

The power of three

Together, governments, entrepreneurs and corporations can spur growth across the G20

The EY G20 Entrepreneurship Barometer 2013

Country profiles

Argentina
Australia
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Indonesia
Italy
▶ **Japan**
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Saudi Arabia
South Africa
South Korea
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G20
Young Entrepreneurs'
Alliance

Japan at a glance



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A return to dynamic Japan?

Key facts

Overall Barometer ranking	Quartile 2
Population	128 million
GNI per capita (PPP)	US\$36,320
GDP growth	1.9%
Exports as % GDP	15.2%

Source: The World Bank, 2012



Japan is undergoing some of the most striking economic changes seen in two decades under the so-called “Abenomics” of Prime Minister Shinzo Abe.¹ For entrepreneurs, this adds to an already advantageous environment: regulations are business-friendly, taxes for entrepreneurial businesses are low (although they rise as businesses grow), and no other G20 economy devotes as many resources to research and development (R&D). Nevertheless, there is a sense within the country that entrepreneurial dynamism has waned and that young, innovative businesses no longer drive the economy forward in the way they once did.

Indeed, Japan faces challenges across the education and training pillar of the entrepreneurship pillar measured within the EY G20 Entrepreneurship Barometer 2013. For example, of the G20's 10 most mature economies, only the UK and France have lower rates of tertiary enrollment than Japan, while only Russia spends a lower proportion of its GDP on education. This education system also encourages a culture of conformity and risk aversion that runs counter to the needs of a dynamic and innovative entrepreneurship environment. For most smart young people, the traditional pattern of lifelong employment in large companies remains more attractive than the more uncertain path of starting out as an entrepreneur.

On the positive side, however, respondents from Japan revealed that the image of what they do is improving more quickly than in any other G20 country. Innovative young businesses, such as that of Livesense Inc. President and Representative Director Taichi Murakami (see Key insight on page 5), are part of that new image. Moreover, the new Government's drive to rejuvenate the economy could benefit entrepreneurs, as publications such as *The Economist* have argued.² Apart from hoping for a return to solid growth after decades of sluggishness, start-up businesses hope to benefit from various new policies, such as increased subsidies. If Japan truly hopes to build on its newfound vigor for growth, bolstering its entrepreneurship ecosystem will be a vital step.

¹ “Japan's New Optimism Has Name: Abenomics,” *New York Times website*, nytimes.com, accessed 15 July 2013.

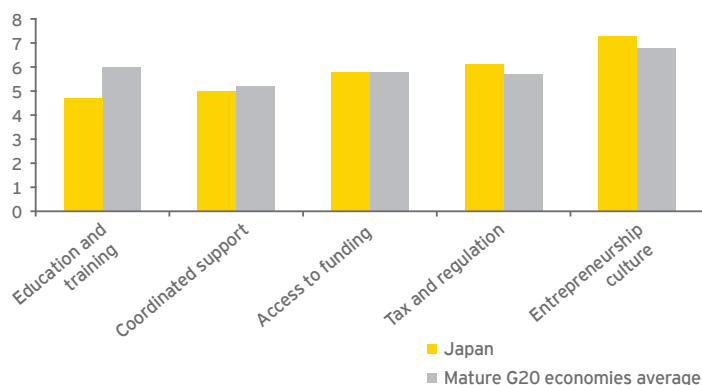
² “Japan and Abenomics: Once more with feeling,” *The Economist website*, economist.com, accessed 23 July 2013.

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Japan's pillar scores compared to mature G20 economies average



Source: EY G20 Entrepreneurship Barometer 2013

Adapting to a forgotten feeling: growth

Japan's entrepreneurs have plenty going for them: the domestic market is large and wealthy, the regulatory environment is business friendly, and rapid-growth in neighboring economies offers plenty of scope for export success.³ But Japan's younger generations have grown up during two "lost decades" of economic growth.⁴ Overcoming pessimism about economic prospects is a big challenge, both for policymakers and entrepreneurs. The current Government's attempts to reinvigorate the economy will be key to the success of its entrepreneurial environment.

³ "Abenomics and Asia," *Project Syndicate website*, project-syndicate.org, accessed 20 July 2013.

⁴ "Lost decades: The Japanese tragedy," *The Economist website*, economist.com, accessed 20 July 2013.

