



## Why are entrepreneurship levels so low in Japan?☆

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### ABSTRACT

This article explores the characteristics of individuals involved in entrepreneurial activities. Using data provided by the Global Entrepreneurship Monitor (GEM), we examine the factors that motivate individuals to engage in a business start-up and to invest in a new business. The results reveal low levels of entrepreneurial activities and attitudes in Japan. The results also reveal that entrepreneurial attitudes and personal attributes are associated with business start-up and new business investment. We provide evidence that those individuals who have perceived that they possess the knowledge, skill, and experience required to start a new business are more likely to engage in a business start-up in Japan compared to other countries. Moreover, those individuals who are acquainted with other entrepreneurs are more likely to invest in a new business in Japan compared to other countries.

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### 1. Introduction

Recently, the Japanese government set a goal of increasing the entry rate—the ratio of the number of new entrants to the number of existing firms (or establishments)—to 10% as part of the “Japan Revitalization Strategy,” the “third arrow” of Abenomics that refers to the economic policies advocated by the Prime Minister of Japan,

Shinzo Abe.<sup>1</sup> This goal was determined mainly because the entry rate has been low during the two decades following the collapse of the bubble economy, and the exit rate—the ratio of the number of exits that cease operations to the number of existing firms (or establishments)—has been higher than the entry rate for several years during the post-bubble period.<sup>2</sup>

To date, much literature has emphasized that entrepreneurship is an engine of economic and social development throughout the world (e.g., [Acs and Audretsch, 2003](#)). For this reason, entrepreneurship represents a focus of efforts to overcome the stagnant economy in some industrialized countries, including Japan. In some countries, the emergence of high-growth start-ups through entrepreneurship is expected to spur economic growth, whereas high growth among existing firms is not yet anticipated. In practice, several high-growth start-ups, such as Facebook in the US, play

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<sup>1</sup> See, for example, the webpage of the Prime Minister of Japan and His Cabinet. Available from: [http://www.kantei.go.jp/jp/headline/seicho\\_senryaku2013\\_plan1.html](http://www.kantei.go.jp/jp/headline/seicho_senryaku2013_plan1.html) (Accessed 05.08.14).

<sup>2</sup> For more details on recent entry and exit rate trends, see the *White Paper on Small and Medium Enterprise in Japan*, compiled by the Small and Medium Enterprise Agency of Japan. According to the *White Paper on Small and Medium Enterprise in Japan*, the entry rate based on the number of business establishments with employees was 4.6% in 2011, and the entry rate based on the number of incorporation registrations was 3.5% in 2011.

a vital role in promoting future economic growth. However, the role of start-ups appears limited in countries, such as Japan, which experience low levels of entrepreneurship. According to the *IMD World Competitiveness Yearbook 2012*, entrepreneurship in Japan ranked 54th among 59 countries.<sup>3</sup> The promotion of entrepreneurship, therefore, has been a central theme in Japanese policy debates from an economic perspective.

This article explores the characteristics of individuals involved in entrepreneurial activities. Using data provided by the Global Entrepreneurship Monitor (GEM), which aims to explore the role of entrepreneurship in national economic growth, we examine the factors that motivate individuals to engage in a business start-up and to invest in a new business. The results reveal low levels of entrepreneurial activities and attitudes in Japan. The results also reveal that entrepreneurial attitudes and personal attributes are associated with business start-up and new business investment. We provide evidence that those individuals who have perceived that they possess the knowledge, skill, and experience required to start a new business are more likely to engage in a business start-up in Japan compared to other countries. Moreover, those individuals who are acquainted with other entrepreneurs are more likely to invest in a new business in Japan compared to other countries. The findings imply that the improvement of entrepreneurial attitudes is critical to promoting entrepreneurship.

The remainder of the article is organized as follows. In the next section, we discuss the research background including the literature review. Section 3 explains the analytical framework on the determinants of entrepreneurial activities. Section 4 describes the data used in the analysis. Section 5 presents the estimation results. Finally, we provide some concluding remarks.

## 2. Research background

### 2.1. GEM research

Although it is widely acknowledged that entrepreneurship is a major driver of future economic growth, measuring the extent of entrepreneurship is quite complicated. The GEM has begun to explore and assess the role of entrepreneurship in national economic growth, and the project has developed a worldwide survey on entrepreneurship.<sup>4</sup> Since the inception of the GEM project in 1999, the GEM has recently investigated entrepreneurship in almost 70 countries.

