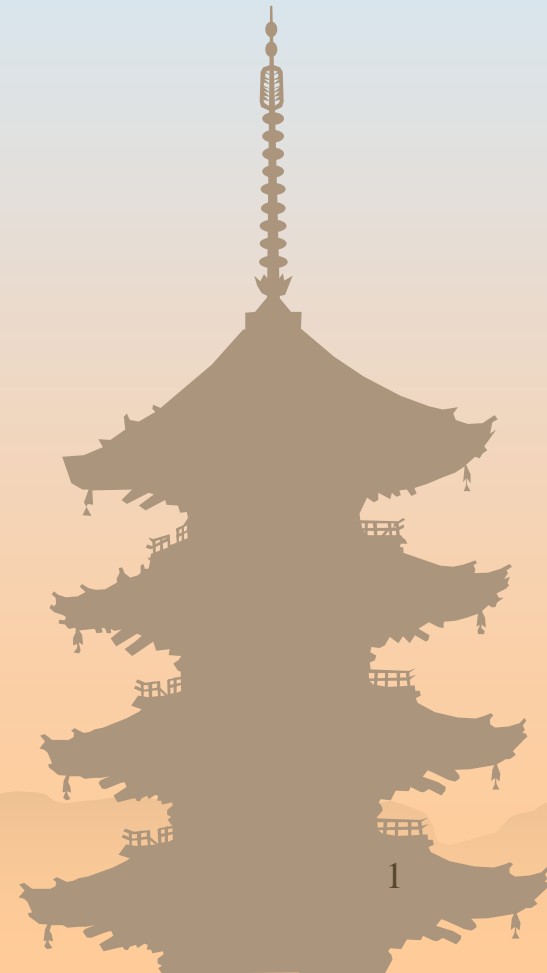


Programs to Stimulate Startups and Entrepreneurship in Japan: experiences and lessons

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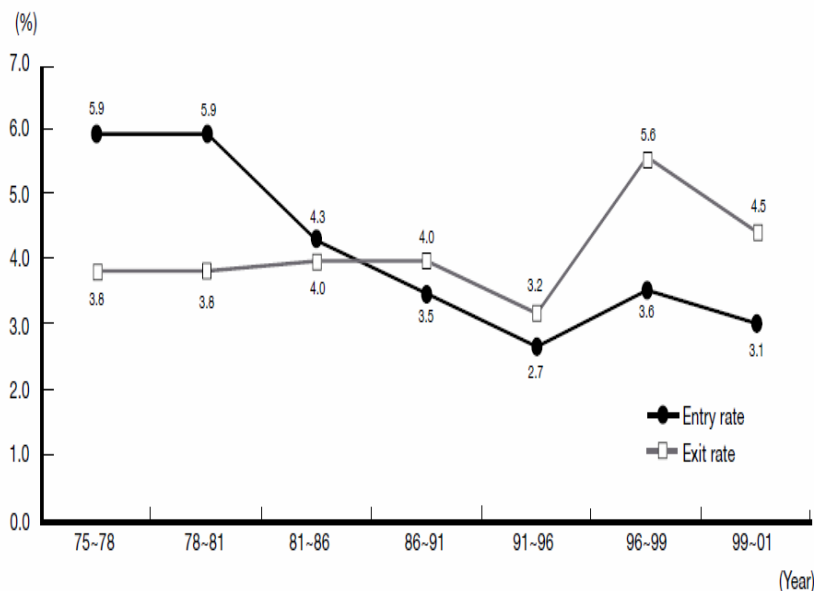


Since 1990s, entrepreneurship activity in Japan has been stagnant, and it is suspected that this phenomenon leads to weakening of economic activity.

In such a situation, various policy measures are taken for promotion of startups.

Trends in entry and exit rates based on number of enterprises (non-primary industry, annual averages)

Entry rate declines from 1980s



Source: MPHPT, *Establishment and Enterprise Census of Japan*.

Notes: 1. Survey conducted as the *Establishment Census* up to 1991 and the *Establishment Directory Maintenance Survey* in 1994.

2. See Appended Note 2-2-1 regarding the method of calculation of the entry and exit rates.

(Main responses of policy since 2000)

- ① Removal of minimum capital requirement for limited liability companies
- ② Educational activity on entrepreneurship (national startup and venture forum)
- ③ New startup loan program (Loan for startups by National Life Finance Corporation, which requires no collateral, guarantors or personal guarantees)

① Removal of minimum capital requirement for limited liability company: Limitedly executed from February 2004 (in view that minimum capital requirement is constraint for startups)

Actual performance :

From February 1, 2004 to January 21, 2006

Number of confirmed applications: 24,639 (1,172)

Number of notification completions: 20,211 (927)

[Reference]

According to the aggregation of “Monthly Report on Statistics (Ministry of Justice)”, newly registered limited liability companies January-October 2004 tended to increase compared with 2003.

② Educational activity on entrepreneurship (National startup and venture forum)

- *Japan Venture Award*

In order to show the next generation role model in startups and venture, *Japan Venture Award* is conducted to honor entrepreneurs and their sponsors who succeeded in the continual challenge for new business.

