Industrial Policy Seminar

“Transfer of Small & Medium Enterprises in the EU and Japan”

5 February 2009
Summary

On 5 February 2009 in Tokyo, the EU-Japan Centre for Industrial Cooperation organised an Industrial Policy Seminar entitled “Transfer of Small & Medium Enterprises in the EU and Japan”, with speakers from the European Commission, Japanese Organisation of SMEs & Regional Innovation (SMRJ), and the French Ministry of Economy, Industry and Employment.

High numbers of participants from Japanese public and industrial organisations in charge of implementing business support programmes, in particular for SMEs, and by Japanese prefectural and municipal government offices underlined the Japanese interest at both central and regional levels in learning from the European experience with policies addressing SMEs business transfers.

Presentations showed that the situation was very similar in the EU and Japan, with one third of all enterprises in the EU and almost half of SMEs in Japan expected to face succession issue in the next 10 years, and that a number of common policies are being set up. Questions and debate focused on measures in the European and Japanese stimulus packages aimed at SMEs which could benefit business transfers, on the market places being developed in the EU for business transfers and on the possibility to increase connections between local EU and Japanese market places so as to facilitate the transfer of EU businesses to Japanese investors and vice versa.

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1 - Seminar Outline

- Title: Transfer of Small & Medium Enterprises in the EU and Japan
- Date/Time: Thursday, 5 February 2009, 15:00 ~ 17:15
- Place: EU-Japan Centre for Industrial Cooperation (Tokyo)
- Organised by: EU-Japan Centre for Industrial Cooperation
- Supported by: Organisation for Small & Medium Enterprises and Regional Innovation
- Programme:

  15:00  Opening remark, Mr. Hiroshi Tsukamoto, General Manager, EU-Japan Centre for Industrial Cooperation

  15:10  “Transfer of businesses – Continuity through a new beginning”
        by Mr. Julien Guerrier, Counsellor, Delegation of the European Commission to Japan

  15:40  “Efforts on Business Succession at Small & Medium Enterprises”
        by Mr. Masami Oyama, Business Succession Coordinator, Organisation for Small & Medium Enterprises and Regional Innovation (SMRJ)

  16:10  “Transfer of French Enterprises”
        by Mrs. Catherine Gras, Deputy Director General, Directorate-General for Competitiveness, Industry and Services, French Ministry of Economy, Industry, and Employment

  16:40  Questions & Answers

  17:15  Closing
2 – Major issues discussed

As 1/3rd business failures for Small and Medium Enterprises (SMEs) in Europe as well as in Japan (1/4th), are said to occur in the context of a business transfer, jeopardizing millions of jobs, the EU-Japan Centre for Industrial Cooperation organised a seminar with three speakers making an informative presentation about related policies in Europe, in Japan and in France:

- Mr. Guerrier, Counsellor at the Delegation of the European Commission to Japan and General Manager (EU Side of the Centre) spoke about the “EU Policy on SME Business Transfers”;
- Mr. Oyama, Business Succession Coordinator at the Japanese Organisation for SMEs and Regional Innovation (SMRJ) presented the situation and policies implemented in Japan;
- Mrs. Gras, Deputy Director General of the Competitiveness, Industry and Services at the French Ministry of Economy, presented French policies in a country where intra-family business transfers is particularly low and where policies to address business transfers problems are being aggressively developed and implemented.

1. Japanese and European SMEs are facing common problems

In Japan, the percentage of businesses transferred to family members is constantly decreasing, from 90% in 1986 to 60% in 2006. It is estimated that business transfers require a 10-year preparation period to be implemented smoothly and successfully. The Japanese are eager to learn from EU policies in the field of business transfers support.

Similarly in Europe, 1/3rd of all enterprises will have to transfer ownership in the next 10 years. In particular in France, studies estimate that 700,000 enterprises will be affected by the retirement of their owners during the same period. Psychological barriers (loss of a managerial status, wish to find a successor sharing the same values), a reluctant banking system, a complex and changing fiscal legislation have been identified as the main obstacles to a smooth transfer of SMEs.

In Japan as in Europe, such business failures are leading to jobs losses (millions of jobs are at risk) and knowledge losses (risk for competitiveness) and governments have reacted with a range of measures aiming at facilitating SMEs takeovers.

