



FOREIGN AFFAIRS

Published by the Council on Foreign Relations

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Thursday, February 4, 2016
Tokyo's Ambition Generation
Entrepreneurs and Japan's New Business Culture
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A deep uncertainty about the future has bottlenecked [Japan](#) [2]'s corporate sector. Despite high profits, companies such as Fuji Heavy, the maker of Subaru, are refraining from raising wages; other big firms are hesitating to invest because of a shrinking domestic market and the lingering memory of the [2008–09 financial crisis and recession](#) [3]. Some of Japan's large technology corporations, such as Sharp and Sony, are struggling to compete with their U.S., Chinese, and South Korean peers. More broadly, as Japanese officials are discovering, loose monetary policy and prolific fiscal spending—the central components of [Tokyo's plan for economic revival](#) [4]—can take growth only so far.

Conditions such as these have led Japanese policymakers to recognize that spurring business dynamism will be key to reviving the country's stagnant economy. [Japanese Prime Minister Shinzo Abe's](#) [5] policy blueprint for 2015–16 calls for a society “in which all citizens are dynamically engaged”—ostensibly jargon for the integration of women, the young, and the elderly into an economy that has historically been dominated by middle-aged men. More striking, in a country that is renowned for its large technology corporations, the Abe government's [growth strategy](#) [6] puts start-ups [at the center](#) [7] by encouraging investment in venture companies and new technologies, supporting training and education in entrepreneurship at Japanese universities, reforming corporate governance, and connecting Japanese entrepreneurs with their peers in Silicon Valley through seminars and mentorship programs.

In a sense, Tokyo is following the money: from 2014 to 2015, venture capital funding raised in Japan [doubled](#) [8], from around \$1 billion to \$2 billion, and more young Japanese are approaching the start-up world as a prestigious alternative to the country's corporate sector.

“The market has changed in the past two years, and the number of entrepreneurs is increasing,” Naoko Samata, the CEO of the electronic payment company Coiney, told me at her office in Tokyo's stylish Ebisu neighborhood. “Series A funding used to be one million dollars or so, but now it's five to ten million dollars. Start-ups are raising amounts like [in] the United States or India. That was impossible three years ago.” (Samata founded Coiney in 2012; in 2015, it was one of the recipients of a Nippon Venture Award, a program launched that year by Japan's [Ministry of Economy, Trade, and Industry](#) [9] to recognize successful new businesses.)

Yet for all the interest, the amount of venture capital ^[10] invested in new Japanese businesses (around \$1 billion in 2015) is still a tiny fraction of the nearly \$59 billion invested in U.S. start-ups in the same year. And the recent growth is in part the result of a low starting point brought on by the Great Recession: Japan's level of venture capital funding was nearly twice as high in 2006 as it is today. Nevertheless, among Japanese businesspeople, young university graduates ^[11], policymakers, and investors, interest in start-ups is increasing. Japan is slowly regaining its entrepreneurial spirit.

THE ONLY WAY IS UP

In some quarters, Japan—which brought the world the VCR, flat-panel displays, and flash memory—is synonymous with innovation ^[12], and even today, the country's economy ranks among the most innovative in the world, topping some measures such as patent activity ^[13].

But innovation ^[14] on the part of large firms is different from entrepreneurship, and in the latter category, Japan has a long way to go. None of Japan's start-ups ^[15] number among the world's 145 “unicorns,” or those valued at more than \$1 billion (China and the United States are home to 22 and 92, respectively). What is more, according to the Global Entrepreneurship Monitor (GEM), Japan has the second-lowest level ^[16] of early entrepreneurial activity ^[17] in the world, beating out only Suriname, the South American country with a population of 560,000. Nor is enthusiasm for entrepreneurialism in Japan strong relative to the country's economic position: in 2014, the most recent year for which data are available, only seven percent of those surveyed by GEM said they perceived start-up opportunities in Japan, compared with 33 percent in China and 51 percent in the United States; that caution has been the norm since 1999, when GEM first started collecting data. Fear of business failure is also relatively high in Japan; in 2014, 55 percent of respondents to a GEM survey said that it was a concern.

Masahiro Ito, CEO of the user-interface firm Yappa, identified several reasons for Japan's lack of unicorns. First, Ito said, unlike in the United States, in Japan most funding contracts require entrepreneurs to personally guarantee loans above \$250,000, putting their financial reputations on the line in the course of building new businesses ^[18]. Second, corporate lenders tend to dispatch “typical salarymen” instead of start-up experts to assess potential investments; that is a significant difference from Silicon Valley, where many funders are start-up specialists and are more eager to serve as mentors to budding entrepreneurs. Another reason for Japan's lack of unicorns is metrical: corporate investors assess the value of young businesses based on operating profits, excluding their potential future earnings, which produces lower valuations across the sector.

