

Michael Alfant, president of the American Chamber of Commerce in Japan (ACCJ) and group chairman & CEO of Fusion Systems

Entrepreneur in Japan

– A Voyage to Harmony of the West & the East

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Michael Alfant is a successful entrepreneur in Japan, and concurrently he is president of the American Chamber of Commerce in Japan (ACCJ). Japan has recently begun attracting foreign business more seriously. *Japan SPOTLIGHT* asked him for his views on the Japanese economy and market in the light of his experiences in the country. We also asked for his views on recent US-Japan relations.

Haraoka: When and where and how and why did you first come to Japan?

Alfant: I first came to Japan in the late 1980s. I worked for an American bank (Security Pacific) and they sent me here on a business trip.

Haraoka: What were your impressions of Japan?

Alfant: It was during the bubble era, so I thought Japan was really *sugoi* (“fantastic”). Very exotic and different from the US but also very rich in details and interesting things for me. My first impression of Japan was very different from what I expected because coming from New York I had only seen movies of Japan, so my impressions were more of old Japan, and then when I got to Tokyo it was super modern, very nice, very clean, great transportation system, really friendly people, just a great modern city, so I liked it.

Haraoka: You mentioned that you were impressed by the vitality of Japanese business. Was that the main reason you decided to start a business here?

Alfant: The main reason I started a business here was because my business philosophy works better in Japan than in any other country. One of the first business people I met in Japan was a very respected businessman here, probably 30 years older than I was then. I was 27 or 28 and he was 60. He said to me, “You have to know one thing about Japan: in Japan the customer is God” and I thought “Yes, that is how I feel anywhere, in New York, where I come from, or anywhere else.” So that philosophy made me want to start my own business here in Japan. Customer first, customer focused, customer-centric, everything depends on satisfying the customer. And I like the fact that customers in Japan can be very demanding because it makes me be much better in order to satisfy those customers. It is a positive challenge. You have to climb a higher mountain in Japan than anywhere else but once you get to the



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top then you can do business anywhere.

I think this is a common feeling amongst entrepreneurs and I have spoken with many over the years. In my own case, because my company is B2B (business to business) I am always thinking, “Who are my customer’s customers and how do I help them help their customers?” So it is more looking through them to their customers and thinking, “How can I help my customers give value to their own customers?”

Haraoka: One of the problems with larger companies is that they can lose contact with their customers.

Alfant: One of the problems with organizations as they get larger is they tend to become more focused on themselves.

They tend to become inwardly focused and I think that is a natural progression. As companies get larger and larger they tend to move away from direct selling models into channel selling models or broad-based marketing or advertising. Also, as companies get bigger they are harder to manage so you need more layers of people who are not customer-facing. If you look at any large company, Japanese or American, it does not really matter, the percentage of people who talk to customers is very small. But in small companies, the percentage of people who speak with customers is actually quite high. Almost everyone in my company is dealing with customers regularly, so we have to be more focused outside.

Haraoka: Your company makes computer software?

Alfant: We provide technology solutions to business problems, including the development of custom software, systems integration, project management, technology infrastructure, and also our market leading products Raptor™ and SPHER™.

Haraoka: In the 1980s computer software was not so popular in Japan, so how did you get interested in that particular business?

Alfant: I think you have to look at the various segments of the software world. Japan has always been very good at factory automation, for example. So the productivity in the manufacturing sector is very high. And part of that is because Japanese automation techniques in both software and hardware are very good. Historically, if you go back to the 1980s and 1990s Japan was lagging in software for personal productivity. Some of that has changed now. And Japan has, traditionally, had a bit of a problem with business software. And so that's where I saw the opportunity, providing business solutions. Not manufacturing solutions, not retail solutions, but business solutions.

Haraoka: And you found your strategy was right?

Alfant: It's funny, I don't think so. I think part of being an entrepreneur is being emotionally flexible and willing to adapt, so even if you have a good idea to start with, once you go out and talk to customers you realize that your idea might not be even close to what the truth is and so I tend to want to listen to my customers very carefully and I am always asking my customers for feedback. I think generally working in the business software space was right and we are still in that and still doing that, but I learn more from one 30-minute meeting with my customers than I learn from reading 100 books or going to 100 courses or whatever else. Customers tell you what they want if you really listen. You have to be willing to ask and you have to be willing to listen. But if you do that, they tell you.

