Default or Exit?: Empirical Study on SMEs in the Japanese Construction Industry

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The market size of Japan’s construction industry is decreasing. Preventing several major contractors from controlling the bidding of public works projects needs that a certain number of other participants are involved. Therefore, analyzing the factors that affect the defaults or exits of small and medium-sized enterprises (SMEs) can effectively contribute to the stable supply of public services and the fair competition of bids. This research examines the factors affecting the defaults and exits of prime contractors in the public works of SMEs in the Japanese construction industry. Using construction company evaluation (Keiei Jikou Sinsa or Keisin) data in Japan as a basis, the factors are analysed using the multinomial logit model. Some Keisin scores and financial and non-financial performance indicators significantly affect defaults and exits, but the influence of each variable between them differs. Especially, the findings where non-financial performance indicators are able to predict defaults and exits are unique. Consequently, if the data from SMEs are obtained, then the analytical method employed in this study is useful for predicting future exits and defaults.

Keywords exit, default, construction companies, empirical analysis, bidding

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