

Katsunori Tanaka, Mitsubishi Real Estate Company

Incubating International Entrepreneurs in Marunouchi, Central Tokyo

Interviewer: Naoyuki HARAOKA

According to one of the greatest economists of the last century, Joseph Schumpeter, innovation is the locomotive to drive an economy. In the long run, neither fiscal expenditure nor loose monetary policy will be competent to maintain economic growth, but innovation will be. Innovation is to be provoked by entrepreneurship, in other words, the human desire for an adventure or a risk-taking life. At the center of Tokyo near the Imperial Palace, we have a sacred district of Japanese capitalism called Marunouchi where Japanese financial capitalism was established in the late 19th century. A large real estate company called Mitsubishi Estate, a part of the Mitsubishi group, one of the largest business corporate groups in Japan, is a major proprietor of this area.

Most Japanese are prejudiced about big companies like Mitsubishi Estate and tend to believe that big companies are all conservative and hostile to entrepreneurs attempting to start anything radical. In the following interview, Mr. Katsunori Tanaka, Deputy General Manager Office for Business Innovation, Area Brand Management Department, told us very eloquently that this is simply misunderstanding, in the light of his experience in managing an incubation office for both domestic and international entrepreneurs called Entrepreneur Group for Growing Japan (EGG Japan), which was started by Mitsubishi Estate in the Shin-Marunouchi Building near Tokyo Station.

What has made your company start a project to raise entrepreneurship here in the Marunouchi area by providing entrepreneurs with such an office space?

Tanaka: Around the year 2000, Mitsubishi Estate launched a blueprint for revitalizing the Marunouchi district, the most urbanized place in Tokyo. We were then convinced of the need to change the business culture there as well as to reconstruct the buildings in creating a new city. One of these attempts to change the business culture is an attempt to create an active and adventurous atmosphere in the business district as well as improve amenities by introducing many elegant boutiques in the area. It was a moment when the Japanese economy was facing long-term stagnancy and we were asked to create a venue for a new industry and new business in our reconstruction plan for the Marunouchi district. We thought the introduction of a wide range of venture businesses to this sacred "home town" of the long history of Japanese capitalism would certainly be effective in revitalizing the business district. However, on the other hand, we were concerned about its possible irrelevance to this conservative district. After asking our established clients, namely, Japanese smoke-stack industries' business representatives, for their views, we were surprised to find that many of those large companies



Katsunori Tanaka

were looking for business partners among entrepreneurs and also among a wide variety of sectors. We also found in our research that the entrepreneurs were searching for business partners among the large companies, since large companies were leading the Japanese economy anyway.

We were then convinced that our role was to be a mediator between ventures and large companies and created a community to support entrepreneurs with business experts such as lawyers, accountants and venture capitalists. We then started providing them with office space in this business community. Many entrepreneurs were attracted by our service and finally in 2002, we created an open space for meetings between those entrepreneurs and their

supporting experts and business partners of large enterprises. That is what we called Tokyo 21st Century Club and then we eventually integrated this meeting space with a business incubation space and the Entrepreneur Group for Growing Japan (EGG Japan) was finally born. Five entrepreneur companies among our clients have been successful in Initial Public Offerings (IPO).

Silicon Valley is providing us with an excellent model for supporting entrepreneurship. Lawyers and business consultants, and in particular, venture

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capitalists are all available there. In Japan, can entrepreneurs enjoy the same quality of support?

Tanaka: In Japan, we do not have enough venture capital. For example, the money invested by venture capital in Japan amounts to less than a billion dollars a year whereas the US venture capital invests more than ten billion dollars a year. Human resources for venture capitalists in the US are also better developed than in Japan. However even in the US, in the 1980s their venture capital projects were not yet mature. Therefore, in Japan, there will be more venture capitalists and experts supporting them in the near future, since we are getting into an era where innovation and entrepreneurship will be a key to survival in the increasingly serious international competition in Japan as well.

Japanese entrepreneurs coming to Silicon Valley, being unable to partner with the large companies in Japan, go to the US to look for a business partner there. Japanese large companies' corporate culture is often not so friendly to small ventures. Mitsubishi Estate, however, though it is a large company representing Japanese corporate culture, has a very flexible mind to support entrepreneurs. Could you please explain your corporate culture?

Tanaka: When Mitsubishi started to create a new business district in Marunouchi in 1890, the company was a venture. The executives in our company then visited London, where the industrial revolution was started at the earliest time in the world, and realized that a well-planned business district would be necessary as the industrial revolution took place in Japan as well. So they decided to develop the Marunouchi area into a district for Japanese capitalists. This spirit of entrepreneurship has been passed on from the old generation to ours in Mitsubishi Estate.

In recent years when competition has become so severe that the large companies are also desperately looking for a certain competitive edge, are they increasingly interested in new technologies to be provided by small ventures?

Tanaka: Yes, I think so. Large companies are looking for new and provocative ideas today. It is also to be noted that they are increasingly interested in partnering with an overseas company. Our community, EGG Japan, is successful in attracting foreign entrepreneurs' interest today, since foreign start-up companies are looking for such a community where business consultation on Japanese business and economy is available, even though Japanese start-up firms' IPOs are sagging. In particular, provision of crucial business information such as on regulations in Japan and its market seems to be highly appreciated by foreign start-ups. I believe such business support for foreign companies will lead to creating a global business community here in Japan.

From which sector do most of your clients come?

Tanaka: Among our Japanese clients, clean technology, ICT and mobile technology are the major areas, since clean technology needs large money and mobile products is a growing market in Japan.

