

Lessons from SME Promotion by Local Governments in Japan: Its Applicability to Other Economies

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Introduction

SME promotion has been a focal point of a nation's development. In that regard, Japan has captured attention from emerging economies for its successful experience in achieving economic development in the postwar period by providing comprehensive support to SMEs.

Today, implementation of SME promotion programs in Japan has emphasized the role of local governments, namely 47 prefectures and 1,718 municipalities (villages, towns, and cities excluding 20 ordinance designated cities, which have almost equivalent authorities as prefectures.)

The difference between national and local government in SME promotion is manifested in terms of the budget. In FY2016, expenses on SME measures by the Japanese government accounted for ¥181 billion, merely 0.18% of the total national budget. Meanwhile, at the local level, expenses for commercial and industrial promotion shares 7.2% for prefectures and 3.4% for municipalities, respectively.

This article therefore focuses on how the experience of Japan in formulating and implementing SME promotion programs at the local level can be utilized for other economies intending to foster development of their respective SMEs.

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For that purpose, first it reviews the historical development of Japan's SME policy in the postwar period, with an emphasis on the revision of SME Basic Law. Then it argues the process of SME promotion phase-by-phase, including formulation, implementation, and evaluation. Finally, some cases of municipalities in Osaka are introduced to identify opportunities and challenges of local governments in carrying out SME promotion.

1. Development of Japan's SME Policy

1. 1. SME Basic Act and Its Revisions

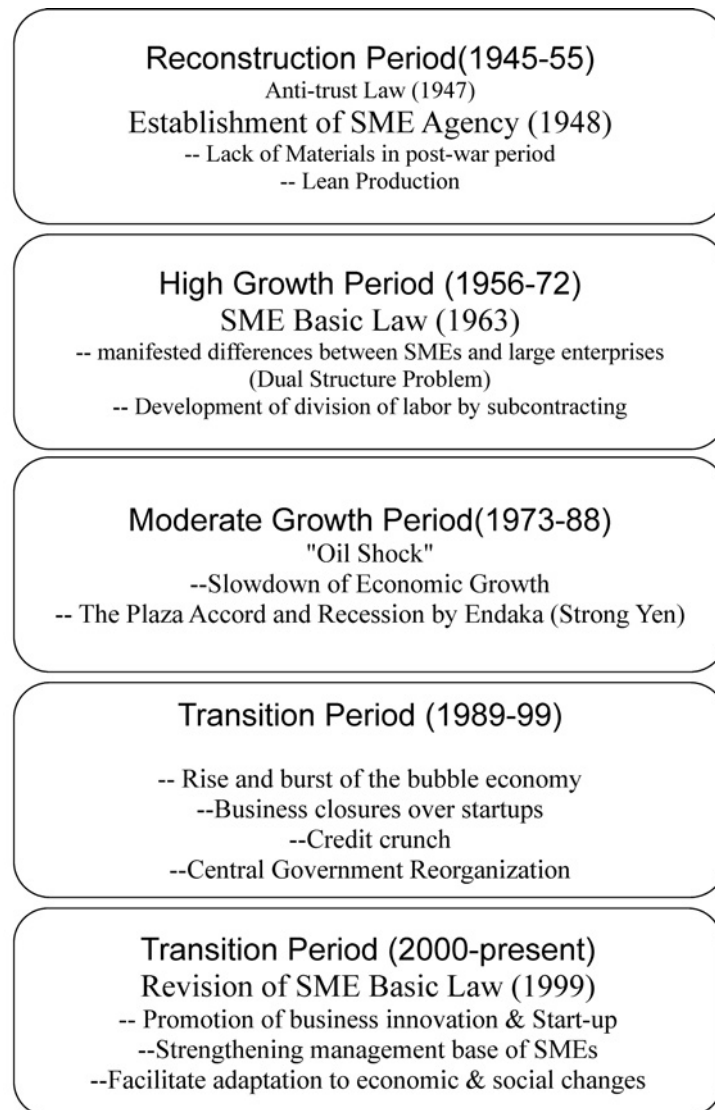


Chart 1. Brief History of SME Policy in Japan (1945-present)

Source: SME Agency

Chart 1 summarizes the postwar development of SME policy in Japan, divided by several periods. SME Agency was created as early as 1948 to ensure the competitive environment in the market through the development of independent SMEs.

