

# **Entrepreneurship in Japan: causes, effects and outcomes**

Andy MacInnis

2010

Bachelor of Commerce Best Business Research Papers

UVic Libraries ePublishing Services

© 2010 MacInnis.

Original citation:

MacInnis, A. (2010). Entrepreneurship in Japan: causes, effects and outcomes.  
*Bachelor of Commerce Best Business Research Papers, 3*, 40–56.

---

Downloaded from UVicSpace Research & Learning Repository

[dspace.library.uvic.ca](https://dspace.library.uvic.ca)



**University  
of Victoria**

Libraries

## **Entrepreneurship in Japan: Causes, Effects and Outcomes**

Andy MacInnis  
Spring 2010

### **ABSTRACT**

This paper is directed to any potential Japanese entrepreneurs. It uses the Global Entrepreneurship Monitor's three components of entrepreneurship to measure the state of entrepreneurship in Japan. The three components are: Entrepreneurial attitude, entrepreneurial activity and entrepreneurial aspiration. The paper examines the traditional business characteristics of the Japanese economy, as well as cultural and demographical issues which may affect entrepreneurship components. I also examine the effects of post-industrialism on Japan, and what that signifies for the economy and potential entrepreneurs. Finally the government and educational facilities' roles in entrepreneurship are explored. I also discuss examples of recent Japanese entrepreneurial endeavours which have had some mixed success. Sources of research include an interview with Dr. Michael Lacktorin, of the Center for Entrepreneurship and Leadership Studies, a visit to a local Japanese business incubator, a student survey conducted at Akita International University and many sources of secondary research.

I have concluded that although the Japanese are very hesitant to conduct entrepreneurial activity, the current economic climate in Japan is a changing one, and one which will likely welcome entrepreneurial innovation and new business practices. A reduction in manufacturing is leading to an upswing in service businesses – businesses Japan appears reluctant to embrace. Major obstacles in starting new businesses in Japan included protectionist government policies, a negative attitude towards entrepreneurs, as well as a difficult market in which to sell new products.

### **INTRODUCTION**

Japan is well known as one of the world's largest and most advanced economies. For years Japan has been a global leader in many industries, including electronics and automobiles – two of the world's most prominent products. Toyota is now among the world's most dominant vehicle companies, Canon a leader in camera products, Sony with electronics, and these are just a few examples. Why then, this century, does Japan have one of the lowest rates of entrepreneurial activity among the world's leading nations (International Entrepreneurship, 2009)? Is the lack of activity a sign that there is room for new companies to grow, or does it signal a particularly challenging small business environment? Recent developments in global logistics and technology have forced more economically advanced countries – such as Japan – to seek a post-industrial business model. As this globalization trend takes place manufacturing and support facilities move offshore, domestic economies become more service based and demand more innovation. Entrepreneurship is meant to foster innovation, and this leads me to believe that Japan's current economic climate would encourage hosting a budding small business community, yet this isn't the case.

There may be many factors which contribute to the hesitant Japanese entrepreneur. This paper will explore the economic and cultural business environment in Japan, and try to extract reasons behind the

lack of business starts; as well as what steps are being taken to change the trends, if any. The research will focus on the three main components of entrepreneurship as identified by Acs, Autio, Bosma, Coduras and Levie in the 2008 Global Entrepreneurship Monitor. These three components are summarized as: entrepreneurial attitudes, entrepreneurial activity and entrepreneurial aspirations. I performed additional research on Japan's economic state in order to get a more complete picture of the factors affecting these three components. Methods of research included a student survey, interviews, as well as extensive secondary fact-finding.

**Entrepreneurial attitude** is the national as well as individual attitude towards new business ventures, and whether they are perceived as a viable method of earning a living. It also entails the willingness a population has to take risks, and how much confidence they have in their skills.

**Entrepreneurial activity** is the current trends of entrepreneurship in the country, for example the opening versus the closing of businesses. I will also examine reasons for the current activity.

**Entrepreneurial aspiration** is the driver and methods behind entrepreneurial activity. For example aspirations to engage foreign markets, or develop new processes.

### **Benefactors**

This paper will be useful to any potential entrepreneurs contemplating a Japanese business, whether as an extension of their own international business, or as a purely Japanese start-up. Japan has some diverse characteristics which set it apart from other countries – both in the cultural and economic sense, and it is therefore important to familiarize oneself with these differences in order to succeed.

## **1. JAPANESE BUSINESS CLIMATE**

### **1.1 Bigger was Better**

Business in Japan has taken a number of different forms in recent history. After the Meiji restoration of 1868, which saw the end of a system of feudal lords – Shoguns – in power, the main government functions were centralized and posted in Tokyo. Learning the value of powerful conglomerates from overseas visits to America and Europe, the Japanese system soon gave birth to some of the world's most powerful business groups, or the Zaibatsu. During the First World War, with decreased competition for shipping routes and an increased demand for supplies, the Zaibatsu continually gained strength and size. Shortly before World War II the Zaibatsu peaked, and thanks to an increasingly nationalistic climate in Japan, supplied most of the equipment needed in Japan's war efforts. By the end of their reign, during the post-war allied occupation, the four largest Zaibatsu controlled half of Japan's financial industry and a third of the heavy industry, the rest was split primarily among a dozen or so smaller Zaibatsu groups (Russel & Miyashita, 1995).

Following Japan's defeat in World War II, the allied General Headquarters made it their prerogative to dismantle the holding companies which supposedly held the Zaibatsu together. Although in theory the Zaibatsu were then disbanded, the subsequent development of the Keiretsu business groups has carried on Japan's conglomerate based business structure. Although small and medium businesses account for 70 per cent of jobs in Japan, their profits are meagre compared to the large Keiretsu groups, and therefore they have a hard time competitively paying and attracting good employees (Economist, 2009). Figure 1 shows the profit distribution among large and medium firms compared to small ones in Japan.