- **“Startup and venture evening forum”**

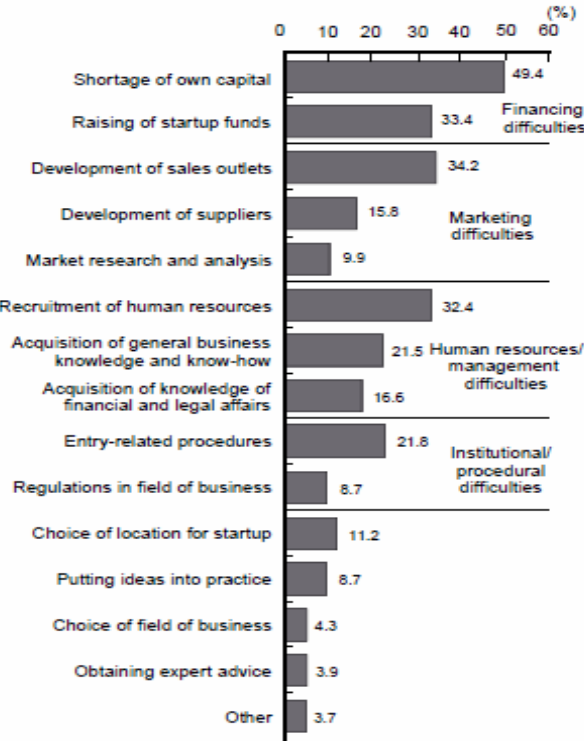
In order to realize startups, small symposiums which focus on special themes are held for giving advice to problems participants face.



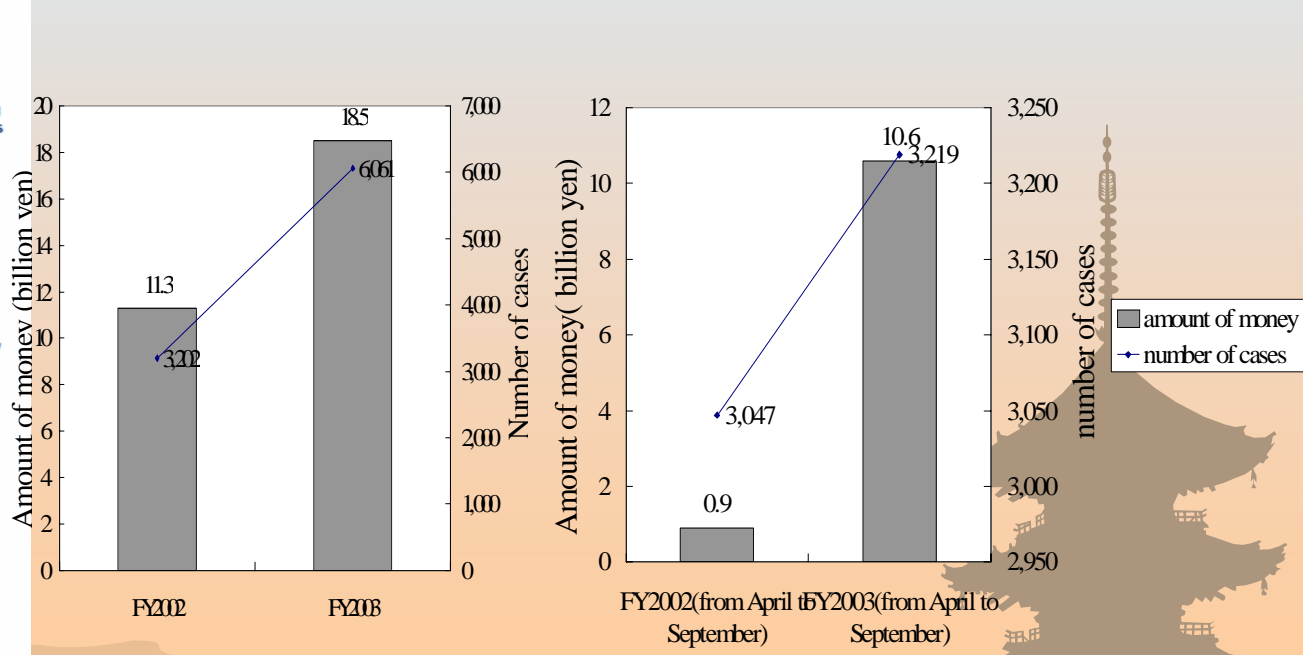
③ New startup loan program

Startup firms suffer from liquidity constraint (Evans-Jovanovic 1989, et.al.). For this reason, National Life Finance Corporation lends up to 7.5 million yen for startups without requirement for collateral, guarantors or personal guarantees by screening contents of business.

Difficulties encountered at startup



Actual performance of new startup loan program



Source: SME Agency, Survey of the Environment for Startups (December 2001).
 Note: Total exceeds 100 due to multiple responses.

④ The other policies - *Startup classes* (Education for startups)

- Startup classes held by strong partnership between Japan Chamber of Commerce and Industry and local chamber of commerce and industry etc. help to complete concrete business strategy and competitiveness to potential entrepreneur.
- Actual performance

	No. of places	No. of participants
FY2000	133	5,776
FY2001	184	6,535
FY2002	221	6,963
FY2003	287	11,500
FY2004	275	9,026

©Target of startup promotion policy → Under startup-doubling plan, it is targeted that for the period from 2001-2006, annual average number of startups of firm is doubled from 180,000 to 360,000.

1. Setting up the questions and framework for analysis

- **Which degree of entrepreneurs recognize startup promotion policies?**
- **Which type of entrepreneurs recognize startup promotion policies?**

These questions have close relationship to effective advertisement of startup promotion policy.



ex. For startups that bother to assure selling outlet, information of policies for sales promotion (venture fair etc.) is useful.

Could startups who bother with pass of sales acquire information on policies for sales promotion?

