

# Local Community Created by SMEs —SMEs as a Source of Regional Economy—

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## Introduction

Today, the Japanese economy has been in a time of economic stagnation, which is called “the lost 20 years” following the collapse of bubble economy, and the systems and perspectives which supported the conventional high economic growth are at a turning point in managerial behavior, strategy formulation of companies, industrial policy and policy for SMEs. After the war, Japanese economy enjoyed economic effects throughout the country along with the high economic growth. However, with the collapse of bubble economy, a disparate society has become a serious social issue. Disparity includes not only individual disparity, but also disparity among companies, disparity among businesses, and disparity among regions, which is said to be the most serious today. In a simple free economic system, it would be inevitable that wealth is concentrated in large cities such as Tokyo and Osaka, and the progress of depopulation in a region could be a natural flow of management resources. Affirmation of this situation would lead to a logic that “everybody could go to urban areas to get a job and live in affluence.” Yet, a region has culture and history. In a similar way, a company has its long-held company culture, and must exist while maintaining that. As an essential matter there, a company which has existed in a region for a long time has conducted business of a public nature although it is a private company. Continuing operation in the region by the company contributes to the local residents, and leads to the local revitalization. Under such circumstances, Japan is now being

globalized<sup>1</sup>.

Nowadays, the term “globalism” is ubiquitous, and at the same time, “regionalism” is expected to be reacknowledged. “Globalism” is a concept to see the earth as a single community. In recent years, global economic activities beyond national borders are often conducted by multinational enterprises, and nations and corporations intend to have activities by taking the world as a market. On the other hand, “regionalism” is an idea that a certain region, in the context of its cultural characteristics, identifies with the region, and pursues its administrative/economic autonomy and cultural independence. Now that there has been a concern over the stagnation of the Japanese economy, an attitude that encourages to integrate the both ideas, and to reacknowledge the movement to “Think globally, act locally” is increasingly prevailing<sup>2</sup>. Although we tend to focus on the discussion in Japan when thinking of regional revitalization, it is becoming fundamental to think with a global viewpoint in every area, and to have various activities and efforts in collaboration with regions.

## 1. Business Environment of SMEs in Japan

Due to the recent economic trend, there is temporary movement of weak yen and rising stock prices, which leads to the improvement of the asset value of the export industry, and companies and individuals holding stocks. Moreover, it is expected that the improvement of the business performance of large enterprises mainly in the export industry will bring economic ripple effects, which will lead to the improvement of the business performance of SMEs. However, rising purchase prices and other matters in consequence of weak yen could possibly have an impact on SMEs, and it is unclear if the future basis of SMEs’ existence can be enhanced or not. It is, in the first place, crucial for the enhancement of the basis of an SME’s existence to aim to build a strong corporation which can make use of and be resistant to the changes of the Japanese economy in order to strengthen

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<sup>1</sup> Yamashita , S. (2014) .Overseas business development and Innovation of SMEs, MINERVA Publishing.

<sup>2</sup> Protestant intellectuals known for developing pioneering contemporary technology criticism and civilization criticism are said to be words expressed by philosopher Jacques Ellul and made their own beliefs as acting intellectuals.

the basis of its existence by collecting information without getting confused with the changes of the Japanese economy.

The Abenomics has been spread by the media, and economic recovery was expected in 2013, and especially, the recognition of corporations focusing on “training of employees” and “securing human resources” has steadily been growing since the failure of the Lehman Brothers, where a management style on the basis of recruiting human resources and improving employees’ capacities as strategy to overcome inter-firm competition, which is growing intense, has been popular. The issues that SMEs, which support the Japanese economy, have include the following three points<sup>3</sup>.

Firstly, as the recent Japanese industrial policy places much value on the reinforcement of international competitiveness based on deregulation, it is emphasized to recover economy mainly in the export industry in order to bring ripple effects to the domestic industries. However, since there are heavy key industries and core large enterprises having strong competitiveness in Japan, and the development and promotion of key industries and core enterprises are emphasized, it is likely to have time lag for ripple effects (trickle-down effect = a phenomenon that economic influence gradually spreads peripherally) in a way that SMEs can also depend on, and therefore we cannot expect the effect excessively. Secondly, the latest trend does not necessarily include what can be economically admired. In other words, it is essential to recognize that there is a negative aspect for management environment. The rising purchase prices in consequence of weak yen have become a problem. The rise in the consumption tax to 8% was decided in April 2014, and the pressure on management associated with that also had become a problem. Further, the pressure on pay raise in connection with price rise will possibly increase, and the management environment for SMEs will not necessarily get better although it might be different for large enterprises. Thirdly, it is critical for an individual SME to pursue strong organization to enhance its competitiveness. Although it is important to make use of the expansion of the spending on public works as fiscal action, it is uncertain how long such economic policy will last. It is necessary to constantly

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<sup>3</sup> Kubota, S. (2017).

be conscious of organization which can promptly respond to the changes of the environment.

