

**Development of Small and Medium-sized Enterprises  
and Policy Support**

~ “Action Guidelines for Tomorrow” for policymakers in transition countries ~

by

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## Contents

### **1. Introduction**

- (1) “Small and medium-sized enterprise” that is drawing attention worldwide..... 1
- (2) Importance of “small and medium-sized enterprises” in transition countries ..... 2
- (3) About the purpose of this document ..... 2

### **2. Support measures for small and medium-sized enterprises in the world**

- (1) Industry trend in the world..... 3
- (2) Ever increasing importance of “small and medium-sized enterprise” in transition countries ..... 5
- (3) Objectives of small and medium-sized enterprise support policies in various countries ..... 6
- (4) Case study (Measures for small and medium-sized enterprises in the U.K.)..... 11
- (5) Recent problems and concerns ..... 13

### **3. Concerns of policymakers in transitions countries and responses to their questions**

- (1) Social understanding of small and medium-sized enterprises ..... 14
- (2) Move toward simple and appropriate administrative procedures and regulations ..... 15
- (3) Matters that have to be understood in policy planning and implementation “Management of small and medium-sized enterprises in transition countries” ..... 17
- (4) Relationship between economic restructuring and policies for small and medium-sized enterprises ..... 20
- (5) Moves to foster “industrial buds” in regional areas and support for them ..... 21
- (6) Matters that are necessary in planning and implementing measures for small and medium-sized enterprises..... 22

## 1. Introduction

### (1) “Small and medium-sized enterprise” that is drawing attention worldwide

“Small and medium-sized enterprise” is drawing attention in developing countries, transition countries as well as in advanced developed countries. Success stories of small and medium-sized enterprises are talked about in many countries and their activity is contributing to revitalize local communities. “Small and medium-sized enterprise” is taken up as a discussion theme in many bilateral and international meetings and has increasingly become the target of official development assistance. Behind this lies an increasingly common recognition that “small and medium-sized enterprise’ play a key role in the revitalization and development of national economy in many countries and that their role has become essential.” Specifically, they are instrumental in creating job opportunities, promoting stability and development of regional economies, enhancing economic efficiency through competition and cooperation, expanding business scope, and producing high value-added products through innovation.

Recently, the following cases in the U.S. and Japan are drawing attention as examples of dynamic activity of small and medium-sized enterprises.

#### [1] High-tech companies in the Silicon Valley in the U.S.

In recent years, the U.S. economy has been enjoying a long-term, brisk performance, posting strong growth. One of the driving forces behind the booming economy is a group of high-tech companies in Silicon Valley in the West Coast. They were established as venture companies by engineers or researchers in the field of information technology. But, they have become big businesses in only several years, with their stocks listed on stock exchanges. They are now playing a key role in enhancing the competitiveness of the U.S. and raising the economic growth rate of the country.

#### [2] Global companies that emerged in Japan

Small and medium-sized enterprises established by engineers in devastation after World War II have developed into global big enterprises, such as “Sony” and “Panasonic” in home appliances and “Honda” in automobile.

Moreover, there are a growing number of Japanese small and medium-sized enterprises that now enjoy 80% of market share in their own fields. For example, a bicycle gear and brake parts maker is flooded with orders from bicycle makers in the

world on the strength of the good quality and performance of its products.

Therefore, there is a growing recognition that the starting point of a market economy is establish small and medium-sized enterprises develop them dynamically (though it is inevitable that some of them go bankrupt or go out of business in the process).

It is necessary for entrepreneurs to establish companies, start business, acquire or change management resources (such as goods and services, capital, sales, management know-how, knowledge, technology, information, the establishment of relations with other economic entities, and market information), accumulate them, and expand their business. These activities of small and medium-sized enterprises constitute a big driving force behind the development of a national economy.

## **(2) Importance of “small and medium-sized enterprises” in transition countries**

In many transition countries, “the state enterprises that were systematically established and preserved under the COMECON setup” were forced to undergo restructuring in a new environment of global competition. Their production decreased dramatically (in some cases, they “went out of business”), resulting in a large number of unemployment and exhausting regional economies.

Meanwhile, entrepreneurs have come to establish enterprises on their own resources, efforts and self-responsibility in order to make a living for themselves and for their employees. In other words, “small and medium-sized enterprise” activities have begun.

For a smooth transition to market economy, therefore, it is essential to ensure business activities and employment that more than offset the effect of restructuring of state enterprises and secure tax revenues enough to maintain the development of the society. To that end, there is no other way but to develop small and medium-sized enterprises or attract foreign-capital companies. Depending on foreign-capital companies alone, however, is not advisable, because the economy will be swayed by the business condition or policy of foreign-capital companies.

Therefore, the role of “small and medium-sized enterprise” that creates corporations and conduct business activities is extremely important. So, the main objective should be to ensure incentives for such activities and promote business activities that enhance corporations’ competitiveness under fair and competitive condition and environment.