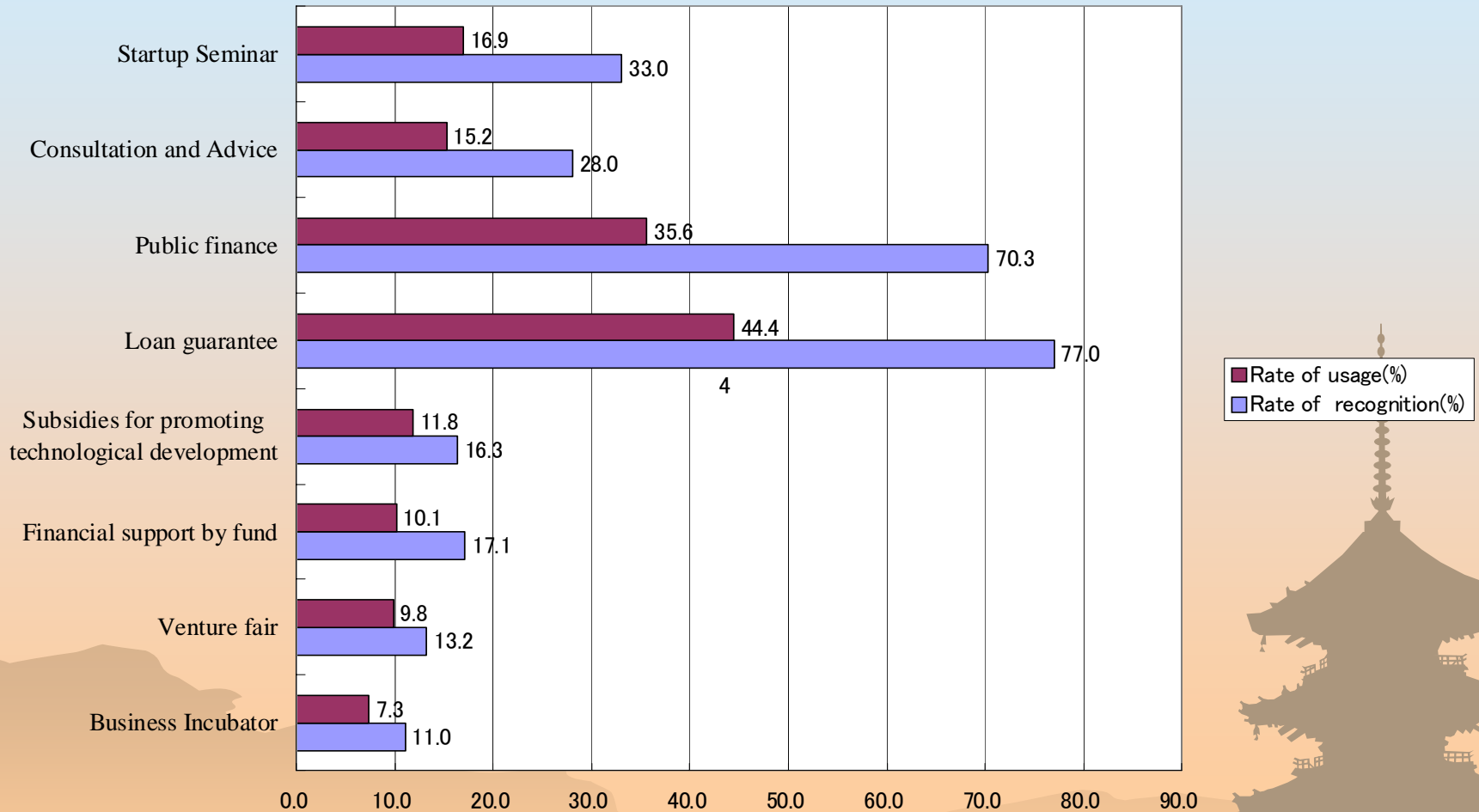
- This question is close to advertisement of startup promotion policy
- Lessons on advertisement of startup promotion policy could be attained through analyzing startups' degree of recognition on startup promotion policy.



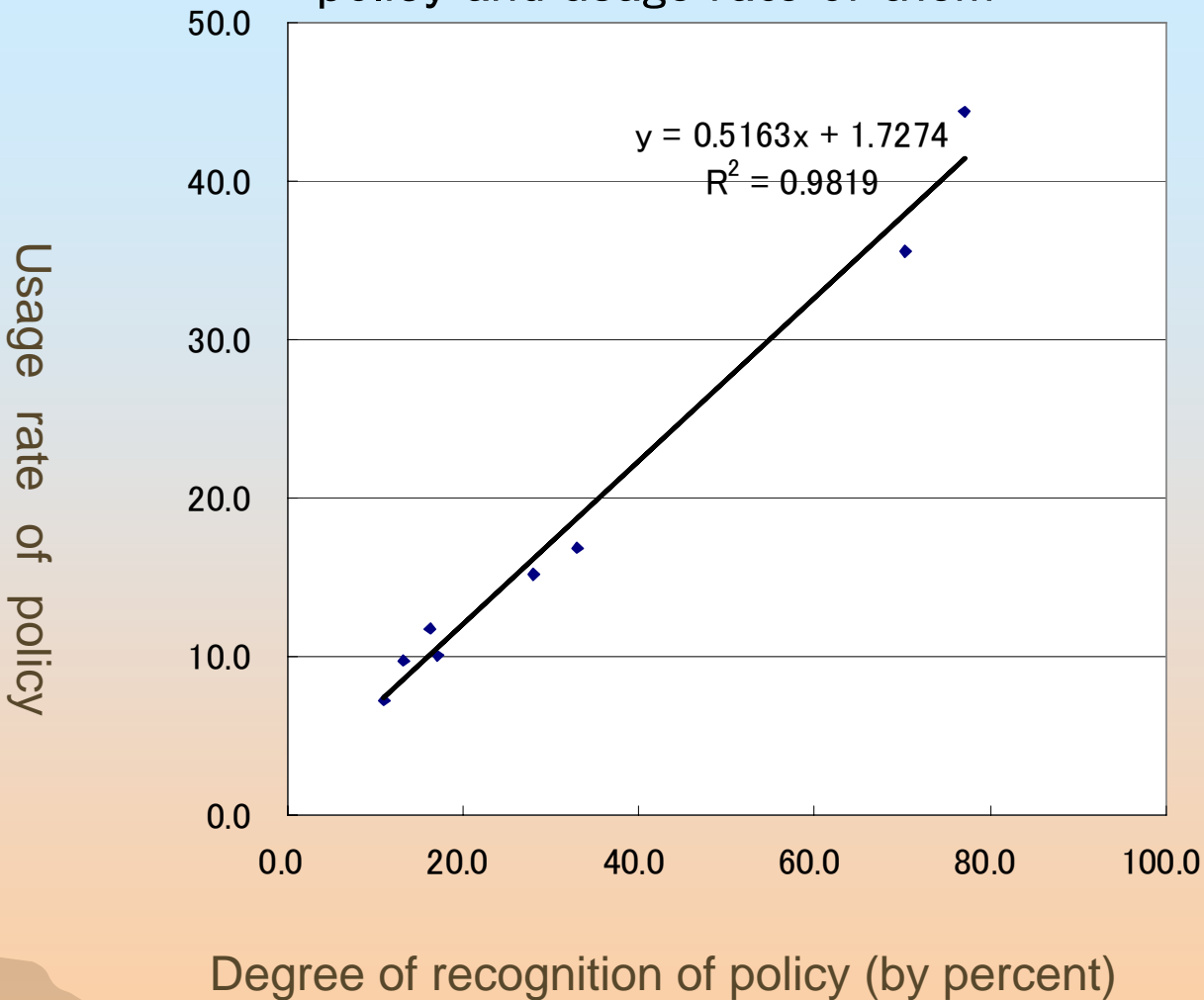
2. Recognition of startup policy for entrepreneur

