

Richard Katz

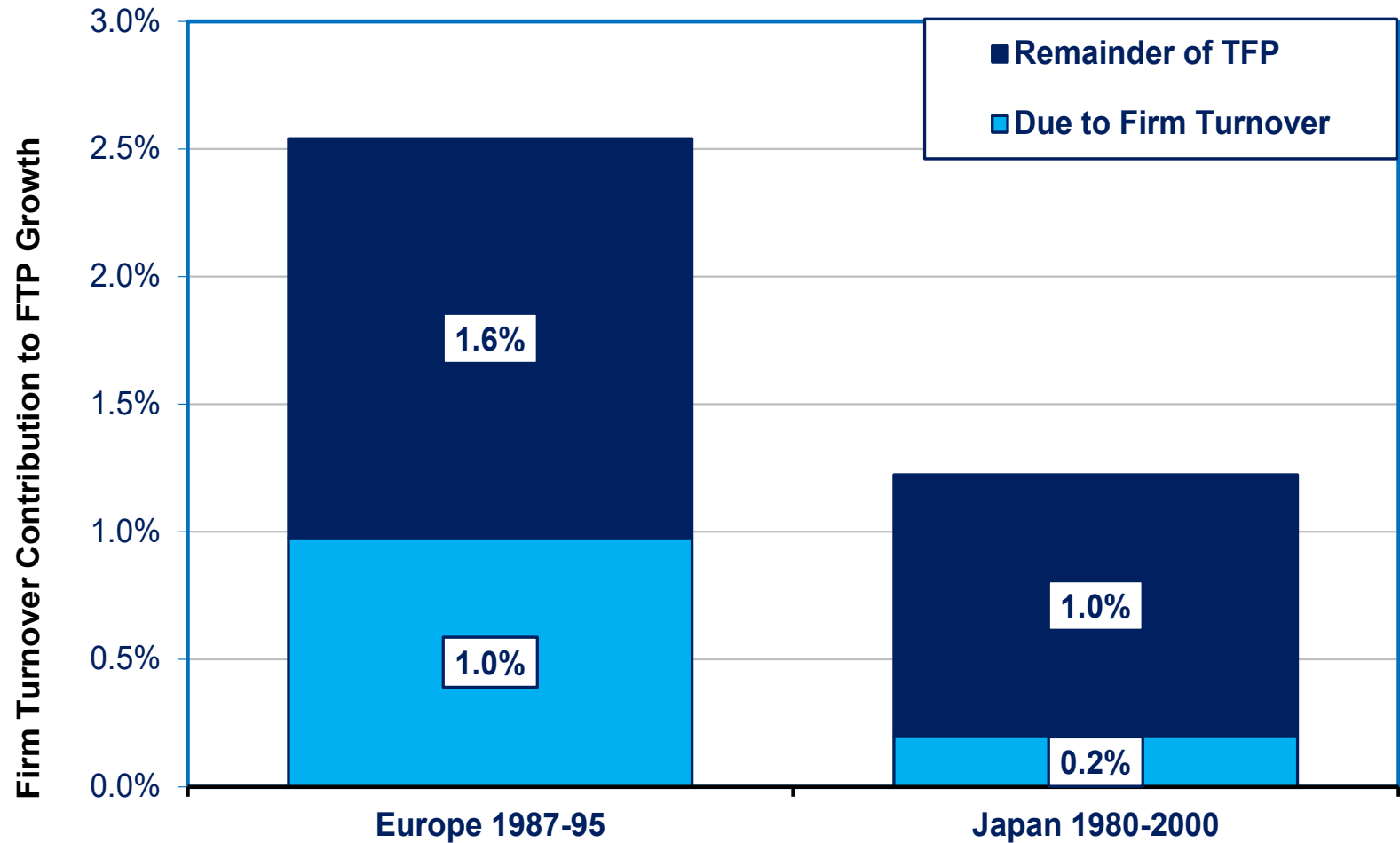
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**RIETI**  
April 2025

# **Reform of Big Companies Necessary But Not Sufficient**

- **Policymaker priority is corporate governance reform at big listed firms**
- **Support for high-growth startups has mostly been rhetoric**
- **5,000 biggest firms just 10% of labor force**
- **Competition, not governance, most powerful force for reform**

