2014 White Paper on Small and Medium Enterprises in Japan

April 2014
Small and Medium Enterprise Agency
# 2014 White Paper on Small and Medium Enterprises in Japan

- Annual Report Based on Article 11 of the Small and Medium-Sized Enterprise Basic Act (Statutory White Paper)
- The 51st White Paper; Scheduled to be decided at the Cabinet meeting and submitted to the Diet in late April
- The White Paper empirically support the content of the Bill for the Basic Act for Promoting Small Enterprises, which was submitted to the current session of the Diet, based on data and analysis

## Schedule for Preparing the White Paper
- April 2: Meeting of the Small and Medium Enterprise Policy Making Council
- April 25: Cabinet decision (scheduled) and submission to the Diet (scheduled)

## Definitions under the Small and Medium-sized Enterprise Basic Act Definitions under the Corporation Tax Act

<table>
<thead>
<tr>
<th>Business type</th>
<th>SMEs</th>
<th>Small enterprises</th>
<th>Stated capital</th>
<th>Number of employees</th>
<th>Stated capital</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing industry and others</td>
<td>300 million yen or less</td>
<td>300 or fewer</td>
<td>20 or fewer</td>
<td>100 million yen or less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale trade industry</td>
<td>100 million yen or less</td>
<td>100 or fewer</td>
<td>5 or fewer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services industry</td>
<td>50 million yen or less</td>
<td>100 or fewer</td>
<td>5 or fewer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail trade industry</td>
<td>50 million yen or less</td>
<td>50 or fewer</td>
<td>5 or fewer</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of enterprises</th>
<th>Number of employees</th>
<th>Value added (only corporations)</th>
<th>Sales (only corporations)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large enterprises</td>
<td>0.011 million</td>
<td>13.97 million</td>
<td>45.1 trillion yen</td>
</tr>
<tr>
<td>SMEs</td>
<td>3.853 million</td>
<td>32.17 million</td>
<td>26.2 trillion yen</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>3.343 million</td>
<td>11.92 million</td>
<td>-</td>
</tr>
</tbody>
</table>

- SMEs: 3.853 million
- Small enterprises: 3.343 million
- Large enterprises: Approx. 0.011 million (0.3%)
- Medium enterprises: Approx. 0.510 million (13.2%)
- Small enterprises: Approx. 3.343 million (86.5%)
Basic Structure of the 2014 White Paper on Small and Medium Enterprises in Japan (Draft)

[Developments]
Part I Developments among SMEs and Small Enterprises in Fiscal 2013

Part II Changes in the Economic and Social Structure Faced by SMEs and Small Enterprises
   Chapter 1 Medium- to Long-term Structural Changes in Japan
   Chapter 2 Regional Issues and Revitalization of Local Economies

Part III Japan’s Future to be Driven by SMEs and Small Enterprises
   Chapter 1 Structural Analysis of Small Enterprises –Development of Demand is the Key–
   Chapter 2 Staring up or Establishing Businesses –Creation of New Players–
   Chapter 3 Business Succession or Closure –Passing the Baton to the Next Generation–
   Chapter 4 Overseas Business Expansion –Identify Factors for Success and Failure–
   Chapter 5 New Trend –Possibility of New Means for Overcoming Challenges–

Part IV Ideal Means for Offering Support to SMEs and Small Enterprises
   Chapter 1 Current Status and Future Challenges concerning Support for SMEs and Small Enterprises
   Chapter 2 Recognition, Use and Evaluation of Support Measures for SMEs and Small Enterprises
   Chapter 3 Connector Hub Enterprises and the Regional Industrial Structure Analysis System
[Measures]

[SME Support Measures Taken in FY2013]

Chapter 1  Utilize and mobilize under-used resources in respective regions to build distinct brands
Chapter 2  Activate the renovation of SMEs
Chapter 3  Break away from a subcontracting structure and proactively expand business into growth areas
Chapter 4  Expand business overseas
Chapter 5  Response to the Great East Japan Earthquake, measures for the proper transfer of consumption taxes, and other important issues
Chapter 6  Measures categorized by business type and area
Chapter 7  Toward effective implementation of measures for SMEs and small enterprises

[SME Support Measures to be Taken in FY2014]

Chapter 1  Utilize and mobilize under-used resources in respective regions to build distinct brands
Chapter 2  Activate the renovation of SMEs
Chapter 3  Break away from a subcontracting structure and proactively expand business into growth areas
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Chapter 6  Measures categorized by business type and business fields
Chapter 7  Toward effective implementation of measures for SMEs and small enterprises
Part I
Developments among SMEs and Small Enterprises in Fiscal 2013
The Japanese economy has been recovering moderately and business conditions of SMEs have also been picking up. However, the business confidence of small enterprises remains at a low level in comparison to that of medium enterprises or SMEs as a whole. It is necessary to also have these small enterprises enjoy the fruits of economic recovery.

Looking at the breakdown of the GDP growth rate; consumption, government expenditure, exports, and capital investment have led the growth. The future challenge is to create a virtuous cycle wherein corporate activities are revitalized and capital investment leads to full-scale economic growth.

### Business Conditions DI for SMEs by Size

(DI; Seasonally adjusted change from the previous quarter)

### Real GDP Growth and Demand-side Composition

(Seasonally-adjusted % change from the previous quarter, % point contributions)

Source: Survey on SME Business Conditions (Small and Medium Enterprise Agency (SME Agency) and Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ))

(Note) 1. An interview survey conducted by business advisors at societies of commerce and industry, chambers of commerce and industry across the country and researchers from the National Association of SMEs.