⁵ World Economic Forum, *The Financial Development Report 2012* (World Economic Forum USA Inc., 2012).

⁶ "Abe's 'third arrow' reforms leave investors hungry for detail," *Financial Times website*, ft.com, accessed 20 July 2013.

⁷ "Abenomics: Not so super," *The Economist website*, economist.com, accessed 23 July 2013.

SWOT analysis

Strengths

- ▶ Japan has a business-friendly regulatory framework and low tax rates for entrepreneurial businesses.
- ▶ It spends a higher proportion of its GDP on research and development than any other country in the G20.
- ▶ The financial services sector is one of the most developed in the world.⁵

Weaknesses

- ▶ Spending on education is relatively low, and a culture of conformity inhibits entrepreneurship.
- ▶ Young Japanese people are risk averse in their career choices, and business failure is perceived negatively. In particular, this makes it difficult for entrepreneurs who've failed before to try again.
- ▶ While the banking sector is highly developed, entrepreneurs can find it difficult to raise venture capital (VC). There is a shortage of secondary markets, such as SecondMarket in the US, which allows for trade in unlisted stocks and thus boosts liquidity for rapidly growing businesses.

Opportunities

- ▶ Japan holds a strong position in high value-added industries, while the prime minister has said he will provide more support to businesses in fields such as high-speed trains and clean-coal power plants.⁶
- ▶ If the Government's efforts to kick-start the economy succeed, it could encourage young people to take a risk on entrepreneurship.
- ▶ Japanese entrepreneurs are well placed to take advantage of rapid-growth in emerging Asian markets.

Threats

- ▶ If the Government's radical economic policies fail, continued stagnation will undermine the confidence and prospects of potential entrepreneurs.
- ▶ It is possible that the policies associated with Abenomics could also prop up inefficient existing firms, thus making it difficult for innovative new rivals to enter the market.⁷
- ▶ Japan's entrepreneurs are among the least likely in the G20 to report improvements in the level of support they receive.
- ▶ Government plans to increase consumption taxes by 2015 could prompt a business recession.

Between 2000 and 2011, Japanese real GDP growth was 0.8%; under a quarter of the G20 average of 3.5%; however, in the first quarter of 2013, annualized Japanese GDP growth was 3.5%.

What to watch for

Efforts to rejuvenate the economy

On key measures, entrepreneurship is less vibrant in Japan than in almost any other mature economy. In 2011, for example, the rate of new start-ups was just a quarter of the OECD average, at 1.1 for every 1,000 people of working age (see chart). A risk-averse culture that looks down on business failure has been partly responsible, but decades of sluggish GDP growth have also been a factor. Japan's current generation of graduates has never known a strong economy; as a result, wariness about setting up new businesses is unsurprising.

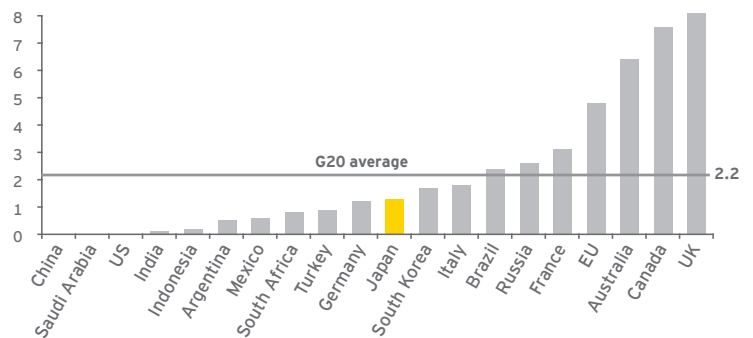
Against this backdrop, a series of bold steps by the Government to kick-start the economy will have a crucial impact on Japanese entrepreneurship. Prime Minister Shinzo Abe's Abenomics has introduced a radical new economic strategy that mixes aggressive monetary loosening, fiscal stimulus and structural reform.⁸

So far the results have been largely positive. Business confidence has been reflected in sharp stock market gains (though markets remain volatile) and in robust annualized GDP growth of 3.5% in the first three months of 2013.⁹ Meanwhile, the loosened monetary policy stance has resulted in a sharp depreciation of the yen, which has raised the competitiveness of Japanese firms and boosted exports.