# Japan Productivity Low Because Firm Turnover Low



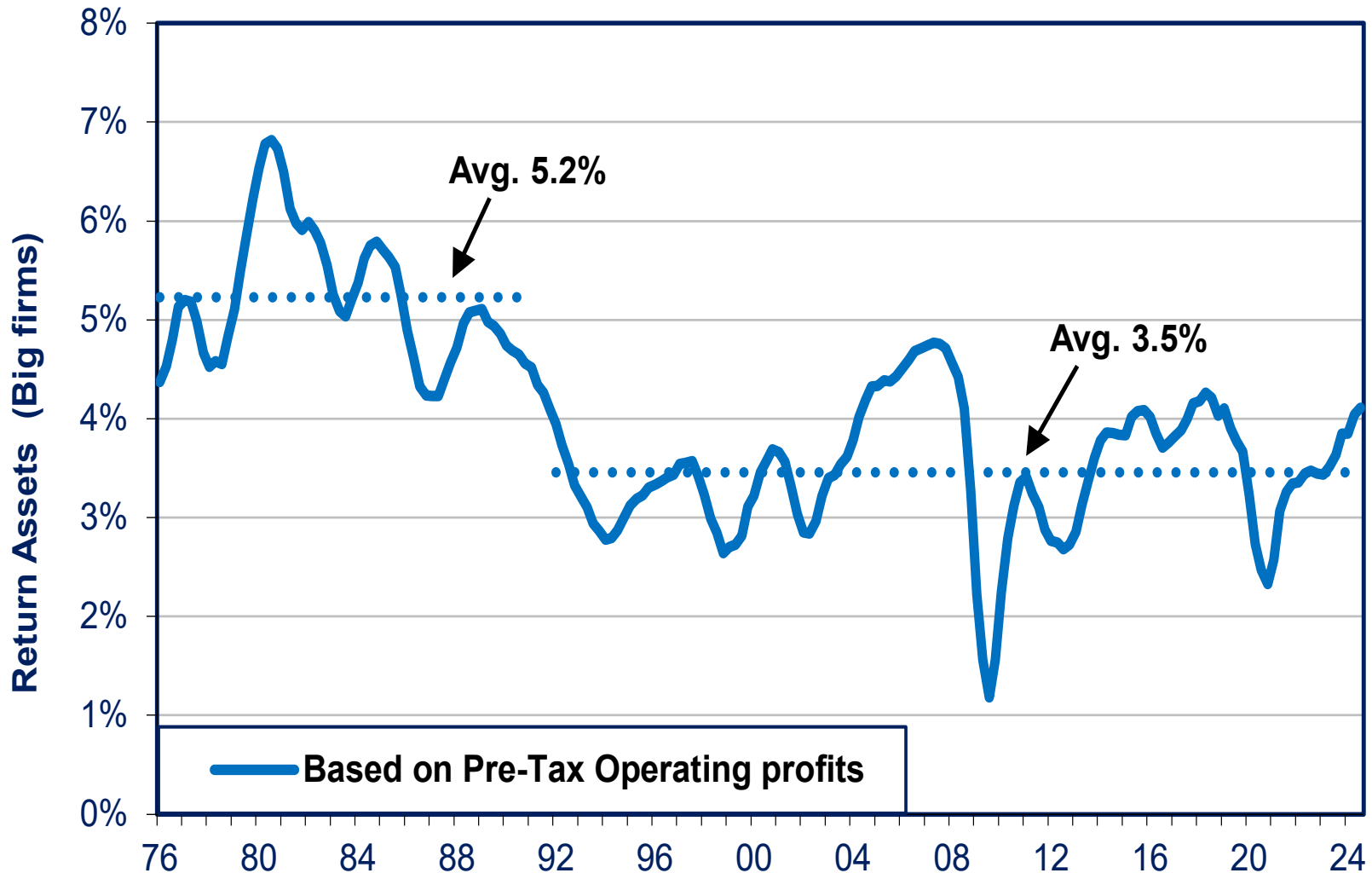
# **New Firms Boost Growth**

- **Because they bring fresh ideas**
- **Harder for older firms to change their ways, particularly under lifetime employment**
- **60% of US mfg. productivity growth 1980s-1990s came from firms under 5 years old**
- **Of the original firms in the S&P 500, in 1957, 60% no longer even existed 45 years later**