In the high-growth period from 1955, Japanese economy faced an issue of dual structure, where the modern and non-modern sectors coincided within the economy, and the gap in productivity by company scale was manifested. SME Basic Act was enacted in 1963 mainly to fill such gap by assisting modernization of SMEs.

SME Basic Act encountered a major revision after 36 years in 1999. It was led by the fact that the SMEs made investment with policy support through high economic growth period, then independent medium-size enterprise emerged. Difference between large and small enterprises had narrowed, and positive contribution of SMEs was emphasized as the background to lead to the revision. It was a tremendous turnaround in terms of the view toward SMEs, objectives of SME policy, and major policy targets.

Another revision of SME Basic Act came as recent as 2013. The government focuses more on smaller businesses, adding “small businesses contribute to the stability of the local economy and social and economic development” to the basic philosophy: The revision also added new areas of SME policy as follows: 1) Promote start-ups esp. for female and youth, 2) Overseas business activities, 3) Use of IT, and 4) Smooth business succession. The shift of focus target toward smaller business implies the further involvement of local government required in implementing support programs, as small businesses are more closely tied with local economies.

Meanwhile, it should be noted that even before the World War II, several factors existed in Japan regarded as preconditions to the development of SMEs, such as: 1) Industry groups that led to associations & used as policy targets; 2) Wholesalers to organize small producers and provide marketing information and financial flexibility; and, 3) Public testing laboratories to give advices to small manufacturers in tech and marketing.

1. 2. Role of local governments in SME promotion

The Current SME Basic Act defines the relationship between national and local governments as follows:

“Local public entities are responsible for formulating and implementing measures for SMEs which are suited to the natural, economic or social conditions in a local public entity’s locality, and which are in accordance with the basic principles and based on an appropriate division of roles with the State.” (Article 6, underlined by author)

Accordingly, local governments implement their own programs while they also act as instruments to execute national government programs.

In the meantime, an increasing number of local governments in Japan has enacted their own ordinances (equivalent to the national law) on SME promotion. A survey by The National Conference of the Association of Small Business Entrepreneurs revealed that 40 out of 47 prefectures and 172 of 1718 municipalities had enacted some form of ordinances on SME promotion. This kind of ordinance is regarded as more philosophical than practical, showing consistent commitments of local governments to SMEs.

While the issues of coordination between national and local government as well as among local governments should be considered as challenges, local governments have come to create numerous programs in variety of policy areas. As shown in Figure 1, indicating number of policy programs available for application for SMEs as of November 2017, areas of support ranges from business start-ups to intellectual property, provided

	Total	National	Prefectural	Municipal
Business Start-up	42	3	13	26
R&D/Product Development	27	11	6	10
Marketing	29	13	5	11
Overseas Business Development	13	6	2	5
Management Improvement/Business Succession	16	7	4	5
Business Restructuring	13	4	0	9
Employment/Human Resources	41	21	10	10
Equipment Investment	36	6	13	17
Intellectual Property	7	3	2	2
Energy/Environment	6	3	2	1
Health/Medical	6	3	2	1
Others	23	7	4	12
Total	259	87	63	109

Figure 1. Number of SME Promotion Measures (By Categories, November 2017)

Source: SMEA “*Mirasapo Sesaku Mappu*” (<https://map.mirasapo.jp/> last viewed on 11/6/2017), figures calculated by author.

from all layers of government, both national and local.

Thus, the public sector in Japan, especially at the local level, seemingly have ample capacity to provide the comprehensive support to their local SMEs. Nevertheless, it should be noted that for SMEs, finding measures best suited for their activities could be totally another story than those measures being existent. The fact that “Comprehensive Guide to SME Policies in Japan 2017” contains 346 pages of support measures suggests the issue of delivering appropriate programs to the right recipients.

