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# **Entrepreneurs and Entrepreneurship in U.S. - Japan Relations**

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# Outline



- ◆ **On the role of entrepreneurship in U.S. - Japan bilateral (diplomatic) relations**
- ◆ **Japanese government support for entrepreneurship**
- ◆ **Recent entrepreneurship trends in Japan**
- ◆ **A new importance for entrepreneurship**

# Entrepreneurship is not a major U.S. - Japan bilateral concern



- ◆ **Congressional Research Service “Report for Congress” on US-Japan Relations (2008) does not mention “entrepreneur” or “innovation”**
- ◆ **Instead, CRS Report discusses following issues:**
  - ◆ **Security Relationship: Global counter-terrorism cooperation, North Korea & six party talks, US bases in Okinawa, weapons procurement, burden sharing, etc....**
  - ◆ **Other global political and diplomatic issues: UN Security Council restructuring, Kyoto Protocol & Climate Change**
  - ◆ **Economy and trade -- primarily big-business issues: market access (US agricultural products, insurance, etc.) US-Japan FTA, WTO compliance**

# **U.S. diplomatic efforts have supported entrepreneurship in other countries**



- ◆ **Millenium Challenge Corporation -- USG funds**
- ◆ **Italy -- “Partnership for Growth” under U.S. Amb. Ronald Spogli**
  - ◆ **“Promoting entrepreneurship abroad focuses on fulfillment of the American dream and is good public diplomacy.” (former U.S. embassy person there)**
  - ◆ **Concern at promoting \*the right kind\* of entrepreneurship (channel entrepreneur energy into positive business development, not anti-U.S. terrorism)**
- ◆ **U.S. has not felt need a need for such a program in Japan -- Japanese government has been supporting entrepreneurship as a domestic issue**

# Why would (any) government support entrepreneurship as a domestic issue?

- ◆ **Entrepreneurs -- opposite of government ideals**
  - ◆ “Agents of creative destruction” -- want to change world
  - ◆ Bottom-up, not top-down -- ideas from outside traditional centers of power
  - ◆ High failure rate of start-up companies
  - ◆ Not all “virtuous” -- Aum Shinrikyo, terrorist organizations are entrepreneurial
- ◆ **Behind government support for entrepreneurship in Japan are concerns about:**
  - ◆ Innovation system -- especially inefficiencies in commercialization of R&D results (*good motivation*)
  - ◆ Labor markets -- e.g., what to do with a huge surplus of mid-career managers (*not so good motivation*)

# **S&T, innovation (and entrepreneurship) as national security concerns in Japan**

- ◆ **Japan relies on U.S. for (defense) “security” and focuses spending on economic security**
  - ◆ Major government funding channels for applied R&D in US include DARPA, military labs (relatively little through DOC)
  - ◆ Major government funding channels for applied R&D in Japan are through METI (very little through Defense)
- ◆ **Concern since mid-1990’s that Japan could no longer rely on access to US basic research results**
  - ◆ Fear of US protectionism
  - ◆ Feeling that Japanese big company innovation had become too slow, inefficient in a rapidly changing world
  - ◆ Frustration with isolation of university research
- ◆ **Attraction to knowledge-based economy model**

# Japanese government-backed support for entrepreneurship, with a few examples

	<b>Direct targeting entrepreneurs</b>	<b>Indirectly benefiting entrepreneurs</b>
<b>New laws and regulatory reform</b>	<ul style="list-style-type: none"><li>• <b>New SME Law (1999)</b></li><li>• <b>Removal of minimum capital requirements</b></li></ul>	<ul style="list-style-type: none"><li>• <b>TLO law</b></li><li>• <b>Bankruptcy law reform</b></li></ul>
<b>Financial incentives</b>	<ul style="list-style-type: none"><li>• <b>New Start-Up Loan Program</b></li><li>• <b>Various R&amp;D grants earmarked for SMEs</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Basic S&amp;T 5-year plans (funds increase)</b></li><li>• <b>R&amp;D Tax Credit</b></li></ul>
<b>Educational and informational support</b>	<ul style="list-style-type: none"><li>• <b>National Start-Up and Venture Forum (1999)</b></li></ul>	<ul style="list-style-type: none"><li>• <b>METI-funded MOT programs</b></li></ul>

