

## **‘ Japanese Innovation System Restructuring with High-tech Start-ups ’**

- Creative destruction of Catch-up Model, in micro, macro and regional level

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Industry restructure of Japan is widely behind to US and EU. ‘The lost decade’ is the phrase words recently often used in Japan. It, however, could become the lost two decades, unless Japan makes a quantum leap.

Many opinions are stated about the reasons for this, such as finance policy and delay of deregulation. The key reason, however, may be in the micro-level area. Each big corporation is not changing to cope with the tide of the current era. The Japanese closed business model, which generated the value in the catch up business model age, no longer creates value in the IT age. It is no longer capable to create innovation.

The current Japanese situation is very similar to the one in US, in mid 1970’s to 1980’s. It reminds me of ‘Managing our way to economic decline’, the 1980 HBR paper of Hayes & Abernathy. They emphasized the lack of corporations’ innovation effort rather than finance and tax policy. It is time for Japan to learn Japan from US of 20 years ago.

In this paper, the utilization of high-tech start-ups entrepreneurship power to solve the big corporations’ innovation dilemma is proposed. In Japan, for the past three decades, almost none of technology oriented start-ups like Sony, Honda and Kyocera have been successfully established. And the reason is clear. In the catch-up business model society, high-tech start-ups are not needed. It was better not having them for the total effectiveness of Japan. Even if some start-ups were born, the society had no necessity, and they were to die.

After 1990, World business paradigm is rapidly changing to information society. There, ‘what to make’ is more important than ‘how to make’, and the entrepreneurship of start-ups are becoming a very important necessity. In Japan, however, the start-ups are not there. This is the key reason for Japanese industrial structure change delay.

To our surprise however, in these two to three years, something new and incredible is happening in Japan. In the so called lost decade, tens of spin-off start-ups are growing fast and succeeding IPO. Some of them are achieving over \$500 million annual sales within ten years of establishment. The emerging information society needed these high-tech start-ups. This is the sign of Professor Peter.F. Drucker’s so called ‘The future which has happened already’ stated in his book “The Ecological Vision” in 1993 . By 2010, the number of these spin-off start-ups will be over 450, and that would be over 10 % of the total number of companies in the stock market. This is enough as a critical mass to restructure.

In this paper, how big corporations, regional clusters and Japanese government should effectively utilize these emerging start-ups to create innovation is stated.