Haraoka: I just attended a meeting where one of the questions addressed was about communication, particularly between Japanese and foreigners, so how do you deal with that?

Alfant: You know, I don't really have to do that. On this island there are 127 million people who speak Japanese fluently. The single most commoditized skill in Japan is Japanese language capability. It's much harder for me to find good programmers, good project managers, and good salespeople than it is for me to find good Japanese speakers. So to me language is not a barrier, and the same is true for Japanese IT firms with English speakers. There are one and a half or two billion English speakers on the planet. Language is the last thing I am looking for. I have people in my company who don't speak Japanese. I have people who don't speak English. I have people who don't speak Japanese or English but they're very good technologists and they're very customer-centric and so language is not a major issue for us in this company. We don't consider it an impediment.

Doing Business in Japan & Asia

Haraoka: Some of my contacts at Japanese companies have remarked that in some ways it is easier to do business in South Korea or China, despite political tensions or past history, because in a way they share a culture, as compared to, say, India, even though Indians like Japan very much. But there are cultural differences. Have you ever found that?

Alfant: Well, my company has offices in Singapore, Shanghai, Hong Kong, and Los Angeles, so we have a lot of different cultures to deal with. I think it's important to deal with this in that we show the face that the client wants to see. So the face that the client wants to see in Japan is different from the face that the client wants to see in Singapore. But we need to know our clients well enough to deal with them at their pace and in their culture. So we're not one size fits all. We try to be sensitive and adaptive but we also try to create a corporate culture that is very sensitive and adaptive so we can deal with people in any culture, in any language and under any set of circumstances. And we do that by welcoming different people into the company. We have employees from all over the world, from 25 different countries in this company. It's our responsibility to be responsive to the client.

Haraoka: One thing about Japan is that we have a lot of good R&D facilities, a lot of good research at universities. Do you agree with that?

Alfant: I agree and I disagree. The issue here is great universities with very smart researchers but the problem is a lot of the technology gets stuck in the universities and it doesn't come out into the mainstream market, so I think one of the challenges we face in Japan is technology transfer from the universities into business. US universities do this very well. Stanford, MIT, Harvard, they do a great job. In Japan we don't do such a great job yet. But I do agree that there is a lot of great technology locked up in those universities.

Example of Silicon Valley

Haraoka: In Silicon Valley Stanford is the center of technology but there are many mediators around there like consultants, lawyers, and venture capitalists and that system can be established here.

Alfant: Well, that system will establish itself under the right conditions. I don't think you can artificially establish that system. I think many countries, not only Japan, look at Silicon Valley and they draw the wrong lessons. The US didn't set out to create Silicon Valley. The right conditions existed for a Silicon Valley to come to life and it did. So what we need to do in Japan is create the right conditions, and the main thing is that there needs to be a market for the products that entrepreneurs are creating. That's the magic of Silicon Valley in a nutshell. And that market goes back to the 1960s and the US Space Program and that is what brought all this energy, vitality and entrepreneurial spirit, and then the consultants followed, and the lawyers and the venture capitalists followed. So all of those people will follow good entrepreneurs, wherever they go. And good entrepreneurs will go wherever there is a market. What we really need to do is create those conditions in Japan.

Situation in Japan

Haraoka: Can you give some specific examples?

Alfant: I can give one from the US, where there is something called the SBA – the Small Business Administration – and it is mandated that 23 percent of government procurement must come from small businesses. In Japan the number is not 23 percent, the number is zero percent. On top of that, in Japan, if I go and try to sell something to the Japanese government, they will say, “Yes, we are very happy to support entrepreneurs. Now, you need to show us your 10 years of financial history for us to buy something from you.” Well, I’m an entrepreneur, I just started my company two years ago. I don’t have 10 years of financial history. Then the answer will be: “That’s okay, come back in eight years and try to sell us something.” So not only do we not have that 23 percent, we actually make it almost impossible for smaller firms to sell to the government. So that’s one big problem.

