

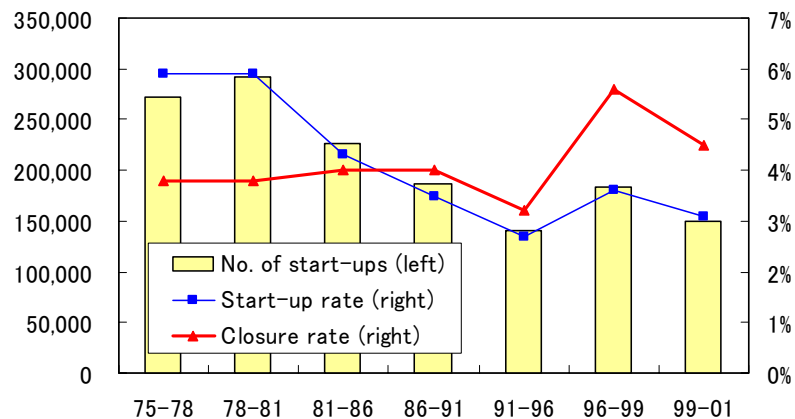
# Characteristics and Economic Impact of the Surge in Business Start-ups by Older Entrepreneurs

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## 1. Older Entrepreneurs Thrive Despite a Dismal Business Start-Up Rate

The annual business start-up rate in Japan (ratio of the number of start-ups to existing enterprises), which hovered around 6% through the 1970s, began declining in the 1980s, and has recently dipped under 4%. Meanwhile, the business closure rate (ratio of closures to existing enterprises) has risen from slightly under 4% in the 1970s to around 5% in the late 1990s. Thus an anomaly has persisted since the 1990s in which closures have outpaced start-ups (Figure 1). Raw statistics paint an even grimmer picture—the annual number of start-ups has declined from approximately 280,000 enterprises in the 1970s to approximately 150,000 in recent years.

Figure 1 Business Start-up Rate, Closure Rate, and Number of Start-ups



Sources: Small and Medium Enterprise Agency, *White Paper on Small and Medium Enterprises in Japan*; Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Establishment and Enterprise Census of Japan*.

Moreover, Japan's start-up rate is low compared to other industrialized economies, most of whose rates exceed 10% (Figure 2).

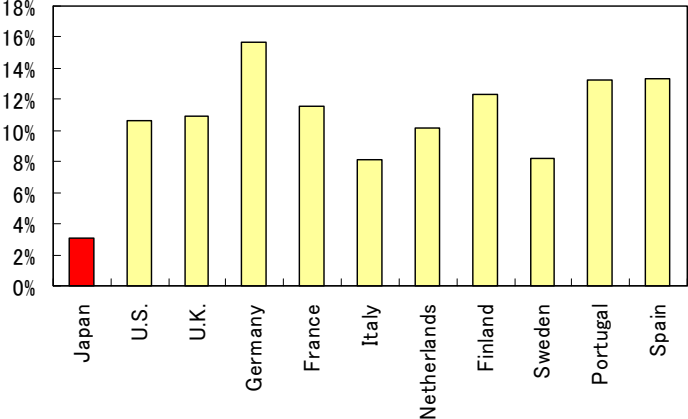
Considering that a higher start-up rate would invigorate the economy and create jobs, a key policy issue is how to rectify the inversion of start-up and closure rates, and bring the

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The author wishes to thank the Institute of Social Science, University of Tokyo for access to the Social Science Japan Data Archive (SSJDA), which contains empirical data from *Survey of Trends in Business Start-ups* (NLFC).

start-up rate up to par with the West. Aiming to increase the annual number of new businesses from 150,000 today to 360,000 by fiscal 2006, the government has taken hopeful steps to promote new business creation, including special exemptions from start-up capital requirements.

**Figure 2 International Comparison of Business Start-up Rates**



Sources: Small and Medium Enterprise Agency, *White Paper on Small and Medium Enterprises in Japan*; U.S. Small Business Administration, *The State of Small Business: A Report of the President*; European Commission, *The European Observatory for SMEs*.

Ideally, the start-up rate should increase across all age groups. However, as the population ages, more attention will be placed on the start-up rate among older entrepreneurs (meaning middle-aged and elderly persons), particularly as their presence grows. Thus we examine the current status, characteristics, and economic significance of start-up activity in this age segment, and make policy recommendations to boost the start-up rate.