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# Impact in Japan: how entrepreneurs utilize Japanese government resources



## ◆ Japan Small Business Research Institute (2002) survey:

- ◆ Government loan guarantee program: known to 77% of entrepreneurs, but used by only 44%
- ◆ Consultation and advice services: known to 28%, used by 15%
- ◆ Subsidies for promoting technology development: known by 16%, used by 12%
- ◆ (Government backed) business incubators: known by 11%, used by 7.3%





# **Recent entrepreneurship trends in Japan**

# Background: negative factors about entrepreneurship in Japan

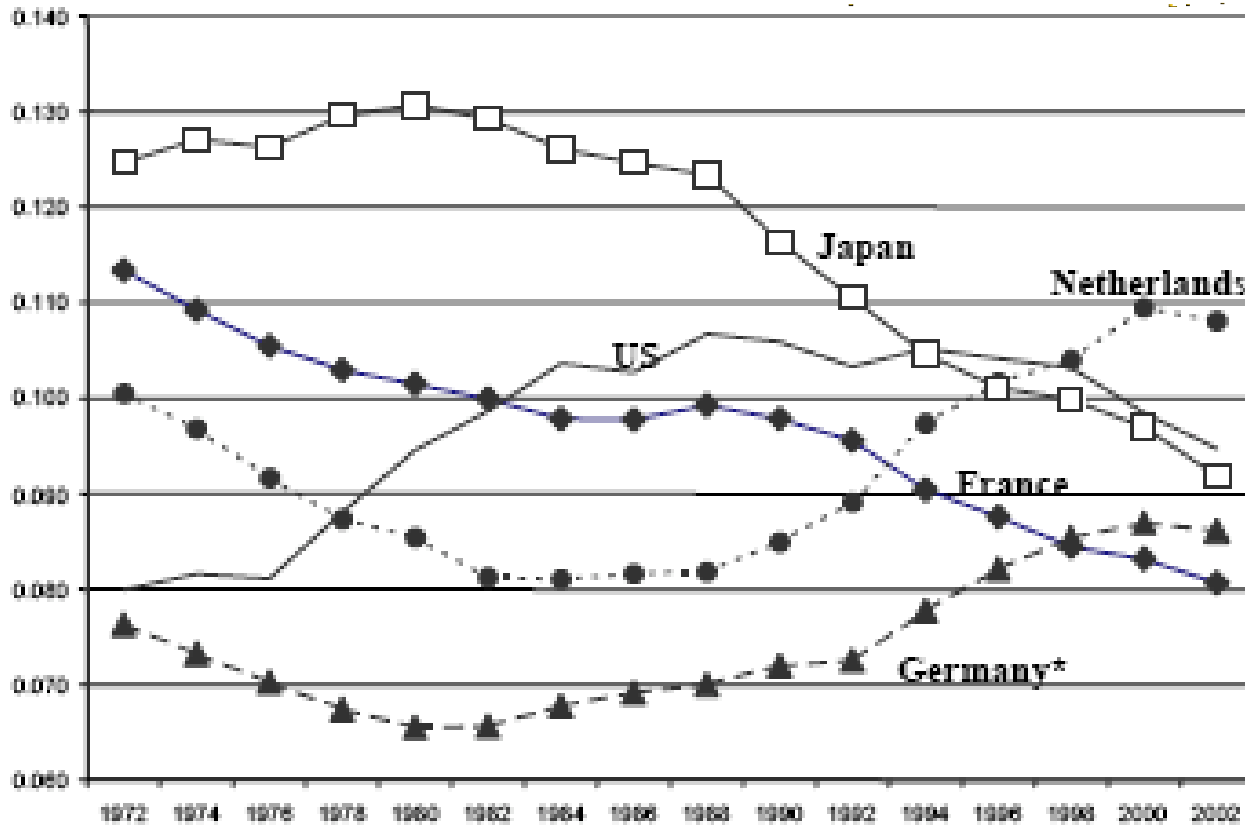
- ◆ Shortage of mentors
  - ◆ Lack of understanding of process of mentoring
  - ◆ Leads to weak investor - management relations
- ◆ Homogenous entrepreneurial teams  
(lacking diversity of experience)
- ◆ Difficult to get really top quality workers
- ◆ Consideration of first customers tend to keep start-up company focused on a niche market
- ◆ Entrepreneurs often neglect to think about exit
  - ◆ IPOs small, much stock retained by founders
  - ◆ M&A traditionally meant being bought out by keiretsu