2. The business conditions DI is calculated by subtracting the percentage of enterprises that answered “worsened” from the percentage of enterprises that answered “improved” when questioned about their business conditions in comparison with the previous quarter.

Source: National Accounts of Japan (Cabinet Office)

(Note) 1. Real GDP estimates in chained CY 2005 yen.

2. Figures for the fourth quarter of 2013 are (primary) preliminary estimates.
Part II
Changes in the Economic and Social Structure Faced by SMEs and Small Enterprises
Japan became a severely depopulating country in 2011. From 2005 to 2010, the population decreased everywhere in Japan, except for three major metropolitan areas, their surrounding cities, Fukuoka prefecture and Okinawa prefecture (the only natural increase was observed in Okinawa prefecture).

However, in 2040, the population will have decreased in all prefectures. In particular, Akita, Shimane and Kochi prefectures will see decreases even in the number of elderly people, accelerating population decline.

When planning future policies concerning SMEs, the government needs to strategically plan how to have SMEs and small enterprises survive from a medium- to long-term perspective, considering the inevitable demographic changes and severe domestic business environment.
The population decline will further accelerate in Japan. In 2040, even the Tokyo Area will face an aging population, with a ratio of 1.5 youths per elderly person (showing an age pyramid similar to that for Akita prefecture in 2010).

Meanwhile, Akita prefecture, which is experiencing the highest aging rate in Japan, will be an unprecedentedly super-aged society in 2040 (creating a cocktail glass-shaped demographic).

### Estimated Demographic Composition by Gender and Age Bracket for Akita Prefecture and the Tokyo Area

#### The Tokyo Area in 2040

1 elderly person: 1.5 youths

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>90 or older</td>
<td>8,000</td>
<td>24,000</td>
</tr>
<tr>
<td>85–89</td>
<td>30,000</td>
<td>90,000</td>
</tr>
<tr>
<td>80–84</td>
<td>60,000</td>
<td>180,000</td>
</tr>
<tr>
<td>75–79</td>
<td>90,000</td>
<td>270,000</td>
</tr>
<tr>
<td>70–74</td>
<td>120,000</td>
<td>360,000</td>
</tr>
<tr>
<td>65–69</td>
<td>150,000</td>
<td>450,000</td>
</tr>
<tr>
<td>60–64</td>
<td>180,000</td>
<td>540,000</td>
</tr>
<tr>
<td>55–59</td>
<td>210,000</td>
<td>630,000</td>
</tr>
<tr>
<td>50–54</td>
<td>240,000</td>
<td>720,000</td>
</tr>
<tr>
<td>45–49</td>
<td>270,000</td>
<td>810,000</td>
</tr>
<tr>
<td>40–44</td>
<td>300,000</td>
<td>900,000</td>
</tr>
<tr>
<td>35–39</td>
<td>330,000</td>
<td>990,000</td>
</tr>
<tr>
<td>30–34</td>
<td>360,000</td>
<td>1,080,000</td>
</tr>
<tr>
<td>25–29</td>
<td>390,000</td>
<td>1,170,000</td>
</tr>
<tr>
<td>20–24</td>
<td>420,000</td>
<td>1,260,000</td>
</tr>
<tr>
<td>15–19</td>
<td>450,000</td>
<td>1,350,000</td>
</tr>
<tr>
<td>10–14</td>
<td>480,000</td>
<td>1,440,000</td>
</tr>
<tr>
<td>5–9</td>
<td>510,000</td>
<td>1,530,000</td>
</tr>
<tr>
<td>0–4</td>
<td>540,000</td>
<td>1,620,000</td>
</tr>
</tbody>
</table>

#### Akita Prefecture in 2040

1 elderly person: 1.0 youth

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>90 or older</td>
<td>8,000</td>
<td>12,000</td>
</tr>
<tr>
<td>85–89</td>
<td>24,000</td>
<td>36,000</td>
</tr>
<tr>
<td>80–84</td>
<td>48,000</td>
<td>72,000</td>
</tr>
<tr>
<td>75–79</td>
<td>72,000</td>
<td>108,000</td>
</tr>
<tr>
<td>70–74</td>
<td>96,000</td>
<td>144,000</td>
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<tr>
<td>65–69</td>
<td>120,000</td>
<td>180,000</td>
</tr>
<tr>
<td>60–64</td>
<td>144,000</td>
<td>216,000</td>
</tr>
<tr>
<td>55–59</td>
<td>168,000</td>
<td>252,000</td>
</tr>
<tr>
<td>50–54</td>
<td>192,000</td>
<td>288,000</td>
</tr>
<tr>
<td>45–49</td>
<td>216,000</td>
<td>324,000</td>
</tr>
<tr>
<td>40–44</td>
<td>240,000</td>
<td>360,000</td>
</tr>
<tr>
<td>35–39</td>
<td>264,000</td>
<td>396,000</td>
</tr>
<tr>
<td>30–34</td>
<td>288,000</td>
<td>432,000</td>
</tr>
<tr>
<td>25–29</td>
<td>312,000</td>
<td>468,000</td>
</tr>
<tr>
<td>20–24</td>
<td>336,000</td>
<td>504,000</td>
</tr>
<tr>
<td>15–19</td>
<td>360,000</td>
<td>540,000</td>
</tr>
<tr>
<td>10–14</td>
<td>384,000</td>
<td>576,000</td>
</tr>
<tr>
<td>5–9</td>
<td>408,000</td>
<td>612,000</td>
</tr>
<tr>
<td>0–4</td>
<td>432,000</td>
<td>648,000</td>
</tr>
</tbody>
</table>

Source: Prepared based on Population Census (Ministry of Internal Affairs and Communications) (data for 2010) and Regional Population Projections for Japan (median birth/median death) (National Institute of Population and Social Security Research) (data for 2040)

(Note) The Tokyo Area: Saitama, Chiba, Tokyo and Kanagawa prefectures
Amid progress in population decline and population aging in society as a whole, business managers have also been aging. Compared with the past, the number of business managers is the largest in the 70-and-over age bracket.

