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**SME Policies in Japan: Its new thinking and global trends
towards favourable environment for SME ecosystem**

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SME Policies in Japan: Its new thinking and global trends towards favourable environment for SME ecosystem

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Here I would like to discuss about the ongoing world trend that policies must distinguish small or micro enterprises from SMEs in general, and pay more attention on them. Though this does not necessarily relate to the key subject "the healthiness of business ecosystem," I do give emphasis on the importance of "environmental conditions" for ecosystem, which could sustain healthy ecosystems and promote their efficiency, value creation and innovative developments.

In his paper in 1993, James F. Moore insisted that in a business ecosystem, companies co-evolve capabilities around a new innovation: they work cooperatively to support new products, satisfy customer needs, and eventually incorporate the next round of innovations. This clearly indicates business ecosystem embraces many small businesses, or even they themselves may organise own ecosystems for their product development and innovative challenges. This does not necessarily mean a similar type of once prominent Japanese subcontracting or supplier system, but broader, open, flexible and voluntary cooperation could be imagined.

On the other hand, "Business ecosystem" is not only inseparable from, but also strongly connected with the political, institutional, social and cultural environments, like biological ecosystem within the natural environments. It also demands enough nutrient supply and cycle, i.e. management resources, above all flow of financial and human resources, which is strongly related to political and institutional environments.

Small enterprises or micro businesses are very familiar with the practices of partnership and cooperation, and they are universal seedbeds for successful business development and efficient value creating clusters. As far as human resources are concerned, very small enterprises or micro businesses are 'communities of practice' to transfer skills and knowledge to the next generation, as well as the industrious entrepreneurship. Small and micro enterprises are also the soil and grass roots supporting efficient and flexible value chains by exercising independent business people's commitments and creativity, and family members' dedication or contribution.

100 years ago, Alfred Marshall indicated that an economic society is like a natural forest, which embraces not only growing or grown up big trees, but many germs and young small ones, and tried to explain the universal existence of SMEs under the rule of economies of scale. Professor Akira Miyawaki, one of the pioneering ecological scientists and my former colleague, suggested that monogenous and man-made forests are vulnerable and unsustainable, instead natural and diversified forests are strong and evolving.

SMEs and micro businesses are the source of plural, diversified and creative economic society, and support the birth, development and change of various business ecosystem, despite the drastic changes in their environments.

Paradoxically speaking, policies promoting creative business ecosystem request the measures to enhance the vitality of SMEs, above all micro ones as the source of entrepreneurship and employment, and as of "vital peripherals" of business systems.

Then, policy issues are;

1. To improve access to and to facilitate financial resource supply for SMEs and new ventures, above all creative businesses, professional firms and potential or emerging entrepreneurs as well.
2. To encourage more open and flexible relationship among business actors, above all innovative new ventures or highly skilled fabrication plants, in new value creating systems and conducts, than the hey days of rigid, hierarchical and semi-integrated "keiretsu" groups or subcontracting systems.
3. To implement legal or institutional framework which promotes better relationship among business players, by protecting their creative products, encouraging fairer transactions, facilitating favourable sharing of created values and contributing to establishing sustainable business systems.

Very obvious fact is most countries have paid more and serious attention on their small or micro enterprises, including the EU and Korea. And Japan now followed.

Their importance mainly comes from the fact that they create and sustain the absolute majority of employment, including self-employed people and family members. They are not only the source of potential entrepreneurial development, but also offer vastly more satisfactory working life than ordinary employees, and work usefully to transfer skills and knowledge between generations. They are sustaining local communities, by generating incomes, supplying living necessities or services, and contributing to community activities.

Medium-sized enterprise and micro business are rather characteristically different in many senses, and policy objectives and measures should be more focused on each one's conditions and needs to secure effectiveness.

As far as Japan is concerned, in 2010, the Democratic Government approved SME Charter, which had been requested by entrepreneurs organisations and the DPJ promised at the 2009 election. It declared not only that SMEs are the driving force of the Japanese economy and central players in the society, as the nation's treasure, but also characterised small enterprises and family businesses. "Many of small enterprises are family-run and contribute to the stability of their local community." And policies must "pay greater attention to the significance of family business and smoothening business succession."