## 2. The Existence of SMEs and Enhancement of Management Quality

It is a good mechanism for small and medium enterprises (SMEs) to be included various systems of creating creditworthiness. I am focus on “management quality”. Intrinsically, the management quality refers to quality of products, namely, quality of goods and services provided by a company. In other words, companies used to receive recognition for the quality of their goods and services. But nowadays this quality of products has become quite common. Rather than that, from now on there will be growing emphasis on management quality as an essential factor for companies to operate smoothly. In fact, there are nationwide award programs such as the Japan Quality Award program, or local honor programs such as the Hyogo Management Innovation Prize program in Hyogo Prefecture<sup>4</sup>. These awards or prizes are granted to companies with excellent management quality. To be brief, what kinds of companies are defined as growing companies? It means that so-called ES (employees’ satisfaction) is high. Unless ES is high, CS (customers’ satisfaction) cannot be enhanced. Therefore, enhancement of management quality is identical with enhancement of both ES and CS. And for enhancement of ES, it is important to fulfill so-called CSR or the corporate social responsibility. In conclusion, I say that companies with high scores in these three factors (CS, ES, and CSR) are considered as companies with high management quality<sup>5</sup>.

This type of company has strong brand recognition. In other words, because everyone knows the company, it has strong brand recognition, which ferments the self-satisfaction of its employees. Therefore, if companies have strong brand

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<sup>4</sup> After the Hyogo Management Innovation Prize program in Hyogo Prefecture changed to Hyogo Excellent Management Award in Hyogo Prefecture, it has ended in 2015.

<sup>5</sup> Among companies of which management quality is said to be high, Oriental Land Co., Ltd. is a prime example. This company operates and manages a series of theme parks collectively dubbed as Tokyo Disney Resort. I feel great whenever I visit there. In recent years, many new books feature something like the secret of Disneyland. The staff there is called “cast” in the Oriental Land’ s terminology. By definition, cast is a group of performers. Disneyland is a place where visitors buy their dreams. Therefore, the staff or cast members are not forced to work. Instead, they are performers on the stage of Disneyland, inviting visitors to the dream world. There is no garbage left in these theme parks, because the all cast members feel proud of working at Disneyland.

recognition, they can attract good human resources. On the other hand, SMEs and under-populated areas do not have strong brand recognition. Well then, how can SMEs attract good human resources? What kind of local brand recognition will be necessary when so-called under-populated regions try to attract young people? It is almost certain that they will not be able to acquire as strong recognition as major companies. If they are engaged in public relations activities as hard as major companies, or if they have a breakthrough invention, their brand recognition will be enhanced, and will consequently attract good human resources. And yet, the possibility is as low as one out of 10,000, much less than three out of 1,000.

What shall we do to enhance our brand recognition? For this purpose, CSR is to be utilized. Why are companies engaged in CSR activities? Basically, that is because they intend to enhance their brand recognition and thereby make their employees feel proud of working there. Well then, what is CSR? The type of chain store procures raw materials in Tokyo and then distributes them to local stores, If the local economy in is getting worse, the local stores will be closed. To put it plainly, money does not flow in the local area but is absorbed from local residents by this type of chain store, which will get away when it has completely absorbed as much money as possible. That is why I call them the vampire Dracula. What is essential in the CSR is how much money a company brings in a local area and how the company tries to have local residents consume its goods as well as the money<sup>6</sup>. I call this mechanism “local production and local consumption of people, goods and money”. The most important part of the CSR is “local production and local consumption of people, goods and money”. ‘Local production and local consumption of goods’ means that raw materials are procured from a local area; goods are produced in this local area and then consumed by local residents<sup>7</sup>. ‘Local production and local consumption of people’ means that local residents are employed and receive salaries which shall be consumed or spent in the local area.

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<sup>6</sup> Yamashita, S. (2017b).

<sup>7</sup> Okada, T. (2005) .

