A Comparison of Startup Entrepreneurial Activity Between the United States and Japan

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Entrepreneurship plays a critical role in the growth and development of national economies. This study looks at two highly innovative countries, the United States and Japan, and compares startup entrepreneurial activity in both countries. Various characteristics are analyzed which contribute to the differences that impact entrepreneurial activity. These include culture, available financing, entrepreneurial education, R & D transfer, entry regulations, and the physical, commercial, and legal infrastructure. Additional factors are also analyzed such as the influence of immigration in new business creation, as well as implications for the future.

INTRODUCTION

According to World Bank Group, “entrepreneurship is a critical part of economic development and growth and important for the continued dynamism of the modern economy” (worldbank.org, 2014). In terms of new job creation, “business startups contribute significantly to both gross and net job creation” (Haltiwanger et al., 2013). Based on a review of 57 entrepreneurial studies, researchers at the University of Amsterdam concluded that entrepreneurship has a very important economic function, including creating employment, increasing productivity, economic growth, and producing high quality innovations (Van Praag & Versloot, 2007).

New firm creation is also an important feature in the development of new market sectors and “there is evidence that regions with higher levels of firm creation will have greater economic growth in subsequent periods (Reynolds & Curtin, 2007). Research in both Canada and the United States has shown that new business entry drives economic growth more than the activity of existing firms. (World Bank, 2013). In this report, we will compare entrepreneurial activity in the United States and Japan and analyze the factors that contribute to a nation’s entrepreneurial activity and how they differ in the two nations.

ENTREPRENEURSHIP

There are several definitions of entrepreneurship. Klapper and Love (2011) define entrepreneurship “as the activities of an individual or a group aimed at initiating economic enterprise in the formal sector under a legal form of business”. According to Sternberg and Wennekers (2005), there are three popular definitions. The ‘occupational notion of entrepreneurship refers to “owning or managing a business on one’s own account and risk” (p. 193) and simply refers to the number of business owners. The ‘behavioral notion of entrepreneurship’ refers to the “seizing of an economic activity” (p. 193) and can include owners and non-owners engaged in innovation. The third definition refers to entrepreneurship simply as
“new venture creation” (p. 193). The Global Entrepreneurship Monitor, an organization that studies entrepreneurship worldwide, defines entrepreneurship as “any attempt at a new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business” (Amoros & Bosma, 2014, p. 17). For purposes of this paper, we will focus on the latter definition.

A COMPARISON OF ENTREPRENEURIAL ACTIVITY

According to a recent article in Forbes, the percentage of adults involved in starting a new business venture in the United States reached 13% in 2012, a record high (Pofeldt, 2013). Japan, another one of the world’s most industrious societies, has business-friendly regulations, low business taxes compared to other highly developed nations, and it spends more on research and development than any other G20 country (EY-Japan, 2013). However, the state of its entrepreneurial activity is dismal. According to a recent article in the Economist (2013), “the overall number of firms (in Japan) is shrinking, and the rate at which new companies are born as a proportion of existing ones is less than half that in America”. The article went on to say that Japan ranked twenty-fourth out of twenty-four in developed countries for levels of entrepreneurial activity. According to Reynolds and Curtin (2007), “compared to the United States, Japan has half the population but just 4% of the count of high-potential growth enterprises” (p. 158). Like the U.S., more new jobs in Japan come from young companies, yet Japan creates the fewest new businesses among all the industrialized nations (Rosen, 2014). The World Bank reports that Japan had 89,000 new business registrations (limited liability corporations) in 2011 and averaged 1.1 new business registrations per 1,000 people ages 15-64 (WorldBank.org, 2014). Comparative World Bank data for the U.S. was unavailable, but, according to data from the U.S. Census Bureau, there were 409,040 new firms created in the United States during the same year (SBA.org, 2014).

The GEM Report

Each year, the Global Entrepreneurship Monitor, which began 1999 as a partnership between London Business School and Babson College, releases a report assessing entrepreneurial activity across the globe. In the most recent report, 2013, “more than 197,000 individuals and approximately 3,800 national experts on entrepreneurship participated in the study across 70 economies, collectively representing all global regions of the world and a broad level of economic development levels” (Amoros & Bosma, 2014). The main goal of the GEM Report is to measure differences of entrepreneurial activity between countries (p. 11). Specifically, it “analyzes the propensity of the adult population of a country to participate in entrepreneurial activities and the conditions that enhance these entrepreneurial initiatives (p. 14).

