
Event Report

Mavericks or Miscreants? Entrepreneurship in Japan

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In America, entrepreneurship is often seen as the manifestation of our most positive cultural ideals: social and economic mobility; great risk bringing great reward; the common man's ability to shape the world around him. One only has to look at the entrepreneurs we hold up as heroes (from Thomas Edison to Estee Lauder to Bill Gates) to recognize the esteem in which we hold those who risk it all to follow a dream.

Globally that view of entrepreneurship is not always the case. Imagine instead a country that starkly valued stability over risk, where capital without collateral was nearly impossible to come by, and where choosing to strike out on your own could invite disdain from your colleagues and bring distress to your significant other, parents and relatives. Unfortunately, this is similar to the environment in which entrepreneurs in Japan operate daily, as well as some of the challenges faced by the panel of businessmen who spoke at the 11th Annual Mitsui USA Symposium panel, Entrepreneurship in Japan.

Presented in cooperation with the Mitsui USA Foundation by the Center on Japanese Economy and Business, the Eugene Lang Entrepreneurship Center and the Jerome A. Chazen Institute of International Business, the panel consisted of three businessmen: Ernest Higa, MBA '76 and Chairman and CEO of Higa International Co., Ltd.; Kohei Nishiyama, founder and CEO of elephant design co., ltd; and Atsushi Imuta, founder and CEO of RISA Partners. The panel was moderated by Murray Low, Director of the Eugene Lang Entrepreneurship Center and a professor at Columbia Business School, who opened the discussion by reminding the audience, "In America, we think that we own entrepreneurship: We don't. It's a global phenomenon, but we have to remember that what works here may or may not work in countries around the globe."

From Start to Success

The stories of two entrepreneurs on the panel — Ernest Higa and Kohei Nishiyama — enlightened the audience as to how businesses at the opposite ends of their life-cycle could still pose similar obstacles for their entrepreneur-owners in Japan.

When Ernest Higa, a Japanese-American born in Hawaii, started his first business in Japan in 1979, the Japanese parlance for an entrepreneur had an extremely negative connotation: “Basically, the word meant someone who had dropped out of corporate life because they just couldn’t cut it.” At that time, the “best and the brightest” went into government or large corporations, and it was almost unheard of for an educated young worker to choose a small or entrepreneurial venture over a large, established company. Mr. Higa recalls the tension his decision fostered between him and his future father-in-law, a Japanese businessman. “He had a lot of reservations about what I did for a living, and it wasn’t until I was featured in *Nikkei Business* that my work was validated. And that’s how I was able to get married,” Mr. Higa jokes.

After starting a series of businesses — including a lumber importer and a neuro-surgical device company — Mr. Higa was struck by an article he read in a 1983 issue of *Forbes*. The founder of Domino’s Pizza, Tom Monaghan, had just bought the Detroit Tigers, and Mr. Higa wondered how a man who delivered pizza for a living could grow rich enough to buy a major league baseball team. Mr. Higa set up a meeting with Mr. Monaghan: Aware of the success of McDonald’s and Kentucky Fried Chicken in Japan, Mr. Higa believed that Domino’s was a perfect import. After extensive market research, Mr. Higa realized he would have to make some changes to the chain before bringing it from West to East: “Any successful U.S. product has a better than good chance at being successful in Japan, if it’s properly adapted to the market.” Mr. Higa points out that quality in the fast-food industry in the United States usually is associated with taste and quantity. In Japan, however, the emphasis is on presentation, variety and service: “In the U.S., the saying is ‘The Customer is King.’ In Japan, it’s ‘The Customer is God.’ God is higher than a king, and the level of service has to be that much better.” This, along with other innovations like seasonal menus, upscale marketing and toppings adjusted to local tastes, has grown Domino’s business in Japan to over 180 stores and 5,500 employees. It has also spawned an entirely new segment of the economy: In 1985, there were no home-delivery pizza joints in Japan; today, there are over 3,000 and the industry has grown to over \$1.4 billion.

If Ernest Higa is at the apex of his entrepreneurship career, Kohei Nishiyama is just beginning. His venture, www.cuusoo.com, owned and operated by Mr. Nishiyama's company elephant design, launched on February 9, 2007 — and is still finding its sea legs. Cuusoo.com is an innovative Web site that allows users to dream up products, and then aggregates “votes”. Once enough people have pledged to buy the product (in other words, once it has achieved break-even), elephant design helps facilitate the design, development and production of the item.

