

〈研究論文〉

## An Essay on the Process of Business Opportunities

: A Study on Market Openness and Financial Capital

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### I. Introduction

This paper is an empirical study that compares entrepreneurial market environments internationally.

In terms of the environment for creating entrepreneurs, three environmental factors were identified.

These were: “the process of recognizing business opportunities”, “the degree of openness of the domestic market (ease of entry)”, and “the ease of raising funds (equity and debt)”.

This paper consists of five chapters that includes the chair presentation at Management session on the 13th east Asia Academic Exchange Forum (Hosted by Graduate School of International Studies, Dong-A University, Confucius Institute, Dong-A University). The process of entrepreneurs' recognition of business opportunities is discussed in Chapter 2.

As entrepreneurs' technological innovations

bring about new processes, products, markets, and ways of organizing, entrepreneurs must discover opportunities to utilize new technologies. Research has not sufficiently explained why entrepreneurs discover such business opportunities, and some conceptual problems have arisen in the literature on entrepreneurship.

According to Kirzner (1985), the theory of the process of discovering business opportunities is that entrepreneurs do not always select alternative market opportunities for new technologies. The source of entrepreneurship is the difference in information about opportunities. The results of previous research on the use of entrepreneurship may be biased. Individual differences affect the opportunities people discover, the organization of their entrepreneurial efforts, and the ways in which governments influence this process. The Austrian School approach, unlike the neoclassical approach discussed below, emphasizes the process leading to the suburbs.

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Kirzner's "alertness" approach views entrepreneurs as price signals and defines entrepreneurs as actors who lead to equilibrium.

The distinctive feature of Kirzner's (1997) approach is the signal price function (alertness) of entrepreneurs. By buying and selling goods and services in response to the discovery of price imbalances, individuals gain or lose entrepreneurial profits. The process of entrepreneurial alert pricing decisions leads the economy from imbalance to equilibrium. The Austrian School of Economics assumes that business opportunities are not equally visible to everyone.

Who becomes an entrepreneur depends on access to information rather than individual attribute alone. This process is also influenced by external factors beyond personal ability or motivation.

The degree of openness of the domestic market was discussed in Chapter 3. In the discussion of whether entrepreneurship leads to innovation, it was pointed out that the development paths (corridors) differ between entrepreneurship in informal markets aimed at self-employment (necessity driven) for living and entrepreneurship for more advanced innovation (opportunity driven), and the generation of open markets (internal openness) for the formation of markets necessary for the latter was discussed separately from informal markets.

In Chapter 4, it was hypothesized that the composition of financial assets held by households in each country would affect the "ease of raising funds for entrepreneurship" in the capital markets that generate entrepreneurship, depending on the policies and customs of each country. The ratio of financial assets for investment (stocks/bonds, bank deposits) to household assets was confirmed. The study looked at six countries: Japan, the United States, the United King-

dom, Germany, Taiwan and South Korea, and referred to time-series data from 2015 to 2022. The results showed that in the United States and Taiwan, there was a trend towards preferring stocks and bonds, while in Japan and Germany, bank deposits were the mainstream. In the UK, we confirmed that there was a tendency for banks to move away from rural areas and for pension funds to divert funds into stocks, which may make it difficult for capital market funds to access new businesses (Mayer, 2024).

The summary of this paper is in Chapter 5. We examined the relationship between the ease of raising funds and the degree of market openness and confirmed that there was a significant relationship. As an implication, we discussed the issues involved in creating a unique capital market for fostering entrepreneurs.

## **II. Entrepreneurship Studies on (neo-)classical economics**

### **1. Markets are imperfect**

Throughout the history of entrepreneurial theory, researchers from multiple fields of social sciences have long grappled with diverse interpretations and definitions in an attempt to conceptualize this abstract concept. Today, there is no single definition of entrepreneurship that all economists accept, nor is there a single definition of entrepreneurship that can be applied to all economies. The first formal recognition of the need for entrepreneurship in production was due to Alfred Marshall in 1890. In his famous treatise, "Principles of Economics", Marshall listed the four factors of production as land, labor, capital and organization. Organization is the coordinating factor that

brings the other factors together, and Marshall believed that entrepreneurship was the driving force of organization.

Like Mill, Marshall suggests that the skills associated with entrepreneurship are scarce and the supply is limited. Marshall claims that the abilities of entrepreneurs are “so great, so numerous, and so few can display them all at a very high level” (1994). However, Marshall also suggests that the skills needed to become an entrepreneur can be taught. Unfortunately, the economic environment surrounding entrepreneurs often limits opportunities. Furthermore, while entrepreneurs share certain skills, they are all different and their success depends on the economic conditions in which they attempt to do business (Marshall, 1994). In his writings, Schumpeter argues that entrepreneurship requires “extraordinary abilities” and laments the lack of an appropriate English synonym that encompasses the specific meaning of the French word “entrepreneur” (Schumpeter, 1951).<sup>1</sup>

In modern times, research that is keen to actively incorporate the role of entrepreneurs into market mechanisms can be seen in Kirzner (1985) of the Austrian School. He argues that the role of entrepreneurs is to recognize business opportunities and to function as price signals. Kirzner suggests that the process of innovation is spontaneous “unreflective learning” (Kirzner, 1985, p. 10).

This is a departure from mainstream classical theory. In the mainstream general equilibrium framework, the efficient market hypothesis (Fama, 1970) is adopted, and at any point in time, all opportunities are recognized, and all transactions are perfectly coordinated, so it is impossible to find inconsistencies that generate entrepreneurial profits. In the equilibrium framework, it is impossible to recognize opportunities

that other people are not seeing. For this reason, Kirzner explains entrepreneurship not through equilibrium theory, but by identifying individuals who prefer to become entrepreneurs. In their model, Kilstrom and Laffont (1979) adopted Kight's (1921) approach and attempted to elucidate the mechanism of entrepreneurship by incorporating the profit motive into “uncertainty.”<sup>2</sup> In other words, they propose that the more people prefer uncertainty, the more they will choose to become entrepreneurs, and the less they prefer uncertainty, the more they will choose to become employees. In other words, the equilibrium theory assumes that (1) everyone can recognize all entrepreneurial opportunities, and (2) whether to become an entrepreneur is determined by people's basic attributes, not by information about opportunities.