2. Common policies adopted by the Japanese and EU Member States governments

In order to find a way to encourage SMEs owners to anticipate and prepare their business transfer, Japanese and EU Member States governments have both focused on legal, fiscal and financial measures:

In the Japanese case in particular, the business transfer support policy is based on “The Law Concerning Smooth Business Succession”, enacted in May 2008, and articulated around three main pillars:

- tax measures (related to the inheritance tax);
- exceptions to the Civil Code (to avoid dispersion of stocks and maintain the management’s motivation);
- financial support (targeting SME employers and their representatives).
These measures are supplemented by local support centres that raise awareness among older business owners and assist them in managing the business transfer.

In 1994 and 2000, the European Commission has issued recommendation regarding taxes (inheritances taxes should be transfer friendly, as well as taxes on business transfers to third parties), financial support (loans) or transfers to third parties (transfer bourses). Since 2006, expert groups and external consultants are working on various topics:

- Markets for business transfers (fostering transparent marketplace for the transfer of businesses in Europe);
- Meetings on family business (identify best practices and issue recommendation);
- Mentoring business transfers (provide mentoring to entrepreneurs).

In France, 4 laws in favour of SMEs, adopted between 2003 and 2008, have lead to:

- a significant reduction of taxes linked to company transfers;
- the setting up of stockholders’ agreements to avoid the segmentation of the company and of a proximity investment fund;
- a very symbolic measure: the possibility for families to invest up to 75% of the French Wealth Tax (Import Sur la Fortune) in the capital of SMEs.

The 2008-2009 French Action Plan is focused, as in Japan, on the support of local actors such as the Chambers of Commerce, Trade & and Industry, on the dissemination of information (information kit for sellers and buyers of companies; pre-audit tool available on the Internet), in order to raise awareness on the various possibilities offered to hand over or buy safely an existing business. A database (a recommendation issued in 2000 by an EU group of experts) of persons potentially interested in a company takeover has also been set up.

3. Debate

Questions mainly focused on measures in the European and Japanese stimulus packages aimed at SMEs and which could benefit business transfers, and on the “market places” and databases being developed in the EU for business transfers. This attracted a lot of interest on the Japanese side, and both Japanese and EU businesspeople asked about the possibility to increase connections between local EU and Japanese market places, so as to facilitate the transfer of EU businesses to Japanese investors and vice versa.

The EU-Japan Centre for Industrial Cooperation, with the assistance of JETRO (Japanese External Trade Office) is following up on a specific concrete case raised after the conference by a participant. The Centre’s bicultural knowledge regarding the EU and Japanese legal, fiscal and financial backgrounds may encourage EU and Japanese businesses to use the Centre’s infrastructure and networks to facilitate access in Japan to EU market places for business transfers and vice versa.
3 – Photographs

Opening

Speakers

Mr Guerrier
(EC)

Mr Oyama
(SMRJ)

Mrs Gras
(French MEIE)

Q & A with audience
4 – Participants

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU Member States embassies</td>
<td>17%</td>
</tr>
<tr>
<td>Japanese public organisations</td>
<td>17%</td>
</tr>
<tr>
<td>Japanese prefectural &amp; municipal government</td>
<td>10%</td>
</tr>
<tr>
<td>Japanese national government</td>
<td>3%</td>
</tr>
<tr>
<td>Industry Federations &amp; Chambers of Commerce</td>
<td>6%</td>
</tr>
<tr>
<td>Japanese national government</td>
<td>3%</td>
</tr>
<tr>
<td>Japanese public organisations</td>
<td>17%</td>
</tr>
<tr>
<td>EU Member States embassies</td>
<td>17%</td>
</tr>
<tr>
<td>Total</td>
<td>60%</td>
</tr>
</tbody>
</table>
5 – Evaluation

Average evaluation of the event by participants on the scale of 1 to 5
(1 = Poor/Low; 5 = Excellent/High)
6 – Presentations & Handouts

- Seminar Programme

- Presentation by Mr Julien Guerrier  
  (European Commission)  
  “Transfer of businesses – Continuity through a new beginning”

- Presentation by Mr Masami Oyama  
  (Organization of SMEs and Regional Innovation, Japan)  
  “Efforts on Business Succession at Small & Medium Enterprises”

- Presentation by Ms Catherine Gras  
  (French Ministry of Industry, Industry and Employment)  
  “The Transfer of French Enterprises”
EU-Japan Centre for Industrial Cooperation

- Industrial Policy Seminar -

“Transfer of Small & Medium Enterprises in the EU and Japan”

5 February 2009, 15:00 ~ 17:15

Overview

“Lack of successor” was the reason for 70,000 Japanese enterprises to close down, out of 290,000 business failures in Japan during 2006. The percentage of businesses transferred to family members is constantly decreasing, shifting from over 90% in 1986 to 60% in 2006 (White Paper on Small and Medium Enterprises in Japan, 2006). As over 99% of enterprises in Japan are SMEs, supporting successful business transfers of SMEs is an important policy priority to prevent businesses with competitive technologies and know-how from disappearing. In this context, a new legislation to support SMEs business transfers was introduced in Japan in October 2008.