## **(3) About the purpose of this document**

In Japan, small and medium-sized enterprises have developed as the basis of

economic development. Japan has one of the longest experiences in implementing measures for small and medium-sized enterprises and has provided assistance for establishing policies for small and medium-sized enterprises to other countries, mainly in Asia and Central Europe. In light of these experiences, it is useful to put in order the “development of small and medium-sized enterprises and policy support” mainly for transition countries, including Russia, with particular emphasis on the following three points:

- [1] Management efforts of small and medium-sized enterprise owners
- [2] Role of social systems, etc. that provides management resources and supplements them for small and medium-sized enterprises
- [3] Roles to be played by central and local governments

Establishing a market economy in a country requires a great hardship on the part of policy-makers. At the same time, it takes a long time for the management and employees of small and medium-sized enterprises to acquire management know-how, technology and skills.

As a matter of course, it requires diversity to create and develop small and medium-sized enterprises and support them, as each country has its own culture, social condition and history and their stage of economic development is different.

However, there are many things in common in market mechanisms, such as economy, management principles and economic units. This document has been prepared for the purpose of helping policymakers in transition countries solve questions, troubles and unrest and providing guidelines on “what should be done tomorrow” (“action guidelines for tomorrow”).

## **2. Support measures for small and medium-sized enterprises in the world**

### **(1) Industry trend in the world**

#### **- Progress in globalization -**

The movement of “production and sale at the most appropriate place in the world,” or globalization movement, has been making a rapid progress. This has been made possible as a result of a sharp increase in the volume, scope and speed of international movement of “people, goods, money, technology, and information” brought about by the

liberalization of trade, investment and capital and the communication innovation brought about by recent IT revolution.

Corporations in the world, regardless of whether they are producers of labor-intensive goods, capital-intensive goods, or technology-intensive goods, are engaged in intensifying competition on a global scale, seeking the most appropriate place to sell and market their goods in the world. As a result, there are cases where a flood of high-quality yet low-priced goods from abroad has dealt a “crushing” blow to a country’s industry. And some companies are establishing production bases abroad at fever pitch by investing a huge amount of money in a bid to seek abundant labor force and management resources for low-cost production and development of goods.

One specific example of the globalization movement can be observed in China’s coastal region, where world-leading “manufacturing places” are now being concentrated. The goods produced in the region, mostly low-priced goods, are increasing their market share in Southeast Asia, the Middle East, South and Central America, and even in the U.S., posing a threat to Japanese companies.

[1] The Pearl River Delta in Guangdong Province

Starting with the advance of Hong Kong firms in the 1980s, Japanese, Taiwanese, U.S., European, and South Korean firms have established labor-intensive assembly plants for goods bound for export. The Delta region has formed one of the world-leading clusters of electronic parts and electric appliance assembly industries.

[2] The Yangtze Delta extending over Shanghai and its surrounding provinces

Foreign investment is increasing sharply in the fields of high technology and capital equipment, such as semiconductors, personal computers, cellular phones and their components, as well as in conventional products like textile and automobiles. They are all designed for sale on the Chinese domestic market.

[3] Cluster of software development and IT-related research functions in Zhongguancun, an area in northwestern part of Beijing known as China's "Silicon Valley."

More than 1,000 groups of industry-academic cooperative corporations that put to practical use research results of more than 70 universities, including Beijing University, in the region, and 7,000 Chinese and foreign IT-related firms that take advantage of the abundant supply of talented and low-wage software workers are clustered.

Against these backgrounds, many countries are striving to improve business

environment in order to enhance the competitiveness of their industries and attract investment from abroad.

**- Shift to knowledge-intensive economy -**

As to factors to enhance the competitiveness of corporations, the emphasis has shifted to the “productivity of knowledge labor” from what the conventional economics calls productive resources –land, labor and capital. Moreover, the weight of added value has shifted from conventional mass-produced products to innovative new products that utilize high technology.

In the circumstances, each country is required to tackle with new problems, such as the establishment of an infrastructure for technical development, training of engineers, mutual use of technical know-how, and the establishment of a system to provide risk money to make it possible to commercialize new products.

**(2) Ever increasing importance of “small and medium-sized enterprise” in transition countries**

**- Quantitative ratio -**

The percentage that small and medium-sized enterprises account for in the economy of each country is as follow. They play an important role in terms of quantity in each country’s economy.

[1] Number of companies: More than 99% (Japan, U.S., Germany)

[2] Number of employee: 66% in Japan, 53% in the U.S., 68% in Germany

[3] Value added: 55% in Japan, 51% in the U.S., 45% in Germany

**- Qualitative role -**

Small and medium-sized enterprises exist in the following fields. They play an important role in national economy by providing various goods and services, forming a structure of division of labor, creating attractive job opportunities, developing regional economies and communities, providing a “nursery” for market competition, and offering innovation.

**A. Manufacturing industry**

- a) Goods produced by using skills that are developed historically and accumulated by individuals (traditional handicrafts, etc.)
- b) Products whose raw materials and goods are limited in terms of transferable

time. (foods, etc.)