Under the current circumstances when we are worrying about the hollowing out of Japanese industries attempting to move overseas in response to the possible rise in energy costs brought about by unstable nuclear power stations after the natural disaster on March 11, 2011, will it become more and more important to provide facilities like yours in order to attract foreign business to Japan and to fill the vacuum created by Japanese firms moving out of Japan?

Tanaka: Certainly. Speed is a key to business success. Foreign business start-up companies cannot afford to spend much time searching for necessary information in many places and meeting with many experts to get their advice. The one-stop business consultation service provided by us will be vital for them to continue their business in Japan. Our service was originally intended for domestic entrepreneur companies but was in fact considered very useful for foreign start-up companies as well.

Foreign businesses in particular consider a speedy decision-making process vital for their business plans, while Japanese tend to respect a thorough business decision-making process that encompasses consultation with executives or presidents, which tends to delay the decision-making. If foreign business partners find this Japanese business decision-making process too time-consuming, today they will leave Japan promptly and go to China instead.

Many foreigners working in Japan would highly appreciate an open space like yours where they can communicate in English. However, internal rules that are considered the minimum necessity by Japanese could be felt by foreigners as an impediment to the freedom of business. Does EGG Japan also experience this kind of communication gap between Japanese and foreigners?

Tanaka: Yes. There are certainly perception gaps between Japanese and foreigners inside EGG Japan. However, we are continuously trying to fill those gaps and have evolved through the process.

Are there many success stories of your business support in promoting alliances between Japanese and overseas corporations?

Tanaka: One of our client companies participated in a contest for ventures in Silicon Valley organized by Plug and Play Tech Center, which has a similar function to us and has raised many successful ventures, one of which is the famous Google. Many ventures from around 50 countries participated in this event. The judges of the

contest are world-famous venture capitalists such as Sequoia and Kleiner Perkins. Our client underwent a very severe competition in presenting their business and survived to be one of the finalists in the whole contest. They were able to acquire capital of ten million dollars with an interest rate of less than 1% in the US, though in the end they made a contract with a Japanese financial organization.

The Indus Entrepreneurs (TIE), one of the largest entrepreneurs' support organizations in Silicon Valley, which is organized by Indian-American entrepreneurs, is a politically very powerful organization and interested in expanding its international network. It is highly appreciated by both Indians and Japanese that EGG Japan has also been supporting the TIE Tokyo branch office, one of your clients, represented by Mr. Sanjeev Sinha, president of the India-Japan Club and our Japan SPOTLIGHT editorial advisor. This is truly an invaluable contribution by you. What do you think about the future direction of this business?

Tanaka: We will continue to support this international intercourse. Meanwhile, I hope Japanese venture capitalists or large companies will financially support the activities of the TIE Tokyo Chapter in the future, like large venture capitalists support Global TIE in Silicon Valley. In Japan, large companies are keys to promoting entrepreneurship. Against the background of globalization, it is increasingly important for Japan to attract foreign companies, in particular after the Tohoku Earthquake on March 11. Through promoting business alliances between large Japanese firms and foreign start-ups and vice versa, entrepreneurship in Japan will be stimulated. Large companies in Japan are now changing their values and business behavior in accordance with globalization, and thus international business alliances will be accelerated by their support activities increasing beyond a certain threshold.

The seniority system is one of the characteristics dominating Japanese large companies. Do you think this could hinder the entrepreneurship of young people? In Silicon Valley, it is not unusual for older people, for example, those in their 70s, to start a new business. Do you think in Japan as well, in the aging society, older people's entrepreneurship will become increasingly more common?

Tanaka: I think age is becoming meaningless. We already have many older entrepreneurs. In our club, there are many older members who have retired from trading companies as well as young people and even college students. They are in good health and equipped with good human networks. We always ask them to help the young entrepreneurs with such networking in order that the older people will be highly appreciated by the younger ones rather than being considered a hindrance to entrepreneurship.

Do the older people play the role of mentor?

Tanaka: Yes, there are many who do. Many retired people from large firms support our activities. For example, sales businesses can be promoted by using their networks. They understand very well the concept of our club and are very happy to help young entrepreneurs and talk with them in a frank and informal manner.

We cannot achieve the Silicon Valley entrepreneurial model, since we are not Americans and we have a different historical background and culture from theirs. Instead, we can create a new entrepreneurial model in accordance with Japanese corporate culture. I believe that in the case of Japan it would be extremely beneficial for Japanese ventures to promote understanding of entrepreneurship among large enterprises, older people and in particular the business elites at the top of the hierarchy of major companies, since partnering with them would encourage the success of an entrepreneur and thus innovation in total.

Communication by IT must be extremely important in such an open space as yours inside the community. However, face-to-face communication is as important as IT communication, I believe. Do you share the view that an ingeniously combined communication of IT and face-to-face would lead to the best business performance?

Tanaka: Yes. When we discuss a new issue or a possible solution for unknown problems that we have never encountered before, face-to-face communication is more effective in exchanging views and observations. Specifically, issues like headhunting, investment and M&A are better handled by face-to-face communication. IT communication should be used for more routine discussion or the exchange of information.

The interface function is truly important for stimulating innovation and new ideas, since it can play the role of a catalyst to realize communication among a wide range of sectors or experts, and spontaneous conversation among them would encourage new ideas. Do you intend to play this kind of catalytic role?

Tanaka: Indeed. We would like to strengthen such an interface function through our activities. For example, the environment is such an interdisciplinary issue and would be far more profoundly studied through interface activities among academics, various industrial sectors having the potential to affect the environment, etc. Since the environment is a promising sector in terms of entrepreneurship as well, we are very keen on promoting interface activities in this domain, thus contributing to highlighting an advantage of Japan, a highly advanced nation in environmental science and technology. **JS**

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