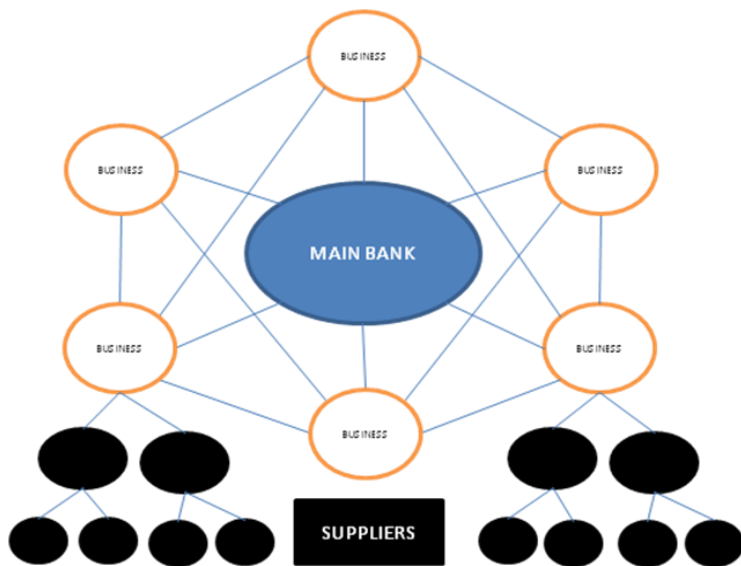
**Figure 1: Concentration of Profits Among Firms**

Source: *The Economist*, August 13<sup>th</sup>, 2009

The tendency of Japanese business to form monopolistic companies isn't strictly a corporate one. The Japanese government and its corresponding ministries, especially the Ministry of International Trade and Industry (now the Ministry of Economy Trade and Industry – METI), were the reason that the Anti-Monopoly Act, and the Fair Trade Commission which was formed to enforce it, were dissolved and rendered powerless soon after the end of the occupation (Russel & Miyashita, 1995). The constant 'administrative guidance' hitherto offered by the government in an effort to consolidate industries and make businesses competitive on an international level has left the Japanese corporate landscape, for the most part, in the hands of few large business groups. Although the Zaibatsu of days gone by are officially broken into pieces, old and new bonds, such as vertical supplier relations and horizontal financing arrangements, still combine to create very consolidated industries. In the case of Keiretsu, these business groups are most often designed around a main bank or a central trading company (Russel & Miyashita, 1995). Figure 2 shows a typical Keiretsu structure.



The tendency of Japanese business to form monopolistic companies isn't strictly a corporate one. The Japanese government and its corresponding ministries, especially the Ministry of International Trade and Industry (now the Ministry of Economy Trade and Industry – METI), were the reason that the Anti-Monopoly Act, and the Fair Trade Commission which was formed to enforce it, were dissolved and rendered powerless soon after the end of the occupation (Russel & Miyashita, 1995). The constant 'administrative guidance' hitherto offered by the government in an effort to consolidate industries and make businesses competitive on an international level has left the Japanese corporate landscape, for the most part, in the hands of few large business groups. Although the Zaibatsu of days gone by are officially broken into pieces, old and new bonds, such as vertical supplier relations and horizontal financing arrangements, still combine to create very consolidated industries. In the case of Keiretsu, these business groups are most often designed around a main bank or a central trading company (Russel & Miyashita, 1995). Figure 2 shows a typical Keiretsu structure.



**Figure 2: Typical Keiretsu Structure**

The Keiretsu groups often use 'Just In Time' supply practices, which pit two similar suppliers against each other. Those suppliers are then expected to absorb any increase in production costs (Scher, 1997). Most Japanese firms compete very aggressively and use mass production to gain cost efficiencies and achieve market dominance (Ford & Honeycutt, Jr. 1992). As these Keiretsu suppliers grow and their production costs are reduced, the benefits of a tight supplier relationship become more pronounced.

Also, Japanese companies have a far longer life expectancy than their western counterparts. Almost a hundred listed Japanese companies were founded prior to the 20<sup>th</sup> century, some private ones as long ago as the 6<sup>th</sup> century; in contrast the average life-span of non-Japanese multinational corporations is only between 40 and 50 years (Abegglen, 2006). This, in turn, creates buyer-supplier relationships which

can span over decades or generations – especially considering the importance Japanese business executives place on the ritual of meeting and uncovering the ‘real person’ before conducting any business.

Accomplishing any objective in Japan requires building solid relationships (Campbell, 1993). That means that to preserve harmony the Japanese will often not deal with strangers, since they will not know what to expect (Alston & Takei, 2005). What does this mean for entrepreneurs? The Japanese business environment creates a rather unattractive market for entry of a new firm, with markets tightened severely by existing impenetrable business relationships between much larger firms.

## 1.2 Impacts of Corporations and Cultures

**Corporate Tendencies:** There are three pillars of Japanese business culture which have come to be accepted since the post war development. Many Japanese businesses, as well as their employees, believe that lifetime employment, seniority promotion, and the right to be represented by an enterprise union are the cornerstones of Japanese employment practices (Abegglen & Stalk, 1985). Although as of late there has been an effort to recommend promotions and pay raises based at least partially on performance, and the significance of the employee unions has diminished, the average tenure for Japanese *regular* employees has – contrary to popular thought – increased. My emphasis on regular employees reflects the reality that there has been an increase in part-time and contract workers due to recent economic downturns - as Japanese businesses are forced to find more flexibility in labour costs (Abegglen, 2006). Also, the lifetime employment system applies mostly to men, as women are often expected to end their original employment period at marriage or at the birth of their first child. Although Japanese style management with lifetime employment has helped Japan attain and continue a high level of success with large businesses, offering this type of employment security may be uneconomical for smaller firms with fewer resources, and in turn may render their employment options less attractive to potential employees. Without being able to attract good employees, in search of high risk, high reward careers, Japanese small business is without the type of talented human capital required to compete, and therefore is bound to suffer.

