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## Revision of policies supporting SMEs in Japan

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### Introduction

SMEs in Japan had played a major role for development of Japanese modern economy especially after World War II, and SME policies had supported activities and growth of these SMEs. But Japanese economy reached to a new stage from the so-called catch-up stage, and the environment of SMEs was drastically changed. Thus the ideas and concepts of SME policies were to be revised and reconstructed to new ones.

Under these recognitions, Japanese Government studied and prepared a new scheme of SME policies. The author, as Director-General for SME policy at MITI, was in charge of this preparation; he makes a presentation about this experience.

### Shift of SME policies

The Japanese government developed its SME policies under the former SME Basic Law that was enacted in 1963. The general perception of SMEs at the time was that i) they were small in size and large in number, ii) they were old-fashioned and undifferentiated, and iii) small businesses were particularly weak, and thus required special social policies. With such an understanding, conventional SME policies had been basically aimed at rectifying the gaps between SMEs and large enterprises. The core points of the policies were “to remedy disadvantages in business activities” as steps to modernize SMEs by each type of industry. In the past, the focus had been placed on pursuing the scale merit of SMEs while developing uniform modernization policies for each industry.

However, the environment surrounding SMEs has undergone various changes since then, and the conventional idea of SMEs and past policy tools no longer fits the actual situation of SMEs. Such changes include the growth and maturation of the economy, diversification of consumer needs, the IT Revolution, and the progress of globalization. These, along with other factors, have reduced the importance of trying to eliminate the scale gap itself, increased the number of enterprises engaged in diverse businesses within the same industry, encouraged a shift from mass production of standardized products to small-lot production of a variety of products and also increased business opportunities while intensifying competition. We should recognize that, in the present quick-changing economic environment, SMEs are beginning to make the most of their advantages of “mobility and flexibility”. Also, the recent decline of the start-up rate, which has even gone below the closure rate, is provoking concern that it may impede the metabolism and labor absorbing capacity of the economy.

Under these circumstances, the Japanese government has recognized the importance of giving attentive assistance to activities of all kinds of SMEs, from venture businesses

to small enterprises, while encouraging their self-help efforts this time, based on a new concept of SMEs in which the merits of SMEs are positively acknowledged. To this end, the government fundamentally revised and restructured conventional SME policies including the SME Basic Law in the so-called “SMEs Diet” in December 1999.

### **New key factors in SME policies**

One of grounds for the former SME policies was that fruits of economic growth should be distributed to SMEs as well as larger companies. But the long stagnation of economy made this difficult, and SMEs were to be expected as innovators and tractor of Japanese economy.

The new SME Basic Law was drawn up in this respect. It is based on a new philosophy of promoting diverse and vigorous growth and the development of independent SMEs, rather than rectifying the gaps. There are three key factors for SME policies in this law. They are:

1. “Promoting business innovation and new business start-ups” (or, promoting self-sustaining enterprises)
  2. “Strengthening the management base of SMEs” (or, enriching business resources) and
  3. “Facilitating adaptation to economic and social changes” (or, offering a safety net).
- Ideas and measures in detail regarding these factors are as follows.

### **Promoting business innovation and new business start-ups**

The image of SMEs anticipated for the 21st century is “self-sustained professional SMEs”. To realize this, SMEs need to work on new business activities or make business innovation, for instance, the development and sale of new products and services, the use of new production methods or product sales methods, as well as the development and introduction of new business management methods. Since venture businesses are led by managers with much entrepreneurship and can daringly develop knowledge-intensive businesses by taking risks, their activities are expected to revitalize the economy and change the economic structure. However, these enterprises are faced with severe business risks due to their nature of creating new business fields, and they are required to overcome a great number of obstacles before their business goes on track by procuring funds, commercializing technology, securing human resources, innovating business and starting up new businesses. We consider such promotion of the self-help efforts of SMEs one of the most important tasks in future SME policies.

Some new efforts were made in this area.

1. In terms of assistance in fund-raising, new capital markets have started operating in the Japanese financial market, namely, “Mothers” from November 1999 and “Nasdaq Japan” from June 2000. This measure has expanded options for SMEs to raise funds from such capital markets.

