

# Bridging Silicon Valley & Japan

## A Challenge by a Japanese Business Consultant

Interviewer: TAKAMASU Kanji

**S**ilicon Valley has remained a global center for high-tech innovations for the past 40 years, as witnessed by the birth of integrated circuits, personal computers and other information technology (IT) products. This is well known to many Japanese people, but specific processes by which innovations take place in Silicon Valley are not widely known. Although still small, an increasing number of Japanese players are emerging there, just as Suzuki Ichiro of the Seattle Mariners is carving out a path in MLB. Yasui Kentaro is one Japanese player who is at the forefront of global innovations involving Silicon Valley. In an interview with *Japan SPOTLIGHT*, Yasui talks about his activities, mainly as a business consultant bridging Silicon Valley's high-tech venture businesses and major Japanese manufacturers.

**AZCA, Inc.**

### Team of Experts for Each Project

**What type of business consulting is AZCA focused on?**

**Yasui:** AZCA is a business consulting agency specializing in the high-tech field. The firm was established in Silicon Valley in 1985 by its founder, Ishii Masazumi. AZCA is comprised of five Managing Directors (Partners), who are supported by expert consultants in various fields on a per-engagement basis. During the process of registering our name back in 1985, we stumbled upon the name 'AZCA', which also means "A to Z of California." AZCA facilitates open and collaborative innovations between Silicon Valley ventures and Japanese companies by: defining R&D and technology-sourcing strategies for our Japanese corporate clients; helping US (pre-IPO) venture clients enter the Japanese market; and generally orchestrating mutually beneficial collaboration and alliance schemes. We also offer strategic feasibility studies regarding Japanese and US markets for clients wishing to consider market entry strategies. Our business domain includes high-tech fields such as the Internet, enterprise software, new energy, nanotech and biotech. As of now, we have successfully completed over 500 such engagements.



Photo: JEF

Yasui Kentaro, Managing Director, AZCA Inc.

**It is amazing that AZCA is covering such a wide range of high-tech fields with only five people. I imagine each Partner must have excellent capabilities. But how are you collecting state-of-the-art technological information in each field?**

**Yasui:** We usually set up a team of outside experts in response to an order from clients. In Silicon Valley, there are many experts in various fields who have produced illustrious results in specific fields in the past and who are willing to participate in such extra projects. This is a major point of difference from the Japanese corporate community. We can

therefore form a team for each project easily.

The five individual Partners share duties in our respective realms of expertise. I am mainly in charge of IT and software. We hold a meeting once a week to confirm progress in each project and decide directions. We always have three to four projects at hand, although the number fluctuates depending on orders. We spend an average three to six months to complete one project.

**How have you established an environment in which such varied experts work intensively?**

**Yasui:** As you know, there is the term "academic-industry partnership" in Japan. In Silicon Valley, influential universities such as Stanford are aggressively encouraging entrepreneurship. In addition, job changes and entrepreneurial attempts are much more frequent than in Japan. Under such a business climate, we see no difficulties in recruiting very capable experts.

### "Hands-on"

**How are entrepreneurs assisted specifically?**

**Yasui:** Do you know such words as "angel" and "venture capital"? Angels refer to those who provide early-stage assistance to people with certain

Photo: PANA

technologies to launch businesses. Almost all major global corporations born in Silicon Valley were founded by a few young engineers each. And still now, engineers at major firms aggressively continue to found their own companies on the basis of their expertise.

Silicon Valley produced a large number of big and small winners during the 70 years of its history. Angels and venture capitalists make investment by buying shares in start-up companies at their very early stages. They can earn returns by selling the shares if the company they invested in achieves a certain success and goes public. Not only large venture capital firms but also angels offer entrepreneurs advice over management tied closely to such aspects as technology and finance. This is what AZCA founder Ishii calls “hands-on” assistance. Entrepreneurs in Silicon Valley receive risk money from around the world, aside from traditional management assistance from banks and brokerages.