Entrepreneurs are likely to benefit directly from the Government's planned structural reforms, which will focus on deregulation, reform of the corporate tax regime and liberalization of international trade. Pushing these changes through will be a challenge, requiring the Prime Minister to upset a number of powerful vested interests. Japan's entrepreneurs will wish him well in his endeavors: his policies represent the boldest attempt yet to shake Japan out of its long economic funk.

Inevitably, though, there are also risks. It is possible that Abenomics will end up helping old, well-established and inefficient companies, rather than supporting the growth of new, innovative and more efficient rivals. Furthermore, not all policies are growth oriented. For example, plans to raise the consumption tax could also potentially weaken the more positive economic growth story. But after two lost decades, Japan's entrepreneurs will be genuinely excited by the prospects ahead.

New business entry density (new registrations per 1,000 people aged 15-64)



Note: Data for 2009 except South Korea, Japan, Germany, South Africa, India (2008); Australia (2007)

Source: The World Bank

Nikkei 225 Index value



Source: Bloomberg, 2013

⁸ "Japan's New Optimism Has Name: Abenomics," *New York Times website*, nytimes.com, accessed 15 July 2013.

⁹ "Japan Posts Surge in Economic Growth," *Wall Street Journal website*, online.wsj.com, accessed 12 July 2013.

How the government is helping

Developmental support for micro enterprises

JFC-Micro, a unit of the Government-owned Japan Financial Corporation, provides capital to business start-ups and entrepreneurial businesses. Since 1949, it has made loans to 980,000 entrepreneurs. As of the end of March 2012 JFC-Micro's outstanding business loans totaled ¥6,541b (US\$81.8b).

Launch date: 1949

Most relevant pillars: access to funding, coordinated support

One Village One Product

This is a regional development program under which villages focus on producing and selling a single high value-added product, with revenues used to raise living standards across the community. The Government's assisted marketing program has spread beyond Japan and has been implemented in countries including China, Korea and Taiwan.

Launch date: 1979

Most relevant pillars: entrepreneurship culture, coordinated support

Removal of minimum capital regulation for new companies

In order to reduce the barriers to entry faced by new firms, minimum capital requirements were removed in 2005. Previously, start-ups needed ¥10m in capital. However, the rate of new start-ups remains low in Japan by mature economy standards.

Launch date: 2005

Most relevant pillar: access to funding



Key insight: leveling the playing field

Taichi Murakami, President and Representative Director, Livesense Inc., Japan

Livesense Inc. is a Tokyo-based internet company best known for its Jobsense site, a popular part-time jobs listing, which features more than 70,000 jobs and attracts more than three million monthly users. Its founder, Taichi Murakami, is the youngest entrepreneur to have listed his company on the Tokyo Stock Exchange.

At 25, Taichi Murakami set a record by becoming the youngest entrepreneur to have his company listed on the Tokyo Stock Exchange. He was just 19 when he founded his venture, Livesense, which started off when he spotted a gap in the market for a site featuring part-time jobs. It has since expanded to also provide real estate listings, and it continues to grow.

As an entrepreneur still in his teens, gaining access to funding for growth was a challenge for him at the outset. But other forms of support helped bolster his business, including a year of rent-free office space at Waseda University, as a result of winning a business contest. Nevertheless, he sees ongoing improvements in the environment, including more investors willing to take a punt on promising new ventures. "I think that the number of investors, particularly angel investors, is increasing at the moment. And I think that the environment is getting ready for venture companies."

Even so, further changes to the tax system could help encourage investors, says Murakami. "There are tax benefits for individuals who invest in start-up businesses, but corporations

that want to invest don't receive the same incentives. The benefits should be provided to both," he argues. Furthermore, he believes that tax processes for individual angel investors are too complex, which hinders the ability of investors to make use of available incentives. As such, simplifying the related processes for tax ought to be a priority, he suggests.

Murakami also hopes to see stronger efforts to shift Japan's conservative business culture. "I think it's very important for the Government to promote a culture that accepts people who are different and willing to take risks. I remember there was a TV drama featuring hairdressers, which dramatically pushed up the number of hairdressers, because it was perceived as a cool occupation. We could do the same with entrepreneurs, to show that this is a cool, exciting profession too."