Similarly in Europe, about one third of business failures are said to occur in the context of a business transfer. Given that, in the next decade, up to 690,000 businesses (providing 2.8 million jobs) will have to be transferred each year, the European Commission is encouraging Member States to improve the conditions for business transfers, through such measures as administrative simplification, effective tax reductions and easier access to financial support for the takeover of a business.

In this seminar, speakers from the European Commission and Japan’s Organization for Small & Medium Enterprises and Regional Innovation will introduce the EU and Japanese policies for supporting the successful transfer of Small & Medium Enterprises. The seminar is also joined by a speaker from the French Ministry of Economy, Industry and Employment to introduce the case of one EU Member States (France).

Programme

15:00 Opening remark, Mr. Hiroshi Tsukamoto, General Manager, EU-Japan Centre for Industrial Cooperation

15:10 Presentation - “EU Policy on SME Business Transfers”
by Mr. Julien Guerrier, Counsellor, Delegation of the European Commission to Japan

15:40 Presentation - “Efforts on Business Succession at Small & Medium Enterprises”
by Mr. Masami Oyama, Chief Business Succession Coordinator, Business Succession & Intellectual Asset Management Support Office, Organization for Small & Medium Enterprises and Regional Innovation

16:10 Presentation - “The Transfer of French Enterprises”
by Ms. Catherine Gras, Director & Deputy Director-General, Directorate-General for Competitiveness, Industry and Services, French Ministry of Economy, Industry, and Employment

16:40 Q & A

17:15 Closing
Transfer of businesses –
Continuity through a new beginning

Julien Guerrier
Counsellor
Delegation of the European Commission to Japan

Business Transfers -
The European dimension

- 1/3 of all enterprises in the EU will have to transfer ownership in the next 10 years
- Up to 690 000 enterprises each year
- 2.8 million jobs at stake every year
Commission Recommendation 1994

1. Awareness for the need of timely preparation
2. Conducive financial environment
3. Allow simple restructuring to prepare transfer
4. Simplify rules for small Private Limited Companies
5. Ensure continuity of partnerships
6. Inheritance and gift taxes must not endanger business
7. Special tax rules for retirement, reinvestment, sale to third parties

Further actions by the Commission

1998: Communication

2000: Experts group recommendation

2002/3: Final report of the MAP 2002 project
Implementation to date

EU 25: Degree of implementation 55%
- Old Member States: 60%
- New Member States: 45%

Main areas of implementation:
- Restructuring/Change of legal form,
- Simplifications for small PLCs,
- Legal principle of continuity,
- Inheritance tax
Recommendations (1)

Business transfers should receive the same (political) attention as do start-ups.

On average, business transfers have a higher success rate than start-ups. They also preserve more jobs (estimate: 5) than are created by start-ups (estimate: 2).

Recommendations (2)

Transfers require more finance than start-ups.

Good examples: Interest reduced loans in Belgium and Luxembourg, loan guarantees in Denmark, France and Austria, tax relief in Ireland.
Recommendations (3)

More needs to be done to support the timely preparation of transfers.

Good examples: In Austria and the Netherlands Chambers of Commerce and Trade raise the issue directly with older business owners in personal mails.

Recommendations (4)

Transfers to 3rd parties gain importance.

Good examples: In Germany, France, Italy, Luxembourg, the Netherlands and Austria Chambers of Commerce organisations organise transfer bourses.
Recommendations (5a)

Inheritances taxes have to be transfer friendly.

Good examples: Abolished inheritance taxes in some countries, special tax treatment for business transfers in most other countries.

Recommendations (5b)

Taxes on business transfers to third parties have to be transfer friendly.

Good examples: Reduction of progressive effects of income taxation, tax exemptions, reduction of rates.
Recommendations (6)

Most business people transfer only one business and have no possibility to gain experience.

Good example: Italy has started a broad initiative to ensure that support reaches the numerous SMEs in all areas.