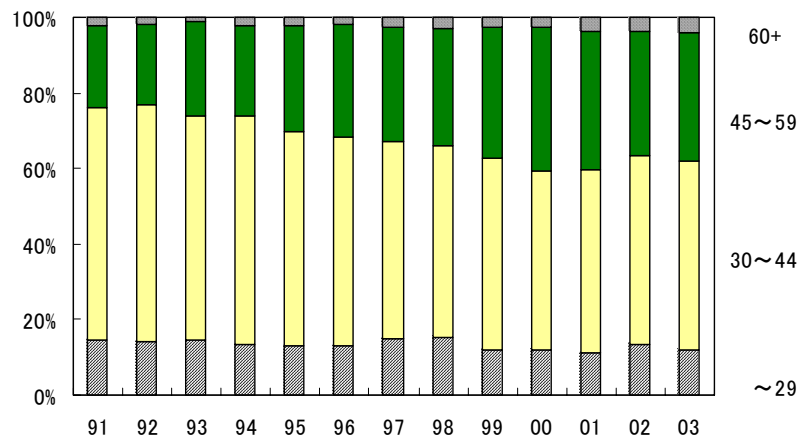
We first turn to the age composition of entrepreneurs. According to the *Survey of Trends in Business Start-ups* released by the National Life Finance Corporation (NLFC), the proportion of entrepreneurs aged 45-59 rose sharply in the 1990s—from 21.6% in 1991 to 33.9% in 2003—for a gain of over 10 percentage points in the decade (Figure 3).

This increase does not simply reflect the pace of aging in the population, since the proportion of older persons only edged up from 19.9% to 22.2% during the decade. Even in the population sample for the survey, which covers persons aged 20 and over, the proportion of older persons grew only from 26.8% to 27.9%.

Thus the increase in older entrepreneurs—despite flat trends in the number and rate of start-ups in the 1990s—can be attributed to two factors: heightened motivation among older persons, and sagging motivation among younger persons.

Below we compare the characteristics of start-ups by age group, and then consider ways to improve existing measures to support older entrepreneurs.

**Figure 3 Age Composition of Entrepreneurs**



Source: National Life Finance Corporation, *Fiscal 2003 Survey of Trends in Business Start-ups*.

## 2. Characteristics of Start-ups by Older Entrepreneurs

The most salient characteristic of start-ups founded by older entrepreneurs is their motivation. Considering the vast differences in background and circumstances between 20-year-olds just graduated from high school or college, and older persons approaching retirement, it is only natural that their motives should differ.

A common and overriding motive across all age groups is the freedom to work at one's own discretion (Figure 4). However, conspicuous differences emerge when we look further into motives. Entrepreneurs in their 20s and 30s tend to cite income motives (income corresponds to the amount of work done) and the allure of entrepreneurship (to experience the joy of running one's own business, and to fulfill a childhood dream). In addition, many young entrepreneurs claim to dislike being employees themselves, which also speaks to the allure of entrepreneurship.

On the other hand, a notable proportion of entrepreneurs in their 50s and 60s are motivated by job concerns such as mandatory retirement or lack of suitable employment. Thus many older entrepreneurs apparently took action after deciding that regular employment was no longer an option.

The differences in motives by age lead to two types of start-ups: start-ups by young persons tend to be "venture" businesses that offer a specific expertise, while start-ups by older entrepreneurs are often what might be called "job creating" businesses.

**Figure 4 Motive for Becoming an Entrepreneur**

Motive	Age Group (%)				
	20s	30s	40s	50s	60s
Can earn more by working harder	37.0	31.4	30.9	22.4	12.0
Can earn more than as employee	6.0	5.5	3.7	4.1	0.0
Can work at own discretion	52.8	58.5	64.1	54.5	49.4
Want to manage own business	25.1	18.2	15.1	13.9	14.5
Can take credit for own idea	12.8	7.7	6.1	6.1	10.8
Can spend more time with family	3.0	6.0	6.4	3.3	4.8
Don't have to retire	2.1	3.8	9.7	22.7	20.5
Couldn't find a suitable job	1.7	5.3	9.5	15.3	13.3
To fulfill childhood dream	15.7	13.0	4.8	5.4	3.6
To emulate a certain successful entrepreneur	5.5	6.7	4.5	2.4	4.8
Not suited to being a company employee	17.9	16.0	11.6	5.9	1.2
Lost lifetime employment guarantee at job	2.6	5.2	8.1	8.9	1.2
Other	3.8	4.9	5.8	9.8	20.5

Source: NLFC Research Institute, *Fiscal 2001 Survey of Trends in Business Start-ups*.