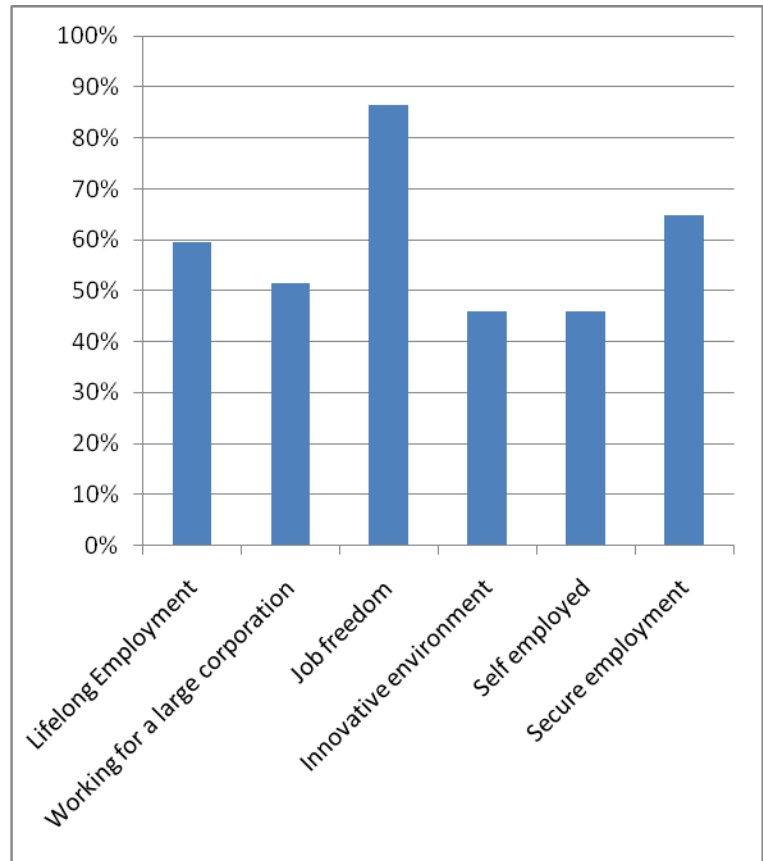
**Cultural tendencies:** The security offered by the aforementioned ‘regular employment’ in Japan is unparalleled. Securing such a job which guarantees pay increases with tenure makes company employment a very attractive option – especially for naturally risk-adverse Japanese. Hofstede, in his research on cultural relativity (1984), classified the Japanese as having one of the world’s highest levels of uncertainty avoidance. Further, as notes Abegglen and Stalk (1985), until relatively recently Japan was a poor country, with limited resources, a relentlessly threatening geographic environment, and long periods of war coupled with a feeling of complete defeat. Therefore, it isn’t surprising that many Japanese seek secure employment.

This sentiment was echoed by Dr. Lacktorin, of the Center for Entrepreneurship and Leadership Studies. In an interview November 18<sup>th</sup>, 2009 Dr. Lacktorin admitted that in Japan, there is no mercy for failures. Anyone who has been at the helm of a failing business is deemed a personal failure as well a professional one, and will rarely ever again work for a good company, let alone secure loans for another endeavour. He went on to mention that Japanese, from a young age are entrenched with goals of making their parents proud by securing jobs with big firms like Mitsubishi, the Bank of Japan, or in government ministries such as METI. Mr. Sugawara, owner of a small and successful software company in Akita, Japan, in a personal communication November 9<sup>th</sup>, 2009 mentioned that most ambitious university graduates want to work for large companies, and not small start-up businesses. I conducted a survey amongst students at Akita International University (AIU) which supported these characteristics.

The survey results showed that although 78.4 per cent of students regarded entrepreneurs as an important part of the Japanese economy, only 13.4 per cent would ever consider trying to start their own business. In the same survey, the need for security, as demonstrated by working for a ‘large respected company,’ and having ‘secure,’ or ‘lifetime’ employment ranked as important employment factors. Interestingly, students also considered having freedom at their job most important, yet not coupled with working in an innovative environment. This may reflect the freedom and dynamic employment opportunities offered by many large Japanese corporations. Figure 3 shows the spread of job factors and their importance to students at AIU, based on the students answering either ‘important’ or ‘very important’ on the survey. Complete results of the survey are found in appendix A.

**Figure 3: Important Employment Characteristic Preferences for AIU Students**

*Source: Student Survey*



Another conclusion reached by Hofstede’s research (1984) was that the Japanese are one of the world’s least individualistic (collective) populations. That being said, research by Tiessen (1997) supports that those who generate new start ups are generally individualistic types; although it also states that once the business is established, a collective culture can do much to support entrepreneurial endeavours. Fortunately, the respect for those who start new businesses in Japan is growing; in 2007, 48 per cent of people respected a new business owner, up from 8 per cent in 1999 (Study Group for the Creation and Development of Start-ups, 2008). Hopefully this new-found respect will help encourage would-be entrepreneurs to launch some new endeavours and seek support from their close-knit, collective community.

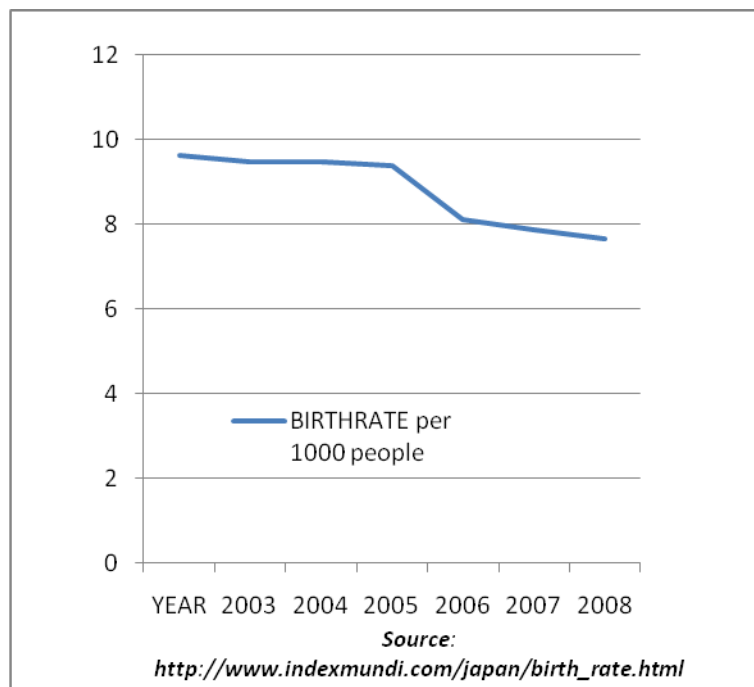
According to the Organization for Economic Co-operation and Development (OECD) Japan has a respectable self employed population at 13.4 per cent (2007), however this number doesn’t necessarily represent innovative entrepreneurs, as it includes farm hands and family employees. A more accurate assessment of entrepreneurial inclination can be found in the Global Entrepreneurship Monitor (GEM), which puts new Japanese entrepreneurs at only 2.4 per cent of workers. This number includes any manager or founder of companies that have been in business for less than 42 months (Acs et al., 2009). In contrast America and South Korea are 5.0 and 6.5 per cent respectively. The same report gives another grim indication: only 9 per cent of Japanese believe they have the required knowledge to start a business. This is by far the lowest of countries examined in the the GEM report; America and South Korea recorded 48 and 23 per cent in this category. Such a lack of confidence is surely crippling to Japanese entrepreneurial hopes. Another hurdle for Japanese entrepreneurs is the tendency of Japanese

consumers not to try new products. Japan ranked lowest among innovation driven economies<sup>1</sup> on the Innovation Confidence Index for 2007 and 2008 (Acs et al., 2009). The index measures how receptive consumers are to new or innovative products – and whether they believe these products will improve their lives. The Study Group for the Creation and Development of Start-ups in Japan, 2008 concurs, stating that Japanese consumers – corporate and retail – prefer products with proven performance. The student survey conducted as a part of my research also showed that 73.9 per cent of students would rather purchase products from an established brand than one they didn't know as much about.