### 3. Case Study

#### 3 – 1. Okage Yokocho Practicing the Local Production and Local Consumption: AKAFUKU Co., Ltd.

When money is circulated within a region, this circulation is called “interregional reinvestment”<sup>8</sup> in academic terms. To what degree can the interregional reinvestment be carried out? Take “Akafuku” as an example. Do you know how many years ago Akafuku became a specialty of Ise, Mie Prefecture? AKAFUKU Co., Ltd., the maker of Japanese sweets called Akafuku, has been in business for more than 300 years, but as a matter of fact Akafuku itself has been a specialty of Ise for only 50 years or so. Back in the Edo period (1603-1868), going to Oise (or Ise Jingu in its formal name) at least once in a lifetime was said to be a status symbol for then Japanese people. In the past, the standard tour course around Ise used to be as follows: On the first day, go to Naiku (Kotaijingu) and Geku (Toyoukedaijingu) and offer prayers there; then go to Toba City and visit the aquarium and/or Mikimoto Pearl Island; next, go to Matsusaka City and eat locally-produced beef. During the typical three nights and four days course, stay at one of Japanese-style inns in Futami’s inn town. At that time, the most famous specialty of Ise was not Akafuku but Shogaita. The flagship store of Akafuku has been located near Naiku and Geku since old days. In the past, people usually went to Naiku and Geku to offer prayers on the first day of their trip. If they had bought Akafuku on that occasion, the sweet would have gone rotten by the time when they came home. That is why they bought the longer-lasting Shogaita as their souvenir. Many years later, motorization was progressing, and as a result Ise has become a destination of a same-day round trip, and Akafuku has become a good souvenir to take home. Conversely, Futami’s inn town has been turned into a ghost town. It is as if Akafuku and its maker AKAFUKU have been growing in inverse proportion to Ise’s decline. Therefore, AKAFUKU has felt indebted.

AKAFUKU were found to have sold expired products in 2010. When the president explained the background of this scandal at a news conference, his remarks revealed that he had pretended to know nothing about it. This state of affairs

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<sup>8</sup> Okada, T. (2005) .

was so appalling that it would not have been surprising if AKAFUKU had gone bankrupt, but in reality it didn't. Why? That is because local residents launched a campaign never to let AKAFUKU go bankrupt. And it is because AKAFUKU has become an indispensable company for the Ise community. Of course, one of reasons may be that AKAFUKU is a big moneymaking firm. But more importantly, AKAFUKU has a history of creating "Okage Yokochō" under the theme of 'local production and local consumption' in order to revive the local Ise economy. Okage Yokochō is a typical commercial cluster of local production for local consumption. When you go there, you can buy virtually all kinds of products, including candles made by Kameyama Co., Ltd., pearls produced by K. MIKIMOTO & CO., LTD., locally-produced marine products such as oysters, scallops and lobsters, as well as Ise Udon (Japanese wheat noodles). Needless to say, raw materials are locally procured, while goods and services are sold not only to local residents but also to people everywhere else in Japan. Over 20 years has past since Okage Yokochō was established. At that time, the annual number of visitors to Ise was around 200,000, but in these days, the annual number has increased to 4 million, or 20-fold higher. Okage Yokochō is the place of an authentic re-creation of an old-style town spreading over premises of AKAFUKU and the surrounding. The relevant investment amounted to about 12 billion yen. AKAFUKU's annual sales were around 10 billion yen at that time. This means that AKAFUKU created Okage Yokochō by investing more money than its annual sales.

People often say "AKAFUKU made the investment on the expectation that it would be profitable." Of course, companies never do what they see as unprofitable because they are not charitable organizations. It is true that AKAFUKU made the investment on the expectation that it would be profitable, but they did not have to stick to the local area. If they had opened a new store in Tokyo, Osaka or Kyoto and created a similar town facility, this investment might have cost less money and could have been as profitable as Okage Yokochō. Another point to mention is that buildings in Okage Yokochō have been specially structured, and thus their constructions have cost more than necessary. Nevertheless, AKAFUKU stuck to the local area, helped revitalization of Ise, and contributed to the interregional reinvestment. That is why AKAFUKU has become an indispensable company for the

Ise community. For this reason, AKAFUKU's employees are vigorous. They feel pride in contributing to the local community.

### 3 – 2. Revival Declaration at the Affected Area: JUNKUDO Co., Ltd.<sup>9</sup>

Some companies have grown into prime names because they have been indispensable for their local communities. JUNKUDO Co., Ltd. is one of typical examples of such companies. JUNKUDO is headquartered in Kobe City, Hyogo Prefecture, but it was originally engaged in wholesaling of books in Tokushima Prefecture. JUNKUDO started to build retail bookstores in late 1970s. At that time, the company was a typical SME, employing 40 people. JUNKUDO is a major company with over 60 bookstores around the world in 2010<sup>10</sup>. But it is after the Great Hanshin-Awaji Earthquake that JUNKUDO became a big name.