In this way, the Austrian School of economics believes that the neoclassical equilibrium approach cannot provide a theoretical framework for understanding market processes. They believe that an effective theory of the market system cannot assume equilibrium and must be able to explain how the market achieves equilibrium from an initial non-equilibrium condition (Kirzner 1997).

The Austrian School is now a branch of the neoclassical school, and it assumes that markets are made up of people with different information (Hayek 1945). Since market actors all have their own information, people can find specific opportunities that others cannot see, even if they are not actively looking for such opportunities. Due to differences in information, people find different values in specific goods and services and offer different prices to obtain them. Buying and selling goods and services in response to the discovery of price imbalances directs Knight's image of the entrepreneur, who finds “profit” in “risk and uncer-

tainty,” where individuals can profit or suffer losses as entrepreneurs.

The Austrian School's explanation of entrepreneurship creates its own implications regarding who becomes an entrepreneur, how entrepreneurial efforts are organized in the economy, and how the government can influence the entrepreneurial process. For example, neoclassical economists assume that the world of neoclassical entrepreneurship is one in which the generalization of existing technology is carried out by a single entrepreneur alone, and that neoclassical entrepreneurship is based on individuals, not organizations.

In understanding the entrepreneurial process, it is important to explain the cognitive process of recognizing business opportunities as “rare” and that the discovery of business opportunities is not “rational” as in the neoclassical school, but “imperfect”. Therefore, applying the hypothesis derived from the Austrian school framework to empirical studies would be a meaningful approach.

## 2. The Opportunity Discovery Process

When an individual recognizes a business opportunity and the profit motive of an entrepreneur is born, they must discover that the opportunity has value.

Kirzner (1997) explains as follows: “The discovery of a pure profit opportunity cannot be the object of systematic search, by its very nature. Systematic searching can be done for missing information fragments, but this is because the searcher is aware of what he or she does not know and is aware of how to obtain the missing information with a certain degree of certainty. Therefore, it is suggested that entrepreneurs do not discover business opportunities for starting a business through searching, but rather by recognizing the value of new information obtained by chance through other means. This is an important element in the framework of the Austrian School.

Figure.1 The Opportunity Discovery Process



Source Kirzner (1985) figured by author

The process shown in Figure 1 indicates that business opportunities (profit opportunities) are opportunities to create new products, services, raw materials, and organizational methods that can be sold at a price higher than the production cost (Casson 1982). These business opportunities exist because different people possess different information (Kirzner 1997). The fact that information is incomplete means that in any market transaction, people must guess at each other's beliefs about many things (Kirzner 1973). Since these guesses can be wrong, this process can sometimes lead to errors that result in the misallocation of resources. When someone realizes that resources are being misallocated and recognizes that the resources are not being used for their "optimal use", they obtain the resources, recombine them, and sell them at a price higher than the cost of obtaining and recombining them (Casson 1982), which is the entrepreneurial process of recognizing business opportunities.

Also, not all people recognize the scarcity value of business opportunities, so entrepreneurs can obtain resources at a price below the market price (a price that already incorporates risk) (Venkataraman 1997). If the owner of the resource had recognized the same opportunity as the entrepreneur, he would supply the resource to the entrepreneur and try to capture the entrepreneur's profit at a price that would leave enough profit for the entrepreneur to operate (Casson 1982). Eventually, if a market is formed and all potential entrepreneurs become aware of the same opportunities, they will compete for profits. This competition will reduce each entrepreneur's share of entrepreneurial profit to such an extent that it will not provide an incentive for potential entrepreneurs to act (Fiet 1996).

Given that information asymmetry is necessary for entrepreneurial business opportunities to exist, not everyone in society has an equal chance of being aware of all opportunities. Rather, only a portion of the population is liable to recognize specific opportunities at specific times (Kirzner 1973). Based on the above discussion, the analysis will be conducted based on the hypothesis that "not all individuals are equally aware of given entrepreneurial opportunities."

Figure 2 shows the percentage of people aged 18 to 64 who responded that there are good business opportunities in the area where they live. This is based on the function of opportunity seeking by entrepreneurs, which stems from the entrepreneurial alertness pointed out by I. M. Kirzner. The founding of new businesses is itself an activity of profit-seeking by entrepreneurs. It is more realistic to describe the activities of a company as a series of activities for the constant recognition of business opportunities. Entrepreneurial alertness is not just about moving prices in an "even direction", but also about moving resources from the production of one product to the production of another (resource allocation). In a market economy, this tendency to move resources from less productive uses to more productive uses is not only due to the equalizing effect of given commodity prices, but also to entrepreneurial discovery, or perceived opportunities. The value for Japan (JAPAN) is consistently significantly smaller than that for the United States (USA). As mentioned above, entrepreneurial awareness in Japan is lower than in other developed countries, but the question of whether business opportunities are perceived is an essential issue in entrepreneurship. Even considering the above-mentioned corporate process model

(Figure 1), it is thought that the incentive for companies is small.

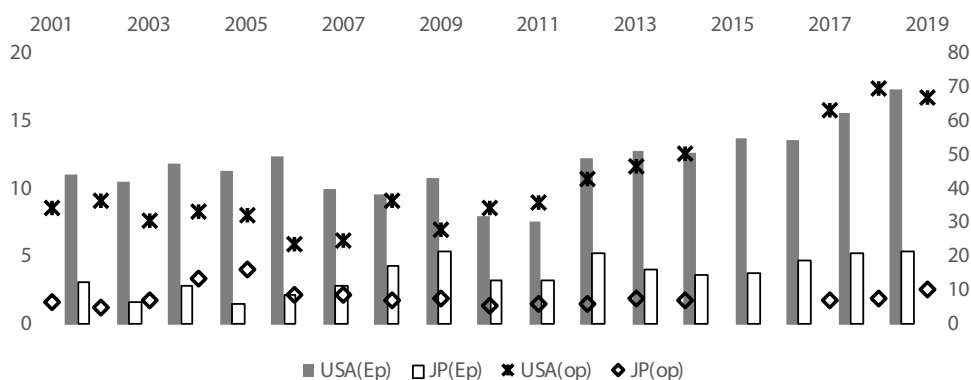
Figure. 2 Entrepreneurship on the Early stage Perceived Opportunity(2001-2019)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2017	2018	2019
USA(op)	34.9	36.9	30.8	33.6	32.3	24.1	25.2	36.6	28.4	34.8	36.2	43.5	47.2	50.9	63.6	69.8	67.2
USA(Ep)	11.1	10.6	11.9	11.3	12.4	10	9.6	10.8	8	7.6	12.3	12.8	12.7	13.8	13.6	15.6	17.4
JP(op)	7	5.3	7.5	14	16.5	9.1	8.9	7.6	8	5.9	6.3	6.4	7.7	7.3	7.4	8.1	10.6
JP(Ep)	3.1	1.7	2.8	1.5	2.2	2.9	4.3	5.4	3.3	3.3	5.2	4	3.7	3.8	4.7	5.3	5.4