- c) Fields in which there are many processing and manufacturing methods and whose economic efficiency can be enhanced by specializing them in the areas of expertise. (Parts and processing support industries for automobiles, home electric appliances, etc.)
- d) Products whose market size is too small for big companies to enter into
- e) Fields in which innovative entrepreneurs take risks, commercialize new technology and develop a new type of business

#### B. Distribution industry

In order to distribute a variety of goods efficiently from the manufacturers to consumers, the existence of many small and medium-sized enterprises having business tie-ups is essential.

#### C. Service industry

There are many types of services both for businesses and individuals. However, due to constraints of time and distance, a large number of small and medium-sized enterprises are needed to provide them.

In addition, the following new movements have emerged to respond to recent industrial innovations. The fields in which small and medium-sized enterprises have reasons for existence have expanded and their roles are expected to increase further.

[1] An increasing number of companies, in a bid to strengthen their competitiveness, are concentrating their management resources on the business fields that produce competitive superiority and outsourcing other businesses. Small and medium-sized enterprises are taking over the outsourced businesses.

[2] When new growth fields are urgently sought after amid matured economy, highly motivated entrepreneurs who are willing to take risks and develop new products and new production and marketing methods by using innovative technologies have emerged and they are successful in their endeavor.

[3] In line with an increase in personal income, demand for a variety of services has increased, offering greater opportunities for small and medium-sized enterprises to provide meticulously thought after services in response to such demand.

### **(3) Objectives of small and medium-sized enterprise support policies in various countries**

Faced with the above industrial trend in the world, increasing importance of the existence of small and medium-sized enterprises and increasing expectations on them,

many countries are, with a sense of crisis, planning and implementing policies designed to reform business environment and enhance the potentials of each economic unit in order to strengthen their competitiveness and promote new economic development.

There are three approaches to achieve the above objectives.

[1] Reform of economic and social institutions and systems (so-called “structural reform”)

- A. Financial system and market (Revitalizing the stock market to provide risk money to growth-oriented enterprises, such as venture firms, and diversifying fund supply sources)
- B. Corporate system (Establishment of a company, accounting and tax system, information disclosure and corporate governance, disposal of bankrupt companies)
- C. Training to improve and utilize human resources, labor system, man power market
- D. Management and technology information, accumulation and use of knowledge (“cooperation among industry, academics and government” etc.)
- E. Hardware infrastructure (roads, harbors, electricity, gas, water supply, communications, etc.)

[2] Establishing a level playing field (“Complementation of market function”)

Since small and medium-sized enterprises and new companies are small in scale and differ greatly in profitability and growth potential from one company to another, they are more likely to face various difficulties in raising funds and securing human resources than big corporations in business for long years. In other words, they often find themselves unable to raise enough funds in the financial/capital market, as the amount of funds they require is relatively in small lot and as it is often difficult for financial institutions and investors to evaluate the profitability and growth potential of small and medium-sized enterprises and new companies beforehand. Since they are less known than big corporations, small and medium-sized enterprises and new companies often find it difficult to recruit talented personnel. It is also difficult for small and medium-sized enterprises to hold all of the soft management resources, such as management know-how, technology and information, within the company. To acquire such management resources, small and medium-sized enterprises often have to spend a huge amount of money relative to their size. In order for the market to function

properly, conditions for fair competition has to be ensured. But, small and medium-sized enterprises are often put in a disadvantageous position due to unfair transactions. Therefore, it is necessary to supplement such insufficient market functions and establish competitive conditions.

#### A. Access to fund

Small and medium-sized enterprises are placed in a disadvantageous position in borrowing funds from banks from the very beginning due in part to reasons on their side (insufficient collateral, credibility, lack of business achievements, lack of know-how and experience in fund raising) and due in part to reasons on the bank side (obtaining information on borrowers, credit screening capability and experience, monitoring, back-office cost, etc.). Moreover, given the function and nature of private financial institutions, it is often difficult for banks to lend long-term funds and startup money.

Therefore, the following systems are necessary.

- a) Credit guarantee system (A system under which a public organization guarantees debt payments for small and medium-sized enterprises and subrogate the debts to financial institutions in case of default. It is designed to facilitate fund supply to small and medium-sized enterprises by supplementing the lack of credibility and collateral of small and medium-sized enterprises.)
- b) Public finance system (A system under which the central or local government establish a public financial institution and provide long-term capital investment funds, export operating funds, or startup money to small and medium-sized enterprises on flexible terms)

#### B. Access to soft management resources

“Soft management resources” refer to resources (excluding equipment and fund) that are necessary when small and medium-sized enterprises or those who want to start business conduct various management activities, such as planning of products, development of technology and design, and development of sales channels. In other words, they refer to management know-how, technology, manpower, and information. As the basic conditions for small and medium-sized enterprises to engage in high value-added businesses, the importance of the conventional hard management resources (equipment) has decreased. Instead, improving and enhancing soft management resources, such as management know-how, technology and information, have become essential. However, it is difficult for small and medium-sized enterprises to hold all of these soft management resources within their organizations and is

sometimes inefficient to do so. It has become important to utilize outsiders (external management resources) who have necessary management know-how and technology, etc. Therefore, it is necessary to improve and enhance soft management resources that form the core of management strategy within small and medium-sized enterprises and at the same time to establish an environment that enables them to easily utilize external management resources.