At the time of the earthquake disaster, JUNKUDO had only two bookstores, one on the basement floor in a building on the Sannomiya Center Street and the other “SANPAL bookstore” located in a shopping complex operated by SANPAL Inc, both located in Kobe City. The bookstore on the Sannomiya Center Street was completely destroyed due to the Great Hanshin-Awaji Earthquake. On January 20, or three days later, about 40 employees got together after their whereabouts had been confirmed. The gathering spot was the SANPAL bookstore, which stopped short of collapsing. But they found the bookshelves crushed and the all books spoiled. Apparently, the sprinkler system had self-started. And yet, President Kudo made the revival declaration, pledging that the bookstore should be reopened on February 3, 1995. In less than two weeks Books were transported by sea. Then bookshelves were hand-made. And on February 3, 1995 they managed to reopen the bookstore. On that morning, the president gathered his employees together and said, “Let’s keep trying and make a day of it!” And then he was cleaning the floor with a mop, because he wanted to do anything he could do by himself. Then suddenly, he got caught up in a feeling of suspicion and asked himself, “Will customers really come?” They had not advertised the reopening on TV and radio. They had not run newspaper ads, either. Besides, Japan Railway (JR), Hanshin Electric Railway, and Hankyu

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<sup>9</sup> For details, refer to Satake, T. (2012).

<sup>10</sup> JUNKUDO Co., Ltd. became a wholly owned subsidiary of Group of CHI in 2011.

Railway had been suspending all their runs. The earthquake had inflicted such catastrophic damage on Sannomiya. JUNKUDO did nothing but posting some bills on the Center Street and in front of the bookstore to announce the reopening. Then it got around to the opening hour, 10:00 a.m. As soon as the store was opened, about 200 customers came in. The store was quite busy with crowded shoppers until its closing time. After office hours, the all employees celebrated the day's success. During the drinking party, the individual employees unanimously said, "I have never felt proud of being a JUNKUDO's employee more strongly than today." This is because they had been told by customers, "Good job! I am really impressed with this reopening," or "Your reopening is a kind of refreshing tonic, soothing my heart. Actually, I have never been more glad than today." These applicative words made the employees feel proud of their work. This is the best example of the relationships between customers' satisfaction (CS) and employees' satisfaction (ES): When CS is enhanced, ES is also enhanced; and when ES is enhanced, CS is also enhanced. JUNKUDO dared to open the first store in neither Osaka nor Tokyo but in Kobe. This loyal action led to the CSR. Some people say that JUNKUDO can take such an action because they are a big company. However, at that time, they were never so. The truth is that they have grown in a big name since then.

#### 4. Regional Management of SMEs

Each company achieved an outcome through innovative efforts to seek for the growth. What these companies produced in its management process, such as sales, profits, technology, expertise, reputation and confidence are used again as new managerial resources. Existing companies create a life cycle that can continuously bears fruit to sustain themselves, by displaying a spirit of entrepreneurship, finding management innovation chances and launching the "daini sogyo". A study of such companies shows that the success of a company largely depends on the management philosophy, management forms and management resources<sup>11</sup>. Subsequently, a study is made as to the implication of the actual cases of overseas

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<sup>11</sup> Seki, T. (2006).

business development. There are three points.

The first point is the spread of management philosophy to personnel. In order to cope with the globalization, Japanese companies have to establish a new organization based on a close and fine partnership with entities in and out of Japan. Still, the core of the organization is personnel. Human resource development plays a vital role in creating a new organization, and also clarifying a direction of the new organization. A company cannot grow beyond the accumulation of human resources. Organizational capacity, marketing ability, and so called managerial power cannot be improved without enhanced human resource. How much human resource can be accumulated depends on the efforts of a manager to spread management philosophy among employees. Creation and instillation of management philosophy are required for the expansion of Japanese management to the world<sup>12</sup>.

