

# Takumi: Japan's Key to Tech Entrepreneurship Success

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IN AN EXTENSIVE EXPLORATION of Japan's current technology entrepreneurship landscape, new insights have emerged from the World Bank<sup>1</sup> and the Carnegie Endowment for International Peace.<sup>2</sup> Crucially, they highlight an exponential rise in Japan's venture capital (VC) sector, facilitated by a surge in independent venture capitalists and a positive feedback loop of successful investments. While the nature of venture capitalism might harbor an element of risk, significant returns from startup portfolios are beginning to appeal to an increasing number of capital allocators.

Over the past decade, the figures narrate an impressive story, marking a fifteen-fold increase in VC investing in Japan. Starting from a modest 21.9 billion yen in 2012, the investment volume touched 329 billion yen in 2021. Despite the venture capital allocation of Japan trailing other countries, it competes on equal footing with fellow G7 nations when measuring the overall expenditure.

However, attention must also extend beyond VC funding in the quest for a thriving entrepreneurship environment. Creating robust connections between established corporations and emerging startups, fluid workforce mobility, and enhanced collaboration among government, academia, and industry are pivotal. Notably, the cornerstone of a burgeoning entrepreneurial environment is the successful implementation of a proven business model that nurtures entrepreneurship.

## Parallels with Silicon Valley

Indeed, the paradigmatic success of Silicon Valley's tech ecosystem provides valuable lessons. The formula for its growth involved a symbiosis of grassroots innovation fueled by startups and entrepreneurs and support from corporates like Xerox, who injected significant resources into research and development.

THIS MAKES ONE WONDER if such a formula could be replicated, particularly in Japan. Japan's venture capital paradigm, modeled after Silicon Valley,<sup>3</sup> has shown limited efficacy, primarily attributed to cultural and psychological nuances distinguishing Japanese and American entrepreneurs. Stereotypically, Japan's seemingly subdued entrepreneurship has been linked to its dominant corporate culture, fierce industrial competition, and a cultural preference for stable employment. Nevertheless, a nuanced dissection of the entrepreneurial landscape refutes these generalized interpretations.

Conventional wisdom might suggest that Japanese culture prioritizing stability and security curtails risk-taking entrepreneurial pursuits. Paradoxically, recent research contradicts this narrative, establishing a risk tolerance in Japan akin to other developed nations.<sup>4</sup>

<sup>1</sup> Victor Mulas, Pablo Astudillo, Takashi Riku, Jamil Wyne, and Xin Zhang. Tokyo start-up ecosystem. *World Bank, Washington, DC*, 2021

<sup>2</sup> Kenji Kushida. The people powering japan's startup ecosystem. *CEIP: Carnegie Endowment for International Peace*, 2023

<sup>3</sup> Maëlle Gavet. What's next for silicon valley? *Harv. Bus. Rev.* (Sept. 30, 2020), <https://hbr.org/2020/09/whats-next-for-silicon-valley>, 2020

<sup>4</sup> Teruo Shinato, Katsuyuki Kamei, and Léo-Paul Dana. Entrepreneurship education in japanese universities—how do we train for risk taking in a culture of risk adverseness? *International Journal of Entrepreneurship and Small Business*, 20(2):184–204, 2013

In a similar vein, it's a commonly held belief that Japan's educational infrastructure scarcely fosters entrepreneurial spirit. Contrarily, a plethora of Japanese universities propose curricula centered on entrepreneurship and innovation, offering an intellectual platform for prospective startup founders.

Critics often argue that Japan's stringent regulatory environment is a significant barrier to entrepreneurial development. However, the bureaucratic complexities faced by Japanese startups are not dissimilar to those in nations with a thriving entrepreneurial culture. Despite these potential roadblocks, a wide array of initiatives, from government-funded programs to startup incubators, provide tangible support to nascent enterprises. This is a testament to the Japanese government's substantial commitment to stimulating entrepreneurial growth.

Although the factors above influence Japanese entrepreneurship somewhat, they do not offer a holistic explanation. The quintessential Japanese emphasis on stability, security, and risk aversion may partly explain the preference for employment in established organizations over startup ventures.

Japanese society is known for its high degree of group cohesion, consensus, and collaboration, often making it challenging for individuals to venture outside this cultural norm and establish their companies. Within this societal structure, individuals are often seen as collective constituents rather than separate entities. Such a perception can be particularly burdensome for ambitious entrepreneurs keen on carving their path.

The societal pressure to conform to cultural norms and expectations potentially stifles entrepreneurial innovation, as venturing into the unknown or taking risks could be perceived as a deviation from the norm. The cultural and psychological nuances between Japanese and American entrepreneurs thus create a challenging environment for Silicon Valley's VC model to flourish within Japan.

### **Takumi: Japanese Artisanry**

An interesting factor that distinctly colors the Japanese startup ecosystem is the concept of Takumi,<sup>5</sup> embodying a commitment to meticulous craftwork. This philosophy of artisanship, which values skill, focus, and quality, could provide a robust framework for nurturing technology startups in Japan. The Takumi ethos of unwavering dedication, resilience, and pursuit of excellence provides the foundation for functional, high-quality products and services primed to flourish in competitive markets.

Attention to detail is paramount in the technology landscape, as even minor flaws can significantly mar user experience. Embracing the artisan's approach of Takumi, Japanese entrepreneurs can continually hone their offerings, securing and growing their market presence. Furthermore, the culture's passion and unwavering commitment offer the necessary drive to navigate the arduous journey of creating successful technology companies.

<sup>5</sup> Mia Ljungblom and Thomas Taro Lennerfors. The lean principle respect for people as respect for craftsmanship. *International Journal of Lean Six Sigma*, 12(6):1209–1230, 2021

TAKE HONDA AS AN EXAMPLE. Soichiro Honda, the founder of Honda Motors, embodied the Takumi ethos of dedication to craft and continual refinement. As a mechanic, his prowess in tuning cars and fabricating parts eventually spurred him to establish a piston-ring manufacturing company, Tokai Seiki, in 1937. This endeavor brought him into Toyota's orbit, where his pursuit of quality control and mastery led to an enriching engagement.

Following Toyota's initial rejection of his piston rings, Honda launched an extensive tour of factories around Japan, a testament to his unwavering commitment to quality and innovation. This exploration epitomizes the Takumi spirit of striving for perfection and learning from failure. Post World War II, Honda's entrepreneurial journey took an exponential leap with the establishment of Honda Motor Co., Ltd. in 1948. His devotion to craftsmanship and relentless drive for improvement resulted in a global automobile and motorcycle manufacturing behemoth.

Harnessing the Takumi spirit of Japanese artisanship has the potential to guide and grow technology companies in Japan. The combination of quality, meticulous attention to detail, constant innovation, and an unwavering commitment might be the distinctive factors that propel Japanese tech startups to unprecedented heights in the competitive global marketplace.