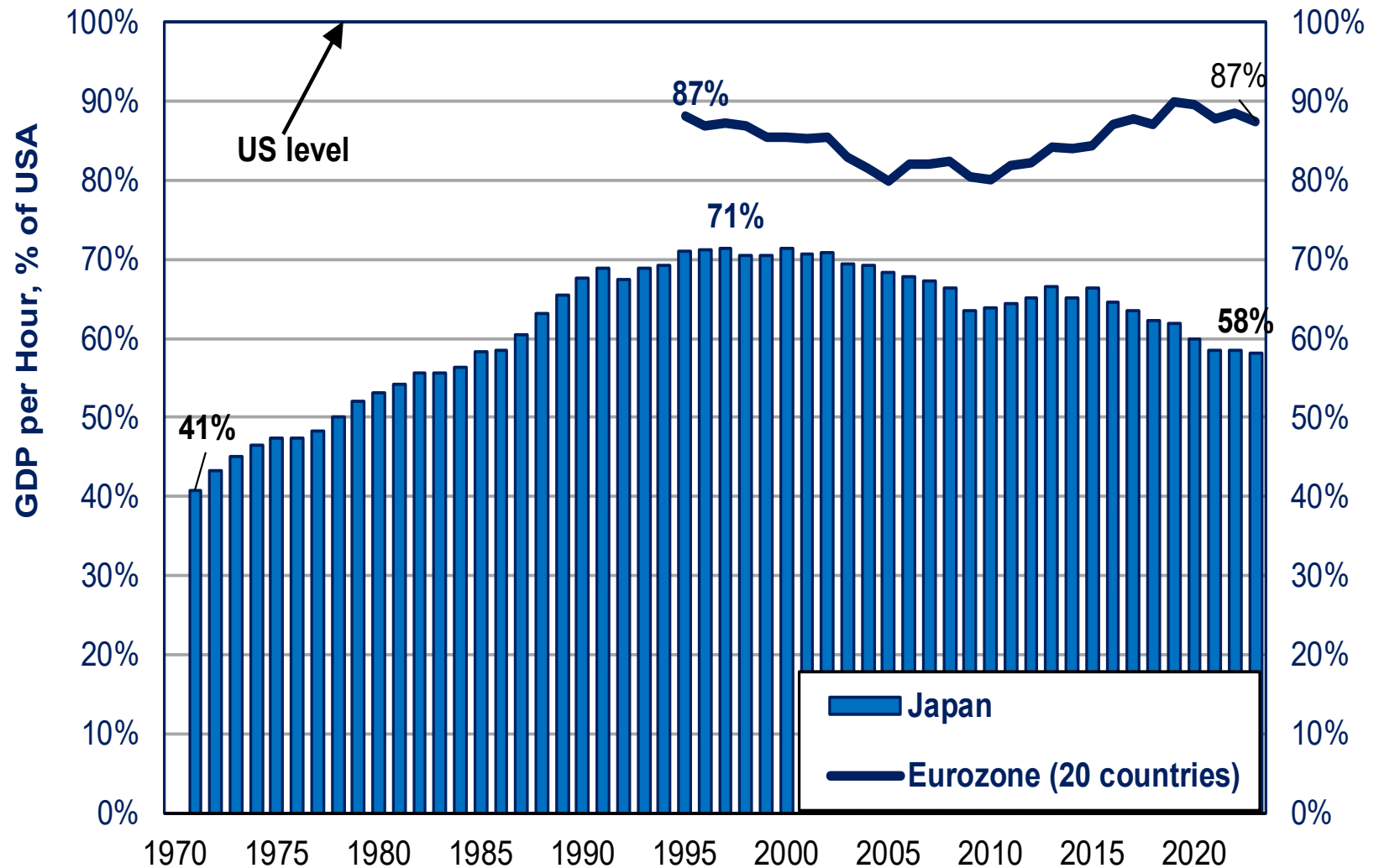
# **Corporate Giants Fall Behind**

- **Japan 64<sup>th</sup> out of 64 in “digital agility”**
- **Electronic sales and trade surplus drop**
- **Autos losing global market share**
- **Companies don't hire PhDs; can't absorb modern science**
- **Hitachi and Fujifilm the exception**
- **More likely to change if face competition from startups**