Entrepreneurship on the early stage アーリーステージの起業家 (右軸%)

Perceived Opportunity 事業機会の認識 (左軸%)

パネルデータ (観測：2001-2019年)



Entrepreneurship on the Early stage Perceived Opportunity(2001-2019)

Source ; GEM (Global Entrepreneurship Monitor) figured by author

Whether or not the recognition of business opportunities is derived from the entrepreneur's work experience, education, or other means, prior knowledge affects the entrepreneur's ability to understand, reason, interpret, and apply new information. This ability cannot be replicated by those without prior knowledge (Roberts 1991).

Therefore, even if information about technological innovation is widely disseminated (especially if it is disclosed in patents, presented at scientific conferences, or known to several individuals who may work in the same research institute), the prior information that leads to the discovery of a particular entrepreneurial opportunity will be held by only

a portion of the population.

The three main types of prior knowledge that are important in the process of discovering entrepreneurial opportunities are prior knowledge of the market, prior knowledge of the means of serving the market, and prior knowledge of the customer's problem. New information about technology may be complementary to prior information about how a particular market functions, and prior knowledge of those markets is required for the discovery of entrepreneurial opportunities.<sup>3</sup> Important prior knowledge about a market may include information about relationships with suppliers, sales methods, and capital equipment that vary from market to market (von

Hippel, 1988). For example, someone who has worked in the market before, as a customer, manufacturer, or supplier, may already have information about how new technologies will affect the market that is not generally available. This prior information allows that person to discover opportunities to use the new technology (Roberts 1991).

### III. Do all entrepreneurs create innovation?

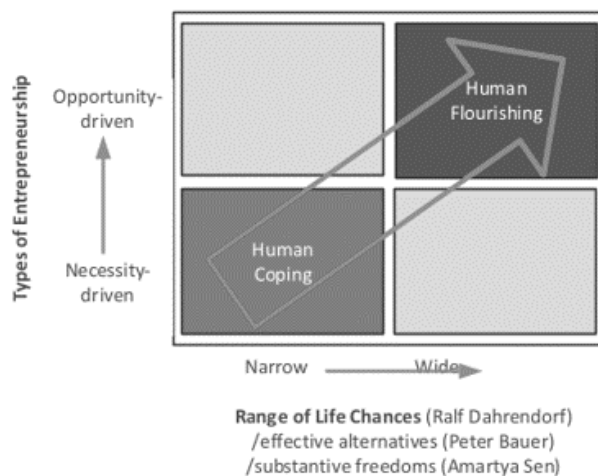
#### 1. Entrepreneurs are distinguished

The knowledge that entrepreneurs have in advance about their customers' problems influences the discovery of products and services that utilize new technologies. The conceptual model described above is summarized in Figure 1. This shows that prior knowledge moderates the relationship between technology attributes and entrepreneurial opportunity perception. It also shows that prior knowledge moderates the relationship between opportunity attri-

butes and entrepreneurial opportunity perception. Figure 2 shows clearly that we need to understand the factors that affect the supply of entrepreneurship before we can increase the supply of entrepreneurship. At the most basic level, the supply of entrepreneurship is determined by two factors: the opportunity to become an entrepreneur and the motivation to do so. According to Praag (1995), opportunity is “the possibility of becoming self-employed if one wishes to do so”.

The main factors that affect opportunity include a person's inherent entrepreneurial ability, initial investment capital, On the other hand, motivation is the relative evaluation of self-employment work and work in other forms of employment. In terms of opportunity cost, if self-employment is perceived as the best career option, then an individual's motivation will always be positive. Therefore, motivation is essentially influenced by the market incentives that potential entrepreneurs expect, i.e. profits and financial gains.

Figure.3 Informal Market Entrepreneurship and Upgrading



Source Lars Peder Nordbakken –(2024)figured by author

In general, there is no clear-cut criterion to distinguish between “entrepreneurship for livelihood” (necessity driven) and “entrepreneurship that creates innovation” (opportunity driven). In the study of entrepreneurship, the classical theory of Say's law is the premise, and it is only one-sided aspect of market phenomena. Therefore, in order to increase the supply of entrepreneurs and reap the benefits, traditional economics suggests that we need to promote the production and pricing processes for entrepreneurship.<sup>4</sup> However, there is very little written about the demand side of entrepreneurship, because the calculation of demand is inherently built into entrepreneurship. Entrepreneurs are gap-fillers who recognize market imperfections and fix them. Therefore, if there are market imperfections, there will naturally be a demand for entrepreneurs to fix them. As a result, when the government promotes the supply of entrepreneurship, it is essentially encouraging entrepreneurs to find out which parts of the market need them. Therefore, the supply of entrepreneurship depends on both individual-level factors and general economic factors. Policy makers can improve the economic factors faced by potential entrepreneurs by initiating market reforms that increase both market incentives and the availability of capital available to entrepreneurs (Wilken, 1979).

Therefore, policy makers can influence the level of entrepreneurship in their country by formulating market reform policies to encourage entrepreneurship both economically and educationally.