Current Work

  → fostering transparent marketplace for the transfer of businesses in Europe

- Expert meetings on family business (2007 – 08)
  → identify best practices & issue recommendations

- Overview of family business relevant issues (2008)
  → study characteristics & challenges for family business in each Member State

- Mentoring Business Transfers (2008 – 09)
  → provide mentoring to entrepreneurs and enhance the knowledge and competences essential for successful transfer of business ownership
Efforts on Business Succession at Small & Medium Enterprises

February 2009

Masami Oyama, Business Succession Coordinator
Business Succession/Intellectual Property Management Support Division
Organization for Small & Medium Enterprises and Regional Innovation, JAPAN

1. Current Situation of Business Succession at Small and Medium Enterprises
1-1. Aging of Employers and Diminishing Successions to Family Members

- Amid the recent accelerated aging of employers at small and medium enterprises, it is becoming more difficult to secure successors within family members, in particular.
- The 2006 White Paper on Small and Medium Enterprises in Japan estimated that among business closures, which have counted 290,000 firms annually, about 70,000 companies cited the absence of successors as the primary reason for winding up their businesses, and the loss of jobs has reached 290,000 to 350,000 every year.

Changes in the average age of representatives according to capital

![Graph showing changes in the average age of representatives according to capital.]

Changes of relationships with the late employers

![Graph showing changes of relationships with the late employers.]

1-2. How SME Employers Have Prepared Business Successions

- In spite of the importance of business succession, prior preparations of SME employers have not been moving along.
  1. 43% replied that they have already decided on their successor.
  2. 44% replied that they have consulted someone about business succession.
  3. A total of 87% replied that they have not done anything on or have not sufficiently prepared for business succession (Figure 1).
  4. In response to a question asked of successors who took over businesses about what efforts were made to the succession by the late employer, “nothing special was done” was the most frequent reply, accounting for 53% (Figure 2).

![Pie chart showing how current employers have prepared for business successions.]

![Bar chart showing details of efforts by the late employers for successions.]


Note: Includes only responses from companies which replied that they had already decided successors.
1-3. Problems in Case of a Succession to a Person Other Than Family Members (such as M&A)

- The ratio of successions where a family member succeeds has recently declined to 60%, and the rate of successions to others, including employees and succession by M&A, is rapidly increasing.
- However, there are a range of problems, including SME employers still having strong resistance to M&A (47% replied that they have resistance) and funding support is not sufficient for those who conduct a succession outside family members.

**Sense of resistance to the sale of business (according to number of employees)**

<table>
<thead>
<tr>
<th>(Number of employees)</th>
<th>Have</th>
<th>Don't Have</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 or less</td>
<td>47.3</td>
<td>52.7</td>
</tr>
<tr>
<td>11 to 50</td>
<td>47.3</td>
<td>52.7</td>
</tr>
<tr>
<td>51 to 100</td>
<td>45.0</td>
<td>55.0</td>
</tr>
<tr>
<td>101 or over</td>
<td>59.0</td>
<td>41.0</td>
</tr>
</tbody>
</table>

(%)

Source: Inquiry Survey on “Business Succession” and “Succession of Occupational Capability” by Mitsubishi UFJ Research & Consulting Co., Ltd. (December 2015)

Compiled the responses only from enterprises which responded that “they would study the succession based on the business success” among enterprises which wish to succeed the business in some way or another but as successor has been fixed.

**Useful measures during business succession**

- Improve the welcoming condition for the successor
- Internal employee’s support
- Establishing a succession strategy
- Support from outside institutions
- Family member

(%) The number of enterprises that replied: 969

Source: “Survey Report on Business Succession” by the Osaka Chamber of Commerce & Industry (March 2006)

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2. Recent Government Efforts

- **Law Concerning Smooth Business Succession at SMEs**
  - Drastic enhancement of the business succession tax system
  - Exception to the Civil Code
  - Financial support

- **Support projects of the Business Succession Support Center, etc.**
2-1. “The Law Concerning Smooth Business Succession”

The Law Concerning Smooth Business Succession at SMEs, which is the base of comprehensive support measures for smooth business succession including drastic improvement of the business succession tax system and measures to the constraint based on the legally-secured portion in the Civil Code, was enacted on May 9, 2008.

1. Measures on taxation of the inheritance tax

- Stipulates that the government will take necessary measures about the taxation of the inheritance tax within FY2008.

2. Exception to the Civil Code

- A successor who satisfies certain requirements, given the agreement with all persons entitled to the legally-secured portion and the necessary procedures (confirmation by the minister of METI and the permission by the family court), is eligible for the following exceptions of the Civil Code:
  1. Excluding shares given before the death from the legally-secured portion
     - Because the stock given is excluded from the coverage of the distributive share reduction request, dispersion of stock due to the inheritance is prevented.
  2. The assessed value of the stock given before death is fixed beforehand.
     - Because the portion corresponding to the increase in stock value due to the successor is excluded from the coverage of the distributive share reduction request, management motivation is not harmed.