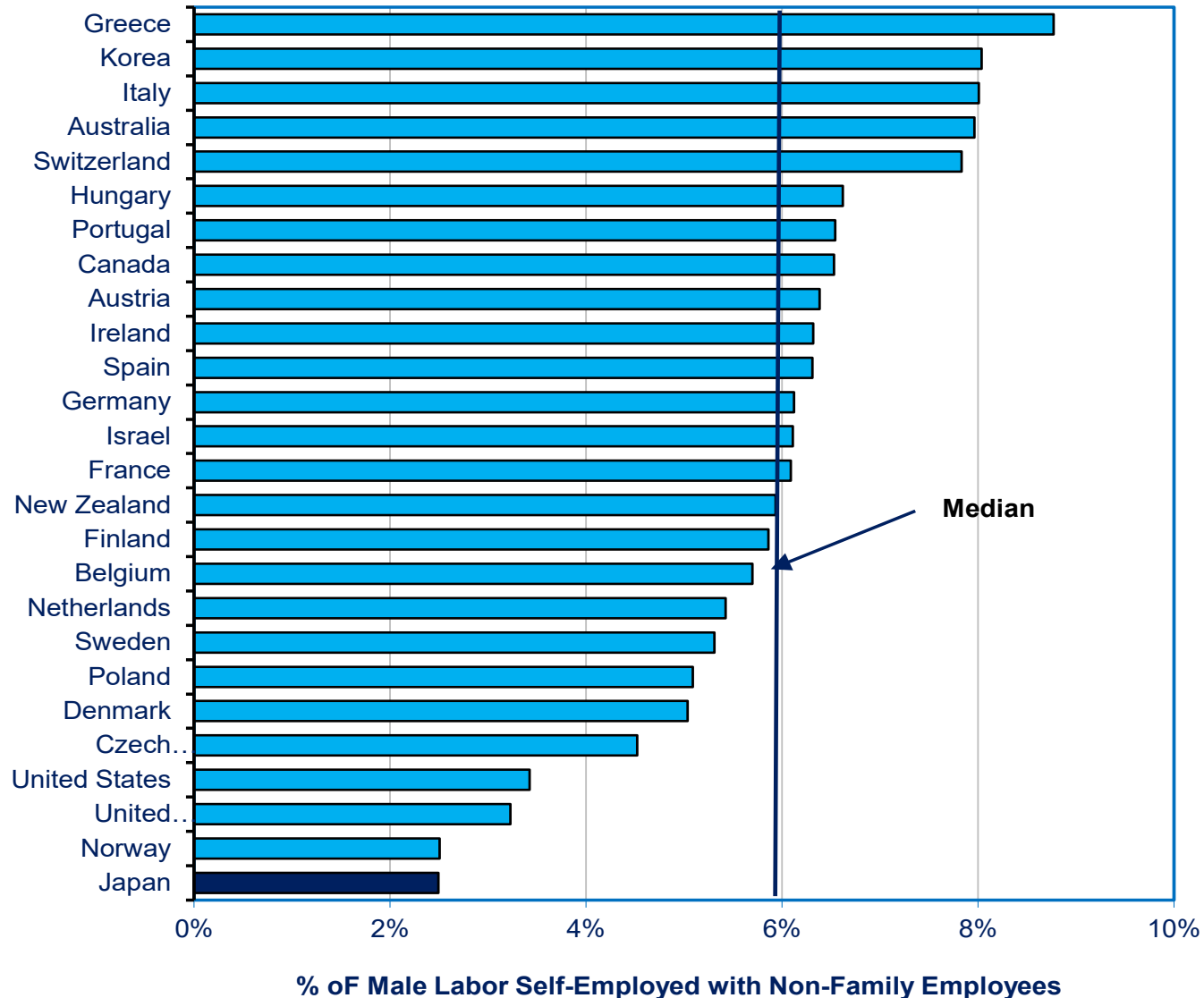
# ROA No Higher Than 1990s



# Japan Productivity Falls Behind



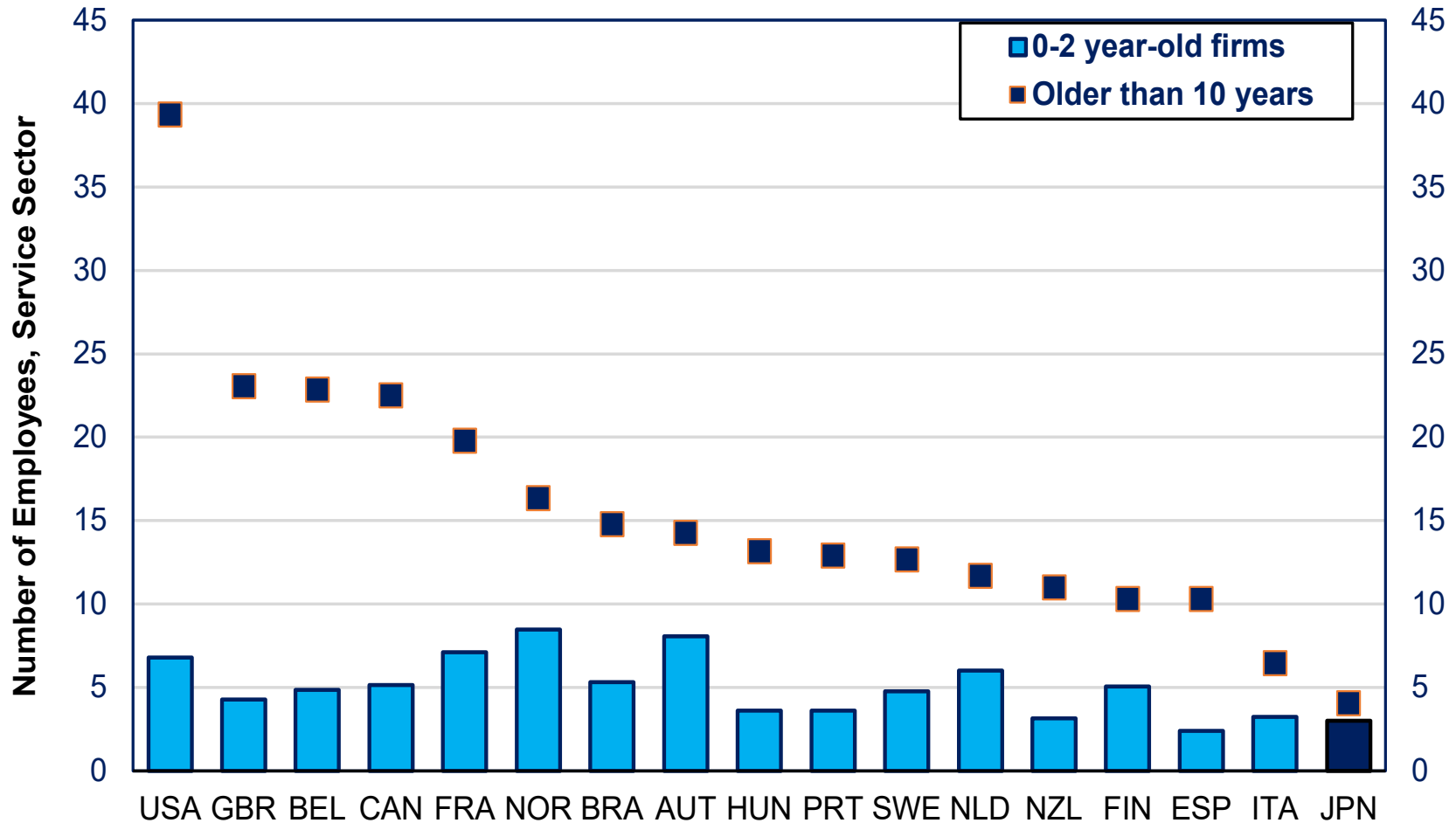
# Lowest Share of Entrepreneurs



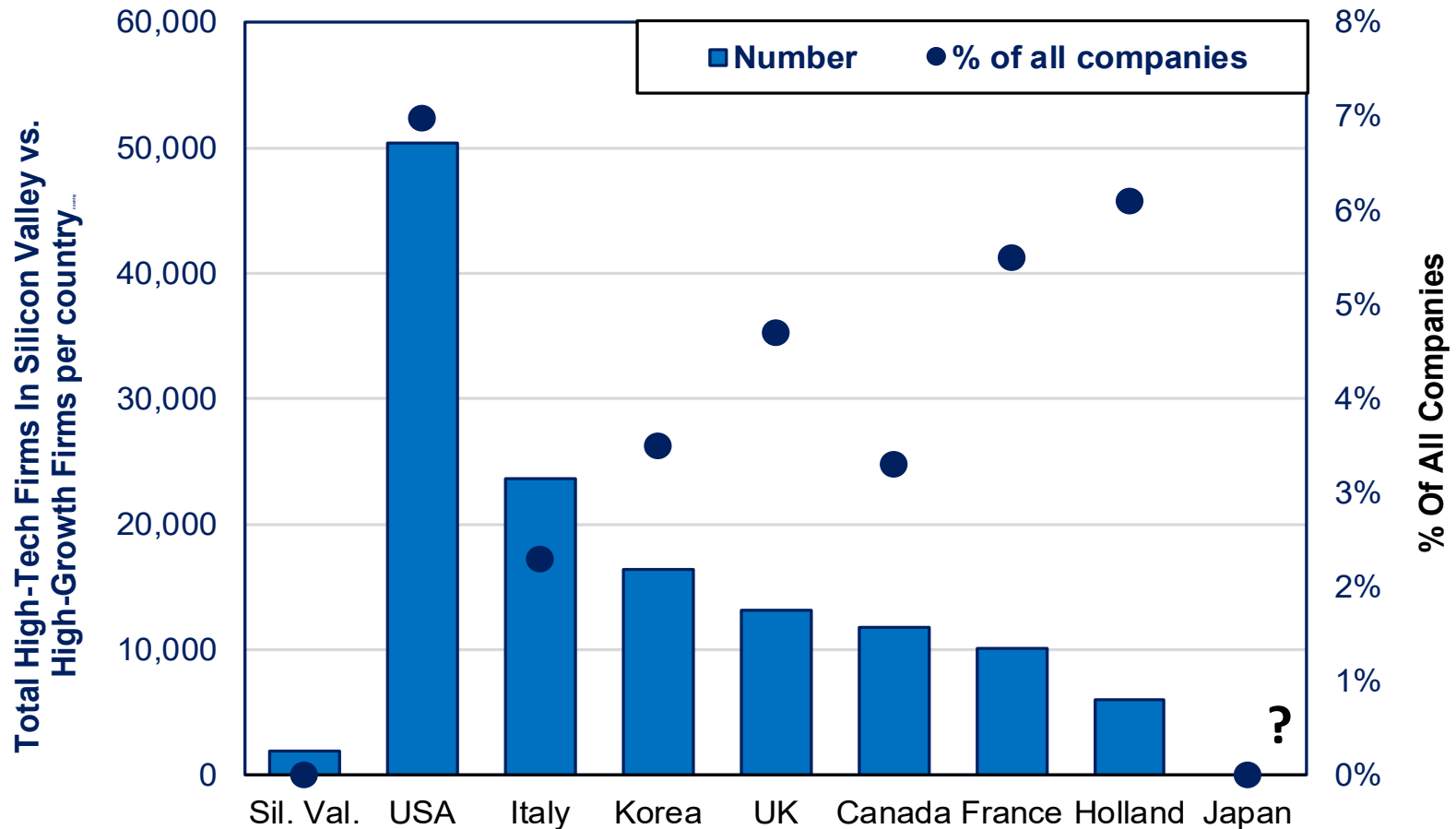


# Japan's SMEs Barely Grow

## (So, why be an entrepreneur?)



# Gazelles: High-Growth SMEs



**Just a fraction in high-tech**

# **Conditions, Not Culture**

- **Meiji and Post-WWII entrepreneurship; half of stock market in 1989**
- **Developed new products like transistor radio, supertanker, chips for laptops, lithium battery now used in cellphones and EVs**
- **Conformity and risk-aversion from conditions not national psychology or Confucianism**
- **Genten shugi promotion vs. Foxconn at Sharp**
- **Once on top, new giants wanted to prevent challengers**

# **The Contest**

- **On positive side: generational change, technology, and globalization**
- **On negative side: finance and politics**
- **How visiting entrepreneurs made me so much more optimistic about Japan**
- **Without amplification by government policy, positive trends cannot reach critical mass**
- **How the politics could change more**

# **Labor Mobility**

- **Shifting employees brings fresh ideas**
- **Optimal turnover is 20% per year vs. actual 7%**
- **Recruiting staff used to be biggest problem for startups due to lifetime employment**
- **Today, talented employees switch firms**
- **Talented women flock to startups**
- **Soichiro Minami new billionaire – 20,000 companies and 2.3 million high-paid job switchers by 2023**
- **70% of firms engage in mid-career hiring, double the 35% of 1994**