A second characteristic is that older entrepreneurs tend to enjoy better start-up funding (Figure 5). Among persons age 40 and over, over 40% have a self-financing ratio of 30% or higher; for person in the 50s, 60s and higher age groups, better than 20% have a self-financing ratio of 50% or more.

**Figure 5 Self-Financing Ratio at Start-up (%)**

Age	0%	0-10%	10-20%	20-30%	30-50%	50-70%	> 70%	Total	> 50%	> 30%
20s	20.4	13.8	25.0	15.1	15.1	4.6	5.9	100.0	10.5	25.7
30s	12.0	13.0	20.3	16.8	20.0	10.0	8.0	100.0	18.0	38.0
40s	11.3	5.6	20.3	20.0	29.1	7.2	6.6	100.0	13.8	42.8
50s	13.9	6.9	13.9	14.4	27.3	10.2	13.4	100.0	23.6	50.9
60+	16.3	9.3	14.0	11.6	20.9	11.6	16.3	100.0	27.9	48.8

Source: NLFC Research Institute, *Fiscal 2002 Survey of Trends in Business Start-ups*.

Thus while financing represent the largest hurdle for start-ups, older entrepreneurs tend to have fewer problems here than younger entrepreneurs. Greater access to funds, which obviously facilitates the start-up process, combined with the severe job environment, help to explain the disproportionate growth of start-ups by older entrepreneurs.

Third, older entrepreneurs tend to have more extensive management experience. Figure 6 evaluates work experiences found useful for start-up by age group. The work experiences of younger persons tend to be concentrated in operational areas such as direct operations, in-store sales, and customer contact. On the other hand, older entrepreneurs tend to emphasize overall business management experience such as overall operational management, business planning, R&D, product development and design, and non-store sales and marketing.

**Figure 6 Past Work Experience Regarded as Useful in Starting New Business**

	(%)				
	20s	30s	40s	50s	60+
Line department	51.7	45.4	38.7	27.1	22.7
Overall operations management	12.9	11.5	13.1	15.2	16.0
Corporate planning	2.9	3.4	4.7	5.1	16.0
Accounting, finance, budget	1.9	2.5	4.2	3.5	4.0
HR, secretarial	0.0	0.6	1.0	2.0	2.7
Labor relations, HR development	1.4	2.3	2.1	3.8	4.0
PR, advertising, sales & marketing	2.9	3.6	4.2	3.3	4.0
Information systems development, planning	0.5	0.6	1.4	2.3	1.3
Information processing	0.5	0.6	0.0	0.5	0.0
R&D, product development, design	1.0	3.1	3.7	7.3	5.3
Materials, procurement, logistics	2.4	1.5	2.1	2.3	2.7
Production/quality control, technology	5.3	5.0	4.7	4.3	2.7
In-store sales	7.7	6.6	6.3	5.3	1.3
Sales other than in-store	4.3	8.8	9.2	11.4	9.3
No response	4.8	4.7	4.7	6.6	8.0

Source: Same as Figure 5.

From these results, older entrepreneurs seem inclined to capitalize on business and management expertise accumulated over the years. Thus despite the negative effects of aging—people tend to lose vitality and grow more risk averse after the age of 50—many older entrepreneurs can compensate by aggressively exploiting their decades of valuable work experience.

### 3. Economic Impact of Start-ups by Older Entrepreneurs

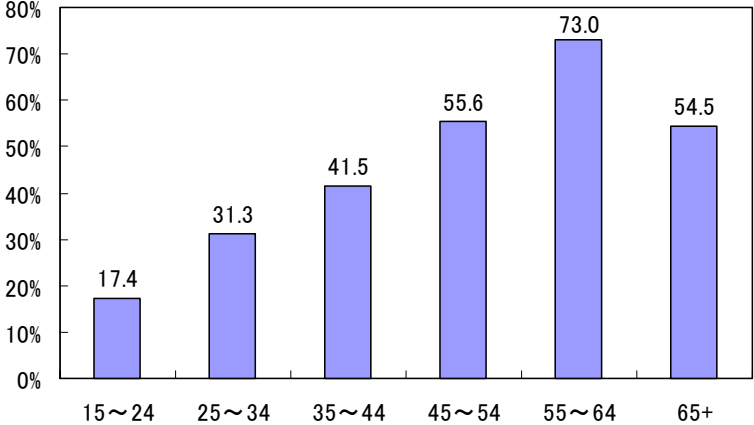
As seen above, start-ups by older entrepreneurs are not as characterized by cutting-edge, venture-type features as those of younger entrepreneurs, but instead tend to be more mundane in nature and aimed at creating employment for the entrepreneur. Thus few of these start-ups offer promising technological innovations that will contribute to Japan's global competitiveness and technological progress.

