

## Where Are All the Entrepreneurs Gone in Japan? by Jia-Chuan Kwok

For a nation that once boasted the likes of Sony, Toyota and Mitsubishi as its entrepreneurial heralds, Japan's entrepreneurial record in the new millennium is surprisingly sparse. Indeed, entrepreneurs in Japan have become the exception rather than the norm. Common problems faced by aspiring entrepreneurs include the lack of venture capital, labyrinthine government regulations, and the dominance of large companies. Yet for all these factors, it takes two hands to clap – you need both an environment conducive to startups as well as people who aspire to be entrepreneurs.

On the political front, the Japanese government – whether the old Liberal Democratic Party or the new Democratic Party of Japan – has worked very hard to incentivize entrepreneurship. Indeed, Toyo University professor Takehiko Yasuda has detailed an extensive list of policy responses initiated since the early 2000s, including the removal of minimum capital requirements for limited liability companies and new startup loan programs to act as a quasi-state venture capitalist<sup>1</sup>. In addition, government initiatives have also tried to encourage the private sector to open up venture capital to promising startups. Yet these measures have led to few appreciable results. Robert Eberhart, a fellow at Stanford University (and expert on entrepreneurship in Japan), estimated the annual number of venture capital deals made in Japan to be half that of the US, at only a quarter of the average deal size (US\$1 .9m v US\$ 7.1 million per deal<sup>2</sup>).

This leads to the suspicion that the true reason for stagnant entrepreneurial activity lies elsewhere – in the education system and the youth that either conforms or retreats from entrepreneurship. At the same time, with the traditional lifelong employment model still holding sway over many desired career paths for the best and the brightest, many still regard entrepreneurship as a risky and potentially dangerous path. In this sense, young people in Japan find themselves at a crossroads, wondering whether old institutions and methods will prepare them for new challenges. Some choose to confront these challenges, while others retreat into themselves and into the comfort of the established system of lifelong employment. With the political conditions for entrepreneurship becoming more favorable, the greater challenge for entrepreneurship in Japan will be to address the social factors that hinder entrepreneurship among the youth.

In the Western context, adolescence is a time of independence during which an individual breaks free of parental bonds and explores the world, thereby forming an identity for oneself. Yet for Japanese youth, the teenage years often represent an age of conformity and a single route to achieving the social conception of “success”. In this respect, the individual learns to function within a defined role in society, according to a set of criteria focused particularly on academic performance. As Thomas Rohlen notes in his study of education in Japanese society, direct intervention by authority is used only sparingly<sup>3</sup>. Instead, the pressure to conform exerted by the group functions as the primary means of controlling those who do not behave within the normative compliance of the group and usually helps to nudge them back into compliance.

With an entrenched mentality of group affiliation, the crucial skill sets and mentality needed for successful entrepreneurship are often suppressed, while the merits of risk aversion are highlighted. As one manager explained when asked about entrepreneurship, “the evaluation system in Japan gives everyone an initial ten points and points are deducted when you fail. Chances are not taken because in the Japanese mind we have been taught to be the same as others. People dare not take personal risk to be independent.”<sup>4</sup> More importantly, the shame and embarrassment associated with failure often discourage many from attempting new ventures in the first place, thereby undermining one of the basic tenets of entrepreneurial activity – a willingness to fail and try again.

Indeed, while such a communitarian approach is not uncommon in Asia, the traditional competitiveness inherent in a system that considers academic excellence to be the sole judge of potential is amplified by the pressure placed by Japanese parents. The Japanese have a saying “the nail that sticks out gets hammered down”, which contains an implicit expectation of failure for entrepreneurs that might bring new ideas to the table. As sociologist Michael Dzieszinski notes, “Foremost are the cultural expectations placed upon a young middle-class person to conform to norms and succeed in life and the one acceptable mainstream ‘route’ in which to accomplish this goal—a prestigious education.”<sup>5</sup> Social withdrawal among the groups mentioned above can thus be seen as a sort of rebellion against these conditions, asserting the right to an individual outlook in a society geared to conformity. Yet this individual outlook is not directed outward, but rather inward, which deprives the society of possible sources of creative or entrepreneurial talent.

Yet success stories exist. Take for example Kentaro Iemoto, who founded Clara Online, a rental server company,

with just US\$9,000 in start-up capital in 1997 and at the tender age of 15. Today, Clara is now one of the leading server hosting companies in Japan and Korea, listed on the Singapore stock exchange with a market capitalization of US 3 million. Or Noriko Teramoto, who broke through Japan's notoriously thick glass ceiling and became a successful female entrepreneur after she was barred from returning to work by her company when she took leave to have a child. Teramoto's Digimoms' Inc, a webpage design company, moved to profitability within a year and has already acquired a reputation as one of the rising internet designers in Japan, one that has come about as a result of bold moves by Teramoto. Indeed, Shiho Futagami of Yokohama State University points to the pool of mainly female employees as a crucial aspect of Digimom's success, in that hiring female employees was a key way that Digimom overcame the labor market barrier that exists for many Japanese entrepreneurs. While admirable, Digimoms' success also serves as an indicator of how Japanese often need to be persuaded that entrepreneurship is another possible path to success, and not just a path that entails risk and shame.

Unfortunately, an overhaul of the social and educational structure in Japan might be needed before it can happen.

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## References

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