was appointed as an executive, and is attending the same business school. Mr. Ashizawa says, "If an organization is large, then it is possible to select a management successor, but SMEs have to spend time cultivating individuals following their employment by the company. It is also essential to ensure that candidates for management succession build up experience as managers from an early stage."

Looking towards a smooth management succession outside the family, the Ashizawa family transferred the greater part of their shares in Autec Mechanical to the company's management and its employee shareholding association, increasing the sense of participation in the company's operations among executives and employees. Mr. Ashizawa says, "Since its foundation, I have had a strong awareness of my company as a public institution. I want the company's shares to be held in succession by the people involved in its management, and for personnel cultivated from among employees to successively operate the company."

11) For more detail regarding the SBIC, see Column 2-2-5.



A management system looking ahead from one generation to the next
(L-R: Mr. Tezuka, Company Managing Director; Mr. Ashizawa, Chairman;
Mr. Wakabayashi, President)

3. State of preparation for and challenges with asset handover

If a current president owns assets associated with the business or company, those assets also need to be handed over to the next generation when the enterprise changes presidents. Assets associated with the business or company include treasury stock and business assets. The procedures by which treasury stock and business assets are handed over are not always the same. The ideal procedures will vary depending on the individual circumstances. Using treasury stock as an example, in some cases, acquiring all the treasury stock at once is a big financial burden for the successor (both the tax and the acquisition itself). In other cases, a succession that disperses the treasury stock to many persons concerned could be an obstacle to management stability.

The response will also vary depending on whether the successor taking over management is from within the family or not. When the handover is to a family member, the usual procedure is to transfer treasury stock and

business assets by gift or inheritance, which creates a gift tax or inheritance tax burden. If, on the other hand, the handover is to a non-family executive, employee, etc., the person who ends up owning the treasury stock and business assets may be different from the person who takes over management, but in many cases the assets are handed over for a price. It is important for the new president to procure the funds to purchase the assets and reach an agreement with the current president and the current president's family members.

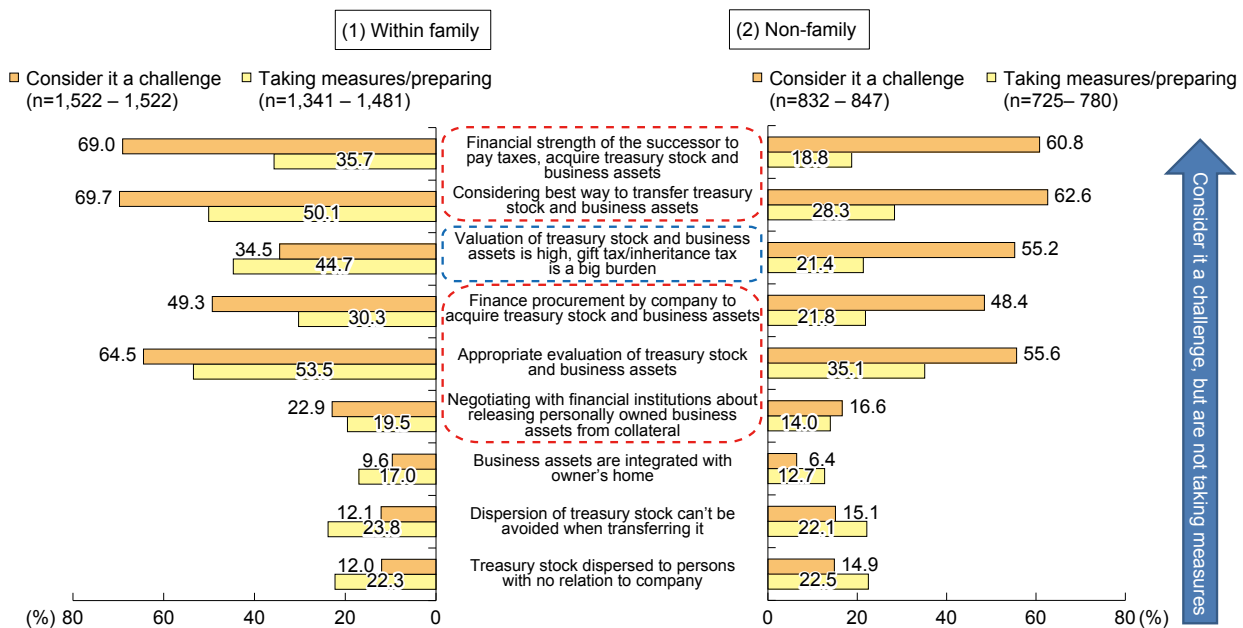
In any case, there are a wide variety of considerations with the handover of assets, and many of these require the expertise of a specialist. Subsection 3 looks at the situation with the handover of treasury stock and business assets owned by the president and gives an overview of the state of preparation and challenges. As with the analysis of handover of management, the analysis here will be done separately for medium corporations and micro businesses.

(1) State of preparation for and challenges with asset handover at medium corporations

To begin, Fig. 2-2-70 looks at the issues to which survey-takers responded, “consider it a challenge” and “taking measures/preparing” in reference to handover of assets, based on whether there is a family relationship between the current president and successor/candidate successor. Challenges that the two groups had in common included “financial strength of the successor to pay taxes, acquire treasury stock and business assets” and “considering

best way to transfer treasury stock and business assets,” among others. On the other hand, enterprises where the successor/candidate successor was non-family had made less progress with measures and preparation on the issue of “valuation of treasury stock and business assets is high, gift tax/inheritance tax is a big burden” than was the case where the successor/candidate successor was within the family. Even looking at the issues on the whole, a lower percentage of enterprises where the successor was non-family were taking measures and preparing.

Fig. 2-2-70 Asset handover challenges and state of measures and preparation for dealing with those challenges (successor/candidate successor within family/non-family)



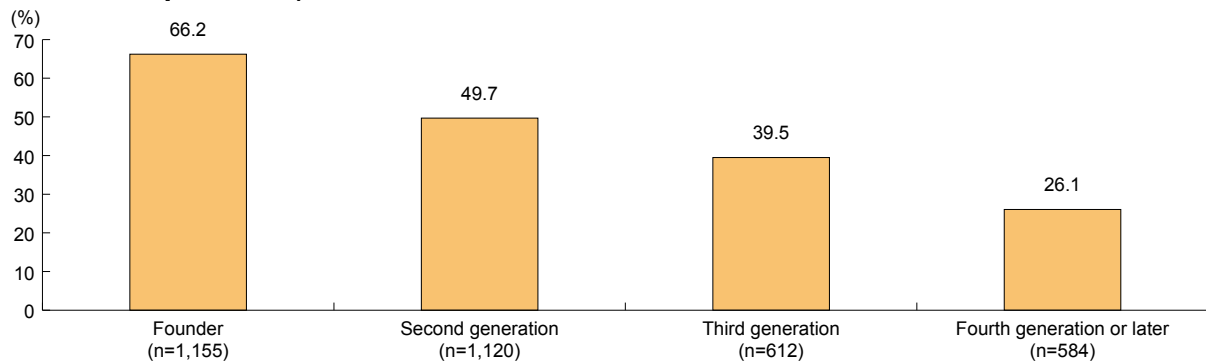
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes: 1. Total does not always equal 100% as multiple responses were possible.
- 2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor or candidate successor.
- 3. For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”
- 4. Items are ordered based on size of difference (largest to smallest) between percentage of enterprises where successor/candidate successor is non-family that answered, “consider it a challenge” and percentage that answered “taking measures/preparing.”

Next, we look at the form in which the treasury stock and business assets are owned, and how they are being handed over to the next generation.

First, we look at the state of ownership of treasury stock at medium corporations. Fig. 2-2-71 shows the average percentage of stock owned by the president, by

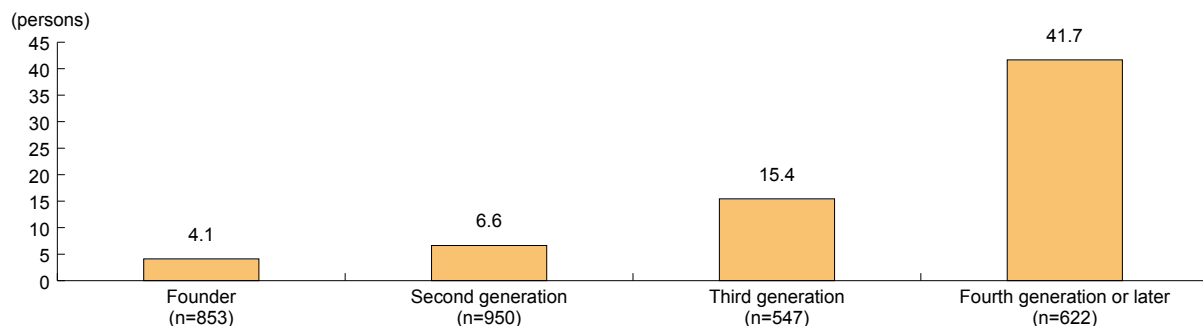
the generation of the president (i.e., the enterprise’s first president, second president, etc.). The average ownership by the founder was 66.2%, but the average for the fourth generation and beyond was 26.1%. It is conjectured that as the generations pass, enterprise presidents own a smaller percentage of stock.

Fig. 2-2-71 Average percentage of stock owned by president (by generation of president)

Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at average number of shareholders by generation of the president (Fig. 2-2-72). The average number of shareholders was no more than 4.1 in the founder's generation, but reached 41.7 in the fourth

generation and beyond. It is conjectured that as presidents change, stock ownership becomes more widely dispersed, which includes the ownership of stock by employees, such as through employee stockholders associations.

Fig. 2-2-72 Average number of shareholders, based on generation of president

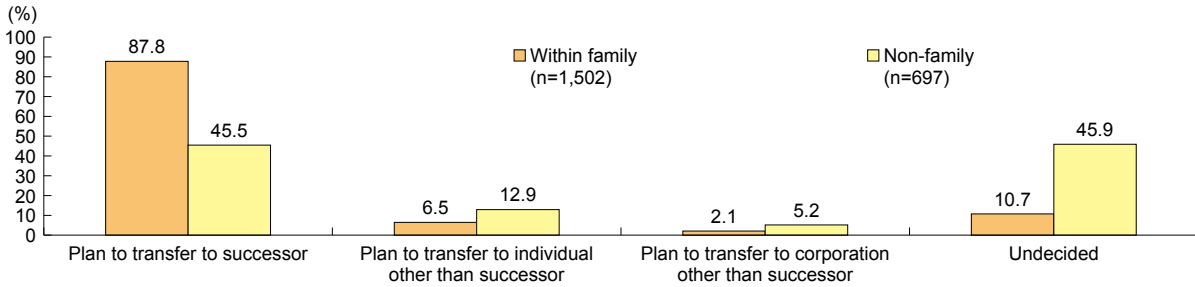
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

From this point, we analyze how the treasury stock owned by the president is being handed down to the next generation.

Fig. 2-2-73 shows whom treasury stock is to be transferred to, based on the relationship with the successor/candidate successor. According to the figure, handover is to the successor in 87.8% of cases where the successor/candidate successor is a family member, but in cases where the successor/candidate successor is non-family, a high percentage answered, "undecided," so

it is conjectured that the president is not able to decide to whom treasury stock will be handed over. On the other hand, a higher percentage of enterprises where the successor/candidate successor was non-family and the person to whom treasury stock would be transferred was decided answered that it would be transferred to a corporation or individual other than the successor, than was the case where the candidate successor was within family.

Fig. 2-2-73 Whom treasury stock is to be transferred to (successor/candidate successor within family, non-family)



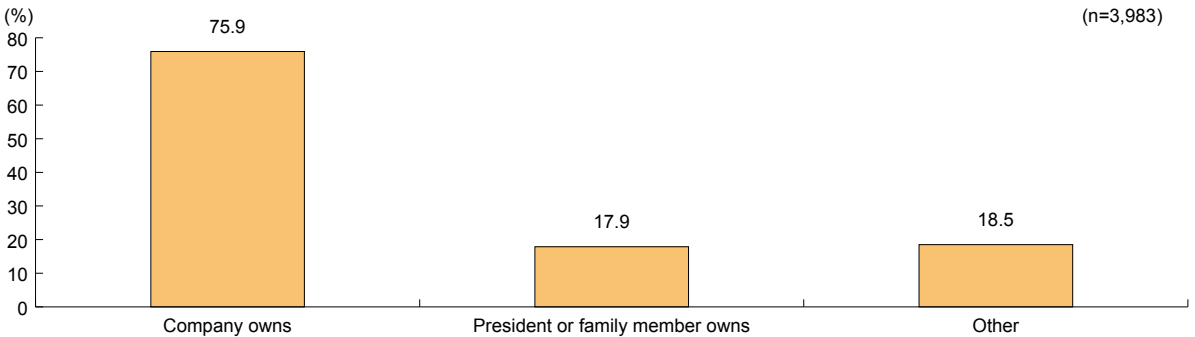
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor or candidate successor.
 - Aggregated figures are exclusive of those that answered, “do not own treasury stock.”

Next, we look at the state of ownership of business assets (land and buildings of factories, shops, or offices). Fig. 2-2-74 looks at the state of ownership of enterprises’ business assets. Only 17.9% of medium corporations

said that the “president or family member owns” the assets. The most common situation was ownership by the company.

Fig. 2-2-74 State of ownership of medium corporations’ business assets



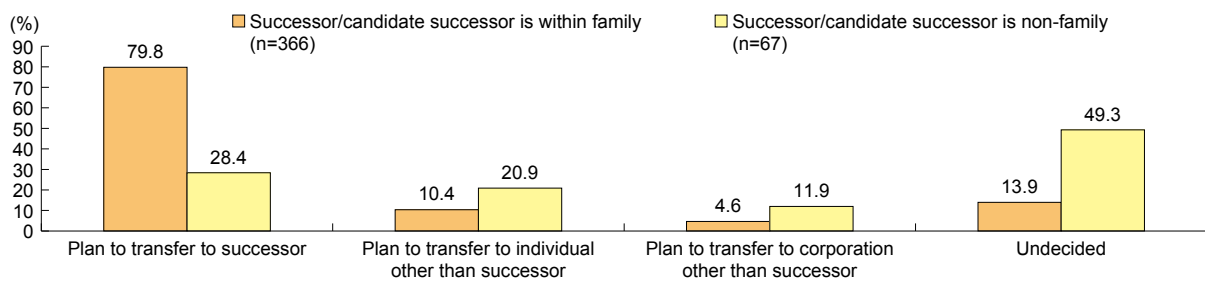
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Aggregates those that answered, “would like to hand over to someone (includes transferring or selling business)” or “undecided about handing over management” regarding inclination about business succession.
 - Here, “business assets” refers to land and buildings, such as factories, shops, or offices.
 - “Other” includes leasing, etc.

Fig. 2-2-75 looks at to whom business assets are to be transferred, based on the relationship with successor/candidate successor. If the successor/candidate successor is within family, the most frequent response (79.8%) was “plan to transfer to successor,” but if the successor/candidate successor is non-family, the most common response from presidents was “undecided,” so it is conjectured that they are not able to decide to

whom business assets will be handed over, just as with treasury stock. On the other hand, a higher percentage of enterprises where the successor/candidate successor would be transferred was decided answered that, like the treasury stock, they would be transferred to a corporation or individual other than the successor, than was the case where the candidate successor was within family.

Fig. 2-2-75 Whom business assets owned by the president are to be transferred to (successor/candidate successor within family, non-family)



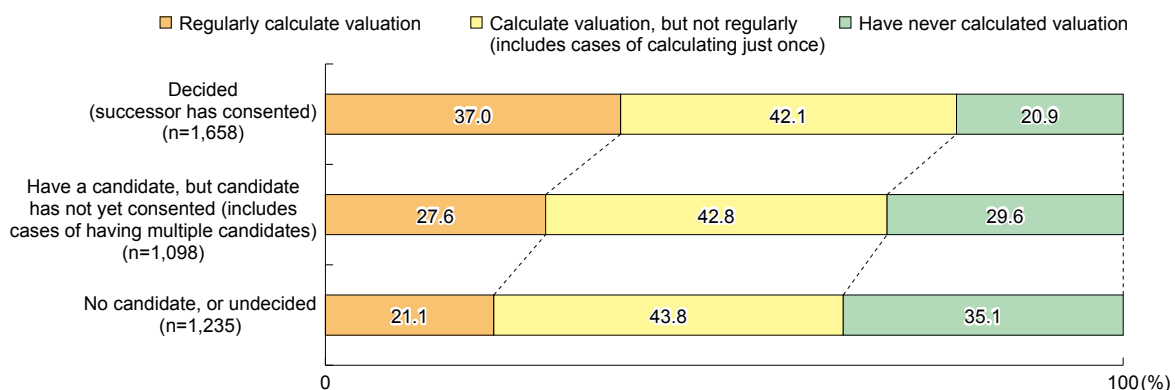
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor or candidate successor.
 3. Aggregated figures are exclusive of those that answered the president “does not own business assets.”

Next, we look at the state of preparation enterprises have made for handover of treasury stock and business assets. To begin, we look at the extent to which presidents are aware of the valuation of their enterprise’s treasury stock. This valuation is essential to know the cost required to hand over assets. Fig. 2-2-76 shows the state of calculation of treasury stock valuation, based on whether the enterprise’s successor was selected or not. Compared

to enterprises where the successor was not decided, enterprises where the successor was decided chose the answer, “regularly calculate valuation” more often. This indicates that the more progress an enterprise has made toward deciding on a successor, the more likely it is to have calculated the valuation of its treasury stock and the more prepared it is for the handover of both management and assets.

Fig. 2-2-76 State of calculation of valuation of treasury stock, based on successor selection status

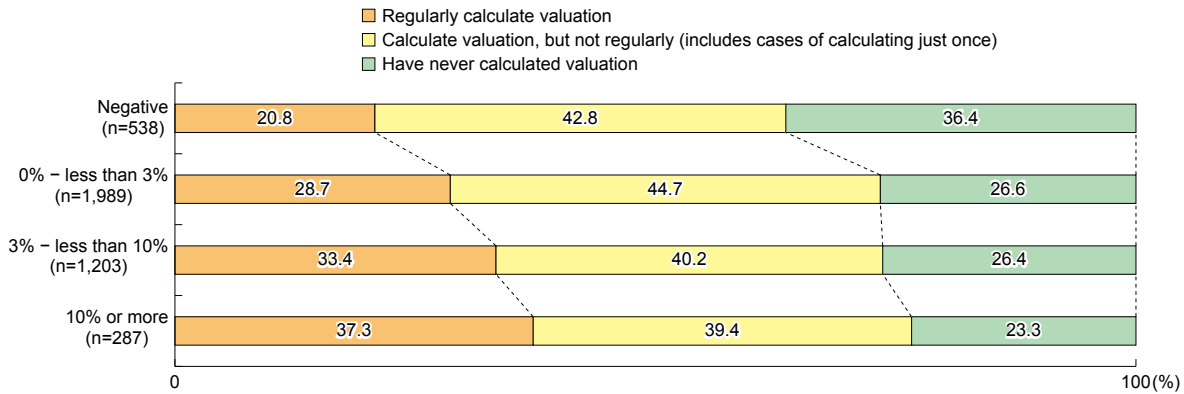


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

The valuation of an enterprise’s treasury stock is determined by such factors as the company’s profits and amount of net assets. Therefore, from this point, we will look at the state of calculation of treasury stock valuation with a focus on financial indicators related to profits and amount of net assets. Fig. 2-2-77 shows the state of calculation of treasury stock valuation, by ratio

of ordinary profit to sales in the most recent accounting period. Enterprises with higher ratios of ordinary profit to sales were more likely to answer, “regularly calculate valuation,” and thus more likely to be aware of their treasury stock valuation. On the other hand, 23.3% of even enterprises with 10% or higher ratios of ordinary profit to sales answered, “have never calculated valuation.”

Fig. 2-2-77 State of calculation of valuation of treasury stock, based on ratio of ordinary profit to sales

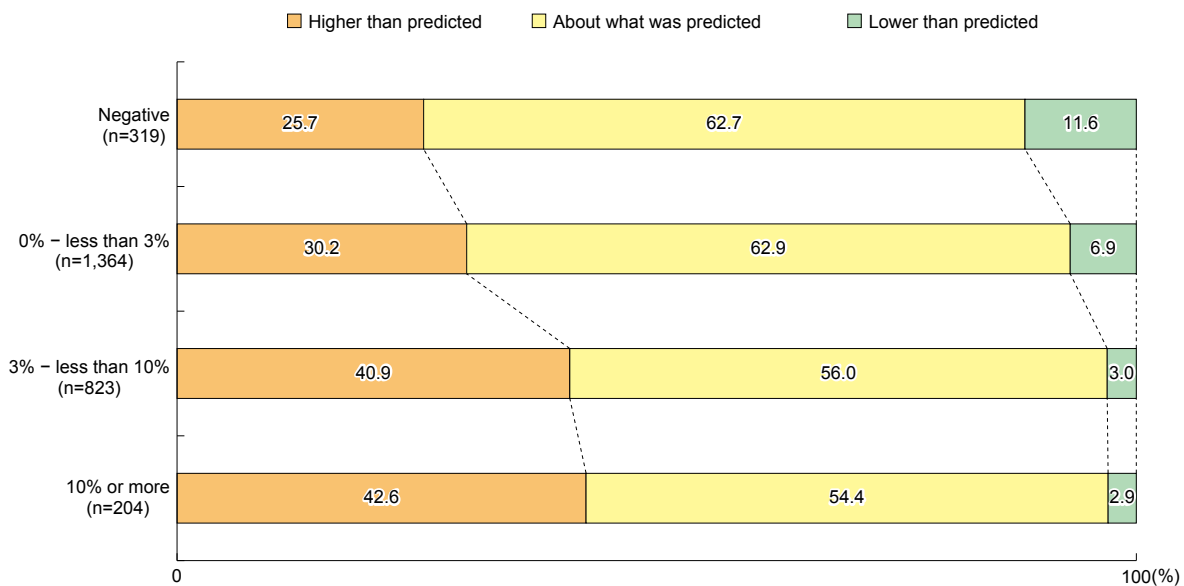


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-78 looks at enterprises' impressions of their treasury stock valuation, for those that had calculated it, based on ratio of ordinary profit to sales. The overall trend we see is that the greater the enterprise's earnings, the more likely it is to feel that its treasury stock's value is high. On the other hand, 25.7% of enterprises that even had a negative ratio of ordinary profit to sales said their

valuation was higher than predicted. Thus, it is not only high-earning enterprises and large enterprises that have accumulated earnings from the past, but also enterprises with low profit margins, that could find their treasury stock valuation is higher than expected once it is calculated. It is important to take care to calculate treasury stock valuation routinely and periodically.

Fig. 2-2-78 Impression of valuation of treasury stock, based on ratio of ordinary profit to sales



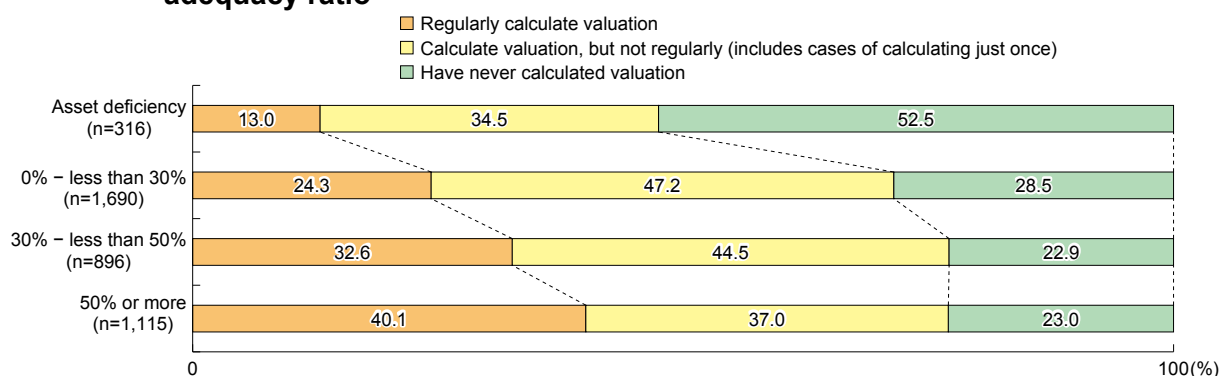
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "regularly calculate valuation" or "calculate valuation, but not regularly (includes cases of calculating just once)" regarding calculating valuation of treasury stock.

Fig. 2-2-79 looks at the state of calculation of treasury stock valuation by enterprises' capital adequacy ratio. It shows that enterprises with a high capital adequacy ratio

are more likely to answer, "regularly calculate valuation," and thus more likely to be aware of their treasury stock valuation.

Fig. 2-2-79 State of calculation of valuation of treasury stock, based on capital adequacy ratio



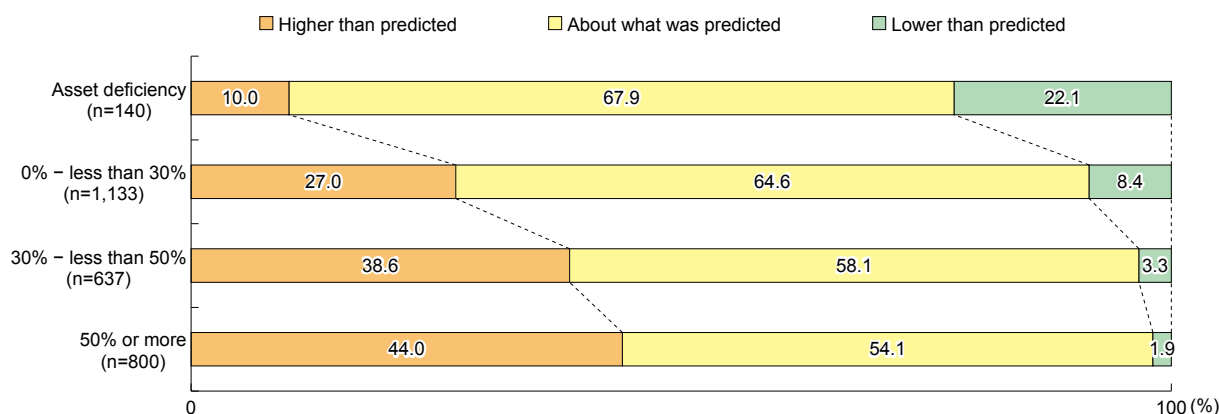
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-80 looks at enterprises' impressions of their treasury stock valuation, for those that had calculated it, based on capital adequacy ratio. A higher percentage of enterprises with high capital adequacy ratios felt their treasury stock's value is high.

which is to say, enterprises in a good financial position, tend to feel their treasury stock valuation is high and calculate their treasury stock valuation regularly. Even a certain percentage of enterprises like these, however, have never done this calculation, suggesting that it is also important for SMEs to be aware of their enterprise stock value.

In light of the above, enterprises with strong earnings recently and enterprises that have accumulated earnings,

Fig. 2-2-80 Impression of enterprise's treasury stock valuation, based on capital adequacy ratio



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

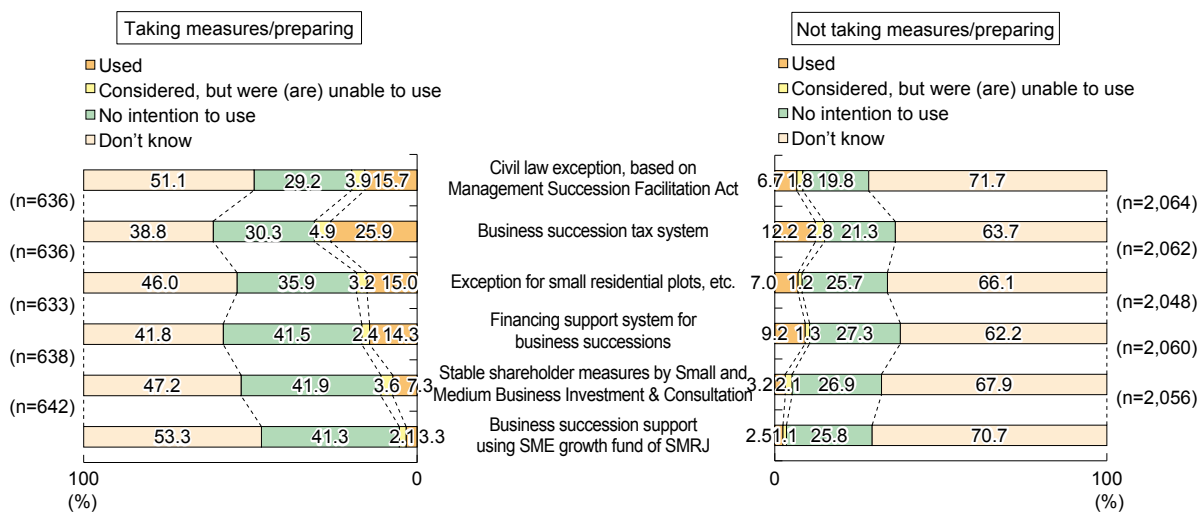
Note: Aggregates those that answered, "regularly calculate valuation" or "calculate valuation, but not regularly (includes cases of calculating just once)" regarding calculating valuation of treasury stock.

From this point, the analysis focuses on “financial strength of the successor to pay taxes, acquire treasury stock and business assets” (below, “financial strength of the successor”). With this item, there was a particularly large gap between the percentage that responded, “consider it a challenge” and the percentage that answered, “taking measures/preparing.” This part looks at the state of recognition and usage of such measures and who enterprises went to for advice, by state of measures and preparation.

To begin, we look at the state of recognition and usage

of various support measures¹²⁾ concerning handover of assets. Fig. 2-2-81 shows the state of recognition and usage of measures, by state of measures and preparation related to “financial strength of the successor.” Enterprises that answered, “taking measures/preparing” both had greater recognition and made more use of measures than did those that answered, “not taking measures/preparing.” It is possible that enterprises that are “not taking measures/preparing” do not know about these measures and therefore are not using them.

Fig. 2-2-81 State of recognition and usage of measures, by state of measures and preparation related to “financial strength of the successor”



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

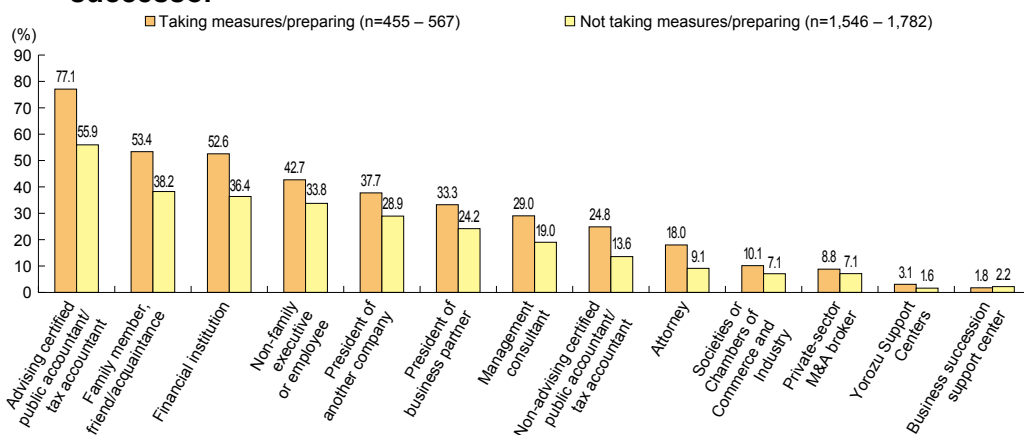
Note: Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “financial strength of the successor to pay taxes, acquire treasury stock and business assets.”

Fig. 2-2-82 shows who presidents went to for advice in the past, based on the state of measures and preparation related to “financial strength of the successor.” Enterprises that answered, “taking measures/preparing” had sought advice from those around them at a greater rate than did those that answered, “not taking measures/preparing.” Focusing on who medium corporations that were “taking

measures/preparing” went to for advice, the percentage was above 50% each for “advising certified public accountant/tax accountant,” “family member, friend/acquaintance,” and “financial institution.” It is conjectured they were gathering information about measures and preparation from sources of advice familiar to them.

12) For details about various support measures, see Column 2-2-2.

Fig. 2-2-82 Who presidents went to for advice on business succession in the past, by state of measures and preparation related to “financial strength of the successor”



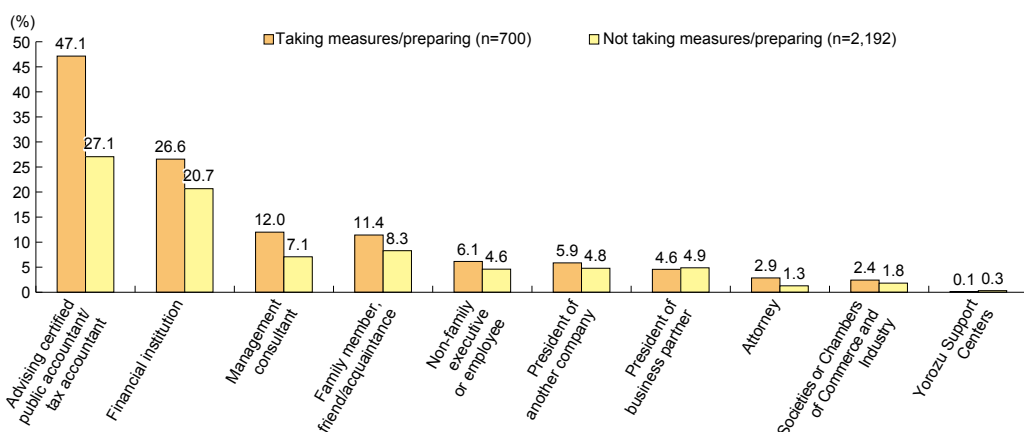
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “financial strength of the successor to pay taxes, acquire treasury stock and business assets.”
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Fig. 2-2-83, focusing on the encouragement presidents get from those around them, looks at who recommended preparing for the handover of management and assets, based on the state of measures and preparation related to “financial strength of the successor.” Enterprises that answered, “taking measures/preparing” had been recommended to prepare by those around them at a greater rate than did those that answered, “not taking

measures/preparing.” The party giving advice was often “advising certified public accountant/tax accountant” or “financial institution.” Particularly in cases of non-family succession, “financial strength of the successor” is an issue, but the measures for dealing with it take time. Therefore, those around that support the president should encourage the president to start preparing early.

Fig. 2-2-83 Who recommended to prepare to hand over management and assets, based on the state of measures and preparation related to “financial strength of the successor”



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “financial strength of the successor to pay taxes, acquire treasury stock and business assets.”
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. The items “other” and “it has not been recommended by anyone” are not shown.

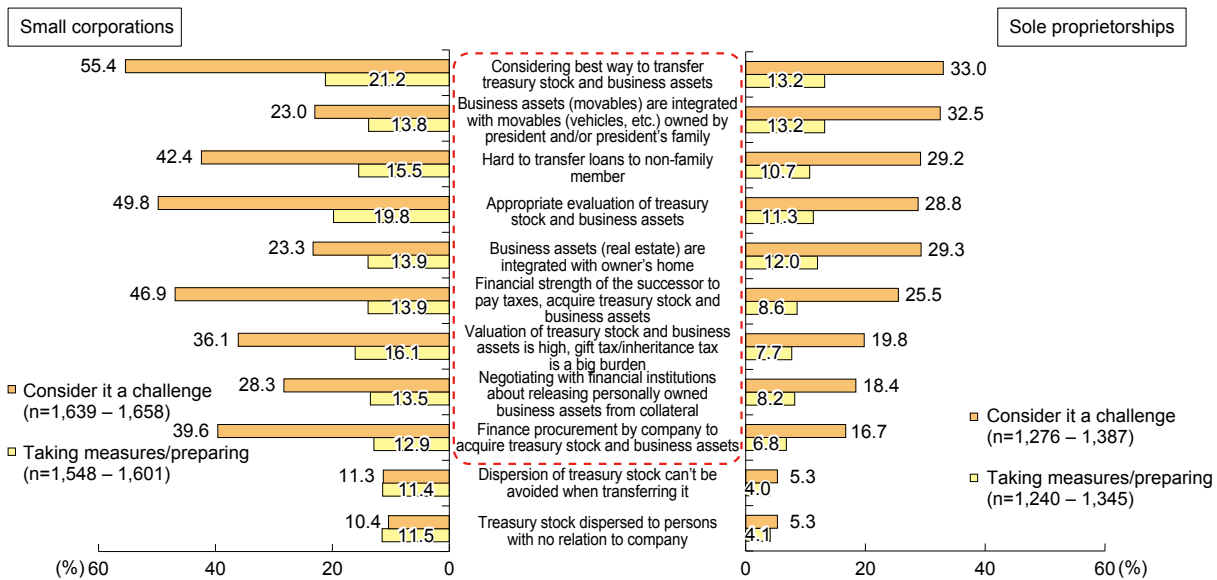
(2) State of preparation for and challenges with asset handover at micro businesses

From this point, we analyze asset handover at micro businesses based on results of a questionnaire of micro businesses. Compared to medium corporations, at micro businesses, the relationship between the president and the company/business is often unclear. Particularly at sole proprietorships, presidents tend to do business and sign agreements under their own names with suppliers and customers and to own the business assets, so the individual and business are one and the same. Below, we will analyze the situation, paying close attention to differences in form of organization.

Fig. 2-2-84 looks at the issues to which survey-takers

responded, “consider it a challenge” and “taking measures/preparing” in reference to handover of assets, based on whether the enterprise is a small corporation or sole proprietorship. Challenges common to small corporations and sole proprietorships include “considering best way to transfer treasury stock and business assets,” “business assets (movables) are integrated with movables (vehicles, etc.) owned by president and/or president’s family,” and “hard to transfer loans to non-family member.” On the whole, a higher percentage of small corporations than sole proprietorships felt there were challenges with handover of assets. On the other hand, a lower percentage of sole proprietorships than small corporations said that they were “taking measures/preparing.”

Fig. 2-2-84 Asset handover challenges and state of measures and preparation for dealing with those challenges (small corporation or sole proprietorship)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes: 1. Total does not always equal 100% as multiple responses were possible.
- 2. For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”

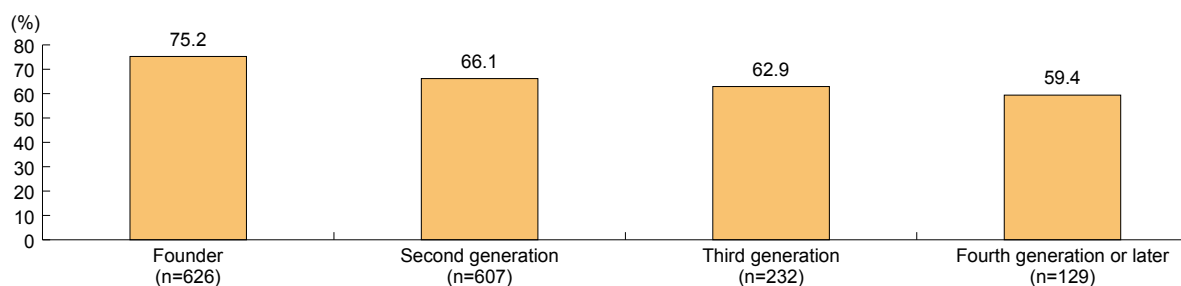
Next, we look at the form in which small corporations own treasury stock and business assets and hand them

over to the next generation. An overview of the situation is given separately for treasury stock and business assets.

Fig. 2-2-85 shows the average percentage of stock owned by the president, by the generation of the president (i.e., the enterprise's first president, second president, etc.). The average ownership by the founder was 75.2%, but the average for the fourth generation and beyond was 59.4%. It is conjectured that with more generations of presidents, enterprise presidents own a smaller percentage of stock.

Compared to medium corporations, on the other hand, even with a greater number of generations of presidents, there is little drop in the percentage of stock owned by the presidents of small corporations. It is characteristic of these enterprises that the president amasses a certain percentage of the stock.

Fig. 2-2-85 Average percentage of stock owned by the president, by the generation of the president (small corporations)

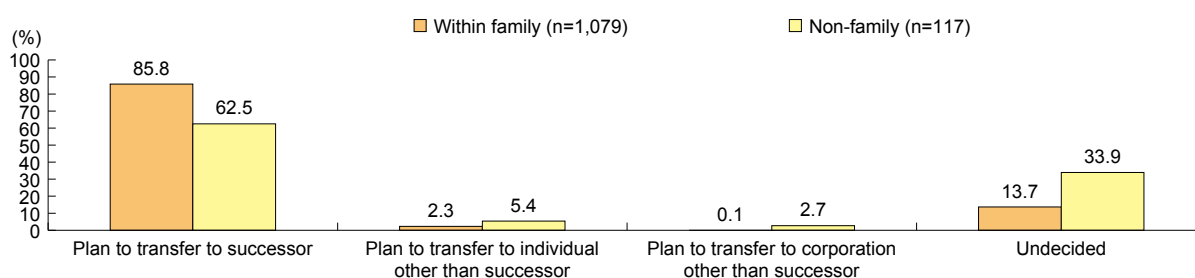


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-86 shows whom treasury stock is transferred to, based on the relationship with the successor/candidate successor. According to the figure, “plan to transfer to successor” was the answer in 85.8% of cases where the successor/candidate successor is a family member, but where the successor/candidate successor is non-family,

that percentage was only 62.5%, while the percentage that answered, “undecided” rose. This indicates that even when the successor/candidate successor is non-family, a higher percentage of small corporations than medium corporations answered, “plan to transfer to successor.”

Fig. 2-2-86 Whom treasury stock is to be transferred to at small corporations (successor/candidate successor within family, non-family)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “person from outside company” regarding successor or candidate successor.
 - Aggregated figures are exclusive of those that answered, “do not own treasury stock.”

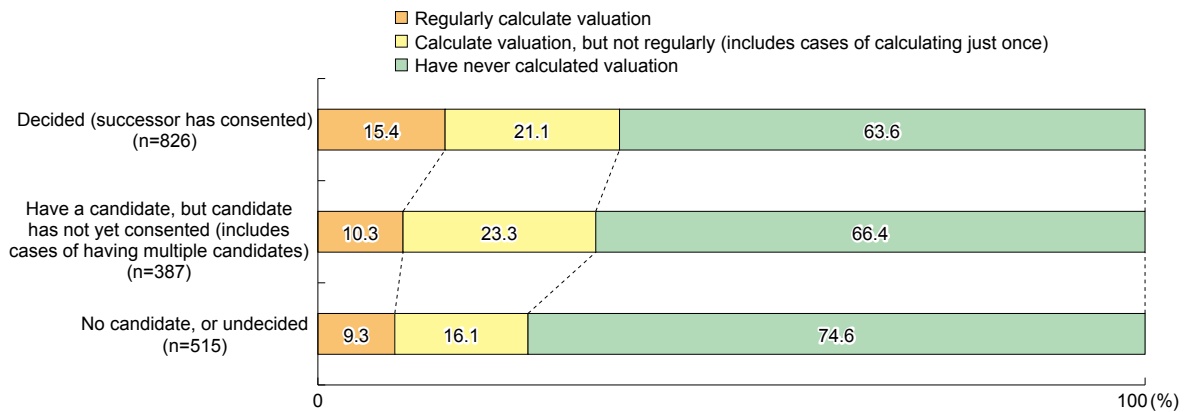
Next, we look at the state of preparation enterprises have made for handover of treasury stock. Here, we look

at the extent to which presidents are aware of the valuation of their enterprises’ treasury stock.

Fig. 2-2-87 shows the state of calculation of treasury stock valuation at small corporations, based on whether the enterprise’s successor was selected or not. Compared to enterprises where the successor was not decided, enterprises where the successor was decided chose the answer, “regularly calculate valuation” more often. This indicates that the more progress an enterprise has

made toward deciding on a successor, the more likely it is to have calculated the valuation of its treasury stock. However, a higher percentage of small corporations than medium corporations said that they “have never calculated valuation” of their treasury stock, indicating that they have low awareness of the valuation of their stock.

Fig. 2-2-87 State of calculation of valuation of treasury stock, based on successor selection status (small corporations)

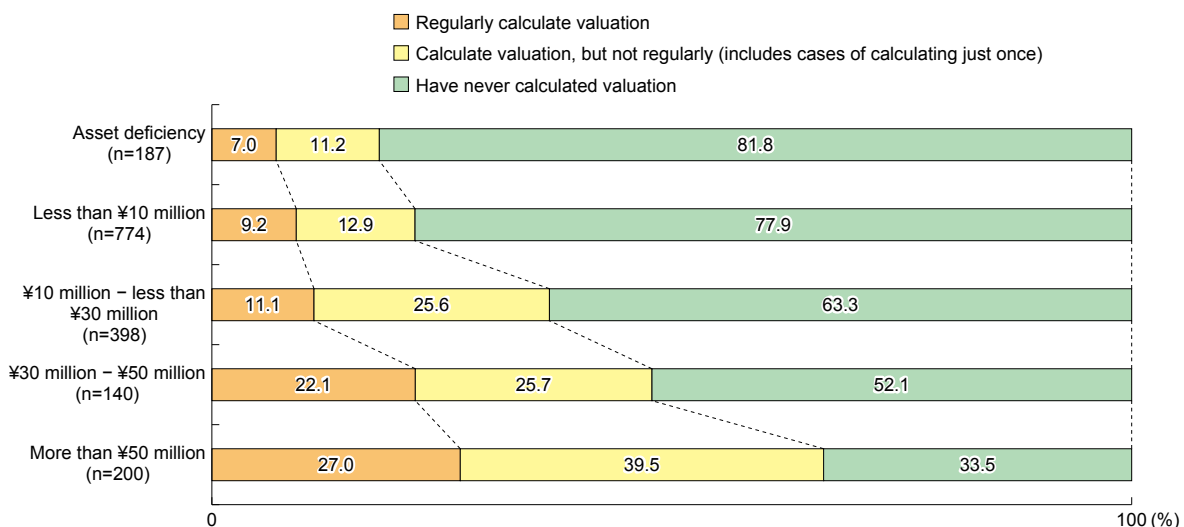


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

The valuation of an enterprise’s treasury stock is determined by such factors as the company’s profits and amount of net assets. Fig. 2-2-88 looks at the state of calculation of treasury stock at small corporations, by

amount of net assets. Enterprises with higher amounts of net assets were more likely to answer, “regularly calculate valuation,” and thus more likely to be aware of their treasury stock valuation.

Fig. 2-2-88 State of calculation of valuation of treasury stock, based on amount of net assets (small corporations)

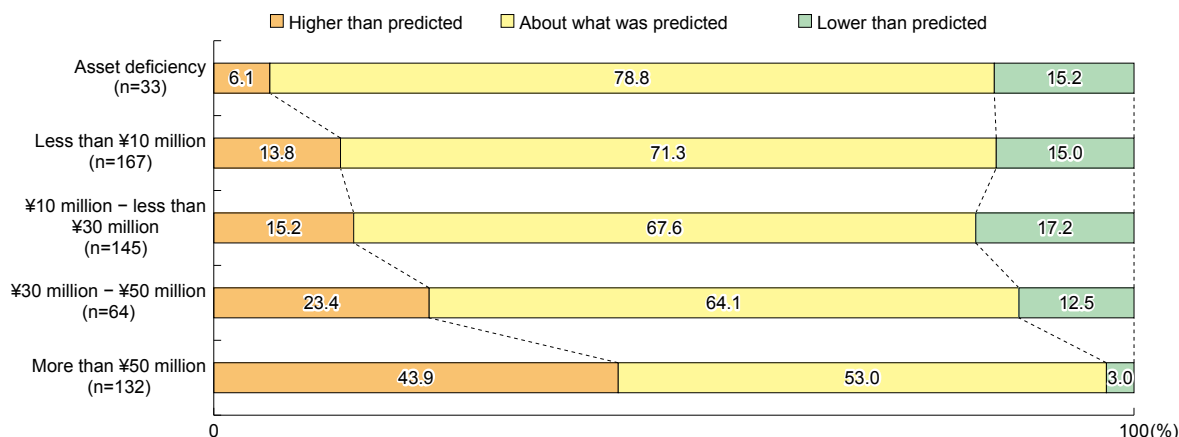


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, Fig. 2-2-89 looks at enterprises' impressions of their treasury stock valuation, for those that had calculated it, based on amount of net assets. A higher percentage

of enterprises with high amounts of net assets felt their treasury stock's value is high.

Fig. 2-2-89 Enterprises' impressions of their treasury stock valuation, based on amount of net assets (small corporations)



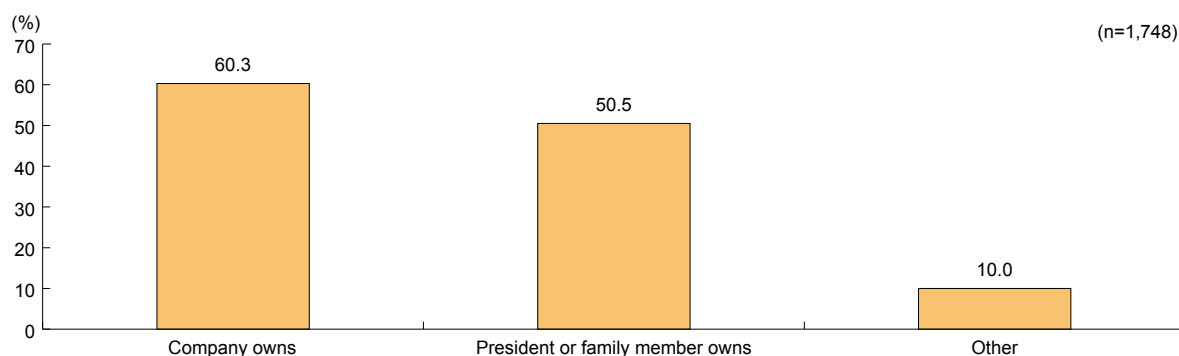
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “regularly calculate valuation” or “calculate valuation, but not regularly (includes cases of calculating just once)” regarding calculating valuation of treasury stock.

Next, we look at the state of ownership of business real estate (land and buildings of factories, shops, or offices) at small corporations. Fig. 2-2-90 looks at the state of ownership of enterprises' business real estate.

The percentage answering, “president or family member owns” was 50.5%, which is higher than the rate for medium corporations.

Fig. 2-2-90 State of ownership of small corporations' business real estate



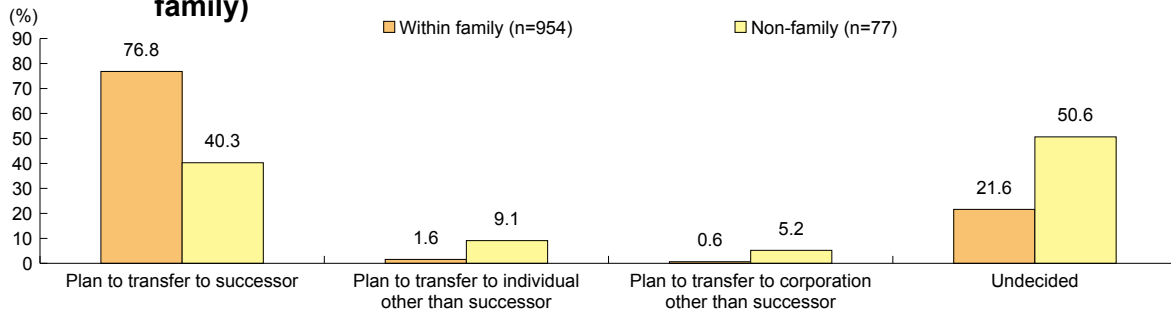
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates those that answered, “would like to hand over to someone (includes transferring or selling business)” or “undecided about handing over management” regarding inclination about business succession.
3. Here, “business real estate” refers to land and buildings, such as factories, shops, or offices.
4. “Other” includes leasing, etc.

Fig. 2-2-91 looks at to whom business assets are to be transferred, based on the relationship with successor/candidate successor. If the successor/candidate successor is within family, the most frequent response (76.8%) was “plan to transfer to successor,” but if the successor/

candidate successor is non-family, the most common response was “undecided,” so it is conjectured that many presidents are not able to decide to whom business assets will be handed over.

Fig. 2-2-91 To whom business assets owned by the president are to be transferred at small corporations (successor/candidate successor within family, non-family)



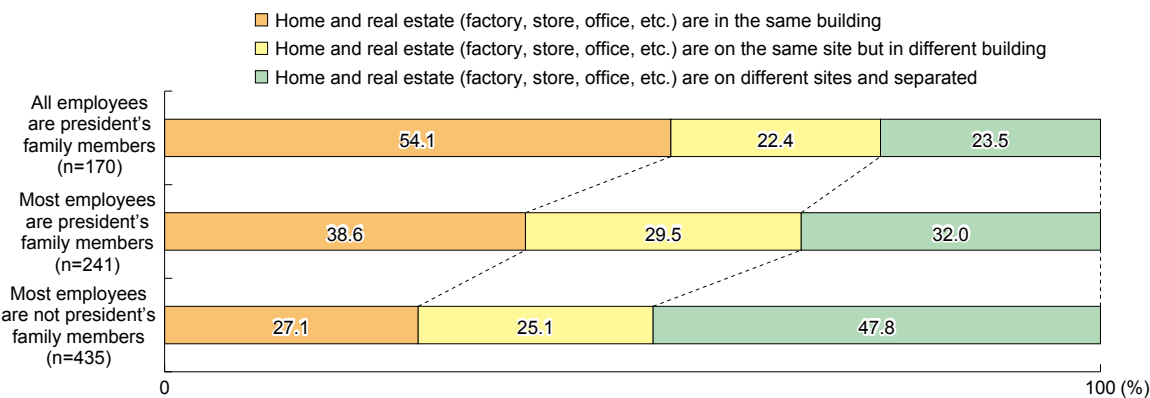
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Here, “within family” refers to those that answered, “spouse,” “child,” “child’s spouse,” “grandchild,” “sibling,” or “other family member” regarding successor or candidate successor. Also, here, “non-family” refers to those that answered, “non-family executive,” “non-family employee,” or “non-family personnel” regarding successor or candidate successor.
 3. Aggregated figures are exclusive of those that answered the president “does not own business assets.”

Next, we look at characteristics of business real estate owned by the president or president’s family members. Fig. 2-2-92 shows the state of separation of business real estate and home owned by the president or president’s family members, by employee structure. At small corporations near to the state of being family-run, i.e.,

those that answered, “all employees are president’s family members” or “most employees are president’s family members,” there are many that are strongly identified with the president and president’s family members. For example, there was a high percentage where the home and business real estate were the same building.

Fig. 2-2-92 State of separation of business real estate and home owned by the president or president’s family members, by employee structure (small corporations)



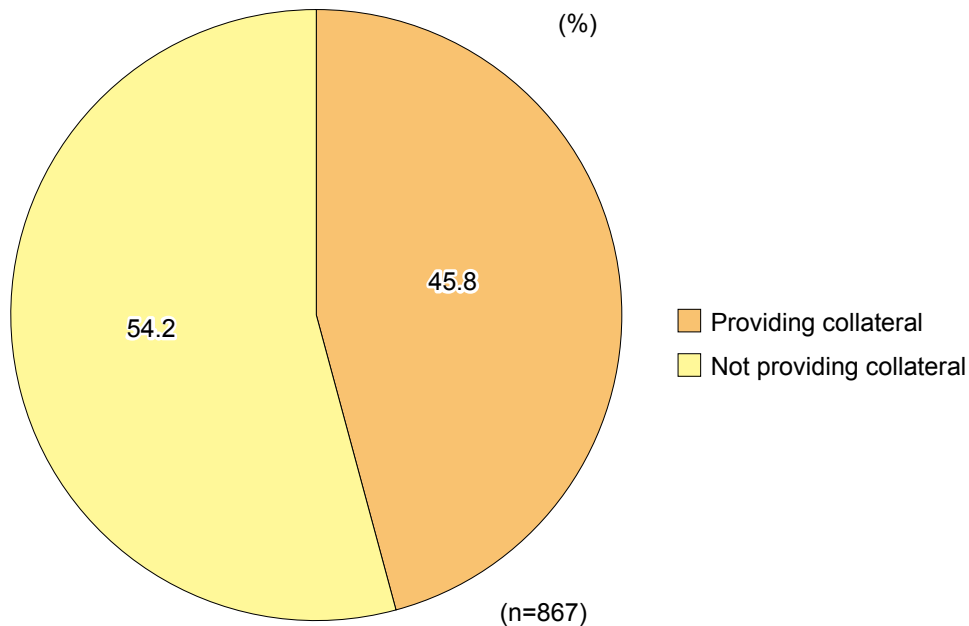
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “president or family member owns” business assets.

Fig. 2-2-93 looks at the percentage of enterprises at which business real estate owned by the president or president's family members is provided as collateral to a financial institution, etc. At 45.8% of small corporations,

such collateral is provided, meaning that business assets owned by the president or president's family members also have an important role to play for funds procurement.

Fig. 2-2-93 Percentage of enterprises at which business real estate owned by the president or president's family members is provided as collateral to a financial institution, etc. (small corporations)



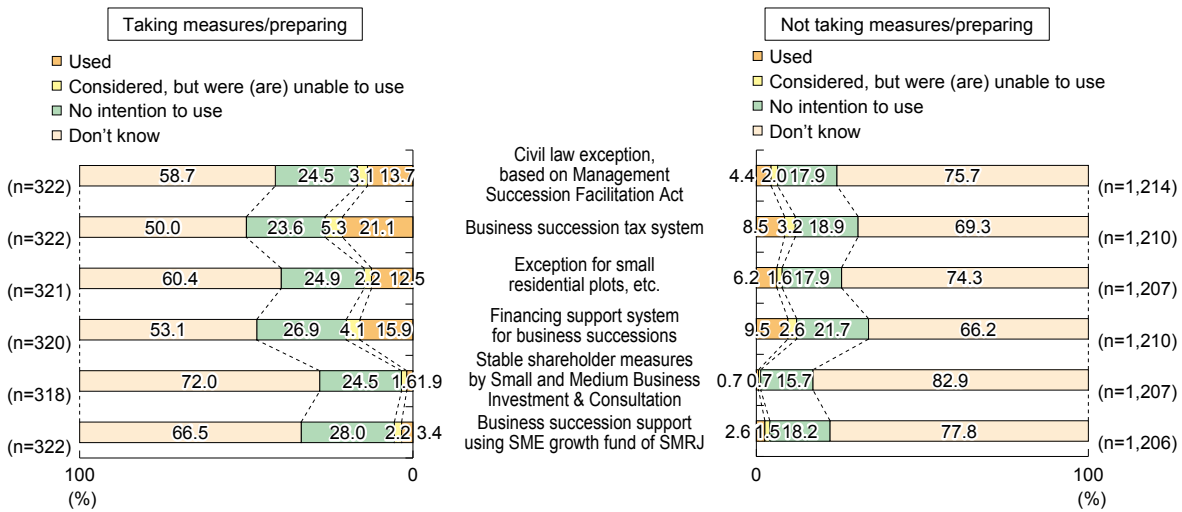
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, "president or family member owns" business assets.

From this point, the analysis focuses on "considering best way to transfer treasury stock and business assets" (below, "best way to transfer"). With this item, out of all the challenges listed in Fig. 2-2-84, there was a particularly large gap between the percentage that responded, "consider it a challenge" and the percentage that answered, "taking measures/preparing." This part looks at the state of recognition and usage of such measures and who enterprises went to for advice, by state of measures and preparation. Fig. 2-2-94 looks at the state

of recognition and usage of measures, by state of measures and preparation related to "best way to transfer." As was the case at medium corporations, small corporations that answered, "taking measures/preparing" both had greater recognition and made more use of measures than did those that answered, "not taking measures/preparing." It is possible that enterprises that are "not taking measures/preparing" do not know about these measures and therefore are not using them.

Fig. 2-2-94 State of recognition and usage of measures, by state of measures and preparation related to “best way to transfer” (small corporations)



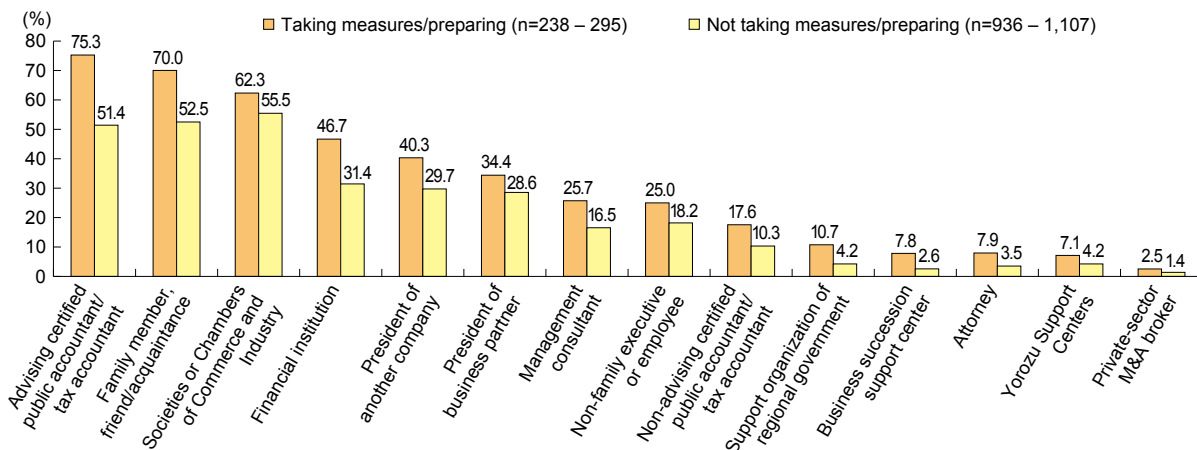
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”

Fig. 2-2-95 shows who presidents went to for advice in the past, based on the state of measures and preparation related to “best way to transfer.” It appears that enterprises that answered, “taking measures/preparing” had sought advice from those around them at a greater rate than did those that answered, “not taking measures/preparing.” Focusing on who small corporations went to for advice,

the percentage was above 60% each for “advising certified public accountant/tax accountant,” “family member, friend/acquaintance,” and “societies or chambers of commerce and industry.” It is conjectured they were gathering information about measures and preparation from sources of advice familiar to them.

Fig. 2-2-95 Who presidents went to for advice on business succession in the past, by state of measures and preparation related to “best way to transfer” (small corporations)



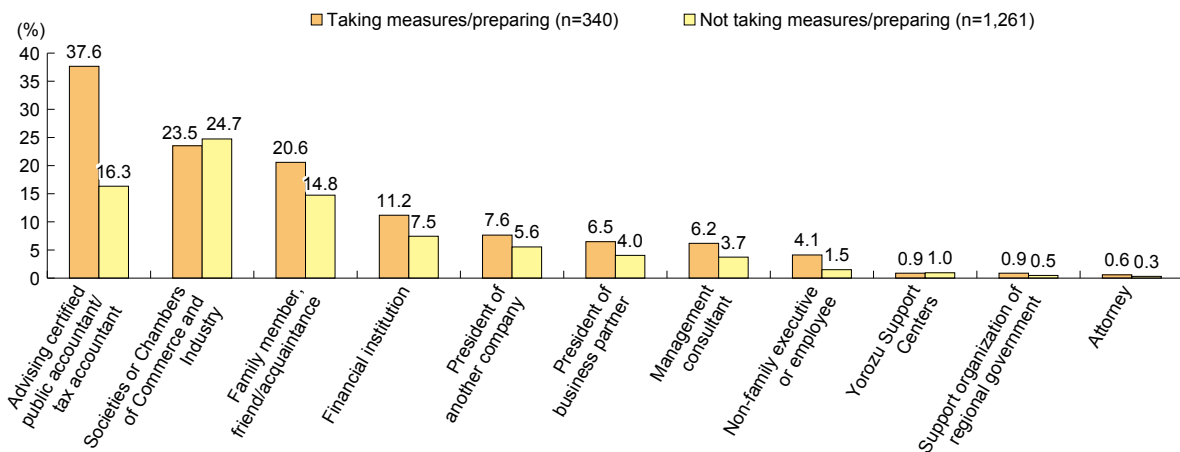
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes: 1. Total does not always equal 100% as multiple responses were possible.
- 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”
- 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
- 4. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Fig. 2-2-96, focusing on the encouragement presidents get from those around them, looks at who recommended preparing for the handover of management and assets, based on the state of measures and preparation related to “best way to transfer.” It appears enterprises that answered,

“taking measures/preparing” had been recommended to prepare by an “advising certified public accountant/tax accountant” at a greater rate than did those that answered, “not taking measures/preparing.”

Fig. 2-2-96 Who recommended to prepare to hand over management and assets, based on the state of measures and preparation related to “best way to transfer” (small corporations)



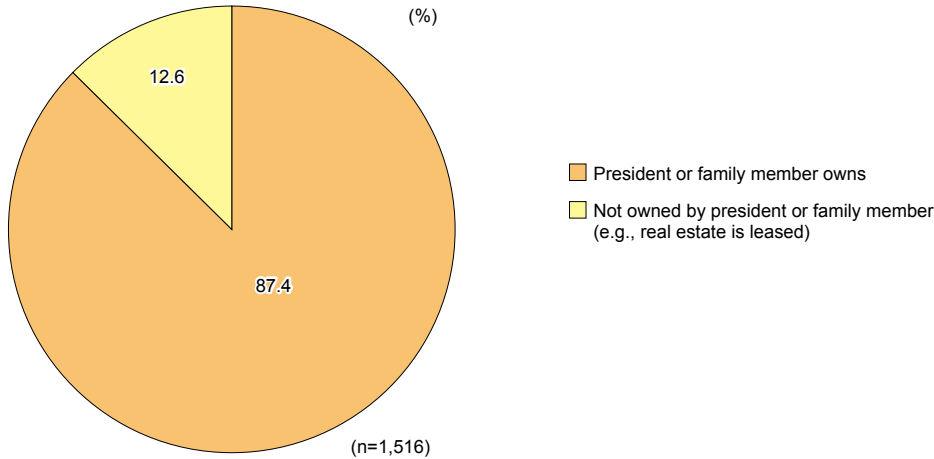
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. The items “other” and “it has not been recommended by anyone” are not shown.

This part looks at handover of assets at sole proprietorships. To begin, we look at the state of ownership of business real estate (land and buildings of factories, shops, or offices) at sole proprietorships. Fig. 2-2-97 looks at the state of ownership of enterprises’

business real estate. The percentage saying, “president or family member owns” was 87.4%, meaning that many sole proprietorships need to consider the handover of business real estate.

Fig. 2-2-97 State of ownership of sole proprietorships’ business real estate



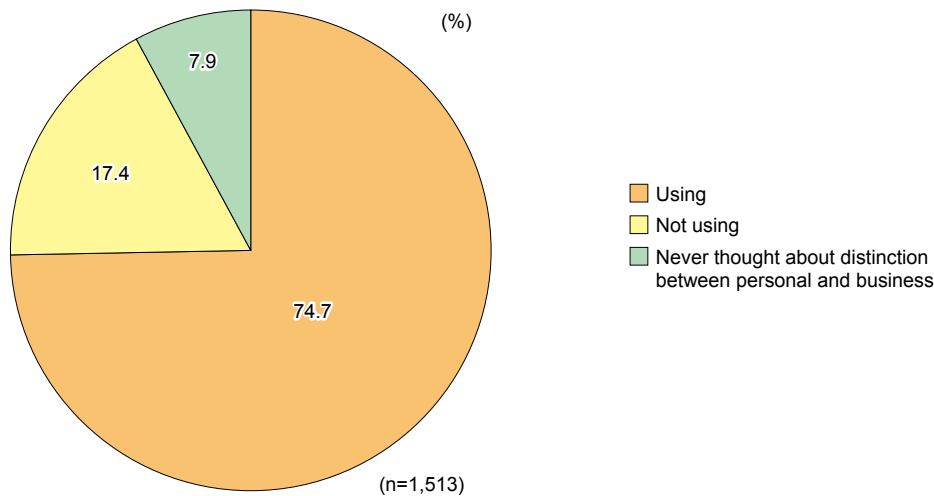
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates those that answered, “would like to hand over to someone (includes transferring or selling business)” or “undecided about handing over management” regarding inclination about business succession.
 2. Here, “business real estate” refers to land and buildings, such as factories, shops, or offices.

Fig. 2-2-98 shows the percentage of sole proprietorships where vehicles or other movables owned by the president or president’s family members were being used for business purposes. The percentage answering, “using”

was 74.7%, indicating that at many sole proprietorships, personally owned movables are identified as business movables.

Fig. 2-2-98 Percentage of enterprises where movables (vehicles, etc.) owned by the president or president’s family members were being used for business purposes (sole proprietorships)

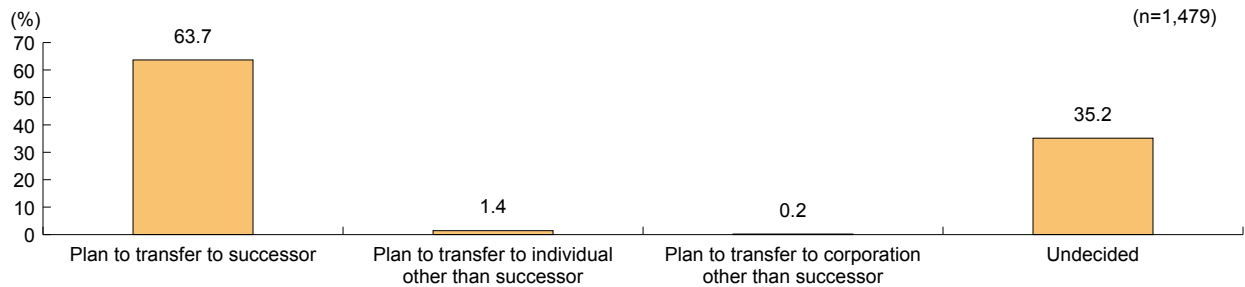


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, we look at to whom business assets owned by the presidents of sole proprietorships are to be transferred (Fig. 2-2-99). The most common response (63.7%) from

sole proprietorships was “plan to transfer to successor,” but there were also some sole proprietorships that had not considered the issue, as 35.2% answered, “undecided.”

Fig. 2-2-99 To whom business assets owned by presidents of sole proprietorships are to be transferred



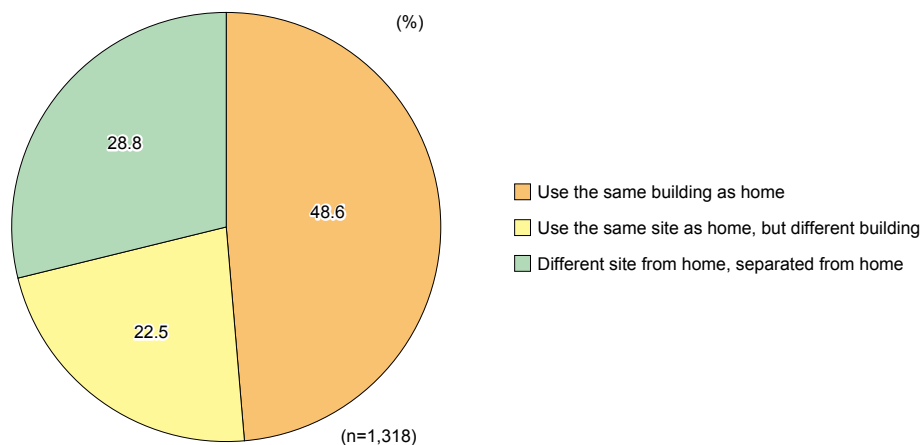
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregated figures are exclusive of those that answered “do not own business assets.”

Next, we look at the characteristics of business real estate owned by sole proprietorships’ presidents or president’s family members. Fig. 2-2-100 shows the state of separation of business real estate and home owned by

the president or president’s family members. The home and business real estate were the same building in 48.6% of cases, meaning that at many businesses, the home is strongly identified as a business asset.

Fig. 2-2-100 State of separation of business real estate and home owned by the president or president’s family members (sole proprietorships)



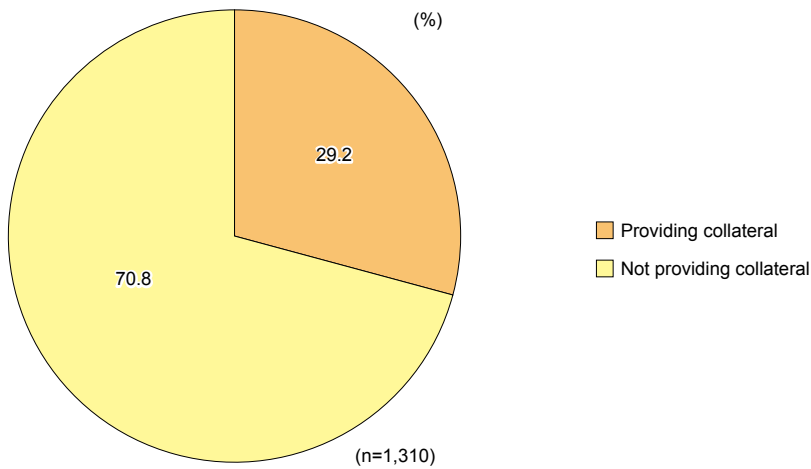
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates those that answered, “president or family member owns.”
 2. Here, “business real estate” refers to land and buildings, such as factories, shops, or offices.

Fig. 2-2-101 looks at the percentage of enterprises at which business real estate owned by the president or president’s family members is provided as collateral to a financial institution, etc. The results show that while 45.8% of small corporations provide such collateral,

only 29.2% of sole proprietorships do so and therefore business assets owned by the president or president’s family members there play a relatively small role in funds procurement.

Fig. 2-2-101 Percentage of enterprises at which business real estate owned by the president or president’s family members is provided as collateral to a financial institution, etc. (sole proprietorships)



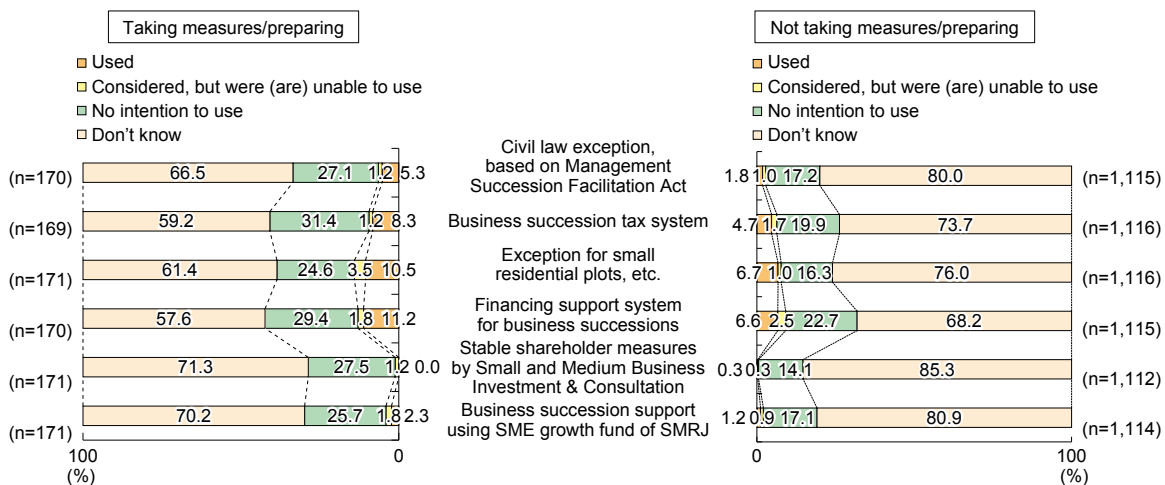
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Notes: 1. Aggregates those that answered, “president or family member owns.”
 2. Here, “business real estate” refers to land and buildings, such as factories, shops, or offices.

Next, we look at the state of recognition and usage of measures and who enterprises went to for advice, by state of measures and preparation, with a focus on “best way to transfer” at sole proprietorships, as we did earlier for small corporations.

To begin, we look at the state of recognition and usage of various support measures concerning handover of assets. Fig. 2-2-102 looks at the state of recognition and usage of measures, by state of measures and preparation

related to “best way to transfer.” It was also the case at sole proprietorships that those who answered, “taking measures/preparing” both had greater recognition and made more use of measures than did those that answered, “not taking measures/preparing.” It is possible that enterprises that are “not taking measures/preparing” do not know about these measures and therefore are not using them.

Fig. 2-2-102 State of recognition and usage of measures, by state of measures and preparation related to “best way to transfer” (sole proprietorships)

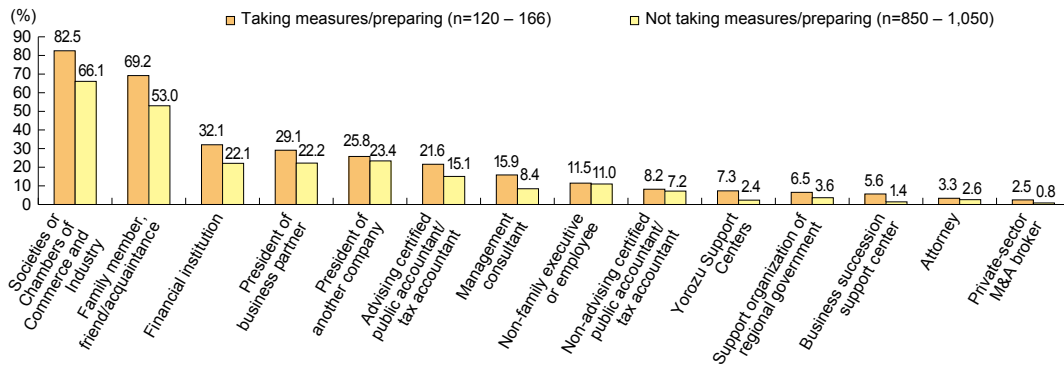


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.
 Note: Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”

Fig. 2-2-103 shows who presidents went to for advice in the past, based on the state of measures and preparation related to “best way to transfer.” A high percentage of enterprises that answered, “taking measures/preparing” had sought advice from those around them. Focusing on who sole proprietorships that were “taking measures/

preparing” went to for advice, the percentage was above 50% each for “societies or chambers of commerce and industry” and “family member, friend/acquaintance.” It is conjectured they were gathering information about measures and preparation from sources of advice familiar to them.

Fig. 2-2-103 Who presidents went to for advice on business succession in the past, by state of measures and preparation related to “best way to transfer” (sole proprietorships)



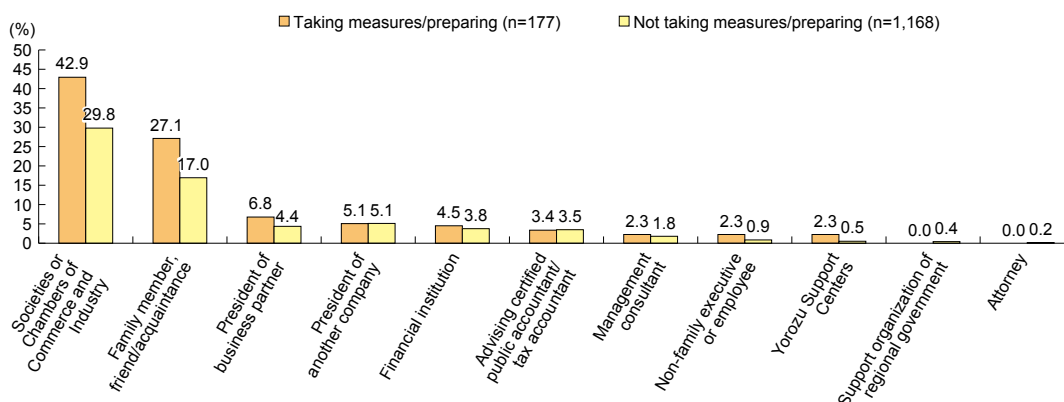
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Fig. 2-2-104, focusing on the encouragement presidents get from those around them, looks at who recommended preparing for the handover of management and assets, based on the state of measures and preparation related

to “best way to transfer.” A high percentage of those that answered, “taking measures/preparing” had been recommended by “societies or chambers of commerce and industry” to prepare.

Fig. 2-2-104 Who recommended to prepare to hand over management and assets, based on the state of measures and preparation related to “best way to transfer” (sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, respectively, “yes” and “no” regarding “taking measures/preparing” for “considering best way to transfer treasury stock and business assets.”
 3. Here, “management consultant” includes SME consultants, judicial scriveners, and administrative scriveners.
 4. The items “other” and “it has not been recommended by anyone” are not shown.

(3) Summary of “handover of assets”

Section 1, subsection 3 looked at the state of preparation and the challenges associated with the handover of assets.

At medium corporations, the challenges they face during the handover of assets include “financial strength of the successor to pay taxes, acquire treasury stock and business assets” and “considering best way to transfer treasury stock and business assets,” among others. The results also showed that, on the whole, those enterprises where the successor is non-family had made less progress on measures and preparation. Looking at the valuation of treasury stock as it concerns a calculation of the costs required to transfer it, we find that it is not just enterprises in good financial condition but even enterprises with low profit margins that could find their treasury stock valuation is higher than expected once it is calculated. It is important to take care to calculate treasury stock valuation routinely and periodically to raise awareness of asset handover and to prepare accordingly.

At micro businesses, challenges include “considering best way to transfer treasury stock and business assets” and “business assets (movables) are integrated with movables (vehicles, etc.) owned by president and/or president’s family.” At micro businesses, business assets and personal assets are often not separated to begin with, which is a challenge for succession. Those that wish

to carry out a business succession need to take steps to clearly separate these business assets and personal assets.

Thus, medium corporations, small corporations, and sole proprietorships each face different challenges related to the handover of assets, but to figure out the best way to hand them over, they need to start preparing before it is time for the succession to happen. Examples of such preparation include having the successor procure the funds to acquire treasury stock and business assets, considering the best way to transfer them, and separating business assets and personal assets. The following two points are critical for ensuring that the handover of assets goes smoothly. First, the president needs to understand that the handover of assets takes time, as noted above, and he or she needs to directly seek advice from advising certified public accountants/tax accountants, financial institutions, and the like and to take measures before it is necessary to actually carry out the succession. Second, presidents should gain a better recognition of various existing measures to prepare for business succession, while advising certified public accountants/tax accountants, financial institutions, and the like should increase their understanding of such measures and make them better known to SMEs and micro businesses and encourage presidents to prepare for succession.

Column 2-2-4 Financing systems for business succession

As we saw in this section, challenges related to the handover of assets include the burden of paying gift tax/inheritance tax on treasury stock and the financial strength of the successor to acquire treasury stock and business assets. The Japan Finance Corporation provides financing for the funds needed for business succession (Fig. Column 2-2-4).

Fig. Column 2-2-4 Overview of Business Succession, Integration, and Stimulus Support Funds System

Who is eligible for a loan	<ol style="list-style-type: none"> 1. Enterprises meeting certain conditions conducive to maintaining the industrial vitality of the regional economy, and which are passing down a business that is economically or socially useful through the transfer of the business, transfer of stock, merger, etc. 2. Enterprises working to continue a business through the stable securing of management rights and which fall under any of the following <ol style="list-style-type: none"> (1) Enterprises passing down a business through the transfer of the business, transfer of stock, merger, etc., from a party that is struggling to continue the business, e.g., because of a lack of a successor (2) Corporations that are, for example, acquiring treasury stock or business assets from shareholders, etc. (3) Successors that are, for example, acquiring business assets (sole proprietors) (4) Holding companies that are acquiring stock or business assets of an operating company
How loans can be used	As equipment funds or long-term working capital necessary for business succession/integration
Loan limits	SME Units: ¥720 million (of which, up to ¥250 million for working capital) Micro Business and Individual Units: ¥72 million (of which, up to ¥48 million for working capital)
Loan interest rates	Working capital and equipment funds: standard interest rate, special interest rate
Loan periods	Equipment funds: Within 20 years <period of deferment not exceeding 2 years> Working capital: Within 7 years <period of deferment not exceeding 2 years>
Financial institutions handling loans	Japan Finance Corporation (SME Units and Micro Business and Individual Units) Okinawa Development Finance Corporation

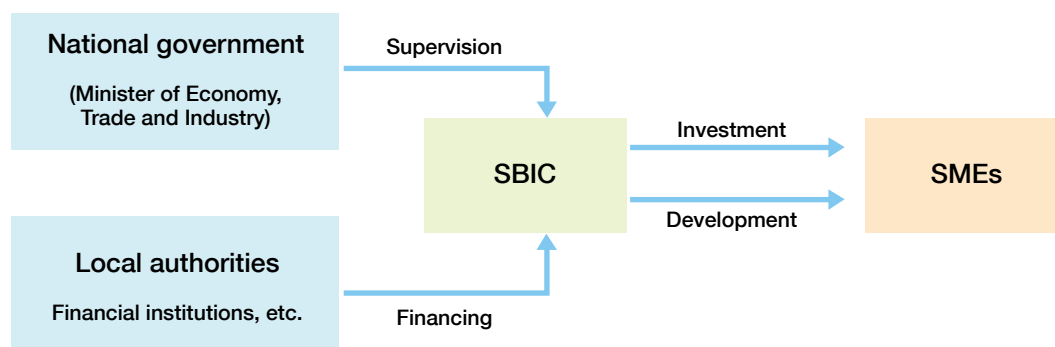
Column 2-2-5 Overview of SBICs

The percentage of stock owned by the president of an SME is indivisibly related to the stability of management rights. To ensure that the president's decision-making goes smoothly, it is necessary to raise the percentage of stock providing management rights to the president (percentage of voting rights). However, as more generations of presidents come and go, stock tends to become dispersed as a result of shareholder inheritance. It is a great financial burden for the president to amass the dispersed stock. Enterprises with dispersed stock will find it effective to bring in stable shareholders who endorse the current president's management policies and will own stock for the long term.

Japan's small and medium business investment and consultation companies (SBIC) are policy implementation organizations that become shareholders in SMEs by such means as assuming their stock and which build up SMEs' equity capital and support their healthy growth. SBICs were established in 1963 in Tokyo, Nagoya, and Osaka as based on the Small and Medium Business Investment & Consultation Companies Act. Their investment development programs have been used cumulatively by 5,163 companies throughout Japan as of December 31, 2016.

For example, if the successor to a family enterprise owns only a small percentage of the stock at the time of business succession, an SBIC can become a stable shareholder and help to stabilize management. SBICs are also used as a way to bring in stable shareholders in cases of non-family succession, such that non-family members own shares. An example is given in Case 2-2-3.

[Investment development program scheme]



[Basic investment conditions to use program]

Capital	¥300 million or less (before investment)
Industry sector	Any (unless they are inconsistent with public order and morals or are of a speculative nature)
Types of investment	(1) SBIC assumes stock issued by the joint-stock corporation when it was founded (2) SBIC assumes stock issued during a capital increase (3) SBIC assumes share options (4) SBIC assumes bonds with share options If necessary, the SBIC can also assume treasury stock or make additional investment.

[How SBICs support investees]

Stabilizing management rights	SBICs becomes stable, long-term shareholders, enabling the SME to develop a more stable management system, for example by improving on a dispersed shareholder composition.
Successor development support	SBICs support successor development in a variety of ways, including successor development programs (group trainings for management candidates) and young presidents' events (plant tours and study meetings for groups of successors in similar positions).
President networking events, business matching	SBICs prepare ways for presidents to network with each other across regions and industry sectors. Examples include events for local company presidents and observation tours outside Japan.
Personnel development support	SBICs prepare theme-specific and rank-specific training programs and offer venues for systematic personnel development.
Consultations with experts, information services, etc.	SBICs offer legal consultations of all sorts, M&A information services, and other information essential to management.

[Contact for inquiries]

- Tokyo Small and Medium Business Investment & Consultation Co., Ltd.
(Covers 18 prefectures: Niigata, Nagano, Shizuoka, and others to the east of them)
URL: <http://www.sbic.co.jp/>
Telephone: head office 03-5469-1811
- Nagoya Small and Medium Business Investment & Consultation Co., Ltd.
(Covers five prefectures: Aichi, Gifu, Mie, Toyama, Ishikawa)
URL: <http://www.sbic-cj.co.jp/>
Telephone: head office 052-581-9541
- Osaka Small and Medium Business Investment & Consultation Co., Ltd.
(Covers 24 prefectures: Fukui, Shiga, Nara, Wakayama, and others to the west of them)
URL: <http://www.sbic-wj.co.jp/>
Telephone: head office 06-6459-1700; Kyushu branch 092-724-0651

Case 2-2-3 GOSEI Co., Ltd.

A company that was passed on for generations within the family, but that for reasons of both management and capital implemented a management succession outside the family

GOSEI Co., Ltd. (employees: 141; capital: ¥48 million), located in Mitoyo City in Kagawa Prefecture, is a company that offers comprehensive construction consultation services. With consultation in the area of surveying, design and other elements of civil engineering as its core business, the company has won a good reputation for a system that allows it to comprehensively tackle tasks including planning, surveys, project planning and design.

Kazutoshi Takeuchi (66) is the fourth President and Representative Director of the company. Mr. Takeuchi was appointed as an executive from among employees of the company, and is the first of the company's Presidents outside the family line. The company was founded by the father of the current Chairman, Yuji Asano, who was succeeded by second and third Presidents (the current Chairman was the third) from within his family. Mr. Asano himself was not strongly committed to the idea of succession within the family, and when he was appointed President at the age of 42, he laid the groundwork for management succession outside the family.

First, Mr. Asano organized the system to allow management-level staff in their 40s to be promoted to executive level as soon as possible in order to participate in top-level management, and for important management matters began to be decided systematically, via meetings of the board. In addition, while the founder's family initially held the greater part of the company's shares, Mr. Asano increased capitalization and provided shares to the company's employee shareholding association and executive staff, and organized general shareholders' meetings every term at which the company's financial status was shared with employees and executives, increasing their sense of participation in the operation of the company.

When GOSEI Co., Ltd. became a subsidiary of a major corporation in its industry in 2008, the company took the opportunity to appoint Mr. Takeuchi, a career executive, as its President. Looking back, Mr. Takeuchi says, "When I was appointed President, I had to provide a management guarantee of around ¥1.2 billion against bank loans. My family operated a manufacturing business, and because I had grown up observing my father, who was the company President, I had little resistance to the idea of management guarantees. But in future, when the company selects another non-family member from among its executives to become President, the burden of having to offer personal guarantees for large sums might represent a hurdle for the succession of the presidency." Mr. Takeuchi says that during his term as President, it will be an important task for him to further strengthen the company's financial foundations, and release it from the obligation of management guarantees.

Having become the subsidiary of a major corporation, the company found that its management guidelines did not correspond with those of its parent company, and within only two years after the capital alliance it had bought back its own shares. As a result, it sought a stable shareholder to replace the other corporation. Learning of the system operated by the Small and Medium Investment & Consultation Co., Ltd. (SBIC below), the company accepted investment from the SBIC, which became a stable shareholder in place of the former parent corporation. The company consulted with the branch manager of its main bank, the Hyakujushi Bank, concerning capital policy in cases of management succession, and was introduced to a tax accountant with extensive knowledge of capital policy. Under advice from this tax accountant, the company reorganized its executive and employee shareholding associations, creating mechanisms by which executives and employees would be granted shares to an amount that ensured there would be no excessive individual burden, and that enabled shares to be passed to the next generation when the shareholders retired in the future. Mr. Takeuchi says "In moving forward with management succession outside the family, precise guidance from a tax accountant with considerable expertise in solving problems associated with management succession enabled us to move through the process smoothly. While granting shares outside the family increases the number of shareholders, which tends to disperse voting rights, in the SBIC, a public institution, we have a stable shareholder that supports our top management. This stabilization of management rights has created an environment in which it is possible to manage the business with peace of mind."

The current issue for Mr. Takeuchi is the cultivation of the next generation of top management. In summer 2016, he launched a project to consider the company's future with several key staff members and volunteers from among younger staff. Mr. Takeuchi says, "By means of this project, I want the next generation of management and company employees to think about the direction that the company should move in in the future. I think that having people decide on things independently for themselves increases the potential for their realization."



GOSEI Co., Ltd.'s headquarters

Section 2 State of consideration and challenges with business transfer, sale, or integration (M&A) and business closure

Business transfer, sale, or integration (M&A) is increasingly becoming an alternative to business succession that hands over management and assets to a family member, employee, etc. Section 2 begins by looking at the state of consideration and challenges with

business transfer, sale, or integration (M&A). Some managers, on the other hand, decide to close business instead of handing it over. We will also take a closer look at the state of consideration and challenges with business closures.

1. State of consideration and challenges with business transfer, sale, or integration (M&A)

In this chapter, “business transfer, sale, or integration (M&A)” means handing over a company’s business to someone other than a family member, executive, or employee by transfer or sale. A business transfer, sale, or integration (M&A) can be an effective option for handing over the management resources an enterprise has fostered when there is no successor among the family members, executives, or employees.

Below are four ways SMEs and micro businesses can carry out a business transfer, sale, or integration (M&A).¹³⁾

- (1) Transferring company stock to another company (creating a subsidiary)
- (2) Transferring stock to another individual
- (3) Transferring all or part of a company’s business to another company

- (4) Transferring all or part of a sole proprietorship’s business to another company or sole proprietorship

At a joint-stock corporation, the usual practice is to carry out a stock transfer (as in (1) or (2) above), but a business transfer (as in (3) or (4) above) is common when handing over part of a business and in the case of sole proprietorships. Mergers and company splits are also sometimes used. Rather than debating the merits of the different procedures, this section gives an overview of the state of consideration and challenges with business transfer, sale, or integration (M&A) as options for medium corporations and micro businesses to hand over their businesses in a form other than business succession.

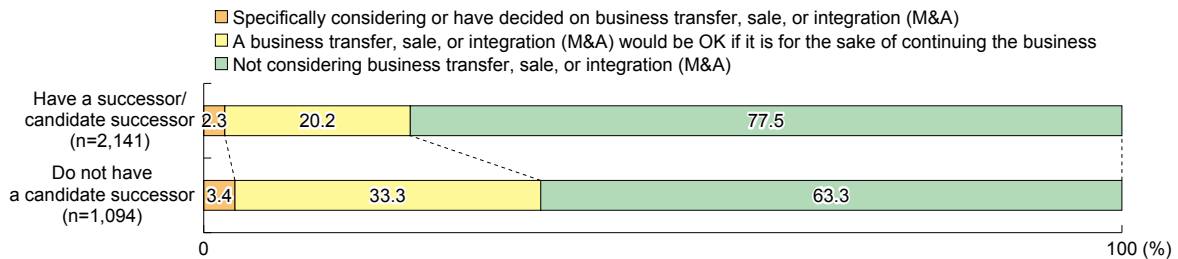
13) See the Business Succession Guidelines published in April 2015 for procedure details.

(1) State of consideration and challenges with business transfer, sale, or integration (M&A) at medium corporations

Here we look at the state of consideration of business transfer, sale, or integration (M&A) by whether there is

a successor/candidate successor or not (Fig. 2-2-105). At medium corporations without a candidate successor, 33.3% thought that “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business.”

Fig. 2-2-105 State of consideration of business transfer, sale, or integration (M&A) by whether there is a successor/candidate successor or not

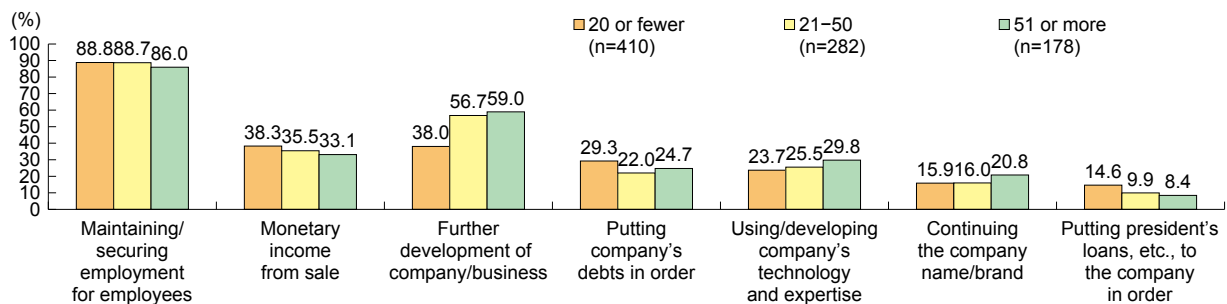


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-106 looks at what enterprises value in cases of business transfer, sale, and integration (M&A), by number of employees. The most common answer (more than 80%), value “maintaining/securing employment for

employees,” but the greater the number of employees, the greater the percentage that hoped for the “further development of company/business.”

Fig. 2-2-106 What enterprises value in cases of business transfer, sale, and integration (M&A), by number of employees



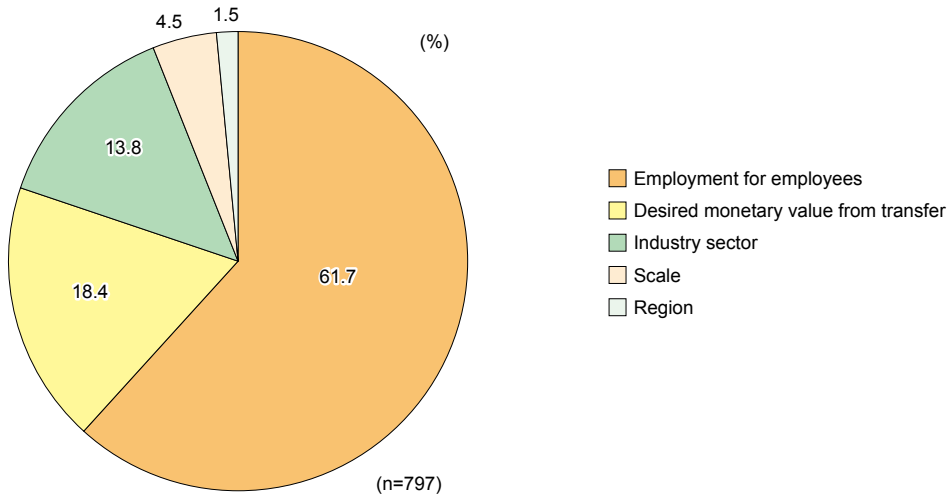
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding inclination to business transfer, sale, or integration (M&A).
 - Those that answered “other” are not shown.

Next, we look at the conditions that medium corporations hope for in respect to their counterparts in the business transfer, sale, or integration (M&A).¹⁴⁾ Fig. 2-2-107 looks at the conditions that medium corporations most value when they select their counterparts for a

business transfer, sale, or integration (M&A). The greatest response (61.7%) was to “employment for employees,” even more than “desired monetary value from transfer” and “industry sector.”

Fig. 2-2-107 What medium corporations most value when they select their counterparts for a business transfer



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

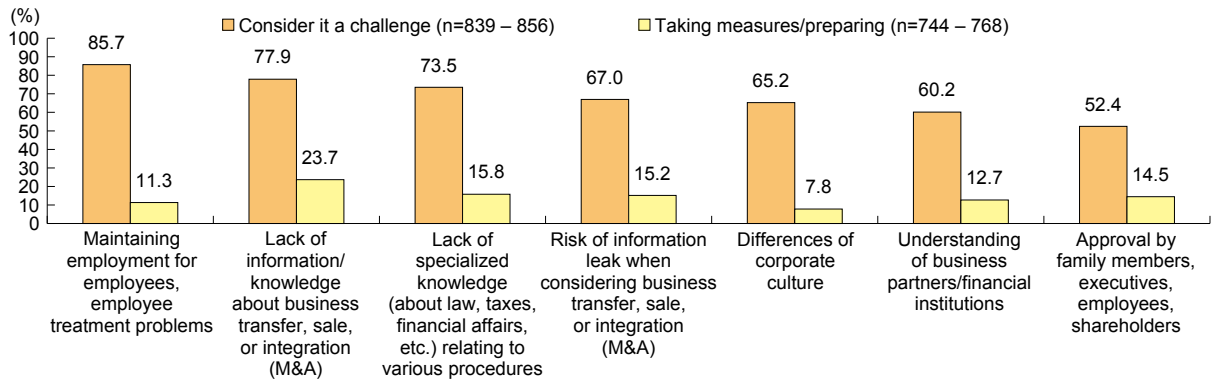
Note: Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).

Next, we look at challenges involved with taking on a business transfer, sale, or integration (M&A) and the state of preparation and measures for those challenges. Fig. 2-2-108 looks at each item of which enterprises said they “consider it a challenge” in terms of business transfer, sale, or integration (M&A) and for which they are “taking measures/preparing.” Challenges mentioned included

“maintaining employment for employees, employee treatment problems,” “lack of information/knowledge about business transfer, sale, or integration (M&A),” and “lack of specialized knowledge (about law, taxes, financial affairs, etc.) relating to various procedures,” among others, but overall, the enterprises had not made much progress taking measures or preparing.

14) See Column 2-2-6 for details about conditions on transfer counterparts, such as industry sector and scale.

Fig. 2-2-108 Challenges with business transfer, sale, or integration (M&A) and state of measures and preparation for dealing with them



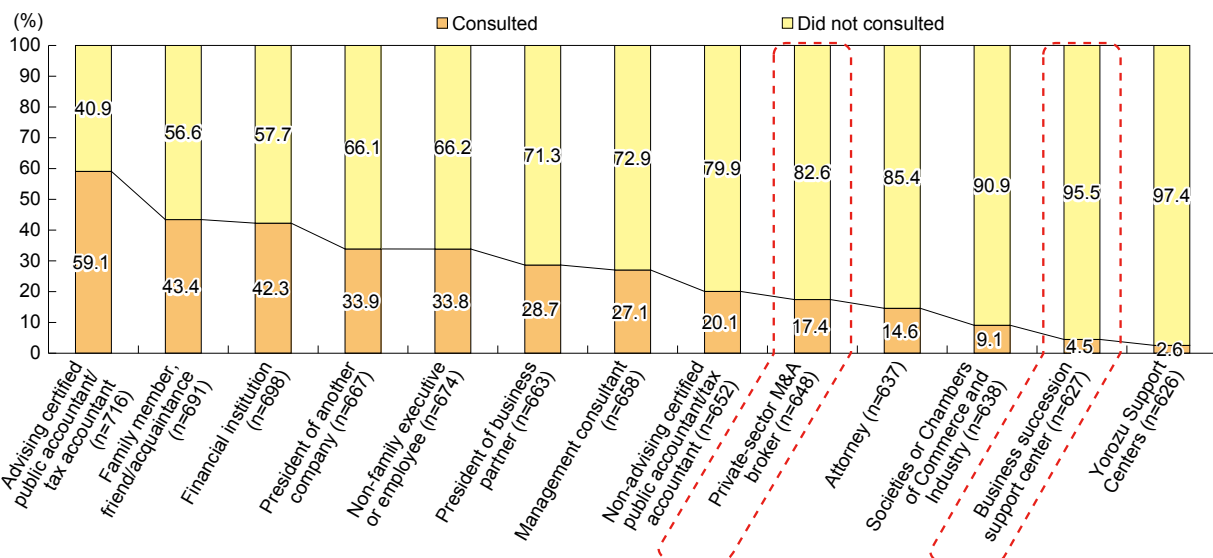
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).
 - For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”

To overcome challenges like these, it is critical to get advice from experts. Fig. 2-2-109 looks at the state of advice seeking in the past as it concerns business succession at enterprises with an interest in business transfer, sale, or integration (M&A). A smaller percentage of these enterprises had sought advice from a “private-sector M&A broker” (which supports business transfer,

sale, or integration (M&A)) or a “business succession support center” (a support organization at the national level) than from other sources of advice. Some support is needed that will yield concrete advice, such as increasing recognition of “business succession support centers” and making them more convenient.

Fig. 2-2-109 State of advice seeking in the past as it concerns business succession at enterprises with an interest in business transfer, sale, or integration (M&A)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
- Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).
 - For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

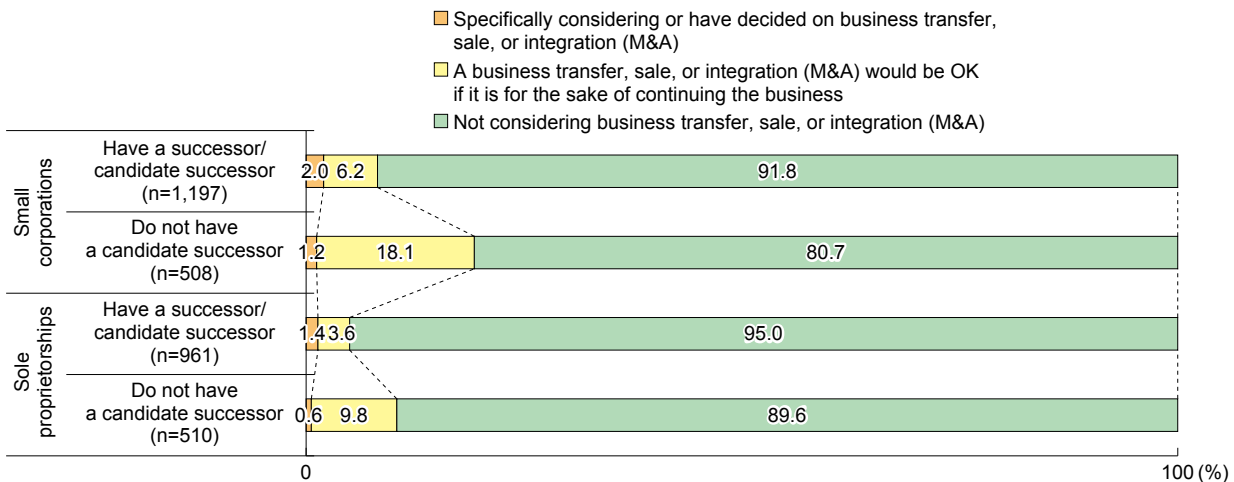
(2) State of consideration and challenges with business transfer, sale, or integration (M&A) at micro businesses

Now we look at the state of consideration and challenges with business transfer, sale, or integration (M&A) at micro businesses.

Fig. 2-2-110 looks at the state of consideration of business transfer, sale, or integration (M&A) by whether there is a successor/candidate successor or not. The percentage that said they were “specifically considering or have decided on business transfer, sale, or integration (M&A)” or thought that “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” was also higher for those

micro businesses that did not have a successor/candidate successor than those that had a candidate successor, so this is also a business handover option for micro businesses without a candidate successor. Compared to medium corporations, on the other hand, a smaller percentage of micro businesses said they were “specifically considering or have decided on business transfer, sale, or integration (M&A)” or thought that “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business.” The percentage was particularly low at sole proprietorships. It is conjectured that a certain percentage of micro businesses do not consider business transfer, sale, or integration (M&A) to be an option.

Fig. 2-2-110 State of consideration of business transfer, sale, or integration (M&A) based on successor decision status (small corporations, sole proprietorships)

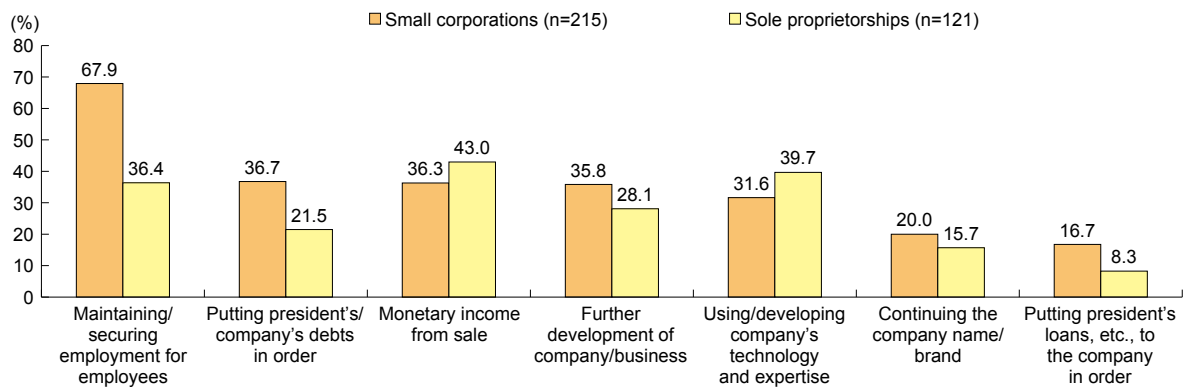


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-111 looks at what enterprises value in cases of business transfer, sale, and integration (M&A), based on whether they are small corporations or sole proprietorships. The most frequent response (67.9%) from small corporations was that they value “maintaining/securing

employment for employees,” but at sole proprietorships, a higher percentage wished for “monetary income from sale.” This reveals differences in the motives each group has for a business transfer, sale, or integration (M&A).

Fig. 2-2-111 What enterprises value in cases of business transfer, sale, and integration (M&A) (small corporations, sole proprietorships)



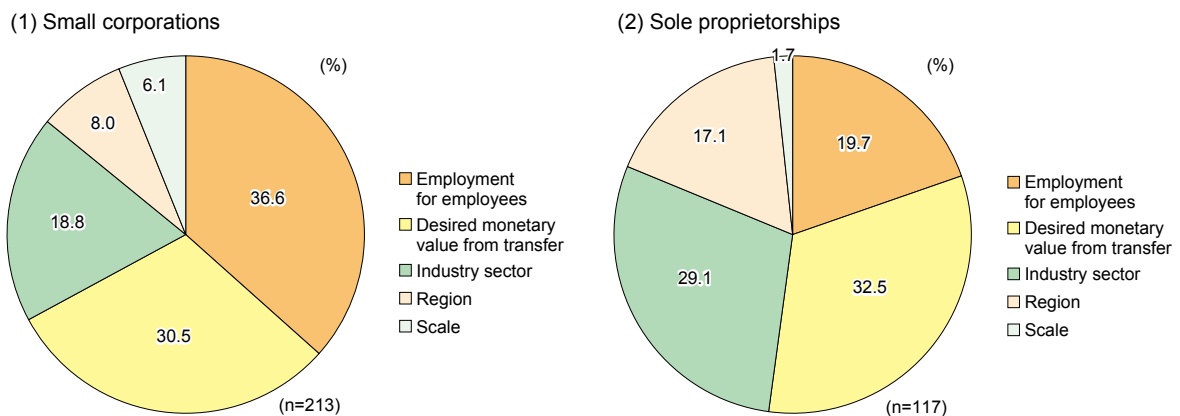
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding inclination to business transfer, sale, or integration (M&A).
 3. Those that answered “other” are not shown.

Next, we look at the conditions that micro businesses hope for in respect to their counterparts in the business transfer, sale, or integration (M&A).¹⁵⁾ Fig. 2-2-112 looks at the conditions that micro businesses most value when they select their counterparts for a business transfer, sale, or integration (M&A). Small corporations valued

“employment for employees” even more than “desired monetary value from transfer” and “industry sector,” but sole proprietorships most valued “desired monetary value from transfer,” revealing differences between small corporations and sole proprietorships.

Fig. 2-2-112 What enterprises most value when they select their counterparts for a business transfer (small corporations, sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

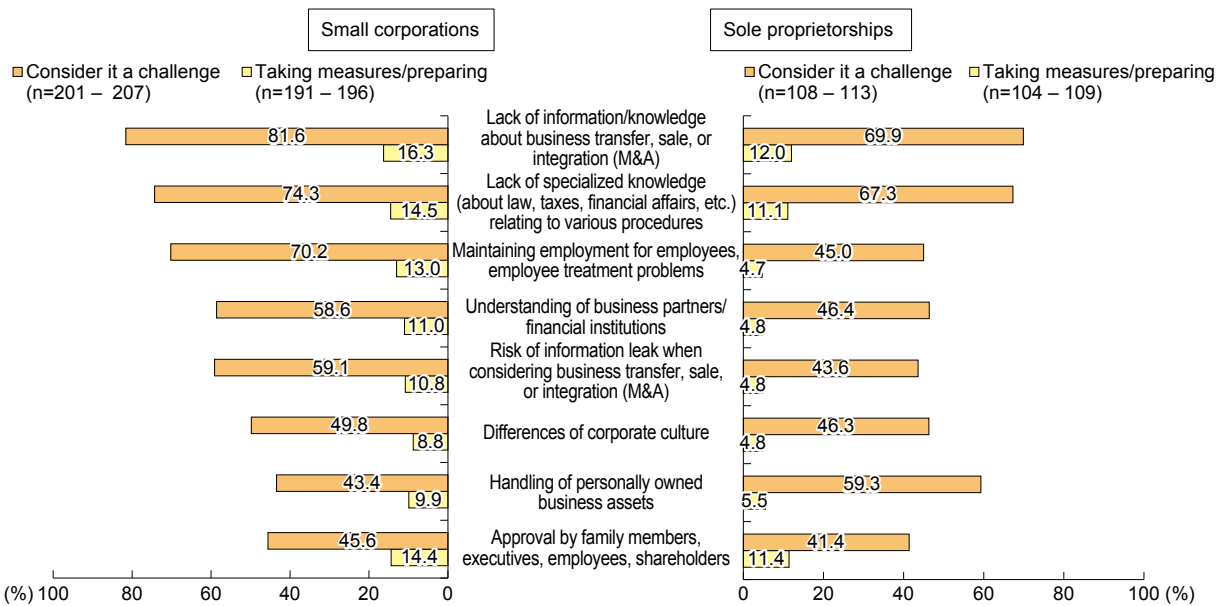
Note: Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).

15) See Column 2-2-6 for details about conditions on transfer counterparts, such as industry sector and scale.

Fig. 2-2-113 looks at each item of which small corporations and sole proprietorships said they “consider it a challenge” in terms of business transfer, sale, or integration (M&A) and for which they are “taking measures/preparing.” Similar to medium corporations, micro businesses said of each item that they “consider it a challenge,” but they had not made much progress in taking

measures and preparing. In particular, there appears to be a sense of unease about knowledge, as revealed in the answers “lack of information/knowledge about business transfer, sale, or integration (M&A)” and “lack of specialized knowledge (about law, taxes, financial affairs, etc.) relating to various procedures.”

Fig. 2-2-113 Challenges with business transfer, sale, or integration (M&A) and state of preparation and measures for dealing with them (small corporations, sole proprietorships)



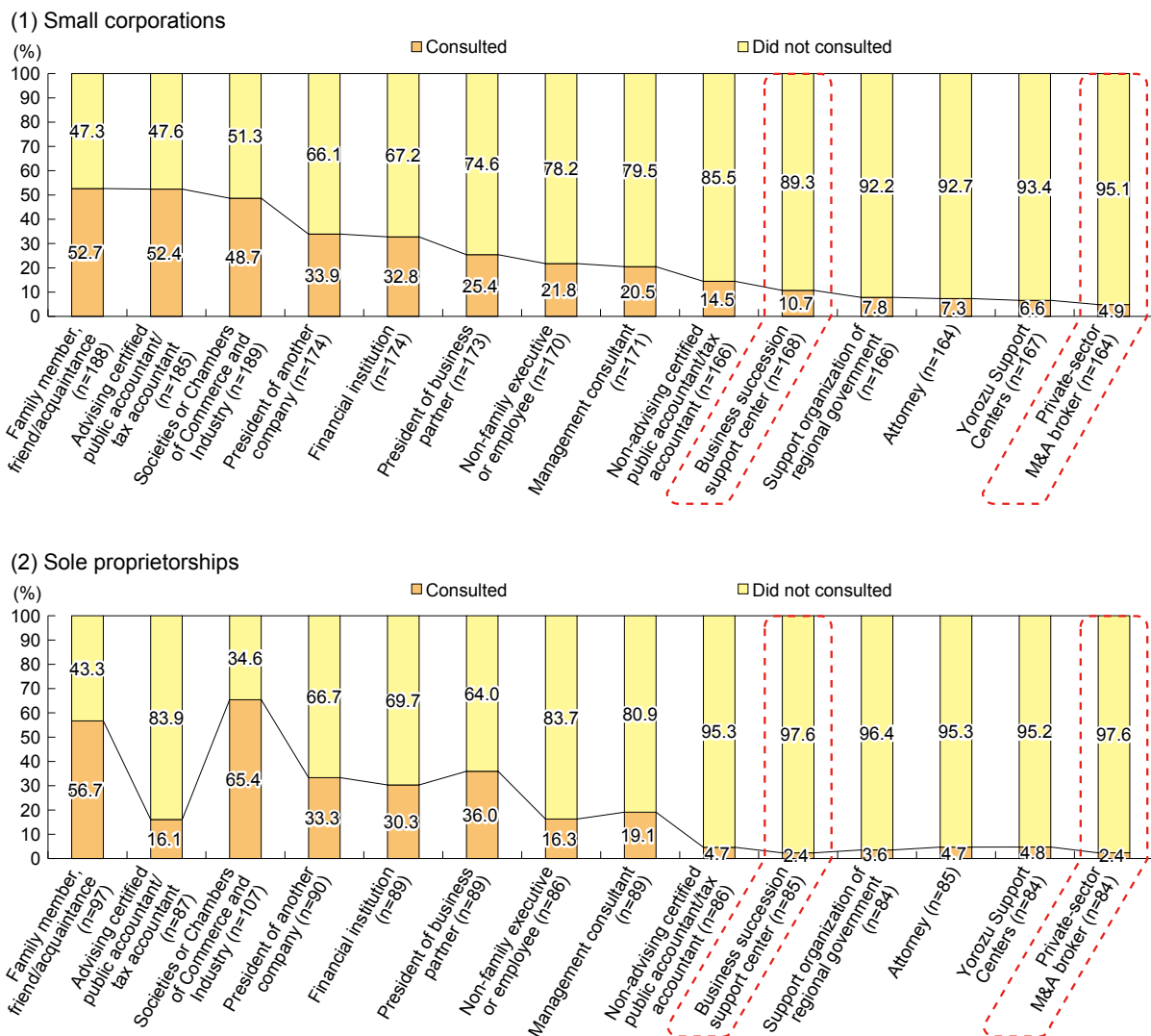
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).
 3. For each item, aggregates those that answered, “consider it a challenge” or “taking measures/preparing.”

Fig. 2-2-114 looks at the state of advice seeking in the past as it concerns business succession at micro businesses with an interest in business transfer, sale, or integration (M&A). It was also the case at micro businesses that a smaller percentage of these enterprises had sought advice from a “private-sector M&A broker” (which

supports business transfer, sale, or integration (M&A)) or a “business succession support center” (a support organization at the national level) than from other sources of advice. Some support is needed for micro businesses too that will yield concrete advice, such as increasing recognition of “business succession support centers.”

Fig. 2-2-114 State of advice seeking in the past as it concerns business succession at enterprises with an interest in business transfer, sale, or integration (M&A) (small corporations, sole proprietorships)



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).
 2. For each item, “consulted” aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

Column 2-2-6 Conditions that enterprises hope for from their counterparts to a business transfer, sale, or integration (M&A)

This section has looked at business transfer, sale, or integration (M&A). A business transfer, sale, or integration (M&A) can be an effective option for SMEs and micro businesses that do not have a successor, but matching can be a difficult problem. This column examines why matching can be so hard by taking a detailed look at the conditions that SMEs and micro businesses desiring a business transfer, sale, or integration (M&A) hope for from their counterparts when selecting those counterparts. Fig. Column 2-2-6 shows the conditions that enterprises hope for from their business transfer counterparts, based on form of organization (medium corporation, small corporation, or sole proprietorship).

To begin, a look at industry sector shows that the most common response among medium corporations and small corporations was "industry sector does not matter," but the most frequent answer among sole proprietorships was "same industry sector," revealing differences by form of organization.

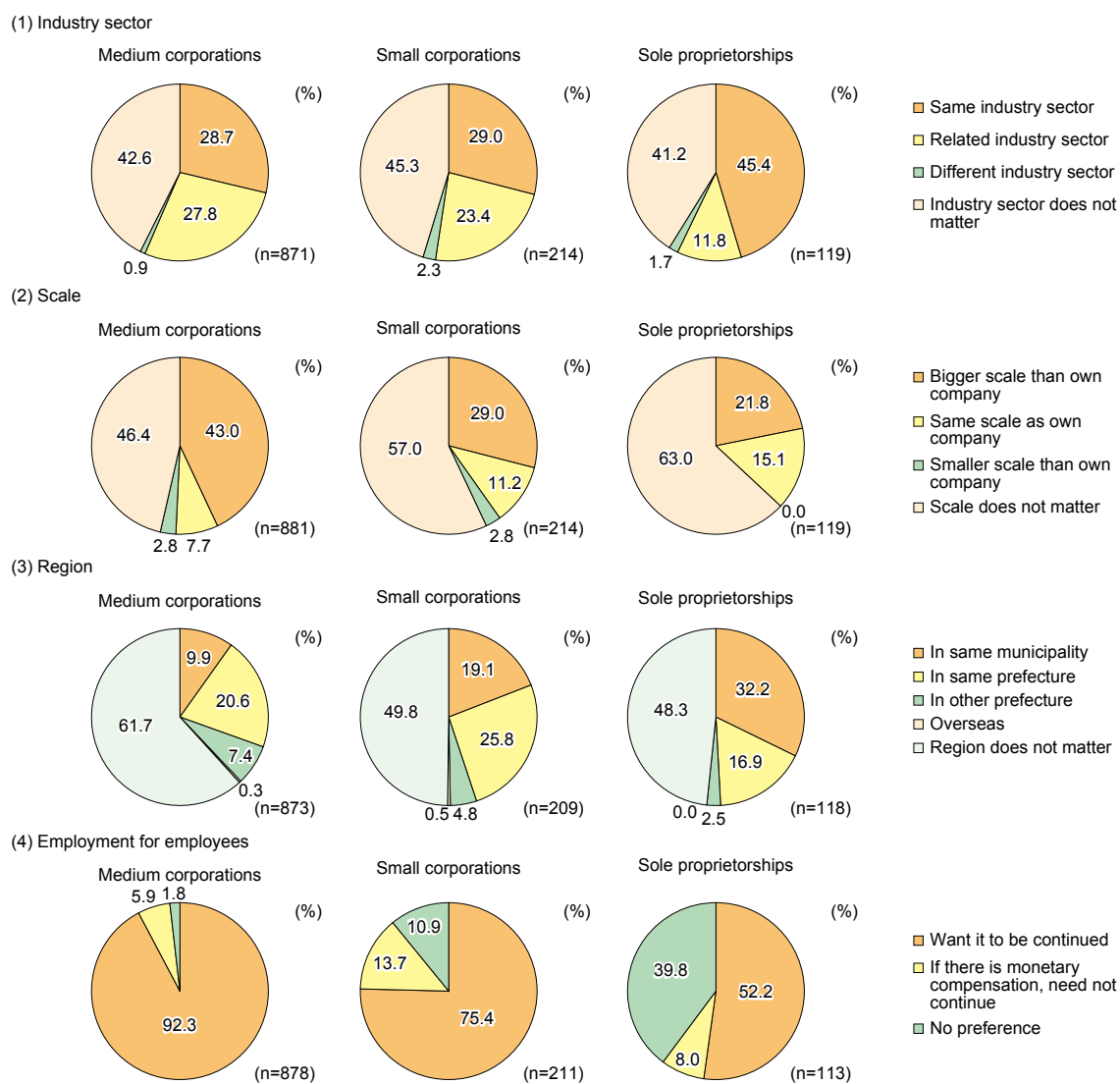
Looking at scale, moreover, the most common answer in each form of organization was "scale does not matter," but compared to small corporations and sole proprietorships, 43.0% of medium corporations answered, "bigger scale than own company," indicating a desire for a large transfer counterpart.

Next, we look at the region in which the transfer counterpart would be located. On this question too, the most common response was "region does not matter" for all forms of organization, though 32.2% of sole proprietorships hoped for a counterpart "in same municipality," a relatively high rate compared to medium corporations and small corporations.

Finally, we look at employment of employees. Among each group, a large percentage answered, "want it to be continued," but a high percentage (39.8%) of sole proprietorships said they had "no preference."

SMEs and micro businesses with a preference concerning business transfer, sale, or integration (M&A) were studied to consider the nature of that preference by form of organization. The results showed subtle differences in the preferred conditions in respect to the counterpart's industry sector, scale, and region. It is important that the support organizations that broker any business transfer, sale, or integration (M&A) give adequate consideration to these circumstances when they provide matching services.

Fig. Column 2-2-6 Conditions preferred in business transfer counterpart, by form of organization



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates those that answered, “specifically considering or have decided on business transfer, sale, or integration (M&A)” or “a business transfer, sale, or integration (M&A) would be OK if it is for the sake of continuing the business” regarding business transfer, sale, or integration (M&A).
 2. “Medium corporations” aggregates surveys of medium corporations and “sole proprietorships” and “small corporations” aggregates surveys of micro businesses.

Case 2-2-4 FIRST GROUP Co., Ltd

A company that uses its experience in business restructuring following business succession to realize M&A with other businesses in its industry

FIRST GROUP Co., Ltd. (employees: 100; capital: ¥30 million), located in Tenri City in Nara Prefecture, is a company that specializes in automotive maintenance and automobile sales. Recently, the company has also become involved in areas including the restaurant business and consultation regarding M&A of automotive repair shops.

When Takaaki Todo (now the company's third President) entered FIRST GROUP, he was told by his father, the company's second President, that its main business, the automotive repair business, was recording an annual deficit of ¥10 million. When he entered the company, its automobile repair business was actually ¥70 million in the red, and it was only the profit recorded by its real estate division that maintained the company as a whole in the black. The company had 24 employees, and did not realize a level of profit commensurate with a very large loan from a financial institution (¥1.5 billion). Mr. Todo experienced a sense of crisis. Those around him, including his father and the company's accountants, recommended scrapping the automobile repair business. "It was frustrating - everyone was saying that we should let our employees go. I was determined to rebuild the business in order to increase profits while also protecting our employees' jobs," says Mr. Todo.

Mr. Todo therefore shut down the aspect of the business that had centered on the repair of large vehicles such as trucks and commercial vehicles, joined a franchise, and renovated aging workshops and stores, transforming them into shops for the repair of small vehicles, targeting general customers. This was before he became President of the company; despite opposition from his father, repair shop managers, and employees, he rebuilt the business without letting any employees go. Mr. Todo's business abilities were much admired, and in 2007, when his father died and he became President of the company, a financial institution provided the company with a loan allowing it to buy back its scattered shares.

The experience of transformation of the business reaffirmed for Mr. Todo the potential of his company, and he also felt the necessity of integrating businesses. He says, "In the case of the industries related to automobiles, even if the market contracts, the scale will still be huge. Even in a regional area like Nara Prefecture, the market is sufficiently large. But if the players in the automotive repair industry continue to compete with each other as small, family-run enterprises, they are unable to match large companies and just get worn down. Unless they are able to cooperate with and merge with other businesses, and win negotiating power through acquisitions or improve their services through cooperation, they will be unable to expand their businesses." Based on this thinking, FIRST GROUP commenced M&A with other businesses in its industry in 2007, and has proceeded with the acquisition of companies including sheet metal factories, automobile buyers, and insurance agents, creating a value chain. As of the present, the company has completed more than 30 acquisitions, and its annual group sales have exceeded ¥4 billion.

In the course of its acquisitions, FIRST GROUP has encountered repair shops that were performing poorly as a result of having no management successors. "Quite a few managers feel that their businesses will close due to difficulty in finding successors and a worsening of their business situation. Taking over the management of companies experiencing this type of problem necessitated experience in business revitalization. I make use of my experience in reconstructing our business," says Mr. Todo. Mr. Todo can offer examples in which he has visited companies with no management successor and acquired them. He says, "In many cases when I meet employers who don't want to cast their employees adrift but have not been able to take any concrete action, I find that they relax when I have a polite discussion with them, and the whole story is wrapped up in no time. I believe that taking over the management of these companies is significant for us, and it increases our reach and expands our business. While they may not have had any personnel able to become President, companies of this type will have an ample number of personnel able to be store managers."

Today, Mr. Todo's company is also increasing its acquisition of companies that are performing well. "Some companies are concerned for the future, and wish to become our subsidiaries while they are performing steadily, rather than continuing on their own. In a lot of cases, the management of these companies remain in the company organization, which is a plus for our company," he says. As the business environment changes, integrating rather than remaining a single company is available as a choice in order to enable businesses to continue.



FIRST GROUP's President,
Takaaki Todo

Case 2-2-5 Company A

A manufacturing company that became a subsidiary of a large corporation for reasons of management succession

Company A (employees: 48; capital ¥10 million) manufactures and markets processed seasonings. The current President of the company (now 67) founded it when he was 27, using funding from a business partner. The company was originally a wholesaler of seasonings, but recognizing a need among customers, it ventured into OEM business, planning and developing products. As its transactions with major corporations increased, so too the company's business operations steadily expanded, and it recently recorded annual sales of approximately ¥8 billion.

As Company A's business continued its steady expansion, its President began to think about a successor at the age of 62. Because the President's only child, a daughter, was a full-time homemaker, he initially sought to equip his son-in-law with the necessary experience to serve as his successor. However, he gradually came to feel that with the company's business increasing in scale, he could not entrust its management to someone solely because that person was a family member. As a result, his son-in-law quit the company rather than succeeding to its management. Company A had also for some time been receiving appraisals of the value of its shares from an accounting corporation; it recorded stable profits each term and it had accrued considerable net assets, and its share value had therefore become high. As a result, because of a significant tax burden (inheritance tax, gift tax, etc.), the company faced the problem that it would be difficult for the President to transfer the shares that he held to a successor.

Against this background, seeking to ensure that his employees would keep their jobs, and to further develop the business that he had built up, Company A's President decided on an M&A. At first, he proposed the sale of his company's shares to a business partner in which his company had been invested. However, this business partner was an old family company, and, reasoning that its corporate culture would differ from that of a company built from the ground up, he gave up the idea. He also held a variety of discussions with the financial institutions with which the company did business; given the scale of Company A's business, an M&A with a listed company was projected.

The year before last, Company A approached Company B, a major corporation that was one of the company's most important business partners, for discussions. Company B was a listed company managing restaurants and eating places, targeting general consumers. While it had extensive expertise in managing stores, it did not have technicians on staff, and lacked experience in the areas of developing seasonings, inspection systems, etc. At the commencement of the negotiations, there was a wide gulf between the companies with regard to the assessed value of Company A, but both parties compromised, and following a positive evaluation by Company B's management of Company A's development technology and quality management, an agreement was reached.

At the beginning of 2017, Company A's President transferred his shares, and Company A became a subsidiary of Company B. The parent company dispatched a director to serve part-time and provide a report to Company B's board once a month regarding Company A's management status; by this means, the company was basically able to maintain its management structure with the President at the center. Company B requested Company A's President to continue in his position for a minimum of two years. In the future, the presidency of the company will be passed to one of its own Managing Directors. Company A's President looks back on the M&A as follows: "I prioritized the happiness (the jobs) of my employees, the development of the company, and also the development of the other party. I have no particular regrets about passing on the control of the company, but I wanted to be sure that the organization that I had created would continue for a long time, and that the company would develop. Our company and our parent company are involved in different areas of business, which means that we can both develop.

By means of the M&A, we separated ownership and management of the company. I believe that the sense of repaying our obligation to Company B will form a background to the future development of our company by the efforts of our employees."

Case 2-2-6 Libnet Co., Ltd.

A company that used a capital alliance as an opportunity to advance its management succession

Libnet Co., Ltd. (employees: 30; capital: ¥100 million), located in Ise City, Mie Prefecture, is a company that provides a comprehensive range of library-related services, encompassing functions including the performance of outsourced library procedures, the development and marketing of software, and consulting. Originally an employee of the prefectural government, the company's President, Toyomi Taniguchi, says that during 26 years of involvement in library work, she came to feel a sense that libraries were no longer fulfilling their original functions - the provision of opportunities for learning to children and the imparting of a variety of knowledge and the power of imagination. She therefore determined to make over school libraries from a private sector perspective, and in 2002 she founded Libnet as a library management business accepting commissions for the performance of library-related procedures.

The company faced numerous difficulties from its foundation. Based on an unprecedented business model, Libnet found it difficult to make sales to local governments; its personnel costs produced an increasing deficit, and it was forced to continue to seek financing. Ms. Taniguchi responded to this situation as follows: "I felt that while I had worked hard to found the company and get it on the right track, that it was essentially not a business that a single individual should be trying to push ahead; I really wanted the company organization to continue even if I wasn't there. Because I founded the company at 45, I'd always been concerned about my age, and about finding a successor. I thought that if I could somehow establish the business as a service infrastructure and cultivate a market, it would be possible to convince a large corporation with a concern for the public good to take us into its organization."

The turning point came when Ms. Taniguchi negotiated with the then-President of TODENTSU Corporation (now MIRAIT Corporation) directly, and she was able to receive investment. This resulted from a need for increased capital as the company's investment in system development mounted. Following this, TODENTSU Corporation reorganized as MIRAIT Corporation (a major company implementing construction projects in the area of electronic communications), and a group of people with its President at the center provided support for Ms. Taniguchi's business. MIRAIT Corporation had a positive view of Libnet's business model and social significance, and, acquiring shares in the company from funds and other external investors, established a capital alliance in 2013.

Ms. Taniguchi reflects on this capital alliance: "I had no-one to succeed me in the company, and I thought that if anything happened to me, it might be difficult for Libnet to even continue as a company, and so I decided that we should become a subsidiary. Up to that point, half of my work as President had been arranging financing, but our parent company helped us to settle our bank loans, so I was finally able to concentrate on the future of the business." In terms of the status of its business, Libnet made the transition from continuing deficit to profit in the second year of the capital alliance, and its sales and profits have also increased annually. Even today, with the understanding of MIRAIT Corporation, Libnet maintains its unique management style.

About the future of her company, Ms. Taniguchi says, "With the help of the capital alliance, the business finally began to get on track. I want to create an organization that will continue even if I'm not there. Because the business has grown large, we will work on cultivating human resources and creating a corporate organization, in addition to utilizing a system like computerization of paperwork. Naturally, the most important thing is to ensure a management successor. Our parent company has also assured me that the fostering of a successor will be my job."



Libnet's President Toyomi Taniguchi (front row, third from left) and employees of its Tokyo office

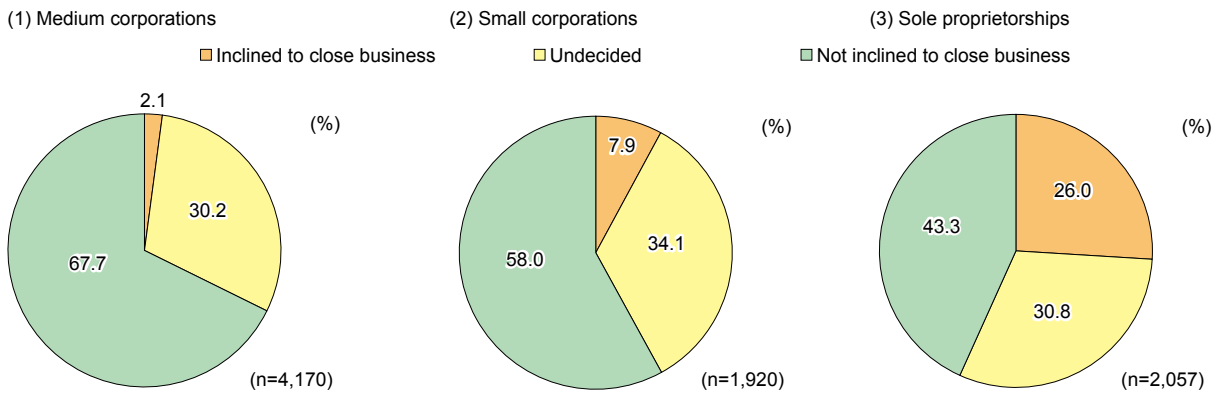
2. State of consideration and challenges with business closure

Starting here, we address enterprises that plan to close their business. It is a big decision to give up on a business that the president and employees have built up over the years. Here, we analyze the background when presidents think about this option.

Fig. 2-2-115 shows the inclination that enterprises have concerning business closure, by form of organization

(medium corporation, small corporation, or sole proprietorship). The inclination to close the business was highest among sole proprietorships (26.0%), followed by small corporations (7.9%). The smaller the micro business, the more likely it was to have an inclination to business closure.

Fig. 2-2-115 Inclination to close business, by form of organization



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

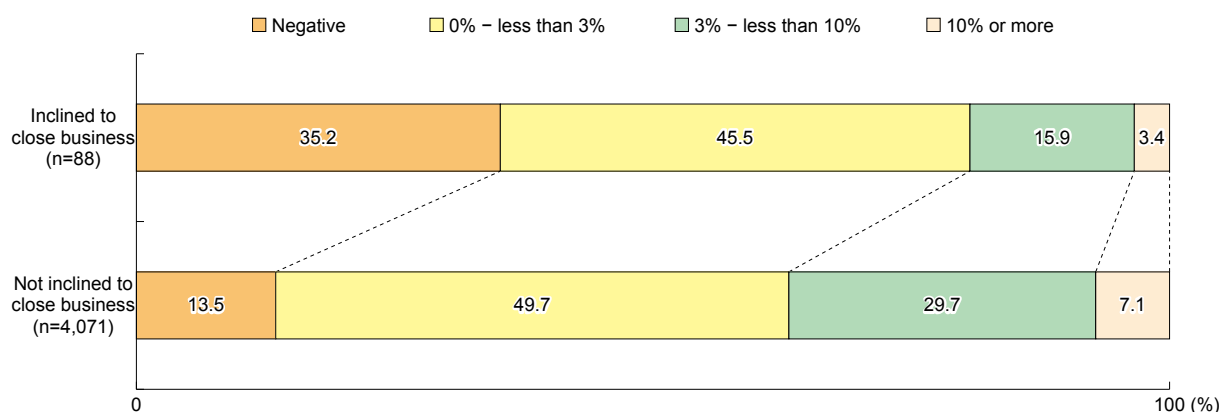
- Notes:
- “(1) Medium corporations” aggregates surveys of medium corporations and “(2) small corporations” and “(3) sole proprietorships” aggregate surveys of micro businesses.
 - Here, “inclined to close business” refers to those that answered, “not thinking about handing over to anyone (intend to close business during my generation).” Also, here, “not inclined to close business” refers to those that answered, “would like to hand over to someone (includes transferring or selling business).”

(1) State of consideration and challenges with business closure at medium corporations

To begin, we look at the characteristics of medium corporations considering a business closure. Fig. 2-2-116 looks at the ratio of ordinary profit to sales in the most recent accounting period, by whether the enterprise

has an inclination to close business. Enterprises with an inclination to close business were operating at a loss in 35.2% of cases, higher than the rate of those without an inclination to close business, showing that there are many enterprises with limited earnings capacity.

