ISSUES REGARDING START-UPS IN JAPAN

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Introduction

Breakthrough Partners (BTP) was established in January 2002 as a spin-out from a Silicon Valley based venture capital. BTP's mission is to help entrepreneurs in Japan (not necessarily Japanese) build world-class technology start-ups in information technology area. BTP's uniqueness is to start working with competent engineers before their actual establishment of the start-up, and provide truly hands-on support until they become successful. In order to fulfil that mission, BTP has been quite active in facilitating company spin-outs and university start-ups. I have been invited to many conferences as a guest speaker, invited to committees in Japanese government, and have developed further perspective and substantial network in Japan. Today's discussion is based on the various discussions I had in the process.

Why University Start-ups are Not Successful Yet in Japan

There are more than 450 university start-ups in Japan by now and the number is quickly increasing since the introduction of Bayh-Dole like act as well as many other new programs in the last few years. However, many of them do not seem to qualify as high-potential start-up: inexperienced and not confident CEOs, lack of clear business strategy and competitive advantage, and so forth. The reason seems to be that basic requirements to facilitate university start-ups have not been met yet in Japan: university research result should be much more pragmatic and attractive enough for entrepreneurs to consider start-ups. National universities need to become an independent entity, which will happen in April 2004, so that they have proper incentive to promote technology start-ups despite negative reaction from most professors. There are several more basic

requirements which should be realized first in order to facilitate university start-ups successfully.

Challenges for Start-ups in Japan

Talking about technology start-ups more in general, engineers in large companies in Japan seem to have still limited interest in starting on their own. Also there are only a few high-quality hands-on venture capitals which can help engineers think about their new career. Japanese society and culture is fairly negative against making failures. Hence, compared to the level of technology and the size of the market, Japanese society is still struggling to become more entrepreneurial.

Recent Changes in Start-up Environment in Japan

Good news is that in the last few years, there have been many changes introduced to facilitate entrepreneurship: more than 150,000 people left from large companies like Hitachi, Matsushita, Toshiba, Fujitsu and many others, introduction of new IPO markets for newer companies, introduction of limited partnership fund, stock options, class stocks, etc. Those are clearly influencing the enhancement of entrepreneurship in Japan.

Issues related to Venture Capitals in Japan

Bad news is that the growth of high-quality hands-on venture capitals in Japan is quite slow. Most venture capitals were established as a subsidiary of securities firms, banks and insurance companies to capture new customers for their parent companies. The parents did not, and still do not seem to, have strong commitment and intention to develop a healthy venture capital industry. Against the above situation, more than a dozen spin-outs from large VCs started to take different paths, and several foreign VCs have been introducing more disciplined approach to Japan.

Corporate Venture Capitals and Spin-outs in Japan

Another factor is corporate venture capitals and spin-outs. Most large companies like Fujitsu, Matsushita, NEC, Hitachi, Sony initiated corporate venture capital in

the last several years. Results so far have not been positive, but strong needs still exist in order to secure distinctive technologies from world-class technology start-ups for their continuous growth or sometimes for their survival. Companies also started to encourage early retirement and spin-outs in the last few years, which is also positive for the change of the society.

Implication to the Enhancement of University Start-ups

In order to enhance university start-ups, the development of non-university ones should come first. In order to attract non-university start-ups to regional communities where key universities are located and facilitate their development, several initiatives should be taken including well-developed infrastructure, priority purchasing program from start-ups in the region, co-investment and subsidy programs for venture capitals, etc.

While enhancing non-university start-ups, actions to accelerate the change of universities should be tackled more aggressively including hiring more professors with substantial industry experience, proper financial support to Ph.D students so that they can play more aggressive roles, working guidelines for university-industry collaboration for professors, well-staffed TLOs and major subsidy programs to TLOs, etc.