### 1.3 Ageing Workforce

Japan is shrinking. Not in a geographic sense, but the population is decreasing at the substantial rate of 0.2 per cent per year (Central Intelligence Agency, 2009). This long run of declining birthrates means that Japan's workforce is ageing. Figure 4 shows the decline of birthrates over the last 5 years

**Figure 4: Japanese Birth Rates**



With senior employees being paid more as they age, an ageing population leads to one which is receiving more money, which in turn leads to a decline in the income ratio between new, relatively low-paid entrepreneurs and their senior, salaried counterparts (Yasuda, 2002). Consequentially, this leads to entrepreneurs rarely being revered as the ones reaping more success. Further, as tenure generally dictates salary, any failed business venture would waste time that could otherwise be invested in gaining a higher salary as a company man, again reducing an individual's motivation to branch out into an entrepreneurial endeavor.

Even more recently, according to the Economist (2009), a large portion of the Japanese work force has, or soon will reach the age of retirement. Since pension earnings are lower than senior salaries, this will

<sup>1</sup> An *innovation driven economy* is one that has developed passed the earlier stages of *factor driven* and *efficiency driven*, essentially meaning a wealthy, developed economy which no longer relies on manufacturing as its main industry (as measured by the Global Entrepreneurship Monitor).

have the opposite effect of lowering average wages, and therefore lowering the strength of the domestic market. New businesses should be aware of these trends as an ageing population presents opportunities in elderly care services, and a potential market perhaps less accepting of new concepts. Many pensioners also puts a strain on government, as well as corporate balance sheets. This strain has been apparent in many long-established airlines and car manufacturers as they accumulate more expensive pensions to pay to their retired workers. New businesses do not have to pay retired employees which may help them compete by allocating those savings to research and development. In summary an ageing domestic market will present further challenges for new products, yet may help to weaken large existing companies.

## **2. JAPANESE ECONOMIC CLIMATE**

### **2.1 Post-Industrial Economies**

A post-industrial economy is defined as one which has experienced the effects of deindustrialisation. Deindustrialisation is a decline in the manufacturing sectors of an economy, as a percentage of total employment. Although often gross output from manufacturing will remain constant, or even increase related employment will fall. Much research (Alderson, 1999, Kollmeyer, 2009, Sasaki, 2007) points to 3 major sources of deindustrialisation: (1) Rising consumer affluence, leading to less relative demand for manufactured products, (2) increasing foreign investment and global trade, and (3) more efficient manufacturing productivity founded on increases in automotion and technology. Kollmeyer (2009) found that the stongest correlation exists between affluence and deindustrialization; the more affluent the popluation, the greater the deindustrialization. The resulting rise in demand for service products offsets the decline in demand for manufactured products, thus shifting jobs from the manufacturing to the service industries. This is often referred to as 'positive' deindustrialization (Alderson, 1999). In order, though, for the effects to be 'positive,' the economy must maintain performance throughout the loss of manufacturing labour, and often this isn't the case. The end result becomes 'negative' deindustrualisation whereabouts a decline in overall demand occurs and the excess labour is not absorbed into services. The increased affluence also leads to increased technology and automation, which decreases the need for employees. Alderson (1999) and Kollmeyer (2009) also explored the compounding effects of foreign direct investment in domestic industries. As more production shifts offshore, and higher returns are made from foreign direct investment, the marginal rate of return required from domestic investment is increased, putting further pressures on domestic manufacturing facilities, as well as reducing inclination for investment into domestic manufacturing.

What this means for evolving businesses is that there are changing trends in what sort of businesses will be competitive. The shift will most likely be from classical manufacturing applications which formed the foundation of many large modern companies, into service oriented business models. This transformation is nearly complete in America, where in 2009 all of the ten largest corporate employers are service based, such as Wal Mart and Target, whereas in 1960 the top employers were mainly manufacturing companies, such as GE and US Steel. The shift in Amercia has also led to Wal Mart employing as many people as the 20 largest American manufacturers combined; and manufacturing accounting for less than ten per cent of the total labour force (Davis, 2009). This shift demands for a 'creative destruction' approach to entrepreneurship, in which new products disrupt current economic activity, and push forward the barrier of innovation and technology (Acs et al., 2009), something entrepreneurs are generally known for.

## 2.2 Post-Industrialism in Japan

Japan, like many modern societies is facing changing pressures thanks to the onset of post-industrialism. Although Japan's deindustrialization is not as advanced as in America, the considerable outflow of foreign direct investment signals that the effects are becoming apparent. The GEM report (Acs et al., 2009) lists Japan as an innovation driven economy in contrast to factor or efficiency driven economies, which are essentially less developed and industry based. Between 1995 and 2004 employment in Japan's manufacturing industry fell by two per cent annually (Sasaki, 2007). Whereas production and manufacturing ruled the Japanese business landscape for much of the past century, whether in automotive, electronics or steel making, increasingly, more resources are being imported, and more production is being shipped to lower wage economies such as China and India. Japan's foreign direct investment into China alone in 2004 was almost 6 trillion Yen, or US\$60 billion (Alvstam, Strom & Yoshino, 2009). Japan has lost some of its biggest industries of the past. For example the coal mining industry which produced 56 million tons in 1940 closed its last mine and let go the last 1000 employees in 2002 – demonstrating that today, what used to be a major employer, is gone (Voice of America News, 2002).

Japan however remains more industrialized than the US for a couple of reasons. Firstly, because of the war and subsequent defeat and destruction, the Japanese economy didn't reach the a real GDP per capita of US\$6,311 until 1969. This compares to other countries such as Australia, Canada and the US who reached this milestone prior to 1950 (Alderson, 1999). This amount of GDP per capita is important, because members of the Organization for Economic Co-operation and Development (OECD) who reach this economic indicator start to show sure signs of deindustrialization, specifically reduced employment in the manufacturing sector.