Despite these difficulties, Japanese business culture is slowly becoming more welcoming to start-ups. In 2008, 26 percent of Japanese respondents surveyed by GEM considered entrepreneurship a positive career choice; that figure steadily rose about one percentage point over each of the following six years, to 31 percent in 2014. The perceived prestige of entrepreneurs has similarly increased. In 2010, 52 percent of respondents to a GEM survey said that entrepreneurs had high social status; by 2014, 58 percent offered this response. These trends support the claims of dozens of interviewees—in academia, business, journalism, and public policy—I spoke with in Japan.

What is behind these modest improvements? The biggest structural factor is the Japanese economy's transition from manufacturing to services in the face of intensifying global competition. The change is much like the one seen in the 1980s in the United States, and it

has had similar effects, among them the increased influence of financial institutions on corporate boards, a greater tendency toward corporate restructuring and merit-based compensation, and a growing need for women and foreigners in the work force. Combined with the digital revolution of the past two decades—which has created new business models and exposed young people to professional options beyond big businesses—these shifts have weakened the Japanese corporation's once solid guarantee of professional stability. And then there is the sense of uncertainty about Japan's future stemming from the 2008 financial crisis and the shock of the March 11, 2011, earthquake, tsunami, and nuclear disaster, which created radical breaks in the professional and personal lives of many Japanese.

"The big change in the past 15 years is that it is now socially acceptable to work at a start-up in Japan," Soichiro "Swimmy" Minami, the CEO of the executive job site BizReach, told me. "More and more people in Japan are realizing that the best way to protect yourself from uncertainty is to avoid becoming useless," he said. "People now know there are different ways to work."

Japanese authorities are encouraging this trend. In January, for example, the Tokyo city government decided to establish a center, with an operating budget of 700 million yen (around \$5.8 million), to support early-stage entrepreneurs who are developing plans for new businesses. At the national level, the government is establishing a program to subsidize new businesses founded by people over 60, who found around a third of Japan's new companies, with up to two million yen (around \$16,500) if they hire older employees. And as part of a broader strategy to grow companies out of university labs, Tokyo has invested 100 billion yen (around \$826 million) in four major public universities ^[19]—Kyoto, Osaka, Tohoku, and Tokyo—to kick-start university-affiliated ventures, raising the prospects for seed-stage funding.

Shigeo Kagami, the general manager of Tokyo University's Office of Innovation and Entrepreneurship, said that over the past decade he has seen a growing appreciation for start-ups among Japanese researchers, many of whom have historically regarded the prospect of developing businesses from academic research as pedestrian. With the support of the government, Kagami said, his office runs three venture capital funds worth \$350 million that produce some 600 inventions a year, bridging the gap between scientists and the commercial applications of their ideas. Last year, Abe presented a Nippon Venture Award to euglena Co., a company that makes fuel from microalgae and was incubated at Kagami's office. "The reality now," Kagami told me, "is that the smartest students go for Google or McKinsey and start-ups. It has been a radical change."

CALIFORNIA DREAMING

Many of the start-up executives I met in Tokyo were sporting the sartorial hallmarks of the U.S. West Coast entrepreneur: black sweaters, hoodies, Apple Watches. One company even had an electric guitar and amplifier in its offices.

For many in Japan, U.S. entrepreneurial culture is a model. Noriyuki Matsuda, the founder of the software distributor Sourcnext, had just gotten off the plane from Palo Alto, where he lives, when I met him in Tokyo. He claimed that the decision to run his Japan-based company from California was responsible for improving his company's sales and stock price, in part because living near Silicon Valley had given him access to intelligence about new technologies that would not otherwise reach Japan.

Masami Takahashi, the president of Uber's Japanese division, came to Tokyo from California, where he had a corporate job at Sony. "Coming from Silicon Valley, it was interesting to compare it with Japan. There are more people in Japan taking risks and starting businesses compared with ten years ago," Takahashi told me. Yet he also indicated that Japanese start-ups can at times be derivative and underambitious: there was a pattern, Takahashi said, of founders creating Japanese versions of U.S. innovations or setting out to develop business models that simply take advantage of minor loopholes in regulation. "Disruption and innovation go together in United States," Takahashi said. "In Japan, innovation is good, while disruption [*haka*] is negative, implying 'to destroy.'"

If entrepreneurship is to take root in Japan as it has in Silicon Valley, start-ups will need to make room for women [20], not least because Japan's labor force is shrinking [21]. To be sure, Silicon Valley has its own problems with diversity and sexism. But at most of Japan's big corporations, which were built by and for men, sexual harassment and discrimination are serious challenges for female employees. Women might have a relative advantage in the start-up sector, where the division of labor by gender has not yet been institutionalized.