In addition, it has been found that the entrepreneurial population varies regionally in terms of the rate of entrepreneurship in different countries. Davidsson and Wiklund (1995), who conducted an international comparative study on entrepreneurship,

pointed out that regional differences in the rate of entrepreneurship are influenced by people's cultural values. They argue that “cultural and economic structural factors of the rate of establishment of new companies are positively correlated,” suggesting that cultural differences in values and beliefs help to explain regional differences in the supply of entrepreneurship

For entrepreneurship to generate innovation, it is necessary to broaden the range of options available to entrepreneurs for entering the business world, in other words, to broaden the range of effective options that are open to people. It is necessary to clarify the main objectives and criteria for economic development (right). It is necessary to provide more valuable opportunities and life chances for all people. In other words, to create more ladders of social mobility, based on a steadily rising bottom. To promote social inclusion and social and institutional trust. Non-discriminatory productive incentives are necessary to maintain economic dynamism. Success is not possible without open markets and a level playing field. In addition, when entrepreneurs produce a limited number of scarce goods in a limited market, it is necessary to enable them to challenge existing companies on equal terms. The unique and valuable characteristic of the spontaneous power of market processes may also depend entirely on informal, non-market generation mechanisms (left).

## **2. Process on transcultural business of Digital industries in the Far east countries (Concrete discussion)**

With a view to venture creation and recent business models in Taiwan and South Korea, and the exam-



ination of business ecosystems with an eye to the future society, horizontal alliances in which South Korean and Taiwanese companies excel, are shown in appendix.1. we will conduct interdisciplinary research from a variety of perspectives on (1) identifying issues related to attracting foreign companies to Nagasaki (Phase 1), (2) organizing the feasibility of institutional compatibility (Phase 2), and (3) the feasibility of effective international convergence of companies (Phase 3). In this regard, the hypotheses that this research is considering are as follows (Phases 1 to 3 are the procedures of this research plan), considering the regional characteristics of Nagasaki Prefecture as ad hoc ones.

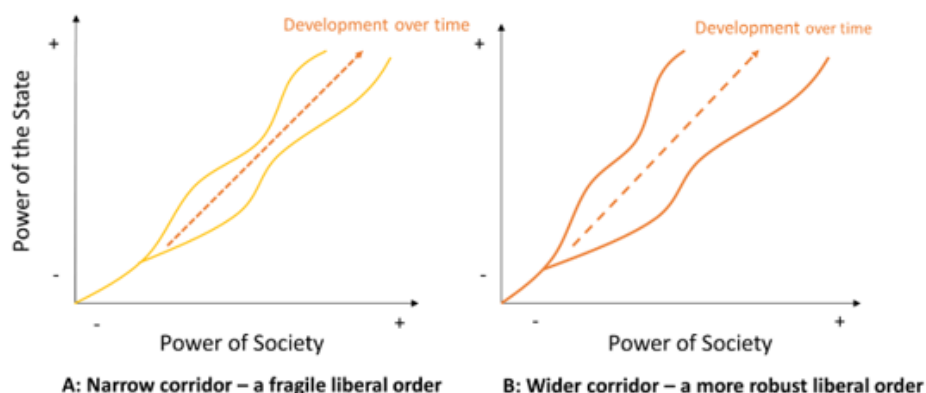
- Hy 1: Environmental issues in corporate management that enable high growth of venture companies (Phase 1)
- Hy 2: Barriers to entry due to differences in accounting and legal systems (Phase 2)
- Hy 3: Competitive advantages of capital movement and alliances that enable horizontal integration between countries (Phase 3)

In the digital sector of the electronics industry, particularly in the semiconductor business in Taiwan and South Korea. Both South Korea and Taiwan have cultivated competitive ecosystems, leveraging government support, public-private partnerships, and industry collaboration to drive innovation in semiconductors and digital technologies. These ecosystems have enabled companies to adapt to changing market demands and maintain leadership in a highly competitive global market. The scale of the industry is in the process of growing against the backdrop of rapid technological improvements.

While many companies have their main development and manufacturing bases in their home countries, they are facing a scheme that considers horizontal convergence in terms of expanding overseas markets and relocating production, logistics, customer service, and other departments. In this context, it is necessary to consider the formation of effective policies for attracting companies to Nagasaki Prefecture, as well as the suitability and competitive advantage of the departments that are transferred. This research is a long-term study that considers the capital movement of the two countries mentioned above to Nagasaki Prefecture. The research procedures and research design are described in the figure (appendix.2).

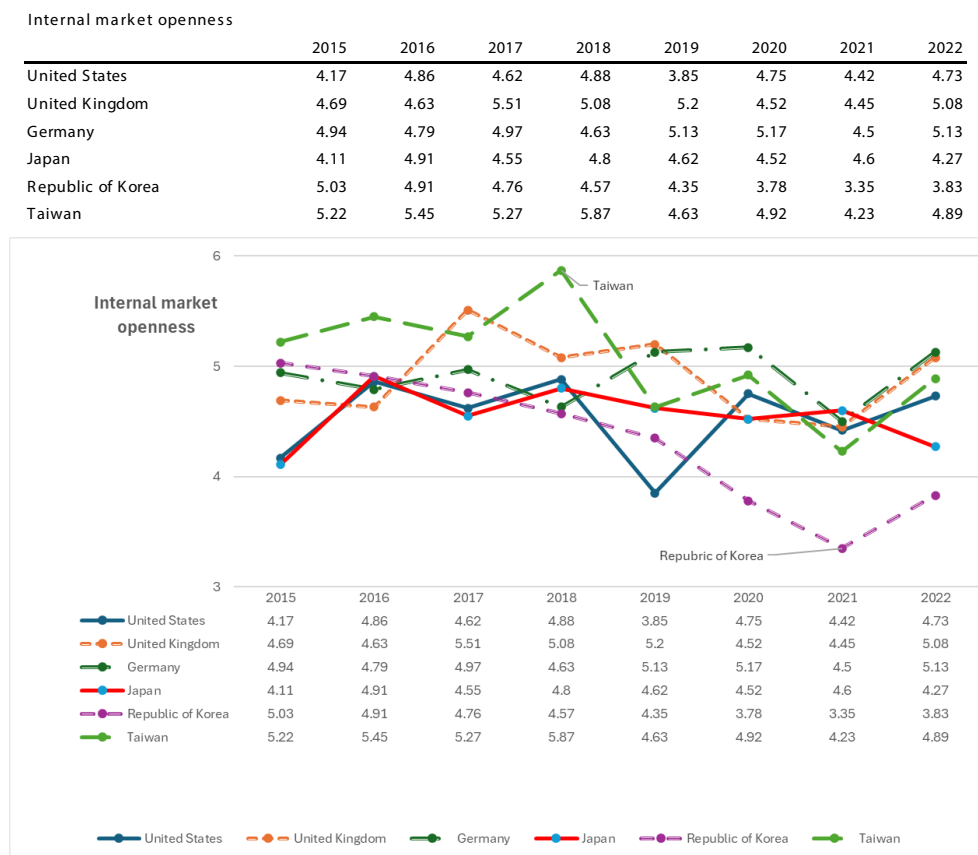
This is an ad hoc study that considers the regional characteristics of Nagasaki Prefecture and consists of the following three points (Phases 1 to 3 are the procedures for this research plan). (Show as appendix.1 and 2)