The main purpose of the GEM project is to measure entrepreneurship in each country, and its proxy, “early-stage entrepreneurship activity,” is referred to as TEA (total entrepreneurial activity). In addition to measuring TEA, the GEM project surveys the aspirations and attitudes of individuals. Entrepreneurial aspirations and attitudes toward seeking business opportunities (hereafter, “entrepreneurial attitudes”) are linked to entrepreneurial activities and such characteristics are critical to the promotion of entrepreneurship. We obtain data for four indices concerning entrepreneurial attitudes—“entrepreneurial network,” “perceived opportunities,” “perceived capabilities,” and “fear of failure”—from the GEM data.<sup>5</sup> Arenius and Minniti (2005) argued that when making decisions with respect to their employment, individuals consider a set of subjective perceptions about entrepreneurship that they form based on the presence of

role models, confidence in one’s skills and ability, risk propensity, and alertness to unexploited opportunities. It is plausible that the decision to become an entrepreneur depends on entrepreneurial attitudes; that is, entrepreneurial attitudes are significantly associated with entrepreneurship.

The GEM National Team of Japan joined the GEM project at the beginning of the year 1999. The surveys have revealed that Japan exhibits lower levels of entrepreneurship in comparison to other countries. This finding is consistent with the recent trend toward low entry rates in Japan. Although Japan’s low levels of entrepreneurship are recognized, there are few suggestions concerning the factors that influence entrepreneurship. Why entrepreneurship levels are lower in Japan remains unanswered. It is expected that individuals in Japan possess low levels of positive attitudes toward entrepreneurship in addition to engaging in low levels of entrepreneurial activities. Therefore, it is possible that lower levels of entrepreneurial attitudes result in lower levels of entrepreneurial activities in Japan.

### 2.2. Literature review

A substantial number of empirical studies have attempted to investigate entrepreneurship using the GEM data. Some papers have examined the effects of entrepreneurship on economic growth and innovation based on country-level estimation (e.g., [Acs and Varga, 2005](#); [Wong et al., 2005](#)). [Van Stel et al. \(2005\)](#), for example, investigated whether TEA influences gross domestic product (GDP) growth and found that entrepreneurial activity by nascent entrepreneurs and owner/managers of young businesses affects economic growth, but that this effect depends upon the level of per capita income. [Wennekers et al. \(2005\)](#) found a U-shaped relationship between a country’s rate of entrepreneurial dynamics and its level of economic development. Moreover, [Hessels et al. \(2008\)](#) highlighted entrepreneurial aspirations and motivations. Hessels et al. found that countries with a higher incidence of increase-wealth-motivated entrepreneurs tend to have a higher prevalence of high job growth and export-oriented entrepreneurship. They also found that a country’s level of social security relates negatively to the prevalence of innovative, high job growth, and export-oriented entrepreneurship. Furthermore, [De Clercq et al. \(2012\)](#) argued that, using data grouped at the country level, micro-angel investments increase to the extent that countries demonstrate (1) greater availability of new business opportunities, (2) more protective legal systems, and (3) stronger embeddedness of members in interrelationships.

Additionally, some scholars have examined the factors affecting entrepreneurship based on individual-level estimation (e.g., [Arenius and De Clercq, 2005](#); [Koellinger et al., 2007](#); [Minniti and Nardone, 2007](#); [Aidis et al., 2008](#)). [Arenius and Minniti \(2005\)](#) found that entrepreneurial attitudes, which they called “perceptual variables,” are significantly correlated with new business creation across countries. Arenius and Minniti argued that the psychology literature has established the importance of confidence in personal skills and ability for entrepreneurial behavior and that the decision to start a new business has been related to the presence of intentionality and locus of control (e.g., [Baron, 2000](#)). [De Clercq et al. \(2013\)](#) examined the cross-level interaction effects between individual-level resources and country-level institutions on the likelihood that a person starts a new business. De Clercq et al. argued that a country’s institutions appear to leverage both individual human capital, such as knowledge, skills, and experience, and social capital, such as exposure to entrepreneurial role models, for the decision to start a new business. Yet, the effect of individual financial capital on the likelihood of starting a new business does not vary across different institutional settings.

<sup>3</sup> In this book, entrepreneurship is defined as widespread entrepreneurship of managers in business measured by a survey.

<sup>4</sup> For more details on the GEM project, see, for example, [Reynolds et al. \(2005\)](#), [Levie and Autio \(2008\)](#), and [Minniti \(2011\)](#).

<sup>5</sup> In this article, entrepreneurial network is included in entrepreneurial attitudes, although it is not included in the recent GEM reports.

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