Answer to question to entrepreneurs at time of startup, whether each startup related policy carried out by national government, local municipality and agencies.

The rate of recognition and usage of startup related policy by new startups



Relation between recognition rate of startup support policy and usage rate of them



High positive relation between degree of recognition and degree of use of policy measures → recognition is necessary for use.

3. Which entrepreneurs acquire information (recognize) on startup promotion policy?

(1) Model

In model, the degree of recognition at time of startup on policies useful for startup (knowing at time of startup=1, not knowing at time of startup=0) is regressed by entrepreneur components and firm components (Probit Model).

Explained variable

Degree of recognition of policies described below.

- ① **Startup seminar** - *Startup classes* etc.
- ② **Consultation and advice** - Inquiry counter for business counsel and advice)
- ③ **Public finance** - New startup loan program etc.
- ④ **Loan guarantee by loan guarantee association**
- ⑤ **Subsidies for promoting technological development** (SBIR etc.)
- ⑥ **Financial support by fund organized by local government etc.** (Small Business Investment & Consultation Co. Ltd. etc.)

⑦ **Venture Fair** - Exhibition for business venturing (Organization for Small & Medium Enterprises and Regional Innovation etc.)

⑧ **Business Incubator** - Business workplace for business venturing; (Organization for Small & Medium Enterprises and Regional Innovation)

Explanatory variable

a) Components of entrepreneur

- **Age of entrepreneur at startup**
- **Gender dummy** (female=1, otherwise=0)
- **High education dummy** (university graduate or higher=1, otherwise=0)
- **Related work experience dummy** (has related work experience =1, otherwise=0)

- **Business management experience dummy** (Has business management experience=1, otherwise=0)
- **Startup type dummies** (spin-off-type, Franchise-type, Independence-type, family business development-type and others. Benchmark is “others”)
- **Dummies for personal income level just before startup** (Benchmark is 5.0 million-10.0 million or less)
①2.5 million yen or less, ②2.5-5.0million yen or less, ③10.0-15.0 million yen or less, ④15.0 million yen or more

b) Component of firm

- **No. of workers at time of startup**
- **Startup form dummy** (Limited liability=1, Unlimited liability=0)
- **Sector dummy** (manufacture, transportation, communication, retail, wholesale, restaurant, service. Benchmark is service.)

4. Used Dataset: “Survey of the Environment for Startups”

(1) Responsible organization :

Japan Small Business Research Institute

(2) Period of survey: Oct.-Dec. 2002

(3) Objects of survey

10,000 firms which started from 1995-1999, that is extracted randomly from database of TOKYO SHOKO RESEARCH, LTD.

(TSR) (Firms age 3-8 years old)

(4) Mail survey (Response rate 11.4%)

(5) Main questionnaire item

Archival record of entrepreneur, basic data of startup firm, usage of policy etc.