# On the scale of entrepreneurial activities in Japan



- ◆ **There have always been many SMEs and entrepreneurs in Japan**
  - ◆ 95+% of businesses are SMEs ( < 300 employees)
  - ◆ 66 - 75% of GDP are from SMEs
  - ◆ Traditional SMEs -- family businesses: mom-and-pop retailers, suppliers and subcontractors to a single keiretsu
- ◆ **Social entrepreneurship active since NPO Law (1998, with revisions)**
- ◆ **Venture capital industry: indirectly shows scale**
  - ◆ Japan: ~US\$3 billion in 3,000 deals (2008)
  - ◆ US: ~US\$30 billion in 4,000 deals (2008)

# Business owners as % of labor force: trend downward in Japan, 1972 - 2002

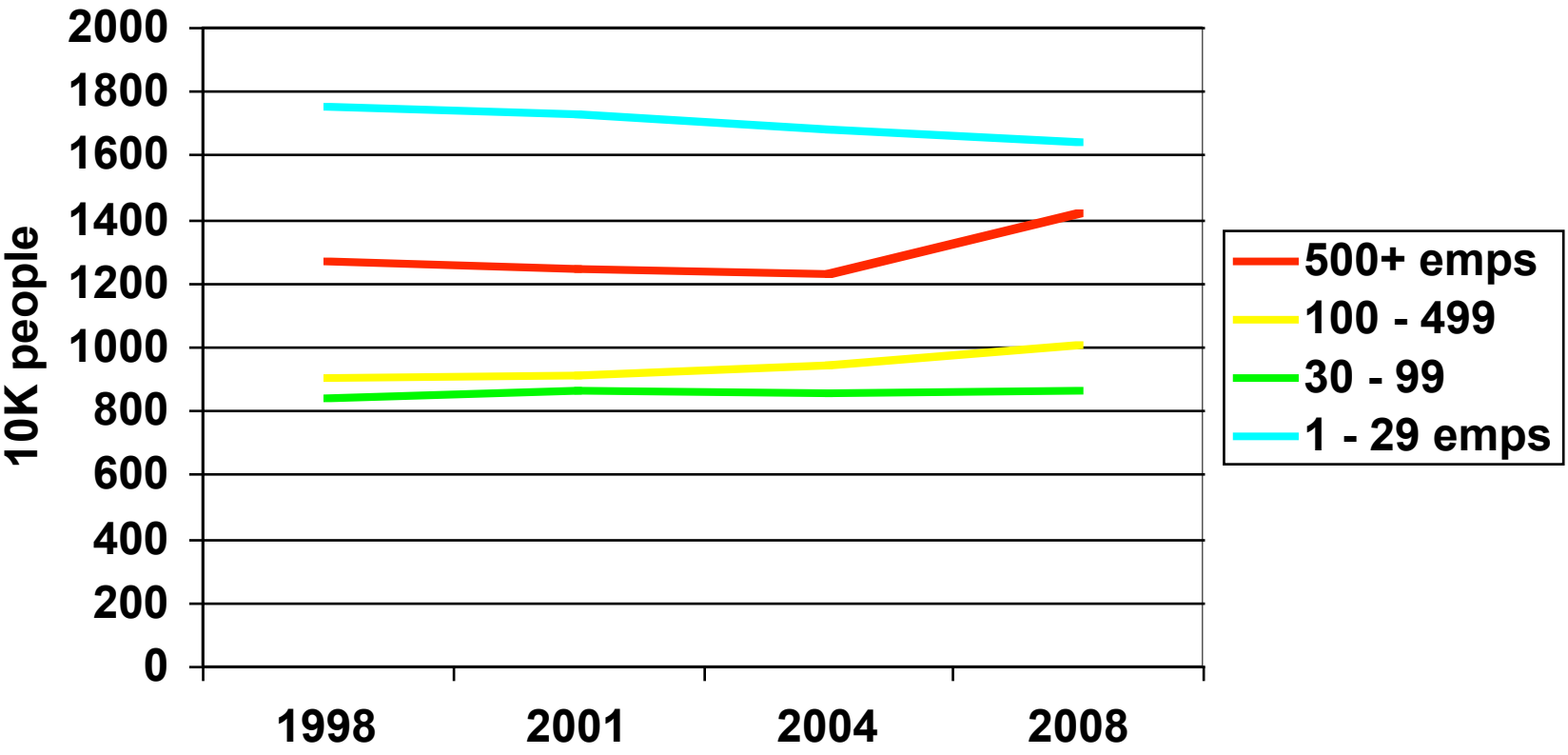


Source: EIM COMParative Entrepreneurship Data for International Analysis (COMPENDIA 2002.1). Business ownership refers to non-agricultural entrepreneurship, including the owners of both incorporated and unincorporated businesses, but excluding so-called unpaid family workers and wage-and-salary workers operating a side-business as a secondary work activity. The data for Germany refer to West Germany for the period 1972-1990. See van Stel (2005).

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# More detail: Labor force distribution by size of company in Japan



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Statistics Bureau, MIC, Labor  
Force Survey 4/09; non-agri only

# Snapshot: What's happening now for entrepreneurs in Japan?



- ◆ **Possible breakdown of various unwritten social contracts**
  - ◆ Layoffs of permanent employees by big firms
  - ◆ Adoption of other Western approaches for cost-cutting
- ◆ **Consensus building by government and press: importance of entrepreneurs, innovation, sectoral promotion**
- ◆ **M&A becoming robust**
- ◆ **Much business in fact focuses on innovation: new products, services, business approaches**
  - ◆ But, in Japan one hears a lot of whining, angst, old-style values that may lead one to underestimate newcomers

# What do trends in Japanese entrepreneurship mean for U.S. business?



- ◆ **Japanese start-up companies still appear to be more domestically focused than U.S. counterparts**
  - ◆ **Less involved with globalization, more focused on domestic market opportunities**
- ◆ **But, they may have new ideas that could (later) apply to U.S. markets**
- ◆ **Potential for U.S. investors? -- VC, buy-outs (M&A)**
- ◆ **New policies to promote Japanese entrepreneurship indirectly serve to help open Japanese markets to U.S. firms**
  - ◆ **Difficulties faced by Japanese start-ups are similar to difficulties faced by foreign businesses in Japan**