Figure. 4 Narrow corridor and Wider corridor for generating entrepreneurs



Source Lars Peder Nordbakken –(2024)figured by author

Figure. 5 Internal market openness



### 3. Formal or informal—How to choose them

Entrepreneurship has a direct impact on the speed of economic transformation and development, but few economies actively promote programs that encourage entrepreneurship. Furthermore, many developing countries have focused on encouraging entrepreneurship in the form of multinational corporations rather than domestic entrepreneurship. Multinational corporations can certainly increase a country's income, bring innovation to the market, and act as a catalyst for market transformation. Therefore, multinational corporations can be used as a source of entrepreneurship-led development (right). However, Saeed suggests that governments should promote domestic entrepreneurship because domestic entrepreneurs are more aware of the market gaps that need to be filled domestically (Saeed, 1998). Therefore, rather than producing goods that may not be consumed domestically, domestic entrepreneurs are encouraged to create innovations and creative imitations that fill real domestic market deficiencies through the power of the domestic market. Therefore, although multinational corporations can be used for entrepreneurial-led development, domestic entrepreneurship is considered to be more effective.

On the other hand, theorists are divided over whether self-employment in the informal sector (left) is beneficial for entrepreneurial development. Said points out that many of the small family businesses and shops that make up the informal sector are entrepreneurial ventures. He argues that the close structure of small family businesses is useful for incubating ideas that are tested in the informal sector and later used to transform market products and processes. Furthermore, Saeed argues that because

women and young people have traditionally been excluded from the formal sector, their entrepreneurial ideas have been shut out of the formal market. However, since small family businesses in the informal sector generally involve the participation of women and young people, the informal sector often serves as a receptacle for their entrepreneurial ideas (Saeed, 1998).

However, Carree et al. point out that self-employment in the informal sector may hinder entrepreneurial growth. They argue that too few or too many domestic business owners will reduce economic growth. Many informal sector firms are unable to bring about market transformation because they are already selling products and services that are available in the formal sector market. According to Carree (2000), firm ownership in the informal sector rarely brings about changes in the economic structure or generates new market innovations or creative imitations. Therefore, the existence of corporate ownership in the informal sector does not necessarily bring about market transformation, and it is not guaranteed that corporate ownership will lead to entrepreneurial growth. Therefore, corporate ownership is not synonymous with entrepreneurialism for innovation (Carree, 2000).

## IV. Flexibility in fundraising (learning from occident)

### 1. Comparison on the capital markets and ownership Structures

The most important sources of funding for the birth and growth of entrepreneurs are equity and bank

loans. For the growth and development of companies, relationships with banks are just as important as equity. The key to success in relationship-based financing is how much trust the bank places in the loan officer and the extent to which decision-making can be delegated to the branch. Companies that lose contact with their relationship managers will not be able to renegotiate loan terms when necessary, and even if they are able to renegotiate, there is a high possibility that the terms will be worse, and in the end, they will be forced to look for other means of financing<sup>.5</sup>.

The difference between relationship banking and transaction banking is that in the former, the bank makes a profit by growing its business through transactions with its corporate clients, whereas in the latter, the bank makes a profit from the fees it earns from selling financial products and transactions. In relationship banking, the interests of the bank and its customers are aligned, and conflicts of interest that are likely to occur in the latter, where the bank makes money from commissions at the expense of its customers, can be avoided.

In relationship banking, the bank makes money by solving the problems of the company, and while supporting the long-term prosperity of the company, it also shares the risk associated with fluctuations in business performance. By communicating directly with the company, i.e. not just checking management data but also meeting with the management, the bank is able to comprehensively assess the current situation and reliability of the business.

This kind of knowledge is called “soft knowledge” or “tacit knowledge” and is contrasted with “hard knowledge” or “general knowledge” which is obtained simply from data. Implicit knowledge in-

cludes not only an evaluation of the activities of a company and its managers and employees, but also an understanding of the situation and background of the region in which the company operates. The needs and opportunities of a company in the Midwest of the United States are completely different from those of a company in the same industry on the East or West Coast. Banks need to have a deep understanding of the history and issues of the regions in which they operate, and to grasp the problems facing those regions and their future vision.

Germany is often cited as a good example of an economy where relationship banking works. The Sparkassen are small- to medium-sized savings banks that are legally required to serve specific local communities or counties. Each region's independent Sparkassen focus on supporting the development of the local economy, and they fulfill this role through close relationships with the local companies they lend to. Around 99% of German companies are SMEs, which usually do not have access to the capital markets. The Sparkassen act as the “house bank” in each municipality, meeting the financing needs of SMEs. For SMEs, the constraints on financing are reduced, and the Sparkassen play an important role in lending to SMEs in difficult financial situations, where “soft information” is key to loan screening.<sup>6</sup>

The tightening and review of financial regulations after the 2008 financial crisis led to increased concentration in the banking industry in both the UK and Germany, but the degree of concentration differed greatly between the two countries. In the UK, there was a high degree of organizational and spatial concentration, with London being the only beneficiary, but this was not as pronounced in Germany. In the UK, lending to small and medium-sized enter-

prises in rural areas decreased as the physical distance from banks increased (Note 14). In contrast, in Germany, 40 percent of lending to small and medium-sized enterprises is provided by local and regional savings banks and cooperative banks.<sup>7</sup>

It is not only German banks that are more community-based and have closer relationships with local businesses than their British counterparts, but also American banks. In the US, banks are regulated at both the national and state levels. There are around 5,000 community banks, which specialize in serving local small businesses and family-owned businesses, and account for around 40% of small business loans. The Federal Deposit Insurance Corporation (FDIC) plays an important role in supporting community and regional banks in the United States, providing insurance, regulation and bankruptcy management services. As a result, the activities of community banks have contributed to regional development and have made a significant contribution to increasing employment in small businesses. Furthermore, during the financial crisis and recession of 2007-2009, they were a driving force in the recovery of the region, due to the decrease in employment and the number of start-ups.<sup>8</sup>

## **2. The Importance of equity finance**

While bank loans are certainly important for small and medium-sized enterprises, they are not enough on their own. Small and medium-sized enterprises need not only loans but also equity finance. In many cases, start-up funds are raised from the founders themselves, their families and friends, but in the case of high-risk venture businesses, external fund-raising using equity finance is essential. Such funds

are often provided by angel investors.