The number of SMEs and small enterprises has continued to decrease, showing a decrease of 350,000 in the last three years.

**Distribution of Individual Proprietors by Age Bracket (by Year)**

(10,000 people)

**Changes in the Number of SMEs**

Source: 2012 Economic Census – Economic Census for Business Activity, 2009 Economic Census – Economic Census for Business Frame, and Establishment and Enterprise Census (Ministry of Internal Affairs and Communications)

(Notes) Compiled data for industries other than the agriculture and forestry industry.
Capital investment in the manufacturing industry increased in Japan and overseas until the Lehman Shock, but thereafter, the economy slowed sharply and domestic and overseas capital investment both decreased. In the expansion stage from 2010 onwards, overseas capital investment steadily increased, while domestic capital investment remained sluggish.

In the last ten years, the number of salaried workers decreased in the manufacturing industry (down by 2.65 million people) but increased in the services industry (up by 2.85 million people). The average wage increased slightly in the manufacturing industry (up by 20,000 yen) but decreased significantly in the services industry (down by 460,000 yen).

### Average Wage and Number of Salaried Workers in the Manufacturing Industry and the Services Industry

**Manufacturing industry**
- **2012**: 4.45 million yen
- **2012**: 10.44 million people
- **Gap**: 1.35 million yen
- **2012**: 2.65 million people from 2002
- **Up**: by 20,000 yen from 2002

**Services industry**
- **2012**: 3.10 million yen
- **2012**: 18.17 million people
- **Down**: by 0.46 million yen from 2002
- **Up**: by 2.85 million people from 2002

Source: Various statistical reports.
Information technology has developed very rapidly. Household ownership of mobile phones has already exceeded 90% and smartphones and tablet computers have also spread very fast in the last three years. Accordingly, more and more consumers have come to prefer Internet sales to over-the-counter sales and the e-commerce market for individuals is expanding.

However, small enterprises have been unable to sufficiently utilize such opportunities. The majority of small enterprises do not have their own website. Those selling products and receiving orders via their own website account for only 10% of the total and less than 10% have their own shops or market their goods on Internet shopping sites.

Changes in Household Ownership of IC Terminals

Changes in the Size of the E-Commerce Market for Individuals

Introduction of IT by Enterprise Size and Utilization Form (2007 and 2012)

Source: 2012 Communications Usage Trend Survey (Ministry of Internal Affairs and Communications)

It is assumed that each prefecture and municipality has its own regional resources that are expected to play a key role in revitalizing local economies. In particular, many municipal governments answered that they have local specialties, such as agricultural and fisheries products and tourism resources.

Nearly half of the regional resources designated by relevant prefectures are tourism resources, but only 7% of them have been used in authorized business plans, thereby receiving government support → There is room for further utilization of the system.

Groups of enterprises should be encouraged to utilize these resources collaboratively in order to ensure revitalization of local economies.

**Regional Resources Expected to Play a Key Role in Revitalizing Local Economies**

<table>
<thead>
<tr>
<th>Regional Resources</th>
<th>Prefectures (n=39)</th>
<th>Municipalities (n=867)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural and fisheries products</td>
<td>36.9%</td>
<td>28.2%</td>
</tr>
<tr>
<td>Traditional craft</td>
<td>2.8%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Tourism resources</td>
<td>34.9%</td>
<td>35.9%</td>
</tr>
<tr>
<td>Other</td>
<td>15.1%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Nothing in particular</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**Designation of Regional Resources and Authorization of Business Plans**

<table>
<thead>
<tr>
<th>Designation of Regional Resources</th>
<th>Authorization of Business Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural and fisheries products</td>
<td>4,145 cases (36%)</td>
</tr>
<tr>
<td>Industrial products</td>
<td>2,935 cases (21%)</td>
</tr>
<tr>
<td>Tourism resources</td>
<td>6,700 cases (49%)</td>
</tr>
<tr>
<td>Other</td>
<td>90 cases (7%)</td>
</tr>
<tr>
<td>Nothing in particular</td>
<td>434 cases (36%)</td>
</tr>
</tbody>
</table>

**Number of Enterprises Involved in Approved Business Plans**

- 1 enterprise: 1,156 cases (95%)
- 2 enterprises: 47 cases (4%)
- 3 enterprises: 7 cases (1%)
- 4 or more enterprises: 4 cases (0%)

Source: Survey on Local Governments’ SME Support Measures (conducted by Mitsubishi UFJ Research and Consulting Co., Ltd. in November 2013 under contract from the SME Agency)
Acquisition of foreign currency through tourism, or by attracting foreign visitors in particular, is one of the prospective means of revitalizing local economies, which are facing diminishing demand due to population decline, etc.

Foreign visitors are generally interested in Japanese food culture, hot springs, and nature. Areas without famous tourism resources may also be able to attract foreign visitors based on ecotourism or by offering opportunities for agricultural or forestry experiences or fisheries experiences, while fully utilizing their unique food culture.

The number of foreign visitors exceeded 10 million for the first time in 2013. However, compared with such countries as France, the United States, China and the Republic of Korea, foreign tourists visiting Japan are still small in number. It is highly likely that Japan can further increase foreign visitors, and local communities need to make an overall effort to develop a favorable environment to welcome them.

What Foreign Visitors Did during Their Stay in Japan and What They Want to Do on Their Next Visit.