Rather, their contributions tend to be in the areas of creating jobs, vitalizing the economy, and boosting the business start-up rate.

With regard to employment, Japan's jobless rate has risen persistently during the 1990s. By age group, the 55-64 age group has a jobless rate of 6%, second highest only to the 15-24 age group. Even the 35-54 age group—at the prime of their careers and also financially burdened by dependents—has a jobless rate of almost 4%.

The composition of unemployment is also important. Many persons under age 35 are voluntarily unemployed—that is, they chose to leave their old job and are searching for a better one. On the other hand, persons age 35 and above tend to be involuntarily unemployed in that they lost their job due to corporate restructuring or other external factor. Involuntary unemployment tends to increase with age (Figure 7). Thus the high jobless rate among older persons does not fully reveal the severity of their unemployment problem.

**Figure 7 Voluntary Unemployment Ratio by Age Group**



Source: MPMHAPT, Labour Force Survey.

Given the difficulty of reemploying older persons, jobs created by business start-ups represent a valuable source of employment. Below we calculate roughly how many jobs were created through start-ups by older entrepreneurs. According to the *2003 White Paper on Small and Medium Enterprises in Japan*, the business start-up rate was 3.1% from 1999 to 2001. Nationwide, the total number of enterprises is 4.69 million (1.6 million corporations and 3.09 million individual proprietorships). Multiplying this total by the 3.1% start-up rate, we find that approximately 145,000 jobs were created. Since persons aged 45 and over account for 30% of new start-ups, older entrepreneurs can be credited with creating approximately 44,000 new jobs. Thus of the approximately 1.47 million unemployed persons aged 45 and older, roughly 3% found new jobs by starting their own business.

We should note that the 44,000 new jobs include only business owners, and that including family workers and other employees, the number of jobs created would reach approximately 100,000. However, the fact that these start-ups created jobs for only 3% of the unemployed is somewhat disappointing. More must be done to boost the start-up rate and create more jobs.

Next, we examine to what extent these start-ups stimulate the economy. Compared to their younger counterparts, older entrepreneurs are clearly less likely to nurture radical technological innovations. But on the other hand, their extensive life and work experiences should prove invaluable in discovering new needs of the aging society, and bringing new

products and services to the rapidly growing market of older consumers. Moreover, they can also improve upon and differentiate existing products and services from those of competitors.

Thus older entrepreneurs are likely to offer different products and services from their younger counterparts, stimulating market competition in the process. In this sense, the growth of start-ups by older entrepreneurs will help stimulate the economy.

Finally, we believe older entrepreneurs can play a major role in boosting the overall business start-up rate. This is because of the relative difficulty of boosting the start-up rate among younger entrepreneurs despite their obvious importance. Not only is the younger population shrinking, but the income motive—which is pronounced among younger entrepreneurs—has weakened as the income of self-employed persons falls relative to that of regular employees.

Figure 8 compares annual incomes of self-employed persons and others by age group. Self-employed persons tend to have lower incomes overall—28% have an income below ¥1 million and 46% have an income below ¥2 million, compared to 14% and 30% respectively for persons who are not self-employed. At the high end, while compositions are comparable for high income earners earning ¥10 million or more, self-employed persons show a more significant decrease. This suggests that becoming self-employed may not improve the likelihood of earning a high income, and quite likely will increase the odds of earning a lower income than as an employee.