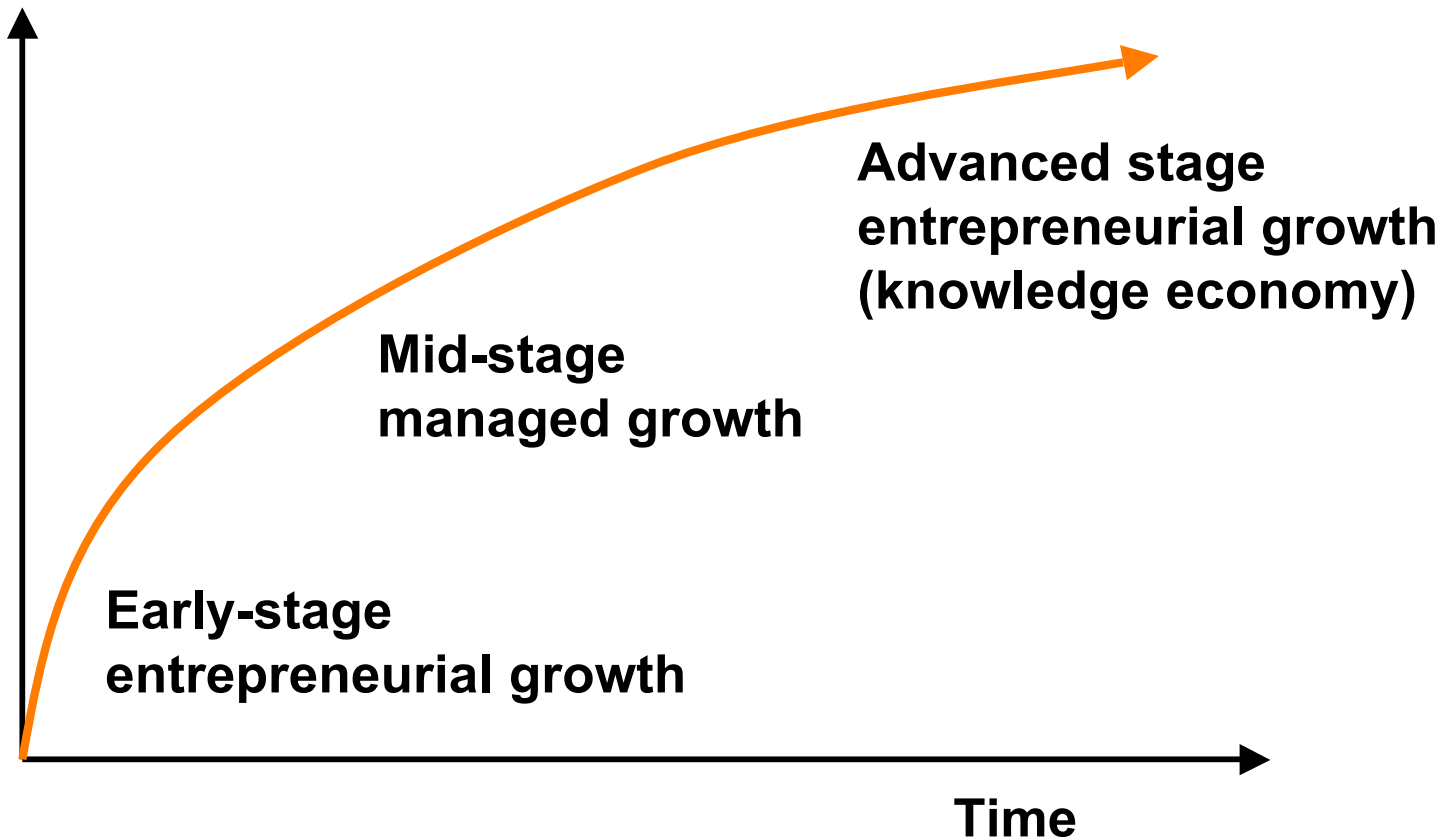


**A new era of importance for  
entrepreneurship**



# An “entrepreneurial sandwich” in economic growth

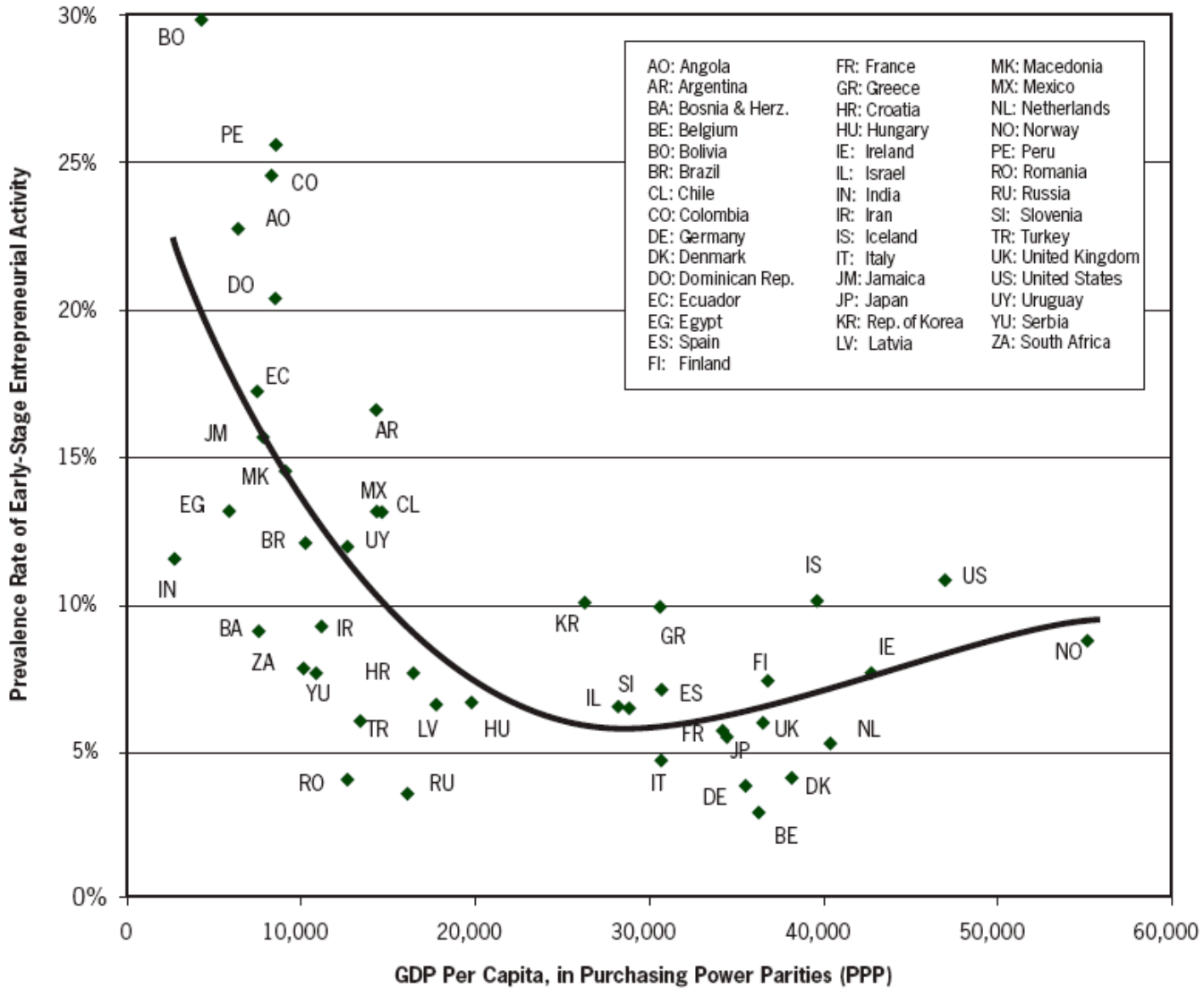
Income, per cap GDP



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Figure 8 — Early-Stage Entrepreneurial Activity Rates and Per Capita GDP, 2008



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Global Entrepreneurship Monitor  
2008 Report (Jan 2009)

# Characteristics of the entrepreneurial sandwich

	<b>Early stage growth</b>	<b>Managed Growth</b>	<b>Advanced stage growth</b>
<b>Social developments</b>	Industrialization, urbanization	High skill levels, labor and capital shortages	Wealth spreads throughout pop, high ed level
<b>Business opportunities</b>	“Gold rush” to supply basic demands	Develop new markets - domestic or int’l	Fresh new ideas, “out of the box” thinking
<b>Key competitive strengths</b>	Get there first!	Efficiency, rapid scaling, high quality	Manage (allow) risk, early ID of great new ideas
<b>New policies of government</b>	Basic laws, establish industry base	IPR, promote the winners	Stimuli to bridge “valley of death”

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# Japan is clearly moving from “managed growth” to “advanced stage growth”



- ◆ A.k.a. knowledge-based economy
- ◆ Focus on innovation is likely to remain
- ◆ What is role of U.S.?
  - ◆ U.S. has traveled a similar path; began earlier
  - ◆ U.S. needs new business ideas from Japan as well as other places -- to feed U.S. “open innovation” system
  - ◆ Increased attention to higher risk “new ideas” means that potential for investment in Japan is more attractive -- some new foreign funds in Japan, although China is a big draw
  - ◆ Some U.S. entrepreneurs already active in Japan

# Summary



- ◆ **Since 1980's Bubble collapse, Japan has been gradually entering new phase of economic growth: innovation-driven knowledge economy**
  - ◆ **Entrepreneurial activities are even more important than before in achieving an economically efficient innovation system in this new phase**
- ◆ **Japanese government policies that support domestic entrepreneurship reflect concern about new needs of this economic stage**
  - ◆ **Programs that indirectly benefit entrepreneurs are very important**
  - ◆ **Do similar principles apply to other areas besides business / economics?**