# The Power of Technology To Change Societal Power Balance

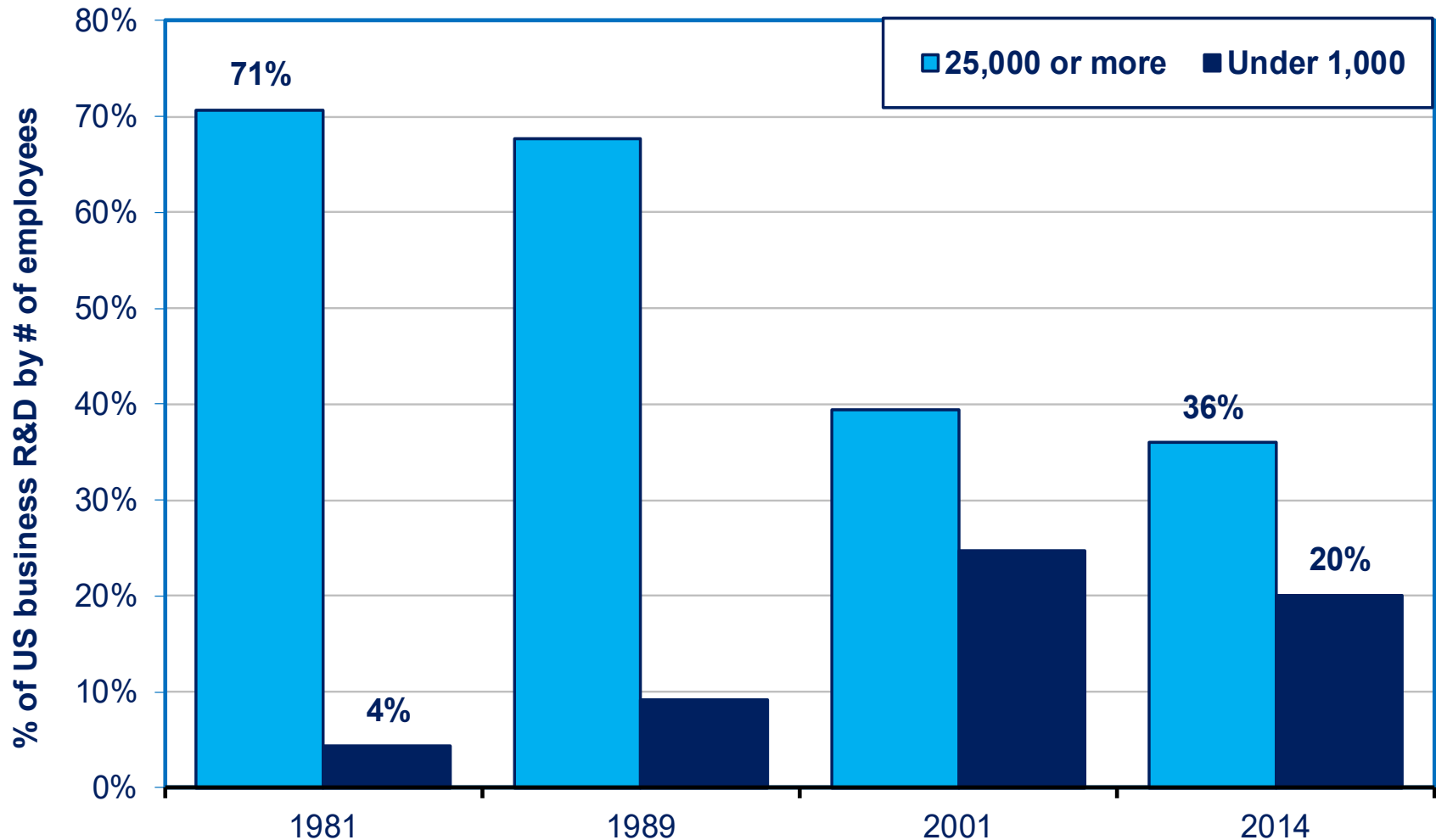
- E-commerce bypasses distribution bottleneck
- Rakuten alone: 57,000 SMEs with sales of ¥5.7 trillion (\$40 billion)
- Toyota group now has more *independent* software vendors than parts makers as first tier suppliers
- LINKERS, Preferred Networks
- Big Business wants enough newcomers as partners, but not challengers
- This is part of why politics will change

# **New Technology Regimes Need New Business Institutions**

- **Analog Era – Corporate giant-led innovation**
- **Digital Era – Entrepreneur and collaboration**
- **More R&D by firms less than 1,000 staffers**
- **Open Innovation: In ICT, the average number of cooperative patenting firms was 219**
- **Pfizer vaccine**

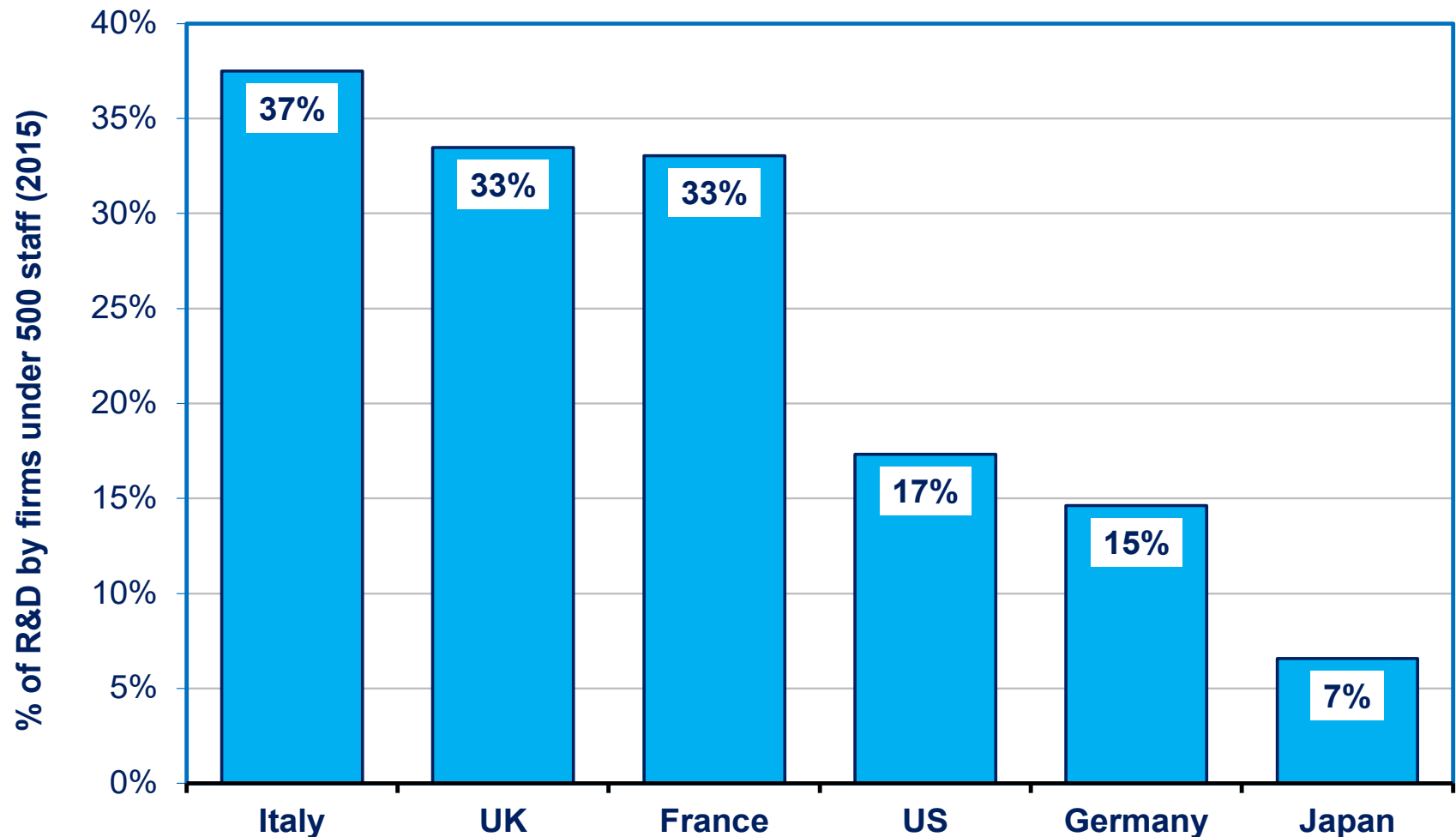
# In Digital Era, Who Does R&D?