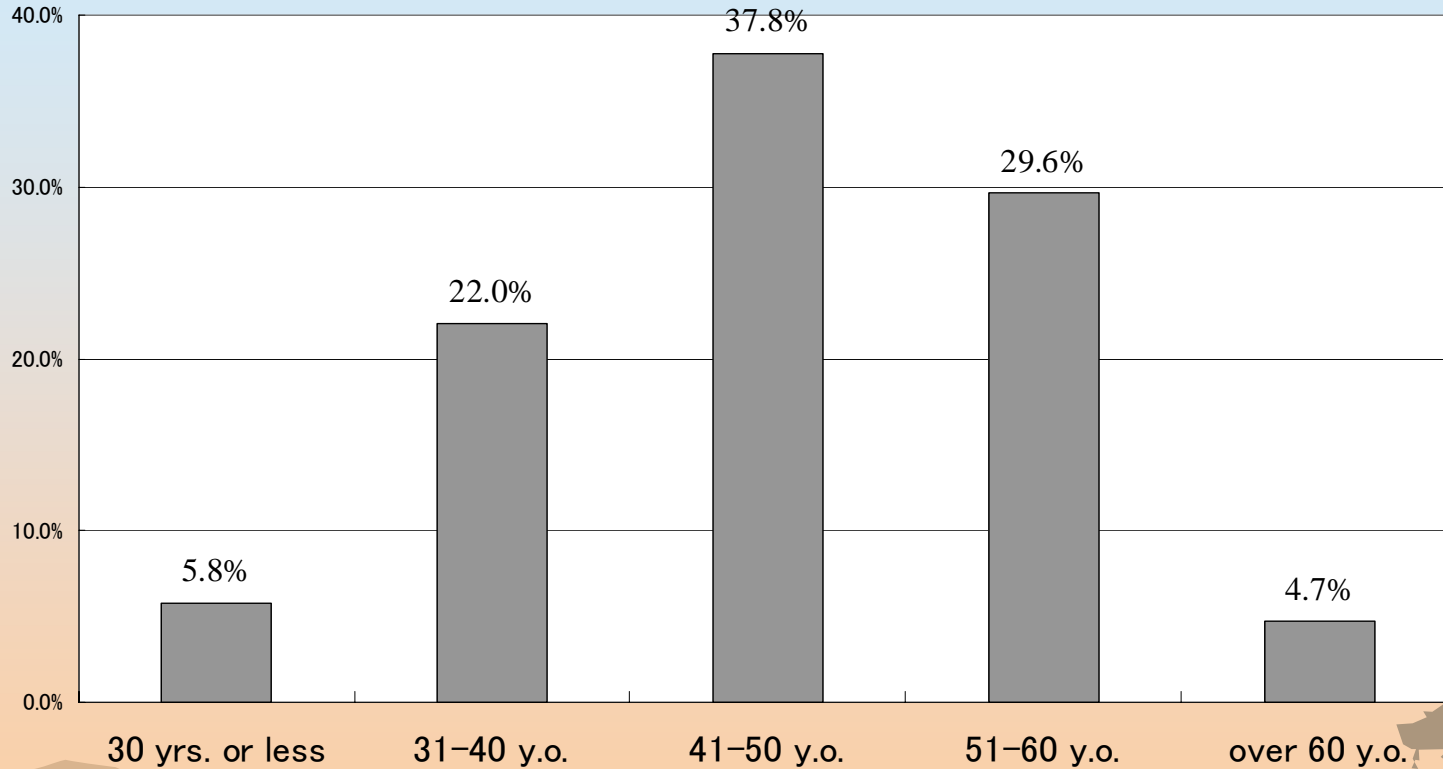
(6) No. of observations with information on explanatory variable is 894

5. Basic statistics

① Entrepreneur components

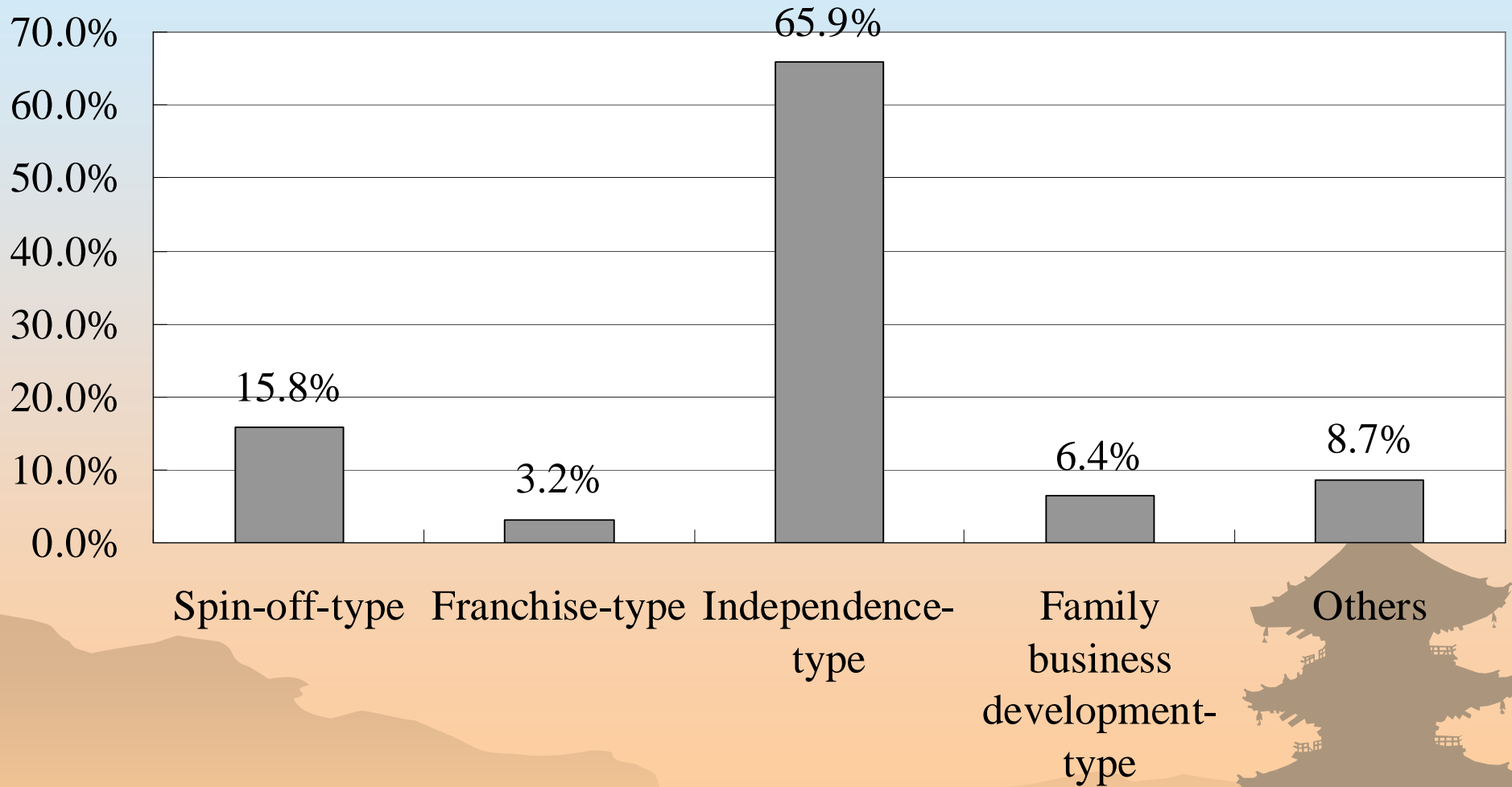
Age of entrepreneur at the time of startup