Added to this, Murakami believes more could be done to encourage younger people in particular to start up their own businesses. This is an especially passionate cause for him, given the huge impact of his own early exposure to such ideas and influences from running a small business selling tropical fish online as a child, through to the chance to attend lectures from successful entrepreneurs at university. "I think it's vital to provide an environment for people to get access to such ideas, and to choose to become entrepreneurs by themselves as well," says Murakami.

Access to funding

Pillar ranking: 7

Between 2010 and 2012, mergers and acquisitions activity was very low – at 1.6% of GDP, roughly half the G20 average

A shortage of non-bank lending

Access to funding	Japan	G20 average	Period
IPO market activity			
IPO amount invested (% of GDP)	0.10	0.22	2009-11 average
Access to credit			
Domestic credit to private sector (% of GDP)	172.4	99.0	2008-10 average
Venture capital availability (Scale of 1=impossible to 7=very easy)	2.9	3.0	2009-11 average
M&A deal value (% of GDP)	1.6	3.4	2010-12 average

Sources: The World Bank, Dealogic, IMF, World Economic Forum

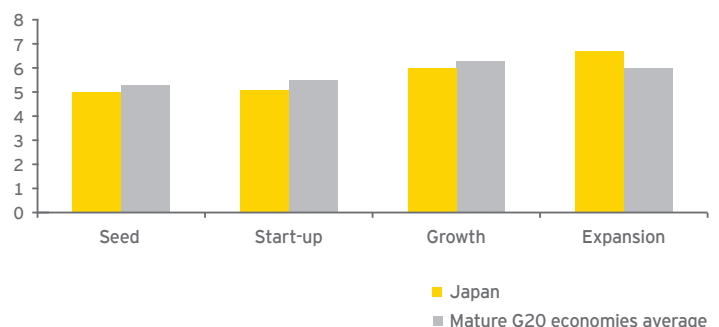
Japan's credit-to-GDP ratio is one of the highest in the G20

Relative to how advanced its overall economy is, Japan has a fair performance in terms of entrepreneurs' access to funding. The country has a highly developed financial system, and its credit-to-GDP ratio is among the highest in the G20. However, it does less well in terms of the amount raised through initial public offerings, while entrepreneurs find it relatively difficult to raise VC. Private equity activity is also low: the average total of deals between 2010 and 2012 was just 1.6% of GDP, compared to a G20 average of 3%.

The survey showed that access to expansion capital is improving more quickly in Japan than in the G20's other mature economies. However, there are fewer signs of improvement on access to start-up and seed capital – the areas where increased funding is most needed. The Government-backed JFC-Micro scheme exists to plug some of the gap, by providing financing to businesses that might struggle to secure commercial loans from banks.¹⁰

Overall, though, access to funding remains a constraint on entrepreneurial activity in Japan, as it is elsewhere in the G20: just 30% of entrepreneurs consider it easy to access funding today, for example. The monetary loosening associated with Abenomics may prompt some new focus on lending from banks, but the Government could deploy a range of tools to bolster lending elsewhere, such as finance guarantee schemes to match public funds with private lending.

Barometer scores for access to funding components



Source: EY G20 Entrepreneurship Barometer 2013

¹⁰ Japan Finance Corporation, *JFC-Micro 2012: Outline and International Cooperation* (JFC Micro Business and Individual Unit, 2012).

In 2011, no other country in the world registered as many patents as Japan¹¹

Entrepreneurship culture

Pillar ranking: 4

Innovation leader, cultural laggard

Entrepreneurship culture	Japan	G20 average	Period
R&D spending (% of GDP)	3.4	1.6	2007-09 average
Scientific and technical journal articles (per 10,000 people)	4.0	3.3	2007-09 average
Cost of resolving insolvency (% of estate)	4.0	11.8	2010-12 average