Fig. 2-2-116 Ratio of ordinary profit to sales, by whether there is an inclination to close business

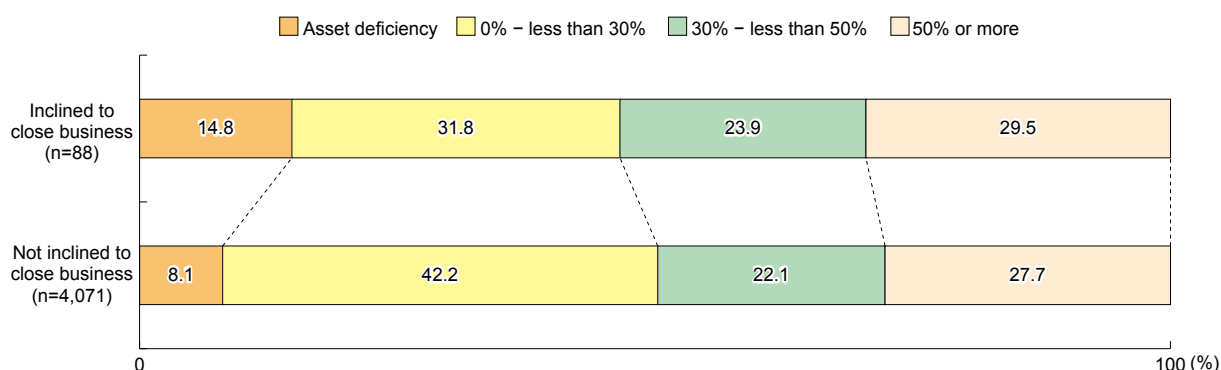


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Next, Fig. 2-2-117 shows the capital adequacy ratio, by whether the enterprise has an inclination to close business. It shows that 14.8% of enterprises with an inclination to close business had an “asset deficiency,” which is higher than for enterprises without such an

inclination. On the other hand, 29.5% of enterprises with an inclination to close business had a capital adequacy ratio of 50% or more, showing that this group includes a certain percentage of financially sound enterprises.

Fig. 2-2-117 Capital adequacy ratio, by whether there is an inclination to close business

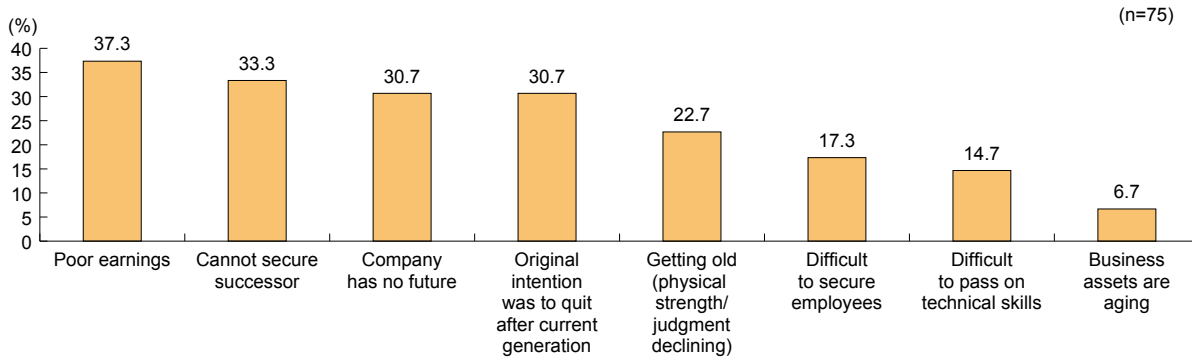


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Fig. 2-2-118 looks at the reasons why such enterprises are considering closing their business. As the above indicated, many enterprises were struggling with earning capacity. The most frequently given reason was “poor earnings,” followed by “cannot secure successor,” “company has no future,” and “original intention was

to quit after current generation.” While the business was performing poorly or there was a sense of unease about the company’s future in many cases, there were also 33.3% that mentioned successor difficulties as a reason to close business.

Fig. 2-2-118 Reasons for considering business closure



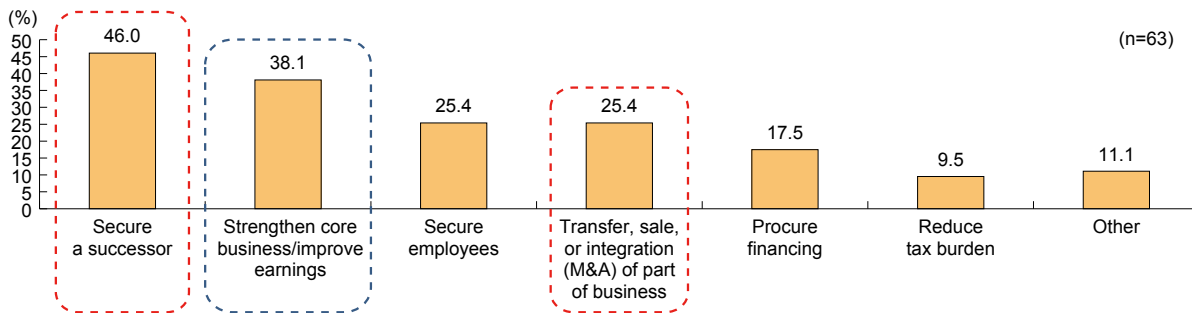
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”
 3. Those that answered “other” are not shown.

Next, we look at the support that medium corporations thinking of closing business need if they are to consider handing over their business. Fig. 2-2-119 looks at the support and solutions required to consider a business handover at medium corporations with an inclination to close business. The most frequent response (46.0%) was “secure a successor.” Combined with those who

responded, “transfer, sale, or integration (M&A) of part of business,” this indicates a need for someone to ensure a business succession. On the other hand, 38.1% of presidents indicated a need to rebuild the business, as seen in the answer “strengthen core business/improve earnings.” Thus, it is also important to support efforts to make business improvements.

Fig. 2-2-119 Support and solutions required to consider a business handover

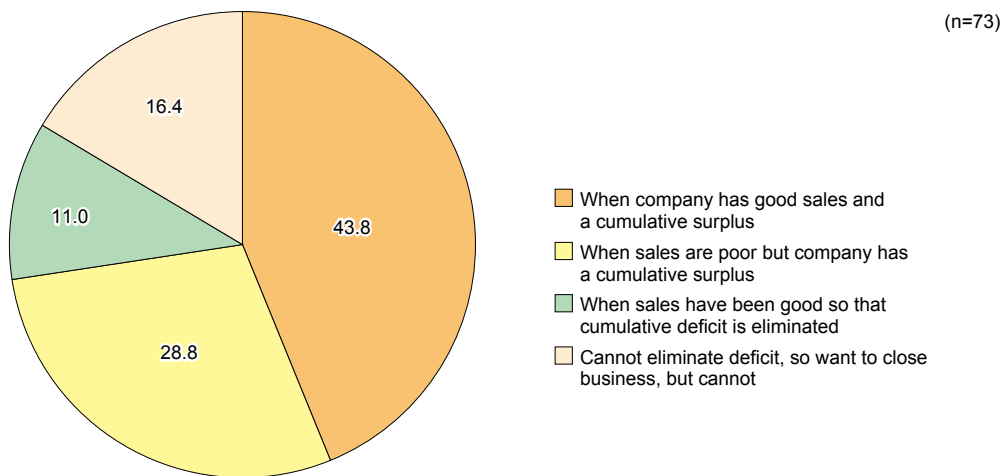


Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

Fig. 2-2-120 looks at the ideal timing to close business. Of the total, 72.6% hoped to close business while their enterprises had a cumulative surplus. It is conjectured that

these enterprises hope to close before their borrowings and other liabilities become too great.

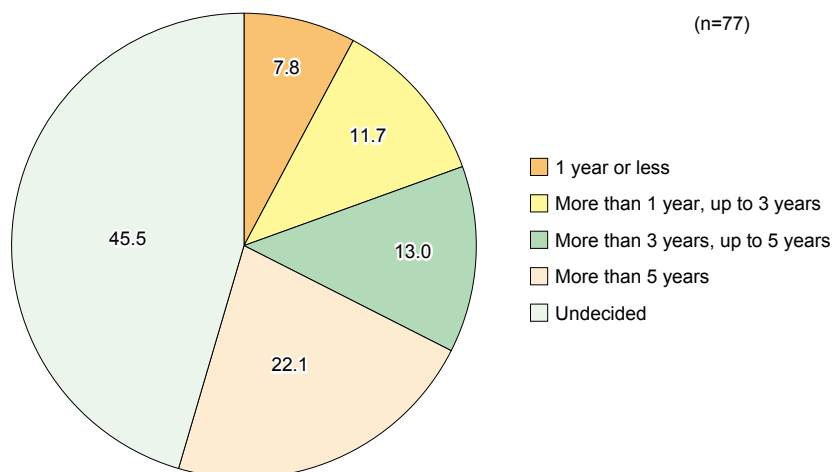
Fig. 2-2-120 Ideal timing to close business

Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

Fig. 2-2-121 looks at when enterprises are thinking of closing business. Among enterprises that had a concrete time frame in mind, the most common answer (22.1%) was “more than 5 years,” suggesting that they are considering

a long time span to close. However, the most common answer (45.5%) among all enterprises was “undecided,” and it seems likely that among these are many that could consider a business handover instead of a closure.

Fig. 2-2-121 When enterprises are thinking of closing business

Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

In particular, at medium corporations thinking about closing business, there are some that need to rebuild the business in order to hand it over, as seen in the answer “strengthen core business/improve earnings” in Fig. 2-2-119. But there are also those that need support to “secure a successor” or carry out a “transfer, sale, or integration (M&A) of part of business.” In those cases where an

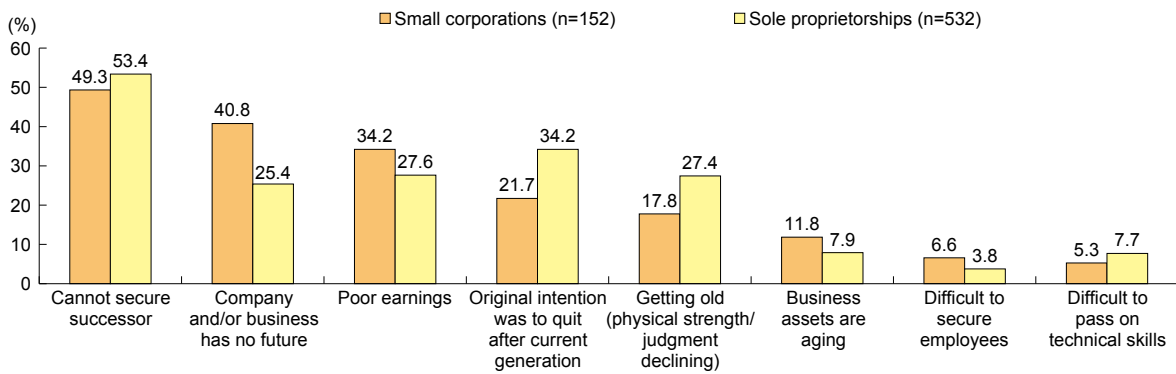
enterprise is thinking about closing business but still holds out some hope of continuing, perhaps the president should start consulting with those around and with support organizations at an early date to get advice and think about handing over the enterprise’s management resources in some form to the next generation.

(2) State of consideration and challenges with business closure at micro businesses

This section will look at the state of consideration and challenges with business closure at micro businesses. As previously mentioned, a higher percentage of micro businesses are thinking about closing business than is the case with medium corporations. Here, we analyze what is behind this.

Fig. 2-2-122 looks at the reasons micro businesses are thinking of closing business. The most common reason regardless of form of organization is “cannot secure successor,” but the next most common is “original intention was to quit after current generation” for sole proprietorships and “company and/or business has no future” for small corporations.

Fig. 2-2-122 Reasons for thinking of closing business (small corporations, sole proprietorships)



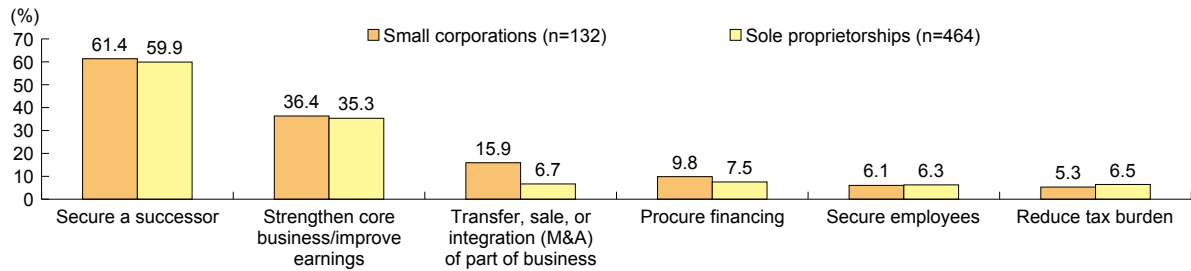
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”
 3. Those that answered “other” are not shown.

Fig. 2-2-123 looks at the support and solutions that micro businesses thinking about closing business need if they are to consider handing over the business. The most common answer was “secure a successor,” but the next was “strengthen core business/improve earnings.” It is

conjectured that there are businesses thinking of closing because they are not only struggling to find a successor but also do not see much future since the earning capacity of the business itself has been weakened.

Fig. 2-2-123 Support and solutions required to consider a business handover (small corporations, sole proprietorships)



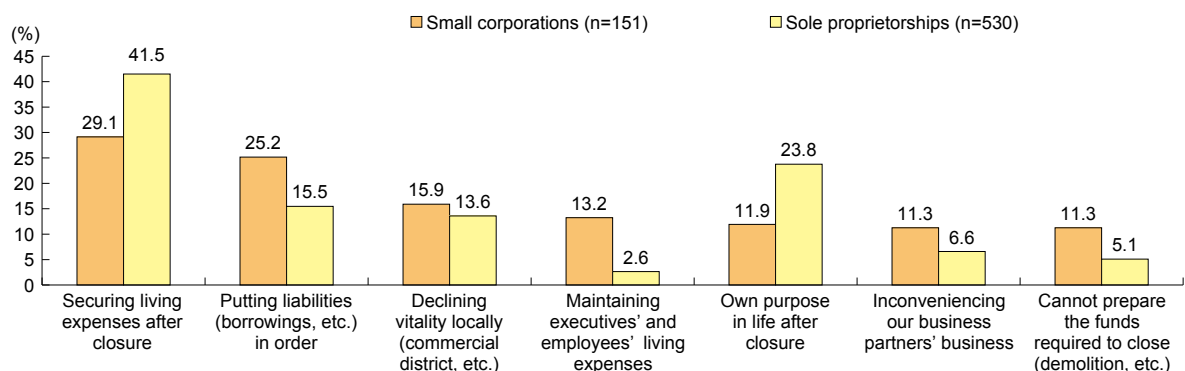
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

Fig. 2-2-124 looks into what problems are likely to occur when micro businesses actually close. Regardless of form of organization, the most common answer was “securing living expenses after closure.” At sole proprietorships, this was followed by “own purpose in life after closure.” These answers mean that presidents have

many worries about their own lives following a close of business. At small corporations, on the other hand, there were many problems on the monetary side: “putting liabilities (borrowings, etc.) in order” and “maintaining executives’ and employees’ living expenses.”

Fig. 2-2-124 What problems are likely to occur when businesses close (small corporations, sole proprietorships)



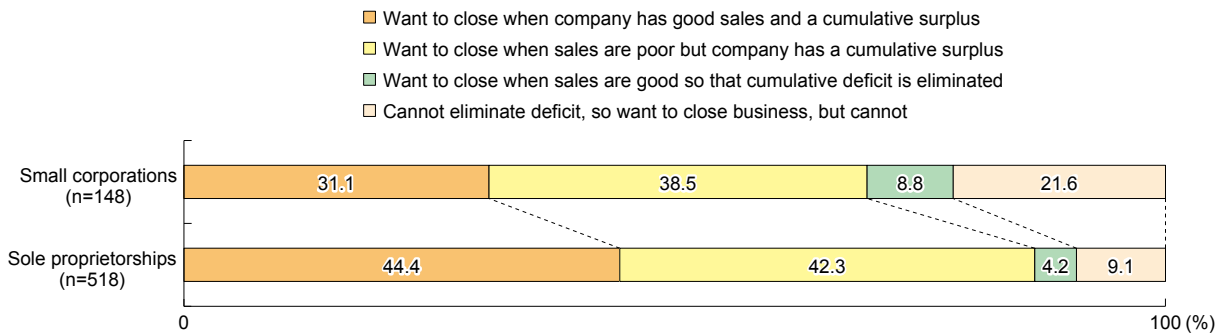
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”
 3. Those that answered “other” or “no problems in particular” are not shown.

Next, Fig. 2-2-125 looks at the ideal timing to close business. Among both sole proprietorships and small corporations, there were a certain percentage that said they cannot eliminate their deficits and thus cannot close business. On the other hand, there were many businesses

hoping to close while they have a cumulative surplus. This shows that many micro businesses would like to close business before business gets worse and their borrowings, etc., become too big a burden.

Fig. 2-2-125 Ideal timing to close business (small corporations, sole proprietorships)



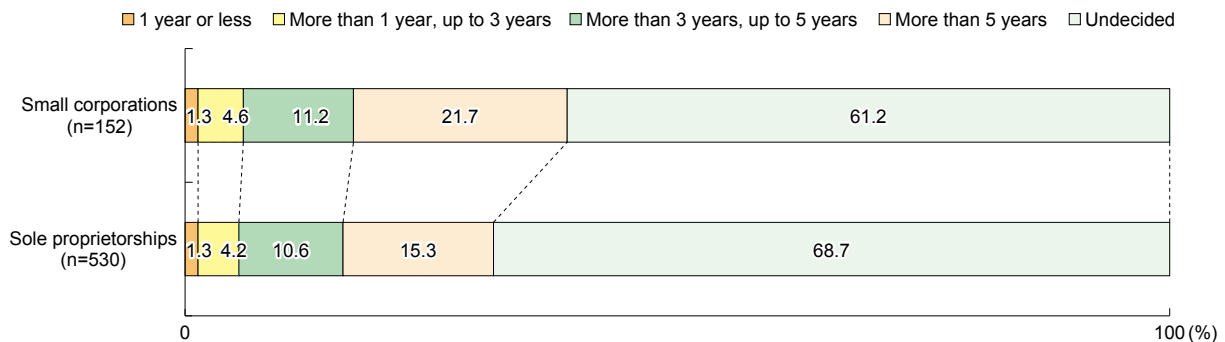
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

Fig. 2-2-126 looks at the timing when enterprises are thinking of actually closing business. Among enterprises that had a concrete time frame in mind, the most common answer was “more than 5 years” (15.3% at sole proprietorships and 21.7% at small corporations),

suggesting that they are considering a long time span to close. However, more than 60% of all enterprises said they were “undecided,” and it seems likely that among these micro businesses are many that could consider a business handover.

Fig. 2-2-126 When enterprises are thinking of closing business (small corporations, sole proprietorships)



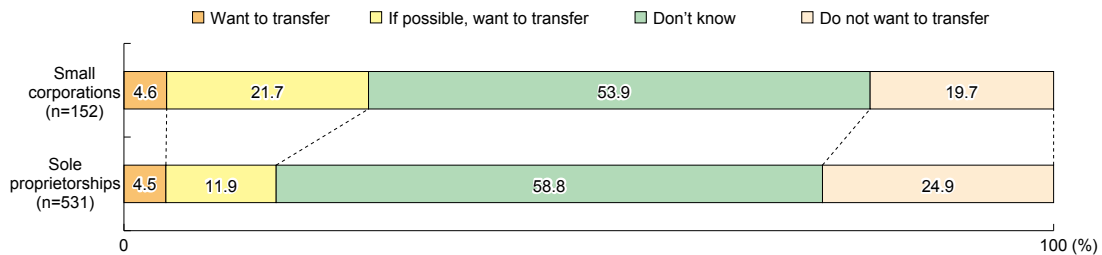
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

Fig. 2-2-127 looks at how micro businesses that are thinking about closing business look at the idea of transferring their businesses and assets to another company. At small corporations, a higher percentage answered, “want to transfer” or “if possible, want to

transfer” than answered, “do not want to transfer.” Sole proprietorships yielded the opposite results, indicating a strong resistance to transferring businesses and assets after closure among sole proprietorships.

Fig. 2-2-127 How enterprises look at the idea of transferring their businesses and assets to another company if they actually close business (small corporations, sole proprietorships)



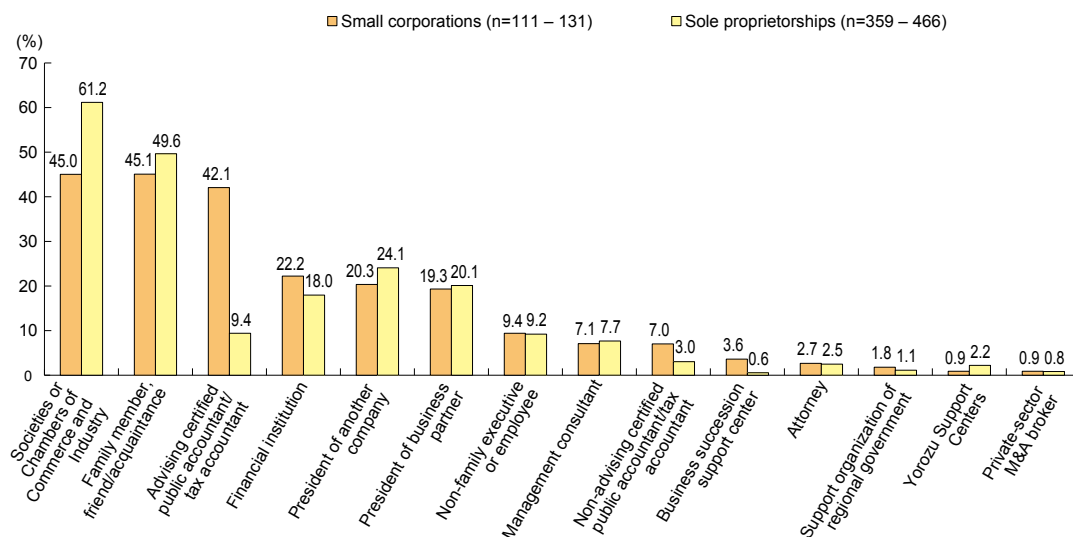
Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Note: Aggregates those that answered, “not thinking about handing over to anyone (intend to close business during my generation).”

For enterprises thinking about closing business, it is important to get appropriate advice from those around them, whether they ultimately choose to hand over the business or close it smoothly. Fig. 2-2-128 shows who micro businesses inclined to close business have gone to in the past for advice. Among micro businesses inclined to close business, the most frequent answers were that they went to a “societies or chambers of commerce and

industry” or “family member, friend/acquaintance.” For small corporations, the next most common answer (42.1%) was “advising certified public accountant/tax accountant.” For micro businesses like these, it is important that those around them providing advice give advice such as introducing an expert who can give the necessary support.

Fig. 2-2-128 Who micro businesses inclined to close business have gone to for advice



Source: Tokyo Shoko Research, Ltd., *Questionnaire Survey on Enterprise Management Continuity* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. For each item, aggregates those that answered, “consulted, and it was helpful” or “consulted, but it was not helpful.”

In particular, among micro businesses thinking about closing business, there are many that need to rebuild the business in order to hand it over, as seen in such answers as “strengthen core business/improve earnings,” as in Fig. 2-2-123. As for securing a successor, it is also hard to find a solution solely from the help they get from those they go to for advice. Micro businesses face all kinds of

challenges, but in particular, if a micro business seeking advice hopes for a business succession or a business transfer, sale, or integration (M&A), even if only a part of the business, parties giving advice have an important role to play: giving the advice necessary to rebuild the business, or introducing a support organization that will lead to solutions.

Section 3 Summary

This chapter has been an overview of business succession at SMEs and micro businesses. A conventional business succession, as well as business transfer, sale, or integration (M&A), are both ways for a president to hand over a business to the next generation. This chapter has considered business succession in terms of handover of management and handover of assets.

The analysis found that in the case of business succession, encouragement from those around the president to prepare for handover is important in any scenario where handing management and assets over to the next generation. It was also shown that presidents who seek advice have generally made more progress with their measures and preparation than those who do not seek advice. There are a variety of challenges that come with handover of management: it takes a lot of time (even apart from selecting the successor), and handover of assets, especially in the case of non-family succession, brings financial challenges and challenges like deciding how to transfer the assets. Taking measures against these often require expertise. Moreover, the circumstances differ at each enterprise, and the enterprise has to search for the best approach under its own circumstances. In light of these points, advising certified public accountants, tax accountants, financial institutions, societies or chambers of commerce and industry, and other organizations that are a familiar presence to the president should encourage the president to start preparing for business succession at an early date and work with the president to identify the best approach.

This chapter also analyzed business transfer, sale, or integration (M&A) as an alternative to conventional business succession as a way to hand over management resources to the next generation. Business transfer, sale, or integration (M&A) is an important option for enterprises that do not have a candidate successor but want to continue their business. Presidents thinking about a business transfer, sale, or integration (M&A) have shown a very proactive attitude, for example by valuing their employees' employment and hoping for

further development of the business, but there are many challenges that factor into the consideration, so often these presidents have not made much progress on measures and preparation, as was the case with conventional business succession. Often the people that such enterprises go to for advice are familiar ones they already have a relationship with; very few seek advice from an M&A expert. Advising certified public accountants, tax accountants, financial institutions, societies or chambers of commerce and industry, and other organizations familiar to the president should understand these latent needs and set up support systems that can respond to the variety of challenges.

On the other hand, there are a certain percentage of presidents inclined to close their business instead of passing it on to the next generation. This is especially the case among micro businesses. The challenges that come up with business closures are different for corporations and sole proprietorships. Some of those mentioned by sole proprietorships include the life and sense of purpose of the president himself or herself, while corporations mentioned putting their liabilities in order and maintaining employees' employment and their living expenses. Even at enterprises inclined to close business, there are some that wish to transfer their business and assets to another company. It is important to form a cycle such that at least a part of the management resources of the enterprise closing business get handed over to the next generation.

On the whole, it is necessary to start preparing early to carry out the conventional business succession or business transfer, sale, or integration (M&A) to ensure that the business passes on smoothly. It is also important that those around advising the president give him or her insights and triggers to act. On the president's side, it is important that, rather than thinking he or she has to deal with the challenges alone, he or she should think about how to hand over the business to the next generation and understand the need to start business succession preparation early. It is also essential to collaborate with surrounding organizations to advance measures and preparation.

Case 2-2-7 DG TAKANO Co., Ltd.

A company that achieved rapid growth after its founder used the technologies employed in his father's business to create a new business

DG TAKANO Co., Ltd. (employees: 20; capital: ¥10 million), located in Taito City, Tokyo, manufactures and markets "Bubble90" water-saving faucet nozzles. The company was established by its President, Masaaki Takano (38).

Mr. Takano's grandfather was the sole proprietor of a company manufacturing gas cocks for business use, which he had founded in Higashi-Osaka City in Osaka Prefecture more than 50 years previously; his father was an expert in machine cutting, boasting proficiency in a range of technologies from throughout the world, and so skillful that he even attracted visitors from overseas to observe his technique. The manufacture of gas cocks for business use necessitates precise machining to within tolerances of 0.002 of a millimeter in order to prevent gas leaks. At the same time, because the unit price of the products is low and margins are small, it is a difficult business, marked by high risk and low returns. Aware of this, Mr. Takano had little desire to take over his father's business, and his father, respecting this decision, intended to let the company go out of business after his presidency. However, Mr. Takano also had no intention of becoming a full-time company employee - he wanted to start his own business one day. Having gained experience as an employee of an IT-related venture company, in 2008 he established a design company working in the area of system and software development.

The turning point for Mr. Takano came when his company received a job related to water-saving faucet nozzles. Mr. Takano says, "When I asked about the unit price of the nozzles, my estimate of cost from having observed my father's business was several hundred times off. I was amazed at the profit rate. And I was sure that we could make a better product." Mr. Takano made a thorough study of the water-saving nozzle market, its future potential, and existing patent rights. In addition to this, he also worked to create an environment enabling him to develop not merely systems and software but also hardware by employing his father's management resources such as factory facilities and technologies.

Mr. Takano then commenced the development of a product that would allow him to break into the water conservation market, and began to use a section of his father's factory for development and the creation of prototypes. Mr. Takano looks back on this period as follows: "My father let me use a state-of-the-art NC lathe that was going unused. It was hard to operate, but my father taught me and I studied hard by myself, and eventually I learned how to operate the machine and made one prototype after another. The initial barrier to a manufacturing venture is the equipment investment, but the fact that my father let me use his factory and equipment allowed me to move smoothly into development, the creation of prototypes, and manufacturing." The product born from this process was the water-saving nozzle "Bubble90." This product is a faucet nozzle that mixes air and water in order to produce a pulsating flow that is able to realize a maximum water conservation rate of 95%. Bubble90 has been extremely well received, even winning the Grand Prize in the Cho-Monodzukuri Buhin Taisho competition, which numbers numerous major corporations among its prizewinners.

Despite the fact that Mr. Takano had used the considerable technological capacity available to him to create a high-quality product, it failed to sell well, and marketing was a difficult process. The opportunity to expand the sales channels for the product came when Mr. Takano supplied Bubble90 units to the restaurant chain operated by an acquaintance, significantly reducing its water charges. Following this, Mr. Takano advertised the ability of the product to reduce costs. It received particular attention from restaurant chains, and sales rapidly increased.

In 2016, DG TAKANO absorbed Mr. Takano's father's factory. Serving as a director of the company, his father continues to supervise its technological procedures. He assists the company on a variety of fronts, instructing young employees in everything from the techniques of skilled machinists to programming the very latest NC lathes.

Mr. Takano looks back on founding his own company and succeeding his father in his business: "Last year we were finally able to absorb my father's factory, allowing me to take over the factory and machinery, and the business's technological strength. Even in a manufacturing center like Higashi-Osaka, you can see examples of companies that, despite the fact that they possess technologies that are world-class, might close down and their body of techniques just disappear because of the lack of a management successor. I think that it's important for venture companies like mine to make use of this technological ability to allow us to plan new products." The path that Mr. Takano took, using the technologies and expertise developed by a previous management generation as management resources to create new businesses - what is known as "venture business-type management succession" - provides a new choice

for management succession.



DG TAKANO's Bubble90

Reference: Efforts to support "venture business-type management succession"

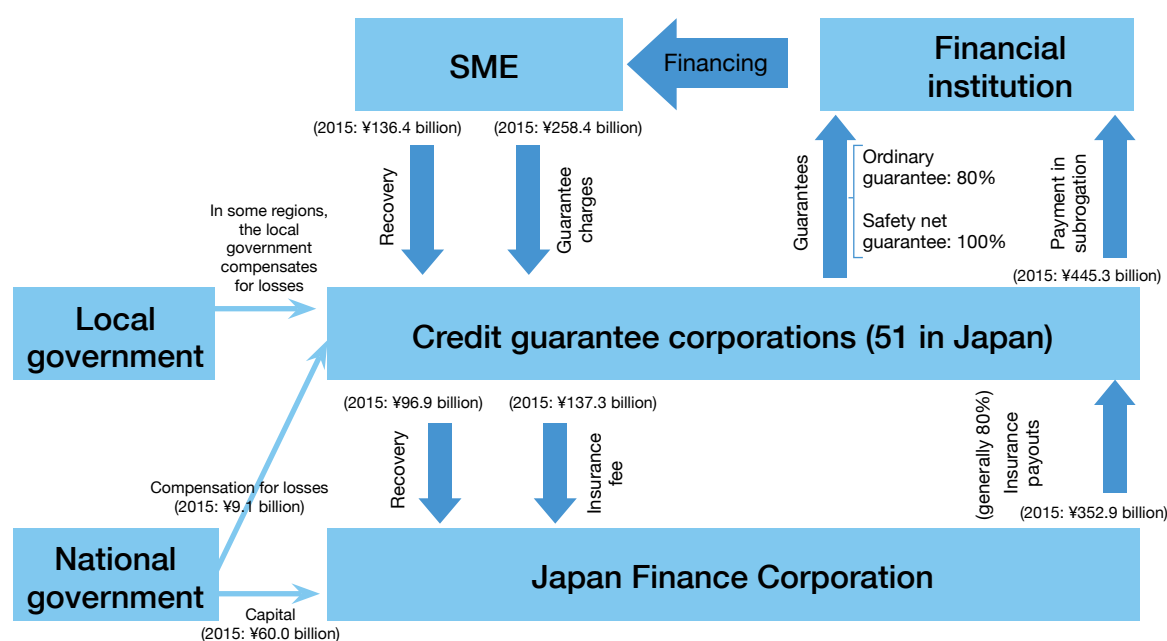
Based on young management successors taking over management resources from a previous generation and using them to advance into new areas (establish new businesses, change the business type, move into new markets, etc.) venture business-type management succession seeks to allow businesses to continue in operation, and creates new value for society. Neither a "venture" being started from scratch nor a case of management succession in which a business is taken over from a previous generation and operated in the same manner, venture business-type management succession is a new style of succession propounded by Chie Yamano, Chief Producer for Business Innovation Center Osaka, and others.

In an effort to transform the image of management succession into the forward-looking attitude suggested by the word "venture," Business Innovation Center Osaka is offering education for management successors with Masaaki Takano of DG TAKANO Co., Ltd. and other businesspeople as lecturers.

Column 2-2-7 Revision of credit enhancement system

SMEs are often not very creditworthy and have a difficult time raising funds from private-sector financial institutions alone. For that reason, when SMEs borrow from private-sector financial institutions, local credit guarantee corporations guarantee the loan. If the SME falls into arrears on the loan, the credit guarantee corporation pays the debt (payment in subrogation) to the private-sector financial institution. This is called a credit enhancement system (Fig. Column 2-2-7 (1)).

Fig. Column 2-2-7 (1) Credit enhancement system scheme



Credit enhancement systems are an important way to support SMEs trying to raise funds. In various aspects of each life stage, an SME has to respond flexibly to many kinds of financing demand, large-scale economic crises, and financing demand at the time of disaster. However, if financial institutions depend too much on credit guarantees, there is the risk that there will be less motivation for financial institutions to practice lending based on business potential and subsequent ongoing monitoring and business management support. It was with this sense of a problem that the Small and Medium Enterprise Policy Making Council advanced a revision of the credit enhancement system, putting together a revision package on December 20, 2016. Based on this, the governing Cabinet decided in favor of adopting a bill to amend the Small and Medium-sized Enterprise Credit Insurance Act to promote improvement and development of SME management on February 28, 2017. An overview of the amendments to the law may be found in Fig. Column 2-2-7 (2), but the major objectives are to use credit guarantees to get the necessary funds to SMEs and ensure there will be lending based on business potential and subsequent ongoing monitoring and business management support at financial institutions. Thus, the amended law would help enhance management of SMEs.

Fig. Column 2-2-7 (2) Overview of law amendments

(1) Partial revision of Small and Medium-sized Enterprise Credit Insurance Act
<p>(1) Strengthens safety net guarantee function when there is a credit crunch because of large-scale economic crisis, disaster, etc.</p> <ul style="list-style-type: none"> • Establishes crises-related guarantees with a pre-demarcated period when the guarantees would apply as a new safety net that can be rapidly deployed in the event of a large-scale economic crisis, disaster, etc. (guarantees up to ¥280 million under a separate framework from the existing guarantee limit). <ul style="list-style-type: none"> * Guarantees 100% of loan. <p>(2) Increases support to micro businesses</p> <ul style="list-style-type: none"> • Maximum loan value eligible for special petty insurance raised from ¥12.5 million to ¥20 million to support sustainable development of micro businesses. <ul style="list-style-type: none"> * Maintains 100% loan guarantee.
(2) Partial revision of laws on SME credit insurance as it relates to business founding or succession
<ul style="list-style-type: none"> • Maximum startup loan value eligible for insurance coverage raised from ¥10 million to ¥20 million. <ul style="list-style-type: none"> * Maintains 100% loan guarantee (partial revision to Act on Strengthening Industrial Competitiveness). • To further encourage business succession, expands credit insurance eligibility to include funds (such as funds to acquire stock) that the legally recognized individual representative of the SME requires at the time of succession (partial revision of laws concerning facilitation of management succession at SMEs).
(3) Partial revision of Credit Guarantee Corporation Act
<p>(1) Prescribes cooperation between credit guarantee corporations and financial institutions, etc.</p> <ul style="list-style-type: none"> • Adds management support for SMEs to the work of credit guarantee corporations, stipulates that credit guarantee corporations and financial institutions shall cooperate on work management. <ul style="list-style-type: none"> * In addition to the above, the following measures are provided. <ol style="list-style-type: none"> (1) Because securing loans without credit guarantees (“proper loans”) from a financial institution directly connects to the financial institution’s posture of proactive support for the SME, the credit guarantee corporation, while confirming the status of the financial institution’s “proper loan,” its policy on management support, and so on, guarantees the loan, apportioning the risk through an appropriate combination of “guaranteed loan” and “proper loan.” (2) In Safety-net Guarantee No. 5, which is aimed at SMEs in structurally declining industry sectors, the guarantee is lowered from the current 100% to 80%. This is to encourage financial institutions to step up so that management improvements will be made and businesses will be restructured. <p>(2) Expands scope of investment funds at credit guarantee corporations</p> <ul style="list-style-type: none"> • To enable credit guarantee corporations to make a greater contribution to local economic vitalization, allows credit guarantee corporations to invest not just in business rehabilitation funds but also in funds with the objective of supporting startups and the management improvement of SMEs.

One package of this type would strengthen the management support offered by credit guarantee corporations. As for business rehabilitation, presidents have to coordinate with multiple financial institutions on a management improvement plan, but this is a great burden on the president, so substantial progress is not made in many cases. In those cases, the credit guarantee corporation can send an expert to support establishment of a management improvement plan and get the various financial institutions together to support the process of reaching agreement on the management improvement plan [Case Studies 1 and 2]. Management support can take other forms as well. Presidents whose businesses ended in failure can be inspired to try again [Case Study 3]. Or, persons wishing to found a business can receive support establishing a business plan, etc., and once they have an adequate plan, they can get help connecting to financial institutions to procure the funds [Case Study 4]. Going forward, it is going to be important for financial institutions to provide lending based on business potential and ongoing monitoring and business management support while credit guarantee corporations step up their own efforts to help SMEs make management improvements.

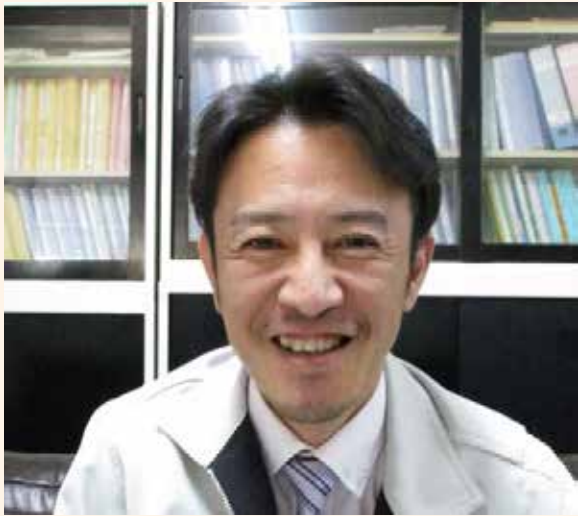
Case Study

1 A case study of management support and business rehabilitation

Overview of efforts

Business: Handa Kogyosho Co., Ltd. (steel frame construction)

- Content**
- When his grandfather and predecessor suddenly died in March 2010, the current President Handa soon inherited the post of president. The succeeding president was just 33 years old at the time. He had little knowledge about managing a business, and inadequate profit management kept the company persistently in the red. President Handa consulted with his financial institution and got the conditions on the company's loan changed to ease the repayment requirements. Since there was no substantive improvement, however, the Shizuoka Prefecture credit guarantee corporation suggested sending an expert.
 - The expert they introduced was Mr. Kuwasako, an enthusiastic SME consultant with a good reputation. With the company's main financing bank, Fuji Shinkin Bank, and the credit guarantee corporation in attendance, Mr. Kuwasako conducted a total of six assessments. At one such assessment, when President Handa was not fully engaged in the process, he got a scolding from the SME consultant.
 - President Handa later had a change of heart and undertook to make management improvements with support from his main financing bank. He developed a greater awareness of profit management and started giving more thorough guidance to his employees. The problems at this company included a management team with little understanding of how to manage a business and an extremely low profit margin (for example, it was not tracking the profitability of each construction job; it was putting all its emphasis on getting orders instead of getting orders at a reasonable price, and it was not sufficiently negotiating unit prices with its business partners).
 - The process began by getting to know the mechanisms of the company's profit structure. President Handa came to understand the company's financial situation by personally compiling profit and loss results for past fiscal years. It particularly raised his awareness of managing numbers in the following ways.
 - Writing estimates based on figures corresponding to market fluctuations in the price of steel framing to be purchased
 - Negotiating unit prices with suppliers (it stopped taking orders for projects below a certain profit margin)
 - Performing profit management monthly
 - Expanding sales area
 - The company's statement of accounts in December 2014 (one year after the assessments finished) showed a positive net income for the first time in eight accounting periods. It has continued to post profits since then, and has begun monitoring and follow-up with the aim of getting out of its changed loan requirements.
 - President Handa notes that getting instruction from the expert is what changed his awareness, and that change of awareness was the biggest factor in making improvements.



President Handa



Handa Kogyosho

Case Study

2 A case study of management support and business rehabilitation

Overview of efforts

Business: Ozaki Tsukemono Shokuhin Co., Ltd.

- Content
- This manufacturer of Japanese pickles was founded in Kyoto in 1902. As a family business, it has maintained the traditional taste of its products all these years. The company, however, is located somewhat off the tourist routes, and about 70% of its product was being sold wholesale to supermarkets, inns, restaurants, and the like, with high-margin retail accounting for only about 30%. That kept the company in the red.
 - Because it was a family business, Ozaki Tsukemono Shokuhin could absorb its losses by sacrificing on personnel costs. Moreover, its working capital stayed in an appropriate range, so it was able to remain a viable business by changing its loan conditions. President Ozaki and the other employees started wanting to break out of this rut and got support from the company's main financing bank, Kyoto Shinkin Bank, and a credit guarantee corporation.
 - Among the management issues that were revealed, the company had borrowed much relative to its annual turnover, its heavy reliance on wholesale kept it from making an adequate profit, it was located too far from tourist routes, and it was not promoting enough (as it did not know how to take advantage of the Internet).
 - It was decided that sending an expert would be an effective way to deal with these challenges, so Ozaki Tsukemono Shokuhin decided to start using the credit guarantee corporation's expert dispatching system in 2014. The management improvements the company started to make were spearheaded by Mr. Nakano, an SME consultant with a good reputation for promotion strategies. Among the suggestions he gave:
 - Since the company's net sales were stable but profitability was low, it should try to sell a somewhat greater percentage of its product by retail, which has a higher profit margin.
 - The company should put more effort into promotions; it should use the Internet to tell consumers what seasonal products it was currently making, what process was being used to make them, and the spirit that went into making them.
 - It should prepare leaflets handwritten by the employees themselves and place the leaflets with the product, and also seek out press coverage from the local newspaper.
 - It should rent space to place its leaflets on tourist routes to make up for its location disadvantages.
 - Asked about his experience with management support, President Ozaki says, "At first, I had my doubts about what good it would do to have the credit guarantee corporation come here, but they looked at our situation objectively and sent an expert. SME consultant Nakano took our perspective and gave us very warm support, and I started to notice good results. He also widened our field of vision and gave us confidence."
 - Mr. Yokosawa, who gave the company management support from the credit guarantee corporation, said the policy for support going forward was first to keep up the follow-through together with the main financing bank to stabilize the current efforts so they could produce a profit. Then, when it seemed Ozaki Tsukemono Shokuhin could make a bit more profit, it could make adjustments with the main financing bank and then start on more fundamental management improvements. They would mobilize a variety of menu options (such as offering guarantees on a long-term repayment schedule appropriate to the SME's ability to repay) and thus work to normalize loan payments.



President Ozaki and his employees, with members of the credit guarantee corporation that supported them



Leaflet handwritten by employees

Case Study

3 A case study of support for trying again

Overview of efforts

Business: Tara Shoji Co., Ltd. (commercial cleaning equipment sales, etc.)

- Content**
- Sometime around 1980, President Sakaguchi became fascinated with his relative's cleaning shop, and he thought about starting one of his own, but rather than compete in the same community, he started a business selling cleaning-related equipment. Unfortunately, the business failed owing to investments in real estate during the bubble economy. With too much debt, President Sakaguchi was struggling to raise funds. In 1999, his bank transactions came to a halt.
 - In spite of the tough conditions, President Sakaguchi visited the bank every week to explain his situation. Since he had built up very good relations with his creditors, they did not object even when repayment was interrupted, so he avoided bankruptcy. Subsequently, Sakaguchi was able to continue business while making payments to the Nagasaki Prefecture credit guarantee corporation. Several years later, he began a fundamental business rehabilitation with direct management support from the credit guarantee corporation.
 - President Sakaguchi sold off portions of his business that were less profitable, withdrew from a policy of expanding sales outlets, offered his services to a narrower list of business partners, and started providing a full range of services from facility planning to maintenance. On the operations side, he made deep cuts to executive compensation and reduced his workforce (other companies took in his employees on the condition that Sakaguchi's business partners would also transfer over).
 - Then, upon consultation with his credit guarantee corporation, he extinguished his credit (right to reimbursement) from the credit guarantee corporation in October 2016 and made The Eighteenth Bank his main financing bank, thus normalizing his financial transactions. According to President Sakaguchi, who is now 68, he knew the time for succession was coming, and he wanted to normalize his financial transactions swiftly. The decision was made that his son, who had been working at a large enterprise, would succeed to the presidency. They are currently preparing for succession.
 - President Sakaguchi says, "SMEs mustn't try to compete on price. The only way to win is to provide original, added value." With that in mind, he started providing order-made, thoroughgoing management consultation to cleaning services and interviewing them. If he felt that a particular shop had the potential to be a regional leader, President Sakaguchi personally found the ideal solution for them and sold them the equipment. Conversely, if there was a shop unlikely to be a success, he suggested they withdraw from the market early and not miss a favorable time to do so.
 - Asked about bank transactions, President Sakaguchi says from experience that "Your bank is one of your most important business partners. As a matter of course, you need to be polite and stay in close communication with your business partners. When business is good, a bank will lend you tens of millions of yen with a single signature, but you need to stay away from that kind of loan." With that principle in mind, he tells shops to be sure to visit their banks once a week and make it a practice to fully explain your business ideas and status.



President Sakaguchi

Case Study

4 A case study of startup support

Overview of efforts

Business: Kaigarayama Galette (café and restaurant)

- Content
- Before starting this business, current President Manaka was a housewife who dreamed of managing a café. She attended a startup school run by the Chiba Prefecture credit guarantee corporation. At first, she was using a home loan to build a combined home and shop, with a plan to open the café on the first floor with her own funds. At the startup school, however, she got support from an expert, and when she got to the point of working out her startup plan, she realized that she lacked the equipment funding and working capital and that opening her business would require plenty of preparation.
 - So, with support from the credit guarantee corporation and its experts, she polished up her startup plan. Specifically, she created a three-year profit plan, then the credit guarantee corporation introduced her to a private-sector financial institution as a potential main financing bank, from which she successfully procured working capital. She also sought and received equipment financing from the Japan Finance Corporation. Taking advantage of the applicable repayment grace period, she practiced cooking in the kitchen and making other preparations, after which she opened in November 2016.
 - The concept of the café was to provide a multipurpose space with strong community ties, where local people could enjoy spending time. President Manaka's dream was to "Keep running the shop till the children became adults, so we would be able to realize the concept together."
 - Asked what she thought about the startup support she got from the credit guarantee corporation, President Manaka says, "At first I had my anxieties about starting up with my own limited funds and about the nature of the work itself, but the support I got made me feel braver, because it seemed we were opening up this shop together. That confidence helped me to take care of the problem of budgeting."



Interior of the shop



The café's signature gallettes

Chapter 3

Encouraging new business development

Section 1 The importance of new business development

The changes in the market environment surrounding SMEs are growing increasingly severe due to such factors as a transfiguration in domestic demand owing to population decline and a falling birthrate paired with demographic aging, as well as the intensification of international competition arising from globalization. The demand for existing products and services changes over time, and some of these get weeded out by the market. Additionally, the market environment has changed enormously owing to such factors as the shortening of product lifecycles due to technological innovation¹⁾ and changes in consumer behavior due to the development of information technology.²⁾ In particular, new technologies

in such areas as the Internet of Things (IoT),³⁾ “big data,” artificial intelligence (AI), and robotics are being developed, and with this comes the possibility of radical changes in the structure of industry.⁴⁾ For SMEs to endure and grow under these conditions, it is important that they do not remain fixated on their current businesses but rather respond to the changing times by working proactively to open new markets and develop new businesses.

With these understandings in mind, the present chapter will survey the actual conditions regarding initiatives that SMEs are making toward the development of new business and look at the traits of those SMEs that have succeeded in this area as well as the issues they face.

1. Importance of new business development

As noted above, in light of changes in the demand for existing products and services it will be important for SMEs to develop strategies in the four areas as shown in Fig. 2-3-1 if they are to continue to grow. These areas are (2) opening new markets, (3) developing new

products, (4) diversification, and (5) business conversion. The present chapter treats these four types of strategy collectively as parts of new business development and pursue its analysis on that basis.

- 1) The *White Paper on Manufacturing Industries (Monodzukuri) 2016* carried the results of a questionnaire-based survey on product lifecycles in manufacturing asking in what ways the situation had changed compared to ten years prior. While the majority of respondents indicated “almost unchanged,” the analysis showed that among all industry sectors more companies reported that lifecycles were growing “shorter” as opposed to growing “longer.”
- 2) The *2015 White Paper on Information and Communications in Japan* reported that the purchasing of goods and services through the internet was expanding in keeping with its propagation. The results of its analysis showed that in 2014 25.1% of households engaged in net shopping as opposed to 5.3% in 2002.
- 3) Internet of Things, or “IoT,” describes a mechanism by which all “things” are connected to the internet by means of sensors, wireless transmissions, and so forth. This will be discussed in detail in Section 4.
- 4) METI, Industrial Structure Council, New Industrial Structure Committee, *New Industrial Structure Vision*.

Fig. 2-3-1 Enterprise business development strategies

	Strategy Types	Explanation
(1)	Market Penetration Strategy	• Strategy for deploying existing products and services in existing markets. Chief aim is to increase market share by winning in competition with rival enterprises.
(2)	New Market Opening Strategy	• Strategy for deploying existing products and services in new markets. Chief aim is to discover new sales channels. An example would be advancing into an overseas market.
(3)	New Product Development Strategy	• Strategy for deploying new products and services in existing markets. Entails adding new features to existing products or developing new products and services with goal of rolling them out at the very least for existing clients.
(4)	Diversification Strategy	• Strategy for maintaining existing businesses while deploying new products and services in new markets. A strategy for seeking growth in new fields. In many cases, this is accompanied with considerable risks.
(5)	Business Conversion Strategy	• Strategy for reducing and eliminating existing businesses while deploying new products and services in new markets. This strategy is accompanied in even more cases than the diversification strategy with considerable risks.

Source: Prepared by METI based on Ansoff, I. (1957) Strategies for Diversification, *Harvard Business Review*, Vol. 35 Issue 5, Sep–Oct 1957, pp. 113–124.

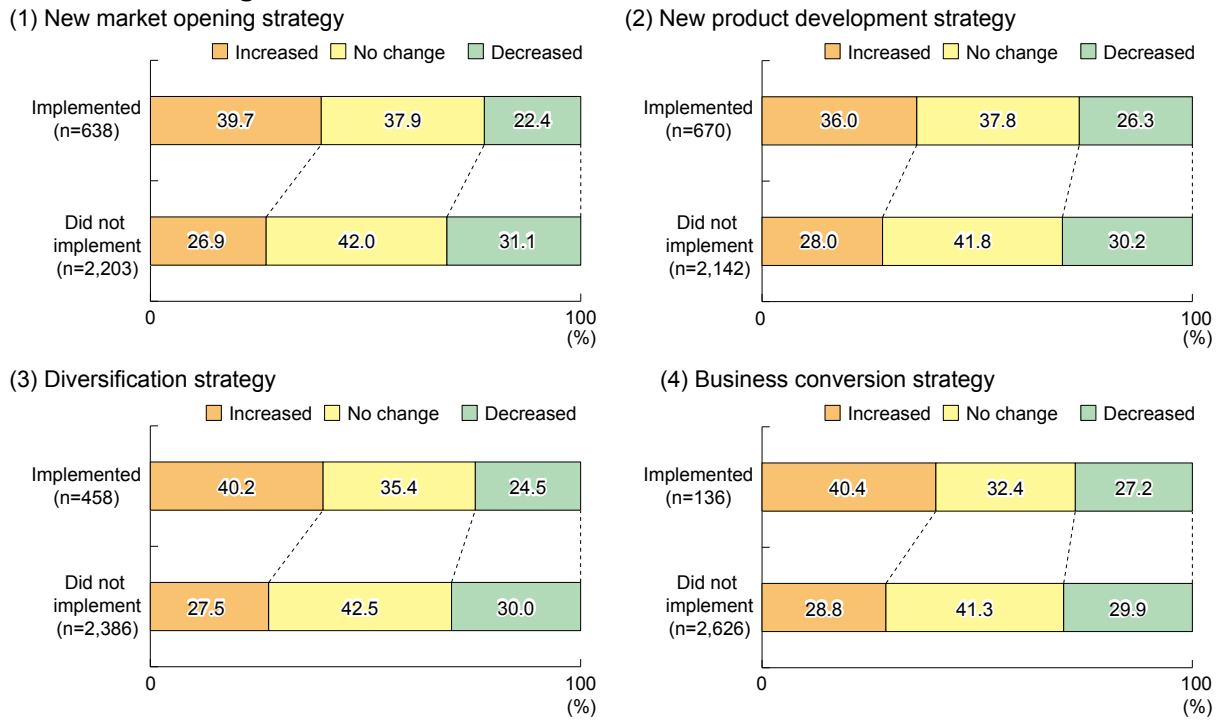
In Part I, this paper already examined the effectiveness that business conversion as a new business development strategy had on improving productivity. However, here we will again look at the effectiveness of new business development. In the work ahead, we will analyze SME initiatives to develop of new business using “Survey on SME Business Growth Strategies, etc.”⁵⁾ and

“Questionnaire on Changes in Consumer Behavior.”⁶⁾ Fig. 2-3-2 examines the relationship between the new business development strategies seen in Fig. 2-3-1 and the ordinary profit ratio. Looking at that figure shows that regardless of initiative the ordinary profit ratio tends to increase for those enterprises that pursue new business development compared to those enterprises that do not.

5) Questionnaire-based survey conducted of 25,000 enterprises in November 2016 by Nomura Research Institute, Ltd., as a commission for the SME Agency. Response rate of 15.1%.

6) Questionnaire-based survey conducted of 4,006 internet test surveyors in December 2016 by Nomura Research Institute, Ltd., as a commission for the SME Agency.

Fig. 2-3-2 Trends in ordinary profit ratio, by state of new business development strategies



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Section 2 New business development initiatives and actual results

The present section begins by coming to grips with efforts by SMEs to pursue the development of new businesses and the attendant challenges. It also looks at whether SME new business development initiatives

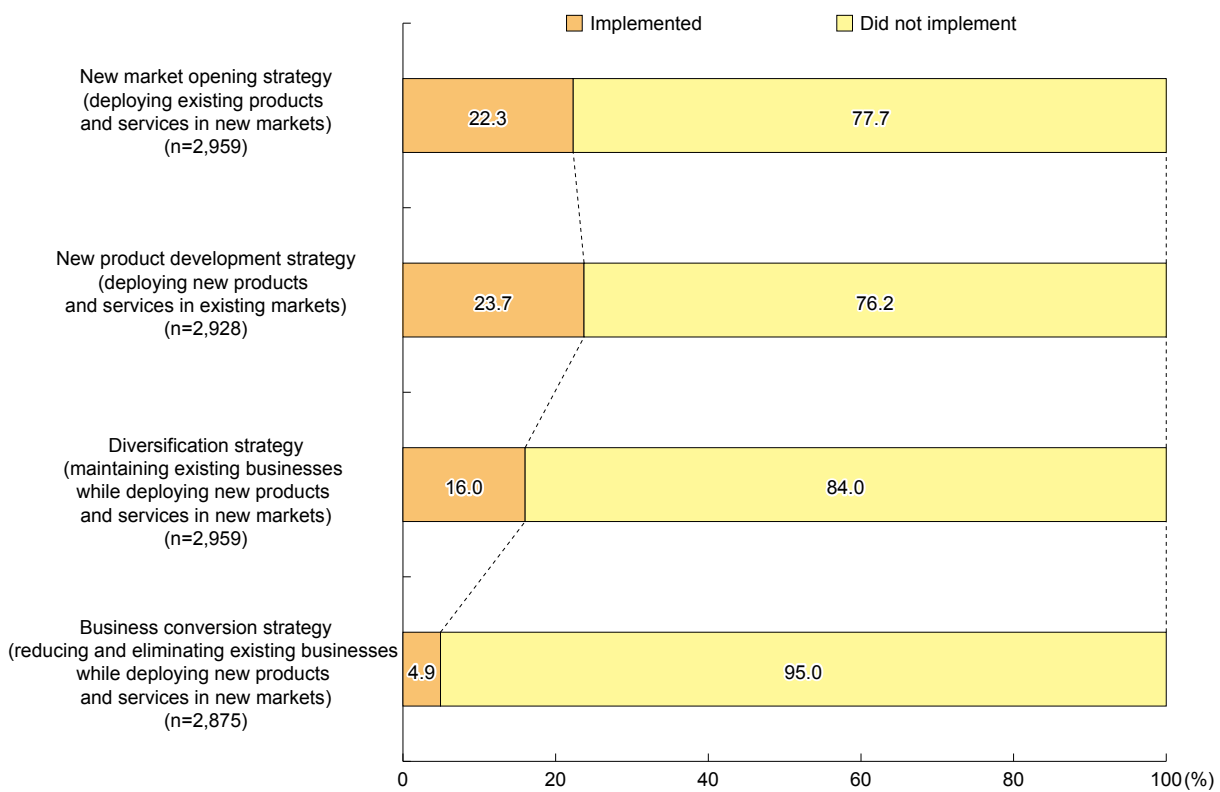
are in fact finding success or failure, and analyzes the differences in such efforts between enterprises that have succeeded with their initiatives and those that have not.

1. Actual state of initiatives to develop new business

First, a look at actual new business development initiatives by SMEs shows that of the four strategies being pursued the effort to develop new products scored

the highest, followed by that of new market opening (see Fig. 2-3-3).

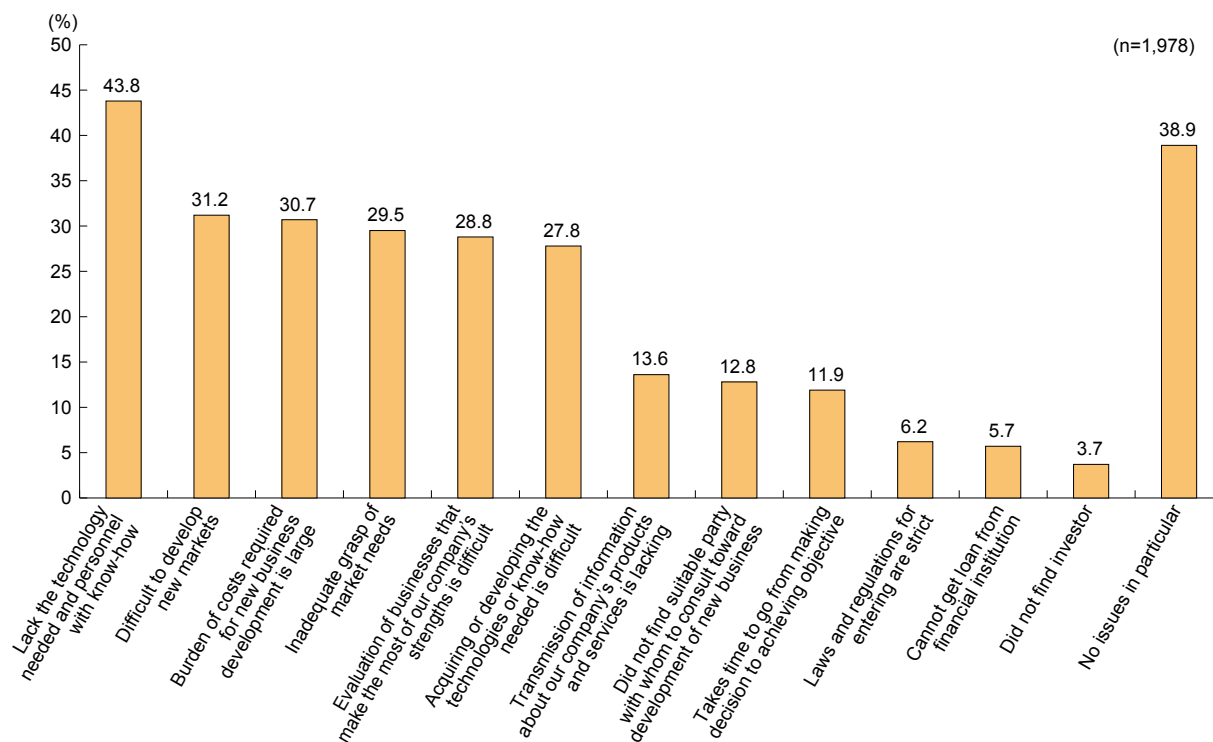
Fig. 2-3-3 Status of implementation of new business development initiatives



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Next, let us review the issues that enterprises which have not implemented new business development initiatives face. Fig. 2-3-4 shows that the issue to receive the largest number of responses—accounting for 43.8% of the total—was “Lack the technology needed and

personnel with know-how.” Next came “Difficult to develop new markets” at 31.2%, followed by “Burden of costs required for new business development is large” at 30.7%.

Fig. 2-3-4 Issues in enterprises not implementing new business development initiatives

Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

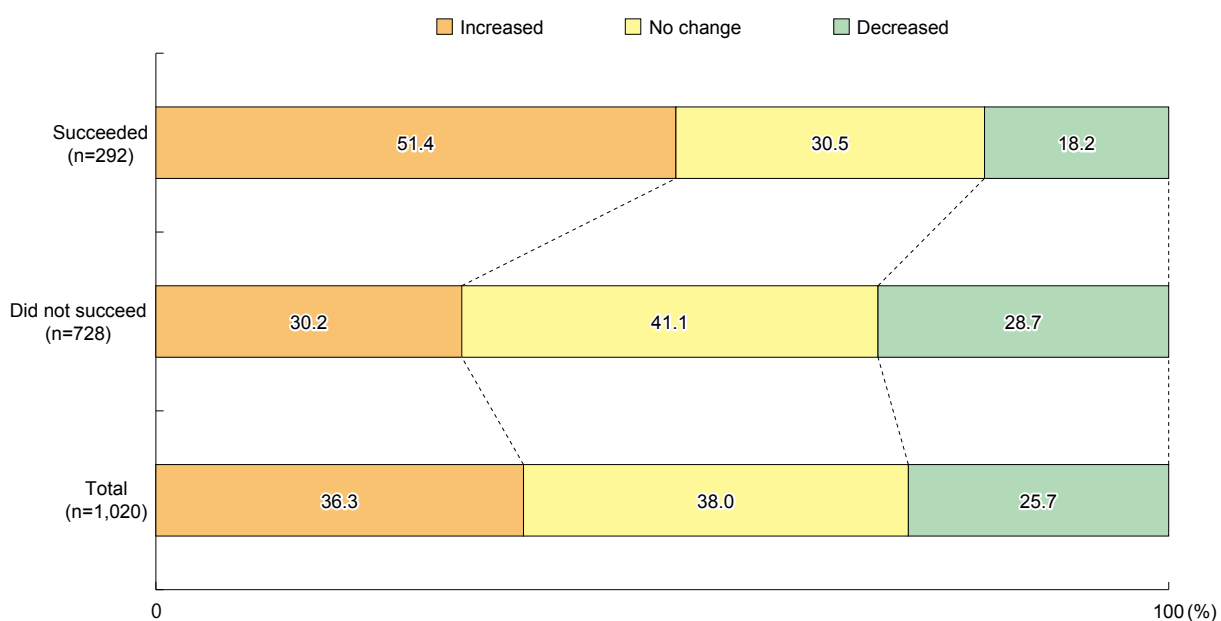
2. Actual results in the development of new businesses

(1) Trends among enterprises related to the success or failure in new business development

The following sections will focus on and analyze the differences between those enterprises that succeeded in the development of new business and those that did not. We start by considering trends in ordinary profit ratio. As Fig. 2-3-5 shows, among those enterprises that succeeded

in new business development 51.4% reported that their ordinary profit ratio had trended upward. Meanwhile, 30.2% of enterprises that had not succeeded in the development of new business gave the same response. It can be understood from this that ordinary profit ratio tended to rise so long as an enterprise succeeded with an initiative in this area.

Fig. 2-3-5 Trends in ordinary profit ratio, by results of new business development



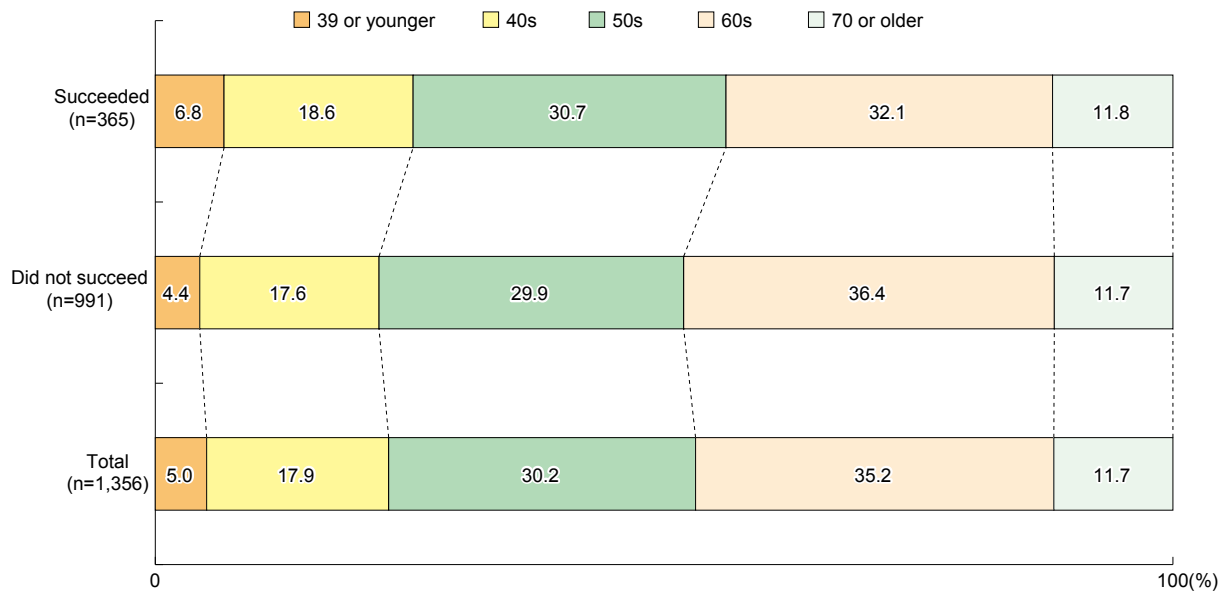
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: "Did not succeeded" aggregates the total of those who answered, "failed since the target was not achieved," "cannot say either succeeded or not," and "cannot decided yet" as a comprehensive evaluation to the new business development initiatives.

Next, we ascertain new business development performance based on a generational breakdown of managers. A comparison using Fig. 2-3-6 of those enterprises that succeeded versus those that did not shows that the ratio of managers who were younger tended to be

higher among the former type of enterprise. Specifically, when it came to enterprises that succeeded with new business development the proportion of managers aged 59 or under stood at 56.1% compared to 51.9% for enterprises that did not succeed.

Fig. 2-3-6 Managers' age by results of new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

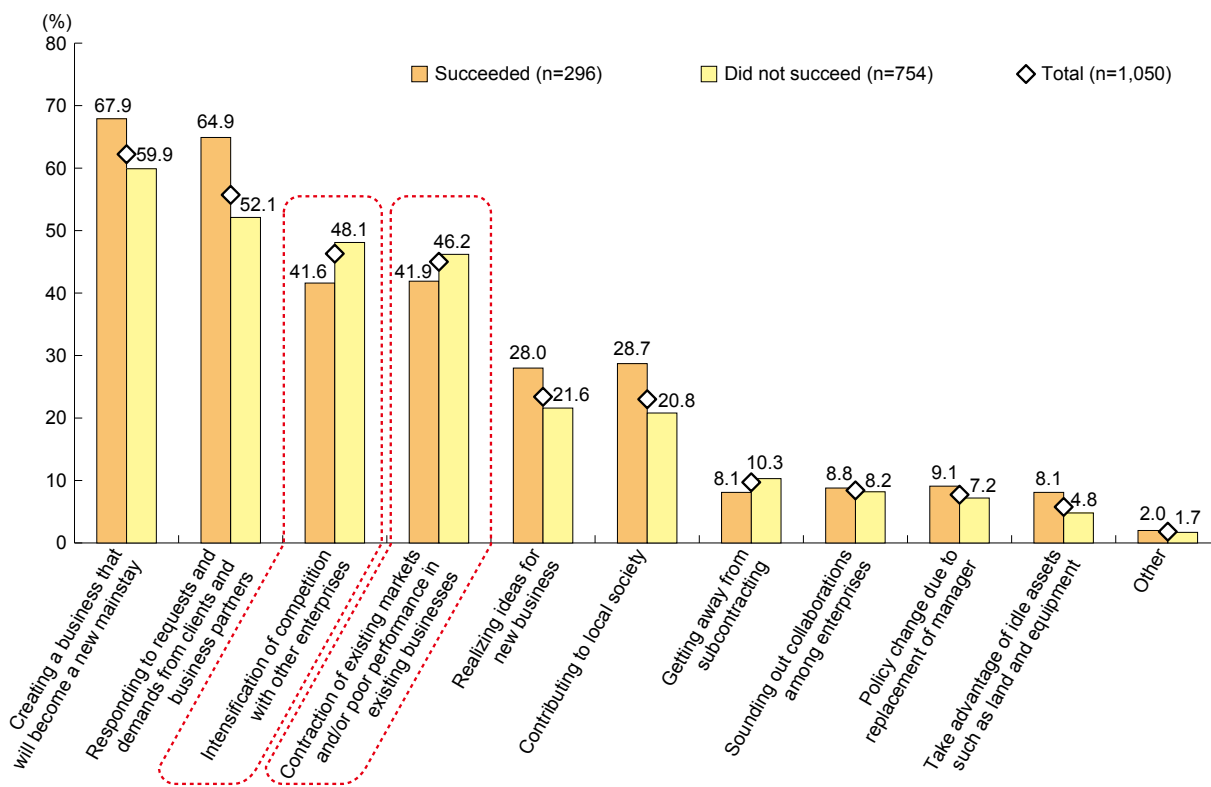
Note: "Did not succeeded" aggregates the total of those who answered, "failed since the target was not achieved," "cannot say either succeeded or not," and "cannot decided yet" as a comprehensive evaluation to the new business development initiatives.

(2) Background to implementing new business development and its effects

Next to consider is the question of against what background or in light of what circumstances did a given SME look into implementing new business development. Comparing through Fig. 2-3-7 the backgrounds of those enterprises that succeeded with new business development and those that did not, we see first that 67.9% of successful companies said they were “creating a business that will become a new mainstay” followed by 64.9% who said they were “responding to requests and demands from clients and business partners.” Those ratios were higher than those seen for enterprises that did not succeed with new business development. Meanwhile,

when focusing on companies that did not succeed with new business development we find that 48.1% responded “intensification of competition with other enterprises” and 46.2% said “contraction of existing markets and/or poor performance in existing businesses.” Those response ratios were higher than those posted by enterprises successful in this area. It is surmised that those enterprises that did not succeed tended to start their investigations due to factors outside of their organization such market contraction or intensifying competition, while successful enterprises looked into developing new businesses due to the self-motivated factor of wanting to secure new sources of earnings as well as owing to requests from clients and similar outside parties.

Fig. 2-3-7 Background to investigating development of new business, by results of initiatives to develop such



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

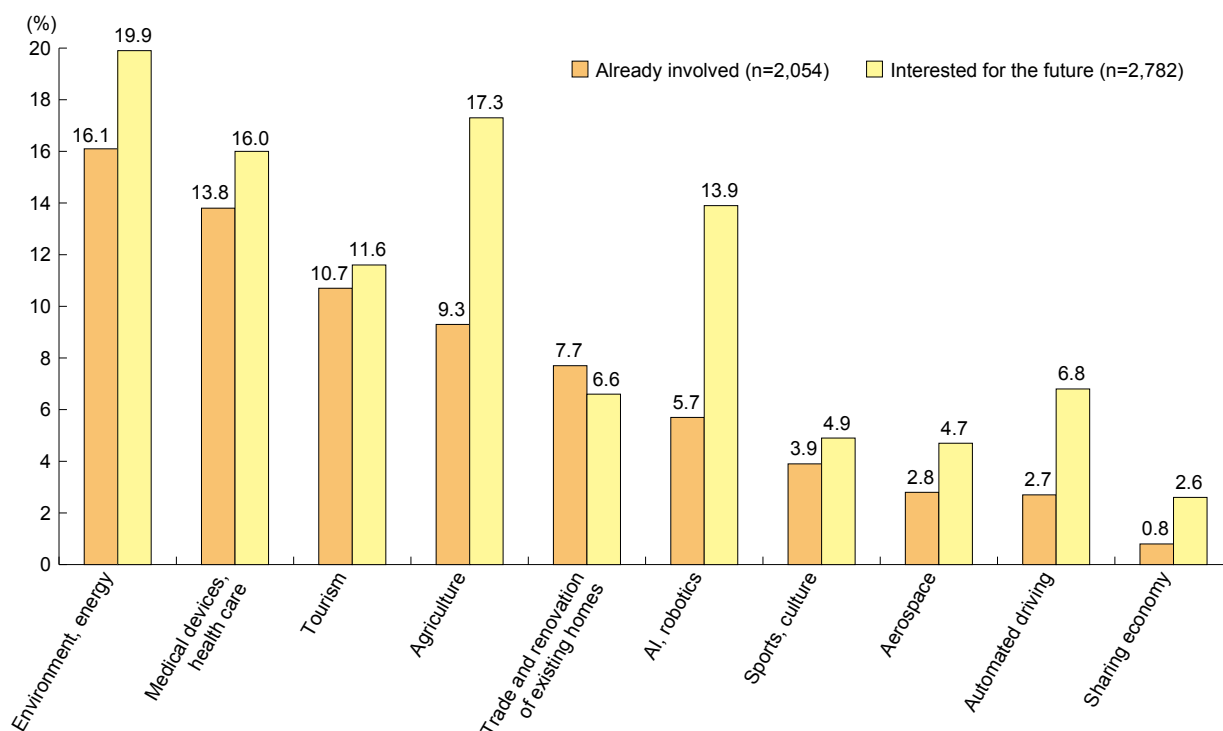
We also analyzed what factors SMEs emphasized when selecting the field in which to develop new business.

First, an examination of the fields of interest for new business development broken down by results shows

that when it came to fields in which an enterprise was already doing business “environment and energy” and “medical devices and healthcare” were focal points for many initiatives. As to fields in which enterprises were

interested in entering in the future, “AI and robotics” and “automated driving” accounted for a majority of responses (see Fig. 2-3-8).

Fig. 2-3-8 Fields of interest for new business



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

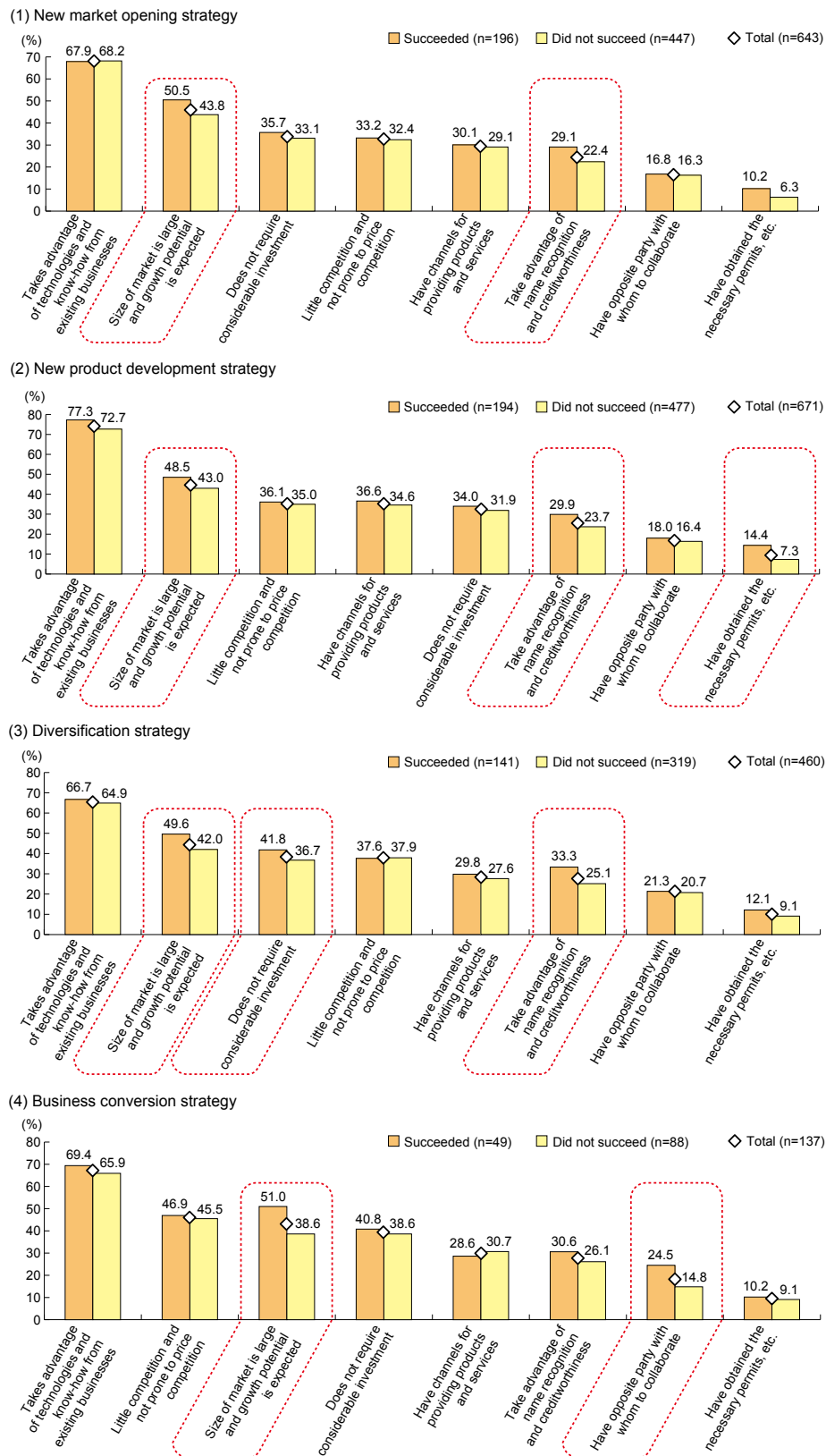
Fig. 2-3-9 considers the points emphasized in selecting fields of business to be newly developed, broken down by the strategies presented in Fig. 2-3-1 and by the results of the new business development initiatives pursued. A review of the former figure shows that regardless of differences in the new business development strategy pursued, enterprises tended to stress “takes advantage of technologies and know-how from existing businesses” and “size of market is large and growth potential is expected.” In particular, it can be seen with respect to the business conversion strategy that those enterprises that succeeded with the development of new business stressed “size of market is large and growth potential is expected.”

Examining for distinctive points for each given strategy shows that enterprises successful in the development of new business emphasized (1) “takes advantage of

name recognition and creditworthiness” with respect to the new market opening strategy; (2) like in (1) “takes advantage of name recognition and creditworthiness” as well as “have obtained the necessary permits, etc.” with respect to new product development strategy; (3) “does not require considerable investment” with respect to the diversification strategy; and (4) “have opposite party with whom to collaborate” with respect to business conversion strategy. Since proportions of success with the (3) diversification and (4) business conversion strategies were lower compared to those for the other two strategies,⁷⁾ it suggests that when pursuing new business development enterprises tend to investigate cautiously with respect to such matters as keeping the amount of investment under control and finding an opposite party with whom to collaborate.

7) The 2016 *White Paper on Small and Medium Enterprises in Japan* shows the success rates for “Entering different industry sector by changing internal structure,” “Entering different industry sector by establishing new subsidiary,” and “Entering new business through M&A or business transfer from another enterprise” were low compared to other strategies.

Fig. 2-3-9 Points emphasized in selecting fields of business to be newly developed, by strategies for new business development and by results of such initiatives



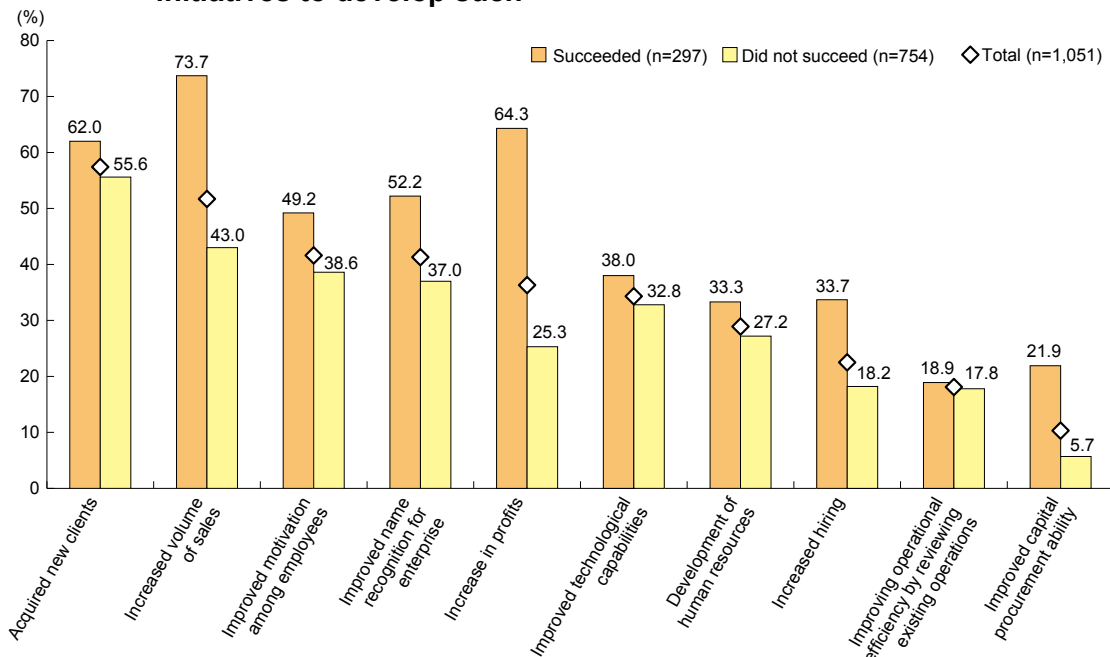
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Fig. 2-3-10 shows the effects produced by the development of new business. From this figure we can see that enterprises that successfully developed new businesses experienced effects in terms of performance

such as “increased volume of sales” and “increase in profits” as well as effects in such areas as “improved motivation among employees” and “improved name recognition for enterprise.”

Fig. 2-3-10 Effects due to implementing new business development, by results of initiatives to develop such



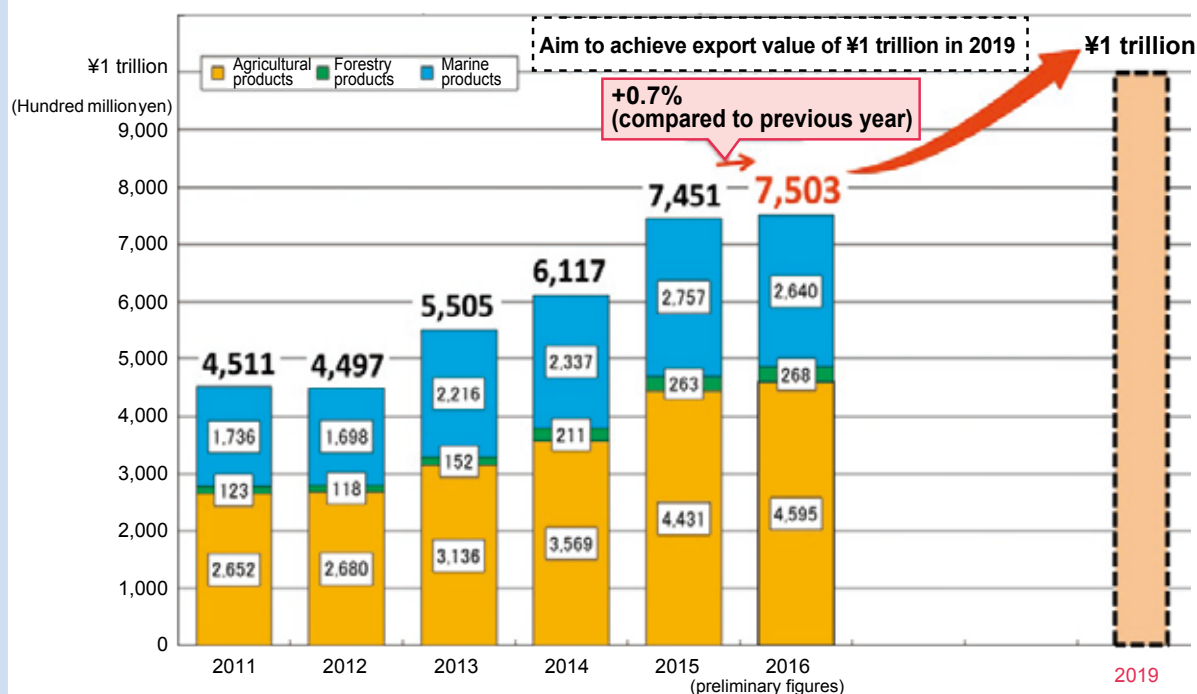
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Column 2-3-1 Export of agricultural and fishery products integrated with food culture

Emerging countries, mainly in Asia, are experiencing economic growth and population increases. As a result, estimates are that the value of the food market for the entire world will double from ¥340 trillion in 2009 to ¥680 trillion by 2020.⁸⁾ Seeking to win this market, in May 2016 the government compiled its “Strategy to Boost Export Power of Agriculture, Forestry, and Fisheries” and has been working through private-public efforts to promote exports of agricultural, forestry, and fishery products and foodstuffs.⁹⁾ As to the objective of obtaining an export value of ¥1 trillion by 2020, the “Economic Measures for Realizing Investment for the Future” (Cabinet approved August 2016) set 2019 as the goal for achieving this, or one year earlier than planned.

Fig. Column 2-3-1 (1) Trends in export value of agricultural, forestry, and fishery products and foodstuffs



Source: Created by Ministry of Agriculture, Forestry and Fisheries, based on Ministry of Finance, *Trade Statistics of Japan*.

One of the actions this Strategy calls for is to leverage the popularity of Japanese food abroad and come up with promotions that use food culture in an integrated manner. This could represent a tremendous opportunity for regional SMEs if it can be connected to expanding overseas sales channels for high value-added foodstuffs backgrounded their local resources and culture.

The SME Agency conducted a survey in 2016 on initiatives overseas that connected familiarizing people with a given food culture to an expansion of sales channels.¹⁰⁾ For example, Italy is promoting exports integrated with its food culture with a focus mainly on those products that everyone imagines to be “Italian cuisine” such as pasta in combination with such items as olive oil and wine that take advantage of the Mediterranean climate for their production. It is

8) MAFF, *On the Overseas Dissemination of Japanese Foods and Food Culture* (September 2014).

9) From MAFF website, *2015 Export Performance of Agricultural, Forestry, and Fishery Products and Foodstuffs*.

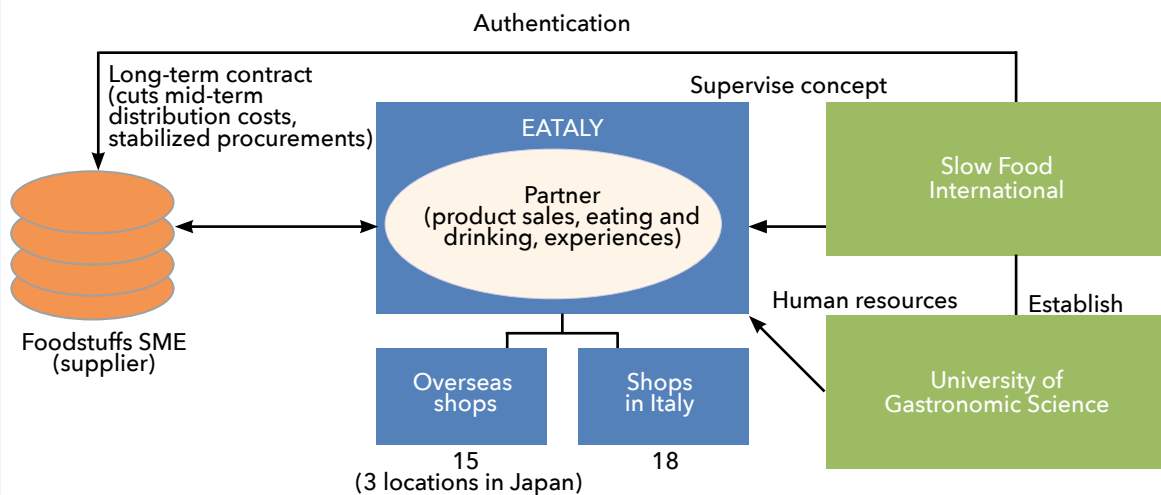
10) SME Agency, *2016 Survey on Transmission Points for Food and Food Culture in Japan and Abroad* (September 2016).

also working to encourage even further exports through industrial collaborations in the food area.

One enterprise that is attracting attention for its use of a new business model that fuses together the three businesses of “buying” (sales), “eating” (food and beverages), and “learning” (first-hand experiences) with Italian food culture providing the central axis is EATALY Distribution S.r.l. (Italian foods retail trade and eating-out business, approx. 1,400 employees, capitalization of €15.33 million, annual sales of €210 million).¹¹⁾ EATALY opened its first store in Torino in 2007. It opened a Tokyo branch in 2008 and a New York branch in 2010. It currently has 18 shops around Italy, and another 15 overseas.

EATALY has adopted the principles of the non-profit organization Slow Food International¹²⁾ and brings in human resources from the University of Gastronomic Science under that group’s umbrella. The enterprise has also concluded direct, long-term contracts with food manufacturers for products certified by Slow Food International along with other high-quality items with regional characteristics. EATALY also sells key processed foodstuffs at its overseas shops, and provides export know-how to food manufacturers that have low visibility and limited sales experience overseas.

Fig. Column 2-3-1 (2) Collaborative model used at EATALY



Michelis Egidio S.n.c. (confections and pasta manufacturer, capitalization of €90,000, annual sales of €13 million), an SME in the foodstuffs industry that does business with EATALY, gets 15% to 18% of its sales outside of Italy. It has set goals of increasing those rates to 20% by 2018 and 50% by 2020. Currently, its primary export markets are the U.S., Germany, and Brazil, and it is investigating ways to further increase its export destinations. Michelis Egidio S.n.c. executives have said that the hurdles for opening up new sales channels abroad were high for an SME. However, by coming up with a way to get their merchandise into EATALY’s shops in foreign countries and creating opportunities to talk with customers there about the products’ quality and appeal to their five senses, they were able to pick up new business abroad.

11) Capital fund as of December 31, 2013. Average exchange rate of 1 euro = US\$1.37 as of December 2013.

12) The “slow food” movement was begun in 1986 by the Italian Carlo Petrini. It advocates a way of thinking that stands in contrast to fast food, and calls for reexamining a given area’s traditional food cultures and food culture itself. Slow Food International is headquartered in Torino and currently has more than 100,000 members in more than 150 countries.

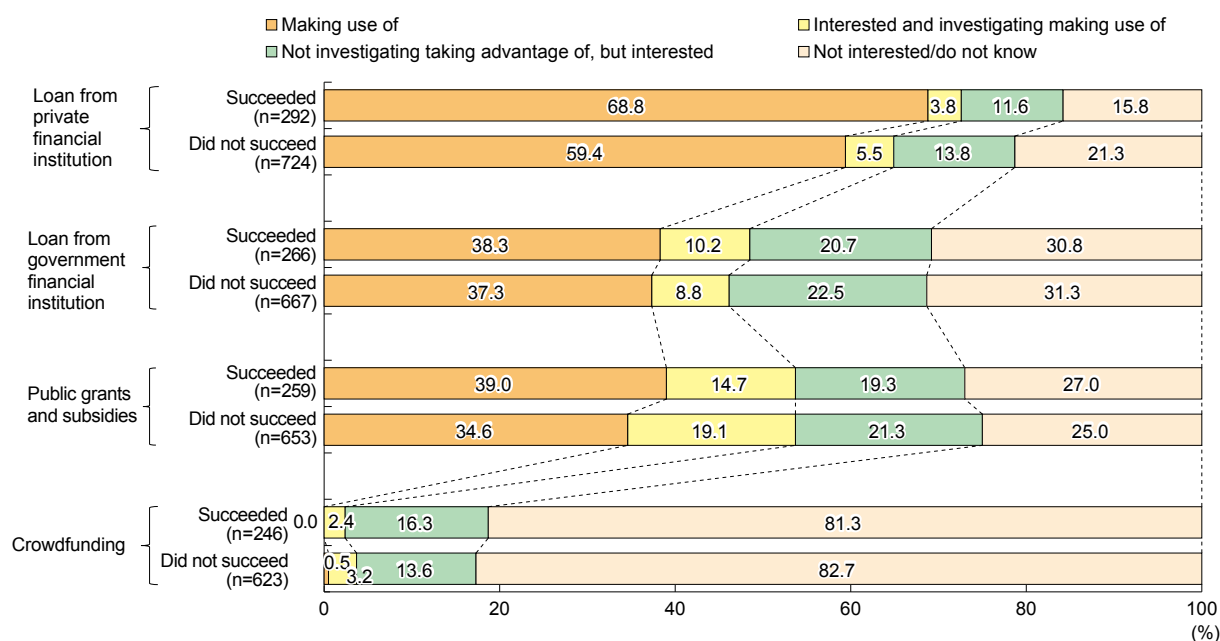
With respect to Japanese culture and food culture and sales bases that have integrated them into the mix, the private sector has been active in this area. In 2016, a consortium uniting Maetaku Co., Ltd., with various enterprises in Nagasaki Prefecture opened a Japanese tea cafe in California, while the Mitsukoshi Isetan Group opened a Japan Mall in Malaysia. Both projects took advantage of investments from the Cool Japan Fund. Efforts at such bases of operations to strengthen brand power overseas are expected to become a platform in the future for Japan's SMEs in the foodstuffs industry.

(3) Capital procurement methods for new business development

Next, we ascertain the methods for capital procurement related to the development of new businesses. Fig. 2-3-11 shows getting financing from private financial institutions accounts for the largest amount, followed by loans and public grants and subsidies from government-affiliated

financial institutions. Crowdfunding, a method that has attracted interest in recent years, accounted for around 3% of “making use of” and “interested and investigating making use of” responses combined. This indicates that SMEs are not taking advantage of it as a means for capital procurement in new business development.

Fig. 2-3-11 Capital procurement methods for new business development, by results of initiatives to develop such



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: “Did not succeeded” aggregates the total of those who answered, “failed since the target was not achieved,” “cannot say either succeeded or not,” and “cannot decided yet” as a comprehensive evaluation to the new business development initiatives.

(4) Issues seen based on results of new business development

Finally for Item 2, we look at the issues broken down by the results of new business development initiatives and the strategies used (see Fig. 2-3-12). An examination of overall trends shows that numerous issues have been brought up regardless of strategy including lack of human resources, cost burdens, and the difficulty of developing new markets.¹³⁾ When it comes to issues based on the strategy used, the problems raised with respect to the new market opening strategy include an insufficient grasp of market needs, inadequacies in the information delivered,

and the difficulties of evaluating how to make the most of an enterprise’s strengths. For the new product development strategy, aside from insufficient grasp of market needs and inadequacies in the information delivered other issues raised include the difficulty of acquiring the necessary technologies and know-how. Insufficient grasp of market needs and inadequacies in the information delivered were issues with respect to the diversification strategy and the business conversion strategy, along with difficulties in evaluating how to make the most of an enterprise’s strengths and in acquiring the necessary technologies and know-how.

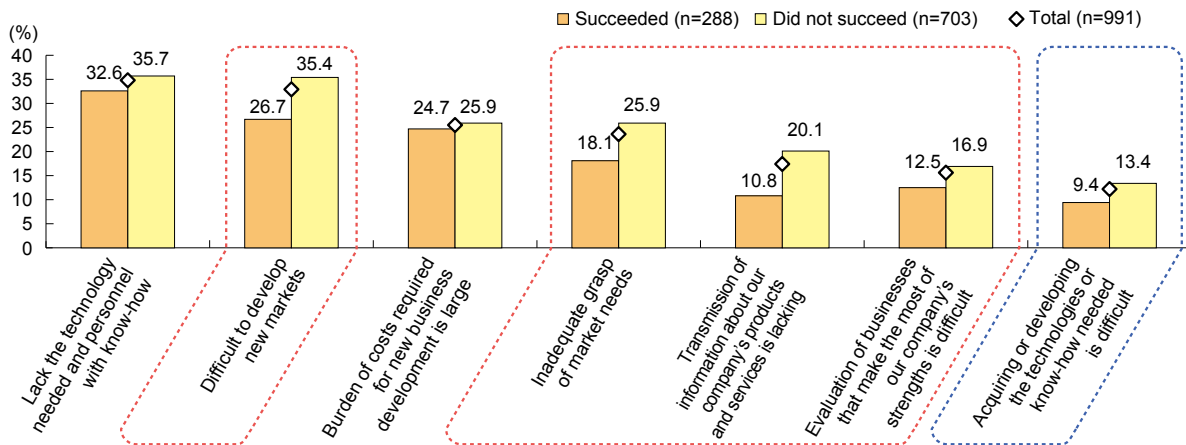
13) The analysis presented in the *2015 White Paper on Small and Medium Enterprises in Japan* showed that for issues with the development of new markets there were many issues related to human resources and marketing issues follows.

Furthermore, a look at the results of new business development initiatives shows trends differed slightly based on the strategy used. The proportion was high for enterprises unsuccessful at the development of new business that sensed there were issues related to marketing such as grasping market needs, making use their own company's strengths, and delivering information. This suggests the possibility that differences in efforts related to marketing is connected to difference between success or

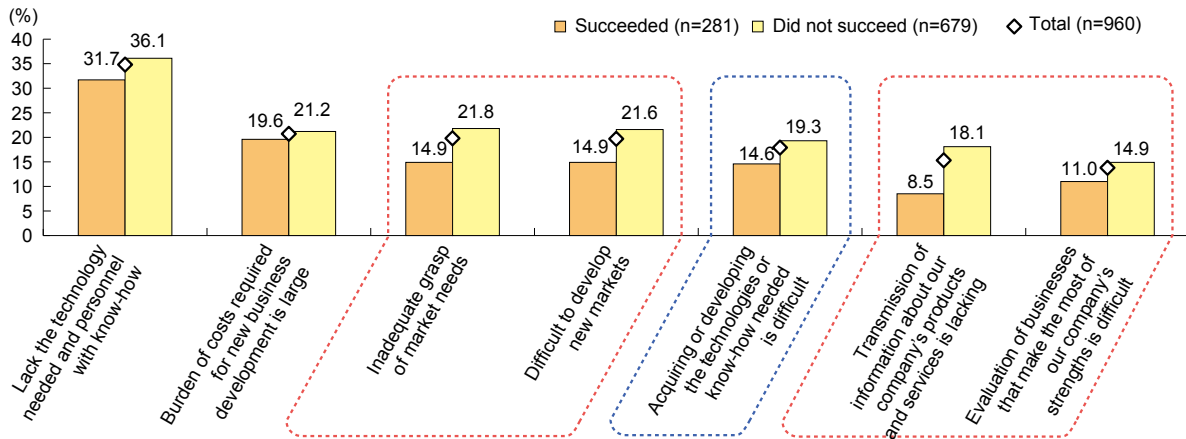
failure at new business development. Marketing activities will be analyzed in detail in Section 3. The next item will analyze the actual state of research and development, an activity that is connected to solving the problem of "acquiring or developing the technologies or know-how needed is difficult," which is another issue aside from marketing efforts for SMEs that are working toward the development of new business.

Fig. 2-3-12 Issues seen based on results of new business development initiatives

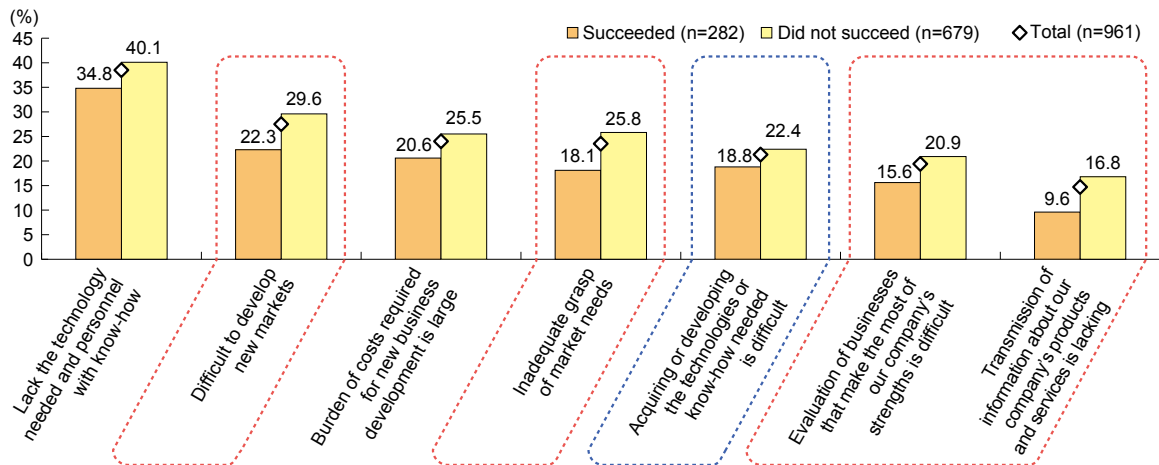
(1) New market opening strategy



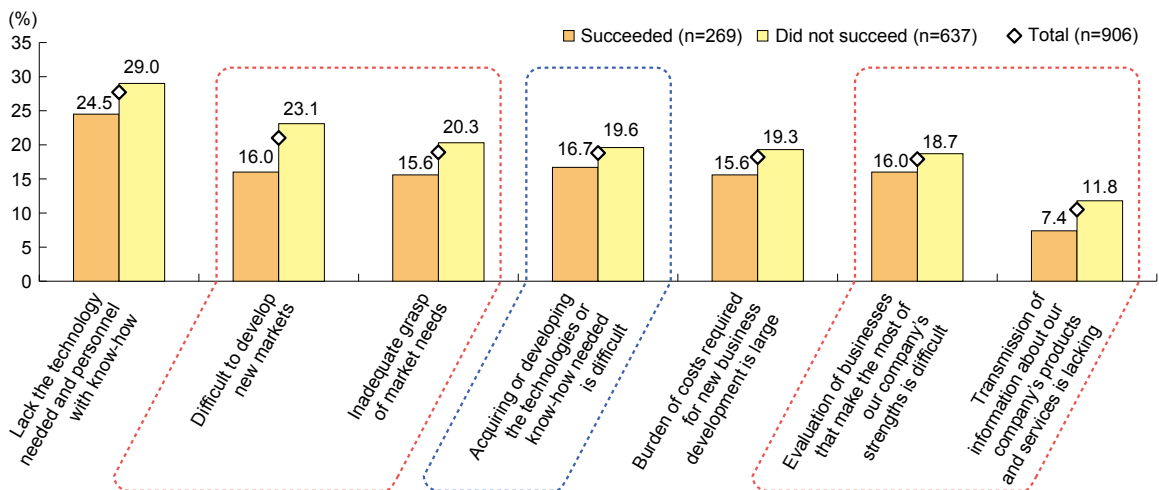
(2) New product development strategy



(3) Diversification strategy



(4) Business conversion strategy



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

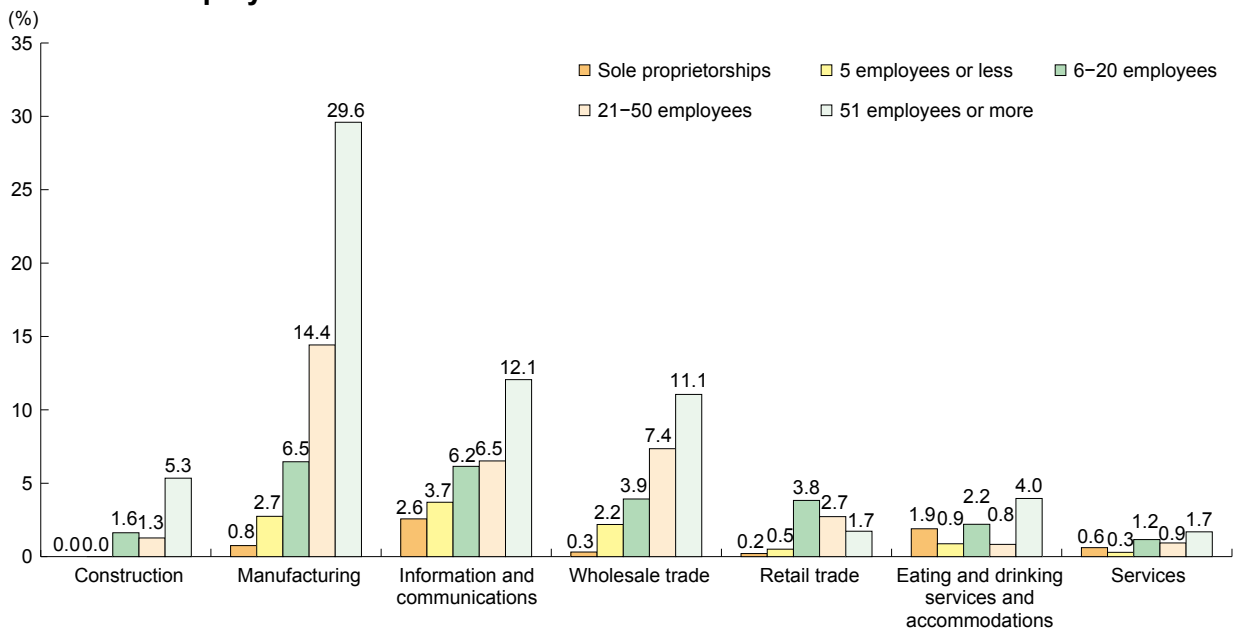
3. Initiatives toward R&D activities and issues

(1) Actual state of initiatives toward R&D activities

In Item 3, we look at SME research and development activities. First, the present item surveys the actual state of SME initiatives aimed at doing R&D. In Fig. 2-3-13, a breakdown by industry shows the rate was relatively high for certain categories including manufacturing, information and communications, and wholesale trade. Of these, only a scant amount of unincorporated enterprises

(sole proprietorships) engaged in R&D regardless of industry type. Looking at incorporated SMEs broken down by number of employees, the data show that the proportion of enterprises engaged in R&D activities rose the more employees an enterprise had. This tendency was strikingly high for manufacturing in particular.

Fig. 2-3-13 Proportions of SMEs engaged in R&D, by industry and by number of employees



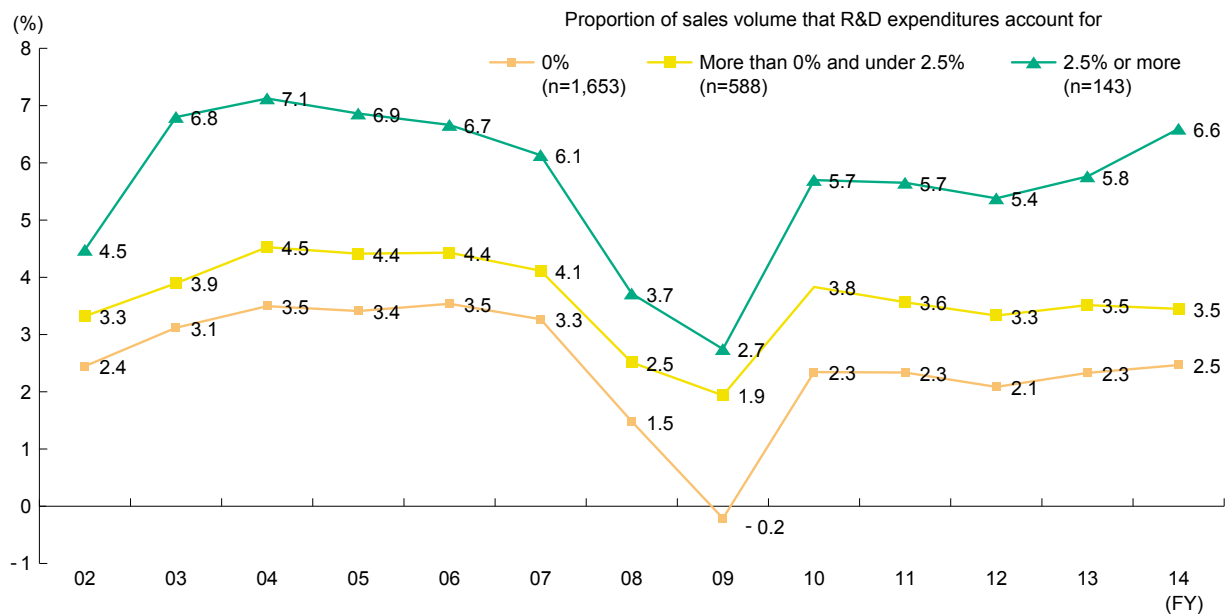
Source: SME Agency, *Basic Survey of Small and Medium Enterprises*.

- Notes:
1. Based on *Report of 2015 Basic Survey of Small and Medium Enterprises (fixed)*.
 2. Numbers are rate of enterprises (scaled and estimated) those answered “engaged in R&D activities for new products and technologies.”

Next we ascertain the relationship between R&D expenditures and performance trends. Fig. 2-3-14 shows trends in the ratio of ordinary profit to sales for each fiscal year from 2002 to 2014, with share of sales volume that R&D expenditures account for broken up into three categories: 0%, over 0% to under 2.5%, and 2.5% or

over. The figure shows that operating profit ratios are at a higher level the greater the proportion of sales volume for which R&D expenditures account. This suggests that there is correlation between R&D activities and operating profit ratio.

Fig. 2-3-14 Operating profit ratios trends seen in proportions of sales volume accounted for by R&D expenditures at manufacturing SMEs



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

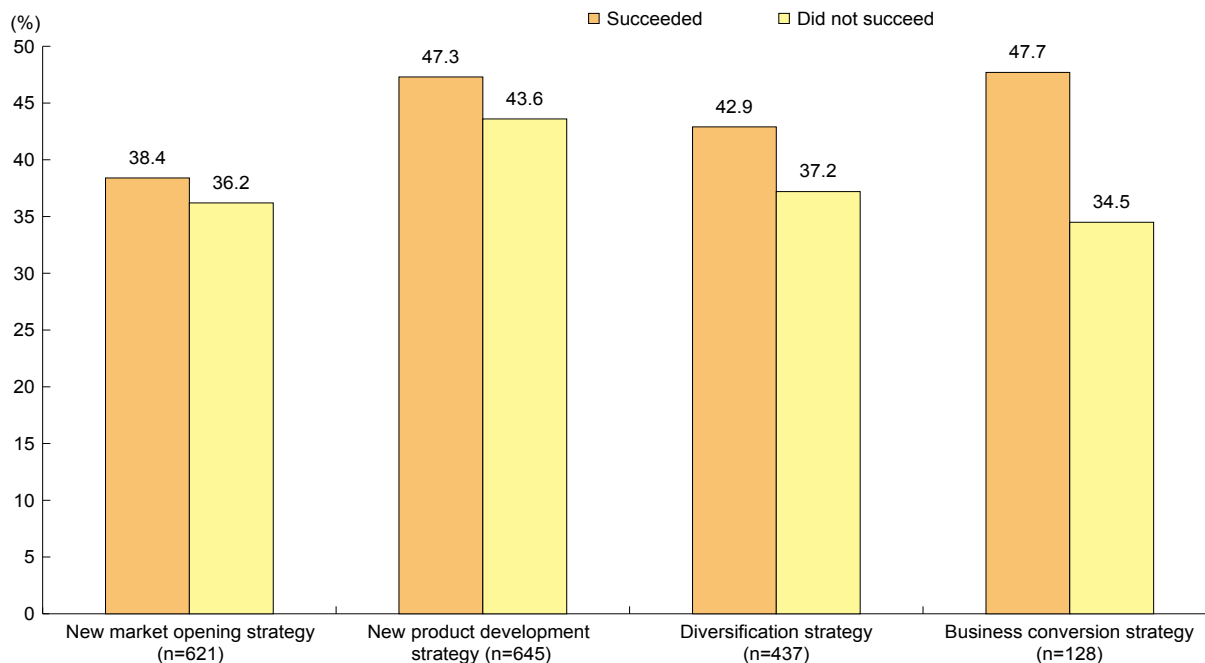
Note: Aggregates the total of enterprises which stay in the same category through fiscal 2002 to 2014 and also fulfill the definition of the Small and Medium-sized Enterprise Basic Act in fiscal 2002 and 2014.

(2) Importance of engaging in R&D

Next, we ascertain the importance of R&D activities to the development of new business. Fig. 2-3-15 presents the proportions for engaging in R&D broken down by the new business development strategy used and the results achieved. The figure shows that—compared to

the new market opening strategy where development of new markets is crucial—those enterprises that succeeded in new business development using the new product development strategy, diversification strategy, or business conversion strategy engaged in R&D activities and that such activities were crucial component of that success.

Fig. 2-3-15 Proportions for engaging in R&D, by results of new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

(3) Issues in doing R&D

Finally for the present item, we look at the issues involved with doing R&D. Fig. 2-3-16 shows that the issue of “Lack the technology needed and personnel with know-how” received the greatest number of responses regardless of success or failure at new business development, with 64.0% of enterprises that succeeded giving that as a response.

Among businesses that were unsuccessful 35.4% cited the cost-related issue of “R&D calls for tremendous expenditures,” 29.4% responded with the practical

use-related issue of “Cannot link results achieved through R&D to actual utilization in new products and services,” and 26.5% cited time-related concerns in saying “R&D takes time, does not keep pace with speed of market changes.” These three issues are difficult ones for an SME with the limited supply of management resources that it can use to solve on its own. One measure they can take is to make use of outside management resources such as by partnering with other enterprises or specialist institutions or by outsourcing. In recent years, open innovation¹⁴⁾ has been receiving heavy emphasis¹⁵⁾ as a means of using

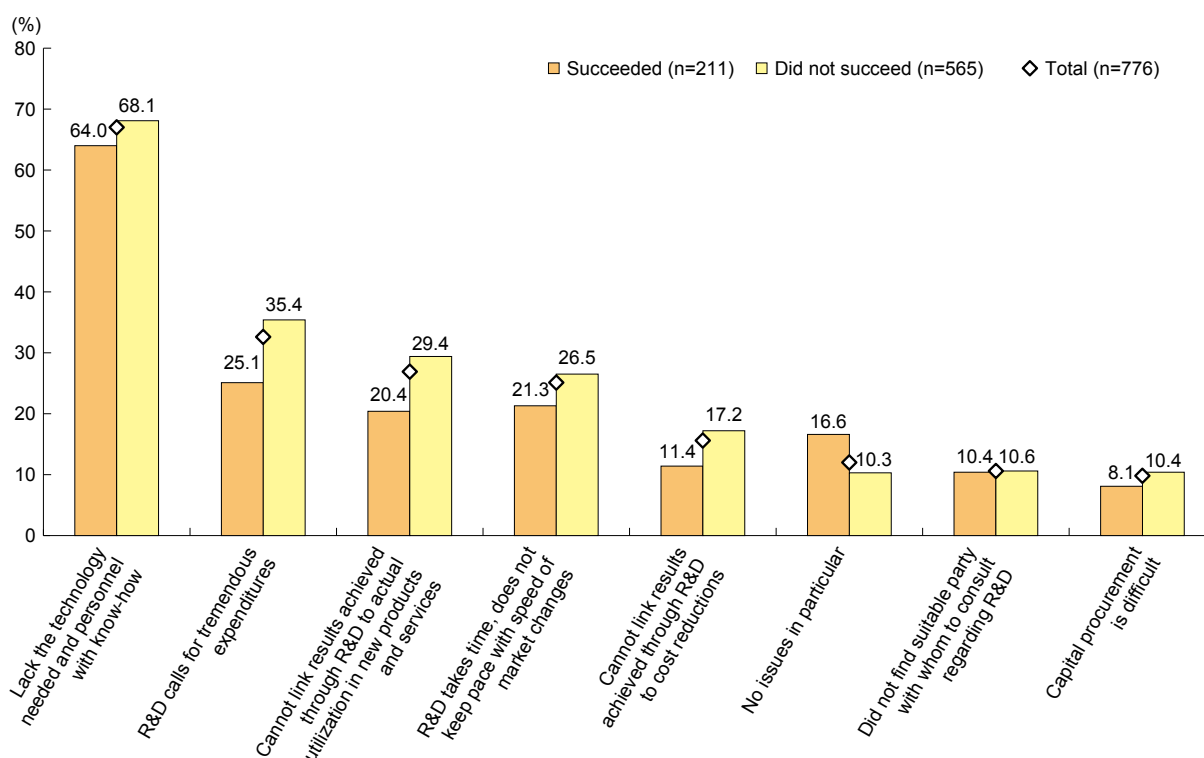
14) Open innovation refers to activity aimed at innovatively creating new value by organically fusing technologies and ideas in an enterprise with those outside it.

15) In 2016, METI released a *White Paper on Open Innovation*. That report argued that it was no longer possible to generate innovation to create new value for clients just through in-house resources and argued that open innovation using resources found throughout the world represented an indispensable strategy for the enterprise.

outside management resources in R&D. It is considered a beneficial approach in terms of pushing forward on R&D even for SMEs. Regarding open innovation, this paper

will analyze its state of usage among SMEs and its effects in the later discussion on the use of outside resources.

Fig. 2-3-16 Issues in R&D, based on results of new business development initiatives



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Column 2-3-2 Strategic core technology advancement and partnership support program

In order to stir the creation of innovation among SMEs that provide the backbone for regional economies, the government provides support for (1) R&D, prototype development, and market-opening initiatives (through the Strategic Core Technology Advancement Program) undertaken by businesses with plans certified under the SME Technological Advancement Law that partner with research institutions such as universities or public test and research institutes; and (2) work done to develop services and the like (through the Partnership Support Program to Improve Competitiveness of Businesses and Services) undertaken by businesses with a certified “cross-field partnership new business development plan” under the SME Management Enhancement Support Act in accordance with the “Guidelines to Improve Productivity at Service Industry SMEs.”

Strategic core technology advancement program

The Program supports R&D, prototype development, and market-opening initiatives undertaken by businesses with plans certified under the SME Technological Advancement Law that partner with research institutions such as universities or public test and research institutes.

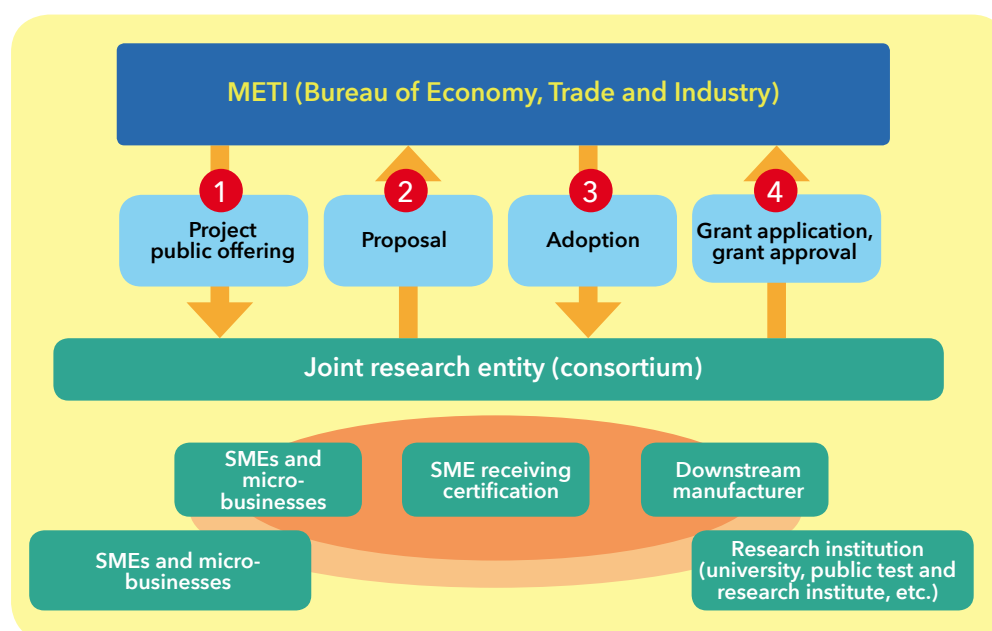
Eligible parties	SMEs engaged in R&D aimed at increasing the sophistication of specific core manufacturing technologies ¹⁶⁾ , collectives that include parties who have been certified by the Economy, Trade, and Industry Minister
Support details	<p>With the goals of strengthening the international competitiveness of the country's manufacturing industry and of creating new business, the government provides integrated support for R&D and market-opening initiatives by SMEs that are conducive to increasing the sophistication of specific core manufacturing technologies (12 technologies, including high-precision processing and three-dimensional molding). Applicants must create a R&D plan (Specific R&D Plan)¹⁷⁾ in accordance with the Guidelines for Advancement of Specific Manufacturing Core Technologies.¹⁸⁾</p> <ul style="list-style-type: none"> • Grant amount: ¥45 million or less for first year per theme Of this, total for first year of ¥15 million or less for universities or public test and research institutes Second year funding equivalent to 2/3 amount delivered in first year, third year maximum of up to 1/2 • Subsidy rate: 2/3 or less for SMEs and micro-businesses • Program period: 2 to 3 years

16) Technologies in the following 12 areas are regarded as “specific core manufacturing technologies” (revised February 9, 2015): (1) design development, (2) information processing, (3) high-precision processing, (4) manufacturing environment, (5) joining and mounting, (6) three-dimensional molding, (7) surface processing, (8) machine control, (9) compounding and neo-functional materials, (10) material manufacturing processes, (11) bio-related, and (12) measures and gauges.

17) The “Specific R&D Plan” is the plan connected to research and development into specific core manufacturing technologies and the use of the results of that R&D.

18) The Guidelines for Advancement of Specific Manufacturing Core Technologies serve and function as guidelines for promoting increased sophistication of the manufacturing technologies of SMEs and micro-businesses with regard to each of the specific core manufacturing technologies. For details, please see the SME Agency website. <<http://www.chusho.meti.go.jp/keiei/sapoin/shishin.html>>

Fig. Column 2-3-2 (1) Eligible parties for strategic core technology advancement program



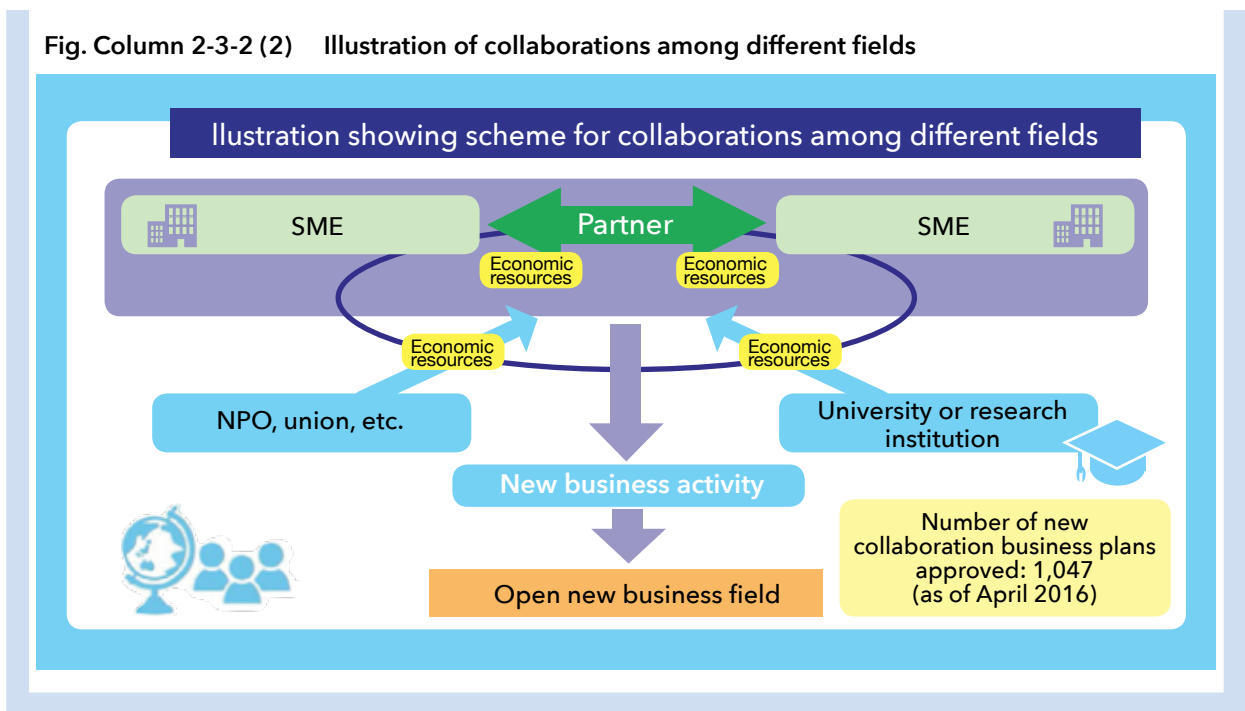
Partnership support program to improve competitiveness of businesses and services

This program supports initiatives related to the development of new service models carried out in collaboration by SMEs from different fields.

Eligible parties	SMEs engaged in developing new service models that satisfy the following conditions. 1) An initiative that has been certified as a “Cross-field partnership new business development plan (new partnership)” ¹⁹⁾ based on the SME Management Enhancement Support Act 2) An initiative that will result in industry-academic-government partnering 3) An initiative in accordance with the “Guidelines to Improve Productivity at Service Industry SMEs”
Support details	Subsidizes the expenses (machine equipment expenses, labor costs, market research costs, etc.) related to the development of a new services model. • Subsidy amount: ¥30 million or less in first year • Subsidy rate: 2/3 or less • Program period: 2 years (Second year subsidized up to a maximum of the amount of the grant decided on for the first year)

19) A “Cross-field Partnership New Business Development Plan (New Partnership)” refers to the plan certification system based on the SME Management Enhancement Support Act. The system requires that the plan aim at launching a new business field by two or more SMEs in different fields partnering by effectively combining their respective “strengths” to develop new goods and services.

Fig. Column 2-3-2 (2) Illustration of collaborations among different fields



Case 2-3-1 Nitto Elechemic Co., Ltd.

A company that has advanced into the area of healthcare using techniques developed in its plating business

Nitto Elechemic Co., Ltd. (employees: 50; capital: ¥16 million), located in Takasaki City in Gunma Prefecture, is a company that applies rust-preventing platings to metal parts. The parts that the company plates are employed in a wide range of applications including automobile engines and brakes, and the shafts of OA equipment and all-in-one printer.

Since the 1990s, the company has predicted that in the future automobile engines would be replaced by electric motors, giving it a sense of crisis regarding the future outlook for its main line of business and urging the necessity of diversifying its business. As the company sought a field in which it could use the technologies that it had developed in the plating business, it came upon healthcare, an area in which future growth was expected. Making use of the boilers, drainage systems and other equipment used in its plating business, the techniques for the measurement of trace metals in wastewater developed in the business, and the knowledge of Masakazu Shigeta, one of the company's directors, who had come to Nitto from a company that provided consultation regarding the establishment of cosmetic brands, in 2004 Nitto established a healthcare department and began manufacturing cosmetics and skincare products. These products come into direct contact with the skin, and quality is therefore very important. Given this, the company applied techniques for the use of minerals that it had developed in the application of metal surface treatments, and studied the effect of minerals on the skin; using its various areas of expertise, Nitto was successful in launching a cosmetics business.

To ensure that its products became entrenched in the market, the company established a diverse range of cosmetic and skincare product brands. This was based both on the necessity of responding to the needs of diverse customers, and the desire to exploit as many sales channels as possible. One example with regard to sales channels is the fact that if limited items do not differ between specialty cosmetics stores and drugstores, they will not handle a company's products. The company therefore diversified its brands in order to bring its products to the market.

In the area of PR for its products, Nitto has made vigorous use of magazine advertisements and the display of products on television shopping channels, and has been successful in increasing its brand recognition. In collaboration with the operators of the Gunma Prefecture mascot "Gunma-chan," the company has also worked to develop products for children. As the company's brand recognition has increased, its sales channels have also expanded. In addition to sales through the Internet, television shopping channels, and retail stores (via wholesalers), the company now also operates a directly managed store.

As a result of these efforts, Nitto's healthcare business has grown to represent 18% of the company's sales. Mr. Shigeta says "I want to foster our healthcare business as the second foundation for our profits after our plating business."



The skincare product manufacturing process



A product showing the Gunma-chan character

Section 3 Factors for success at new business development among SMEs

1. Actual state of marketing activities and issues

(1) Needs to address in marketing activities

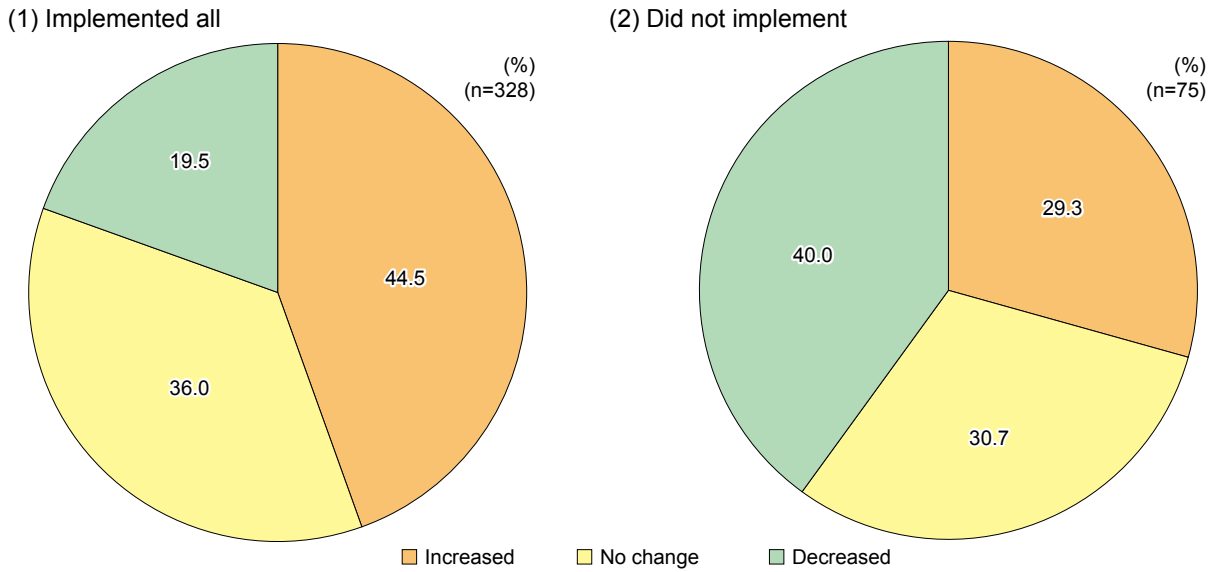
The present section focuses on and analyzes marketing activities as a factor contributing to success in new business development. As seen in Section 2, three issues have been brought up in the development of new business: difficulty of evaluating what businesses make the most of one's own company's strengths, inadequate grasp of market needs, and inadequacies in delivering information about one's own company. That section also showed that a lower proportion of those enterprises who succeeded at entering new markets felt they had issues when it came to these three types of initiative. Accordingly, as a way to consider measures for addressing these three issues, the present section will treat (1) grasping one's own company's strengths, (2) grasping market needs, and (3) devising and carrying out an information strategy for implementing public relations (PR) activities²⁰⁾ for one's own products and services as the components

of marketing activities. Additionally, in terms of the operation of a business evaluating and validating the marketing activities undertaken, searching out the causes for success or failure, and connecting the results to improvements will become initiatives important to future growth. Accordingly, in the present section we will add to the three foregoing marketing activities an item (4) evaluation and validation of marketing activities, and when "marketing activities" are brought up in this section it will refer to these four activities.

We begin by ascertaining the importance of marketing activities. Fig. 2-3-17 compares the ordinary profit ratio of those enterprises that are implementing all four kinds of marketing activities with those of enterprises that are not implementing any. As the figure shows, the ordinary profit ratio for those companies implementing all the activities tend to be getting higher.

20) "PR activities" refer to those activities to collect and deliver information related one's own company and its products and services to stakeholders such as clients and the marketplace. These are not limited to simple advertising activities, but rather encompass all strategic activities whose purpose is to build a favorable relationship with stakeholders. These include grasping latent demand such as through evaluations of one's own company and collecting information on market needs, delivering information via websites, and making effective of use media of all types.

Fig. 2-3-17 Trends in ordinary profit ratio, by marketing activities use



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

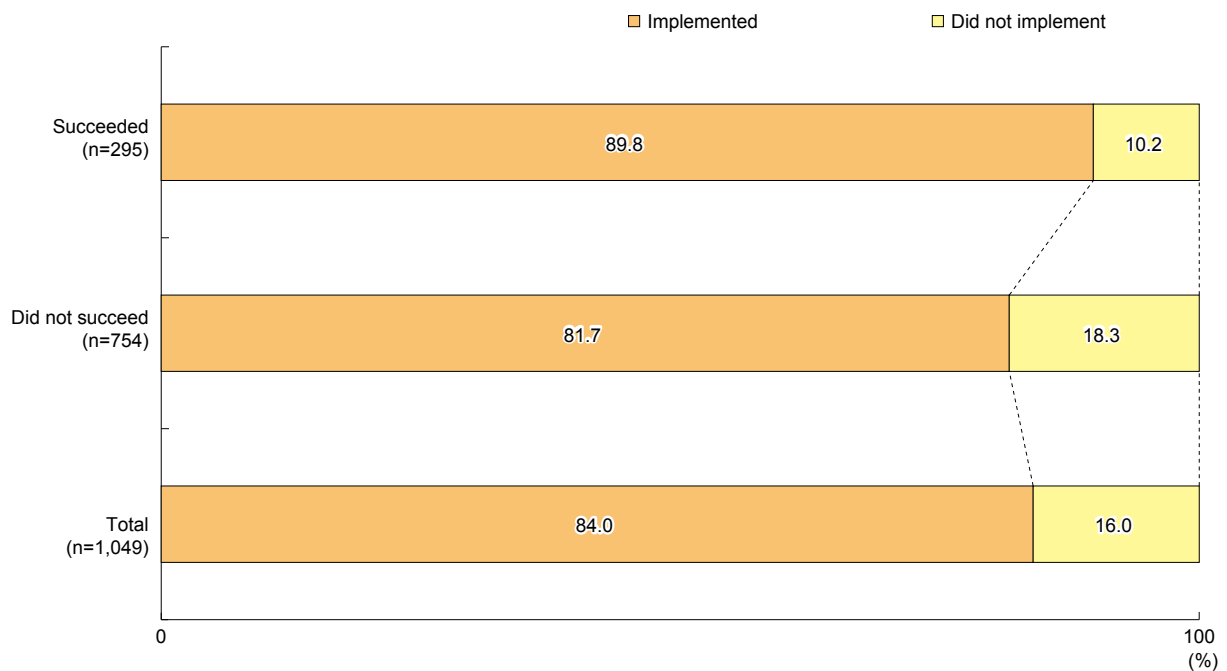
- Notes:
1. Only enterprises implemented the new business development initiatives are added up.
 2. Here marketing activities mean “grasping one’s own company’s strengths,” “grasping market needs,” “information strategy,” and “validation of marketing activities.”

Below we analyze relationship between these four kinds of activity and success or failure in new business development.

(2) Initiatives and issues with grasping and making use of own company’s strengths

First we look at initiatives by SMEs aimed at grasping

their own strengths. Fig. 2-3-18 shows the state of initiatives toward grasping such based on the results of new business development efforts. It indicates that enterprise that have succeeded in the development of new business tend to have implemented initiatives to grasp their own strengths.

Fig. 2-3-18 State of initiatives to grasp own company's strengths, by results of new business development

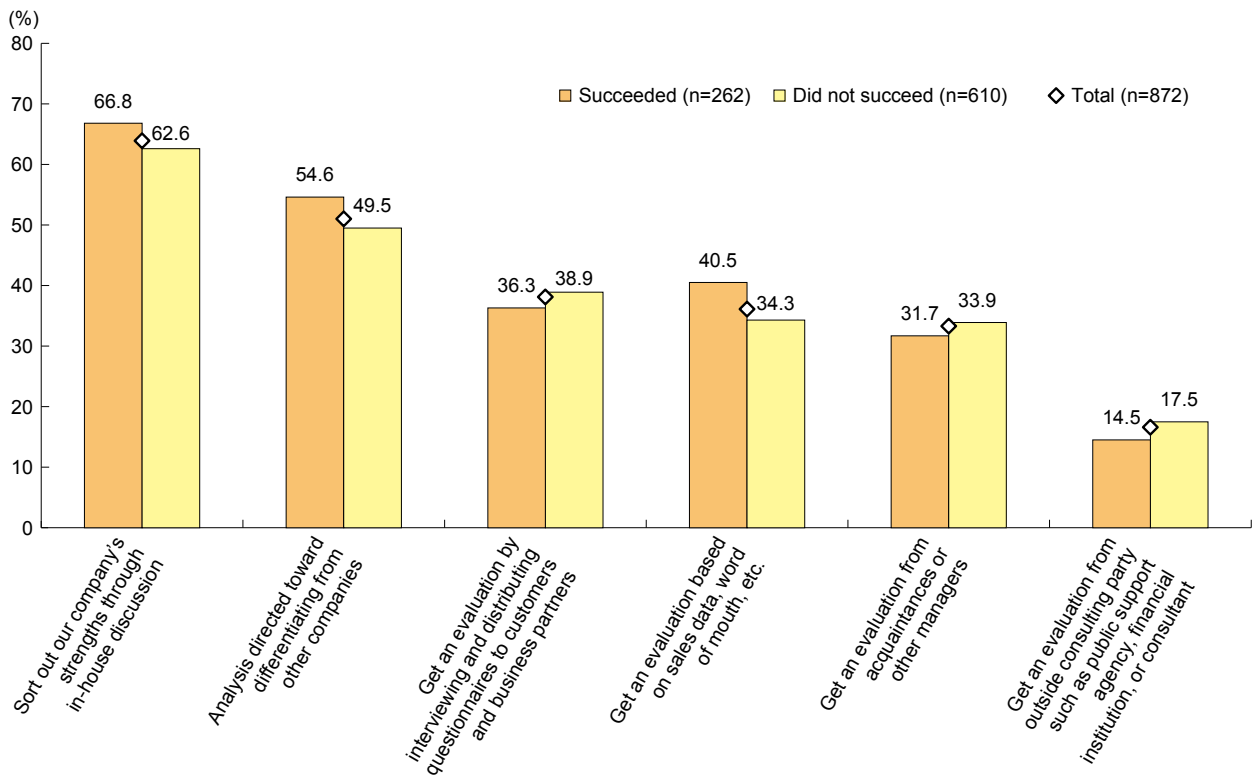
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: "Did not succeeded" aggregates the total of those who answered, "failed since the target was not achieved," "cannot say either succeeded or not," and "cannot decided yet" as a comprehensive evaluation to the new business development initiatives.

