

What Should Corporate Chief Executives Do to Generate Japanese Innovation

Gist of the Report: A Message for Business Executives

The environment surrounding innovation by Japanese businesses is changing significantly. The advancement of the Internet is resulting in changes in how the manufacturing industry does business. Horizontal specialization is progressing in the science revolution and innovation. Universities and public research institutions are promoting institutional reforms and academia-industry cooperation more than ever. It is important for the Japanese innovation system to take advantage of what it has accumulated so far and at the same time build a society conducive to creating and nurturing “innovators” in order to cope with discontinuous socioeconomic reforms. This commission has focused on what roles Japanese large businesses should play to build an innovator-nurturing society in Japan.

Innovation that brings about socioeconomic reforms cannot be achieved by individuals alone. It is often the case that technology seeds are created at universities and research institutions and adopted and commercialized by industry. Innovators exist not only in large businesses but also in research institutions and venture businesses. The question is how the activities of all these players align themselves with one another to achieve innovation. In Japan, there is a high wall between individual entities such as businesses and universities; activities by individuals alone are less likely to give rise to major innovations unless organizations work together. This sharply contrasts with the situation in the United States, where technologies and talent are more mobile through market trading. This commission believes that the networking for such cooperation can only be led by large businesses in Japan, which have been playing a leading role in Japanese innovation. The commission studied what large businesses should be like from this perspective.

To promote reform in the economic and social arenas, executives at large corporations should not rest on their laurels; they should try new things and take risks to lead their business. Large businesses should not stick to the principle of self-sufficiency; they should promote open corporate culture and cooperation with external organizations. Such openness will galvanize innovators in Japan as a whole, including not only in-house innovators but also researchers at universities and venture entrepreneurs. Through our discussions at the commission, we have come to the common understanding that reforms of large businesses are essential and that management, which should take the initiative in such reform, plays a particularly critical role in achieving our goal, that is, “to create a society where innovators are nurtured in Japan.”

This is why we have titled our report “What Should Corporate Chief Executives Do to Generate Japanese Innovation.” It is our message, a set of suggestions, for chief executives at large businesses.

See the attached sheet for a summary of the report.

What Should Corporate Chief Executives Do to Generate Japanese Innovation

Definitions from the Commission

- Innovation is defined as something that creates new products and services by combining new technologies, business models, ideas, and the like, generates economic value (profit for businesses), and thus brings out major socioeconomic change.
- An innovator is defined as someone who can organize and lead a team that generates innovation even in an existing organization or as someone who can create a new combination. Innovators are not limited to entrepreneurs.

Roles of Large Businesses in the Japanese Innovation System

- Large businesses influence the dynamism of the Japanese innovation system.
 - ⇒ In sharp contrast with the United States, where technologies and talent are more mobile through market trading, Japan is characterized by the existence of a high wall between individual entities such as businesses and universities. Major innovations are difficult without cooperation at the organizational level. Networking for such cooperation in Japan can only be led by large businesses.
 - ⇒ Given the lack of a discerning eye and venture capital, large businesses with ample funds play a larger role.

Suggestions

Improve entrepreneurial literacy as needed in the new era

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| Corporate chief executives do lead reforms | ■ Management does not create new value. What is required of corporate chief executives is to lead reforms themselves. |
| Provide a vision for ten years from now | ■ It is important to improve discernment and prescience and provide a vision for what the business should be like or what kind of business model it should be using in five to ten years. |
| Practice intelligence-based management | <ul style="list-style-type: none"> ■ Can't compete with the domestic network of contacts only. ■ Build an international network of contacts and beef up the intelligence unit for more information gathering. ■ Shift from KKD management based on <i>kan</i> (intuition), <i>keiken</i> (experience), and <i>dokyo</i> (courage) to intelligence-based management that makes management decisions based on objective data. |
| Build a network of contacts overseas at the initiative of corporate chief executives | ■ Corporate chief executives themselves should venture into the world to build a network of contacts and create business opportunities, instead of just reviewing <i>ringisho</i> , a draft plan circulated to obtain permission. |
| Management that is highly sensitive to technology | ■ Foresee what impact IT innovations, including big data, will have on the economy and society. |

Build entrepreneurial leadership and an organization that achieves it

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| Organizational design that can take risks | ■ Corporate chief executives' commitment to taking risks and leading reforms will remove the evils of a rigid organization. |
| Turn external experts to your advantage | ■ Make the organization more aware of external opinions by, for example, inviting external experts to management meetings. |
| Management that gives rise to challengers | <ul style="list-style-type: none"> ■ Differentiate the performance evaluation criteria for defensive units and those for offensive units so that challengers will not be put at a disadvantage. ■ Distinguish the role of the COO, in charge of existing operations, from that of the CEO, in charge of corporate strategies, including new business investment. |

Encourage an open and global-minded corporate culture

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| Promote systematic academia-industry cooperation | ■ Proactively promote major academia-industry cooperation through partnerships between universities and businesses rather than minor academia-industry cooperation through partnerships with individual researchers. |
| Make the corporate culture open | <ul style="list-style-type: none"> ■ Build an open system whereby ideas are taken up from the bottom up and translated into action. ■ Eradicate the poor practice in which innovative or daring ideas are discouraged by the precedent-following culture before being put to review by management. |
| Carve out time for creation | ■ Try to poster an innovation culture by, for example, providing mandatory time to do the planning or designing for a new project. |
| Welcome "something different" | ■ Refuse to be complacent about being in a closed but cozy community. Hire more foreigners and women, and promote more of them to managerial positions. |

Recognize the role of large businesses as an HRD hub for society as a whole.

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| Train junior producers | ■ Adopt a management approach whereby a small team takes full charge of a small project, from planning to monetization. Make employees accumulate experience in completing all the innovation processes early, like when they are in junior positions, all the way down to the monetization process. |
| Approve or even encourage spinning-out | ■ Refrain from corraling junior employees within the organization and preventing those capable of completing innovations from spinning out of the organization. |
| Get committed to HRD at universities | ■ Businesses should commit themselves to some of the activities of universities as an HRD entity, breaking down the wall between business and universities as far as HRD is concerned. |