Another big problem is intellectual property protection. Japan is quite good about IP protection for large companies. The problem is a small company has very few remedies from IP infringement by large companies. So the process here is not transparent and it is not rapid. It’s opaque and it is slow. And for an entrepreneur time is the enemy, time is not an ally. So to have your IP infringed and not have any quick and clear way to fight that makes it a very difficult place for entrepreneurs who are trying to innovate and create things.

The third thing, of course, is that taxes in Japan are high. On a global basis business taxes here are very high, personal taxes here are very high. For talented, ambitious, aggressive entrepreneurs, they can decide to do business in any market. They will look around to see where they want to do business. So that’s something we should address.

Those issues are critical issues for creating an entrepreneurial ecosystem. What I would advise very strongly is don’t worry about venture capitalists, don’t worry about consultants, don’t worry about lawyers. They will follow entrepreneurs. Anywhere the entrepreneurs go, those people will come. So VCs (venture capitalists) follow entrepreneurs, entrepreneurs do not follow VCs. And entrepreneurs will go wherever there is a market.

So if we could encourage the Japanese government and TSE-listed companies to consider buying goods and services from SMBs (small to medium-sized businesses) that would create the opportunity for more entrepreneurs to flourish. That would be my position on this issue.

Next Business Market

Haraoka: Which area do you think holds the most potential for entrepreneurs now?

Alfant: Services, the services sector. It’s very clear. In the Japanese economy right now, GDP is 20 percent manufacturing, and 80 percent services and retail. In the manufacturing sector Japan’s productivity is the highest in the world. In services, Japan’s productivity is roughly 50 percent of the US. So that’s the opportunity for entrepreneurs – productivity tools in the services sector, productivity enhancements in the services sector. It’s a great opportunity for entrepreneurs, and the good thing is those are usually less intensive capital start-ups than manufacturing start-ups. So that’s the opportunity entrepreneurs should be going after: services.

Green Business & Alternative Power

Haraoka: What do you think of the opportunities in so-called “green business” particularly after 3.11 and Fukushima?

Alfant: I’m a big believer in alternative energy. Commercially speaking it doesn’t make sense without some sort of government subsidies or government mandates for alternative energy. Part of that is because the distribution system is already in place for fossil fuels and part of it is because we built an entire world around oil and coal, and nuclear in Japan, the US and a few other places. So while I believe strongly in this I think Silicon Valley is great because it is very adaptive: it can be green, it can be biotech, it can be Internet, it can be social media, it can be telephony. It can be a lot of things because there are a lot of smart people, a lot of energy, a lot of capital. It has the right attributes to do a lot of things. I do think if the government takes the lead, it would be a very positive step. I think solar is very attractive, I think geothermal is attractive, I think wind power is attractive, I think all of these things are attractive, but I think you need to understand that the scale of power that is consumed in a country like the US or Japan is enormous and the scale of power that can be produced today by those means is not enough. So we’re far away from where we need to be. I think we’ll get there, but if we expect small businesses to lead the way that’s probably not realistic because small businesses won’t make money. But if government creates a market, like the US did with the space program. The US didn’t make money on the space program and didn’t achieve anything other than sending stuff up into orbit, so for instance if the Japanese government were to say we’ve set a national goal that, by 2050, 80 percent of our power will come from geothermal, solar, wind power, etc. and we will commission projects in those areas and we will fund projects in those areas and some of that business should go to small-medium enterprises and start-ups, I think that would be a very good thing.

Haraoka: Where does the smart grid fit into this?

Alfant: Smart grid is important, it’s hardware and software. It’s probably beyond the scale of small companies. Smart grid is an enormous challenge technologically and architecturally but I agree, I think the smart grid would go a long way. Right now, there are huge amounts of energy that are misused or wasted, and we can optimize that with a more intelligent grid. So I would be all for that. I think that’s another great project for the government to commission. I think the danger here is you don’t want all that work going to five big companies. There has to be some way to spread that work out, so five big companies – okay, you guys get some of the work; but 5,000 little companies – you guys get some of the work.

Haraoka: As an entrepreneur would you want to participate in that kind of project?