Japan also displays very protectionist practices in international trade policy, which in turn helps to protect domestic manufacturing industries. One method the Japanese government has used to limit imports is to impose stiff tariffs on incoming goods (Kaplan, 1972). This has the effect of allowing domestic industries to supply more of the domestic demand for those products, although at a considerable cost to consumers, and to society as well.<sup>2</sup> In fact, according to OECD statistics, Japan has the smallest relative annual growth of import goods of any OECD member country from 1997-2007, and ranks amongst the highest in GDP per capita. Even so, the value added by industry in Japan, as a percentage of total value added, has declined from 29 per cent in the 1990's to just 22 per cent in 2007 (OECD, 2009).

In summary, Japan is, and continues to be, deindustrialized. As the process continues, more focus is shifted away from manufacturing and the Japanese economy is relying more on specialized knowledge and services. Low cost labour will continue to shift offshore, especially to other parts of Asia. Government attempts to protect low technology industries at home could serve only to stifle innovation by misallocating resources. As the shift occurs, opportunities for new businesses will be found in facilitating international cooperation and foreign investing. Service industries such as financial, computing and travel services should, as a characteristic of post-industrialism, remain strong, as well as technologically innovative businesses such as telecoms or internet retailers.

There may also be opportunity in the restructuring of large, old manufacturing companies which are struggling with the new economic landscape. These businesses will be in need of consulting on how to

---

<sup>2</sup> Limiting imports has the effect of raising costs of goods which would be otherwise imported at a lesser price. The result is an increase in supplier surplus, and a reduction in the consumer surplus, as well as the creation of dead weight loss, which in theory is a loss to society as whole.

adapt to new global supply chains as operations are relocated and internal labour demand shifts from manufacturing to knowledge base. In fact, training and education on globalization trends was one of U.S. News' 'best small businesses to start' (Bandyk, 2008). One such opportunity might be found in retraining 'lifetime' employees in an effort to minimize labour cuts and keep with Japanese business practices – for example, a firm that used to manufacture computer parts might restructure to become a consultancy for emerging manufacturing firms in China.

Unfortunately, Japan's track record with regards to service businesses is not good; they are in fact so inefficient that they have reduced labour-productivity growth from four to two per cent. Reportedly, the only services that are succeeding are brothels, which are experiencing growth as restaurants, builders, hairdressers and similar enterprises suffer (Economist, 2009).

The recent financial concerns, thanks to a global economic crisis, also serve to discourage potential entrepreneurs from taking the financial risk of starting a new business. With credit becoming tighter and consumer spending low, opportunities initially seem scarce. Tim Draper though, of Draper Fisher Jurvetson Venture Capital in Silicon Valley makes interesting arguments for opening a small business during a downturn (2009), stating that businesses which begin to operate with frugality tend to keep those trends, and that hard times force managers into new ideas and innovative practices. This advice may well be worth heeding coming from the man behind such successful companies as Hotmail and Skype. Furthermore the dynamic, envelope-pushing component of entrepreneurship may be essential for the change in economic activity needed to push through the current economic slump, and revitalize the Japanese economy as new business takes greater risks and challenges existing business models (Acs et al., 2009, Study Group for the Creation and Development of Start-ups, 2008).

As Japan is in a post-industrial state, regardless of the overall economic scene, it must shift the focus of its policies to innovation based industries, and away from the old fading manufacturing sectors. This will involve encouraging banks to move away from the bad loans it has with old manufacturing companies, take some risks financing innovative start up businesses, and providing some capital that the Japanese service industry needs to improve its operating profits (Economist, 2004).

### **2.3 Government Role in Japan**

The Japanese government has a long history of working closely with business interests (Kaplan, 1972). More often than not, Japanese politicians have been accused of closing Japanese business off to the rest of the world, encouraging business consolidation, and restricting incoming foreign direct investment (FDI). Previous government 'attempts' to open Japan to increased FDI were eventually deemed purely cosmetic, as the government and METI usually manage to discourage investment with punitive taxes and policies (Ibison, 2007).

The Ministry of Foreign Affairs of Japan states that the recently ejected, long ruling Liberal Democratic Party of Japan had vowed to double FDI in five years, by 2008; and as of 2006 their plan was on track. Although much FDI is executed through mergers and acquisitions of existing businesses, perhaps the proposed increased inflow of foreign capital could find its way to cash-strapped Japanese start-ups. Opening up international markets also motivates businesses to expand overseas to seek clients and technology. As it stands, Japanese venture companies, aided by new global technologies are beginning to expand internationally, however only 33.5 per cent have, and another 30.6 per cent are not even considering the prospect (Study Group for the Creation and Development of Start-ups, 2008).

The most recent announcements by the newly elected government indicate reform on unrestricted capitalism and a focus on fostering growth in the domestic markets (Economist, 2009). This is bad news

for venture companies who depend on free market capital to get off the ground. It could also be a sign that business will have to rely on a domestic market which is weakening with age and lower wages. Policies, for example, supporting a strong Yen are in no way beneficial to exporters, however may be necessary to support a growing pension-collecting population. The new government policies also have the effect of hindering the recent labour flexibility and raising the minimum wage, while at the same time trying to increase social welfare for the unemployed (Murphy, 2009, Economist, 2009). Inflexible labour and high minimum wages are not a positive climate for new, cash-poor businesses.

The Japanese government has in the past bolstered industries until they are strong enough to stand on their own, even directing economic development through a set of economic priorities (Economist, 2009). Unfortunately recent developing companies have been less fortunate than the likes of Toyota and Sony in the past (Shoenberger, 2009). Shroenberger also notes that Japan only generates ten per cent as much venture funding as America, where venture capitalists enjoy returns of three to four times the meager four per cent expected in Japan.

In the face of the latest economic crisis, the Japanese government has taken direct routes to help struggling entrepreneurs. Tokyo's Ota ward, for example, which houses over 4,800 businesses recently awarded a 10 million Yen (US\$105,000) interest-free loan to a crippled plastics manufacturer (Murphy, 2008). The government also allows small Japanese businesses to form cooperatives, exempt from the anti-trust regulations, in order to offer them more corporate visibility and security in numbers (Lee & Mulford, 1990). Local governments get involved by subsidising regional 'business incubation' buildings where new and growing businesses are able to lease office space at a fraction of the market rate. I had the opportunity to visit the local business incubator in Akita where I met Mr. Sugawara, a local entrepreneur, and was able to witness some of Akita's newest start-ups. Unfortunately, only five per cent of AIU students surveyed had any knowledge of any government programs to bolster entrepreneurship.