Next we examine the methods enterprises are using to grasp their own strengths (see Fig. 2-3-19). The figure shows that "Sort out our company's strengths through in-house discussion" had the most responses overall, with 66.8% of enterprises that succeeded in new business development choosing it along with 62.6% of enterprises that were not successful. Next, a look at the differences between these two types of enterprises shows that 54.6% of successful enterprises responded "Analysis directed toward differentiating from other companies" as opposed

to 49.5% of those that did not succeed. Also, 40.5% of successful enterprises selected "Get an evaluation based on sales data, word of mouth, etc." as opposed to 34.3% unsuccessful ones. Successful enterprises tended to not limit themselves to analyzing only conditions in-house but also examining their differences with competitors. They also tended to grasp their own strengths through quantitative analyses such as evaluations of their own company done from the outside.

Fig. 2-3-19 Methods companies use to grasp own strengths, by results of new business development (Track record of grasping such strengths)



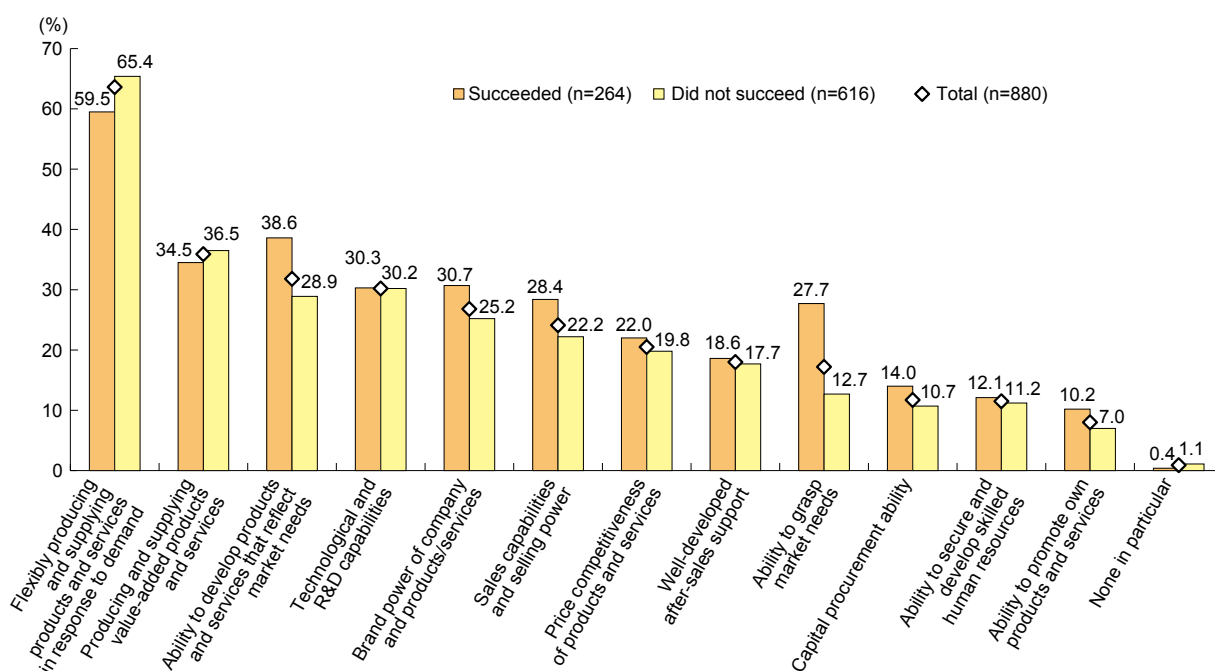
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. "Did not succeeded" aggregates the total of those who answered, "failed since the target was not achieved," "cannot say either succeeded or not," and "cannot decided yet" as a comprehensive evaluation to the new business development initiatives.

Next, let us consider the specific details that comprise an enterprise's strengths (see Fig. 2-3-20). The figure shows that many enterprises regardless of the results of their new business development initiatives saw their strength as "Flexibly producing and supplying products and services in response to demand." On the other hand, differences emerged among successful and unsuccessful

enterprises in this area over their strengths laying in "Ability to grasp market needs" and "Ability to develop products and services that reflect market needs." This suggests that carrying out initiatives that make it possible to grasp market needs accurately has an influence on the success of new business development.

Fig. 2-3-20 Own company's strengths, by results of new business development (Track record of grasping such strengths)



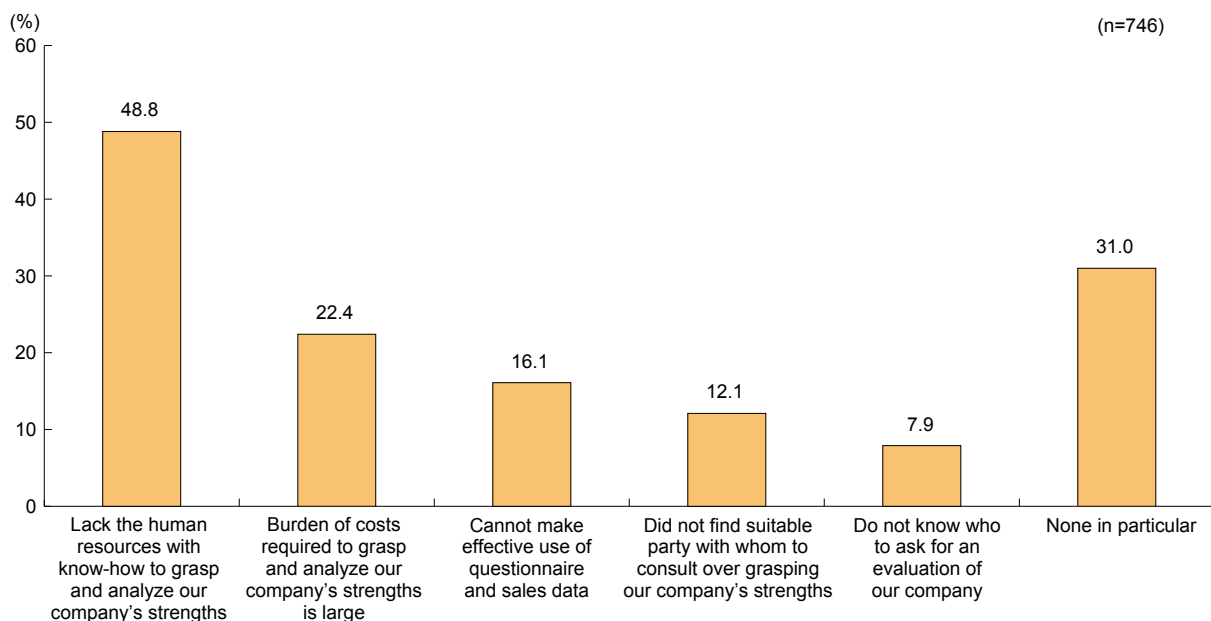
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Next, Fig. 2-3-21 presents the issues related to a company grasping its own strengths. The figure shows that enterprises that did not succeed with new business development faced a human resources issue as indicated by the “Lack the human resources with know-how to

grasp and analyze our company's strengths” response and a cost issue as indicated by the “Burden of costs required to grasp and analyze our company's strengths is large” response.

Fig. 2-3-21 Issues in grasping own company’s strengths for enterprises that did not succeed in new business development



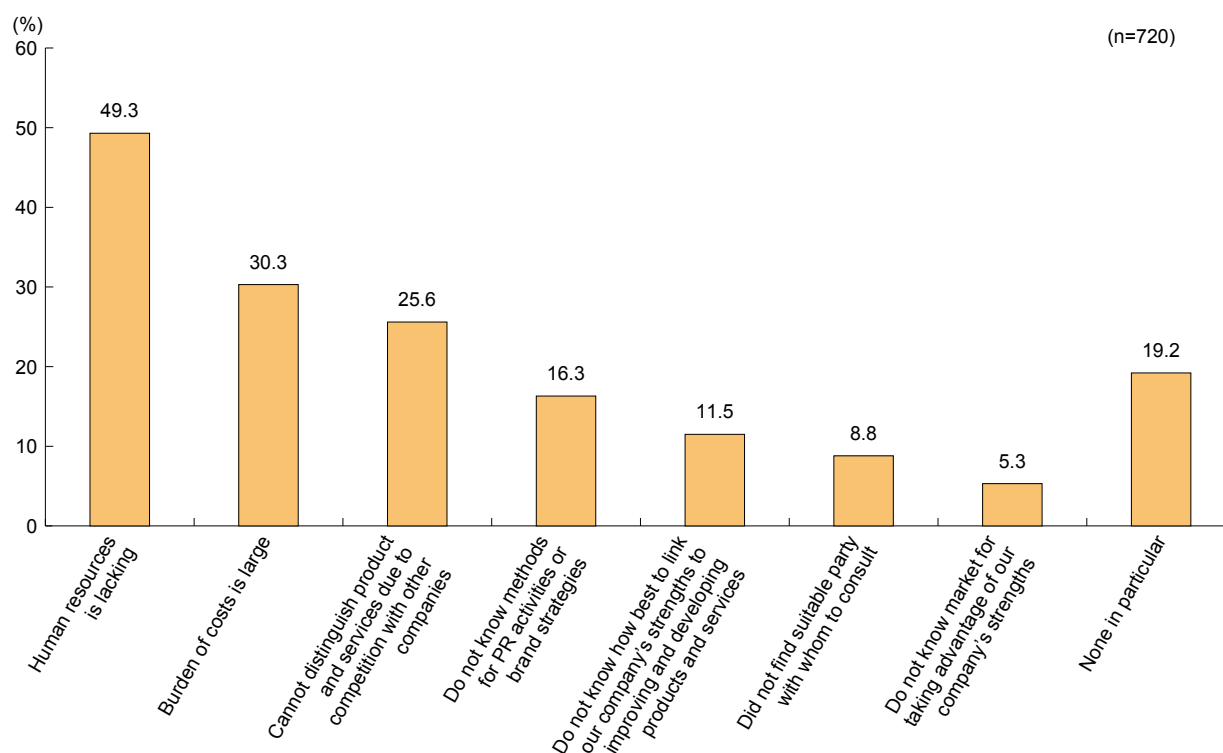
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Furthermore, a glance at Fig. 2-3-22 to help grasp the issues that SMEs face in making use of their own strengths reveals that nearly 50% of those enterprises that did not succeed at new business development faced issues

in terms of human resources. It also shows that these enterprises sensed similar issues when grasping their own strengths with regard to costs and differentiating themselves from other companies.

Fig. 2-3-22 Issues in making use of own company's strengths for enterprises that did not succeed in new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

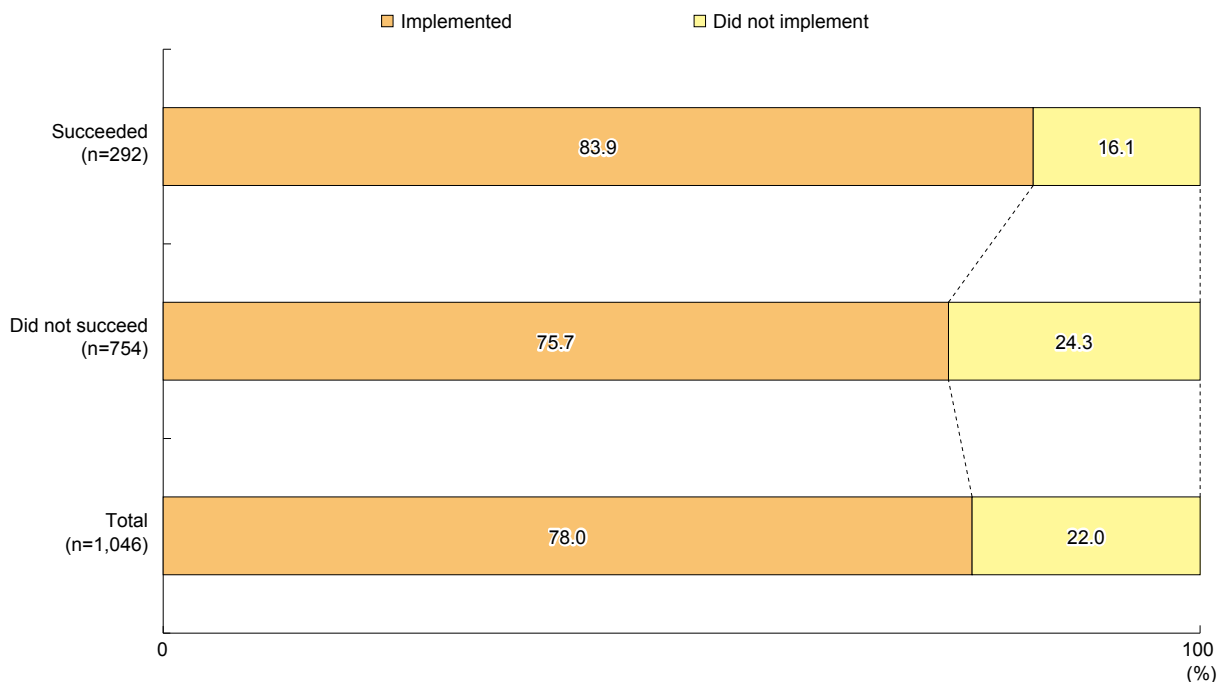
Note: Total does not always equal 100% as multiple responses were possible.

(3) Initiatives and issues in grasping market needs

Next, we analyze the initiatives and issues in grasping market needs. First, a survey of the state of initiatives aimed at grasping market needs broken down by the results of new business development efforts shows that

while the percentages of both successful and unsuccessful enterprises that were implementing such were high they were particularly so for those enterprises that had succeeded in developing new business. (see Fig. 2-3-23).

Fig. 2-3-23 State of initiatives to grasp market needs, by results of new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

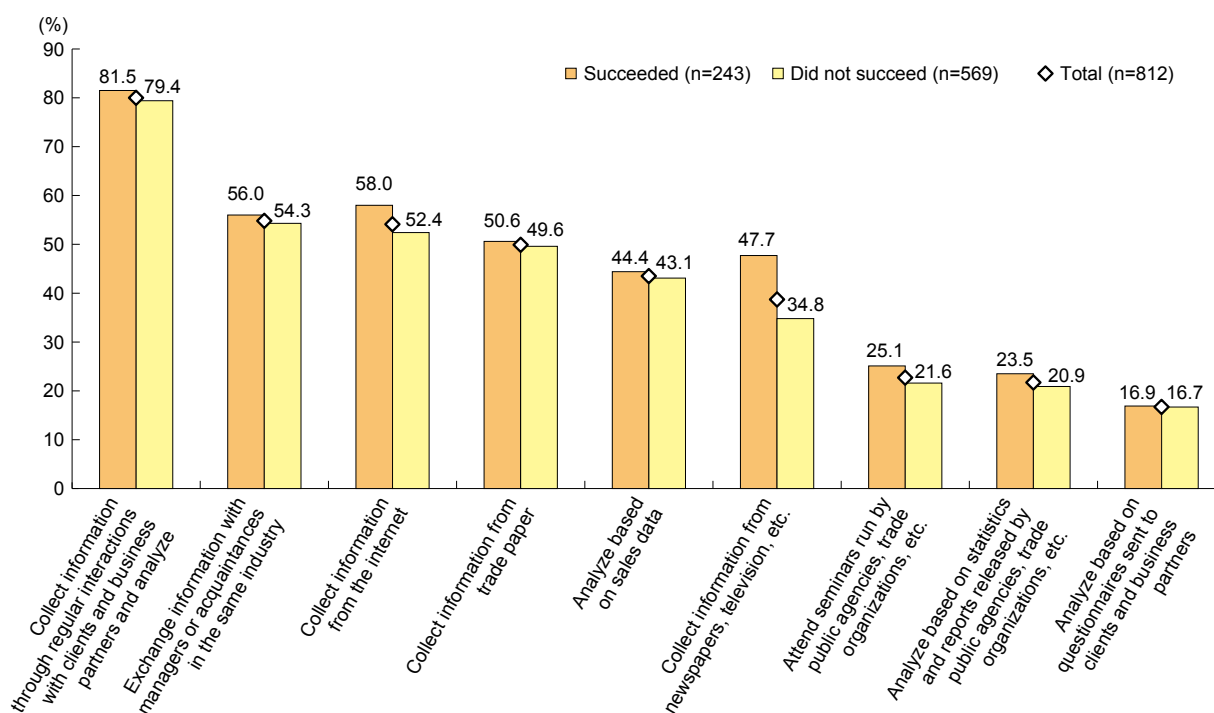
Note: “Did not succeeded” aggregates the total of those who answered, “failed since the target was not achieved,” “cannot say either succeeded or not,” and “cannot decided yet” as a comprehensive evaluation to the new business development initiatives.

As mentioned in the previous Item, there was a tendency for enterprises that successfully developed new business to see their ability to grasp market needs as one of their strengths. Accordingly, let us now look at the methods that such enterprises use for grasping those needs. A glance at Fig. 2-3-24 shows that the percentage of “Collect information through regular interactions with clients and business partners and analyze” responses was high regardless of whether an enterprise successfully developed new business or not. For SMEs, these regular

interactions can be inferred to be an indispensable information gathering source for grasping market needs.

Next, when analyzing for initiatives where differences in responses arise in terms of success or failure at new business development, while one could point to such initiatives as “Collect information from the internet” or “Collect information from newspapers, television, etc.” in general the differences in initiatives between successful and unsuccessful enterprises were rather small.

Fig. 2-3-24 Methods for grasping market needs, by results of new business development (Track record of grasping such needs)



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Let us now ascertain whether or not an enterprise had some organization in-house in charge of grasping market needs. A glance at Fig. 2-3-25 with respect to internal structures for grasping market needs shows that enterprises regardless of the results of new business development efforts tend to have “in-house sales division and staff” for grasping market needs. On the other hand, 51.7% of successful enterprises said they had “in-house corporate development division and staff” as opposed

to 39.2% of those enterprises that were not successful in the development of new business. It may be inferred that the “in-house corporate development division and staff” who decide on the direction a company’s business operation will take contribute to grasping market needs, and this makes it possible to bring in new products and services conforming to those needs on to the market and is connected to success in developing new business.

Fig. 2-3-25 Division to engage in grasping market needs, by results of new business development



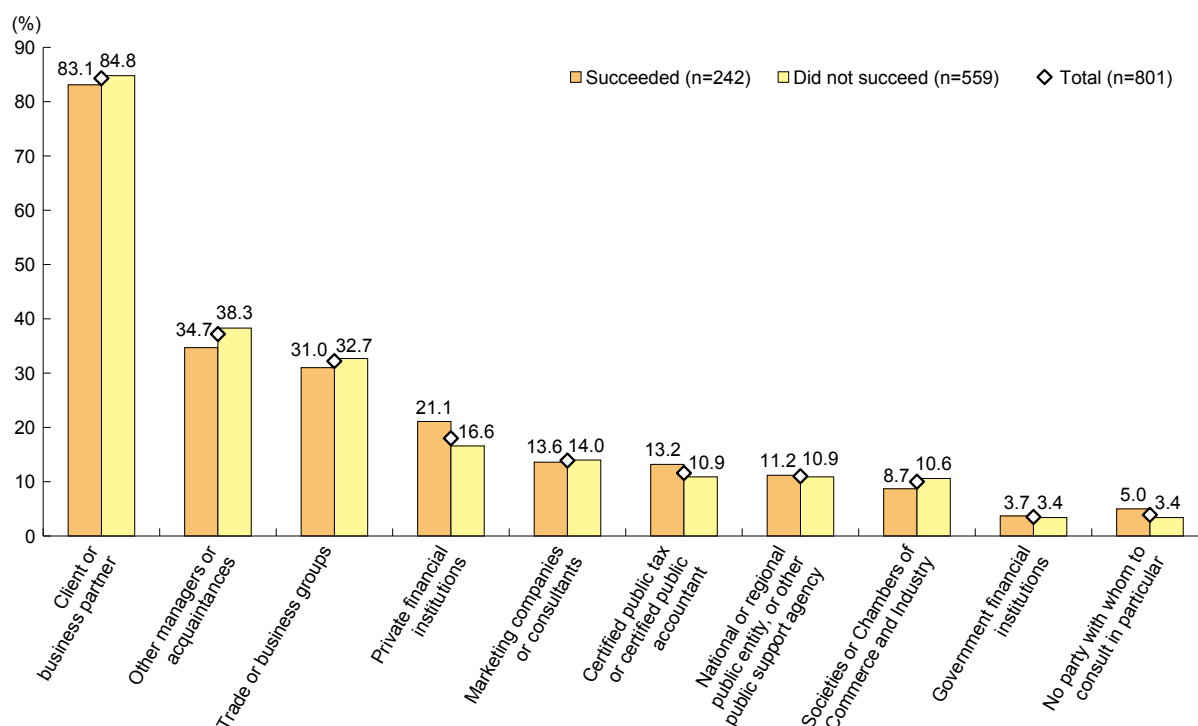
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Only enterprises implemented the “grasping market needs” initiatives are added up.

Fig. 2-3-25 shone a light on in-house organizations for grasping market needs. However, given that one imagines cases in which an SME with its limited management resources would be unable to build an appropriate in-house organization, being able to propose consultations with outside parties can also serve as an important means for grasping those needs. Fig. 2-3-26 shows that a large proportion of enterprises regardless of success or failure

in developing new business consult with clients and business partners. They are followed as parties with whom to consult by other managers and acquaintances as well as trade and business groups. Furthermore, enterprises that succeeded in new business development also tend to consult with private financial institutions in addition to the foregoing sources of information.

Fig. 2-3-26 Primary consulting parties, by results of new business development (Track record of grasping market needs)



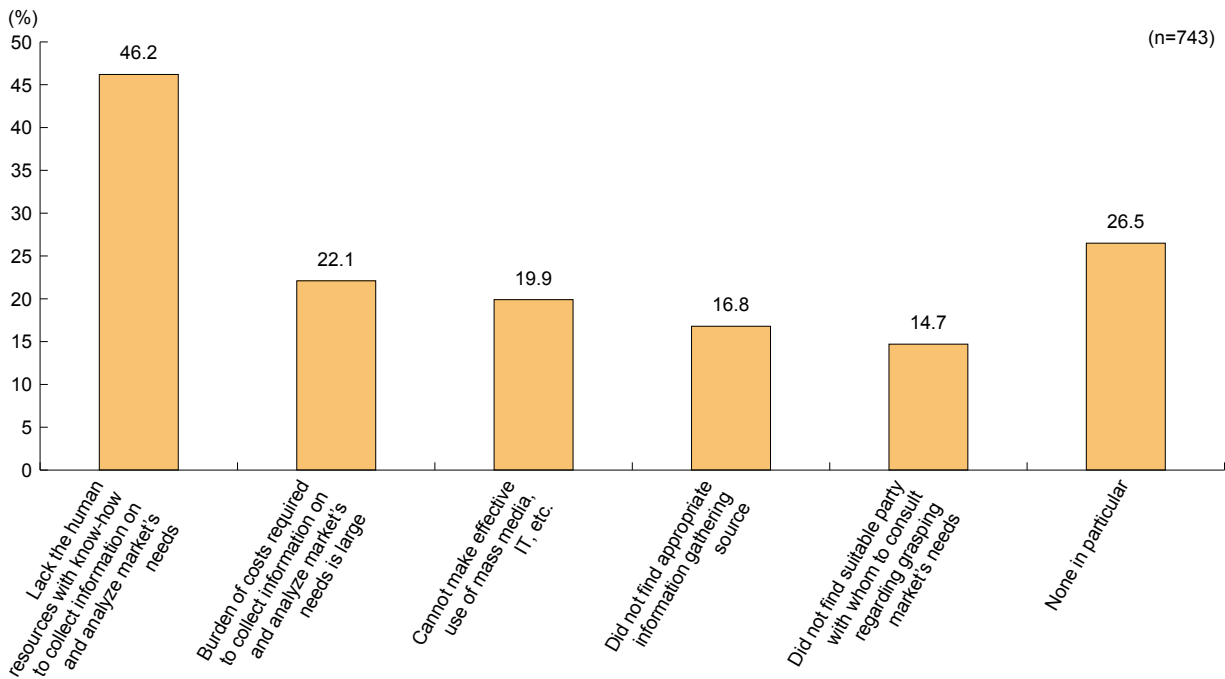
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Finally, we look at the issues involved with grasping market needs (see Fig. 2-3-27). The figure shows that enterprises that did not succeed with new business development faced a human resources issue as indicated by the 46.2% who responded “Lack the human resources

with know-how to collect information on and analyze market’s needs” and a cost issue as indicated by the 22.1% who responded “Burden of costs required to collect information on and analyze market’s needs is large.”

Fig. 2-3-27 Issues in grasping market needs for enterprises that did not succeed in new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

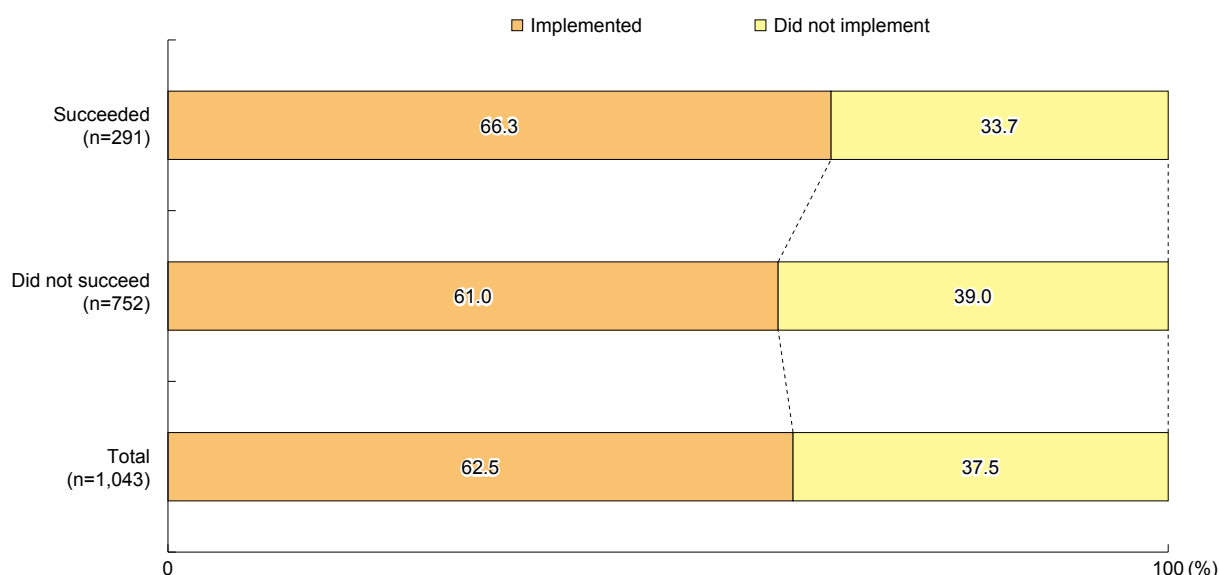
(4) Initiatives and issues in devising and carrying out an information strategy

Next, we analyze initiatives and issues toward devising and carrying out an information strategy as a way to do PR for a company's products and services—the third of the four kinds of marketing activities.

First, we look at the results of efforts to develop new business with respect to the state of initiatives

toward devising and carrying out an information strategy. Fig. 2-3-28 shows that there is a tendency for those enterprises that have succeeded at new business development to work on devising and carrying out such strategies.

Fig. 2-3-28 Status of implementation regarding devising and carrying out an information strategy, by results of new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

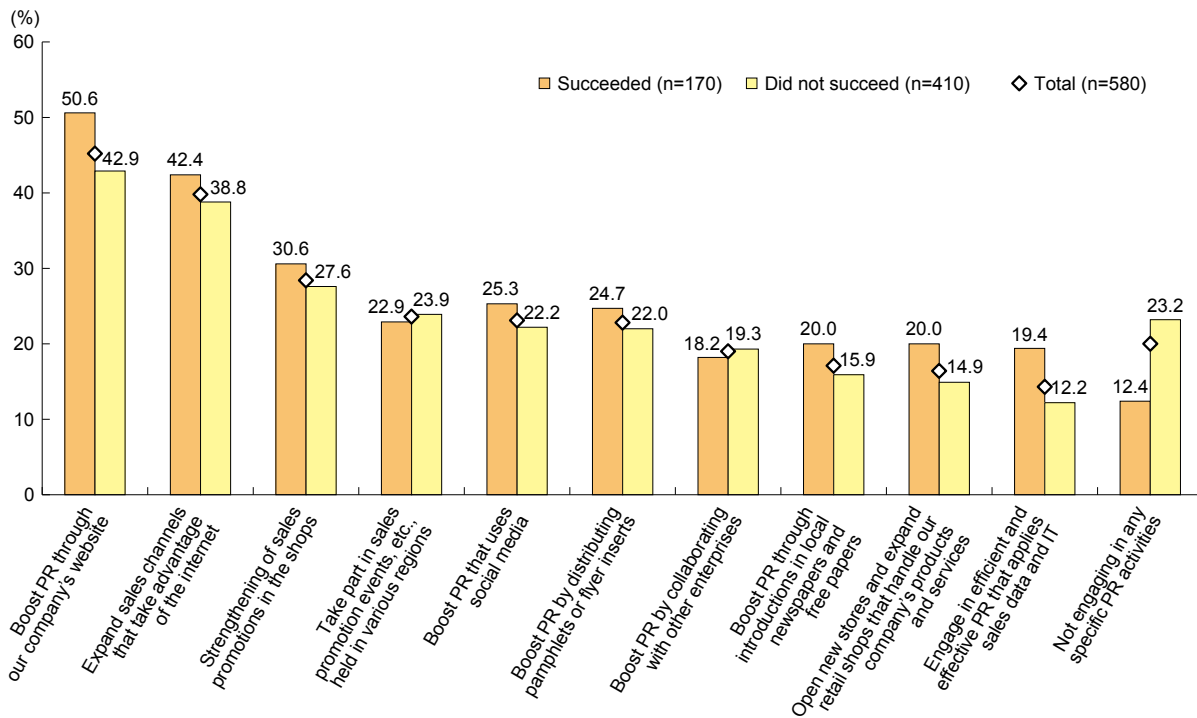
Note: “Did not succeeded” aggregates the total of those who answered, “failed since the target was not achieved,” “cannot say either succeeded or not,” and “cannot decided yet” as a comprehensive evaluation to the new business development initiatives.

Next, we look at specific information strategy initiatives. Fig. 2-3-29 shows a breakdown based on the success or failure of new business development with respect to the state of PR activities for a company’s products and services directed toward consumers. It indicates that among successful enterprises, “Boost PR through our company’s website” generated the largest proportion of responses at 50.6%, followed by “Expand sales channels that take advantage of the internet” at

42.4% and “Strengthening sales promotions in the shops” at 30.6%.

For enterprises that were not successful, “Boost PR through our company’s website” drew the largest percentage of responses at 42.9%, “Expand sales channels that take advantage of the internet” drew 38.8%, “Strengthen sales promotions in the shops” scored 27.6%, and “Not engaging in any specific PR activities” drew 23.2%.

Fig. 2-3-29 PR activities aimed at average consumers, by results of new business development (Information strategy devised and carried out)



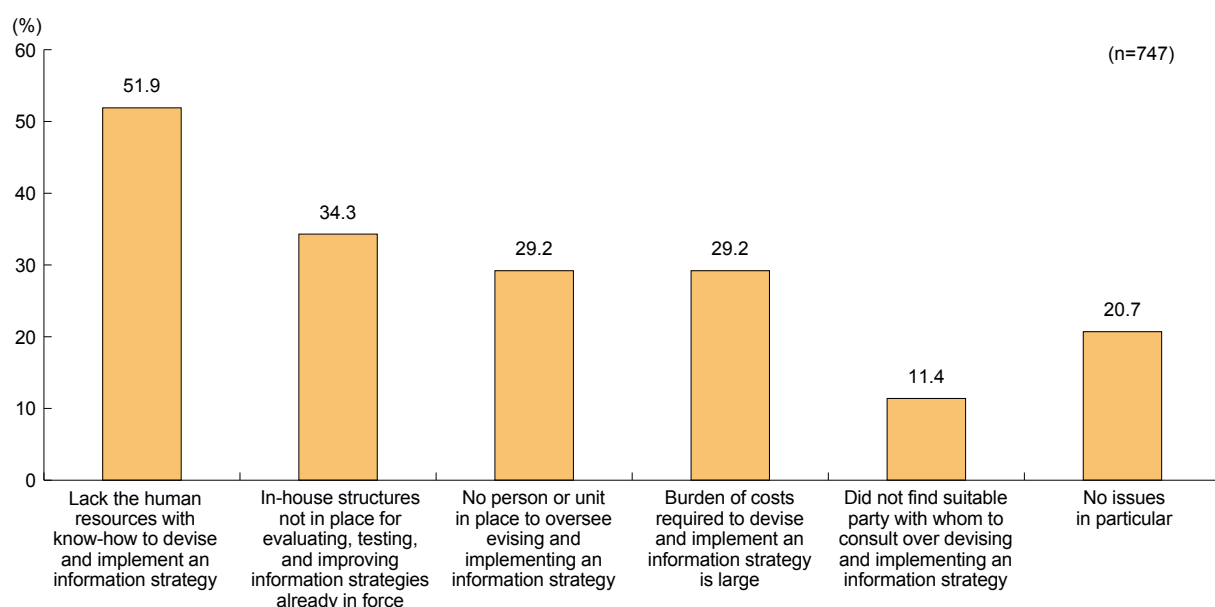
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Finally, let us consider the issues involved with devising and carrying out an information strategy. Fig. 2-3-30 shows for enterprises that did not successfully develop new business the human resources-related issue of “Lack the human resources with know-how to devise and implement an information strategy” drew the largest response at 51.9%, followed by initiatives related to evaluation and validation as seen in the

“In-house structures not in place for evaluating, testing, and improving information strategies already in force” response at 34.3%. Measures for resolving issues related to human resources will be taken up in the next Item regarding the use of outside resources. In the meantime, here we next take up in more detail the evaluation and validation of marketing activities.

Fig. 2-3-30 Issues related to PR activities at companies that did not succeed in new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

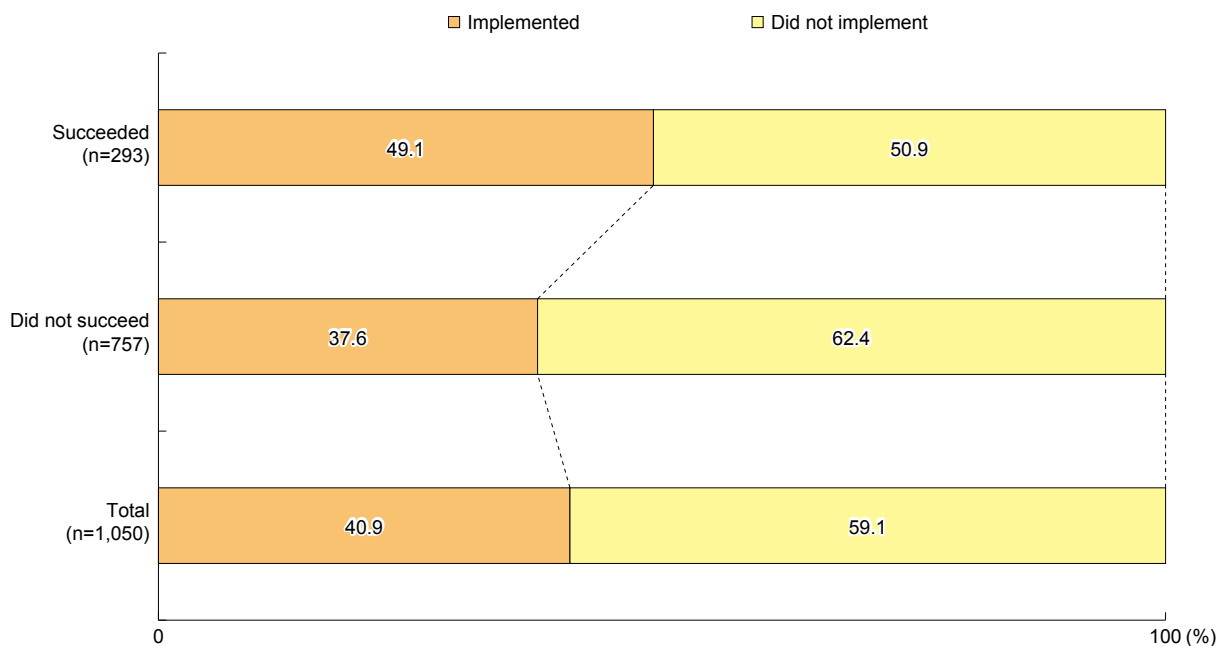
(5) Evaluation and validation of marketing activities

As mentioned at the outset of Item 3, it is crucial that an enterprise evaluate and validate the effect of the initiatives it undertakes as a part of its business activities, elucidate the factors behind successes and the reasons for failures, and apply those findings to its next business activity. With this awareness in mind, in the final part of this section we will look at the status of marketing activities being

evaluated and validated and the issues involved with doing so.

First, with regard to such evaluation and validation initiatives taking place, an analysis based on success or failure in the development of new business shows that nearly half of successful enterprises carried out such initiatives as opposed to around 40% of unsuccessful ones (Fig. 2-3-31).

Fig. 2-3-31 State of initiatives to evaluate and validate marketing activities, by results of new business development



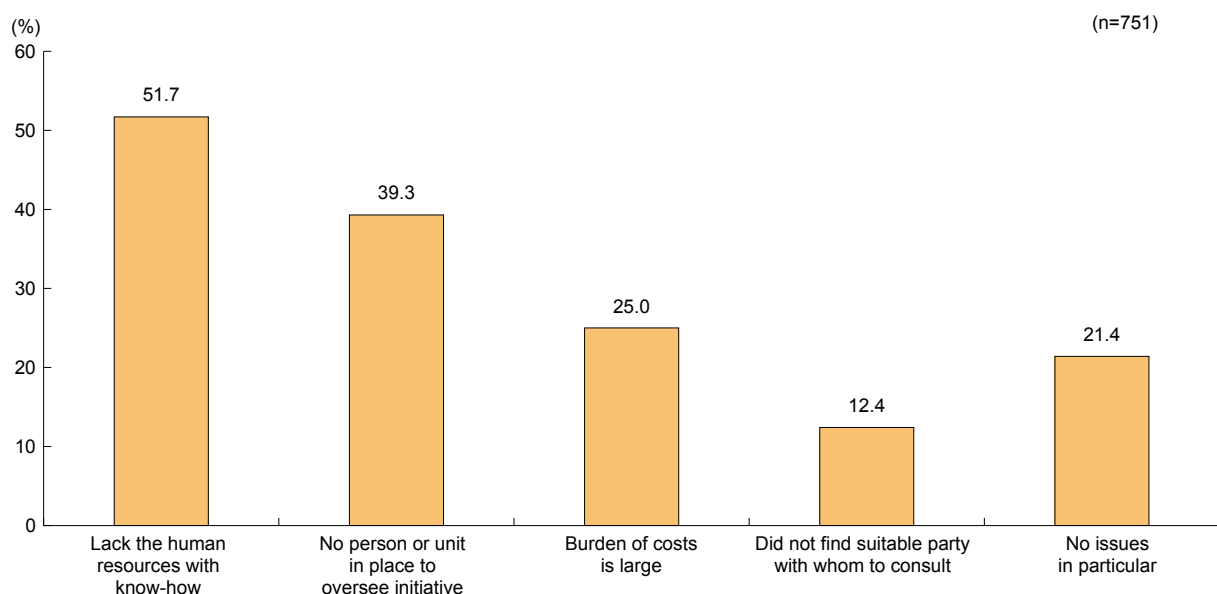
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: “Did not succeeded” aggregates the total of those who answered, “failed since the target was not achieved,” “cannot say either succeeded or not,” and “cannot decided yet” as a comprehensive evaluation to the new business development initiatives.

Next, we look at issues related to evaluating and validation marketing activities (see Fig. 2-3-32). The figure shows that among enterprises unsuccessful in the development of new business human resources-related

issues were most frequently cited, with 51.7% responding “Lack human resources with the know-how” and 39.3% saying “No person or unit in place to oversee initiative.”

Fig. 2-3-32 Issues in evaluating and validating marketing among enterprises that did not succeed in new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

To this point, we have taken up the four marketing activities and ascertained effects those initiatives have on new business development and their importance. It is believed that it is important for these four kinds of activities to be implemented together in an integrated fashion rather than doing only one or another in isolation. This may be ascertained with Fig. 2-3-33.

Fig. 2-3-33 shows the effects achieved through new business development as seen through state of engaging in marketing. Here, we now divide up the status of marketing being carried out into five categories: (1) enterprise implementing all four kinds of marketing activities, (2) enterprise carrying out initiatives aimed at grasping its own strengths and market needs along PR-related initiatives, (3) enterprise implementing initiatives aimed at grasping its own strengths and market needs, (4) enterprising implementing only initiatives aimed at grasping its own strengths, and (5) enterprise not implementing any type of initiative.

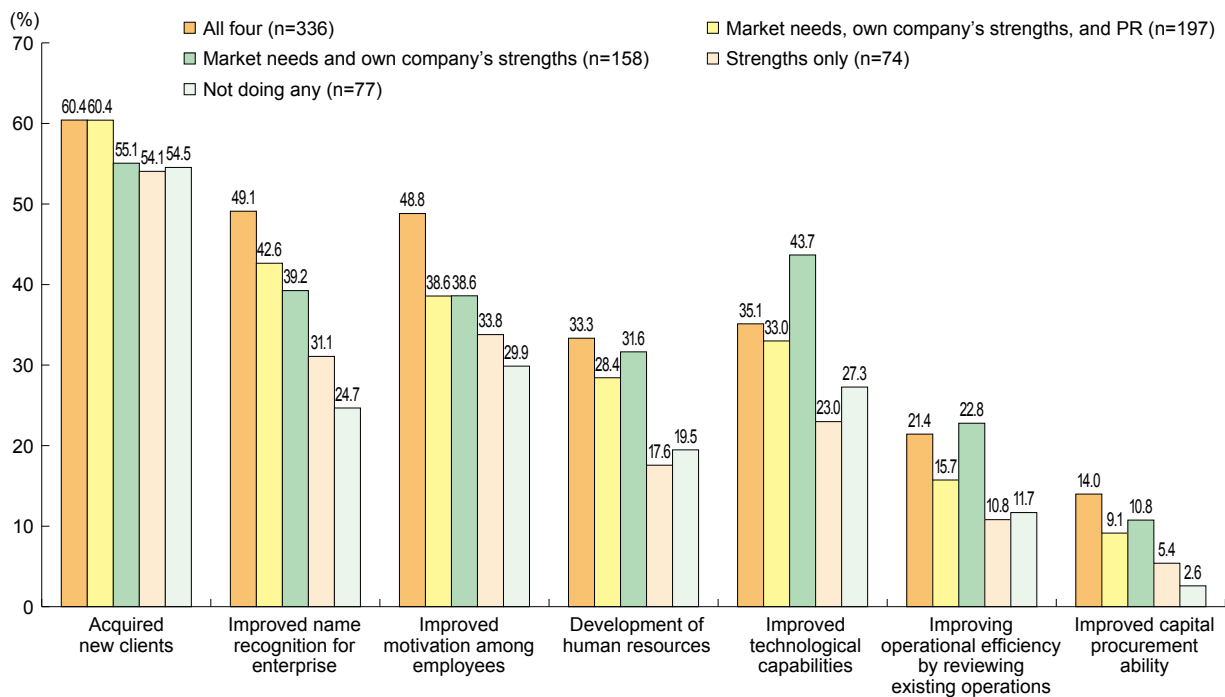
The figure shows generally speaking that there is a tendency to see effects on new business development the greater the degree to which marketing activities are being implemented. For example, 55% of enterprises in categories (3) through (5) said that they “Acquired new clients,” while in contrast the figure stood at 60% for enterprises in categories (1) and (2). In particular, with “Acquired new clients” we see that implementing an information strategy had favorable effects. Furthermore, when it comes to “Improved name recognition for enterprise” and “Improved motivation among employees” it is apparent that the proportion of enterprises who sensed an effect rose in reverse order of the categories from (5) to (1).

In the present Item, we have taken up the four kinds of initiatives that comprise marketing activities and seen the relationship they have to success or failure in the development of new business. We pointed out that generally speaking any one of these activities will

contribute to success in new business development, but it was also ascertained that aiming to implement all four kinds of initiative in an integrated fashion rather than only one or another in isolation tends to lead to such success and to improvements in an enterprise's performance. Our findings also spoke to the fact that whichever initiative

is undertaken enterprises face a severe issue in the lack of human resources. With regard to this issue, under the next Item we will analyze the actual state of usage of outside resources at SMEs and give thought to measures for solving this issue.

Fig. 2-3-33 Relationship between doing marketing and effects of new business



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

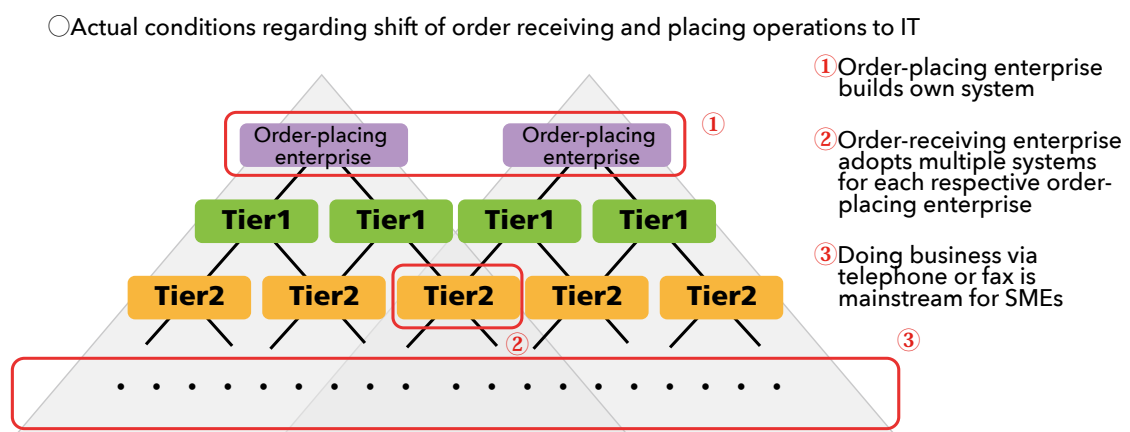
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Only qualitative effects in new business development are added up.

Column 2-3-3 Model project for data coordination transcending industry barriers

When it comes to coordinating data among enterprises that includes the work of receiving and placing orders, regardless of whether they do so by exchanging faxes and phone calls or—even if the process has been moved to data systems—they do so by building multiple independent data systems, the following issues will arise due to the absence of data coordination systems that transcend barriers in a given industry.

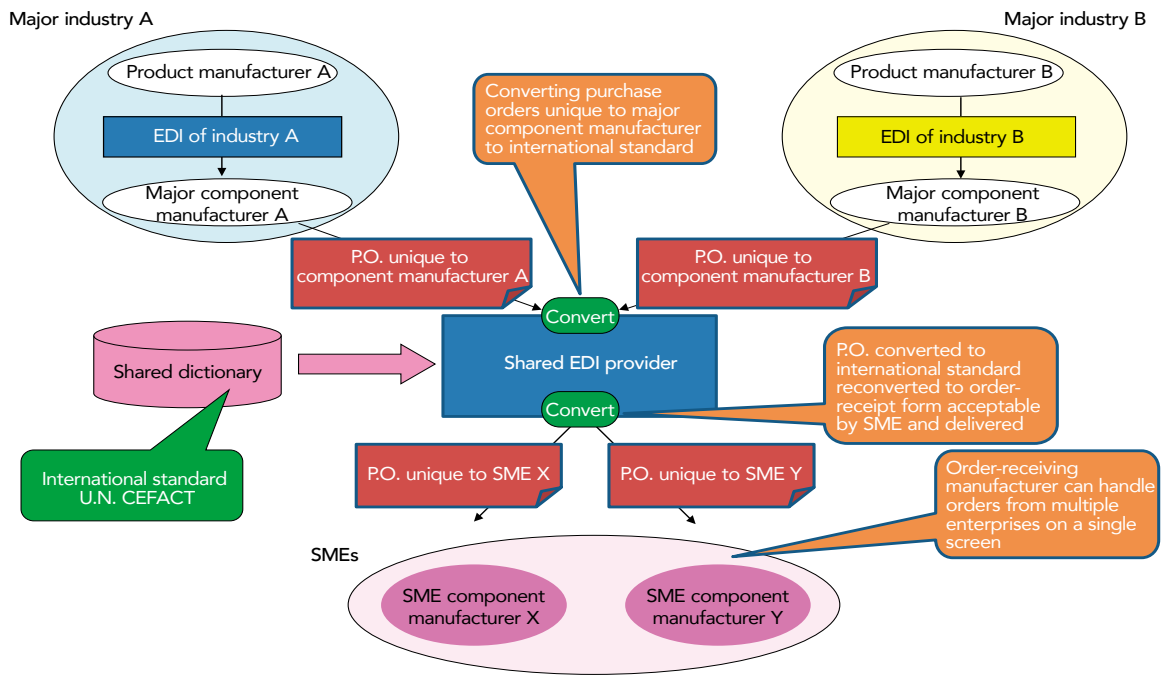
- (1) Problem of time and effort involved given need to use multiple screens (multiple systems) owing to systems being different at business partner site.
- (2) Problem of needing new system investments to deal with changes in transaction type.
- (3) Problem as a result of (1) and (2) of past ordering information being scattered, data not being collected, and an inability to make use of the “big data” concerned for management purposes owing to the need in, for example, order-related tasks to create manual links among information about production management systems, fund transfers to bank account, and ordering information owing to inability to coordinate with other systems.

Fig. Column 2-3-3 (1) Problems arising from absence of data coordination systems



It is anticipated that solving these sorts of problems will boost SME productivity to a considerable degree. The Committee on Data Coordination Transcending Industry Barriers was created with the objective of setting up data coordination systems that transcend barriers within an industry including in between ordering operations between enterprises and boosting productivity further at SMEs. The Committee has also implemented a model project to survey and test system coordination in order to confirm that a new service model can be created with data coordination systems at its foundation that transcend those barriers. The details are presented at the Committee page of IT Coordinators Association website <<https://www.itc.or.jp/datarenkei/>>.

Fig. Column 2-3-3 (2) Data coordination system example



Case 2-3-2 Tokaibane Mfg. Co., Ltd.

A company that has realized high profitability by enhancing its response to customers using IT and reflecting added value in its prices

Tokaibane Mfg. Co., Ltd. (employees: 86; capital: ¥96.44 million), located in Osaka City, Osaka Prefecture, designs, manufactures, and markets metal springs. The company produces springs to order and accepts single-item orders. Its products are used in a wide variety of applications, from prototype auto parts to springs for use in cigarette lighters.

Because a business model based on the acceptance of orders for small lots of springs that other makers cannot manufacture necessarily means that prices will not be low compared to products that can be mass produced, Tokaibane often receives requests from the manufacturers that make up its customer base to reduce its prices. As a result, how to maintain prices that reflect the value it adds has been a significant issue for the company. The company's President Yoshiki Watanabe has therefore worked to build a system for cultivating the technical abilities of his employees as spring craftspeople, and to improve the company's response to customers through the use of IT.

In order to maintain Tokaibane's business model, it is essential for the company to be able to manufacture any type of spring that a customer requests, and in order to do so, it is necessary to constantly improve the technical skills of the company's spring craftspeople. Mr. Watanabe believes that the most important thing in fostering a craftsman is that the individual concerned feels that they are developing. Because of this, in addition to keeping detailed records of the level of development of each employee, he also personally interviews each employee and boosts their motivation, for example by actively evaluating the points in which they are developing as craftspeople.

Because Tokaibane's products are in many cases used in specialist applications, the orders it receives are irregular and for small lots, and short delivery times are often demanded. Previously, when an order came in it was necessary to search through the company's office cabinets for past order forms and specifications sheets, and to estimate a delivery period on this basis. Because of this, it took time for the company to respond to customers. Tokaibane has therefore created a database of past order data, enabling it to rapidly grasp what customers want from their past transaction history. In addition to this, the company is also using IT in cooperation with its production facilities to realize automation, enabling it to rapidly respond to its customers with accurate delivery dates. These efforts have enabled the company to enhance its ability to respond to orders, and it has steadily won the confidence of its customers. Because the company responds rapidly and accurately to orders for springs that other companies cannot manufacture, and realizes a 99.9% rate of on-time delivery, Tokaibane is able to sell its products at the prices it requests.

In addition, at the beginning of the 2000s, following a suggestion from a core systems vendor, the company was introduced to an outside consultant and received advice regarding the renewal of its website. Its aim was to create a website filled with spring-related information, which would be of assistance to anyone experiencing spring-related difficulties. The company freely publishes its own technical data, making available information that has previously been difficult to obtain. As a result, the number of visitors to Tokaibane's website has dramatically increased, and it is receiving many new orders from companies and individuals who had wanted to order single springs or small lots of springs, but did not know where to go to do so.

Looking towards future growth, the company also has its eye on the global market. Mr. Watanabe says, "Our business model - accepting orders for any type of spring, no matter how small the lot - is rare worldwide. We have worked to create an English version of our website, and orders from overseas are increasing."



One of Tokaibane's order-made springs
(a "bamboo shoot" spring)

Case 2-3-3 Nakamura Corporation

A company that has been successful in cultivating new customers by using the Internet for market analysis and to boost its brand recognition

Nakamura Corporation (employees: 8; capital: ¥17 million), located in Nagoya City, Aichi Prefecture, is a wholesaler of confectionary, and has recently focused on the planning and marketing of *kumi-ame*²¹⁾. Since the 1980s, the development of distribution networks by major retail chains has led to high-volume production and same-day shipping being demanded of confectionary manufacturers. However, small and medium-sized *kumi-ame* makers that manufactured their products in small lots using traditional techniques and did not hold large inventories were not able to respond to this trend. For Nakamura also, engaged as it was in the wholesale distribution of the products of small and medium-sized manufacturers, the company's existing business offered no prospects for growth.

As a means of ensuring the survival of small and medium-sized confectionary makers and wholesalers, the company's President, Takao Nakamura, focused on inventory-less order-made production, the production of confectionaries in response to orders based on customer needs. The company began to plan and market *kumi-ame*, and in 2007 launched the "*Mai-Ame Kobo*" for the manufacture of *kumi-ame* by four makers with which the company had previously dealt. In addition, Mr. Nakamura decided that the use of the Internet was essential to enabling an SME with limited management resources to efficiently open up sales channels, and began accepting orders for order-made *kumi-ame* online.

The *Mai-Ame Kobo* does not conduct sales activities; orders are increasing mainly as the result of Web marketing initiatives. The company has applied its ingenuity to ensuring that its information appears at the top of search results, for example by analyzing search engine search logs and reflecting words that receive a large number of hits in the content of its own website. In addition, the company also produces *kumi-ame* with special designs related to the season or to topical news and promotes them via Web news and SNS, increasing recognition of its products.

Nakamura Corporation is also conducting persona analysis²²⁾ in order to increase the degree of certainty of receiving orders from visitors to its site. When it analyzed access logs²³⁾, the company discovered that the majority of visitors to its site were women aged between 28 and 35, who worked for sales companies and CSR departments. Creating personas for these visitors to its site, the company published examples of a variety of order-made confectionaries and details of its transaction history with major companies in order to make it easier for visitors to receive approval from their companies for plans involving the use of specially designed confectionaries for sales promotions and PR purposes. This increased trust in the company, and resulted in orders coming in from companies.

As a result, orders from companies are now *Mai-Ame Kobo*'s main line of business, and approximately 90% of its total sales come from orders through its website or over the telephone. Mr. Nakamura says that in the future he wishes to extend his company's expertise in Web marketing and the operation of electronic commerce sites and its business model specializing in order-made production to other small and medium-sized confectionary makers.

21) *Kumi-ame* is a candy-making technique; *kumi-ame* themselves are stick-shaped candies in which the same pattern appears no matter where they are cut.

22) A method of deciding on marketing strategies based on an understanding of the personas of customers.

23) Records of communications with Web servers.



Assembling the parts of *kumi-ame*



Completed *kumi-ame*

2. Actual conditions and issues regarding making use of outside resources and issues

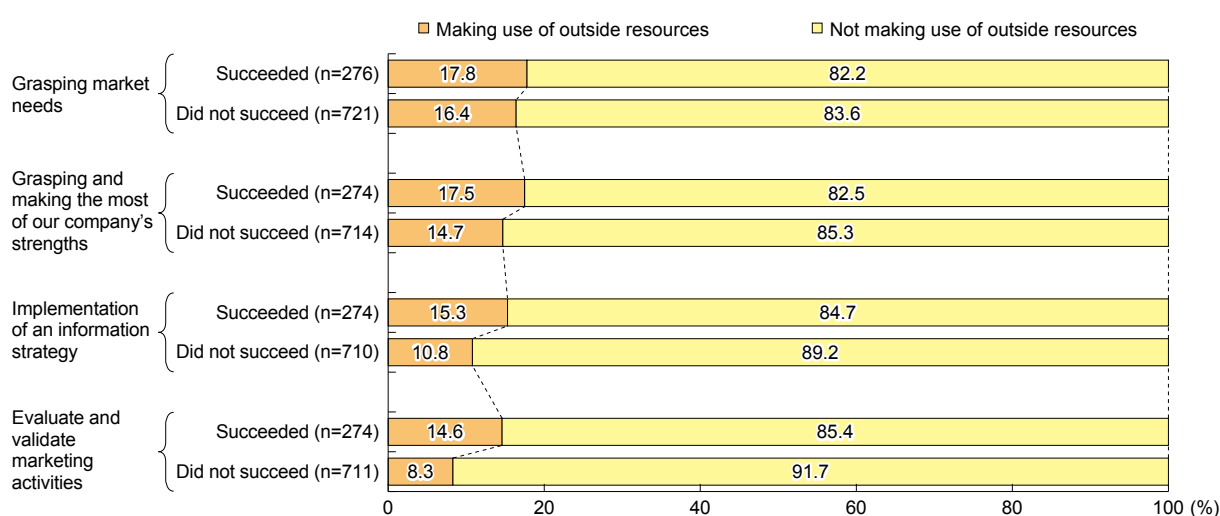
(1) Effects produced by making use of outside resources

In the present item, we look at the use of outside resources at SMEs. To this point, we have looked at the issues that arise in R&D activities and marketing activities. Whatever the case, the issues that have most frequently been raised involve a lack of human resources with skills and know-how. While it is important for an enterprise to take steps to secure the human resources it lacks, such initiatives also take time and expenditures, and

require putting systems and staff in place to handle hiring. Accordingly, for SMEs with their limited management resources, proactively making use of outside resources can be an effective measure for improving performance.

Looking first at the state of usage of outside resources at SMEs, we see with respect marketing activities of whatever sort that enterprises that succeeded in new business development have a greater tendency to use outside resources than unsuccessful enterprises²⁴⁾ (see Fig. 2-3-34).

Fig. 2-3-34 State of outside resource usage, by results of new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

- Notes:
1. "Did not succeeded" aggregates the total of those who answered, "failed since the target was not achieved," "cannot say either succeeded or not," and "cannot decided yet" as a comprehensive evaluation to the new business development initiatives.
 2. As a state of outside resource usage "making use of" aggregates the total of those who answered, "making use of constantly" and "making use of occasionally." "Not making use of" aggregates the total of those who answered, "investigating, but not making use of" and "not investigating."

(2) Issues regarding use of outside resources

Next is to ascertain the issues regarding making use of outside resources. Fig. 2-3-35 examines the issues based on whether or not outside resources are being used. The figure shows that enterprises that did not make use of outside resources sensed there were various issues such as "Feel costs would be relatively high compared to securing the human resources and structures needed

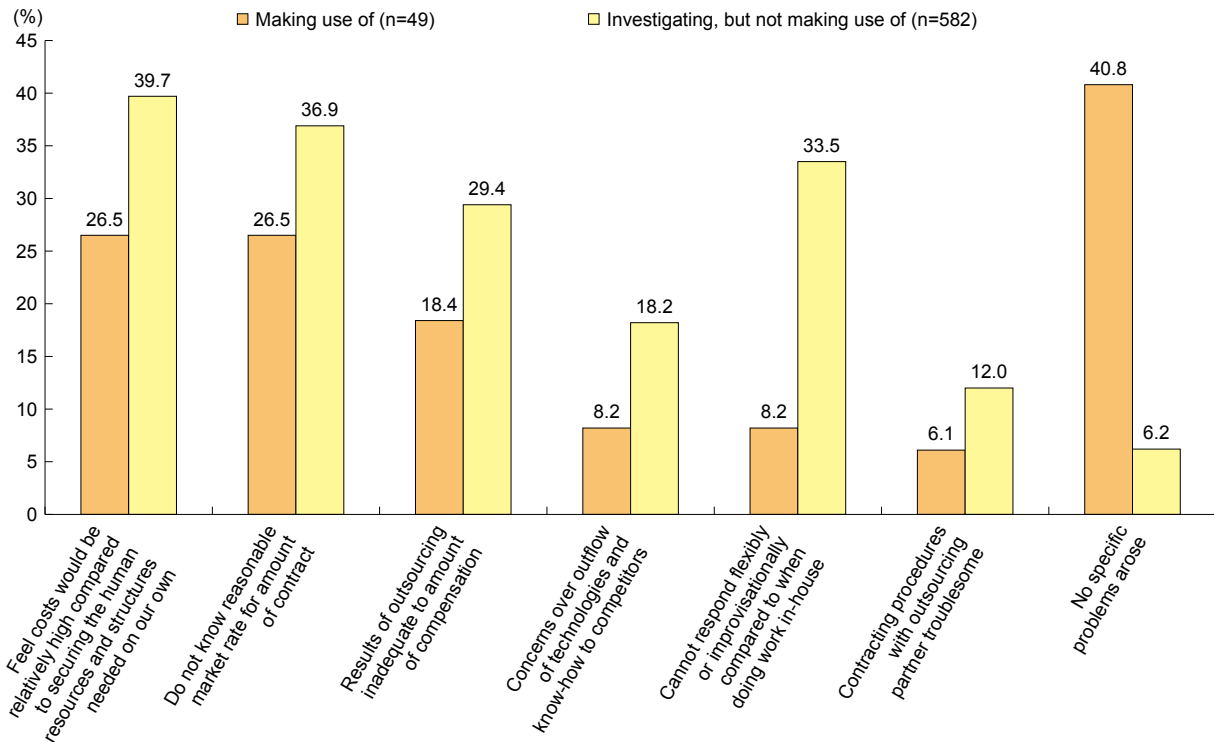
on our own," "Do not know reasonable market rate for amount of contract," and "Cannot respond flexibly or improvisationally compared to when doing work in-house." Meanwhile, those enterprises that did in fact make use of outside resources almost entirely did not sense that this matter of "Cannot respond flexibly or improvisationally compared to when doing work in-house" was an issue. "No specific problems arose"

²⁴⁾ There is also a correlation between use of outside resources and the ordinary profit ratio. On this point, please refer to Fig. 2-3-1 of Appended notes.

above all accounted for the majority of their responses. The findings suggest that while those enterprises that had yet to use any outside resources sensed their were many issues involved as shown above, those enterprises that did use them once did not sense any problems in particular,

were able to use these resources effectively, were able to devote management resources toward those areas of business in which they ought to on their own, and felt it was effective.

Fig. 2-3-35 Issues seen in state of usage of outside resources



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

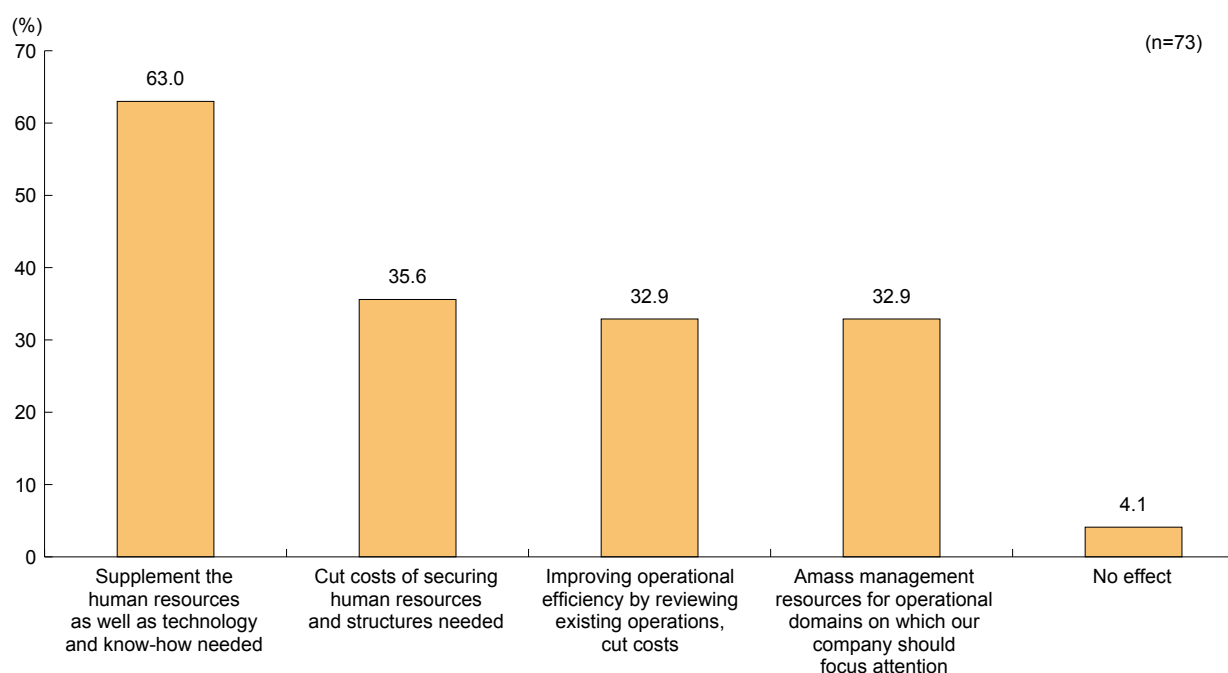
Note: Total does not always equal 100% as multiple responses were possible.

(3) Effects from use of outside resources

Finally, let us consider the effects produced by the use of outside resources. Fig. 2-3-36 shows that “Supplement the human resources as well as technology and know-how needed” accounted for the greatest share of responses

at 63.0%. This was followed by “Cut costs of securing human resources and structures needed” at 35.6% and “Improve operational efficiency by reviewing existing operations, cut costs” at 32.9%.

Fig. 2-3-36 Effects due to making use of outside resources



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

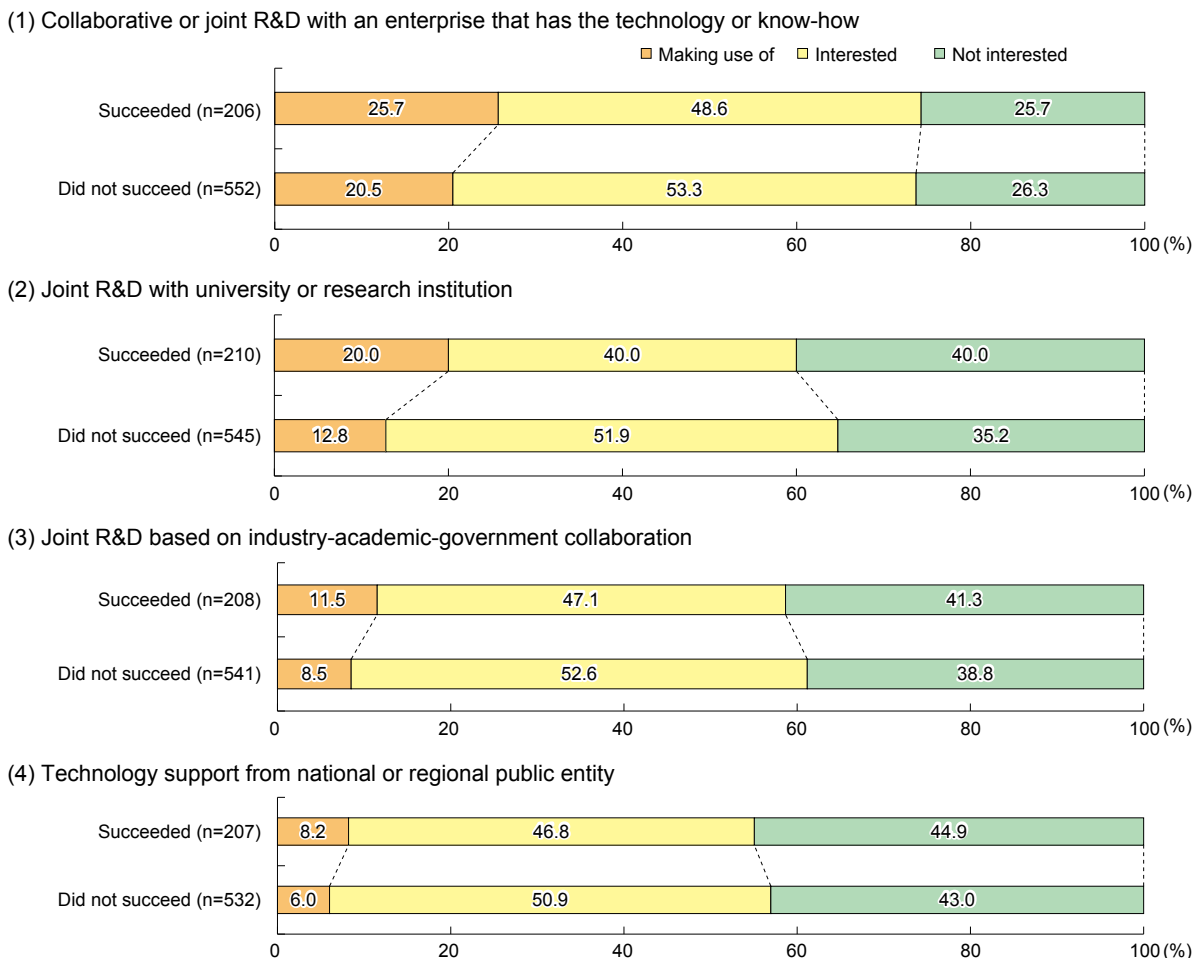
Notes: 1. Only enterprises succeeded in the new business development initiatives are added up.
2. Total does not always equal 100% as multiple responses were possible.

(4) State of usage of open innovation

Next, as one use of outside resources let us consider the state of using open innovation in R&D activities (Fig. 2-3-37). Fig. 2-3-37 shows four ways in which SMEs are using open innovation: (1) Partnering and joint R&D with enterprises that have technology and know-how, (2) joint R&D with universities and research institutions, (3) joint R&D through industry-academic-government collaboration, and (4) technology support from national and local government entities.

The figure shows that regardless of success or failure in new business development the most common approach is partnering and joint R&D efforts with enterprises possessing technology and know-how. Also, a comparison of those enterprises that succeeded at new business development with those that were unsuccessful shows a greater proportion of successful ones made use of open innovation.

Fig. 2-3-37 State of open innovation usage, by results of new business development



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

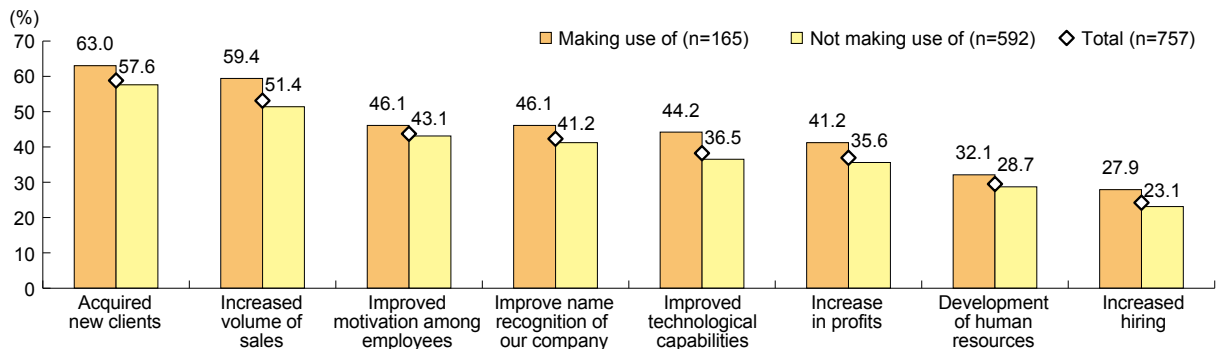
Note: “Did not succeeded” aggregates the total of those who answered, “failed since the target was not achieved,” “cannot say either succeeded or not,” and “cannot decided yet” as a comprehensive evaluation to the new business development initiatives.

Furthermore, looking at the effects obtained from new business development broken down by how open innovation was used Fig. 2-3-38 shows that, generally speaking, those enterprises that did make use of it noticed effects more often than those that did not use it. For example, for enterprises that under category (3) engaged in joint R&D through industry-academic-government collaboration, differences emerged in the effects seen between those enterprises that made use of open

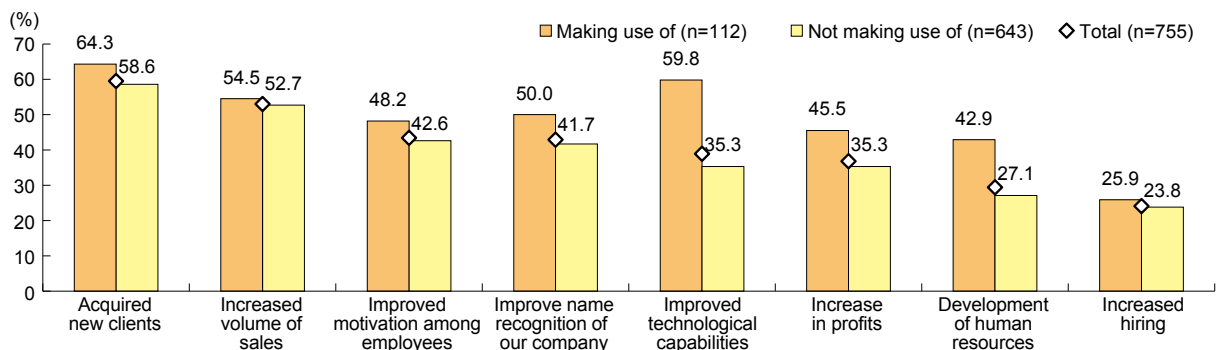
innovation versus that did not in such areas as “Improved name recognition of our company” and “Improved technological capabilities.” Thus, this suggests that enterprises can see the effects of open innovation not only in quantitative terms such as a rise in the volume of sales or in profits, but also qualitative terms, too. For SMEs, there is the possibility that making use of open innovation will not only have a favorable influence on R&D activities but also lead to success in the development of new business.

Fig. 2-3-38 Effects obtained due to new business development, by state of open innovation use

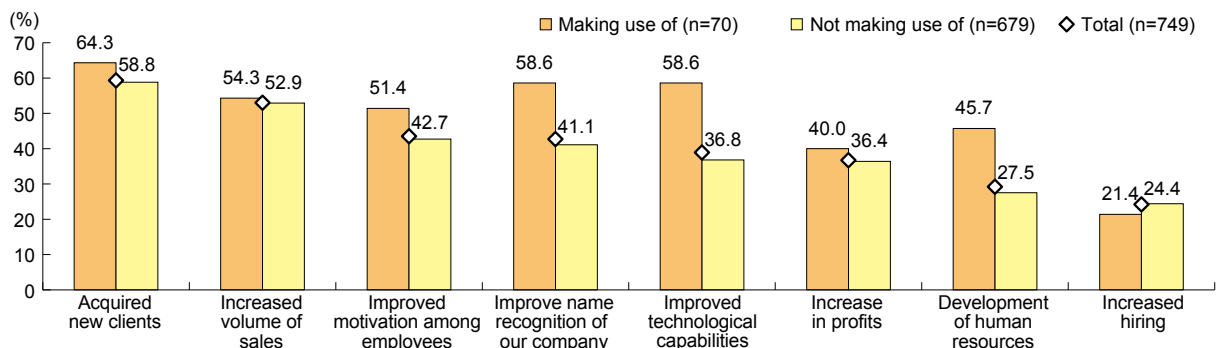
(1) Collaborative or joint R&D with an enterprise that has the technology or know-how



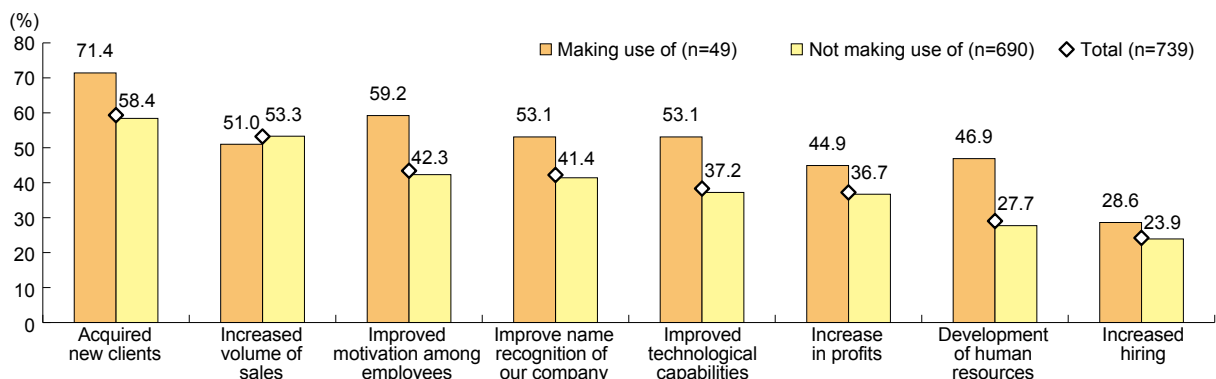
(2) Joint R&D with university or research institution



(3) Joint R&D based on industry-academic-government collaboration



(4) Technology support from national or regional public entity



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Case 2-3-4 Tanaka Metal Factory Co., Ltd.

A company that has created a niche market through a brand strategy using outsourcing

Tanaka Metal Factory (employees: 30; capital: ¥10 million), located in Yamagata City, Gifu Prefecture, develops, manufactures and markets shower heads. The company's products incorporate a device that produces micro-nano bubbles²⁵⁾, and are popular for their beauty benefits and their cleansing action.

Until 2003, Tanaka Metal Factory manufactured parts for faucet valves as a subcontractor. However, a slump in demand due to a slow-down in housing construction and intensifying price competition saw the faucet valve manufacturers that were the company's main business partners go out of business one after the other, and Tanaka Metal Factory's sales volume declined to around one-tenth of its previous level. The company therefore felt the necessity of developing its own products and cultivating its own sales channels rather than relying on subcontracting.

Tanaka Metal Factory had previously manufactured water-saving valves to be fitted in shower heads, and its awareness that shower heads were sold at high prices determined it on a course of developing its own shower head products in-house. In 2003 the company developed a special water-saving adapter, and in 2005 it commenced the sale of the Aria Misto²⁶⁾, a shower head aimed at ordinary consumers, which incorporated this adapter.

When Tanaka Metal Factory began marketing the Aria Misto, it sought sales agents, but found it difficult to attract interest, and its sales through trading companies were also poor. The company therefore decided to offer new added value in addition to conserving water, and focused on micro-nano bubbles, which were then attracting attention for their beauty benefits and excellent cleansing action. The company pushed ahead with the development of the Aria Misto Bollina²⁷⁾, a shower head that produces micro-nano bubbles, and succeeded in realizing the product in 2011.

Following the development of the Aria Misto Bollina, the company undertook aggressive product PR activities, for example via demonstration sales of the product by Kazuhiro Tanaka, the company's President, himself. Seeking to further increase awareness of the product, the company also outsourced the creation of a branding strategy to a branding company. Through the establishment of a clear product concept - a beauty treatment that also saves water - the company increased recognition among customers. Targeting women in their 30s, a market segment displaying a high degree of concern with beauty and health, the company creates product PR that uses terms such as "moisturizing" and "hot bath effects," which will attract hits.

These efforts enabled Tanaka Metal Factory to establish its own brand and boost its recognition in three years, approximately doubling its sales volume. Mr. Tanaka hopes to use his knowhow and experience in the development of unique products and the cultivation of sales channels through branding to expand his business to the provision of support for new product development, the creation of brand strategies and the cultivation of sales channels by SMEs.

25) Ultra-fine air bubbles of between 0.1 and 50 µm in diameter.

26) A water-saving shower head that went on sale in 2005.

27) The company's key product, which went on sale in 2011. A shower head that incorporates a device that produces micro-nano bubbles.



The company's Aria Misto Bollina shower head

Section 4 New currents

1. The Fourth Industrial Revolution and Japan's response

(1) Impact of the Fourth Industrial Revolution

In recent years, innovations such as the Internet of Things (IoT)²⁸⁾, “big data,” artificial intelligence (AI) and robotics (collectively referred to below as “new technologies”) have been attracting attention. All manner of activities and information from nature and society is being turned into data, and that information can be exchanged in real time by tying these technologies together through networks. Furthermore, there is the expectation that new heretofore unseen services and value can be created by analyzing the vast amounts of data that has been collected. Issues have been identified with respect to SMEs making use of these new technologies, calling for them to be used with adequate measures for doing so in place. In the present section, we analyze both the possibilities that such cutting-edge technologies present as well as the issues they pose.

(2) New growth and transformations in industrial and employment structures due to the Fourth Industrial Revolution

Using IoT and other such new technologies will make it possible to create a society that had once been thought of as impossible to achieve. On the other hand, it is also possible that this will lead to dramatic changes in the industrial and employment structures.²⁹⁾ Specifically, there is a shift from mass-produced, standardized services to customization of products and services matched to individual needs. The source of this new added value is “data.” Those enterprises and industries that can collect data, add it to the vast reserve that is big data, analyze it,

apply it to the cycle of advantageous use, and capture latent demand are growing, while those enterprises and industries that have not achieved this are faced with difficult state of affairs. There exists the possibility that new value may be created at this point the data, technologies, people, and capital that heretofore had been separated and blocked off by the walls between industry types, enterprises, and businesses can now be fused together by transcending those existing barriers. Accordingly, there will be shift from conventional restructuring within a given category of industry to realignments that involve completely different industry types and enterprises mutually entering one another's industry. As a result, it is possible that major realignments transcending industry barriers will occur.

The content of the work people are being asked to do and their roles are changing due to the technological advances that provide the foundations for the Fourth Industrial Revolution, and they are having a tremendous impact as well on how people work as well as the employment structure of society as a whole. Labor saving is rising in not only regular but also irregular labor due to the use of AI and robotics, and it is expected they will be a means for resolving labor shortages. There is also the possibility that new work will be created such as the task of mastering AI and robotics as well as work whose value comes from the direct involvement of persons. Under these conditions, it is possible that a change in the industrial structure will occur dramatically owing to the difficulty of foresight, while on the other hand for SMEs it may also lead to new opportunities for global growth.

28) Internet of Things (IoT): Describes a mechanism by which all “things” are connected to the internet by means of sensors, wireless transmissions, and so forth.

29) METI, Industrial Structure Council, New Industrial Structure Committee, *New Industrial Structure Vision*.

2. Actual conditions regarding use of new technologies including IoT, Big Data, AI, and robotics

(1) State of usage of new technologies

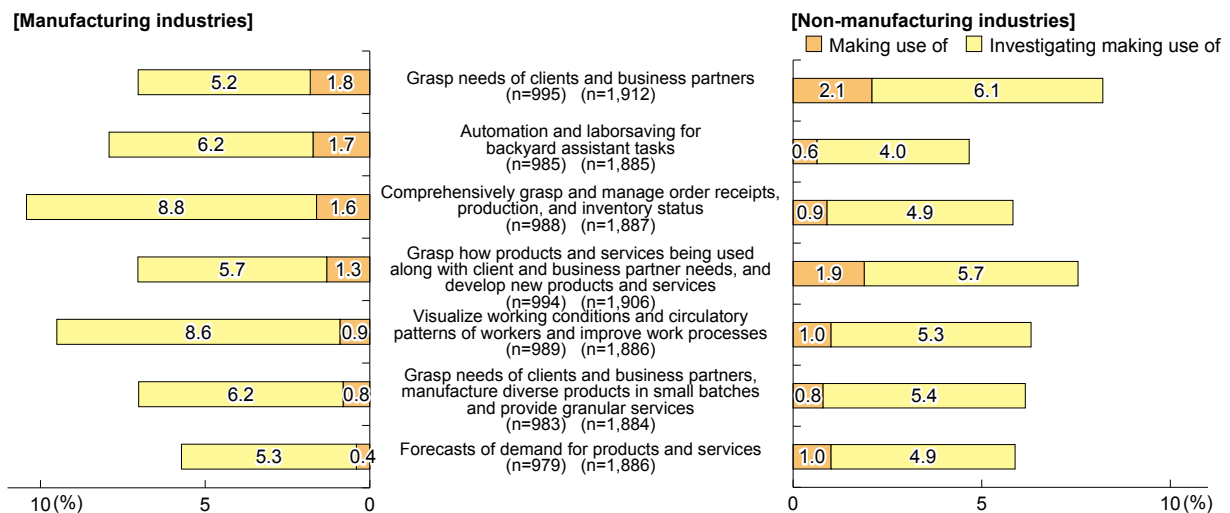
In the section ahead, we will look at the actual situation regarding the use of new technologies in SMEs and the issues involved. Fig. 2-3-39 examines the use being made of new technologies based on industry type. The figure shows that use of these new technologies is generally low at less than 10%, though there do exist those business domains where they are being put to use.

The details regarding the breakdown between manufacturing and non-manufacturing show that in both industries the most common use is for “Grasping the needs of clients and business partners” with 1.8% in the manufacturing and 2.1% in the non-manufacturing fields. When people investigating making use of them are

included, in the manufacturing industry “Comprehensively grasp and manage order receipts, production, and inventory status” accounts for 10.4% of responses. This is followed by “Visualize working conditions and circulatory patterns of workers and improve work processes” at 9.5% and “Automation and laborsaving for backyard assistant tasks” at 7.9%.

Focusing on non-manufacturing enterprises, “Grasp how products and services being used along with client and business partner needs, and develop new products and services” accounts for 7.6% of responses, followed by “Visualize working conditions and circulatory patterns of workers and improve work processes” at 6.3%.

Fig. 2-3-39 State of usage of new technologies, by industry



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Asked about the state of usage of new technologies including IoT, Big Data, AI, and robotics, etc.

Fig. 2-3-40 looks at the use being made of new technologies based on the manager’s generation. The figure shows that generally speaking the percentage of managers under the age of 50 who are using them is higher.

Looking at the details, 11.5% of these persons gave as their reason “Visualize working conditions and circulatory patterns of workers and improve work processes,”

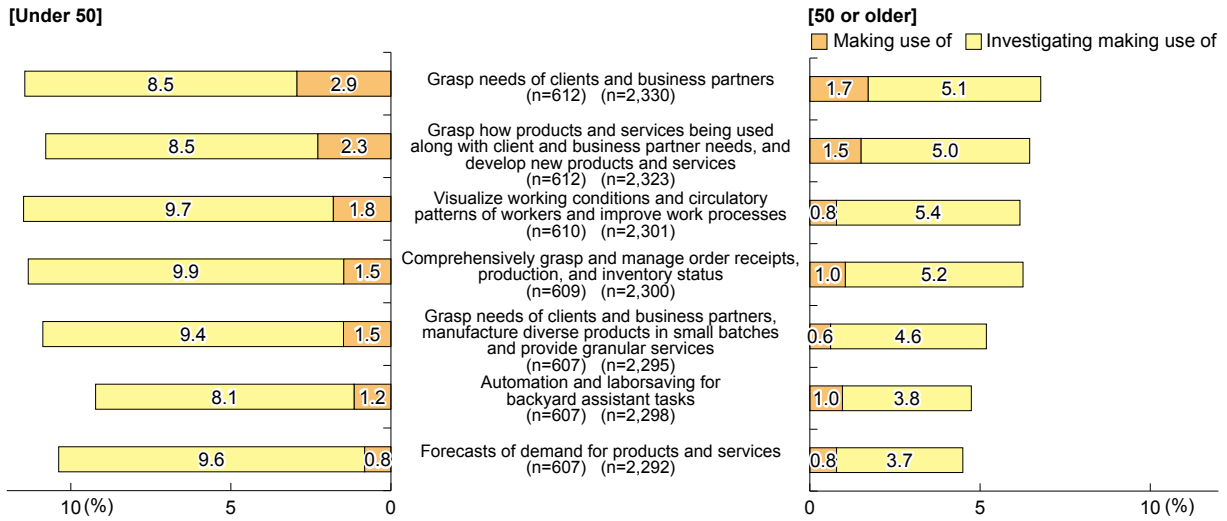
followed by 11.4% each for “Grasp the needs of clients and business partners” and “Comprehensively grasp and manage order receipts, production, and inventory status.”

Among those who were 50 or older, 6.8% cited “Grasp the needs of clients and business partners,” 6.5% chose “Grasp how products and services being used along with client and business partner needs, and develop new products and services,” and 6.2% each for “Visualize

working conditions and circulatory patterns of workers and improve work processes” and “Comprehensively

grasp and manage order receipts, production, and inventory status.”

Fig. 2-3-40 State of usage of new technologies, by manager’s generation



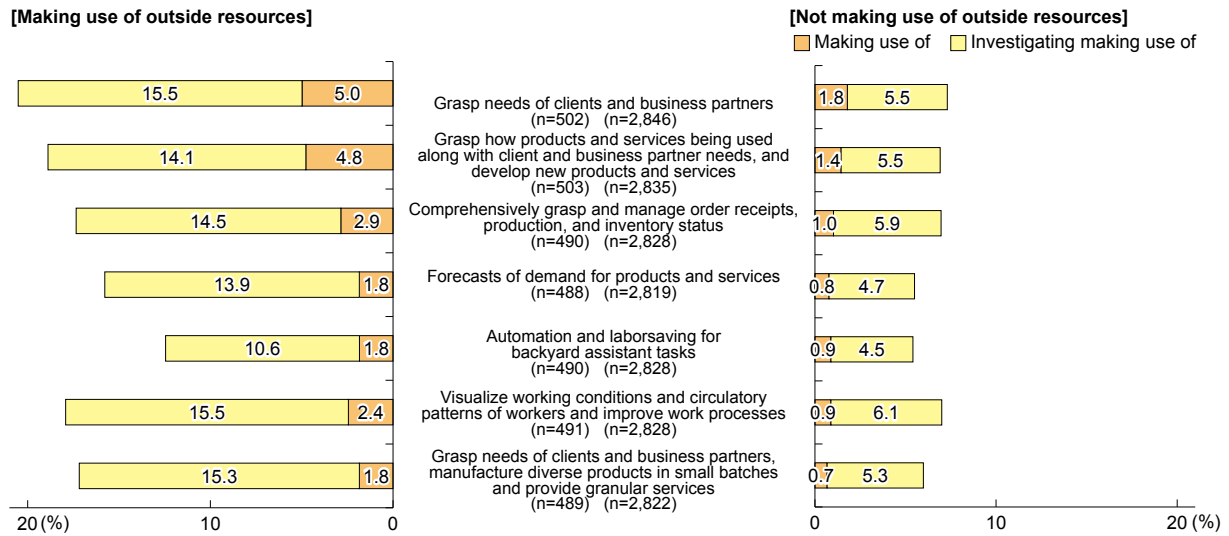
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Asked about the state of usage of new technologies including IoT, Big Data, AI, and robotics, etc.

Finally, we look at the relationship with the state of usage of outside resources. Fig. 2-3-41 shows the state of usage of new technologies broken down by the use of outside resources. The figure reveals that generally speaking the percentage of those making use of new technologies was higher for those who use such resources.

This suggests that when using new technologies even at those enterprises with limited management resources, the limitations on those resources can be overcome and the new technologies proactively put to use by making use of outside resources.

Fig. 2-3-41 State of usage of new technologies, by use of outside resources



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

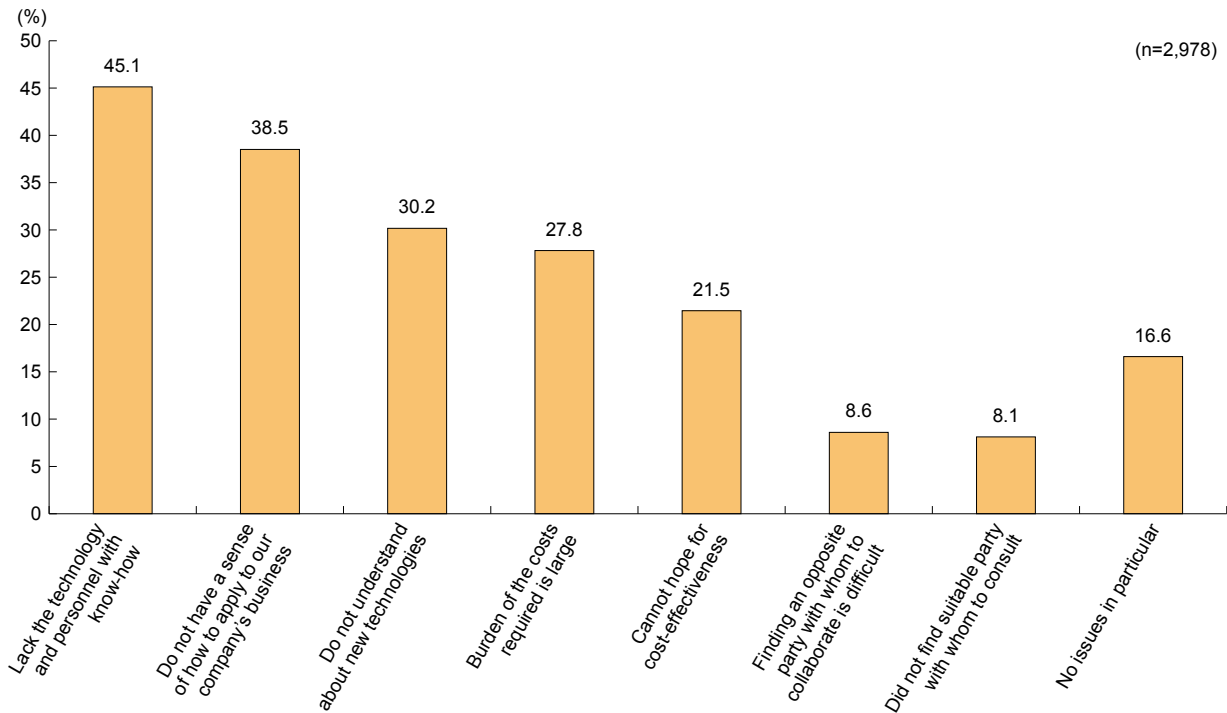
Note: Asked about the state of usage of new technologies including IoT, Big Data, AI, and robotics, etc.

(2) Issues regarding making use of new technologies

Where are the issues when it comes to an SME making use of a new technology? An examination of the issues faced by enterprises not making use of new technologies as shown in Fig. 2-3-42 shows that the problem most

frequently cited was that of “Lack the technology and personnel with know-how” at 45.1%. This was followed by “Do not have a sense of how to apply to our company’s business” at 38.5% and “Do not understand about new technologies” at 30.2%.

Fig. 2-3-42 Issues in making use of new technologies



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Enterprises not using new technologies are added up.

Let us now ascertain the public support that an enterprise can anticipate when it comes these issues. In terms of the public support that may be anticipated broken down by issue, Fig. 2-3-43 shows that generally speaking what enterprises most want is to “Expand grant and subsidy systems.”

Breaking it down by issue, 44.2% of enterprises said they want “Development of and introduction to

human resources” to cope with “Lack the technology and personnel with know-how,” followed by 37.3% seeking “Advice and technological support provided by specialists.” With respect to “Do not have a sense of how to apply to our company’s business,” 34.2% chose “Advice and technological support provided by specialists” as their response and 32.1% indicated “Development of and introduction to human resources.”

Fig. 2-3-43 Expected public support, by issue related to use of new technologies

	1	2	3	4	5
Lack the technology and personnel with know-how (n=1,272)	Expand grant and subsidy systems (65.3%)	Development of and introduction to human resources (44.2%)	Advice and technological support provided by specialists (37.3%)	Tax benefits for enterprises employing new technologies (34.4%)	Introduction and cross-deployment of effective examples (27.0%)
Do not have a sense of how to apply to our company's business (n=1,073)	Expand grant and subsidy systems (53.3%)	Advice and technological support provided by specialists (34.2%)	Development of and introduction to human resources (32.1%)	Introduction and cross-deployment of effective examples (30.0%)	Tax benefits for enterprises employing new technologies (29.3%)
Do not understand about new technologies (n=835)	Expand grant and subsidy systems (60.0%)	Advice and technological support provided by specialists (39.3%)	Development of and introduction to human resources (37.8%)	Introduction and cross-deployment of effective examples (30.2%)	Tax benefits for enterprises employing new technologies (29.7%)
Burden of the costs required is large (n=784)	Expand grant and subsidy systems (71.7%)	Tax benefits for enterprises employing new technologies (38.1%)	Development of and introduction to human resources (38.1%)	Advice and technological support provided by specialists (35.2%)	Introduction and cross-deployment of effective examples (28.8%)
Cannot hope for cost-effectiveness (n=604)	Expand grant and subsidy systems (60.4%)	Development of and introduction to human resources (33.9%)	Advice and technological support provided by specialists (31.5%)	Tax benefits for enterprises employing new technologies (31%)	Introduction and cross-deployment of effective examples (29.6%)
Finding an opposite party with whom to collaborate is difficult (n=246)	Expand grant and subsidy systems (67.1%)	Tax benefits for enterprises employing new technologies (47.6%)	Advice and technological support provided by specialists (46.7%)	Development of and introduction to human resources (45.1%)	Introduction and cross-deployment of effective examples (39.8%)
Did not find suitable party with whom to consult (n=235)	Expand grant and subsidy systems (66.0%)	Advice and technological support provided by specialists (52.3%)	Development of and introduction to human resources (51.5%)	Introduction and cross-deployment of effective examples (40.9%)	Tax benefits for enterprises employing new technologies (37.0%)

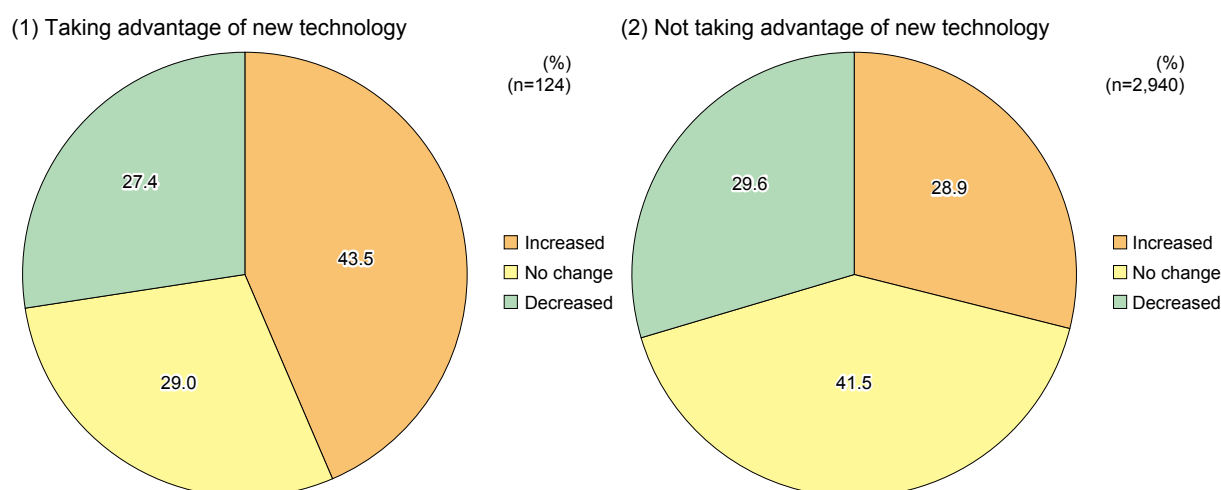
Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Enterprises not using new technologies are added up.

(3) Effects due making use of new technologies

Here, we ascertain the effects arising from making use of new technologies. Fig. 2-3-44 shows the relationship between the state of usage of new technologies and ordinary profit ratio trends. The figure shows that the

ordinary profit ratio tends to increase for those enterprises that make use of new technologies, with 43.5% reporting such an increase versus 28.9% among those enterprises not using such technologies.

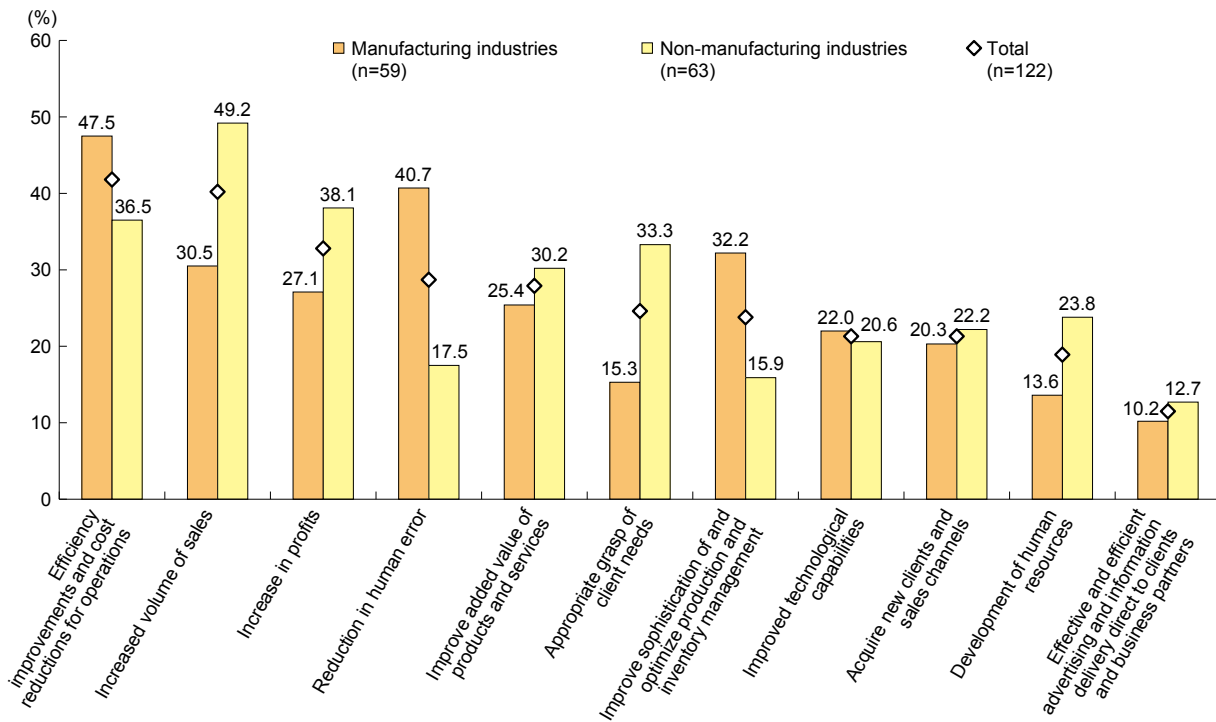
Fig. 2-3-44 Trends in ordinary profit ratio, by state of usage of new technologies

Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Finally, we look at the effects of making use of new technologies, broken down by industry. Fig. 2-3-45 shows that in manufacturing the effect most frequently cited was “Efficiency improvements and cost reductions for operations” at 47.5% of respondents, followed by “Reduction in human error” at 40.7% and “Improved sophistication of and optimized production and inventory management” at 32.2%. Meanwhile, among non-manufacturing enterprises the most-selected response

was “Increased volume of sales” at 49.2%, followed by “Increase in profits” at 38.1% and “Appropriate grasp of client needs” at 33.3%. These findings indicate that manufacturing enterprises can anticipate cost reductions from adopting these technologies in their production processes as well as improved operational efficiency, while non-manufacturing enterprises can expect effects linked to performance.

Fig. 2-3-45 Effects of making use of new technologies, by industry



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Column 2-3-4 Efforts under the Robot Revolution Initiative (RRI) to promote adoption of IoT in midsize and SME manufacturing

In May 2015, the government established the Robot Revolution Initiative (RRI) with the goal of accomplishing the “new robot strategy” that had been put together by the Robot Revolution Realization Committee created by the Prime Minister’s Office. That July saw the establishment of the Manufacturing Business Revolution through IoT Working Group (WG1) in the RRI, and since then IoT initiatives in the domestic manufacturing industry have accelerated.

One such initiative is the Midsize Companies and SME Action Group, which is working to encourage enterprises in those categories to adopt IoT technologies. The Action Group is chaired by Hosei University Graduate School Visiting Professor Keiju Matsushima, and has a membership comprising executives from midsize companies and SMEs that have actually implemented IoT, IT vendors, and a variety of interested parties from support agencies of all types. This Action Group is putting together approaches and guidelines to encourage such enterprises to implement IoT and adopt IoT tools. It decides on specific actions, and puts them into effect.

For example, it has put together an IoT Tool Subscription Event for Midsize Companies and SMEs whose aim is to do away with the view among such enterprises that IoT tools are too sophisticated and inaccessible and come up with methods for using them that are suited to each respective enterprise. Having convened its judging committee at the eye level of the managers of midsize companies and SMEs that were actually implementing IoT, the Group announced that 106 items from the recruitment campaign were “smart monodzukuri support tools” that can be easily used and at low cost.

The Group also held a subscription drive for Examples of IoT Use by Midsize Companies and SMEs aimed at enterprises that what they can do by engaging with IoT and what sort of effects it will have, and announced 40 examples that were submitted. Furthermore, it combined those with examples of initiatives undertaken by large enterprises in Japan and put together an online map that shows more than 150 examples (plotting a summary of the examples on a map of Japan). The goal here is to get a visual representation of the results, share best practices, and furthermore encourage cooperation among businesses.

Furthermore, the Action Group is working to build a network by using the venue of its once-monthly meetings to present examples of SMEs that are working at implementing IoT, hold briefings and conferences, and encourages close sharing of policy support information.

Fig. Column 2-3-4 (1) Example of IoT use in midsize and SME manufacturing

【ツール例①：iPadやスマートフォンを利用した機械動作情報収集装置・・・武州工業（株）】

この時点より生産性悪化が発生。原因究明、カイゼンが可能に。

【ツール例②：動画や画像を活用し、スマホでマニュアル作成 Teachme Biz・・・（株）ステディスト】

図：Teachme Bizはたった4ステップでマニュアルを作成・共有できる

画像を選び、 マークを付けて、 説明文を書いて、 公開するだけ。

Fig. Column 2-3-4 (2) IoT use case online map

2019 Copyright Robot Remote Initiative. All Rights Reserved. Japanese | English. 国土地理院

Fig. Column 2-3-4 (3) RRI/WG1 midsize companies and SME AG meeting



References

- Smart “monozukuri” support tools (announcements page)
<https://www.jmfrri.gr.jp/info/314/>
- Soliciting examples of IoT usage by midsize and SME manufacturers (results announcement page)
<https://www.jmfrri.gr.jp/info/314/>
- IoT use cases online map (announcements page)
<http://usecase.jmfrri.jp/#/>

Case 2-3-5 TADASEIKI Co., Ltd.

A metal manufacturer that is working to increase the efficiency of production processes and increase the sophistication of its products' functions using the IoT

TADASEIKI Co., Ltd. (employees: 85; capital: ¥55 million), located in Gifu City, Gifu Prefecture, designs and manufactures plastic injection molding dies and die casting³⁰⁾ dies. The company's dies are employed in the manufacture of such products as automotive door handles and door mirrors.

In 1995, against the background of intensifying price competition with overseas companies, TADASEIKI pursued the early introduction of a three-dimensional CAD/CAM system, enabling it to take orders for shapes considered difficult to respond to on the basis of design drawings, such as curved shapes. This distinguished it from other companies. Following this, there was a shift from metal to plastic parts as the automotive industry sought reductions in weight and costs. Supported by a Strategic Core Technology Advancement Program conducted by the Ministry of Economy, Trade and Industry (Supporting Industry Program below), TADASEIKI responded by building links outside the company through initiatives including technological exchanges, and proceeded with the introduction of the latest technologies and the development of plastic dies displaying high heat resistance.

In addition to developing products, TADASEIKI also made efforts in the area of technological development in order to increase production efficiency. In 2012, the company jointly developed a system called "AndonRoid" that allows centralized remote management of the status of operation of multiple machine tools with support organizations and Gifu Prefecture companies.

Because AndonRoid is able to collect information from machine tool "andons" (signal lights that show the tools' operating status) via Android³¹⁾ terminals and display it remotely as a list, it can be introduced at a lower cost than conventional remote monitoring systems using computers. Prior to the introduction of the system, the company would have to check the operating status of multiple machine tools, which had been manufactured by different makers and installed at different periods, one-by-one in the intervals between operation. The introduction of the system has made it possible to proceed with the next setup immediately following the completion of one piece of work and to respond rapidly to abnormal stoppages, enabling the company to increase the operating rate of its machine tools.

In addition, TADASEIKI made use of the external connections that it had cultivated through the Supporting Industry Program, and began to conduct research on sensor technologies and other technologies related to the IoT. The company developed "smart dies" by fitting sensors in the dies employed in plastic molding, making it an easy matter to monitor the status of molding from changes in temperature and pressure. Previously, the company had not been able to collect information concerning the optimal conditions for molding (temperature, pressure and vibration), and production management and identification of the causes of defects remained imprecise affairs. The smart dies collect data concerning the optimal conditions for molding products from sensors, and automatically detect defects, enabling the realization of more precise production methods. TADASEIKI's President, Norio Tada, has now set his sights on the future creation of new business models using the smart die technology, for example by branching out into maintenance services and consultation regarding manufacturing conditions.

30) A casting method in which molten metal is injected into dies, making it possible to realize high-volume production with high dimensional precision in short periods.

31) An OS and platform developed by Google that is employed in mobile terminals (smartphones, tablets, etc.) and embedded devices.



An AndonRoid terminal



The AndonRoid system display screen

Case 2-3-6 Tokachi Bus Co., Ltd.

A community-based bus company that has increased customer satisfaction and realized growth through the active introduction of IoT technologies

Founded in 1926, Tokachi Bus Co., Ltd. (employees: 250; capital: ¥50 million), located in Obihiro City, Hokkaido Prefecture, is a bus company operating in one city and 13 towns and villages within the Tokachi district of Hokkaido Prefecture. Aiming to be a company that its customers use for life, Tokachi Bus Co., Ltd. has recently branched out into businesses providing nursing care for the elderly and after-school care for small children in addition to its bus business.

Due to an increase in ownership of private cars, the number of bus users in the Tokachi district has declined from approximately 23 million in 1969 to approximately 4 million in 2010. The company experienced a sense of crisis due to the decline in its customer numbers, and in 2008 began to implement marketing activities involving individual visits to ordinary homes, conducting a survey of the reasons why people were not using buses. As a result, the company found that rather than the inconvenience of using buses, the major reason that people were not using the company's service was that they felt anxious because they did not understand where bus stops were, how to catch the buses, fares, bus destinations, etc. - the problem was difficulty in understanding how to use the buses.

In order to dispel this anxiety regarding bus use, the company joined with an IT vendor to develop an app called "Mokuiku," which allows users to search for bus routes. By simply entering their destination into the app, users are provided with information on the closest bus stop, the route, and the time the trip will take, enabling them to reach their destination by bus even if they do not know the name of the stop.

Tokachi is cold in winter, and users told the company that they wanted to avoid waiting for buses outside as much as possible. As a result, Tokachi Bus introduced an app called "Bus-Roke," which applied IoT technology. Each of the company's buses is fitted with a smartphone that transmits GPS information, providing users with information on the buses' locations via the app. This means that users are able to predict when the bus will arrive, further boosting the convenience of using the bus service. In addition to this, in the future Tokachi Bus intends to use camera sensors to enable it to gain exact information of the number of passengers using its buses at each stop which it relied on a rule of thumb, and that information will be used, for example, in revising its schedules.

As a result of these measures to prevent its customers from drifting away, the company's revenues have continued to increase year on year since 2011. Tokachi Bus is also aiming to realize management that does not rely on cutting costs; for example, the cost of operating the "Mokuiku" service is entirely defrayed by advertising revenues. Through initiatives such as introducing Tokachi sightseeing information via its apps, the company is also actively working to contribute to the revitalization of its region by increasing tourism.



Some of the company's buses

路線バスを気軽に！もっと便利に！

まず事前にアプリをダウンロードしてください。 [APP Store](#) もしくは [Google Play](#)

バスロケーションサービス (PINA) 検索キーワード: PINA

ダウンロードした PINA をタップしてください

検索マークをタップ

* 常駐駅*と入力し 検索開始

路線バス (系統) が表示されます、どちらかタップ

バスの位置情報が表示されます

バスの現在地

バス停をタップ

バス停の場所や時刻表がわかる!!

バス停2つ前に来たからお知らせ!!

時刻表が表示されます

バスが2つ前に来たら通知されます

Image of use of the company's bus location information app

Section 4

Image

3. Levels of familiarity with sharing economy and issues regarding putting it to use

(1) What is the sharing economy?

The sharing economy has emerged in recent years accompanying the spread of smartphones and changes in the environments in which IT is being put to use. It is in the process of changing the structure of the Japanese economy. New services in a variety of fields are being developed under its aegis, and at present it is difficult to define unambiguously. In the present section, it shall be treated as an “economic revitalization activity for taking an asset with utilization possibilities that an individual possesses and makes it possible for another individual to use them through an internet-based matching platform.”³²⁾ The lender who is the provider of the assets in many cases is an individual. However, there are also cases in which the lender is a corporation, and it is possible to get income from the use of idle assets. For the borrower, meanwhile, the system has benefits in that they can keep usage costs down compared to existing services since they can use the asset without owning it. In the future, it is possible that there will be a change of mindset “from owning to using,” new businesses may get involved in great numbers, and the effect will speed up the metabolism of industry. Typical examples of the sharing economy include private lodging services that provide empty rooms and real estate owned by one person to another person who wants to use them, services for strangers to use material goods in an individual’s position, and services through which an individual with specialized skills supplies them in their free time (Fig. 2-3-46).

Someone can be involved with the sharing economy from one of three positions: those of (1) platform supplier³³⁾ (hereafter, “share business”), (2) provider of idle assets (e.g., location, material goods, service) in one’s possession (hereafter, “provider”), and (3) idle assets (e.g., location, material goods, service) user (hereafter, “user”). The existence of share businesses is a necessity given the structure of the services. However, the core party who supplies the idle assets is the provider and not the share business. The fact that it is the provider who manages the idle assets that are tied to the quality of the service is fundamental. Also, when it comes to the basic trust mechanism in this economy, in most cases it is the share business that supplies the function of offering post facto evaluations of the provider and the user. They construct a mechanism by which someone who has received a poor evaluation in a review will find it difficult to obtain opportunities to supply or use the service again.

Usage of the sharing economy is growing mainly outside of Japan and the market for it is expanding. The size of the market for all countries combined is forecast to grow to approx. US\$335 billion by 2025.

The market for the sharing economy is expected to growth in Japan as well. Its size in fiscal 2014 stood at approx. ¥23.3 billion, but forecasts say it will grow to ¥46.2 billion by fiscal 2018.³⁴⁾

32) Cabinet Secretariat IT General Strategy Office, *Chronology of Investigations on the Sharing Economy* (July 2016)

33) Business that provides matching abilities over the internet

34) *2016 White Paper of Information and Communications in Japan*

Fig. 2-3-46 Sharing economy example

	Field	Summary description of the service	Example businesses
1	Housekeeping	Connects people with housekeeping skills to individuals seeking such services	Anytimes; Kaji Daiko Hiroba; Tasukaji
2	Babysitting	Babysitter-introduction services	AsMama; Kids Line
3	Skilled workers	Connects individuals to people offering various skills	Coconala; CrowdWorks
4	Space-sharing	Connects providers of conference rooms, vacant shops, etc. to individuals seeking such	Space Market; Spacee; ShopCounter; SpaceShare
5	Shared parking	Connects people seeking parking spots to lots and garages with empty spaces	Tomereta; Skyz
6	Shared growing spaces	Connects holders of idle plots of land to people seeking to use such	ShareBatake
7	Car-sharing	Introduces people to cars available for shared use	Cafore; Anyca
8	Carpooling	Connects people seeking to share rides	notteco; Hitch me
9	Cooking	Connects tourists and others to people offering hands-on cooking experiences	Tadaku; KitchHike
10	Guides for Foreign Travelers	Connects foreign travelers with guides who offer services in foreign languages	Huber (TOMODACHI GUIDE); Voyagin

Source: Prepared by the SME Agency based on Cabinet Secretariat IT General Strategy Office, *Chronology of Investigations on the Sharing Economy* (July 8, 2016).

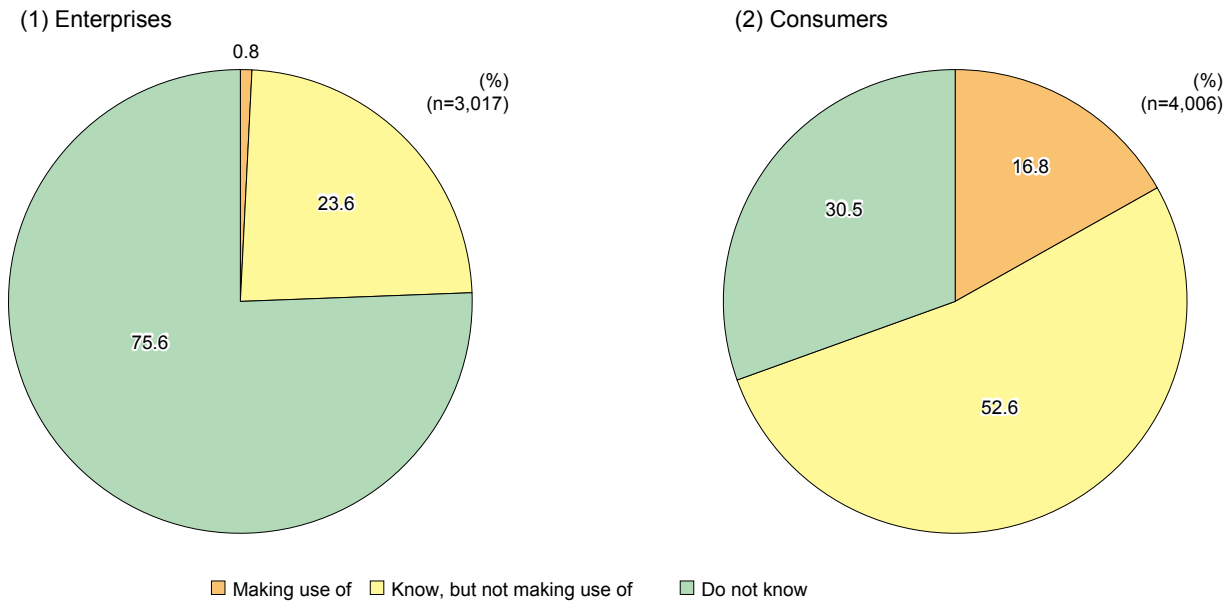
(2) Levels of familiarity with sharing economy

Next, we will shift our perspective to that of the consumer and analyze levels of familiarity regarding SME services in the sharing economy. First, Fig. 2-3-47 shows conditions of familiarity with sharing economy broken down by enterprise and consumer. In the case of (1) enterprises, less than 1% of them have actually made

use of it but the figure rises to approximately 25% when we include “Know about, but not making use of.”

On the other hand, among (2) consumers we see that 16.8% said “Making use of,” with the figure rising to around 70.0% when we include “Know about, but not making use of.” This shows their levels of interest are high.

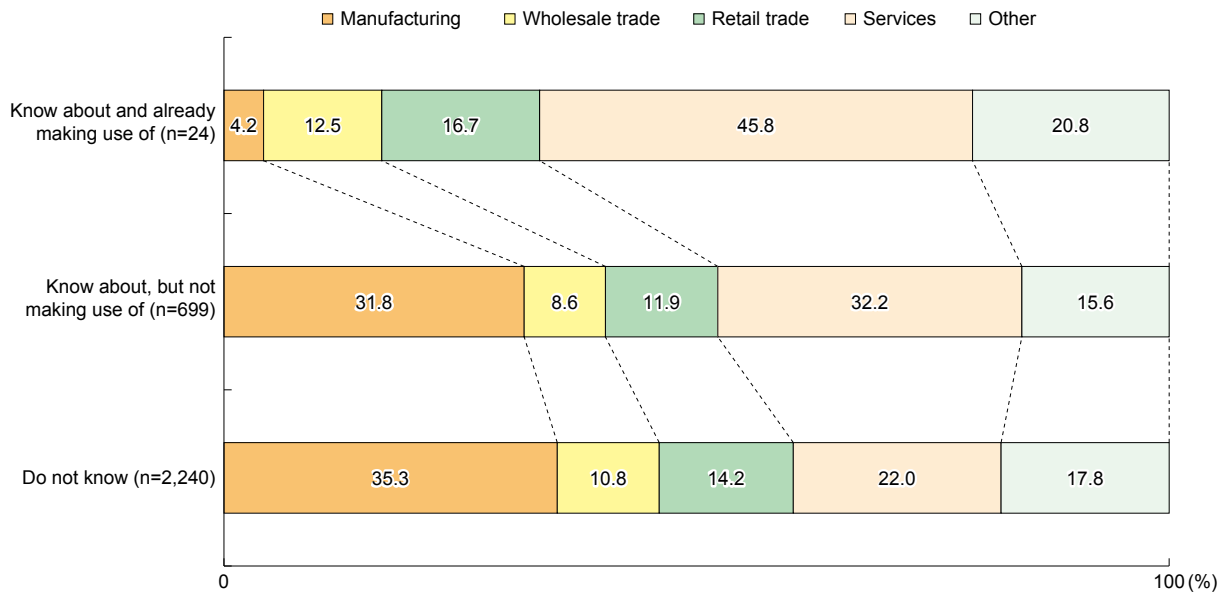
Fig. 2-3-47 Levels of familiarity with sharing economy



Sources: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency and Nomura Research Institute, Ltd., *Questionnaire on Changes in Consumer Behavior* (December 2016), commissioned by the SME Agency.

Next, let us examine levels of familiarity with the sharing economy broken down by industry. Fig. 2-3-48 shows the percentage for knowing about the sharing economy and already making use of it is highest for

the service industry at 45.8%. The service industry also scored highest for those who know about the sharing economy but are not making use of it at 32.2%, followed 31.8% for the manufacturing industry.

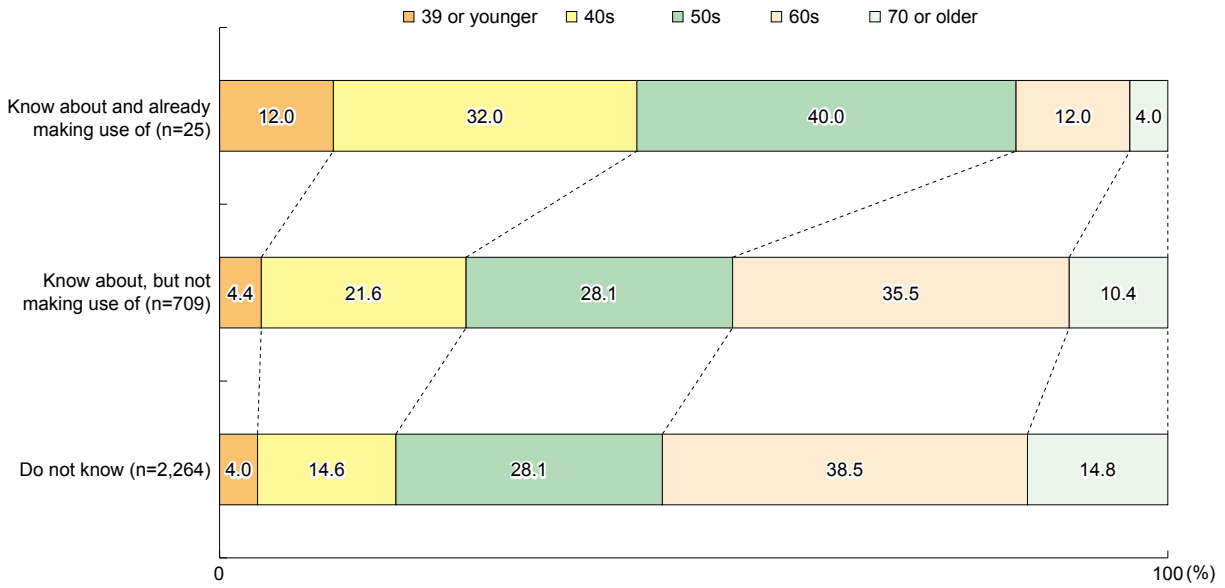
Fig. 2-3-48 Levels of familiarity with sharing economy, by industry

Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Next, Fig. 2-3-49 shows levels of familiarity with the sharing economy broken down by manager's generation. The figure indicates there is a tendency for the levels of usage and familiarity to be higher the younger the manager. Specifically, 40.0% of those who said they were familiar with sharing services and already using them were in their 50s and another 32.0% were in their 40s.

Meanwhile, managers in their 60s accounted for 38.5% of those who said they did not know about the sharing economy. This suggests that the younger the generation the more likely a manager is to apply new concepts like the sharing economy to their business.

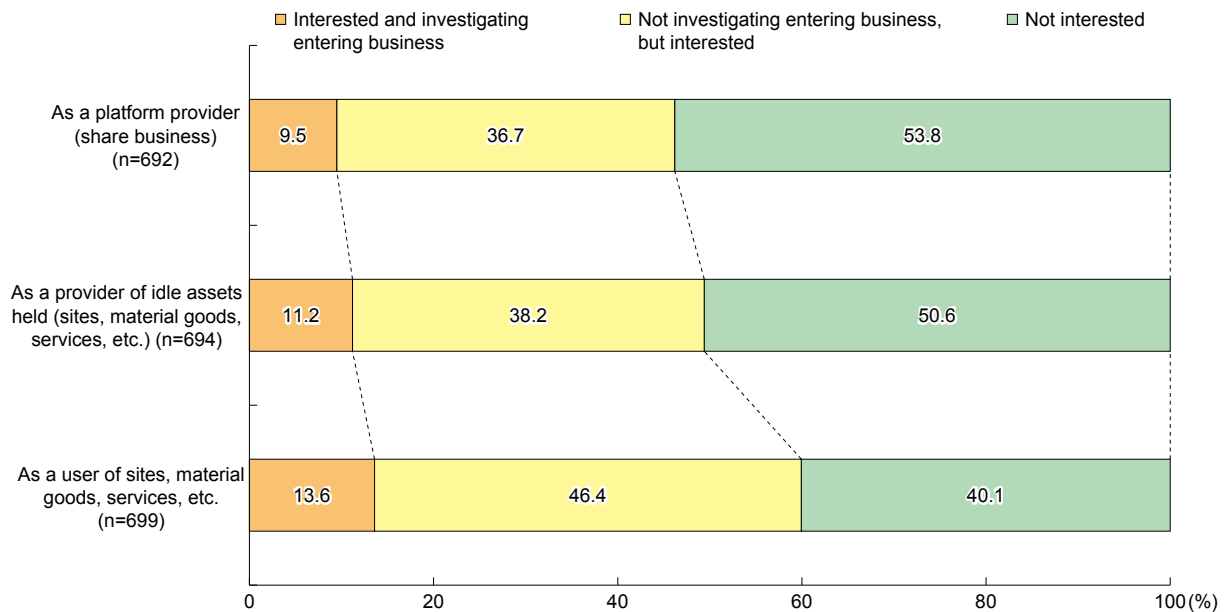
Fig. 2-3-49 Levels of familiarity with sharing economy, by manager's generation



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Here, let us look at the levels of interest at entering a business among enterprises that are familiar with the sharing economy. Fig. 2-3-50 shows the levels of interest in the sharing economy from the perspectives of (1) share

business, (2) provider, and (3) user. It reveals that the level of interest in this economy and in investigating entering the business was highest among the users of sites, material goods, and services at 13.6%.

Fig. 2-3-50 Levels of interest in the sharing economy

Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Asked to the enterprises that answered to the sharing economy recognition question, “know about, but not making use of.”

(3) Issues regarding making use of the sharing economy

Here, we will look at the issues regarding making use of the sharing economy. Fig. 2-3-51 analyzes the issues shared among and that are individual to platform operators, providers, and users.

Starting issues shared by all three parties, the one most frequently cited was “Lack the technology and personnel with know-how” regardless of whether an enterprise was or was not investigating entering the business. Additionally, among enterprises investigating entry 33.0% saw “Did not find suitable party with whom to consult” as an issue, while 30.3% of those enterprises not yet investigating entry cited “Rules for mechanism overall unclear, sparks uneasiness.”

Looking next at the issues for users, enterprises investigating getting into the business cited “Uneasy about quality of sites, material goods, and services, etc., to be used,” while 56.9% of those enterprises not doing such investigations raised “Uneasy about exchanges with opposite parties not known personally.” This indicates that the points making these parties uneasy differ based on the differences in the status of their investigations at

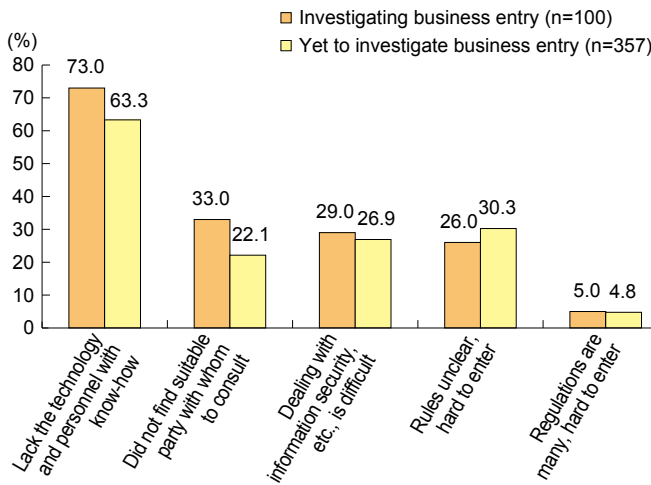
entering the business.

Turning next to issues for share businesses, general speaking the issue most frequently cited was “Building business model is difficult” with 55.6% of enterprises investigating entry into the business and 64.7% of those not conducting such investigations choosing it. Many of the issues other than these cited by enterprises investigating entry into the business had to do with getting the business off the ground, including “Need to fulfill prepare compensation in the event of accidents” by 44.4% and “Cost burdens for launching business” by 42.4%.

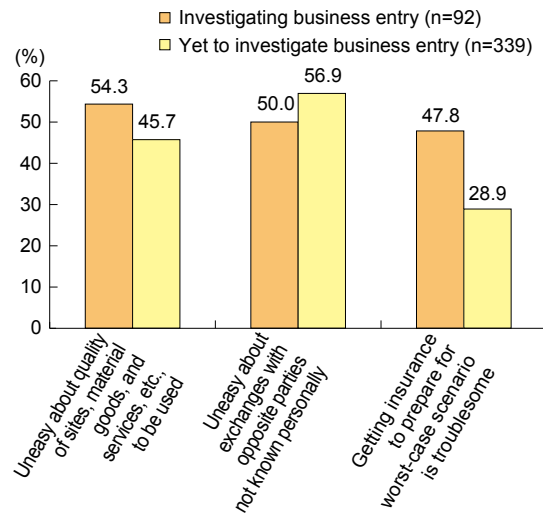
Finally, in terms of issues for providers among enterprises investigating getting into the business the most frequently cited issue was “Mismatch with user desires and standards” at 58.0%. “Building relationship of trust with share businesses” also accounted for 42.0%, suggesting that they sense issues not just over working to build relationships with users but also with their fellow share businesses. For enterprises not investigating getting into the business, the most frequently cited issue was “Uneasy about exchanges with opposite parties not known personally” at 42.1%, displaying the same tendency as seen in the issues for users.

Fig. 2-3-51 Issues for enterprises not making use of the sharing economy

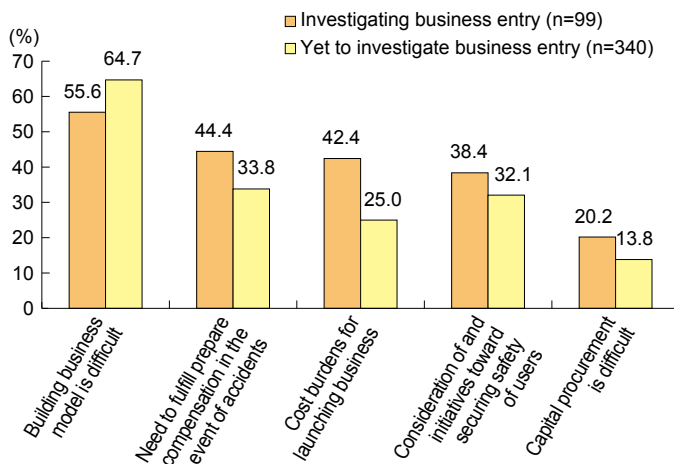
(1) Shared issues



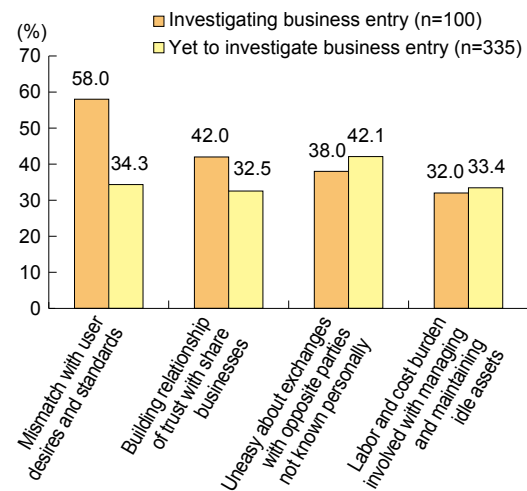
(2) As a user of material goods and services



(3) As a platform provider (share business)



(4) As a provider of material goods and services



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Enterprises answered "not interested" about the sharing economy are excluded from the total.

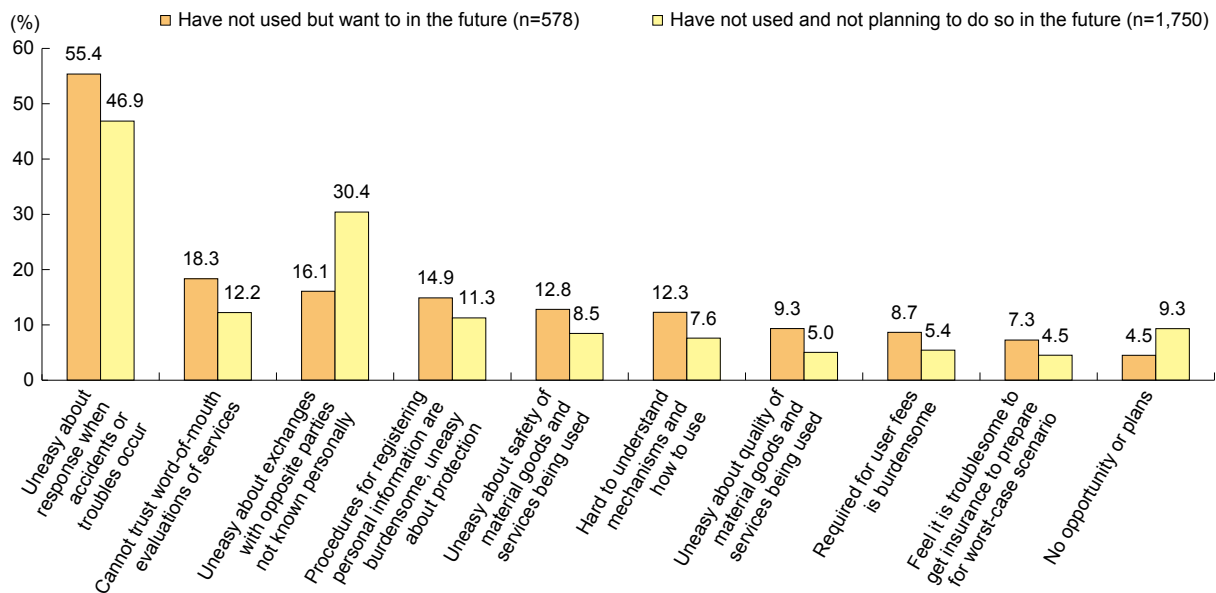
Let us next attempt an analysis of the issues related to using the sharing economy from the perspective not only of enterprises but also consumers. Fig. 2-3-52 breaks down the issues to those faced as a user and those faced as a provider, and also analyzes the issues based on the status of individual use.

First, when it comes to issues as a user "Uneasy about response when accidents or troubles occur" scored the highest. This was followed by "Have not used but want to in the future" at 55.4% and "Have not used and not planning to do so in the future" at 46.9%.