**Figure 8 Comparison of Annual Income by Employment Status**

Annual income	Self-employed				Not self-employed			
	1987	1997	2002	Change	1987	1997	2002	Change
< ¥500,000	15.7	15.0	16.5	0.8	2.9	3.0	3.8	0.9
¥500,000 ~ ¥990,000	11.7	11.1	11.3	-0.4	9.4	9.4	10.5	1.2
¥1,000,000 ~ ¥1,490,000	8.2	8.5	9.9	1.7	7.1	7.1	8.6	1.6
¥1,500,000 ~ ¥1,990,000	7.0	6.7	7.9	0.8	7.6	6.5	6.9	-0.6
¥2,000,000 ~ ¥2,490,000	8.8	8.6	9.8	1.1	10.0	8.9	9.3	-0.7
¥2,500,000 ~ ¥2,990,000	7.4	6.8	7.2	-0.2	8.4	7.8	7.6	-0.8
¥3,000,000 ~ ¥3,990,000	13.0	12.9	12.6	-0.4	14.3	14.2	13.3	-1.0
¥4,000,000 ~ ¥4,990,000	9.5	9.6	7.9	-1.5	11.1	11.1	10.2	-0.9
¥5,000,000 ~ ¥6,990,000	9.4	10.3	8.0	-1.5	12.8	13.5	12.5	-0.4
¥7,000,000 ~ ¥9,990,000	4.8	5.3	4.0	-0.8	7.5	9.4	9.1	1.6
¥10,000,000 ~	4.5	4.7	3.6	-0.9	3.6	4.3	3.5	-0.1

Note: Shows change from 1987 to 2002  
 Source: MPMHAPT, *Employment Status Survey*.

Moreover, harsh work conditions are also thought to dissuade younger persons from starting a business. Figure 9 compares the work hours of new business owners and regular employees. New business owners tend to work longer hours, with an impressive 63% working 60 or more

hours a week. Thus starting a new business requires putting in longer work hours, yet does not pay as well as being an employee.

**Figure 9 Comparison of Weekly Work Hours by Age Group (%)**

	~34 hours	35~40 hours	41~49 hours	50~59 hours	60+ hours
New business owner	3	10	7	17	63
Regular employee	9	30	21	22	18

Source: Nobuyuki Harada *Kigyoka no rodo jikan* (Labor Hours of Entrepreneurs), JCER Discussion Paper no. 85, May 2003.

The rather dismal income and work conditions of self-employment make it very difficult to boost the start-up rate among younger persons. Thus we will need to count on older entrepreneurs, who tend to have less attachment to income considerations, to play a major role in boosting the overall business start-up rate.

**4. Start-up Difficulties and the Current Status of Support Programs**

In considering ways to boost the start-up rate among older entrepreneurs, we first look at the difficulties encountered at start-up by age of entrepreneur (Figure 10). Regardless of age, the most prevalent difficulties are preparing for self-financing and borrowing from banks. While older entrepreneurs tend to be more financially self-reliant, many nonetheless struggle with financing. A significantly larger percentage of older entrepreneurs cite two difficulties—finding customers, and filing administrative paperwork. This reflects the relative difficulty older entrepreneurs have in attracting new customers and meeting complex filing requirements.

**Figure 10 Difficulties Cited at Start-up (%)**

Age	Finding business partners	Securing employees	Securing factory, store, office	Finding customers	Finding suppliers, outsourcing	Preparing to self-finance	Finding investors	Borrowing from bank	Filing papers
20s	2.1	7.6	9.0	8.3	3.4	30.3	1.4	33.8	4.1
30s	1.8	7.9	11.8	9.7	3.4	28.6	1.3	32.8	2.6
40s	0.7	7.9	5.6	11.5	4.3	32.5	0.7	32.5	4.6
50s	1.5	7.6	4.5	12.6	3.0	34.8	1.0	28.3	6.6
60s	0.0	8.6	2.9	17.1	8.6	22.9	8.6	20.0	11.4

Source: Same as Figure 5.

From these results, we can see that start-up support programs aimed at older entrepreneurs



need to enhance measures in the areas of funding, management expertise, and filing requirements.

Existing programs to assist start-ups are shown in Figure 11. Below we look more closely at support programs pertaining to start-up funding, management expertise, and administrative filing requirements.