The second point is that we can achieve better results if we uphold our management philosophy and organizational form even in abroad. Many Japanese companies partly keep conventional management style while taking in western merit system. It means there are two kinds of management approach within a company. At the same time, Japanese companies have to cope with many issues such as fiercer competition in a market caused by economic globalization, a declining birth rate and aging population, employment issues, and exhausted regional economies. In order to solve these issues, we have to create an organization that makes much of merits of Japanese-style organization. Key factors are how workers are integrated into an organization, how to motivate personnel, and how to enhance the employee satisfaction. Human resource is essential to corporate management. Although a proverb says “When in Rome, do as the Romans do,” we often hear a global strategy needs a policy of “COPY EXACTLY.” A company that advanced abroad needs not to adapt its management system to local characteristics but to establish the system by transferring Japanese management system abroad as it is. The second point is that such a “glocal” attitude brings about better results.

The third point is valuing personnel that is managerial resource. Although it cannot be utterly accepted by people in western countries, there is culture and tradition rooted in Japanese management style, which is a sense of belonging and

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<sup>12</sup> Ogai, K. (2016).

loyalty to an organization, and mutual trust within a company. They are the essence of Japanese-style management. While Japan achieved more dramatically high economic growth than any other country in the world, Japanese-style management functioned as a kind of social security system. Many Japanese companies enhanced this system because this system helped gain loyalty of employees and keep workers connected mentally to the organization. Employees provide a company with labor from a sense of belonging. Loyalty helps a company grow, and the growth makes people's living and society affluent. In this way, Japanese economy developed. Japanese-style management functioned as a kind of tool to develop Japanese economy, and individuals, companies and society came to share the same goal. When individuals provide labor and a contribution to the company, they become members of an organization, a company, and gain profits distributed by the company. Companies were able to guarantee the employment to a certain extent and provide employees a sense of security because they provide shareholders less earnings in the form of dividends, reserve them internally, and use them for corporate growth, wage growth, or ultimately management stabilization. Further economic growth was achieved in a virtuous cycle. In other words, the better performance a company achieved, the more it grew, the more highly motivated a worker became and the more workers a company could employ. As said before, the third point is placing high priority on human resources for the purpose of spreading management philosophy and maintaining an organizational form. Too much valuing human resources is not practical in foreign countries, though<sup>13</sup>.

In a drastically changing society and economy, a prompt response to changes is necessary. In order to cope with “lost two decades” in Japan, the current industrial policy basically aims at creation of a “strong company” which survives a global competition and adapts to a technological innovation. Then, the policy aims at creating a “strong industry” and a “strong community” by setting the “strong company” as a core. In the next stage, activities of the “strong company” to contribute a community would create a “good company.” The “good company” is required to return to a community the accumulated profits, which have been

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<sup>13</sup> Satake, T. (2008) .

obtained by the “strong company” with managerial resources of personnel, materials and money. Consequently, a community becomes the resident-centered “good community.” Regional capabilities to circulate community’s earnings within it are called the “regional reinvestment capabilities.”

In order to nurture personnel needed by the society, we have to create a scheme specialized in nurturing personnel who have sophisticated managerial knowledge and practical skills required for the establishment of a “strong company” and a “good company”, and a “strong community” and a “good community.” In an age of global competition and accelerating technological innovation, any company has to establish a new basis of its existence. To that end, the company must strengthen its management, and become more environmentally friendly and more conscious of social aspects with personnel that are important managerial resources. In other words, a company has to carry out the management innovation through new “*daini sogyo*”, cope with environmental problems caused by corporate business activities and solve social issues through the development of social business. We have to nurture entrepreneurial personnel who create synergy effects by combining these activities above for the creation of a “good company” and a “good community. As the examination shows above, the more active companies are in overseas business development, the more passive in taking all business activities abroad. They manage their businesses by maintaining domestic bases to a certain extent. In other words, their management focuses on returning a certain outcome to local community, expanding the size of a pie for Japanese society and economy for more affluent living, and enhancing “regional reinvestment capabilities”<sup>14</sup>.

The good point of Japanese style management is that each of employees has a sense of ownership<sup>15</sup>. In other words, employees, based on the love for their companies, try to improve them by being self-conscious as employees and proud of their company. Such attitude can bring about innovation. A manager is required to absorb improvement proposals from employees and use them. To that end, managers should restore the conventional management that focuses on happiness of employees. Under such management system, employees exercise their own discretion freely and

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<sup>14</sup> Yamashita, S. (2015)

<sup>15</sup> Ueda, T. (2000).

provide valuable goods and services to make customers happy, and such happiness generates profits. Japanese style management is originally based on the human relationship where stakeholders share happiness, not scramble for it. By reviewing companies' overseas business development, I found that solution lies in the essence of Japanese management style.

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