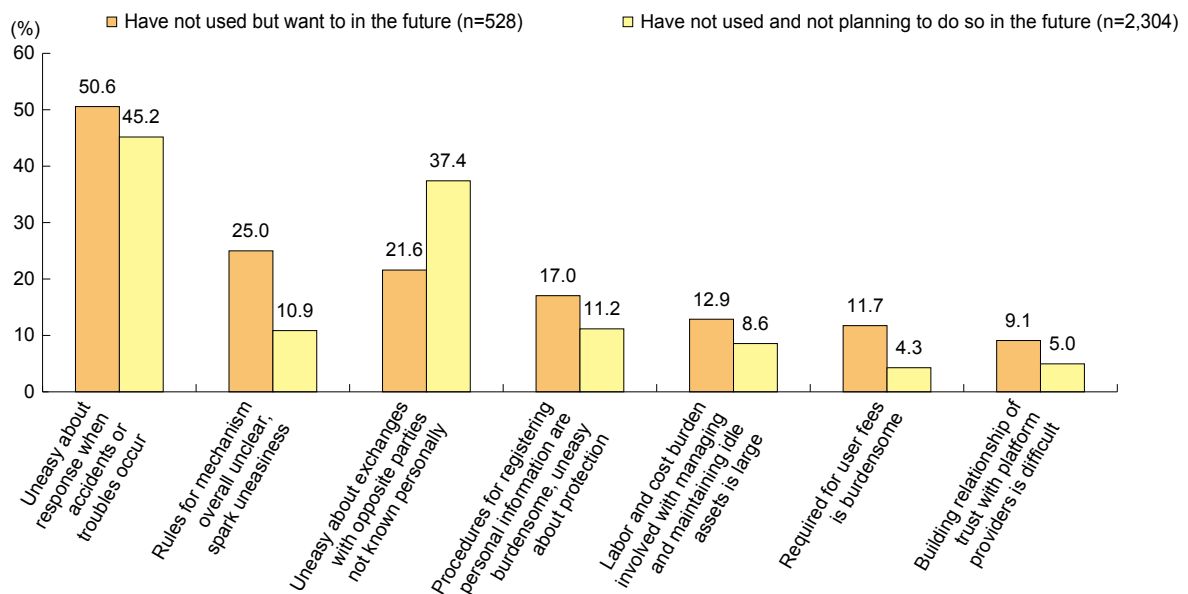
Looking next at the issues as a provider, as with the case of users the most frequently cited issue was "Uneasy about response when accidents or troubles occur." Also, 25.0% of those who said "Have not used but want to in the future" indicated "Rules for mechanism overall unclear, spark uneasiness" was an issue for them. As to those who "Have not used and not planning to do so in the future," 37.4% indicated they were "uneasy about exchanges with opposite parties not known personally."

Fig. 2-3-52 Issues for individuals arising from using sharing economy

(1) As a user of material goods and services



(2) As a provider of material goods and services



Source: Nomura Research Institute, Ltd., *Questionnaire on Changes in Consumer Behavior* (December 2016), commissioned by the SME Agency.

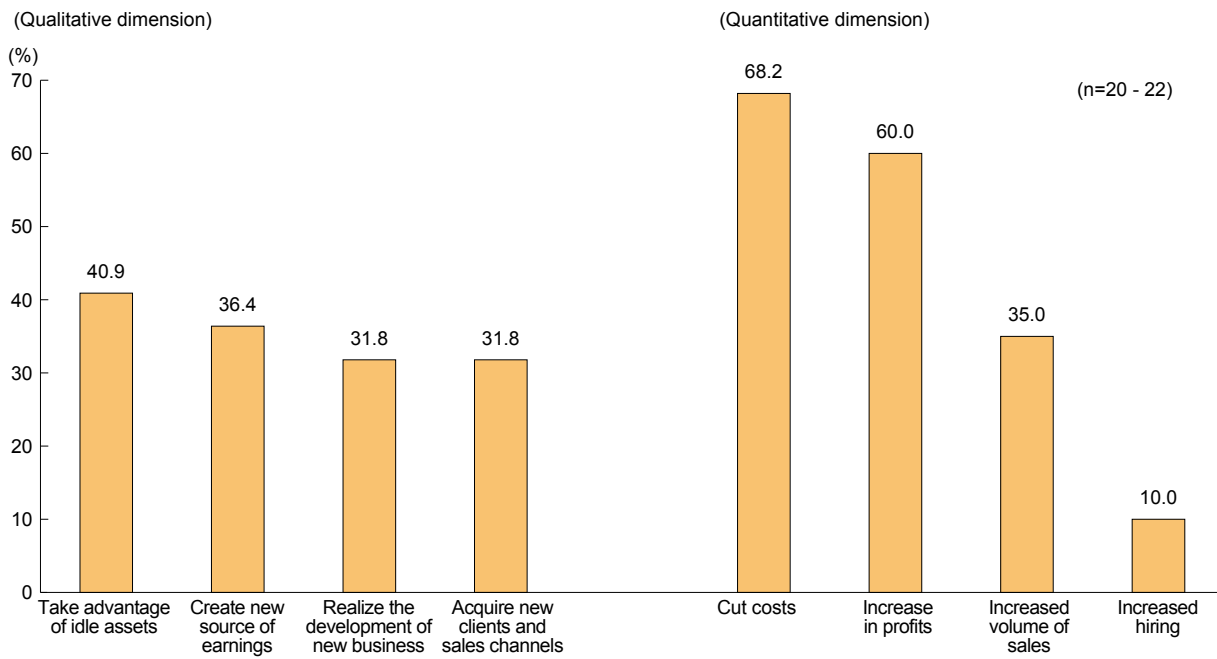
Note: Total does not always equal 100% as multiple responses were possible.

(4) Effects of the sharing economy

Finally, let us look at the effect that using the sharing economy produces from qualitative and quantitative dimensions (Fig. 2-3-53). Qualitatively, a high percentage of enterprises reported feeling effects on such points as

making use of idle assets and creating new sources of earnings. Quantitatively, a high percentage of enterprises sensed that they would cut costs and the profits would increase.

Fig. 2-3-53 Effects from making use of the sharing economy



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Case 2-3-7 Nokisaki Inc.

A company that provides a service enabling users to easily find and use unused spaces anywhere and at any time

Nokisaki Inc. (employees: 17; capital: ¥187.7 million), located in Chiyoda City, Tokyo, provides a Web-based service that matches the owners of properties and unused spaces with people wishing to make use of them.

The company's "Nokisaki Business"³⁵⁾ service focuses on unused spaces that are not handled by the conventional real estate market, for example at the front of stores or on roofs, and enables customers to make use of them for shorter periods than other services. Part of the "sharing economy," this service offers a new business model that has attracted attention as being of mutual benefit to owners, who are easily able to rent out their unused assets via the Internet, and users, who are able to use those unused assets at low prices.

Nokisaki Business has approximately 3,500 spaces throughout the country on its books, including empty spaces in stores and vacant land. Users are able to search for empty spaces on the Web, book them for the dates they wish to use them, and open a pop-up store or branch operation when they receive approval from the owner. Use fees are set by the owners, but users and owners are able to negotiate prices after they have been matched.

Due to the ease and convenience of the service, more than 4,000 companies now make use of it, with the majority being single proprietor businesses and SMEs. The spaces are used for a wide variety of applications, including mobile lunch catering, pop-up sale of clothing and general goods, insurance and real estate promotions, the holding of classes and events.

Nokisaki Business has established a system that prevents problems in advance, enabling both users and owners to use its services with complete peace of mind. For example, when users register with the company, it reviews factors including their eligibility and insurance coverage, and ensures that insurance against damage is taken out in case a user damages some part of a space. It also provides services including consultations regarding spaces that can be used for specific stores, and support for advertising and attracting customers, services that are particularly convenient for SMEs facing a lack of knowhow or labor power. Company President Akiko Nishiura is seeing large corporations adopting the business model of opening stores in unused spaces for short periods, allowing customers to experience the products on sale, and recognizes that the use of empty spaces in this way is increasingly taking off. Ms. Nishiura is now looking towards the expansion of the business model, for example by providing package products that provide support for people who would like to try a pop-up store before starting their own business, and making use of regional real estate resources in cooperation with local governments.

35) The company also operates a parking lot share service called Nokisaki Parking.



Selling vegetables in the unused space in front of an office building

累計売上 No.1 のポップアップストア予約サービス

鮮先ビジネスは、2008年のサービス開始以来、そのスペースでビジネスする皆さんを応援してきました。まだまだ「ポップアップストア」文化が花開いていない日本。皆さんと一緒に、日本のポップアップストア市場を盛り上げていきたいです。}

- 登録スペース数 **7,000 件以上!**
茨山の鮮先スペース登録をありがとうございます!
- 登録利用者数 **10,000 件以上!**
様々な方が鮮先スペースでビジネスしています!
- ポップアップストア出店数 **20,000 件以上!**
「スペース×ショップ」の出会いが、茨山の共創ストーリーを生んでいます。今までもこれからも、ポップアップストア市場を広げていきます!

Nokisaki Business's website

Section 5 Summary

In the present chapter, we have looked at the development of new businesses by SMEs. The chapter first ascertained how new business development contributes to the growth of SMEs and spoke of the importance of implementing such initiatives. It then focused on those enterprises that succeeded in this area and those that did not, and analyzed the background, motives, and issues involved with implementing these initiatives. In examining the results of such initiatives, it found that most of the issues involved related to “marketing activities,” “lack of human resources,” and “acquiring the technology and know-how needed.” First, as a factor behind success it took up marketing activities and spoke of the initiatives and traits of those enterprises that were successful and also looked at the issues faced by those enterprises that were not. Among enterprises that succeeded, it was apparent that they had strengths when it came to grasping market needs and that they had as a trait of their internal structure a planning division for grasping those needs. Furthermore, the examination indicated that those enterprises that went beyond partial implementation of marketing activities to also evaluate and validate them tended to see increased profit rates compared to those enterprises that did not. Additionally, they also obtained such effects as improved motivation among employees and improved name recognition for their enterprise.

Second, this paper presented making use of outside resources as one measure for resolving the lack of human resources issues that was brought up as a problem related to engaging in new business development. It surveyed how SMEs are actually making use of such sources while also looking at the issues that arise toward doing so. The paper found that using outside resources had a positive effect on SME profits, and also made plain the fact that those

SMEs using such resources in actuality do not perceive problems to the degree they anticipated. We can say that SMEs with limited management resources are called upon to consider using such using outside resources as they proactively pursue the development of new business in their aim for future growth.

Third, with regard to acquiring the necessary technology and know-how the paper took up R&D activities at SMEs. It ascertained that here, too, those enterprises that succeeded in the development of new business were more likely to engage in such activities than those enterprises that did not succeed.

The paper also touched on in Section 4 the rise of such new technologies as IoT and such new economic mechanisms as the sharing economy. At present, the degree to which SMEs are taking advantage of new technologies and the sharing economy remains low. However, there is a tendency for those enterprises that are making use of such things to see such effects as an increased volume of sales and a reduction in the costs of doing business. For example, non-manufacturing SMEs can use such technologies to visualize work processes and by linking this to improvements in work there is the possibility it will lead to productivity improvements. The paper also found that the level of interest among SMEs regarding the sharing economy as a means for obtaining new business opportunities is relatively high. While it found that a variety of issues arise when it comes to adopting such new technologies or taking advantage of the sharing economy, it found with respect to new technologies as shown in Column 2-3-4 that the supply of tools that SMEs can easily use at low cost is expanding. For SMEs, making use of such tools can serve as an effective means for adopting new technologies.

In conclusion, the present chapter has surveyed the state of SME initiatives toward the development of new business and touched on the factors behind succeeding at such. In conjunction with this, it analyzed the issues and effects with respect to taking advantage of new technologies and the sharing economy. It has shown that the environment surrounding SMEs as ever remains a harsh one with such issues as human resource insufficiencies and a whirlwind

of changes in the marketplace. However, by facing the market squarely, carrying out effective marketing activities, pursuing new business models by making use of R&D and new technologies, and proactively also making use of outside resources as needed, SMEs can guide their new business development initiatives to success and anticipate achieving further growth.

Chapter 4

Overcoming the personnel shortage

Chapter 3 of Part I found that employment in Japan is improving overall with the slowly recovering national economy. It also found, on the other hand, that the employment situation facing SMEs is characterized by a decline in the working age population and a persistent tendency to favor large enterprises among those nearing university graduation and those making job changes. These and other factors have created a serious labor shortage. Additionally, as Japanese industry goes through structural changes, the sense of whether there is a surplus or shortage of manpower depends on the industry and occupation, even among SMEs.

This situation is considered in Chapter 4, in which we analyze how well SMEs are securing personnel, which is a common problem throughout the SME life cycle of new business startup/establishment, business succession, and growth through expansion into new businesses. The chapter also reviews the medium- to long-term outlook to secure personnel, and extracts a number of issues SMEs need to be addressing today and some effective countermeasures.

In Section 1, we classify SMEs into two categories based on the business development policies they are pursuing. We further classify the type of personnel they are looking for into two groups based on the worker's skills and on business process characteristics. In this manner, we use the “*Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses*”¹⁾ to analyze what types of personnel are in short supply at what types of SMEs and what impact the personnel shortage is having.

In Section 2, we analyze what can be done to reduce the mismatch between SMEs and job seekers and help SMEs hire successfully even as the competition to secure personnel becomes more intense. This will be considered from both the SME's and the job seeker's point of view. We will also extract the characteristics of enterprises that successfully secure personnel by creatively putting those persons to use, so the enterprise can both hire and retain personnel.

In Section 3, we turn the focus to human resources that have had a low labor force participation rate up to now. We analyze the characteristics of enterprises who employ such persons by granting them permission to work flexibly, and the effects that can be gained by employing diverse personnel and facilitating flexible work styles.

The decline in the working age population is a structural problem for Japan that will not disappear in the short term. Section 4 looks at the efforts of SMEs who have foreseen the supply limitations (i.e., the personnel shortage) they will face in the future. This is considered from such perspectives as labor-saving investment and the use of outside resources. We find a number of effective countermeasures for helping Japan's SMEs to develop sustainably under today's circumstances.

1) Commissioned by the SME Agency, Mizuho Information & Research Institute conducted a questionnaire survey of 25,000 SMEs in November 2016 (with a response rate of 16.3%) and 4,000 online survey-takers (employed persons) in December of the same year.

Section 1 The personnel shortage and its impact

This section discusses the issues SMEs face securing personnel and looks for solutions and the outlook going forward. It analyzes the current situation of SMEs facing that problem and tries to determine what kind of personnel are in short supply, and to what degree, in terms of the business development policies each such enterprise has.

We will analyze the types of personnel that SMEs

are looking for by classifying them into two groups, as described below: “core personnel,” who have a high degree of expertise and technical skill and are the backbone of business activities, and “labor personnel,” who work under the command of core personnel, providing the labor that is indispensable to business operations (Fig. 2-4-1).

Fig. 2-4-1 Definitions of personnel in this chapter

[Categories of personnel]	Core personnel	<ul style="list-style-type: none"> • Personnel who work at the core of each department and work in high-level and difficult business processes. • Personnel in charge of organizational management and operations. • Personnel who command and manage multiple persons. • Personnel with a high degree of expertise, technical skill, and proficiency.
	Labor personnel	<ul style="list-style-type: none"> • Personnel who work in relatively fixed business processes in each department. • Personnel that are not in charge of organizational management and operations. • Personnel who work under the command and management of core personnel. • Personnel who assist core personnel. • Additionally, personnel who do not have a high degree of expertise, technical skill, and proficiency, but provide labor that is indispensable to business operations.

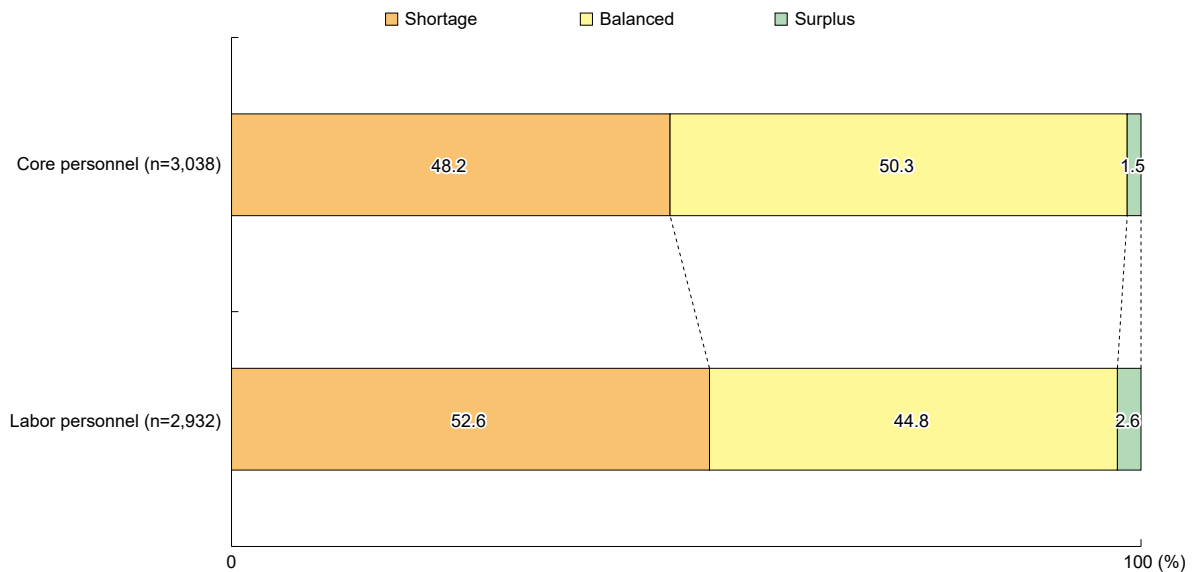
Each SME, moreover, has to accurately secure the quality and quantity of personnel in demand in each work domain for the SME to achieve the business development policies it is pursuing. Therefore, we classify the work domains in which personnel are engaged into

seven categories: “administrative planning,” “internal management,” “finance and accounting,” “information systems,” “R&D and design,” “marketing, sales, and service,” and “production and transportation.” We look at the state of the personnel shortage in each category.

1. Surplus or shortage of personnel

To begin, Fig. 2-4-2 looks at the overall surplus or shortage of core personnel and labor personnel at SMEs. The figure indicates that in each of these personnel

categories, about half of all SMEs feel there is a personnel shortage.

Fig. 2-4-2 Personnel surplus or shortage at SMEs

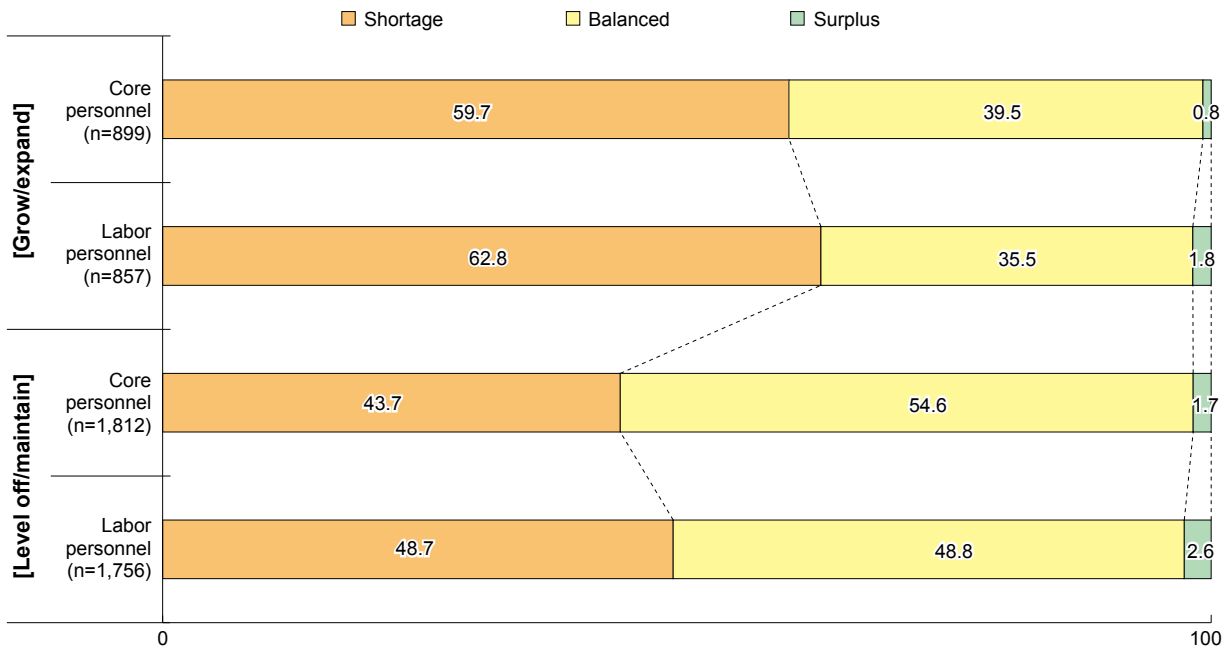
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

(1) Personnel surplus or shortage, based on business development policies

Next, the business development policies of SMEs going forward were classified into four types: “grow/expand,” “level off/maintain,” “cut back,” and “cease business.” Of these, the two types “grow/expand” and “level off/maintain” require personnel for their business

development. Fig. 2-4-3 shows the personnel surplus or shortage for these two types. The figure shows that a majority of enterprises with grow/expand policies feel there is a shortage of both core personnel and labor personnel, suggesting that they face limitations on their growth.

Fig. 2-4-3 Personnel surplus or shortage, by type of business development policies



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

(2) Surplus or shortage of personnel by work domain

Enterprises were given four choices to describe personnel shortage conditions in each work domain: “shortage,” “balanced,” “surplus,” or “no applicable work domains.” The percentage of enterprises answering “shortage” is shown in Fig. 2-4-4. Additionally, considering that different industry sectors emphasize different work domains, we first look at the personnel shortage in the manufacturing industries.

First, within manufacturing industries, we looked at the situation at enterprises with grow/expand business development policies (below, “growth/expansion-oriented enterprises”). We found that a majority of enterprises felt that in “marketing, sales, and service” (typically front office jobs) and in “production and transportation” (work-site jobs) there is a shortage of both core personnel

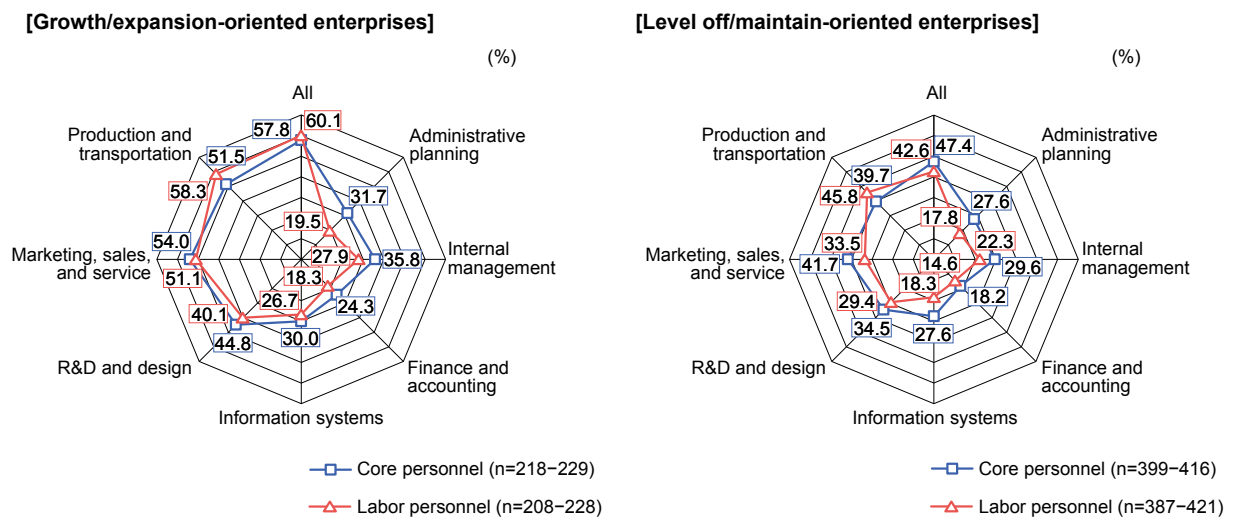
and labor personnel. Particularly in the “production and transportation” domain, there was a strong sense of a work-site labor shortage, with 58.3% of enterprises saying this was the case. There was a relatively strong sense of a core personnel shortage (as opposed to a labor personnel shortage) in the domains of “R&D and design” (44.8%), “internal management” (35.8%), and “administrative planning” (31.7%). This indicates a shortage of personnel to perform specialized work and management, which are fundamental to growth.

Next, within the manufacturing industries, we look at the situation at enterprises with level off/maintain business development policies (below, “level off/maintain-oriented enterprises”). The differences between the relative surplus or shortage of core personnel and labor personnel largely match the trends of growth/expansion-oriented enterprises, but there is a relatively strong sense of a

shortage of core personnel in every work domain except “production and transportation.” The sense of a shortage of core personnel was strongest in the work domains of “marketing, sales, and service” (41.7%), “production and transportation” (39.7%), and “R&D and design” (34.5%).

Among both growth/expansion-oriented enterprises and level off/maintain-oriented enterprises, there was less sense of a shortage of core personnel and labor personnel in “finance and accounting” than in other work domains.

Fig. 2-4-4 The personnel shortage in manufacturing industries, by work domain



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Enterprises were given four choices to describe personnel shortage conditions in each work domain: “shortage,” “balanced,” “surplus,” or “no applicable work domains.” The figure shows the percentage of enterprises answering “shortage.”

We also look at the personnel shortage conditions in non-manufacturing industries by work domain (Fig. 2-4-5). Growth/expansion-oriented enterprises had the strongest sense of a front office personnel shortage. In the domain of “marketing, sales, and service,” more than 50% of enterprises sensed a shortage of core personnel and more than 60% felt the same of labor personnel. This suggests that, among non-manufacturing industries, the impact of a labor shortage could be especially strong for industries like the service industry, which is labor-intensive and has a strong tendency for simultaneous production and consumption, cannot typically carry inventory, and cannot easily use mechanization or other labor-saving means in the front office.

Among growth/expansion-oriented enterprises, after the above, the sense of a shortage of core personnel was

strongest in the domain of “administrative planning” (36.3%) and “internal management” (35.6%). There would seem to be a shortage of personnel in the back office too, to write business strategy and perform management.

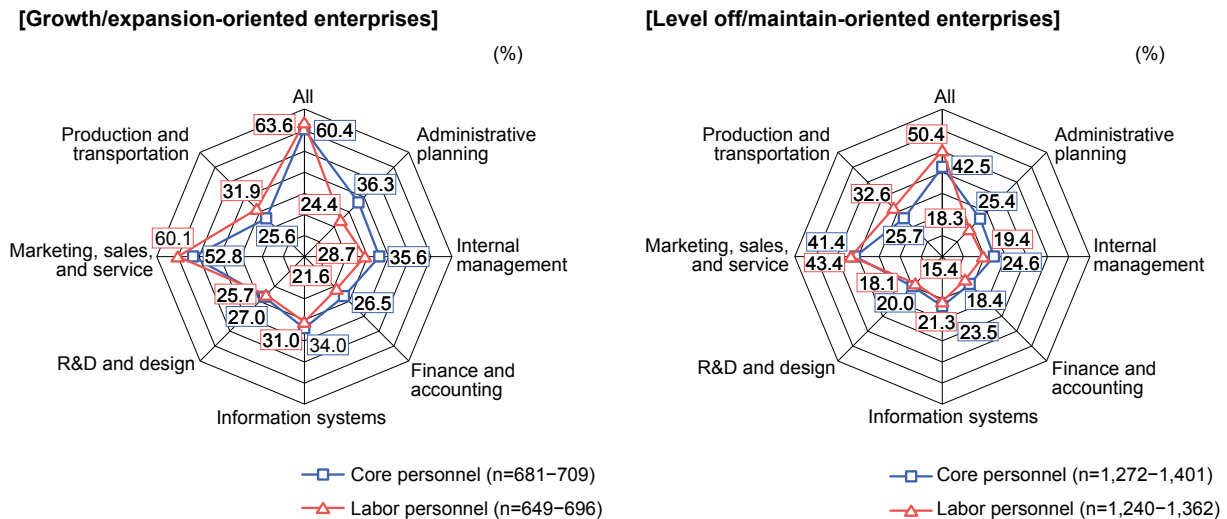
At level off/maintain-oriented enterprises, similar to the trend among manufacturing industries, there was less sense of a personnel shortage as compared to growth/expansion-oriented enterprises, but there was a strong sense of a front office labor shortage. More than 40% of these enterprises replied that there was a shortage in the domain of “marketing, sales, and service” for both core personnel and labor personnel.

Non-manufacturing industries, like manufacturing industries, had relatively little sense of a shortage in the domain of “finance and accounting.” This is possibly because it is easy to assign some business processes

to consulting tax accountants, other accountants, and the like, and by implementing accounting software or other IT, these processes can be handled with relatively few people, among other factors. Even within the same enterprise, there can be differences in the relative surplus

or shortage of personnel between different work domains. Enterprises may need to ascertain what staff are really needed in each domain, assess each person's aptitude and wishes, and then optimize staff allocation by training people and transferring them internally.

Fig. 2-4-5 The personnel shortage in non-manufacturing industries, by work domain



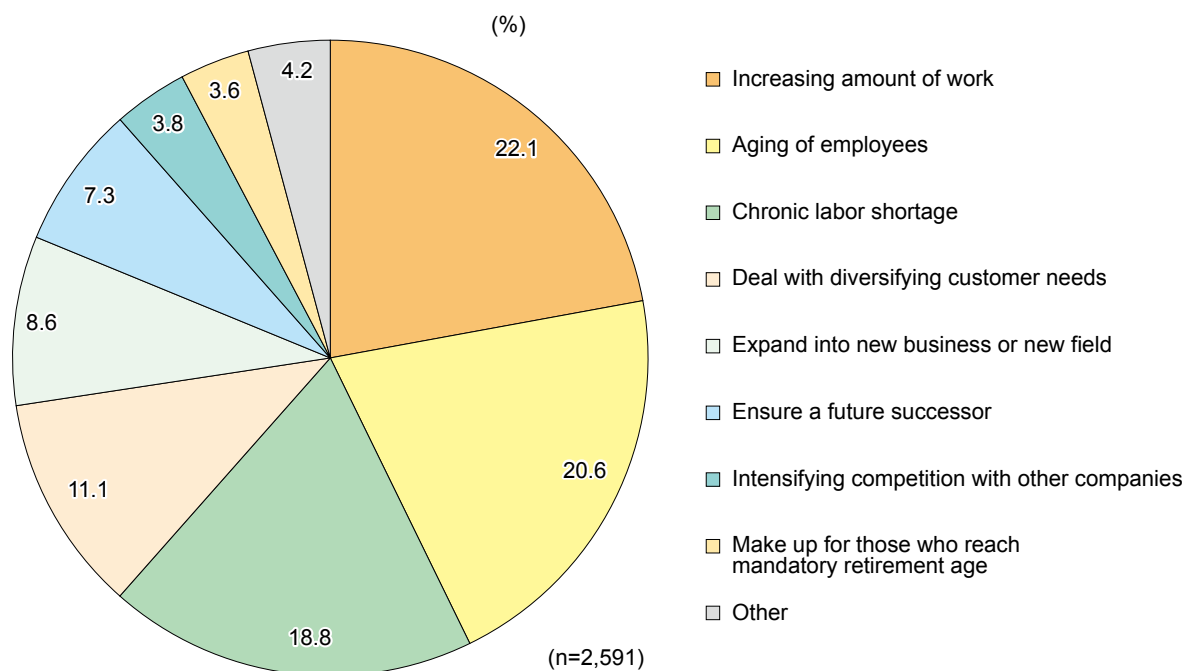
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Enterprises were given four choices to describe personnel shortage conditions in each work domain: “shortage,” “balanced,” “surplus,” or “no applicable work domains.” The figure shows the percentage of enterprises answering “shortage.”

(3) Conditions making it necessary to secure personnel

What kinds of conditions are making it necessary for SMEs to secure personnel? Fig. 2-4-6 shows the situation found at SMEs overall. It shows that over 40% of enterprises mentioned an “increasing amount of work,” a need to “deal with diversifying customer needs,” or a

desire to “expand into new business or new field,” and thus need to secure personnel in response to economic recovery or changing customer needs. On the other hand, nearly 40% of enterprises answered that they need to secure personnel because of unavoidable conditions, such as “aging of employees” or a “chronic labor shortage.”

Fig. 2-4-6 Conditions making it necessary to secure personnel going forward

Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Respondents were asked about their need to secure personnel over the next three years. Those who answered that they need to secure “core personnel” or “labor personnel” were asked to list their top three reasons for needing to secure personnel, listing the reasons from No. 1 to No. 3. Totals above are of the answers that were given as the No. 1 motive.
 2. “Other” is the total of the responses “increase in number of staff quitting,” “overseas expansion,” “increase in number of staff taking time off to raise children or provide care,” and “other.”

We mentioned previously that there is a stronger sense of a personnel shortage among growth/expansion-oriented enterprises. Fig. 2-4-7 looks at differences in the conditions making it necessary to secure personnel, by business development policies, among these enterprises.

Growth/expansion-oriented enterprises strongly tend to mention an “increasing amount of work” as a reason they need to secure both core personnel and labor personnel. Among enterprises that replied they only particularly needed to secure core personnel, the reason “expand into new business or new field” got the highest response rate, at 30.4%.

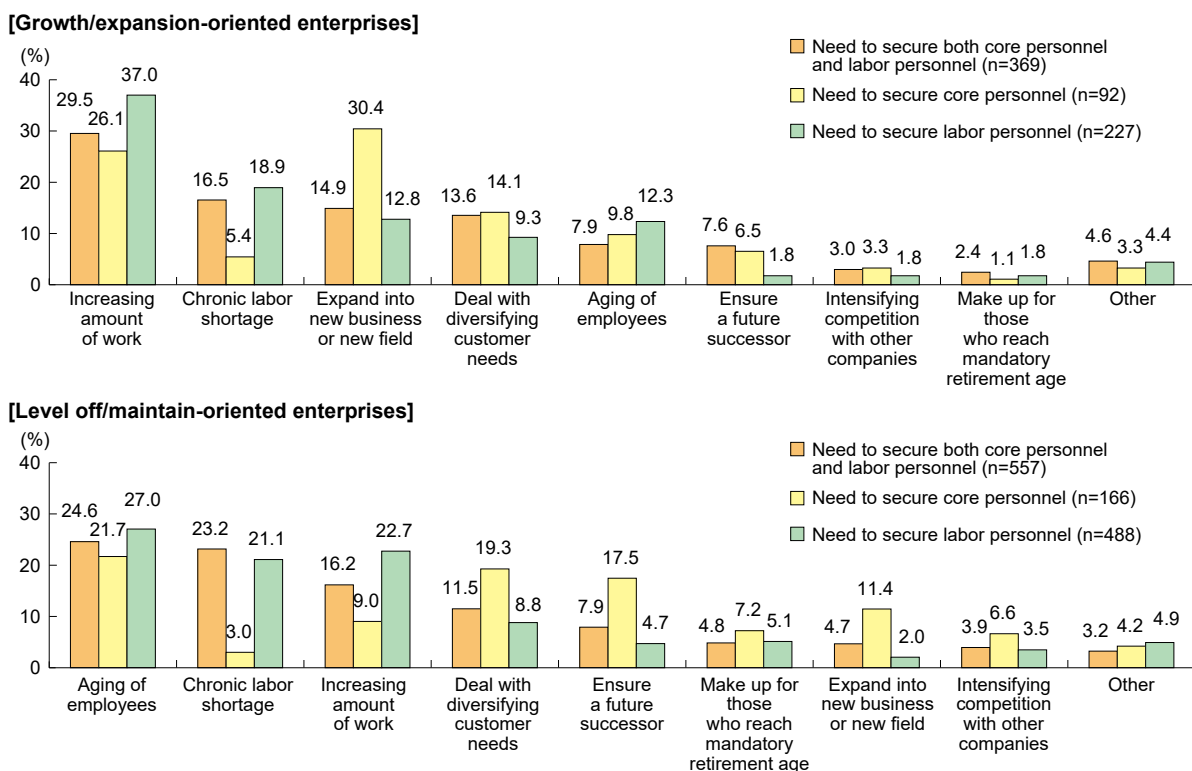
For level off/maintain-oriented enterprises, on the other hand, the overall high answer was “aging of employees.” This may indicate that enterprises need to secure young personnel because the average age of employees is rising²⁾ and there is a need for business continuity. And among those enterprises that answered they needed only to secure

core personnel, many answered that the reason making it necessary was to “deal with diversifying customer needs” or to “ensure a future successor” (unlike the case with growth/expansion-oriented enterprises). This suggests that even businesses with a level off/maintain orientation need core personnel to respond to changes in the external environment and prepare for business succession.

Among enterprises that, regardless of their business development policies, answered that they “need to secure both core personnel and labor personnel” or “need to secure labor personnel,” a markedly higher percentage answered they faced a “chronic labor shortage” compared to those that answered that they “need to secure core personnel.” This suggests the possibility that as the Japanese economy makes a gradual recovery and employment indicators continue to improve as shown in Part I, Chapter 3, it is getting difficult for SMEs to secure personnel for their labor force overall, increasing the sense of a shortage.

2) See Appended note Comment 2-4-1. Asked about the age structure of their staff, about half of level off/maintain-oriented enterprises said that “veterans are the biggest part of the staff.”

Fig. 2-4-7 Conditions making it necessary to secure personnel, by type of personnel needed, by business development policies



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Respondents were asked about their need to secure personnel over the next three years. Those who answered that they need to secure “core personnel” or “labor personnel” were asked to list their top three reasons for needing to secure personnel, listing the reasons from No. 1 to No. 3. Totals above are of the answers that were given as the No. 1 motive.
 2. “Other” is the total of the responses “increase in number of staff quitting,” “overseas expansion,” “increase in number of staff taking time off to raise children or provide care,” and “other.”

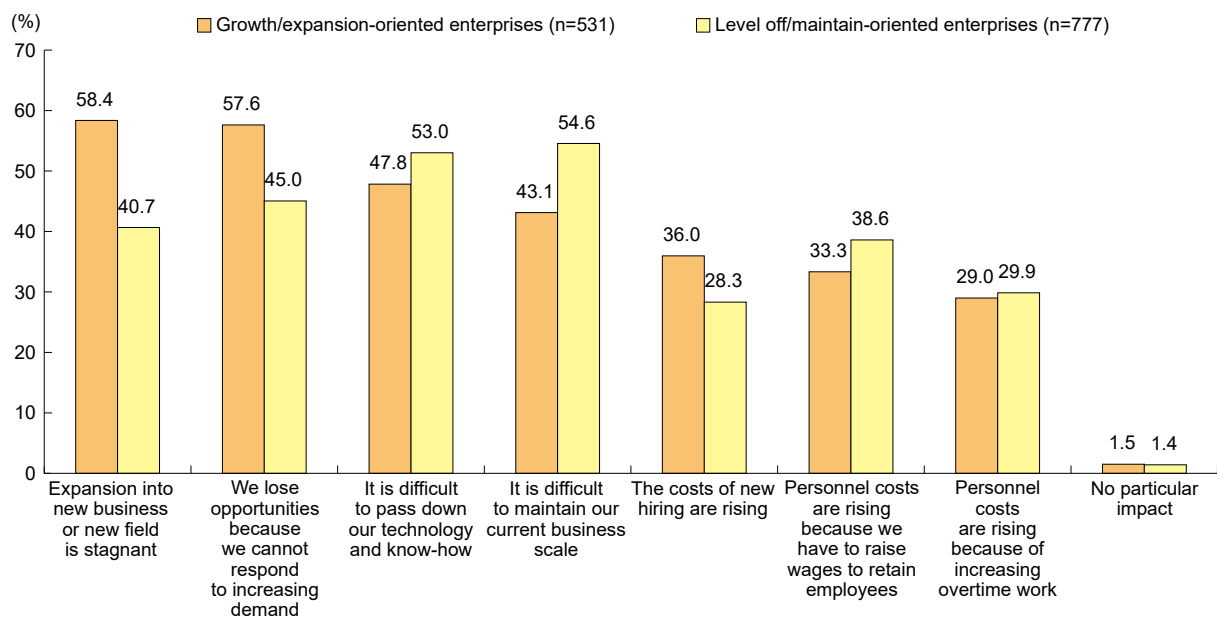
(4) Impact of personnel shortages on SMEs

What kind of impact do personnel shortages have on SME management and their workplace environment? Fig. 2-4-8 compares the impact of a shortage of core personnel on management for enterprises with different business development policies. It shows that among enterprises with a shortage of core personnel, very few answer that there is “no particular impact” on their management and nearly all feel that the shortage of core personnel has some kind of impact on management.

Comparing the differences by type of business development policies, the responses “expansion into new business or new field is stagnant” and “we lose

opportunities because we cannot respond to increasing demand” each were chosen by nearly 60% of growth/expansion-oriented enterprises. This suggests that shortages of core personnel limit expansion into new business and growth.

Among level off/maintain-oriented enterprises, the most commonly chosen response was “it is difficult to maintain our current business scale” (54.6%), followed by “it is difficult to pass down our technology and know-how” (53.0%). This suggests a strong sense of crisis that a shortage of core personnel will make it hard to maintain the scale of business and pass down technical skills at these enterprises.

Fig. 2-4-8 Impact of a shortage of core personnel on management, by type of business development policies

Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. The relative surplus or shortage of personnel was found by adding those who answered, “there is a shortage of both core personnel and labor personnel” with those who answered, “there is a surplus or just the right amount of labor personnel but a shortage of core personnel.”

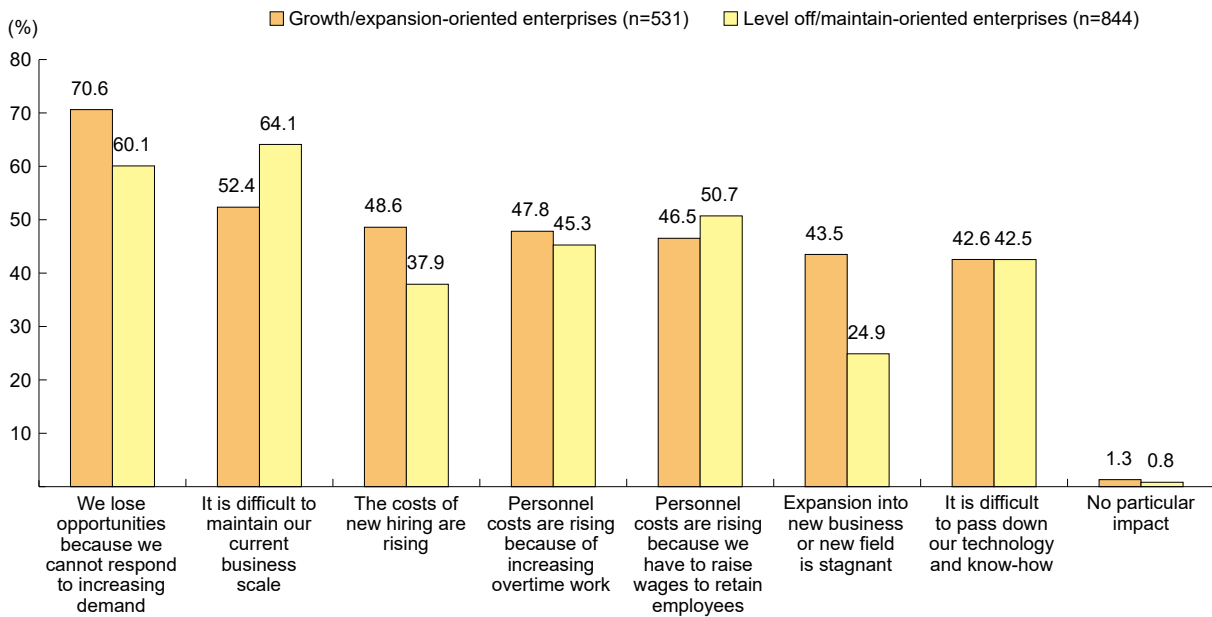
Similarly, Fig. 2-4-9 compares the impact of a shortage of labor personnel on management for enterprises with different business development policies. The percentage of enterprises that responded, “we lose opportunities because we cannot respond to increasing demand” was about 70% for growth/expansion-oriented enterprises and about 60% for level off/maintain-oriented enterprises, meaning that a shortage of labor personnel has a big impact on business growth.

A higher percentage of level off/maintain-oriented enterprises answered, “it is difficult to maintain our current business scale” than was the case with growth/expansion-oriented enterprises. This would seem to indicate a trend similar to the impact that a shortage of core personnel has as in Fig. 2-4-8. The background to this could be the fact

that level off/maintain-oriented enterprises by definition only wish to keep their business scale and that, as shown in Fig. 2-4-7, they have a high average employee age and limited ability to deal with increased work hours, among other factors. Unless they can secure new personnel, such enterprises will not be able to maintain their current business scale.

Additionally, the percentage overall that answered, “the costs of new hiring are rising,” “personnel costs are rising because of increasing overtime work,” or “personnel costs are rising because we have to raise wages to retain employees” indicated a greater impact than the impact of a core personnel shortage as found in Fig. 2-4-8. This is conjectured to mean that a quantitative shortage of personnel has a big cost impact.

Fig. 2-4-9 Impact of a shortage of labor personnel on management, by type of business development policies



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. The relative surplus or shortage of personnel was found by adding those who answered, “there is a shortage of both core personnel and labor personnel” with those who answered, “there is a surplus or just the right amount of core personnel but a shortage of labor personnel.”

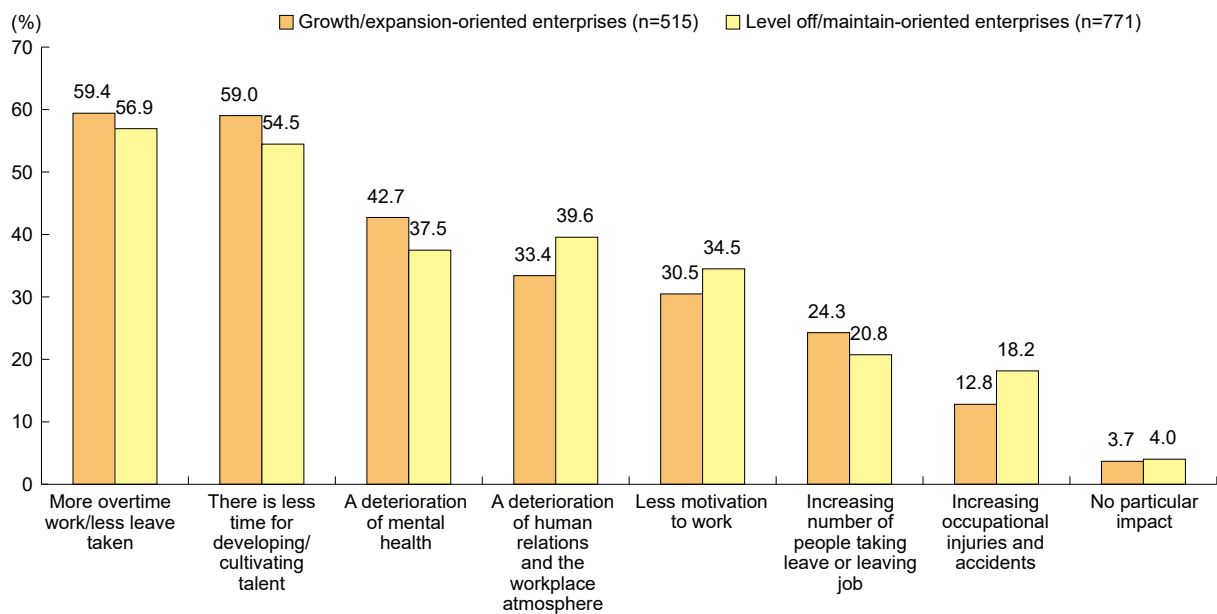
Up to this point we have looked at the impacts of personnel shortages on management, but such shortages are also expected to have some kind of impact on the working environment, that is, the workplace. Fig. 2-4-10 shows a shortage of core personnel has an impact on the workplace, just as it does on management, for enterprises with different business development policies.

First, the percentage of enterprises responding that a shortage of core personnel had resulted in “more overtime work/less leave taken” was close to 60%, regardless of business development policies. The reason why may be

that a shortage of core personnel means work is shifted to existing personnel, and that a shortage of administrative personnel slows down management, with the result that long work hours become the norm.

Additionally, a high percentage (59.0%) of growth/expansion-oriented enterprises answered that “there is less time for developing/cultivating talent.” This suggests that personnel shortages have the impact of limiting opportunities to cultivate personnel and make it difficult to pass on technology and know-how.

Fig. 2-4-10 Impact of a shortage of core personnel on the workplace, by type of business development policies



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

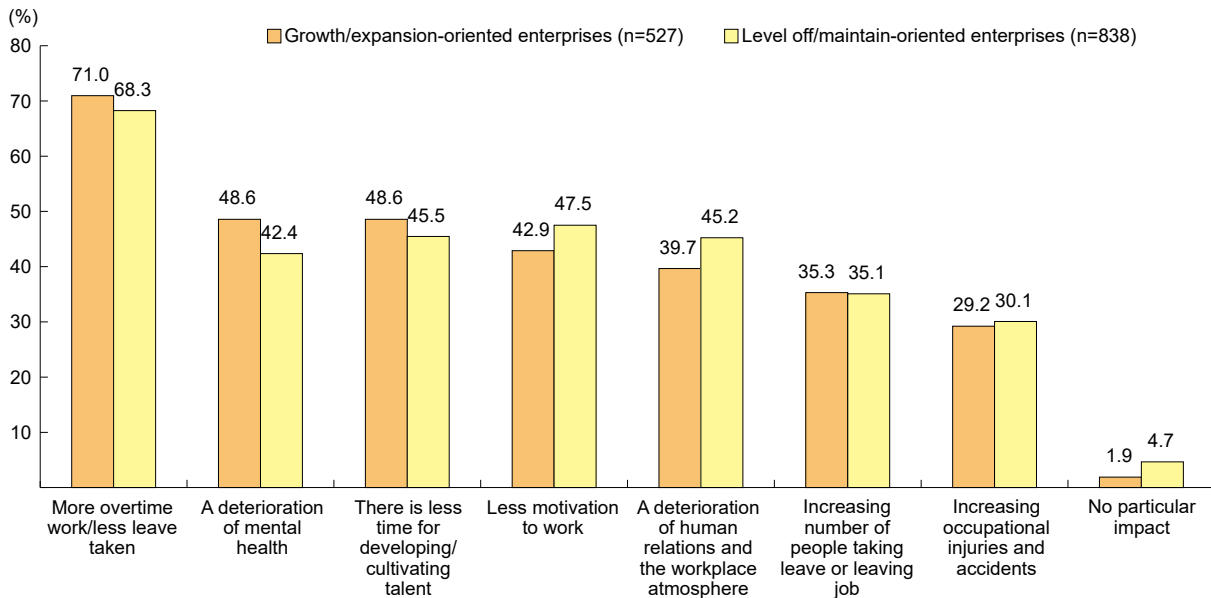
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. The relative surplus or shortage of personnel was found by adding those who answered, "there is a shortage of both core personnel and labor personnel" with those who answered, "there is a surplus or just the right amount of labor personnel but a shortage of core personnel."

Fig. 2-4-11 similarly shows the impact of labor personnel shortages on the workplace. It indicates that a high percentage of enterprises, regardless of business development policies, said that such a shortage had resulted in "more overtime work/less leave taken." This response was given by 71.0% of growth/expansion-oriented enterprises and 68.3% of level off/maintain-oriented enterprises, a rate much higher than any other response. It suggests the possibility that labor personnel shortages are causing more work to be shifted to existing personnel.

This work imbalance may cause a chain of other impacts, such as "a deterioration of mental health," "less motivation to work," and "a deterioration of human relations and the workplace atmosphere." Between 40% and 50% of enterprises saw these three points as problems, regardless of business development policies.

In addition, a high percentage of enterprises chose the answer "there is less time for developing/cultivating talent." As existing personnel have to take on more work, it would seem to prevent them from taking initiatives for the long-term cultivation of personnel.

Fig. 2-4-11 Impact of a shortage of labor personnel on the workplace, by type of business development policies



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. The relative surplus or shortage of personnel was found by adding those who answered, “there is a shortage of both core personnel and labor personnel” with those who answered, “there is a surplus or just the right amount of core personnel but a shortage of labor personnel.”

2. Conclusion

So far, we have found that the impacts that personnel shortages have on management and the workplace vary by the enterprise’s business development policies and the type of personnel who are in short supply.

One reason for these differences is thought to be that there is a gap in the extent to which enterprises are aware of a personnel shortage. Core personnel play a central role in each department and are responsible for management of the organization. They are in command of multiple labor personnel. Enterprises, however, do not have many personnel doing these jobs, and shortages of personnel like these cause lost opportunities for new business development and growth. They also have direct impacts on day-to-day enterprise management, so this sense of a shortage is recognized as a pressing concern. On the

other hand, labor personnel are more easily replaced than core personnel, so enterprises can deal with shortages of labor personnel in the short term, for example by having existing staff work longer hours. However, if the personnel shortage becomes more severe, the deterioration of the working environment could become acute, making it even harder to secure personnel. So, enterprises could come to see labor personnel shortages as having an impact on management when business continuity is considered.

Because shortages of both core personnel and labor personnel have undesirable impacts on the management and workplace environment of SMEs, it is important for SMEs to establish better workplace environments and secure and retain exactly the personnel they need so they can achieve their business development policies.

Column 2-4-1 Summary of “Research Group on Responding to Labor Shortages at SMEs and Micro-Businesses”

The “Research Group on Responding to Labor Shortages at SMEs and Micro-Businesses” launched on October 21, 2016 to discern the state of the labor shortage, pick out and analyze relevant policy issues, and consider necessary government policy. Specifically, the group considered how to alleviate labor shortages by increasing productivity and creating workplaces where diverse job seekers (including women and seniors) would want to work. Having met five times by March 3, 2017, the group has been actively pursuing the issue, for example by discussing actual case studies and finding opinions on dealing with labor shortages.

In one case study that came up, an enterprise found success by allowing “tiny work shifts” of just an hour a day, making it possible for housewives and house-husbands to work even though working full-time was not a good option. In another case, one business ran recruiting ads stating that it could accommodate those suddenly needing leave from the job. The appeal of flexible work styles was very effective. In addition, the group heard the comment that job seekers got a friendlier impression of enterprises that emphasized not just their strong points but also their weak points and deficiencies. This can be effective, contrary to what one might expect. Another mentioned that many SMEs could not give a smooth answer when asked what makes their company attractive to workers; these enterprises had not reconsidered their characteristics and appeal from the worker’s point of view. Yet another source commented that there are two approaches for dealing with labor shortages: hiring/retention initiatives to put a more diverse labor force to use and using productivity-boosting measures that do not depend on human labor. It is important, this source said, to deftly combine these two approaches. In this manner, the research group analyzed the case studies and considered them from various angles.

From these comments and the more than 100 SME case studies, the group extracted some key ideas, which were compiled into the group’s report in March 2017 and offered as Guidelines for dealing with labor shortages. Along with the case studies, the report described the importance of three specific steps: reconsidering the management issues and business processes; reconsidering the enterprise’s idea of productivity and staffing needs as they concern business processes; and taking the worker’s point of view when recruiting staff and establishing a workplace environment.

Fig. Column 2-4-1(1) Overview of Research Group on Responding to Labor Shortages at SMEs and Micro-Businesses (used for cabinet minister's panel discussion)

Research Group on Responding to Labor Shortages at SMEs and Micro-Businesses		Business Support Division, SME Agency Human Resources Policy Office, Economic and Industrial Policy Bureau, METI
The research group's discussion		
<p>○ From more than 100 positive case studies, three steps for dealing with labor shortages were extracted and compiled into the Guidelines.</p> <ol style="list-style-type: none"> 1. Basic stance on dealing with labor shortages: Take labor shortages as an opportunity for growth <ol style="list-style-type: none"> (1) Secure personnel by establishing a workplace environment designed for diverse work styles (2) Improve productivity by implementing IT, robots, and other equipment and improving business processes 2. Three steps for dealing with labor shortages (→ Guidelines) <ol style="list-style-type: none"> Step 1: Reconfirm management issues and business strategy behind the labor shortage and reconsider business processes (e.g., subdivide business processes). Step 2: Reconsider (e.g., broaden) the enterprise's idea of staffing needs as they concern business processes, consider productivity improvements (labor-saving steps, etc.) Step 3: Improve the workplace environment (shorter shifts, work from home, etc.), enterprise PR, and hiring measures from the worker's point of view. 3. Compilation of case studies: More than 100 case studies, presented separately based on industry sector, scale, management issues, etc. <ul style="list-style-type: none"> ◆ Japan Laser Corporation (importer: Tokyo Metropolis) <ul style="list-style-type: none"> ➢ Started to see large numbers of staff quitting under poor management conditions; reinforced staff by broadening its image of staff to include women, seniors, and foreigners. ➢ Introduced work-at-home system, employment up to age 70, and evaluation system that disregards nationality. ➢ Has achieved a turnover rate of nearly zero and has been profitable for 23 consecutive years. 		
Policies going forward		
<ol style="list-style-type: none"> (1) Spread the Guidelines <ul style="list-style-type: none"> - (i) Collaborate with Ministry of Health, Labour and Welfare awareness-raising projects, etc., to promote employment of women and seniors, (ii) partner with three SME groups and with labor bureaus to hold seminars around Japan, (iii) enhance training on labor shortage response at SME Universities. (2) Strengthen consultation system <ul style="list-style-type: none"> - Appoint Labor Shortage Response Advisers (tentative name) at Yorozu Support Centers. (3) Encourage adoption of related measures <ul style="list-style-type: none"> - Encourage adoption of related measures at relevant ministries and agencies concerning the three steps. (For example, hold matching events with participation by SMEs that have worked with the three steps of the Guidelines) 		
[Committee members]		
(Chair)	Koichiro Imano	(Professor, Department of Management, Faculty of Economics, Gakushuin University)
	Kuniko Usagawa	(Director, JOBS Research Center, Recruit Jobs Co., Ltd.)
	Tsuguo Ebihara	(Representative Director, Nitchmo Co., Ltd.)
	Masaru Oikawa	(Vice-Director of Office and General Manager of Department for Promotion of Policy, National Federation of Small Business Associations)
	Yasumasa Ono	(Director, General Affairs Department, Central Federation of Societies of Commerce and Industry)
	Haruhiko Kobayashi	(General Manager, Industrial Policy Dept. No. 2, Japan Chamber of Commerce and Industry)
	Tomoyuki Shimanuki	(Associate Professor, Graduate School of Commerce and Management, Hitotsubashi University)
	Masanori Hara	(Representative Director and President, Quality of Life, Co., Ltd.)

Fig. Column 2-4-1(2) Case study from Research Group on Responding to Labor Shortages at SMEs and Micro-Businesses (1)

Women	Seniors	Foreigners
Side business, etc.	Productivity	Other

Ohara Co., Ltd.

Address: 14-1, Ko, Yanagibashimachi, Kanazawa City, Ishikawa Prefecture
 Founded: 1959 Capital: ¥80 million Employees: 80
 Overview of business: Food products manufacturer (processed agricultural products, etc.)

- The company needed manpower to extend factory operating hours. It added an early-morning short-shift work system and got seniors working.
- Seniors eager to work became good role models for younger employees and gave the company new energy.


Before (motivation)	<p>A need to meet growing demand</p> <ul style="list-style-type: none"> Had an especially hard time securing employees for seasonal work like processing sweet potatoes. Wanted to raise production by extending factory operating hours as demand for product grew. Recruited at Hello Work employment offices and in recruiting publications, but had no success. 	<p>Initiatives and schemes</p> <p>Recruiting in newspaper leaflets reaching seniors</p> <ul style="list-style-type: none"> Since it wanted to add factory hours in early morning, it focused on seniors who don't mind rising early. On the advice of a manager's friend who had hired seniors, the company recruited through newspaper leaflets, which get the attention of seniors. Leaflets saying they were recruiting ages 60 and up only were put in newspapers and drew lots of applications. At the same time, the company looked for synergy when newspapers started writing articles about their efforts. <p>Morning short-shift work system</p> <ul style="list-style-type: none"> Added a short shift from 5:00 a.m. to 9:30 a.m. <p>Ohara made the hours short and set up the system to make it easy for seniors to work.</p>
After (effects)	<p>Benefits of hiring seniors</p> <ul style="list-style-type: none"> Ohara attracted seniors who were very eager to work. They could extend factory operating hours and increase production. Seniors don't dislike early morning work and are never late or absent. The company encourages employees to express their appreciation for each other. Seniors who start working in the early hours are nicknamed "masters" and provide a role model to young employees.  <p style="text-align: center;">From Ohara's web site</p>	

Fig. Column 2-4-1(3) Case study from Research Group on Responding to Labor Shortages at SMEs and Micro-Businesses (2)

Women	Seniors	Foreigners
Side business, etc.	Productivity	Other

Denkahimakougyou Co., Ltd.

Address: 3-5-10, Yaguchi, Ota City, Tokyo Metropolis
 Founded: 1947 Capital: ¥11 million Employees: 39
 Overview of business: Plating / surface treatment business

- A sense of crisis that technical skills would not get passed down as founding members aged and there were too few young personnel; company aware of need to take measures to hire and retain personnel.
- Company responded to individual conditions, and added IT. They could secure a stable supply of personnel and raise productivity.

Before (motivation)	<p>A struggle to hire young people</p> <ul style="list-style-type: none"> Enterprise was worried they would be unable to pass down skills as founding members aged. When they got serious about hiring, they tried recruiting through Hello Work, conventional advertising, and online media, but the image of their work as dirty, dangerous, and difficult made it hard to attract young people. Poor retention: many new hires quit soon after starting. 	<p>Initiatives and schemes</p> <p>Consideration of individual conditions</p> <ul style="list-style-type: none"> Extended hiring after compulsory retirement age, substantially eliminated upper limits on working age. Began actively hiring inexperienced people, women with young children, even single mothers. Flexibility: allowed working hours of people with young children to change as their children grew, allowed them to take part in their kids' school events. <p>Initiatives to pass down technical skills to young employees and hire personnel</p> <ul style="list-style-type: none"> When the company extended hiring of people after compulsory retirement age, they made it a condition to help train others, thereby passing technical skills down to younger workers. Enthusiastically encourage young personnel to get qualifications so they can develop multiple skills. Updated web site, changing content so it focused on workers, helping applicants get more interested in the work. <p>Maintenance of work environment, introduction of IT</p> <ul style="list-style-type: none"> Workplace improvements included cafeteria, lockers for both men and women, women-only lavatories, and site air conditioning. Introduced IT tools such as for delivery statements, as proposed by female employees, to improve business processes.
After (effects)	<p>Improved personnel securing and retention and productivity</p> <ul style="list-style-type: none"> By raising its profile in the community, the company was able to secure a stable supply of personnel. Retention rates for existing personnel also rose. It has a wide and balanced age structure and technical skills are being passed down. Service and quality have risen as a result. Compared to 2003, the business has about three times as many customers, while sales in new fields have risen 21%. Actively introducing IT has greatly increased business process efficiency and productivity has also risen.  <p style="text-align: center;">Provided by Denkahimakougyou Co., Ltd.</p>	

Section 2 The state of securing personnel

In Section 1, we found that shortages of core personnel and labor personnel essential to the business development of enterprises with different orientations has a significant impact on the management and workplace environment of SMEs.

As already mentioned in Part I, Chapter 3, a decline in the labor force as the working age population falls, and the increase in the number of people in demand as Japan undergoes a modest economic recovery, are among factors leading the labor market to a state of reduction equilibrium. In this state, there is unlikely to be any big increase in the amount of labor input in the short term.

Under the circumstances, it is critical for SMEs to

take proactive steps to hire and retain personnel so they can secure the staff they need and achieve their business development goals.

The focus of Section 2 is the hiring and retention of personnel at SMEs. We will look at what type of hiring activities are taking place at SMEs in recent years and consider what types of information recent job seekers value and what measures they are using to hunt for jobs. Next, we will consider whether there is any discrepancy between SMEs and job seekers in terms of measures for giving information and what they value, and we will analyze the state of SME efforts for retaining personnel.

1. Hiring personnel at SMEs

Here, we classify the personnel that SMEs are seeking into core personnel and labor personnel. Personnel that joined their current employers less than five years ago (below, “job seekers”) are classified into core personnel and labor personnel according to their skills and experience in specific work domains.³⁾ We use this to find the differences in their respective hiring and job seeking activities.⁴⁾

(1) Differences between measures that SMEs consider effective when hiring and measures that job seekers consider effective (hiring measures mismatch)

First, we consider the mismatch between hiring measures that SMEs perceive as effective during core personnel hiring activities and hiring measures that job seekers who were recently hired or transferred perceive as effective. Fig. 2-4-12 shows the difference in hiring measures by age group.

The figure shows that more than half of SMEs consider

public employment security agencies, that is, Hello Work, to be an effective hiring measure. This also appeared to be an effective hiring measure for job seekers, in all age groups.

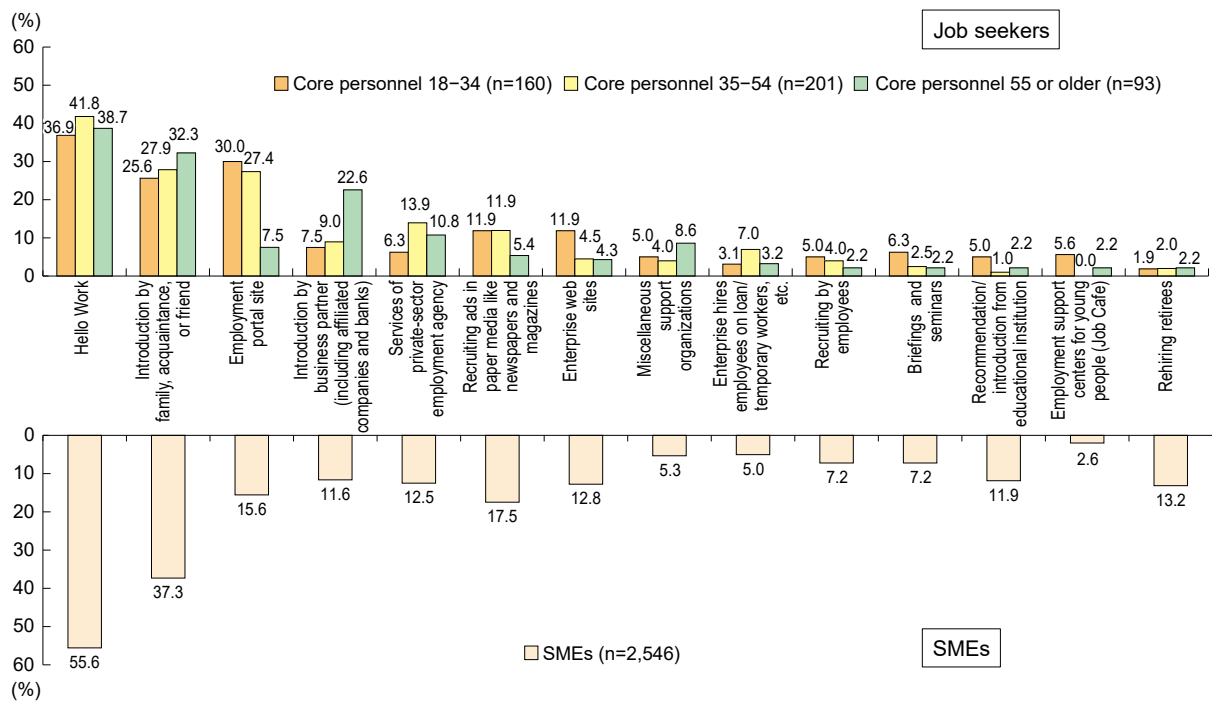
Next, the answer “introduction by family, acquaintance, or friend,” which a high percentage of SMEs value, was also perceived as effective by a high percentage of job seekers, with that answer being chosen more often the greater the age of the respondent. The difference among job seekers by age follows a similar trend for the answer “introduction by business partner (including affiliated companies and banks).”

Conversely, “employment portal sites” and “enterprise web sites” were perceived as more effective the younger the age of the job seeker. In particular, whereas “employment portal sites” were perceived as effective by 15.6% of SMEs, the rate was nearly twice as high for core personnel: 30.0% for those 18–34 and 27.4% for those 35–54.

3) Note that among job seekers, the categories of core personnel and labor personnel are defined according to their “current skills,” so the personnel categories on the job seekers’ side at the time of searching for a job do not necessarily match the definitions of core personnel and labor personnel as envisioned by the SMEs.

4) For job seekers, answers were given on the activities they actually undertook at the time of getting a job at or transferring to their current employers (this includes activities to find a job or transfer to other companies). The results include new graduates and those who had already graduated.

Fig. 2-4-12 Hiring measures considered effective by SMEs and job seekers, when hiring core personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

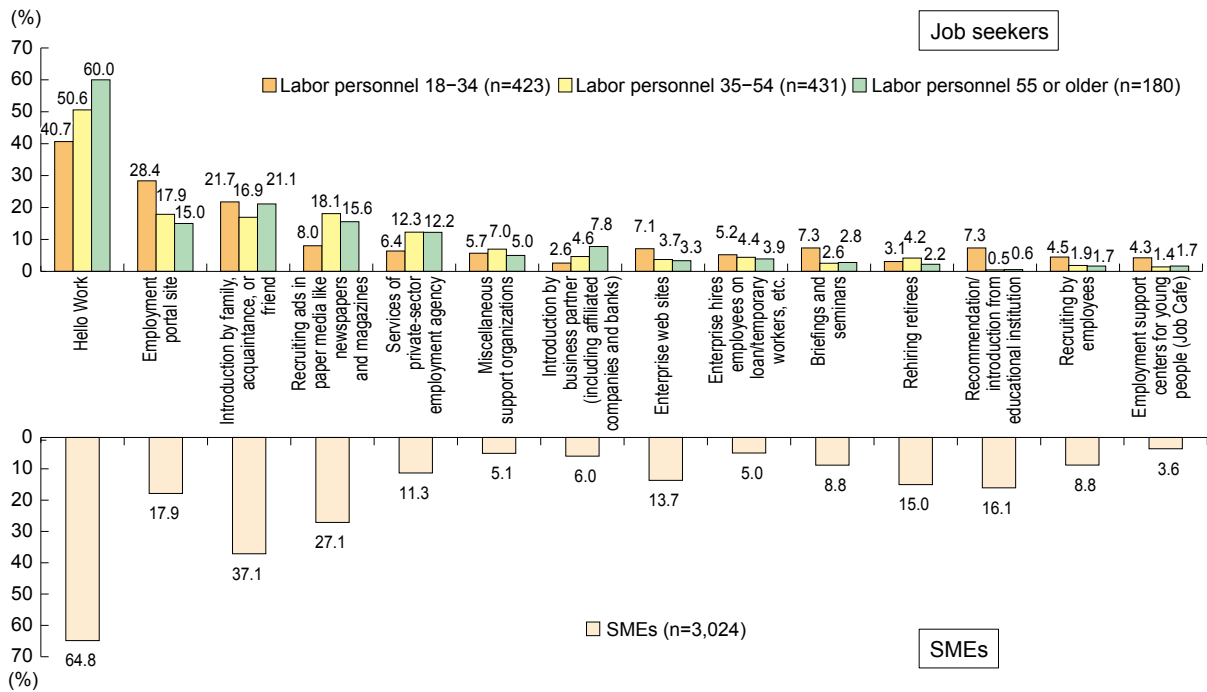
- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates SMEs that had conducted core personnel hiring activities in the past three years.
 3. Here, “miscellaneous support organizations” means SME Support Centers, Yorozu Support Centers, societies or chambers of commerce and industry, and other support organizations for SMEs.

As for hiring labor personnel, Fig. 2-4-13 shows a similar gap between what SMEs and job seekers perceive as effective hiring measures. Looking at job seekers, the answer “Hello Work” was perceived as effective by an overwhelmingly higher percentage of labor personnel 55 or older than other choices. The percentage of SMEs who saw Hello Work as an important hiring measure was also high. Among labor personnel age 18–34, the measure seen as most effective after “Hello Work” was “employment portal sites.” In contrast, “recruiting ads in paper media like newspapers and magazines” tended to be perceived as effective by a lower percentage of labor

personnel (especially age 18–34) than by SMEs. Here too, there are discrepancies in the perception of effectiveness among job seekers by age, just as there were among core personnel.

Moreover, after Hello Work, the measure perceived as most effective by SMEs was “introduction by family, acquaintance, or friend,” at 37.1%. Job seekers too, in all age groups, perceived this as relatively more effective than other measures. This suggests that a certain percentage of people tend to value hiring when they can see each other face to face, for example through an introduction.

Fig. 2-4-13 Hiring measures considered effective by SMEs and job seekers, when hiring labor personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates SMEs that had conducted labor personnel hiring activities in the past three years.
 3. Here, “miscellaneous support organizations” means SME Support Centers, Yorozu Support Centers, societies or chambers of commerce and industry, and other support organizations for SMEs.

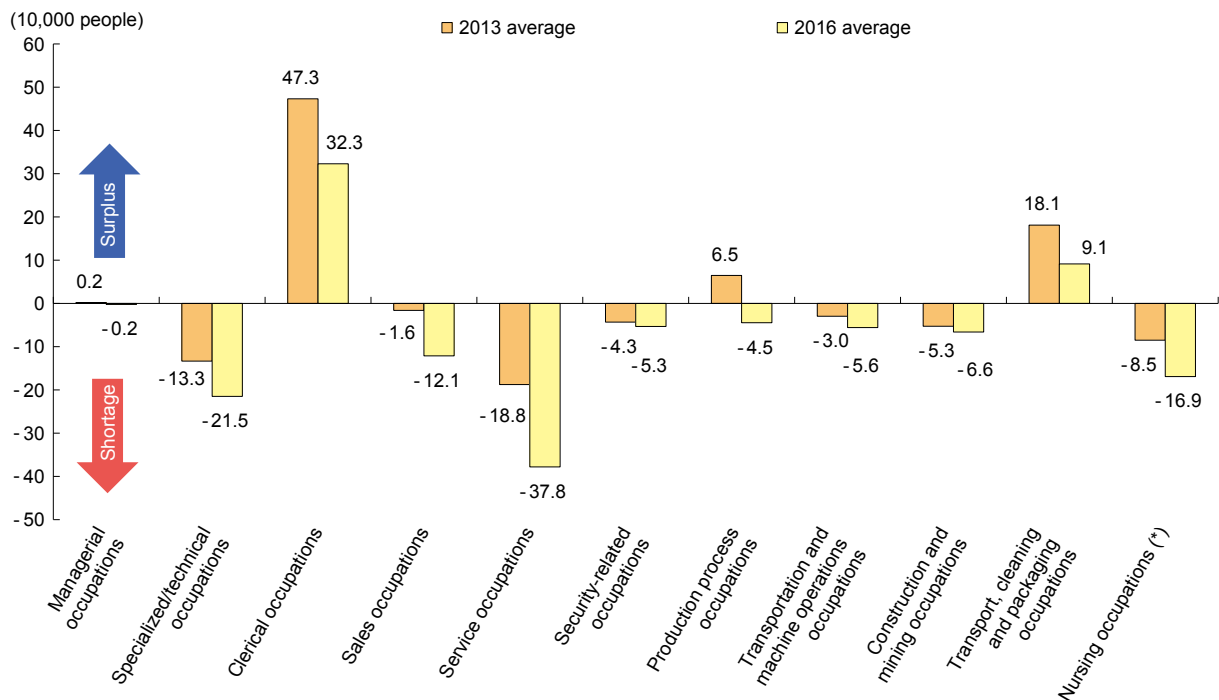
As we have seen so far, Hello Work is an important hiring measure for SMEs, especially for hiring labor personnel, since it is easy and inexpensive. For job seekers, however, there are age-based differences in how effective Hello Work is considered to be.

Chapter 3 of Part I also found a gap between the number of effective job seekers and number of effective job openings depending on the occupation (Fig. 1-3-7 (1) (cited earlier)). This figure shows that in core occupations like “specialized/technical occupations” and in face-to-face occupations like “sales occupations” and “service occupations” as well as other on-site occupations, there is a great surplus of job openings, so in the labor market overall there is a mismatch between occupations that

enterprises deem necessary and occupations that job seekers want. Not only that, but there is a mismatch in hiring methods in that it is difficult to secure personnel for these occupations when trying to hire through Hello Work.

As the previous section showed, a certain number of enterprises answered that they need to secure young personnel since their employees are aging. In light of this, when SMEs conduct hiring activities going forward, they need to consider the age group of the personnel they are looking for and diversify their hiring measures, for example by using employment portal sites or other Internet media.

Fig. 1-3-7 (1) Difference between the number of effective job seekers and the number of effective job offers, by occupation (regular employment, including part-time employment) (Cited earlier)



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

- Notes:
1. The above data excludes agriculture, forestry and fishery occupations and occupations not able to be classified.
 2. The figures for nursing occupations are the sum of welfare facility instructors, other specialized social welfare occupations, housekeepers and domestic helpers, and nursing service occupations, based on the 2011 revised occupational classification of the Ministry of Health, Labour and Welfare, respectively extracted from specialized/technical occupations and services occupations.

(2) Differences between information about their enterprise that SMEs emphasized to job seekers when hiring and enterprise information that job seekers value (information mismatch)

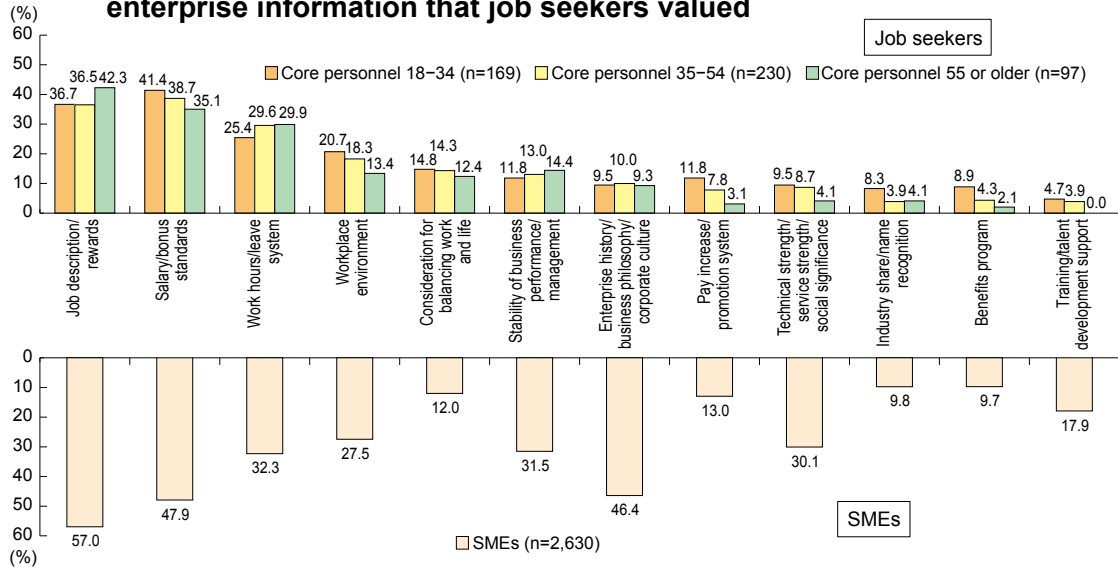
Next, we confirm the mismatch between the information that SMEs give and the information that job seekers want. Fig. 2-4-14 shows the differences between the information about their enterprise that SMEs particularly emphasized to job seekers during core personnel hiring activities and enterprise information that job seekers particularly valued when choosing an employer, by age group of job seeker.

“Job description/rewards” was the information that SMEs emphasized most. It was also valued by a high percentage of job seekers overall. This was especially true for core personnel 55 or older, who chose this answer

at the rate of 42.3%. Items directly related to wage conditions, namely “salary/bonus standards” and “pay increase/promotion system,” tended to be valued by job seekers, especially younger ones. Additionally, items concerning labor conditions, the workplace environment, and other factors affecting ease of working, namely “work hours/leave system,” “workplace environment,” and “consideration for balancing work and life” tended to be valued by job seekers compared to other choices.

On the other hand, the choices “enterprise history/business philosophy/corporate culture” and “technical strength/service strength/social significance,” neither of which is directly concerned with wage conditions or the workplace environment, were not as valued by the job seekers as they were by SMEs.

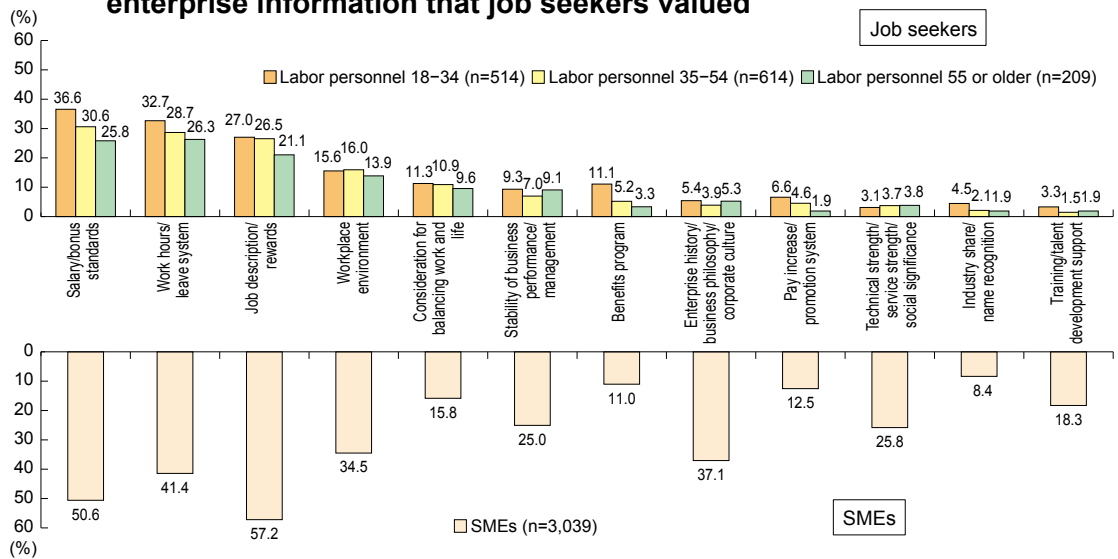
Fig. 2-4-14 Information that SMEs emphasized when hiring core personnel and enterprise information that job seekers valued



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates SMEs that had conducted core personnel hiring activities in the past three years.
 3. The figure shows answers from those SMEs that said there was information about their enterprise that they emphasized to job seekers when hiring core personnel, and answers from job seekers that said there was enterprise information they valued when looking for a job.

Fig. 2-4-15 Information that SMEs emphasized when hiring labor personnel and enterprise information that job seekers valued



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates SMEs that had conducted labor personnel hiring activities in the past three years.
 3. The figure shows answers from those SMEs that said there was information about their enterprise that they emphasized to job seekers when hiring labor personnel, and answers from job seekers that said there was enterprise information they valued when looking for a job.

Similarly, Fig. 2-4-15 shows an information mismatch when hiring labor personnel. Job seekers valued items concerning wages and labor conditions, namely “salary/bonus standards” and “work hours/leave system,” more so than in the case of hiring core personnel. This trend was especially strong among the young. The next item that job seekers valued was “job description/rewards,” but a look at the differences by age group show that for labor personnel, those 55 or older do not value “job description/rewards” as much as other age groups do. This is the opposite of the trend among core personnel.

Also, similarly to core personnel, labor personnel did not value the choices “enterprise history/business philosophy/corporate culture” and “technical strength/service strength/social significance” as much as SMEs did, which suggests another mismatch.

(3) Differences between measures SMEs used to give information to job seekers when hiring and

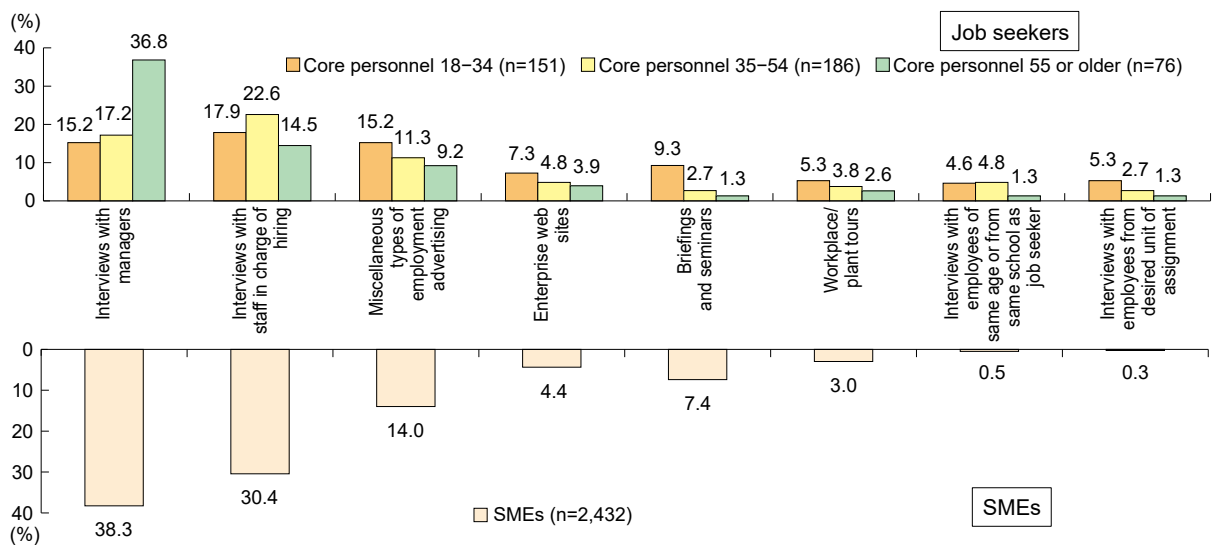
measures that job seekers consider effective to get the information they want (information giving and receiving measures mismatch)

What measures did SMEs use to communicate the information that they emphasized in Fig. 2-4-14 and Fig. 2-4-15? And what measures do job seekers perceive as effective ways to get information? Fig. 2-4-16 shows differences in the measures SMEs and job seekers use to give and get information during core personnel hiring activities.

The figure shows that core personnel 55 or older prominently tend to perceive “interviews with managers” as effective, and that there is also a strong tendency among SMEs to value this.

Also, one age-based difference is that younger job seekers tend to value preliminary means that are available prior to the actual recruitment process, namely “miscellaneous types of employment advertising,” “the enterprise’s web site,” and “briefings and seminars.”

Fig. 2-4-16 Measures that SMEs used to give information about themselves when hiring core personnel and measures that job seekers considered effective to get the company information they value



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates SMEs that had conducted core personnel hiring activities in the past three years.
 2. Aggregates answers from SMEs that said there was information about their enterprise that they emphasized to job seekers when hiring core personnel, and answers from job seekers that said there was enterprise information that they valued when looking for a job.
 3. Respondents were asked to list their top three measures for giving or getting information, listing them from No. 1 to No. 3. Totals above aggregate the answers that were given as the No. 1 measure.
 4. For job seekers, the top eight responses given as measures for getting information are shown.

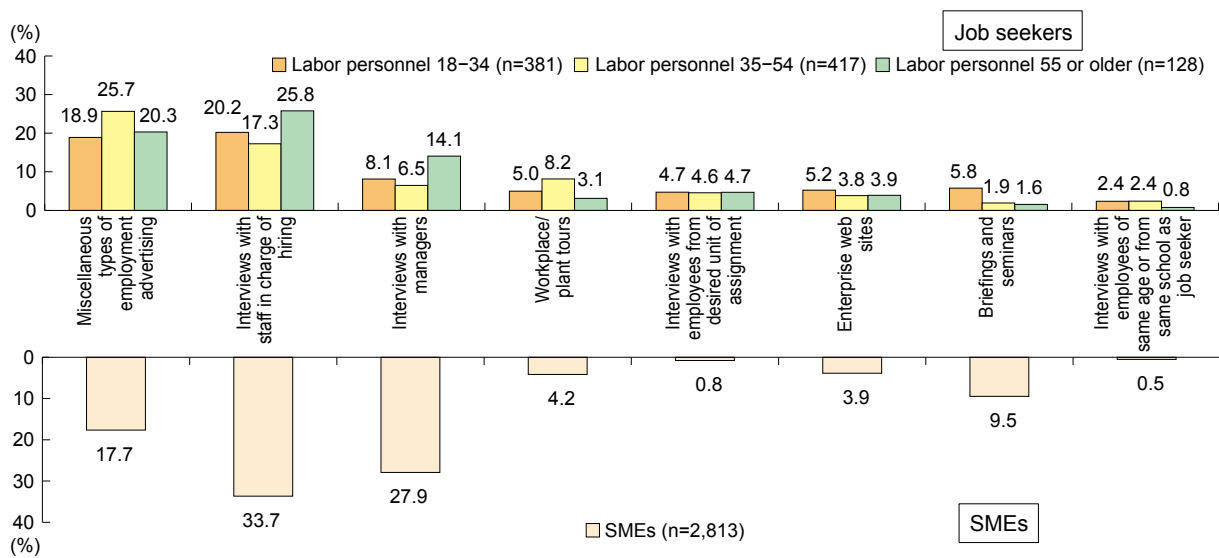
Similarly, Fig. 2-4-17 shows the differences between the measures SMEs and job seekers use to give and get information when labor personnel are being hired.

“Interviews with staff in charge of hiring” got the highest rate of response (33.7%) from the SME side. Job seekers also valued this measure higher than other choices; an especially high percentage of job seekers 55 or older perceived it as effective. “Interviews with managers,” on the other hand, tended not to be valued as much by labor personnel age 18–34 and 35–54 as they were by the

SMEs. It is possible that opportunities for such interviews were not available in the first place.

If we focus on the job seekers, a measure for getting information that was perceived as effective by job seekers on the whole regardless of age group was “miscellaneous types of employment advertising.” This got the highest rate of response among labor personnel age 35–54. On the other hand, this was the third most common response among SMEs.

Fig. 2-4-17 Measures that SMEs used to give information about themselves when hiring labor personnel and measures that job seekers considered effective to get the company information they value



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

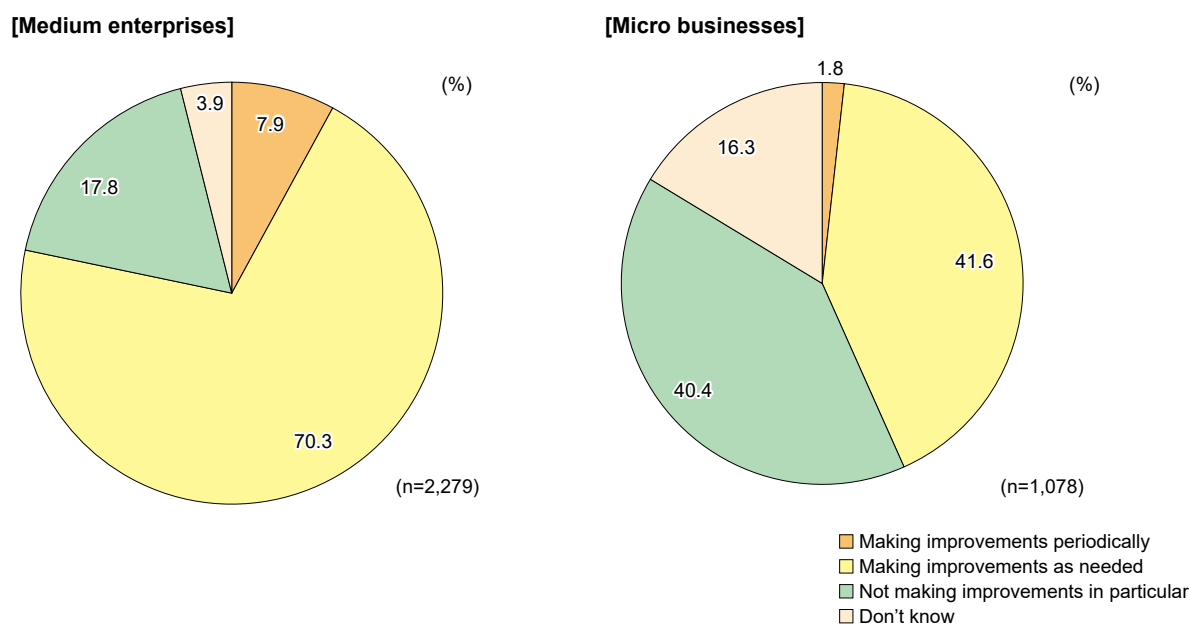
- Notes:
1. Aggregates SMEs that had conducted labor personnel hiring activities in the past three years.
 2. The figure shows answers from those SMEs that said there was information about their enterprise that they emphasized to job seekers when hiring labor personnel, and answers from job seekers that said there was enterprise information they valued when looking for a job.
 3. Respondents were asked to list their top three measures for giving or getting information, listing them from No. 1 to No. 3. Totals above aggregate the answers that were given as the No. 1 measure.
 4. For job seekers, the top eight responses given as measures for getting information are shown.

(4) State of improvements of hiring activities

To what extent are SMEs improving these hiring measures and measures for giving information? Fig. 2-4-18 shows the state of improvements of hiring activities by enterprise scale. Comparing by scale, more than half of micro businesses answered, “not making improvements in particular” or “don’t know.” This could be associated with the fact that a smaller percentage of micro businesses conduct hiring activities regularly than is the case with medium enterprises.⁵⁾

Chapter 3 of Part I, however, pointed out that enterprises of small scale were unable to secure manpower even as they were increasing job openings. Even if they do not hire regularly, it would seem these enterprises should prepare for situations where they need to secure personnel. Namely, before they need to hire, they should study effective hiring measures, gather the information that job seekers want, and consider what measures to use to give that information.

5) See Appended note 2-4-2.

Fig. 2-4-18 State of improvements of hiring activities by business scale

Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

(5) Challenges with hiring activities

Up to now, we have looked at what hiring measures, enterprise information, and measures for giving and getting information are valued by SMEs and job seekers respectively. Next, we consider what kinds of challenges SMEs face in their hiring activities.

Fig. 2-4-19 looks at what SMEs perceive to be their No. 1 challenge with hiring activities, according to whether their hiring activities have been successful or not.⁶⁾

The figure shows that a high percentage of enterprises without hiring success mentioned “no applicants who have the level of capabilities we need” and “the number of applicants has fallen,” both during core personnel hiring activities and labor personnel hiring activities. Together, about 60% of enterprises without hiring success felt there was some challenge to begin with at the recruiting stage.

Even enterprises with hiring success frequently mentioned “no applicants who have the level of capabilities we need” and “the number of applicants has fallen” as challenges during their core personnel and labor personnel hiring activities. On the other hand, a high percentage of SMEs said, there were “no particular challenges.”

Looking at the challenges with core personnel hiring activities, the answers “we don’t have enough hiring expertise” and “we don’t have dedicated hiring activities staff” were each chosen by about 10% of SMEs, regardless of whether the enterprise had hiring success. This suggests that SMEs have limited internal resources for hiring core personnel. On the other hand, “prevailing wages have risen” is mentioned as a challenge for labor personnel hiring activities, so there may be a wages

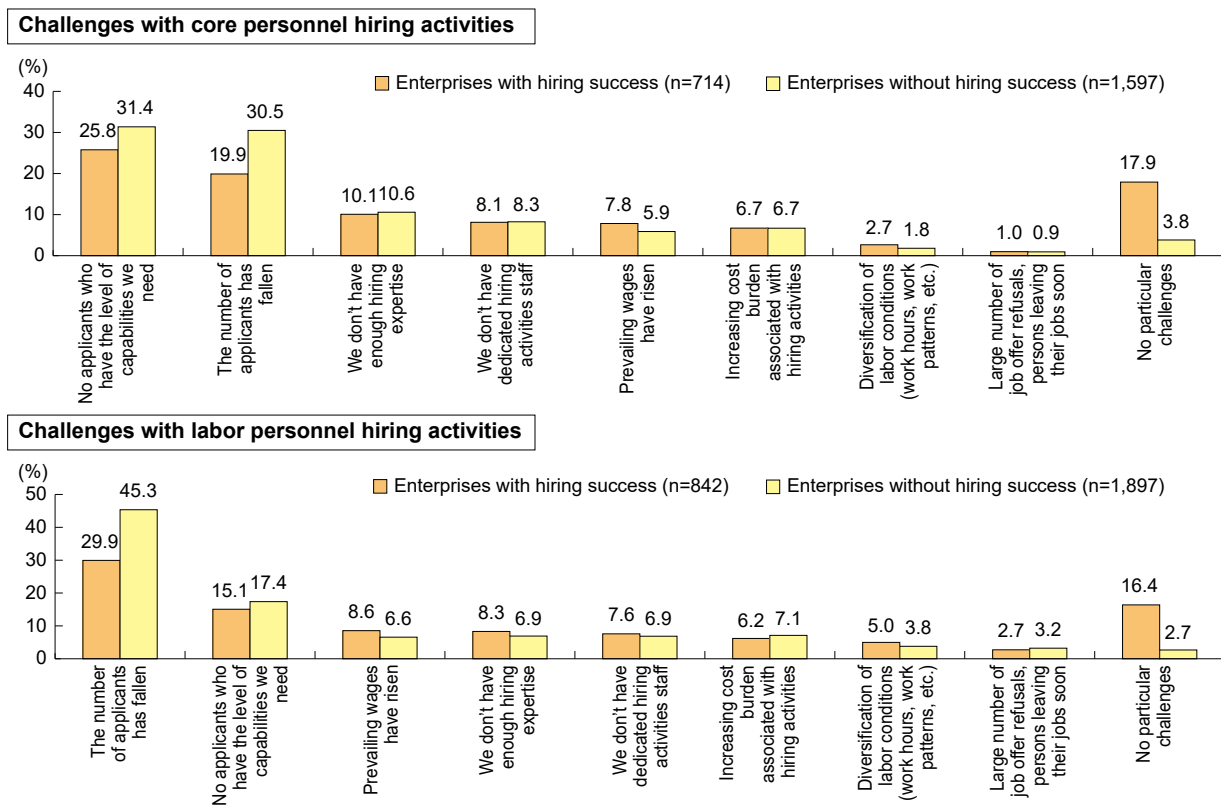
6) Here, “enterprises with hiring success” refers to “enterprises that have been able to hire the personnel they hoped for in terms of numbers and capabilities through their hiring activities over the last three years.” “Enterprises without hiring success” refers to “enterprises that have been unable to hire the personnel they hoped for in terms of numbers and capabilities through their hiring activities over the last three years.”

mismatch between the enterprises and job seekers.

Thus, at a time where there are not as many job seekers as openings, the competition with other companies to secure personnel is getting more severe, starting at the stage of getting job seekers to apply. In light of this fact, SMEs need to consider age and other attributes

of the personnel they are looking for. They need also to use effective measures for giving information to job seekers before they apply and use those measures to be creative with the information they emphasize. SMEs need furthermore to improve their hiring activities, which includes diversifying their hiring measures.

Fig. 2-4-19 Challenges with hiring activities as seen by SMEs



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Respondents were asked to list their top three challenges with core personnel and labor personnel hiring activities, listing them from No. 1 to No. 3. Totals above aggregate the answers that were given as the No. 1 challenge.
 2. Aggregates SMEs that conducted core personnel hiring activities in the past three years and those that conducted labor personnel hiring activities in the past three years.

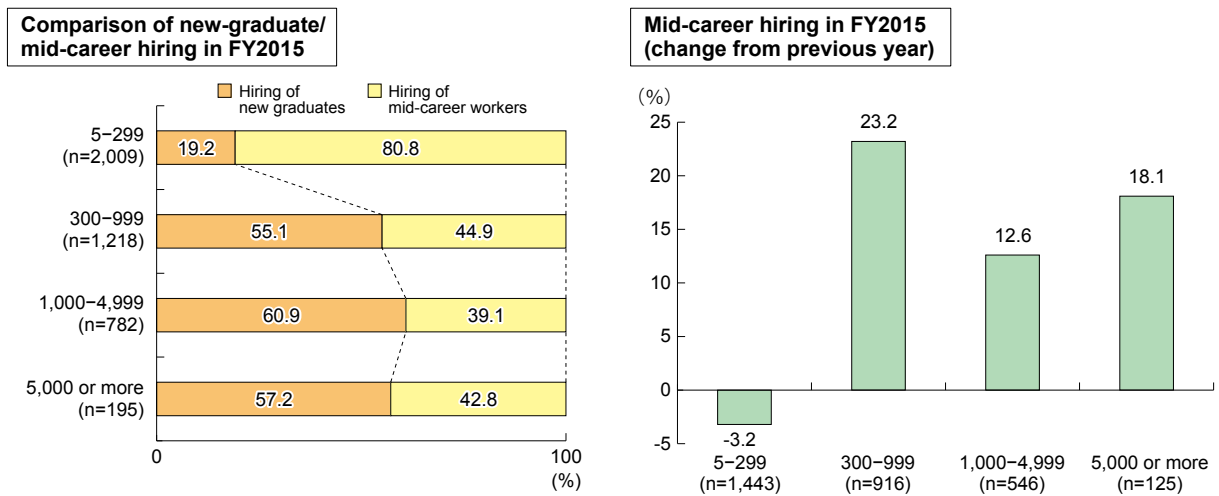
2. Retaining personnel at SMEs

SMEs generally have fewer resources for hiring than large enterprises do, so SMEs have a serious problem: even if they hire excellent personnel, they often cannot retain them because they do not have adequate internal systems to ensure retention.

Additionally, SMEs have long valued mid-career hiring as a way to recruit personnel, but as Fig. 2-4-20 shows, there is a growing trend among large-scale enterprises to use mid-career hiring to secure excellent, battle-ready personnel. Many large enterprises are also reconsidering the practice of simultaneous hiring of new graduates.

These trends make the competition even harder for SMEs. A look at the mid-career hiring track record (relative increase or decrease since the previous year) in the figure shows that enterprises with 299 or fewer employees have done less mid-career hiring. Considering the fact that the economy is slowly recovering, it is conjectured not only that small-scale enterprises curtailed hiring because of poor business performance, but that the hiring difficulty caused by competition to secure personnel has had an impact.

Fig. 2-4-20 Mid-career hiring track record, by number of employees



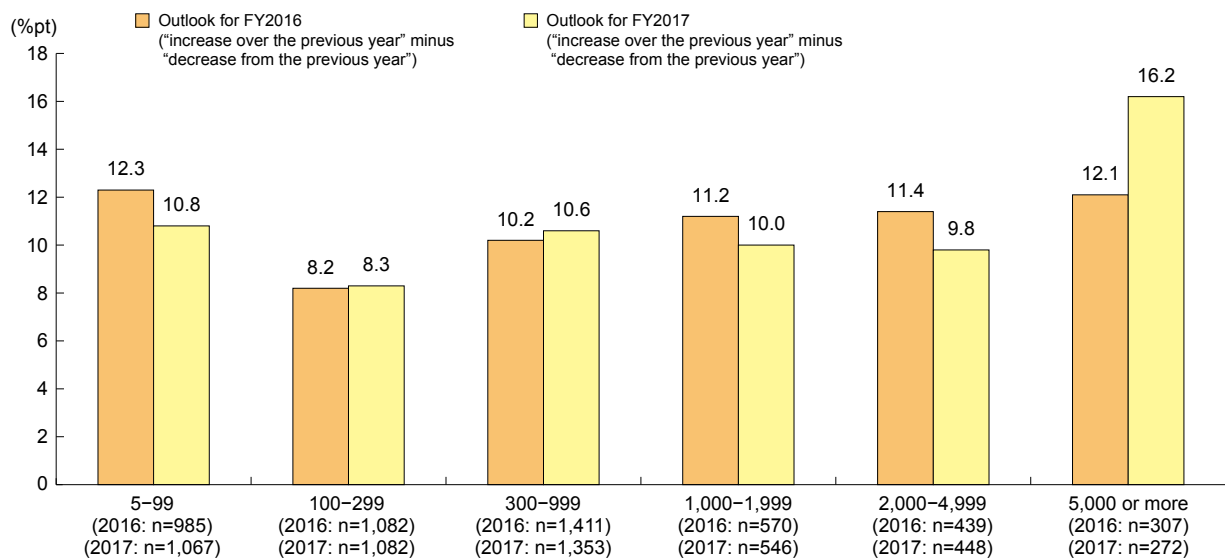
Source: Prepared by SME Agency based on Recruit Holdings Recruit Works Institute, *Mid-Career Hiring Field Survey (FY2015 Track Record)*.

- Notes:
1. New-graduate hiring refers to the number of undergraduate and graduate students (class of 2016) hired; mid-career hiring refers to the number of people hired who were already regular employees.
 2. Aggregates enterprises that did new-graduate hiring/mid-career hiring and enterprises that did not.
 3. Aggregated figures are based on estimates to reflect the population structure based on the number of employees.

Fig. 2-4-21 shows the outlook for mid-career hiring going forward, by number of employees. It shows that in FY2017, just as in FY2016, more enterprises of all scales say they will “increase over the previous year” than will

“decrease from the previous year.” Enterprises with 5,000 or more employees in particular are tending to increase mid-career hiring, so that mid-career hiring will continue to be a serious challenge for SMEs.

Fig. 2-4-21 Changes in mid-career hiring outlook, by number of employees



Source: Prepared by SME Agency based on Recruit Holdings Recruit Works Institute, *Mid-Career Hiring Field Survey (FY2015 First-Half Track Record, FY2016 Outlook)* and *Mid-Career Hiring Field Survey (FY2016 First-Half Track Record, FY2017 Outlook)*.

In light of the circumstances, it is extremely important for SMEs to take measures not only to hire the personnel they hope for but also retain the personnel they have hired and personnel that are already working for them.

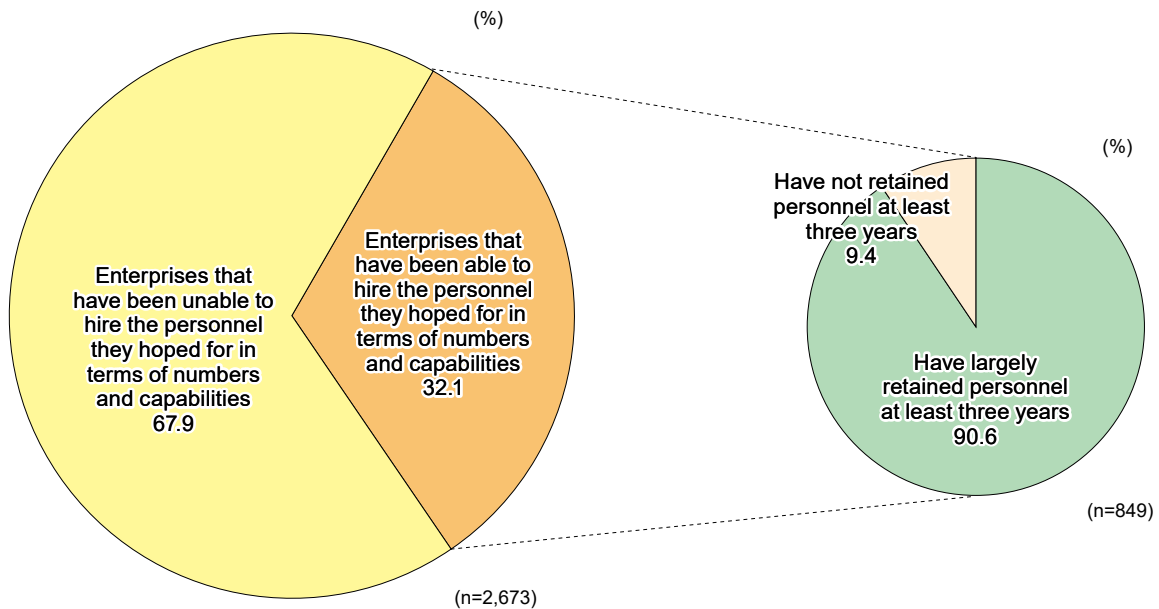
In this part, we analyze the internal systems that employed persons value, the status of implementation of these systems at SMEs, the internal environments provided to ensure that the systems function smoothly, and the like. In addition, we determine what differences in efforts there are between enterprises that have successfully secured personnel and enterprises that have not successfully secured personnel.⁷⁾ We also look in detail at what kind

of impacts the respective internal systems and workplace environments have on employed persons.

(1) Correlation between success or failure at hiring and success or failure at retention

Fig. 2-4-22 shows the success or failure of hiring and retention at SMEs. It indicates that more than 90% of enterprises that hired successfully also successfully retained their employees for at least three years. In analyzing the securing of personnel at SMEs, it is necessary to focus on both hiring and retention.

Fig. 2-4-22 Success or failure at hiring and success or failure at retaining hired personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Aggregates SMEs that had conducted core personnel hiring activities in the past three years or those that conducted labor personnel hiring activities in the past three years.

7) Here, “enterprises that have successfully secured personnel” refers to “enterprises that have been able to hire the personnel they hoped for in terms of numbers and capabilities through their hiring activities over the last three years and have largely retained their personnel at least three years.” “Enterprises that have not successfully secured personnel” refers to “enterprises that have been able to hire the personnel they hoped for in terms of numbers and capabilities through their hiring activities over the last three years, but have not retained their personnel at least three years” and “enterprises that have been unable to hire the personnel they hoped for in terms of numbers and capabilities through their hiring activities over the last three years.”

(2) Enterprise initiatives to retain and develop personnel

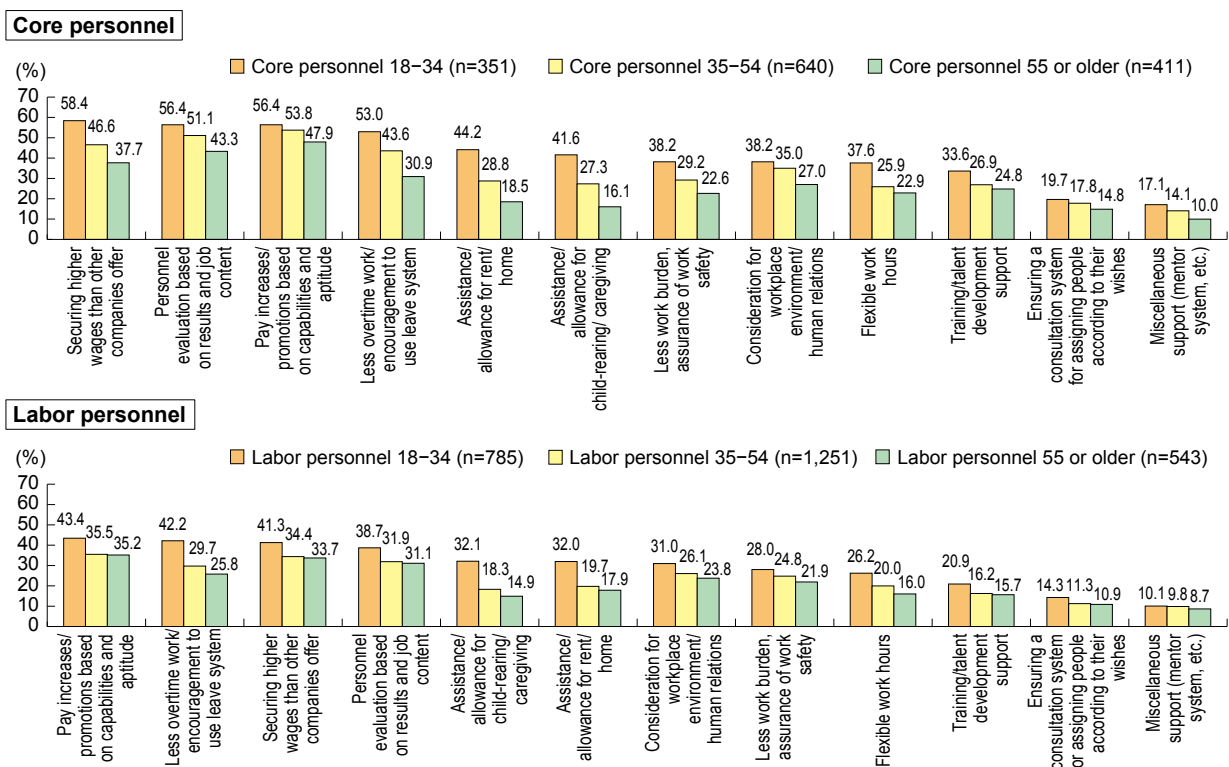
First, we check enterprise internal systems and efforts that employed persons value. Fig. 2-4-23 shows the answers given for enterprise efforts for personnel retention and development that employed persons consider important.

To begin, we look at the items that core personnel job seekers value, by age group. The results show they place a high value on “securing higher wages than other companies offer,” “less overtime work/encouragement to use leave system,” “assistance/allowance for rent/home,” and “assistance/allowance for child-rearing/caregiving.” This trend was especially true the younger the job seeker. On the other hand, there was relatively little difference by age group on items related to evaluation, specifically

“personnel evaluation based on results and job content” and “pay increases/promotions based on capabilities and aptitude.” A high percentage of job seekers in all age groups valued these. Core personnel 55 or older valued the latter item in particular at the rate of 47.9%, making it the most valued item in this age group.

Next, we similarly consider the efforts that labor personnel value by age group. The general trends are not so different from those of core personnel, but labor personnel age 18–34 valued “less overtime work/encouragement to use leave system” more than the other age groups did. And though the difference was not so great, they tended to prioritize that item over the choices “securing higher wages than other companies offer” and “personnel evaluation based on results and job content.”⁸⁾

Fig. 2-4-23 Enterprise efforts for personnel retention and development that employed persons consider important, by age group



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.
 Note: Total does not always equal 100% as multiple responses were possible.

What efforts do SMEs perceive as effective for personnel retention and development? Fig. 2-4-24 shows what efforts SMEs have made at their own companies for personnel retention and development that they perceive as effective, based on whether those SMEs have had

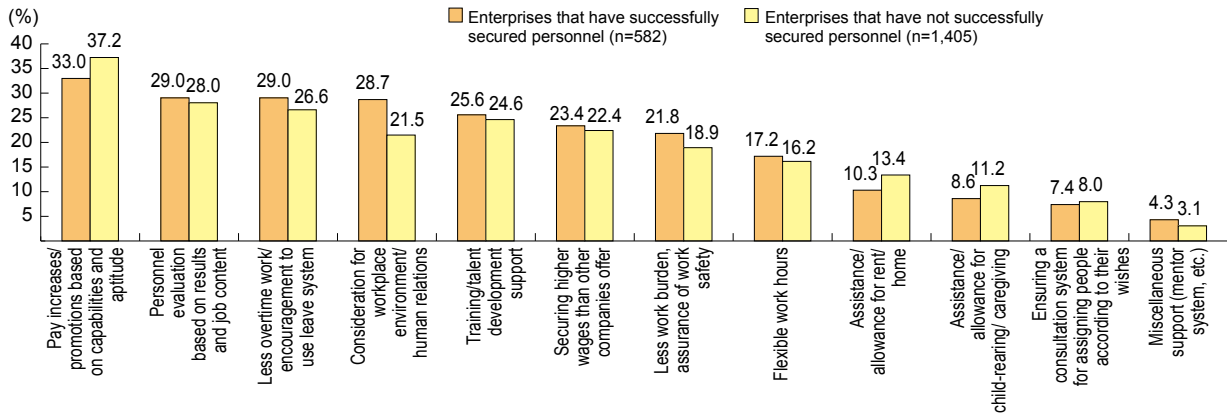
success or failure at securing personnel. The figure shows that “pay increases/promotions based on capabilities and aptitude” got the highest response rate for both enterprises that have successfully secured personnel and enterprises that have not successfully secured personnel. On the other

8) It is conjectured that because of a particularly high ratio of women among labor personnel age 18-34 and the fact that they are trying to balance work with home or other concerns. This may be the reason why such a high percentage of labor personnel in this age group valued this item. (See Appended note 2-4-3.)

hand, there was a big perception gap on the effectiveness of “consideration for workplace environment/human

relations” depending on whether the SME was successful or not.

Fig. 2-4-24 Efforts for personnel retention and development that SMEs perceive as effective, based on whether those SMEs have had success or failure at securing personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

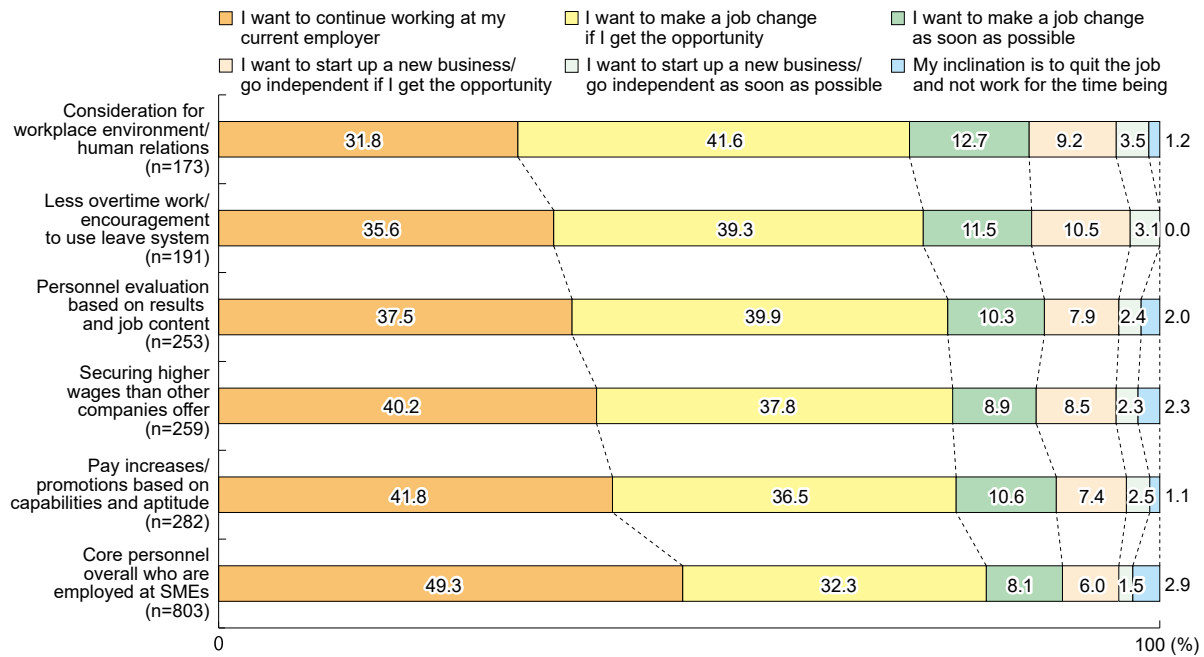
(3) Inclination of personnel employed at SMEs to leave job/change jobs in future

Here we focus again on employed persons. Fig. 2-4-25 looks at what impact it has on the future employment inclinations of employed persons when the employer does not make the efforts that employed persons value. The figure addresses the top five items valued by core personnel employed at SMEs.

As the figure shows, compared to the future employment inclinations of core personnel overall who are employed at the SMEs in this survey, there was a strong inclination like “I want to make a job change as

soon as possible” or “I want to start up a new business/go independent as soon as possible” in those cases where the SME does not practice “consideration for workplace environment/human relations.” Added to the individuals who answered, “I want to make a job change if I get the opportunity” or “I want to start up a new business/go independent if I get the opportunity,” nearly 70% of respondents indicated the inclination to leave their current employers. Similarly, it seems to have a relatively big impact on employees’ inclination to leave the job if employers fail to make the effort for “less overtime work/encouragement to use leave system.”

Fig. 2-4-25 Future employment inclination (core personnel of SMEs), based on which efforts SMEs fail to make



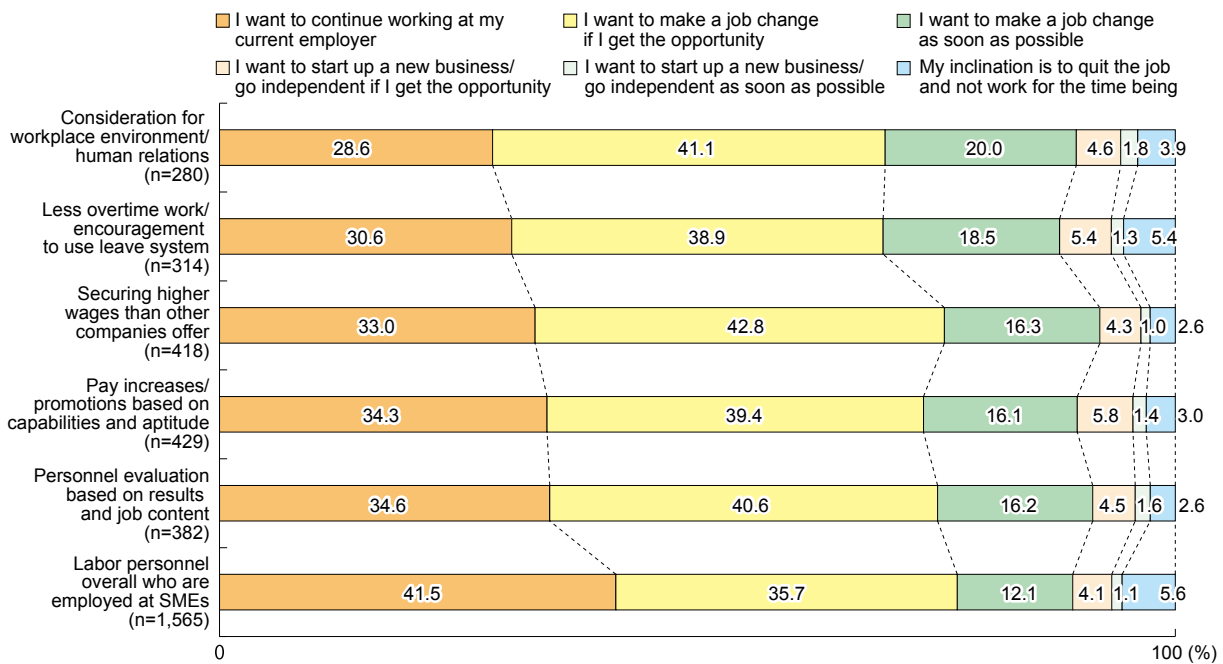
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. “Efforts that SMEs fail to make” aggregates “efforts that the employed person considers important but which the employing enterprise fails to make.”
 2. Respondents were allowed to choose multiple “efforts that SMEs fail to make” and so the totals of answers for each item may exceed the total number of responses.
 3. “My inclination is to quit the job and not work for the time being” includes respondents who have no inclination to get employment at enterprises for the next three years; this includes cases for example where injury or illness makes employment difficult and cases where the respondent wishes to be a public employee.

Fig. 2-4-26 similarly shows the top five items valued by labor personnel employed at SMEs. Looking at that figure, more than 70% of these employees are inclined to leave their jobs in those cases where their employer does not practice “consideration for workplace environment/

human relations” in particular. Of these, more than 20% were inclined to leave immediately, saying “I want to make a job change as soon as possible” or “I want to start up a new business/go independent as soon as possible.”

Fig. 2-4-26 Future employment inclination (labor personnel of SMEs), based on which efforts SMEs fail to make



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. “Efforts that SMEs fail to make” aggregates “efforts that the employed person considers important but which the employing enterprise fails to make.”
 2. Respondents were allowed to choose multiple “efforts that SMEs fail to make” and so the totals of answers for each item may exceed the total number of responses.
 3. “My inclination is to quit the job and not work for the time being” includes respondents who have no inclination to get employment at enterprises for the next three years; this includes cases for example where injury or illness makes employment difficult and cases where the respondent wishes to be a public employee.

(4) Success or failure at securing personnel at SMEs, and manager behavior/workplace environment

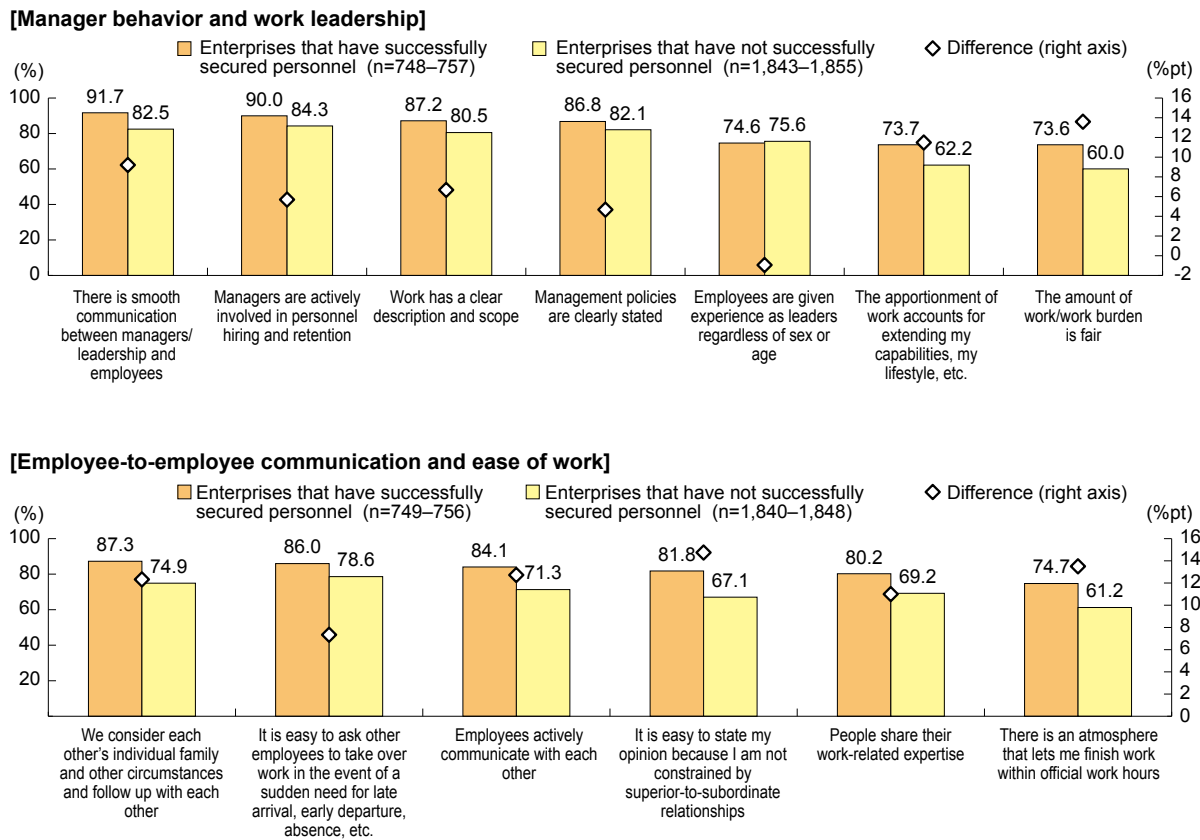
Fig. 2-4-27 looks at manager behavior and workplace environment in terms of securing personnel. The results are shown by whether the SME had success securing personnel or not.

First, our check of manager behavior and work leadership shows an especially big difference in relation to work leadership, namely the answers “the amount of work/work burden is fair” and “the apportionment of work accounts for extending my capabilities, my lifestyle,

etc.”

Next, we looked at items concerning employee-to-employee communication and ease of work and found a clear difference overall based on whether the SME had success or failure at securing personnel. There was also a difference in particular in answers relating to workplace openness and limiting long work hours, namely “it is easy to state my opinion because I am not constrained by superior-to-subordinate relationships” and “there is an atmosphere that lets me finish work within official work hours.”

Fig. 2-4-27 Manager behavior and workplace environment, by whether the SME had success securing personnel or not



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.
 Note: Aggregates the total of those responding, “very much applies” or “somewhat applies.”

(5) Ease of working as seen by employed persons, and manager behavior/workplace environment

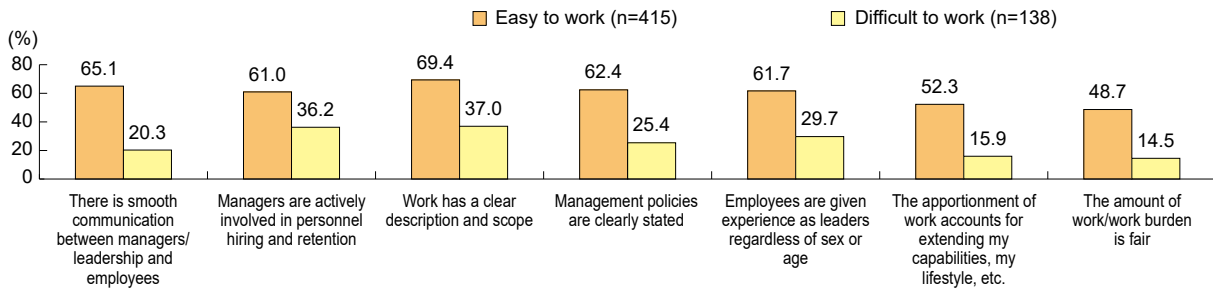
Fig. 2-4-28 shows the state of employer manager behavior and workplace environment-related efforts as seen by core personnel actually employed by SMEs. Responses are categorized based on whether the respondent said the current workplace makes it easy or hard to work.

The particularly big differences between employed persons who thought their current workplace makes it easy

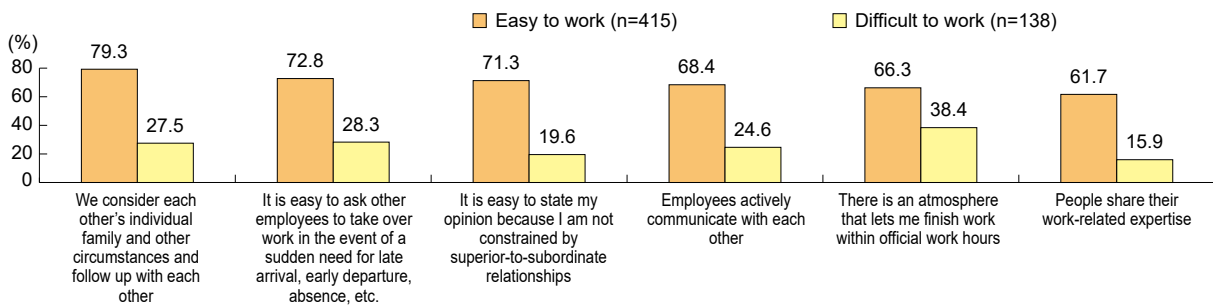
to work and those who thought their current workplace makes it hard to work occurred in those items relating to workplace communication and work facilitation. Those specific items were “we consider each other’s individual family and other circumstances and follow up with each other,” “it is easy to state my opinion because I am not constrained by superior-to-subordinate relationships,” “people share their work-related expertise,” and “there is smooth communication between managers/leadership and employees.”

Fig. 2-4-28 Manager behavior and workplace environment, based on whether it is easy for employed persons to work (SMEs, core personnel)

[Manager behavior and work leadership]



[Employee-to-employee communication and ease of work]



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

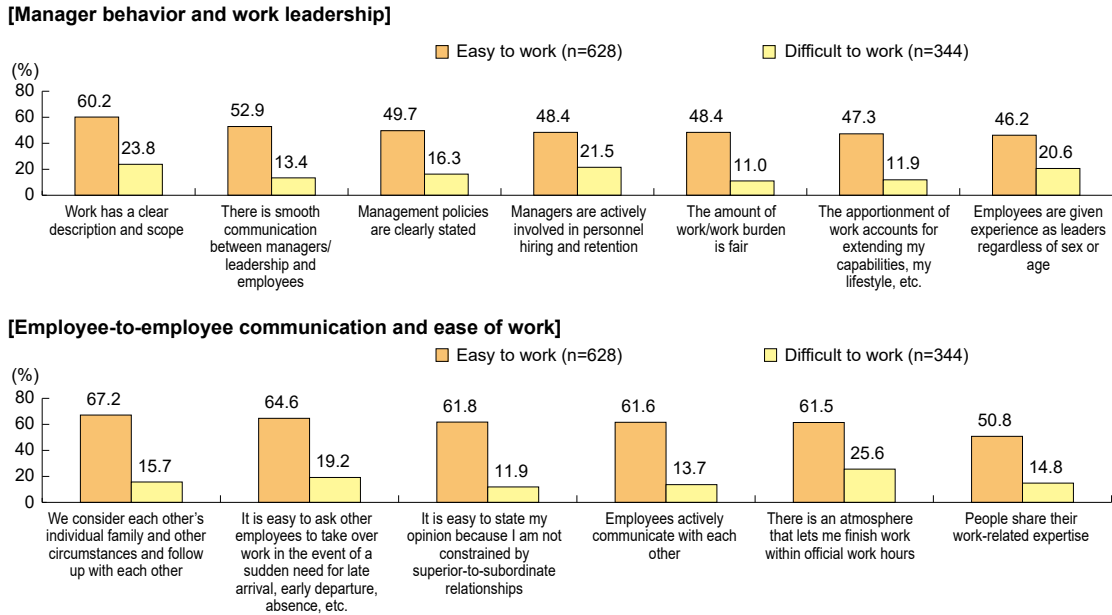
- Notes:
1. Aggregates the total of those responding, “very much applies” or “somewhat applies.”
 2. “Easy to work” aggregates the total of those who answered, “very easy to work” and “easy to work.” “Difficult to work” aggregates the total of those who answered, “somewhat difficult to work” and “difficult to work.”

Similarly, Fig. 2-4-29 looks at employer manager behavior and workplace environment as seen by labor personnel employed by SMEs. Responses are categorized based on whether the workplace makes it easy or hard to work. Similar to the trend with core personnel as seen in Fig. 2-4-28, there is a particularly large gap between those who said their workplaces make it “easy to work” and those who answered “difficult to work” when discussing items concerning workplace communication and openness, namely “we consider each other’s individual

family and other circumstances and follow up with each other,” “it is easy to state my opinion because I am not constrained by superior-to-subordinate relationships,” and “employees actively communicate with each other.”

Compared to the case with core personnel, there was also a notable gap between the two groups on the item “there is an atmosphere that lets me finish work within official work hours.” This suggests that for labor personnel, fixing the problem of long work hours would have a big effect on their workplace satisfaction.

Fig. 2-4-29 Manager behavior and workplace environment, based on whether it is easy for employed persons to work (SMEs, labor personnel)



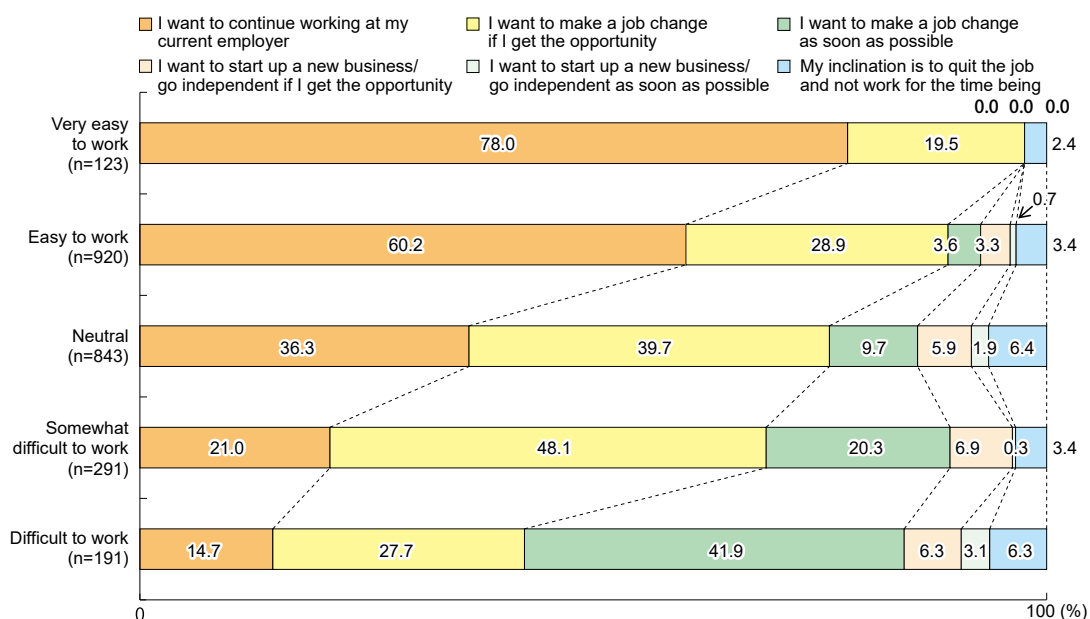
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates the total of those responding, “very much applies” or “somewhat applies.”
 2. “Easy to work” aggregates the total of those who answered, “very easy to work” and “easy to work.” “Difficult to work” aggregates the total of those who answered, “somewhat difficult to work” and “difficult to work.”

The relative ease of working in the workplace is directly tied to employees’ inclination to leave job/change jobs in future. Fig. 2-4-30 shows the future employment inclination of employees of SMEs based on whether

it is easy for them to work there. It indicates that the percentage of respondents saying, “I want to make a job change as soon as possible” clearly rises the lower the workplace satisfaction.

Fig. 2-4-30 Future employment inclination of employees of SMEs based on whether it is easy for them to work there



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

Note: “My inclination is to quit the job and not work for the time being” includes respondents who have no inclination to get employment at enterprises for the next three years; this includes cases for example where injury or illness makes employment difficult and cases where the respondent wishes to be a public employee.

3. Conclusion

So far, we have seen that efforts to prepare the internal systems (e.g., personnel evaluation systems for pay increases/promotions, etc.) combined with efforts to prepare an environment that makes it easy to work (such as reducing overtime work and considering the workplace environment) would seem to be a more effective approach to personnel hiring and retention at SMEs. It is also conjectured that from the employed persons' point of view, regardless of whether they are core personnel or labor

personnel, optimizing work leadership to enhance the workplace environment and facilitating communication internally, including the management team, will have a big impact on work satisfaction.

To retain personnel at SMEs, it is necessary to establish the internal systems and try to build a workplace environment with a good atmosphere in order to increase employee work satisfaction and reduce the possibility of their leaving the job.

Case 2-4-1 KIKUYA Co., Ltd.

A company that has been successful in attracting and retaining employees by creatively modifying its production system, adopting a fair assessment system, and creating a pleasant working environment

The Head Office of KIKUYA Co., Ltd. (employees: 191; capital: ¥10 million) is located in Adachi City in Tokyo. The company was established in 1956 as a laundry and dry cleaning business, and today, in addition to operating laundries and dry cleaning stores, is involved in a wide range of business areas both in Japan and overseas, including the operation of a cleaning agency system in collaboration with apartment management companies and other companies, the provision of home delivery services, and a service for the free storage of clothing and bedding.

The greater part of the company's main workforce of 158 part-time employees is women. They span a wide range of age groups, from their 20s to their 70s, and also perform diverse duties, encompassing store operation, washing, cleaning and pressing in the company's factories, office duties, and working as drivers.

The average number of years that KIKUYA's part-time employees have worked for the company is long at 10 years; 11 of the part-time employees have been with the company for more than 20 years, and two for more than 30 years. Lying behind this high employee retention rate are creative efforts to standardize procedures in its production system, a corporate culture that makes it easy for part-time employees to continue working despite demands on their time for childcare and nursing care, and a rank system⁹⁾ based on occupational ability that motivates employees to improve their skills and continue in employment.

Looking first at KIKUYA's efforts in the area of its production system, the company has introduced a "multi-process, multi-machine" system by which individual employees are able to perform multiple procedures and operate multiple machines. As a result, if an employee is suddenly unable to be at work, other employees are able to take over their duties, and work can proceed smoothly. In the laundry and dry cleaning industry, there are significant differences in the volume of work depending on the day and on the season; KIKUYA's response was not operating a system in which its employees work long hours in busy periods, and reducing their working hours in off-peak periods. By allowing customers to choose when they would like their cleaning finished rather than specifying a uniform period, for example three days after receipt, the company avoids the concentration of deliveries at one time, allowing it to standardize the volume of work. In addition, as a result of introducing standardized sequences of procedures into a planned production system, the company is able to front-load its procedures, and so it has a system in place that enables it to continue to perform work smoothly even in cases in which a large number of its employees will wish to take time off, for example when there is an event at a local school.