Average age 45.8 Median 46.4
standard deviation 9.49

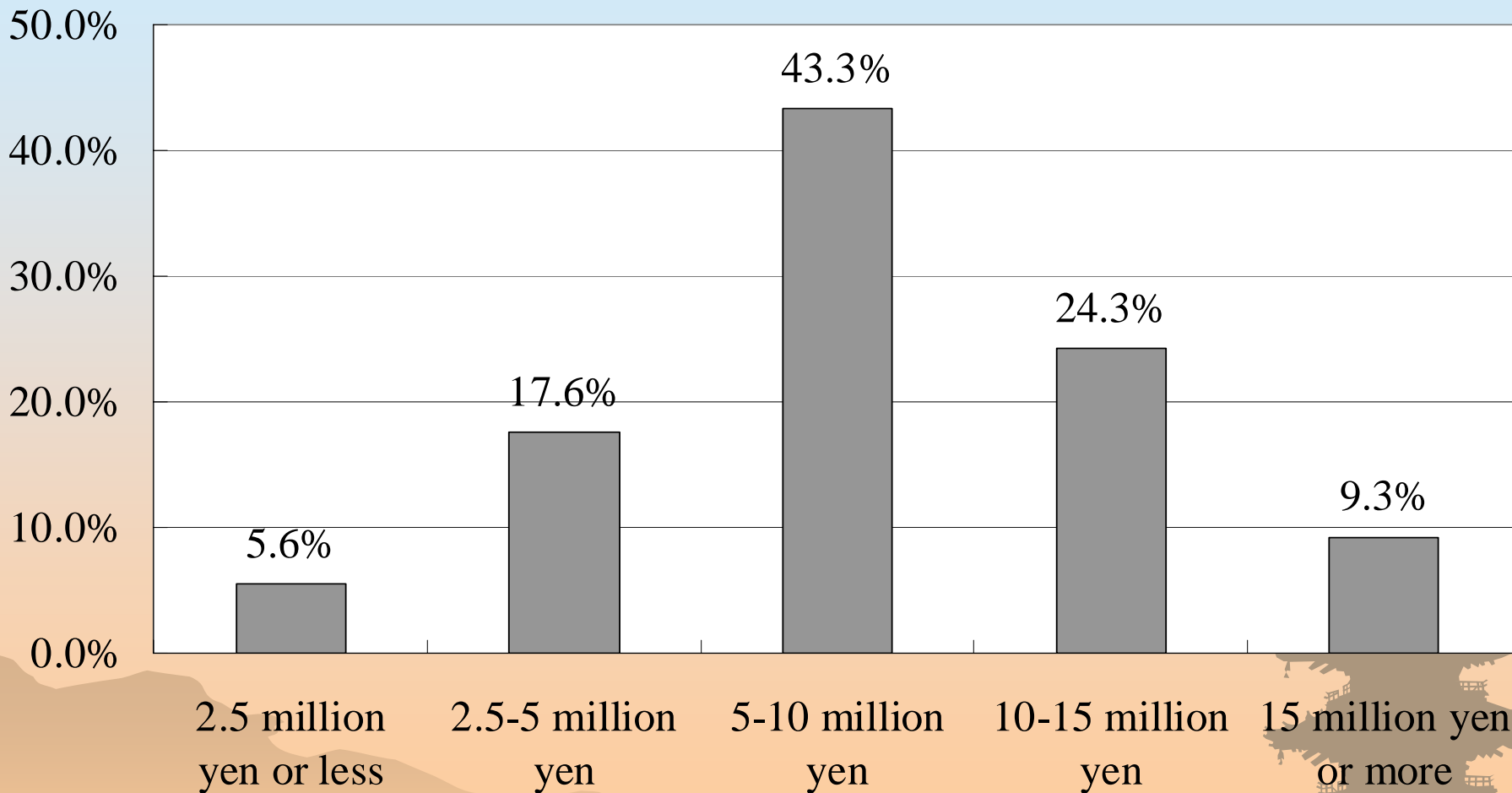


Female	High education	Related work experience	Business management experience
2.9%	57.4%	79.6%	32.2%