1. 3. Current policy categories and challenges

A comparison of categories of SME support with the structure under SME Basic Law before the major revision in 1999 and the current one, as shown in Table 1, indicates some similarities. Yet, the public sector faces the challenges of coping with rapid changes in business environment. While SME Agency recognizes following issues, methods they employ could still be conventional:

Table 1. Categories of SME Policy Programs

Under SME Basic Law before 1999 revision	In 2017
Financing	Financing
Industry-specific promotion measures	Business support
Organization building (Encouraged to form industry associations)	Technology
Management diagnosis / advising	Management
Adjustment of Disadvantages in Business Activities	Marketing (Domestic & Overseas)
Commercial policies	Tax & Accounting
	Commercial sector & regional support
	Consultancy & information services

Source: SME Agency (compiled by author)

- Slowdown of business growth with little room for domestic market expansion,
- Aging management reflected by demography of the Japanese society,
(Mode of managers age were 47 in 1995, 66 in 2015)
- Gap in productivity of SMEs and large enterprises widening, and

-- Investment in IT and overseas business

(SMEs invested more on those fields tend to achieve higher sales and productivity).

It suggests that the future of SME promotion in Japan may need to involve much more than the ordinary approach, namely in labor, education, and cross-cultural communication, which would require wider collaboration with other policy areas.

2. Process of SME Promotion at the Local Level

2. 1. Policy formulation

This section discusses SME promotion at the local level from three aspects; namely, policy formulation, implementation, and evaluation. In terms of policy formulation, the public sector should take several factors into account. First, they should have tools to understand the economic and industrial situation and issues surrounding local SMEs.

Table 2. Economic Visions of Osaka Prefecture, 1980-2000

Name	Year	Body of Formulation	Background	Philosophy	Targeted Industries
Osaka Industry Vision '80	1980	Prefectural Government and Osaka Prefecture Council for Commerce & Industry Promotion	Recession by oil shock Energy/resource constraint Diversified needs of people	Upgrade to creative & knowledge-intensified industries Starting from uniqueness of Osaka	Specialized machinery, electronics, apparel, fine chemical industries Medical/healthcare, education, culture, leisure/lifestyle related industries Oil/mineral resources related industries energy & resource-saving industries Advanced technology industries including aerospace, information
21 st Century Industry Vision Osaka	1987	Prefectural Government and Osaka Prefecture Council for Commerce & Industry Promotion	Rapid internationalization by appreciation of Yen after the Plaza Accord	Measures for internationalization Promotion of informatization Measures for technological innovation Development of vital activities of SMEs Measures for soft economy & society Creating attractive metropolitan area	Hybrid advanced industries Neo-infrastructure industries
Osaka Industry Promotion Strategy	1994	Prefectural Government (with external committee)	Intensified global competition Saturation of domestic market Post-bubble stagnation	Creative & Dynamic Osaka, developing with Asia/Pacific region: Upgrading industries Internationalization Creating Urban Attraction	Unspecified (High-tech industries and venture businesses in general)
Osaka Industry Regeneration Program	2000	Prefectural Government (with external committee)	Fear of decline of the Osaka economy	Rebuilding Osaka To The City of New Business Generation: Revitalize SMEs Foster businesses in new industry clusters Enhance attractiveness of the city	ICT Environment/energy Biotechnology Health/welfare

Source: Hirai [2004]

Second, the process of formulating policy should reflect voices of concerned parties. Third, the policy programs need to be consistent with their higher-tier visions or master plans.

Table 2 shows the summary of policy formulation, taking the Osaka Prefectural Government from 1980 to 2000 as an example. It indicates that in creating visions, a broader plan including policy programs, they had tried to incorporate parties concerned, in the form of permanent council until 1990s, or ad-hoc committee afterwards. They attempted to foresee the desired vision of Osaka industry, setting target industry to promote. While not all of their understandings proved accurate in the hindsight, at least they have gone through the process of grasping the situation as the background, then proposed possible policy measures to cope with issues.

2. 2. Implementation

Creating policy programs and implementing them should be considered as a separate issue. Understanding of SMEs the kind of instruments they can turn in case of seeking assistance would be a crucial issue.