To that end, it is necessary for the government to carry out the following measures.

- a) Management guidance, advice
- b) Promotion of cooperation between small and medium-sized enterprises and those who hold management resources necessary for small and medium-sized enterprises
- c) Technical guidance, research and experimentation, support for technical development
- d) Furnishing information

#### C. Manpower development

Since soft management resources that form the core of small and medium-sized enterprises, such as management know-how, technology and market information, are normally embodied in managers and employees of small and medium-sized enterprises, it is a basic management problem for small and medium-sized enterprises to enhance their human resources, including managers. Therefore, it is necessary to provide corporate managers and future entrepreneurs with opportunities to receive training concerning productivity improvement, quality improvement, technology enhancement, marketing and other management strategies and business management. (For example, such training should be provided by local governments, or in the case of training provided by industrial bodies, subsidies should be provided.)

As for training of officials in charge of implementing policies for small and medium-sized enterprises or in charge of guiding them, the central government should establish and manage a “small and medium-sized enterprise college.”

[3] Implementation of projects to support the establishment of a business as part of “reviving regional economies”

Measures are now being taken to establish a system to support the establishment of a business on a regional basis in many countries against the following backgrounds.

- A. Due to a sudden change in industrial structure, the vitality of new industries and corporations that supports regional economies and creates job opportunities is urgently called for. What boils down to is how to

establish sound and prosperous communities that are economically independent.

- B. Thanks to the advance in communications technology, transportation means and decentralization of power, the mechanism to nourish new industries on a regional basis is now in place. And management resources of existing state-run enterprises and the technical seeds of universities and research institutions are available.

Measures to support the establishment of a business should be promoted as an integral part of regional policies for the following reasons:

- A) Establishment of a business is a superb social work and is possible only when it is supported by the network of the regional community and industrial cluster. Including entrepreneurs' mutual support, establishing a business takes on a community characteristic. Measures to support the establishment of a business become effective only when these points are taken into account. It is important to encourage the establishment of a business by making the best use of regional human resources and personnel relationships.
- B) It is possible to turn a regional community into a market. Regional community is a useful place to establish a foothold for securing a general market or establish a characteristic business by taking advantage of the management resources and geographical conditions peculiar to the region in procuring raw materials and technology.
- C) It is possible to map out industry policies in accordance with regional problems, such as restructuring or decline of existing industries, in accordance with the accumulation of industrial clusters and management resources, or in accordance with region's social needs, such as welfare for the elderly, and carry them out flexibly and positively based on the consensus of local residents and under the leadership of a self-governing body or other organizations. It is possible to take a policy stance slightly different from that for a national policy that has to be dealt with in a fair and impartial manner.

The following support for projects to establish a business is provided in accordance with the stage of entrepreneurial activity:

- A) Enlightenment and propagation
- B) Furnishing information
- C) Establishment of a place for interchanges and matching

- D) Manpower training
- E) Management support
- F) Incubation center
- G) Financing

The focus of these measures differs depending on the character of the region, for example, whether it is [1] a big market or big city, [2] a peripheral area of a university or research institution that provides human resources or technical seeds, [3] an area where the local industry is declining or from which key company has pulled out.

Measures are also being taken to create new industry clusters in various countries by focusing on the functions and merits of the following industry clusters.

A. External economic function of industry clusters

- Business complementary function
  - a) Making business activities efficient through process-by-process or horizontal specialization by taking advantage of technical superiority.
  - b) Enhancement of marketing strength by taking advantage of regional brands
  - c) Pursuing economies of scale by promoting cooperative ordering and purchasing by many related business operators
- Business enhancement function
  - a) Facilitating acquisition of latest information concerning market and business trends
  - b) Propagation of technology and accumulation of business know-how through the promotion of interchange and cooperation among many related business operators, such as joint researches and establishment of a business-to-business network.

B. Function to stimulate and promote business activities by arousing a sense of rivalry in business operators.

C. Function to promote business establishment and management innovation

**(4) Case study (Measures for small and medium-sized enterprises in the U.K.)**

It is said that the first attempt to recognize the role played by small and medium-sized enterprises in the U.K. national economy was the Bolton Commission Report of 1971. The report says, "small and medium-sized enterprises offer a sphere of activities to people with enterprising spirit, produce creative goods, services and

technology, and provide a means for a leap forward to up-and-coming entrepreneurs who will lead industrial circles of tomorrow. “

The Conservative Party, which took power in the general election in 1979, encouraged free market economy and market principles and stressed the importance of entrepreneurship. Under the leadership of Prime Minister Margaret Thatcher, the government adopted a “credit guarantee system for small enterprises” and tax incentive measures. The government of Prime Minister John Major succeeded these policies, stressing the importance of “enterprise” (designing and creating a business) in the small and medium-sized enterprise sector. The Major government adopted the following five policies to encourage and support “enterprise.”