Startup Type



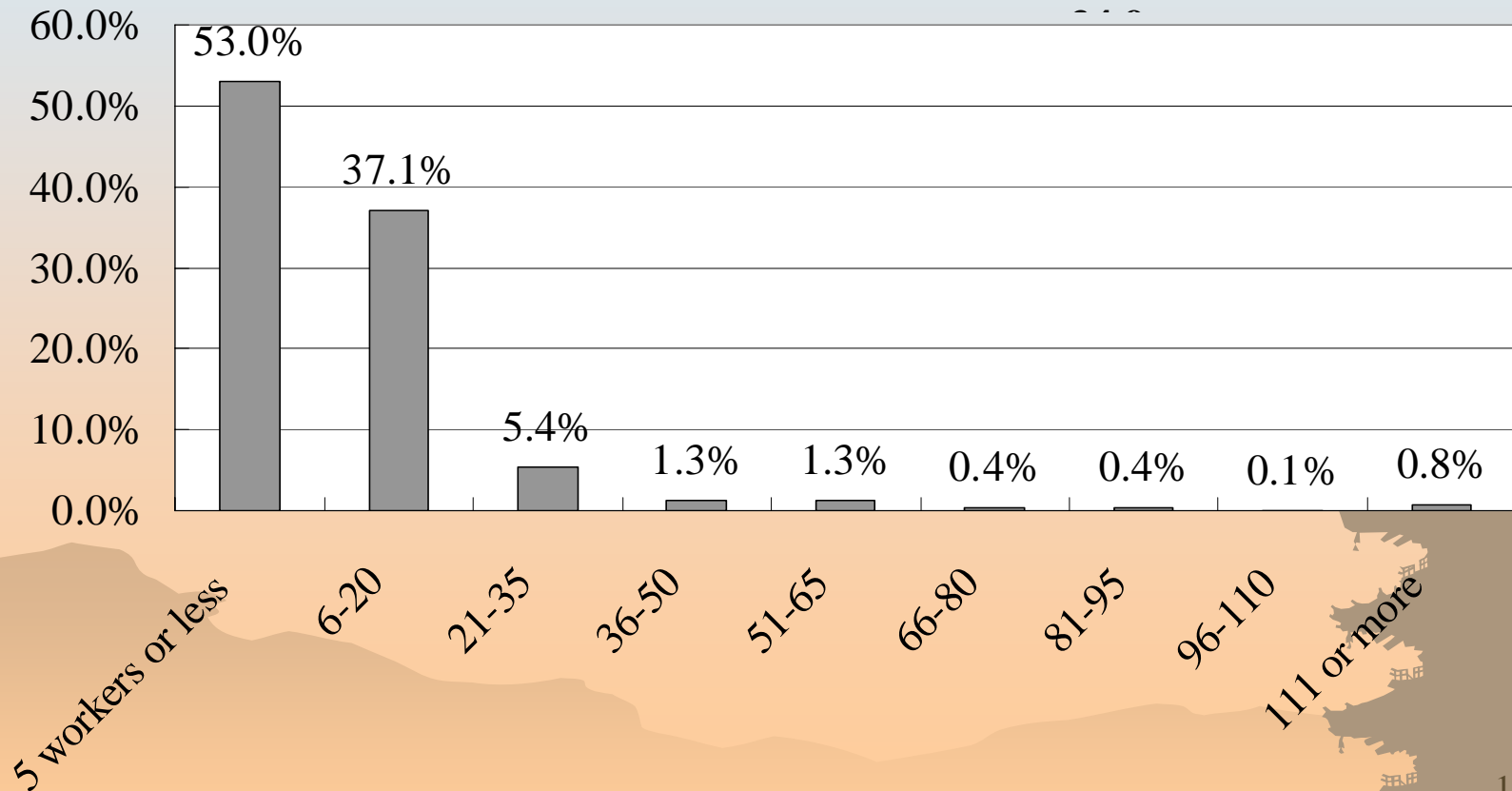
Personal Income level just before startup



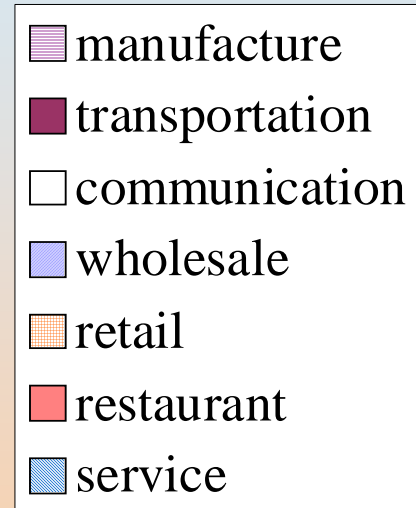
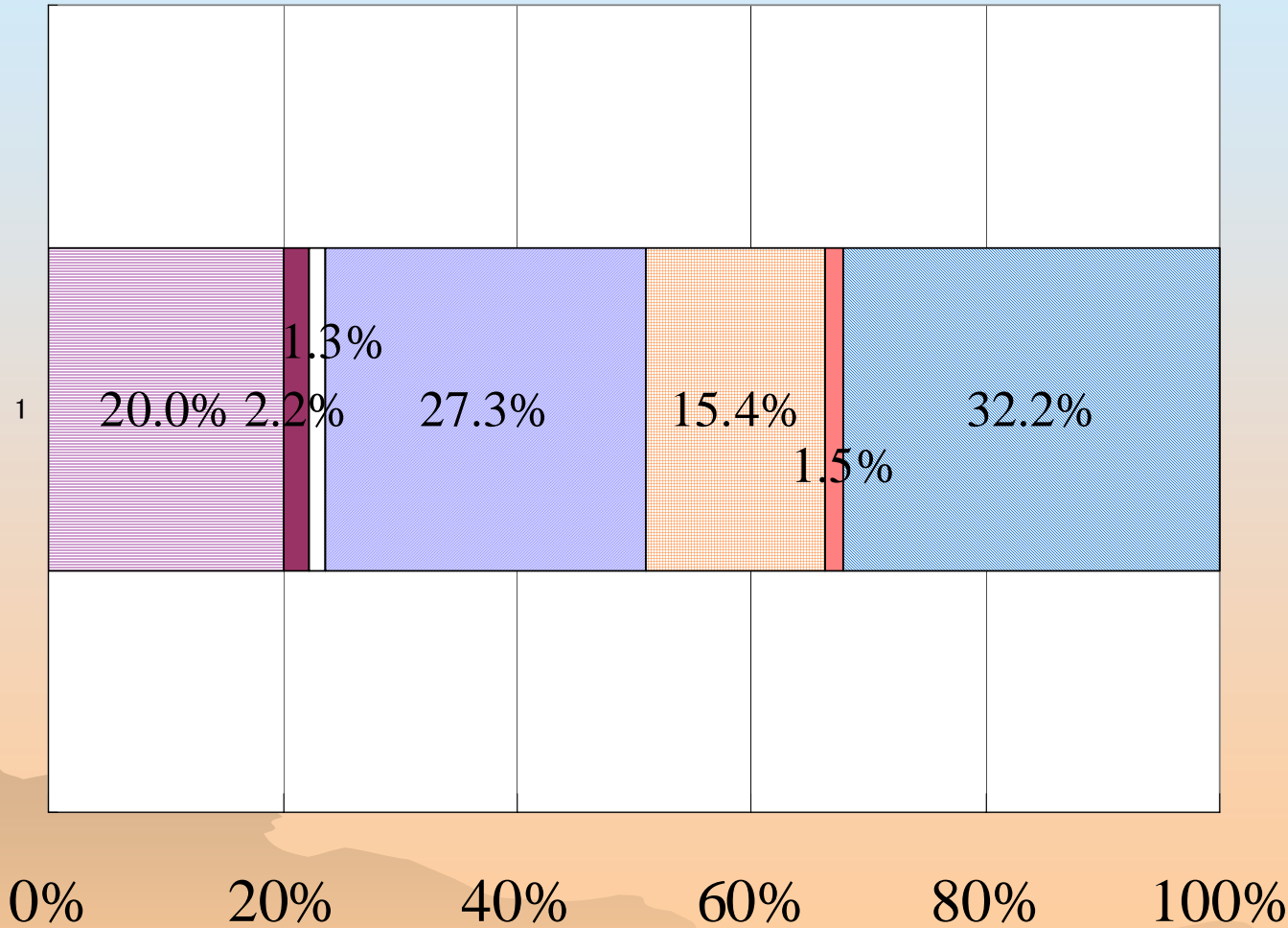
② firm components