<table>
<thead>
<tr>
<th></th>
<th>(%)</th>
<th></th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eat Japanese food</td>
<td>83.2</td>
<td>Shop</td>
<td>76.7</td>
</tr>
<tr>
<td>Go to some hot springs</td>
<td>74.4</td>
<td>Walk around in downtown areas</td>
<td>73.7</td>
</tr>
<tr>
<td>Experience Japanese lifestyle</td>
<td>72.7</td>
<td>Stay at a Japanese inn</td>
<td>67.1</td>
</tr>
<tr>
<td>Visit museums and art museums</td>
<td>64.4</td>
<td>Experience Japanese history and traditional culture</td>
<td>62.5</td>
</tr>
<tr>
<td>Observe performing arts (Kabuki, stage play, music, etc.)</td>
<td>60.9</td>
<td>Other experience tours</td>
<td>59.4</td>
</tr>
</tbody>
</table>

Source: 2012 Consumption Trend Survey for Foreigners Visiting Japan (Japan Tourism Agency)

Number of Foreign Visitors (Top 10 Countries, Republic of Korea (23rd) and Japan (33rd)) (2012)

<table>
<thead>
<tr>
<th>Country</th>
<th>(10,000 people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>8,302</td>
</tr>
<tr>
<td>US</td>
<td>6,697</td>
</tr>
<tr>
<td>China</td>
<td>5,773</td>
</tr>
<tr>
<td>Spain</td>
<td>5,770</td>
</tr>
<tr>
<td>Italy</td>
<td>4,636</td>
</tr>
<tr>
<td>Turkey</td>
<td>3,570</td>
</tr>
<tr>
<td>Germany</td>
<td>3,041</td>
</tr>
<tr>
<td>UK</td>
<td>2,928</td>
</tr>
<tr>
<td>Russia</td>
<td>2,574</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2,503</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>1,114</td>
</tr>
<tr>
<td>Japan</td>
<td>836</td>
</tr>
</tbody>
</table>

Source: Created by the SME Agency based on Number of Foreign Visitors by Country and Region Worldwide (JNTO)

Example: Inakadate-mura, Aomori (rice field art)

Inakadate-mura in Aomori prefecture is a village in the southern part of the Tsugaru plain and has 8,200 residents. The village, which faces population decline and aging, started to utilize its specialty as a rice-producing area (rice fields) to make works of art and succeeded in revitalizing the area by inviting around 0.25 million tourists in 2013. The village was featured in overseas media, attracting attention from abroad as well.

Ecotourism

Whale watching
(Ogasawara Islands)

Provide ecotourism, while preserving the habitat for whales (Photo: Ogasawara Whale Watching Association)

Rural life experience

Stay at farmhouse guest houses
(Tateyama-machi, Toyama prefecture)

Organize tours targeting foreign visitors to have them experience local nature and culture.
Part III
Japan’s Future to be Driven by SMEs and Small Enterprises
Small enterprises are classified into those seeking local demand (approx. 81%), and those seeking broad-based demand (approx. 19%). Furthermore, they are broken down into five stages depending on their organizational maturity.

The Bill for the Basic Act for Promoting Small Enterprises, which is scheduled to be submitted to the current ordinary session of the Diet, emphasizes the sustainable development of business, which includes the enhancement of technology and know-how and the maintenance of stable employment, together with growth and development, which are the basic principles of the Small and Medium-sized Enterprise Basic Act.

Based on this Bill, the 2014 White Paper conducts structural analysis, also highlighting small enterprises seeking sustainability and enhancement, which intend to achieve stable, sustainable business models instead of aiming to become higher stage companies.

Source: Created by the SME Agency based on Survey for Ascertaining Current Status of Business Activities of Small Enterprises (Central Federation of Societies of Commerce and Industry)

(Note) Compiled the data for 14,519 small enterprises out of the results of the questionnaire survey targeting a total of 18,078 member enterprises conducted by the Central Federation of Societies of Commerce and Industry in October 2013.
Looking at major suppliers, **those seeking local demand** purchase 80% or more of goods locally and sell them within the same region. Therefore, these small enterprises contribute to the circulation of local funds. **Those seeking broad-based demand** purchase around 60% of goods locally and sell them outside the region. These small enterprises acquire funds from outside the region (defined as connector hub companies). Local economies are based on a balance of enterprises seeking local demand that contribute to the circulation of local funds and those seeking broad-based demand that bring in funds from outside.

**Major Suppliers for Small Enterprises by Category**
- **Those seeking local demand**
  - From the same municipality: 25.4%
  - From neighboring municipalities: 31.3%
  - From the same prefecture: 28.4%
  - From neighboring prefectures: 7.6%
  - From nationwide: 7.1%
  - From overseas: 0.2%
- **Those seeking broad-based demand**
  - From the same municipality: 24.3%
  - From neighboring municipalities: 30.2%
  - From the same prefecture: 29.7%
  - From neighboring prefectures: 7.2%
  - From nationwide: 8.5%
  - From overseas: 0.2%

**Cash Flow of Enterprises Seeking Broad-based Demand and Enterprises Seeking Local Demand**

Source: Created by the SME Agency based on Survey for Ascertaining Current Status of Business Activities of Small Enterprises (Central Federation of Societies of Commerce and Industry)
Development of demand and sales channels is the biggest challenge for small enterprises. They are faced with serious issues, such as diminishing demand due to population decline and depopulation and changes in consumers’ needs due to population aging.

Enterprises seeking local demand are regionally well-known small enterprises deeply rooted in local communities that have provided goods and services based on residents’ needs. They should aim to find niche demand based on the relationships of trust with local residents, and on which large enterprises do not focus.