## Means Open Innovation





# 90% of Tokyo R&D Aid Goes to Big Firms; Here's the Result



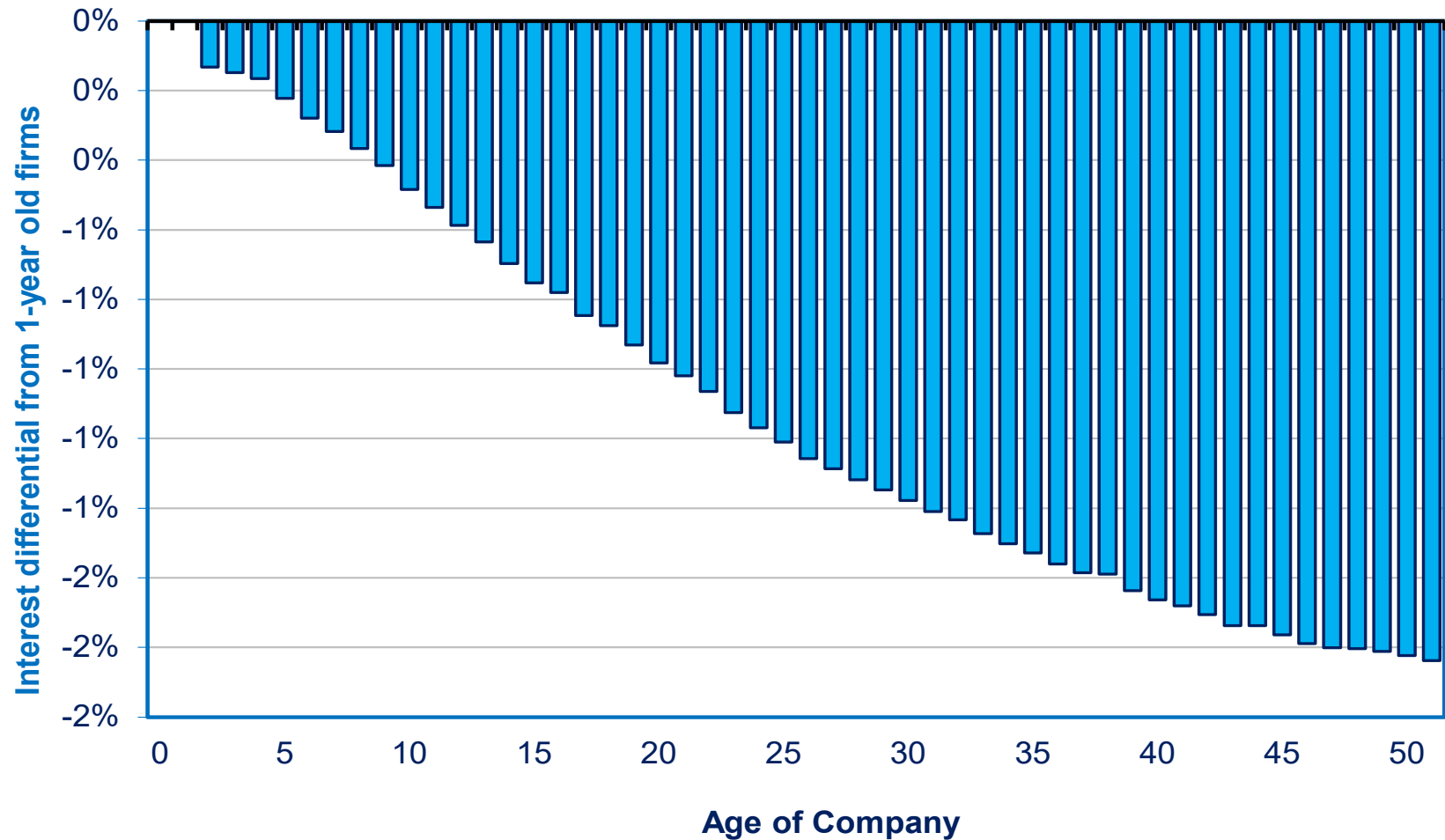
# Globalization

- **So many founders have int'l experience: as students, or working abroad, or working for foreign company in Japan**
- **In OECD, 14% of all patents include working with foreign company as a co-patentee. Japan, at 1.3%, the lowest**
- **Executives with work experience in more than one country think more fluidly even about domestic strategy**