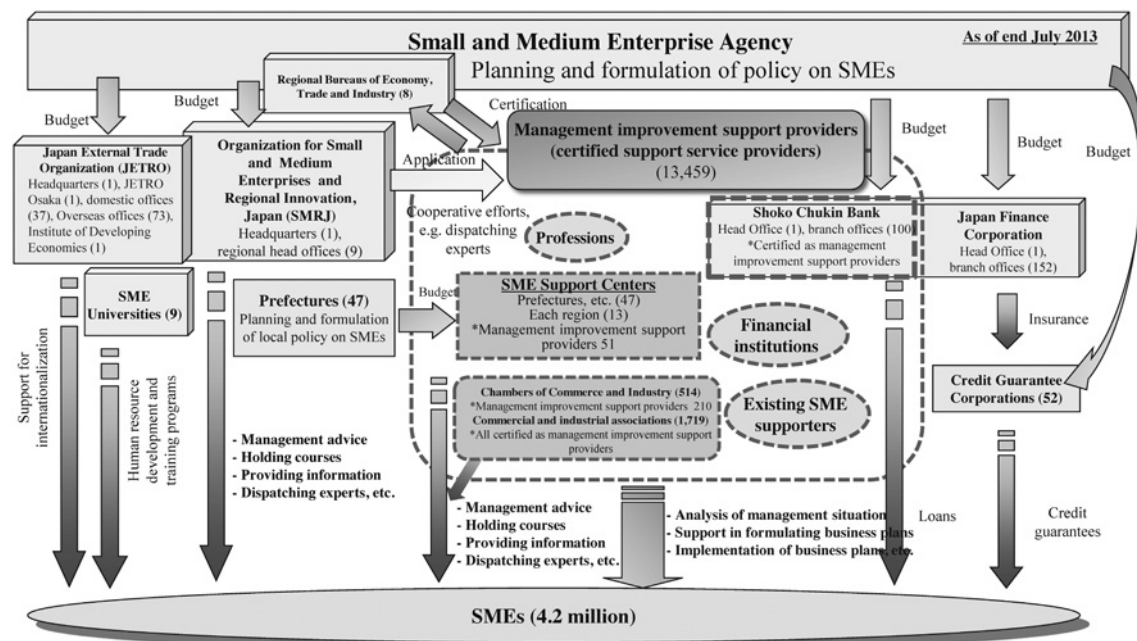


Chart 2. Organizations to Support SMEs in Japan

Source: SME Agency

Chart 2 illustrates SME supporting system in Japan. One instrument missing in this chart could be public testing and research laboratories supported by the prefectural level. Rooting from the pre-World War II period when the Japanese government aimed at catching up with the U.S. and Europe in its technological level, public research laboratories have acted both as a consulting body for SMEs, and as an intermediary for matching resources such as academic institutions with SMEs, which leads to innovative activities.

Especially at the local level, SME support centers and chambers/associations of commerce and industry would be the most notable points to access by individual SMEs. While they may try to emulate themselves as “one-stop” center for SMEs, where they can solve all the issues in one place thus minimizing the cost, oftentimes it is not realistic given the complexity and specialization of issues SMEs could encounter. Therefore, linking and sharing information among organization would be a feasible solution for the convenience of SMEs, which has a long way to achieve.

Also in implementation, not only recognizing the existence of policy programs but also the ease of use should be emphasized. A survey made by METI in 2014 revealed that some programs such as public financing support were recognized more than 70% of respondents, but used by those with much lower rate. To overcome this issue, local governments should consider employing methods to reach individual companies to understand their needs and lower barriers to access public support.

2. 3. Evaluation

For the sake of effective use of public resources, the evaluation of SME support program has become a key issue for the local government. In many local governments in Japan, they have been employing a methodology used in private businesses featuring KPI, or Key Performance Indicators. Usually KPI is composed by specific figures in statistics, or survey results, to show the effectiveness of policy programs in both quantitative and qualitative manner.

While it intends to secure transparency, and could be beneficial for better implementation of programs by helping to moving PDCA cycle, some cautions should be exercised. First, such figures should be provided with timely and cost-effective fashion. It

also should be figures that can be reviewable and examinable. Third, they should be what they can control with their measures. At least they should be able to relate changes in KPI to the result of implementation of programs.

3. Cases of Municipalities in Osaka

With the above discussion, this section features cases from two municipalities, namely Shijonawate and Izumiotsu, both located in Osaka, for their recent attempts to formulate, implement, and evaluate SME policy programs.