The fostering of an atmosphere of mutual assistance between employees further boosts KIKUYA's relaxed working environment. The company allows employees to bring their children to work, and provides play spaces for children returning from kindergarten or school in its employee break rooms. Employees get to know other employees' children by sight, and as a result there is no ill feeling even when people have to suddenly leave work early as a result of a child's illness.

The company has also introduced a work skill-based ranking system for part-time employees, which bases wages on the employees' rank as determined by work skills, and in addition has established systems under which it provides executive allowances, promotes employees to store manager positions, requires to act as a role model in model stores that accept trainees, and allows part-time employees to transfer to full-time employee status. These systems motivate part-time employees to improve their work skills and continue in employment, and the company today even has a former part-time employee who has risen to an executive position.

The fact that KIKUYA provides a working environment that offers employees peace of mind and encourages them to remain with the company long-term has been the subject of discussion on the Internet, and has been taken up by a variety of media. The company itself also actively advertises this when recruiting new staff. As a result, it is easily able to fill available positions; in one recent case it received more than 15 times the number of applicants than the number of positions it had to offer. Going forward, KIKUYA's aim is to secure employees who have a genuine desire to work for the company by

9) A system in which employees' abilities are ranked according to criteria provided by a work skills requirements manual that defines essential job performance skills (work skills).

continuing to provide an environment in which employees work with a feeling of peace of mind, and to continue to add value to the lives of both its employees and its customers.



KIKUYA's Representative Director, Shinichi Nakahata



One of the company's spaces for employees' children

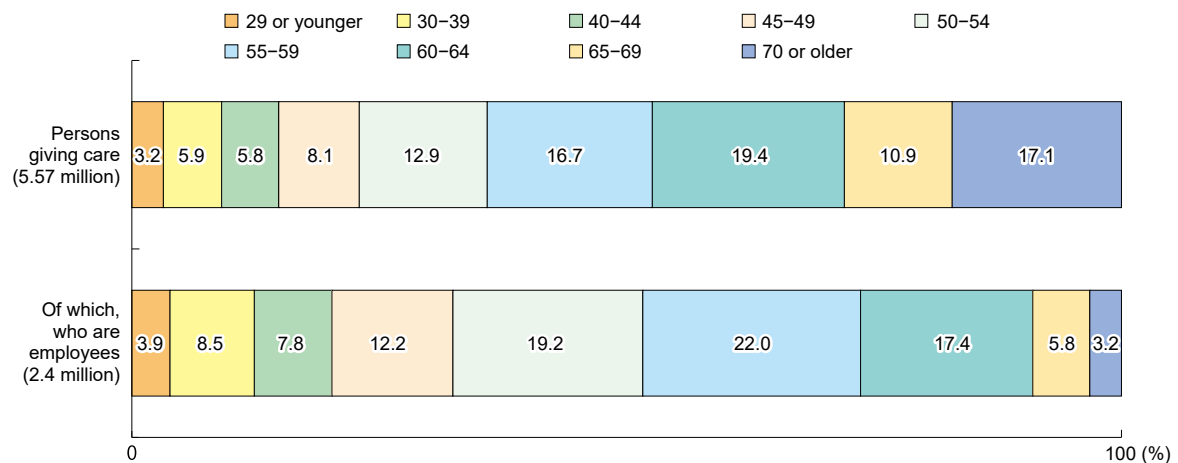
Column 2-4-2 Balancing work and caregiving

When thinking about personnel retention, it will be increasingly important going forward to anticipate support for both employees' work and caregiving. Presently, about 2.91 million working people are also caregivers.¹⁰⁾ Excluding the self-employed, that figure includes about 2.4 million employees. And as the population ages, the number is expected to rise higher and higher in future.

Looking at the age group of those who are caregivers, more than 60% were 55 or older. This accounts for more than half, even if just employees are considered (Fig. Column 2-4-2 (1)). As Fig. Column 2-4-2 (2) shows, smaller enterprises tend to have higher percentages of employees 55 or older. Taking account of this, balancing work and caregiving is a very important and urgent matter for SMEs.

This part looks at how work and life are being balanced in Japan as a whole and analyzes SME efforts to support a work-life balance. Workers 55 or older are a critical part of the labor force for managing SMEs. The perspective here is to keep personnel from leaving their jobs in order to give care, especially this age group.

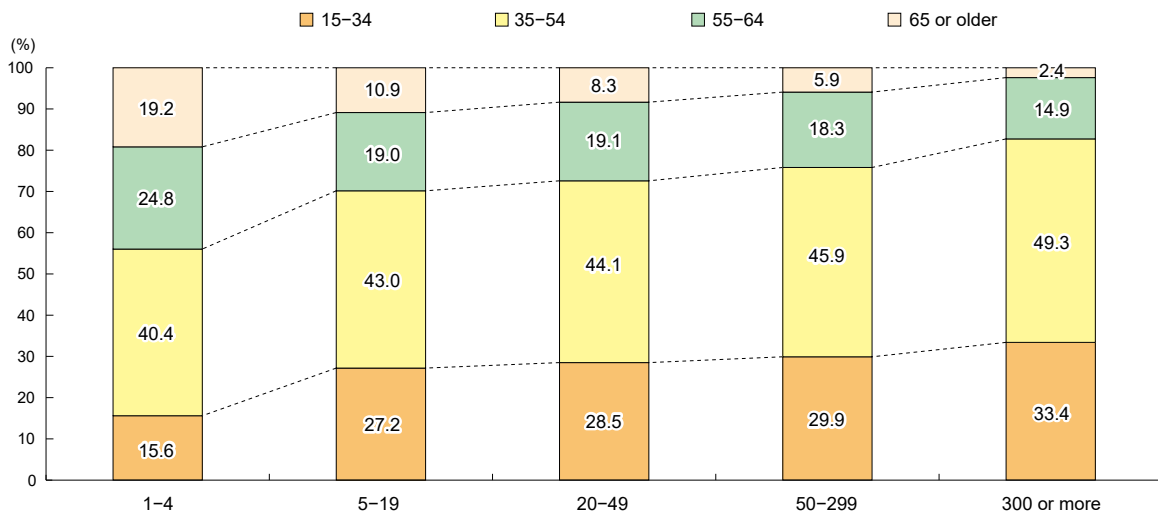
Fig. Column 2-4-2 (1) Age structure of workers who are caregivers



Source: MIC, 2012 *Employment Status Survey*.

10) The number includes all self-employed, etc., as per MIC, 2012 *Employment Status Survey*.

Fig. Column 2-4-2 (2) Age structure of employees, by number of workers



Source: MIC, 2012 Employment Status Survey.

Notes: 1. Aggregates “employees.”

2. Aggregated figures exclude persons working for public agencies or other legal entities or groups.

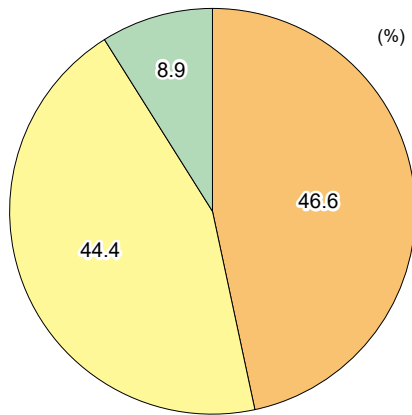
How work and life are being balanced in Japan

Fig. Column 2-4-2 (3) shows the type of employment of caregivers who are employees other than the self-employed, and shows the hopes that unemployed caregivers have for employment. Nearly half the total are people working as regular employees while giving care, and almost 30% of the unemployed hope to find employment.

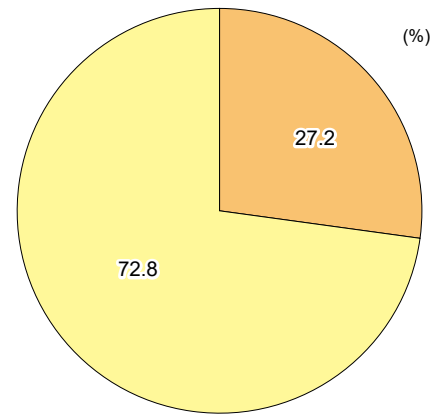
Fig. Column 2-4-2 (3) Employment status of people giving care

[Employees giving care (2.4 million)]

■ Regular employees
 ■ Non-regular employees
 ■ Executives of company, etc.

**[Unemployed persons giving care (2.66 million)]**

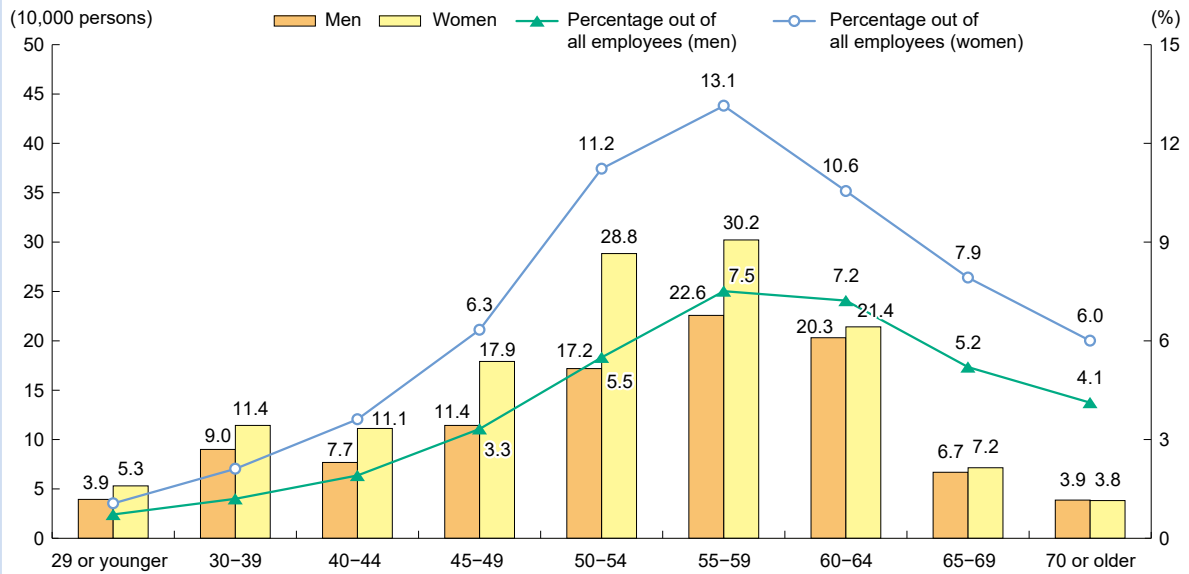
■ Persons hoping to become employed
 ■ Persons not hoping to become employed



Source: MIC, 2012 *Employment Status Survey*.

Fig. Column 2-4-2 (4) shows the breakdown by sex and age group of the 2.4 million employees who give care while working, and their percentage out of all employees. For women, more than 10% of employees give care while working in every age group from 50 to 64. For men, the percentage is higher in the age groups from 55 to 64 than in any other.

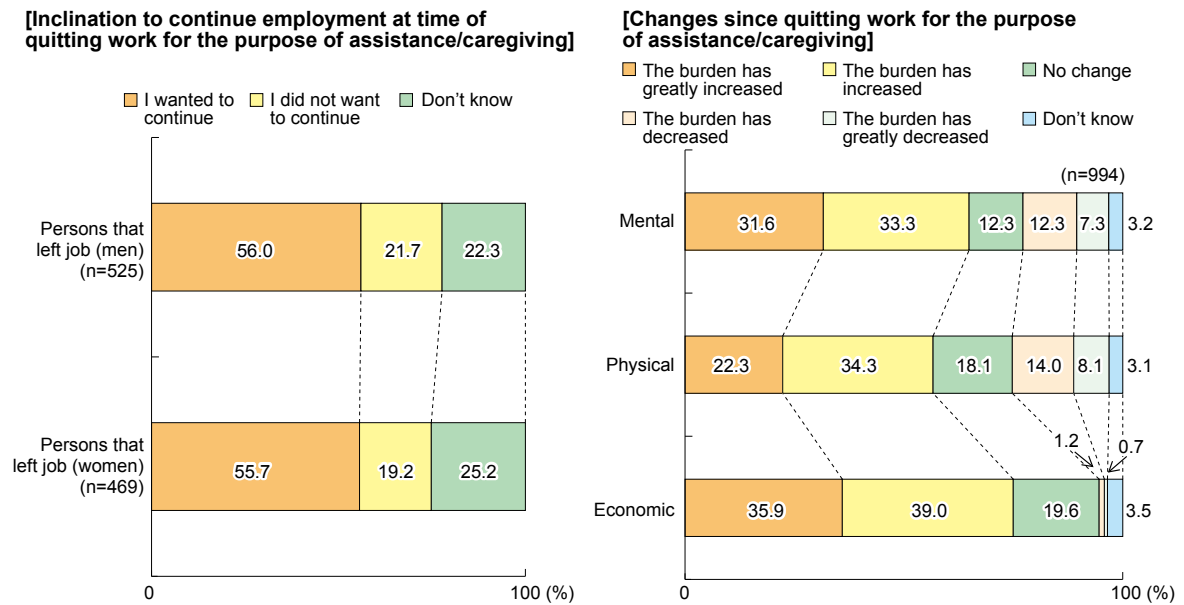
Fig. Column 2-4-2 (4) Breakdown by sex and age group of employees who give care, and their percentage out of all employees



Source: MIC, 2012 Employment Status Survey.

Fig. Column 2-4-2 (5) concerns persons age 40–59 who were regular employees but left their jobs to be caregivers. It shows what their employment inclinations were at the time of leaving and what has changed since leaving. Concerning employment inclinations, more than half of both men and women had hoped to continue employment. As for what has changed since leaving, more than 70% answered that, especially economically, “my burden has greatly increased” or “my burden has increased.”

Fig. Column 2-4-2 (5) Employment inclinations at time of leaving job to be a caregiver, and changes since leaving



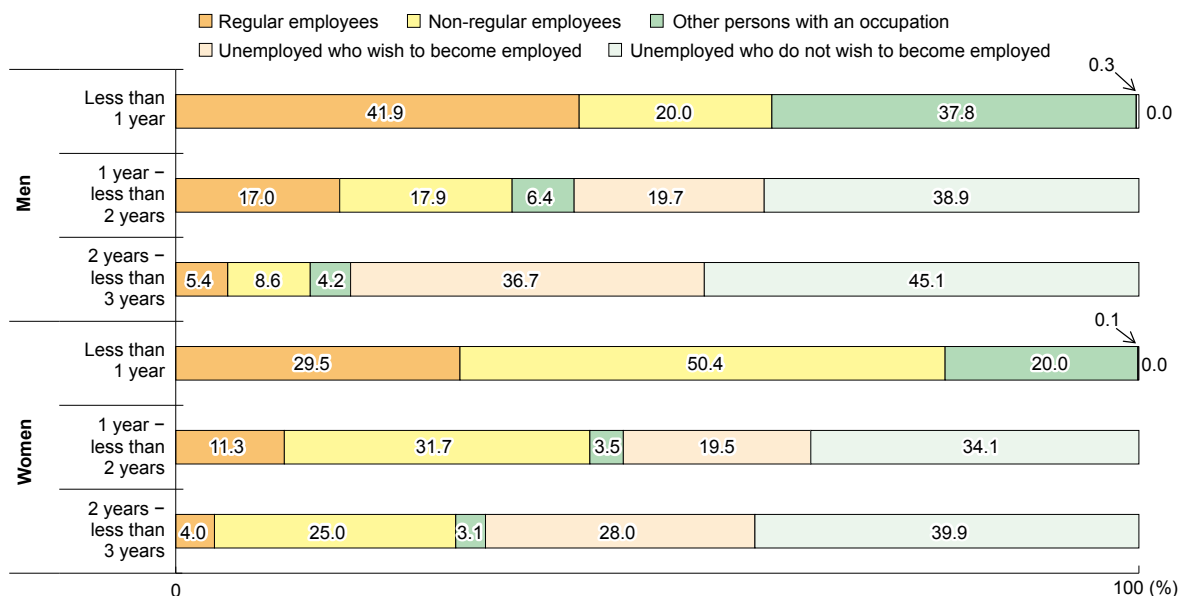
Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Worker Questionnaire Survey on Balancing Work and Caregiving* (January 2013), commissioned by MHLW.

Note: Here, “assistance/caregiving” means “physical assistance” such as assistance with bathroom and bathing needs, “caregiving” at a facility or remotely, and other forms of “assistance” such as periodically checking in (keeping an eye on a person), meal preparation, housecleaning, laundry, or other housework, shopping, taking out garbage, taking person to doctors, assistance with outings, taking procedures for checking in and out of hospitals, money management, etc.

Fig. Column 2-4-2 (6) examines the labor mobility of regular employees that had left their previous jobs to be caregivers. For both men and women, the longer they are unemployed following a job departure, the higher the percentage of unemployed who wish to become employed. Upon returning to employment, a higher percentage of women than men become non-regular employees.

Since leaving the job to become a caregiver tends to increase the economic burden, and since many of those who left the job to become a caregiver want to continue being employed, it would seem even SMEs need to make an effort to enable a balance of work and caregiving.

Fig. Column 2-4-2 (6) Labor mobility of regular employees that had left their previous jobs to be caregivers, by length of time since leaving the job, by type of employment



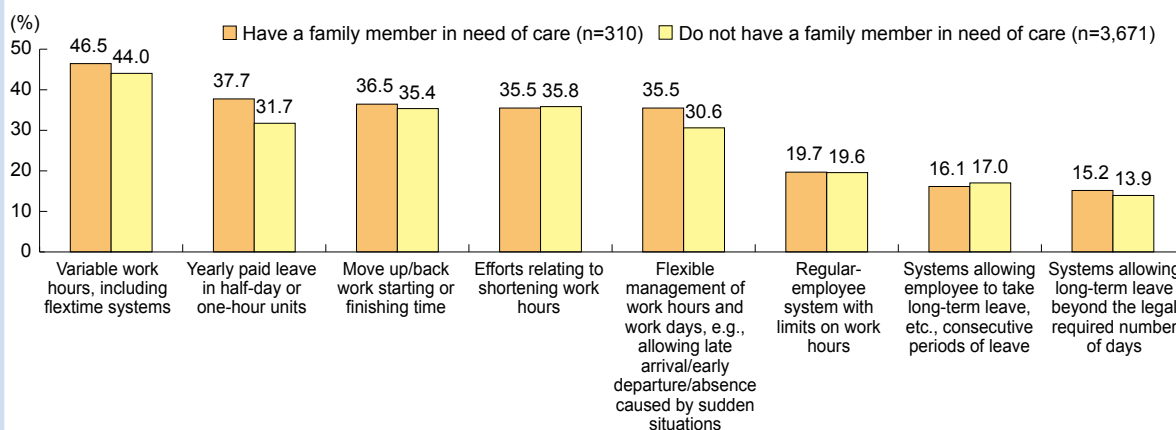
Source: Recompiled from MIC, 2012 Employment Status Survey.

Note: "Other persons with an occupation" aggregates those whose current occupation is not as an employee.

Enterprise efforts necessary to support a balance of work and caregiving, as seen by employed persons

What kinds of efforts do employed persons think enterprises should make to support a balance of work and caregiving? Fig. Column 2-4-2 (7) looks at what enterprise efforts concerning work hours and work days are considered necessary by employed persons, aggregating their answers by whether the employed person has a family member in need of care or not. Persons with a family member in need of care tended to value "yearly paid leave in half-day or one-hour units" and "flexible management of work hours and work days, e.g., allowing late arrival/early departure/absence caused by sudden situations." This is taken to mean that, since sudden, unforeseen events can be expected to happen, enterprises need to respond flexibly.

Fig. Column 2-4-2 (7) What enterprise efforts are considered necessary by employed persons to continue work while caregiving



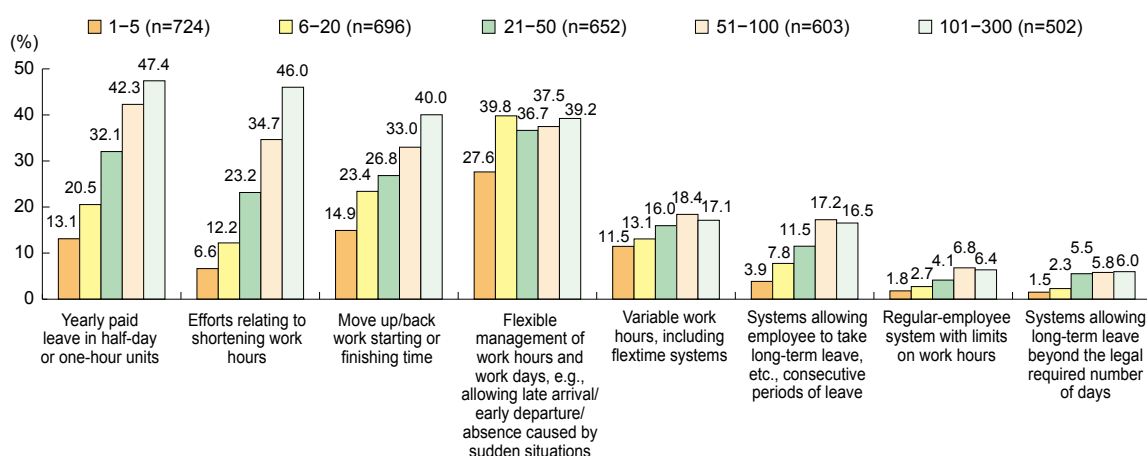
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Only “enterprise support relating to work hours/work days” items are shown.

SME efforts to balance work and caregiving

What systems are SMEs putting in place and what efforts are they making to balance work and caregiving? Fig. Column 2-4-2 (8) shows the state of systems and efforts there are concerning work hours and work days, by number of employees. It shows that larger enterprises tend to have made more progress putting systems in place. On the other hand, there is less of a difference by scale in response to the item “flexible management of work hours and work days, e.g., allowing late arrival/early departure/absence caused by sudden situations.” Enterprises with 6–20 employees, in fact, engaged in this effort at a higher rate than enterprises of other sizes did. Moreover, although employees value “variable work hours, including flextime systems,” fewer than 20% of enterprises, regardless of scale, are making such an effort.

Fig. Column 2-4-2 (8) SME systems and efforts to support a balance of work and caregiving, by number of employees



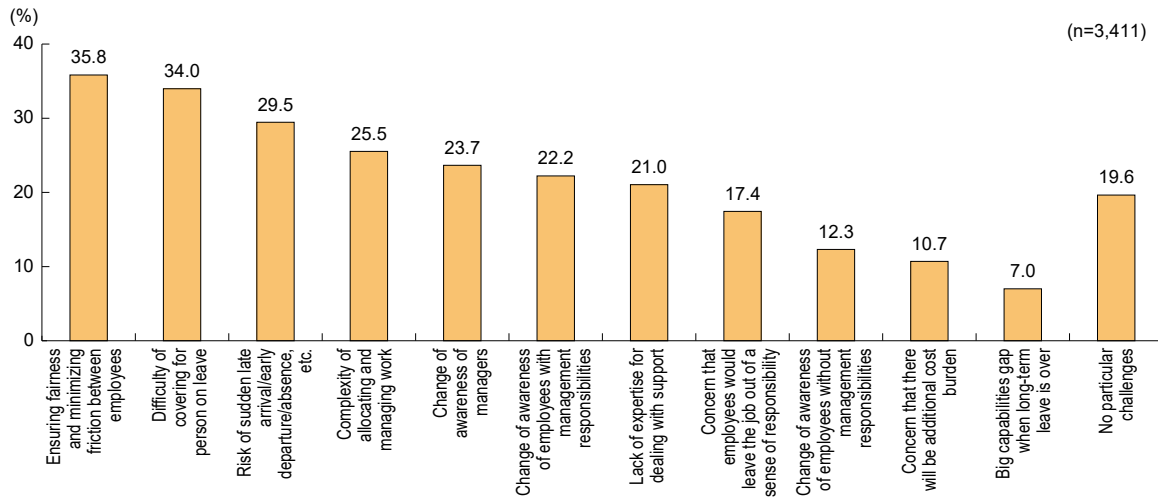
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Only “enterprise support relating to work hours/work days” items are shown.

Fig. Column 2-4-2 (9) extracts challenges that SMEs perceive relating to supporting a balance of work and caregiving. The most recognized challenge, according to the figure, is “ensuring fairness and minimizing friction between employees,” which got a response rate of 35.8%. Other items selected were “difficulty of covering for person on leave,” “risk of sudden late arrival/early departure/absence, etc.” and “complexity of allocating and managing work.” Thus, SMEs tended strongly to perceive covering and adjusting for work during caregiving leave to be a challenge. Additionally, more than 20% of SMEs answered that there is a “lack of expertise for dealing with support.”

Whether or not they currently have employees who work while caregiving, SMEs need to anticipate the future and consider efforts to support a balance of work and caregiving. However, to respond to such challenges as changes in work hours because of sudden situations and being fair to other employees, SMEs have to do more than just design personnel systems, etc., to support a balance of work and caregiving. They need also to prepare on the operational side in advance. They need to educate all their employees about keeping a work-life balance before a situation happens. They need also to make the effort to provide collateral support, such as getting the expertise they currently lack.

Fig. Column 2-4-2 (9) Challenges that SMEs perceive relating to supporting employees to achieve a balance of work and caregiving



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

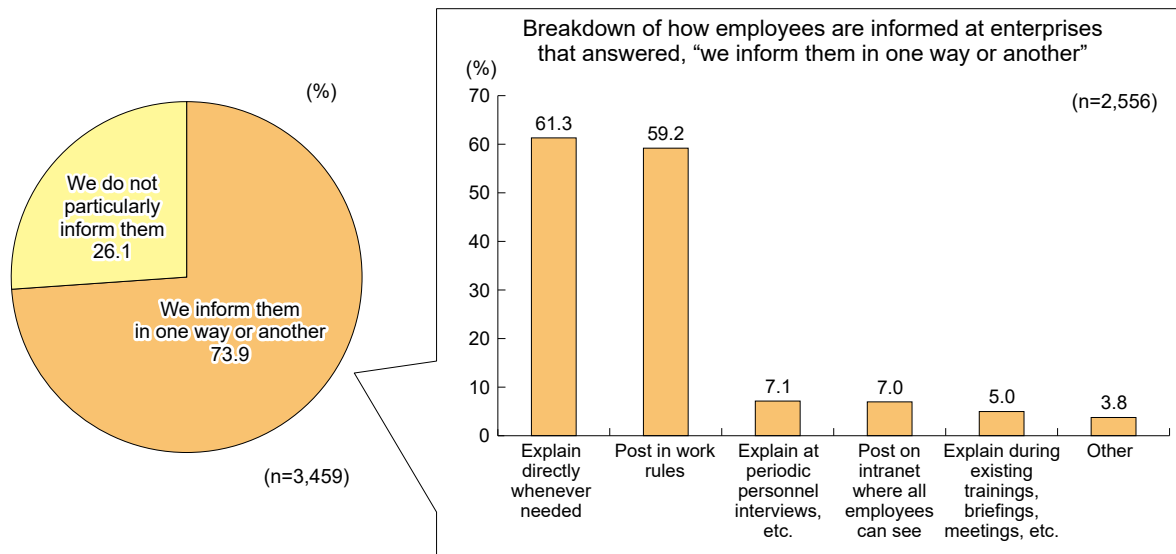
Note: Total does not always equal 100% as multiple responses were possible.

A fair number of SMEs saw a “concern that employees would leave the job out of a sense of responsibility” as one of the challenges of balancing work and caregiving. Fig. Column 2-4-2 (10) and Fig. Column 2-4-2 (11) show, respectively, the ways that SMEs inform their employees about their systems to support a balance of work and caregiving and the status of consultation services SMEs provide on these matters.

Asked how they inform their employees about support systems, 26.1% responded, “we do not particularly inform them.” Additionally, 35.5% said, “we do not particularly provide a consultation service.”

Since many enterprises are not sufficiently informing their employees about support systems and have no system to provide advice, they need to take steps to avoid employees spontaneously choosing to leave the job because of ignorance about the company’s support systems. To do this, they need to establish systems so employees can get advice before a situation happens, learn their employees’ situation regarding caregiving, design support systems, and inform their employees about these support systems.

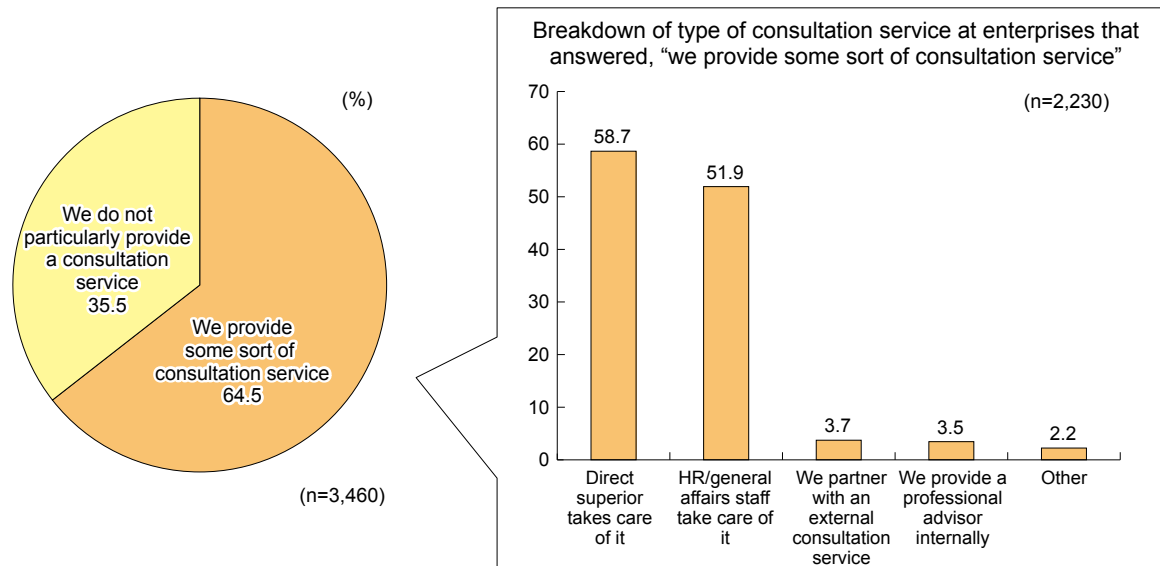
Fig. Column 2-4-2 (10) The ways that SMEs inform their employees about their systems to support a balance of work and caregiving



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Breaking down the ways that SMEs inform, the total does not always equal 100% as multiple responses were possible.

Fig. Column 2-4-2 (11) Status of consultation services SMEs provide on supporting a balance of work and caregiving



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Breaking down the answers on consultation services, the total does not always equal 100% as multiple responses were possible.

Case 2-4-2 Nagaoka Toso Co., Ltd.

A company that has succeeded in retaining employees by realizing flexible working styles that respond to the needs of individual workers

Nagaoka Toso Co., Ltd. (employees: 27; capital: ¥25.5 million), located in Matsue City in Shimane Prefecture, is a painting company that was established in 1938.

Human resources are highly mobile in the construction industry, and in the past Nagaoka Toso also found that its employees would repeatedly change jobs within the industry, or that young employees would quit before acquiring the skills and qualifications of master painters, leaving the company unable to foster a new generation of employees.

In 1997, immediately following her appointment as an executive, Sumiko Koshino, the company's Managing Director, was told by a company employee who was no longer content to simply watch the situation that the company would fail if things went on as they were. Ms. Koshino set about creating a working environment that would encourage employees to stay with the company for longer periods.

First, seeing that the company's male employees were having difficulty balancing their child-raising responsibilities with work, she decided to establish a child-care leave system that allowed employees to take time off in 30-minute units. In doing so, she felt that what was important was not so much that the system existed, as that all of the company's employees were able to feel comfortable in making use of it. Ms. Koshino therefore worked with a focus on ensuring fairness for all employees and minimizing friction between employees. During the process of creating systems for the company, she prioritized the opinions of employees who did not make use of such systems, she made efforts to provide detailed explanations to employees, and, with employees' opinions in mind, she simultaneously created a child-care support system and a nursing-care support system.

The company's seriousness in responding to the needs of every individual employee, with all of their different circumstances, has resulted in the introduction of a diverse range of systems, including one enabling employees to start work or leave work earlier or later for the purpose of childcare or nursing care, and one that subsidizes one-third of childcare fees and nursing-care service expenses. In addition to introducing these systems, the company has worked in other ways to entrench an understanding of the concept of work-life balance among employees and to create an atmosphere in which employees have mutual concern for each other's circumstances, for example by organizing seminars in which outside specialists visit the company to speak about working styles, and encouraging employees to share details of their individual circumstances with each other. As a result, the company's employees have come to be able to make use of the various systems in place without reservations, just as Ms. Koshino wished at the outset.

Nagaoka Toso has also adopted flexible responses in the area of management of its company systems. For example, the company not only has quite a number of employees engaged in childcare, but also has a number with nursing care responsibilities. By building up relationships of trust within the company, Nagaoka Toso has created an atmosphere in which it is easy for employees to consult regarding nursing care and other family circumstances, and it is able to respond flexibly, for example by allowing employees to reduce their working hours on days when they have to take a family member that they are caring for to the hospital, providing support for employees in realizing a balance between life and work.

Nagaoka Toso's efforts have resulted in a significant decline in its employee turnover rate. The company also offers internships in collaboration with educational institutions and secures employees through participation in job cafes, and since 2000 its number of employees has been on the increase. It is now a company in which both young workers and senior employees throw themselves into work with enthusiasm. It has also received awards from the national government and the regional administration for its efforts in realizing an excellent working environment for its employees, increasing its level of recognition. This has had positive benefits in attracting large numbers of job applicants who have read articles about the company, and also in attracting new orders.

Ms. Koshino says "If employees work for a company for a long time, it's only natural that each one will experience a variety of different circumstances. Being an SME makes it possible for everyone to share and understand those circumstances, and to seek to realize flexible working styles in response. I want us to be a company that wins the trust not only of our employees, but also of their families and their relatives. Efforts to create a company with a good working environment bring only positive benefits, and I hope to see a lot more companies making vigorous efforts in this direction."



Nagaoka Toso's Managing Director Sumiko Koshino, responsible for the company's efforts to create a workplace that considers every individual employee



A company employee who is able to work while fulfilling nursing care obligations

Section 3 Use of diverse personnel and flexible work styles

The decline in the working age population is a structural problem for Japan. Fewer workers means that the nation's productivity and supply capacity will fall. On the other hand, as the population grows older, just the retirement of workers will cause production to fall, but consumption will not immediately decline.¹¹⁾ Rather, in the face of a structural factor like the aging population, the demand for labor will irreversibly rise in the medical, health care and welfare industry but is not expected to drop suddenly in other industries. With this in mind,¹²⁾ the shortage of the labor supply is anticipated to continue for the time being.

In addition, the equilibrium unemployment rate is gradually increasing over the long term, as Part I, Chapter 3 pointed out, and the economy has been in a state of full employment recently. Under the circumstances, to maintain Japan's productivity and supply capacity, it will be increasingly important to eliminate the mismatch between employers and laborers and facilitate labor mobility to try to lower the equilibrium unemployment rate and to make better use of women, seniors,¹³⁾ and others who have had a lower labor force participation rate

up to now. However, one of the reasons these personnel have not been fully used up to now is the limitations on the way they can work, such as the difficulty with working full time because of their household or other situation.

In the face of this, there are SMEs that, using the flexibility inherent to the SME, are achieving growth by accepting flexible work styles and using diverse personnel.

This section starts by analyzing long-term employment trends, reasons for not having an occupation, and so on in Japan. The goal here is to eliminate the limitations placed on personnel that have had a low rate of labor force participation and get them involved in the labor market. We also focus on persons with an occupation, analyzing what kind of needs personnel have who are actually working, and what conditions would have to be satisfied for them to want to continue in employment. Finally, we look at SMEs to see how well they are using diverse personnel, whether they have prepared for diverse work styles, and what benefits they are getting through these efforts.

1. Use of diverse personnel

(1) Use of women and seniors

First, we look at the use of women and seniors at different businesses. Fig. 2-4-31 reveals the trend that women make up a larger ratio of the work force the smaller the business. And similarly, looked at by age, older personnel make up a larger ratio of the work force

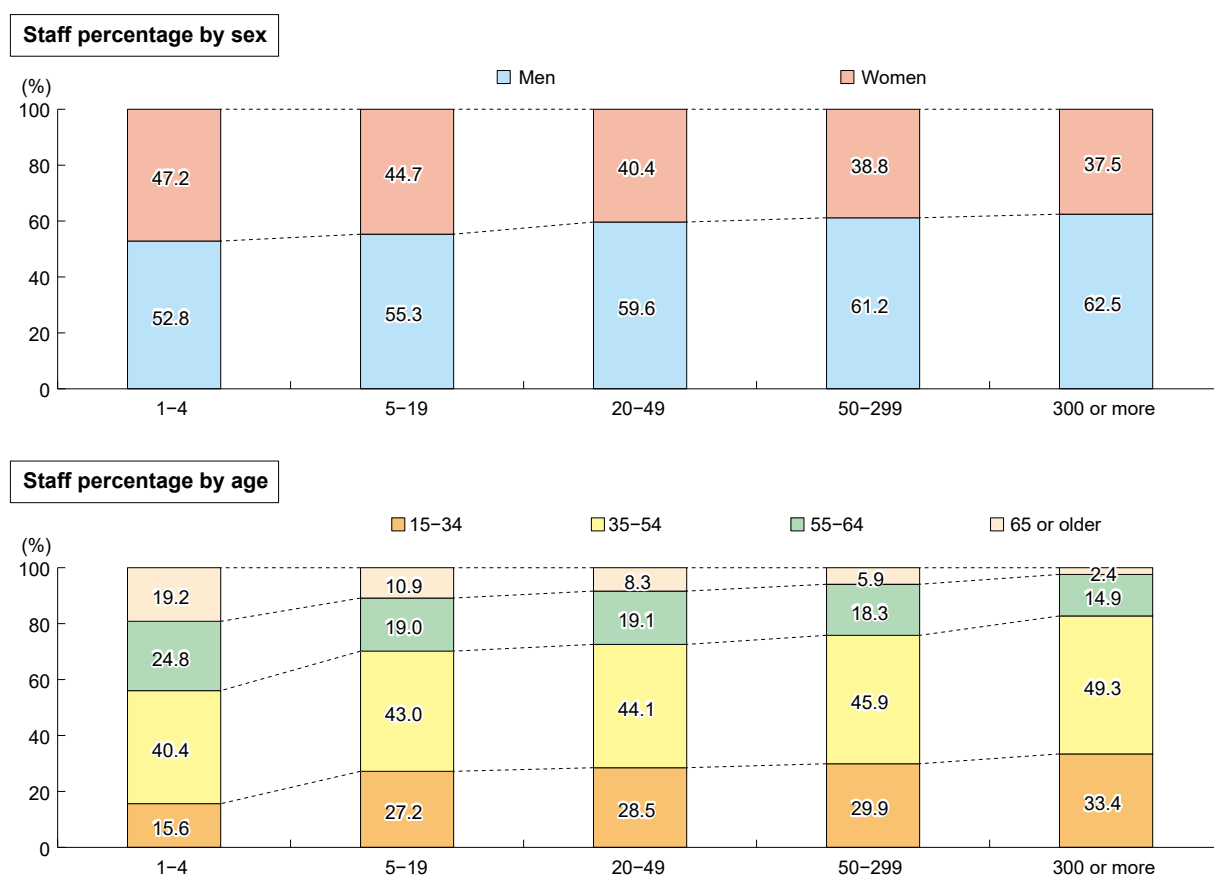
the smaller the business.

This indicates that small businesses have an important role to play providing employment for women and seniors. Moreover, the use of women and seniors is indispensable to the operation of small businesses.

11) From Cabinet Office, *Regional Economies 2016*.

12) See Part I, Chapter 3, Fig. Column 1-3-1 (2).

13) In this study, "seniors" are defined as persons 60 or older.

Fig. 2-4-31 Sex and age structure of employees, by number of workers

Source: MIC, 2012 *Employment Status Survey*.

Notes: 1. Aggregates "employees."

2. Aggregated figures exclude persons working for public agencies or other legal entities or groups.

Next, we look at long-term trends in the employment status of women and seniors in Japan as a whole and analyze their potential as a labor force and the outlook going forward.

(2) Employment status of women

Part I, Chapter 3 found that the employment rate of women is rising long term and in particular found

gradual progress in labor force participation by women 25-44, who form the valley in an M-shaped curve. In this section, we analyze women's employment status and labor mobility to learn more detail. First, a look at Fig. 2-4-32 shows that the number of women employed has risen by about 2.4 million in the last 10 years. Looking at the breakdown by employment pattern, the contribution from non-regular employees¹⁴⁾ has been especially large.

14) A large number of respondents voluntarily selected non-regular employee as their employment pattern, and 11.5% said the reason why was "because there are no work opportunities to become regular employees" (from MIC, *Labor Force Survey (Detailed Aggregated Figures, 2016 Averages)*).

Fig. 2-4-32 Trends in number of women employees, by employment pattern

Source: MIC, *Labor Force Survey (Historical Data/Detailed Aggregated Figures)*.

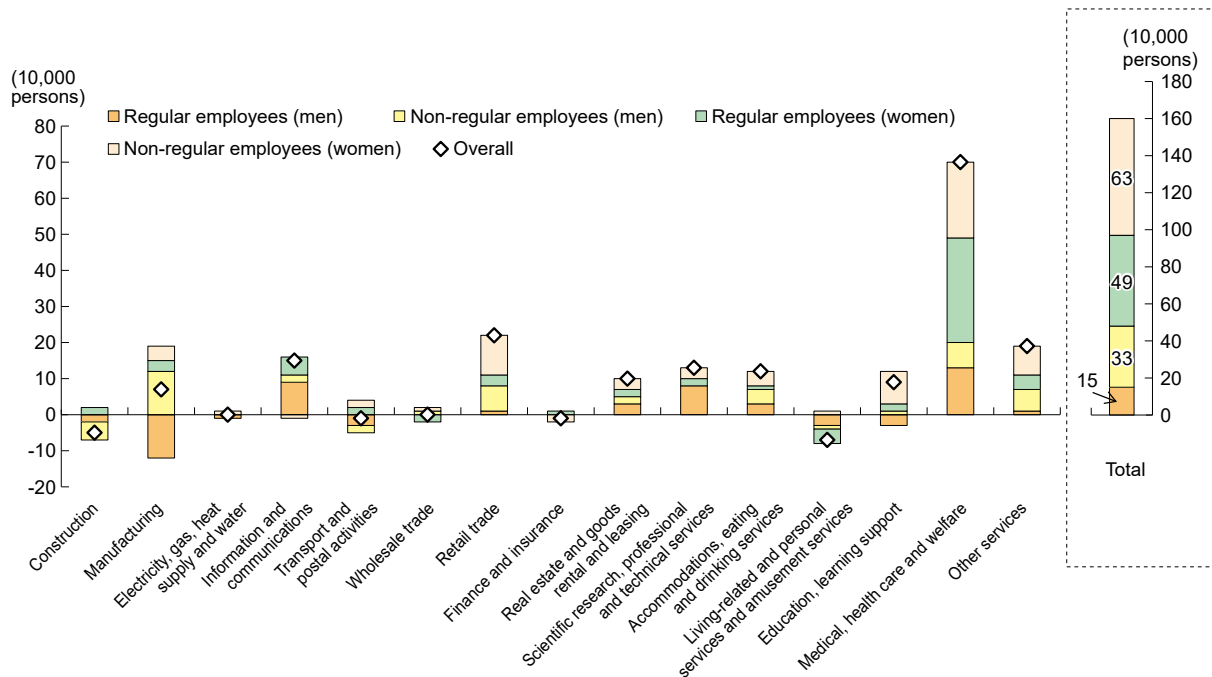
- Notes:
1. Data for 2011 is a supplementary estimate (based on 2010 Population Census), because the Great East Japan Earthquake of March 11, 2011 made it temporarily impossible to conduct the survey in some regions.
 2. The base population for calculation was switched from the 2012 average to the estimated population (new standard) based on the finalized population from the 2010 Population Census. To connect figures from 2010 and earlier to results from 2012 and later, figures were replaced with time-series-connection figures (which were amended and tracked back from the finalized population from the 2010 Population Census).

Fig. 2-4-33 shows changes in the number of employees from 2013 to 2016, by sex, to answer in which industries the increase in the number of women employees made a contribution. The slowly recovering Japanese economy had some impact, and looking at the total, the number of both men and women employees increased in all employment patterns.

Looking at the breakdown by industry, there were the industry structural changes mentioned in Part I, Chapter 3, but in “medical, health care and welfare,” the

number of regular employees (women) rose by 290,000 and non-regular employees (women) by 210,000, so the contribution by women has been especially large here. Looking at other industries, there were increasing numbers of women working as regular employees in all industries except “wholesale trade” and “living-related and personal services and amusement services.” In addition, women non-regular employees grew by a wide margin especially in service industries like “retail trade,” “education, learning support,” and “other services.”

Fig. 2-4-33 Trends in number of employees, by sex, by industry, and by employment pattern (2013–2016)



Source: MIC, *Labor Force Survey*.

- Notes:
1. Aggregated figures are exclusive of “agriculture and forestry,” “fisheries,” “mining and quarrying of stone and gravel,” “government services, except elsewhere classified,” and “industries unable to classify.”
 2. Aggregates employees exclusive of executives.
 3. “Other services” aggregates the total of those who answered, “compound services” and “miscellaneous services, not elsewhere classified.”

(3) Employment status of seniors

Next, we look at the long-term trends in the employment status of seniors. Part I, Chapter 3 showed that the employment rate has been solidly increasing for relatively young seniors, those age 60–69, since the partial revision of the Act on Stabilization of Employment of Elderly Persons in 2012 and the rising age to begin receiving welfare pension payments in 2013.

Fig. 2-4-34 shows the trends in the number of employed persons 60 or older and their employment rate. It indicates that the employment rate for those 60–64 and the employment rate for those 65 or older have both

risen consistently since 2012. Looking at actual figures, the number of employed persons 60–64 has recently declined, but the number of employed persons 65 or older has risen by a large margin.

Similarly, Fig. 2-4-35 shows the year-on-year growth rate in the population and number of employed persons. The number of employed persons, both 60–64 and 65 or older, has risen faster than the population of those groups, especially since 2012. This shows that seniors are taking part in the labor force to an extent beyond what the employment rate figures suggest.

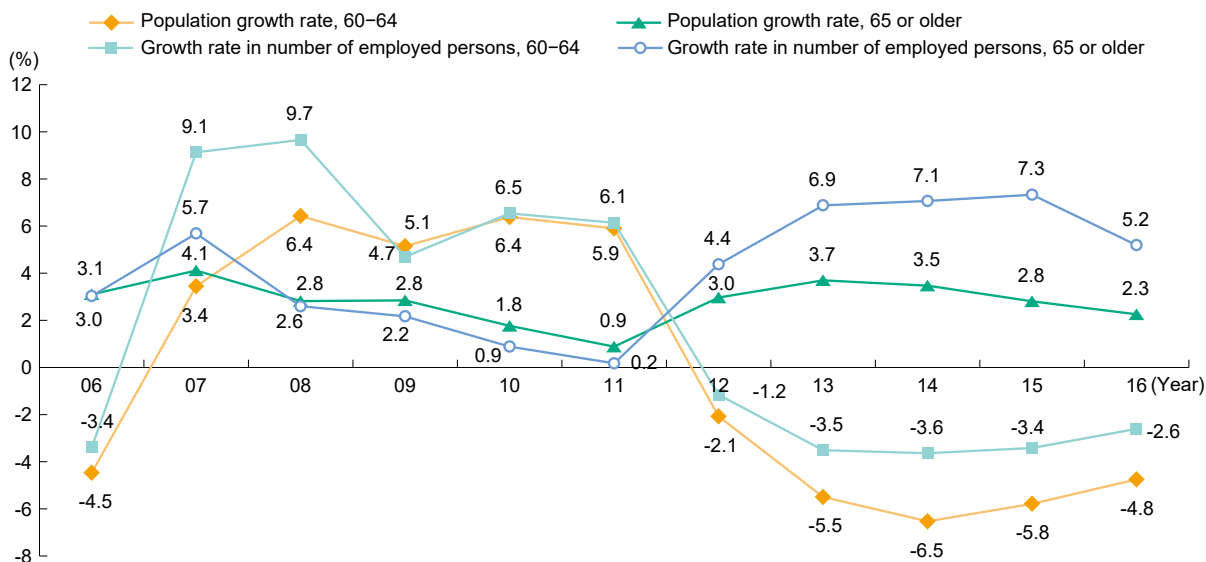
Fig. 2-4-34 Trends in number of employed persons and employment rate for men and women 60 or older



Source: MIC, *Labor Force Survey (Historical Data/Basic Tabulation)*.

- Notes:
1. Data for 2011 is a supplementary estimate (based on 2015 Population Census), because the Great East Japan Earthquake of March 11, 2011 made it temporarily impossible to conduct the survey in some regions.
 2. Figures for 2006–2009 were replaced with time-series-connection figures based on the 2010 Population Census standard benchmark population. Figures for 2010–2016 were replaced with time-series-connection figures based on the 2015 Population Census standard benchmark population.
 3. The number of employed persons includes agriculture and forestry.

Fig. 2-4-35 Year-on-year growth rate in the population and number of employed persons, men and women, 60 or older



Source: MIC, *Labor Force Survey (Historical Data/Basic Tabulation)*.

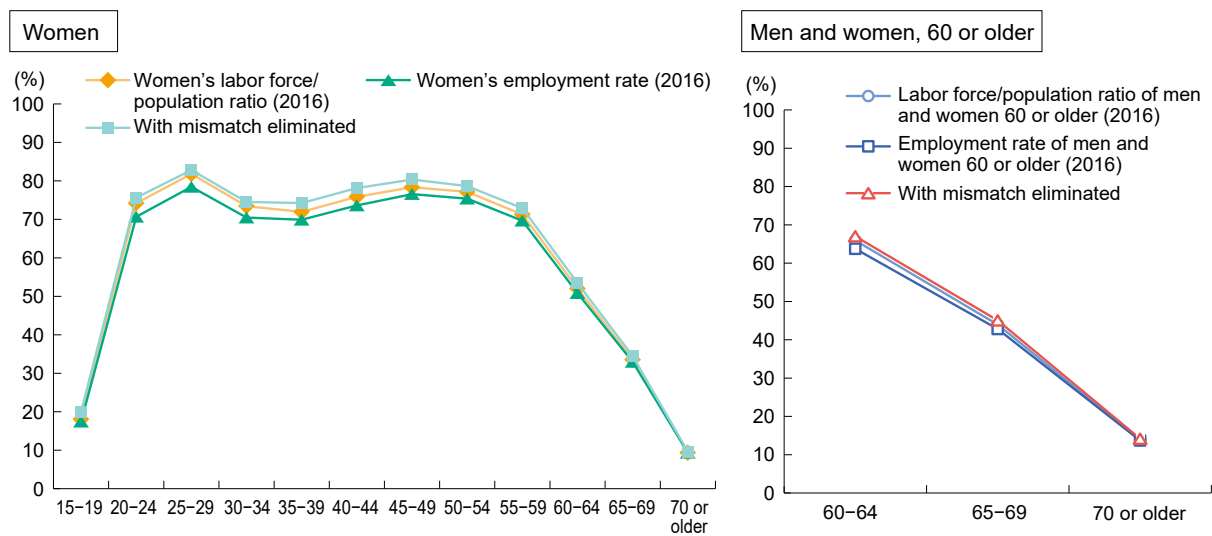
- Notes:
1. Data for 2011 is a supplementary estimate (based on 2015 Population Census), because the Great East Japan Earthquake of March 11, 2011 made it temporarily impossible to conduct the survey in some regions.
 2. Figures for 2006–2009 were replaced with time-series-connection figures based on the 2010 Population Census standard benchmark population. Figures for 2010–2016 were replaced with time-series-connection figures based on the 2015 Population Census standard benchmark population.
 3. The number of employed persons includes agriculture and forestry.

(4) Outlook for employment of women and seniors going forward

So far, we have found that women and seniors have an increasingly important role to play as workers as the working age population declines. Next, we consider the future outlook. Fig. 2-4-36 shows the labor force/population ratio for women and seniors and their employment rate in 2016, and their latent labor force participation rate, which includes persons who have given up job seeking because of a mismatch, i.e., “there does not seem to be appropriate work.”

The figure shows that both women and seniors are nearly at a state of full employment and their employment rate is getting close to the labor force/population ratio. Even if the persons who had given up labor force participation because of a mismatch are included, it is hard to conclude that, as things are now, there is much more potential for these persons as a labor supply in the future.

Fig. 2-4-36 Women and seniors labor force/population ratio and employment rate, and their labor force/population ratio if the mismatch were eliminated



Source: MIC, *Labor Force Survey (2016)*.

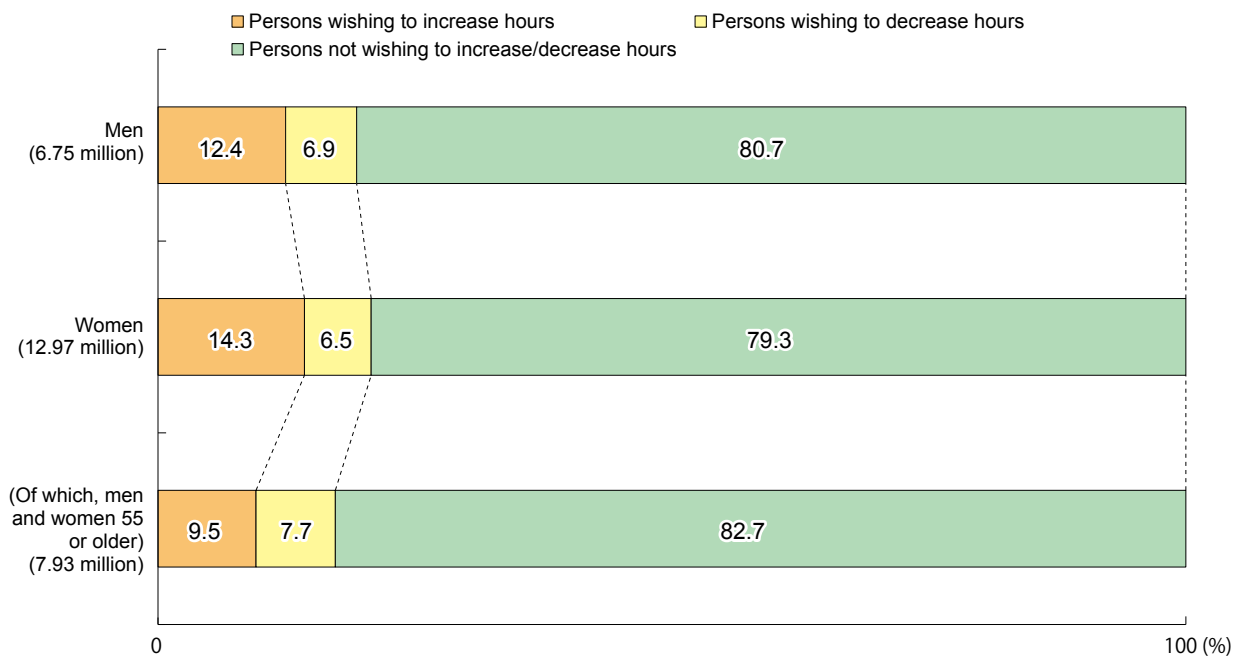
- Notes:
1. Labor force/population ratio = ratio of the “labor force” to the entire population 15 or older. The “labor force” is found by adding “employed persons” and “completely unemployed persons.”
 2. Employment rate = ratio of “employed persons” to the entire population 15 or older.
 3. Elimination of the mismatch is here defined as “(labor force + persons who wish to become employed but are not job seeking because there does not seem to be appropriate work) ÷ the population of persons 15 or older, by age group.”

Here we look at work hours, which is one element of the labor force. The Council for the Realization of Work Style Reform¹⁵⁾ has mentioned correcting work hours as a most critical issue for achieving work-life balance and is thus leaning toward putting limits on work hours.

Also, as Fig. 2-4-37 indicates, among workers with short work hours, only a very small percentage actually wish to increase their work hours. Thus, increasing the per-capita work hours of women and seniors is unlikely to eliminate the labor shortage.

15) A private-sector advisory body established by approval of the Prime Minister on September 26, 2016. It debates concrete action plans for “work style reform,” for example improving the treatment of non-regular employment (e.g., equal pay for equal work), increasing wages, improving labor productivity, and correcting long work hours such as with limits on overtime work.

Fig. 2-4-37 Wishes of workers with short work hours to increase or decrease work hours



Source: MIC, *Labor Force Survey (2016)*.

Notes: 1. Here, “workers with short work hours” means workers who worked 1–34 hours in the last week of the month.
 2. Workers include persons also attending school.

(5) Analysis of persons without an occupation

Going forward, it is anticipated that the mismatch between labor conditions enterprises offer and labor conditions job seekers hope for will be eliminated somewhat as wages rise and there is a greater trend toward regular employment in a time of personnel shortage. On the other hand, considering that current labor force participation has plateaued, it will be necessary to raise the rate of labor force participation, including persons with a latent wish to be employed who are not included in the definition of completely unemployed persons. From this point, we analyze factors limiting labor force participation by persons without an occupation who wish to be employed.

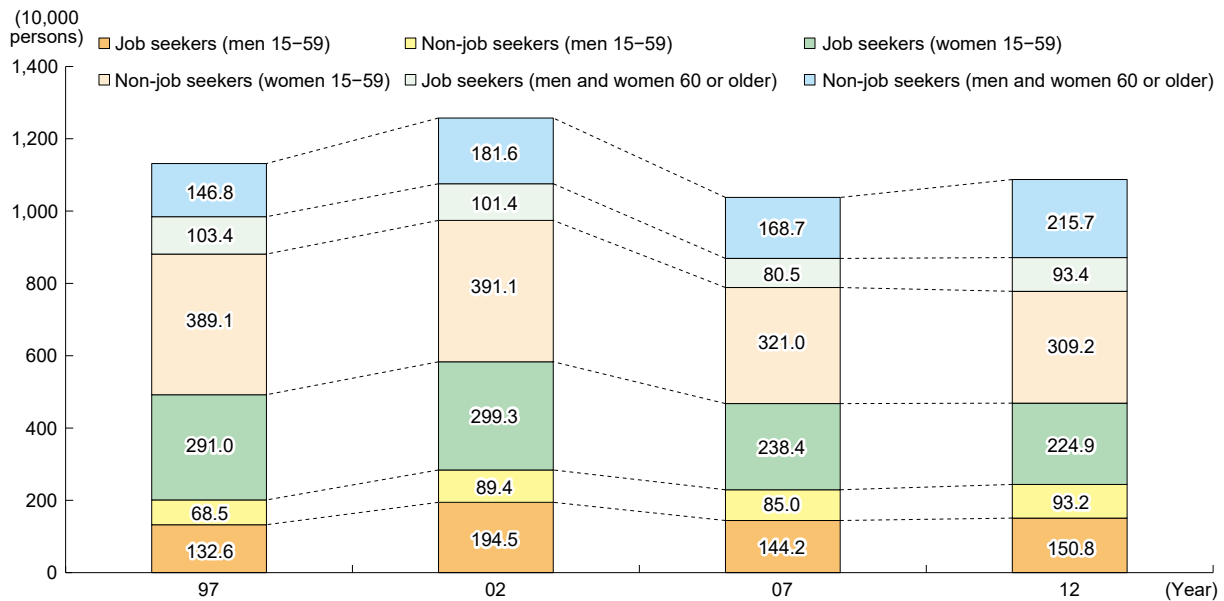
Fig. 2-4-38 shows trends among persons without an occupation who wish to be employed.¹⁶⁾ According to the

figure, there are more than 10 million persons without an occupation, men and women combined, with a latent wish to be employed. As of 2012, non-job seekers included 932,000 men age 15–59, 3.092 million women age 15–59, and 2.157 million men and women combined age 60 or older.

As women have increasingly participated in the labor force, the number of women age 15–59 without an occupation who wish to be employed has declined in the most recent survey years as compared to 1997. However, a considerable number still do not participate in the labor force in spite of having a wish to be employed. As for seniors, their percentage of the total is on a rising trend. Making these personnel with a latent wish to participate in the labor force available as labor is an essential effort to address the current decline in the labor force.

16) Here, “persons without an occupation who wish to be employed” are defined as “persons without an occupation who want to do paying work,” regardless of such factors as whether they are actually seeking jobs. As such, this differs from the definition of “completely unemployed persons” in labor force surveys.

Fig. 2-4-38 Trends among persons without an occupation who wish to be employed



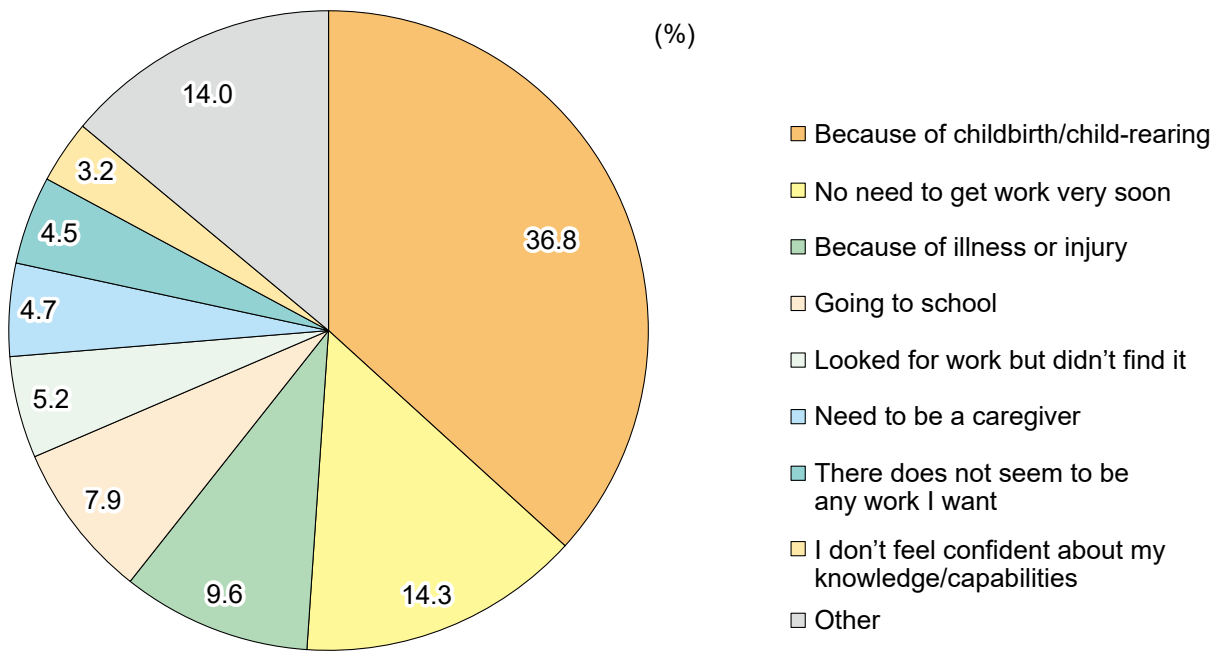
Source: MIC, *Employment Status Survey*.

Note: "Job seekers" means "persons without an occupation who want to do paying work and are looking for work or preparing to start a business." "Non-job seekers" means "persons without an occupation who want to do paying work but are not looking for work and not preparing to start a business."

Next, we look at the factors limiting labor force participation by women and seniors. Fig. 2-4-39 shows the reasons why women age 15–59 without an occupation who wish to be employed are not seeking jobs. According

to this figure, the reason most often cited (36.8%) is "because of childbirth/child-rearing." Clearly, balancing work with childbirth/child-rearing is a big challenge for women's labor force participation.

Fig. 2-4-39 Reasons why women age 15–59 without an occupation who wish to be employed are not seeking jobs



Source: MIC, 2012 *Employment Status Survey*.

Note: "Other" aggregates the total of answers saying, "not going to school, but studying to go to a higher-level school, earn qualifications, etc.," "old age," and "other."

Fig. 2-4-40 asks what impact the length of time since leaving their previous job has had on women's subsequent employment patterns, regardless of the reason for leaving the job. Answers are categorized by employment pattern and employment inclination.

The longer the length of time since leaving the earlier job, the lower the percentage that returned to work as a

regular employee, but the higher the percentage of persons without an occupation who wish to be employed.

To really drive down the number of persons without an occupation who wish to be employed, it seems important to reduce the number who leave their jobs in the first place or minimize the length of time after leaving the job.

Fig. 2-4-40 Women’s labor mobility by employment pattern, by length of time since leaving their previous job



Source: Recompiled from MIC, 2012 *Employment Status Survey*.

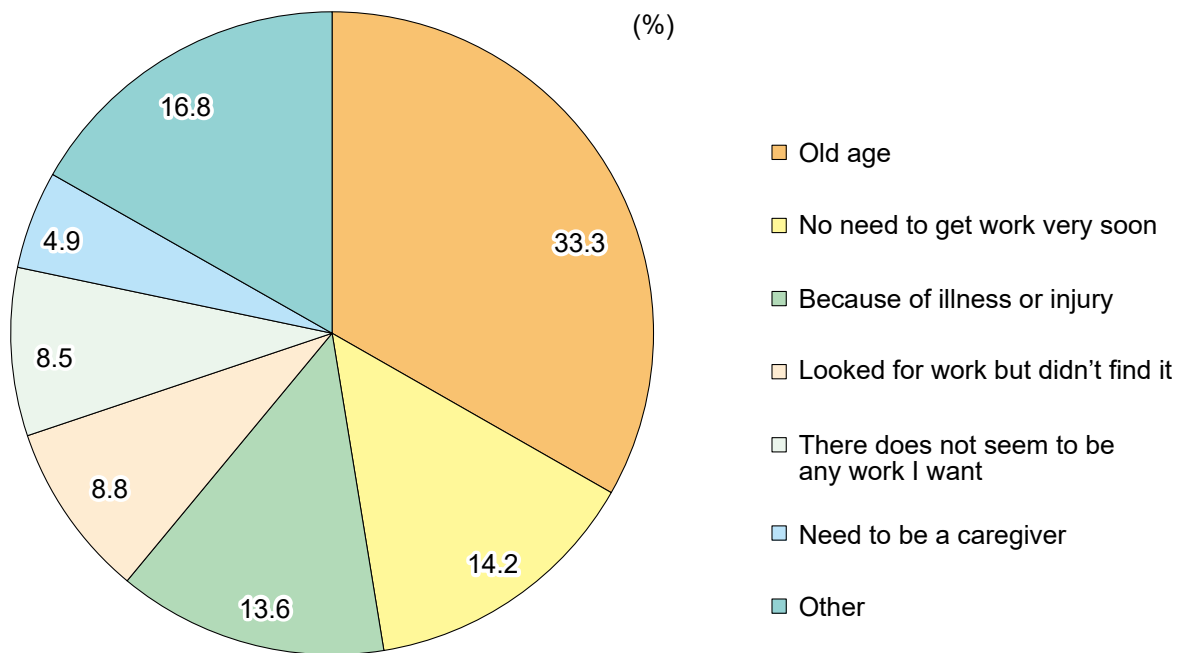
Note: “Other persons with an occupation” aggregates those whose current occupation is not as an employee.

Next, we similarly look at the reasons seniors are not seeking jobs and find that one in three answered, “old age.” The percentage was highest for those who had given up job seeking because of age (Fig. 2-4-41). The combined percentage of those who listed the mismatch factors “looked for work but didn’t find it” or “there does not seem to be any work I want” as reasons for not job seeking was 17.3%. This suggests that an effective

way to encourage labor force participation by seniors would be to expand job openings for the elderly, taking their qualifications for the job, etc., into account,¹⁷⁾ and promote labor mobility through occupational training, talent development, and the like.

17) Looking at Japan as a whole and all industries, as of February 2017, it is not the case that the opening-to-application ratio for the 60 or older age group is extremely lower than that for the under-60 age groups (source: MHLW, *General Job Placement Situation (Labor Market Indicators by Age Group)*). It is conjectured that the age-specific barriers to labor force participation vary by region, industry, and occupation.

Fig. 2-4-41 Reasons why men and women age 60 or older without an occupation who wish to be employed are not seeking jobs



Source: MIC, 2012 *Employment Status Survey*.

Note: "Other" aggregates the total of answers saying, "I don't feel confident about my knowledge/capabilities," "not going to school, but studying to go to a higher-level school, earn qualifications, etc.," "because of childbirth/child-rearing," "going to school," and "other."

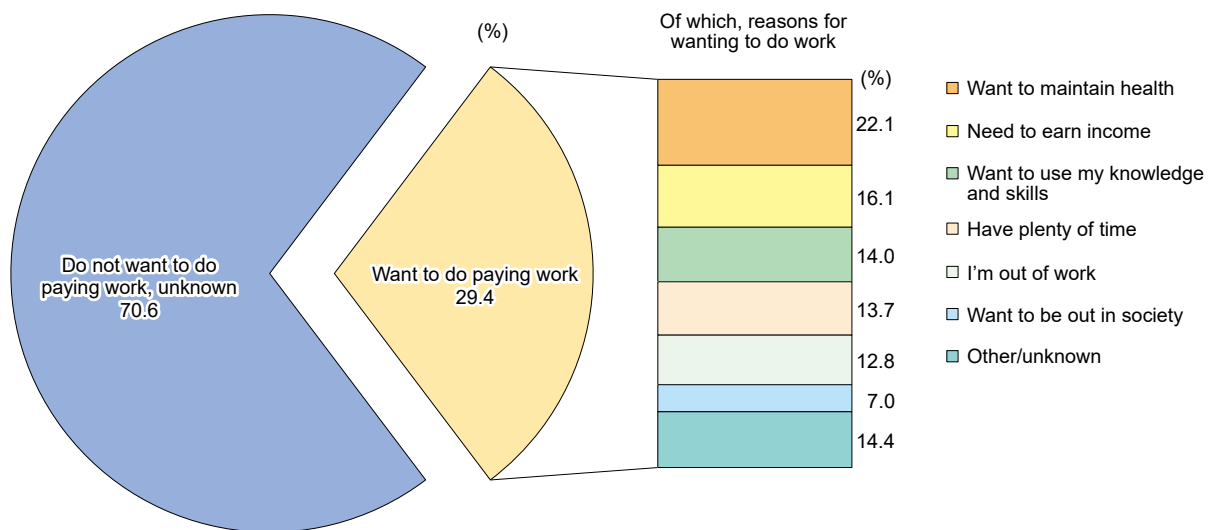
Seniors without an occupation who wish to be employed often gave "reached mandatory retirement age" as their reason for leaving their previous job.¹⁸⁾ According to Fig. 2-4-42, a check of the inclination for future employment among persons without an occupation who left their previous jobs because of mandatory retirement age¹⁹⁾ shows that 29.4% wish to be employed, and of those, 14.0% said the reason they want to work

is because "want to use my knowledge and skills." For SMEs struggling to secure excellent personnel, it seems that making use of the latent capabilities of persons who left their previous jobs because of mandatory retirement age would be effective, since they have such knowledge and skills and abundant experience.

18) See Appended note 2-4-4. The most common reason persons age 60 or older without an occupation who wish to be employed gave for leaving their previous jobs was "reached mandatory retirement age" (28.9%), followed by "because of illness or old age (17.3%)."

19) This figure extracts persons without an occupation who left their previous jobs because they reached mandatory retirement age, regardless of age. Care should be taken because the population includes some persons 59 or younger, though this is only about 1%.

Fig. 2-4-42 Inclination for employment among unemployed persons who left their previous jobs because of mandatory retirement age, and reasons for wanting to be employed



Source: MIC, 2012 Employment Status Survey.

Note: Aggregates only persons without an occupation who left their previous jobs because of mandatory retirement age in October 2007 or later.

(6) Analysis of employed persons' needs

Up to this point, we have looked at factors limiting labor force participation by persons without an occupation and their latency as a labor force. What kind of environment do women and seniors who are actually working think would make them want to continue working? The analysis in this part focuses on the use of women and seniors as core personnel, a role that women and seniors are increasingly expected to play in future at SMEs.²⁰⁾

First, Fig. 2-4-43 shows the current values core personnel have when selecting an employer, regardless of whether they have the inclination to make a job change in future. Answers are categorized by sex and age. Notable differences between men and women and between seniors and others are as follows. For women, a high percentage

answered that they cannot compromise on “work location,” “workplace environment/human relations,” “balancing work and life,” “official work hours/days,” and “overtime hours.” On the other hand, though the differences were not as pronounced for seniors as they were for women, seniors tended to value “job description/rewards” and “occupational category” more than other items.

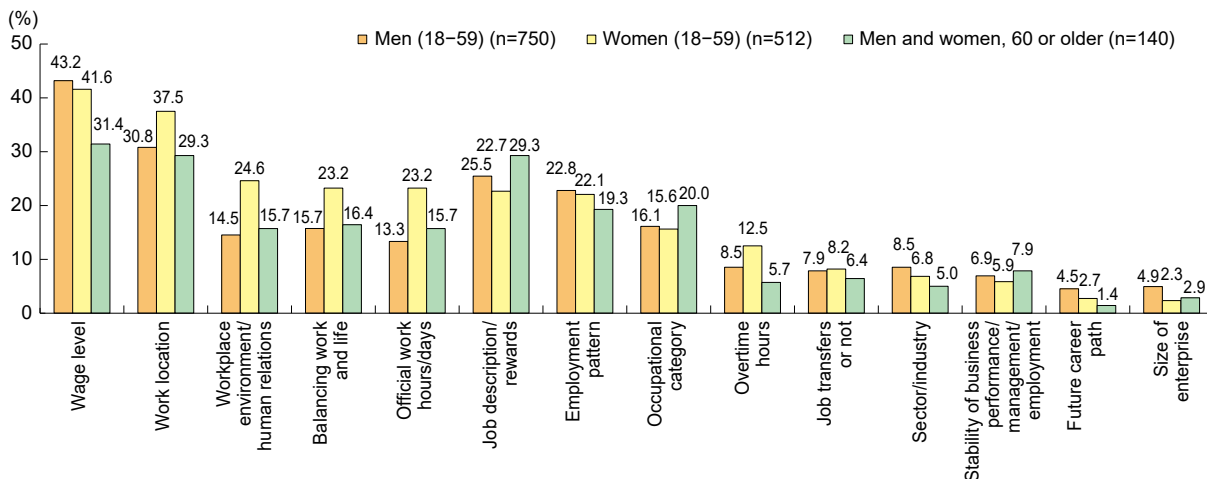
Based on these differences, it is conjectured that women relatively face limitations on time and place because of their household or other situation. Seniors, it seems, wish to work in an occupation that takes advantage of their work experience and skill level. These trends suggest there may be further room to grow for getting women and seniors active in the workplace. For women, this could be done by establishing labor conditions for

²⁰⁾ See Appended note 2-4-5. Already SMEs more than 70% are using women and more than 60% are using seniors as a labor personnel, but for core personnel each usage is about 50%.

work-life balance and offering work styles that are not restricted by time and place, such as telecommuting. For seniors, it could be done by assigning individuals to

appropriate work domains, while taking account of their physical strength and wishes.

Fig. 2-4-43 Points on which employed persons cannot compromise when choosing an employer (core personnel)



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes: 1. Total does not always equal 100% as multiple responses were possible.
- 2. Shows items personnel indicated as points where they cannot compromise.

Next, Fig. 2-4-44 and Fig. 2-4-45 show the efforts that women and seniors seek from their employers when working as core personnel, and efforts that are actually being made by the employers of personnel that described their current workplace as “easy to work.”

In Fig. 2-4-44, looking at the enterprise efforts that each group of personnel values, there was not much difference between men and women regarding evaluation-related answers like “pay increases/promotions based on capabilities and aptitude” and “personnel evaluation based on results and job content.” On the other hand, women tended to put more value on items related to the workplace environment, namely “consideration for workplace environment/human relations” and “flexible work hours,” as well as the item “assistance/allowance

for child-rearing/caregiving.”

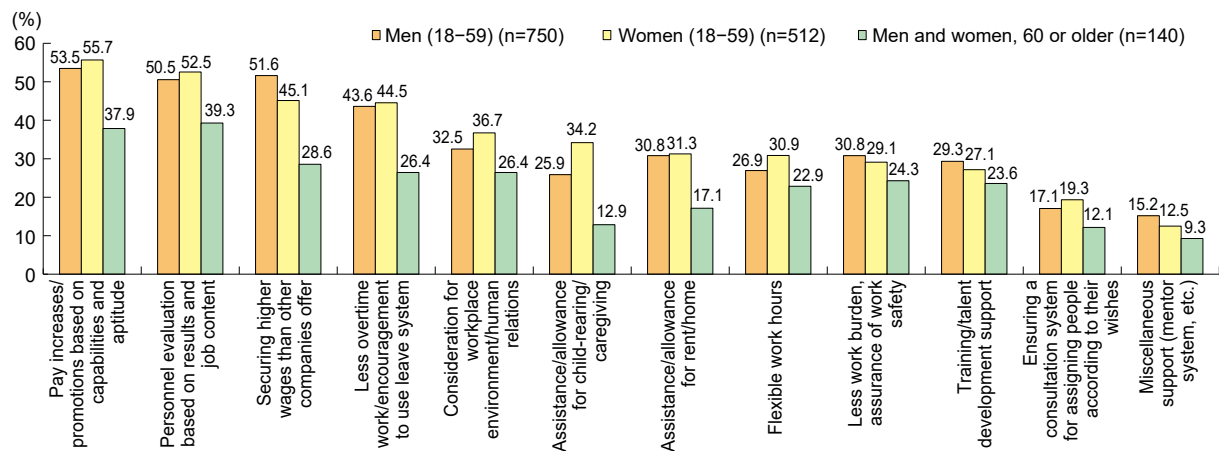
Fig. 2-4-45 addresses the correlation between the state of employer efforts and the ease of working there. On the whole, the effort made the most by enterprises whose employees described them as “easy to work” was “less overtime work/encouragement to use leave system.”

According to this figure, 34.9% of these women said that their employers were offering “flexible work hours,” suggesting that efforts related to work hours have the potential to make a greater impact on ease of working.

For seniors, the item “personnel evaluation based on results and job content” has a big impact on ease of working, but “less work burden, assurance of work safety” also seems to have a high correlation to ease of working.²¹⁾

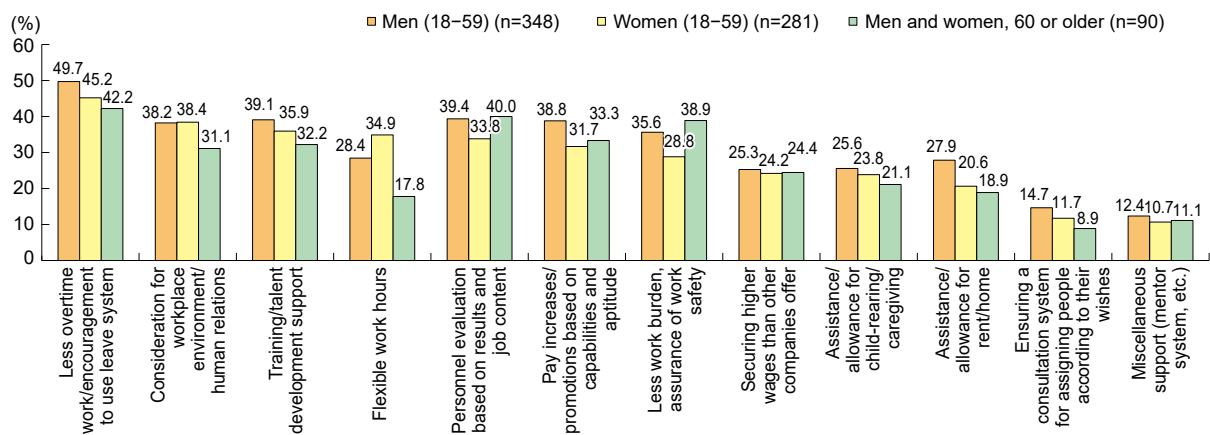
21) One reason for the difference in the answers of men and women to the item “less work burden, assurance of work safety” may be that men and women are employed in different work domains. Looking at the work domains of core personnel surveyed, for men (18-59) the results showed 16.9% work in “R&D and design” and 17.1% in “production and transportation.” For men and women 60 or older, 16.4% work in “R&D and design” and 12.9% in “production and transportation.” In contrast, women (18-59) worked in those domains at the lower rates of 9.6% and 6.1% respectively.

Fig. 2-4-44 Enterprise efforts for personnel retention and development that employed persons consider necessary (core personnel)



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.
 Notes: 1. Total does not always equal 100% as multiple responses were possible.
 2. Shows items that respondents said they consider to be necessary enterprise efforts.

Fig. 2-4-45 Efforts that are being made by employers of personnel that described them as easy to work (core personnel)



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.
 Notes: 1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates the total of those who answered, “very easy to work” and “easy to work.”
 3. Shows efforts that respondents said were being made at their employers.

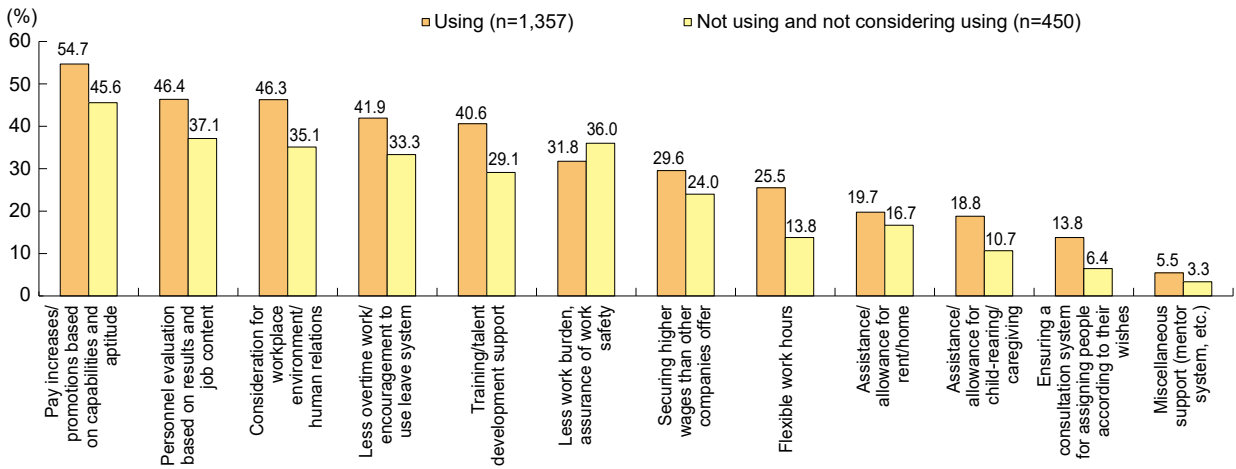
(7) The use of women and seniors as core personnel at SMEs

What kinds of systems are in place at SMEs? Fig. 2-4-46 looks at the efforts being made to retain and develop personnel, categorized by whether the enterprise is using women as core personnel.

With the exception of “less work burden, assurance of work safety,” enterprises that use women as core

personnel are making all these efforts at a greater rate than enterprises that are not using and not considering using them. There is in particular a notable gap in the state of efforts that women value in terms of preparing the workplace environment, namely “consideration for workplace environment/human relations,” “less overtime work/encouragement to use leave system,” and “flexible work hours.”

Fig. 2-4-46 Efforts being made to retain and develop personnel, categorized by whether the enterprise is using women as core personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

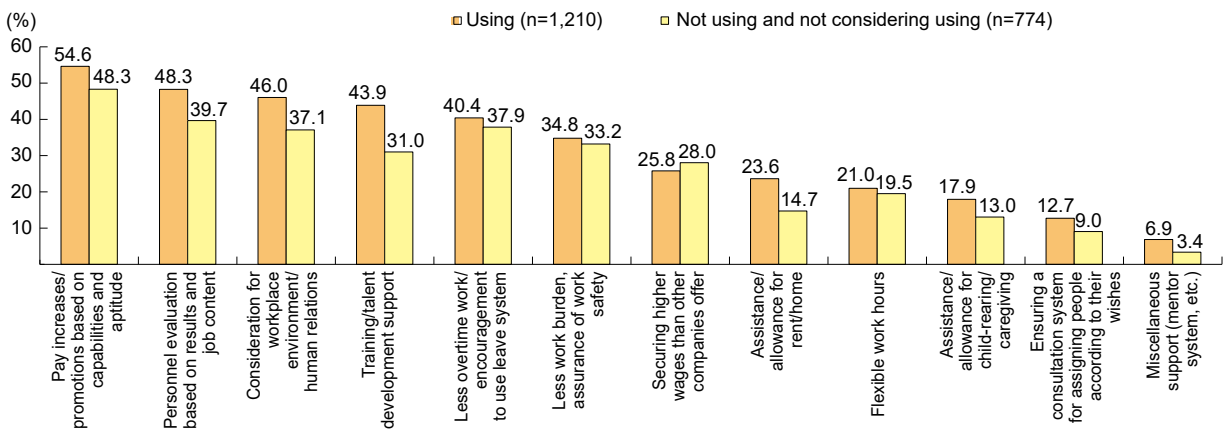
Note: Total does not always equal 100% as multiple responses were possible.

We similarly looked at enterprises that are using seniors as core personnel and enterprises that are not, and found that, with the exception of “securing higher wages than other companies offer,” companies are making these efforts on the whole at a greater rate than those enterprises that are not using seniors and are not considering using them (Fig. 2-4-47). The same as in Fig. 2-4-46, there is

a big difference in the effort made for “training/talent development support.”

This indicates there are SMEs making good use of diverse personnel (women and seniors) by enhancing their efforts to retain and develop personnel and preparing a workplace environment where it is easy to work.

Fig. 2-4-47 Efforts being made to retain and develop personnel, categorized by whether the enterprise is using seniors as core personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

2. Use of diverse personnel and flexible work styles that enable use of diverse personnel

Up to this point, we have analyzed the current situation with a particular focus on the use of women and seniors as core personnel. From here, we will analyze the challenges SMEs face using personnel when promoting flexible work styles to accommodate diverse personnel, and we examine the benefits they get from using them. Note that hereafter in this section, the term “diverse personnel” will include foreigners and persons with disabilities in addition to women and seniors.²²⁾

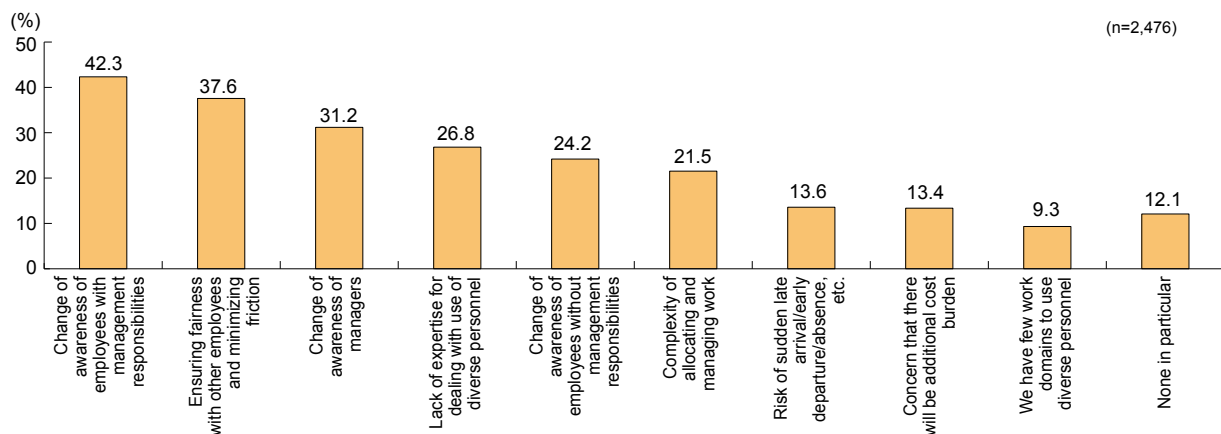
(1) Challenges when using diverse personnel

First, we look at the challenges SMEs perceive when using diverse personnel. According to Fig. 2-4-48, the

response rate was highest for “change of awareness of employees with management responsibilities” (42.3%), followed by “ensuring fairness with other employees and minimizing friction” (37.6%).

This suggests that when using not just those defined as diverse personnel, but also men in their prime years, individuals must be dealt with according to their household situation, capabilities, aptitude, and wishes. Therefore, a high percentage of SMEs sensed there are challenges changing the awareness of their employees with direct management responsibilities and making adjustments between employees.

Fig. 2-4-48 Challenges when using diverse personnel, as seen by SMEs



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.
2. Aggregates answers from those that said, “we are using them as core personnel” or “we are considering using them as core personnel” in regards to at least one of the four personnel categories “women,” “seniors,” “foreigners,” and “persons with disabilities.”

Fig. 2-4-49 looks at enterprise efforts that employed persons consider necessary in order to enable people to work in the same workplace as personnel with some limitation on work location, job content, work hours, etc.

The perspective here is to allow and promote “flexible work styles (those not restricted by time and place),” although diverse personnel are not necessarily only those with work style limitations.

22) In terms of diversity management, “diverse personnel” is defined as including not just a diversity of sex, age, race, nationality, ability and disability, sexual orientation, religion/beliefs, values, and the like, but also diversity in regards to career, experience, work style, and the like (from METI, *New Diversity Management Selection 100*).

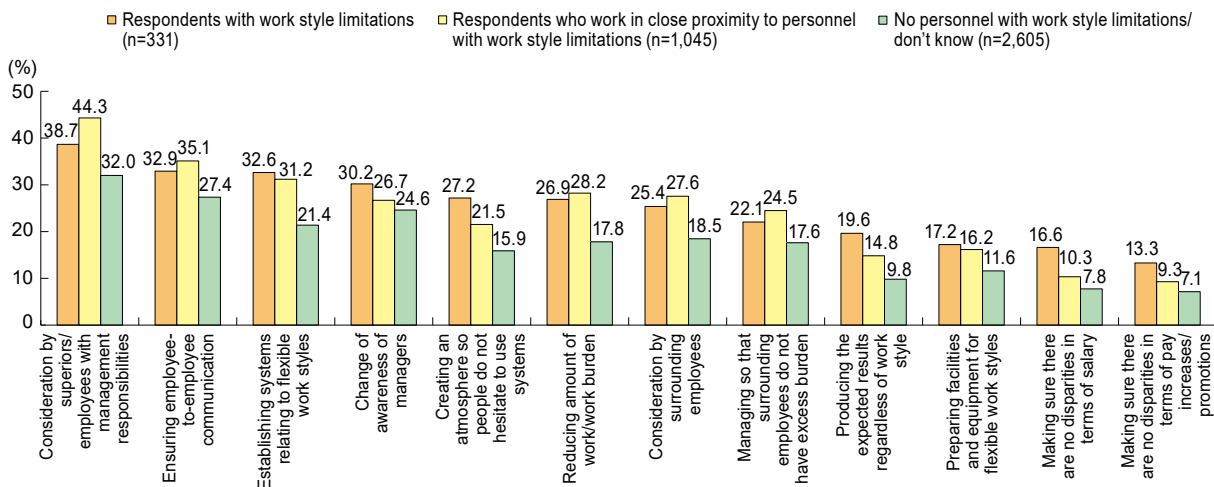
The figure looks at differences in the trends based on whether respondents themselves have work style limitations and whether there are personnel with such limitations in the same workplace.

On the whole, “consideration by superiors/employees with management responsibilities” was the most valued effort. This answer got an especially high response rate (44.3%) from persons who work in close proximity to personnel with work style limitations. There was also a strong trend overall to value “ensuring employee-to-

employee communication.”

On the other hand, the same figure shows a considerable gap in perception of what is necessary depending on the respondent’s point of view. The previously mentioned Fig. 2-4-48 showed that the second-most cited challenge for the enterprise is “ensuring fairness with other employees and minimizing friction.” This indicates that SMEs, mindful of this perception gap, need to work for good relationships between employees and make adjustments as appropriate, such as in the allocation of work.

Fig. 2-4-49 What efforts employed persons consider necessary so that people can work smoothly in the same workplace as personnel with some work style limitation



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Responses assumed that the person would work as a regular employee, regardless of current employment pattern.
 3. Here, “personnel with some work style limitation” refers not just to so-called limited regular employees, whose employment contracts put explicit limitations in advance on job content, work hours, etc., but also personnel with temporary, implicit limitations on their work styles because of their personal situation (e.g., child-rearing or caregiving) or other reasons.

(2) Policies for achieving flexible work styles and benefits in the management of SMEs

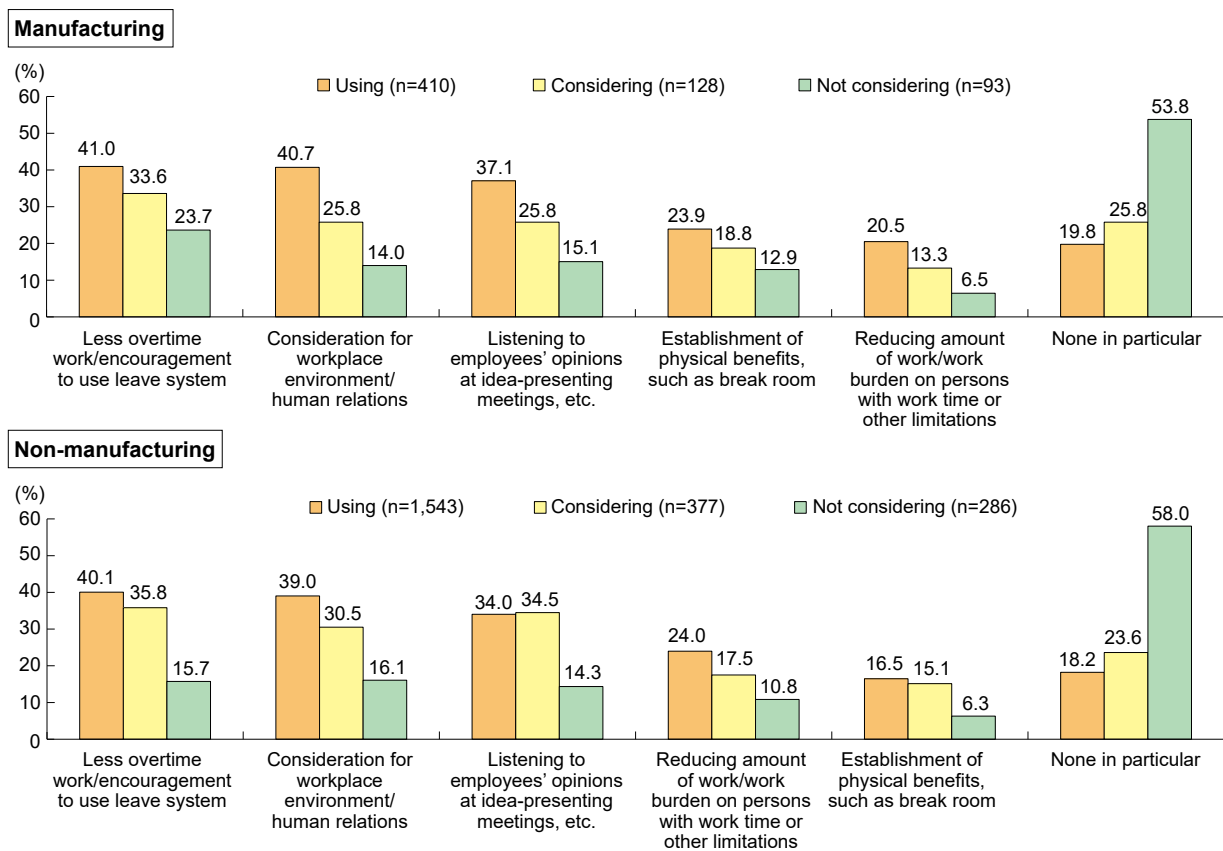
Next, we discuss ways to address these challenges and look at what kinds of benefits those efforts have on management.

Fig. 2-4-50 looks at efforts for preparing the workplace environment that enterprises are making to achieve flexible work styles. The answers are categorized by the extent to which enterprises are using diverse personnel. The figure suggests that in both manufacturing and non-

manufacturing industries, enterprises that use diverse personnel tend to practice “consideration for workplace environment/human relations” more than those who are only considering using diverse personnel and those that are not using diverse personnel.

The above suggests that SMEs that use diverse personnel have the potential to achieve flexible work styles if they not only prepare to do so in terms of systems, but also prepare the workplace environment so that such systems can operate smoothly.

Fig. 2-4-50 Efforts for preparing the workplace environment to achieve flexible work styles, by the extent to which enterprises are using diverse personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Notes: 1. Total does not always equal 100% as multiple responses were possible.

2. "Using" refers to SMEs that said, "we are using them as core personnel" in regards to at least one of the four personnel categories "women," "seniors," "foreigners," and "persons with disabilities." "Considering" refers to SMEs that said, "we are considering using them as core personnel" in regards to at least one of the four personnel categories, except those referred to as "using." "Not considering" refers to all others.

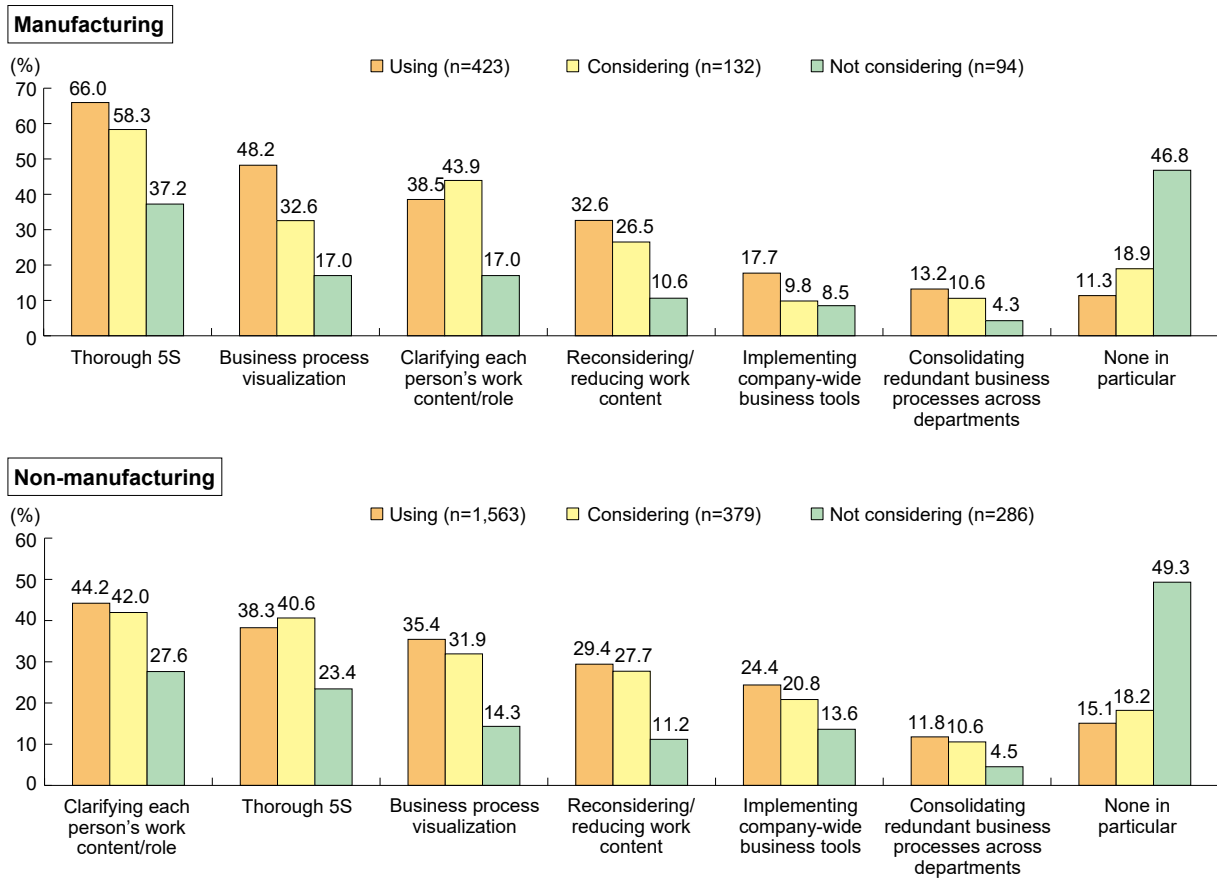
Ways that appear effective for achieving flexible work styles and practicing appropriate management of the amount of work/work content between employees including diverse personnel are business process visualization (including breaking the enterprise's business processes into modules or tasks) and making 5S²³⁾ efforts. Fig. 2-4-51 looks at business process visualization, etc., efforts that enterprises are making to achieve flexible work

styles, in the same fashion as efforts for the workplace environment. The answers are categorized by the extent to which enterprises are using diverse personnel.

The figure suggests a trend, particularly in manufacturing industries, that enterprises that are using or considering using diverse personnel have made more progress with business process visualization, etc., efforts to achieve flexible work styles.

23) 5S takes its name from the first letters of five Japanese terms and their English equivalents: Seiri (Sort), Seiton (Straighten), Seiso (Sweep), Seiketsu (Stabilize), and Shitsuke (Sustain). Conducting these five efforts at a higher level can achieve benefits such as enhancing profitability (by making business processes more efficient) and making the workplace more comfortable. For details about 5S, see METI, *Kaizen Manual (Using 5S to Reduce Work Waste and Errors)*.

Fig. 2-4-51 Business process visualization, etc., efforts to achieve flexible work styles, by the extent to which enterprises are using diverse personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. "Using" refers to SMEs that said, "we are using them as core personnel" in regards to at least one of the four personnel categories "women," "seniors," "foreigners," and "persons with disabilities." "Considering" refers to SMEs that said, "we are considering using them as core personnel" in regards to at least one of the four personnel categories, except those referred to as "using." "Not considering" refers to all others.

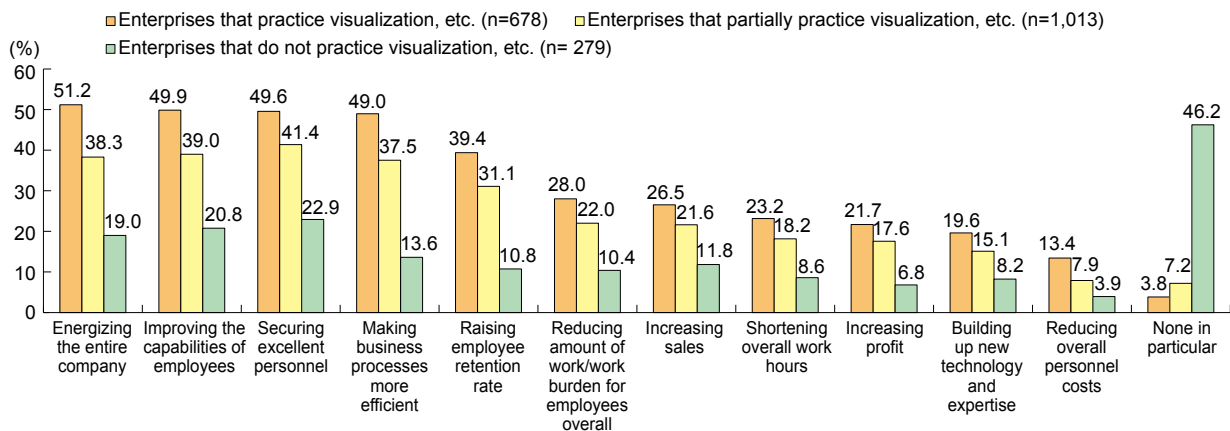
Next, we look at what differences there are in the benefits of using diverse personnel at those enterprises that do so. Fig. 2-4-52 categorizes enterprises that use diverse personnel according to the degree they practice business process visualization, etc., to achieve flexible work styles: "enterprises that practice visualization, etc.," "enterprises that partially practice visualization, etc.," and "enterprises that do not practice visualization, etc." The figure shows the benefits each category has received, or thinks it could receive, from using diverse personnel.

The figure shows that even among enterprises that use diverse personnel, there is a gap in the benefits of doing so depending on the state of efforts for business process

visualization, etc. When asked about the benefits of using diverse personnel, enterprises that do not practice business process visualization chose "none in particular" at a higher rate (46.2%) than any other answer. The next most common answer was "securing excellent personnel" (22.9%). The percentage mentioning any secondary benefits other than securing personnel was very low.

On the other hand, enterprises that use diverse personnel and practice business process visualization, etc., felt there were a range of benefits, such as "energizing the entire company," "improving the capabilities of employees," "securing excellent personnel," and "making business processes more efficient."

Fig. 2-4-52 Benefits SMEs have received, or think they could receive, from using diverse personnel, based on the degree they practice business process visualization, etc.



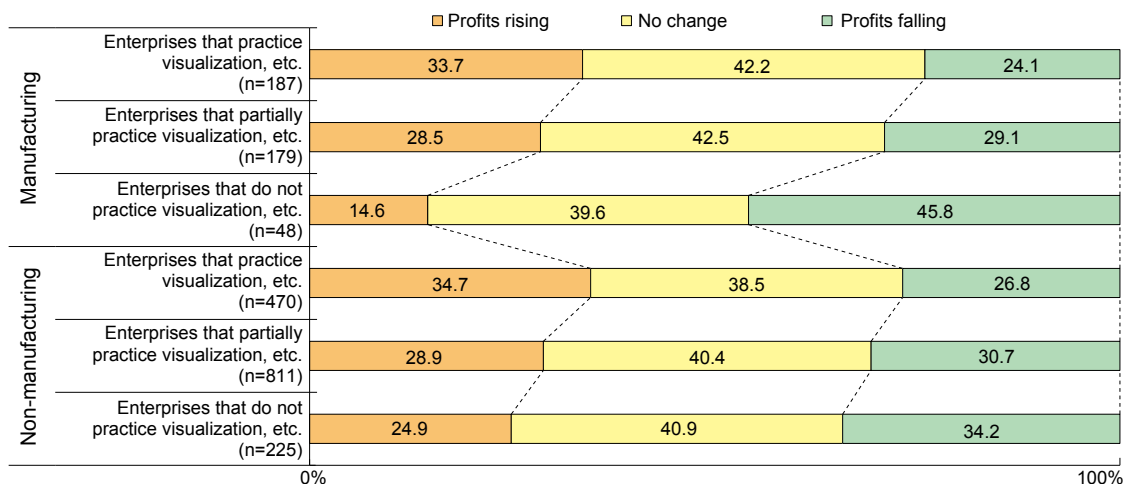
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates answers from those that said, “we are using them as core personnel” in regards to at least one of the four personnel categories “women,” “seniors,” “foreigners,” and “persons with disabilities.”
 2. “Enterprises that practice visualization, etc.” refers to enterprises that said they practice “business process visualization” and additionally at least one of the following: “thorough 5S,” “clarifying each person’s work content/role,” “reconsidering/reducing work content,” “implementing company-wide business tools,” and “consolidating redundant business processes across departments.” “Enterprises that do not practice visualization, etc.” are those that answered they do not conduct any of these efforts. All others fall under “enterprises that partially practice visualization, etc.”

These business process visualization, etc., efforts are also associated with greater efficiency and productivity as a result of business process standardization and would thus seem to help enterprises improve their business results. Fig. 2-4-53 shows the degree to which those SMEs that use diverse personnel practice business process

visualization, etc., to achieve flexible work styles, and their recent ordinary income trends. In both manufacturing and non-manufacturing industries, there was a notable gap in business results depending on whether the enterprise practiced business process visualization, etc.

Fig. 2-4-53 Correlation between the degree to which enterprises that use diverse personnel as core personnel practice visualization, etc., to achieve flexible work styles, and business results



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Aggregates answers from those that said, “we are using them as core personnel” in regards to at least one of the four personnel categories “women,” “seniors,” “foreigners,” and “persons with disabilities.”
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3. Conclusion

There are several things SMEs can do to get ready to use diverse personnel. They can prepare a workplace environment that enables flexible work styles. They can promote employee understanding and practice appropriate management when they actually use diverse personnel. They can try to visualize internal business processes and promote standardization, which helps the entire staff,

diverse personnel included, understand each other's jobs and share the burden. All of this can increase productivity.

SMEs face a labor shortage, but by using their characteristic flexibility, SMEs can prepare internal systems to use diverse personnel, which in turn are associated with improved business results. Therefore, it is important that SMEs actively make these efforts.

Case 2-4-3 Sanshu Seika Co., Ltd.

A company that has cultivated a corporate culture allowing women to flourish, with “One person, three roles” as its watchword

Sanshu Seika Co., Ltd. (employees: 254; capital: ¥86 million), which locates its Head Office in Kasukabe City, Saitama Prefecture, is a long-established company (founded in 1950) that manufactures and markets high-quality rice crackers and Western confectionaries.

Of the company's 254 employees, 75 are regular, or full-time, employees, while 179 are part-time, or “semi-regular” employees. Women make up a little under 40% of the company's regular employees, and more than 90% of its semi-regular employees, and thus play a very important role as the company's main labor force. Under the leadership of its President and Representative Director, Shinichi Sainohira, Sanshu Seika has therefore worked actively to ensure that female employees are able to flourish within its operations, and, since first receiving certification from the Saitama Prefectural Center for Promotion of Gender Equality, it has received a variety of certifications and awards for its efforts in this area.

It can often be the case that women find it difficult to continue in employment due to childcare or nursing care responsibilities. At Sanshu Seika, however, this is almost unheard of. The company is equipped with systems to provide support for childcare and nursing care (including a childcare leave system). Regular employees are of course able to make use of these systems, but they are also largely available to semi-regular employees. In addition, when necessary, all employees are able to take paid leave without hesitation. The key to this is “One person, three roles,” the company's concept of multi-skilling in the workplace. By ensuring that every employee is able to perform at least three different types of procedure, the company has created a system in which workers are able to take over for each other, and fostered a company culture in which there is a spirit of mutual cooperation.

In operating its human resources system, Sanshu Seika makes use of a variety of ingenious measures to streamline procedures and make the division of roles visible. The first of these is the allotment of duties. In concrete terms, this means that employees' duties are periodically reconsidered, with each employee performing an audit of their own duties, which is then checked by their immediate manager. When it happens that duties have the same details, the employee's immediate manager conducts a close examination and attempts to increase efficiency. The second measure adopted by the company is disclosure of employees' level of proficiency in work duties. Each employee grades their proficiency in each duty on a scale of six, and these lists are published within the company. This makes clear factors such as who can be entrusted with which duties outside their specific department, and whether it is possible to rely on a proxy in the event that an employee has to take unscheduled leave, and it also provides employees with the motivation to increase their skills by mastering all the company's procedures. The third of the company's measures is reflection of mutual cooperation in personnel assessments. If there is adequate mutual cooperation, then the workplace will be one in which all employees, not only the company's female employees, will find it easy to work. Sanshu Seika's workplaces have a high percentage of female employees, and so have always tended towards voluntary mutual cooperation, but the introduction of a personnel assessment system in line with the concept of “One person, three roles” and the publication of assessment criteria that encompass not only an employee's work performance in their main duties, but also performance in secondary duties, i.e. their ability to assist in other duties, has ensured that all employees have an adequate awareness of the importance of mutual cooperation, and are able to take the initiative.

These efforts on the part of the company have created a system that enables its female employees to display their full abilities, fulfilling their core roles while realizing a balance between work and life through flexible working styles. Sanshu Seika has recently focused its efforts on the development of original products, and in order to ensure that it has an accurate understanding of the needs of the female customers who represent the majority of its customer base, all of the staff responsible for product development are women. The company's number one recent hit product, “fried pasta,” was proposed by a young female employee who is also a mother looking after small children. Fried pasta has become one of Sanshu Seika's key products, representing 10% of the company's total sales volume, and Mr. Sainohira believes that this is an outcome of the company's culture of mutual cooperation, with “One person, three roles” as its cornerstone.

It is apparent that Sanshu Seika will continue to provide the conditions for female employees to flourish going forward; the company has, for example, included the ratio of female employees in management positions as one of its key performance indicators (KPI), and it has stated that it will actively promote semi-regular employees to regular positions. The existence of female employees who are

already succeeding within the company to act as role models provides further impetus to this process. Sanshu Seika aims to realize future growth through the creation of an environment in which not only female employees, but all motivated employees, irrespective of age, academic history, nationality, or disability, are able to exercise their abilities to their fullest extent.



Sanshu Seika's President, Shinichi Sainohira



The company's hit product "fried pasta," and Assistant Manager Kosuga, who was involved in its planning while also raising her children

Case 2-4-4 Earth Create Co., Ltd.

A company that has increased productivity by ceaselessly improving its workplaces and creating an environment that enables flexible working styles

Earth Create Co., Ltd. (employees: 23; capital: ¥3 million), located in Gifu City, Gifu Prefecture, is a company which has its main line of business in traffic safety, conducting road painting work including the painting of road markers and white lines.

Long hours were once the norm at the company, and employees had a strong sense of being forced to perform their tasks. The company's employee retention rate was consequently low. As a result, Ryo Iwata, today Director and Sales Manager, expressed his desire to increase the size of the company and to make it a better company to Earth Create's President and Representative Director, Toshiya Nakaishi. Mr. Nakaishi encouraged his desires by giving him a free hand, and he commenced his improvements in 2005.

In improving the company's working environment, the thing that caused Mr. Iwata most trouble was transforming the self-awareness of the company's employees from "specialists" to "all-rounders." The company had traditionally had a culture of specialization, in which only specific individuals could do specific jobs, making it difficult to foster younger employees. Now, taking individuals' aptitudes into consideration, the company transfers employees into different positions or to replace other workers in their roles every year, which not only allows each worker to perform multiple jobs, but also increases opportunities for young workers to gain experience. The increase in employees' skills that has resulted from this system has increased work efficiency; for example, jobs that used to be performed by five-person teams can now be performed by three-person teams. This has in turn increased productivity, with the average annual amount of overtime performed by company employees declining by one-third.

In 2007, Mr. Iwata himself took childcare leave for the first time at the company, spurring him to begin improving the company's childcare support systems. A special leave system allowing employees to take two weeks off when their spouse gives birth has been used a total of 13 times by eight employees. The company also promotes greater work-life balance among employees, irrespective of gender, by providing a system offering an unlimited number of days of paid leave to cover school events, injury, illness, etc. while employees' children are still in their years of compulsory schooling. Clearly stating how many times these systems for the support of childcare can be used and how many days' leave are available has been an important factor in promoting the use of the systems.

Earth Create has also introduced a "buddy system," in which work is performed in two-person teams. The mutual sharing of information by the "buddies" in these teams assists in eliminating areas of personal specialization, creating a culture in which individual employees are able to freely take leave, and fostering relationships of trust between workers. Mr. Iwata says, "If we can create relationships of trust within a company, then there is no need for rules concerning the limit on the number of days' leave someone can take; no-one will take an unlimited amount of leave. As I see it, in allowing me to take up whatever duties I wished to perform, and giving me full discretion in making improvements to the company's working environment, the President accepted me as his own buddy."

Lying behind Earth Create's ability to balance the operation of flexible leave systems with smooth business management is a series of improvements made to increase procedural efficiency which proceeded at the same time as the introduction of the systems, for example application for paid leave after the fact, the issuing of daily and monthly reports by tablet, the use of SNS to share information, and the simplification of standard clerical procedures. These are not only top-down initiatives; many have been introduced on the basis of opinions received from employees during monthly interviews, and have played a part in resolving employees' dissatisfactions.

The company previously had 19 employees, but this number has increased to 23 with the increased employee retention rate. A company that has focused on constant improvements, Earth Create has undertaken a new challenge, and is seeking to continue in its creation of a working environment that answers the circumstances of every individual employee, for example employees for whom work is becoming physically difficult due to age, and employees who have restrictions on their working hours due to childcare or nursing care duties.



Earth Create's Ryo Iwata, who has pushed ahead with workplace improvements



Employees and their families at a company event

Column 2-4-3 Use of personnel through side businesses/side jobs

There are currently 2.34 million people with side businesses or side jobs in Japan.²⁴⁾ One of the limiting factors creating problems for Japan's economy is the decline in the working age population. Promoting the employment of women and seniors is an important part of addressing this, but it is also important to try to raise the productivity of those in their prime years. Thus, allowing workers to have side businesses or side jobs is one of the issues the Council for the Realization of Work Style Reform has been discussing.

Current state of side businesses/side jobs in Japan

Fig. Column 2-4-3 (1) shows the employment status of persons currently with a side business/side job. It shows that more than a quarter of persons with a side business/side job have the status of "non-regular employee" at their main job and "employee" at their side business/side job. These are conjectured to be employed as the so-called "holding two or more positions concurrently."

The next most common situation is "non-regular employee" at the main job and "self-employed" at the side business/side job. These make up 11.4% of the total. It is conjectured that they have started up a business or are working independently in a side business/side job while leading flexible work styles as employees to some extent.

Fig. Column 2-4-3 (1) Employment status/employment pattern of persons with a side business/side job

(%)

		Employment status at side business/side job			
		Self-employed (740,000)	Family employee (330,000)	Employee (1.28 million)	
Employment status at main job	Self-employed (380,000)	6.1	1.4	8.9	
	Family employee (40,000)	0.4	0.4	1.0	
	Employee (1.92 million)	Executive of company, etc. (240,000)	3.5	0.7	6.2
		Regular employee (600,000)	9.9	4.6	11.0
		Non-regular employee (1.08 million)	11.4	6.8	27.7

Source: MIC, 2012 *Employment Status Survey*.

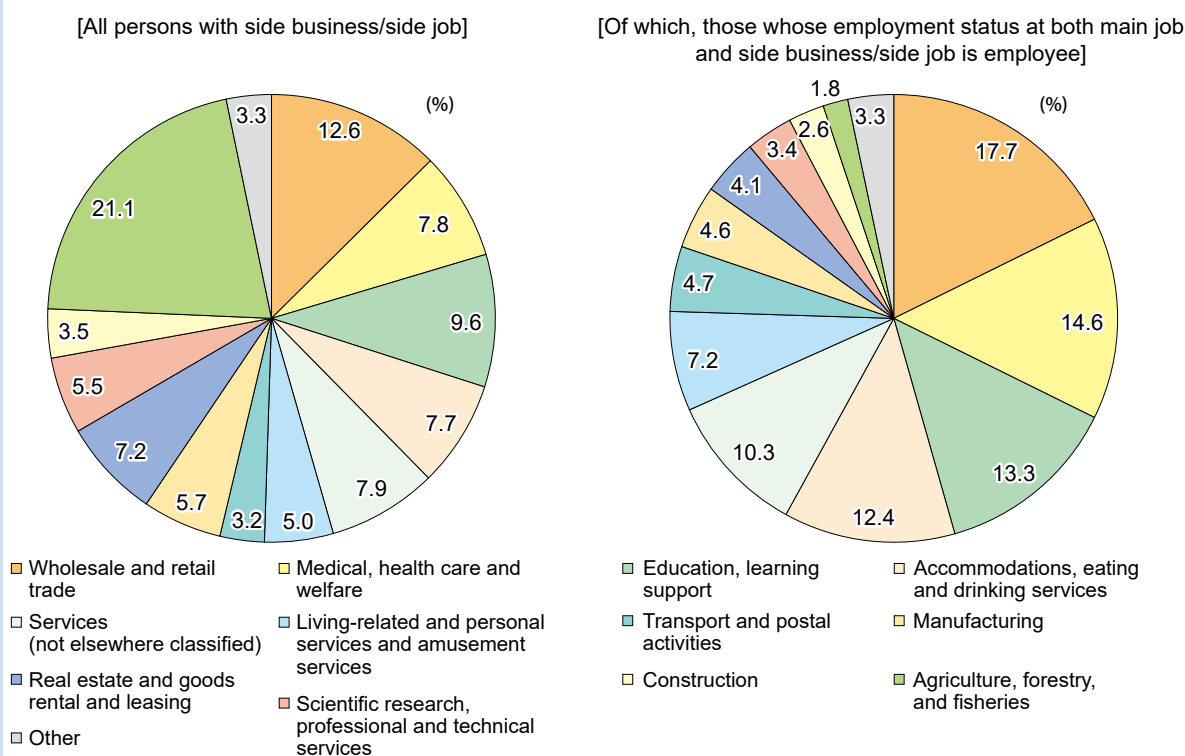
Note: "Employee" includes executive of company, etc., as employment status at side business/side job.

24) In the MIC's 2012 *Employment Status Survey*, those who answered, "I am doing work (includes seasonal work) aside from my main job" are defined as having a side business/side job.

Next, Fig. Column 2-4-3 (2) shows the industries in which persons with a side business/side job are employed. Among all persons with a side business/side job, the biggest group, 21.1%, had a side business/side job in agriculture, forestry, and fisheries. However, aggregating just those whose employment status is employee at both their main job and side business/side job, the most common answer was “wholesale and retail trade” (17.7%), followed by “medical, health care and welfare” (14.6%). After that came “education, learning support,” “accommodations, eating and drinking services,” “services (not elsewhere classified),” and “living-related and personal services and amusement services.”

It is thought that the reason services are at the top of the list is not just because there is a culture in these industries that permits side businesses/side jobs, but also (1) service industries experience big fluctuations in work load, e.g., work may be concentrated in specific seasons, holidays, or hours, making year-round or full-time employment difficult, and the work domains are so big, that the industries have to permit side businesses/side jobs, even for short periods of time or just a few hours to secure personnel. (2) Moreover, these industries require personnel with professional credentials to manage their operations or meet legal requirements, but the supply of personnel cannot keep up, so again the industries have to permit side businesses/side jobs to secure personnel.

Fig. Column 2-4-3 (2) Industries in which persons with a side business/side job are employed



Source: MIC, 2012 Employment Status Survey.

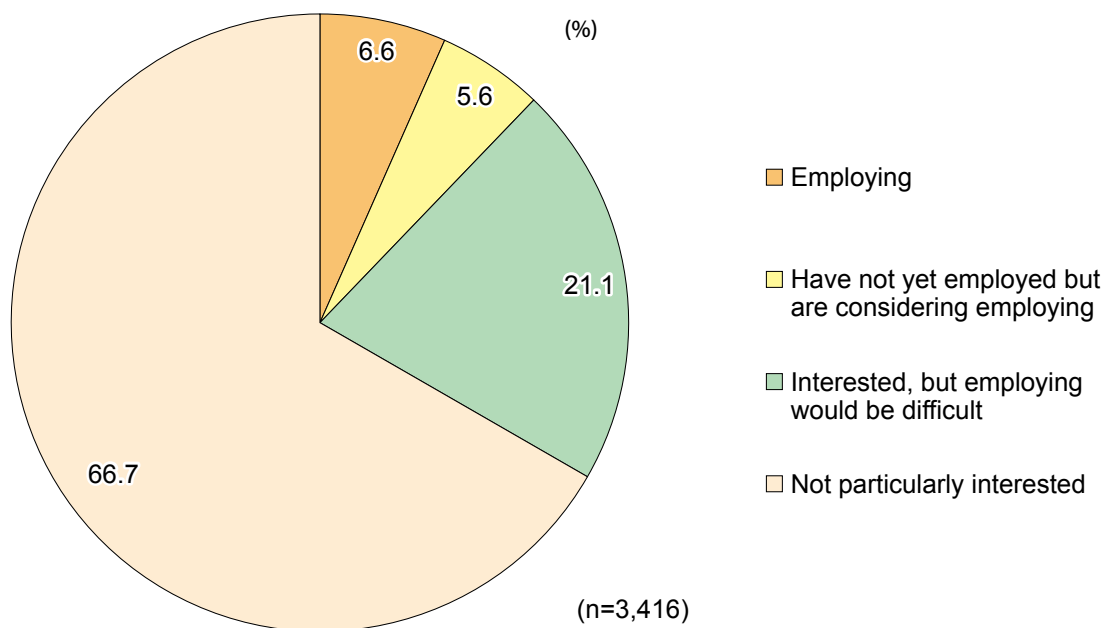
- Notes:
1. “Other” aggregates the total of those who answered, “information and communications,” “electricity, gas, heat supply and water,” “finance and insurance,” “compound services,” “mining and quarrying of stone and gravel,” and “other.”
 2. Aggregated exclusive of “government services” and “industries unable to classify.”

Securing core personnel through side businesses/side jobs at SMEs

Next, we consider side businesses/side jobs in terms of dealing with the personnel shortage at SMEs. Fig. Column 2-4-3 (3) shows the state of employment or consideration of employment at SMEs to secure core personnel through side businesses/side jobs, regardless of employment pattern.

The figure shows that more than 10% of SMEs say they are “employing” or “have not yet employed but are considering employing” personnel through the medium of a side business/side job. The percentage rises to 33.3% if those answering “interested, but employing would be difficult” are included. In light of the fact that persons with a side business/side job certainly do not make up a large percentage of the entire population of persons currently with an occupation,²⁵⁾ it would seem somewhat forward-thinking of an SME to secure core personnel through the medium of side business/side job.

Fig. Column 2-4-3 (3) State of employment or consideration of employment at SMEs to secure core personnel through side businesses/side jobs



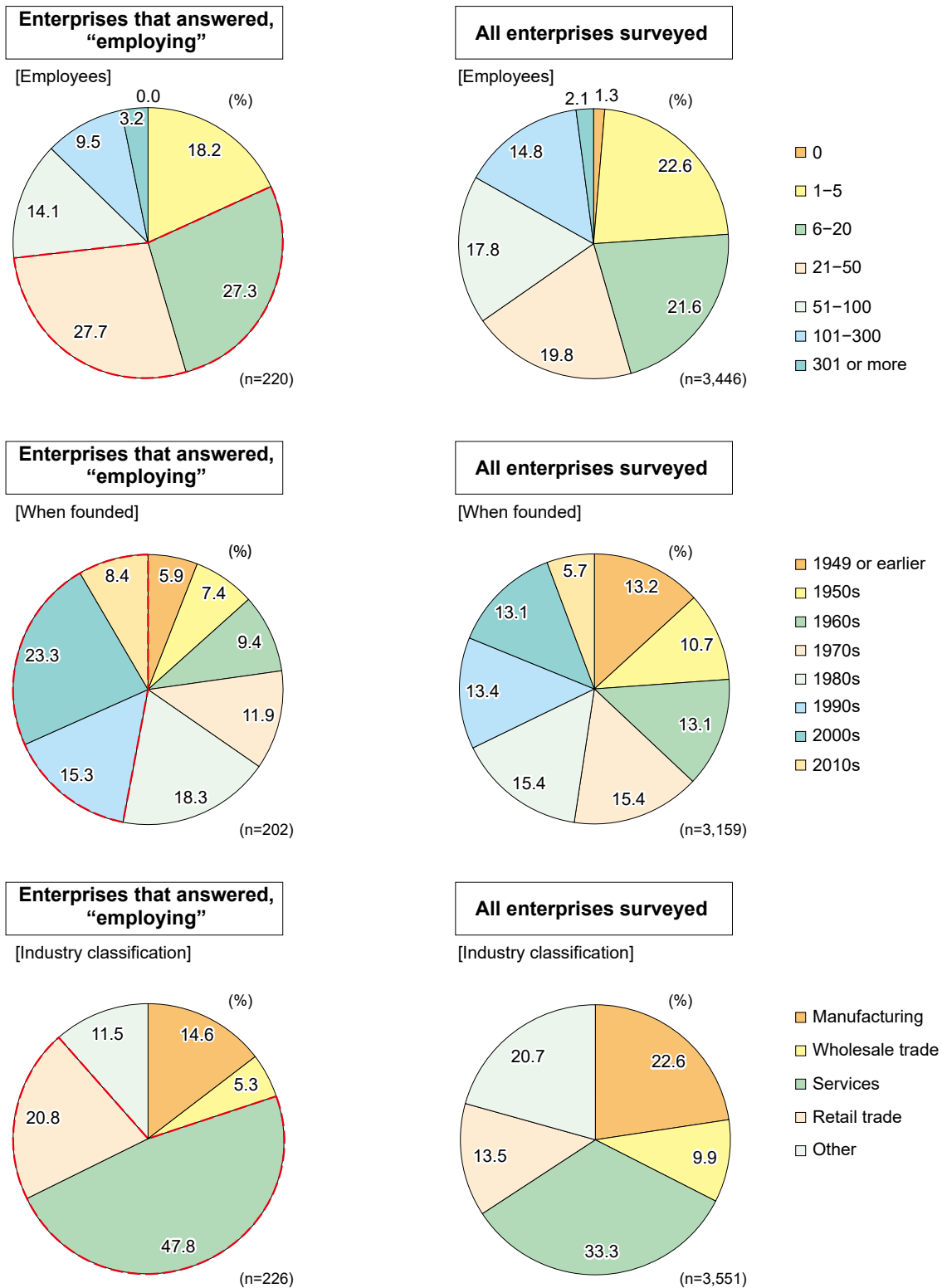
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Next, we look at the characteristics of enterprises that answered that they are currently “employing” core personnel through side businesses/side jobs. By number of employees, enterprises with “6–20” and “21–50” make up half the total, so these enterprises tend to have relatively small staffs compared to all enterprises surveyed. Looking at when they were founded, there also seem to be many relatively young enterprises founded since the 1990s (Fig. Column 2-4-3 (4)).

Additionally, “services” and “retail trade” make up a large percentage, similar to the trend seen in the statistics in Fig. Column 2-4-3 (2).

25) There are 64.42 million persons with an occupation, of which 2.34 million (3.6%) have a side business/side job (from MIC, 2012 *Employment Status Survey*).

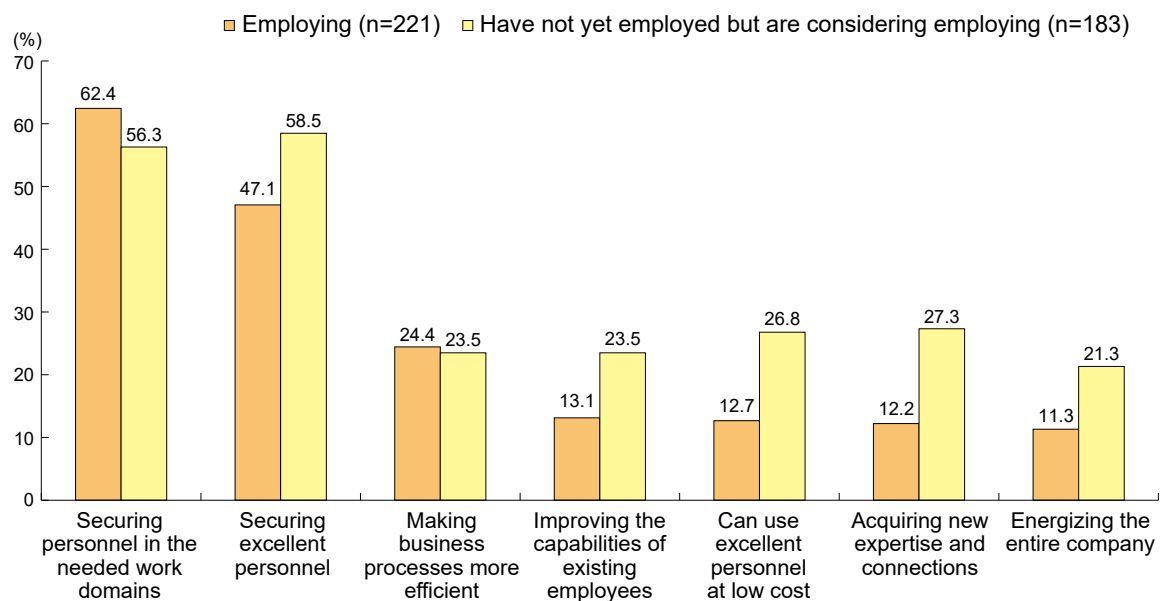
Fig. Column 2-4-3 (4) Characteristics of enterprises that secure core personnel through side businesses/side jobs



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Next, Fig. Column 2-4-3 (5) looks at the reasons for securing core personnel through side businesses/ side jobs, based on whether the enterprise is actually using such personnel. Among enterprises actually using such personnel, the reason most frequently chosen (62.4%) was "securing personnel in the needed work domains," followed by "securing excellent personnel" (47.1%). At those enterprises considering using such personnel, the most frequently chosen reason (58.5%) was "securing excellent personnel." Other reasons mentioned were "acquiring new expertise and connections," "improving the capabilities of existing employees," and "energizing the entire company." Thus, among enterprises considering securing core personnel through the medium of side businesses/side jobs, there tends to be a high expectation of secondary benefits from doing so.

Fig. Column 2-4-3 (5) Reasons for securing or considering securing core personnel through side businesses/side jobs



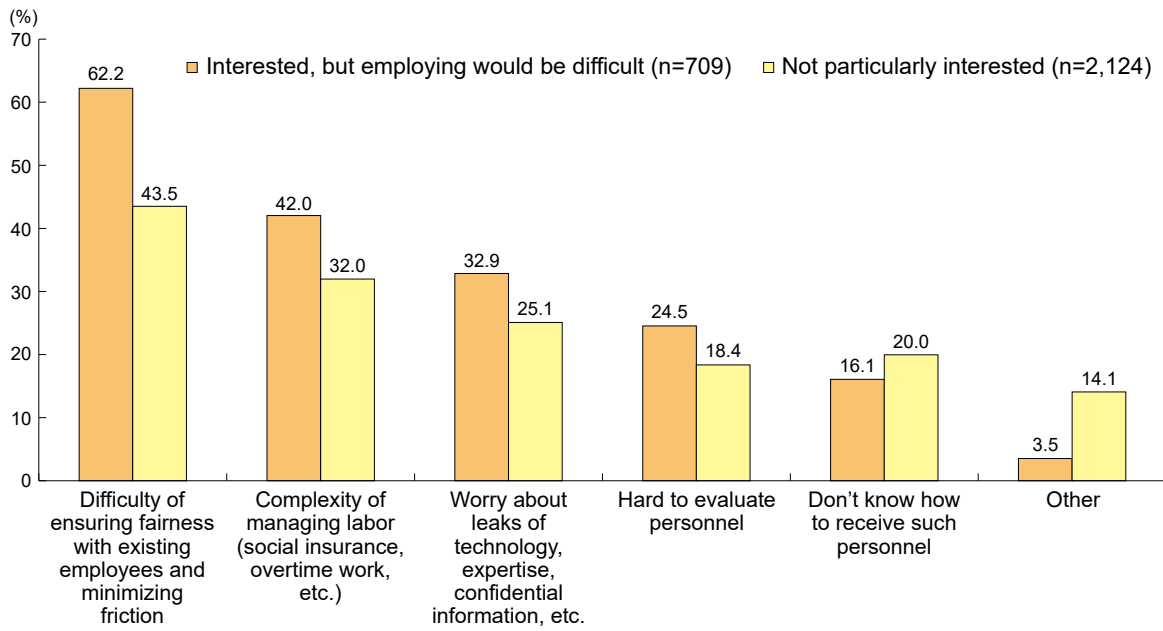
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

On the other hand, Fig. Column 2-4-3 (6) looks at the reasons given by those who said employment would be difficult or they are not interested. The top reasons were "difficulty of ensuring fairness with existing employees and minimizing friction" and "complexity of managing labor (social insurance, overtime work, etc.)."

In particular, it is conjectured that the enterprises that said they were "interested, but employing would be difficult" are interested in using side businesses/side jobs to secure excellent personnel from the outside, but are worried it would result in existing employees feeling a sense of unfairness based on whether side businesses/side jobs are permitted, and that management would be made more complex.

Fig. Column 2-4-3 (6) Reasons enterprises think it would be difficult, or are not interested in, securing core personnel through side businesses/side jobs



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Note: Total does not always equal 100% as multiple responses were possible.

Section 4 Enterprise efforts that assume a personnel shortage

Maintaining the current labor force at a time when the working age population is declining will require increasing labor force participation enough to make up for the drop in the working age population. In the medium to long term, however, this will be difficult as Japan faces a declining birthrate and aging population.²⁶⁾

Moreover, moving the labor force from industries and occupations with too much of it to industries and occupations with too little will require occupational training and consideration of workers' aptitudes, wishes, and the like to make up for the mismatch. If a worker wishing to go into a clerical job is sent to a service job, for example, not only will the person's inclination have

to be adjusted, but it will also be necessary to make sure of the person's aptitude. Bearing this in mind, it will be difficult to address the situation through the efforts of the SME side alone.

In light of the circumstances, even if a labor shortage is factored in, efforts will be required to save labor through capital investment, etc., and to increase per-capita productivity, in order to maintain and raise current productivity. For that reason, this section analyzes labor saving and streamlining to raise productivity. It will consider the use of mechanization, IT, external resources, and more.