In an effort to keep venture companies afloat, the government approved a US\$12.7 billion fund for distressed small and medium sized firms. Unfortunately, thanks to Japanese bureaucrats, this money most likely ended up in the hands of older 'favorite' failing industries, instead of new innovative ones (Kunii, 2003). To give entrepreneurship a chance, the old bonds between government and business must be shifted towards new upcoming industries and the government will have to reinstate its roll of helping developing business.

Japanese bureaucracy used to create many barriers to new entrants even before taking the market into consideration; however this is changing. Until recently, forming a company with stock in Japan required US\$3,000 in fees and US\$85,000 in startup capital. That amount is likely hard to come by when venture capital represents only 0.04 per cent of GDP – one tenth of the US figure (Kunii, 2003). The government has since eliminated the minimum capital requirements and has tried to develop systems and institutions for ventures, such as equity exchanges. Regardless, the opening rate for businesses from 2004-2006 of 5.1 per cent was still below the closing rate of 6.2% (Study Group for the Creation and Development of Start-ups, 2008).

## **2.4 Education**

As I mentioned previously, Japanese have little confidence in their abilities to open a business. These skills can be obtained in a number of educational settings, whether through formal educational means, or through less conventional self-paced internet courses. In Japan, according to Acs et al. in the GEM, through whatever method entrepreneurial training is acquired, an individual's level of training is positively correlated to how well they perceive they could start a business - and whether they see any

opportunities in their local markets. For example, of those without training only 6.3 per cent see themselves as having what it takes to launch a business, against 34.5 amongst those with some kind of voluntary training. The Japanese however remain resistant to opportunity, even with training, as only 13 per cent perceive good opportunity in their local area – this may be a reflection of Japanese consumer habits of sticking to well known products.

Education is especially important in Japan where the population is currently quite sceptical of entrepreneurial endeavors. Since 1999 METI has been trying to develop entrepreneurial education from elementary schools all the way through to universities. Unfortunately, only half of the programs that were launched in elementary and secondary schools continue today, largely because of budget and time constraints. At the university level improvements are being made. In 2000 only 1.6 per cent of adults in Japan received any sort of entrepreneurial training in university, whereas a 2003 survey showed that 40 per cent of universities offered entrepreneurship courses, and two thirds of graduate schools did so (Study Group for the Creation and Development of Start-ups, 2008).

Entrepreneurs require a special type of education, as they must develop a wide array of skills to help ensure their success. One method of providing excellent hand on education is for universities to support business ventures through incubation centers. These university-originated ventures have blossomed in Japan, growing three fold to 1,590 from 2001 to 2007 (Study Group for the Creation and Development of Start-ups, 2008). As mentioned earlier, these companies still face the same challenges of a tough Japanese market, cultural penalties for failure, and a lack of willing talent.

## **2.5 Recent Japanese Entrepreneurial Endeavors**

The outlook in Japan is not all bleak. In the past few years there have been a number of success stories – and some not so successful. Masayoshi Son, the founder of Softbank, a Japanese software, web and telecommunications giant, is often referred to as the Bill Gates of Japan. He made his first million by the time he was twenty, and has since gone on to be the founder of Yahoo in Japan and reap a net worth of over US\$7 billion, making him one of Japan's richest men (Crunchbase, 2008).

Hiroshi Mikitani, the founder of Rakuten, a Japanese online super store, now has online businesses including a travel agency, a stock brokerage, an e-bank, a credit company and a baseball team in addition to the core retail service. The company, founded in 1997 with six employees, now employs 4,500 people (Corkill, 2009).

Takafumi Horie is an interesting story. At 33 years old, the CEO of Japanese Livedoor internet company was untouchable. He had purchased 27 companies, and amassed an impressive US\$800 million revenue gain. What sets Mr. Horie apart is the way he went about his business, with no regard for Japanese business traditions. In fact, Horie was convinced that the old and favoured businesses of manufacturing were on their way out, and that internet businesses would be the way of the future. Whether he was correct or not is now somewhat irrelevant. Since being convicted of securities fraud Mr. Horie is now serving five years in prison (Frederick, 2006).

What's interesting about this story is the delight most classical Japanese executives found in with the demise of Horie, who was seen as a threat to their traditional business model. Regardless of his dislike throughout the Japanese business community, and before breaking the law, Horie had a very successful business plan.

I believe that these examples speak well enough for the direction in which Japan's economy is shifting – towards services. In those services some Japanese entrepreneurs have found tremendous success,

similar to their counterparts around the world. Thanks to these examples helping encourage a more favourable outlook towards new business, the rate of early stage entrepreneurship in Japan has gradually increased in recent years – albeit not to the levels of many other developed, innovative economies (Acs et al., 2009). These success stories do receive full coverage from the media, however, only 43 per cent of the respondents to the student survey thought that Japan was a good place to start a business.

## CONCLUSION

Given a number of factors, opening a new business in Japan is not easy, especially, it would seem, for the Japanese. Much of the Japanese population has been conditioned to appreciate large conglomerates, and stable, predictable employment over the risks involved with entrepreneurship. It is unfair however, to paint a population of 127 million people with one stroke of the brush. As I've demonstrated, within Japan are people who are ambitious enough to make headway with new business ideas. Dr. Lacktorin has argued that a country would never have come as far as Japan has without innovation and entrepreneurship – he suspects most innovative activity happens slowly within large corporations. Either way I believe that entrepreneurial attitude in Japan is improving, as government and educational institutions do more to support entrepreneurs, more will be successful and this in turn will further improve Japan's attitude.

Entrepreneurial activity is growing as more Japanese are becoming comfortable with working outside the traditional boundaries their parents respected. If large corporations will not adapt to satisfy the gaps that exist within Japanese service markets, new companies will have to play the role. Global pressures will continue prompting Japan to open its borders to more investment, and with that will come opportunities to expand international ventures into Japan.

This internationalism will also help Japanese would-be entrepreneurs to see the potential of entering foreign markets, therefore increasing their entrepreneurial aspiration. Already the aspiration demonstrated by Mikitani and Son is on par with that of any great entrepreneur. Government and educational incentives will again play an important role in fostering more activity in new business, and will hopefully be matched by dynamic venture funds trying to build on already successful entrepreneurial empires.