Figure 2 shows the profiles of both cities. Their size and situation could resemble to other local level government outside Japan, thus providing an appropriate comparison.

	Shijonawate	Izumiotsu
Area (sq.km)	18.69	14.31
Population	55,832	75,551
Number of Business	1,761	3,451
Major industries	commerce, agriculture, tourism	blanket, knitwear

Figure 2. Cases of Municipalities in Osaka

Source: Osaka Prefectural Government

3. 1. Shijonawate: Formulation and implementation

City of Shijonawate launched an initiative to formulate their industry promotion vision in 2010. Then-mayor decided to attract the location of large-scale shopping complex to the city, which led to dissatisfaction of local small-scale shop proprietors who felt threatened their business future. To compensate the issue, the city decided to present a set of policy programs. An ad-hoc committee was formed, comprised by local representatives in industrial, commercial, agricultural, and tourism businesses.

The committee was chaired by a university faculty, by exchanging MOU with his affiliation. They first conducted surveys to shop proprietors, giving feedback to the committee for discussion, resulting in formulating the Industry Promotion Vision,

consisted of more than 100 individual programs.

In this process, the same as other policy formulation, the vision went through the public comment, disclosing the draft to the public for open opinions. This industrial promotion vision received no comments from citizens, proving they were not aware, if not disinterested, with the industrial promotion the city intended to provide.

3. 2. Izumiotsu: Evaluation of policy programs

The case of Izumiotsu, known for their specialization in manufacturing of textile products such as blankets still shared atop in Japan, presents how a local government conducts evaluation on each policy programs.

In some initiatives, the national government grants fund for accelerating local regeneration activities, which become subject to evaluation process. An external committee is formed, comprised by three university faculties and a private citizen. Members are called several times to receive explanation of programs by responsible offices, then asked to give evaluation with recommendation whether a certain program should be sustained, reviewed, or terminated. The process is highly transparent as it is broadcasted via internet and available for citizens for later viewing.

KPI plays an important role in this process. While they are carefully chosen to be consistent with their higher-tier plan, in some cases the figure necessarily represent the desired results, or it may not be clear how its improvement contributes to industrial development of the area.

3. 3. Implications

From the above cases of municipalities, several lessons can be induced. First, it is not always easy to involve constituencies, let alone ordinary citizens in formulation process. For them, industrial promotion is not a typical agenda for the local government, compared to areas like environment, welfare, or education.

Second, in implementing policy program, local governments alone are not sufficient. They need to incorporate activities from business organizations or NPOs. Both cases

above showed they are constantly facing the shortage of human resources more than the shortage of financing. Cooperation from private sector by local governments acting as an intermediary could expand the local capacity.

Third, sustaining newly created programs is usually much more difficult than creating itself. While flexibility and timely adjustment of programs may be indispensable to fit the needs of private sector, they should recognize that unlike private business investment, some programs may take much longer to realize what they intend to achieve.

Conclusion

By examining the history of postwar development of Japan's SME promotion, it identified the shift in SME policy in the postwar period, which has been increasingly emphasize the significance of involvement of local governments.

Japan's experience in SME promotion, especially at the local level, needs to be further extracted and used as a lesson for emerging economies pursuing SME development. Demand to learn SME promotion in Japan has been increasing, as Pacific Resource Exchange Center, one of the organizer of training programs by JICA (Japan International Cooperation Agency), has conducted courses for SME promotion training, which hosted 1,809 participants from 118 countries since 1995, and the number keeps growing.

Regions like ASEAN, for example, in which countries have started to use Japan's experience as their model case in SME development, still have a long way. Although they have been successfully implementing policy programs according to their agenda "ASEAN Strategic Action Plan for SME Development", they have yet to achieve their targets with numerous challenges remaining.

Issues that should be considered on applicability of SME promotion measures, therefore, would include the following:

- 1) Ability to understand local industrial and economic structure,
- 2) Capacity of local government in disseminating and delivering information to appropriate recipients, and
- 3) Trust between public and private sector.

SME promotion as a part of local government should be considered as somehow unique, as it attempts to support market activities unless otherwise somehow regulated

by other policy areas. An approach being attentive to local governments in their policy formulation and implementation, not only to the tangible system, should be able to enhance SME promotion both in Japan and in other economies.

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