[1] To strive to make the economy stable in order to make business and investment easy

[2] To produce excellent labor force by establishing an advanced education and training system

[3] To reduce tax burden and expand business opportunities for the private sector by reducing the number and role of public institutions

[4] To open British market through deregulation, flexible labor market and introduction of competitive forces

[5] To provide positive support to corporations by making full use of government’s resources and influence.

However, since the series of measures and systems for small and medium-sized enterprises adopted by the two successive prime ministers were implemented by various ministries and agencies in different ways, they invited criticism as being complicated, difficult to understand and redundant.

The Labour Party, which came into power for the first time in 18 years as a result of the general election in 1997, inaugurated the Small Business Service (SBS), a unified window for small and medium-sized enterprises, in April 2000.

The SBS was established as an organ under the Department of Trade and Industry (DTI) and its main missions are the following three points.

[1] To convey the opinions of small and medium-sized enterprises to the power center of the government

[2] To enhance the uniformity and content of the support services for small and medium-sized enterprises provided by the government

[3] To support small and medium-sized enterprises with regard to regulations and procedures concerning business management.

The government explains that the purpose of the establishment of the SBS is to coordinate policies among ministries and agencies concerned and set up a single, comprehensive organization within the government to work as intermediary on policies for small and medium-sized enterprises. The head of the SBS is granted the privilege to meet directly with the prime minister, underscoring the importance that the government of Prime Minister Tony Blair places on the new organization.

The declaration of the SBS is printed on the visiting cards of SBS executives as follows:

- A) The SBS Vision: By 2005, the UK should be the best place in the world to set up and run a business.
- B) The SBS Purpose: To build an enterprise society in which all smart business thrive and achieve their potential.

#### **(5) Recent problems and concerns**

The countries that have been implementing measures for small and medium-sized enterprises for a considerable number of years are striving to improve their policies in such ways as analyzing and evaluating the current situation and effects of their policies and comparing them with those of other countries.

In such analysis and evaluation, the emphasis is placed on the following points:

##### **[1] Improvement of policy evaluation**

In recent years, the importance of policy evaluation is increasing from the standpoint of enhancing the quality of policies and accountability. It is pointed out that new measures for small and medium-sized enterprises are implemented without fully evaluating previous measures. It is, therefore, necessary to establish and introduce policy-evaluation methods. In planning and drafting a measure, it is important to a) study the appropriateness of the measure in question, b) set a clear objective that has to be achieved through the implementation of the measure in question, and c) study the choice of the most suitable measure from more than one possible alternative measures as logically as possible and ensure the transparency and impartiality of the study process by utilizing a public comment system. After implementing a measure, it is important to study whether the measure has achieved its original objective, whether the costs incurred are within an expected range, whether the benefits produced by the

measure has reached the originally intended beneficiary, and whether the result has been produced thanks to the actual functioning of the mechanism originally assumed. It is also important to announce the results of the study in white paper on small and medium-sized enterprises or other government publication and feed back necessary information to organizations implementing various measures in order to make policy measures more effective and efficient.

It is also effective to carry out more focused policy evaluations by conducting necessary program evaluations (evaluation of each system and effectiveness and efficiency of business systems) in several fields of small and medium-sized enterprise policies, separately from the above mentioned establishment of policy planning and designing and policy evaluation methods.

#### [2] Use of private-sector capabilities

In implementing policies, it is important to introduce market principles as much as possible by entrusting to the private sector what can be entrusted to it and using private non-profit corporations and voluntary groups that support cooperation among companies, if they possess appropriate functions. In this way, it is possible to promote sound competition among organizations and between organizations and the private sector. It is also necessary to establish an appropriate environment for the creation and development of a market so that consultation and information on small and medium-sized enterprises and venture firms will be provided basically through the market.

### **3. Concerns of policymakers in transitions countries and responses to their questions**

#### **(1) Social understanding of small and medium-sized enterprises**

(Question)

The government stipulates in law and official documents that small and medium-sized enterprises play an important role as the base of domestic economic development. However, the society in general has only a vague idea of what small and medium-sized enterprises are and does not take a positive view of them. This appears to be the reason why there does not rise a move to establish or support small and medium-sized enterprises. What is the cause of this? And how should we deal with it?

(Answer)

It is idealistic if young people having specialized knowledge, technology, skill, a challenging spirit and a will to do business establish small and medium-sized enterprises and if the number of people wishing to play a central role in small and medium-sized enterprises increases. In other words, it is idealistic if there are people who make the best use of their ability to start a new business at their own risk and on their own responsibility and pursue profits under fair competitive rules.