The report evaluates two types of entrepreneurship: necessity and opportunity. Necessity entrepreneurs start a business because they have no other options for employment. Opportunity entrepreneurs start businesses to improve their incomes and / or gain a higher degree of independence (p. 32). The main focus of the report is startup business activity or what the report calls ‘Total Early-Stage Entrepreneurial Activity (TEA)’. This refers to adults 18-64 in an economy that are either getting ready to launch a business (nascent entrepreneurs) or recently launched businesses that are less than 42 months old. Most “future job creation and innovation can be expected from this group of entrepreneurs” (p. 29).

The GEM study shows that “entrepreneurship rates differ among economies at similar stages of economic development (p. 11). What is interesting is the difference in entrepreneurial activity that exists between the United States and Japan, both of which have innovation-driven economies. A nation’s entrepreneurial attitudes and perceptions can have an impact on startup activity (p. 24). For example, only 7.6% of adults in Japan believe that entrepreneurial opportunities exist in their country, compared with 47.2% in the U.S (p. 27). The nascent entrepreneurship rate in Japan is 2.2%, compared to the U.S. at 9.2% (p.31). The rate of Total Early-Stage Entrepreneurship in Japan was among the lowest of the innovation-driven economies at 3.7%, compared with the U.S. at 12.7% (p. 33), which was among the highest. With respect to the percentages of necessity versus opportunity entrepreneurship, Japan and the United States are very close. (p. 33).
When the GEM data is combined with country economic data from the IMF, it produces some very interesting results. In the United States, for example, startup business activity rates tend to follow GDP growth and, logically, tends to rise as the unemployment rate rises. Like the U.S., Japan’s entrepreneurial activity tends to follow unemployment rates. However, unlike the U.S., levels of entrepreneurial activity in Japan are less affected by dramatic changes in GDP (p. 58).

**The Kauffman Index of Entrepreneurial Activity**

One of the best sources for measuring new business creation, especially recent activity, in the United States, is the Kauffman Index of Entrepreneurial Activity. This index measures the number of business startups launched each month by state. The following are some of the key findings from the 2014 Report (Fairlie, 2014):

- The total number of new business owners exceeded 5 million in 2013
- The percentage of new business creation declined in 2013 from 2012
- The amount of entrepreneurial activity decreased for men, women, and all racial and ethnic groups
- All adult age groups experienced a decline in entrepreneurial activity 2013, except ages 45-64, which increased
- Although there was an increase in college level entrepreneurial education, the group with the highest rate of new business creation is the least educated.
- There was a significant decrease in the level of business startups owned by veterans
- The construction industry had the highest rate of new business creation, followed by the services industry

**Factors Contributing to Entrepreneurial Activity**

Entrepreneurship “is a regional event that can only be understood if regional framework conditions, including networks and regional policies, are taken into consideration” (Sternberg & Wennekers, 2005). The Global Entrepreneurship Monitor identifies several key entrepreneurial framework conditions that are important for entrepreneurship to flourish. These include entrepreneurial finance, government policy, government entrepreneurship programs, entrepreneurship education, R & D transfer, commercial and legal infrastructure, entry regulation, physical infrastructure, and cultural and social norms (Amoros & Bosma, 2014). We explain each of these conditions below:

**Entrepreneurial Finance**

Entrepreneurial Finance is the “availability of financial resources – equity and debt - for small and medium enterprises (SMEs) (including grants and subsidies)” (p. 45). The United States has a “deep financial ecosystem for entrepreneurial ventures, that performs very well in terms of access to funding” (EY-USA, 2013) and ranks first among the G20 nations in the EY G20 Entrepreneurship Barometer 2013(p.6). Funding is available through banks, angel investors, venture capital firms, and more recently, creative crowdfunding options (p. 6). Japan has one of the most highly developed financial systems in the world. However, there is a shortage of non-bank lending options. New ventures do not have the credit experience to borrow from banks, and there is a shortage of private equity and venture capital firms (EY-Japan, 2013).