For example, one venture capital firm makes investment in 10 companies. Of them, three fail, four post modest profits, and the remaining three are successful and have their stock listed on the market. In such a situation, a certain level of returns is expected from the investment and the venture capital firm can continue its business.

Even if the entrepreneur fails, risk-money investors understand that their investment also failed because they have followed the same venturesome path. One or two failures are permissible in Silicon Valley. Entrepreneurs issue shares to procure funds. Their dependence on loans from financial institutions is very low.

On the other hand, dismissal of workers and closure of businesses are frequently seen at bad times, in contrast to Japan. Business consultant and venture capitalist Umeda Mochio describes Silicon Valley as a “society that tolerates a high rate of birth and mortality.” This is a business climate that can be called a Silicon Valley model. It significantly differs from that of not only Japan but the rest of the world.

This business climate has prevailed not only over Silicon Valley but other parts of the United States. For example, this model has spread to high-tech

industrial regions on the East Coast. Japan has also opened new stock markets for start-up firms and established a framework intended to help entrepreneurs. But I feel there still remains a wide gap between Japan and the United States in terms of the scale and depth of the framework of assistance for entrepreneurs.

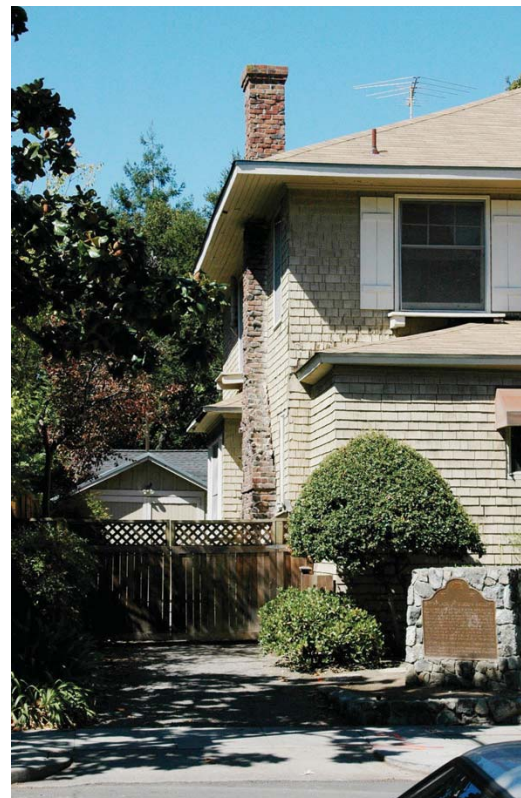
### What are the advantages of the Silicon Valley model?

**Yasui:** One is that it extremely speeds up the pace of commercialization of new technologies. Moreover, a framework of incentives has been developed, assigning stock options to managers and employees not only of venture businesses but of many Silicon Valley firms. Silicon Valley, which has also gained “hands-on” assistance that is deeply committed to management, sees a continued rush of entrepreneurs with the inflow of risk money from around the world. This framework is well suited for such fields as software, the Internet and biotechnology that are currently undergoing technological innovation at the fastest pace.

## Fountain of Ideas

**The Japanese government has recently come to aim at establishing a society that offers a second chance of success. What differences do you see between Japan and Silicon Valley?**

**Yasui:** Conventional venture capital activities in Japan mainly involve brokerages providing funds and financial services to small, young firms right before their listing on the market and gain returns after they go public. US venture companies seek to achieve results in a short period of time and pull out of a business unless results can be produced in a few months. On the other hand, Japanese companies make much of protocols, take in-house hierarchy into account, and spend a few years to achieve results. Such a time difference can pose a stumbling block to partnerships between them. People in Silicon Valley tend to pull out swiftly



*An apartment and a garage with a monument in front that reads “Birthplace of Silicon Valley.” The garage in the back (left) was used by Hewlett-Packard Co. co-founders Bill Hewlett and Dave Packard as their workshop. The monument is located in Palo Alto, California.*

and to launch fresh business attempts.