In addition to providing funding for startups, US angel investors also play an important role in mentoring and connecting startups with supporters. Angel investors are very hands-on, first carefully screening and evaluating potential investment targets, and then providing management advice while watching over their growth. As with relationship banking, the closeness of the relationship with the company is important, and angel investors are often located close to the companies they invest in.

In this respect, regions that are left behind often find themselves at a disadvantage, because as the region declines, the people who can support startups also leave. The UK is a typical example of this. Between 50 and 60 percent of angel investors are concentrated in London and the Southeast of England. This means that many other regions do not have an angel investor community. As a result, if you want to start a business outside of London and the Southeast of England, you cannot use equity finance as a means of raising funds, and you also cannot receive the support you need, such as mentoring and networking with business partners, which are necessary for growth.

However, the problems do not there. After the first round of funding, the next stage requires the involvement of more formal institutions such as venture capital (VC) and private equity funds. These institutions play an important role in connecting entrepreneurs who are trying to grow their businesses in regional areas with institutional investors in capital markets such as the City of London. In order to provide equity finance, we need ambitious and knowledgeable investors, and these institutions will act as intermediaries between institutional investors

with large and diverse investment targets in international financial centers and small and medium-sized enterprises that are growing in various parts of the country.

## **V. Implication**

### **1. Where does money come from?**

The financial system works well for bank depositors, asset management companies, investment trusts, and people investing in life insurance companies, and there are regulations and mechanisms in place to protect depositors and investors from risk and to protect their interests. Furthermore, asset management companies use international portfolios to diversify many of the risks associated with stock ownership at little cost.

The term entrepreneur is used to describe the process of creating and managing small and medium-sized enterprises (SMEs) and businesses, including innovative companies as well as those in traditional business sectors. For entrepreneurial companies, raising funds is crucial (Hall, 2009; Wilson, 2015; Mach, 2014). Unlike large companies, profits are generally small and show inconsistent patterns, so it is difficult, if not impossible, to rely on bank loans as a permanent source of funding. Since relying on external funding is often extremely important, entrepreneurs should have a detailed strategy for raising external funds. The most important question is the choice between debt (bank loans, loans from friends, online loans, etc.) and equity financing (venture capital, personal funds, angel financing, equity-based crowdfunding, etc.). Increasing

debt means that the company commits to a strict payment schedule. For entrepreneurial companies, this is often difficult to maintain, while equity requires the founder to give up some control of the company. In recent years, new forms of financing have emerged, such as crowdfunding and token issuance. These may be a form of debt finance or equity finance, but in some cases, they differ from traditional equity finance.

These funds, such as household financial assets in the form of savings deposits, stocks and bonds in the country, form an important part of the overall wealth of households. Households derive important income streams from these assets, either through the sale of these assets or as a source of income (such as interest or dividends). As is the case in the UK, pension entitlements are only included when they are associated with (funded) employment-related schemes, which can significantly affect comparability between countries. Short-term trends can be seen in Chart 5. Depending on the risk profile of the assets, whether the financing that supports companies is equity or debt characterizes the path for promoting entrepreneurship in an economy. Chart 5 shows the total financial assets of households per capita in U.S. dollars at current purchasing power parity (PPP).

### **2. The equity for starting a business**

In addition to bank loans, equity finance (equity) can also present problems for start-ups. Determining the value of equity is difficult, and therefore negotiating with potential investors is difficult. Investors may be interested in observing indirect signals about the quality of the company. This explains ideas such as

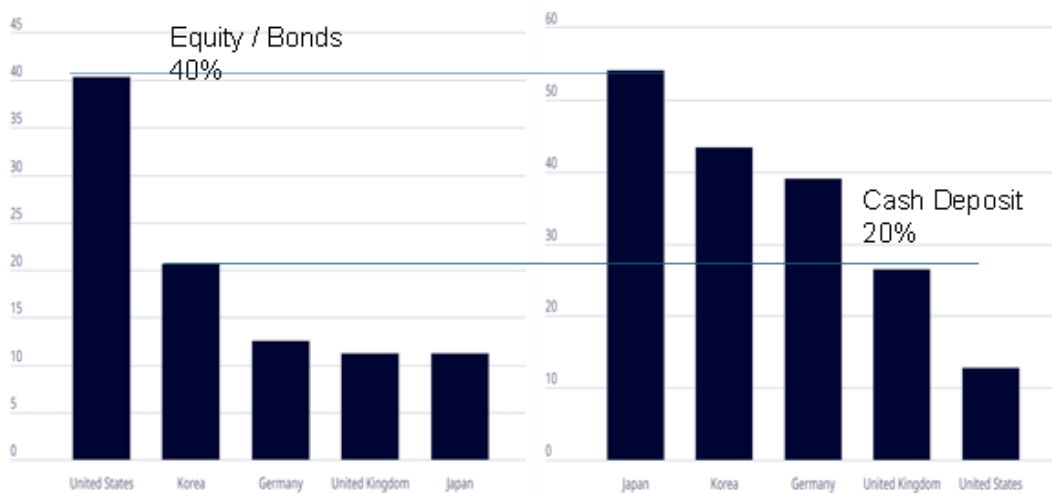
signaling through risk-bearing (Leland and Pyle, 1977). Many patterns in small business financing are consistent with these ideas. Equity-financing entrepreneurs must hold more equity to strengthen their signals (Cosh et al., 2009; Fraser et al., 2015)

There is a great deal of uncertainty surrounding the investment decisions of entrepreneurs. In addition, these companies are constantly faced with the fundamental trade-off between profit and growth and must make many difficult investment decisions. Therefore, these companies usually require a great deal of flexibility. Financing through excessive debt can reduce a company's flexibility. Therefore, it is not surprising that innovative firms often rely on dif-

ferent equity financing sources, such as debt contracts with flexible payments (Barboni, 2017), venture capital, angel investment, and more recently equity-based crowdfunding and security token offerings (ST O), it is not surprising that they often rely on different equity funding sources (Estrin et al. 2017). New types of funding (different from traditional debt and equity) have been developed in recent years, such as reward-based crowdfunding, initial coin offerings (ICOs), and initial exchange offerings (IEOs).