**Figure 11 Support Programs for Starting a Business**

Type of support	Description
Consultation	<ul style="list-style-type: none"> <li>• SME support centers offering consulting services, information, and dispatch of specialists</li> <li>• JASMEC entrepreneurship program (National Forum on Entrepreneurship and Venture Business)</li> </ul>
Training, seminar	<ul style="list-style-type: none"> <li>• Seminars, courses, cram schools on start-ups by business associations</li> <li>• Start-up support training seminars by JASMEC</li> </ul>
Event	<ul style="list-style-type: none"> <li>• Venture plazas and fairs organized by JASMEC</li> </ul>
Loan	<ul style="list-style-type: none"> <li>• <i>Marukei</i> business improvement loans for start-ups</li> <li>• Special start-up loans, general loans, environmental health business loans from NLFC</li> <li>• Facility fund loans for start-ups &amp; SMEs from lending agencies of prefectural govt.</li> <li>• Special purpose loans from JFS</li> <li>• Special loans from Shoko Chukin Bank</li> <li>• Loans for women and elderly entrepreneurs from JFS and NLFC</li> </ul>
Credit guarantee	<ul style="list-style-type: none"> <li>• Start-up and venture support guarantees by Credit Guarantee Corporations</li> </ul>
Investment	<ul style="list-style-type: none"> <li>• Investment and debt guarantees by venture support funds</li> <li>• Start-up capital from the Small and Medium Business Investment Consultation Company</li> <li>• Promotion of direct financing through the angel (personal investor) tax system</li> </ul>
Subsidy	<ul style="list-style-type: none"> <li>• JASMEC subsidies to support venture businesses and programs supporting venture businesses</li> </ul>
Collaboration	<ul style="list-style-type: none"> <li>• Small Business Associations</li> </ul>

Source: Web site of Small and Medium Enterprise Agency (<http://www.chusho.meti.go.jp>)

The first notable and unique aspect of these support programs is that some are specifically targeted at older entrepreneurs. Two major loan programs—both of which target women and elderly entrepreneurs at least 55 years old—are offered by the National Life Finance Corporation (NLFC) Japan Finance Corporation for Small Business (JFS; Figure 12). Compared to ordinary loans, these loans offer special treatment including longer loan periods and lower interest rates. The NLFC program, for which data is available for older entrepreneurs, has thrived since its inception in fiscal 1999 (Figure 13). Special loans aimed at older entrepreneurs are also offered at the local government level, including in Chiba prefecture (¥5 million maximum loan), Ishikawa prefecture (low interest rate loan), and Suita-shi in Osaka prefecture (interest-rate subsidy).

**Figure 12 Loan Programs Aimed at Older Entrepreneurs**

**Japan Finance Corporation for Small Business (JFS)**

	Special purpose loan	General purpose loan
Eligibility	Entrepreneurs who are female or senior citizens (age 55+) and have established a new business within the past 5 years	
Purpose	Facility funds (FF) and long-term operating funds (LOF)	
Max. amount	Direct loan of ¥720 million (of which, ¥250 for LOF) Agency loan of ¥120 million	¥480 million (incl. ¥240 million for LOF) ¥120 million
Lending rate	For FF: special rate for up to ¥270 million, basic rate for over ¥270 million For LOF: basic rate	Basic rate Basic rate
Lending period (grace period)	For FF: up to 15 years (2 years or less) For LOF: up to 7 years (1 year or less)	Up to 10 years (1 year or less) Up to 5 years (1 year or less)

**National Life Finance Corporation (NLFC)**

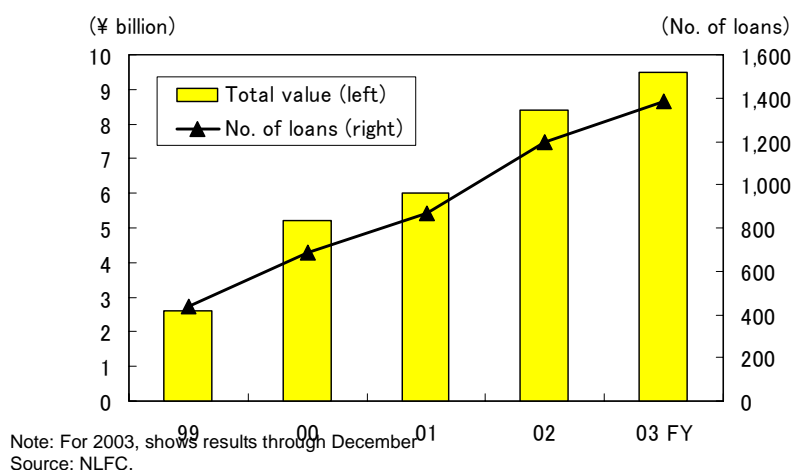
	Special loan	General loan
Eligibility	Entrepreneurs who are women or elderly persons (age 55+), and plan to open or have established a new business in the past 5 years	
Purpose	For equipment funds and working funds at start-up or after start-up	
Max. amount	Up to ¥72 million (up to ¥48 million for working funds)	Up to ¥48 million
Interest rate	For land and working funds : 1.8% per annum For equipment funds, excluding land: 1.4% per annum	1.8% per annum 1.8% per annum
Period	For equipment funds: up to 15 years (with max. 2 year grace period) For working funds: up to 7 years (with max. 1 year grace period)	Up to 10 years (same grace period) Up to 5 years (same grace period)