3. Financial support

- In order to realize a drastic solution to the problems of the burden of the inheritance tax, which is one of the obstacles at the occasion of business succession, with relation to reducing measures of the inheritance tax related to unfixed stock and so on, a drastic enhancement is offered, as the current 10% reduction in tax will be changed to the deferral of 80% of the tax, and this deferral is expanded to cover all SMEs. This system will be established in the tax revisions for FY2009, and shall be retroactively applied to inheritances on and after the enforcement date of the Law Concerning Smooth Business Succession at SMEs (October 1, 2008). (*Outline of FY2008 Tax Reform* decided at a cabinet meeting on January 11, 2008)

(Reference) Drastic Enhancement of the Business Succession Tax System

Summary of the revision

<table>
<thead>
<tr>
<th>10% reduction measure related to the own company stock (the current system)</th>
<th>Deferral of tax payment of 80% related to the own enterprise stock (after the revision)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirement of a target enterprise</td>
<td></td>
</tr>
<tr>
<td>Upper limit of the target for the reducing measure:</td>
<td></td>
</tr>
<tr>
<td>Of the inherited stock, 3/5 of the total number of the outstanding shares with voting rights is held by the ancestor and the family members, and the person was the largest shareholder among the family members.</td>
<td></td>
</tr>
</tbody>
</table>

Reduction rate substantially increased to 80%

Specific scheme

- The person was the representative of an enterprise
- In the case where over 50% of the aggregate outstanding shares with voting rights was held by the ancestor and the family members, and the person was the largest shareholder among the family members.

(Definitions of SME in the Small and Medium-sized Enterprise Basic Act)

<table>
<thead>
<tr>
<th>Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing &amp; others</td>
</tr>
<tr>
<td>Wholesale</td>
</tr>
<tr>
<td>Retail</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>No. of employees</td>
</tr>
<tr>
<td>300 mil. or less</td>
</tr>
<tr>
<td>300 or less</td>
</tr>
<tr>
<td>100 mil. or less</td>
</tr>
<tr>
<td>50 or less</td>
</tr>
<tr>
<td>50 mil. or less</td>
</tr>
<tr>
<td>100 or less</td>
</tr>
<tr>
<td>Must be the SME as defined in the SME Basic Act.</td>
</tr>
<tr>
<td>Must be the representative of the company</td>
</tr>
<tr>
<td>Continuity of the business for 5 years, specifically:</td>
</tr>
<tr>
<td>- Must be the representative</td>
</tr>
<tr>
<td>- 80% or more employment to be maintained</td>
</tr>
<tr>
<td>Check the Minister of METI</td>
</tr>
<tr>
<td>Payment of the deferred amount is exempted in continuation, including the case when the target stock is held until heir's death</td>
</tr>
</tbody>
</table>
(Reference) Exception to the Civil Law

1. Creation of a system which enables exclusion from the legally-secured portion of stock received as gift inter vivos

A system has been created in which, in the case where the successor confirmed by the minister of METI receives the approval of a family council concerning the agreement content with all persons entitled to the legally-secured portion of the stock while the late employer is alive, the successor can exclude from the base assets for computing the legally-secured portion the stock of the own company and other certain assets given to the successor before death of the late employer.

- Prevents a claim for abatement related to the own stock, etc. that is indispensable to the continuance of the business
- The successor independently files a motion with the family council, the procedures of the non-successor are simplified as compared with the current legally-secured portion abandonment system.

2. Creation of a system which enables fixing of the evaluation value of the stock received as the gift inter vivos in advance

Even in the case where the stock value increases due to the contribution of the successor after the gift inter vivos, the legally-secured portion is computed based on the increased evaluation at the beginning of the inheritance.

Therefore, we have created a system in which the value of the stock received as gift inter vivos can be fixed beforehand at the evaluation value at the time of said agreement on the condition that the successor who has been checked by the minister of METI has received the approval from the family council on the content of the agreement with all those entitled to the legally-secured portion

- The creation of a system which enables the successor to hold the portion of the stock price increase will eliminate a factor that has served as an obstacle to management morale.

(Reference) Financial Support

Issues on business succession

1. Substantial funding requirements
   - Substantial funding is required for purchasing the stock dispersed due to the inheritance and assets for business.
   - Large cash fund for payment of the inheritance tax is required for the stock and assets for business.
   - In case of non-family succession (MBO, EBO, etc.), the MBO plan is required for purchasing stock, etc. from the late employer.

2. Decline of the credit standing
   - The credit status deteriorates due to the change of the employer, and the loan terms of banks and payment terms of business partners become stricter.