1. Efforts to maintain and enhance enterprise value at enterprises with a personnel shortage

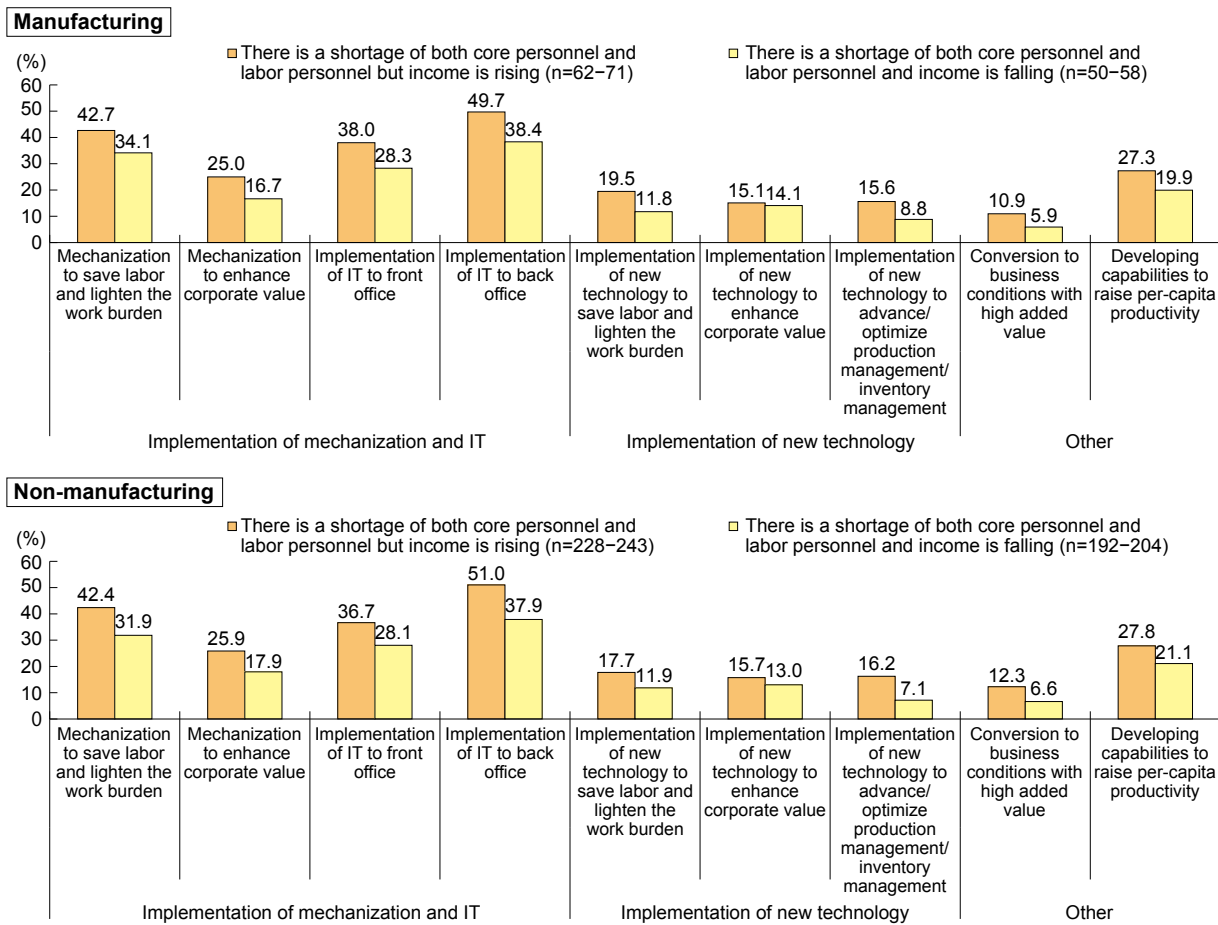
Fig. 2-4-54 looks at the status of efforts to maintain and enhance enterprise value at enterprises that answered, "there is a shortage of both core personnel and labor personnel" when asked about their sense of a personnel surplus or shortage overall. The answers are categorized according to enterprises' ordinary income results.

In both manufacturing and non-manufacturing industries, overall, enterprises with rising income had conducted efforts at a greater rate than enterprises where income was falling. The difference was especially noteworthy for the effort of implementing mechanization

and IT. Naturally, the fact that an enterprise has rising income makes it better able to invest and this does not indicate a causal relationship with business results. However, the figure suggests the possibility that enterprises with rising income in spite of a personnel shortage are implementing IT in their back office and front office, using mechanization to save labor and lighten the work burden, and developing capabilities to raise per-capita productivity. It would appear that they are using such efforts to try to ensure a profit and maintain and enhance productivity.

26) Women age 25–44 are a good example. The government has aimed to encourage employment in this group, but even if the government meets its goal here, the effect of population decline is so great that the number of employed persons is still expected to shrink by 2020 (Appended note 2-4-6).

Fig. 2-4-54 Efforts to maintain and enhance enterprise value at enterprises with a personnel shortage, based on enterprises' ordinary income results



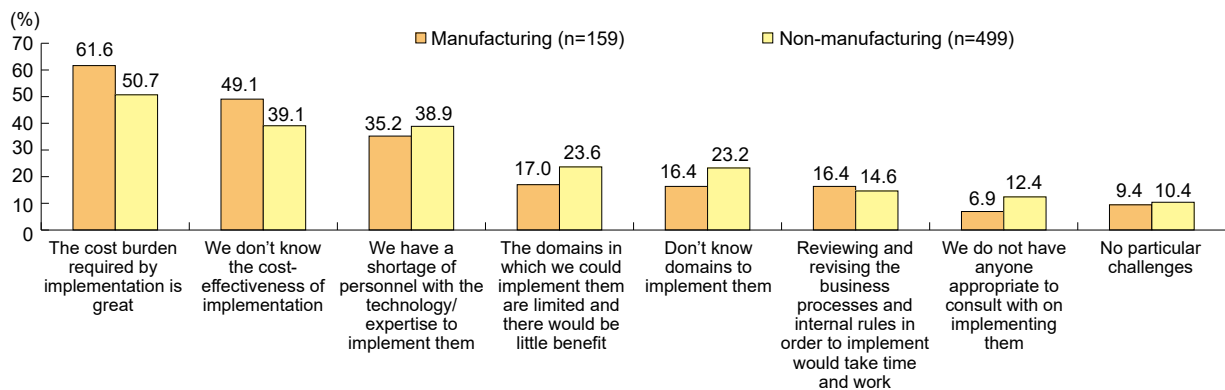
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. "There is a shortage of both core personnel and labor personnel but income is rising" refers to respondents that answered there was a shortage of both core personnel and labor personnel when asked whether there was a surplus or shortage of personnel overall, and answered their ordinary income had risen when asked about results over the past three years.
 2. "There is a shortage of both core personnel and labor personnel and income is falling" refers to respondents that answered there was a shortage of both core personnel and labor personnel when asked whether there was a surplus or shortage of personnel overall, and answered their ordinary income had fallen when asked about results over the past three years.

Next, Fig. 2-4-55 looks at enterprises that answered, "we are not currently making an effort but are considering making an effort in future" when asked about implementing mechanization, IT, and new technology. These enterprises were asked about the challenges such efforts would face, and their responses were categorized by industry sector. More than 60% of manufacturing industries and about half of non-manufacturing industries perceived the cost as a burden. A higher percentage of non-manufacturing industries than manufacturing industries answered,

"we have a shortage of personnel with the technology/expertise to implement them," "the domains in which we could implement them are limited and there would be little benefit," "don't know domains to implement them," and "we do not have anyone appropriate to consult with on implementing them." This suggests that enterprises are perhaps being cautious about implementing because they do not have knowledgeable people in-house, or find it difficult to measure the investment benefit because they have little experience with implementation.

Fig. 2-4-55 Challenges with implementing mechanization, IT, and new technology, by industry sector



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates respondents who said that they are not currently using mechanization, IT, or new technology, but are “considering use in future” of at least one of them.

(2) State of outsourcing to make up for personnel shortage and increase corporate value

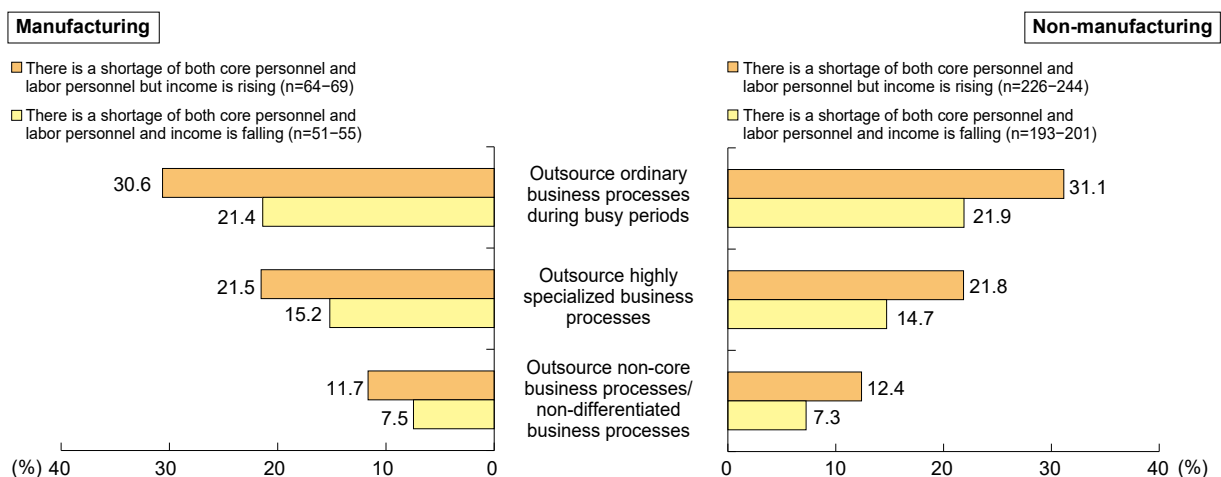
Hiring employees to work in-house is not the only way an enterprise can secure human resources. Column 2-4-3 indicated that SMEs still face difficulties, such as making adjustments with existing employees and managing labor, when trying to use external personnel through the medium of side businesses/side jobs. However, outsourcing is one way that SMEs can use external personnel to make up for

their own personnel shortages and increase productivity.

Fig. 2-4-56 looks at the state of outsourcing at enterprises with personnel shortages. The answers are categorized based on those enterprises’ ordinary income trends. The figure suggests that enterprises with a personnel shortage can make up for those shortages and maintain and increase their enterprise value by timely and appropriate outsourcing.

Section 4

Fig. 2-4-56 State of outsourcing at enterprises with personnel shortages, based on those enterprises’ ordinary income results



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

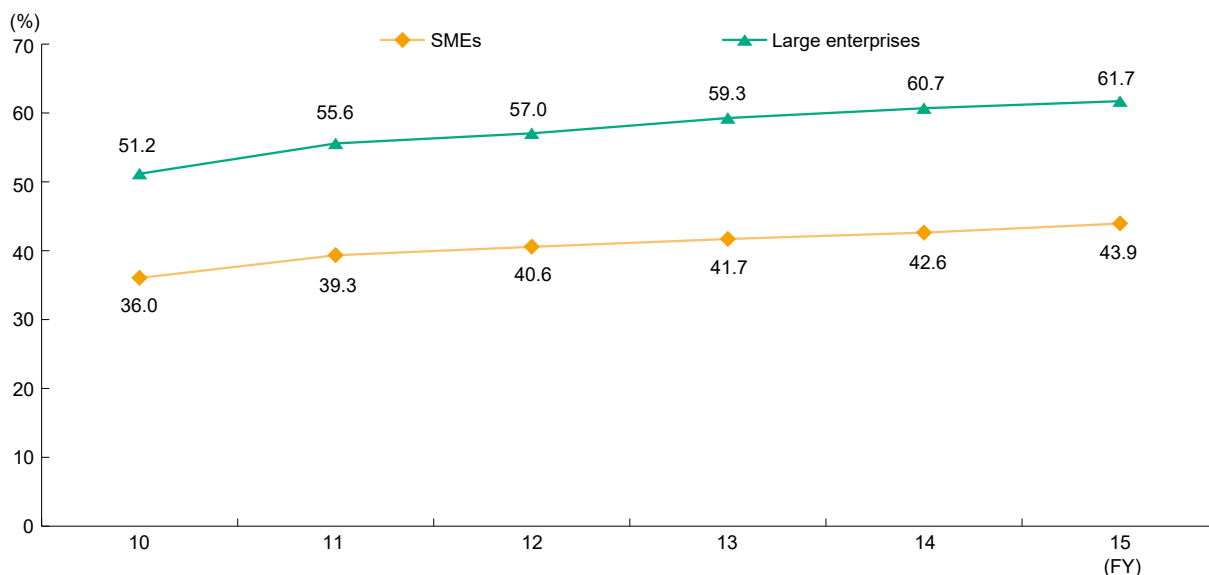
- Notes:
1. “There is a shortage of both core personnel and labor personnel but income is rising” refers to respondents that answered there was a shortage of both core personnel and labor personnel when asked whether there was a surplus or shortage of personnel overall, and answered their ordinary income had risen when asked about results over the past three years.
 2. “There is a shortage of both core personnel and labor personnel and income is falling” refers to respondents that answered there was a shortage of both core personnel and labor personnel when asked whether there was a surplus or shortage of personnel overall, and answered their ordinary income had fallen when asked about results over the past three years.

(3) Use of and outlook for outsourcing, exclusive of manufacturing outsourcing

Here the analysis further focuses on outsourcing. In general, many SMEs are already familiar with the form of outsourcing called “contracting,” or the outsourcing of manufacturing. The analysis here is on the outsourcing of non-manufacturing business processes, including processes in some high-level fields. There is expected to be plenty of room for outsourcing growth of this type at many enterprises, both in manufacturing and non-manufacturing industries. In the rest of this section, external contracting exclusive of manufacturing business processes is referred to simply as “outsourcing.”

To begin, we look at the state of outsourcing in Japan over time. Fig. 2-4-57 shows that the percentage of both SMEs and large enterprises using outsourcing is on the rise. Over 60% of large enterprises have implemented outsourcing. Looking at the state of outsourcing by using METI’s *Basic Survey of Japanese Business Structure and Activities*, it is possible that large enterprises, many of which have group companies, tend to outsource at a higher rate because outsourcing includes shared services²⁷⁾ between group companies, for example contracting out personnel to affiliated companies.

Fig. 2-4-57 Rate of use of outsourcing, by scale of business



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

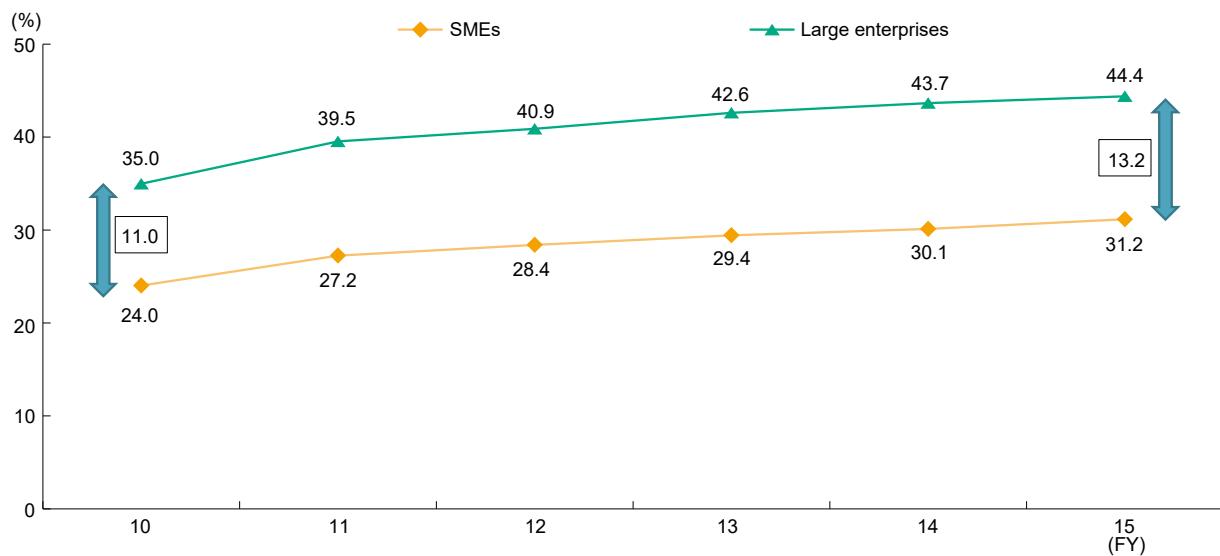
- Notes:
1. Aggregated exclusive of primary industries.
 2. The definition of SMEs is pursuant to the Small and Medium-sized Enterprise Basic Act.
 3. Aggregates answers from those that said, “contracted work other than manufacturing to outside parties.”

²⁷⁾ A management technique that integrates and standardizes indirect business processes and services within group enterprises, such as personnel, accounting, and general affairs. This can cut costs (personnel costs, etc.) and make business processes more efficient.

Here, we categorize the work domains where outsourcing is used into “back office business processes” and “specialized business processes” and analyze the use of outsourcing in each. In both work domains and in enterprises of both scales, the percentage of enterprises using outsourcing is rising. However, there is a big gap by scale of enterprise, even more so for specialized business processes than back office business processes (Fig. 2-4-58, Fig. 2-4-59). This is possibly because, among back

office business processes, it is easy to assign some business processes to consulting tax accountants, other accountants, and the like in fields like “tax/accounting,” such that even a high percentage of SMEs are doing so. With the outsourcing of specialized business processes, on the other hand, SMEs perhaps do not have as many processes to outsource, or the SMEs prefer to keep their specialized domains, which are at the core of the company, internal and therefore outsource them less often.

Fig. 2-4-58 Rate of use of outsourcing of back office business processes, by scale of business

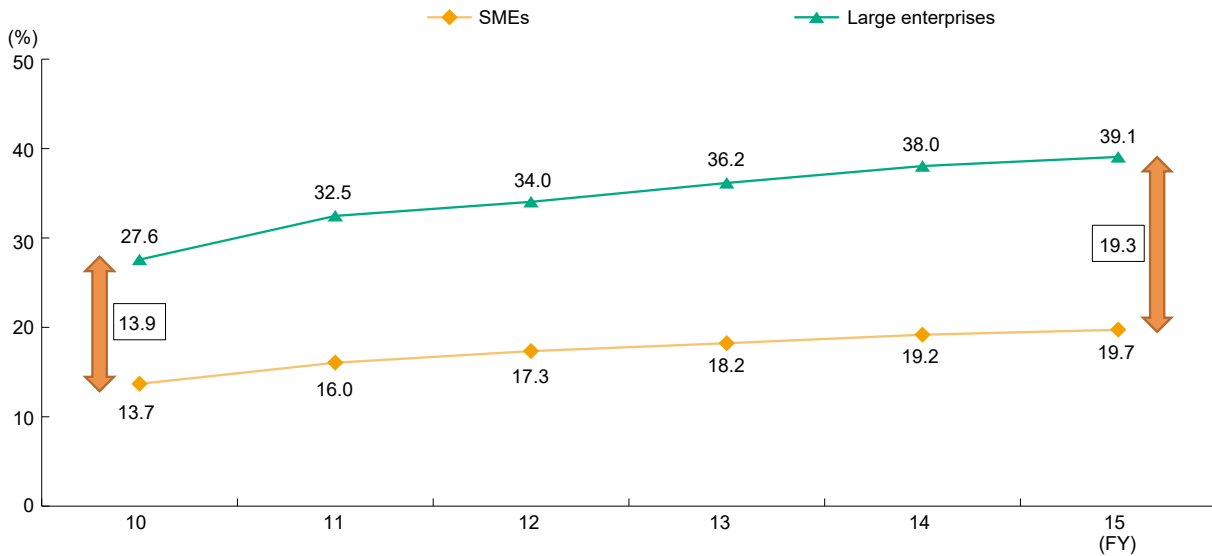


Source: Recompiled from METI, *Basic Survey of Japanese Business Structure and Activities*.

Notes:

1. Aggregated exclusive of primary industries.
2. The definition of SMEs is pursuant to the Small and Medium-sized Enterprise Basic Act.
3. Aggregates SMEs that responded that they outsource at least one of the following: “general office processes,” “benefits program,” “tax/accounting,” “internal training,” or “cleaning, safety, or maintenance.” Choosing even one of these answers is considered to mean “we outsource back office business processes.”

Fig. 2-4-59 Rate of use of outsourcing of specialized business processes, by scale of business



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

- Notes:
1. Aggregated exclusive of primary industries.
 2. The definition of SMEs is pursuant to the Small and Medium-sized Enterprise Basic Act.
 3. Aggregates SMEs that responded that they outsource at least one of the following: “information processing,” “surveying/marketing,” “design/product planning,” or “R&D related.” Choosing even one of these answers is considered to mean “we outsource specialized business processes.”

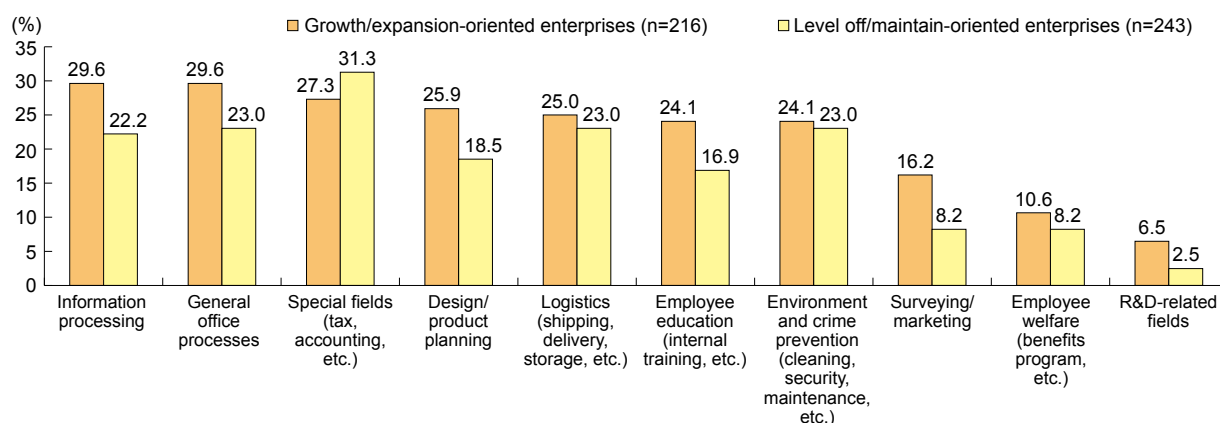
Next, Fig. 2-4-60 gives an overview of the outlook for outsourcing at SMEs. As mentioned earlier, “tax accounting” is already widely known among SMEs. Compared to other work domains, it got a particularly high percentage (31.3%) of responses from “level off/maintain-oriented enterprises.”

At growth/expansion-oriented enterprises, however, there is a wide range of business processes where the need for outsourcing is growing. Compared to level off/maintain-oriented enterprises, a high percentage of growth/expansion-oriented enterprises see a rising need for outsourcing of the specialized business processes

“design/product planning” and “surveying/marketing.”

From this we can conjecture that growth/expansion-oriented enterprises are using outsourcing not only to deal with fluctuations in work load and deal with business processes like information processing, general office processes, and tax accounting that are typical business processes but hard to differentiate. Rather, growth/expansion-oriented enterprises see it also as increasingly important to use outside specialists even in such fields as design/product planning and surveying/marketing in order to increase the added value of their products and services.

Fig. 2-4-60 Business processes with a rising need for outsourcing, by type of business development policies



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates SMEs that answered the business processes they are outsourcing “have increased” or “have somewhat increased” compared to five years earlier.

Here, we look at the outsourcing market trends and outlook in Japan going forward. The scale of the outsourcing market is forecast to grow robustly (Fig. 2-4-61). This is because enterprises recognize a growing need to use external resources, in part because of the personnel shortage. Other factors are the spread of BPO²⁸⁾ services

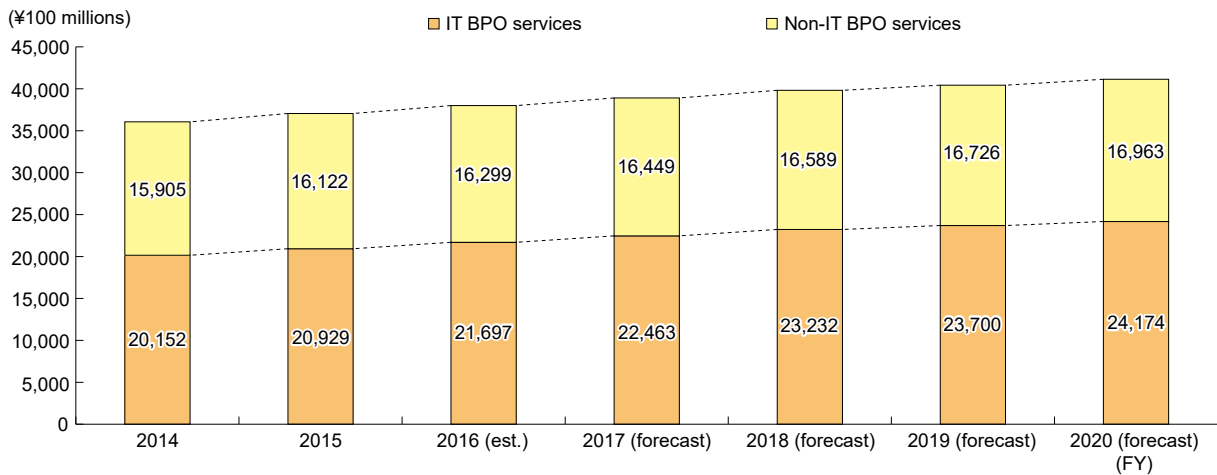
to keep up with “My Number” (national identity number) requirements and the increasing diversity of vendors, including foreign-owned enterprises.

In addition, crowdsourcing²⁹⁾ is gaining attention as a new way to do outsourcing. The scale of that market is predicted to expand dramatically (Fig. 2-4-62).

28) Abbreviation of “business process outsourcing.” It refers to outsourcing a portion of the enterprise’s business processes to an outside contractor, such as an outside professional.

29) A mechanism for procuring personnel who can make up for the management resources that an enterprise is lacking, by ordering work from a large number of people over the Internet. For details about crowdsourcing, see the 2014 White Paper on Small and Medium Enterprises in Japan, Part III, Chapter 5, Section 1.

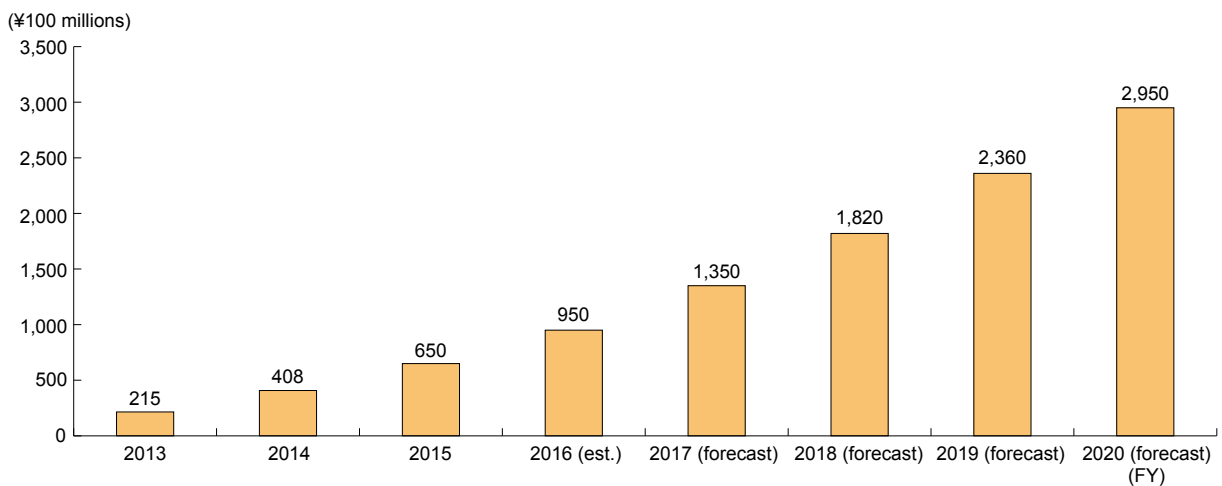
Fig. 2-4-61 Trend in scale and outlook for the BPO (business process outsourcing) market



Source: Prepared by SME Agency based on Yano Research Institute Ltd., *Survey on the BPO Market and Crowdsourcing Service Market (2016)*

- Notes:
1. Figures are based on businesses' net sales. Figures for FY2016 are estimates; figures for FY2017 and beyond are forecasts (as of November 2016).
 2. In this survey, "BPO" refers to services that would otherwise be done in-house but which one enterprise performs under contract to and on behalf of another enterprise, such as system operations management, call center work (contact center, help desk, fulfillment), indirect department work (personnel, benefits program, general affairs, accounting), and direct department work (purchasing/procurement, sales, simple work of the core department, work unique to the industrial world). However, the term does not include specialized services that are geared to businesses and have long commonly been outsourced, such as tax, logistics, information system development, building maintenance, or other services.
 3. The above BPO services that are categorized as "IT BPO services" are services that one enterprise performs under contract to and on behalf of another enterprise that consist of system operations management. "Non-IT BPO services" are all other services that one enterprise performs under contract to and on behalf of another enterprise.

Fig. 2-4-62 Trend in scale and forecast for the crowdsourcing services market



Source: Prepared by SME Agency based on Yano Research Institute Ltd., *Survey on the BPO Market and Crowdsourcing Service Market (2016)*

- Notes:
1. Figures are monetary value of work requested by crowdsourcing. Figures for FY2016 are estimates; figures for FY2017 and beyond are forecasts (as of November 2016).
 2. Crowdsourcing services are services that match enterprises, etc. (outsourcers) with large numbers of workers, etc. (outsourtees) over the Internet. The scale of the crowdsourcing services market in this survey was calculated based on the total value of work requested by outsourcers on crowdsourcing systems (includes value of work that was requested but no contract was concluded).

Though defined differently than crowdsourcing, Fig. 2-4-63 shows the state and recognition of outsourcing at

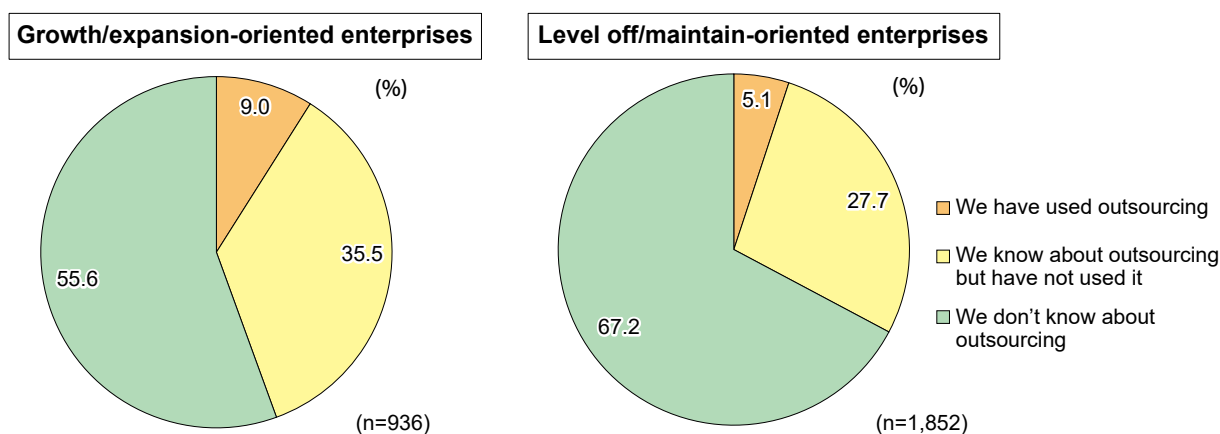
SMEs to individuals (e.g., freelancers and persons with a side business/side job) through a matching service.

The figure shows that 9.0% of growth/expansion-oriented enterprises have used outsourcing like this, but only 5.1% of level off/maintain-oriented enterprises have done so. It also shows that in both categories, over half of the enterprises said, “don’t know.” This indicates that outsourcing to individuals is still not well known among enterprises.

However, the market for such matching services is expected to grow in scale and the services offered are

likely to grow in quality and quantity. Outsourcing, furthermore, has the advantage to individual outsourcees that they can lead flexible work styles independent of time and place.³⁰⁾ For SMEs that sense limits on their own human resources, outsourcing offers one potential way to look beyond in-house employment and make effective use of diverse external human resources and to overcome their personnel shortages.

Fig. 2-4-63 State of use of outsourcing through matching services, etc., by type of business development policies



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

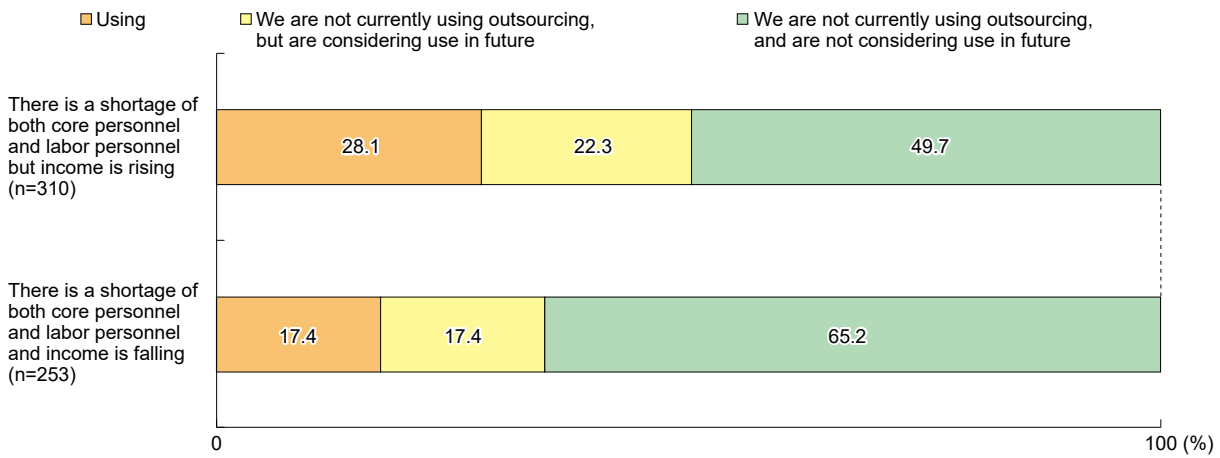
(4) Use of outsourcing at SMEs, and associated challenges

Going forward, we analyze challenges and benefits of using outsourcing at SMEs. Fig. 2-4-64 looks at the correlation between the state of use of outsourcing at

enterprises with a personnel shortage and their ordinary income trends. The results, which parallel those of Fig. 2-4-56, suggest that there are SMEs who are making up for their personnel shortages and growing through the timely and appropriate use of external resources.

30) See the *2014 White Paper on Small and Medium Enterprises in Japan*, Part III, Chapter 5, Section 1. The advantage to crowdsourcing cited by the highest percentage of non-businesses (i.e., individuals) was “making effective use of free time” (63.5%). The most common answer to where these individuals perform their work is “at home” (95.7%).

Fig. 2-4-64 State of outsourcing at enterprises with personnel shortages, based on those enterprises' ordinary income results



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

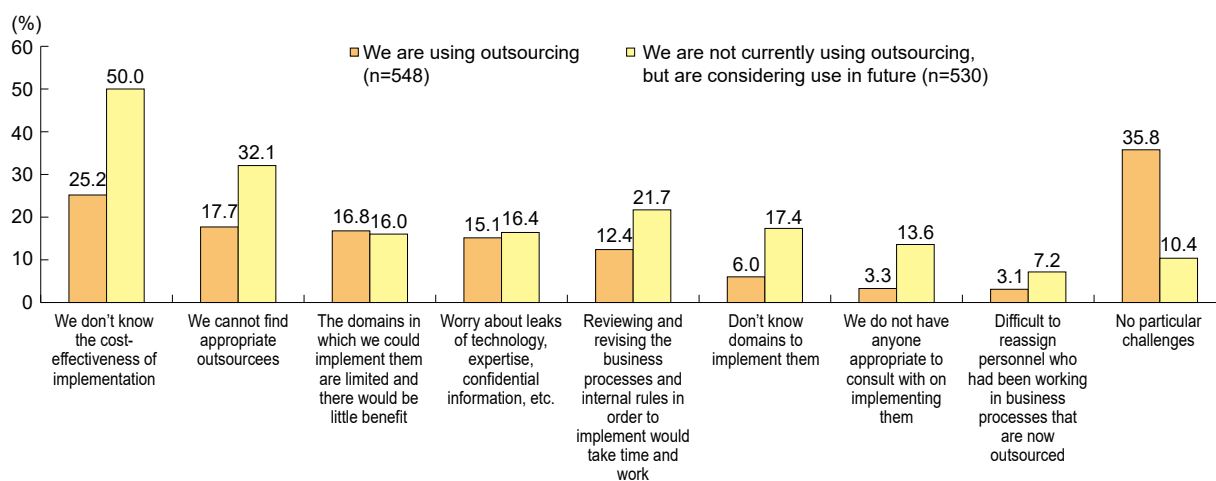
- Notes:
1. "There is a shortage of both core personnel and labor personnel but income is rising" refers to respondents that answered there was a shortage of both core personnel and labor personnel when asked whether there was a surplus or shortage of personnel overall, and answered their ordinary income had risen when asked about results over the past three years.
 2. "There is a shortage of both core personnel and labor personnel and income is falling" refers to respondents that answered there was a shortage of both core personnel and labor personnel when asked whether there was a surplus or shortage of personnel overall, and answered their ordinary income had fallen when asked about results over the past three years.
 3. Aggregates the use of outsourcing other than manufacturing/construction outsourcing.

What kinds of factors impede the implementation of outsourcing? As Fig. 2-4-65 indicates, "we don't know the cost-effectiveness of implementation" was the most common response (50.0%) from those enterprises described as "considering" implementation. The next most cited challenge concerned matching: "we cannot find appropriate outsourcers" (32.1%).

On the other hand, the most common response from enterprises that have already used outsourcing was "no particular challenges."

The fact that half of all enterprises studied perceived

challenges with cost-effectiveness is thought to mean that, although it is easy to predict costs, etc., for direct business processes that enterprises already do in-house, such as some manufacturing processes, in domains like marketing that lay a foundation for creating added value and in support processes like internal management, enterprises are not practicing strict profit management and effectiveness measurement in-house to begin with, or else this is hard to do, so the first time they let go of the processes so an outside party can perform them, it is difficult to calculate their cost-effectiveness.

Fig. 2-4-65 Challenges with implementing outsourcing, by current state of outsourcing

Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

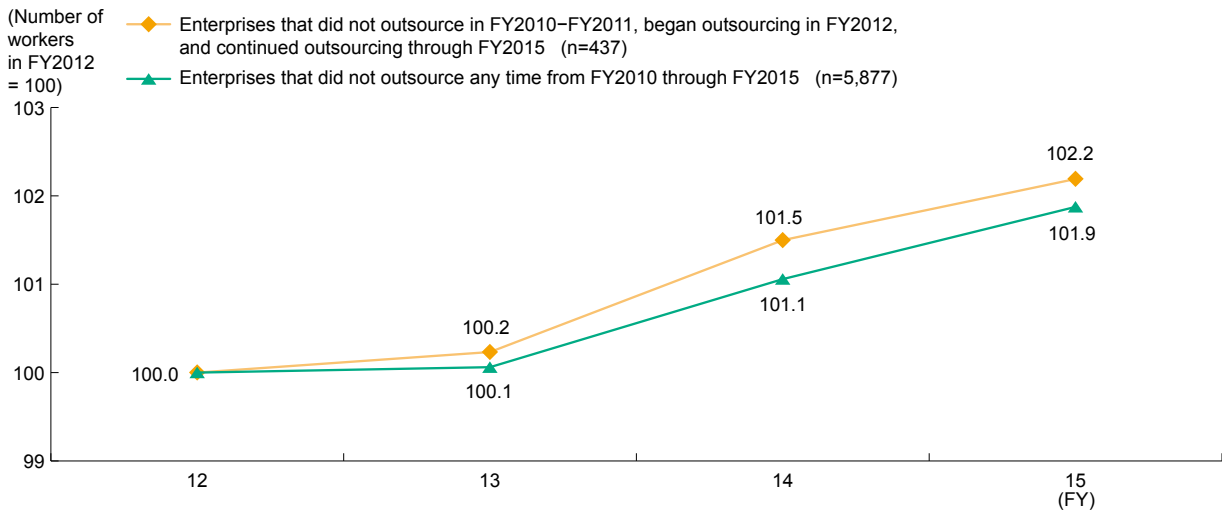
Note: Total does not always equal 100% as multiple responses were possible.

Here, we look at the relationship between number of employees and whether or not the enterprise uses outsourcing. Using METI's *Basic Survey of Japanese Business Structure and Activities*, SMEs were extracted that had continuously answered from FY2010 to FY2015 whether they were using outsourcing. Fig. 2-4-66 looks at trends in the number of workers since FY2012 at SMEs that began outsourcing in FY2012 and SMEs that never used outsourcing during the survey period. Looking at the figure, the number of workers in-house did not fall as a result of the start of outsourcing. In fact, enterprises that outsourced tended to increase the number of workers a little more than the other group.

Likewise, in the previously discussed Fig. 2-4-65, only 3.1% of enterprises that were already outsourcing said that it was "difficult to reassign personnel who had been

working in business processes that are now outsourced."

As pointed out in Section 1 of this chapter, the personnel shortage situation may differ within the same enterprise depending on the work domain. Additionally, as Fig. 2-4-64 shows, enterprises that said they had a personnel shortage but income was rising used outsourcing at a higher rate than the other group. The above suggests that at SMEs, outsourcing part of their work domains and reassigning personnel working in those work domains to other positions in-house could be an effective use of personnel. It further suggests that SMEs could improve their business results by supplementing the personnel they need for business development from outside sources, and that the use of external human resources may be one effective solution for compensating for personnel shortages in each work domain.

Fig. 2-4-66 Trends in number of workers and whether enterprises use outsourcing

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

- Notes:
1. Aggregates results for SMEs only.
 2. Aggregates results for companies responding to the survey every fiscal year from fiscal 2010 to fiscal 2015.
 3. The number of workers aggregates the total of regular workers at “head office/main store” and “other than head office/main store.”
 4. Here, “outsourcing” refers to contracting work other than manufacturing to outside parties.

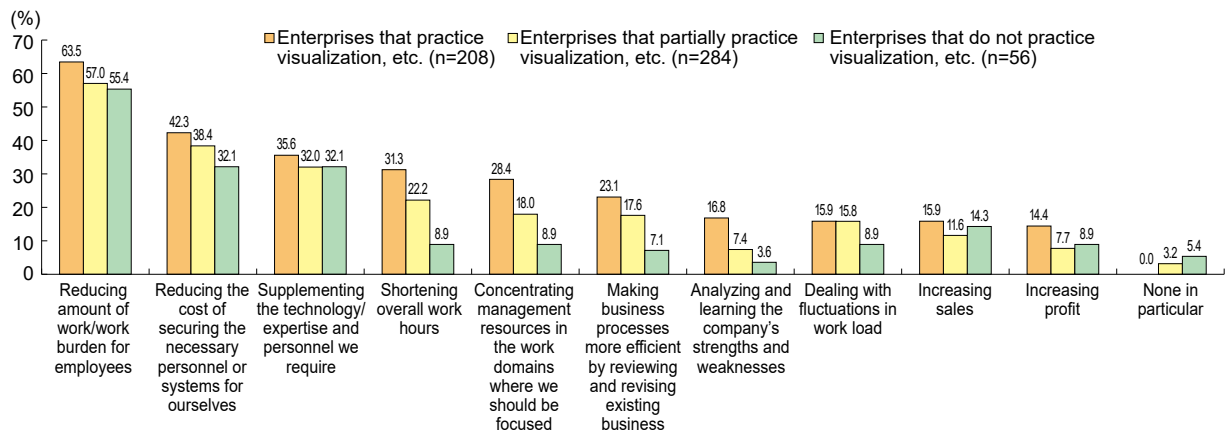
Finally, we look at what kind of enterprises think they can benefit from outsourcing. Fig. 2-4-67 addresses this question based on the degree to which enterprises practice business process visualization, etc.

There is no great difference based on the state of business process visualization in the percentage answering, “reducing amount of work/work burden for employees” and “supplementing the technology/expertise and personnel we require,” which are direct purposes of outsourcing. However, there was a great difference based on the state of business process visualization in the percentage giving answers indicating secondary benefits (“shortening overall work hours,” “making business processes more efficient by reviewing and revising existing business,” and “analyzing and learning the company’s strengths and weaknesses”) and answers indicating business strategy-related benefits (“concentrating management resources in

the work domains where we should be focused”).

When SMEs use outsourcing, they first need to make sure of their business strategy and the direction they wish to go. For example, they may further enhance their existing strengths by outsourcing specialized business processes to supplement their core business processes, or outsource work domains that are typical but hard to differentiate, so that the company’s employees can concentrate on work domains with high added value. As a precondition for doing so, they have to start by laying out the company’s business process flow to sort out which business processes to outsource. They have to reveal those business processes that must be performed in-house and clarify which ones to entrust to their own employees. It is conjectured that such business process visualization will enable SMEs to get greater benefit from outsourcing.

Fig. 2-4-67 Benefits SMEs have received, or think they could receive, from outsourcing, based on the degree they practice business process visualization, etc.



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

- Notes:
1. Total does not always equal 100% as multiple responses were possible.
 2. Aggregates respondents who answered that they are “using” outsourcing other than manufacturing/construction outsourcing.
 3. “Enterprises that practice visualization, etc.” refers to enterprises that said they practice “business process visualization” and additionally at least one of the following: “thorough 5S,” “clarifying each person’s work content/role,” “reconsidering/reducing work content,” “implementing company-wide business tools,” and “consolidating redundant business processes across departments.” “Enterprises that do not practice visualization, etc.” are those that answered they do not conduct any of these efforts. All others fall under “enterprises that partially practice visualization, etc.”

Case 2-4-5 Juuichiya-Bolt Co., Ltd.

A company that has made use of external personnel via the expert dispatch systems of business support organizations to assist it in introducing IT, helping to boost its business results

Juuichiya-Bolt Co., Ltd. (employees: 14; capital: ¥10 million), located in Sendai City, Miyagi Prefecture, was established in 1955 as a bolt manufacturer for specialist automotive repair applications, and now manufactures and markets bolts for a range of applications from civil engineering, construction and machinery to special-order bolts.

In 2008, Juuichiya-Bolt began a business relationship with a major company that employed an IT-based order system. At the beginning of this relationship, the company conducted all procedures, including acceptance of orders, formulation of estimates, journalizing, delivery procedures, and receipt and inspection procedures, manually, by telephone or FAX. As a result, the company found that it could not conduct transactions smoothly; it was unable to respond to its business partner's high-mix, low-volume orders, the burden of work procedures on the company's employees increased, and delivery problems continued.

President of the company until 2016, Kanetsugu Sato (now the company's Chairman), felt a strong sense of crisis – if things were to go on like this, the company would be unable to continue trading with its business partner. Mr. Sato keenly felt the necessity of introducing an IT system that would enable the company to perform such procedures as the preparation of estimate sheets, the processing of orders and inventory management. However, Juuichiya-Bolt did not have any staff who were sufficiently familiar with IT to perform the task. The company therefore consulted with the Miyagi Prefecture Federation of Small Business Associations, and learned of a system for the dispatch of expert personnel that would enable it to receive guidance from specialists while controlling costs. The company decided to make use of this system.

An IT coordinator was rapidly dispatched to the company, who assisted it in developing and introducing an electronic data processing and estimate formulation system. The company was now able to formulate estimates that had previously taken three days in around an hour, realizing a considerable reduction in the cost of clerical procedures. In addition, the reduction of the time necessary to formulate estimates allowed extra time for other procedures, increasing the quality of the company's procedures and reducing the incidence of mistakes. As a result, the company topped its business partner's ranking of supplier quality management, published monthly, and its improvement in quality also became known among its business partner's affiliates, expanding its sales channels and leading to increased sales.

Following on from this, the company received dispatches of expert personnel from the Miyagi Organization for Industry Promotion and the Sendai City Industrial Promotion Organization, and developed systems including a delivery inspection system using barcodes and a purchase management system. The development and introduction of these various systems enabled the company to realize accurate inventory management and tallies by product, and to correct excess inventory, making it possible to respond to demands from suppliers and customers rapidly and accurately. The use of IT for its in-house systems also enables the company to respond immediately to modifications in customers' systems, allowing it to maintain stable business partnerships with large corporations.

One distinctive characteristic of Juuichiya-Bolt is that it did not leave the process of IT development exclusively to the experts that were dispatched to the company; given that the company would be using the systems as part of its work procedures in future, it made active contributions from the stage of system development. In concrete terms, for the entire process of system development, Mr. Sato revised in-house processes while taking opinions from employees, and clearly distinguished between the areas that would be incorporated in IT systems and the areas that would continue to be responded to via manual procedures; for example, product data for specially machined products and other data with a low level of general applicability would be input manually. The company has also worked to ensure that its IT systems are able to be easily used by all employees, for example by using Excel, which most employees are familiar with, for the procedures related to the receipt and issuing of orders that are frequently used by employees responsible for specific products in the workplace, and Access for inventory management, product purchasing, and order management involving high volumes of data.

The occurrence of the Great East Japan Earthquake in 2011 scattered the company's products and documents and damaged part of its Head Office building, and its sales office in Ishinomaki City, Miyagi Prefecture, was engulfed by the tsunami, making it difficult for the company to continue with business as normal. However, the company quickly repaired its Head Office and introduced measures to prevent its product storeroom shelves from falling over, and got back into operation, chiefly at its Head Office

and its Hachinohe Sales Office. This enabled it to respond to the increase in demand for bolts stemming from construction work in the wake of the earthquake. At the Ishinomaki Sales Office, which had been damaged by the tsunami, product diagrams and other sales documents had all been washed away; the company responded by making use of a reconstruction consultation and advice project organized by the Miyagi Organization for Industry Promotion to assist it in devising a diagram and estimate management system that would allow it to store important documents such as diagrams and unit price schedules in the Cloud.

Following the earthquake, the company's business environment was significantly changed, and its sales slumped temporarily. However, it sought to cultivate new customers, and following the advice of the Miyagi Prefecture Yorozu Support Center it focused efforts on PR activities via its website, allowing it to achieve a recovery in its business.

Juuchiya-Bolt actively publishes information concerning the IT systems that it has introduced to date

on its website, seeking to be chosen by its customers not only for its products, but also based on its ordering and inventory management systems. By means of initiatives including the further advancement of the company's IT environment and website creation with an awareness of two-way communication between company and customers, Mr. Sato says positively, "I want to create a new bolt marketing model for SMEs and realize further development of my company."



Company Chairman Kanetsugu Sato; website design with consideration of convenience and appeal for customers

Section 4

Case 2-4-6 Waris, Inc.

A company that matches SMEs and venture companies with professional female freelancers for the conclusion of service agreements

Waris, Inc. (employees: 11; capital: ¥6.46 million), located in Minato City in Tokyo, provides a personnel matching service, and was established on the basis of joint investment by three women.

Waris' distinctive feature is its method of matching companies and subcontractors. The company serves as a platformer that matches companies planning new business start-ups and companies seeking to outsource PR and marketing, sales, human resources, accounting, and finance procedures on a project basis with human resources who wish to work on a freelance basis, specifically professional women with extensive experience in comprehensive duties in non-technical areas, in order to conclude service contracts.

70 percent of Waris' approximately 1,100 client companies are SMEs or venture companies; of these, some 40% are IT ventures, but the company's customers cover a range of business types, and include manufacturing and apparel companies. By contrast with large corporations, most SMEs and venture companies do not have departments specializing in advanced strategy, and their in-company resources are also limited. When such a company seeks to launch a project towards the creation of a new business, in many cases considerations of cost or time make it difficult for the company to newly hire personnel able to act as the President's right hand or close consultant and bring the project to completion. However, the ability to hire professional human resources with extensive experience in just these types of procedure for a fixed period makes it possible to reduce costs and ensure high quality. In addition, by having the opportunity to perform their duties together with external professional human resources, the employees of the contracting company are exposed to new knowledge and develop new connections, increasing their skills. These effects cannot be obtained from simple outsourcing.

Nevertheless, at present almost no SMEs have experience of the establishment of service contracts for new projects or back-office functions. Waris studies and analyzes the duties clients require in order to clarify the necessary skills, and provides consistent support from careful scrutiny of the service agreement to follow-ups during the period of the agreement to ensure that its client companies are able to smoothly use its matching services. The company also provides an intermediary function to help ensure that contracts are concluded at a fair price, for example by informing clients of market trends in subcontracting fees based on examples of past agreements.

Today, Waris has approximately 3,500 human resources on its books, of whom more than 90% are women. Of these, approximately half work as freelancers, while approximately 40% are not concerned about the form their employment takes, but seek freedom in their working style. The demand for flexible working styles is strong, with many of the women unable to work full-time due to childcare or nursing care responsibilities but seeking employment for around three days a week. In addition to providing support for SMEs lacking human resources by enabling them to outsource duties, Waris also provides support for women who desire flexible working styles, providing them with the opportunity to work as professionals without being trapped by working hours or workplace.

Miwa Tanaka, one of the company's Representative Directors, says "It is becoming particularly difficult for SMEs and venture companies to find highly skilled human resources able to oversee a project from upstream to downstream, and all the more so with the decline in the working population. Against this background, if companies focus on "employment" as the prerequisite for securing human resources, they face the risk that they may not secure the necessary resources at the necessary time. We want them to free up their thinking and consider the outsourcing of duties as an option." The company's model of providing freelance staff with extensive experience of comprehensive duties in non-technical areas represents a new choice for SMEs facing shortages of personnel.



Waris' joint founders and Representative Directors: (L-R) Fumika Yonekura, Miwa Tanaka, and Kyoko Kawa

Section 5 Summary

This chapter has looked at how SMEs are responding to personnel shortages. It analyzed the surplus or shortage of personnel at SMEs and the resulting impacts; efforts to hire and retain personnel; the use of diverse personnel and state of preparation of flexible work styles for their sake; and efforts to implement outsourcing in anticipation of future personnel supply limitations. The discussion has included case studies from actual enterprises.

Because SMEs' situations differ considerably in terms of number of employees, budget/finance, and so on, the efforts they make to secure and use personnel and their response to anticipated personnel shortages will vary, making it difficult to extract effective solutions that all can share. However, if one common point were to be mentioned, it would be that enterprises getting the maximum benefit from their efforts take a long-term view and make various efforts in parallel.

This is to say, when such enterprises hire, they start with a clear management policy and figure out precisely what kind of personnel they are looking for. They then convey that information to the personnel by the most effective means and use various types of hiring mechanisms. In addition, they hire diverse personnel with the assumption that flexible work styles will be allowed, and they reconsider the workplace environment to make it easy for these personnel to work. When using diverse personnel,

they review and revise work burdens and reduce overtime work so that work is appropriately distributed, and they make business processes more efficient by visualizing them. When necessary, they undertake internal innovation and make effective use of external resources to achieve the business development they seek.

SMEs are expected to continue facing a challenging situation to secure personnel. That includes structural issues like the decline in the working age population and, accompanying that, sudden increases in labor demand in certain industries. Facing those conditions, SMEs that take advantage of their own flexibility to use diverse personnel and make themselves more appealing as workplaces to retain personnel, as well as make effective use of human resources including external personnel, could see rising productivity and growth.

Chapter 1 looked at new business startup/establishment, Chapter 2 at business succession, and Chapter 3 at expansion into new businesses. Personnel, however, is an issue for SMEs throughout their life cycle, and it is no exaggeration to say that personnel are at the core of an SME. This chapter may best be summed up by saying that SMEs contribute to the economic development of Japan by using their originality and innovation along with their personnel to grow their businesses and by passing those businesses on to a new generation.

SME policies implemented in fiscal 2016



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SME policies implemented in fiscal 2016

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Chapter 1 Detailed support for SMEs in disaster-affected regions

Section 1 Cash-flow assistance

1. Finance policy program

[Fiscal 2016 budget: Included in ¥15.7 billion]

[Fiscal investment and loan program]

There has been ongoing provision of the Great East Japan Earthquake Recovery Special Loan Program and the 2016 Kumamoto Earthquake Special Loan Program (commenced in June 2016) 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 and Kumamoto Earthquake with their cash-flow issues.

Between the start of the program's operation and the end of December 2016, the Great East Japan Earthquake Recovery Special Loan provided a total of approx. 297,000 loans with a total value of approx. ¥6.357 trillion, and the 2016 Kumamoto Special Loan Program provided a total of approx. 12,000 loans with a total value of approx. ¥165 billion. Those measures that were created in the wake of the Great East Japan Earthquake 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 2016.

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 or the 2016 Kumamoto Earthquake were raised continually and interest rates were lowered. A total of 503 Marukei loans worth ¥1.68 billion and 4 Eikei loans worth ¥7 million were provided to businesses affected by the Great East Japan Earthquake (as of the end of January 2017), and a total of 38 Marukei loans worth ¥157 million were provided to businesses affected by the 2016 Kumamoto Earthquake (there was no provision of Eikei loans) (as of the end of January 2017).

3. Credit guarantee program

[Fiscal 2016 supplementary budget: Included in ¥18.4 billion]

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 December 2016, a total of approx. 129,773 loans were made with a total value of approx. ¥2.6361 trillion.

In the wake of the Kumamoto Earthquake that occurred in April 2016, Safety-net Guarantee No. 4 was applied to all areas of Kyushu (sequentially from April 14, 2016), and disaster-related guarantees were also applied to all areas of Kumamoto prefecture (from April 26, 2016).

The two programs made guarantee commitments on 6,538 loans with a total value of ¥106.7 billion.

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 2016 budget: ¥2.56 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. In fiscal 2016, a permanent office was established in Iwaki City, Fukushima prefecture to enhance the framework for handling consultations from business owners. Up to 28 February 2017, 5,594 consultations from business owners have been handled by Industrial Recovery Consultation Centers in each prefecture, including

5,444 consultations that were carried through to completion. A key achievement was the 1,029 cases where organizations such as financial institutions agreed to provide financial support, including 333 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 2,502 consultations and in 687 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 2017). Furthermore, on December 20, 2016, the decision-making term for providing assistance was extended by a year, until February 22, 2018, with the approval of the competent minister, under the Act on the Incorporated Organization for Supporting the Turnaround of Businesses Damaged by the Great East Japan Earthquake.

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, it defrays the cost of interest that such businesses incur during the period they receive assistance from an Industrial Recovery Consultation Center to formulate a regeneration plan. The program was established in fiscal 2011 and was implemented ongoingly in fiscal 2016.

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.

• The Great East Japan Earthquake

[Fiscal 2016 budget: ¥29 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.

• The 2016 Kumamoto Earthquake

[Fiscal 2016 supplementary budget: ¥100.35 billion]

In order to promote the restoration and reconstruction of areas affected by the 2016 Kumamoto Earthquake, support was provided for the recovery of facilities held by groups of disaster-affected SMEs and others 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;
- (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;
- (3) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost of projects for recovering joint facilities by business cooperatives and associations, pursuant to the Act on Special Financial Support to Deal with the Designated Disaster of Extreme Severity (1962, Act No. 150); and
- (4) Subsidization by the national government (one half) and prefectural governments (one quarter) of the cost required for the elimination and repair of arcades, the repair and rebuilding of joint facilities, and the repair,

etc. of facilities such as streetlights, in shopping districts.

*Subsidies (1) and (2) will continue to be offered in fiscal 2017, by carrying over the fiscal 2018 budget.

2. Loans for restoration and development of facilities and equipment

• The Great East Japan Earthquake

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.

• The 2016 Kumamoto Earthquake

Loans were provided by 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 2016 Kumamoto Earthquake.

3. Projects for maintenance of temporary factories and storefronts

[Fiscal 2016 budget: Included in ¥830 million]

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 January 2017, the construction of facilities has been completed at 588 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 38 projects have been subsidized under this program as of the end of January 2017.

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 was provided in the area of employment in accord with industrial policies.

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 2016 budget: ¥990 million]

A written request under the name of the Director-General of the Small and Medium Enterprise Agency was issued to all prefectures dated April 27, to give consideration to SMEs and micro-businesses in areas affected by the 2016 Kumamoto Earthquake with regard to orders from the public sector, and the request was subsequently included in the “Basic Policy on State Contracts with Small and Medium Enterprises,” which is formulated each fiscal year. Continued consideration was also given to SMEs and micro-businesses in areas affected by the Great East Japan Earthquake under the Basic Policy and widely disseminated.

4. Victims’ Employment Development Subsidy Program [Fiscal 2016 budget: ¥220 million]

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.

5. Guidance and advice on measuring radiation levels [Fiscal 2016 budget: ¥30 million]

The review and lifting of the evacuation order in areas designated as evacuation zones after the Great East Japan Earthquake is hereafter expected to be accompanied by the recommencement of business by enterprises that were affected by the disaster and promote the siting of enterprises in the affected areas. In anticipation of this development, radiation measurements of industrial products were carried out, the types and amounts of radioactive substances were measured and inspected, and guidance and advice were provided, as countermeasures against harmful rumors.

- 6. 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 were 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.
- 7. Program for employment support in response to the nuclear disaster**
[Fiscal 2016 budget: ¥4.24 billion]
A program was 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.
- 8. Support for employment in response to earthquake disasters, etc.**
A program was implemented to provide temporary places of employment to people in earthquake-struck regions to help them stabilize their living situation.
- 9. Program for disaster recovery, etc. of shopping districts**
(Shopping district excitement creation program)
[Fiscal 2016 reserve fund: Included in ¥1.1 billion]
Support was provided to cover the cost required by local shopping districts (in Kumamoto prefecture) affected by the 2016 Kumamoto Earthquake to implement projects for recovering the excitement of their shopping districts.
- 10. Program for promoting regional reconstruction and practical development under the Fukushima Innovation Coast Scheme**
[Fiscal 2016 budget: ¥6.97 billion]
Support was provided for the cost of practical development of robot technology and other innovative technologies in the priority areas(*) of the Fukushima Innovation Coast Scheme, which contribute to regional promotion through cooperation with local enterprises. (New)
*Priority areas include the decommissioning of reactors, robots, energy, environment and recycling, agriculture, forestry and fisheries, and medical equipment, among others.
- 11. Support program for business recovery, etc. by SMEs and micro-businesses**
[Fiscal 2016 budget: ¥7.4 billion (fund)]
To provide concentrated support to SMEs in the 12 municipalities that were affected by the nuclear disaster in Fukushima prefecture and thereby create jobs in the region and promote the early recovery of city functions such as by restoring places for shopping, a subsidy was provided to cover part of the capital investment needed to resume business.
- 12. Support program for new businesses in regions affected by the nuclear disaster**
[Fiscal 2016 supplementary budget: ¥150 million]
A subsidy was provided for capital investment needed to start a new business in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture or transfer a business from outside the 12 municipalities, and initiatives were taken to develop an environment conducive to revitalizing investment, to help the 12 municipalities recover their city functions so that affected enterprises can get back on their feet.
- 13. Support for securing travel and transportation means needed to receive lifestyle-related services**
[Fiscal 2016 budget: ¥140 million]
In the 12 municipalities affected by the nuclear disaster in Fukushima prefecture, support was provided in the form of travel and transportation means so that local stores could make joint deliveries, local residents can receive medical services, etc.
- 14. Support for securing personnel through a personnel match-up program**
[Fiscal 2016 budget: ¥500 million]
Human resources coordinators made a detailed assessment of the personnel needs of businesses in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture, and widely shared these needs with job seekers so that personnel could be acquired from both inside and outside the 12 municipalities throughout a match-up program.
- 15. B2B match-up program for sixth sector industrialization**
[Fiscal 2016 budget: ¥370 million]
A B2B match-up service was provided, to help businesses cultivate new markets and promote the creation of new businesses. In addition to matching businesses with other businesses, an expert also provided guidance regarding the smooth implementation of business after the match-up.
- 16. Support program for introducing regional traditions, attractions, etc.**
[Fiscal 2016 budget: ¥50 million]
To introduce the local attractions, traditional crafts, specialty products (local agricultural, commercial and industrial products), etc. of the 12 municipalities affected by the nuclear disaster in Fukushima prefecture throughout Japan and overseas, support was provided to businesses that planned to participate in a trade fair.

17. Support through individual visits by public-private partnership teams

[Fiscal 2016 budget: ¥8.2 billion (fund)]

The Fukushima Soso Reconstruction Public-private Partnership Team's framework was strengthened to provide consultation support to businesses in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture. A team composed of counselors, consultants, SME management consultants, and other such experts provided fine-tuned consultation support on issues related to business recommencement, business succession, job change, lifestyle reconstruction, etc.

Chapter 2 Support for productivity improvement among SMEs and micro-businesses

Section 1 Enhancement of productivity improvement and technological capacity

1. Strategic Core Technology Advancement Program and support program for collaborative efforts

[Fiscal 2016 budget: ¥13.97 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.

Support was also provided to SMEs and micro-businesses in their effort to develop a new service model based on industry-academia-government collaboration, in line with a cross-field collaboration plan for cultivation of a new business field that has been approved under the Act on Strengthening the Management of SMEs, etc.

2. Support for innovation creation by R&D-type venture enterprises

[Fiscal 2016 supplementary budget: Included in ¥1.5 billion]

The New Energy and Industrial Technology Development Organization (NEDO) provided subsidies to medium enterprises and SMEs that engage in joint research by utilizing the capabilities of “bridgebuilding R&D institutions” that can link innovative technology seeds with commercialization initiatives.

3. The National Institute of Advanced Industrial Science and Technology (AIST)’s bridgebuilding 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.

4. 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.

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 current period) 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 current period). 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 current period (until the end of fiscal 2016)).

6. 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.

7. Cross-field collaboration for new business development

Pursuant to the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises, authorization and subsidies were 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, in addition to providing wide-ranging support through special loans and guarantees.

8. Program to promote business creation through medical-engineering collaborations

[Fiscal 2016 budget: ¥3.5 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 350 collaboration initiatives. Support was also provided for the commercialization of 43 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

[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.

In fiscal 2016 (as of the end of January 2017), loans worth ¥95.2 billion were provided to 11,510 undertakings.

10. Subsidy for innovative manufacturing, commercial businesses, and service development

[Fiscal 2016 supplementary budget: ¥76.34 billion]

To build a strong and steady economy that can respond to global changes in social and economic situations, a subsidy was provided to cover part of the capital investment made by SMEs and micro-businesses to improve their business performance by enhancing their development of innovative services and trial products and their productivity process.

11. One-stop comprehensive support programs for SMEs and micro-businesses

[Fiscal 2016 budget: ¥5.47 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. (From the commencement of the program to December 2016, the program has responded to 478,000 cases of consultations from SMEs and micro-businesses.)

12. Act for Strengthening the Management of SMEs, etc.

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 was provided to reduce the tax base of the imposed fixed assets tax by one-half over a period of three years. Measures were also taken to provide financial support, such as by establishing a loan system through the Japan Finance Corporation for SMEs that have an approved management capability enhancement plan (a 0.9% cut from the base interest rate for equipment funds).

Section 2 Promotion of IT

1. Support program for introducing IT to increase productivity of services, etc.

[Fiscal 2016 supplementary budget: ¥10 billion]

To strengthen the management capabilities of SMEs, etc., support was provided for the introduction of IT tools and apps that contribute to increasing efficiency in back-office operations and enhancing added-values toward acquiring new customers, in combination with measures related to increasing SME productivity.

2. Support program for improvement of management capabilities and development of IT infrastructure

[Fiscal 2016 supplementary budget: ¥1.3 billion]

A survey was conducted on sharing electronic data among SMEs beyond the bounds of industries, and a consultation meeting was held to introduce best practices in strengthening management capabilities by utilizing IT.

3. IT utilization promotion fund

[Fiscal investment and loan program]

The JFC provided loans to SMEs to promote the utilization of IT that would contribute to increasing their productivity. (In fiscal 2016, loans worth ¥25.8 billion were provided to 2,331 SMEs (as of the end of January 2017).)

Section 3 Improvement of transaction conditions

1. Improvement of the transaction conditions of SME subcontractors

To widely improve the transaction conditions of SME subcontractors, the Liaison Council of Ministries and Agencies Concerned with the Improvement of the Transaction Conditions of SME Subcontractors was established in December 2015. Thereafter, a large-scale survey and detailed interviews that were held on both large enterprises and SMEs revealed various issues, including the imposition of the storage cost of molds and payments by promissory notes. Thus, on September 15, 2016, “Policies for future-oriented trade practices” were announced as a countermeasure package. Based on this package, the enforcement of relevant laws and regulations was strengthened on December 14, 2016, by reviewing the notification regarding promotion standards and the payment of subcontract fees under the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises (hereinafter, Act on the Promotion of Subcontracting), and cooperating with the Fair Trade Commission in revising the operational standards of the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (hereinafter, Subcontract Payment Act). Based on the amendment of standards, etc., 12 organizations in 7 industries took action to formulate a voluntary action plan. Additionally, the Guidelines for the Promotion of Fair Subcontracting Practices (hereinafter, Fair Subcontracting Guidelines) were revised, to include best practices related to cooperation and coordination between principal contractors and subcontractors.

2. Stricter enforcement of the Subcontractor Payment Act

[Fiscal 2016 budget: Included in ¥990 million]

On December 14, 2016, the notification regarding the payment means of subcontract fees was revised, and the operating standards of the Subcontractor Payment Act was revised in cooperation with the Fair Trade Commission, to strengthen legal enforcement of subcontractor payments. The Ministry of Trade, Economy and Industry and Fair Trade Commission jointly issued a statement calling for a thorough dissemination of the revised operating standards and the establishment of internal frameworks for ensuring legal compliance to approximately 870 industrial organizations (date Dec. 20, 2016) and approximately 210,000 principal contractors (dated Jan. 6, 2017), along with the notification on promotional standards and payment means of subcontract fees under the Act on the Promotion of Subcontracting that was revised on the same day.

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. The FTC and SME Agency encouraged rigorous compliance with the Act, by carrying out a written survey of principal contractors, and by collecting information on violations of the Act through an office set up specifically to receive such information and reports. Additionally, during the “Subcontractor Fair Treatment Promotion Month” held in November, rigorous compliance with the Act was again encouraged by conducting special questioning.

3. Strengthening consultation systems and fair subcontracting transactions

[Fiscal 2016 budget: Included in ¥990 million]

Consultation services concerning SME transactions were provided by the 48 Subcontracting Help Centers set up throughout Japan. 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. Information sessions were also held nationwide to disseminate the Fair Subcontracting Guidelines.

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 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 and micro-businesses seeking to advance into new fields.

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 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. Broad-area information sessions were also held at 8 venues to support new market development.

6. Request for consideration toward small and medium subcontractors

[Fiscal 2016 budget: Included in ¥990 million]

On December 14, 2016, the promotional standards based on the Act on the Promotion of Subcontracting were revised. The Ministry of Trade, Economy and Industry and Fair Trade Commission jointly issued a statement calling for a thorough dissemination of the revised operating standards and the establishment of internal frameworks for ensuring legal compliance to approximately 870 industrial organizations (dated Dec. 20, 2016) and approximately 210,000 principal contractors (dated Jan. 6, 2017), along with the notification on operating standards and payment means of subcontract fees under the Subcontract Payment Act that was revised on the same day. Additionally, on December 20, 2016, governmental financial institutions were requested their consideration in providing emphatic responses and timely and appropriate loans so that principal SME contractors who actively engage in the optimization of subcontract transactions do not face serious cash-flow problem.

7. Support for cost negotiations, etc.

[Fiscal 2015 supplementary budget: Included in ¥400 million]

A collection of case studies and handbooks were prepared, and individual guidance sessions and seminars were 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. Additionally, for each of the industries under the Fair Subcontracting Guidelines, follow-up activities for the Guidelines and initiatives for their dissemination were strengthened.

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 microbusinesses, 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, local support once companies advanced overseas and support for the formulation of business restructuring plans.

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 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.

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 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 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 ¥6.9 billion were provided to 65 enterprises in fiscal 2016 (as of the end of January 2017).

5. Utilization of the private-sector collaborative volunteer program and matchups with returned JICA volunteers

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.

6. 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.

7. Activities to expand and publicize use of trade insurance by SMEs (creation of a cartoon and video)

A video and cartoon-base pamphlet on trade insurance were created in fiscal 2016, and were shown and distributed at various trade fairs and information sessions to disseminate greater understanding of trade insurance.

8. 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 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.

9. 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 2016, the addition of a total of 7 new banks and credit unions led to the creation of a network of 112 nationwide financial institutions (as of the end of February 2017).

10. 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.

11. Promotion of BOP business

[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, buyers from Uzbekistan, Kazakhstan, Myanmar and India were invited to Japan to hold

consultation/business meetings, and subsequently, missions were dispatched to Uzbekistan and Kazakhstan, and local test marketing was implemented in Myanmar and India. In Africa, an acceptability survey was carried out in Nigeria, and local business meetings were organized in Kenya.

12. Program for cultivation of emerging markets based on technical cooperation

The following three initiatives were implemented to support Japanese companies acquire emerging markets.

- (1) Support was 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. In fiscal 2016, a training program was held for 810 managers and engineers, and 43 experts were dispatched (as of February 2016).
- (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 were given opportunities for overseas internships, and foreign workers were given opportunities for internships in Japanese companies. In fiscal 2016, 80 young Japanese workers were sent overseas, and 103 foreign workers were received by Japanese companies.
- (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 20 projects in fiscal 2016.

13. Program for basic studies, feasibility studies, dissemination and demonstration (ODA match-up program for SME products and technologies) [Fiscal 2016 budget: ¥4.5 billion] [Fiscal 2016 supplementary budget: ¥600 million]

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.

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.

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.

<State of progress (as of March 10)>

- Membership cards were issued to 3,847 companies, and experts were assigned to commence support.
- At present, the consortium is composed of 1,072 nationwide support organizations. To further increase the number, efforts will continue to be made to enhance its scope of support.
- 350 experts from a wide range of fields have been secured at present, to address the various issues faced by medium enterprises and SMEs.

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 (165 seminars by March 6, 2017), 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.

17. Program for the creation of a global value chain through agriculture-commerce-industry collaboration

[Fiscal 2015 supplementary budget: Included in ¥1 billion]

With the objective of promoting the cultivation of new markets overseas for agriculture, forestry and fishery products and foods, support was provided for the creation of a value chain that encompasses all processes from agricultural production to processing, distribution and sales, through an agriculture-commerce-industry collaboration that applies commercial and industrial technologies and knowhow to agriculture, and the results were widely disseminated. Twenty projects were selected in fiscal 2016, and symposiums for disseminating their results were held in Tokyo and Nagoya. (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: Included in ¥5.15 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 Revised Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro-businesses (no. of undertakings selected: 659).

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: 61; production businesses: 86 (first year) and 24 (second year)).

2. Support package programs for micro businesses

[Fiscal 2016 supplement budget: ¥10 billion]

Micro businesses were supported in their initiatives to create a management plan through the use of locally-based societies and chambers of commerce and industry that possess a nationwide network, and subsidies were provided to cover the costs of cultivating markets based on the management plan (micro-business sustainability subsidy). 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 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 2 Development of the business environment

1. Managerial Improvement Loans (Marukei Loans) for micro businesses

[Fiscal 2016 budget: Included in ¥4 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. (In fiscal 2016, a total of 36,863 loans were provided with a total value of ¥218.7 billion (as of the end of January 2017)).

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 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.

(In fiscal 2016, a total of 205 loans were provided with a total value of ¥1.97 billion (as of the end of January 2017)).

3. Program for developing an integrated database of micro businesses

[Fiscal 2016 budget: ¥20 million]

Information related to micro-businesses was input into an integrated database operated by SMRJ, and a search tool was created within the database to provide information on support measures to nationwide micro-business support organizations.

4. Support for market cultivation by micro-businesses

[Fiscal 2016 supplementary budget: ¥12 billion]

A subsidy (micro-business sustainability subsidy) was provided for the cost incurred by micro-businesses to prepare a management plan and cultivate new markets in concert with societies and chambers of commerce and industry.

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 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 2016 budget: ¥5.47 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. (From the commencement of the program to December 2016, the centers have responded to some 478,000 consultations.)

4. Promoting the utilization of local benchmarks

To promote the utilization of local benchmarks, a stipulation for SMEs to utilize local benchmarks when preparing a certification application form was included in the basic policy based on the Act on Strengthening the Management of SMEs, etc. (2016 Act no. 58), and information sessions were held for nationwide commerce and industry organizations and regional financial institutions. Additionally, case studies on the utilization of local benchmarks by

financial institutions and support organizations were introduced, and discussions were held regarding the enhancement and review of local benchmark analysis methods in the Local Benchmark Utilization Strategy Conference that was established in April 2016.

Section 2 Utilization of local resources

1. Certification of management development support plans based on the Small Business Support Act

For the nationwide development of a framework for community-based support of micro-businesses by nationwide societies and chambers of commerce and industry in cooperation with local governments and financial institutions based on the Small Business Support Act, a cumulative total of 1,127 management development support plans formulated by societies and chambers of commerce and industry have been certified (1,303 societies and chambers of commerce and industry).

2. Program for supporting hometown specialty products [Fiscal 2016 budget: ¥1 billion]

Support was 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 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.

3. JAPAN Brand Development Assistance Program [Fiscal 2016 budget: Included in ¥1 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)

4. Micro business promotion program [Fiscal 2016 budget: ¥5.15 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 Revised Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro-businesses (no. of undertakings selected: 659).

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: 61; production businesses: 86 (first year) and 24 (second year)).

5. 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.

- Aichi Prefecture “Owari Butsugu” (Buddhist altar fittings), Nagasaki Prefecture “Nagasaki Bekko” (tortoiseshell products) and Okinawa Prefecture “Haebaruhanaori” (textile) designated on 26 January 2017.

6. Traditional Craft Product Subsidy Program [Fiscal 2016 budget: ¥1.25 billion]

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.

Additionally, to promote local brands of traditional crafts by attracting tourists to the production regions of traditional crafts and helping to cultivate markets overseas, support was provided for initiatives to invite designers and other relevant external personnel to traditional craft production regions.

7. 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 2016, the national convention was held in Fukui 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. In fiscal 2016 (as of the end of January 2017), the councils received 358 cases of consultation.

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. In fiscal 2016 (as of the end of January 2017), experts were dispatched to 29 regions.

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. In fiscal 2016 (as of the end of January 2017), seminars were held in 16 regions, and expert advice was provided in 19 regions.

**6. 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.

In fiscal 2016 (as of the end of January 2017), loans worth ¥95.2 billion were provided to 11,510 undertakings. (Cited earlier)

**7. Program to support the promotion of inbound visitors to shopping districts and town centers
[Fiscal 2015 supplement budget: ¥1 billion]**

Support was provided to initiatives for developing an environment conducive to attracting the shopping demand of foreign tourists to shopping districts, etc. In fiscal 2016, 43 initiatives were adopted by the program to support the promotion of inbound visitors to shopping districts, and 6 initiatives were adopted by the program for revitalization of city centers.

**8. Program to support commercial revitalization in local communities and town centers
[Fiscal 2016 budget: ¥2.03 billion]**

Support was provided to initiatives such as for providing childcare and elderly care services in shopping districts, attracting businesses to vacant stores, and developing commercial complex in city centers. In fiscal 2016, 41 survey and analysis projects and 28 support projects were adopted by the program for promoting commercial independence in local communities; and 3 survey projects and 3 pioneering demonstration projects were adopted by the program for strategic reconstruction of city centers; and 15 projects were adopted by the program for supporting the utilization of specialist personnel.

**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.

**10. Support for increasing the ability of shopping districts and town centers to attract customers
[Fiscal 2016 supplementary budget: ¥1.5 billion]**

Support was provided to projects that lead to the development of a medium to long-term growth foundation in shopping districts and city centers, such as projects for developing facilities that capture foreign tourist demand, and projects for introducing high-security IC point cards to stimulate consumer spending in shopping districts. (New)

Section 4 Support for market and demand cultivation

**1. Micro business promotion program
[Fiscal 2016 budget: ¥5.15 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 Revised Small Business Support Act, and support was provided for the formulation of business plans and market development in consideration of demand by micro-businesses (no. of undertakings selected: 659).

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: 61; production businesses: 86 (first year) and 24 (second year)).

**2. Support for cultivation of markets through exhibitions, business meeting events, and other events
[Included in SMRJ subsidy program]**

SMRJ provided 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 2016 budget: ¥1.81 billion]

To help SMEs and micro-businesses with few management resources acquire human resources, support was provided in excavating, introducing and retaining human resources that are sought by local SMEs and micro-businesses from within and outside the region. Support was also provided for organizing businesses match-ups, onsite training programs and external seminars, with the aim of developing human resources who will play a central role in SME service industries and manufacturing sites, and human resources could support 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 2016 budget: Included in ¥1 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 2016 budget: ¥8.26 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 2016 budget: ¥6.1 billion]

To support corporate initiatives to improve their employment management and create attractive employment, the subsidy for supporting workplace retention was provided to SME organizations (business cooperatives, etc.) having improvement plans 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. The subsidy was also provided to SMEs and micro-businesses that introduced and implemented a new employment management system by changing their labor agreements and workplace regulations, lowered the job separation rate of their employees, or introduced assistive nursing care devices. Additionally, within this system, a subsidy for the employment management of nursing care workers (April 2016) and a subsidy for the employment management of childcare workers (October 2016) were created, to support business owners of nursing care or childcare services who endeavor to lower the job separation rate of their employees by developing a proper wage system.

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 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, business owners in the nursing and construction 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 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 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 2016 budget: ¥9.94 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. Extension of the tax system to promote employment [Taxation scheme]

A tax measure was implemented that provides corporate entities satisfying a certain set of requirements a tax credit of ¥400,000 for each additional employee,

where they have created high-quality employment (full-time, indefinite-term employment) in regions where employment opportunities had been lacking (approved employment development promotion regions pursuant to the Act on Promotion of Job Opportunities in Certain Regions) in each fiscal year starting between April 1, 2016 and March 31, 2018.

10. Promotion of employment shifts with no loss of employment [Fiscal 2016 budget: ¥13.2 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.

Funds to assist workers seeking alternative employment (human resource acceptance and development assistance payments) were provided to business owners who have employed workers who fall under a re-employment support plan within three months of their leaving their previous employment as indefinite-term workers, or who have provided training to such workers after employment them.

Furthermore, to ensure steady employment opportunities to workers over the age of 65, funds to assist workers seeking alternative employment (career realization assistance subsidy) were provided to enterprises that offer continued employment even after the age of 65, where they have accepted workers who have transferred from a different company to voluntarily seek a career change, or have provided training to such workers who have transferred from a different company.

11. Welfare Worker Recruitment Project [Fiscal 2016 budget: ¥1.68 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.

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 were designated as “youth support companies” and encouraged in their effort to disseminate information.

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), 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.

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.” 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.

15. Support for SMEs and micro-businesses in raising the minimum wage

[Fiscal 2016 budget: ¥1.1 billion]

The following support measures were provided to increase the productivity of SMEs and micro-businesses, toward raising the minimum wage.

- (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 to industry-specific SME organizations to cover the cost (up to ¥20 million) they required to implement initiatives for increasing productivity, such as by conducting market surveys and developing new business models for expanding their market with an eye to increasing wages.
- (3) Subsidies were provided to SMEs and micro-businesses in 47 nationwide prefectures, to cover part of the capital investment they made to increase labor productivity and increase the wages of workers who work for less than ¥1,000 an hour in their business establishments by ¥60 (subsidy rate of 1/2 (3/4 for micro-businesses with a workforce of 30 or less)).
After the fiscal 2016 second supplementary budget, the subsidy mentioned in (2) above was expanded to include prefecture-level SME organizations within its scope, and the scope and rate of the subsidy mentioned in (3) were also expanded.

16. 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) is being disseminated and promoted in private employment agencies, employment support organizations, personnel management and human resource development departments in companies, and career education in schools. In April 2016, career consultants, who engage in career consulting as a specialty, were designated as a national qualification, and the introduction of a “self career examination” was promoted among enterprises as a scheme for offering regular career consultation opportunities at certain junctions of their employees, such as age, number of years in employment, promotion to a post, etc., to support employee awareness of career development.

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.). Support was also provided to start-up support businesses that engage in designated operations to support startups under the Act on Strengthening Industrial Competitiveness, where they provide startup support (provision of continuous management guidance to business owners who start a business, provision of business skills enhancement training, implementation of co-working space operations, etc.) based on an approved startup support plan, or undertake an initiative to improve their quality of startup support.

2. Support for businesses that support business startups

[Fiscal 2016 budget: Included in ¥850 million]

Support was 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.

3. 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.

4. 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 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 2016, the program has made 149,581 loans totaling ¥75.1 billion.

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 offered loans to candidates who faced difficult circumstances in relaunching their businesses.

6. 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.

7. Improving supply of “risk money” needed when starting a business

The provision of “risk money” that is required when businesses start up or are developed was promoted, through the use of the Innovation Network Corporation of Japan (INCJ), the Development Bank of Japan (DBJ) and the Shoko Chukin Bank.

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 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 95 cumulative funds with a total

cumulative investment of ¥160.9 billion invested in 2,439 enterprises (as of the end of March 2016). The SME Growth Support Fund now consists of 86 cumulative funds with a total cumulative investment of ¥528.8 billion invested in 987 enterprises (as of the end of March 2016).

9. Program for strengthening cooperation in the global venture ecosystem

[Fiscal 2016 budget: ¥410 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, and create networks with local parties, by sending them to Silicon Valley and other such locations that lead the world as advanced innovation regions. 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.

10. Business Startup Schools

[Fiscal 2016 budget: Included in ¥850 million]

Nationwide support organizations held 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 was also held among those who participate in the schools.

11. 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 2017, the scheme has been used to invest a total of around ¥15.6 billion in 703 companies.

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. From the establishment of the system in fiscal 2013 through to the end of January 2017, six investment plans based on the venture fund have been approved.

13. 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 Act on Strengthening the Management of SMEs, etc.

14. Construction of startup support system in the regions

To realize overseas market cultivation by SMEs, support was 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.

15. Subsidies for business generating regional economic activity

[Fiscal 2016 budget: Included in ¥2.61 billion]

To support the startup of region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) through the collaboration of industry, academia, financial institutions and government, subsidies were granted to cover part of the cost of subsidies provided by local public organizations for expenditure required by private sector businesses at the business establishment phase. Additionally, from fiscal 2016, a next-generation collaborative startup support program was established, which supports the startup of businesses that utilize ideas from local high school students and other young people who bear the future of their region, so that the future generation could feel greater affinity to their region and become an integral part of their local community.

16. Construction of support networks among female entrepreneurs

[Fiscal 2016 budget: Included in ¥200 million]

Business startups by women were supported by creating female entrepreneur support networks composed mainly of local financial institutions, industrial support organizations, and startup support organizations, in ten nationwide locations, and holding

events to spread the knowledge of entrepreneurship to potential entrepreneurs in each region. Furthermore, within each network, a framework was 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.

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 was 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.

18. SME and micro-business management enhancement loan/guarantee program

[Fiscal 2016 budget: ¥1.6 billion]

[Fiscal investment and loan program]

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 for women, young people and senior business startups) for business startups, businesses diversification, and changes of business.

Section 7 Support for business succession

1. Business succession support

[Fiscal 2016 budget: Included in ¥5.84 billion]

Business Succession Support Centers established within an approved support organization in each prefecture provided information and advice on business succession to SMEs and micro-businesses facing the problem of lack of successor, and also provided support for business match-ups through M&A and other such schemes. Between April and December 2016, the centers responded to 4,688 consultations and successfully resolved 311 cases.

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 2016, 1,054 approvals had been granted for inheritance tax and 686 approvals had been made for gift tax.

3. Small Enterprise Mutual Relief System

The Small Enterprise Mutual Relief System is a system in which small enterprise owners and corporate officers pay installments that are put aside and paid out as mutual relief money when they enter the market or retire from business. It is essentially a retirement allowance system for managers of small enterprises. As of the end of December 2016, the system had a membership of 1.315 million, and as many as 72,000 new members from April to December 2016.

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. By the end of December 2016, 135 confirmations of qualification for this special treatment had been granted by the Minister of Economy, Trade, and Industry.

5. Support to facilitate business successions [Included in SMRJ subsidy program]

For wide-ranging and in-depth support for SME business successions throughout Japan, 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

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). Special provisions were stipulated under the Factory Location Act, a low-interest loan program operated through JFC was offered to SMEs, and tax allocations were provided to

local governments taking steps to attract enterprises to their regions. Additionally, as the law stipulates a review of its status of enforcement within ten years of its enforcement and the implementation of necessary measures based on the result of the review, a meeting of a regional economy and industry committee of the Industrial Structure Council was held to begin discussions toward a review of the law.

2. Subsidies for business generating regional economic activity

[Fiscal 2016 budget: ¥1.61 billion]

To support the startup of region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) through the collaboration of industry, academia, financial institutions and government, subsidies were granted to cover part of the cost of subsidies provided by local public organizations for expenditure required by private sector businesses at the business establishment phase. Additionally, from fiscal 2016, a next-generation collaborative startup support program was established, which supports the startup of businesses that utilize ideas from local high school students and other young people who bear the future of their region, so that the future generation could feel greater affinity to their region and become an integral part of their local community.

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, enterprises were encouraged to relocate their head office functions (offices, research institutions, training centers) from Tokyo to the regions or to expand their business in the regions, by giving certified enterprises 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), and offering enterprises that create employment in the region a special measure under the taxation scheme to promote employment and a local tax grant related to strengthening regional corporate centers. The fiscal 2016 tax reform made it possible for the taxation scheme to promote employment to be applied in combination with the tax credit that is offered in cases where payments of employee salaries, etc. have increased, upon taking certain adjustment measures.

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 was 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 provided hands-on support for formulating business strategies, cultivating markets, and other such business activities. Furthermore, a Global Network Council was established, composed of global coordinators who are experts in businesses that are suitable for the global market, to support the formulation of business strategies and the cultivation of markets with an eye to the global market.

5. Promotion of initiatives for the creation of regional core city spheres

[Fiscal 2016 budget: Included in ¥130 million]

Projects to support the creation of regional core city spheres were commissioned under national expenditure, and regional fiscal measures were applied to core cities and municipalities that have formulated a regional core city sphere vision, to support initiatives that contribute to driving economic growth in the sphere as a whole, consolidating and strengthening high-level city functions, and improving lifestyle-related functions and services. As of the end of January 2017, regional core city spheres have been created in 17 regions.

6. 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 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 2016, loans were provided to 48 enterprises, worth a total of ¥5.4 billion (as of the end of January 2017).

7. Taxation scheme for expanding the tax-free system to foreign tourists visiting the regions

[Taxation scheme]

The tax-free system for foreign tourists was expanded under the fiscal 2016 tax reform. The minimum purchase amount for tax-free sales was lowered, and where a large-scale retail store is located within

a shopping district and is a member of the shopping district, a measure was 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.

8. 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 were provided loans 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. In fiscal 2016, 26 loans were provided, worth ¥2.2 billion (as of the end of January 2017).

9. Support program for increasing unit consumption price in globalizing regions

[Fiscal 2015 supplement budget: ¥100 million]

Support was provided to initiatives that aim to integrate regional commercial and service industries as a means for exploring and testing new services that accommodate the preferences of foreign tourists who are hoped to visit and spend money in the regions, and for creating a unified cityscape (service-scape) that would stimulate their consumption.

10. Program for the formulation of regional advancement plans using tourist resources, etc.

To advance the regional tourist industry, efforts have been made to formulate specific visions of tourist sites and master plans that include a business model, and to formulate plans for bringing excitement to cities centered on stadiums and arenas.

Chapter 6 Development of the business environment

Section 1 Cash-flow assistance and business generation support

1. Safety net loans

[Fiscal investment and loan program]

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 and micro-businesses 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 supplementary budget, an interest rate incentive was given to support the cashflow of SMEs and micro-businesses preparing against risks such as of the unsteady global economy, where they receive management support from a certified support organization or engage in initiatives to maintain and/or increase employment amid difficult business conditions. In fiscal 2016, approx. 110,000 loans were made with worth a total value of ¥2 trillion (as of the end of December 2016).

2. Managerial Improvement Loans (Marukei Loans) for micro businesses

[Fiscal 2016 budget: Included in ¥4 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. (In fiscal 2016, a total of 36,863 loans were provided with a total value of ¥218.7 billion (as of the end of January 2017)). (Cited earlier)

3. 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 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.

(In fiscal 2016, a total of 205 loans were provided with a total value of ¥1.97 billion (as of the end of January 2017)). (Cited earlier)

4. Promotion of subordinated lending

[Fiscal 2016 budget: Included in ¥15.8 billion]

[Fiscal investment and loan program]

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. In fiscal 2016, approx. 900 subordinated loans were provided, worth a total value of approx. ¥51.4 billion (as of the end of January 2017).

(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.

5. SME and micro-business management enhancement loan/guarantee program

[Fiscal 2016 budget: ¥1.6 billion]

[Fiscal investment and loan program]

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 for women, young people and senior business startups) for business startups, businesses diversification, and changes of business. (Cited earlier)

6. Encouragement of refinancing guarantees

[Fiscal 2016 supplementary budget: ¥12.5 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 2016 (up to the end of December 2016), 133,276 refinancing guarantees were approved, worth a total value of ¥2.56 trillion.

Additionally, a refinancing guarantee program that allows changes and improvements in loan conditions was created, to support SMEs facing difficulty in receiving forward-looking loan support even though their managers have the motivation to improve business, through a relaxation of repayment conditions.

7. Safety-net Guarantees

Credit guarantee corporations provided guarantees separate from ordinary guarantees to SMEs experiencing a management instability due to a

bankruptcy of their business partner, a natural disaster, or the streamlining of operations by their main financial institution (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans).

In fiscal 2016, the guarantee was applied in the wake of the Kumamoto Earthquake (Safety-net Guarantee No. 4) and the restrictions placed on production activities accompanying the unfair practice by Mitsubishi Motors Corporation.

Safety-net Guarantee No. 5 was provided to SMEs in designated industries that satisfy certain criteria such as a decrease in sales, on an ongoing basis. In fiscal 2016, 21,696 guarantees were approved, totaling ¥469.9 billion (as of the end of December 2016).

8. Management support by credit guarantee corporations

[Fiscal 2016 budget: ¥1.2 billion]

Credit guarantee corporations provided management support such as through the dispatch of experts, to users of credit guarantee corporations, (potential) entrepreneurs planning to utilize a credit guarantee corporation, and SMEs and micro-businesses that engage in management improvement, in cooperation with regional financial institutions, in combination with cash-flow support.

In fiscal 2016 (as of the end of December 2016), experts have been dispatched in approximately 13,000 cases.

9. 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 on Strengthening the Management of SMEs, etc., the program defrayed part (two-thirds) of the costs incurred by those activities. As of the end of December 2016, 6,467 consultations were received, including 1,772 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 December 2016 to 38,543, including 12,769 cases in which the formulation of reform plans has been completed.

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 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 2016 and the end of December 2016, the councils received 1,204 consultations and formulated 567 revitalization plans, for a total of 38,170 consultations and the formulation of 11,618 revitalization plans from their inception to the end of December 2016.

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 were implemented to support financing, along with special provisions for permissible succession.

To the end of December 2016, three such cases were approved, for a total of 39 cases since the system was established based on the Act on Special Measures concerning Industrial Revitalization (June 2009).

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 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 December 2016, 48 funds have been established, amounting to approximately ¥150.3 billion in total. By the end of December 2016, the funds have invested approximately ¥81.1 billion in 397 companies.

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 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.

The financing and guarantee systems independent of business owner guarantees by public sector financial institutions created or enhanced in fiscal 2013 were revised to further promote their use. Additionally, the guidelines were disseminated to SMEs and micro-businesses via direct mail and SNS.

14. Enhanced management support for financial administration among SMEs

Based on the financial monitoring policy, financial

institutions were 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.

15. Creation of a new low-cost trade insurance for corporate entities related to agriculture, forestry and fisheries

The SME export credit insurance that is appreciated by SMEs for its low premium rate was expanded to include corporate entities related to agriculture, forestry and fisheries in its scope. (New creation of the SME agriculture, forestry and fishery export credit insurance.)

16. Support for SMEs in Okinawa

[Fiscal investment and loan program]

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.

17. 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 2016 to SMEs and micro-businesses that adopt the “Basic procedures” as their accounting rule.

Section 2 Enhancing financial capacity

1. Lowering of reduced tax rates

[Taxation scheme]

A measure was taken to lower the rate of corporate tax (19%) incurred on annual income amounts up to ¥8 million to 15%.

2. SME investment promotion tax system

[Taxation scheme]

Under this system, 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) was offered for the price of acquiring machinery or equipment. It also allowed for immediate depreciation or provided a 10% tax credit (7% for corporate entities with a capital of more than ¥30 million) for

the acquisition of machinery and equipment that leads to productivity improvement.

3. Special scheme for inclusion of petty sum depreciable assets of SMEs in expenses

[Taxation scheme]

The special provision allowed enterprises that acquired petty sum depreciable assets (worth less than ¥300,000 in acquisition cost) to include the assets in expenses (limited to a total of ¥3 million a year) (with the exception of enterprises with more than 1,000 employees).

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 one-year carryback refund allowed losses arising in the current business year to be carried back a year, and a return on corporate tax to be filed.

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).

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 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 2016 budget: ¥3.21 billion]

To ensure that consumption tax is passed through appropriately, “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 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]

Support was provided 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 was provided to SMEs in the retail trade industry, and (2) support for system renovations was provided to SMEs in the retail trade and wholesale trade industries that use electronic ordering systems that are not compatible with multiple tax rates.

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 was provided in cooperation with SME organizations, etc. Seminars and forums were held, consultation desks were established, specialists were dispatched to provide itinerary guidance, and such support measures were disseminated via pamphlets and other such media. Support was also provided through the operation of cost pass-through consultation desks.

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 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 2016, 425,000 companies were enrolled in the system, with 38,000 new subscribers in the period from April 2016 to end of December 2016 and new loans totaling ¥4.32 billion.

2. Special Business Stability Consultation Centers

[Fiscal 2016 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

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.

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. The AD investigation into South Korean and Chinese manufactured potassium hydroxide that was begun in May 2015 was completed in August 2016, and the AD program was implemented. The AD investigation into polyethylene terephthalate with a high degree of polymerization originating in China that was begun in September 2016 is also being pursued fairly and appropriately based on international rules and Japanese laws and regulations. Furthermore, studies were conducted to ensure that investigations are consistent with WTO conventions, and information sessions were held for enterprises.

Section 6 Measures concerning public demand

1. Formulation and dissemination of the “FY 2016 Policy on State Contracts with Small and Medium Enterprises”

[Fiscal 2016 budget: Included in ¥990 million]

On August 2, 2016, Cabinet approval was given on the Basic Policy on State Contracts with Small and Medium Enterprises, which sets 55.1% as the target contract ratio of among SMEs and micro-businesses and calls for roughly doubling the ratio of state contracts with new SMEs over the three years from fiscal 2015 to 2017, compared fiscal 2014 (estimated at around 1%). Measures for increasing opportunities for SMEs to receive orders were also incorporated in the Basic Policy, including a measure to give consideration to SMEs and micro-businesses that were affected by the Kumamoto Earthquake, a measure for the Small and Medium Enterprises Agency to interview agencies with a significantly low rate of contract implementation ratio regarding the improvement initiatives, and a measure for promoting the proper utilization of the system for examination of low bids when local public corporations place an order for services.

The following initiatives were implemented to fully disseminate the Basic Policy.

- (1) The Minister for Economy, Trade and Industry explained the purport of the Basic Policy in writing to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards (1,818 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 (Councils to Promote Procurement from new SMEs) 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 Information 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 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 7 Promotion of human rights awareness

1. Human rights awareness

[Fiscal 2016 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 2016 budget: ¥2.03 billion]

Support was provided for initiatives in which agriculture, forestry and fishery businesses 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) Comprehensive measures for the utilization of geographical indications

[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.

- (4) Comprehensive program to promote renewable energy to revitalize rural areas

[Fiscal 2016 budget: ¥100 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 2016 budget: ¥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 2016 budget: ¥4 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) Subsidy for Establishment of a Next-generation Forestry Foundation (Subsidy for Establishment of the Foundation for Forest and Forestry Regeneration [Development of lumber processing and distribution facilities])

[Fiscal 2016 budget: ¥6.14 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 for the creation of a supply chain.

- (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: Included in ¥22.84 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 measures were taken 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 measures were also taken for assessing and examining regional issues, formulating specific plans, and rationalizing employees.

(5) Support for strengthening the food quality management framework

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

[Fiscal 2016 budget: ¥1.48 billion]

(Objectives of the measure)

- To implement initiatives for the promotion of exports in line with the “Strategies for Strengthening the Export Competitiveness of the Agriculture, Forestry and Fishery Industries” (compiled in May 2016 by the Headquarters on Creation of Regional Vitality in Agriculture, Forestry, and Fisheries) through private-public cooperation toward achieving the target of ¥1 trillion in exports by 2019.

(Overview of the measure)

- Through subsidies to JETRO, comprehensive business support was provided for upstream to downstream operations of export businesses.
- Opportunities for direct negotiations between Japanese businesses and overseas buyers were provided by establishing a Japan Pavilion in overseas trade fairs that are held in countries and regions where export is strongly expected to increase in the future.
- Major buyers from overseas were invited to business conventions in Japan to deepen their understanding of the characteristics of Japanese product categories and their safety through onsite inspections of wholesale markets and production regions, to promote effective business talks.
- Marketing bases (in-store shops) for marketing and promoting Japanese products were established in countries and regions where export from Japan is strongly expected to increase in the future, to sell products of Japanese businesses on a test basis and provide feedback of local responses.

(Changes from fiscal 2015)

- Public invitation was widely given to businesses that engage in export, including private sector businesses, to take part in “marketing centers in emerging markets,” which test-market the products of such businesses and provide feedback of local responses, and the centers were established in an increasing number of locations. Additionally, major buyers from overseas were invited to business conventions held in Japan, to deepen their understanding of the characteristics of Japanese product categories and

their safety through onsite inspections of wholesale markets and production regions, to promote effective business talks.

(7) Measures for export businesses

[Fiscal 2016 budget: ¥840 million]

(Objectives of the measure)

- To implement initiatives for the promotion of exports in line with the “Strategies for Strengthening the Export Competitiveness of the Agriculture, Forestry and Fishery Industries” (compiled in May 2016 by the Headquarters on Creation of Regional Vitality in Agriculture, Forestry, and Fisheries) through private-public cooperation toward achieving the target of ¥1 trillion in exports by 2019.

(Overview of the measure)

- Export organizations for each export category including marine products, rice and rice products, flowers, animal products, forestry products (wood) and fruits 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.
- Organizations that coordinate major export production regions and related business in Japan that handle diverse processed foods, and organizations that coordinate multiple product categories in regional blocks implemented discussion meetings in Japan, overseas market surveys and initiatives for cultivating markets overseas, with the objective of achieving stable supply throughout the year or on a long-term basis.
- To respond to quarantine requirements that are 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 2015)

- Within the initiatives for establishing the Japan brand, the subsidy rate for discussion meetings in Japan was changed from a fixed rate to 1/2, and the subsidy rate for management of category-specific logo marks was changed from a fixed rate to 3/4.

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: ¥3.2 billion]

To develop the agriculture, forestry, fishery and food industries into growth industries, R&D in those sectors, from the basic to applied stages, were seamlessly promoted through industry-academia collaboration.

(2) Various forms of lending by JFC

Loans were provided for (1) the improvement of the

management of designated agricultural processing businesses, (2) the promotion of new applications of designated agricultural, forestry and livestock products or the adoption of new raw material species for processing, (3) the establishment of stable transaction relationships between food manufacturers and agriculture, forestry and fishery businesses and the development of agricultural, forestry and fishery facilities, (4) the improvement of dairy facilities, and (5) the strengthening of the corporate structure of seafood manufacturers.

Section 2 Measures for SMEs in the transport industry

1. Support for the warehousing industry

To meet the need for increasingly sophisticated and diversified physical distribution services and the shortage of truck drivers as a response to changes in the socioeconomic environment, the Law for Integration and Improvement of Physical Distribution was amended, and the development of warehouses that serve both transport and storage functions was promoted, in the effort to save labor and increase efficiency of physical distribution services.

Additionally, to promote low-carbon warehouses, ongoing support was provided for the introduction of energy-saving facilities.

2. 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.

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 were held in eight locations nationwide, and a health and safety manager training course was also held to help prevent industrial accidents.
- (2) Most of the shipyards and shipbuilders on the Pacific coast of Tohoku suffered devastating damage in the Great East Japan Earthquake. The Ministry of Land, Infrastructure and Transport, in cooperation with the SME Agency and other relevant ministries and agencies, have supported the utilization of various support programs to promote the prompt recovery and reconstruction of local shipbuilding industries that support the fishery industry that is a core industry in the region. For shipbuilding businesses that face difficulties in resuming operations at the same level as

before the earthquake due to ground subsidence, the Subsidy for Projects that Support the Reconstruction of Shipbuilding Businesses, etc. was established in fiscal 2013 to support the development of shipbuilding facilities toward the full-scale reconstruction of the shipbuilding industry through business cooperation and integration. By the end of fiscal 2014, a total of 19 businesses in 8 projects were selected to receive a subsidy (¥11.42 billion in total). As three of those subsidized businesses have been completed by the end of fiscal 2016, support will be provided for the proper implementation of the remaining 5 businesses, toward the prompt reconstruction of the shipbuilding industry in Tohoku. (2) Subsidy for reconstruction assistance projects in the shipbuilding industry

- (3) Subsidies were provided for 34 research and development projects (including 9 involving the participation of SMEs) for marine resource development technologies that contribute to the strategic growth of Japan's maritime industries, world-leading marine environment technologies for reducing CO2 from vessels, and technologies for productivity improvement in the construction and operation of ships in Japan's maritime industry. (3) Subsidy for R&D for technologies related to the maritime industry
- (4) Sector-specific guidelines were formulated for the shipbuilding and marine equipment industries based on the Act on Strengthening the Management of SMEs, etc. that was enforced in July 2016, and 31 management improvement plans formulated by SMEs and micro-businesses in line with the guidelines were approved (as of the end of January 2017), so that they can receive tax benefits and other support measures. [Taxation]
- (5) Trial projects that were launched in fiscal 2015 through the regional cooperation of SME shipbuilding businesses were implemented, including shipyard internships for high school and university students and educational shipbuilding workshops for high school teachers, and a guidance was compiled for strengthening the network between local shipbuilding enterprises and educational institutions. Additionally, as a new initiative, a teaching material was created that presents the attractiveness of the shipbuilding industry to high school students, to strengthen shipbuilding education. As an urgent and temporary measure from April 2015 to the end of fiscal 2020, a program for accepting foreign shipbuilding workers was implemented, 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 1,900 foreign workers worked in the shipbuilding industry as of the end of December 2016. (4) Acquisition 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 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 provided 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 was 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 was visualized based on knowledge acquired through priority support initiatives and revitalization support advisors, and a “production management model” for the construction industry was created in reference to productivity improvement initiatives that was implemented in other industries but was applicable to the construction industry, for utilization also in the support scheme of this program. Additionally, seminars and individual consultations were held to provide knowledge of best practices and production management models, and efficient and effective online education programs and methods were developed and administered on a test basis.

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 was implemented, 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. 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 2016 budget: ¥70 million]

To support overseas expansions by second-tier and SME construction companies, seminars on overseas expansion strategies intended for business managers were held in 5 locations in Japan, and missions were dispatched to Vietnam and Myanmar. Additionally, support was provided for participation in a trade fair in Vietnam, practical seminars on overseas construction industries were held in Japan, and initiatives were implemented for introducing the latest information via a database of overseas construction and real estate markets.

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 2016 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 2016 budget: ¥510 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 2016 budget: ¥1.03 billion]

Subsidies were 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, the management improvement of environmental sanitation businesses was supported by collecting and compiling a collection of best practices that contribute to improving productivity, and placing particular focus on implementing model projects (model projects for productivity improvement of environmental sanitation businesses) that offer detailed management consultation and guidance in response to the conditions, size and regional characteristics of each business.

2. Loans for ES businesses

[Fiscal 2016 budget: ¥2.5 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. In fiscal 2016, the scope of the loan for working capital related to earthquake resistance was expanded, and under the fiscal 2016 supplementary budget, financial support was provided to environmental sanitation businesses that were affected by the Kumamoto Earthquake, the interest rate on loans was lowered to enterprises endeavoring to maintain or expand employment and enterprises receiving management support, and the interest rate was also lowered on loans for responding to inbound demand.

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 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. Environment and Energy Measure Fund (for anti-pollution measures)

[Fiscal investment and loan program]

To promote anti-pollution measures by SMEs, the JFC provides special interest rate loans to businesses that install pollution prevention equipment. In fiscal 2016, the period of the scheme was extended to 31 March 2017 upon conducting a necessary review.

(In fiscal 2016, funds worth ¥221 million were provided to 8 projects related to atmospheric pollution, funds worth ¥106 million were provided to 3 projects related to water pollution, and funds worth ¥2.952 billion were provided to 42 projects related to industrial waste and recycling (as of the end of January 2017).

3. Anti-pollution tax system [Taxation scheme]

The anti-pollution tax system supports the antipollution 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 system was continued to be implemented in fiscal 2016.

4. Energy Use Rationalization Business Support Subsidy

[Fiscal 2016 budget: ¥51.5 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. Particular focus was placed on supporting high-level energy-saving initiatives that strengthen compliance with the Energy Conservation Act, such as the introduction of a benchmark system based on the Act.

5. Subsidy for programs that promote the installation of designated equipment to rationalize energy use

[Fiscal 2016 budget: ¥2.7 billion]

To promote the introduction of top-runner equipment based on the Energy Conservation Act and other energy-saving facilities, 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.

6. Program for promoting the introduction of energy-saving measures

[Fiscal 2016 budget: ¥750 million]

The program aimed to laterally expand the use of energy-saving measures by diagnosing the energy and power saving potential of SMEs and medium businesses free of charge and widely disseminating information on specific diagnosis case examples and technologies.

Additionally, to promote energy-saving initiatives that were proposed through the diagnosis program, platforms for providing detailed consultation on energy conservation in each region in consideration of the business conditions of SMEs was established in 19 locations.

7. 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 extended two years under the fiscal 2016 tax reform upon conducting a necessary review, which resulted in an addition of geothermal and woody biomass power generation facilities and excluding designated photovoltaic power generation

facilities.

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 was provided from the low-carbon investment promotion fund.

9. Eco-Lease promotion program

[Fiscal 2016 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.

10. Eco-Action 21

Eco-Action 21 has approved and registered 7,716 businesses as of the end of December 2016. An examination for the revision of the Eco-Action 21 Guidelines was continued, to increase the effectiveness of environmental management by second-tier businesses and SMEs and contribute to enhancing their corporate value. Additionally, a demonstration test was launched with the aim of introducing Eco-Action 21 to the value chain of large enterprises, and a support program was launched toward the introduction of an environment management system dedicated to CO₂ reduction based on the Eco-Action 21 scheme. In fiscal 2016, 157 second-tier enterprises and SMEs introduced an environmental management system.

Section 2 Measures on intellectual property

1. Surveys of technical trends of patent application

[Fiscal 2016 budget: Included in ¥900 million]

Trends in patent applications were surveyed, to assist in the formulation of R&D strategies and IP strategies in Japan’s industries. In fiscal 2016, 16 themes were surveyed, related to technical fields that are garnering social attention, such as smart manufacturing technologies, and technical fields that embody Japan’s strengths, such as the GAN power device technology. The results of the surveys were made publicly available via such sources as the Japan Patent Office’s website.

2. Subsidy for international patent applications

[Fiscal 2016 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 2016 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.

In fiscal 2016, 63 information sessions for beginners were held in 47 prefectures, and 62 information sessions for working-level personnel were held in major cities throughout Japan.

4. Program supporting measures by SMEs 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 were subsidized through JETRO. This measure was applied to 20 cases. The cost of consulting with a lawyer consultation and the cost of a lawsuit were also subsidized in cases where an SME is sued by a local enterprise overseas for an infringement of intellectual property rights. This measure was applied to 2 cases. Additionally, from fiscal 2016, a new measure was implemented to subsidize the cost of filing an opposition or filing a request for a trial for invalidation in cases of an usurped application of the brand trademark of an SME or a regional organization by a local overseas enterprise, or the cost required for filing a request for a trial for rescission such as of an usurped trademark. This measure was applied to 10 cases.

5. Patent strategy portal site

[Fiscal 2016 budget: Included in ¥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 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 2016, as many as 15,582 businesses applied for accelerated examination, and 187 businesses applied for accelerated appeal examination (as of the end of January 2017).

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 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 such as “Yorozu support centers” and similar organizations.

In fiscal 2016, the program was placed under the management of the National Center for Industrial Property Information and Training (INPIT), to strengthen cooperation with its Trade Secret and IP Strategy Consultation Desk and Overseas Expansion IP Support Desk. Furthermore, the scope of support was expanded, such as by augmenting specialists who provide support in regard to employee invention regulations, cooperating with the Japanese Standards Association (JSA) in providing advice on standardization, and responding to consultations about the geographical indications protection

system and other IP consultations related to the agriculture, forestry and fishery industries, while also strengthening the support framework to also include medium enterprises within the scope of support.

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 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 2016 budget: Included in ¥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.

In fiscal 2016, continued efforts were made to further expand the content (No. of content items as of the end of January 2017: 1,765).

11. Dispatch of Global IP Producers

[Fiscal 2016 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 2016, seven Global IP Producers provided support to 262 businesses (as of the end of January 2017).

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 were held by inspectors sent to interview venues across Japan, and TV interview examinations were held via the Internet using the applicants' own PCs. Additionally, a region-based patent promotion program was launched, in which an onsite interview examination and seminar on patent rights are held at the same time, intended for corporate cluster regions, such as research parks and universities, where local SMEs, venture enterprises, and research facilities are concentrated.

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 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 2016 budget: ¥100 million]

A comprehensive initiative that promotes financing by financial institutions based on intellectual properties was implemented, such as by providing IP business assessment documents that contain easy-to-understand information about businesses that utilize SME patents and other intellectual properties to financial institutions that find it difficult to assess the patents and intellectual properties of SMEs. Support was provided for the creation of 150 IP business assessment documents.

15. Program for promotion of businesses that utilize Japanese intellectual properties

[Fiscal 2016 budget: ¥360 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, SMEs and regional organizations that have acquired a regional collective trademark.

(1) Candidate partners of license businesses with Japanese enterprises possessing outstanding intellectual properties were listed up through a survey, and the information was utilized in business meetings mentioned in (2) and (3) below.

(2) Support was provided for the creation of business models and the formulation of brand strategies that lead to license businesses overseas, and events and business opportunities were provided via seminars and training programs in Japan held by specialists and multiple occasions for individual interviews overseas.

(3) Support was 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 was 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 were 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 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, Bureaus of Economy, Trade and Industry sought pioneering and advanced initiatives for supporting intellectual properties from highly motivated regional support organizations, and support was provided to 26 initiatives, including the support that was newly established in fiscal 2016 for initiatives that seek to resolve priority issues that are difficult to be resolved uniformly by the government.

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 was established and operated by a membership of nationwide SMEs, to provide funds to cover for the cost of IP lawsuits overseas.

Subsidies were 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 encouraged subscription by SMEs.

18. Dispatch of business producers for regional revitalization

[Fiscal 2016 budget: Included in ¥100 million]

With the objective of expanding business functions in the regions, three “business producers” were dispatched to three institutions to 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.

19. 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. In July 2016, a service (one portal dossier (OPD)) was launched on J-PlatPat, to allow users to acquire information on PCT international patent applications and the procedures and examination of patent applications (dossier information), in addition to information on applications to the five major patent agencies in Japan, the U.S., Europe, China and South Korea.

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 (FOPISE) 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.

The services are available free of charge via the Internet.

Section 3 Promotion of standardization

1. Promotion of the strategic utilization of standardization by medium enterprises and SMEs

From among the proposals made by medium enterprises and SMEs by utilizing the Standardization System for New Market Creation that is based on the 2016 revision of the Japan Revitalization Strategy (approved by the Cabinet on June 2, 2016) and IP Promotion Plan 2016, standards have been formulated for 5 proposals as of the end of February 2017. 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 increasing the number of partner institutions of the Standardization Support Partnership System to 118 institutions as of the end of fiscal 2016, to provide information and advice concerning the strategic regional utilization of standardization in all 47 prefectures. Also under the system, 147 seminars were held on the strategic utilization of standardization by medium enterprises and SMEs, as of the end of fiscal 2016. Furthermore, to promote cooperation between JETRO and testing/certification institutions, the support framework for the acquisition of overseas certification by SMEs was strengthened.

Section 4 Promotion of surveys and public information activities

1. Publicizing of policy

To publicize SME policy, guidebooks 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 portal site for SME support (Mirasapo) and organizing “One-day SME Agency” events.

(1) Publication of booklets

Guidebooks and leaflets 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. 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 Fukuoka prefecture in fiscal 2016.

(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 2016, 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 90,000 registered readers (as of the end of December 2016).

- (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: 117,000 enterprises; Mirasapo e-mail newsletter subscribers: approx. 88,000 enterprises; as of January 2017).

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) 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 (2016 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 2017



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Note: The quantities, amounts of money and other figures in this document are approximate and may be changed in the future.

Chapter 1 Initiatives for strengthening management and increasing productivity

Section 1 Enhancement of productivity improvement and technological capacity

1. Strategic Core Technology Advancement Program and support program for collaborative efforts [Fiscal 2017 budget: ¥13 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 will also be provided to SMEs and micro-businesses in their effort to develop a new service model based on industry-academia-government collaboration, in line with a cross-field collaboration plan for cultivation of a new business field that has been approved under the Act on Strengthening the Management of SMEs, etc. (Ongoing)

2. 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 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)

3. 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 have been formulated in accordance with the advancement guidelines under the SME Technological Advancement Law. (Ongoing)

4. R&D promotion tax system (for strengthening the technological bases of SMEs)

[Taxation scheme]

Under the FY2017 tax reform, the tax credit that has been offered in accordance with the total cost of testing and research expenses undertaken by SMEs will be revised into a scheme that offers a tax credit at a rate

(12% to 17%; 6% to 14% for large enterprises) that corresponds to the rate of increase of such expenses, and a measure will be introduced that provides an additional 10% tax credit to the upper limit in cases where testing and research expenses increase by more than 5%. Furthermore, the costs of services development as part of the fourth industry revolution will be included among the testing and research expenses eligible for the tax credit. In addition to the above, the scheme that offers a tax credit on the total cost of special testing and research expenses (testing and research performed jointly or entrusted to a university, a national institution or enterprise), and the 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, will continue to be offered. (Ongoing)

5. 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 will be offered by the Japan Finance Corporation (JFC). At the same time, the multistage selection process for the allocation of special subsidies will be introduced and expanded. (Ongoing)

6. Cross-field collaboration for new business development

Pursuant to the Law Concerning Measures for the Promotion of Creative Business Activities by Small and Medium Enterprises, authorization and subsidies 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, in addition to providing wide-ranging support through special loans and guarantees. (Ongoing)

7. Program to promote business creation through medical-engineering collaborations
[Fiscal 2017 budget: ¥3.45 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 will be provided. In fiscal 2017, support will also be provided for the commercialization of approximately 40 items of medical equipment through a development and demonstration program, to promote the development of medical equipment through collaborations between manufacturing SMEs and medical institutions. (Ongoing)

8. Enterprise vitality enhancement funding (in relation to the Manufacturing Act)
[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)

9. Act for Strengthening the Management of SMEs, etc.

Continued measures will be taken to provide taxation and financial support to SMEs that have formulated an approved management capability enhancement plan based on the Act for Strengthening the Management of SMEs, etc., such as through the scheme for reducing the fixed assets tax and the loan system of the Japan Finance Corporation (a 0.9% cut from the base interest rate for equipment funds). Additionally, under the FY2017 tax reform, equipment, fixtures and building accessories will be included under the scope of the scheme for reducing fixed assets tax, for specified regions and industries. (Ongoing)

10. Taxation scheme for strengthening the management of SMEs [Taxation scheme]

A scheme will be newly created under the FY2017 tax reform, to provide SMEs that have an approved plan under the Act for Strengthening the Management of SMEs, etc. an immediate depreciation deduction or a 10% tax credit (7% for enterprises with a capital of more than ¥30 million) for their acquisition of facilities needed to strengthen their management capabilities. (New)

Section 2 Promotion of IT

1. IT utilization promotion fund
[Fiscal investment and loan program]

In the light of slow investments in security, low-interest loans will be provided to enterprises that implement

information security measures accompanying IT investments, beginning in fiscal 2017. (Ongoing)

Section 3 Support for sustainable development of micro businesses

1. Micro business promotion program
[Fiscal 2017 budget: ¥4.94 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.

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers 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)

2. Managerial Improvement Loans (Marukei Loans) for micro businesses

[Fiscal 2017 budget: Included in ¥4.25 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)

3. Micro business management development support loans

[Fiscal 2017 budget: Included in ¥4.25 billion]
[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)

4. Certification of management development support plans based on the Small Business Support Act

Management development support plans that are formulated and implemented by micro businesses with support from societies and chambers of commerce and industry as part of their “accompaniment” style of support of micro businesses based on the Small Business Support Act, will be certified. (Ongoing)

Section 4 Support for overseas expansion by SMEs

1. Program for supporting overseas expansion by SMEs and micro-businesses

[Fiscal 2017 budget: ¥2.39 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 dissemination of the certificate of origin system based on economic partnership agreements, and local support once companies advance overseas. Enterprises that face a challenge in the management of overseas subsidiaries will also be supported in their effort to formulate business restructuring plans. (Ongoing)

2. JAPAN Brand Development Assistance Program

[Fiscal 2017 budget: Included in ¥1.35 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)

Section 5 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 JETRO, SMRJ, the Shoko Chukin Bank, and SBIC will continue to coordinate their efforts to promote business match-ups, etc. (Ongoing)

2. Funding for overseas expansion and business restructuring operations

[Fiscal investment and loan program]

Loans will be provided by the JFC 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, and SMEs whose business activities in Japan are affected by the poor business performance of their overseas business. (Ongoing)

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 will provide loan guarantees to their overseas subsidiaries for loans from local financial institutions. (Ongoing)

4. Global Niche Market Top Support Lending Facility

[Fiscal investment and loan program]

To support strategic overseas expansion by medium enterprises and SMEs who display a strong presence in the world by excelling in a specific field (global niche leader enterprises) and their candidates, 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 2017 budget: Included in ¥4.17 billion]

The following three initiatives will be implemented to support Japanese companies in acquiring emerging markets. (Ongoing)

- (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) Support 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.

6. Utilization of the private-sector collaborative volunteer program and matchups with returned JICA volunteers

[Fiscal 2017 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)

7. 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 arrangements to bear the cost of providing credit information on business partners required when using trade insurance. (Ongoing)

8. Activities to expand and publicize use of trade insurance by SMEs (creation of a cartoon and video)

Continued efforts will be made to disseminate greater understanding of trade insurance, by showing a video on trade insurance at various trade fairs and information sessions, and distributing cartoon-based pamphlets. (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, the website for SMEs will be renewed. Nationwide 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. The numbers of cooperating institutions have increased yearly, and in fiscal 2013, a Credit Union Network was established with the participation of credit unions. Ongoing efforts will be made to augment such networks. (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 for ensuring 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

[JETRO grant]

“Base of the pyramid” (BOP) business and volume zone business will be promoted, so that growth markets in developing countries can be approached as part of Japanese companies’ growth strategies. Specifically, JETRO will provide consistent support to individual enterprises as appropriate to their business phase, by using local coordinators. 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 local matchup support will be provided, 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. Program for basic studies, feasibility studies, dissemination and demonstration (ODA match-up program for SME products and technologies)
[Fiscal 2017 budget: Included in ¥153 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 2017 budget: Included in ¥163.1 billion]

Products from Japanese SMEs are donated to developing countries based on requests from their governments and development needs, not only to support the development of developing countries, but also to increase recognition of such products. (Ongoing)

15. New Export Nation Consortium

[Fiscal 2016 supplement budget: Included in ¥100.13 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. (Ongoing)

Section 6 Utilization of local resources

1. Program for supporting hometown specialty products [Fiscal 2017 budget: ¥1.35 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.

2. JAPAN Brand Development Assistance Program [Fiscal 2017 budget: Included in ¥1.35 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 2017 budget: ¥4.94 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.

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers 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 2017 budget: ¥1.21 billion]

(1) Based on the Traditional Craft Industries Act, the following support will be provided to promote the traditional crafts industries. (Ongoing)

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) Promotion of production region brands

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 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. (Ongoing)

Section 7 Support for market and demand cultivation

1. Micro business promotion program [Fiscal 2017 budget: ¥4.94 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.

To encourage business expansion by regional micro businesses aiming to target nationwide markets, societies and chambers 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 provide 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. (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 provide 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 outstanding technologies and products. (Ongoing)
- 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 the organization of exchange events led by support centers established in the SMRJ to assist the establishment and operation of Councils for the Revitalization of Central Urban Districts. (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 Central Urban 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 Central Urban Districts 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 specialized know-how. (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, minimize vacant houses and stores, and promote the development of SME subcontractors. (Ongoing)

Section 8 Revitalization of shopping districts and city centers

1. **Comprehensive support for the revitalization of local shopping districts**
Pursuant to the Local Shopping District Revitalization
7. **Program to support commercial revitalization in local communities and town centers [Fiscal 2017 budget: ¥1.78 billion]**
Support will be provided to initiatives such as for providing childcare and elderly care services in

shopping districts, attracting businesses to vacant stores, and developing commercial complexes in city centers. Support will also be provided for the coordinated initiatives of individual stores in a shopping district to cultivate markets and develop new products. (Ongoing)

8. 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, a measure for the acquisition of an immovable property will be implemented that halves the registration and license tax payable when ownership of that immovable property is registered or a transfer is registered. (Ongoing)

Section 9 Strengthening management support frameworks

1. Programs promoting measures to support cooperative SME organizations

[Fiscal 2017 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 will also be 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 consultation 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 2017 budget: ¥5.48 billion]

“Yorozu support centers” will be 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 specialist advisors will be dispatched to deal with

particularly advanced and specific management issues. (Ongoing)

4. Promoting the utilization of local benchmarks

Initiatives that aim to enhance management or increase productivity will continue to be promoted, through business assessments of enterprises utilizing local benchmarks. For example, the establishment of an enterprise support platform and human resource development scheme utilizing local benchmarks will be considered. At the same time, these initiatives will be linked to the policies of relevant ministries. (Ongoing)

Section 10 Other regional revitalization measures

1. Support to encourage enterprises to locate in regional areas

To promote businesses that have a large ripple effect on local economies, such as new businesses that take advantage of regional strengths and are launched in potential growth sectors, based on discussions by a meeting of the regional economy and industry committee of the Industrial Structure Council held in fiscal 2016, a bill for a partial amendment of the Act on Formation and Development of Regional Industrial Clusters through Promotion of Establishment of New Business Facilities, etc. has been submitted to the 193rd ordinary Diet session. Upon passage of the bill, concentrated support will be provided to businesses that drive regional economies in combination with various policy measures such as new taxation and/or subsidy systems, financial measures, and deregulations. (Ongoing)

2. Local 10,000 Projects (Subsidies for business generating regional economic activity)

[Fiscal 2017 budget: Included in ¥1.87 billion]

To support the startup of region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) through the collaboration of industry, academia, financial institutions and government, subsidies will be granted to cover part of the cost of subsidies provided by local public organizations for expenditure required by private sector businesses at the business establishment phase. (Ongoing)

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, enterprises will be

encouraged to relocate their head office functions (offices, research institutions, training centers) from Tokyo to the regions or to expand their business in the regions, by continuing to offer certified enterprises 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), and offering enterprises that create employment in the region a special measure under the taxation scheme to promote employment and a local tax grant related to strengthening regional corporate centers. Additionally, under the fiscal 2017 tax reform, the measure to raise the tax credit rate for office taxes will be extended, the taxation system to promote employment will be enhanced, the requirements for business relocations will be relaxed, and the measure to cover revenue decreases using the local allocation tax will be strengthened. (Ongoing)

4. Program for creation and support of regional core enterprises

[Fiscal 2017 budget: ¥2.5 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. Furthermore, support will be provided for the formulation of business strategies and the cultivation of markets with an eye to the global market, through the Global Network Council composed of global coordinators who are experts in businesses that are suitable for the global market. (Ongoing)

5. Promotion of initiatives for the creation of regional core city spheres

[Fiscal 2017 budget: Included in ¥130 million]

Projects to support the creation of regional core city spheres will be commissioned under national expenditure, and regional fiscal measures will be applied to core cities and municipalities that have formulated a regional core city sphere vision, to support initiatives that contribute to driving economic growth in the sphere as a whole, consolidating and strengthening high-level city functions, and improving lifestyle-related functions and services. (Ongoing)

6. Fund for productivity improvement in the tourism industry, etc.

[Fiscal investment and loan program]

To revitalize the Japanese economy by improving

productivity in the tourism industry, etc. and increasing tourism income, JFC will provide loans to SMEs that provide high-quality services, etc. (New)

7. Loan program for supporting regional core enterprises

[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 by providing long-term, lump-sum repayment and successful interest payment-type loans through a loan program for supporting regional core enterprises via the Shoko Chukin Bank. (Ongoing)

8. Loan system for supporting regional collaborations

[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. (Ongoing)

Chapter 2 Increasing the numbers of vibrant workers

Section 1 Support for new business startups

1. Subsidy for startup support businesses

[Fiscal 2017 budget: Included in ¥1.1 billion]

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 (also in response to startup needs stemming from dual occupations and side businesses) or undertake initiatives to enhance the quality of their startup support services. (New)

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. (Ongoing)

3. Loan Program for Supporting Female, Young, and Senior Entrepreneurs

[Fiscal investment and loan program]

The JFC will apply preferential interest rates to loans offered to women, young people under the age of 35 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)

4. Funding for supporting 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)

5. 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)

6. 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)

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 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)

8. Program for strengthening cooperation in the global venture ecosystem

[Fiscal 2017 budget: ¥350 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)

9. Program for discovery of potential entrepreneurs

[Fiscal 2017 budget: Included in ¥1.1 billion]

Under this program, certification will be granted to business startup schools that offer a certain level of curriculum specified by the government, and support will be provided for the acquisition of basic entrepreneur knowledge. Additionally, a nationwide business plan contest will be held from the perspective of discovering potential entrepreneurs and increasing the number of entrepreneurs throughout the regions in Japan in the future. (New)

10. 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)

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 (restricted to cases in which more than 50% of the amount invested is invested in a venture enterprises located in the regions) to accumulate provisional funding for losses of up to 50% of the amount invested and write off that fund as expenses (review of the accumulation rate of provisional funding and fund requirements under the fiscal 2017 tax reform). 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)

12. 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 Act on Strengthening the Management of SMEs, etc. (Ongoing)

13. 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)

14. Local 10,000 Projects (Subsidies for business generating regional economic activity)

[Fiscal 2017 budget: Included in ¥1.87 billion]

To support the startup of region-based enterprises with large employment absorption capacity by making use of regional assets and funding (drawn from regional financial institutions, etc.) through the collaboration of industry, academia, financial institutions and government, subsidies will be granted to cover part of the cost of subsidies provided by local public organizations for expenditure required by private sector businesses at the business establishment phase. (Ongoing) (Cited earlier)

15. Construction of support networks among female entrepreneurs

[Fiscal 2017 budget: Included in ¥190 million]

To support business startups by women, initiatives to disseminate best practices of support organizations will be strengthened, events for spreading the knowledge of entrepreneurship to potential entrepreneurs will

continue to be held, and a support environment that responds to the wide variety of needs of women will be developed, through female entrepreneur support networks that have been created in ten nationwide locations as of fiscal 2016, composed mainly of local financial institutions, industrial support organizations, and startup support organizations.

Additionally, to promote the development of human resources capable of effectively providing support to female entrepreneurs, a training program will be offered to institutions that compose the networks. (Ongoing)

16. Lifelong startup support subsidy

[Fiscal 2017 budget: ¥350 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. (Ongoing)

17. Subsidy for business startups and succession (Startup)

[Fiscal 2017 budget: Included in ¥1.1 billion]

A subsidy will be provided to entrepreneurs for the cost of starting a business that provides new products or services and creates new demand in the regions. In fiscal 2017, such businesses will be required to create employment for at least one worker during the program implementing period. A maximum of ¥2 million will be provided (¥1 million in cases where external capital has been procured), at a subsidy rate of 1/2. (New)

18. SME and micro-business management enhancement loan/guarantee program

[Fiscal 2017 budget: ¥1.7 billion]

On the premise that support is 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 expansions, and cultivation of new business fields. (Ongoing)

Section 2 Support for business succession

1. Business succession support

[Fiscal 2017 budget: Included in ¥6.11 billion]

Business Succession Support Centers established within an approved support organization in each prefecture will provide information and advice on

business succession to SMEs and micro-businesses facing the problem of lack of successor, and will also provide support for business match-ups through M&A and other such schemes.

In fiscal 2017, cooperation with Business Succession Networks and SME support organizations will be strengthened to promote early and systematic business succession, and the framework for business matchup support such as through small-scale M&A schemes, will also be strengthened. (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]

(1) Pursuant to the Fifth Comprehensive Decentralization Law, authorization of the business succession taxation scheme will be transferred from regional bureaus of economy, trade and industry to prefectural governments, so that applications and approvals could be processed at prefectural offices that are more familiar to most enterprises. (Ongoing)

(2) The business succession taxation scheme will be expanded as follows. (Ongoing)

○Review of employment requirements

The employment requirements for businesses with less than five employees will be substantially relaxed (4 → 3 employees, 3 → 2 employees, 2 → 1 employee will be approved), and a safety net (flexibility of employment requirements) will be implemented to respond to the difficulty of maintaining employment at times of disaster or other drastic change in the business environment.

○Promotion of living donations

The amount of tax payment at the time of revocation of the gift tax payment grace period will be the same amount as inheritance tax by allowing the combined application of the taxation system for settlement at the time of inheritance, and the growth inhibiting changeover requirements at the death of the predecessor will be partially abolished (SME requirements, requirements for non-listed shares).

*In addition to the above, further convenience will be achieved by streamlining procedures.

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]

For wide-ranging and in-depth support for SME business successions throughout Japan, various events will be held to provide training for SME support providers and raise SME managers' awareness through business succession forums. (Ongoing)

6. Program for the creation of business succession networks

[Fiscal 2017 budget: Included in ¥1.1 billion]

Business succession networks will be created in the regions, operated by support organizations based in each prefecture in cooperation with local government bodies. Through these networks, (1) prefectural frameworks for business succession support will be established, (2) business succession consultations will be implemented to promote early, systematic business succession, and (3) a cooperative framework for business succession support will be built. (New)

7. Subsidy for business startups and succession (business succession)

[Fiscal 2017 budget: Included in ¥1.1 billion]

Support will be provided to (1) SMEs engaging in business innovation and (2) SMEs attempting a business transformation on occasion of business succession (incl. business succession accompanying business regeneration) in the form of a subsidy for the necessary expenses for capital investment, market expansion, and abolishment of the existing business (up to (1) ¥2 million and (2) ¥5 million at a subsidy rate of 2/3). (New)

Section 3 Human resource and employment measures

1. Program to support regional SMEs acquire human resources

[Fiscal 2017 budget: Included in ¥1.67 billion]

To help SMEs and micro-businesses with few management resources acquire human resources, support will be provided in excavating, introducing and retaining human resources that are sought by local SMEs and micro-businesses from within and outside the region, in consideration of regional characteristics. (Ongoing)

2. Support program for development of core human resources in SME service industries

[Fiscal 2017 budget: Included in ¥1.67 billion]

To develop next-generation managers, the program will match up next-generation management personnel in the services industries with enterprises engaging in outstanding initiatives, and organize hands-on training. From fiscal 2017, particular efforts will be made to organize many programs that provide diverse training over varied durations. (Ongoing)

3. Smart manufacturing support program and program for development of core human resources in manufacturing industries

[Fiscal 2017 budget: Included in ¥1.67 billion]

The smart manufacturing support program will promote productivity improvement and new business cultivation by SMEs and micro-businesses in manufacturing industries. Support will be provided to businesses that implement training that provides versatile leadership skills to human resources having rich experience in the production field and those possessing knowledge of IoT and robots, and that dispatch such leaders to SMEs and micro-businesses in manufacturing industries. Additionally, smart manufacturing support bases will be established, so that regional SMEs and micro-businesses in manufacturing industries can casually receive consultation on Kaizen and other such platforms that utilize IoT and robots.

The program for development of core human resources in manufacturing industries will provide a subsidy to cover the expenses required by core human resources in SME and micro-business manufacturing sites to receive technology and skills enhancement training. (Ongoing)

4. Program for development of Kaizen leaders (service industry school)

[Fiscal 2017 budget: Included in ¥1.67 billion]

To increase productivity in the service industry through human resource development, training will be implemented to provide practical skills and knowledge that are useful to service personnel. In fiscal 2017, the subsidy rate will be changed from 2/3 to 1/2, and training schools will also be established in locations outside of Tokyo and Osaka, to provide training opportunities to even more people. (Ongoing)

5. Program for development of human resources to support micro businesses

[Fiscal 2017 budget: 200 million]

Training for improving business guidance skills will be provided nationwide by business leaders in societies and chambers of commerce and industry. (Ongoing)

6. Program for development of human resources to support SMEs [Fiscal 2017 budget: 115 million]

Community development leaders will be developed by

providing classroom training and practical internship training on business startup and management skills and skills that are particularly required for community development, such as vacant store countermeasures and consensus building methods. (Ongoing)

7. Human resource development program at the Institute for Small Business Management and Technology

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)

8. Support program for development of hometown producers

[Fiscal 2017 budget: Included in ¥1.35 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 cultivating markets and attracting people to the regions. (Ongoing)

9. Measures to maintain workers' employment

[Fiscal 2017 budget: ¥7.95 billion]

Employment Adjustment Subsidies will be provided to assist employers who are forced to downsize due to fluctuations in business conditions or other economic reasons but who keep 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)

10. Support for improvement of employment management toward the creation of attractive employment [Fiscal 2017 budget: ¥10.8 billion]

To support corporate initiatives to improve their employment management and create attractive employment, the subsidy for supporting workplace retention will be provided to SME organizations (business cooperatives, etc.) having improvement plans 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. The subsidy will also be provided to SMEs and micro-businesses that introduce and implement a new employment management system by changing their

labor agreements and workplace regulations, or lower the job separation rate of their employees. It will also be applied to business owners of child care and nursing care services that lower the job separation rate of their employees by developing a proper wage system.

In fiscal 2017, the subsidy for introducing assistive nursing care products will be divided into the subsidy for introducing assistive nursing care products and the subsidy for lowering employee job separation rates. (Ongoing)

11. Project for promoting the improvement of employment management plans to secure human resources in sectors that lack personnel [Fiscal 2017 budget: ¥540 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 environments or otherwise take measures to improve employment management and secure human resources. (Ongoing)

(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, business owners in the construction sector who face an issue in implementing improvement measures for employment management will be offered consultation support by advisors for employment management improvement, with the aim of promoting practical employment management improvement within the entire industry.

12. Regional employment development subsidy (regional employment development course) [Fiscal 2017 budget: ¥3.39 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 a regional employment development subsidy (regional employment development course) in accordance with the cost of their establishment and the number of workers they employ. (Ongoing)

13. Employment creation project for regional revitalization [Fiscal 2017 budget: ¥5.12 billion]

To promote initiatives for creating employment opportunities in the regions for regular employees, an employment creation project for regional revitalization will be implemented in support of the regular employment creation project being undertaken by prefectural governments integrally with industrial policies. (New)

14. Tax system to promote employment [Taxation scheme]

Where enterprises satisfy certain requirements and create high-quality employment (fulltime, 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. (Ongoing)

15. Promotion of employment shifts with no loss of employment [Fiscal 2017 budget: ¥9.67 billion]

A subsidy will be provided to business owners who employ the services of a private-sector employment agency to support the reemployment of employees who unavoidably lose their jobs due to business downsizing, etc. (workers who fall under a re-employment support plan).