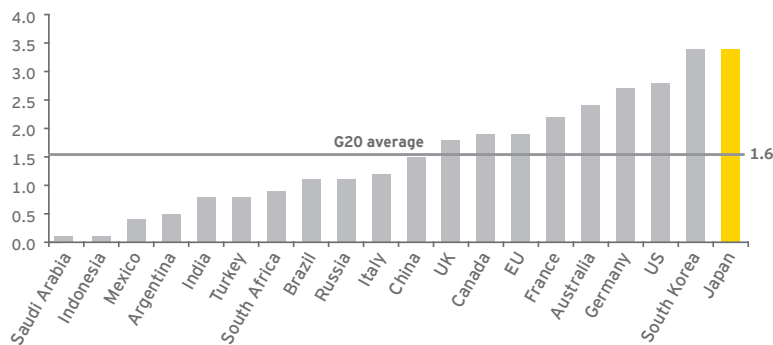
Source: The World Bank

Japan dedicates more resources and spending to R&D than any other country in the G20. This commitment to pushing forward the technological frontier is reflected in the country's strong patent activity. No other country in the world registered as many patents as Japan in 2011, for example.¹² However, while Japan is clearly strong on technological innovation, the broader entrepreneurship culture is not as supportive, with over half (54%) saying it is not supportive, while just 18% believe it is.

Most obviously, there is significant stigma attached to business failure in the country. As many as 55% of Japanese respondents to the survey said that business failure was viewed as a career failure or a reflection of inadequate management skills, compared with an average of 41% across the G20. Combined with a strong aversion to risk, this makes potential entrepreneurs reluctant to start up a business, despite the fact that financial cost of business failure in Japan is relatively low.

Japanese society also tends to attach more prestige to lifelong employment in a large company than to pursuing a career as an entrepreneur. However, the survey suggested this might be changing. Survey respondents from Japan were more likely than those in any other country to say that the image of entrepreneurship as a career is improving. Still, it is clear that more could be done to promote the image of entrepreneurs and the value of entrepreneurship from competitions and shows, through to greater public recognition from Government.

R&D spend (% of GDP)



Source: The World Bank

At **3.4%** of GDP, Japan spends over double the G20 average of 1.6% and more than any other G20 nation on R&D (2007-09 average)

¹¹ "Japan, China rank Top 5 in Global Patent Applications Ranking," *Tech In Asia* website, technasia.com, accessed 20 July 2013.

¹² Ibid.

Tax and regulation

Pillar ranking: 6

Japan's indirect tax rate of

5%

is roughly a third of the G20 average 14% (2012)

Improvements promised and expected

Tax and regulation	Japan	G20 average	Period
Ease of starting a business			
Start-up procedures (number)	8.0	7.6	2010-12 average
Time to start a business (days)	23	22	2010-12 average
Cost to start a business (% of income per capita)	7.5	9.4	2010-12 average
Paid-in minimum capital to start a business (% of income per capita)	0.0	17.9	2010-12 average
Business regulations			
Time spent on tax issues (hours)	338	347	2010-12 average
Labor market rigidity			
Cost of firing (weeks of wages)	4	50	2007-09 average
Labor and tax contributions (% of commercial profits)	17.4	24.0	2012
Taxation			
Total tax rate (taxes and mandatory contributions borne by the business expressed as a share of commercial profit)	50.0	49.7	2012
Indirect tax rate (taxes collected by the company and remitted to the tax authorities)	5.0	14.2	2012

Source: The World Bank

Japan's regulatory environment is generally business friendly. Taxes paid by entrepreneurial businesses are among the lowest in the G20, although the bureaucracy involved in paying them is high compared with other mature economies. In 2012, the Government lowered the rate of corporation tax payable on the first ¥8million of income from 18% to 15% for entrepreneurial businesses with market capitalization of less than ¥100m. It has also recently introduced tax credits based on increased employment and salary payments.¹³

The cost of setting up a business is relatively high by the standards of other mature countries. Labor-related taxes are lower than average, and the cost of firing a worker is equivalent to just four weeks' wages, one of the lowest in the G20. This is useful, but on the flip side, there are tough legal protections that make it very difficult for firms to actually fire full-time workers. This should be a key target of Government reforms. Simplifying and easing the process of hiring and firing employees would encourage growing firms.

Beyond labor, the regulatory environment is supportive of exporters, who have also benefited from a sharp fall in the value of the yen, following a shift to a radical expansionary economic policy in 2013.¹⁴

Nevertheless, as in most mature economies in the study, Japanese respondents to the survey reported that the regulatory environment had deteriorated rather than improved over the past three years. However, sentiment was less negative than average for other mature economies and the new Government has said that deregulation is a key element of its economic strategy. Overall, the entrepreneurs polled appear to think the Government will make good on those promises. Indeed, improvements to regulation were among the top factors that respondents believe will improve in the next three years. Further recent proposals, including a set of tax reforms for 2013 that should help incentivize employment, among other issues, will further help to boost this positive outlook.¹⁵

Between 2007 and 2009 it cost firms an average of four weeks' wages to fire a worker in Japan – over 12 times lower than the G20 average of 50

¹³ PKF, *Japan Tax Guide 2012* (PKF International Limited, 2012).