Since then, the Government launched a number of policies dedicated for small and micro enterprises, depending on the SME Policy Council's report and newly formed Council for the Future of Small and Micro Enterprise's discussion and recommendation. In these 3 years, the DPJ lost office and the LDP returned to the Government, but the basic philosophy and framework, as well as the policy objectives, generally have not been changed as far as SME policies are concerned.

SMEs Capabilities Enhancement Support Act in 2012, Small Enterprises Revitalization Act in 2013 and Basic Act of Promoting Small Enterprises in 2014 are successively constituting rather dedicated policies for small and micro enterprises. Accordingly, Small and Medium-sized Enterprise Basic Act, which was enacted in 1963 and amended in 1999, itself was partially amended in order to specify the importance of them and to clarify measures to revitalise them.

The Basic Act of Promoting Small Enterprises in 2014 is in a sense epoch-making, because it offers a universal framework for small and micro enterprises alone. It has defined that Micro enterprise (小企業) is employing 5 people or less, which is the first time in Japan. Small enterprise (小規模企業) was already defined as employing 20 or less, or 5 or less in the distribution and service industries, by the SME Basic Act 50 years ago.

The 2014 Act shows the objective, not only as the "growth and development" of small and micro enterprises, but also their "sustainable development of businesses," including improvements of technology and know-how, keeping stable employments, in order to enhance small enterprises' vitality. It also requests proper supports for small enterprises to put business resources into effective use, to enhance their vitality and to manage own businesses smoothly and soundly.

Its main policy measures are;

1. Extension of markets of goods, products or services by responding to diversified demands, and promotion of new business creation, including supporting measures of pioneering domestic or overseas sales channel.
2. Promoting effective use of management resources and individual people's exertion of own ability, by supporting business succession, new start-ups or second starts, and enhancing human resource matching among female or youths.
3. Promoting activities contributing to revitalizing regional economies, by accelerating partnerships with variety of local actors, and promoting projects of corresponding local demands.
4. Providing proper support systems, by specifying the roles of individual supporting institutions, and accelerating their partnership.

The Government is obliged to formulate a 5 year plan of systemic policies for small enterprises.

These characteristic policy developments, however, cannot guarantee a brilliant future for small and micro enterprises so easily. To the contrary, these policies are the products of harsh reality among these small businesses for 3 decades. The number of small enterprises has shown a clear decline by nearly 15%, that of self-employed by 30%. On the other hand, the business birth rate is still rather low, if compared with any other economies. Entrepreneurship keeps low profile among younger generations. These facts are very contrasting to developing or advanced economies, and for instance, the EU economy shows a clear rise of micro enterprises by more than 5% in a decade, Other economies like China, India are needless to mention.

Small and micro enterprises in Japan face difficult situation for years. Local industries are declining, by loosing their markets to new competitors. Parts supplying businesses in the car or electronics industries are rather slugging, partly because big manufacturers' globalised networks and expanding overseas operations. Construction industries are struggling with depressing domestic market and low birthrate and longevity society. Retailing or service businesses are the same, in addition to the depopulating local towns and hard competition with mega stores.

At the same time, hopes exist in the new trend of social entrepreneurship or challenging high-tech/ IT business people, who may stimulate local economies and communities. The best roll model is Professor Shuji Nakamura, who was awarded Nobel Prize this year. He worked for a rather small local

manufacturing firm, and invented the production method of blue LED by exerting his own knowledge and skill, which not only made him a world-class inventor but his former company a big global manufacturer. He now strongly advocates entrepreneurship among young generation.

To conclude, the below could be found:

Healthy business ecosystem needs better business environments, including policies to support SMEs, above all very small or micro enterprises.

The global trend of policy framework clearly indicates distinction between small or micro enterprises and medium-sized ones, and more focuses on small ones. Japan has just joined that trend, but still keeps a lot to do, because of clear declining trend of the number of small enterprises and weakening entrepreneurship.

Healthy business ecosystem demands the vitality of SMEs, above all micro ones as the source of entrepreneurship and employment, and as of "vital peripherals" of business systems.