Additionally, funds that are provided to growth enterprises that build capacities and increase the wages of workers who fall under a re-employment support plan or workers who have transferred from a different company will be expanded, and a new fund will be created to support growth enterprises that expand their employment of mid-career recruits upon developing an ability assessment, wage and treatment system for mid-career recruits. (Ongoing)

16. Welfare Worker Recruitment Project [Fiscal 2017 budget: ¥1.63 billion]

“Welfare Worker Corners” will be expanded, and matching services will be strengthened in the welfare sector (nursing, healthcare and day care). (Ongoing)

17. Promotion of the Youth Support Project [Fiscal 2017 budget: Included in ¥700 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)

18. “Youth Yell” certification system based on the Act on Promotion of Youth Employment

[Fiscal 2017 budget: Included in ¥700 million]

Based on the Act on Promotion of Youth Employment (1970 Act no. 98), 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)

19. Subsidy for employment and development of designated job seekers (course for employment and development of long-term unstable workers)**[Fiscal 2017 budget: ¥530 million]**

A subsidy for employment and development of designated job seekers (course for employment and development of long-term unstable workers) will be provided to business owners who employ workers who have repeatedly changed jobs as freeters after having missed the opportunity to find employment as regular employees (long-term unstable workers) during the “employment ice age,” as regularly employed workers by introduction from an employment agency. (Ongoing)

20. Subsidy for employment and development of designated job seekers (course for employment and retention of non-new graduates within three years after graduation, etc.)**[Fiscal 2017 budget: ¥1.83 billion]**

To expand opportunities for non-new graduates and non-graduates to apply for employment as new graduates and promote their retention, a subsidy for employment and development of designated job seekers (course for employment and retention of non-new graduates within three years after graduation, etc.)* will be provided to business owners who put a call out for new graduate job seekers to which non-new graduates, etc. can apply, employ a non-new graduate, etc. as a new graduate for the first time, and retain them for a certain period of time. (Ongoing)

*In fiscal 2017, the subsidy for employment and retention of non-new graduates within three years after graduation, etc. has been incorporated as a course under the subsidy for employment and development of designated job seekers.

21. Support for SMEs and micro-businesses in raising the minimum wage**[Fiscal 2017 budget: ¥1.2 billion]**

The following support measures will be provided to increase the productivity of SMEs and micro-businesses, toward raising the minimum wage.

- (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 dispatch experts free of charge.

- (2) Subsidies will be provided to national and prefectural-level industry-specific SME organizations to cover the cost they require to implement initiatives for increasing productivity, such as by conducting market surveys and developing new business models for expanding their market with an eye to increasing wages.
- (3) Subsidies will be provided to SMEs and micro-businesses in 47 nationwide prefectures, to cover part of the capital investment they make to increase labor productivity and increase the wages of workers who work for less than ¥1,000 an hour in their business establishments by more than a certain amount (subsidy rate of 7/10 (3/4 for micro businesses with a workforce of 30 or less)). (Ongoing)

22. 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 in private employment agencies, employment support organizations, personnel management and human resource development departments in companies, and career education in schools. In April 2016, career consultants, who engage in career consulting as a specialty, were designated as a national qualification, so efforts will be made to disseminate the qualification. Additionally, the introduction of a “self career examination” will continue to be promoted among enterprises as a scheme for offering regular career consultation opportunities at certain junctions of their employees, such as age, number of years in employment, promotion to a post, etc., to support employee awareness of career development. (Ongoing)

23. Taxation scheme to promote income expansion [Taxation scheme]

Enterprises whose (1) total amount of salaries and other amounts paid have increased from fiscal 2012 at a certain rate or more, (2) total amount of salaries and other amounts paid exceed that of the previous business year, and (3) average salary and other amounts paid exceed that of the previous business year will receive a 10% tax credit on the amount of increase in salary and other amounts paid from fiscal 2012 (up to 10% of corporate tax (20% for SMEs)). Under the fiscal 2017 tax reform, SMEs will receive an additional 12% tax credit on the amount of increase in salary and other amounts paid from the fiscal year in cases where average salary and other amounts paid have increased by more than 2% from the previous fiscal year. (New)

Chapter 3 Development of a stable business environment

Section 1 Improvement of transaction conditions

1. Improvement of the transaction conditions of SME subcontractors

The dissemination status of initiatives based on the standards and notification revised in December 2016 and voluntary action plans will be examined. More specifically, transaction investigators will be newly installed to further strengthen the interview survey framework, and more than 2,000 subcontractors will be interviewed over the year. A detailed written questionnaire survey will also be conducted on several tens of thousands of enterprises, including contractors. Any issues that surface as a result of the interviews will be fed back to the relevant company or industrial organization as necessary, and a request will be made for the enforcement and modification of voluntary plans. (Ongoing)

2. Stricter enforcement of the Subcontractor Payment Act

[Fiscal 2017 budget: Included in ¥1.39 billion]

Various opportunities will be taken to verify the dissemination status of the notification regarding the payment means of subcontract fees that was revised in December 2016 and the operating standards of the Subcontractor Payment Act that was revised on the same day.

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 2017, the FTC and SME Agency will continue to encourage rigorous compliance with the Act, by carrying out a written survey of principal contractors, and by collecting information on violations of the Act through an office set up specifically to receive such information and reports. Additionally, during the “Subcontractor Fair Treatment Promotion Month” held in November, rigorous compliance with the Act will again 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 and the representatives of relevant business organizations.

3. Strengthening consultation systems and fair subcontracting transactions

[Fiscal 2017 budget: Included in ¥1.39 billion]

Consultation services concerning SME transactions will be provided by Subcontracting Help Centers that are to be set up in 48 locations throughout Japan. Additionally, price negotiating knowhow that managers and sales representatives of subcontracting SMEs need to negotiate prices with the procurement department of principal contractors will be disseminated via a collection of best practices and a handbook, as well as through individual guidance and seminars.

To prevent the occurrence of violations of the Subcontractor Payment Act, seminars will 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 held to promote broader adherence to the Subcontractor Payment Act. Information sessions will also be held nationwide to disseminate guidelines for promoting fair subcontracting transactions. (Ongoing)

4. Self-reliance support for SME and micro subcontractors

[Fiscal 2017 budget: Included in ¥1.39 billion]

Under the Act on the Promotion of Subcontracting Small and Medium-sized Enterprises, business plans designed to solve issues in collaboration 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 2017 budget: Included in ¥1.39 billion]

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 2017 budget: Included in ¥1.39 billion]

Various opportunities will be taken to verify the dissemination status of promotional standards based on the Subcontracting Promotion Act that were revised in December 2016. Additionally, a written request will be issued to the representatives of relevant business organizations, requesting their consideration to subcontractors. (Ongoing)

Section 2 Measures concerning public demand

1. Formulation and dissemination of the “FY2016 Policy on State Contracts with Small and Medium Enterprises”

Cabinet approval will be given on measures that are contained in the Basic Policy on State Contracts with Small and Medium Enterprises that is formulated every year with the aim of achieving the target number of state contracts with new and existing SMEs and increase opportunities for SMEs to receive orders. (Ongoing)

Additionally, the following initiatives will be implemented to fully disseminate the Basic Policy.

- (1) The Minister for Economy, Trade and Industry will explain the purport of the Basic Policy in writing to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards, and 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 disseminate the Basic Policy in regional areas.
- (3) Conferences (Councils to Promote Procurement from New SMEs) 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.

2. Operation of the “Public Demand Portal Site” to expand opportunities for SMEs and micro-businesses to receive orders from the public sector

[Fiscal 2017 budget: Included in ¥1.39 billion]

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 3 Measures for pass-throughs of consumption tax

1. Programs to enhance monitoring and inspection regimes for consumption tax imputation

[Fiscal 2017 budget: ¥2.85 billion]

To ensure that consumption tax is passed through appropriately, “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 an 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

Support will be provided 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. (Ongoing)

2. Consultation desks for inquiries regarding the reduced consumption tax rate system

[Fiscal 2017 budget: ¥1.94 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. Support will also be provided through the operation of cost pass-through consultation desks. (Ongoing)

Section 5 Cash-flow assistance and business generation support

1. Safety net loans

[Fiscal investment and loan program]

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. In fiscal 2017, an interest rate incentive will be given to support the cashflow of SMEs and micro-businesses, where they receive management support from a certified support organization or engage in initiatives to maintain and/or increase employment amid difficult business conditions. (Ongoing)

2. Managerial Improvement Loans (Marukei Loans) for micro businesses

[Fiscal 2017 budget: Included in ¥4.25 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) (Cited earlier)

3. Micro business management development support loans

[Fiscal 2017 budget: Included in ¥4.25 billion]

[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) (Cited earlier)

4. Promotion of subordinated lending

[Fiscal 2017 budget: Included in ¥16.13 billion]

[Fiscal investment and loan program]

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. The program will continue to be implemented in fiscal 2017. (Ongoing)

(Note) Loans under this program are limited bullet loans. In the event that the SME 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.

5. SME and micro-business management enhancement loan/guarantee program

[Fiscal 2017 budget: ¥1.7 billion]

[Fiscal investment and loan program]

On the premise that support is 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 expansions, and cultivation of new business fields. (Ongoing) (Cited earlier)

6. Encouragement of refinancing guarantees

To relieve repayment burdens by consolidating multiple outstanding debts, credit guarantee corporations will continue to provide refinancing guarantees in fiscal 2017. (Ongoing)

7. Safety-net Guarantees

Credit guarantee corporations will provide guarantees separate from ordinary guarantees to SMEs experiencing a management instability due to a bankruptcy of their business partner, a natural disaster, or the streamlining of operations by their main financial institution (100% guaranteed in principle, for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans). (Ongoing)

8. Management support by credit guarantee corporations [Fiscal 2017 budget: ¥1.3 billion]

Credit guarantee corporations will provide management support such as through the dispatch of experts, to users of credit guarantee corporations, (potential) entrepreneurs planning to utilize a credit guarantee corporation, and SMEs and micro-businesses that engage in management improvement, in cooperation with regional financial institutions, in combination with cash-flow support. (Ongoing)

9. Program to assist with formulating management reform plans by approved support agencies

To promote management reform by SMEs and micro-businesses that are unable to formulate management reform plans on their own, the program will subsidize part (two-thirds) of the costs needed by approved support agencies (certified public tax accountants, lawyers, financial institutions, etc.) under the Act on Strengthening the Management of SMEs, etc., to provide SMEs and micro-businesses assistance in formulating management reform plans, as well as

follow-up for those plans. From fiscal 2017, support will be provided in formulating management reform plans including cash flow statement, etc. at the early stage. (Ongoing)

10. SME Revitalization Support Councils

[Fiscal 2017 budget: Included in ¥6.11 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)

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 2017 budget: ¥100 million]

To promote the use of the "Guidelines for Personal Guarantees Provided by Business Owners" published on 5 December 2013, help desks set up in the regional headquarters of the SMRJ in fiscal 2013 and specialist dispatch services for people who want to use the guidelines, will continue to be implemented. Financing and guarantee systems by public sector financial institutions independent of business owner guarantees will also continue to be implemented. Furthermore, to allow the guidelines to spread and take root as a loan practice, examples of favorable initiatives that should be widely implemented will continue to be collected and disclosed, and measures will continue to be implemented to disseminate the guidelines to SMEs and micro-businesses. (Ongoing)

14. Enhanced management support for financial administration among SMEs and micro-

businesses

Based on the financial monitoring policy, financial institutions will be encouraged to provide advice and financing to enterprises through proper assessment of the business performance and growth potential of borrower companies (business assessment) without relying excessively on security and guarantees. (Ongoing)

15. Creation of a new low-cost trade insurance for corporate entities related to agriculture, forestry and fisheries

Measures will be taken to promote the utilization of new insurance that expands the scope of the SME export credit insurance that is appreciated by SMEs for its low premium rate to corporate entities related to agriculture, forestry and fisheries. (Ongoing)

16. Financial support for SMEs in Okinawa

[Fiscal investment and loan program]

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, and ODFC's own system of lending will be expanded to meet the specific needs of businesses in Okinawa. (Ongoing)

Section 6 Measures for business stabilization

1. Mutual Relief System for the Prevention of Bankruptcies of SMEs (Mutual Safety-net Relief System)

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

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

To strengthen the capacities of SMEs and micro-businesses to continue business in the event of an emergency and increase their corporate value, initiatives related to promoting the dissemination and propagation of BCPs will continue to be implemented.

Additionally, low-interest loans will 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 2017 budget: ¥65 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. The AD investigation into polyethylene terephthalate with a high degree of polymerization originating in China that was begun in September 2016 will be pursued fairly and appropriately based on international rules and Japanese laws and regulations. Furthermore, information sessions will be held for enterprises, and studies will be conducted to ensure that investigations are consistent with WTO conventions. (Ongoing)

Section 7 Enhancing financial capacity

1. Lowering of reduced tax rates

[Taxation scheme]

A measure will be taken to lower the rate of corporate tax (19%) incurred on annual income amounts up to ¥8 million to 15%. Under the fiscal 2017 tax reform, the applicable period of this scheme will be extended by two years. (Ongoing)

2. SME investment promotion tax system

[Taxation scheme]

Under this system, 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) is offered for the cost of acquiring machinery or equipment. Under the fiscal 2017 tax reform, the applicable period of this scheme will be extended by two years, upon conducting a review of relevant facilities. (Ongoing)

3. Special scheme for inclusion of petty sum depreciable assets in expenses

The special provision will allow enterprises that acquire petty sum depreciable assets (worth less than ¥300,000 in acquisition cost) to include the assets in expenses (limited to a total of ¥3 million a year) (with the exception of enterprises with more than 1,000 employees). (Ongoing)

4. Carryover and refund carryback of loss

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 (carryover period: 9 years). The one-year carryback refund allows losses arising in the current business year to be carried back a year, and a return on corporate tax to be filed. (Ongoing)

5. Taxation system for the revitalization of the commercial, service and agriculture/forestry/fishery industries

[Taxation scheme]

This tax measure 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 (the tax credit is offered only to corporate entities with a capital of no more than ¥30 million). Under the fiscal 2017 tax reform, the applicable period of this scheme will be extended by two years. (Ongoing)

6. Special exemption from inclusion in charges against revenue of entertainment and social expenses, etc.

This measure allows 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 offered. (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)

Section 8 Promotion of human rights awareness

1. Human rights awareness

[Fiscal 2017 budget: ¥190 million]

For promotion of sound economic activities, seminars and other awareness-raising activities will be implemented, intended for corporate entities. 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 4 Rehabilitation and reconstruction from disasters

Section 1 Cash-flow assistance

1. Finance policy program

**[Fiscal 2017 budget: Included in ¥13.9 billion]
[Fiscal investment and loan program]**

To assist SMEs and micro-businesses affected by the Great East Japan Earthquake and Kumamoto Earthquake with their cash-flow issues, the Japan Finance Corporation (JFC) (SME Unit and Micro Business and Individual Unit) and the Shoko Chukin Bank will provide the Great East Japan Earthquake Recovery Special Loan Program and the 2016 Kumamoto Earthquake Special Loan Program (commenced in June 2016) on a continuous basis in fiscal 2017. For SMEs and micro-businesses with business establishments located in restricted areas or similar zones when they were imposed following the nuclear accident in Fukushima triggered by the Great East Japan Earthquake and SMEs and micro-businesses with business establishments and other assets that were completely destroyed or swept away by the earthquake or tsunami, measures for effectively eliminating the burden of interest payments on loans through prefectural level foundations and similar institutions have been created in fiscal 2011 (measures as of 22 August 2011), and will continue to be implemented in fiscal 2017. (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 or the 2016 Kumamoto Earthquake will be raised and interest rates will be lowered on a continuous basis. (Ongoing)

3. Credit guarantee program

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 2017 in specific disaster affected areas (100% guaranteed for up to ¥80 million for unsecured loans, and up to ¥280 million for other loans).

Additionally, in the wake of the Kumamoto Earthquake that occurred in April 2016, Safety-net Guarantee No. 4 was applied to all areas of Kyushu (sequentially

from April 14, 2016), and disaster-related guarantees were also applied to all areas of Kumamoto prefecture (from April 26, 2016). These guarantees will continue to be applied in fiscal 2017 as necessary, upon an assessment of the damage situation. (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 2017 budget: ¥1.39 billion*]

Support will continue to be provided for the revival of SMEs damaged by the Great East Japan Earthquake through Industrial Recovery Consultation Centers that have been established in fiscal 2011 by expanding on the framework of SME Revitalization Support Councils in each affected prefecture and Industry Reconstruction Corporations that have been established to purchase accounts receivable, etc. (Ongoing)

*Special account for reconstruction from the Great East Japan Earthquake. Of the six affected prefectures, the expenses of the SME Revitalization Support Councils and Industrial Recovery Consultation Centers in Aomori, Ibaraki and Chiba will be transferred to the general account from the fiscal 2017 budget.

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, it defrays the cost of interest that such businesses incur during the period they receive assistance from an Industrial Recovery Consultation Center to formulate a regeneration plan. The program was established in fiscal 2011 and will continue to be implemented in fiscal 2017. (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 restoration of plants, etc.

1. Post-disaster recovery project on joint facilities of small and medium business associations, etc.

•The Great East Japan Earthquake
[Fiscal 2017 budget: ¥21 billion]

In order to promote the restoration and reconstruction of areas affected by the Great East Japan Earthquake, the following subsidies will be provided in support of the recovery of facilities held by groups of disaster-affected SMEs and others.

- (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
- (2) Subsidization by the national government (one half) of the cost of disaster recovery projects such as for Societies of Commerce and Industry and other such instruction and consultation facilities for SMEs (Ongoing)

2. Loans for restoration and development of facilities and equipment

• The Great East Japan Earthquake
SMRJ and prefectures will cooperate in supporting SMEs that suffered damage in the Great East Japan Earthquake by providing loans for the repair and development of facilities and equipment that they need to implement restoration plans approved by the prefecture. (Ongoing)

• The 2016 Kumamoto Earthquake
SMRJ and prefectures will cooperate in supporting SMEs that suffered damage in the 2016 Kumamoto Earthquake by providing loans for the repair and development of facilities and equipment that they need to implement restoration plans approved by the prefecture. (Ongoing)

3. Projects for development of temporary facilities and subsidies for effective utilization of temporary facilities

[Fiscal 2017 budget: Included in ¥650 million]

Temporary facilities will continue to be developed, where such facilities are needed such as to resume business in regions that have not yet achieved full-scale reconstruction. Additionally, to promote the effective utilization of temporary facilities, subsidies will be provided to disaster-affected municipalities to cover the costs for the construction, relocation and removal of temporary facilities. (Ongoing)

4. Program to create employment that promotes business recovery

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)

Furthermore, the program will be expanded to subsidize the costs of housing support to a certain extent. (New)

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 detailed business and financial advice to SMEs and other enterprises affected by the Great East Japan Earthquake, etc. (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 will connect callers to their nearest Bureau of Economy, Trade, and Industry by dialing a single telephone number. (Ongoing)

3. Consideration for SMEs in disaster-affected regions by the government and other public agencies

Consideration for SMEs and micro-businesses in regions affected by the Great East Japan Earthquake

and 2016 Kumamoto Earthquake will be included in the Basic Policy on State Contracts with Small and Medium Enterprises that is formulated every year, and the following initiatives will be disseminated. (Ongoing)

- (1) The Minister for Economy, Trade and Industry will explain the purport of the Basic Policy in writing to the heads of each agency and ministry, prefectural governors, all municipal mayors, and mayors of the Tokyo special wards, and 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 disseminate 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. Victims’ Employment Development Subsidy Program

[Fiscal 2017 budget: ¥30 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. Bonus subsidies will be additionally provided to employers hiring 10 or more such workers. (Ongoing)

5. Guidance and advice on measuring radiation levels

[Fiscal 2017 budget: ¥30 million]

With the review and lifting of the evacuation order in areas designated as evacuation zones after the Great East Japan Earthquake, enterprises that were affected by the disaster are hereafter expected to recommence business and locate their business in affected areas. In anticipation of this development, private sector organizations commissioned by the government will carry out radiation measurements of the industrial products of affected enterprises, measure and inspect the types and amounts of radioactive substances, and provide guidance and advice, as countermeasures against harmful rumors. (Ongoing)

6. Industry-academia-government collaboration support project for Fukushima Prefecture, etc.

[Fiscal 2017 budget: ¥110 million]

Mainly in Fukushima Prefecture, 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. (Ongoing)

7. Program for employment support in response to the nuclear disaster

[Fiscal 2017 budget: ¥1.87 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. (Ongoing)

8. Measures for securing human resources in disaster-affected regions

[Fiscal 2017 budget: ¥980 million]

A program will be implemented that aims to attract wide-ranging human resources, including young workers and specialists, to disaster-affected regions, and provide enterprises with the knowhow for acquiring, retaining and developing human resources so they may increase their capacity to gain personnel. Efforts will also be made to widely disseminate best practices in acquiring human resources. (New)

9. Program for promoting regional reconstruction and practical development under the Fukushima Innovation Coast Scheme

[Fiscal 2017 budget: ¥6.97 billion]

Support will be provided for the cost of practical development of robot technology and other innovative technologies in the priority areas(*) of the Fukushima Innovation Coast Scheme, which contribute to regional promotion through cooperation with local enterprises. (New)

*Priority areas include the decommissioning of reactors, robots, energy, environment and recycling, agriculture, forestry and fisheries, and medical equipment, among others.

10. Support program for business recovery, etc. by SMEs and micro-businesses

[Fiscal 2017 budget: ¥11.2 billion (fund)]

To provide concentrated support to SMEs in the 12 municipalities that were affected by the nuclear disaster in Fukushima prefecture and thereby create jobs in the region and promote the early recovery of city functions such as by restoring places for shopping, a subsidy will be provided to cover part of the capital investment needed to resume business. From fiscal 2017, the scope of the support will be expanded to enterprises in “difficult-to-return zones” that cannot resume business in the original community. (Ongoing)

11. Support program for new businesses in regions affected by the nuclear disaster

[Fiscal 2017 budget: ¥210 million]

A subsidy will be provided for capital investment needed to start a new business in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture or transfer a business from outside the 12 municipalities, and initiatives will be taken to develop an environment conducive to revitalizing investment, to help the 12 municipalities recover their city functions so that affected enterprises can get back on their feet. (Ongoing)

12. Support for securing travel and transportation means needed to receive lifestyle-related services

[Fiscal 2017 budget: ¥230 million]

In the 12 municipalities affected by the nuclear disaster in Fukushima prefecture, support will be provided in the form of travel and transportation means so that local stores could make joint deliveries, local residents can receive medical services, etc. (Ongoing)

13. Support for securing personnel through a personnel match-up program

[Fiscal 2017 budget: ¥500 million]

Human resources coordinators will make a detailed assessment of the personnel needs of businesses in the 12 municipalities affected by the nuclear disaster in Fukushima prefecture, and widely share these needs with job seekers so that personnel could be acquired from both inside and outside the 12 municipalities through a match-up program. (Ongoing)

14. B2B match-up program for sixth sector industrialization

[Fiscal 2017 budget: ¥380 million]

A B2B match-up service will be provided, to help businesses cultivate new markets and promote the creation of new businesses. In addition to matching businesses with other businesses, an expert will also provide guidance regarding the smooth implementation of business after the match-up. (Ongoing)

15. Support through individual visits by public-private partnership teams

[Fiscal 2017 budget: ¥8.2 billion (fund)]

The framework for providing support through individual visits and consultations via a public-private partnership team will be strengthened. A team composed of counselors, consultants, SME management consultants, and other such experts will provide fine-tuned consultation support on issues related to business recommencement, business succession, job change, lifestyle reconstruction, etc. From fiscal 2017, the scope of the support will be expanded to include municipalities. (Ongoing)

16. Support program for introducing regional traditions, attractions, etc.

To introduce the local attractions, traditional crafts, specialty products (local agricultural, commercial and industrial products), etc. of the 12 municipalities affected by the nuclear disaster in Fukushima prefecture throughout Japan and overseas, support will be provided to businesses that plan to participate in a trade fair. (Ongoing)

Chapter 5 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 2017 budget: ¥1.91 billion]

Support will be provided for initiatives in which agriculture, forestry and fishery businesses create a network 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 municipal strategies related to sixth sector industrialization. (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) Comprehensive program for the utilization of the geographical indication protection system

[Fiscal 2016 budget: ¥170 million]

Initiatives will be implemented to establish support centers for registration and application of geographical indications (GI), provide a subsidy for carrying out examinations required for application, raise awareness of the GI protection system by holding symposiums and trade fairs on GI, disseminate information on GI products in Japan and abroad, and strengthen measures against infringements of Japan's intellectual properties overseas. (Ongoing)

- (4) Comprehensive program to promote renewable energy to revitalize rural areas

[Fiscal 2016 budget: ¥100 million]

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. In fiscal 2017, the program will support only ongoing initiatives that have been implemented by fiscal 2016. (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 2017 budget: ¥63.9 billion]

In order to streamline lumber production and distribution, loans will be provided through the Wood Industry Upgrading Promotion Fund, and loans through the Wood Industry Improvement Fund will be 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 2017 budget: ¥5 million]

To supply high-quality, high-performance wood products stably at low cost, an interest subsidy will be provided for borrowings required for the introduction of facilities by enterprises engaging in lumbering, and for the establishment of a stable supply framework by midstream businesses. (Ongoing)

- (3) Subsidy for Establishment of a Next-generation Forestry Foundation (for the development of lumber processing and distribution facilities)

[Fiscal 2017 budget: ¥7.01 billion]

To create a supply chain for stable and efficient supply in terms of cost, volume and quality, support will be provided for the development of lumber processing and distribution facilities needed for the creation of a supply chain.

- (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 2017 budget: Included in the ¥23.0 billion Subsidy for Creating Strong Agriculture and ¥2.57 billion comprehensive measures for revitalization of production regions]

(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 also be provided for initiatives for assessing and examining regional issues, formulating specific plans, and rationalizing employees. (Ongoing)

(5) Support for strengthening the food quality management framework (measures for SMEs in agriculture, forestry and fisheries)

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

[Fiscal 2017 budget: ¥1.6 billion]

(Objectives of the measure)

- To implement initiatives for the promotion of exports in line with the “Strategies for Strengthening the Export Competitiveness of the Agriculture, Forestry and Fishery Industries” (compiled in May 2016 by the Headquarters on Creation of Regional Vitality in Agriculture, Forestry, and Fisheries) through private-public cooperation toward achieving the target of ¥1 trillion in exports by 2019. (Ongoing)

(Overview of the measure)

- Through subsidies to JETRO, comprehensive business support will be provided for upstream to downstream operations of export businesses.
- Opportunities for direct negotiations between Japanese businesses and overseas buyers will be provided by establishing a Japan Pavilion in overseas trade fairs that are held in countries and regions where export is strongly expected to increase in the future.
- Major buyers from overseas will be invited to business conventions in Japan to deepen their understanding of the characteristics of Japanese product categories and their safety through onsite inspections of wholesale markets and production regions, to promote effective business talks.
- Marketing bases (in-store shops) for marketing and promoting Japanese products will be established in countries and regions where export from Japan is strongly expected to increase in the future, to sell products of Japanese businesses on a test basis and provide feedback of local responses. (Ongoing)

(7) Measures for export businesses

[Fiscal 2017 budget: ¥810 million]

(Objectives of the measure)

- To implement initiatives for the promotion of exports

in line with the “Strategies for Strengthening the Export Competitiveness of the Agriculture, Forestry and Fishery Industries” (compiled in May 2016 by the Headquarters on Creation of Regional Vitality in Agriculture, Forestry, and Fisheries) through private-public cooperation toward achieving the target of ¥1 trillion in exports by 2019.

(Overview of the measure)

- Export organizations for each export category including marine products, rice and rice products, flowers, animal products, tea, forestry products (wood), fruits and processed foods (snack foods) will hold examination committees in Japan, conduct overseas market surveys, and implement initiatives for resolving issues regarding the export environment, with the objective of establishing the Japan brand.

- Organizations that coordinate major export production regions and related business in Japan that handle processed foods (excluding snack foods), and organizations that coordinate multiple product categories in regional blocks will hold discussion meetings in Japan, conduct overseas market surveys and implement initiatives for cultivating markets overseas, with the objective of achieving stable supply throughout the year or on a long-term basis.

- To respond to quarantine requirements that are sought by relevant countries and regions, promote the acquisition and renewal of 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. (Ongoing)

(Changes from fiscal 2016)

- In response to the establishment of a new export organization for processed foods (snack foods), support will be provided to a total of 8 organizations for their initiatives to develop the Japan brand.

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 2017 budget: ¥3.07 billion]

To develop the agriculture, forestry, fishery and food industries into growth industries, R&D in those sectors, from the basic to applied stages, will be seamlessly promoted through industry-academia collaboration. (Ongoing)

(2) Various forms of lending by JFC

Loans will be provided for (1) the improvement of the management of designated agricultural processing businesses, (2) the promotion of new applications of designated agricultural, forestry and livestock products or the adoption of new raw material species for processing, (3) the establishment of stable transaction relationships between food manufacturers

and agriculture, forestry and fishery businesses and the development of agricultural, forestry and fishery facilities, (4) the improvement of dairy facilities, and (5) the strengthening of the corporate structure of food manufacturers.

Section 2 Measures for SMEs in the transport industry

1. Support for the warehousing industry

To save labor and increase efficiency of physical distribution services pursuant to the Law for Integration and Improvement of Physical Distribution, the development of warehouses that serve both transport and storage functions will continue to be promoted. Additionally, to promote low-carbon warehouses, ongoing support will be provided for the introduction of energy-saving facilities. (Ongoing)

2. 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)

3. Measures for small and medium shipbuilders and related manufacturers

[Fiscal 2017 budget: (1) Included in ¥40 million; (2) ¥16 billion (fiscal 2013 budget); (3) ¥680 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 were held, and a health and safety manager training course will also be held to help prevent industrial accidents. (Ongoing)
- (2) Most of the shipyards and shipbuilders on the Pacific coast of Tohoku suffered devastating damage in the Great East Japan Earthquake. The Ministry of Land, Infrastructure and Transport, in cooperation with the SME Agency and other relevant ministries and agencies, have supported the utilization of various support programs to promote the prompt recovery and reconstruction of local shipbuilding industries that support the fishery industry that is a core industry in the region. For shipbuilding businesses that face difficulties in resuming operations at the same level as before the earthquake due to ground subsidence, the Subsidy for Projects that Support the Reconstruction of Shipbuilding Businesses, etc. was established in fiscal 2013 to support the development of shipbuilding facilities toward the full-scale reconstruction of the shipbuilding industry through business cooperation and integration. A total of 19 businesses in 8 projects were selected to receive a subsidy (¥11.42 billion in total), as of the end of fiscal 2014. As three of those subsidized businesses have been completed by the end

of fiscal 2016, support will be provided for the proper implementation of the remaining 5 businesses, toward the prompt reconstruction of the shipbuilding industry in Tohoku. (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 marine industries, and technologies for productivity improvement in the construction and operation of ships in Japan's maritime industry. (3) Subsidy for R&D for technologies related to the maritime industry (Ongoing)
- (4) To allow SMEs and micro-businesses to receive tax benefits and other support measures based on the Act on Strengthening the Management of SMEs, etc., the approval of management improvement plans formulated by SMEs and micro-businesses in line with sector-specific guidelines will be pushed forward, and capital investment for productivity improvement will be promoted. [Taxation] (Ongoing)
- (5) To secure human resources in the shipbuilding sector, the network between local shipbuilding enterprises and educational institutions will be strengthened by promoting shipyard internships and educational shipbuilding workshops for high school teachers, in line with the guidance that was created in fiscal 2016. A training program for shipbuilding instructors will also be created to strengthen shipbuilding education in high schools and establish a sustainable training framework for shipbuilding instructors. Furthermore, the employment of foreign workers will be promoted, for proper operation of the program for accepting foreign shipbuilding workers. (4) Acquisition and development of human resources in the shipbuilding industry (Ongoing)

Section 3 Measures for small and medium building contractors and realtors

1. Support for productivity improvement in the construction industry

[Fiscal 2017 budget: ¥60 million]

This program aims to address the various issues in the construction industry, such as responses to the growing pace of technical innovations, faced by regional SME and second-tier construction companies, which play an extremely important role in protecting the lives and properties of the people as regional guardians. Experts in the construction industry, including human resource development specialists, SME consultants, engineers, and occupational safety consultants, will support SME and second-tier construction enterprises that are strongly aware of the need to address the various issues in the construction industry by providing advice and other consultation support. Among the initiatives

for addressing these issues, “priority support (step-up support)” will be provided to those that would serve as model examples.

The main purpose of the program is to realize sustainable growth of SME and second-tier construction companies by effectively sharing best practices in “priority support (step-up support)” throughout the industry. (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 will continue to be implemented, to allow 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. 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

To further promote the protection of receivables and facilitate funds procurement by building subcontractors, compensation for losses will be provided in cases where a contract price receivable by an SME or second-tier subcontractor from the main building contractor is guaranteed by a factoring company, and a subsidy will continue to be provided to cover the guarantee fee borne by the subcontractor under the Subcontracting Receivables Protection Support Program. (Ongoing)

3. Support for overseas business expansion in the construction industry

[Fiscal 2017 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 2017 budget: ¥11.4 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 businesses in related fields involved at all stages from provision of materials through to design and implementation. (Ongoing)

6. Community-based program for developing a framework for wooden housing construction techniques

[Fiscal 2017 budget: ¥470 million]
To maintain and develop a framework for wooden housing construction techniques in the regions and create a stock of excellent housing, support will be provided for training activities implemented by groups of private businesses to develop skilled carpenters. (New)

Section 4 Measures for the environmental sanitation business

1. Measures for the environmental sanitation business

[Fiscal 2017 budget: ¥1.04 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 will be 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 2017, priority will be placed on projects for multilingualizing the website of environmental sanitation associations and strengthening the framework for receiving foreign visitors to Japan (projects for strengthening inbound

measures by environmental sanitation businesses), in response to the rapid increase in foreign visitors to Japan, which has also become a pressing issue to environmental sanitation businesses. (Ongoing)

2. Loans for ES businesses

[Fiscal 2017 budget: ¥3.06 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 2017, loan conditions related to loans for business founders will be expanded, and proper support will continue to be provided in response to demand for funds from environmental sanitation businesses. (Ongoing)

Chapter 6 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 2017 budget: ¥380 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.” Support will be provided for administration of the scheme and the formulation of business plans. (Ongoing)
 - 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 Foot Print (CFP) system, and promotes the cultivation of demand for credits created under the J-Credit Scheme. (Ongoing)
 - By boosting low-energy investments by SMEs and promoting the circulation of funds in Japan through the use of these credits, the program will aim 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, the JFC will continue to provide special interest rate loans upon conducting a review of relevant facilities and interest rates. (Ongoing)
- 3. Anti-pollution tax system**
[Taxation scheme]

This anti-pollution tax system will continue to be implemented, to support the pollution prevention initiatives of SMEs and micro-businesses. (Ongoing)
- 4. Subsidy for supporting the promotion of energy conservation investments (Energy Use Rationalization Business Support Subsidy)**
[Fiscal 2017 budget: Included in ¥67.26 billion]

To promote energy conservation investments and improve energy consumption efficiency in plants and offices, support will be provided for the replacement of existing facilities with energy-efficient facilities. In fiscal 2017, support will also be provided for initiatives that contribute to improving energy consumption rate and for the renewal of individual energy-efficient facilities, and particular focus will be
- 5. Interest subsidy for investment in energy-saving facilities**
[Fiscal 2017 budget: ¥1.85 billion]

An interest subsidy on loans will be provided to businesses that receive financing from private financial institutions to improve energy consumption efficiency by introducing energy-saving facilities to a new office or installing/adding energy-saving facilities to an existing office, to reduce the cost of funds procurement.
- 6. Subsidy for SME energy conservation diagnosis programs**
[Fiscal 2017 budget: ¥1 billion]

A diagnosis program will be implemented to diagnose the energy and power saving potential of SMEs, and case examples and energy-saving technologies obtained from the program will be disseminated via various media. Additionally, regional consultation platforms will be established to provide detailed consultation on energy conservation and thereby promote energy-saving initiatives.
- 7. Taxation scheme to promote environment-related investment**
[Taxation scheme]

The taxation scheme that provides 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, will continue to be implemented. (Ongoing)
- 8. Program to create a fund to promote regional low-carbon investment**
[Fiscal 2017 budget: ¥4.8 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 2017 budget: ¥1.9 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

copied with the very high initial investment costs (deposits) of installing low-carbon devices. (Ongoing)

10. Eco-Action 21

Eco-Action 21 Guidelines 2017 will be released, to raise awareness of Eco-Action 21 as an effective environmental management system for second-tier businesses and SMEs and contribute to enhancing corporate value, and symposiums will be held in several locations throughout Japan to promote recognition of Eco-Action 21. Additionally, the support program for introduction of an environmental management system dedicated to CO2 reduction will continue to be implemented, to promote greater awareness and approaches to Eco-Action 21 and other environmental management systems, and encourage large enterprises to introduce environmental management to their value chain. (Ongoing)

Section 2 Measures on intellectual property

1. Surveys of technical trends of patent application [Fiscal 2017 budget: Included in ¥850 million]

Market trends and patent application trends will be surveyed by selecting themes related to technical fields that have the potential to create and capture markets, and technical fields that Japan should promote as part of its science and technology policies. The results of the surveys will be made publicly available via such sources as the Japan Patent Office's website, so they may be utilized for the formulation of R&D strategies and IP strategies in Japan's industrial world. (Ongoing)

2. Subsidy for international patent applications [Fiscal 2017 budget: ¥630 million]

In order to encourage SMEs to file strategic applications for international patents, subsidies will be provided to partially defray the costs (such as application fees to overseas patent offices, expenditure on hiring Japanese agents and local agents overseas, and translation costs) incurred 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 2017, 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 2017 budget: ¥60 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. In fiscal 2017, 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 to counter overseas infringement [Fiscal 2017 budget: ¥100 million]

To promote the timely and appropriate exercise of industrial property rights overseas by SMEs, the costs required for the 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. Subsidies will also be provided for the cost of consulting with a lawyer or other authority and the cost of a lawsuit in cases where an SME is sued by a local enterprise overseas for an infringement of intellectual property rights, and for costs required for the invalidation or rescission of an usurped trademark. (Ongoing)

5. Patent strategy portal site [Fiscal 2017 budget: Included in ¥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 apply 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).

Small and medium venture enterprises and micro businesses will also receive support through two measures. One measure will reduce 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 will subsidize 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 a patent applicant or appellant is an SME or micro business, this system will allow

examinations and appeal examinations to be fast tracked by filing an “explanation of situation for accelerated examination” or “explanation of situation for accelerated appeal examination.” Designs and trademarks may also be subject to accelerated examination and accelerated appeal examination as long as they satisfy the requirements. (Ongoing)

8. Provision of a one-stop IP service for SMEs (General IP Help Desks)

[Fiscal 2017 budget: Included in INPIT subsidy]

“General IP Help Desks” have been established in each prefecture, 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 such as by using IP experts to work with SMEs to jointly resolve highly specialist issues, collaborating with SME support agencies and similar organizations, and searching for SMEs that are not yet capable of utilizing IP effectively. In fiscal 2017, the support framework will be strengthened such as by strengthening cooperation with regional support organizations, to promote the effectiveness of the service to regional SMEs based on the Action Plan for Revitalization of Intellectual Properties in the Regions (Sept. 26, 2016), which was formulated by the Patent Office upon discussions by the Subcommittee on Intellectual Property of the Industrial Structure Council. (Ongoing)

9. Development of a one-stop support framework for trade secrets (“Trade secret/IP strategy consultation center—Trade secret hot line—”)

[Fiscal 2017 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. The consultations deal 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. The center will continue to offer these services in fiscal 2017. Particularly with respect to cases of leakage and outflows of trade secrets, information security measures and cyberattacks, the center will work in close cooperation with the National Police Agency and Information Technology Promotion Agency, Japan (IPA), in accordance with the content of the consultation. In fiscal 2017, activities for dissemination and awareness-raising will be promoted via seminars on trade secrets and intellectual properties and e-learning contents.

(Ongoing)

10. Emerging Country IP Information Databank

[Fiscal 2017 budget: 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 2017 budget: Included in INPIT subsidy]

The National Center for Industrial Property Information and Training (INPIT) will dispatch 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 interviews

To provide support regarding patents, designs and trademarks to small and medium venture enterprises throughout Japan, onsite interview examinations will be held by inspectors and examiners sent to interview venues across Japan, and TV interview examinations will be held via the Internet using the applicants’ own PCs. An onsite interview examination office and TV interview examination office will be established in INPIT-Kansai (tentative name) that is slated to open by October, and the major dates for onsite interviews will be scheduled. Additionally, a region-based patent promotion program will be implemented, in which an onsite interview examination and seminar on patent rights are held at the same time, intended for corporate cluster regions, such as research parks and universities, where local SMEs, venture enterprises, and research facilities are concentrated. (Ongoing)

13. Promotion of intellectual property financing

[Fiscal 2017 budget: ¥130 million]

A comprehensive initiative that promotes financing by financial institutions based on intellectual properties will be implemented, such as by providing IP business assessment documents that contain easy-to-understand information about businesses that utilize SME patents and other intellectual properties to financial institutions that find it difficult to assess the patents and intellectual properties of SMEs. (Ongoing)

14. Program for promotion of businesses that utilize Japanese intellectual properties

[Fiscal 2017 budget: ¥270 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. (Ongoing)

- (1) Comprehensive support will be provided, from the organization of seminars in Japan and overseas, to the formulation of business plans using local specialists and arranging presentation meetings with business partners.
- (2) Business meetings with business partners will be arranged, through participation in overseas trade fairs and business meetings.
- (3) Information will be disseminated to companies participating in this program in multiple languages, with consideration to preventing the outflow of technologies.
- (4) The necessary surveys for overseas business expansion will be carried out, such as for seeking candidate local partners.

15. Program for strengthening capacities to support the intellectual properties of regional SMEs

[Fiscal 2017 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, Bureaus of Economy, Trade and Industry will seek pioneering and advanced initiatives for supporting intellectual properties from highly motivated regional support organizations, provide support for their implementation. (Ongoing)

16. Subsidy for trade insurance against IP lawsuits overseas

[Fiscal 2017 budget: ¥60 million]

To allow SMEs to take measures against IP lawsuits overseas, support was provided for the initiatives of an overseas IP lawsuit insurance system, which is 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 will encourage subscription by SMEs. (Ongoing)

17. Dispatch of business producers for regional revitalization

[Fiscal 2017 budget: Included in ¥130 million]

With the objective of expanding business functions in the regions, three “business producers” will

be dispatched to three institutions to 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. (Ongoing)

18. 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. Between January and March 2018, new functions are planned to be added to the patent and utility model search function, to allow searches of English documents in foreign patent journals (U.S., EU, international applications) and searches by combinations of categories and key words.

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 (FOPISE) 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.

These services are available free of charge via the Internet.

Section 3 Promotion of standardization

1. Promotion of the strategic utilization of standardization by medium enterprises and SMEs

Standardization of outstanding technologies and products of medium enterprises and SMEs will be further promoted by utilizing the Standardization System for New Market Creation that is based on the 2016 revision of the Japan Revitalization Strategy (approved by the Cabinet on June 2, 2016) and IP Promotion Plan 2016, and the Japanese Standards Association (JSA) will cooperate with local government bodies, industrial promotion organizations, regional finance institutions, and university and public research institutions (partner institutions), in increasing the number of partner institutions of the Standardization Support Partnership System, to provide information and advice concerning

the strategic regional utilization of standardization. Also under the system, seminars will continue to be held on the strategic utilization of standardization by medium enterprises and SMEs. Furthermore, the support framework for the acquisition of overseas certification by SMEs will be strengthened through cooperation with JETRO and testing/certification institutions and the development of a framework for provision of overseas certification. (Ongoing)

Section 4 Promotion of surveys and public information activities

1. Publicizing of policy

To publicize SME policy, guidebooks and leaflets summarizing the main points will be produced and distributed to local governments, SME support agencies and financial institutions, etc., and further publicity will be generated by issuing information via portal site for SME support (Mirasapo) and organizing “One-day SME Agency” events.

(1) Publication of booklets

Guidebooks and leaflets 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. 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. The events will also provide a forum for exchanges of ideas and interaction, toward contributing 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

Up-to-date information on SME measures, information on public offerings, and publicity materials such as flyers and booklets will be posted on the SME Agency website. (Ongoing)

2) E-mail newsletters

In association with SME support agencies, an e-mail newsletter will be issued to subscribers every Wednesday, containing introductions of vibrant SMEs, policy information, local updates, surveys and research reports, and information concerning events. (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 (2017 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 (2017 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 acquire 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 will be published quarterly by the SMRJ to ascertain business trends among SMEs. (Ongoing)

Appended notes



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Appended note 1-2-1 Concerning analysis of SME life cycle and productivity

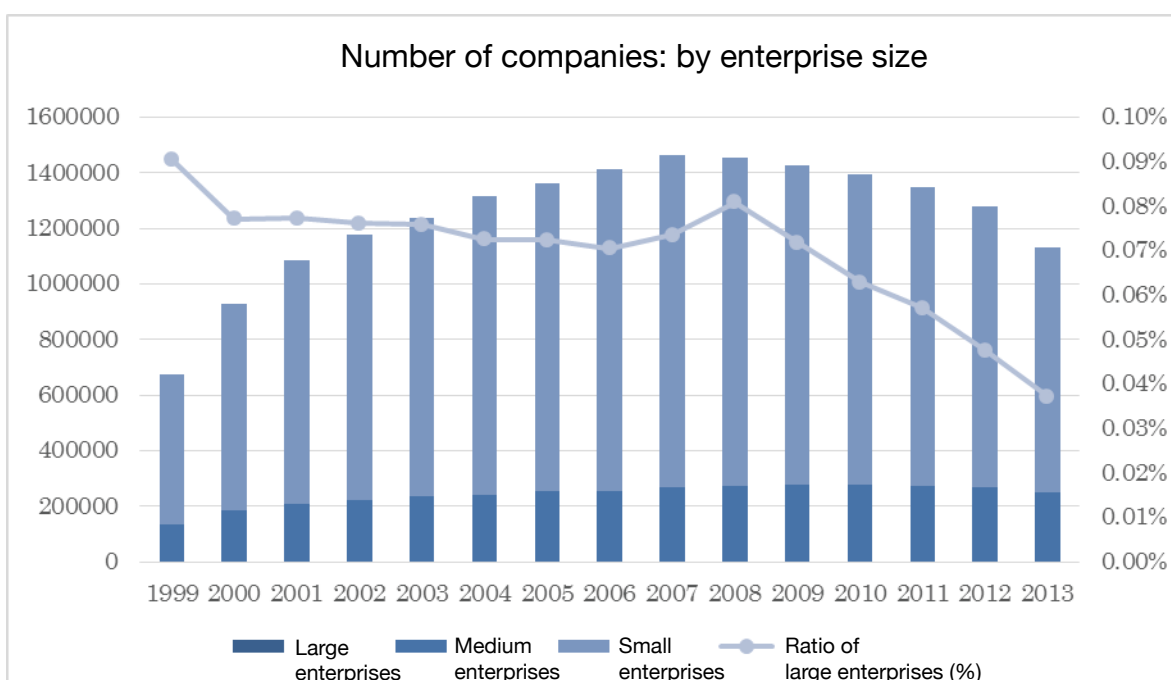
The analyses of SME life cycle and productivity in Part I, Chapter 2, were verified based on the analytic results determined by the *Commissioned project concerning the analysis of SME revitalization*, commissioned by the SME Agency and conducted by RIETI. This section provides supplementary information regarding this project.

1. Data employed in the analysis

The data employed in the analysis were individual data drawn from the SME Credit Risk Database (referred to as “CRD” below) compiled by the CRD Association based on transaction data held by credit guarantee associations and government and private sector financial institutions throughout the country.

As of 2013, the CRD recorded data for some 1.2 million companies, with the majority being small enterprises, based on the classifications specified by the Small and Medium-sized Enterprise Basic Act. The CRD includes data for sole-proprietor businesses in addition to incorporated companies; as of 2013, incorporated companies represented approximately 80% of the entities recorded in the database. With regard to the industrial affiliations of the companies recorded in the database, the proportion of construction, manufacturing, wholesale and retail companies is comparatively high. With regard to the proportion of companies recorded in the CRD for which it was possible to estimate labor productivity and total factor productivity (“TFP” below), the productivity indicators employed in the analysis, it was possible to estimate labor productivity for more than 90% of companies, and TFP for around 70% of companies. Restricting the focus to the companies for which it was possible to estimate TFP, the share of retail companies was low in this category.

Appended figure 1 Number of companies recorded in the CRD



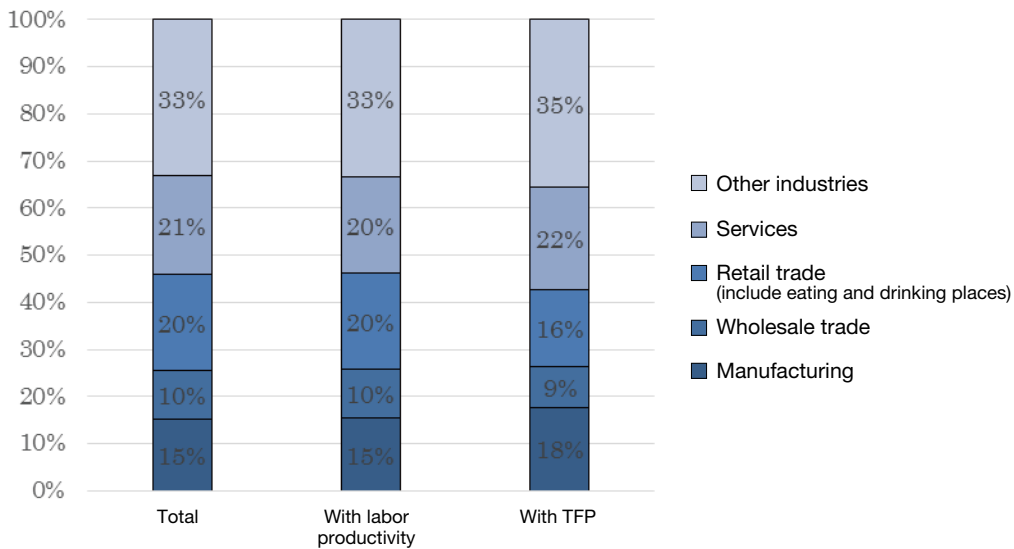
Appended figure 2

Composition of incorporated companies and sole-proprietor companies

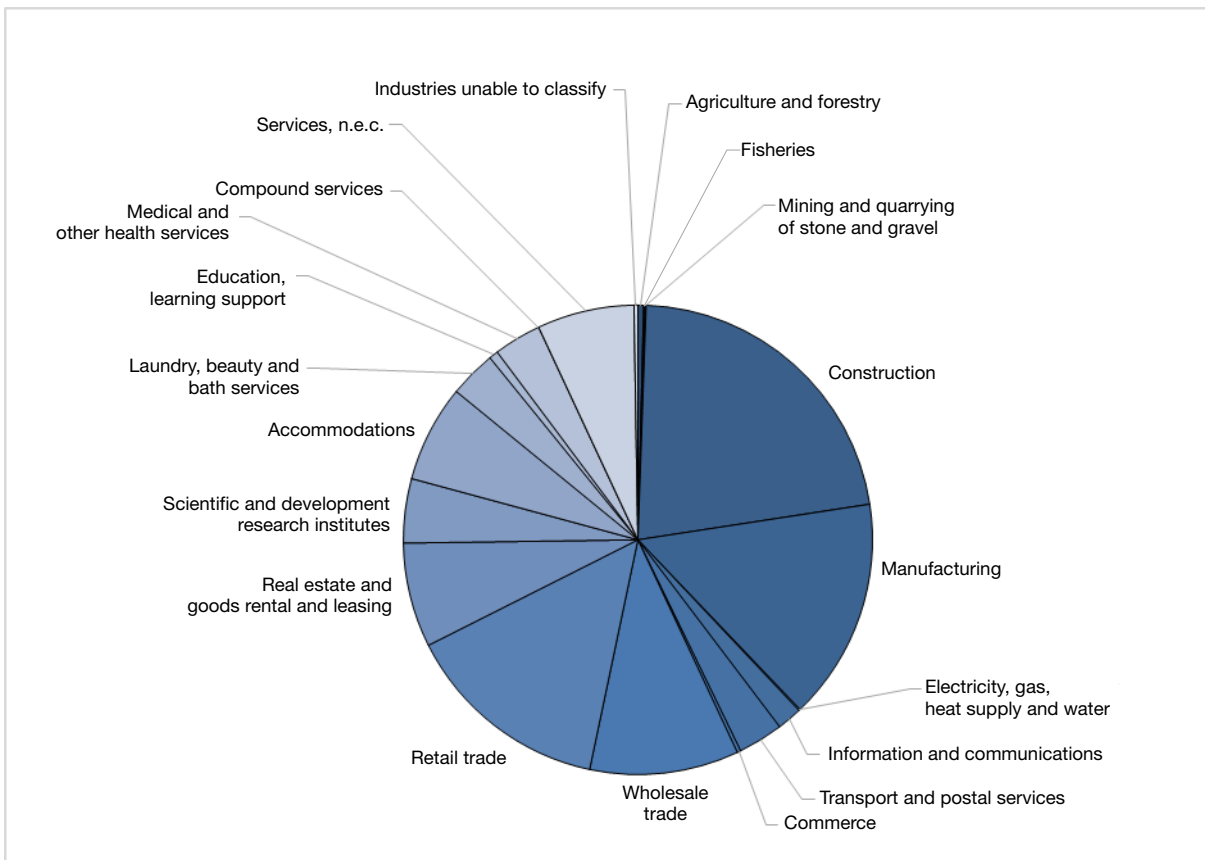


Appended figure 3

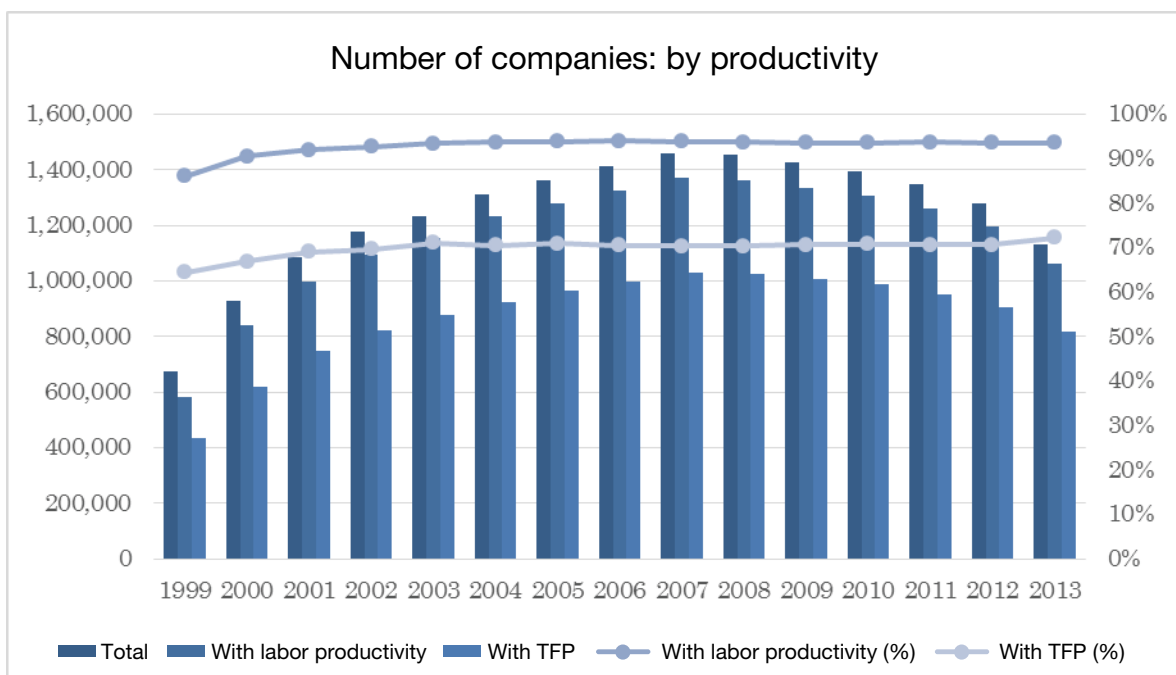
Proportion of manufacturing and non-manufacturing companies (based on Small and Medium-sized Enterprise Basic Act)



Appended figure 4 Industry composition of CRD (by large industrial classification)



Appended figure 5 Number of companies for which productivity could be measured



2. Concerning the estimation of labor productivity and TFP in the analysis

This section provides supplementary information regarding methods of estimation of labor productivity and TFP in the analysis.

1) Labor productivity

$$\text{Labor productivity} = \frac{\text{Value added}}{\text{Labor input}}$$

- Value added = Sales revenue/Operating income – Cost of sales/Operating expenses – Selling costs and General management expenses [103] + Personnel costs + Rental fees + Taxes and dues + Depreciation costs
- Labor time = (Number of employees at end of period + 1) × Average labor time¹⁾

2) Total factor productivity (TFP)

In order to estimate TFP, production functions were postulated with gross output as production and intermediate input, labor input and capital input as input factors. (See 4. below for greater detail regarding the method of estimation employed).

- Gross output
= Sales revenue/Operating income (In the case of non-commercial companies)
= Sales revenue/Operating income – Cost of sales/Operating expenses + Labor costs + Rental fees (Cost) + Taxes and dues (Cost) (In the case of commercial companies)
- Intermediate input = Cost of sales/Operating expenses + Selling costs and General management expenses – Personnel costs – Rental fees – Taxes and dues – Depreciation costs
- Labor input = (Number of employees at end of period + 1) × Labor time per person × Labor quality index¹⁾
- Labor cost = Cost of labor + Personnel costs
- Capital input = Capital stock × Capital quality index*
- Capital cost = Capital stock × Capital services price

3. Concerning the relationship between labor productivity and TFP

In Part I, Chapter 2, it is indicated that the relationship

“Rate of increase in labor productivity = Rate of increase in TFP + Capital share × Capital equipment ratio” holds between labor productivity and TFP. This section provides supplementary information regarding the method of derivation of this relationship.

When taking capital and labor as production factors and assuming the Cobb-Douglas production function, the relationship among value added (Y), total factor productivity (A), capital input (K), labor input (L), and labor share (α) is as follows.

$$Y = A \times K^{(1-\alpha)} \times L^\alpha \quad \dots \textcircled{1}$$

Dividing both sides by L and expressing labor productivity (Y/L) as LP and the capital equipment ratio (K/L) as KL gives the following relationship:

1) Estimated figures (estimated individually for industry x scale) based on figures published in the Basic Survey on Wage Structure (Ministry of Health, Labour and Welfare) for various years were employed for average labor time and the labor quality index. Because the classifications of the scale of companies employed in the Basic Survey did not correspond with the classification into medium enterprise and small enterprise based on the Small and Medium-sized Enterprise Basic Act employed in the analysis, figures estimated based on the Basic Survey for companies with 100–999 employees were assigned to medium enterprises, and figures estimated for companies with 10–99 employees were assigned to small enterprises.

$$LP=A \times (KL)^{1-\alpha} \quad \dots \textcircled{2}$$

③ can be derived by total differentiation of ②

$$\frac{LP'}{LP} = \frac{A'}{A} + (1-\alpha) \frac{KL'}{KL} \quad \dots \textcircled{3}$$

Because $1-\alpha$ expresses the capital share, the relationship

“Rate of increase in labor productivity = Rate of increase in TFP + Capital share \times Rate of increase in capital equipment ratio” holds.

4. Concerning methods of measurement and factor analysis for rate of change in productivity in the analysis

This section provides supplementary information regarding methods of measurement and factor analysis for the rate of change of productivity in SMEs employed in the analysis, using TFP as an example.

1) Concerning the method of calculation of TFP for each company

In the analysis under consideration, relative TFP against the industry average was calculated for each company, with the CRD industry classifications coordinated with the industrial classifications employed in the JIP 2015 Database (RIETI). See the JIP 2015 Database homepage²⁾ for the detailed industrial classifications.

As discussed in Good, Nadiri and Sickles (1997), the logarithmic values of company f 's TFP, at time t ($t > 0$) are defined as follows, in comparison with the logarithmic value of TFP for a representative company in the relevant industry at the starting time ($t=0$; in the case of this analysis, 2003).

For $t=0$

$$\ln TFP_{f,t} = (\ln Q_{f,t} - \overline{\ln Q_t}) - \sum_{i=1}^n \frac{1}{2} (S_{i,f,t} + \overline{S_{i,t}}) (\ln X_{i,f,t} - \overline{\ln X_{i,t}}) \quad (1)$$

For $t \geq 1$

$$\begin{aligned} \ln TFP_{f,t} = & (\ln Q_{f,t} - \overline{\ln Q_t}) - \sum_{i=1}^n \frac{1}{2} (S_{i,f,t} + \overline{S_{i,t}}) (\ln X_{i,f,t} - \overline{\ln X_{i,t}}) \\ & + \sum_{s=1}^t (\overline{\ln Q_s} - \overline{\ln Q_{s-1}}) - \sum_{s=1}^t \sum_{i=1}^n \frac{1}{2} (\overline{S_{i,s}} + \overline{S_{i,s-1}}) (\overline{\ln X_{i,s}} - \overline{\ln X_{i,s-1}}) \end{aligned} \quad (2)$$

Here, $Q_{f,t}$ is the value of production for company f in period t , $S_{i,f,t}$ is the cost share of production factor i for company f , and $X_{i,f,t}$ is the quantity of production factor i input by company f . A line drawn above a variable indicates that variable's industry average. Capital, labor and the real value of intermediate inputs are considered as production factors. Because no data exist for labor time at the company level, statistics for the average value for each industry were used. Companies for which data for the average value of production in the relevant industry, value of intermediate inputs, and cost share of production factors were available were set as representative companies.

The first and second terms on the right-hand side of Equation (2) express the deviation between the logarithmic values of the TFP levels of company f and the representative company at time t . The third and fourth terms express the deviation between the logarithmic values of the TFP levels of the representative company at time t and the representative company at the starting time. Taking into consideration the fact that TFP for the representative companies changes with time, the

2) <http://www.rieti.go.jp/jp/database/JIP2015/index.html>

TFP indexes measured in this way can be read not only as a transversal productivity distribution, but also as a productivity distribution over time. Unlike the measurement of productivity via the estimation of production factors, this method presents the advantage of enabling consideration of differences in factor inputs between companies and imperfect competition in product markets; however, it also presents the limitation of necessitating the assumption of constant returns to scale and perfect competition in production factor markets.

2) Concerning the method of aggregating TFP at the industry level

The method employed by Baily, Hulten and Campbell (1992) was used to aggregate TFP at the company level at the production level. The logarithmic value of industry TFP for year t was defined as follows:

$$\ln TFP_t = \sum_{f=1}^n \theta_{f,t} \ln TFP_{f,t}$$

Here, $\ln TFP_{f,t}$ is the logarithmic value of the company's TFP level, and $\theta_{f,t}$ is the nominal sales share of company f in the industry to which it belongs.

3) Concerning the methodology employed for decomposition of factors in change in TFP

The decomposition methodology discussed by Foster, Haltiwanger and Krizan (2001) (termed the "FHK decomposition methodology" below) was employed to decompose factors in change in TFP.

The FHK decomposition methodology is able to identically decompose changes in the logarithm of TFP for a specific industry from a base year, $t - \tau$ (the base year can be later than the initial zero point in time) to a comparison year, t , as the sum of the following five effects:

Within effect: $\sum_{f \in S} \theta_{f,t-\tau} \Delta \ln TFP_{f,t}$

Between effect: $\sum_{f \in S} \Delta \theta_{f,t} (\ln TFP_{f,t-\tau} - \overline{\ln TFP_{t-\tau}})$

Covariance effect: $\sum_{f \in S} \Delta \theta_{f,t} \Delta \ln TFP_{f,t}$

Entry effect: $\sum_{f \in N} \theta_{f,t} (\ln TFP_{f,t} - \overline{\ln TFP_{t-\tau}})$

Exit effect: $\sum_{f \in X} \theta_{f,t-\tau} (\overline{\ln TFP_{t-\tau}} - \ln TFP_{f,t-\tau})$

Here, S is the aggregate of the companies that have remained in existence from the base year to the comparison year, and N and X respectively are the aggregates of companies that have entered and companies that have exited the market³⁾. Lines above variables indicate averages calculated for all the companies in the industry, and Δ is the difference between $t - \tau$ and t .

The first term, the within effect, assumes that the market share of each company does not change in the period from the base year to the comparison year, and shows to what an extent the TFP of all SMEs changes as a result of changes in the TFP of each company. The second term, the between effect, shows the extent to which TFP for all SMEs changes as a result of increase (or decrease) in the comparison year of the market share of companies whose TFP was higher (or lower) than the industry average in the base year. The third term, the covariance effect, shows the extent to which TFP for all SMEs changes as a result of increase or decrease in the market share of companies whose TFP has changed in the period between the base year and the comparison year. The total of the second and third terms shows the extent to which TFP changes for all

3) In the event that, hypothetically, a company's main business changes from industry i to industry j during the period $t-1$ to t , and that this business maintains a high (or low) level of TFP in both industries, it will cause a decline (or increase) in the average productivity of industry i , and an increase (or decline) in the average productivity of industry j . In this analysis, effects of this type produced by transitions in industry type are included in the entry and exit effects.

SMEs as a result of the redistribution of resources between surviving companies, and is known as the “redistribution effect.” The entry and exit effects show the extent to which TFP for all SMEs changes as a result of the entry (commencement of business) or exit of companies whose TFP was higher (or lower) than the industry average in the base year.

4) Concerning the method of specifying surviving companies, companies commencing business, and exiting companies in the analysis

In conducting the decomposition analysis discussed in 3), it was necessary to discriminate between surviving companies, companies commencing business, and exiting companies. This section will provide additional information regarding the method employed in the analysis.

Companies for which data existed for both the base year and the comparison year, and for which business failure had not been confirmed (the company was neither de facto bankrupt, bankrupt, nor subject to subrogation in the comparison year or before), were considered to be surviving companies.

Of companies for which data existed for the comparison year and not for the base year, those companies that had been established for no more than three years in the base year were considered to be companies commencing business. For example, “companies commencing business” in the third period (2009–2013) were companies that had been established from 2006.

Of companies for which data existed for the base year but not for the comparison year, companies that did not correspond to either “Companies making the transition to become large companies” or “Companies that have repaid their loans,” as defined below, were considered to be exiting companies.

- Companies making the transition to become large companies

These were companies the number of employees and amount of capital of which exceeded the conditions for an SME at the time predicted for their exit by the regression model. With the rate of growth of the number of employees and the rate of growth of capital for each year as the explained variables, estimates were conducted employing the regression model using data for surviving companies in which, among the explanatory variables, the natural logarithms of the number of employees and capital at the initial point of each period, and the rate of growth of the number of employees and the rate of growth of capital (including the annual effect), were positive.

- Companies that have repaid their loans

These were companies with an amount of outstanding loans of zero or below at the time predicted for their exit by the regression model. With the natural logarithm of the decline in the loan amount for each year as the explained variable, estimates were conducted employing the regression model using data for surviving companies in which, among the explanatory variables, the natural logarithms of the number of employees and the loan amount at the initial point of each period, the rate of increase in the loan amount one year previously, the rate of increase in the loan amount two years previously, and the decline in the loan amount (including the annual effect) were positive.

The analysis was conducted with failed companies and discontinued companies classified as exiting companies. Failed companies were those exiting companies that were either de facto bankrupt, bankrupt, or subject to subrogation. Discontinued companies were companies that did not satisfy the abovementioned conditions for a failed company. However, due to limitations in the data, in this analysis a company was treated as a discontinued company when the company relocated its headquarters, when the company changed its name, when the company realized growth in excess of that predicted by the regression model, and when the company became a subsidiary of another company as the result of an M&A.

5) Concerning the method of correction of the results of the analysis using the 2014 Economic Census for Business Frame

Given the characteristics of the CRD discussed in 1. above, the results of the decomposition analysis of factors in change in TFP conducted in the analysis were corrected based on the *2014 Economic Census for Business Frame*. The ratio of sole proprietor and incorporated companies, the ratio of medium enterprises and small enterprises, and the industry composition ratio in the CRD differ from those of the general population. Weighting and aggregation were therefore performed in

order to ensure that these three ratios corresponded. For example, the total and the average of each company's sales were calculated as follows:

Total sales = $\sum_i (\text{weight for company } i \times \text{company } i \text{ sales})$

Average sales = $\frac{\sum_i (\text{weight for company } i \times \text{company } i \text{ sales})}{\sum_i (\text{weight for company } i)}$

The weighting for each company was determined as follows: First, companies were divided into separate groups based on <Sole proprietor / Incorporated company (2 divisions)> × <Medium enterprise / Small enterprise (2 divisions)> × <Industry (17 divisions)>, for a total of 68 divisions. Next, the total number of employees for companies belonging to each group was determined, and the ratio of this figure to the total number of employees for all companies in the CRD was calculated. Using figures published in the *2014 Economic Survey for Business Frame* as data for the general population, the ratio of the total number of employees for each group to the total number of employees in the general population was determined in the same way. The weighting for each company was determined by dividing the ratio of the number of employees of the group to which the relevant company belongs in the general population to the total number of employees in the general population by the ratio of the number of employees in that group in the CRD to the total number of employees in the CRD.

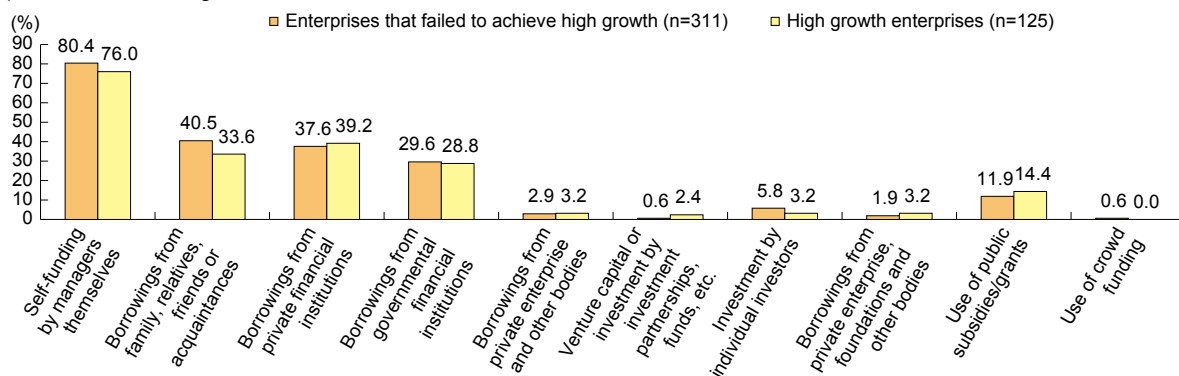
6. Concerning the method of comparing discontinued companies and surviving companies

In order to determine the characteristics of discontinued companies, these companies were compared with surviving companies. However, to ensure the rigor of the comparison, discontinued companies were not compared with all surviving companies, but with surviving companies the status of which resembled the status of discontinued companies before they were discontinued (surviving companies corresponding to discontinued companies). The method of isolating the subjects of the comparison was as follows.

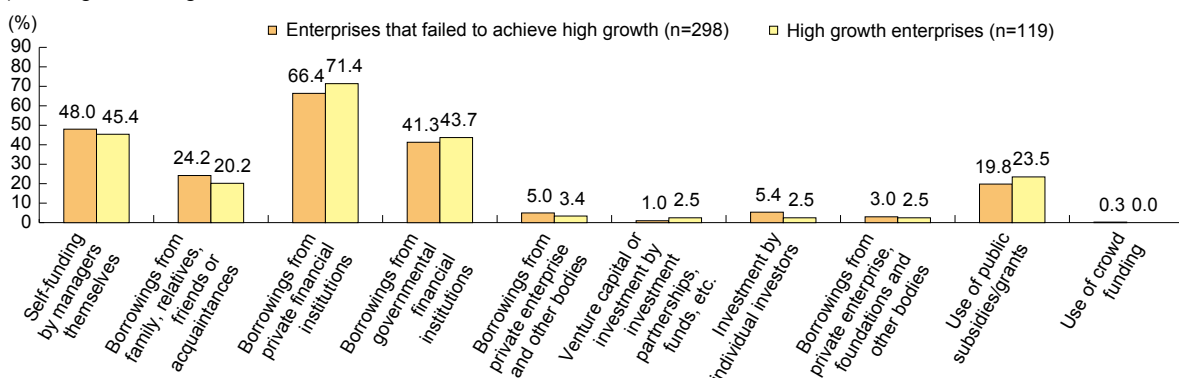
First, minimum and maximum values for the contribution to the effect of discontinuation (difference with market share × industry average TFP) were calculated for individual discontinued companies. Next, hypothetical figures for contribution to the effect of discontinuation (difference with market share × industry average TFP) were determined for individual surviving companies, and the surviving companies that fell within the range of the minimum and maximum figures for discontinued companies were isolated as the subjects of the comparison. In addition, taking into consideration the possibility that the distribution of the contribution to the actual effect of discontinuation by discontinued companies and the distribution of the contribution to the hypothetical effect of discontinuation by the surviving companies might differ, the contribution of actual discontinued companies to the effect of discontinuation was divided into deciles, and weighting was applied to ensure that the ratio of surviving companies isolated as subjects of comparison allotted to each quantile would correspond to the ratio of actual discontinued companies in each quantile. Under these conditions, statistical quantities related to the characteristics of the surviving companies (ratio of companies with management successors, average number of employees/volume of sales, etc.) were calculated, and the companies were compared with discontinued companies.

Appended note 2-1-1 Fund procurement methods used by high growth enterprises and enterprises that failed to achieve high growth in each growth stage

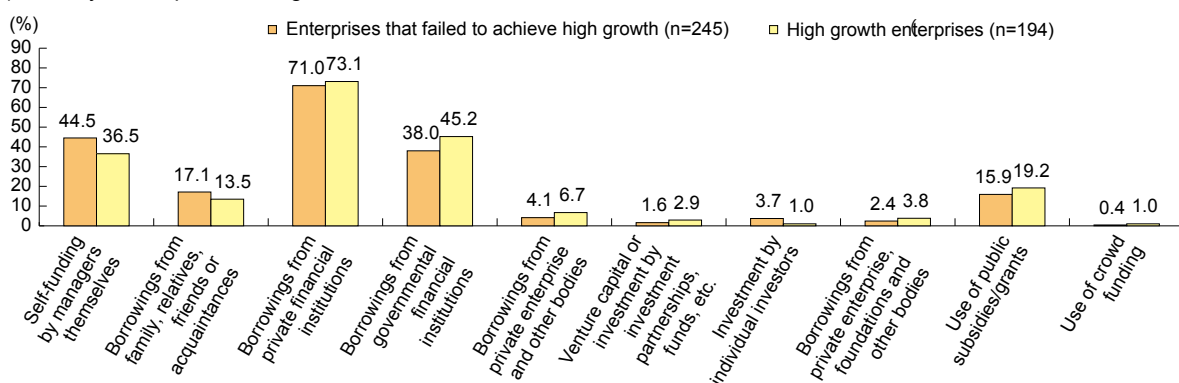
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

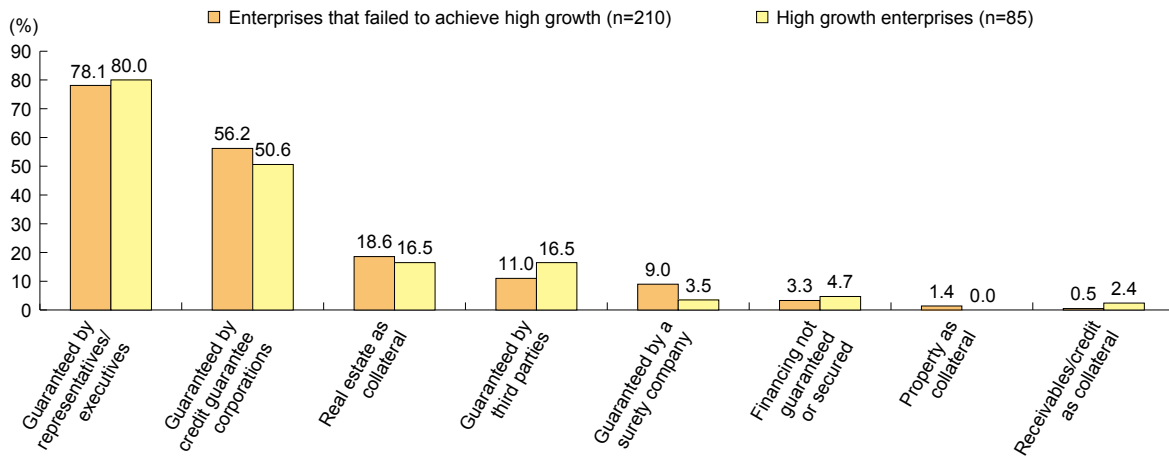


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

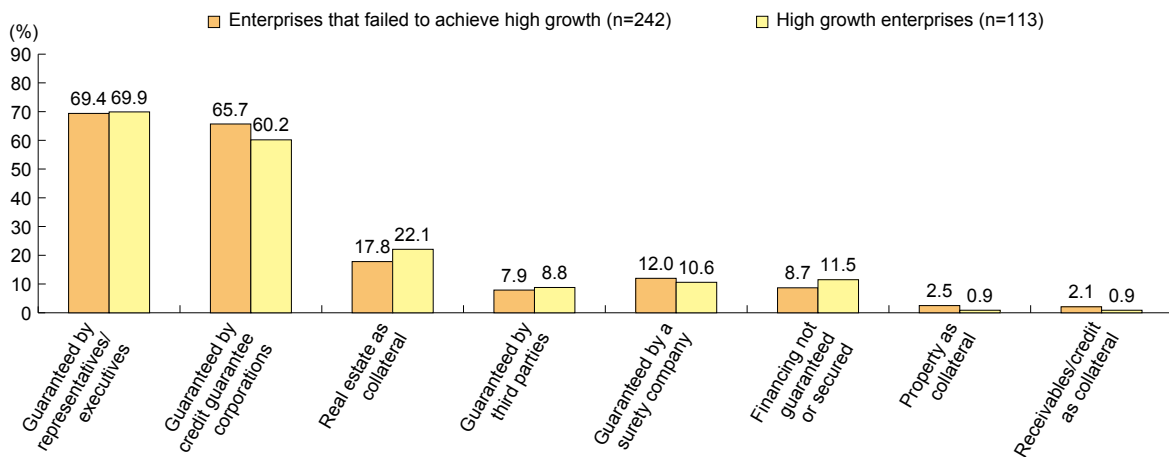
- Notes:
1. Totals are calculated for items answered “used” or “now using”.
 2. Total does not always equal 100% as multiple responses were possible.

Appended note 2-1-2 Conditions on the collateral/guarantees used by high growth enterprises and enterprises that failed to achieve high growth in each growth stage when receiving financing

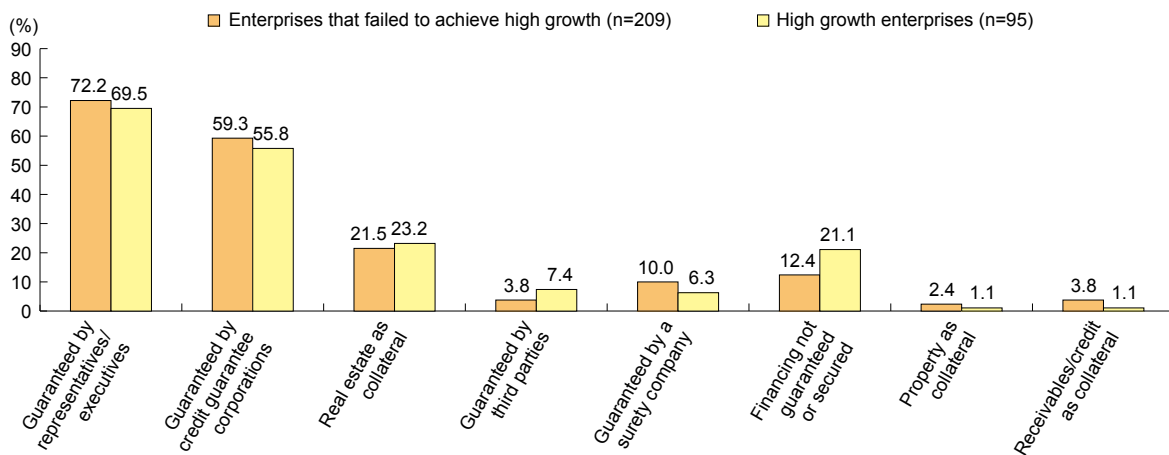
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

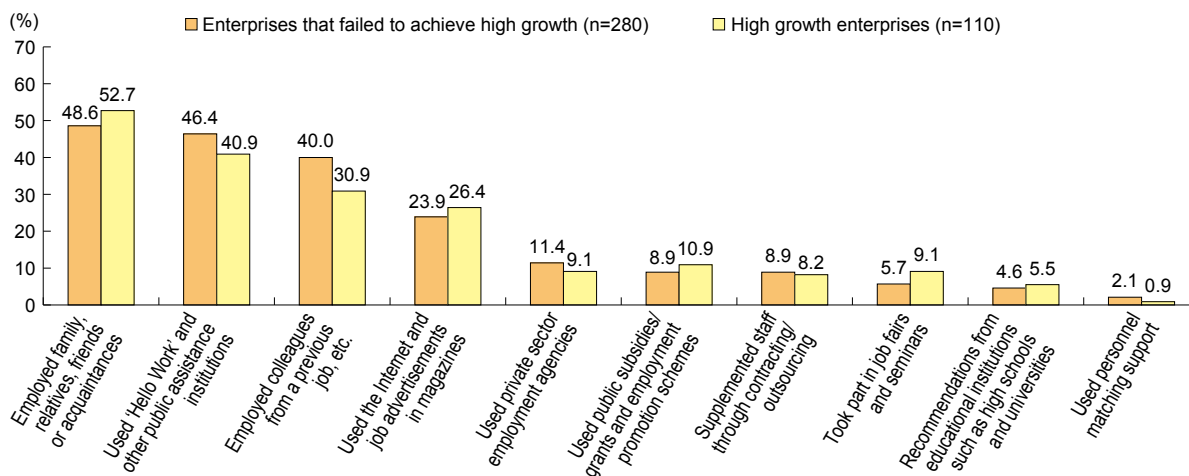


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

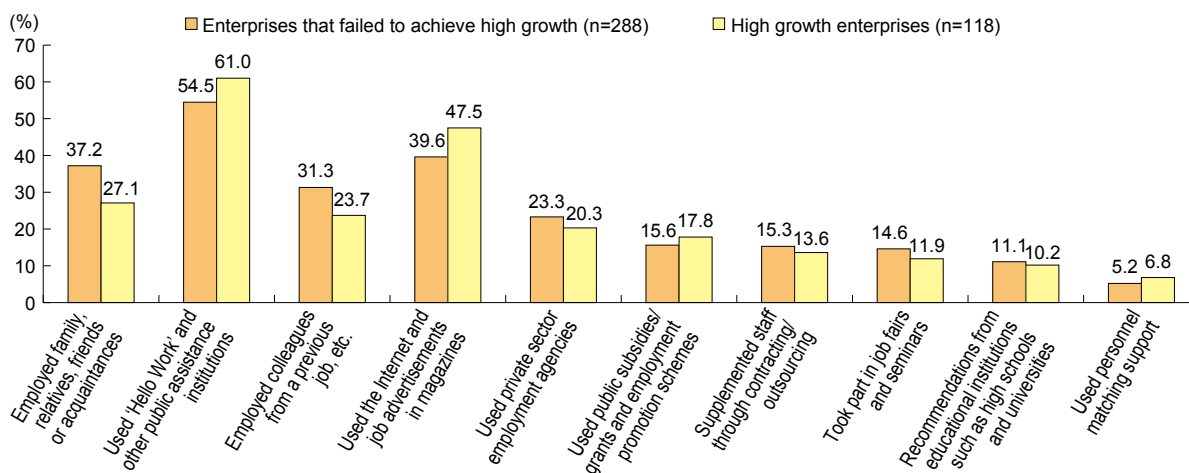
- Notes:
1. Totals for the respective items are for the proportions who responded "used" or "now using" when receiving financing.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No "Other" category is presented here.

Appended note 2-1-3 Steps taken by high growth enterprises and enterprises that failed to achieve high growth to secure personnel in each growth stage

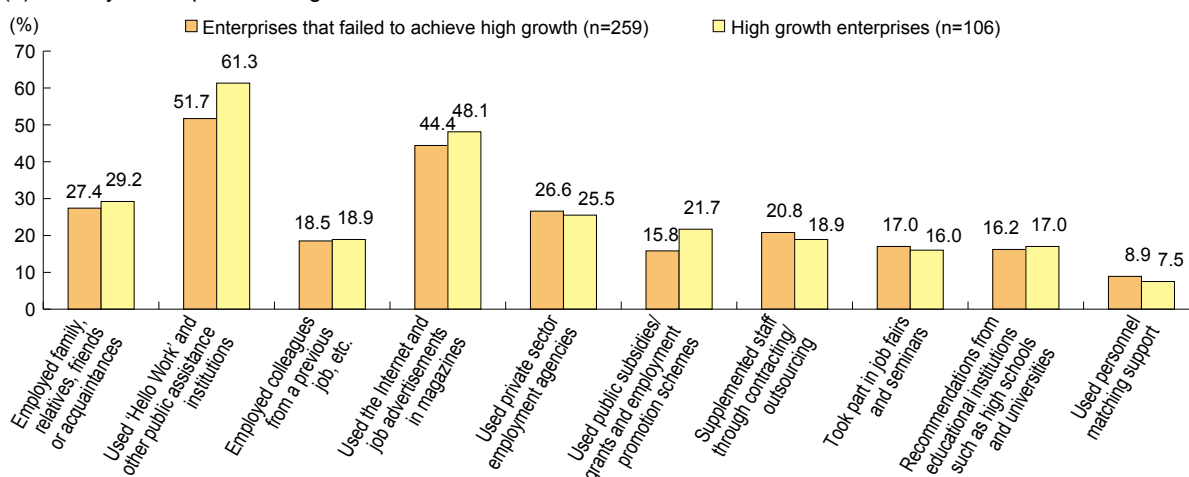
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

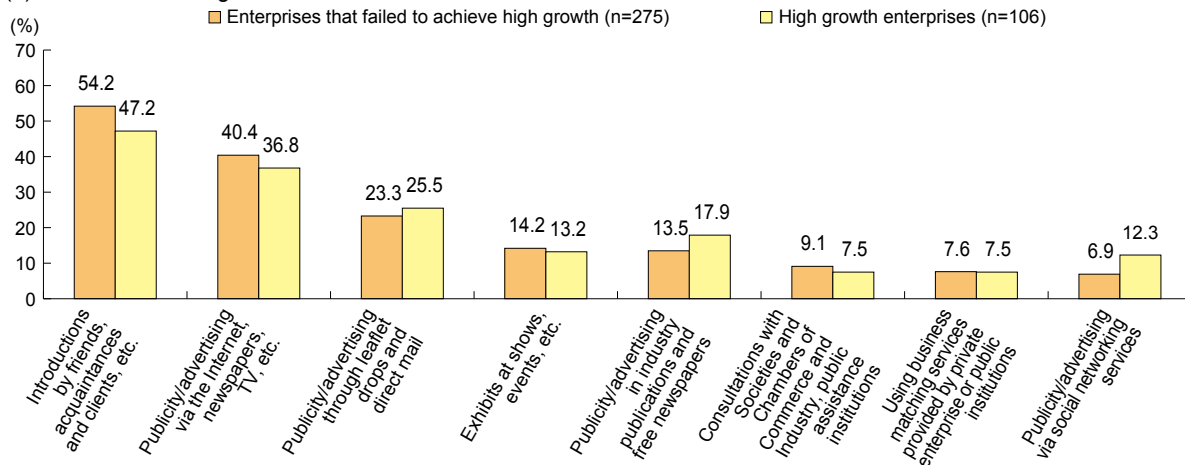


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

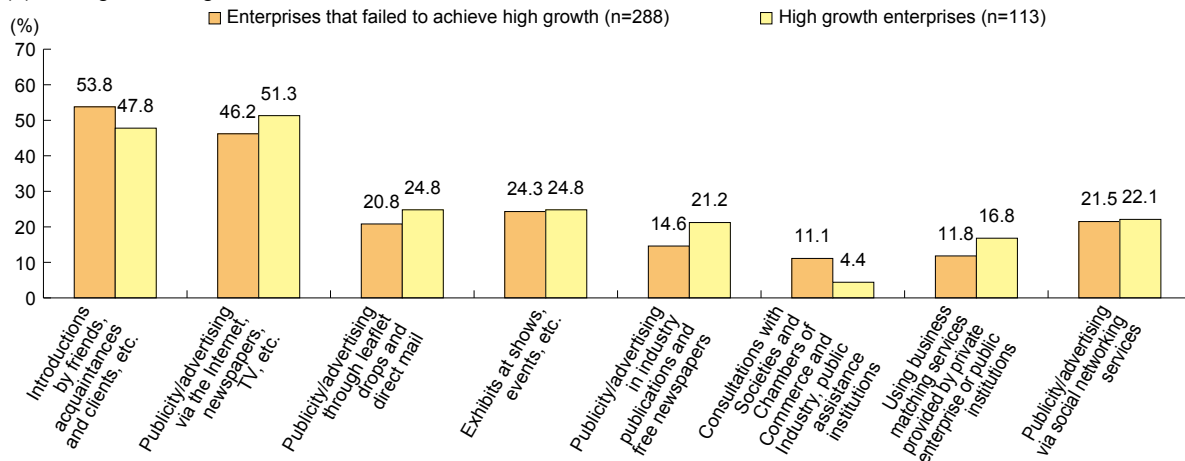
- Notes:
1. Totals are calculated for items answered "employed" or "now employing".
 2. Total does not always equal 100% as multiple responses were possible.
 3. No "Other" category is presented here.

Appendix note 2-1-4 Market development efforts by high growth enterprises and enterprises that failed to achieve high growth in each growth stage

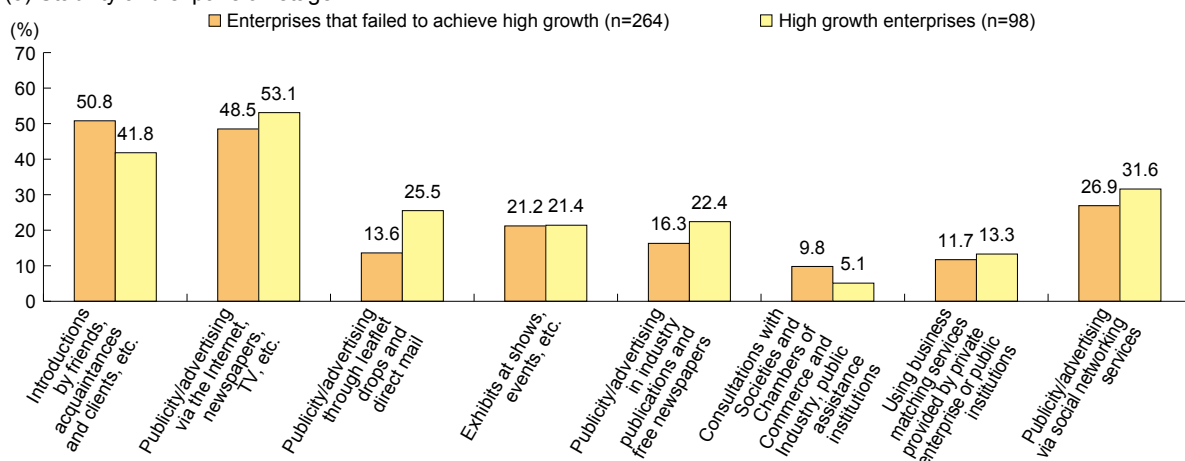
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

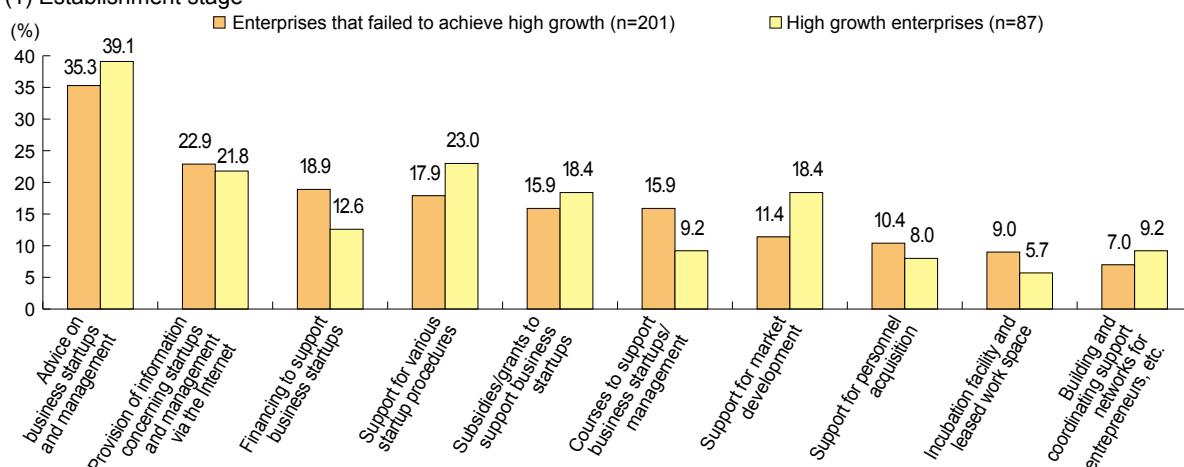


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

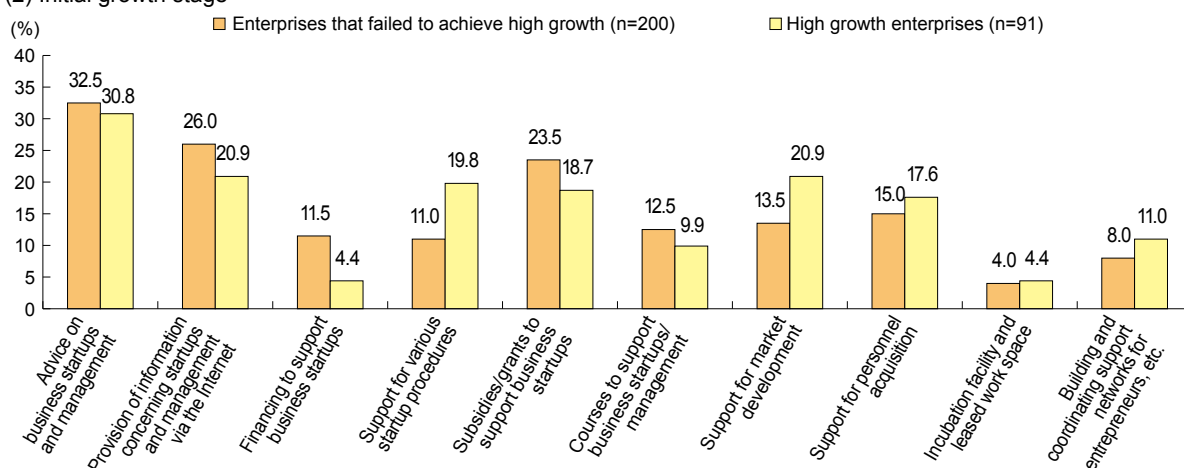
- Notes:
1. Totals are calculated for items answered "employed" or "now employing".
 2. Total does not always equal 100% as multiple responses were possible.
 3. No "Other" category is presented here.

Appended note 2-1-5 Details of support policies used by high growth enterprises and enterprises that failed to achieve high growth in each growth stage

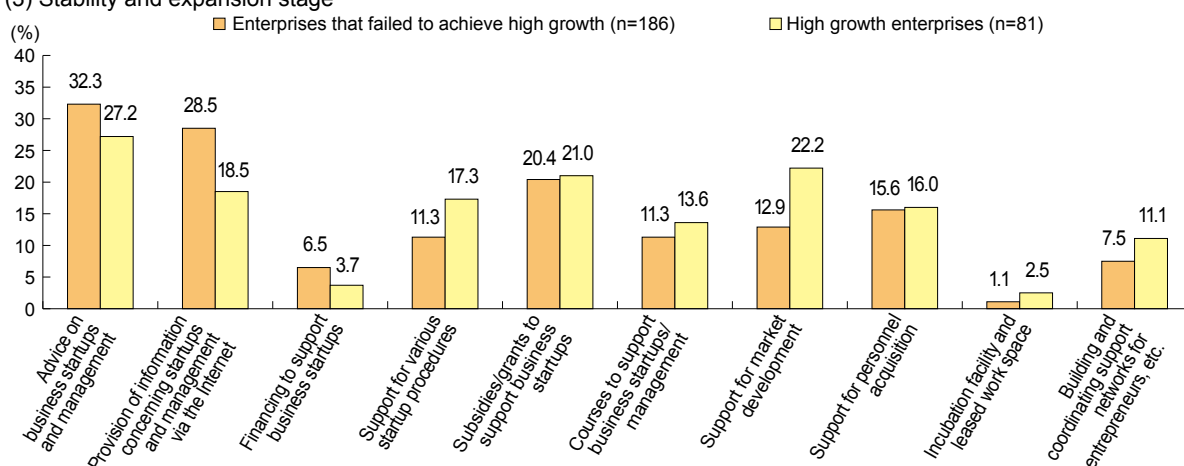
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

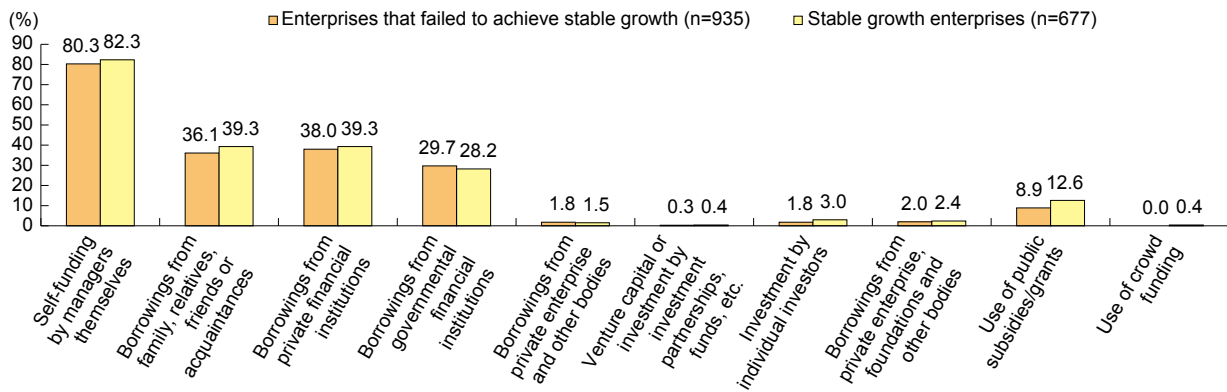
Notes: 1. Totals are calculated for items answered “employed” or “now employing”.

2. Total does not always equal 100% as multiple responses were possible.

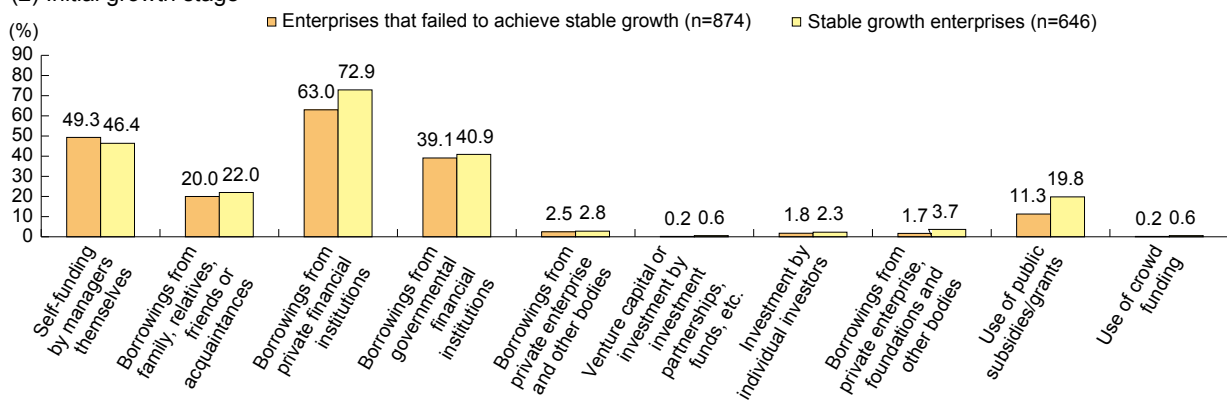
3. The chart shows the ten items with the highest proportion of responses from enterprises in the establishment stage.

Appended note 2-1-6 Fund procurement methods used by stable growth enterprises and enterprises that failed to achieve stable growth in each growth stage

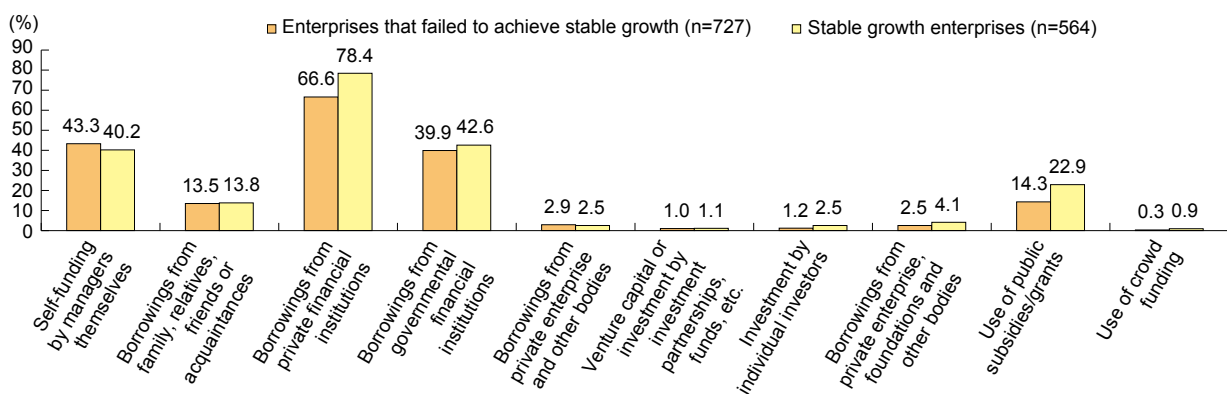
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

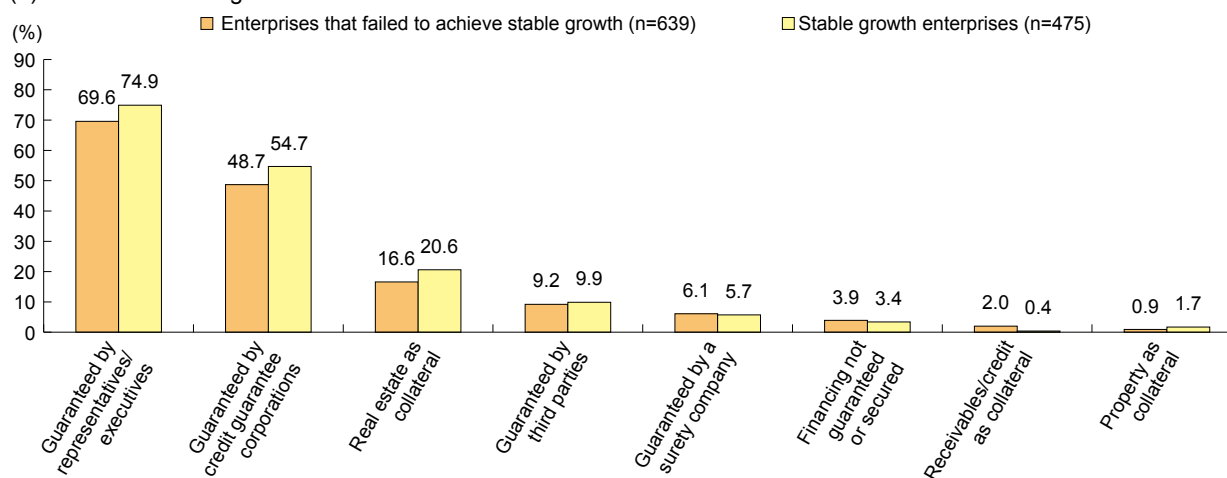


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

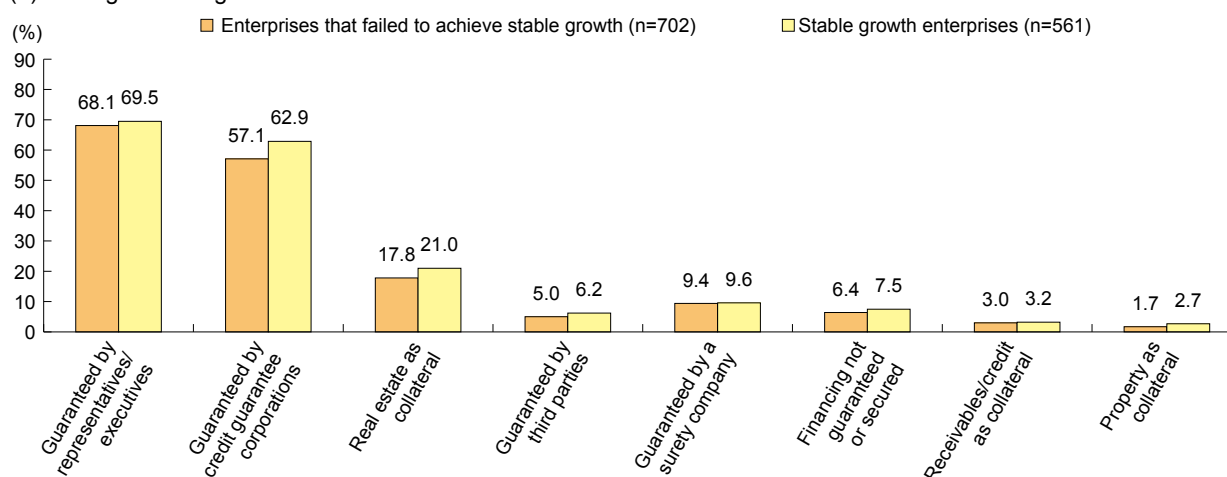
- Notes:
1. Totals are calculated for items answered "used" or "now using".
 2. Total does not always equal 100% as multiple responses were possible.

Appended note 2-1-7 Conditions on the collateral/guarantees used by stable growth enterprises and enterprises that failed to achieve stable growth in each growth stage when receiving financing

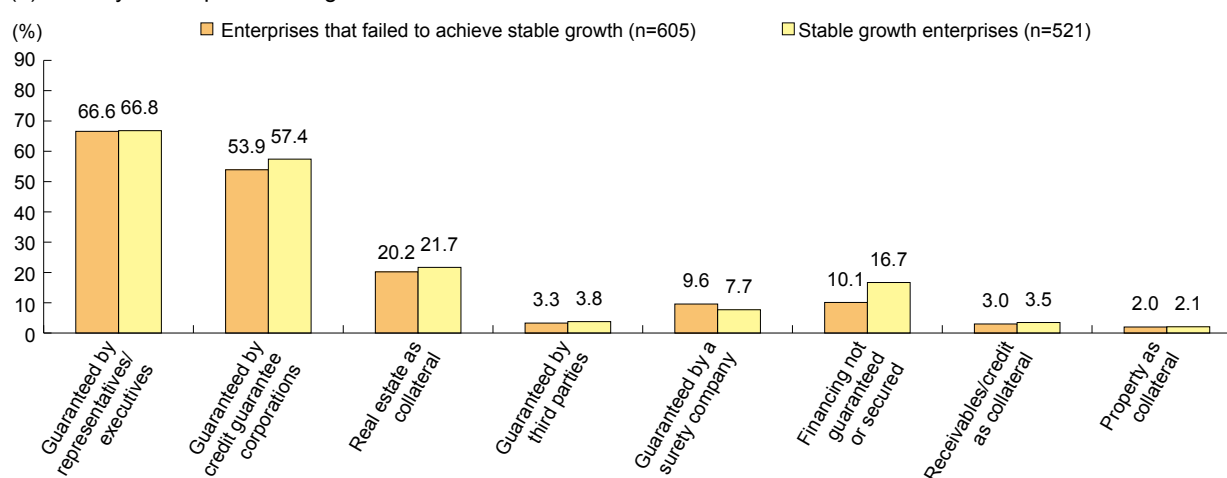
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

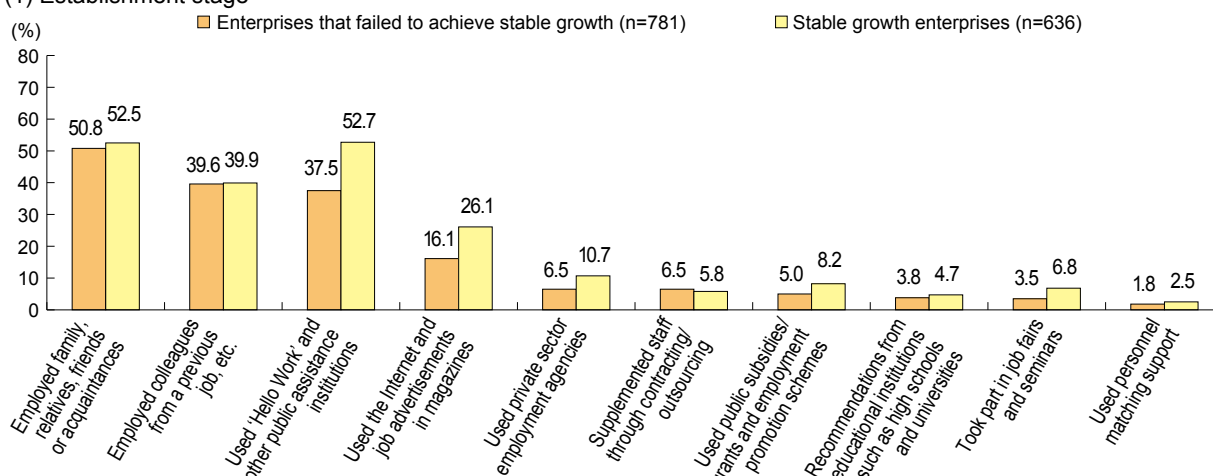


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

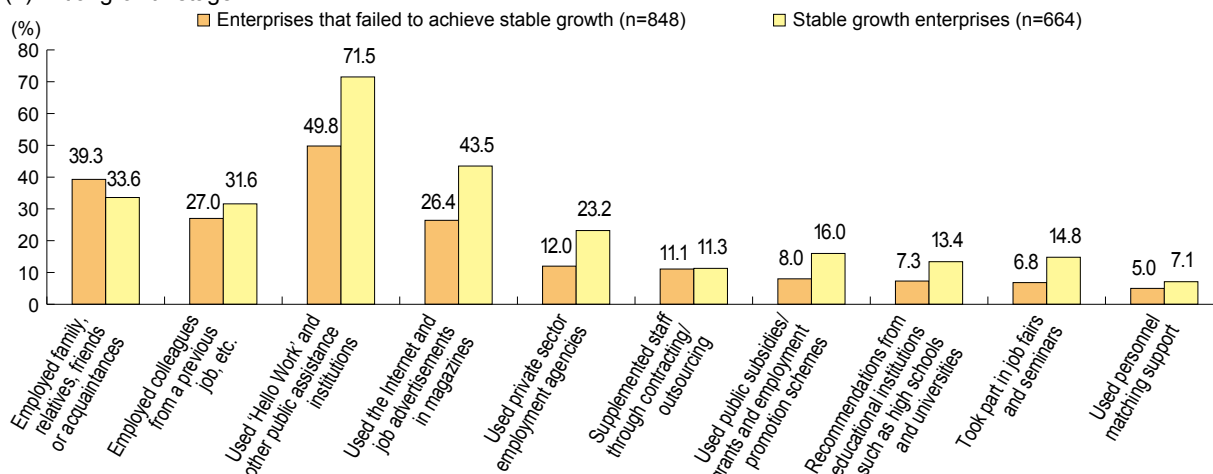
- Notes:
1. Totals for the respective items are for the proportions who responded “used” or “now using” when receiving financing.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” category is presented here.

Appended note 2-1-8 Steps taken by stable growth enterprises and enterprises that failed to achieve stable growth to secure personnel in each growth stage

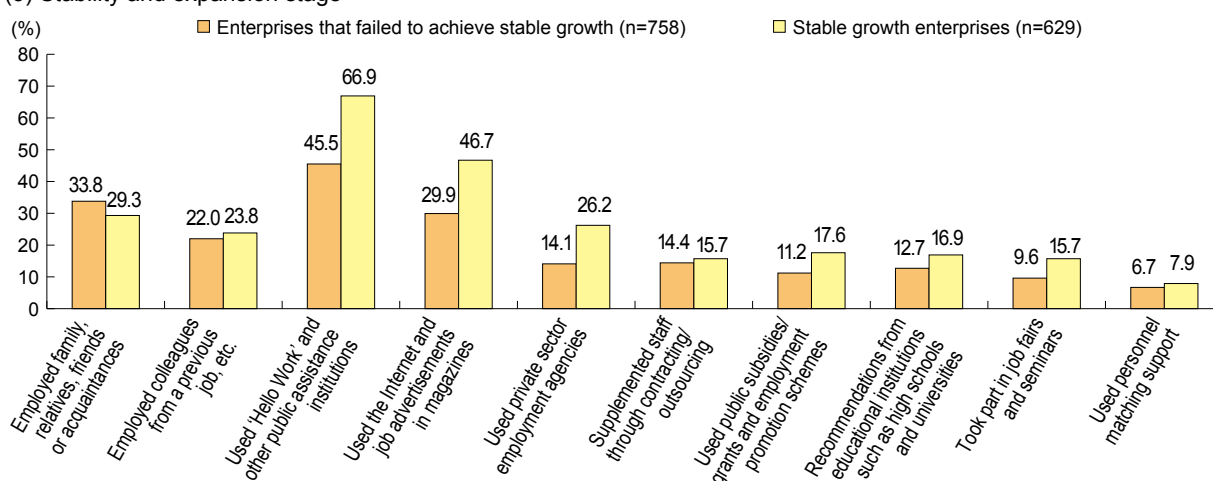
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

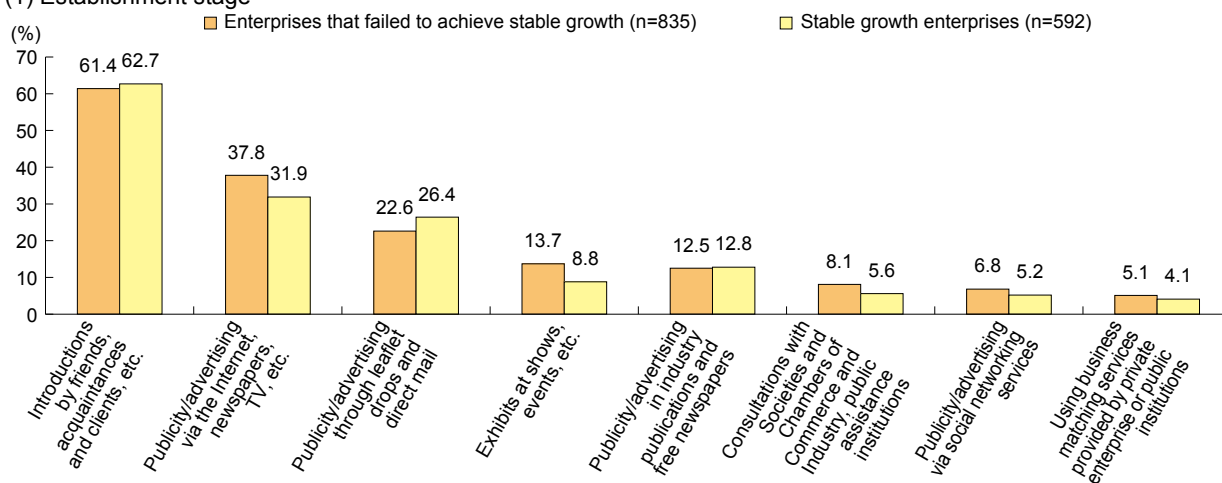


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

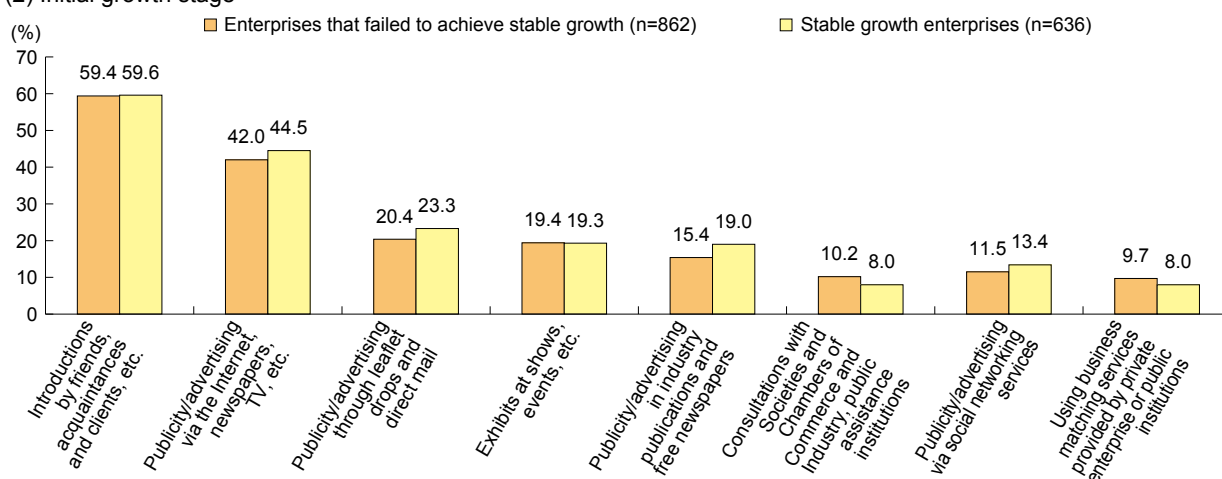
- Notes:
1. Totals are calculated for items answered "employed" or "now employing".
 2. Total does not always equal 100% as multiple responses were possible.
 3. No "Other" category is presented here.

Appended note 2-1-9 Market development efforts by stable growth enterprises and enterprises that failed to achieve stable growth in each growth stage

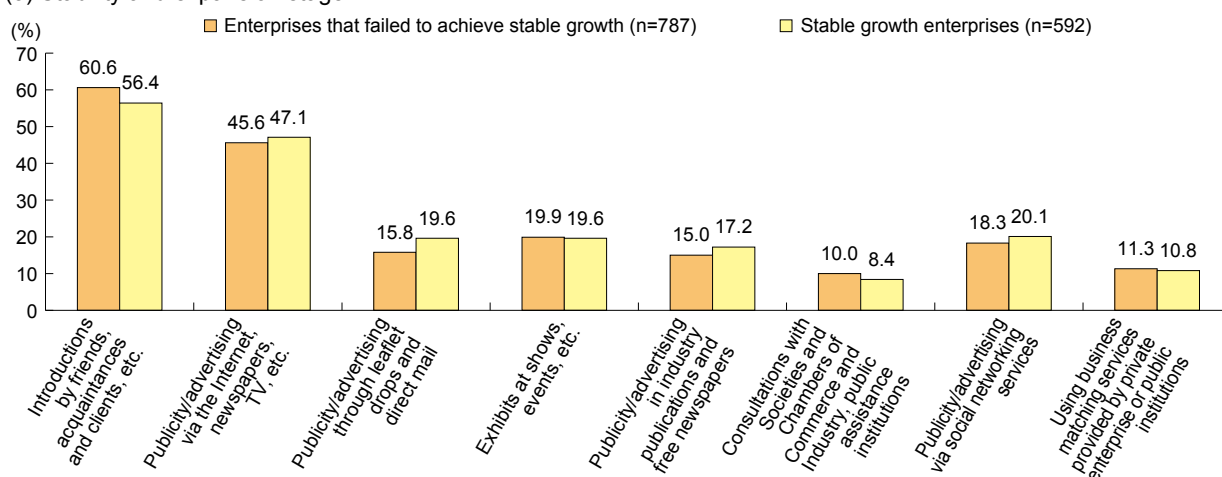
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

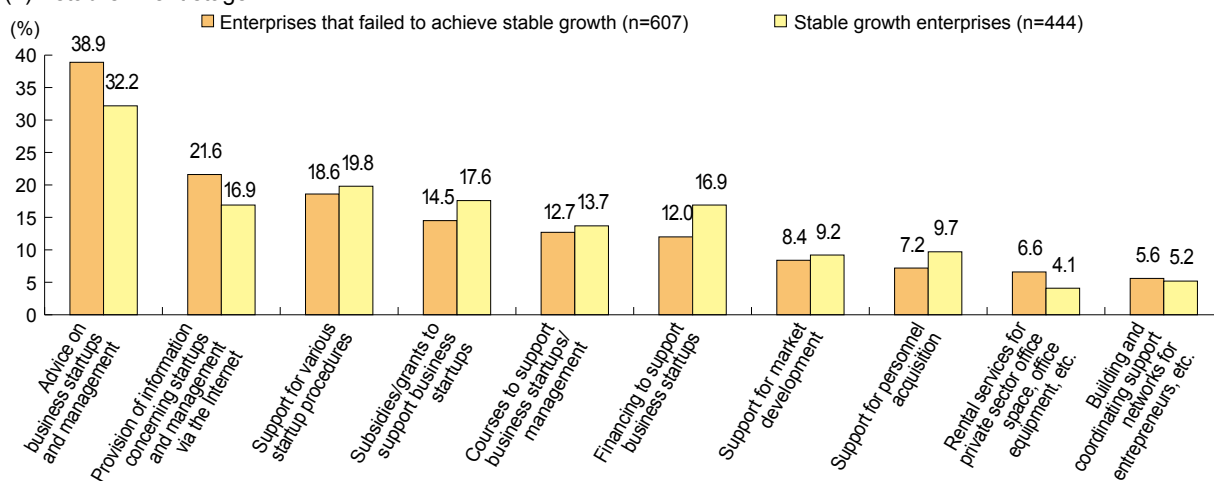


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

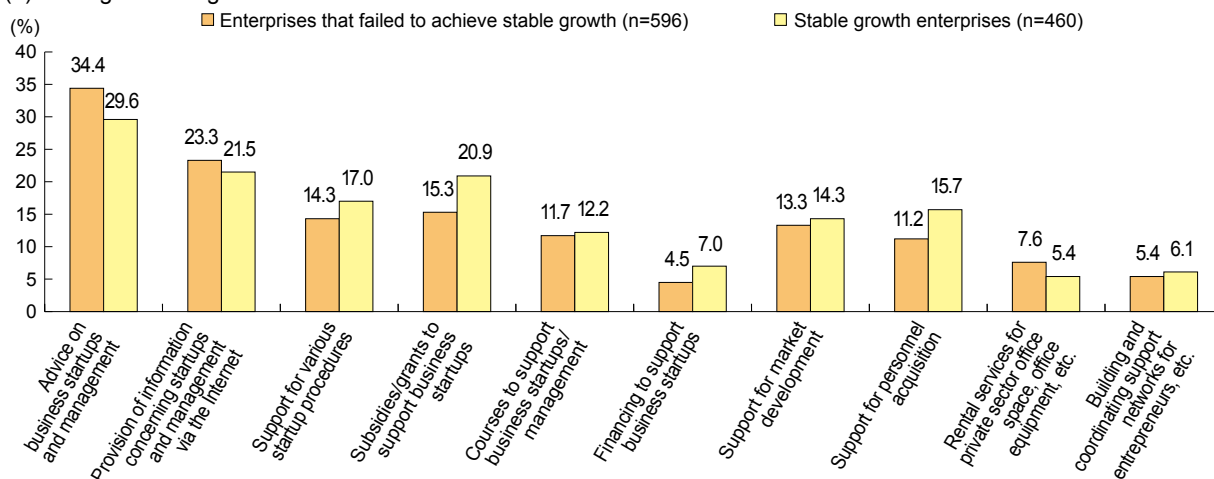
- Notes:
1. Totals are calculated for items answered “employed” or “now employing”.
 2. Total does not always equal 100% as multiple responses were possible.
 3. No “Other” category is presented here.

Appended note 2-1-10 Details of support policies used by stable growth enterprises and enterprises that failed to achieve stable growth in each growth stage

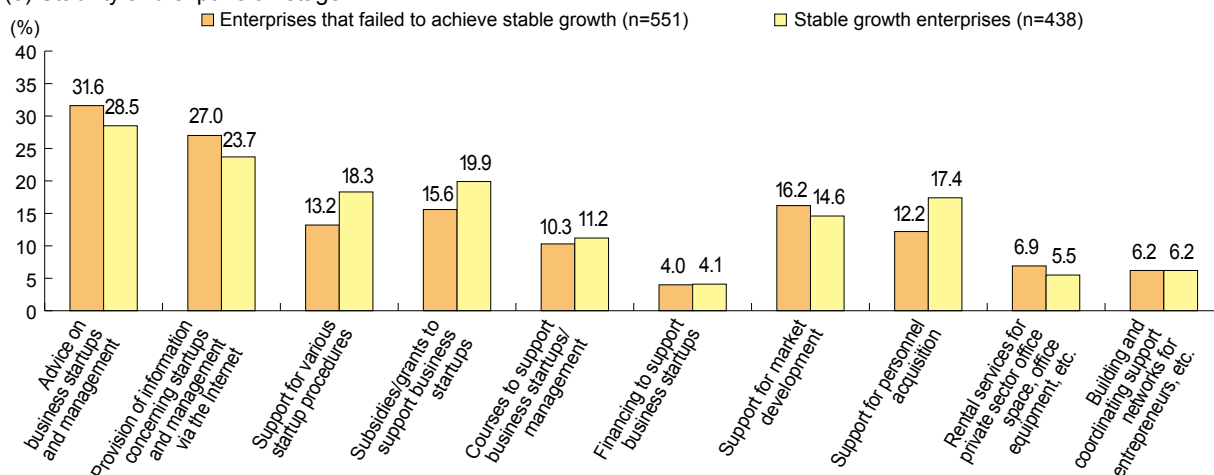
(1) Establishment stage



(2) Initial growth stage



(3) Stability and expansion stage

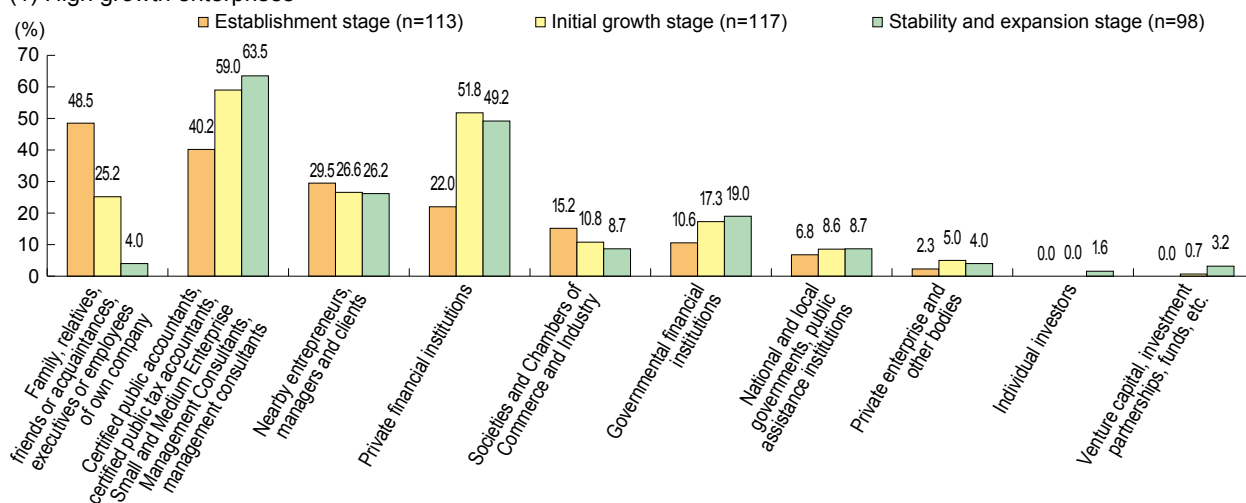


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

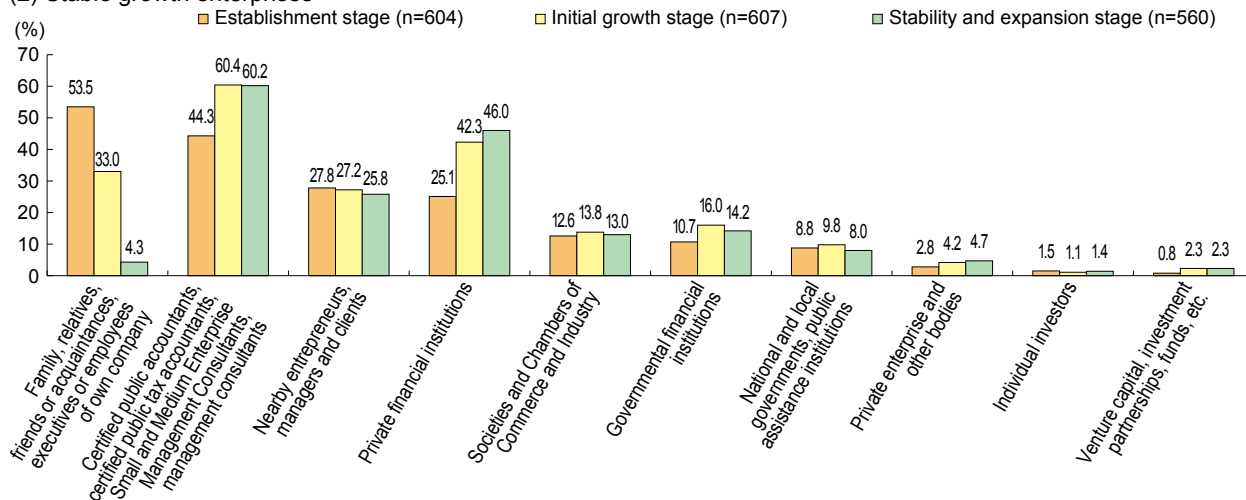
- Notes:
1. Totals are calculated for those answered "employed" or "now employing".
 2. Total does not always equal 100% as multiple responses were possible.
 3. The chart shows the ten items with the highest proportion of responses from enterprises in the establishment stage.

Appended note 2-1-11 Advisors consulted when considered for fund procurement by each growth type and growth stage

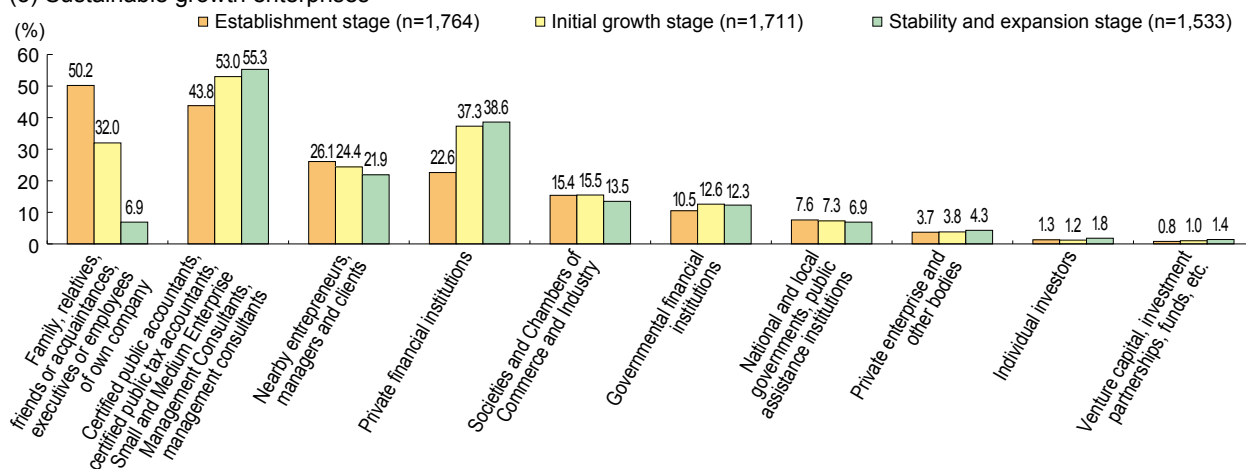
(1) High growth enterprises



(2) Stable growth enterprises



(3) Sustainable growth enterprises



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
- Total does not always equal 100% as multiple responses were possible.
 - No "Other" category is presented here.