Silicon Valley fell into a slump sparked by a stock market plunge from 2000 to 2001 that is called the IT bubble crash. It is thought to have been caused by the business style that assessed corporate values solely with market capitalization. After that, Google Inc. has grown rapidly in the IT field. The total market value of Google stock is equal to that of the third or fourth largest Japanese corporation. Google achieved the spectacular growth in only nine years after its founding. Google is an exceptional case as it started with college studies and has suddenly grown into a big business. But Google’s case is evidence of how quickly things are moving in Silicon Valley.

**I hear not only investment but engineers from many countries around the world are pouring into Silicon Valley. What is the size?**

Photo: PANA



A view of Stanford University, known as the "Mother of Silicon Valley," in Palo Alto, California

Photo: AZCA, Inc.



The Menlo McCandless Office Center in Menlo Park, California, that houses the head office of AZCA Inc.

**Yasui:** Roughly 2.4 million engineers are said to be working in Silicon Valley. By nationality, Indians are probably the largest group. One estimate puts the number at more than 200,000. There are also a great many people from other Asian nations and territories such as China, South Korea, Taiwan, Hong Kong and Pakistan. Europeans and Japanese are relatively minorities there. I estimate the number of Japanese to be several thousand, including workers sent by Japanese companies. I think the population of Japanese in Silicon Valley probably places between fifth and 10th places among ethnic communities. The relatively small size is because employees of major firms in advanced countries can lead steady lives, protected by generous safety-net measures. In contrast, people in developing countries need to try their luck in Silicon Valley. But recently there are also many people who return home and launch businesses as those developing countries are fast industrializing.

Among Japanese-launched venture businesses that were successful as Silicon Valley insiders are imaging-processor maker Nucore Technology Inc., which was recently taken over by a Taiwan firm, TV capture board maker Pixela Corp., and Postime Signs Inc., a manufacturer of LED display systems. But the number of such Japanese-launched companies is still small.

**I hear many people double as consulting service and venture capital providers.**

**Yasui:** Me, too. Although the amount is paltry, I have invested in venture businesses. This is because we often receive from venture businesses contingent fees or stock options as consulting fees for our service. Very recently, I started investing in and nurturing venture businesses in the Internet and anti-aging fields.

Venture businesses possess technologies that can be commercialized, but management at most of them remains in chaos. To provide consulting services to such small venture businesses, we have no other choice but to deeply commit ourselves to them with the same passion as their managers. This means that we and managers jointly enliven venture businesses. This is exactly "hands-on" assistance as advocated by AZCA founder Ishii. So the fence dividing the two sectors is very low.

**Until & From Now**

**What is the reason for your decision to do consulting?**

**Yasui:** I began to live in New York when I was a sixth-grader in primary school because my father, a trading house employee, was relocated there. I studied industrial engineering at Stanford

University on the West Coast, living away from my parents. After graduation, I worked at McKinsey & Co. and then studied at Harvard Business School. I joined AZCA and later worked for two other firms. Three years ago, I was given an offer from Ishii to work for AZCA from a base in Tokyo. The founder launched his own business after studying mathematical engineering at the University of Tokyo and working at a Japanese company and McKinsey. Two other partners also changed jobs several times. This is not uncommon at all in Silicon Valley.

**What is your aspiration for the future?**

**Yasui:** I strongly hope that people at major Japanese corporations will understand Silicon Valley's venture spirit much more. I feel so because of my experience as a business consultant. I am proud of the results I have produced so far as a consultant, an "angel" and a business executive. I hope to offer more success models, particularly to young Japanese entrepreneurs. Through these activities, I also hope to continue to serve as a bridge between Silicon Valley and the Japanese corporate community and encourage open innovation. **JS**

*Takamasu Kanji is an editor and biographer. He is also a senior adviser to the foreign news editor of the New York Times.*