**Government Policy**

Government Policy is the “extent to which public policies give support to entrepreneurship” (Amoros & Bosma, 2014, p. 45). Although the government has not fully supported entrepreneurship in the past, the landscape in changing in Japan. Japan’s new Prime Minister, Shinzo Abe, is committed to helping startups and has a goal of doubling the rate of new business ventures by 2020 (The Economist, 2013). The program, part of a larger economic strategy, referred to as ‘Abenomics’, mixes aggressive monetary loosening, fiscal stimulus and structured reform” (EK-Japan, 2013).
Government Entrepreneurship Programs

Government Entrepreneurship Programs are the “presence and availability of programs directly assisting SMEs at all levels of government (National, regional, municipal)” (Amoros & Bosma, 2014, p. 45). Business incubators and accelerators, institutions that are developed to help entrepreneurs launch new businesses, are good examples. Although there is a sizeable support system in the United States for entrepreneurial endeavors, the U.S. ranks eighteenth among the G20 for government support of entrepreneurs. This is changing however. The Small Business Administration has recently set aside $2 billion for entrepreneurship mentorship and incubator programs (Clifford, 2013). This is part of the larger Start-up America Partnership, a White House initiative, which aims to “foster an alliance between the country’s innovative entrepreneurs, corporations, universities, foundations and thought leaders to maximize the success and competitiveness of America’s entrepreneurs” (EY-USA, 2013). Japan’s startup community has had limited access to government entrepreneurial programs but is improving. According to a recent BBC article (Fitzpatrick, 2013), “Japan now has over 400 business incubators, up from 30 in 1999” (p. 2).

Entrepreneurial Education

Entrepreneurial Education is the “extent to which training in creating or managing SMEs is incorporated within the education and training system at all levels” (Amoros & Bosma, 2014, p. 45) and can be very important for the development of new businesses. This includes both traditional business education and specific entrepreneurship education. Solomon (2009) reports that “while there is general agreement that the core management courses offered in traditional business programs is essential for success in any business career, there are fundamental differences between business principles applied to new ventures and those applied to large corporations” (p. 170). A long-standing question regarding entrepreneurship is whether students can learn entrepreneurship in school. Studies have shown, however, that entrepreneurship can be taught or at a minimum, it can be encouraged by entrepreneurial education (p.171).

The United States has seen tremendous growth in the availability of college courses in small business management and entrepreneurship over the past fifteen years (p. 169) and ranks third in education and training among the G20 nations, behind France and Australia (EY-USA, 2013). There is concern, however, about the future. The U.S. ranks fifth for individuals aged 25-64 with post-secondary degrees and fourteenth in the 25-34 age group (p. 9). There is also concern that the educational system in the United States is not producing enough graduates in science, technology, engineering and mathematics to support future high tech startups.

Japan ranks poorly among G20 countries in government spending on education (p. 11), and most business education is geared toward preparing students for life-long employment in the large corporations. Historically, entrepreneurial education has been minimal. However, a recent New York Times article reports that several top universities in Japan are developing curriculum geared toward business startups (Fackler, 2013).

R & D Transfer

R & D Transfer is the “extent to which national research and development will lead to new commercial opportunities and is available to SMEs” (Amoros & Bosma, 2014, p. 45). Investment in R&D is high in both Japan and the United States, where they rank first and third respectively among the G20 nations, for R&D expenditures as a percentage of GDP. (EY-Japan, 2013). Although Japan spends more than twice the G20 average on R&D, is a leader in technological innovation world-wide, and has one of the highest rates for registering patents (p. 7), most of the benefits are realized by the larger, established companies and are not accessible to the startup community.

Commercial and Legal Infrastructure

Commercial and Legal Infrastructure - refers to the “presence of property rights, commercial, accounting and other legal and assessment services and institutions that support SMEs” (Amoros &
Both the United States and Japan have a highly developed commercial and legal infrastructure.

**Entry Regulation**

Entry Regulation refers to the “extent to which new firms are free to enter existing markets” (Amoros & Bosma, 2014, p. 45). The Doing Business Report 2013, a co-publication of the World Bank and the International Finance Corporation, compares business regulations in 185 countries. The report measures “the procedures, time, cost and paid-in minimum capital required for a small or medium-sized limited liability company to startup and formally operate” (World Bank, 2013). Countries are ranked and analyzed according to their ‘ease of doing business’. The best countries are not those with the least amount of regulations, but rather, ones which have governments that create rules and procedures that facilitate business activity, including new business startup. The report covers two types of indicators: those related to the strength of a country’s legal institutions as related to business activities, and those related to cost and level of complexity in starting and operating a business. In the 2013 report, the United States ranked fourth out of 185 countries on ease of doing business, and Japan ranked twenty-fourth (World Bank, 2013). In the 2014 report, the U.S. remained in 4th place overall in ease of doing business, but dropped 7 positions in ‘starting a business’. Japan’s rank worsened in almost every category (World Bank, 2014). The following (See Table 1) summarizes and compares the Ease of Doing Business rankings for the U.S and Japan 2013 – 2014:

### TABLE 1

#### EASE OF DOING BUSINESS RANKINGS FOR THE U.S. AND JAPAN

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<tr>
<td>Ease of doing business</td>
<td>4</td>
<td>24</td>
<td>4</td>
<td>27</td>
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<tr>
<td>Starting a business</td>
<td>13</td>
<td>114</td>
<td>20</td>
<td>120</td>
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<tr>
<td>Registering property</td>
<td>25</td>
<td>64</td>
<td>25</td>
<td>66</td>
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<tr>
<td>Getting credit</td>
<td>4</td>
<td>23</td>
<td>3</td>
<td>28</td>
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<tr>
<td>Protecting investors</td>
<td>6</td>
<td>19</td>
<td>6</td>
<td>16</td>
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<tr>
<td>Paying taxes</td>
<td>69</td>
<td>127</td>
<td>64</td>
<td>140</td>
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<tr>
<td>Trading across borders</td>
<td>22</td>
<td>19</td>
<td>22</td>
<td>23</td>
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<tr>
<td>Enforcing contracts</td>
<td>6</td>
<td>35</td>
<td>11</td>
<td>36</td>
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**Physical Infrastructure**

Physical Infrastructure refers to the “ease of access to physical resources – communication, utilities, transportation, land or space – at a price that does not discriminate against SMEs” (Amoros & Bosma, 2014, p. 45). Both the United States and Japan have a highly developed physical infrastructure.

**Culture and Social Norms**

Culture and Social Norms refers to the “extent to which social and cultural norms encourage or allow actions leading to new business methods of activities that can potentially increase personal wealth and income” (Amoros & Bosma, 2014, p. 45). Of all the entrepreneurial framework conditions this is perhaps one of the most important differentiators between the United States and Japan.

The United States “leads the G20 for its ‘entrepreneurship culture’, which is part and parcel of the country’s DNA” (EY-USA, 2013). Many of the traits necessary for an entrepreneur to be successful “are imbedded in our national culture” (p. 7). Attitudes toward failure, for example, are more acceptable in the
United States than Japan. In the United States startups often fail. This is a normal part of the entrepreneurial process and founders frequently will attempt several startups before they get it right. In fact, 43% of American entrepreneurs see failure as a learning opportunity (p. 7). In Japanese culture, failure, especially in business, is viewed negatively. Failure in business could have a high social cost, including extreme embarrassment and a loss of social status (Ready, 2013). Japan also is a strong uncertainty avoidance culture which means that its people are generally risk averse (Hofstede, 1983). For the majority of its young population, “the traditional pattern of lifelong employment in large companies remains more attractive than the more uncertain path of starting out as an entrepreneur” (EY-Japan, 2013). A recent article in the Tokyo Times (Nuwere, 2013), discusses some of the cultural challenges that Japan has with startups. The brightest college graduates are recruited by the larger established companies or the Japanese government and begin what is usually a life-long career, and there is a negative stigma attached to smart graduates that do not get recruited. Not only does the educational system encourage this ‘safer’ career path, but family members do also. A recent article in The Economist (2013) refers to the ‘mother-in-law factor’, in which “wives, mothers and mothers-in-law exert a strong influence on men not to join risky startups”. If an individual decides to start a business right after college, there is no opportunity later to join a major company if the venture fails. Another challenge in Japanese culture is the inability of a young entrepreneur to do business with older established companies or to even get in to meet with senior level decision makers. Established companies are wary on working with individuals or startups that do not have a long history.

Japan and the U.S. differ significantly with regard to gender distribution of early-stage entrepreneurs. Women play a significant role in U.S. entrepreneurship. There are seven women involved in entrepreneurship for every ten men (Pofeldt, 2013). Recently, the U.S. government launched the Women’s Entrepreneurship in America (WEAmericas) initiative that focuses on “the main barriers that women face for starting new ventures: access to training and networks, access to markets and fundraising” (EY-USA, 2013). In the U.S., 15% of the male adult population and 10% of female adult population are involved in startup activity. This contrasts with 5% and 3% respectively in the Japan (Amoros & Bosma, 2014, p. 83). In fact, Japan “has the second-lowest female entrepreneurship rate in the world (Rosen, 2014). This is largely due to socio-cultural factors. Japan also has one of the lowest female employment rates in the developed world. In a report by the Goldman Sachs Group, it was estimated that if Japan could raise that rate to equal the current rate of employed males, Japan could increase GDP by as much as 15% (Matsui et al., 2010).