Confirmation by the Minister of METI

SMC employers who find it difficult to continue their businesses (unlisted enterprises and sole proprietors) are confirmed by the minister of METI

- Responding to capital requirements of the company (Including sole proprietors)
- Exception to the Small and Medium-sized Enterprise Credit Insurance Act
  - Has taken a measure to expand the credit insurance that can be used separately
    - The following funding will be supported:
      - Funding to buy out stock, assets for business, etc.
      - Working capital for a certain period, etc.

- Exceptions to the Japan Finance Corporation Act and the Okinawa Development Finance Corporation Act
  - To be financed to the representative individually
    - The following funding will be supported:
      - Funding to buy out stock, assets for business, etc.
      - Funding for the inheritance tax and a claim for the abatement of the legally-secured portion

* While the basic rate of 2.4% (rate for business provided by Japan Finance Corporation for Small and Medium Enterprises) is usually applied, a special rate of 2.1% is applied. (As of May 2008)

* In addition to the financing based on the system to the representative himself, the institutional financing related to the fund required for business succession such as cash for own stock in corporation and cash for acquiring assets for business by individual employers has been drastically reinforced since FY2008.
Outline of Nagano Business Succession Support Center

- Support Projects of Business Succession Support Centers
  Responsible organizations (planned): Federation of Societies of Commerce & Industry, Chamber of Commerce & Industry, etc.
  (1) Consulting
    Giving advice on business succession
  (2) Discharging services
    Discharging services such as lawyers, certified public accountants, and certified public tax accountants to respond to consultations related to business succession.
  (3) Seminars for successors
    Holding seminars on business succession for successors, etc.
  (4) Supporting matching for business succession
    Will conduct matching support such as meetings between enterprises suffering from absence of a successor and those who wish to start business.

Changes in successful matchings

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>0</td>
<td>6</td>
<td>17</td>
<td>31</td>
<td>36</td>
</tr>
</tbody>
</table>

Records of businesses started and creation of employment (FY2006)

- No. of businesses started, successors: 36
- New employment: 84 persons
- Sales forecast: about ¥624.4 million

(参考)全国各地の事業承継支援センター
3. Business Succession Support Projects by the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ)
3-2. Activities to Inform the Public of the Business Succession Issue (Pamphlets, etc.)

**Dissemination of the “Business Succession Guidelines” with Pamphlets**

- “Toward the Smooth Business Succession of SME
  - Review Results by the Japanese Conference of Business Succession -”
  By Research Institute of Economy, Trade and Industry

- “20 Questions & 20 Answers on the Business Succession Guidelines” by the SME Agency
- “20 Questions & 20 Answers on the Business Succession Handbook” by the SME Agency

**Preparation of Leaflets**

- “More Support for the Business Succession of Your Company” by SMRJ

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Organization for Small & Medium Enterprises
and Regional Innovation, JAPAN (SMRJ)
3-2. Activities to Inform the Public of the Business Succession Issue (Holding Symposia)

**Holding Symposia on Business Succession**

Large-scale business succession symposiums will be held for employers of SMEs in a bid to widely introduce measures for smooth business succession.

For the current fiscal year, the “Business Succession Symposium 2008” was held on October 1 at Toshio Hall in Tokyo. Thereafter, this event, based on the same planning, will be held at each branch office.

<table>
<thead>
<tr>
<th>Schedule for this fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td>�茗: Feb. 9, 2009</td>
</tr>
<tr>
<td>◆ Chugoku: Feb. 9, 2009</td>
</tr>
<tr>
<td>◆ Tohoku: Middle of Dec. 2008</td>
</tr>
<tr>
<td>◆ Shikoku: Feb. 4, 2009</td>
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<tr>
<td>◆ Chubu: Jan. 23, 2009</td>
</tr>
<tr>
<td>◆ Kyushu: Jan. 23, 2009</td>
</tr>
<tr>
<td>◆ Kinki: Feb. 10, 2009</td>
</tr>
</tbody>
</table>

(Above: Toshio Hall on Oct. 1, 2008)

3-2. Activities to Inform the Public of the Business Succession Issue (Holding Seminars)

**Holding Business Succession Seminars for SME Employers**

For employers and executives of SMEs, we hold small seminars about 400 times throughout the year so that they can deeply understand the business succession issue and the approach to the designed measures to business succession.

Mr. President! Have you taken all possible measures for business succession?
3-2. Activities to Inform the Public of the Business Succession Issue (Holding Seminars)

**Holding Seminars for Practitioners Handling Business Successions**

Held seminars targeting experts who support the business succession issue (lawyers, certified tax accountants, SME management consultants, etc.) in collaboration with the SME University.