Sources: Websites of JFS (<http://www.jfs.go.jp>) and NLFC (<http://www.kokukin.go.jp>).

To disseminate basic knowledge about start-ups including filing procedures, the Central Federation of Societies of Commerce and Industry (Zenkokuren) and Japan Chamber of Commerce and Industry (Nissho, or JCCI) offer intensive courses. Prefectural SME support centers offer seminars, over-the-counter consultation regarding legal, accounting and tax matters, and a staff of experts that can be dispatched.

To help new businesses find customers, the Small and Medium Enterprise Agency and Japan Small and Medium Enterprise Corporation (JASMEC) organize “venture fairs,” where small businesses in 15 new growth areas (including medicine, welfare, biotechnology, environment) set up booths and present their products and services, with the aim of finding business partners. In addition, the two groups also organize “venture plazas” in which venture companies present their business plans to attract potential investors and develop sales channels.

**Figure 13 Loans Disbursed to Older Entrepreneurs (NLFC)**



## 5. Two Key Issues

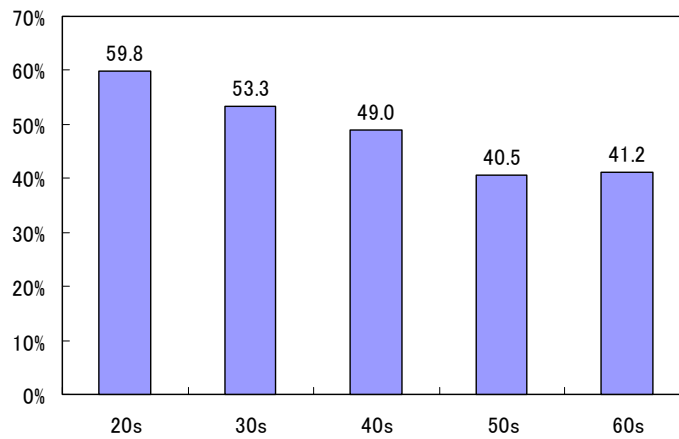
As funding and other programs are enhanced to support start-ups by older entrepreneurs, we believe that these start-ups will increase in number. Looking ahead, two issues must be addressed.

First, the start-up rate has not risen sufficiently despite the extensive lineup of start-up support programs. The start-up rate thus needs a boost centered around older entrepreneurs. To achieve this, the effectiveness of existing programs must be assessed, and their content enhanced or altered as necessary.

Second, business management after start-up needs to be enhanced. When profitability after start-up is plotted against age group of entrepreneur, we see that the proportion of profitable businesses declines as age increases (Figure 14). While this may reflect the lower priority that older entrepreneurs put on profitability, no business can bleed red ink indefinitely. Even if not the primary objective at the time of start-up, financial success is needs to become the overriding priority of business not too long after start-up. Moreover, the increase in business failures with age also impedes efforts to expand loans to older entrepreneurs. In this sense, a solid business and financial foundation needs to be developed for start-ups to be sustainable in the long term.

To do this, hasty start-ups must be discouraged in favor of a more rigorous approach to business management. Careful preparation is vital to the success of start-ups. Potential entrepreneurs can start early while still employed to formulate a sound business plan, nurture a support network, learn about the industry, and develop future sales channels.

**Figure 14 Ratio of Profitable Start-ups by Entrepreneur's Age**



Source: Same as Figure 5.

**As aging accelerates and the economic slump persists, the job environment for older persons is likely to grow even more harsh. Nonetheless, we believe that if older entrepreneurs become more active in starting new businesses, and more successful in growing their businesses, the job environment for older persons will improve and the economy will perk up.**