3. An open market with low barriers to entry facilitates fundraising

Figure. 6 Household financial assets Shares and other equity, % of total financial assets, for Investment 2021

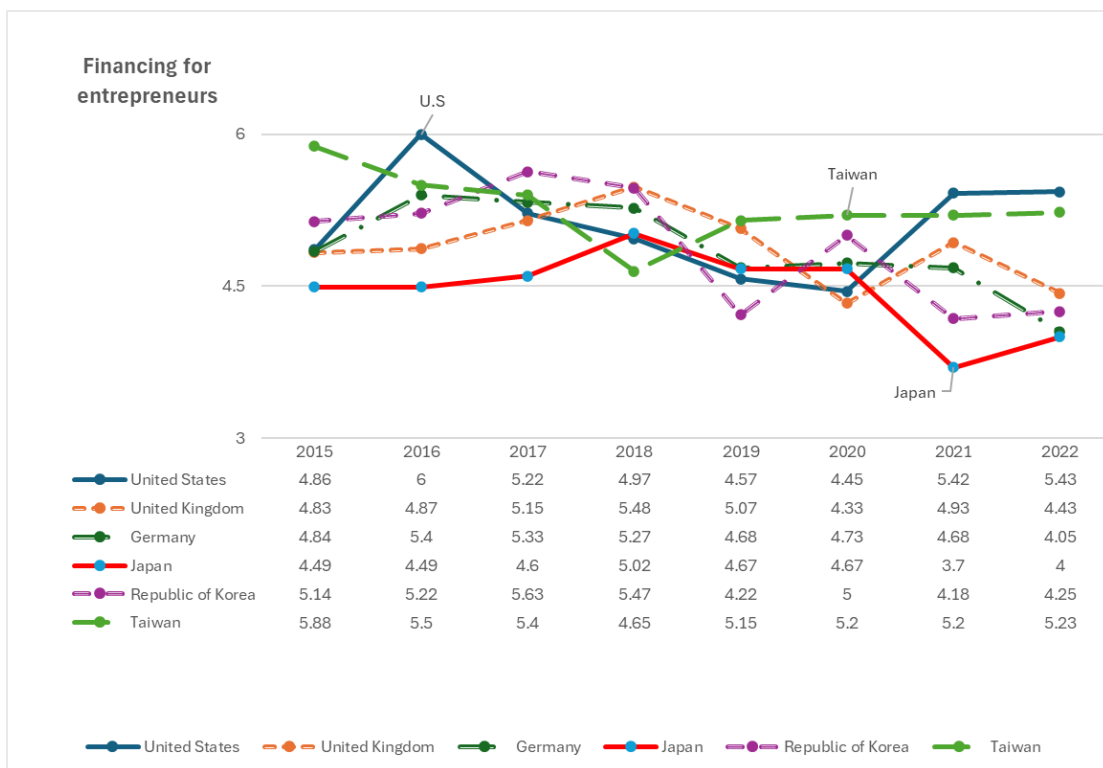


Source OECD Household financial assets  
Currency and deposits, % of total financial assets, 2021

Figure 6 shows that the type of financial market, whether it is based on stocks or debt, is closely related to the structure of the country's economy. Figure 6 shows the breakdown of household invest-

ment funds in financial markets. In the US, 40% of household savings are held in stocks and bonds, and in economies at this level, entrepreneurship is dependent on direct finance.

Figure. 7 Ease of financing for entrepreneurs (equity/debt)



Source GEM(Global Entrepreneurship Monitor) figured by author

This has also been pointed out from the perspective of governance. In “Strong managers, weak owners”, Law (1994) “looks back at the 1932 classic study, *The Modern Corporation and Private Property*, in this major reinterpretation of the origins and evolution of corporate structure and argues that the separation of ownership and control was a result of industrial technology requiring large-scale production, and that this resulted in highly dispersed shareholding. However, Law demonstrates that the ownership structure of American companies was only one of several possible outcomes, and that other organizational forms emerged under the influence of different political conditions (for example, in Germany and Japan). In other words, “in many import-

ant respects, the political choice of how to channel savings into industry shaped the growth of large corporations, sharply limiting the power of financial institutions.” Compared to the active equity finance markets seen in the US and Taiwan, Japan, Germany and the U.K (even with the special circumstances mentioned above) have a structure that is clearly visible in which the financial market, centered on bank loans, has developed alongside the development of the stock market, and has contributed to the development of industry, with household financial provision. This indicates that the relationship between finance and business has been supported by long-term borrowing rather than by the development of owner-managed companies through stock ownership or

