

Risk, Entrepreneurship and Technological Innovation in Japan

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Japanese entrepreneurial activity has been shown to be relatively weak in spite of changes that have been introduced by the government to help foster the development and growth of start-ups in high technology related fields. In a 2003 METI report Japan was ranked 22 out of 29 countries in terms of population interested in starting a business. Estimates are that only about 4.3 percent of the population of Japan was planning to start up a business compared to 8.2 percent for the US and 7.7 percent for South Korea. More troubling for an economy that can no longer compete in terms of low wages and must compete in terms of high value added products; the high technology start-ups most associated with the Silicon Valley phenomenon in the US did not catch on in Japan. Many Japanese start-ups are not the high risk/high return type ventures that are likely to create new industrial sub-fields if not whole new industries and to introduce or take advantage of new management systems but are low risk/low return types that tend to modify existing products, processes and technologies.

In any start-up activity there is the risk that emanates from the uncertainties of using untried technologies. There are also risks that emanate from institutional factors found in the society that houses the entrepreneurial activities. Previous research has indicated that in Japan the motives for starting up a business are different and the environment was not conducive to rapid growth of start-ups in Japan. The motives for adopting high risk/high return or low risk/low return are influenced by the institutional environment.

One important element of the institutional environment concerning startups concerns the consequences of failure. If the venture fails what are the risks for working for such a company? Some research indicates that failure carries with it a greater risk of having to start over in ones career or finding a new supplier. In Japan there is more institutionally based risk involved in working for a new start up that has very little presence as measured in market share and reputation as measured in duration of existence in an industry. The employment risk is compounded by the low social status accorded entrepreneurs and small and medium business people in general in Japanese society. When asked to respond to a question concerning entrepreneurs as socially valuable, only eight percent of Japanese responded positively compared with ninety-one percent in the US, eighty-eight percent in Canada and thirty-eight percent in the UK. The social standing of entrepreneurs is very low in Japan. This may be partially explained by the way that social status is determined in Japan. Social status is a complex phenomenon, but is related to the attributes of the company a person works for, in

particular its size and age, while technological virtuosity and potential for profit are not important. Start-ups, by definition as small and very young, are lacking in the very attributes needed to convey status in Japanese society.

In addition, the social and economic problems of business failure and the ability of re-entering the workforce after such failures is consistently marked as high as a reason for not attempting to start up a new business in Japan. The comments of Tadashi Yanai of Fast Retailing are telling. Discussing the state of entrepreneurship in Japan for the Nikkei Weekly, Yanai commented, "In Japan, you are attacked if you fail even once, as I did, and as Masayoshi Son, president of Softbank Corp. has done. The way Japanese society impedes young entrepreneurs from becoming successful is really absurd. "

The impact of this attitude towards business failure is illustrated in the fact that only one in ten entrepreneurs who failed was able to restart their businesses, compared to fifty percent in the US. Further about 75 percent of those who failed had to sell their houses and about 43.4 percent went into personal bankruptcy. This is because much of the funding for entrepreneurs comes from banks, and banks tend to give preference to large companies. The implications of failure spread out beyond the entrepreneur and may also include family members and friends since these people are often needed to secure funds through the loan guarantee system at Japanese banks. Further, banks consider previous business failure very severely in Japan with 41.9 percent indicating that "borrowers' past records of business failure" is the most critical factor considered in lending to entrepreneurs.

Entrepreneurial start-ups are confronted with many difficulties, even in relatively supportive environments such as the US. These difficulties are collectively termed the liability of newness. Understanding how institutions can shape risk perceptions and understanding how entrepreneurs may use elements of institutions to hedge against risk is critical to minimizing the impact of the liability of newness and enhancing the adoption of high risk/high return ventures in the context of the Japanese economy. One important institution for enhancing entrepreneurial risk taking in particular and creativity in organizations in general is the university. The development of MBA programs in Japan that emphasize research and teaching concerning entrepreneurship and the management of technology can play a vital role in fostering a better understanding of how to energize these engines of growth.