Appended note 2-1-12 Funding for new start-ups: Overview of system

Eligible borrowers	<p>Individuals satisfying any of the following conditions(*)</p> <ol style="list-style-type: none"> Individuals starting a business in the same industry as the company that they currently work for, who satisfy either of the following conditions: <ol style="list-style-type: none"> Individuals who have been continuously employed for six years or more by the company that they currently work for Individuals who have worked for a total of six years or more in the same industry as the company that they currently work for Individuals who have worked continuously for two years or more in a job closely related to skills, etc. that they acquired at university, etc., and who wish to start a business in an industry closely related to that job Individuals starting a business that responds to diverse needs by adding original elements to technologies, services, etc. Individuals starting a business that will create employment Individuals starting a business that is subject to Specified Start-up Support as stipulated by Article 2, Paragraph 23(i) of the Act on Strengthening Industrial Competitiveness. Individuals who have received support from a regional revitalization promotion support business in order to start a business Individuals who have received support from a regional revitalization support network participated in by government financial institutions in order to start a business Individuals who have received joint financing from a private sector financial institution and a government financial institution in order to start a business Individuals who have started a business satisfying any of requirements 1–8 who started a business no more than seven years previously. <p>(*) Individuals operating businesses related to community health are eligible for a “community health-related business loan,” and individuals operating a business retailing foodstuffs, etc. are eligible for a “food-related business loan,” and are not able to make use of this system.</p>
Loan uses	Capital required to start up a new business or for a business started up previously
Maximum amounts loaned	¥72 million (including ¥48 million for working capital)
Loan interest rate	<p>Standard interest rate</p> <p>Individuals satisfying any of the following conditions are eligible for a special interest rate:</p> <ol style="list-style-type: none"> Working capital and capital expenditure for individuals(*) receiving investment (including convertible bonds, pre-emption rights, stock acquisition rights and bonds with stock acquisition rights) from an investment limited partnership funded by the Organization for Small & Medium Enterprises and Regional Innovation, Japan Working capital and capital expenditure necessary for businesses opened in empty stores in shopping districts operated by Shopping District Promotion Associations that have formulated an approved shopping district revitalization plan Working capital and capital expenditure for individuals(*) displaying novelty in terms of technologies, knowhow, etc. (Excluding funds for the acquisition of land) <p>(*) Must satisfy specific conditions</p>
Loan term	<p>Capital expenditure: Up to 20 years <deferred up to 2 years></p> <p>Working capital: Up to 7 years <deferred up to 2 years></p>
Applicable financial institutions	<p>Japan Finance Corporation (Micro Business and Individual Unit)</p> <p>Okinawa Development Finance Corporation</p>

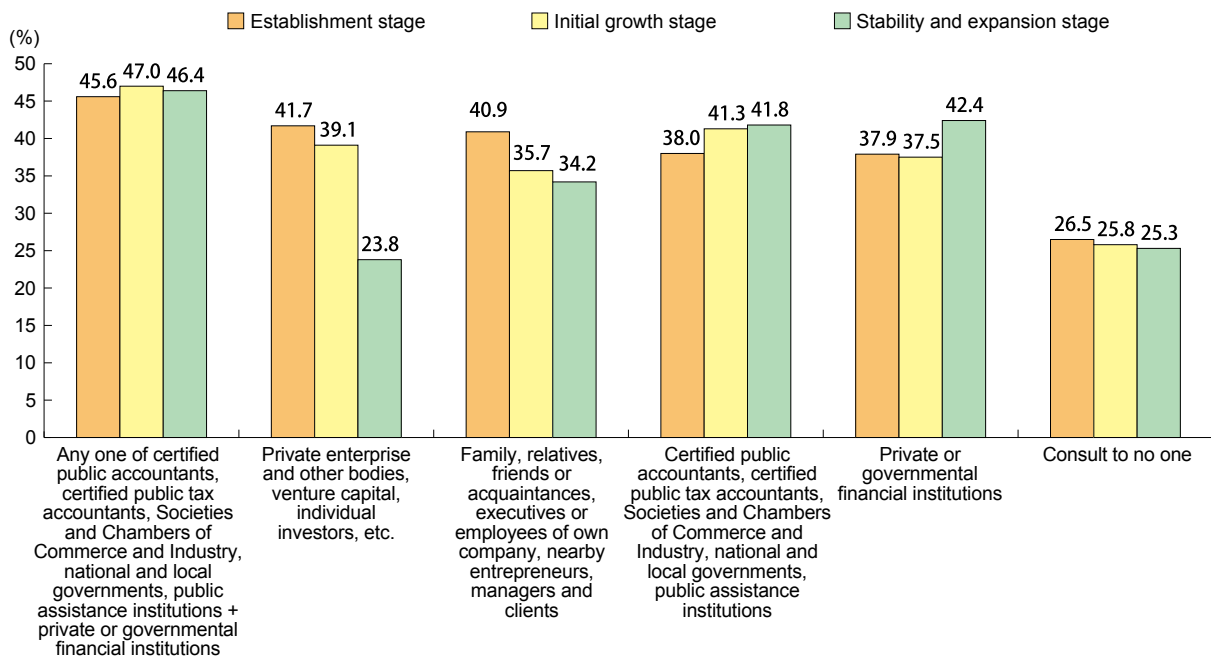
Appended note 2-1-13 Funding for female, young and senior entrepreneurs: Overview of system

Eligible borrowers	Women and individuals aged under 30 or over 55 who are starting a new business or who have started a new business within the past seven years
Loan uses	Capital required to start up a new business or for a business started up previously
Maximum amounts loaned	<p>SME Unit: ¥720 million (including ¥250 million for working capital)</p> <p>Micro Business and Individual Unit: ¥72 million (including ¥48 million for working capital)</p>
Loan interest rate	<ol style="list-style-type: none"> Facility and equipment funds (Funds for acquisition of land): Standard interest rate Working capital and capital expenditure for individuals(*) displaying novelty in terms of technologies, knowhow, etc. (Excluding funds for the acquisition of land): Special interest rate <p>(*) “Individuals displaying novelty in terms of technologies, knowhow, etc.” refers to the following:</p> <ul style="list-style-type: none"> Individuals operating a business making use of intellectual property including patents and trademarks Individuals operating a business that will receive a technological development-related grant from the government, etc. Individuals employing two or more R&D personnel, representing 10% or more of full-time executives and staff (Limited to companies that have been incorporated for less than two years) Individuals for whom experiment and research expenses represent more than 5% of sales (Limited to companies that have been incorporated for more than five years but less than ten)
Loan term	<p>Capital expenditure: Up to 20 years <deferred up to 2 years></p> <p>Working capital: Up to 7 years <deferred up to 2 years></p>
Applicable financial institutions	<p>Japan Finance Corporation (SME Unit and Micro Business and Individual Unit)</p> <p>Okinawa Development Finance Corporation</p>

Appended note 2-1-14 New start-up financing system: Overview of system

<p>Eligible borrowers</p>	<p>Individuals satisfying requirements 1–3</p> <p>1. Start-up requirement Individuals who are starting a new business or have not yet submitted two tax returns since the establishment of their business</p> <p>2. Requirements related to employment creation, economic activation, work experience and acquired skills, etc. Individuals satisfying any of the following conditions. However, women with a loan balance of ¥3 million or below, including funding received under this system, will be considered to satisfy the requirements (Special Provisions for Small-scale Start-ups by Female Entrepreneurs)</p> <p>(1) Individuals starting a business that will create employment (2) Individuals starting a business that responds to diverse needs by adding original elements to technologies, services, etc. (3) Individuals starting a business in the same industry as the company that they currently work for, who satisfy either of the following conditions: a. Individuals who have been continuously employed for six years or more by the company that they currently work for b. Individuals who have worked for a total of six years or more in the same industry as the company that they currently work for (4) Individuals who have worked continuously for two years or more in a job closely related to skills, etc. that they acquired at university, etc., and who wish to start a business in an industry closely related to that job (5) Individuals starting a business that is subject to Specified Start-up Support as stipulated by Article 2, Paragraph 23(i) of the Act on Strengthening Industrial Competitiveness. (6) Individuals who have received support from a regional revitalization promotion support business in order to start a business (7) Individuals who have received support from a regional revitalization support network participated in by finance corporations in order to start a business (8) Individuals who have received joint financing from a private sector financial institution and a finance corporation in order to start a business (9) Individuals who have started a business satisfying any of requirements 1–8 when starting a business</p> <p>3. Self-funding requirement Individuals for whom it can be shown that their own funds^{(*)1} represent one-tenth or more of total start-up capital at the time of establishment of the company, either prior to the establishment of the company or before a tax return has been submitted following the establishment of the company^{(*)2}. However, individuals satisfying the following requirements will be considered to satisfy the self-funding requirement.</p> <p>(1) Individuals satisfying conditions 2(3)–(8) above. (2) Individuals recognized as displaying novelty in the development and manufacture of new products, the development and provision of new services, etc. a. Individuals displaying novelty in terms of technologies, knowhow, etc.^{(*)3} b. Individuals who have received approval for a business innovation plan, or have received authorization for a new business cooperation plan, a cooperative business plan involving agriculture, trade and industry, etc., or a business plan involving the use of regional industrial resources c. Individuals who will require six months or more for the manufacture of products or the provision of services due to conducting research and development towards the commercialization of new products and services and test marketing, and who expect their business to be profitable within three business years (3) Individuals who are scheduled to apply SME accounting principles or guidelines</p> <p>^{(*)1} Funds that are not scheduled to be employed in the business are not included in the entrepreneur's own funds for the purposes of this requirement ^{(*)2} Individuals qualifying for the (Special Provisions for Small-scale Start-ups by Female Entrepreneurs) must also satisfy the self-funding requirement ^{(*)3} "Individuals displaying novelty in terms of technologies, knowhow, etc." refers to the following: • Individuals operating a business making use of intellectual property including patents and trademarks • Individuals operating a business that will receive a technological development-related grant from the government, etc. • Individuals employing two or more R&D personnel, representing 10% or more of full-time executives and staff (Limited to companies that have been incorporated for less than two years) • Individuals for whom experiment and research expenses represent more than 5% of sales (Limited to companies that have been incorporated for more than five years but less than ten)</p>
<p>Loan uses</p>	<p>Capital required for the establishment of a business or following the establishment of a business</p>
<p>Maximum amounts loaned</p>	<p>¥30 million (including ¥15 million for working capital)</p>
<p>Collateral / Guarantor</p>	<p>In principle unnecessary In principle, the system is collateral- and guarantor-free, and responsibility does not extend to individual representatives of the company. If an incorporated company wishes to offer a personal surety from an individual representative^(*), the representative can become a joint guarantor. In this case, the interest rate is reduced by 0.1%. ^(*) Including de facto managers and business partners</p>
<p>Applicable financial institutions</p>	<p>Japan Finance Corporation (Micro Business and Individual Unit) Okinawa Development Finance Corporation</p>

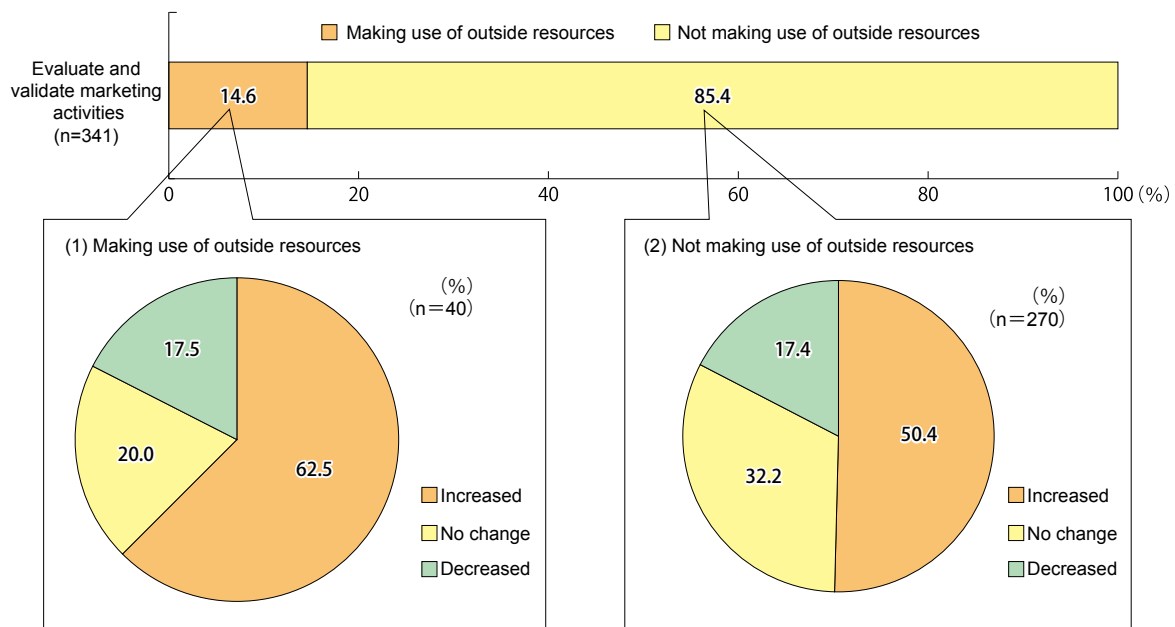
Appended note 2-1-15 Rate of sustainable growth enterprises which the sales for recent three years is expanding by growth stage and advisors consulted



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., *Survey of Business Startup/Establishment Conditions* (November 2016), commissioned by the SME Agency.

- Notes:
1. The chart shows the totals for responses from sustainable growth enterprises consulted only each of the advisors in each growth stage.
 2. Total does not always equal 100% as multiple responses were possible.

Appended note 2-3-1 State of ordinary profit ratio, by state of outside resource usage (evaluate and validate marketing activities)



Source: Nomura Research Institute, Ltd., *Survey on SME Business Growth Strategies, etc.* (November 2016), commissioned by the SME Agency.

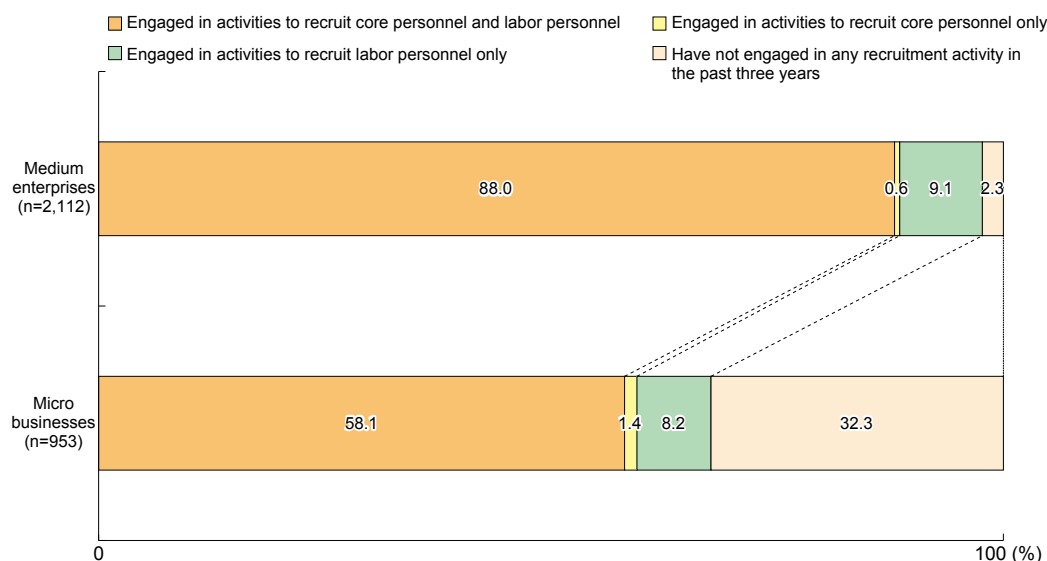
- Notes:
1. Aggregates the total of those who answered, succeeded in new business development.
 2. As a state of outside resource usage "making use of" aggregates the total of those who answered, "making use of constantly" and "making use of occasionally." "Not making use of" aggregates the total of those who answered, "investigating, but not making use of" and "not investigating."

Appended note 2-4-1 Age composition of employees, by business expansion policy

	Young workers make up the largest proportion of the staff	Each generation of workers makes up an equal proportion of the staff	There are few mid-level employees	Veterans are the biggest part of the staff	Mid-level employees make up the largest proportion of the staff
Grow/expansion (n=984)	19.5	14.6	17.3	26.2	22.4
Level off/maintain (n=2,049)	8.0	14.0	11.4	45.4	21.2

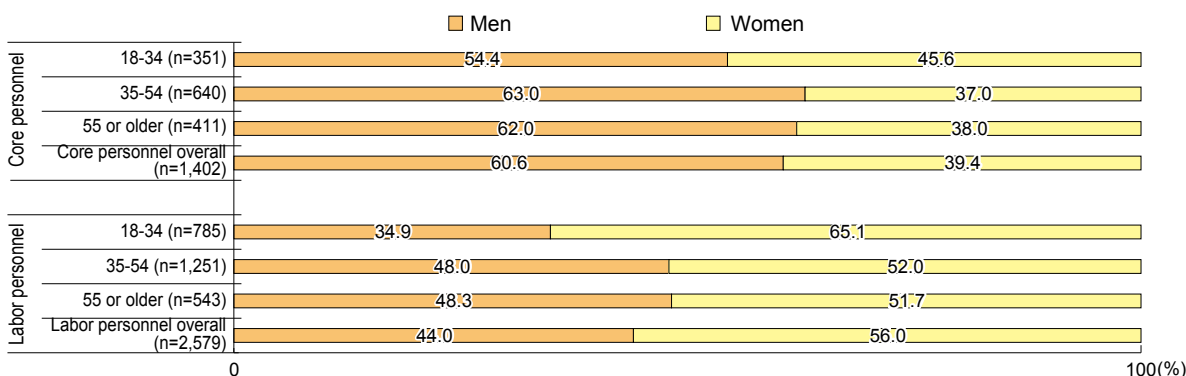
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Appended note 2-4-2 Status of hiring activities in the past three years



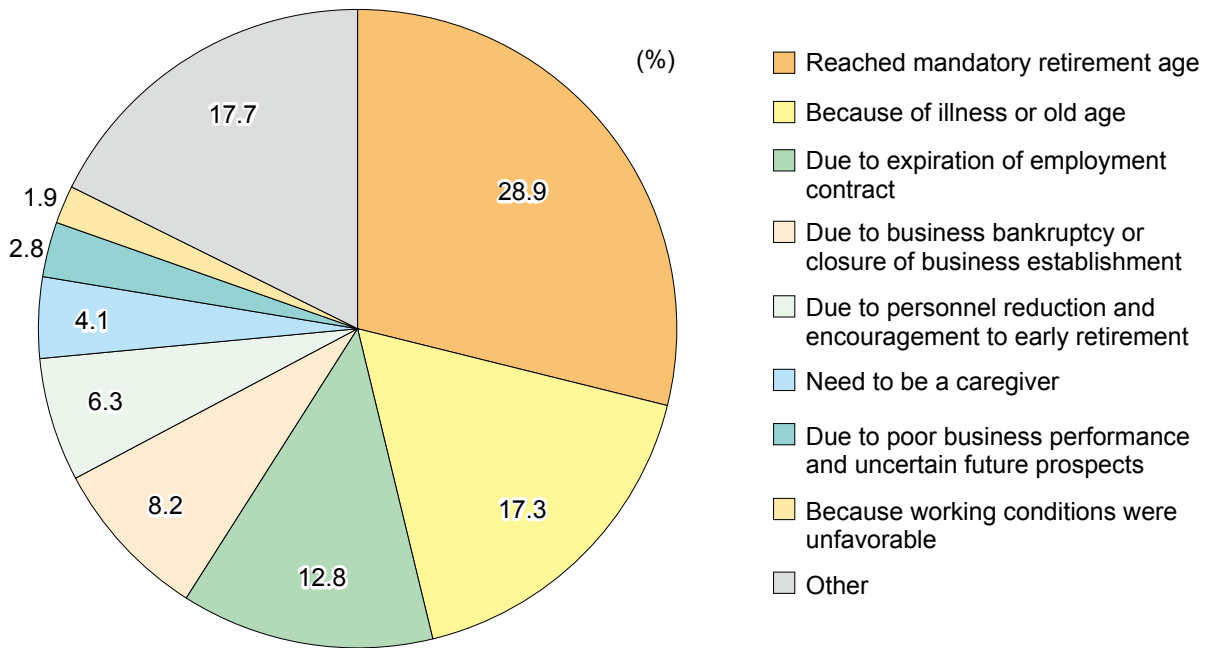
Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

Appended note 2-4-3 Gender composition ratio of core personnel and labor personnel by age group



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (December 2016), commissioned by the SME Agency.

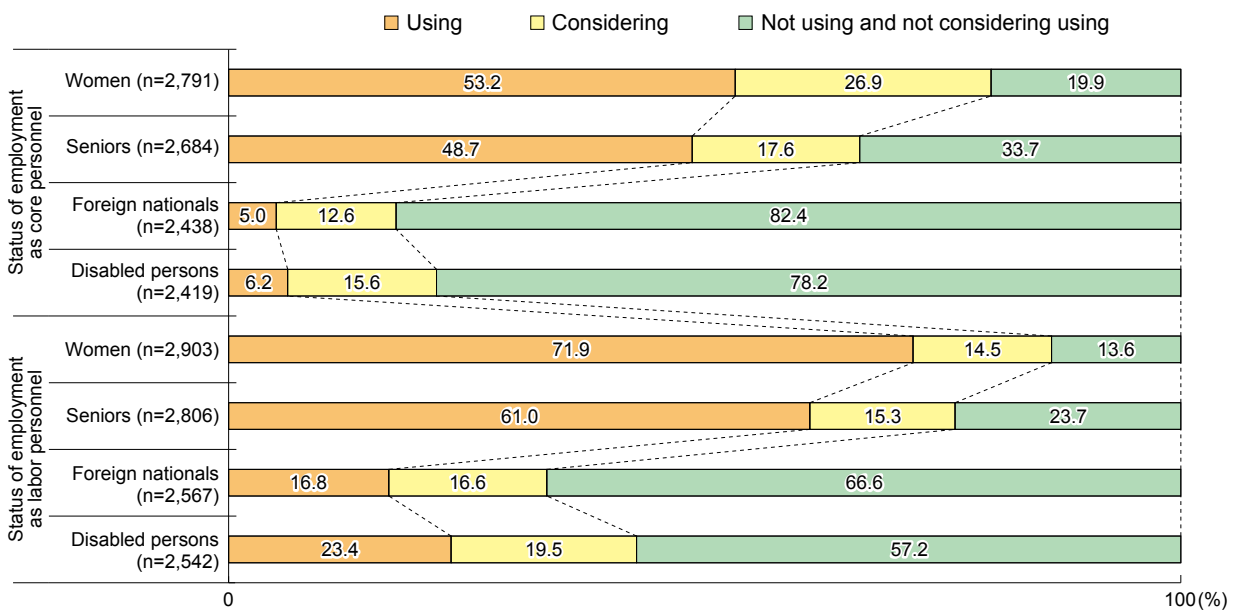
Appended note 2-4-4 Reasons for separation from previous job of unemployed persons aged 60 or older who wish to be employed



Source: MIC, 2012 *Employment Status Survey*.

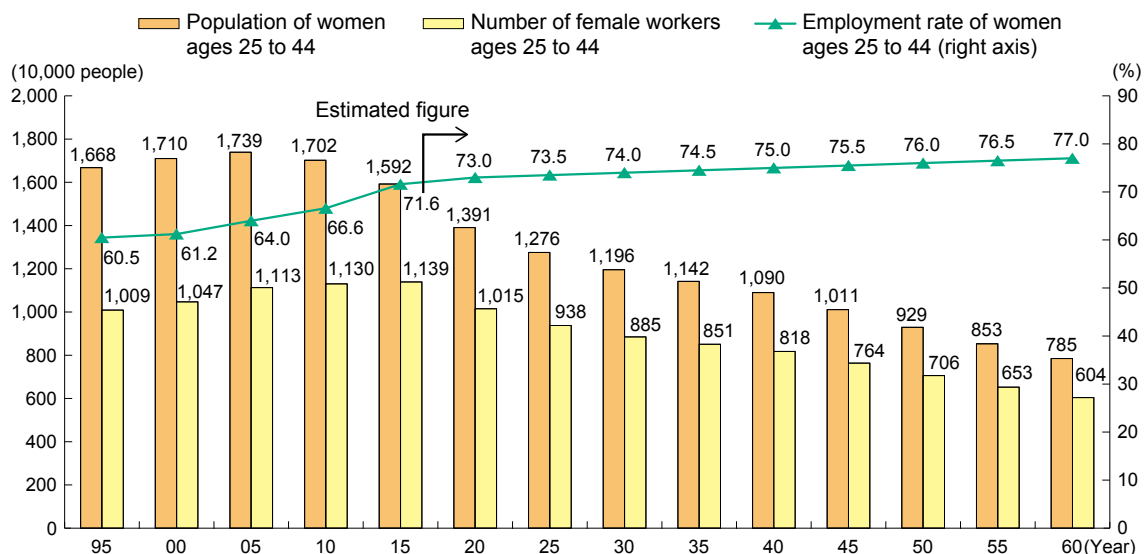
- Notes:
1. The above shows the results of a survey of those who left their previous jobs after October 2007.
 2. The above shows the results of a survey on persons aged 60 or older at the time of the survey, and not when they left their previous jobs.

Appended note 2-4-5 State of SME employment of diverse personnel



Source: Mizuho Information & Research Institute, Inc., *Survey on the Securing, Retention, etc., of Personnel at SMEs and Micro-Businesses* (November 2016), commissioned by the SME Agency.

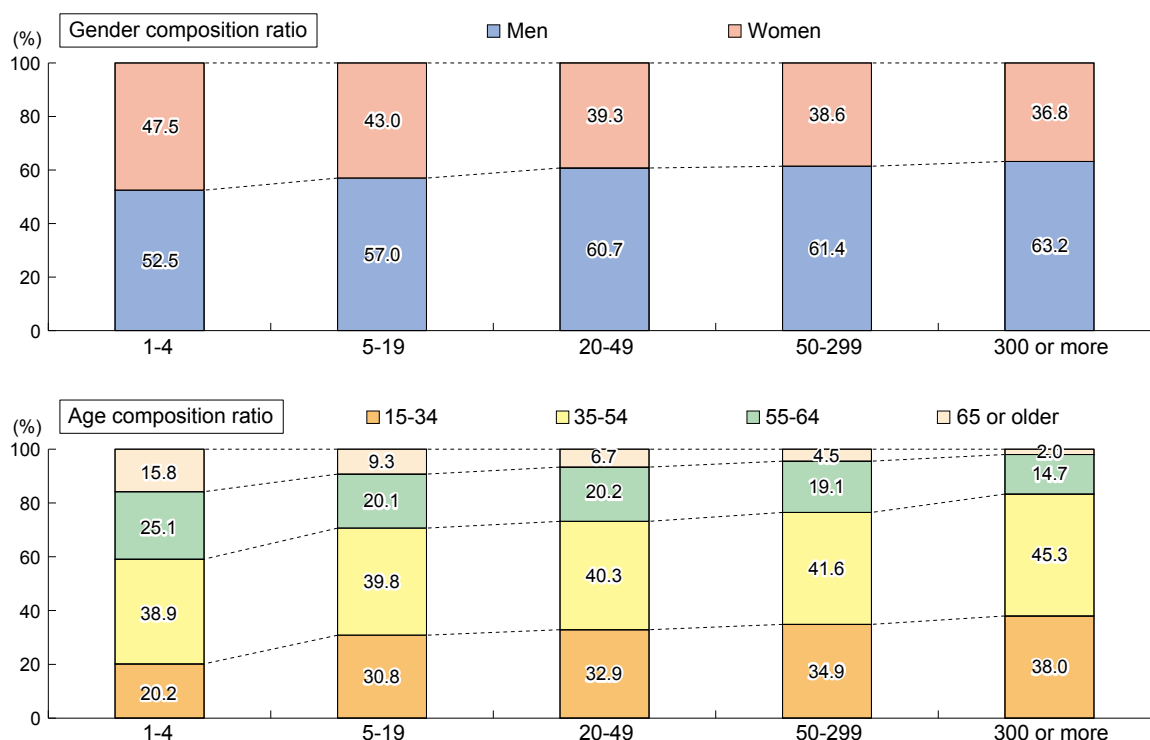
Appended note 2-4-6 Estimated population of women ages 25 to 44 and number of workers



Source: MIC, Labor Force Survey (Historical Data/Basic Tabulation), National Institute of Population and Social Security Research, Population Projection for Japan (Jan. 2012 estimated).

- Notes:
1. Populations after 2020 are based on medium-fertility (medium-mortality) projections.
 2. The numbers of workers in 2020 are estimated figures assuming that the government's target employment rate of 73% is reached with regard to the projections of future populations.
 3. The number of workers after 2025 are estimated figures based on a 0.5% annual rise in employment rate from 2020.

Appended note 2-4-7 Gender and age composition ratio of employees by number of workers



Source: MIC, 2007 Employment Status Survey.

- Notes:
1. Aggregates "employees."
 2. Aggregated figures exclude persons working for public agencies or other legal entities or groups.

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Supplementary statistical data

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**Table 1 Number of enterprises by industry and size
(private, non-primary industry, 2009, 2012 and 2014)**

(1) Number of enterprises (Number of companies + sole proprietorships)

Industry	Year	SMEs				Large enterprises		Total	
		No.	% of total	No.	% of total	No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	2009	2,059	99.8	1,844	89.4	4	0.2	2,063	100.0
	2012	1,676	99.9	1,489	88.7	2	0.1	1,678	100.0
	2014	1,454	99.7	1,284	88.1	4	0.3	1,458	100.0
Construction	2009	519,259	99.9	499,167	96.1	280	0.1	519,539	100.0
	2012	467,119	99.9	448,293	95.9	291	0.1	467,410	100.0
	2014	455,269	99.9	435,110	95.5	284	0.1	455,553	100.0
Manufacturing	2009	446,499	99.5	394,281	87.9	2,036	0.5	448,535	100.0
	2012	429,468	99.5	373,766	86.6	2,044	0.5	431,512	100.0
	2014	413,339	99.5	358,769	86.4	1,957	0.5	415,296	100.0
Electricity, gas, heat supply and water	2009	786	96.7	528	64.9	27	3.3	813	100.0
	2012	657	96.1	410	59.9	27	3.9	684	100.0
	2014	1,000	97.2	708	68.8	29	2.8	1,029	100.0
Information and communications	2009	49,503	97.6	34,526	68.1	1,222	2.4	50,725	100.0
	2012	44,332	98.9	29,558	65.9	508	1.1	44,840	100.0
	2014	45,254	98.8	29,993	65.5	533	1.2	45,787	100.0
Transport and postal activities	2009	81,373	99.7	62,361	76.4	251	0.3	81,624	100.0
	2012	74,316	99.7	55,287	74.2	245	0.3	74,561	100.0
	2014	73,136	99.7	53,255	72.6	251	0.3	73,387	100.0
Wholesale and retail trade	2009	1,047,079	99.6	869,196	82.7	4,224	0.4	1,051,303	100.0
	2012	919,671	99.6	751,845	81.4	3,917	0.4	923,588	100.0
	2014	896,102	99.5	712,939	79.2	4,182	0.5	900,284	100.0
Wholesale trade	2009	241,917	99.3	175,592	72.1	1,693	0.7	243,610	100.0
	2012	225,599	99.3	163,713	72.1	1,508	0.7	227,107	100.0
	2014	227,908	99.3	162,533	70.8	1,575	0.7	229,483	100.0
Retail trade	2009	805,162	99.7	693,604	85.9	2,531	0.3	807,693	100.0
	2012	694,072	99.7	588,132	84.4	2,409	0.3	696,481	100.0
	2014	668,194	99.6	550,406	82.1	2,607	0.4	670,801	100.0
Finance and insurance	2009	34,672	99.3	33,546	96.0	258	0.7	34,930	100.0
	2012	30,184	99.2	29,187	95.9	253	0.8	30,437	100.0
	2014	29,959	99.1	28,821	95.4	259	0.9	30,218	100.0
Real estate and goods rental and leasing	2009	352,548	99.9	345,065	97.8	303	0.1	352,851	100.0
	2012	325,803	99.9	318,962	97.8	276	0.1	326,079	100.0
	2014	319,221	99.9	311,568	97.5	296	0.1	319,517	100.0
Scientific research, professional and technical services	2009	203,060	99.7	174,375	85.6	582	0.3	203,642	100.0
	2012	185,730	99.7	159,400	85.6	550	0.3	186,280	100.0
	2014	188,455	99.7	160,861	85.1	622	0.3	189,077	100.0
Accommodations, eating and drinking services	2009	604,050	99.8	524,811	86.7	936	0.2	604,986	100.0
	2012	543,543	99.9	475,183	87.3	718	0.1	544,261	100.0
	2014	544,281	99.9	464,989	85.3	759	0.1	545,040	100.0
Living-related and personal services and amusement services	2009	404,764	99.9	373,089	92.1	543	0.1	405,307	100.0
	2012	383,059	99.9	357,806	93.3	512	0.1	383,571	100.0
	2014	382,304	99.9	353,250	92.3	542	0.1	382,846	100.0
Education, learning support	2009	110,895	99.9	100,213	90.3	124	0.1	111,019	100.0
	2012	103,867	99.9	92,619	89.1	121	0.1	103,988	100.0
	2014	107,479	99.9	94,409	87.7	129	0.1	107,608	100.0
Medical, health care and welfare	2009	194,822	99.9	143,584	73.6	243	0.1	195,065	100.0
	2012	195,088	99.9	140,484	71.9	232	0.1	195,320	100.0
	2014	210,326	99.9	146,427	69.5	258	0.1	210,584	100.0
Compound services	2009	3,617	99.9	3,604	99.6	2	0.1	3,619	100.0
	2012	3,476	100.0	3,461	99.5	1	0.0	3,477	100.0
	2014	3,492	100.0	3,478	99.6	1	0.0	3,493	100.0
Services (not elsewhere classified)	2009	146,278	99.4	105,171	71.5	891	0.6	147,169	100.0
	2012	144,945	99.4	105,064	72.0	899	0.6	145,844	100.0
	2014	138,157	99.3	96,393	69.3	1,004	0.7	139,161	100.0
Non-primary industry total	2009	4,201,264	99.7	3,665,361	87.0	11,926	0.3	4,213,190	100.0
	2012	3,852,934	99.7	3,342,814	86.5	10,596	0.3	3,863,530	100.0
	2014	3,809,228	99.7	3,252,254	85.1	11,110	0.3	3,820,338	100.0

(2) Number of companies

		SMEs				Large enterprises		Total	
		No.	% of total	Of which small enterprises		No.	% of total	No.	% of total
Industry	Year			No.	% of total				
Mining and quarrying of stone and gravel	2009	1,797	99.8	1,583	87.9	4	0.2	1,801	100.0
	2012	1,475	99.9	1,289	87.3	2	0.1	1,477	100.0
	2014	1,314	99.7	1,146	86.9	4	0.3	1,318	100.0
Construction	2009	331,079	99.9	311,096	93.9	280	0.1	331,359	100.0
	2012	303,458	99.9	284,716	93.7	291	0.1	303,749	100.0
	2014	303,521	99.9	283,424	93.3	284	0.1	303,805	100.0
Manufacturing	2009	275,030	99.3	223,100	80.5	2,036	0.7	277,066	100.0
	2012	273,525	99.3	218,107	79.1	2,044	0.7	275,569	100.0
	2014	268,552	99.3	214,231	79.2	1,957	0.7	270,509	100.0
Electricity, gas, heat supply and water	2009	786	96.7	528	64.9	27	3.3	813	100.0
	2012	657	96.1	410	59.9	27	3.9	684	100.0
	2014	990	97.2	698	68.5	29	2.8	1,019	100.0
Information and communications	2009	46,747	97.5	31,808	66.3	1,222	2.5	47,969	100.0
	2012	42,006	98.8	27,265	64.1	508	1.2	42,514	100.0
	2014	42,989	98.8	27,750	63.8	533	1.2	43,522	100.0
Transport and postal activities	2009	56,444	99.6	37,457	66.1	251	0.4	56,695	100.0
	2012	54,060	99.5	35,054	64.6	245	0.5	54,305	100.0
	2014	54,966	99.5	35,111	63.6	251	0.5	55,217	100.0
Wholesale and retail trade	2009	469,247	99.1	320,739	67.8	4,103	0.9	473,350	100.0
	2012	431,790	99.1	291,787	67.0	3,792	0.9	435,582	100.0
	2014	444,316	99.1	291,708	65.1	4,027	0.9	448,343	100.0
Wholesale trade	2009	189,621	99.1	125,327	65.5	1,693	0.9	191,314	100.0
	2012	177,307	99.2	117,116	65.5	1,508	0.8	178,815	100.0
	2014	179,936	99.1	116,348	64.1	1,575	0.9	181,511	100.0
Retail trade	2009	279,626	99.1	195,412	69.3	2,410	0.9	282,036	100.0
	2012	254,483	99.1	174,671	68.0	2,284	0.9	256,767	100.0
	2014	264,380	99.1	175,360	65.7	2,452	0.9	266,832	100.0
Finance and insurance	2009	25,694	99.0	24,568	94.7	258	1.0	25,952	100.0
	2012	23,088	98.9	22,091	94.6	253	1.1	23,341	100.0
	2014	23,712	98.9	22,574	94.2	259	1.1	23,971	100.0
Real estate and goods rental and leasing	2009	182,060	99.8	174,738	95.8	303	0.2	182,363	100.0
	2012	169,360	99.8	162,664	95.9	276	0.2	169,636	100.0
	2014	170,887	99.8	163,355	95.4	296	0.2	171,183	100.0
Scientific research, professional and technical services	2009	94,419	99.4	73,918	77.8	568	0.6	94,987	100.0
	2012	83,356	99.4	64,630	77.0	530	0.6	83,886	100.0
	2014	86,128	99.3	65,648	75.7	607	0.7	86,735	100.0
Accommodations, eating and drinking services	2009	96,675	99.1	48,328	49.5	908	0.9	97,583	100.0
	2012	98,097	99.3	56,391	57.1	682	0.7	98,779	100.0
	2014	108,051	99.3	57,230	52.6	721	0.7	108,772	100.0
Living-related and personal services and amusement services	2009	63,723	99.2	37,377	58.2	542	0.8	64,265	100.0
	2012	63,597	99.2	42,545	66.4	507	0.8	64,104	100.0
	2014	68,886	99.2	44,376	63.9	536	0.8	69,422	100.0
Education, learning support	2009	15,818	99.2	9,195	57.7	124	0.8	15,942	100.0
	2012	15,446	99.2	8,834	56.8	119	0.8	15,565	100.0
	2014	17,715	99.3	9,622	53.9	125	0.7	17,840	100.0
Medical, health care and welfare	2009	24,368	99.5	10,062	41.1	130	0.5	24,498	100.0
	2012	28,077	99.5	10,830	38.4	145	0.5	28,222	100.0
	2014	39,000	99.5	13,869	35.4	187	0.5	39,187	100.0
Compound services	2009	74	97.4	67	88.2	2	2.6	76	100.0
	2012	111	99.1	102	91.1	1	0.9	112	100.0
	2014	85	98.8	76	88.4	1	1.2	86	100.0
Services (not elsewhere classified)	2009	91,350	99.0	51,538	55.9	887	1.0	92,237	100.0
	2012	89,846	99.0	51,178	56.4	897	1.0	90,743	100.0
	2014	88,693	98.9	48,083	53.6	1,000	1.1	89,693	100.0
Non-primary industry total	2009	1,775,311	99.3	1,356,102	75.9	11,645	0.7	1,786,956	100.0
	2012	1,677,949	99.4	1,277,893	75.7	10,319	0.6	1,688,268	100.0
	2014	1,719,805	99.4	1,278,901	73.9	10,817	0.6	1,730,622	100.0

(3) Number of sole proprietorships

Industry	Year	SMEs				Large enterprises		Total	
		No.	% of total	Of which small enterprises		No.	% of total	No.	% of total
Mining and quarrying of stone and gravel	2009	262	100.0	261	99.6	0	0.0	262	100.0
	2012	201	100.0	200	99.5	0	0.0	201	100.0
	2014	140	100.0	138	98.6	0	0.0	140	100.0
Construction	2009	188,180	100.0	188,071	99.9	0	0.0	188,180	100.0
	2012	163,661	100.0	163,577	99.9	0	0.0	163,661	100.0
	2014	151,748	100.0	151,686	100.0	0	0.0	151,748	100.0
Manufacturing	2009	171,469	100.0	171,181	99.8	0	0.0	171,469	100.0
	2012	155,943	100.0	155,659	99.8	0	0.0	155,943	100.0
	2014	144,787	100.0	144,538	99.8	0	0.0	144,787	100.0
Electricity, gas, heat supply and water	2009	0	-	0	-	0	-	0	-
	2012	0	-	0	-	0	-	0	-
	2014	10	100.0	10	100.0	0	0.0	10	100.0
Information and communications	2009	2,756	100.0	2,718	98.6	0	0.0	2,756	100.0
	2012	2,326	100.0	2,293	98.6	0	0.0	2,326	100.0
	2014	2,265	100.0	2,243	99.0	0	0.0	2,265	100.0
Transport and postal activities	2009	24,929	100.0	24,904	99.9	0	0.0	24,929	100.0
	2012	20,256	100.0	20,233	99.9	0	0.0	20,256	100.0
	2014	18,170	100.0	18,144	99.9	0	0.0	18,170	100.0
Wholesale and retail trade	2009	577,832	100.0	548,457	94.9	121	0.0	577,953	100.0
	2012	487,881	100.0	460,058	94.3	125	0.0	488,006	100.0
	2014	451,786	100.0	421,231	93.2	155	0.0	451,941	100.0
Wholesale trade	2009	52,296	100.0	50,265	96.1	0	0.0	52,296	100.0
	2012	48,292	100.0	46,597	96.5	0	0.0	48,292	100.0
	2014	47,972	100.0	46,185	96.3	0	0.0	47,972	100.0
Retail trade	2009	525,536	100.0	498,192	94.8	121	0.0	525,657	100.0
	2012	439,589	100.0	413,461	94.0	125	0.0	439,714	100.0
	2014	403,814	100.0	375,046	92.8	155	0.0	403,969	100.0
Finance and insurance	2009	8,978	100.0	8,978	100.0	0	0.0	8,978	100.0
	2012	7,096	100.0	7,096	100.0	0	0.0	7,096	100.0
	2014	6,247	100.0	6,247	100.0	0	0.0	6,247	100.0
Real estate and goods rental and leasing	2009	170,488	100.0	170,327	99.9	0	0.0	170,488	100.0
	2012	156,443	100.0	156,298	99.9	0	0.0	156,443	100.0
	2014	148,334	100.0	148,213	99.9	0	0.0	148,334	100.0
Scientific research, professional and technical services	2009	108,641	100.0	100,457	92.5	14	0.0	108,655	100.0
	2012	102,374	100.0	94,770	92.6	20	0.0	102,394	100.0
	2014	102,327	100.0	95,213	93.0	15	0.0	102,342	100.0
Accommodations, eating and drinking services	2009	507,375	100.0	476,483	93.9	28	0.0	507,403	100.0
	2012	445,446	100.0	418,792	94.0	36	0.0	445,482	100.0
	2014	436,230	100.0	407,759	93.5	38	0.0	436,268	100.0
Living-related and personal services and amusement services	2009	341,041	100.0	335,712	98.4	1	0.0	341,042	100.0
	2012	319,462	100.0	315,261	98.7	5	0.0	319,467	100.0
	2014	313,418	100.0	308,874	98.5	6	0.0	313,424	100.0
Education, learning support	2009	95,077	100.0	91,018	95.7	0	0.0	95,077	100.0
	2012	88,421	100.0	83,785	94.8	2	0.0	88,423	100.0
	2014	89,764	100.0	84,787	94.5	4	0.0	89,768	100.0
Medical, health care and welfare	2009	170,454	99.9	133,522	78.3	113	0.1	170,567	100.0
	2012	167,011	99.9	129,654	77.6	87	0.1	167,098	100.0
	2014	171,326	100.0	132,558	77.3	71	0.0	171,397	100.0
Compound services	2009	3,543	100.0	3,537	99.8	0	0.0	3,543	100.0
	2012	3,365	100.0	3,359	99.8	0	0.0	3,365	100.0
	2014	3,407	100.0	3,402	99.9	0	0.0	3,407	100.0
Services (not elsewhere classified)	2009	54,928	100.0	53,633	97.6	4	0.0	54,932	100.0
	2012	55,099	100.0	53,886	97.8	2	0.0	55,101	100.0
	2014	49,464	100.0	48,310	97.7	4	0.0	49,468	100.0
Non-primary industry total	2009	2,425,953	100.0	2,309,259	95.2	281	0.0	2,426,234	100.0
	2012	2,174,985	100.0	2,064,921	94.9	277	0.0	2,175,262	100.0
	2014	2,089,423	100.0	1,973,353	94.4	293	0.0	2,089,716	100.0

Sources: MIC, 2009 and 2014 *Economic Census for Business Frame*; Recompiled from MIC, METI, 2012 *Economic Census for Business Activity*.

Notes:

1. The figures are those as of July 2009 for 2009, as of February 2012 for 2012, and as of July 2014 for 2014.
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 small enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
6. Industries are classified according to the October 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.

**Table 2 Total number of workers by industry and size
(private, non-primary industry, 2009, 2012 and 2014)**

(1) Enterprises (total number of workers of companies and sole proprietorships)

Industry	Year	SMEs				Large enterprises		Total	
		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	2009	24,877	84.9	13,913	47.5	4,439	15.1	29,316	100.0
	2012	20,303	91.8	10,807	48.9	1,806	8.2	22,109	100.0
	2014	18,168	85.2	9,423	44.2	3,150	14.8	21,318	100.0
Construction	2009	3,799,618	89.7	2,631,336	62.1	435,943	10.3	4,235,561	100.0
	2012	3,398,423	89.1	2,338,163	61.3	416,141	10.9	3,814,564	100.0
	2014	3,390,493	89.2	2,237,415	58.8	412,522	10.8	3,803,015	100.0
Manufacturing	2009	6,417,905	65.0	2,173,127	22.0	3,455,691	35.0	9,873,596	100.0
	2012	6,550,429	65.6	2,130,081	21.3	3,441,424	34.4	9,991,853	100.0
	2014	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	2009	34,528	16.9	4,456	2.2	169,571	83.1	204,099	100.0
	2012	29,502	14.9	3,432	1.7	167,968	85.1	197,470	100.0
	2014	34,590	17.3	4,608	2.3	165,874	82.7	200,464	100.0
Information and communications	2009	775,921	49.5	136,321	8.7	791,964	50.5	1,567,885	100.0
	2012	961,057	63.4	113,956	7.5	555,510	36.6	1,516,567	100.0
	2014	979,521	62.8	113,266	7.3	579,402	37.2	1,558,923	100.0
Transport and postal activities	2009	2,212,471	65.4	412,600	12.2	1,172,429	34.6	3,384,900	100.0
	2012	2,172,982	68.8	387,135	12.3	987,234	31.2	3,160,216	100.0
	2014	2,284,186	73.5	380,199	12.2	824,350	26.5	3,108,536	100.0
Wholesale and retail trade	2009	7,542,984	66.9	2,535,888	22.5	3,725,309	33.1	11,268,293	100.0
	2012	6,911,424	66.1	2,191,498	21.0	3,540,778	33.9	10,452,202	100.0
	2014	7,303,086	66.5	2,008,511	18.3	3,675,997	33.5	10,979,083	100.0
Wholesale trade	2009	2,635,710	74.1	610,899	17.2	919,620	25.9	3,555,330	100.0
	2012	2,397,968	73.3	562,523	17.2	871,421	26.7	3,269,389	100.0
	2014	2,557,628	74.5	541,928	15.8	876,683	25.5	3,434,311	100.0
Retail trade	2009	4,907,274	63.6	1,924,989	25.0	2,805,689	36.4	7,712,963	100.0
	2012	4,513,456	62.8	1,628,975	22.7	2,669,357	37.2	7,182,813	100.0
	2014	4,745,458	62.9	1,466,583	19.4	2,799,314	37.1	7,544,772	100.0
Finance and insurance	2009	226,133	17.7	124,371	9.7	1,050,748	82.3	1,276,881	100.0
	2012	200,011	16.4	110,336	9.1	1,018,792	83.6	1,218,803	100.0
	2014	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	2009	1,251,811	84.8	865,029	58.6	224,145	15.2	1,475,956	100.0
	2012	1,162,155	84.4	789,931	57.4	214,345	15.6	1,376,500	100.0
	2014	1,209,578	84.0	772,029	53.6	230,379	16.0	1,439,957	100.0
Scientific research, professional and technical services	2009	1,102,041	77.3	498,970	35.0	324,327	22.7	1,426,368	100.0
	2012	1,002,971	75.1	451,941	33.8	332,976	24.9	1,335,947	100.0
	2014	1,043,067	73.5	440,702	31.0	376,867	26.5	1,419,934	100.0
Accommodations, eating and drinking services	2009	3,535,761	70.5	1,535,858	30.6	1,477,752	29.5	5,013,513	100.0
	2012	3,463,871	71.7	1,504,546	31.1	1,367,785	28.3	4,831,656	100.0
	2014	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	2009	1,912,306	81.0	805,865	34.1	448,511	19.0	2,360,817	100.0
	2012	1,836,429	81.1	833,626	36.8	429,362	18.9	2,265,791	100.0
	2014	1,923,886	82.2	800,893	34.2	415,270	17.8	2,339,156	100.0
Education, learning support	2009	539,748	82.2	218,275	33.2	116,973	17.8	656,721	100.0
	2012	544,758	82.4	209,656	31.7	116,002	17.6	660,760	100.0
	2014	603,498	84.1	205,170	28.6	113,926	15.9	717,424	100.0
Medical, health care and welfare	2009	1,328,302	91.5	486,466	33.5	123,192	8.5	1,451,494	100.0
	2012	1,425,122	88.4	470,131	29.2	186,185	11.6	1,611,307	100.0
	2014	1,687,240	89.9	471,474	25.1	190,517	10.1	1,877,757	100.0
Compound services	2009	9,026	5.3	8,877	5.2	160,372	94.7	169,398	100.0
	2012	9,589	5.8	9,047	5.4	156,664	94.2	166,253	100.0
	2014	9,450	2.3	9,067	2.2	407,019	97.7	416,469	100.0
Services (not elsewhere classified)	2009	2,431,097	66.8	365,946	10.1	1,207,481	33.2	3,638,578	100.0
	2012	2,478,458	70.5	368,994	10.5	1,038,487	29.5	3,516,945	100.0
	2014	2,612,549	67.6	310,748	8.0	1,250,208	32.4	3,862,757	100.0
Non-primary industry total	2009	33,144,529	69.0	12,817,298	26.7	14,888,847	31.0	48,033,376	100.0
	2012	32,167,484	69.7	11,923,280	25.8	13,971,459	30.3	46,138,943	100.0
	2014	33,609,810	70.1	11,268,566	23.5	14,325,652	29.9	47,935,462	100.0

(2) Companies only (total number of workers of companies)

Industry	Year	SMEs				Large enterprises		Total	
		Total no. of workers	% of total	Of which small enterprises 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	2009	24,004	84.4	13,080	46.0	4,439	15.6	28,443	100.0
	2012	19,653	91.6	10,182	47.4	1,806	8.4	21,459	100.0
	2014	17,661	84.9	8,977	43.1	3,150	15.1	20,811	100.0
Construction	2009	3,306,298	88.4	2,141,740	57.2	435,943	11.6	3,742,241	100.0
	2012	2,973,261	87.7	1,916,117	56.5	416,141	12.3	3,389,402	100.0
	2014	3,014,569	88.0	1,863,619	54.4	412,522	12.0	3,427,091	100.0
Manufacturing	2009	5,919,750	63.1	1,683,885	18.0	3,455,691	36.9	9,375,441	100.0
	2012	6,086,029	63.9	1,674,441	17.6	3,441,424	36.1	9,527,453	100.0
	2014	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	2009	34,528	16.9	4,456	2.2	169,571	83.1	204,099	100.0
	2012	29,502	14.9	3,432	1.7	167,968	85.1	197,470	100.0
	2014	34,573	17.2	4,591	2.3	165,874	82.8	200,447	100.0
Information and communications	2009	769,033	49.3	129,975	8.3	791,964	50.7	1,560,997	100.0
	2012	955,434	63.2	108,852	7.2	555,510	36.8	1,510,944	100.0
	2014	974,414	62.7	108,444	7.0	579,402	37.3	1,553,816	100.0
Transport and postal activities	2009	2,168,588	64.9	369,576	11.1	1,172,429	35.1	3,341,017	100.0
	2012	2,137,396	68.4	352,395	11.3	987,234	31.6	3,124,630	100.0
	2014	2,252,173	73.2	349,037	11.3	824,350	26.8	3,076,523	100.0
Wholesale and retail trade	2009	5,804,258	61.0	1,241,244	13.0	3,713,725	39.0	9,517,983	100.0
	2012	5,420,469	60.6	1,112,621	12.4	3,530,574	39.4	8,951,043	100.0
	2014	5,908,798	61.7	1,063,072	11.1	3,661,819	38.3	9,570,617	100.0
Wholesale trade	2009	2,479,700	72.9	479,308	14.1	919,620	27.1	3,399,320	100.0
	2012	2,257,082	72.1	441,022	14.1	871,421	27.9	3,128,503	100.0
	2014	2,421,852	73.4	426,024	12.9	876,683	26.6	3,298,535	100.0
Retail trade	2009	3,324,558	54.3	761,936	12.5	2,794,105	45.7	6,118,663	100.0
	2012	3,163,387	54.3	671,599	11.5	2,659,153	45.7	5,822,540	100.0
	2014	3,486,946	55.6	637,048	10.2	2,785,136	44.4	6,272,082	100.0
Finance and insurance	2009	208,488	16.6	106,726	8.5	1,050,748	83.4	1,259,236	100.0
	2012	186,365	15.5	96,690	8.0	1,018,792	84.5	1,205,157	100.0
	2014	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	2009	984,108	81.4	599,169	49.6	224,145	18.6	1,208,253	100.0
	2012	912,033	81.0	541,499	48.1	214,345	19.0	1,126,378	100.0
	2014	980,035	81.0	543,867	44.9	230,379	19.0	1,210,414	100.0
Scientific research, professional and technical services	2009	761,013	70.4	246,036	22.7	320,626	29.6	1,081,639	100.0
	2012	682,552	67.6	212,816	21.1	327,718	32.4	1,010,270	100.0
	2014	734,439	66.3	207,534	18.7	374,053	33.7	1,108,492	100.0
Accommodations, eating and drinking services	2009	1,913,183	56.5	245,811	7.3	1,475,704	43.5	3,388,887	100.0
	2012	2,018,723	59.7	342,624	10.1	1,364,691	40.3	3,383,414	100.0
	2014	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	2009	1,205,984	72.9	163,453	9.9	448,304	27.1	1,654,288	100.0
	2012	1,182,773	73.4	228,434	14.2	428,669	26.6	1,611,442	100.0
	2014	1,302,071	75.9	231,364	13.5	414,377	24.1	1,716,448	100.0
Education, learning support	2009	311,024	72.7	39,478	9.2	116,973	27.3	427,997	100.0
	2012	320,305	73.5	41,138	9.4	115,710	26.5	436,015	100.0
	2014	380,453	77.1	40,522	8.2	113,289	22.9	493,742	100.0
Medical, health care and welfare	2009	487,743	82.7	51,874	8.8	102,205	17.3	589,948	100.0
	2012	602,477	78.1	53,041	6.9	169,375	21.9	771,852	100.0
	2014	861,258	83.0	60,759	5.9	176,112	17.0	1,037,370	100.0
Compound services	2009	277	0.2	173	0.1	160,372	99.8	160,649	100.0
	2012	788	0.5	291	0.2	156,664	99.5	157,452	100.0
	2014	558	0.1	216	0.1	407,019	99.9	407,577	100.0
Services (not elsewhere classified)	2009	2,289,163	65.5	240,725	6.9	1,206,917	34.5	3,496,080	100.0
	2012	2,336,683	69.2	241,786	7.2	1,038,141	30.8	3,374,824	100.0
	2014	2,489,796	66.6	202,449	5.4	1,249,553	33.4	3,739,349	100.0
Non-primary industry total	2009	26,187,442	63.8	7,277,401	17.7	14,849,756	36.2	41,037,198	100.0
	2012	25,864,443	65.0	6,936,359	17.4	13,934,762	35.0	39,799,205	100.0
	2014	27,671,356	65.9	6,705,986	16.0	14,288,785	34.1	41,960,141	100.0

(3) Sole proprietorships only (total number of workers of sole proprietorships)

Industry	Year	SMEs				Large enterprises		Total	
		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	2009	873	100.0	833	95.4	0	0.0	873	100.0
	2012	650	100.0	625	96.2	0	0.0	650	100.0
	2014	507	100.0	446	88.0	0	0.0	507	100.0
Construction	2009	493,320	100.0	489,596	99.2	0	0.0	493,320	100.0
	2012	425,162	100.0	422,046	99.3	0	0.0	425,162	100.0
	2014	375,924	100.0	373,796	99.4	0	0.0	375,924	100.0
Manufacturing	2009	498,155	100.0	489,242	98.2	0	0.0	498,155	100.0
	2012	464,400	100.0	455,640	98.1	0	0.0	464,400	100.0
	2014	409,946	100.0	402,047	98.1	0	0.0	409,946	100.0
Electricity, gas, heat supply and water	2009	0	-	0	-	0	-	0	-
	2012	0	-	0	-	0	-	0	-
	2014	17	100.0	17	100.0	0	0.0	17	100.0
Information and communications	2009	6,888	100.0	6,346	92.1	0	0.0	6,888	100.0
	2012	5,623	100.0	5,104	90.8	0	0.0	5,623	100.0
	2014	5,107	100.0	4,822	94.4	0	0.0	5,107	100.0
Transport and postal activities	2009	43,883	100.0	43,024	98.0	0	0.0	43,883	100.0
	2012	35,586	100.0	34,740	97.6	0	0.0	35,586	100.0
	2014	32,013	100.0	31,162	97.3	0	0.0	32,013	100.0
Wholesale and retail trade	2009	1,738,726	99.3	1,294,644	74.0	11,584	0.7	1,750,310	100.0
	2012	1,490,955	99.3	1,078,877	71.9	10,204	0.7	1,501,159	100.0
	2014	1,394,288	99.0	945,439	67.1	14,178	1.0	1,408,466	100.0
Wholesale trade	2009	156,010	100.0	131,591	84.3	0	0.0	156,010	100.0
	2012	140,886	100.0	121,501	86.2	0	0.0	140,886	100.0
	2014	135,776	100.0	115,904	85.4	0	0.0	135,776	100.0
Retail trade	2009	1,582,716	99.3	1,163,053	73.0	11,584	0.7	1,594,300	100.0
	2012	1,350,069	99.2	957,376	70.4	10,204	0.8	1,360,273	100.0
	2014	1,258,512	98.9	829,535	65.2	14,178	1.1	1,272,690	100.0
Finance and insurance	2009	17,645	100.0	17,645	100.0	0	0.0	17,645	100.0
	2012	13,646	100.0	13,646	100.0	0	0.0	13,646	100.0
	2014	11,709	100.0	11,709	100.0	0	0.0	11,709	100.0
Real estate and goods rental and leasing	2009	267,703	100.0	265,860	99.3	0	0.0	267,703	100.0
	2012	250,122	100.0	248,432	99.3	0	0.0	250,122	100.0
	2014	229,543	100.0	228,162	99.4	0	0.0	229,543	100.0
Scientific research, professional and technical services	2009	341,028	98.9	252,934	73.4	3,701	1.1	344,729	100.0
	2012	320,419	98.4	239,125	73.4	5,258	1.6	325,677	100.0
	2014	308,628	99.1	233,168	74.9	2,814	0.9	311,442	100.0
Accommodations, eating and drinking services	2009	1,622,578	99.9	1,290,047	79.4	2,048	0.1	1,624,626	100.0
	2012	1,445,148	99.8	1,161,922	80.2	3,094	0.2	1,448,242	100.0
	2014	1,368,285	99.8	1,069,770	78.0	3,285	0.2	1,371,570	100.0
Living-related and personal services and amusement services	2009	706,322	100.0	642,412	90.9	207	0.0	706,529	100.0
	2012	653,656	99.9	605,192	92.5	693	0.1	654,349	100.0
	2014	621,815	99.9	569,529	91.5	893	0.1	622,708	100.0
Education, learning support	2009	228,724	100.0	178,797	78.2	0	0.0	228,724	100.0
	2012	224,453	99.9	168,518	75.0	292	0.1	224,745	100.0
	2014	223,045	99.7	164,648	73.6	637	0.3	223,682	100.0
Medical, health care and welfare	2009	840,559	97.6	434,592	50.4	20,987	2.4	861,546	100.0
	2012	822,645	98.0	417,090	49.7	16,810	2.0	839,455	100.0
	2014	825,982	98.3	410,715	48.9	14,405	1.7	840,387	100.0
Compound services	2009	8,749	100.0	8,704	99.5	0	0.0	8,749	100.0
	2012	8,801	100.0	8,756	99.5	0	0.0	8,801	100.0
	2014	8,892	100.0	8,851	99.5	0	0.0	8,892	100.0
Services (not elsewhere classified)	2009	141,934	99.6	125,221	87.9	564	0.4	142,498	100.0
	2012	141,775	99.8	127,208	89.5	346	0.2	142,121	100.0
	2014	122,753	99.5	108,299	87.8	655	0.5	123,408	100.0
Non-primary industry total	2009	6,957,087	99.4	5,539,897	79.2	39,091	0.6	6,996,178	100.0
	2012	6,303,041	99.4	4,986,921	78.7	36,697	0.6	6,339,738	100.0
	2014	5,938,454	99.4	4,562,580	76.4	36,867	0.6	5,975,321	100.0

Sources: MIC, 2009 and 2014 Economic Census for Business Frame; Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

- Notes:
1. The figures are those as of July 2009 for 2009, as of February 2012 for 2012, and as of July 2014 for 2014.
 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 small enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
 5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
 6. Industries are classified according to the October 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.

**Table 3 Number of regular employees by industry and size
(private, non-primary industry, 2009, 2012 and 2014)**

(1) Enterprises (number of regular employees of companies and sole proprietorships)

Industry	Year	SMEs				Large enterprises		Total	
		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	2009	19,581	81.3	9,647	40.0	4,507	18.7	24,088	100.0
	2012	15,948	90.1	7,198	40.6	1,761	9.9	17,709	100.0
	2014	14,560	77.5	6,597	35.1	4,231	22.5	18,791	100.0
Construction	2009	2,647,321	85.9	1,580,988	51.3	434,462	14.1	3,081,783	100.0
	2012	2,383,460	85.2	1,411,548	50.5	413,238	14.8	2,796,698	100.0
	2014	2,467,738	85.7	1,400,733	48.7	410,487	14.3	2,878,225	100.0
Manufacturing	2009	5,469,317	59.3	1,393,577	15.1	3,751,514	40.7	9,220,831	100.0
	2012	5,689,006	57.3	1,399,410	14.1	4,247,936	42.7	9,936,942	100.0
	2014	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	2009	31,695	15.9	3,331	1.7	167,599	84.1	199,294	100.0
	2012	27,021	13.9	2,500	1.3	166,959	86.1	193,980	100.0
	2014	31,975	16.2	3,371	1.7	164,840	83.8	196,815	100.0
Information and communications	2009	655,129	45.7	72,781	5.1	777,308	54.3	1,432,437	100.0
	2012	850,340	60.8	60,538	4.3	547,325	39.2	1,397,665	100.0
	2014	880,620	60.6	63,958	4.4	573,628	39.4	1,454,248	100.0
Transport and postal activities	2009	1,975,693	63.9	286,171	9.3	1,117,826	36.1	3,093,519	100.0
	2012	1,953,552	67.0	271,896	9.3	964,253	33.0	2,917,805	100.0
	2014	2,084,844	72.3	276,857	9.6	800,064	27.7	2,884,908	100.0
Wholesale and retail trade	2009	5,462,645	60.7	1,006,547	11.2	3,536,291	39.3	8,998,936	100.0
	2012	5,072,244	59.6	847,814	10.0	3,441,971	40.4	8,514,215	100.0
	2014	5,643,075	61.2	850,130	9.2	3,583,164	38.8	9,226,239	100.0
Wholesale trade	2009	2,101,156	70.3	283,278	9.5	887,346	29.7	2,988,502	100.0
	2012	1,906,462	68.7	260,206	9.4	868,141	31.3	2,774,603	100.0
	2014	2,090,910	70.5	264,850	8.9	876,437	29.5	2,967,347	100.0
Retail trade	2009	3,361,489	55.9	723,269	12.0	2,648,945	44.1	6,010,434	100.0
	2012	3,165,782	55.2	587,608	10.2	2,573,830	44.8	5,739,612	100.0
	2014	3,552,165	56.8	585,280	9.4	2,706,727	43.2	6,258,892	100.0
Finance and insurance	2009	160,064	13.2	66,266	5.5	1,055,313	86.8	1,215,377	100.0
	2012	144,249	12.3	60,095	5.1	1,025,982	87.7	1,170,231	100.0
	2014	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	2009	648,054	75.2	296,512	34.4	214,194	24.8	862,248	100.0
	2012	598,952	74.0	258,781	32.0	209,970	26.0	808,922	100.0
	2014	684,658	75.6	276,582	30.5	220,985	24.4	905,643	100.0
Scientific research, professional and technical services	2009	756,175	70.8	237,476	22.2	311,715	29.2	1,067,890	100.0
	2012	692,926	67.6	213,830	20.9	332,271	32.4	1,025,197	100.0
	2014	751,933	66.8	215,485	19.1	373,431	33.2	1,125,364	100.0
Accommodations, eating and drinking services	2009	2,345,422	63.3	613,656	16.6	1,358,606	36.7	3,704,028	100.0
	2012	2,280,585	63.7	600,893	16.8	1,299,681	36.3	3,580,266	100.0
	2014	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	2009	1,273,599	75.8	298,740	17.8	406,134	24.2	1,679,733	100.0
	2012	1,217,936	75.5	325,103	20.2	395,118	24.5	1,613,054	100.0
	2014	1,345,409	77.8	330,449	19.1	382,994	22.2	1,728,403	100.0
Education, learning support	2009	339,809	76.7	68,867	15.6	102,948	23.3	442,757	100.0
	2012	338,486	76.0	60,220	13.5	107,033	24.0	445,519	100.0
	2014	413,400	80.6	65,307	12.7	99,410	19.4	512,810	100.0
Medical, health care and welfare	2009	991,180	89.8	265,454	24.0	112,957	10.2	1,104,137	100.0
	2012	1,089,299	86.1	255,174	20.2	175,811	13.9	1,265,110	100.0
	2014	1,356,495	88.2	265,541	17.3	182,005	11.8	1,538,500	100.0
Compound services	2009	3,370	2.1	3,247	2.0	160,187	97.9	163,557	100.0
	2012	3,866	2.4	3,355	2.1	156,625	97.6	160,491	100.0
	2014	3,975	1.0	3,616	0.9	406,903	99.0	410,878	100.0
Services (not elsewhere classified)	2009	1,925,640	63.5	148,335	4.9	1,108,015	36.5	3,033,655	100.0
	2012	1,972,751	67.1	147,196	5.0	966,049	32.9	2,938,800	100.0
	2014	2,197,332	64.7	136,184	4.0	1,197,946	35.3	3,395,278	100.0
Non-primary industry total	2009	24,704,694	62.8	6,351,595	16.2	14,619,576	37.2	39,324,270	100.0
	2012	24,330,621	62.7	5,925,551	15.3	14,451,983	37.3	38,782,604	100.0
	2014	26,466,676	65.2	5,920,617	14.6	14,146,587	34.8	40,613,263	100.0

(2) Companies only (number of regular employees of companies)

Industry	Year	SMEs				Large enterprises		Total	
		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	2009	19,052	80.9	9,147	38.8	4,507	19.1	23,559	100.0
	2012	15,613	89.9	6,887	39.6	1,761	10.1	17,374	100.0
	2014	14,264	77.1	6,359	34.4	4,231	22.9	18,495	100.0
Construction	2009	2,438,945	84.9	1,376,102	47.9	434,462	15.1	2,873,407	100.0
	2012	2,211,167	84.3	1,242,014	47.3	413,238	15.7	2,624,405	100.0
	2014	2,309,996	84.9	1,244,948	45.8	410,487	15.1	2,720,483	100.0
Manufacturing	2009	5,232,735	58.2	1,166,383	13.0	3,751,514	41.8	8,984,249	100.0
	2012	5,479,835	56.3	1,198,447	12.3	4,247,936	43.7	9,727,771	100.0
	2014	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	2009	31,695	15.9	3,331	1.7	167,599	84.1	199,294	100.0
	2012	27,021	13.9	2,500	1.3	166,959	86.1	193,980	100.0
	2014	31,969	16.2	3,365	1.7	164,840	83.8	196,809	100.0
Information and communications	2009	652,357	45.6	70,535	4.9	777,308	54.4	1,429,665	100.0
	2012	848,211	60.8	58,874	4.2	547,325	39.2	1,395,536	100.0
	2014	878,686	60.5	62,268	4.3	573,628	39.5	1,452,314	100.0
Transport and postal activities	2009	1,964,117	63.7	275,484	8.9	1,117,826	36.3	3,081,943	100.0
	2012	1,944,535	66.9	263,688	9.1	964,253	33.1	2,908,788	100.0
	2014	2,076,081	72.2	268,901	9.3	800,064	27.8	2,876,145	100.0
Wholesale and retail trade	2009	4,635,515	56.8	583,343	7.1	3,524,949	43.2	8,160,464	100.0
	2012	4,384,896	56.1	523,976	6.7	3,432,372	43.9	7,817,268	100.0
	2014	4,930,367	58.0	539,652	6.3	3,569,681	42.0	8,500,048	100.0
Wholesale trade	2009	2,027,625	69.6	231,084	7.9	887,346	30.4	2,914,971	100.0
	2012	1,844,563	68.0	214,466	7.9	868,141	32.0	2,712,704	100.0
	2014	2,027,182	69.8	218,311	7.5	876,437	30.2	2,903,619	100.0
Retail trade	2009	2,607,890	49.7	352,259	6.7	2,637,603	50.3	5,245,493	100.0
	2012	2,540,333	49.8	309,510	6.1	2,564,231	50.2	5,104,564	100.0
	2014	2,903,185	51.9	321,341	5.7	2,693,244	48.1	5,596,429	100.0
Finance and insurance	2009	153,958	12.7	60,160	5.0	1,055,313	87.3	1,209,271	100.0
	2012	139,769	12.0	55,615	4.8	1,025,982	88.0	1,165,751	100.0
	2014	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	2009	603,692	73.8	253,810	31.0	214,194	26.2	817,886	100.0
	2012	559,320	72.7	220,520	28.7	209,970	27.3	769,290	100.0
	2014	647,818	74.6	240,913	27.7	220,985	25.4	868,803	100.0
Scientific research, professional and technical services	2009	549,214	64.1	109,518	12.8	308,037	35.9	857,251	100.0
	2012	501,292	60.5	94,700	11.4	327,030	39.5	828,322	100.0
	2014	566,296	60.4	97,285	10.4	370,594	39.6	936,890	100.0
Accommodations, eating and drinking services	2009	1,546,976	53.3	109,737	3.8	1,356,300	46.7	2,903,276	100.0
	2012	1,617,162	55.5	177,405	6.1	1,296,692	44.5	2,913,854	100.0
	2014	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	2009	997,232	71.1	82,000	5.8	406,031	28.9	1,403,263	100.0
	2012	981,873	71.3	130,524	9.5	394,426	28.7	1,376,299	100.0
	2014	1,111,864	74.4	142,426	9.5	382,107	25.6	1,493,971	100.0
Education, learning support	2009	239,886	70.0	14,542	4.2	102,948	30.0	342,834	100.0
	2012	245,256	69.7	14,556	4.1	106,756	30.3	352,012	100.0
	2014	313,568	76.0	16,247	3.9	98,816	24.0	412,384	100.0
Medical, health care and welfare	2009	392,453	80.9	21,404	4.4	92,725	19.1	485,178	100.0
	2012	503,819	75.9	23,593	3.6	159,873	24.1	663,692	100.0
	2014	757,213	81.8	31,299	3.4	167,989	18.2	925,202	100.0
Compound services	2009	155	0.1	71	0.0	160,187	99.9	160,342	100.0
	2012	609	0.4	137	0.1	156,625	99.6	157,234	100.0
	2014	428	0.1	105	0.0	406,903	99.9	407,331	100.0
Services (not elsewhere classified)	2009	1,864,611	62.7	101,806	3.4	1,107,458	37.3	2,972,069	100.0
	2012	1,914,762	66.5	101,616	3.5	965,705	33.5	2,880,467	100.0
	2014	2,144,737	64.2	95,995	2.9	1,197,294	35.8	3,342,031	100.0
Non-primary industry total	2009	21,322,593	59.4	4,237,373	11.8	14,581,358	40.6	35,903,951	100.0
	2012	21,375,140	59.7	4,115,052	11.5	14,416,903	40.3	35,792,043	100.0
	2014	23,488,511	62.5	4,154,808	11.1	14,111,092	37.5	37,599,603	100.0

(3) Sole proprietorships only (number of regular employees of sole proprietorships)

Industry	Year	SMEs				Large enterprises		Total	
		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	2009	529	100.0	500	94.5	0	0.0	529	100.0
	2012	335	100.0	311	92.8	0	0.0	335	100.0
	2014	296	100.0	238	80.4	0	0.0	296	100.0
Construction	2009	208,376	100.0	204,886	98.3	0	0.0	208,376	100.0
	2012	172,293	100.0	169,534	98.4	0	0.0	172,293	100.0
	2014	157,742	100.0	155,785	98.8	0	0.0	157,742	100.0
Manufacturing	2009	236,582	100.0	227,194	96.0	0	0.0	236,582	100.0
	2012	209,171	100.0	200,963	96.1	0	0.0	209,171	100.0
	2014	193,821	100.0	186,365	96.2	0	0.0	193,821	100.0
Electricity, gas, heat supply and water	2009	0	-	0	-	0	-	0	-
	2012	0	-	0	-	0	-	0	-
	2014	6	100.0	6	100.0	0	0.0	6	100.0
Information and communications	2009	2,772	100.0	2,246	81.0	0	0.0	2,772	100.0
	2012	2,129	100.0	1,664	78.2	0	0.0	2,129	100.0
	2014	1,934	100.0	1,690	87.4	0	0.0	1,934	100.0
Transport and postal activities	2009	11,576	100.0	10,687	92.3	0	0.0	11,576	100.0
	2012	9,017	100.0	8,208	91.0	0	0.0	9,017	100.0
	2014	8,763	100.0	7,956	90.8	0	0.0	8,763	100.0
Wholesale and retail trade	2009	827,130	98.6	423,204	50.5	11,342	1.4	838,472	100.0
	2012	687,348	98.6	323,838	46.5	9,599	1.4	696,947	100.0
	2014	712,708	98.1	310,478	42.8	13,483	1.9	726,191	100.0
Wholesale trade	2009	73,531	100.0	52,194	71.0	0	0.0	73,531	100.0
	2012	61,899	100.0	45,740	73.9	0	0.0	61,899	100.0
	2014	63,728	100.0	46,539	73.0	0	0.0	63,728	100.0
Retail trade	2009	753,599	98.5	371,010	48.5	11,342	1.5	764,941	100.0
	2012	625,449	98.5	278,098	43.8	9,599	1.5	635,048	100.0
	2014	648,980	98.0	263,939	39.8	13,483	2.0	662,463	100.0
Finance and insurance	2009	6,106	100.0	6,106	100.0	0	0.0	6,106	100.0
	2012	4,480	100.0	4,480	100.0	0	0.0	4,480	100.0
	2014	3,887	100.0	3,887	100.0	0	0.0	3,887	100.0
Real estate and goods rental and leasing	2009	44,362	100.0	42,702	96.3	0	0.0	44,362	100.0
	2012	39,632	100.0	38,261	96.5	0	0.0	39,632	100.0
	2014	36,840	100.0	35,669	96.8	0	0.0	36,840	100.0
Scientific research, professional and technical services	2009	206,961	98.3	127,958	60.7	3,678	1.7	210,639	100.0
	2012	191,634	97.3	119,130	60.5	5,241	2.7	196,875	100.0
	2014	185,637	98.5	118,200	62.7	2,837	1.5	188,474	100.0
Accommodations, eating and drinking services	2009	798,446	99.7	503,919	62.9	2,306	0.3	800,752	100.0
	2012	663,423	99.6	423,488	63.5	2,989	0.4	666,412	100.0
	2014	687,730	99.6	430,510	62.3	3,026	0.4	690,756	100.0
Living-related and personal services and amusement services	2009	276,367	100.0	216,740	78.4	103	0.0	276,470	100.0
	2012	236,063	99.7	194,579	82.2	692	0.3	236,755	100.0
	2014	233,545	99.6	188,023	80.2	887	0.4	234,432	100.0
Education, learning support	2009	99,923	100.0	54,325	54.4	0	0.0	99,923	100.0
	2012	93,230	99.7	45,664	48.8	277	0.3	93,507	100.0
	2014	99,832	99.4	49,060	48.9	594	0.6	100,426	100.0
Medical, health care and welfare	2009	598,727	96.7	244,050	39.4	20,232	3.3	618,959	100.0
	2012	585,480	97.3	231,581	38.5	15,938	2.7	601,418	100.0
	2014	599,282	97.7	234,242	38.2	14,016	2.3	613,298	100.0
Compound services	2009	3,215	100.0	3,176	98.8	0	0.0	3,215	100.0
	2012	3,257	100.0	3,218	98.8	0	0.0	3,257	100.0
	2014	3,547	100.0	3,511	99.0	0	0.0	3,547	100.0
Services (not elsewhere classified)	2009	61,029	99.1	46,529	75.6	557	0.9	61,586	100.0
	2012	57,989	99.4	45,580	78.1	344	0.6	58,333	100.0
	2014	52,595	98.8	40,189	75.5	652	1.2	53,247	100.0
Non-primary industry total	2009	3,382,101	98.9	2,114,222	61.8	38,218	1.1	3,420,319	100.0
	2012	2,955,481	98.8	1,810,499	60.5	35,080	1.2	2,990,561	100.0
	2014	2,978,165	98.8	1,765,809	58.6	35,495	1.2	3,013,660	100.0

Sources: MIC, 2009 and 2014 *Economic Census for Business Frame*; Recompiled from MIC, METI, 2012 *Economic Census for Business Activity*.

- Notes:
1. The figures are those as of July 2009 for 2009, as of February 2012 for 2012, and as of July 2014 for 2014.
 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 small enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
 5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
 6. Industries are classified according to the October 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 number of regular employees includes regular employees overseas.

**Table 4 Sales by industry and size
(private, non-primary industry, 2011 and 2013)**

(1) Enterprises (sales of companies and sole proprietorships)

Industry	Year	SMEs				Large enterprises		Total	
		Sales (¥100million)	% of total	Of which small enterprises Sales (¥100million)	% of total	Sales (¥100million)	% of total	Sales (¥100million)	% of total
Mining and quarrying of stone and gravel	2011	4,787	68.6	1,824	26.1	2,191	31.4	6,978	100.0
	2013	14,343	67.4	10,626	49.9	6,951	32.6	21,294	100.0
Construction	2011	581,465	69.9	299,745	36.0	250,945	30.1	832,410	100.0
	2013	616,064	70.2	316,188	36.0	261,185	29.8	877,248	100.0
Manufacturing	2011	1,315,374	38.4	242,706	7.1	2,107,642	61.6	3,423,016	100.0
	2013	1,250,933	36.1	222,207	6.4	2,217,637	63.9	3,468,569	100.0
Electricity, gas, heat supply and water	2011	20,251	9.3	4,791	2.2	197,698	90.7	217,948	100.0
	2013	22,890	8.9	3,180	1.2	234,069	91.1	256,959	100.0
Information and communications	2011	150,577	32.3	13,860	3.0	316,241	67.7	466,818	100.0
	2013	145,751	31.0	13,940	3.0	324,034	69.0	469,785	100.0
Transport and postal activities	2011	253,814	48.7	42,601	8.2	267,109	51.3	520,923	100.0
	2013	264,291	50.0	43,537	8.2	264,695	50.0	528,986	100.0
Wholesale and retail trade	2011	1,871,059	46.7	327,303	8.2	2,134,937	53.3	4,005,996	100.0
	2013	1,933,274	47.2	311,176	7.6	2,162,344	52.8	4,095,618	100.0
Wholesale trade	2011	1,280,702	46.5	184,253	6.7	1,472,590	53.5	2,753,292	100.0
	2013	1,319,071	47.4	176,016	6.3	1,462,618	52.6	2,781,689	100.0
Retail trade	2011	590,357	47.1	143,050	11.4	662,347	52.9	1,252,704	100.0
	2013	614,203	46.7	135,160	10.3	699,726	53.3	1,313,929	100.0
Finance and insurance	2011	78,537	9.4	14,816	1.8	758,282	90.6	836,819	100.0
	2013	86,007	10.8	29,330	3.7	712,060	89.2	798,067	100.0
Real estate and goods rental and leasing	2011	192,510	57.1	92,714	27.5	144,468	42.9	336,977	100.0
	2013	187,946	55.2	92,442	27.2	152,486	44.8	340,432	100.0
Scientific research, professional and technical services	2011	120,403	46.3	34,165	13.1	139,612	53.7	260,014	100.0
	2013	116,660	44.4	36,841	14.0	146,066	55.6	262,726	100.0
Accommodations, eating and drinking services	2011	126,942	64.6	41,478	21.1	69,685	35.4	196,628	100.0
	2013	134,661	65.9	42,051	20.6	69,766	34.1	204,427	100.0
Living-related and personal services and amusement services	2011	231,390	67.1	47,863	13.9	113,482	32.9	344,872	100.0
	2013	215,101	63.7	45,199	13.4	122,316	36.3	337,417	100.0
Education, learning support	2011	17,971	66.5	3,771	14.0	9,052	33.5	27,024	100.0
	2013	18,372	67.0	3,748	13.7	9,043	33.0	27,415	100.0
Medical, health care and welfare	2011	72,364	85.0	24,182	28.4	12,729	15.0	85,093	100.0
	2013	77,996	88.1	25,324	28.6	10,572	11.9	88,568	100.0
Compound services	2011	425	3.4	259	2.1	12,084	96.6	12,510	100.0
	2013	313	1.1	202	0.7	27,740	98.9	28,053	100.0
Services (not elsewhere classified)	2011	150,271	60.3	24,763	9.9	99,051	39.7	249,321	100.0
	2013	149,297	58.8	22,560	8.9	104,496	41.2	253,793	100.0
Non-primary industry total	2011	5,188,141	43.9	1,216,840	10.3	6,635,207	56.1	11,823,348	100.0
	2013	5,233,899	43.4	1,218,549	10.1	6,825,458	56.6	12,059,357	100.0

(2) Companies only (sales of companies)

Industry	Year	SMEs				Large enterprises		Total	
		Sales (¥100million)	% of total	Of which small enterprises Sales (¥100million)	% of total	Sales (¥100million)	% of total	Sales (¥100million)	% of total
Mining and quarrying of stone and gravel	2011	4,748	68.4	1,787	25.8	2,191	31.6	6,939	100.0
	2013	14,294	67.3	10,590	49.8	6,951	32.7	21,245	100.0
Construction	2011	560,135	69.1	278,559	34.3	250,945	30.9	811,079	100.0
	2013	593,310	69.4	293,570	34.4	261,185	30.6	854,494	100.0
Manufacturing	2011	1,298,332	38.1	226,138	6.6	2,107,642	61.9	3,405,974	100.0
	2013	1,234,925	35.8	206,623	6.0	2,217,637	64.2	3,452,561	100.0
Electricity, gas, heat supply and water	2011	20,251	9.3	4,791	2.2	197,698	90.7	217,948	100.0
	2013	22,889	8.9	3,179	1.2	234,069	91.1	256,958	100.0
Information and communications	2011	150,423	32.2	13,717	2.9	316,241	67.8	466,664	100.0
	2013	145,597	31.0	13,794	2.9	324,034	69.0	469,631	100.0
Transport and postal activities	2011	252,739	48.6	41,551	8.0	267,109	51.4	519,848	100.0
	2013	263,232	49.9	42,515	8.1	264,695	50.1	527,927	100.0
Wholesale and retail trade	2011	1,773,112	45.4	260,635	6.7	2,134,621	54.6	3,907,733	100.0
	2013	1,838,094	46.0	251,516	6.3	2,161,957	54.0	4,000,051	100.0
Wholesale trade	2011	1,265,108	46.2	170,904	6.2	1,472,590	53.8	2,737,697	100.0
	2013	1,304,257	47.1	163,658	5.9	1,462,618	52.9	2,766,875	100.0
Retail trade	2011	508,004	43.4	89,731	7.7	662,031	56.6	1,170,036	100.0
	2013	533,837	43.3	87,858	7.1	699,339	56.7	1,233,176	100.0
Finance and insurance	2011	78,003	9.3	14,282	1.7	758,282	90.7	836,285	100.0
	2013	85,363	10.7	28,686	3.6	712,060	89.3	797,423	100.0
Real estate and goods rental and leasing	2011	182,112	55.8	82,384	25.2	144,468	44.2	326,580	100.0
	2013	178,070	53.9	82,610	25.0	152,486	46.1	330,555	100.0
Scientific research, professional and technical services	2011	102,091	42.3	21,831	9.0	139,232	57.7	241,323	100.0
	2013	97,856	40.2	23,722	9.7	145,752	59.8	243,608	100.0
Accommodations, eating and drinking services	2011	94,469	57.6	15,187	9.3	69,626	42.4	164,095	100.0
	2013	100,747	59.1	15,056	8.8	69,680	40.9	170,427	100.0
Living-related and personal services and amusement services	2011	216,092	65.6	34,080	10.4	113,155	34.4	329,248	100.0
	2013	199,742	62.1	31,148	9.7	121,965	37.9	321,707	100.0
Education, learning support	2011	14,836	62.1	1,574	6.6	9,050	37.9	23,886	100.0
	2013	15,276	62.9	1,526	6.3	9,027	37.1	24,303	100.0
Medical, health care and welfare	2011	21,316	65.0	1,937	5.9	11,479	35.0	32,795	100.0
	2013	25,579	72.7	2,284	6.5	9,584	27.3	35,163	100.0
Compound services	2011	238	1.9	92	0.7	12,084	98.1	12,323	100.0
	2013	131	0.5	20	0.1	27,740	99.5	27,870	100.0
Services (not elsewhere classified)	2011	144,504	59.3	19,546	8.0	99,051	40.7	243,555	100.0
	2013	143,932	57.9	17,662	7.1	104,487	42.1	248,419	100.0
Non-primary industry total	2011	4,913,402	42.6	1,018,091	8.8	6,632,873	57.4	11,546,275	100.0
	2013	4,959,036	42.1	1,024,503	8.7	6,823,308	57.9	11,782,344	100.0

(3) Sole proprietorships only (sales of sole proprietorships)

Industry	Year	SMEs				Large enterprises		Total	
		Value added (¥100million)	% of total	Value added (¥100million)	% of total	Value added (¥100million)	% of total	Value added (¥100million)	% of total
Mining and quarrying of stone and gravel	2011	39	100.0	37	94.9	0	0.0	39	100.0
	2013	49	100.0	36	73.5	0	0.0	49	100.0
Construction	2011	21,330	100.0	21,186	99.3	0	0.0	21,331	100.0
	2013	22,754	100.0	22,618	99.4	0	0.0	22,754	100.0
Manufacturing	2011	17,042	100.0	16,568	97.2	0	0.0	17,042	100.0
	2013	16,008	100.0	15,584	97.4	0	0.0	16,008	100.0
Electricity, gas, heat supply and water	2011	0	-	0	-	0	-	0	-
	2013	1	100.0	1	100.0	0	0.0	1	100.0
Information and communications	2011	154	100.0	143	92.9	0	0.0	154	100.0
	2013	154	100.0	146	94.8	0	0.0	154	100.0
Transport and postal activities	2011	1,075	100.0	1,050	97.7	0	0.0	1,075	100.0
	2013	1,059	100.0	1,022	96.5	0	0.0	1,059	100.0
Wholesale and retail trade	2011	97,947	99.7	66,668	67.8	316	0.3	98,263	100.0
	2013	95,180	99.6	59,660	62.4	387	0.4	95,567	100.0
Wholesale trade	2011	15,594	100.0	13,349	85.6	0	0.0	15,595	100.0
	2013	14,814	100.0	12,358	83.4	0	0.0	14,814	100.0
Retail trade	2011	82,353	99.6	53,319	64.5	316	0.4	82,668	100.0
	2013	80,366	99.5	47,302	58.6	387	0.5	80,753	100.0
Finance and insurance	2011	534	100.0	534	100.0	0	0.0	534	100.0
	2013	644	100.0	644	100.0	0	0.0	644	100.0
Real estate and goods rental and leasing	2011	10,398	100.0	10,330	99.4	0	0.0	10,397	100.0
	2013	9,876	100.0	9,832	99.5	0	0.0	9,877	100.0
Scientific research, professional and technical services	2011	18,312	98.0	12,334	66.0	380	2.0	18,691	100.0
	2013	18,804	98.4	13,119	68.6	314	1.6	19,118	100.0
Accommodations, eating and drinking services	2011	32,473	99.8	26,291	80.8	59	0.2	32,533	100.0
	2013	33,914	99.7	26,995	79.4	86	0.3	34,000	100.0
Living-related and personal services and amusement services	2011	15,298	97.9	13,783	88.2	327	2.1	15,624	100.0
	2013	15,359	97.8	14,051	89.4	351	2.2	15,710	100.0
Education, learning support	2011	3,135	99.9	2,197	70.0	2	0.1	3,138	100.0
	2013	3,096	99.5	2,222	71.4	16	0.5	3,112	100.0
Medical, health care and welfare	2011	51,048	97.6	22,245	42.5	1,250	2.4	52,298	100.0
	2013	52,417	98.1	23,040	43.1	988	1.9	53,405	100.0
Compound services	2011	187	100.0	167	89.3	0	0.0	187	100.0
	2013	182	99.5	182	99.5	0	0.0	183	100.0
Services (not elsewhere classified)	2011	5,767	100.0	5,217	90.5	0	0.0	5,766	100.0
	2013	5,365	99.8	4,898	91.1	9	0.2	5,374	100.0
Non-primary industry total	2011	274,739	99.2	198,749	71.7	2,334	0.8	277,073	100.0
	2013	274,863	99.2	194,046	70.0	2,150	0.8	277,013	100.0

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

Notes: 1. The figures are those of during 2011 and 2013.

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 small enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.

5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.

6. Industries are classified according to the October 2013 revised system of industry classification.

**Table 5 Value added by industry and size
(private, non-primary industry, 2011)**

(1) Enterprises (value added of companies and sole proprietorships)

Industry	SMEs				Large enterprises		Total	
	Value added (¥100million)	% of total	Value added (¥100million)	% of total	Value added (¥100million)	% of total	Value added (¥100million)	% of total
Mining and quarrying of stone and gravel	1,135	81.8	427	30.8	253	18.2	1,388	100.0
Construction	121,735	78.2	72,574	46.6	33,966	21.8	155,700	100.0
Manufacturing	284,459	50.5	69,971	12.4	278,466	49.5	562,925	100.0
Electricity, gas, heat supply and water	2,838	10.2	767	2.7	25,105	89.8	27,943	100.0
Information and communications	49,938	39.5	4,181	3.3	76,615	60.5	126,553	100.0
Transport and postal activities	76,160	54.6	12,769	9.2	63,302	45.4	139,462	100.0
Wholesale and retail trade	263,533	60.1	61,689	14.1	175,187	39.9	438,719	100.0
Wholesale trade	140,426	63.6	26,161	11.8	80,503	36.4	220,929	100.0
Retail trade	123,107	56.5	35,528	16.3	94,684	43.5	217,790	100.0
Finance and insurance	15,619	10.6	6,802	4.6	131,561	89.4	147,180	100.0
Real estate and goods rental and leasing	56,901	70.1	32,910	40.5	24,306	29.9	81,207	100.0
Scientific research, professional and technical services	51,632	54.5	16,650	17.6	43,139	45.5	94,771	100.0
Accommodations, eating and drinking services	49,877	68.4	16,643	22.8	22,997	31.6	72,874	100.0
Living-related and personal services and amusement services	46,602	74.9	13,704	22.0	15,620	25.1	62,222	100.0
Education, learning support	8,393	67.7	1,667	13.4	4,004	32.3	12,397	100.0
Medical, health care and welfare	39,846	87.2	12,890	28.2	5,868	12.8	45,714	100.0
Compound services	136	2.0	120	1.8	6,685	98.0	6,821	100.0
Services (not elsewhere classified)	63,160	63.6	9,686	9.8	36,166	36.4	99,325	100.0
Non-primary industry total	1,131,964	54.5	333,449	16.1	943,240	45.5	2,075,204	100.0

(2) Companies only (value added of companies)

Industry	SMEs				Large enterprises		Total	
	Value added (¥100million)	% of total	Of which small enterprises Value added (¥100million)	% of total	Value added (¥100million)	% of total	Value added (¥100million)	% of total
Mining and quarrying of stone and gravel	1,122	81.5	415	30.2	253	18.4	1,376	100.0
Construction	112,241	76.8	63,146	43.2	33,966	23.2	146,207	100.0
Manufacturing	276,649	49.8	62,338	11.2	278,466	50.2	555,114	100.0
Electricity, gas, heat supply and water	2,838	10.2	767	2.7	25,105	89.8	27,943	100.0
Information and communications	49,866	39.4	4,114	3.3	76,615	60.6	126,481	100.0
Transport and postal activities	75,667	54.4	12,288	8.8	63,302	45.6	138,969	100.0
Wholesale and retail trade	236,363	57.4	43,146	10.5	175,079	42.6	411,442	100.0
Wholesale trade	136,666	62.9	22,936	10.6	80,503	37.1	217,169	100.0
Retail trade	99,697	51.3	20,210	10.4	94,576	48.7	194,273	100.0
Finance and insurance	15,338	10.4	6,520	4.4	131,561	89.6	146,898	100.0
Real estate and goods rental and leasing	51,659	68.0	27,699	36.5	24,306	32.0	75,965	100.0
Scientific research, professional and technical services	40,715	48.7	9,536	11.4	42,947	51.3	83,662	100.0
Accommodations, eating and drinking services	36,664	61.5	6,324	10.6	22,971	38.5	59,635	100.0
Living-related and personal services and amusement services	39,090	71.5	6,946	12.7	15,600	28.5	54,690	100.0
Education, learning support	6,867	63.2	664	6.1	4,002	36.8	10,869	100.0
Medical, health care and welfare	11,965	70.0	1,009	5.9	5,136	30.0	17,101	100.0
Compound services	28	0.4	14	0.2	6,685	99.6	6,713	100.0
Services (not elsewhere classified)	60,537	62.6	7,367	7.6	36,166	37.4	96,703	100.0
Non-primary industry total	1,017,608	51.9	252,293	12.9	942,159	48.1	1,959,767	100.0

(3) Sole proprietorships only (value added of sole proprietorships)

Industry	SMEs				Large enterprises		Total	
	Value added (¥100million)	% of total	Of which small enterprises Value added (¥100million)	% of total	Value added (¥100million)	% of total	Value added (¥100million)	% of total
Mining and quarrying of stone and gravel	12	100.0	11	91.7	0	0.0	12	100.0
Construction	9,494	100.0	9,427	99.3	0	0.0	9,494	100.0
Manufacturing	7,811	100.0	7,633	97.7	0	0.0	7,811	100.0
Electricity, gas, heat supply and water	0	-	0	-	0	-	0	100.0
Information and communications	71	100.0	66	93.0	0	0.0	71	100.0
Transport and postal activities	494	100.0	480	97.2	0	0.0	494	100.0
Wholesale and retail trade	27,171	99.6	18,543	68.0	107	0.4	27,278	100.0
Wholesale trade	3,761	100.0	3,225	85.7	0	0.0	3,761	100.0
Retail trade	23,410	99.5	15,318	65.1	107	0.5	23,517	100.0
Finance and insurance	282	100.0	282	100.0	0	0.0	282	100.0
Real estate and goods rental and leasing	5,242	100.0	5,211	99.4	0	0.0	5,242	100.0
Scientific research, professional and technical services	10,917	98.3	7,115	64.0	193	1.7	11,110	100.0
Accommodations, eating and drinking services	13,213	99.8	10,319	77.9	27	0.2	13,240	100.0
Living-related and personal services and amusement services	7,512	99.7	6,758	89.7	20	0.3	7,532	100.0
Education, learning support	1,527	99.9	1,003	65.6	2	0.1	1,529	100.0
Medical, health care and welfare	27,881	97.4	11,881	41.5	732	2.6	28,613	100.0
Compound services	108	100.0	106	98.1	0	0.0	108	100.0
Services (not elsewhere classified)	2,622	100.0	2,318	88.4	0	0.0	2,622	100.0
Non-primary industry total	114,356	99.1	81,156	70.3	1,081	0.9	115,437	100.0

Source: Recompiled from MIC, METI, 2012 Economic Census for Business Activity.

Notes: 1. The figures are those of during 2011.

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 small enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.

5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.

6. Industries are classified according to the November 2007 revised system of industry classification.

**Table 6 Number of enterprises by prefecture and size
(private, non-primary industry, 2009, 2012 and 2014)**

(1) Number of enterprises (Number of companies + sole proprietorships)

Prefecture	Year	SMEs		Of which small enterprises		Large enterprises		Total	
		No.	% of total	No.	% of total	No.	% of total	No.	% of total
Hokkaido	2009	166,961	99.8	144,616	86.4	322	0.2	167,283	100.0
	2012	153,790	99.8	133,263	86.5	263	0.2	154,053	100.0
	2014	151,123	99.8	128,686	85.0	279	0.2	151,402	100.0
Aomori	2009	47,954	99.9	42,458	88.4	63	0.1	48,017	100.0
	2012	42,669	99.9	37,427	87.6	50	0.1	42,719	100.0
	2014	41,863	99.9	36,319	86.6	52	0.1	41,915	100.0
Iwate	2009	44,388	99.8	39,125	88.0	67	0.2	44,455	100.0
	2012	38,711	99.8	33,837	87.3	68	0.2	38,779	100.0
	2014	38,665	99.8	33,263	85.9	72	0.2	38,737	100.0
Miyagi	2009	71,928	99.8	62,968	87.3	163	0.2	72,091	100.0
	2012	59,565	99.8	51,274	85.9	135	0.2	59,700	100.0
	2014	61,685	99.8	52,151	84.4	134	0.3	61,819	100.0
Akita	2009	39,925	99.9	35,612	89.1	39	0.1	39,964	100.0
	2012	36,304	99.9	32,087	88.3	30	0.1	36,334	100.0
	2014	35,098	99.9	30,666	87.3	32	0.1	35,130	100.0
Yamagata	2009	45,799	99.9	40,797	88.9	67	0.1	45,866	100.0
	2012	42,277	99.9	37,527	88.6	62	0.1	42,339	100.0
	2014	40,874	99.8	35,940	87.8	64	0.2	40,938	100.0
Fukushima	2009	71,625	99.9	63,603	88.7	85	0.1	71,710	100.0
	2012	61,887	99.9	54,804	88.4	75	0.1	61,962	100.0
	2014	61,566	99.9	53,545	86.9	70	0.1	61,636	100.0
Ibaraki	2009	92,823	99.9	82,363	88.7	84	0.1	92,907	100.0
	2012	85,709	99.9	75,833	88.4	81	0.1	85,790	100.0
	2014	84,268	99.9	73,717	87.4	93	0.1	84,361	100.0
Tochigi	2009	70,736	99.9	63,025	89.0	102	0.1	70,838	100.0
	2012	65,262	99.8	57,961	88.7	100	0.2	65,362	100.0
	2014	63,516	99.8	55,713	87.6	99	0.2	63,615	100.0
Gunma	2009	77,225	99.9	68,904	89.1	105	0.1	77,330	100.0
	2012	70,660	99.9	62,703	88.6	94	0.1	70,754	100.0
	2014	68,792	99.9	60,220	87.4	97	0.2	68,889	100.0
Saitama	2009	186,837	99.9	166,118	88.8	269	0.1	187,106	100.0
	2012	174,574	99.9	153,792	88.0	242	0.1	174,816	100.0
	2014	172,182	99.9	149,751	86.8	253	0.2	172,435	100.0
Chiba	2009	139,283	99.8	122,003	87.4	265	0.2	139,548	100.0
	2012	129,722	99.8	112,831	86.8	242	0.2	129,964	100.0
	2014	128,900	99.8	110,411	85.5	226	0.2	129,126	100.0
Tokyo	2009	487,729	99.1	408,714	83.0	4,662	0.9	492,391	100.0
	2012	442,952	99.1	369,710	82.7	4,161	0.9	447,113	100.0
	2014	447,659	99.0	364,265	80.6	4,538	1.2	452,197	100.0
Kanagawa	2009	216,503	99.7	187,674	86.4	600	0.3	217,103	100.0
	2012	200,146	99.7	172,717	86.1	544	0.3	200,690	100.0
	2014	199,958	99.7	169,491	84.5	572	0.3	200,530	100.0
Niigata	2009	89,770	99.8	79,305	88.2	162	0.2	89,932	100.0
	2012	83,509	99.8	73,654	88.1	135	0.2	83,644	100.0
	2014	80,499	99.8	70,248	87.1	146	0.2	80,645	100.0
Toyama	2009	41,351	99.8	36,176	87.3	96	0.2	41,447	100.0
	2012	37,772	99.8	32,835	86.7	84	0.2	37,856	100.0
	2014	36,686	99.8	31,505	85.7	90	0.3	36,776	100.0
Ishikawa	2009	47,286	99.8	41,828	88.3	111	0.2	47,397	100.0
	2012	43,834	99.8	38,627	87.9	88	0.2	43,922	100.0
	2014	42,807	99.8	37,193	86.7	88	0.2	42,895	100.0
Fukui	2009	34,167	99.9	30,404	88.9	45	0.1	34,212	100.0
	2012	31,429	99.9	27,816	88.4	43	0.1	31,472	100.0
	2014	30,626	99.9	26,711	87.1	43	0.2	30,669	100.0
Yamanashi	2009	36,555	99.9	33,023	90.2	48	0.1	36,603	100.0
	2012	33,291	99.9	29,922	89.8	41	0.1	33,332	100.0
	2014	32,485	99.9	28,906	88.9	38	0.1	32,523	100.0
Nagano	2009	85,783	99.8	77,032	89.6	161	0.2	85,944	100.0
	2012	78,580	99.8	70,414	89.5	124	0.2	78,704	100.0
	2014	77,326	99.8	68,597	88.6	130	0.2	77,456	100.0
Gifu	2009	82,601	99.9	73,266	88.6	101	0.1	82,702	100.0
	2012	76,432	99.9	67,372	88.0	97	0.1	76,529	100.0
	2014	74,446	99.9	64,763	86.9	96	0.1	74,542	100.0
Shizuoka	2009	140,136	99.8	123,807	88.2	234	0.2	140,370	100.0
	2012	130,085	99.8	114,366	87.8	210	0.2	130,295	100.0
	2014	127,440	99.8	111,010	87.0	203	0.2	127,643	100.0
Aichi	2009	240,809	99.7	206,323	85.4	715	0.3	241,524	100.0
	2012	223,698	99.7	189,829	84.6	645	0.3	224,343	100.0
	2014	220,767	99.7	183,800	83.0	644	0.4	221,411	100.0
Mie	2009	60,504	99.8	53,210	87.8	91	0.2	60,595	100.0
	2012	55,694	99.8	48,614	87.1	97	0.2	55,791	100.0
	2014	54,826	99.8	47,246	86.0	85	0.2	54,911	100.0

Prefecture	Year	SMEs		Of which small enterprises		Large enterprises		Total	
		No.	% of total	No.	% of total	No.	% of total	No.	% of total
Shiga	2009	39,165	99.8	34,238	87.3	70	0.2	39,235	100.0
	2012	36,824	99.8	31,999	86.7	69	0.2	36,893	100.0
	2014	36,520	99.8	31,225	85.4	60	0.2	36,580	100.0
Kyoto	2009	94,994	99.8	83,700	87.9	187	0.2	95,181	100.0
	2012	86,119	99.8	75,334	87.3	171	0.2	86,290	100.0
	2014	84,702	99.8	73,047	86.0	194	0.3	84,896	100.0
Osaka	2009	326,793	99.6	282,486	86.1	1,240	0.4	328,033	100.0
	2012	298,381	99.6	256,293	85.6	1,065	0.4	299,446	100.0
	2014	292,993	99.6	246,927	84.0	1,106	0.4	294,099	100.0
Hyogo	2009	169,036	99.8	147,417	87.0	313	0.2	169,349	100.0
	2012	154,765	99.8	134,163	86.5	296	0.2	155,061	100.0
	2014	154,646	99.8	132,006	85.2	303	0.2	154,949	100.0
Nara	2009	36,092	99.9	31,810	88.1	28	0.1	36,120	100.0
	2012	33,106	99.9	28,888	87.2	27	0.1	33,133	100.0
	2014	33,296	99.9	28,749	86.3	27	0.1	33,323	100.0
Wakayama	2009	40,708	99.9	36,693	90.1	31	0.1	40,739	100.0
	2012	37,613	99.9	33,715	89.6	30	0.1	37,643	100.0
	2014	36,270	99.9	32,099	88.4	26	0.1	36,296	100.0
Tottori	2009	18,882	99.8	16,539	87.4	32	0.2	18,914	100.0
	2012	17,489	99.8	15,228	86.9	29	0.2	17,518	100.0
	2014	17,118	99.9	14,709	85.8	25	0.2	17,143	100.0
Shimane	2009	26,319	99.9	23,308	88.5	29	0.1	26,348	100.0
	2012	24,256	99.9	21,405	88.2	22	0.1	24,278	100.0
	2014	23,542	99.9	20,508	87.0	21	0.1	23,563	100.0
Okayama	2009	60,144	99.8	52,355	86.9	108	0.2	60,252	100.0
	2012	56,272	99.8	48,694	86.4	90	0.2	56,362	100.0
	2014	55,224	99.8	47,004	85.0	98	0.2	55,322	100.0
Hiroshima	2009	96,627	99.8	83,949	86.7	182	0.2	96,809	100.0
	2012	89,204	99.8	77,158	86.3	162	0.2	89,366	100.0
	2014	87,414	99.8	74,540	85.1	164	0.2	87,578	100.0
Yamaguchi	2009	46,307	99.9	40,315	86.9	67	0.1	46,374	100.0
	2012	42,172	99.9	36,535	86.5	56	0.1	42,228	100.0
	2014	40,991	99.9	35,091	85.5	49	0.1	41,040	100.0
Tokushima	2009	29,939	99.9	26,933	89.9	30	0.1	29,969	100.0
	2012	27,490	99.9	24,567	89.3	24	0.1	27,514	100.0
	2014	26,911	99.9	23,816	88.4	25	0.1	26,936	100.0
Kagawa	2009	36,329	99.8	32,004	87.9	63	0.2	36,392	100.0
	2012	33,467	99.8	29,388	87.7	58	0.2	33,525	100.0
	2014	32,743	99.8	28,357	86.4	62	0.2	32,805	100.0
Ehime	2009	50,945	99.8	45,108	88.4	91	0.2	51,036	100.0
	2012	46,905	99.8	41,333	88.0	79	0.2	46,984	100.0
	2014	45,899	99.8	40,008	87.0	76	0.2	45,975	100.0
Kochi	2009	29,548	99.9	26,615	90.0	27	0.1	29,575	100.0
	2012	26,970	99.9	24,116	89.3	27	0.1	26,997	100.0
	2014	26,373	99.9	23,326	88.4	26	0.1	26,399	100.0
Fukuoka	2009	154,699	99.8	132,668	85.5	384	0.2	155,083	100.0
	2012	142,502	99.8	121,401	85.0	333	0.2	142,835	100.0
	2014	143,058	99.8	119,666	83.4	350	0.3	143,408	100.0
Saga	2009	27,907	99.9	24,316	87.0	38	0.1	27,945	100.0
	2012	25,957	99.9	22,447	86.4	34	0.1	25,991	100.0
	2014	25,521	99.9	21,819	85.4	34	0.2	25,555	100.0
Nagasaki	2009	48,638	99.9	42,825	88.0	48	0.1	48,686	100.0
	2012	44,687	99.9	39,157	87.5	43	0.1	44,730	100.0
	2014	43,745	99.9	37,851	86.4	49	0.1	43,794	100.0
Kumamoto	2009	57,348	99.9	50,057	87.2	82	0.1	57,430	100.0
	2012	53,370	99.9	46,424	86.9	70	0.1	53,440	100.0
	2014	52,730	99.9	45,321	85.8	65	0.1	52,795	100.0
Oita	2009	40,390	99.9	35,200	87.0	50	0.1	40,440	100.0
	2012	37,257	99.9	32,489	87.1	46	0.1	37,303	100.0
	2014	36,687	99.9	31,580	86.0	42	0.1	36,729	100.0
Miyazaki	2009	40,008	99.9	35,465	88.5	44	0.1	40,052	100.0
	2012	37,491	99.9	33,048	88.1	37	0.1	37,528	100.0
	2014	36,909	99.9	32,074	86.8	35	0.1	36,944	100.0
Kagoshima	2009	58,110	99.9	51,728	88.9	59	0.1	58,169	100.0
	2012	53,680	99.9	47,567	88.5	56	0.1	53,736	100.0
	2014	52,721	99.9	46,155	87.5	56	0.1	52,777	100.0
Okinawa	2009	53,658	99.9	47,278	88.0	66	0.1	53,724	100.0
	2012	48,405	99.9	42,250	87.2	61	0.1	48,466	100.0
	2014	49,158	99.9	42,259	85.8	73	0.2	49,231	100.0
Total	2009	4,201,264	99.7	3,665,361	87.0	11,926	0.3	4,213,190	100.0
	2012	3,852,934	99.7	3,342,814	86.5	10,596	0.3	3,863,530	100.0
	2014	3,809,228	99.7	3,252,254	85.1	11,110	0.3	3,820,338	100.0

Sources: MIC, *2009 and 2014 Economic Census for Business Frame*; Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

- Notes:
1. The figures are those as of July 2009 for 2009, as of February 2012 for 2012, and as of July 2014 for 2014.
 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 small enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
 5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
 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.

**Table 7 Total number of workers by prefecture and size
(private, non-primary industry, 2009, 2012 and 2014)**

(1) Total number of workers (workers of companies + sole proprietorships)

Prefecture	Year	SMEs				Large enterprises		Total	
		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	2009	1,314,664	85.0	511,195	33.1	231,184	15.0	1,545,848	100.0
	2012	1,239,770	85.2	473,607	32.5	215,677	14.8	1,455,447	100.0
	2014	1,265,958	84.8	442,912	29.7	226,966	15.2	1,492,924	100.0
Aomori	2009	329,064	89.7	138,979	37.9	37,930	10.3	366,994	100.0
	2012	315,974	91.1	126,730	36.5	30,826	8.9	346,800	100.0
	2014	318,762	91.4	118,692	34.0	29,993	8.6	348,755	100.0
Iwate	2009	313,486	88.9	128,828	36.5	39,004	11.1	352,490	100.0
	2012	291,444	88.1	116,904	35.3	39,469	11.9	330,913	100.0
	2014	305,956	88.5	112,193	32.4	39,934	11.5	345,890	100.0
Miyagi	2009	544,448	84.1	218,884	33.8	102,743	15.9	647,191	100.0
	2012	496,876	85.1	186,263	31.9	86,865	14.9	583,741	100.0
	2014	532,834	85.1	185,735	29.7	93,375	14.9	626,209	100.0
Akita	2009	266,194	92.6	116,652	40.6	21,287	7.4	287,481	100.0
	2012	257,810	93.0	107,062	38.6	19,550	7.0	277,360	100.0
	2014	254,609	92.4	99,745	36.2	20,888	7.6	275,497	100.0
Yamagata	2009	309,894	87.8	132,899	37.6	43,214	12.2	353,108	100.0
	2012	299,042	87.8	126,881	37.2	41,600	12.2	340,642	100.0
	2014	299,260	90.2	117,848	35.5	32,676	9.8	331,936	100.0
Fukushima	2009	509,056	86.3	219,869	37.3	80,541	13.7	589,597	100.0
	2012	464,549	84.4	196,195	35.7	85,757	15.6	550,306	100.0
	2014	481,870	86.2	187,353	33.5	76,829	13.8	558,699	100.0
Ibaraki	2009	662,740	89.0	296,114	39.7	82,246	11.0	744,986	100.0
	2012	645,167	87.9	279,979	38.1	89,096	12.1	734,263	100.0
	2014	643,250	87.8	263,090	35.9	89,201	12.2	732,451	100.0
Tochigi	2009	473,458	84.9	218,554	39.2	83,917	15.1	557,375	100.0
	2012	456,329	85.6	205,063	38.5	76,753	14.4	533,082	100.0
	2014	472,300	86.8	192,721	35.4	71,988	13.2	544,288	100.0
Gunma	2009	531,102	79.6	234,254	35.1	135,882	20.4	666,984	100.0
	2012	524,067	80.7	218,953	33.7	125,349	19.3	649,416	100.0
	2014	522,228	81.8	204,507	32.1	115,856	18.2	638,084	100.0
Saitama	2009	1,333,167	79.5	585,066	34.9	344,258	20.5	1,677,425	100.0
	2012	1,343,724	80.8	551,382	33.1	319,890	19.2	1,663,614	100.0
	2014	1,405,272	80.9	527,337	30.4	331,961	19.1	1,737,233	100.0
Chiba	2009	1,004,977	74.5	433,540	32.2	343,511	25.5	1,348,488	100.0
	2012	989,855	76.6	405,375	31.4	301,852	23.4	1,291,707	100.0
	2014	1,025,489	78.3	384,721	29.4	284,051	21.7	1,309,540	100.0
Tokyo	2009	5,125,495	39.9	1,474,647	11.5	7,720,434	60.1	12,845,929	100.0
	2012	5,020,049	41.1	1,339,578	11.0	7,203,532	58.9	12,223,581	100.0
	2014	5,758,435	43.0	1,291,889	9.7	7,628,071	57.0	13,386,506	100.0
Kanagawa	2009	1,731,229	75.1	669,693	29.1	573,365	24.9	2,304,594	100.0
	2012	1,691,858	75.8	624,235	28.0	538,941	24.2	2,230,799	100.0
	2014	1,787,764	75.3	593,870	25.0	586,833	24.7	2,374,597	100.0
Niigata	2009	662,629	85.7	271,438	35.1	110,550	14.3	773,179	100.0
	2012	636,313	85.2	257,821	34.5	110,347	14.8	746,660	100.0
	2014	632,252	84.2	240,714	32.0	118,867	15.8	751,119	100.0
Toyama	2009	321,732	82.4	127,658	32.7	68,685	17.6	390,417	100.0
	2012	314,353	83.6	119,834	31.9	61,624	16.4	375,977	100.0
	2014	313,878	83.1	111,447	29.5	63,757	16.9	377,635	100.0
Ishikawa	2009	343,597	86.3	144,415	36.3	54,652	13.7	398,249	100.0
	2012	337,105	87.4	135,976	35.2	48,786	12.6	385,891	100.0
	2014	343,676	88.6	127,138	32.8	44,417	11.4	388,093	100.0
Fukui	2009	249,438	90.0	109,299	39.4	27,716	10.0	277,154	100.0
	2012	236,882	88.9	102,583	38.5	29,534	11.1	266,416	100.0
	2014	237,607	89.6	94,688	35.7	27,636	10.4	265,243	100.0
Yamanashi	2009	228,834	90.7	110,474	43.8	23,423	9.3	252,257	100.0
	2012	225,984	91.7	104,991	42.6	20,385	8.3	246,369	100.0
	2014	219,479	90.8	96,891	40.1	22,167	9.2	241,646	100.0
Nagano	2009	577,938	86.0	255,409	38.0	93,788	14.0	671,726	100.0
	2012	558,105	87.1	240,438	37.5	82,519	12.9	640,624	100.0
	2014	556,251	86.3	226,338	35.1	88,029	13.7	644,280	100.0
Gifu	2009	592,421	87.6	256,411	37.9	88,217	12.4	676,638	100.0
	2012	581,708	86.9	241,353	36.0	87,968	13.1	669,676	100.0
	2014	580,043	86.0	224,817	33.3	94,514	14.0	674,557	100.0
Shizuoka	2009	1,033,316	83.2	430,726	34.7	208,878	16.8	1,242,194	100.0
	2012	1,013,362	82.9	404,404	33.1	209,359	17.1	1,222,721	100.0
	2014	1,016,324	83.5	378,926	31.1	201,364	16.5	1,217,688	100.0
Aichi	2009	2,159,764	69.6	758,505	24.4	945,573	30.4	3,105,337	100.0
	2012	2,145,708	70.4	710,849	23.3	901,449	29.6	3,047,157	100.0
	2014	2,265,083	71.3	672,037	21.2	912,383	28.7	3,177,466	100.0
Mie	2009	441,126	86.7	186,657	36.7	67,865	13.3	508,991	100.0
	2012	422,517	86.5	174,970	35.8	66,198	13.5	488,715	100.0
	2014	428,825	88.7	166,076	34.3	54,863	11.3	483,688	100.0

Prefecture	Year	SMEs		Of which small enterprises		Large enterprises		Total	
		Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total	Total no. of workers	% of total
Shiga	2009	296,986	84.2	121,545	34.5	55,738	15.8	352,724	100.0
	2012	294,729	83.8	116,725	33.2	57,110	16.2	351,839	100.0
	2014	297,596	85.2	108,748	31.1	51,722	14.8	349,318	100.0
Kyoto	2009	700,598	75.6	287,107	31.0	226,096	24.4	926,694	100.0
	2012	669,626	76.2	265,382	30.2	209,098	23.8	878,724	100.0
	2014	684,206	76.3	247,761	27.6	213,001	23.7	897,207	100.0
Osaka	2009	2,849,073	64.6	1,018,568	23.1	1,560,332	35.4	4,409,405	100.0
	2012	2,726,933	66.4	930,059	22.7	1,378,261	33.6	4,105,194	100.0
	2014	2,876,197	67.4	876,170	20.5	1,391,018	32.6	4,267,215	100.0
Hyogo	2009	1,296,524	82.7	510,022	32.5	271,784	17.3	1,568,308	100.0
	2012	1,237,175	81.0	476,572	31.2	290,982	19.0	1,528,157	100.0
	2014	1,270,454	84.0	447,374	29.6	242,206	16.0	1,512,660	100.0
Nara	2009	250,013	94.5	112,791	42.6	14,589	5.5	264,602	100.0
	2012	238,798	94.6	104,373	41.3	13,657	5.4	252,455	100.0
	2014	244,225	94.4	99,679	38.5	14,487	5.6	258,712	100.0
Wakayama	2009	236,690	87.2	117,663	43.4	34,724	12.8	271,414	100.0
	2012	234,374	87.9	112,595	42.2	32,178	12.1	266,552	100.0
	2014	235,859	91.9	103,461	40.3	20,890	8.1	256,749	100.0
Tottori	2009	137,727	93.5	56,369	38.3	9,635	6.5	147,362	100.0
	2012	133,930	93.8	53,535	37.5	8,780	6.2	142,710	100.0
	2014	134,974	95.7	50,336	35.7	6,113	4.3	141,087	100.0
Shimane	2009	181,169	92.0	79,307	40.3	15,764	8.0	196,933	100.0
	2012	174,303	93.0	74,892	40.0	13,068	7.0	187,371	100.0
	2014	174,127	92.7	69,663	37.1	13,760	7.3	187,887	100.0
Okayama	2009	480,376	85.2	188,061	33.4	83,136	14.8	563,512	100.0
	2012	476,216	85.4	177,127	31.8	81,613	14.6	557,829	100.0
	2014	484,797	83.9	166,571	28.8	93,173	16.1	577,970	100.0
Hiroshima	2009	796,119	78.1	297,157	29.2	223,003	21.9	1,019,122	100.0
	2012	778,091	78.6	276,394	27.9	212,012	21.4	990,103	100.0
	2014	786,462	78.3	258,835	25.8	218,293	21.7	1,004,755	100.0
Yamaguchi	2009	345,119	84.1	138,488	33.7	65,345	15.9	410,464	100.0
	2012	327,843	82.1	128,914	32.3	71,590	17.9	399,433	100.0
	2014	323,489	83.8	120,419	31.2	62,459	16.2	385,948	100.0
Tokushima	2009	188,642	91.3	89,261	43.2	17,881	8.7	206,523	100.0
	2012	179,253	91.0	83,018	42.2	17,636	9.0	196,889	100.0
	2014	175,154	88.6	77,770	39.3	22,507	11.4	197,661	100.0
Kagawa	2009	272,062	81.7	109,009	32.7	61,063	18.3	333,125	100.0
	2012	262,737	81.9	102,806	32.0	58,258	18.1	320,995	100.0
	2014	268,159	83.0	96,760	29.9	54,944	17.0	323,103	100.0
Ehime	2009	367,025	84.1	157,356	36.0	69,496	15.9	436,521	100.0
	2012	358,323	85.9	148,503	35.6	58,995	14.1	417,318	100.0
	2014	350,127	87.1	138,161	34.4	51,860	12.9	401,987	100.0
Kochi	2009	178,494	92.7	83,643	43.4	14,053	7.3	192,547	100.0
	2012	173,073	92.7	79,056	42.4	13,590	7.3	186,663	100.0
	2014	173,284	89.1	73,800	37.9	21,273	10.9	194,557	100.0
Fukuoka	2009	1,316,246	77.1	471,476	27.6	390,593	22.9	1,706,839	100.0
	2012	1,258,259	75.1	439,151	26.2	416,289	24.9	1,674,548	100.0
	2014	1,305,475	79.0	419,767	25.4	346,490	21.0	1,651,965	100.0
Saga	2009	196,175	90.9	83,798	38.8	19,625	9.1	215,800	100.0
	2012	195,939	92.3	79,823	37.6	16,283	7.7	212,222	100.0
	2014	193,854	90.8	74,634	34.9	19,755	9.2	213,609	100.0
Nagasaki	2009	323,704	92.6	141,592	40.5	26,001	7.4	349,705	100.0
	2012	313,435	92.5	133,663	39.4	25,521	7.5	338,956	100.0
	2014	313,811	92.8	124,624	36.9	24,354	7.2	338,165	100.0
Kumamoto	2009	404,952	90.4	173,099	38.6	42,912	9.6	447,864	100.0
	2012	396,851	90.9	164,961	37.8	39,601	9.1	436,452	100.0
	2014	401,899	91.5	155,783	35.5	37,282	8.5	439,181	100.0
Oita	2009	289,808	85.4	120,652	35.5	49,589	14.6	339,397	100.0
	2012	275,070	85.4	114,227	35.5	46,951	14.6	322,021	100.0
	2014	278,516	85.8	107,513	33.1	46,240	14.2	324,756	100.0
Miyazaki	2009	258,175	91.7	116,535	41.4	23,260	8.3	281,435	100.0
	2012	253,075	92.4	110,666	40.4	20,819	7.6	273,894	100.0
	2014	257,285	93.5	103,638	37.7	17,955	6.5	275,240	100.0
Kagoshima	2009	385,476	89.0	172,089	39.7	47,672	11.0	433,148	100.0
	2012	372,363	87.3	165,215	38.7	54,098	12.7	426,461	100.0
	2014	373,417	88.2	155,737	36.8	50,139	11.8	423,556	100.0
Okinawa	2009	333,607	88.9	141,544	37.7	41,693	11.1	375,300	100.0
	2012	328,537	88.7	134,197	36.2	41,743	11.3	370,280	100.0
	2014	339,038	87.3	129,677	33.4	49,112	12.7	388,150	100.0
Total	2009	33,144,529	69.0	12,817,298	26.7	14,888,847	31.0	48,033,376	100.0
	2012	32,167,484	69.7	11,923,280	25.8	13,971,459	30.3	46,138,943	100.0
	2014	33,609,810	70.1	11,268,566	23.5	14,325,652	29.9	47,935,462	100.0

Sources: MIC, *2009 and 2014 Economic Census for Business Frame*; Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

- Notes:
1. The figures are those as of July 2009 for 2009, as of February 2012 for 2012, and as of July 2014 for 2014.
 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 small enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
 5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
 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.

Table 8 Number of regular employees by prefecture and size (private, non-primary industry, 2009, 2012 and 2014)

(1) Number of regular employees (regular employees of companies + sole proprietorships)

Prefecture	Year	SMEs		Of which small enterprises		Large enterprises		Total	
		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	2009	966,211	81.5	253,915	21.4	218,841	18.5	1,185,052	100.0
	2012	923,865	81.3	236,012	20.8	212,832	18.7	1,136,697	100.0
	2014	986,910	81.7	236,699	19.6	221,276	18.3	1,208,186	100.0
Aomori	2009	236,939	86.5	66,536	24.3	37,089	13.5	274,028	100.0
	2012	230,889	88.6	59,884	23.0	29,758	11.4	260,647	100.0
	2014	244,072	89.3	60,858	22.3	29,298	10.7	273,370	100.0
Iwate	2009	228,889	85.7	63,288	23.7	38,043	14.3	266,932	100.0
	2012	216,030	84.9	58,870	23.1	38,349	15.1	254,379	100.0
	2014	237,831	85.9	60,267	21.8	39,086	14.1	276,917	100.0
Miyagi	2009	400,100	80.3	106,009	21.3	98,208	19.7	498,308	100.0
	2012	373,632	81.6	92,294	20.2	84,373	18.4	458,005	100.0
	2014	416,479	82.0	98,492	19.4	91,244	18.0	507,723	100.0
Akita	2009	191,790	90.3	56,221	26.5	20,648	9.7	212,438	100.0
	2012	189,262	90.3	51,850	24.7	20,256	9.7	209,518	100.0
	2014	194,177	90.5	52,323	24.4	20,332	9.5	214,509	100.0
Yamagata	2009	223,150	81.7	62,781	23.0	49,863	18.3	273,013	100.0
	2012	217,061	81.7	60,718	22.9	48,603	18.3	265,664	100.0
	2014	227,040	85.3	60,350	22.7	39,205	14.7	266,245	100.0
Fukushima	2009	367,870	82.6	107,620	24.2	77,410	17.4	445,280	100.0
	2012	352,162	81.4	96,323	22.3	80,209	18.6	432,371	100.0
	2014	379,288	83.8	98,686	21.8	73,247	16.2	452,535	100.0
Ibaraki	2009	478,699	88.3	147,709	27.2	63,666	11.7	542,365	100.0
	2012	471,948	83.5	140,718	24.9	93,341	16.5	565,289	100.0
	2014	491,046	84.7	141,134	24.4	88,523	15.3	579,569	100.0
Tochigi	2009	335,236	80.6	106,453	25.6	80,744	19.4	415,980	100.0
	2012	329,322	81.1	101,482	25.0	76,837	18.9	406,159	100.0
	2014	356,846	83.3	100,961	23.6	71,491	16.7	428,337	100.0
Gunma	2009	380,372	74.6	112,899	22.1	129,340	25.4	509,712	100.0
	2012	381,225	75.0	105,469	20.7	127,086	25.0	508,311	100.0
	2014	398,398	77.8	106,323	20.8	113,682	22.2	512,080	100.0
Saitama	2009	970,395	73.6	293,187	22.2	348,832	26.4	1,319,227	100.0
	2012	1,003,505	74.5	281,375	20.9	343,679	25.5	1,347,184	100.0
	2014	1,086,987	78.8	279,438	20.3	292,372	21.2	1,379,359	100.0
Chiba	2009	723,122	68.7	212,778	20.2	329,909	31.3	1,053,031	100.0
	2012	724,129	69.0	200,342	19.1	325,506	31.0	1,049,635	100.0
	2014	781,459	74.0	200,799	19.0	274,337	26.0	1,055,796	100.0
Tokyo	2009	4,071,212	34.6	745,482	6.3	7,691,472	65.4	11,762,684	100.0
	2012	4,033,546	35.3	679,268	5.9	7,397,361	64.7	11,430,907	100.0
	2014	4,817,898	39.0	684,311	5.5	7,524,907	61.0	12,342,805	100.0
Kanagawa	2009	1,293,093	71.0	332,872	18.3	527,730	29.0	1,820,823	100.0
	2012	1,267,644	65.1	310,565	15.9	679,889	34.9	1,947,533	100.0
	2014	1,404,473	70.2	311,030	15.5	597,108	29.8	2,001,581	100.0
Niigata	2009	489,886	82.5	138,779	23.4	103,740	17.5	593,626	100.0
	2012	473,325	83.2	131,433	23.1	95,826	16.8	569,151	100.0
	2014	487,353	82.4	129,584	21.9	104,062	17.6	591,415	100.0
Toyama	2009	241,154	78.3	65,888	21.4	67,018	21.7	308,172	100.0
	2012	239,673	78.9	62,023	20.4	64,205	21.1	303,878	100.0
	2014	247,854	79.5	61,487	19.7	63,965	20.5	311,819	100.0
Ishikawa	2009	250,564	82.5	71,674	23.6	53,116	17.5	303,680	100.0
	2012	249,998	83.5	67,527	22.5	49,534	16.5	299,532	100.0
	2014	265,946	85.5	66,588	21.4	45,216	14.5	311,162	100.0
Fukui	2009	180,122	87.2	54,733	26.5	26,400	12.8	206,522	100.0
	2012	173,266	85.4	51,146	25.2	29,517	14.6	202,783	100.0
	2014	182,289	86.9	50,511	24.1	27,520	13.1	209,809	100.0
Yamanashi	2009	155,937	87.1	51,296	28.6	23,171	12.9	179,108	100.0
	2012	156,529	88.2	49,229	27.7	20,887	11.8	177,416	100.0
	2014	161,153	88.1	48,998	26.8	21,758	11.9	182,911	100.0
Nagano	2009	430,044	82.7	120,125	23.1	90,164	17.3	520,208	100.0
	2012	401,337	81.4	113,072	22.9	91,725	18.6	493,062	100.0
	2014	415,655	82.9	113,992	22.7	85,788	17.1	501,443	100.0
Gifu	2009	432,677	82.9	127,838	24.5	89,061	17.1	521,738	100.0
	2012	426,124	82.0	118,512	22.8	93,396	18.0	519,520	100.0
	2014	449,673	82.6	117,652	21.6	94,947	17.4	544,620	100.0
Shizuoka	2009	761,142	77.9	218,474	22.4	215,562	22.1	976,704	100.0
	2012	760,496	77.2	204,792	20.8	224,055	22.8	984,551	100.0
	2014	798,008	79.6	201,179	20.1	205,090	20.4	1,003,098	100.0
Aichi	2009	1,660,063	64.1	392,952	15.2	929,959	35.9	2,590,022	100.0
	2012	1,687,234	64.3	371,457	14.2	935,133	35.7	2,622,367	100.0
	2014	1,842,707	66.1	366,180	13.1	944,133	33.9	2,786,840	100.0
Mie	2009	322,221	84.2	91,956	24.0	60,440	15.8	382,661	100.0
	2012	312,691	81.0	87,479	22.7	73,510	19.0	386,201	100.0
	2014	327,362	86.9	86,261	22.9	49,252	13.1	376,614	100.0

Prefecture	Year	SMEs		Of which small enterprises		Large enterprises		Total	
		No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total	No. of regular employees	% of total
Shiga	2009	212,179	79.6	56,910	21.4	54,253	20.4	266,432	100.0
	2012	218,733	78.2	56,090	20.1	60,920	21.8	279,653	100.0
	2014	226,504	81.6	55,319	19.9	50,941	18.4	277,445	100.0
Kyoto	2009	504,179	69.0	135,282	18.5	226,126	31.0	730,305	100.0
	2012	491,624	67.2	126,376	17.3	239,992	32.8	731,616	100.0
	2014	522,455	71.2	122,973	16.8	210,843	28.8	733,298	100.0
Osaka	2009	2,185,427	59.4	513,720	14.0	1,492,357	40.6	3,677,784	100.0
	2012	2,123,465	61.1	467,900	13.5	1,353,985	38.9	3,477,450	100.0
	2014	2,301,988	62.7	464,876	12.7	1,367,457	37.3	3,669,445	100.0
Hyogo	2009	956,816	78.2	249,117	20.4	267,240	21.8	1,224,056	100.0
	2012	931,899	73.6	231,196	18.3	334,475	26.4	1,266,374	100.0
	2014	985,666	79.3	232,379	18.7	257,606	20.7	1,243,272	100.0
Nara	2009	173,845	92.2	52,092	27.6	14,752	7.8	188,597	100.0
	2012	170,593	91.6	48,090	25.8	15,602	8.4	186,195	100.0
	2014	180,094	91.6	48,790	24.8	16,465	8.4	196,559	100.0
Wakayama	2009	160,558	83.5	54,309	28.3	31,615	16.5	192,173	100.0
	2012	161,879	84.5	52,039	27.2	29,790	15.5	191,669	100.0
	2014	171,875	89.2	51,313	26.6	20,724	10.8	192,599	100.0
Tottori	2009	101,289	90.3	28,324	25.2	10,909	9.7	112,198	100.0
	2012	100,189	92.1	26,827	24.7	8,624	7.9	108,813	100.0
	2014	104,335	94.6	26,663	24.2	5,989	5.4	110,324	100.0
Shimane	2009	129,426	89.4	40,104	27.7	15,339	10.6	144,765	100.0
	2012	126,597	90.9	38,036	27.3	12,739	9.1	139,336	100.0
	2014	131,013	90.7	36,988	25.6	13,475	9.3	144,488	100.0
Okayama	2009	357,230	82.3	94,098	21.7	77,019	17.7	434,249	100.0
	2012	362,191	82.6	89,068	20.3	76,348	17.4	438,539	100.0
	2014	380,130	80.7	88,570	18.8	90,976	19.3	471,106	100.0
Hiroshima	2009	599,619	72.5	150,803	18.2	227,920	27.5	827,539	100.0
	2012	602,577	74.0	141,588	17.4	211,693	26.0	814,270	100.0
	2014	626,190	74.5	138,214	16.5	214,007	25.5	840,197	100.0
Yamaguchi	2009	259,029	82.3	70,028	22.2	55,725	17.7	314,754	100.0
	2012	245,113	77.6	64,756	20.5	70,818	22.4	315,931	100.0
	2014	249,653	80.1	64,614	20.7	62,050	19.9	311,703	100.0
Tokushima	2009	126,733	87.7	40,292	27.9	17,717	12.3	144,450	100.0
	2012	124,366	87.8	38,182	26.9	17,331	12.2	141,697	100.0
	2014	125,736	84.8	37,518	25.3	22,562	15.2	148,298	100.0
Kagawa	2009	199,879	77.2	53,201	20.5	59,127	22.8	259,006	100.0
	2012	195,992	77.5	50,907	20.1	56,822	22.5	252,814	100.0
	2014	207,448	79.5	49,946	19.1	53,374	20.5	260,822	100.0
Ehime	2009	264,822	80.0	76,778	23.2	66,384	20.0	331,206	100.0
	2012	262,219	81.6	72,262	22.5	59,101	18.4	321,320	100.0
	2014	265,849	84.1	71,404	22.6	50,092	15.9	315,941	100.0
Kochi	2009	122,557	89.9	38,150	28.0	13,717	10.1	136,274	100.0
	2012	120,993	90.1	36,876	27.4	13,368	9.9	134,361	100.0
	2014	126,135	85.6	36,088	24.5	21,158	14.4	147,293	100.0
Fukuoka	2009	989,236	72.3	233,402	17.1	378,448	27.7	1,367,684	100.0
	2012	957,528	69.4	216,356	15.7	421,784	30.6	1,379,312	100.0
	2014	1,031,005	75.3	219,993	16.1	338,340	24.7	1,369,345	100.0
Saga	2009	143,449	88.2	42,349	26.0	19,187	11.8	162,636	100.0
	2012	144,032	90.1	39,699	24.8	15,829	9.9	159,861	100.0
	2014	147,849	87.7	39,276	23.3	20,729	12.3	168,578	100.0
Nagasaki	2009	234,432	90.5	70,515	27.2	24,608	9.5	259,040	100.0
	2012	226,267	88.8	65,764	25.8	28,473	11.2	254,740	100.0
	2014	237,619	89.9	65,119	24.6	26,557	10.1	264,176	100.0
Kumamoto	2009	286,827	87.4	85,200	26.0	41,288	12.6	328,115	100.0
	2012	288,192	88.2	80,751	24.7	38,566	11.8	326,758	100.0
	2014	304,595	89.4	81,005	23.8	36,247	10.6	340,842	100.0
Oita	2009	211,073	81.4	59,489	22.9	48,276	18.6	259,349	100.0
	2012	200,994	81.2	55,766	22.5	46,563	18.8	247,557	100.0
	2014	213,163	82.5	56,459	21.9	45,116	17.5	258,279	100.0
Miyazaki	2009	183,925	89.7	56,539	27.6	21,080	10.3	205,005	100.0
	2012	180,865	90.6	53,031	26.6	18,837	9.4	199,702	100.0
	2014	192,633	92.5	52,792	25.3	15,685	7.5	208,318	100.0
Kagoshima	2009	270,697	85.5	81,197	25.7	45,777	14.5	316,474	100.0
	2012	263,337	85.7	77,467	25.2	43,995	14.3	307,332	100.0
	2014	274,510	87.1	78,383	24.9	40,785	12.9	315,295	100.0
Okinawa	2009	240,579	85.7	68,231	24.3	40,286	14.3	280,865	100.0
	2012	236,083	85.4	64,684	23.4	40,461	14.6	276,544	100.0
	2014	259,327	84.5	67,832	22.1	47,570	15.5	306,897	100.0
Total	2009	24,704,694	62.8	6,351,595	16.2	14,619,576	37.2	39,324,270	100.0
	2012	24,330,621	62.7	5,925,551	15.3	14,451,983	37.3	38,782,604	100.0
	2014	26,466,676	65.2	5,920,617	14.6	14,146,587	34.8	40,613,263	100.0

Sources: MIC, *2009 and 2014 Economic Census for Business Frame*; Recompiled from MIC, METI, *2012 Economic Census for Business Activity*.

- Notes:
1. The figures are those as of July 2009 for 2009, as of February 2012 for 2012, and as of July 2014 for 2014.
 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 small enterprises in laws and regulations concerning SMEs other than the Small and Medium-sized Enterprise Basic Act.
 5. The percentages of the total for small enterprises indicate their proportion of the total number of enterprises.
 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.

Table 9 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	854,205	29	85,894	35,542	354,706	359,395	6.5	6.6

Sources: MIC, *Establishment and Enterprise Census; 2009 Economic Census for Business Frame; 2012 Economic Census for Business Activity; 2014 Economic Census for Business Frame.*

- Notes:
- 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).
 - The numbers of entries and exits shown in Table 9 (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.
 - The numbers of sole proprietorships that entered (exited) the market shown in Table 9 (1) and (3) were calculated by adding the numbers of business establishments that belong to a sole proprietor.
 - The number of business establishments that entered (exited) the market shown in Table 9 (4) is based on published value (see Reference 1.).
 - Unlike the numbers of enterprises shown in "Supplementary statistical data Table 1 (2) Number of companies" above, this table includes 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 10 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*; 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 9 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, 2006-09, 2009-12, and 2012-14 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 11 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	15				
	5.0	4.2	4.7	4.5	4.5	4.6	4.8	4.9	5.2				
	4.4	4.5	4.7	4.1	3.9	3.8	4.0	3.7	3.8				

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 12 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

	14
	106,644
	4.2
	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 rate = 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 and afterwards 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, for 2010 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 13 SME management indices (fiscal 2015)

Industry	Financial indices							
	Return on asset (ROA)	Ratio of operating profit to total capital	Return on equity (ROE)	Ratio of gross margin to sales	Return on sales (ROS)	Ratio of ordinary profit to sales	SGA ratio	Total capital turnover
All industries	3.62	3.02	8.27	24.94	2.65	3.18	22.29	1.14
Construction	4.50	4.28	10.54	19.92	3.30	3.47	16.62	1.30
Manufacturing	3.92	3.20	7.37	21.40	2.94	3.60	18.46	1.09
Information and communications	5.47	4.73	8.50	41.30	4.54	5.24	36.76	1.04
Transport and postal activities	4.81	3.92	15.16	24.88	3.06	3.76	21.82	1.28
Wholesale trade	2.90	2.12	7.00	15.01	1.25	1.71	13.76	1.70
Retail trade	3.10	2.17	7.69	30.58	1.26	1.80	29.33	1.72
Real estate and goods rental and leasing	2.60	2.70	6.64	48.20	9.21	8.87	39.00	0.29
Scientific research, professional and technical services	5.49	4.60	9.99	47.74	5.65	6.73	42.09	0.82
Accommodations, eating and drinking services	2.82	1.75	22.13	63.18	1.69	2.72	61.50	1.04
Living-related and personal services and amusement services	3.58	2.69	7.37	31.55	2.05	2.73	29.50	1.31
Services (not elsewhere classified)	3.41	2.23	10.49	44.79	2.56	3.93	42.23	0.87

Industry	Current ratio	Fixed ratio	Equity ratio	Financial leverage	Debt to equity ratio (D/E)	Value-added ratio	Capital investment efficiency	Labor share
All industries	163.88	118.75	38.78	2.58	157.86	24.96	4.44	68.32
Construction	175.00	82.49	37.95	2.63	163.47	22.70	4.90	69.44
Manufacturing	186.70	97.70	43.61	2.29	129.31	29.10	2.81	71.86
Information and communications	261.81	65.34	59.54	1.68	67.96	40.45	11.88	75.04
Transport and postal activities	159.43	165.96	32.59	3.07	206.80	39.81	3.51	74.29
Wholesale trade	160.62	87.00	37.44	2.67	167.08	10.69	5.14	65.20
Retail trade	143.34	142.40	33.28	3.00	200.48	19.88	9.27	68.73
Real estate and goods rental and leasing	144.36	175.04	38.83	2.58	157.57	41.37	6.25	36.76
Scientific research, professional and technical services	174.99	89.19	52.18	1.92	91.63	48.08	15.98	74.54
Accommodations, eating and drinking services	73.50	619.61	12.26	8.16	715.59	42.58	10.87	66.23
Living-related and personal services and amusement services	127.78	228.29	29.87	3.35	234.76	23.08	5.18	55.24
Services (not elsewhere classified)	130.91	129.56	33.44	2.99	199.08	49.11	9.23	79.66

Source: SME Agency, 2016 Basic Survey of Small and Medium Enterprises (End-of-fiscal-year Results for Fiscal 2015).

Notes: 1. Calculation methods of each financial indices are as below:

- (1) Return on asset (ROA) = (Ordinary profit / Total assets (Total capital)) × 100
- (2) Ratio of operating profit to total capital = (Operating profit / Total assets (Total capital)) × 100
- (3) Return on equity (ROE) = (Net profit of current period / Net assets (Equity)) × 100
- (4) Ratio of gross margin to sales = (Gross margin / Sales) × 100
- (5) Return on sales (ROS) = (Operating profit / Sales) × 100
- (6) Ratio of ordinary profit to sales = (Ordinary profit / Sales) × 100
- (7) SGA ratio = (Selling and general administrative expenses / Sales) × 100
- (8) Total capital turnover = Sales / Total asset (Total capital)
- (9) Current ratio = (Liquid assets / Current liabilities) × 100
- (10) Fixed ratio = (Fixed assets / Net assets (Equity)) × 100
- (11) Equity ratio = (Net assets (Equity) / Total assets (Total capital)) × 100
- (12) Financial leverage = Total capital / Net assets (Equity)
- (13) Debt to equity ratio (D/E) = (Debt / Net assets (Equity)) × 100
- (14) Value-added ratio = (Value added / Sales) × 100

* Value-added = Labor costs + Depreciation costs of cost of sales + Personnel costs + Rent + Depreciation costs of selling and general administrative expenses + Employee training costs + Taxes and public charges + Interest and discount expense + Ordinary profit

(15) Capital investment efficiency = Value-added / Plant assets

* Plant assets = Machinery and equipment + Ships and vessels, motor vehicles and transport equipment, industrial tools, appliances, and fixtures

(16) Labor share = (Labor costs and Personnel costs / Value-added) × 100

* Labor costs and Personnel costs = Labor costs + Personnel costs

2. 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).
3. The number of enterprises in the parent population is the estimated figure as of August 2015 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.

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