2. In addition, a credit guarantee system was introduced for the issue of corporate bonds or privately placed bonds by SMEs, in order to promote development of the bond market available to SMEs.
3. As a measure to support technological development, the whole government will try to provide subsidies for new business development and spend money for research entrusted to SMEs. The target amount for Fiscal Year 2000 was 13 billion yen. The government established an SBIR system, or small business innovation research program system, which offers consistent support up to the commercialization phase.

### **Strengthening the management base of SMEs**

When SMEs implement business activities, they often lack managerial resources due to their small size, and also face difficulty in procuring such resources from outside. Therefore, the government aims to strengthen the management base of SMEs through i) supplementing SMEs' vulnerable managerial resources and ii) improving their business environment. Conventionally, the basic condition for SMEs to develop business activities was to have material managerial resources, or modernized equipment and facilities. However, the government realizes that it is becoming more important to establish an environment in which SMEs can secure non-material managerial resources like business expertise, technologies, information and human resources, by utilizing functions of the private sector. Thus, the government is planning to implement relevant measures to this end.

Some of the new measures in this area:

1. First of all, the Japanese government has established support centers that provide so-called "One-Stop" assistance services in terms of funds and non-material areas like human resources, information and technologies in an attentive manner, to meet the diverse needs of SMEs on each of the national, prefectural and local levels. The support centers integrate and network local public entities and various existing private SME support organizations to offer knowledge and advice on policy measure information, as well as business and technological problems to SMEs in one place, by making the most of the skills and abilities of professionals in the private sector.
2. In the area of human resource development, the government revised the SME Management Consultant system, which merely used to give complementary assistance in public business diagnoses. The system is now positioned as a certifying system for private business consultants with wide-ranging knowledge on SME businesses in general and advanced consultation skills.

### **Offering a safety net**

While SMEs make self-help efforts in their economic activities, they may face an unexpected event for which they cannot be held responsible, such as a sudden change in the trade structure or exchange rate, restrictions in the supply of raw materials, occurrence of a great disaster, or chain-reaction bankruptcy triggered by the fall of a large enterprise. In such cases, a considerable number of SMEs could receive damage to their

business. This policy is intended to facilitate SMEs to adapt to such sudden changes in the environment by implementing emergency relief measures or measures to ease such drastic changes, as a safety net to stabilize or change business.

Measures in this area include long-implemented financial measures against disasters, and measures to prevent chain-reaction bankruptcy. It has to be mentioned that the government has sped up corporate rehabilitation procedures by reviewing the Bankruptcy Law, which was criticized as being difficult to apply to SMEs, and by introducing a new corporate rehabilitation scheme, the Civil Rehabilitation Law. Furthermore, considering the recent frequency of both bankruptcies of large enterprises and major natural disasters in Japan, the government plans to further increase and strengthen safety net measures, especially in the areas of finance and credit guarantee, so that SMEs can deal with such situations more effectively and promptly.

### **Measures concerning the IT Revolution**

Japan's new policies on SMEs have been outlined briefly. Since we are still in the process of restructuring our SME policies under the new SME Basic Law, it is intended to continue the efforts to further expand and strengthen the current support measures.

The relationship between the IT Revolution and SMEs has been a hot topic recently in Japan. To finish some notes on that specific topic are made.

The recent progress of the IT Revolution is generally increasing enterprises' enthusiasm toward investment in computerization, but more than 10% of SMEs have yet to make any investment in computerization, and overall, SMEs have not been eager to make such investments, compared with large enterprises. One of the reasons was the difficulty in generating incentives from the employees' side to autonomously introduce computers in their operations and use them as effective tools, because computerization changes the procedures and system of their operations. Therefore, in order to deal with the future progress of the IT Revolution, it is essential for the managers themselves to take the initiative and acknowledge computers as effective tools and means to attain these objectives, because they are in a position to consider the entire corporate strategy, such as business targets and strategies of the company, restructuring operations to promote such goals, and challenges for new businesses.

With such basic perspective, the Japanese government intends to mainly develop support measures for securing managerial resources including funds, human resources and information infrastructure, based on the managers' standpoint, so as to accelerate introduction of IT that matches the business of individual SMEs. The Japanese Government recently announced "A Policy Package for New Economic Development toward the Rebirth of Japan" in which it adopted a new direction and objective to have about half of SMEs using e-commerce via the Internet by the end of fiscal 2003. We are now preparing further measures to this goal.