¹⁴ "Japanese leader defends economic policy during London speech," *The Guardian website*, theguardian.com, accessed 21 July 2013.

¹⁵ "Japan government tax reform proposals for 2013," *Banner Financial Services website*, bannerjapan.com, accessed 19 July 2013.

Education and training

Pillar ranking: 16

Japan spends only
3.6%
 of GDP on education compared to the G20 average of 4.8% (2008-10 average)

Overcoming a focus on conformity

Education and training	Japan	G20 average	Period
Public spending on education (% of GDP)	3.6	4.8	2008-10 average
Secondary school enrollment (total enrollment expressed as a percentage of the population of official secondary education age)	101.7	95.0	2008-10 average
Tertiary enrollment (total enrollment expressed as a percentage of the total population of the five-year age group following on from secondary school leaving)	59.1	53.5	2008-10 average

Source: The World Bank

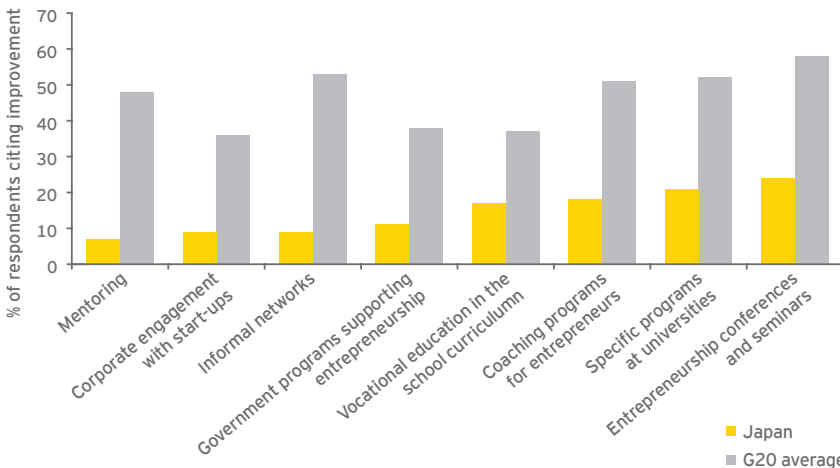
For such an advanced country, Japan scores surprisingly poorly on education. At a high level, it does badly on the amount of public spending on education, which lags other mature G20 countries. Still, Japan's highly innovative technological sector suggests that relatively low scores on education indicators are not translating into a shortage of high-end skills. Equally, low spending on R&D by universities is mitigated by the fact that the private sector spends so much on research.

Spending aside, though, a deeper challenge for the Japanese education sector is its focus on conformity. This is conducive to a workforce that is highly skilled but lacking in individuals with an appetite for taking risks and a desire to stand out. Far more could

be done to encourage greater awareness of creative thinking, entrepreneurship and risk taking at a younger age, to shift mindsets here.

According to the survey, Japan is failing to sufficiently encourage entrepreneurship in its young people. No other country had as few respondents pointing to improvements in entrepreneurship education in schools and universities. Nor does there appear to be much progress on entrepreneurship schemes outside the formal education system, despite the positive sentiment seen in the 2011 study. Such changes ought to be a key strand in the wide-ranging reforms being pushed through at the moment.

Improvement in entrepreneurial education in the last three years



Source: EY G20 Entrepreneurship Barometer 2013



A lower proportion of GDP public spending on education does not affect secondary school and tertiary enrollment as it exceeds the G20 average (2008-10 average)

Coordinated support

Pillar ranking: 18

A government that wants to listen

Coordinated support is one of Japan's weaker categories in the EY G20 Entrepreneurship Barometer 2013. This points to a significant degree of consensus among Japanese entrepreneurs that levels of coordinated support have fallen over the last three years.

Japan scores relatively poorly on a range of categories within the coordinated support pillar. For example, only 18% of Japanese respondents felt that access to business incubators has improved over the last three years, compared with 50% across the G20. This is a potential concern and a setback from the more positive sentiment seen two years ago. Given Japan's relative weakness in terms of the rate of new businesses being formed each year, the country has a strong interest in supporting its start-ups.