Since young entrepreneurs do not have sufficient experience, know-how and resources, it is also idealistic for their acquaintances, community and administration to support them and make their businesses successful.

However, the reality is just the opposite. People's understanding of small and medium-sized enterprises is not sufficient. Especially in transition countries, small and medium-sized enterprises have the following handicaps.

[1] Due to the existence of the companies that are engaged in illegal or near illegal activities and are seeking exorbitant profits, people hate business itself.

[2] Foreign companies or other companies having strong competitive edge have incurred people's ill will as they forced a company familiar to the people to go bankrupt.

[3] There are many people who are resigned to their present live and unable to have a will to establish a business, as it is difficult to secure management resources necessary to establish and develop a business.

Society should recognize that it is important for people to establish a new business and conduct business activities and for the society and the government to provide support to the new business and that development of small and medium-sized enterprises constitutes the basis for the establishment of a sound economic community.

To this end, it is necessary to make long, sustained efforts to educate and enlighten people and publicize at various levels and on various occasions the significance of business, ideal business, success stories, and contribution to the society by citing examples both at home and abroad.

## **(2) Move toward simple and appropriate administrative procedures and regulations**

(Question)

Many people complaint that cumbersome procedures for obtaining permissions and registrations to establish and start a business have forced them to abandon business. It

is also pointed out that procedures lack fairness, impartiality and transparency. These complaints are filed not only by domestic corporations but also by foreign-capital firms. How should we approach and deal with the problem?

(Answer)

The world is moving toward easing procedures and regulations concerning business activities. In Japan, for example, it is estimated that deregulation will create jobs for about one million people. In transition countries, since enterprises were run by the state, people are excessively cautious about private individuals running businesses. The government, enterprises and entrepreneurs wishing to start a business do not have occasions or experiences to discuss at length as to why particular regulations are necessary, what are approval standards, and whether procedures are transparent.

Meanwhile, people wishing to start new businesses do not have experience of preparing a business plan, securing funds, manpower and other management resources, selecting and securing an office, procuring raw materials and equipment, securing clients, and preparing account books. In addition, they have to make applications for permissions and registrations to various administrative offices. It is true that there are many questions raised and complaints filed regarding the social and economic need of permissions, their vague approval standards, and too many documents that have to be submitted, and that they are putting great pressure on the entrepreneurs. Many entrepreneurs have given up their businesses or lost enthusiasm due to the cumbersome procedures.

In order to improve the situation, it is necessary to make the following policies clear and act accordingly.

[1] Since policymakers themselves may not know the whole picture of regulations, it is necessary to classify regulations according to the ministry and agency in charge and arrange them by entrepreneurial activity.

[2] Preparation and implementation of a basic policy to reduce regulations

First, make it a rule to bring regulations to zero. Exceptions are when there is a “clear and imminent danger” to “life and body,” “environment,” or “trust in economic order.” The government should discuss to regulate only in those cases and set forth clearly a policy to reduce regulations. When it regulates, the government should explain and publicize the necessity to do so, approval standards, procedures and documentation manual.

[3] Proper conduct of business by administrative officials in charge of procedures

In transition countries, administrative officials’ inappropriate conduct of business

“arrogance, laziness, and offering illegal profits to a specific person”) is a problem. This not only has negative impacts on the business activities of small and medium-sized enterprises but also cause a loss of trust in “public.” Government’s measures to support small and medium-sized enterprises are impracticable unless they win trust of entrepreneurs and would-be entrepreneurs. Therefore, it is essential to educate and train administrative officials on proper conduct of business.

(Reference)

“PriceWaterhouse,” one of the world leading accounting firms, published a “Opacity Index,” a country-by-country opacity in direct investment. It indexed the country-by-country opacity of the following five items and averaged them: [1] corruption, [2] legal system, [3] government’s economic policy, [4] accounting standard and information disclosure by corporations, banks and government, and [5] regulations.

The opacity indexes of the 34 countries surveyed are as follows.

1<sup>st</sup>: Russia (84), 2<sup>nd</sup>: Indonesia (75), 3<sup>rd</sup>: South Korea (73), 4<sup>th</sup>: Czech (71), 5<sup>th</sup>: Thailand (67). Japan ranked 18<sup>th</sup> at 60.

The accounting firm estimates that direct investment not materialized due to the opacity amounted to \$9,802 million for Russia and \$8,662 million for Japan.

**(3) Matters that have to be understood in policy planning and implementation:  
“Management of small and medium-sized enterprises in transition countries”**

(Question)

[1] Business activities of small and medium-sized enterprises are complicated and diversified. How should we view the business?

[2] What is the mechanism that promotes establishment of a business?

[3] What should we keep in mind when supporting establishment of a business?