Considering the advancement of information technology, etc., enterprises seeking broad-based demand should take advantage of their original technology and services, such as through the development of domestic and overseas sales channels through internet sales and in collaboration with large and medium enterprises led by local governments, etc. to attract broader demand.

Business Challenges for Small Enterprises by Category

<table>
<thead>
<tr>
<th>Issue</th>
<th>Ideal means for offering support</th>
</tr>
</thead>
<tbody>
<tr>
<td>How to approach new customers</td>
<td>• Convention for presenting technologies</td>
</tr>
</tbody>
</table>
| Selection of targeted markets | • Support for sales channel development by societies of commerce and industry and chambers of commerce and industry  
• Utilization of sales channel development advisors |
| PR activities for products and services | • Holding of exhibitions of local products  
• Operation of antenna shops  
• Support for Internet sales |

Convention for presenting technologies  
Operation of an antenna shop

Source: Created by the SME Agency based on Survey for Ascertaining Current Status of Business Activities of Small Enterprises (Central Federation of Societies of Commerce and Industry)
In recent years, there has been a significant decrease in people intending to start businesses (nearly halved from the range of 1.6 million to the range of 0.8 million). However, the number of entrepreneurs has remained almost the same, with 0.2 to 0.3 million entrepreneurs newly emerging every year.

The following three issues are considered to have caused the low business startup rate in Japan.

1. Low awareness related to starting businesses: “The education system is not sufficient.” “People are apt to seek stable employment.” “People do not recognize starting a business as an option.”

2. Unstable livelihood after starting a business: “People worry about the risk of an unstable livelihood.” “There is no safety net.” “It is difficult to gain re-employment.”

In order to raise people’s awareness related to starting businesses, education on entrepreneurship should be provided from the stage of compulsory education to give children opportunities to have contact with entrepreneurs and thereby encourage them to have an interest in business startups. Furthermore, efforts should be made to erase the impression that starting a business involves high risks and to communicate that substantial numbers of entrepreneurs are satisfied with their businesses.

In order to ensure a stable life and income after starting a business, safety nets including proprietor guarantees, to which new guidelines are applied, and Small Enterprises Mutual Aid must be enhanced, and the handling of unemployment insurance also needs to be reconsidered. Furthermore, subsidiary businesses and auxiliary businesses should be further promoted.

In order to reduce the costs and procedural burdens of business startups, efforts should be made to realize a society which fosters entrepreneurs, with help of existing enterprises, and build a mechanism similar to France under which people can benefit from starting businesses. Additionally, enhancement of the consulting system involving existing entrepreneurs and private support organizations is also required.

Three Issues and Measures toward Becoming an Entrepreneurship Superpower

[Issue 1] Need to change people’s awareness related to starting businesses

Measure 1: Education on entrepreneurship
Measure 2: Change of social evaluation concerning business startups

[Issue 2] Need to stabilize livelihood after starting business

Measure 1: Safety net for starting business
   (i) Review of the guidelines on proprietor guarantee
   (ii) Small enterprises Mutual Aid System
   (iii) Stabilization of income after starting business (unemployment insurance)
Measure 2: Promotion of subsidiary and auxiliary businesses

[Issue 3] Need to reduce costs and procedural burden for business startups

Measure 1: Realization of a society which helps people start business
Measure 2: Mechanism under which people can benefit from starting a business
Measure 3: Enhancement of the system for providing consultation on business startups
The percentage of business handovers to a third party other than relatives, such as through internal promotion and appointment of personnel from the outside, is increasing. In light of such circumstances, this White Paper takes up and analyses the issue of business handovers to third parties.

- More than 80% of business managers consider that three years or more are required for fostering successors, but 60% of those in their sixties, 50% of those in their seventies, and 40% of those in their eighties are not well prepared for handing over their businesses.

- Efforts need to be made to provide detailed information and raise people’s awareness so that business managers can start preparing for business succession at an early stage.

### Changes in Forms of Business Succession over Years

- Among relatives
- Through business acquisition
- Through internal promotion
- Through appointment of personnel from the outside

### Years Required for Fostering Successors

<table>
<thead>
<tr>
<th>Years Required for Fostering Successors (Years)</th>
<th>Small enterprises (n=2,860)</th>
<th>Medium enterprises (n=1,910)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 years</td>
<td>3.6%</td>
<td>8.6%</td>
</tr>
<tr>
<td>3 years or more but less than 5 years</td>
<td>24.5%</td>
<td>29.4%</td>
</tr>
<tr>
<td>5 years or more but less than 10 years</td>
<td>47.4%</td>
<td>24.5%</td>
</tr>
<tr>
<td>10 years or more but less than 20 years</td>
<td>13.6%</td>
<td>39.9%</td>
</tr>
<tr>
<td>20 years or more</td>
<td>2.3%</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

### Business Managers’ Preparedness for Business Succession by Age

- Those in their fifties (n=3186)
- Those in their sixties (n=4653)
- Those in their seventies (n=1818)
- Those in their eighties (n=371)

Source: Created by the SME Agency based on Survey for Ascertaining Current Status of Business Activities of Small Enterprises (Central Federation of Societies of Commerce and Industry)
Business closures and company dissolutions have been increasing recently. As reasons for deciding to close the business, approximately 50% of respondents cited the aging and health problems of the business manager and approximately 10% of them cited anxiety over the future of their business.