The new Government is hoping to make progress in this area. It is working with the business sector to find ways to provide greater support to entrepreneurs. In terms of what local entrepreneurs are looking for, a mix of educators, support meetings and workshops, and Government start-up programs are most highly sought after.

37%

is the proportion of entrepreneurs from Japan who use a chamber of commerce, the single most highly used form of support

Only **18%** of respondents said that access to business incubators has improved in the last three years compared with 50% across the G20

Rankings table

Ranking	Access to funding	Score	Entrepreneurship culture	Score	Tax and regulation	Score	Education and training	Score	Coordinated support	Score
1	United States	7.12	United States	7.67	Saudi Arabia	6.40	France	6.58	Russia	6.23
2	United Kingdom	6.86	South Korea	7.53	Canada	6.34	Australia	6.53	Mexico	5.89
3	China	6.75	Canada	7.45	South Korea	6.34	United States	6.50	Brazil	5.87
4	Canada	6.62	Japan	7.28	United Kingdom	6.19	South Korea	6.40	Indonesia	5.84
5	Australia	6.48	Australia	7.18	South Africa	6.10	EU	6.25	India	5.76
6	South Africa	5.95	United Kingdom	7.00	Japan	6.07	United Kingdom	5.98	China	5.75
7	Japan	5.81	Germany	6.88	Germany	5.84	Germany	5.89	Turkey	5.66
8	South Korea	5.75	EU	6.07	Australia	5.75	Argentina	5.85	South Africa	5.65
9	Brazil	5.67	France	5.68	Russia	5.65	Canada	5.81	Argentina	5.64
10	Indonesia	5.53	Russia	5.05	EU	5.48	Brazil	5.78	Germany	5.53
11	India	5.48	India	4.95	Turkey	5.45	South Africa	5.67	France	5.41
12	EU	5.41	Brazil	4.88	Indonesia	5.38	Saudi Arabia	5.66	Saudi Arabia	5.39
13	Saudi Arabia	5.25	Italy	4.67	United States	5.33	Italy	5.47	EU	5.37
14	Germany	5.23	South Africa	4.33	Mexico	5.21	Russia	5.46	South Korea	5.36
15	Russia	5.04	Turkey	4.30	France	5.12	Mexico	5.32	Australia	5.31
16	France	4.74	Argentina	4.06	China	5.07	Japan	4.72	Canada	5.29
17	Turkey	4.57	Mexico	3.96	Brazil	4.83	Turkey	4.39	United Kingdom	5.19
18	Mexico	4.42	China	3.88	Italy	4.76	China	4.35	Japan	5.04
19	Italy	4.03	Indonesia	3.80	India	4.39	Indonesia	3.88	Italy	4.97
20	Argentina	3.27	Saudi Arabia	3.38	Argentina	4.31	India	3.49	United States	4.85

About the EY Entrepreneurship Barometer model

The EY G20 Entrepreneurship Barometer 2013 introduces a model for scoring countries across the five pillars of entrepreneurship.¹⁶ The purpose of this model is to help identify areas of relative strength by country and where opportunities for improvement lie.

The model is composed of qualitative information (from our survey of more than 1,500 entrepreneurs) and quantitative data based upon entrepreneurial conditions across the G20 economies. For each pillar, excluding coordinated support, this information is

weighted 50-50 between qualitative and quantitative inputs. For coordinated support, given a lack of quantitative indicators, this is based solely upon the survey responses.

The advantage of integrating both the survey results and quantitative data is the ability to provide an assessment of the current level and the trends in a G20 entrepreneurial ecosystem based upon local sentiment. To this end, official statistics (for example, on the average time taken to start a business or the tax burden) provide a baseline for each member country.

Survey information is an important complement to the baseline picture these statistics provide. Entrepreneurs' feedback on the pace of improvement or deterioration in conditions in their country's entrepreneurship ecosystem is incorporated in the model alongside the hard statistics.

Full details of the Barometer's methodology can be found on page 66 in the main EY G20 Entrepreneurship Barometer 2013 report.

¹⁶ Note: As per the G20 membership, this list comprises 19 individual countries and also the European Union (EU), as an additional member. Our rankings show the performance of each country, along with an aggregate performance for the 27 EU Member States.

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