Alfant: I would. I would think it’s attractive. The thing that you would want to make sure of is that it is being run fairly and transparently and that there’s a market for whatever it is that you’re talking about, and you don’t want to be a sub-contractor to a big,

slow, difficult company. You want to be a direct supplier of this stuff. So, yes, under the right conditions I think it would be great.

Japan's Education System

Haraoka: Since you highlighted the role of Japanese industrial policy, I would like to ask you what you think of the Japanese educational system?

Alfant: I think the Japanese educational system has a lot of positives. A lot of positive benefits as you can see by the generally high level of capability, literacy and mathematical ability that the average person has. I think where we're lacking is leadership development in the Japanese school system and decision making. People say to me all the time, "You make all these decisions, how do you get good at making decisions, how are you comfortable with making decisions, how are you confident at making decisions?" And to me it's the same thing as anything else, there's one way to get good at it: practice. But if you look at what happens in the Japanese school system, there are no opportunities for kids to make decisions. They're told what to do all the time, everything is part of a group, nobody is encouraged to be a leader. There are some exceptions but by and large at a certain level what you really need to do is let the kids express their individuality. And some kids are natural leaders and they want to make decisions and they want to lead. And if you allow them they will come out front and that's where the Japanese educational system could help create a new generation of entrepreneurs: leadership skills, leadership training and decision making capability.

Haraoka: One of the key differences in the educational system seems to be the approach to risk.

Alfant: I think that is a fair point. One of the issues in Japan is that risk is considered to be a bad thing. In the US when I was a boy, risk was something you measured and incorporated into your decision process but the existence of risk did not mean you did not move forward. In Japan there is a desire to make a project "zero risk" but life is not about zero risk and especially entrepreneurship is not about zero risk.

An interesting point is that the average age of an entrepreneur in Japan is 40. So the image we have of the 21-year-old working in the garage, building something, that's very romantic and very nice but it's not really true. The real successful entrepreneurs in this country are men and women who have worked for 15 or 20 years. They know how to sell, they know how to present themselves well. They know Japanese business practices. They know the product or sector very well and they know how to deal with risk.

In general, risk in Japanese business is considered "unstable" and we would need to learn that you measure risk and you build it into your decision making. But this is all part of practicing decision making.

Haraoka: How old were you when you started your company?

Alfant: I was 31 years old.

State of Japanese Economy Today (including TPP)

Haraoka: As president of the ACCJ, what do you think of the state of the Japanese economy today?

Alfant: Obviously, we don't have the economic growth that we would like. We need a very clear vision for achieving that growth and that vision has to be focused on growing the Japanese economy at several percent a year.

Haraoka: Turning to the state of US-Japan relations, how do you feel about the current situation?

Alfant: Right now, the relationship is very strong. In my opinion, it's strong economically, in terms of trade volume. It's strong geopolitically, in terms of military alliances and common interests, and I think it's strong culturally in terms of the affinity between the two peoples. It's basically as good as it has been in the 20 years I have been here.

Haraoka: Many high-level Japanese businessmen are now talking about concluding a US-Japan FTA as well as the TPP. What do you think about these?

Alfant: I think the TPP is very important. I think it would be a huge positive step for Japan but I think it's a decision Japan needs to make for itself. I don't think it's appropriate for any outside party to put pressure on Japan. In this situation, it needs to be very carefully considered. There are certain compromises that any country needs to make to be part of the TPP. I think once Japan has determined it wants to be part of the TPP I would support it 100 percent.

Haraoka: Turning to 3.11 and the effects on Japan, do you see it as a major agent of change, in light of past catastrophes?

Alfant: No, I don't see it as a change agent. I think there was an opportunity to do some visionary things from a leadership perspective but I think that opportunity has largely passed. My sense of 3.11 as a whole is that it brought the US and Japan closer together.

Haraoka: One last question. Would you please discuss your future plans for your business?

Alfant: My intent is to keep growing this company. We have a very good product. We do want to continue expanding throughout Asia. So we'll look at other markets. I want high energy in this company. We'll continue hiring people from every place on the planet. I have a great team, and my job is to manage that team. My goal is to keep building my team. **JS**

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