Approximately 50% responded that they consulted with their family members or relatives about business closures, and approximately 30% responded that they did not consult with anyone. The White Paper also analyses the actual conditions of business closures (problems at the time of closing business and life thereafter, etc.), which had not been previously examined, to clarify the situation.
Giving due consideration to SMEs and small enterprises trying to find successors from within or from the outside, measures are to be taken to support business handovers to third parties, by securing highly-motivated human resources and matching them to enterprises seeking successors. The situation will be monitored and appropriate support will be provided on a long-term basis.

Measures to aid in business closure include [i] providing of basic information on business closures, [ii] offering expert assistance with due consideration to anonymity (telephone consultation service), and [iii] further dissemination and expansion of the small enterprises mutual aid system.

### Are You Considering the Possibility of Handing Over Your Business to an External Third Party?

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Do not know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium enterprises (n=633)</td>
<td>38.1</td>
<td>30.8</td>
<td>31.1</td>
</tr>
<tr>
<td>Small enterprises (n=304)</td>
<td>45.7</td>
<td>28.6</td>
<td>25.7</td>
</tr>
</tbody>
</table>

Source: Questionnaire Survey on Business Conditions and Business Succession of SMEs and Small Enterprises (conducted by Teikoku Database, Ltd. in December 2013 under contract from the SME Agency)

### Changes in the Number of People who Newly Joined or Withdrawed from the Small Enterprises Mutual Aid and the Number of Members Thereof

- **Number of people who newly joined the aid (right scale)**
- **Number of people who withdrew from the aid (right scale)**
- **Number of members (right scale)**

Source: Surveyed by the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ)
In order to capture emerging overseas demand, SMEs and small enterprises are actively developing business overseas. It is notable that out of enterprises that have never engaged in exporting, those interested in export are larger in number among small enterprises. Securing buyers and reliable business partners and advisors is the biggest challenges in promoting overseas business expansion. However, existing public organizations that offer support for overseas business expansion are not fully utilized and they are not necessarily highly evaluated.

### Efforts Considered Most Important to Succeed in Export (the Difference between Success and Failure)

<table>
<thead>
<tr>
<th>Efforts Considered Most Important</th>
<th>Enterprises whose sales increased</th>
<th>Enterprises whose sales did not increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure intended buyers</td>
<td>29.1</td>
<td>25.8</td>
</tr>
<tr>
<td>Secure reliable business partners and advisors</td>
<td>16.8</td>
<td>13.9</td>
</tr>
<tr>
<td>Ascertain local market trends and needs</td>
<td>13.2</td>
<td>10.6</td>
</tr>
<tr>
<td>Secure personnel who lead overseas business expansion</td>
<td>10.6</td>
<td>8.0</td>
</tr>
<tr>
<td>Develop products and services for exports</td>
<td>7.7</td>
<td>6.6</td>
</tr>
<tr>
<td>Maintain and manage profitability</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Secure personnel who have command of foreign languages and can handle trade-related services</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Ascertain local legal systems and business practices</td>
<td>4.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Respond to risks and troubles</td>
<td>4.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Secure necessary funds</td>
<td>4.2</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Source: *Questionnaire Survey for Ascertaining Current Status of SMEs’ Overseas Business Expansion* (conducted by Sompo Japan Nipponkoa Risk Management Inc. in December 2013 under contract from the SME Agency)
In order to help SMEs and small enterprises expand overseas, efforts shall be made to **strengthen and expand the SME Overseas Business Support Platforms**, which is a network consisting of public and private support organizations which provide support for legal, accounting, and labor affairs, help fund procurement, and offer assistance in securing human resources and cultivating business partners.

There are at least 10,000 private enterprises offering support for overseas business expansion, among which at least 2,000 are offering comprehensive support. **Collaboration with these private enterprises offering support for overseas business expansion** should also be promoted with the aim of flexibly responding to diversifying needs of SMEs and small enterprises developing business internationally.

### SME Overseas Business Support Platform

- **Local public support organizations** (Japanese embassies, JICA, HIDA, etc.)
- **Local related organizations** (chambers of commerce and industry, technological universities, etc.)
- **Coordinators**
  - Strengthening of local networks

### Locations where the SME Overseas Business Support Platform is Established

- **Myanmar** (Yangon)
- **China** (Chongqing/Chengdu)
- **India** (Mumbai, Chennai)
- **Thailand** (Bangkok)
- **Philippines** (Manila)
- **Indonesia** (Jakarta)
- **Brazil** (Sao Paulo)

*Scheduled to establish five more platforms*

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**Web Platform Operated by Resorz Co., Ltd.**

**Overseas Business Expansion Support Services Registered in “Digima –出島–”**

**Digima –出島–**

- **Support for overseas business trips**
- **Insurance**
- **M&A**
- **Subsidies for fund procurement**
- **Overseas business expansion**
- **Real estate and rental office services**
- **Building IT infrastructure**
- **Sales support**
- **Agreements for trademarks and patents**
- **Offshore development**
- **Inbound**
- **Business closure and withdrawal**
- **Support for distribution, exports, and customs clearance**
- **Agency services for registration of the establishment of business bases**
- **Overseas legal work (written agreements, legal affairs)**
- **Tax affairs and accounting**
- **Agency services for visa applications**

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**Resorz Co., Ltd.**

An enterprise located in Meguro-ward, Tokyo, which provides services to support the overseas business expansion of SMEs. The enterprise operates the web platform, “Digima –出島–,” where it helps matching between enterprises seeking to expand business overseas and enterprises offering support for overseas business expansion.
Crowdsourcing is a mechanism for procuring necessary human resources when necessary, utilizing external resources through the internet. This may enable SMEs and small enterprises, which generally lack managerial resources, to overcome their longtime business challenges.

Fund procurement through the use of IT (so-called crowd-funding) makes it possible for individuals to directly make investments in enterprises. This expands the possibility of fund procurement for enterprises that have faced difficulties in procuring funds from financial institutions, etc. due to various reasons.