Keiko Maruyama, the founder of Womanet Academy & Consulting, a training center for female entrepreneurs in Yokohama, was working at the offices of the networking equipment multinational Cisco in Tokyo when the historic earthquake and tsunami hit Japan in 2011. Stranded overnight on the 27th floor of her building, Maruyama had an epiphany. "I was chasing a better life," she told me, "but in fact I already had what it takes to be happy," she said, in the form of family, friends, and daily routines. "The earthquake was the biggest turning point in my life." She decided to quit and started Womanet a year later. "I have seen more and more women wanting to start businesses because they want to do what they want," Maruyama said. "Working at a big company is limiting, unsatisfying, and boring. They want to contribute to society."

AMBITION VS. DUTY

I met Naoki Endo, the CEO of the Internet consulting company beBit, in his Tokyo office. Like many of his peers in Silicon Valley, he was wearing a fitness tracker, this one a sensor around his neck that measured his mood and movements. Start-ups, Endo suggested, offer a way out of a corporate culture overly focused on bottom lines—one evidenced by some of his own corporate clients, who occasionally used his company's technology to bilk their customers through hidden fees. "Many managers in Japan lack a philosophy because they just worked hard to get promoted," Endo said.

But Endo also told me he worries that the altruism he sees in his peers in the start-up sector might hold back their ability to bring about change. "My generation is not greedy," he said, "and greed is a power." A friend of his, Endo said, had retired from running his own technology company at the age of 40 to climb mountains. "That's emblematic for me. He is a humanist. He has a vision. But he isn't greedy enough, and that may mean he doesn't have the energy to change the world."

I later met with Yusuke Matsuda, another friend of Endo's and the CEO of Teach for Japan, an organization that aims to reduce poverty by bringing highly qualified teachers to underserved schools. Like Endo, he had become disillusioned by the 2008–09 financial crisis. "We thought there was lifetime employment," Matsuda said. "But we saw companies

go bankrupt. And the employees couldn't get jobs. So now people know that you can only rely on your own ability to solve problems or be a leader or entrepreneur. That's true at least for the best and brightest.”

Last summer, Matsuda, Endo, and around 150 other entrepreneurs met for a conference in Tokyo organized by Hiroki Komazaki, who has become a leader in Japan's start-up scene by creating much-needed nurseries in unused apartment spaces [2]. The name of the retreat, Matsuda told me, was “Kokorozashi”—a Japanese word for which there is no precise English equivalent but that translates roughly as “ambition” or “willfulness.” It is no coincidence that the same word is used by the government to describe [22] up-and-coming start-ups like Coiney and by some Japanese investors assessing the value of new businesses. The connotations of *kokorozashi*, however, are more revealing. Its roots, *kokoro* (“heart”) and *sasu* (“to aim at”), suggest a kind of ambition that is inseparable from civic duty. The dual meaning captures the central tension in the entrepreneurial culture of today's Japan: between the drive to change society on the one hand and the pressure to be a respected member of the community on the other.

THE OLYMPIC RULE

So how can Japan regain its entrepreneurial spirit? Tokyo might consider several broad steps, such as providing more support to English-language, entrepreneurship, and study abroad programs at Japanese universities; making it easier for companies to fire unproductive workers; and deregulating the business sector in ways that make it easier for start-ups to challenge established firms.

But there is only so much that the government can do. As William Saito, a Japanese American entrepreneur who has been advising the Japanese government on cybersecurity and entrepreneurship for ten years, pointed out, the most important step will be the development of a Japanese business culture that is less risk-averse and more accepting of failure. “‘Failure’ is a bad word” in Japan, Saito told me—but since it is also a necessary part of entrepreneurialism, Saito said, the “first step is don't make [entrepreneurs] into victims.” Saito also suggested that increasing the prevalence of merit-based compensation across the business sector might help develop the competitive attitudes necessary for successful start-ups. “One of the biggest taboos in Japan is how much money you make,” he told me. “In most big companies you are paid based on your age, no matter if you made record sales or [were] sleeping at your desk.” Like Masami Takahashi, Saito argued that the coming 2020 Tokyo Olympics [23] will give Japanese innovators a boost by creating new business opportunities and a hard deadline by which to take advantage of them.

Saito remains an optimist about Japan's entrepreneurial future. He views the country's current troubles—an aging and shrinking population, increasing competition abroad, sclerosis in the corporate sector—as opportunities for innovation. Eventually, “the rest of the world is going to be in the same boat,” Saito said. “Japan can be the exporter of these solutions to the world.” If Japanese entrepreneurs can reconcile their ambitions to create wealth with their desire to contribute to society, they will have made their country a more prosperous place that is also a fairer one—and that is something from which entrepreneurs around the world could learn.

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