(a) legal form at startup limited liability (85.9%)、
Unlimited liability (14.1%)

(b) **Number of workers at the time of startup** **Average 11.3 Median 5**
Standard deviation



Sector of startup firm



6. Results of expected sign of coefficient and reason (entrepreneur components)

Explanatory variable	Expected sign of coefficient	Reason
Entrepreneur's age at startup	+ for financial support policies ? for the other policies	Aged entrepreneurs face less liquidity constraint.
Female dummy	?	
High education dummy	+ for financial support policies ? for the other policies	Educated entrepreneurs face less liquidity constraint.
Related work experience dummy	?	
Business management dummy	+ for overall policies	Entrepreneurs with business management experience tend to have startup experience.
Startup type dummies	+ for overall policies in independence-type	Independence-type have less resources.
Dummies for just before personal income	+ for financial support policies in low income class	Entrepreneurs with low income face greater liquidity constraint.

7. Results of expected sign of coefficient and reason (firm components)

Explanatory variable	Expected sign of coefficient	Reason
Limited liability dummy	?	
Employment size at startup	?	
Sector dummy	?	

Disturbing factor for interpretation of results of estimation

→ Public relation policy (If public relation policy is perfect, coefficient of every variable is not efficient.)

8. Estimation results (Basic components of entrepreneur and recognition of startup promotion policy)

	Startup seminar	Consultation and advice	Public finance	Loan guarantee	Subsidies for promoting technological development	Financial support by fund	Venture fair	Business incubator
Entrepreneur age at startup								
Female dummy								
High education dummy								
Related work experience dummy			+	+				
Business management dummy		+	+++	+++	++	++		+++

9. Estimation results (Startup type, income level just before startup)

	Startup seminar	Consultation and advice	Public finance	Loan guarantee	Subsidies for promoting technological development	Financial support by fund	Venture fair	Business incubator
spin-off type				--		--		-
Franchising-type								
Independence-type						--		--
Family business development-type			--	-				
pre-income class 1								++
pre-income class 2								+
pre-income class 4								++
pre-income class 5								++

10. Estimation results (firm component)

	Startup seminar	Consultation and advice	Public finance	Loan guarantee	Subsidies for promoting technological development	Financial support by fund	Venture fair	Business incubator
Limited liability								
Employment at startup				+++				
Manufacturing			++	++	+++	+		
Transportation	+							
Communication			--	--				
Wholesale	--	--	++	++				
Retail			+++	+++				
Restaurant								

11. Observed facts from estimation

(1) Entrepreneurs with business management experience tend to have more information on startup support policy at time of startup

→ Many inferred to be “serial entrepreneurs” with startup experience.

(2) Entrepreneurs with related work experience have more information on financial support policy to startups.

→ Acquire information on financial support policy through work. However they do not know overall policy for promoting startup because many of them have no experience with startups.

(3) Aged entrepreneurs do not know financial support policy.

→ Face liquidity constraint to smaller extent than young entrepreneurs.

(4) In “Family business development-type” and “Spin-off type”, entrepreneurs tend to know financial support policy.

→ Face less liquidity constraint.

(5) Little deference of degree of recognition by income class just before startup.

12. Further consideration on the observation

Why do serial entrepreneurs have better information on startup support policy?

<Implementing and advocating agency of startup support policy>

- ① **Government-affiliated agency** (Organization for Small & Medium Enterprises and Regional Innovation, JAPAN, Small Business Investment & Consultation Co. Ltd. etc.)
 - ② **Chamber of Commerce and Industry, Society of Commerce and Industry**
 - ③ **Government-affiliated financial institution** (National Life Finance Corporation, The Central Cooperative Bank for Commerce and Industry, Japan Finance Corporation for Small and Medium Enterprises etc.)
- These organizations are familiar for existing SMEs, but for startups, they are not familiar.

- Distinction of “Small business policy” and “entrepreneur support policy (startup support policy) (Lundstorm-Stevenson 2001)
→ Distinction of policy advocacy to existing firm and that to newly born firm is crucial.

13. Lessons :

- It is necessary to establish a different route of public relations for startups from the one for existing small businesses.
(Public financial institutions, post office, gas station etc.)
- It is necessary to take advantage of those with startup experience so new entrepreneurs can know about startup-supporting policy.
(Role of angels and mentors most of whom have startup experience)