Example 1: Mochizuki Farm (Yamanashi City, Yamanashi)
- A farm that grows peaches and tomatoes created a logo to unify images of its agricultural products and processed products. The farm utilized crowdsourcing in order to make up for its insufficient design resources. The created logo has successfully demonstrated unified image of the farm as a whole and increased new sales destinations, thus exerting positive effects on business performance.

Example 2: Shinkame Sake Brewery (Hasuda City, Saitama)
- Japanese liquor junmaishu (sake made without added alcohol or sugar) made by Shinkame Sake Brewery takes two to three years to mature. Therefore, there is a time lag between the initial investment and gaining income from sales. The brewery overcame this problem through fund procurement through the use of IT and crowd-funding, and gained customers and fans nationwide who love junmaishu.
The idea of Creating and Realizing Shared Value (CRSV), which aims to concurrently achieve the creation of social value and the creation of corporate value by solving social problems through business, would be a means for survival for SMEs and small enterprises that conduct business deeply rooted in local communities.

Efforts by SMEs and small enterprises to solve regional issues through business will create social value in the form of revitalizing local economies, and at the same time will increase the income of local residents. Furthermore, they will bring about creation of new customers and demand in the region and will create a virtuous cycle that may lead to the creation of corporate value in the form of increasing corporate profits. Such efforts are the key to CRSV and achieving sustainable business activities.

* Michael Porter, a US management scholar, called this idea “Creating Shared Value” (CSV) in 2011.

Means for Survival for SMEs and Small Enterprises (CRSV)

(i) Solving regional issues through business

Creation of social value (revitalization of local economies)

Virtuous cycle

Creation of corporate value (increase of corporate profits)

(ii) Increase local residents’ income

Improvement of living environment

Example 1: Limited Company Chuo Taxi (Ohgawara-machi, Miyagi)

In order to solve real-world problems, the company introduced taxis that wheelchair users can board without leaving their wheelchair, in addition to ordinary taxis. As a result, the company successfully created social value by ensuring mobility for local people with mobility issues and at the same time created corporate value through word of mouth which increased and retained customers.

Example 2: Ohsato Sogokanri Co., Ltd. (Oamishirasato City, Chiba)

The company carries out over 200 regional activities annually, in addition to its main business, real estate services. It carries out the activities in response to challenges of local residents, such as by renting out space, holding concerts, and organizing lecture courses, not as charity work but as regional activities contributing to its main business. Through these efforts, the company concurrently achieved the creation of social value and the creation of corporate value.
Part IV
Ideal Means for Offering Support to SMEs and Small Enterprises
Collaboration among the national government, prefectures and municipalities is indispensable to ensure that support measures reach all of the 3.85 million SMEs. However, at present, the national government, prefectures and municipalities are not successful in collaborating with each other.

However, some local governments are promoting concrete collaboration in any of the [i] triple-jump collaboration, [ii] compartmentalized collaboration, and [iii] integrated collaboration, depending on the division of responsibilities among them.

In order to promote such collaboration, the national government will prepare a map of support measures (explained later) and actively explain the details of the map to prefectures and municipalities at an early stage.

**Evaluation of Collaboration of SME Support Measures by Small Enterprises**

<table>
<thead>
<tr>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.4</td>
<td>4.1</td>
<td>4.5</td>
<td>1.0</td>
<td>13.9</td>
<td>71.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- The national government, prefectures and municipalities are collaborating with each other successfully.
- The national government and prefectures are collaborating with each other successfully, but not with municipalities.
- Prefectures and municipalities are collaborating with each other successfully, but not with the national government.
- The national government and municipalities are collaborating with each other successfully, but not with prefectures.
- The national government, prefectures and municipalities are not collaborating with each other but are offering support independently.
- Unknown

**Source:** Survey for Ascertaining Current Status of Business Activities of Small Enterprises (Central Federation of Societies of Commerce and Industry)

**Styles of Collaboration among the National Government, Prefectures and Municipalities**

- **Triple-jump collaboration**
  - Municipalities
  - Prefectures
  - National government

- **Compartmentalized collaboration**
  - Prefectures
  - Municipalities

- **Integrated collaboration**
  - Municipalities
  - Prefectures
The national government will prepare a “map of measures,” which is a searchable database displaying the measures provided by the central, prefectural, and local governments, which users are able to search through, compare and view via the internet from the viewpoint of SMEs and small enterprises, depending on the objectives, fields, and required amount of money, etc., like Gurunavi.

The map consists of a screen for comparison, like Kakaku.com, and a screen of lists that enables overview by printing out the screen in A3 size.

The map covers not only measures by the SME Agency, but also measures for SMEs by other ministries and agencies, such as the Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare, Ministry of Agriculture, Forestry and Fisheries, and Japan Tourism Agency.
Not only the administrative authorities but also SME support organizations, including certified support organizations, need to play a significant role in offering support to the 3.85 million SMEs. As it is difficult for a single SME support organization to independently respond to diverse needs, collaboration among such organizations is significant.

In particular, collaboration is insufficient among SME support organizations offering support in the field of tax and legal affairs.