(Answer)

(How to view the business of small and medium-sized enterprises)

Needless to say, the actual business of an enterprise consists of extremely diversified activities. Individual activities combined as a whole constitute a business. “The advantage or disadvantage of an enterprise is the result of its total activities, not the result of activities of part of its business.” In the case of a manufacturer, business

activities include development, production, marketing, delivery, and after-sales services and each of them consists of many sub-activities. A business is a system consisting of many individual activities and each activity contributes to enhancing the competitiveness of the business.

It is important to understand that individual activities have their own meaning and they are not only indispensable but are interacting and connected with each other. Furthermore, it is important to see a business in its entirety, including its relations with customer needs.

“Concept of business space” (a view that a business consists of three dimensions – market, management resources/capabilities, and customer satisfaction – and that they are inter-related) is useful to understand “business” specifically and systematically.

The first factor is enterprise’s management resources and capabilities. They include manpower, capital, strategy, organization structure, distribution and information system, leadership, technology, and marketing skills. What is important is to build up business capabilities by using limited management resources.

The second factor is customer satisfaction. Enterprises exist by conducting business to satisfy various needs of customers and the society. Value in the business is created when customer needs are satisfied.

A business can be continued if it develops and provides a product/service or technology that has socially useful value. When the value is great for customers, the product/service has a strong appealing power. The management resources/capabilities that produce such a product/service is the source of competitiveness.

The third factor is market. An enterprise has to choose a business segment in which it is going to engage. Depending on which business segment it chooses, the conditions for competition will change and the enterprise capability that has to be built up will be affected. Market can be subdivided into quality, materials, production method, use, and geographical scope, etc.

If a business is seen from the above angle, there are many chances to find a business opportunity in the main factors of the business space. It is possible to get a business opportunity through positive creation. Innovation or competition has a diversified and comprehensive nature. It may be market creation or it may be revolution of technology, business system or strategy. Business space is the space where enterprises are competing costs and quality in the market, while facing directly with customers. It is also the space where enterprises are competing in development of products, expansion of sales networks and training of employees.

(Mechanism that promotes establishment of a business)

[1] Social environment/awareness

- A. Social evaluation of entrepreneurs (self-help and mutual assistance)
- B. Manpower liquidity, skill society (specialist and generalist)
- C. Incentives for risk-taking (income tax, capital loss, stock option)
- D. Easing the risk of failure (social tolerance, guarantee of personal life)
- E. Flexibility of new business and social burden (regulations, permissions)

[2] Supporting sector

- A. Fund supplying sector (individual investors, regional funds, venture capital, investment banks, etc.)
- B. Facility support sector (public and private incubators, industrial parks, facility sharing)
- C. Educational support sector (management, finance, computer operations, etc.)
- D. Technical research sector (cooperation with universities and public research institutes, etc.)
- E. Other sectors (tie-ups with other enterprises at home and abroad (fund, market, distribution channel, access), supplier network, mutual cooperation among entrepreneurs)

(Matters that require attention when supporting establishment of a business)

[1] Providing information on starting a business. New entrepreneurs, in particular, need this support. Information on starting a business is also useful for existing small and medium-sized enterprises to realize a new business opportunity. For entrepreneurs and small and medium-sized enterprises wishing to realize business opportunities, the first and most fundamental problem is that they don't know where they can get information. Due to the absence of unified support information and support office, much of the information on public support is not utilized effectively as it does not reach enterprises and entrepreneurs.

One way to improve the situation is to establish a system to make access to information easy and provide unified support information.

Another way to improve information support is for universities and enterprises to establish forums and human networks. Introducing entrepreneurs' ideas and promoting matching through these forums and networks will be useful in fostering new businesses. In order to boost entrepreneurial activity, it is necessary to secure a place for permanent exchanges of information and strengthen its matching function.

[2] In order to realize a business opportunity, it is necessary to secure manpower that carries out the business. One person's ability to manage business operations speedily is limited. Since new companies are expected to face a shortage of manpower, it is necessary to provide and develop manpower. Since manpower is important in that it carries out necessary management functions, an infrastructure has to be established for the development, recruitment and training of manpower. Since new enterprises face many problems, such as procurement of capital and development of sales channels, from their initial stage and since it is often difficult for individual entrepreneurs with little business experience to define a business concept and draw a business plan, it is necessary to provide support for them. It is also necessary to provide management support necessary for organizational and financial management.

[3] Providing support for fund procurement, as businesses always tend to face a shortage of funds.

It is necessary to achieve strengthening financial position and marketing functions, expansion of productive investment, and advancement of development, not individually but as a whole.

[4] It is necessary to provide support for the enhancement of productivity, quality, production technology and research and development capability.

[5] Providing support for marketing, such as understanding of customer needs and establishment of a sales organization

Making excessive capital investment when a sales organization is not in place will considerably increase business risks.

[6] Promotion of deregulation. Many regulations constitute entry barriers for new enterprises, making it difficult for them to realize business opportunities. Deregulation is an important measure to support new businesses.

[7] In order to give social incentives to start new businesses, it is necessary to help new enterprises strengthen financial positions by cutting taxes on them for a certain period and thereby promoting their fund procurement.