In the previous fiscal year, such seminars were held at 9 sites, with approximately 1,200 participants.

*<Schedule for this fiscal year>*

- **Kanto**: Oct. 28, 2008, Feb. 6, 2009
- **Chubu**: Jul. 8, 2008, Dec. 9, 2008
- **Kinki**: Jan. 28, 2009, Feb. 18, 2009
- **Shikoku**: Nov. 12, 2008, Dec. 3, 2008
- **Kyushu**: Nov. 19, 2008, Jan. 28, 2009

3-2. Activities to Inform the Public of the Business Succession Issue (Consultation at Offices)

**Opened inquiry counters in each branch office starting in July 2006**

*SMRJ supports the smooth business succession of SMEs.*

**We are offering consultation services on business succession.**

*Are you worried about such matters?*

- How should I start taking measures for business succession?
- I want to acquire necessary information on M&A and business succession.
- I don’t know how to advance a succession.  

SMRJ assigns specialists such as lawyers, certified tax accountants, certified public accountants, and SME Management Consultants to each branch office (SMRJ/Venture Consolidated Support Center), and offers advice and provides information on business succession issues nationwide.

Consultations are **free** and you can come to ask their advice as many times as you need.
3-3. Management of the Japanese Conference of Business Succession

Background of the establishment

Amid the recent accelerated aging of SME employers, smooth business succession is very important, as it helps secure the technologies and employment of SMEs which sustain the Japanese economy, thereby invigorating the Japanese economy. However, the business succession issue has not been sufficiently reviewed in a comprehensive manner from the viewpoint of facilitating the business continuance of SMEs, partly because such an issue is often triggered by a private matter such as the death of an employer or an inheritance.

Purpose of the establishment

In order to recognize anew the importance of business succession at SMEs, and review comprehensively and conduct actions necessary to smooth it, we established the Japanese Conference of Business Succession on October 21, 2005.

The Conference aims to construct a wide network related to business succession mutually among members as well as to develop and diffuse comprehensive actions related to business succession.

Also, the Conference, with the cooperation of related organizations and various entities, will improve the recognition of business succession of SME employers, facilitate planned actions, examine legal issues in the field of laws related to business succession, and the ideal business succession support services on the national level.

Representative officer Tadashi Odanaga (Chairman, the Japan Chamber of Commerce and Industry)
Vice-representative officer Masahiro Maeda (Chairman, the Organization for Small & Medium Enterprises and Regional Innovation, Japan or SMEJ)
Officer Kenjiro Eraga (Professor, Law School, Waseda University, Professor emeritus of University of Tokyo)
Officer Shigeki Ito (Chairman, Business Reorganization Committee, the Japan Federation of Bar Associations)
Officer Norio Terada (Executive officer, the Central Federation of Societies of Commerce and Industry)
Officer Natsumi Yoneura (Chairman, the Japan Small and Medium Enterprise Management Consultants Association)
Officer Etsuo Sato (Financial Division Chief, Business Environment Department, the Small and Medium Enterprise Agency)
Officer Masafumi Sawada (Vice Chairman, the Japanese Institute of Certified Public Accountants)
Officer sadao Miyaguchi (Officer, the Japan Federation of Certified Public Accountants' Associations)

Japanese Conference of Business Succession/Review Committees

- Business Succession Guideline Review Committee
  The committee compiled the "Business Succession Guide" in which the importance of the smooth business succession is first explained, and which introduces the procedure for making plans for business succession, implementation of specific measures in accordance with the various methods of succession within families, that to employees, and that based on MBA, and access means to support organizations, and released it on June 10, 2008.

- Inheritance Tax System Related to Business Succession Review Committee
  The committee complied the "Inheritance Tax System Related to Business Succession" and released it on June 12, 2008.

- Company Laws Related to Business Succession Review Committee
  The committee complied the "Company Laws Related to Business Succession" and released it on June 12, 2008.

- Business Succession Future Image Review Committee
  The committee compiled the "Business Succession Future Image Review Committee," and released it on October 11, 2005, in which this proposal is created to strengthen the network among practitioners concerning the improvement of the recognition of SME employers, the facilitation of prior actions, education of succession, and the improvement of consultancy and the reception system.

- Business Succession Tax System Review Committee
  In relation to the business succession tax system, as a means to define the inheritance tax burden related to inheritance for businesses, specifically, a reduction at the inheritance tax of assets for business including real property and renovation of the evaluation method of real property, the committee compiled the "Business Succession Tax System Review Committee" and released it on June 20, 2007.