**Challenges Faced by Certified Support Organizations in Providing Consultation to SMEs**

- Other corporations, etc. (n=58)
- Financial institutions (n=1,008)
- Consultants (n=258)
- Tax and legal affairs-related organizations (n=874)
- Societies of commerce and industry or chambers of commerce and industry, etc. (n=1,241)

**Collaboration among SME Support Organizations**

<table>
<thead>
<tr>
<th>Organizations</th>
<th>Collaboration Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Societies of commerce and industry, etc.</td>
<td>22.5%  49.7%  15.3%  11.4%  1.1%</td>
</tr>
<tr>
<td>Tax and legal affairs-related organizations</td>
<td>4.7%  23.4%  11.5%  50.6%  9.7%</td>
</tr>
<tr>
<td>Consultants</td>
<td>32.2%  40.9%  6.1%  16.3%  4.5%</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>30.3%  52.0%  12.2%  4.9%  0.6%</td>
</tr>
<tr>
<td>Other corporations, etc.</td>
<td>35.6%  54.2%  5.1%  4%  1.7%</td>
</tr>
</tbody>
</table>
In one case a local financial institution had tax accountants involved in offering consultations to SMEs as tax and legal affairs-related experts and thereby enabled SMEs to make highly feasible business improvement plans.

In another case a local municipality and SME support organizations built an attractive support system under which they collaboratively offer one-stop services in response to SMEs’ inquiries about their business.

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**Kyoto Shinkin Bank**

**Case of having tax accountants involved in offering support for SMEs**

- The bank provided 12 Certified Public Tax Accountant’s Associations in Kyoto with explanations concerning the roles of certified support organizations and the support project for the establishment of business improvement plans and recommended the utilization of the project.
- Through such collaboration among SMEs, the bank, and tax accountants, SMEs can make highly feasible business improvement plans and at the same time, tax accountants’ competence in creating business improvement plans are enhanced.
- SMEs are now able to consult with familiar tax accountants about means to improve their business, and their satisfaction levels improved.

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**Toshima Support Center for Business**

**Case of having established a one-stop support base**

- Toshima ward and the Sugamo Shinkin Bank jointly established a base where they offer one-stop consultation services in response to SMEs’ concerns about their business.
- They can respond to a wide range of inquiries, such as those on financing, business startups, development of sale channels, labor affairs and management.
- Special focus is placed on support for the development of sales channels, and expert consultants in that field first receive OJT training at f-biz before providing consultation services.
In municipalities nationwide, societies of commerce and industry and chambers of commerce and industry provide close mentoring style support to SMEs and small enterprises, playing a core role in respective regions (acting as “primary care doctors”). Small and Medium Enterprises Comprehensive Support Centers are planned to be established in 47 prefectures nationwide from April 2013 onward with the aim of further strengthening the support system for SMEs and small enterprises. These centers will have the following three functions.

(i) To provide comprehensive and advanced business advice that cannot be fully dealt with by existing support organizations
(ii) To offer support through organizing expert teams optimized for particular problems of respective enterprises
(iii) To introduce appropriate support organizations, etc. (one-stop services)

Based on a full understanding of measures by related ministries and agencies, local governments and public support organizations, etc., proper advice is to be given for each customer as to how to utilize the most appropriate measures.

Picture of Support by a Collaborative Body Centering on a Society of Commerce and Industry or Chamber of Commerce and Industry

Small and Medium Enterprises Comprehensive Support Center

* Including consultations sought jointly with the organization from which the enterprise already receives support
Approximately 50 to 60% of SMEs and small enterprises responded that they are not sure about where they can obtain information on SME support measures (Fig. 1). Approximately 50% of them actually do not obtain any such information (Fig. 2). Only 10% have utilized SME support measures but some 70% of those evaluate the measures positively (Fig. 3).

A high percentage of enterprises hope to obtain information concerning the national government’s SME support measures from SME support organizations and municipalities (Fig. 2). Therefore, the national government will actively hold face-to-face briefing sessions not only for prefectures but also for municipalities and SME support organizations at an early stage.

Approximately 50% responded that the amount of information concerning the national government’s SME support measures is somewhat inadequate (Fig. 4). Those who responded that the timing of obtaining information is not timely accounted for approximately 50% (Fig. 5) and those who responded that information is hard to understand also accounted for approximately 50% (Fig. 6).

In light of these questionnaire results, the national government will not only endeavor to improve the “map of measures” and the content of email publication, but also prepare a video in which officials in charge explain the content of each of the support measures, including their background and intended purposes, in an easy-to-understand manner and place it on the SME Agency’s portal site titled “Mirasapo” (support for the future).
- The national government will develop a system which ascertains spatial and chronological conditions of the industrial structure in each local economy through the use of enormous amounts of business trade data (big data) held by private research companies, and thereby assists the national government, prefectures and municipalities with their planning of regional industrial policies and regional revitalization policies.
- Companies that procure funds from the outside and distribute them within the region are called “connector hub companies (regional core companies)”. This system aims to discover such connector hub companies and lead the national and local governments to allocate their policy resources in an effective manner.

[Example of charts representing all industries] Ascertaining the entire picture of the industrial structure in the region

[Example of charts representing specific industries] Ascertaining supply chains by industry in the region

[Example of charts representing specific companies] Ascertaining business relationship of a connector hub company
Fill up the cover of the White Paper with portraits of small enterprise owners!
The subtitle of the 2014 White Paper on Small and Medium Enterprises in Japan is “A Supporter Song for Small Enterprises.”

With this in mind, we are planning to fill the cover of the White Paper with portraits of small enterprise owners and future candidates (successors or those intending to start businesses) (accepting portraits on a specially opened website until Friday, May 16).

Accepted portraits are all to be printed.

In June, the 2014 White Paper filled with portraits of smiling business owners will arrive in bookstores nationwide.

The inscription on the cover is by the famous calligrapher Shoko Kanazawa.

One of her works was used as the title screen of the historical drama, *Taira no Kiyomori*, which aired on NHK in 2012.

Ms. Kanazawa infused this work with her passion, wishing to encourage all SMEs and small enterprises nationwide.