#### **(4) Relationship between economic restructuring and policies for small and medium-sized enterprises**

(Question)

It is said that, in transition countries, economic restructuring should be implemented simultaneously with policies for small and medium-sized enterprises. How should we view the relationship between the two?

(Answer)

The objective of economic restructuring is to make economic growth possible under the optimum condition of the activity of each economic unit with regard to individuals, corporate ownership protection system, commodity exchange, corporate system, financial system, market, manpower/labor system and market, technology/management knowledge, know-how accumulation system, consumer protection, and environment protection system. However, economic restructuring takes decades even in advanced countries. In fact, they are still making reform efforts. Since transition countries need to start with construction of an economic foundation, it is a matter that should be dealt with from a long-term perspective.

In order to ensure establishment and development of many small and medium-sized enterprises and to prevent them from being hampered, small and medium-sized enterprises should be given a chance to understand the content of the system and express their views.

Meanwhile, we are faced with the imminent problems of in what industrial fields we should play a role in the international division of labor in response to the rapid progress of economic globalization and how to foster and develop industries that make regional development possible.

It may be possible to cope with the problems by attracting foreign-capital firms and reorganizing state-run enterprises. But such measures are possible only in limited fields and regions. Therefore, it is necessary to promote policies focused on small and medium-sized enterprises.

Among small and medium-sized enterprise measures to enhance competitiveness, such measures as a loan system and guidance by experts that complement market mechanism will be available. But, attention should be paid to the following points.

[1] Even if a system similar to other country's is established, it may not have as much effect as expected.

[2] It requires a considerable amount of know-how and a setup to operate a system.

[3] A system established at the initiative of the central government may not be used by local governments.

Therefore, it is more practicable to start with a loan system and guidance by experts that are focused on regional projects.

**(5) Moves to foster "industrial buds" in regional areas and support for them**

(Question)

In recent years, there are growing moves to develop regional industries in many regions. What is the background of this?

How should we support to make them successful?

(Answer)

There are pressing needs to maintain and develop regional communities by providing “work place” to the unemployed and young people. Also, there are specific business seeds (management resources that form the core of entrepreneurial activity, such as raw materials, technology, skill, and manpower). Therefore, there are growing regional moves to support efforts to put “entrepreneurial buds” to practical use and establish new businesses. The question is how to find out business seeds and refine them, and whether they can be turned into prosperous, sustainable businesses by introducing other management resources. First, they should be dealt with by entrepreneurs and would-be entrepreneurs on their self-help efforts and in cooperation with their acquaintances. However, their efforts alone would not be enough. It is, therefore, hoped that regional administrations will provide the following support.

- A. Start-up loans
- B. Establishment of incubation facilities
- C. Experts’ advice on productivity improvement, quality improvement, and marketing reinforcement
- D. Coordination with nearby universities, research institutes, financial institutions, and trade associations

Although local administrations can provide support efficiently in accordance with the situation of each project, they lack in financial resources and technical experts. Therefore, it is necessary for the central government to supplement local governments’ support functions by establishing a loan system and operating a system to find, register, and dispatch technical experts.

**(6) Matters that are necessary in planning and implementing measures for small and medium-sized enterprises**

(Question)

What should always be kept in mind when planning and implementing measures for small and medium-sized enterprises?

(Answer)

The following matters should be kept in mind.

[1] Conduct on-the-spot inspection and listen to opinions of industrial circles in order to grasp the actual situation

Policymakers tend to think, examine, and decide policies “at the desk of their office in the capital” and do not have many chances to hear the actual situation and problems of small and medium-sized enterprise operations, and management’s opinions and requests. Therefore, the policies are often realistic and their effects are limited. In order to overcome this, it is necessary to visit small and medium-sized enterprises and grasp the actual situation directly. It is also effective to hear points at issue in industry and region and requests and opinions on policies from representatives of industry groups, leading companies, and regional organizations.

[2] Advertisement for policy propagation

It is often pointed out that policies for small and medium-sized enterprises are difficult to understand and not well known. This is because not only central government ministries and agencies but also policy-implementation organizations of local governments and their related organizations are not making enough efforts to propagate and promote the use of the policies to small and medium-sized enterprises. Therefore, central government ministries and agencies as well as local governments and their policy-implementation organizations should actively utilize newspapers, the Internet and other media, reinforce counseling offices, and establish a system to positively and actively propagate policies to small and medium-sized enterprises. Since normal policy-propagation method may not be sufficient for those who plan to start a business or who have started a business only recently, it is necessary to establish a more positive propagation system (advertisement by television and in trains and buses).

[3] Compilation of statistics and corporate data

Although compilation of statistics and corporate data does not generate a business effect directly, it is essential for deciding policy targets, implementing policies and grasping the effect of the policies. Therefore, it is necessary to promote the compilation of such data and statistics systematically in cooperation with ministries and agencies concerned (tax and registry offices).