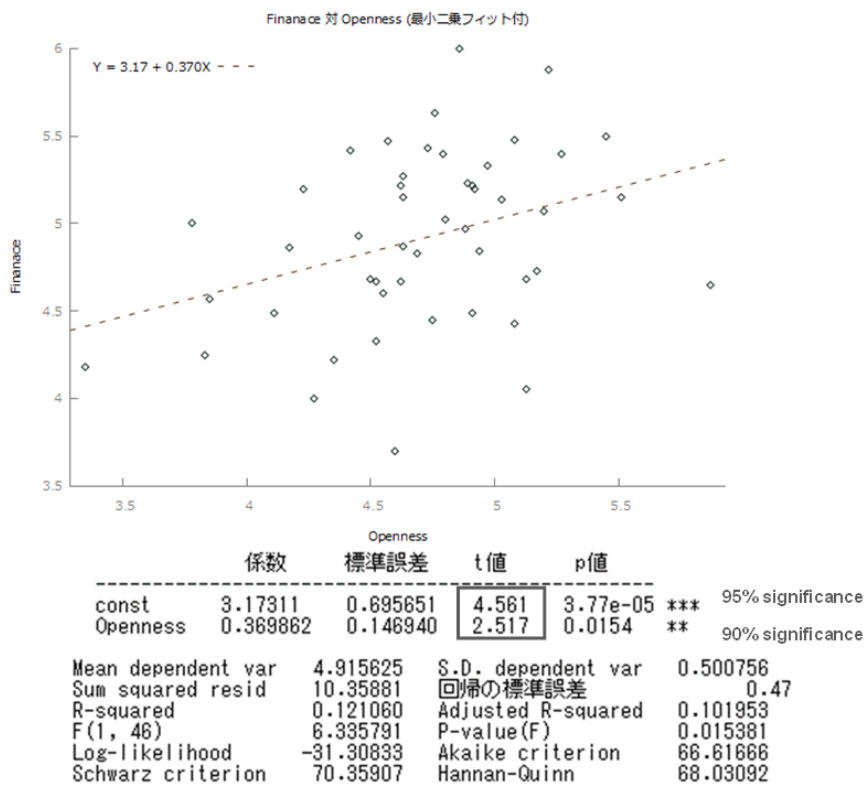


shareholder-oriented management.

What Figure 7 suggests is that, although bank loans are the main source of funding in both Japan and Germany, bank loans are relatively low for funding start-ups in Japan, and it is necessary to pursue the possibility of funding start-ups through bank loans before developing a capital market that relies

on stocks. It is hoped that community-based savings banks like the aforementioned Sparkasse will support the business models of entrepreneurs. Figure 7 attempts to classify the financial markets that supply funds to promote entrepreneurship, based on household resources.

Figure. 8 Ease of raising funds and barriers to entry in the domestic market(OLS)



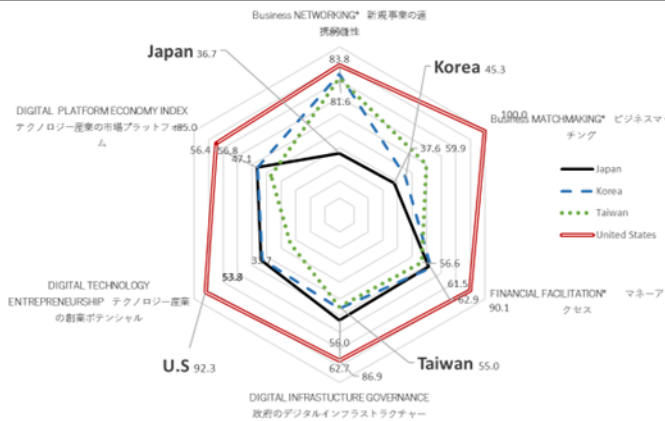
Funding for entrepreneurship does not work on its own, but it does have a significant effect in relation to the ease of market entry. Figure 8 shows that the degree of openness of the domestic market (horizontal axis) is related to the broad market that generates innovation. In terms of policy, efforts should be

made to increase the supply of innovation-oriented entrepreneurship. There is room for debate as to whether the informal sector can truly be a source of entrepreneurs, but in promoting financial markets, the government should not confuse the formal sector, which generates innovation, with the informal

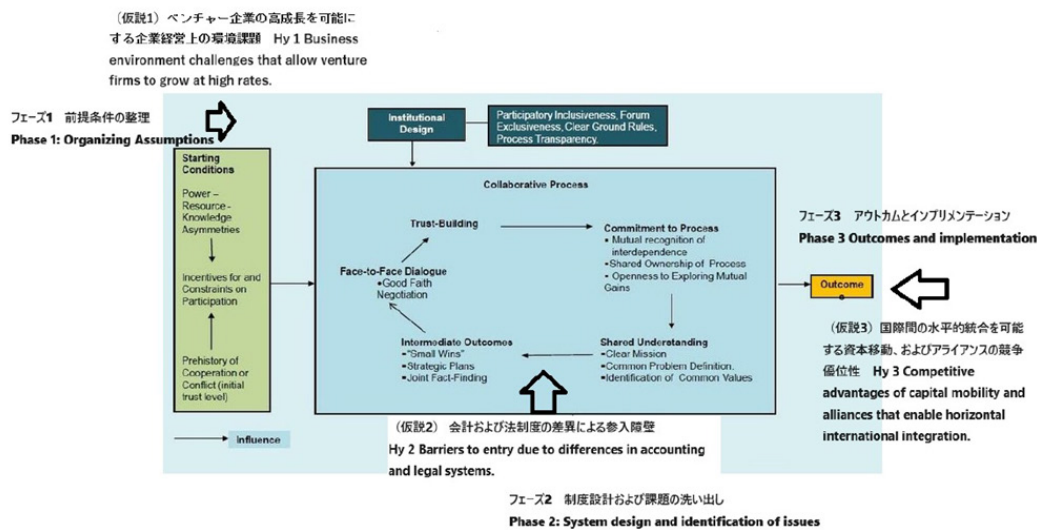
sector, which generates self-employment focusing on encouraging innovation, it will be possible to derive whether the owner-operated company is self-employed or a more sophisticated, innovative start-up from its ownership structure.

Appendix 1

	Business NETWORKING* 新規事業の連携可能性	Business MATCHMAKING* ビジネスマッチング	FINANCIAL FACILITATION* マネーアクセス	DIGITAL INFRASTRUCTURE GOVERNANCE 政府のデジタルインフラストラクチャー	DIGITAL TECHNOLOGY ENTREPRENEURSHIP テクノロジー産業の創業ポテンシャル	DIGITAL PLATFORM ECONOMY INDEX テクノロジー産業の市場プラットフォーム
Country						
Japan	36.7	37.6	61.5	62.7	53.8	56.8
Korea	83.8	45.3	62.9	56.0	53.3	56.4
Taiwan	81.6	59.9	56.6	55.0	33.7	47.1
United States	89.1	100.0	90.1	86.9	92.3	85.0



Appendix 2



Source Anseu and Gash (2008), Baba & Ishida(2024)

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