# Question -- Can entrepreneurship principles be applied to bilateral policy issues?

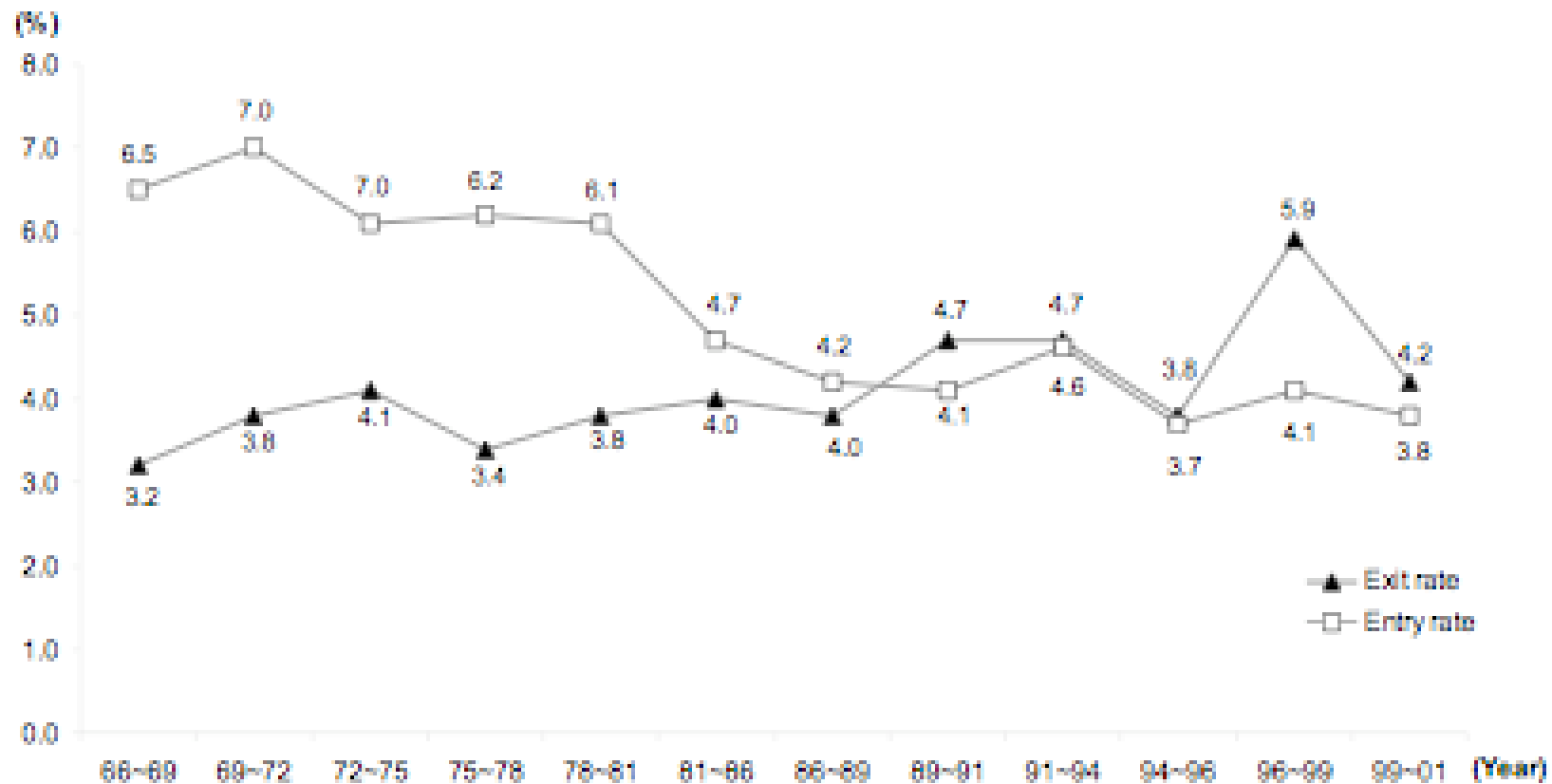


- ◆ From military bases to trade to global policy coordination

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- ◆ Need for fresh new ideas -- “out of the box thinking”
- ◆ Need to ID good ideas, terminate quickly loser ideas
- ◆ But, must incubate the new ideas (not kill them out of prejudice from prior experience)
- ◆ Speculation: Are these elements of the motivation behind the election of Barack Obama?
  - ◆ Young, an outsider, appeared to bring fresh new approaches
  - ◆ Now engaged in start-up implementation challenges: can he keep the new vision in the midst of old-style institutions?

# Entry and exit rates (number of establishments) in Japan, 1966 - 2002



Data from Statistics Bureau, MIC, Census of Japan. Includes the establishment and closure of branches and plants, and entry and exit due to relocation. Cited by Van Stel et al., 2007

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