# **Finance Is Biggest Roadblock**

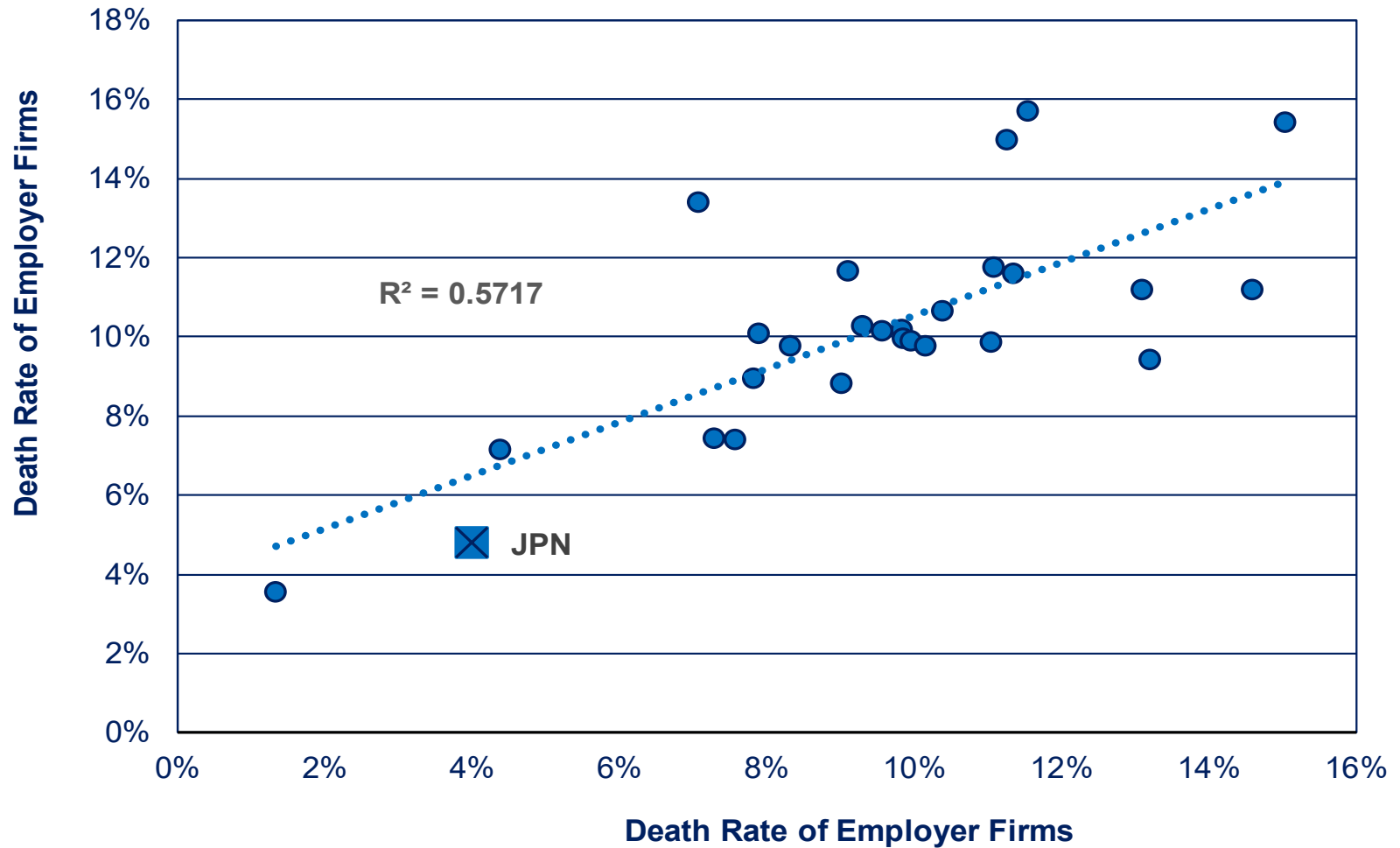
- **Supporting zombies with bank loans, credit guarantees**
- **36<sup>th</sup> rank in financing for startups and scaleups**
- **Banks reluctant to lend to younger firms, or women (higher interest rate)**
- **Firms without bank loans invest less, grow less, and die prematurely**
- **Personal Guarantee, Collateral**

# Old Firms Get Lower Interest Rate (Even if inferior credit rating)



**Plus Personal Guarantee and Collateral**

# Financing Zombies Blocks Startups



**Around 20% of GDP In Gov't Loans and Credit Guarantees**

# **What Should Government Do?**

- **Measure number of high-growth SMEs**
- **Procurement set-aside for new companies (just 1.1% vs. 3% goal)**
- **Better angel tax break –needs to be funds not individual firms**
- **Consulting on digital for SMEs (\$300 million in Japan vs. \$11 billion in Europe)**
- **R&D tax credit carry forward**
- **End double taxation of LLCs**
- **Banks – Collateral and personal guarantee (latter 88% in 2015 down to 53% in 2024 on new loans and rollovers)**

# **What Should the Gov't Do (continued)**

- **Enforce equal pay for equal work**
- **Roll back corporate tax cuts**