One important barrier is still government policy. Throughout my education in Japan, I've been taught that although the rest of the world does not appreciate Japan's closed market structure, it has been pivotal in the country's fantastic industrial success. Regardless, I believe that given the innovative stage of the economy it is important to invite international investment and trade in order to strengthen key developing service industries. This development can happen through direct investment, or through cooperation with foreign business. Economics work in phases and that there is no way to go backwards and become the same manufacturing superpower that ruled decades past. It is a painful transition, as traditional jobs and industries are lost, but a necessary transition nonetheless – and Japan is no stranger to adversity.

As to whether Japan is a good place to start a business, I conclude that yes, depending on the nature and the motivation of the business venture, any potential entrepreneur could have as much success in Japan as any other economically developed country. I believe, given the research, that Japan's problem with entrepreneurship is due less to economic potential than to inhibiting cultures, discouraging structures and lack of willing participants. The ability of small business to adapt to changing market demands, while old businesses are encumbered by pension pay-outs and bureaucracy should improve the outlook for new companies in Japan's rapidly changing business landscape.

## RECOMMENDATIONS

To any prospective entrepreneurs in Japan, I would make the following recommendations. First, concentrate on future enterprises, regardless of the attention the country and media give to large manufacturing industries of the past. The natural path for Japan to take is that of a leader in services, therefore, concentrate on service-providing industries such as financial, technological or consultancy services. Second, focus on international cooperation. Position your business to be attractive domestically, as well as internationally. Use new technology to communicate with and solicit to overseas markets and talent. Third, be active in lobbying government, for change in foreign policy, especially towards inbound foreign investment, as well as for more entrepreneurial growth strategy at home – such as more venture-friendly lending policies. Meet with fellow entrepreneurs and form cooperatives to make your voice louder. Finally, ensure high visibility and high quality for your product. The Japanese market is sceptical and needs proof that your product is one which will at least meet its needs. With innovation, motivation, drive, and hopefully some acceptance, Japan has 127 million potential customers, and the world almost 7 billion more.

**APPENDIX A**

**STUDENT SURVEY RESULTS**

*74 Students Interviewed*

1. ··What year will you graduate? VARIED 2009 - 2012
2. ··Are you planning on having a career in Japan? YES 75.7% / NO 24.3%
3. Are you planning on attending a graduate program? YES 37.8% / NO 62.2%
4. Have you made you secured employment yet? YES 5.4% / NO 94.6%
5. What are some of the most important aspects of employment to you?  
**1 – Unimportant, and 5 – Very Important**

	1	2	3	4	5
Lifelong employment	0	5.4%	35.1%	40.5%	18.9%
Working for a large, respected company	2.7%	8.1%	37.8%	43.2%	8.1%
Having freedom with respects to your work environment	0	0	13.5%	29.7%	56.8%
Working in an innovative environment	2.7%	5.4%	45.9%	32.4%	13.5%
Working for yourself	2.7%	18.9%	32.4%	21.6%	24.3%
Having secure employment	0	2.7%	32.4%	40.5%	24.3%

6. Would you consider starting your own business? YES 13.5% / NO 86.5%  
 \*If so, is your plan to start your own business? YES 1.4% / NO / UNSURE  
 \*Again, if so, what sort of business? Export/Technology
7. Do you consider new entrepreneurs to be an important factor to the economy? YES 78.4% / NO 21.6% YES
8. Are you aware of any Japanese programs to stimulate entrepreneurship?  
 YES 5.4% / NO 94.6%  
 \*If so, which ones? NONE
9. Do you think that Japan is a good potential place to start a business?  
 YES 43.2% / NO 56.8%  
 \*Why or why not? Skepticism, wealth, already enough businesses...
10. Does it make a difference to you who produces the products you purchase?  
 YES 73.9% / NO 26.1%

*Thank you for taking the time to take my survey, have a nice day!*  
**Andy MacInnis**

## REFERENCES

- Abegglen, J.C. & Stalk Jr. G. 1985. *Kaisha: The Japanese corporation. How marketing, money, and manpower strategy make Japanese world pace-setters*. New York: Basic Books, Inc.
- Abegglen, J.C. 2006. *21<sup>st</sup> Century Japanese management: New systems, lasting values*. New York: Palgrave MacMillan.
- Acs, Z.J., Autio, E., Bosma, N., Coduras, A. & Levie, J. 2009. *Global Entrepreneurship monitor: 2008 Executive report*. Babson Park, MA: Babson College. Santiago: Universidad del Desarrollo. London: London Business School.
- Alderson, A. S. (October, 1999). Explaining deindustrialization: Globalization, failure, or success? *American Sociological Review*. 64(5): 701-721. Retrieved from <http://www.jstor.org/stable/2657372>
- Alston, J. P. & Takei, I. 2005. *Japanese business culture and practices: A guide to twenty-first century Japanese business*. Lincoln, NE: iUniverse.
- Alvstam, C. G., Strom, P. & Yoshino, N. August, 2009. On the economic interdependence between China and Japan: Challenges and possibilities. *Asia Pacific Viewpoint*. 50(2): 198-214.
- Bandyk, M. (November, 2008). Best small businesses to start. *US News*. Retrieved from <http://www.usnews.com/money/business-economy/small-business/articles/2008/11/13/best-small-businesses-to-start.html>
- Campbell, C. (March 22, 1993). Building a successful business relationship in Japan. *Business America*. Retrieved from [http://findarticles.com/p/articles/mi\\_m1052/is\\_n6\\_v114/ai\\_13996122/?tag=rbxcra.2.a.55](http://findarticles.com/p/articles/mi_m1052/is_n6_v114/ai_13996122/?tag=rbxcra.2.a.55)
- Central Intelligence Agency. (2009). *Electronic references*. Retrieved November 8, 2009 from <https://www.cia.gov/library/publications/the-world-factbook/geos/ja.html>
- Corkill, E. (2009). Retail revolutionary: As founder and head of online superstore Rakuten, Hiroshi Mikitani is fast conquering Japan and has set his sights on the wider world. *Japan Times*. April 5. Retrieved from <http://www.istockanalyst.com/article/viewiStockNews/articleid/3177227>
- CrunchBase. 2008. *Electronic references*. Retrieved November 18, 2009 from <http://www.crunchbase.com/person/masayoshi-son-2>
- Davis, G. F. 2009. The rise and fall of finance and the end of the society organizations. *Academy of Management Perspectives*. August: 27–44.
- Draper, T. 2009. Economic and business dimensions: Entrepreneurship during a slump. *Communications of the ACM*. 52(8) August, pp. 24 – 26.
- Ford, J. B. & Honeycutt Jr. E. D. (1992, November - December). Japanese national culture as a basis for understanding business practices. *Business Horizons*. Retrieved from [http://findarticles.com/p/articles/mi\\_m1038/is\\_n6\\_v35/ai\\_13246882/pg\\_7/?tag=content:col1](http://findarticles.com/p/articles/mi_m1038/is_n6_v35/ai_13246882/pg_7/?tag=content:col1)
- Frederick, J. (January 20, 2006). The Livedoor scandal: Tribe versus tribe. *Time*. Retrieved from <http://www.time.com/time/world/article/0,8599,1151722,00.html>

Hofstede, G. 1984. The cultural relativity of the quality of life concept. *Academy of Management Review*, 9: 389–398.