“It all started with a bag. When I was 19, I had this idea for a bag I wanted, but I couldn't find it anywhere. So I had it special-ordered,” recalls Mr. Nishiyama. When friends began asking for similarly designed bags of their own, Mr. Nishiyama started a made-to-order business: His yearly revenues went up to \$300,000, but it was a 24/7, nonscalable business. “It was one order, one product, one customer. I was exhausted. I couldn't think of a way to change that, until I discovered the Internet.” The Internet enabled Mr. Nishiyama to change the equation: Instead of having one product for one customer, he was able to create one product for multiple customers. Production of even the most outlandish inventions suddenly became a reality, as long as a product could gain the critical mass needed to make it financially feasible. The final piece of the cuusoo.com puzzle — finding users to invest the time and energy in coming up with a new product idea — came when Mr. Nishiyama developed the idea to return a 1 percent royalty on all sales to the inventor of the product. The company's first product, Read-Through Transparent Sticky Notes, went on sale in January of 2008.

Despite numerous successes (the best-selling invention is a small sofa stool, which — to put into perspective the idea's overall revenues — garners the designer \$24,000 per year), the Web site still faces some dire statistics: Only 1 percent of all the ideas developed on the site are actually produced. With 120,000 users, this means 118,800 unsatisfied customers. Mr. Nishiyama knows this is a number he needs to change. “The challenge now is how we can capture the ideas not yet at the break-even point. I'm hoping to pair users with bloggers to advertise the ideas, and get more traffic to the site.”

Obstacles

All three of the entrepreneurs highlighted the social stigma of becoming an entrepreneur as one of the greatest obstacles to building a business in Japan. Before founding his investment banking firm, RISA Partners, Atsushi Imuta, founder and CEO, recalls the skepticism he faced from colleagues after leaving his post at the Long-Term Credit Bank of Japan: “I'd say that 10 percent of my colleagues admired me, 20 percent of them were confused and 70 percent of them

suspected me of embezzlement or womanizing or something, because that was the only way they could imagine someone leaving their job.” It was only after spending time abroad in London that Mr. Imuta realized there were options other than the typical Japanese career path. “I saw many friends changing jobs freely and testing their abilities. That was totally different from what I had learned growing up.” Today, Mr. Imuta can be happy that he decided on the path less traveled, as RISA, which operates principal investment business, fund business and advisory services in corporate, NPLs and real estate domains, today has a market value of 15 billion yen.

Still, skepticism isn’t the only challenge an entrepreneur in Japan will face. Access to capital is highly limited in Japan, and capital without collateral is almost unheard of. “The last thing I did before I quit the bank was to apply for three credit cards, because without being employed by a large corporation, it is very hard to get a credit card,” says Mr. Imuta. It is for this same reason that Mr. Nishiyama believes cusoo.com’s adoption has been surpassed by other international sites with the same concept: “When I started my business 13 years ago, I wasn’t able to get a loan from a bank. I had to turn to angel investors, and was able to receive a limited sum. Four years ago, a competitor Web site started in the U.S. They were able to get a lot of funding, and now they’re big.” Because Mr. Nishiyama can invest only the profits that he makes each year, a nine-year gap was closed by his competitor in a matter of months with the freer flow of capital available in the United States.

The threat of failure also looms, and the seriousness of such weighs heavily in the Japanese entrepreneur’s mind. When asked by Professor Low if he will have the opportunity — if elephant design fails — to try again with a new venture, Mr. Nishiyama jests, “Sure, if I move to the U.S.!” But this light-hearted comment masks a dark reality: Bankruptcy laws are complicated in Japan, and that, combined with the stigma of failure, means that entrepreneurs often only get one shot to succeed.

The Future

Despite the challenges, all three entrepreneurs have a positive view on the future of entrepreneurship in Japan. Chief among the factors is the changing attitude of the next generation: “If the question is ‘Do people admire me?’, the answer is ‘My friends do. But their parents don’t.’” according to Mr. Nishiyama. The generational difference means that more will be tempted to try their ideas, and more sophisticated investors will begin to see the value in entrepreneurial opportunities.

Mr. Higa also sees a silver lining for entrepreneurship in Japan’s “Lost Decade,” the period of time after the Nikkei stock average fell 63% from its 1989 peak of 38,916, land prices slumped, and economic expansion came to a halt. “It all goes back to human capital: Today, the ‘best and the brightest’ cannot get jobs, and so they will either become entrepreneurs or they will be available to work for those who do.” In addition, the Lost Decade has resulted in cheaper real estate, more available resources and the initiation of government programs whose mandate is to provide funding without collateral to small businesses. All of this bodes well for the future of entrepreneurship in Japan, but in a country steeped in conservative tradition, the tide may be slow to turn: “Even today, the most successful, well-known entrepreneurs are still considered mavericks in Japan,” Mr. Higa says.

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