- Inheritance-Related Business Succession Law System Review Committee
  In relation to revision of the contract in the Civil Code such as the leg-secured portion that acts as a barrier against concentrating assets for business to the successor, the committee compiled the "Inheritance-Related Business Succession Law System Review Committee" and released it on June 29, 2007.
3-4. Business Succession Funds

(1) Origination of funds

- Originated investment funds mainly with private investment firms, financial institutions, and business corporations.

As a limited partner, SMRJ makes an investment up to one-half of the aggregate amount of the funds.

(2) Target of investment

- SMEs which are in a difficult situation with a new expansion of business such as the development of new products and the development of new business due to an absence of successors although they have excellent technology and know-how, or companies that are established in order to succeed the relevant business.

(3) Support methods

- Taking control by obtaining stock from the owner-manager, etc., while providing business funds by various methods

- The hands-on support for management by general partners and the SMRJ's various support measures will help solve the business succession problem, facilitate innovation of management, and develop new businesses.
The transfer of French enterprises

Catherine GRAS
Deputy director general of DGCIS
Ministry of economy, industry and employment

The transfer of enterprises: a priority issue

- The baby-boom generation arrives at the age of retirement
- 700,000 enterprises will be affected in the next 10 years
- Several millions of jobs will be concerned
- Risk of loss of knowledge
Key Studies on the issue

- French economic and social Council in 2004
- OSEO* in 2005 based on bank information on the financing of takeovers of companies
- MEIE** and KPMG on the specific case of industrial enterprises

*OSEO: French Public Agency for the financing of SMEs and of Innovation
**MEIE: French Ministry for the Economy, Industry and Employment

Preoccupying findings on industrial companies

- At the national level
  - A major psychological barrier: the loss of the manager status.
  - A lack of preparation of the transfer.
  - The wish, hard to satisfy, to find a receiver who will share the values of the company.
Preoccupying findings on industrial companies

- Banks that are reticent with regard to receivers.
- High expectations concerning the role chambers of commerce and business federations should play.
- A complex, heavy and changing fiscal legislation.

Preoccupying findings on industrial companies

- In international comparison:
  - A weak intra-family transfer in France (6% of transfers, compared to 58% of transfers in Germany, 55% in the Netherlands and 72% in Italy).
  - A proportion of company transfers due to the retirement of the manager comparable to the situation in other countries.
  - A market for company transfers in France that is less transparent than in other countries.
Preoccupying findings on industrial companies

- Banks that are scarcely active on the market of mergers and acquisitions of SMEs.
- Government measures that are heterogeneous in the countries covered by the study.
- A fiscal legislation with incentives in particular to intra-family transmission in the UK, the US and Italy.

The Government response

- Starting in 2003 with the law on economic initiative:
  - Significant reduction of taxes linked to company transfers.
  - Setting up of stockholders’ agreements to avoid the segmentation of the company.
  - Setting up of a proximity investment fund.
- Followed in 2005 by a law in favor of SMEs
  - Further improvement of the tools set up in 2003
The Government response

- The law « Work, employment and purchasing power » adopted in 2007:
  - Possibility to invest up to 75% of the solidarity tax on fortunes (impôt de solidarité sur la fortune) in the capital of SMEs.

The Government response

- The Law on the modernisation of the economy adopted in 2008
  - New tax reduction.
  - Extension of the fiscal advantages to the staff of the company (heir or simple employee).
The government response

• By an action plan for 2008 / 2009 signed by all actors of the transfer of enterprises:
  – A higher level up to which OSEO can intervene (OSEO - French Public Agency for the financing
    of SMEs and of Innovation)
  – Increase in capital resources of SIAGI (Mutual guarantee society for craftsmen)
  – Setting up of a programme by APCE (Agency for the promotion of foundations of companies) that is strongly
    supported by the government.

Actions of APCE in 2008/2009

• Setting up of a database of persons potentially interested in a company takeover.
• Presentation of an information kit for sellers and buyers of companies.
• Publication on the internet of an auto-diagnostics tool for micro-enterprises.
• Realisation of a pre-diagnostics of company performance for SMEs of more than 10 employees by an external consultant.
• Raising the awareness of young people of the chances of setting up or taking over a company by teachers in professional education branches.
• Advertising of the dedicated internet page of APCE.
The government response

- Diffusion and promotion of information on the local level, on fiscal advantages, best practices of all the actors by the chambers of commerce, auditors, solicitors and government agencies.

France:
A country that has decided to overcome psychological, cultural and financial obstacles to maintaining and developing its companies, its employees and its knowledge.