Ibison, D. (2007). Japan 'unlikely to hit Koisumi's FDI target.' *Financial Times*. September 26. Retrieved from [http://www.ft.com/cms/s/0/5752550e-0ffe-11d9-ba62-00000e2511c8.html?nclink\\_check=1](http://www.ft.com/cms/s/0/5752550e-0ffe-11d9-ba62-00000e2511c8.html?nclink_check=1)

Index Mundi. (2009). *Electronic references*. Retrieved November 8, 2009 from, [http://www.indexmundi.com/japan/birth\\_rate.html](http://www.indexmundi.com/japan/birth_rate.html)

International Entrepreneurship. (2009). *Electronic references*. Retrieved November 4, 2009 from [http://www.internationalentrepreneurship.com/asia\\_entrepreneur/Japan\\_entrepreneur.asp](http://www.internationalentrepreneurship.com/asia_entrepreneur/Japan_entrepreneur.asp)

Kaplan, E. J. 1972. *Japan: The government business relationship. A guide for the American businessman*. Washington: United States Department of Commerce.

Kollmeyer, C. May 2009. Explaining deindustrialization: How affluence, productivity growth, and globalization diminish manufacturing employment. *American Journal of Sociology*. 114(6): 1644-1674.

Kunii, I. M. (February, 2003). Don't stifle your entrepreneurs, Japan. *Business Week*. Retrieved from [http://www.businessweek.com/smallbiz/content/feb2003/sb2003027\\_1731.htm](http://www.businessweek.com/smallbiz/content/feb2003/sb2003027_1731.htm)

Lee, M. Y. & Mulford, C. L. (1990). Reasons why Japanese small businesses form cooperatives: An exploratory study of three successful cases. *Journal of Small Business Management*. 28. Retrieved from <http://www.questia.com/googleScholar.qst;jsessionid=LCgTvnWPFYvt02CK82Q9F7Wd8gjnB8KvJJvxK DjtXNqLdcn4!-1226680035!1161961412?docId=5000123139>

Murphy, J. (November, 2008). Japan's small businesses get help. *Wall Street Journal (WSJ.com)*. Retrieved from [http://www.ssmallbiz.com/profiles/Japans\\_Small\\_Businesses\\_Get\\_Help.html](http://www.ssmallbiz.com/profiles/Japans_Small_Businesses_Get_Help.html)

Murphy, R. T. (November, 2009). Is Japan heading for a fiscal doomsday? *The Asia-Pacific Journal*. 46(4) Retrieved from [http://japanfocus.org/-R\\_Taggart-Murphy/3255](http://japanfocus.org/-R_Taggart-Murphy/3255)

Organization for Economic Co-operation and Development. (2009). *Electronic references*. Retrieved from <http://stats.oecd.org/viewhtml.aspx?queryname=18159&querytype=view&lang=en>

Russel, D. & Miyashita, K. 1995. *Keiretsu - Inside the hidden Japanese conglomerates*. New York: McGraw-Hill.

Sasaki, H. November 2007. *Import competition and manufacturing employment in Japan*. Working Paper no 07-E25. Bank of Japan, Tokyo. Retrieved from <http://www.boj.or.jp/en/type/ronbun/ron/wps/data/wp07e25.pdf>

Scher, M. J. 1997. *Japanese interfirm networks and their main banks*. New York: St. Martin's Press Inc.

Shoenberger, C. R. (May, 2009). Searching for entrepreneurship in Japan. *Forbes*. Retrieved from [http://www.forbes.com/2009/05/29/japan-entrepreneur-conference-markets-rebuilding-global-markets-venture\\_print.html](http://www.forbes.com/2009/05/29/japan-entrepreneur-conference-markets-rebuilding-global-markets-venture_print.html)

Study Group for the Creation and Development of Start-ups (METI). (April 30, 2008). *Final report: Creation and development of start-ups for innovation in the Japanese Economy*. Retrieved from [http://www.meti.go.jp/english/report/data/Startups\\_Finalreport.pdf](http://www.meti.go.jp/english/report/data/Startups_Finalreport.pdf)

*The Economist*. (September 23<sup>rd</sup> 2004). Dead firms walking. Retrieved from [http://www.economist.com/businessfinance/displaystory.cfm?story\\_id=E1\\_PNTJRVS](http://www.economist.com/businessfinance/displaystory.cfm?story_id=E1_PNTJRVS)

*The Economist*. (September 3<sup>rd</sup> 2009). New bosses. Retrieved from [http://www.economist.com/businessfinance/displaystory.cfm?story\\_id=14376289](http://www.economist.com/businessfinance/displaystory.cfm?story_id=14376289)

*The Economist*. (August 13<sup>th</sup> 2009). Stuck in neutral. Retrieved from [http://www.economist.com/businessfinance/displaystory.cfm?story\\_id=E1\\_TQNTGSRQ](http://www.economist.com/businessfinance/displaystory.cfm?story_id=E1_TQNTGSRQ)

Tiessen, J. H. (September 1997). Individualism, collectivism, and entrepreneurship: A framework for international comparative research. *Journal of Business Venturing*. 12(5), 367–384 doi: [http://dx.doi.org/10.1016/S0883-9026\(97\)81199-8](http://dx.doi.org/10.1016/S0883-9026(97)81199-8)

*Voice of America News*. (January 9<sup>th</sup>, 2002). Japan ends commercial coal production – 2002-01-09. Retrieved from <http://www1.voanews.com/english/news/a-13-a-2002-01-09-14-Japan-66265952.html?moddate=2002-01-09>

Yasuda, T. (2002, June 21). Japan's entrepreneurs face rough road. *Online Asia Times*. Retrieved from <http://www.atimes.com/japan-econ/DF21Dh01.html>