Entrepreneurial Motivation

Researchers from Japan and South Korea compared entrepreneurial activities in Japan and the Silicon Valley along four dimensions: entrepreneurial motivation, risks and obstacles, perceived growth factors, and supporting infrastructure (Suzuki et al., 2002). Entrepreneurial motivation is the driving force that encourages entrepreneurs to start a business and strive to make it successful. It includes both environmental factors and individual characteristics of the entrepreneur. The study showed that there were major differences between the two regions in this category. Japan ranks high as a ‘group focus’ nation in the Culture Wizard Model (Solomon & Schell, 2009). Therefore, Japanese entrepreneurs are more society-oriented and start businesses for social recognition, whereas Silicon Valley entrepreneurs tend to be more individualistic and motivated by personal achievement (p.601). Risks and obstacles are the unknowns in business that occur throughout the various stages of development, such as litigation, competition, cash flow, etc. Japanese entrepreneurs are most concerned with human, organizational, and globalization risks, whereas Silicon Valley entrepreneurs are inclined to consider market and financial risks (p. 604). Growth is essential for startup companies (p. 601). Perceived growth factors are the factors that entrepreneurs consider to be most important to the success and development of their organizations. Japanese entrepreneurs perceive R&D to be the most important factor for success, while Silicon Valley entrepreneurs are most concerned with the startup team and investors. Founders in both regions consider ‘customer focus’ to be another important factor (p.602). Supporting infrastructure includes the available human resources, business services, financial resources, business climate, logistics, etc. necessary to
promote business development. Japanese entrepreneurs benefit more from bank loans and government financing, while Silicon Valley entrepreneurs benefit more from venture capital financing and better professional services, such as accounting, legal, etc. (p. 604).

The Importance of Immigrants to Entrepreneurial Activity

One factor that is unique to the United States is the influence of immigration on entrepreneurial activity. According to the Partnership for a New American Economy, “immigrants or their children founded more than 40 percent of America’s Fortune 500 companies…and now own more than 18 percent of all incorporated businesses in the United States” (Fairlie, 2012). This trend is continuing today. In fact, immigrants started more than one out of every four businesses created in 2011. (p. 2). In addition, these ventures comprise twenty-five percent of new businesses in the fastest growing sectors of the U.S. Economy. (p. 3). Current studies show that immigrants in the U.S. are twice as likely to start a new business as native-born Americans (Fairly, 2014). This is a sharp contrast to Japan, which is averse to immigration in general (Dyloco, 2012).

CONCLUSION

The United States provides “one of the most favorable entrepreneurial environments of any country in the G20, where entrepreneurship is deeply embedded in the culture and mindset” (EY-USA, 2013). But there is plenty of room for improvement. The United States is starting to lag behind other developed countries in S.T.E.M. training and in rates of higher education and our current corporate tax rates are seen as a threat to new business development. One of the bright spots in U.S. entrepreneurship is the huge potential of global markets. Only 12% of U.S. entrepreneurs said that more than 25% of their customers are overseas (Pofeldt, 2013). Despite the slow economy, optimism is high with American entrepreneurs. According to a survey conducted by Babson College, 43% of adult Americans believe that that there are good opportunities for entrepreneurship, and 56% believe that they have the capabilities to start a business (Babson.edu, 2014).

So far, entrepreneurship has struggled in Japan, but there are signs that startup activity is turning around. Japanese startups that are having the most success have a foreign connection; either education, investors, technology deals, or talent (Fitzpatrick (2013). It is too early to determine what the effects of ‘Abenomics’ will be on new venture creation in Japan. A recent New York Times article (Fackler, 2013), reports a ‘startup spirit’ is emerging in Japan and that hundreds of new Internet and technology companies have launched in the last two years, as well as new incubators and accelerators to support them.

There is an interesting note regarding Japanese consumers and entrepreneurship. Startup companies rely on ‘early adopters’ when they launch new products or services. Early adopters use new technology as soon as it is available and provide companies with valuable feedback. Although Japan lags behind in the development of new products, Japan leads the world in early adopters, helping foreign inventors and startups gain momentum (Fitzpatrick, 2013).

REFERENCES


