

Acceleration of R&D Results into Business Using Outside Resources of the Companies
(Carve-out Venturing) Study Report
(Summary)

While emerging new industry under global competition is required in Japan, private enterprises in various industries are trying to strengthen the capability of their R&D via Selection and Intensiveness. Under the recent expanding technological situation it seems their own internal resources are not adequate to maintain their continuous business development. The cultivation of external resources may become inevitable, and this may include the integration of finance and knowledge. In the domain of MOT the idea of “Open Innovation” is one of the most influential approaches. It is an approach, which involves cooperation with universities and/or other companies. Since examples of corporate venturing which utilize the body of a venture, independent external small company or partnership, have been scarce, we undertook the study of this idea from four view-points: large enterprises behavior, private persons who wish to establish the venture, supporting systems to these activities, and public systems which prevent these activities and need to be reviewed.

1. Current Situation in Japan

Though recently among large scale enterprises the necessity of cooperation with external organizations or open innovation has been noticed, actual steps toward realization of this idea have not been adequate, because of the so-called “illness of big systems” or “innovation dilemma”. Japan Research Industries Association (JRIA) conducted a survey of the entire industry regarding the results of R&D which have not been pursued by the companies. According to the questionnaires, 61.4% of the research was not followed up, 25.5% was to be continued for future recovery underground, 7.3% was made available to other persons, and only 5.7% was licensed as intellectual property for sale. Regarding cooperation with venture companies, only 15% of large companies support external ventures. Only 10% of the large companies that responded have systems to support spin-out or spin-off persons from their companies.

2. Problems preventing such activities

2-1. Scarcity of Research within Large Enterprise Management

Though it seems corporate venturing schemes have such advantages as the possibility of communicating with other culture circles, speedy decision making, utilizing external resources such as financing, tax reduction, improvement of efficiency of personnel and a ripple effect to the remaining company atmosphere, many companies have been reluctant to introduce such systems.

The reasons for low implementation rates seem to be;

- Management has little intention to study these systems because most of them are risk-averse and disadvantages without these are not visible,
- Negative attitude based upon care coming from problems when the execution fails and
- Little experience and few instances in Japan of adopting these systems.

2-2. Individuals who are passive to this approach

Compared to business people in other countries, Japanese are not accustomed to starting businesses independently, because of difference of social infrastructure, educational

influences and lack of “angel investors” and mentors. Actually it is quite risky for individual researchers to start their own businesses without any support system. It seems, therefore, that the independent venturing system with cooperation from large companies is realistic. There can clearly be a win-win relationship between large companies and the ventures which have spun out from them.

2-3. Social Systems

There exist among large companies barriers of personnel and technology. The former is related to the lifelong employment system in Japan and the latter is related to company intellectual property agreement, in order to enhance corporate venturing. There is also a lack of supporting organizations, mentors, umpires and catalysts to combine large companies, individuals who wish to start their own businesses, funding schemes, and other supporting organizations. There is also a difference in the tax system between Japan and other countries, especially the USA. That is, in the USA, a “partnership” taxation system applied to organizations, the activities of which are mainly R&D and on the stage before turnover is generated.

3. Issues to Promote Corporate Venturing

3-1. Revolution within large scale companies

It is desirable for large companies to adopt a new evaluation scheme which values both challenging activities and the more usual, daily activities, since Japanese enterprises are now situated in the front position in the world technologically and are required to try the newest experiments.

The second point is to introduce the MOT closely combined with management of human resources, because management of technology is linked to the management of personnel.

Thirdly it is expected that large companies share the best practices to promote such cooperate venturing systems. Such practices involve capital allocation (how much the parent companies invest), support methods to carved-out ventures, incentives to individuals, planning of design of exits, and so on.

3-2. Revolution of individuals

Persons who start new businesses are required to learn about business management in addition to technical activities. This learning can come from various experiences such as business school, management of a small company, personnel management, overseas marketing and/or dealing experience, etc.

3-3. Revolution of national systems

(i) Taxation

In particular, there should be review of taxation on the investment to venture companies from large companies, R&D expenses in the company, partnerships such as LLP, LLC and R&D Unions, and amortization of investment to the ventures compared to accounting rules.

(ii) Development of funds which have input from both private and public sources

The Organization for Small & Medium Enterprises and Regional Innovation and the Japan Development Bank have been operating carve-out funds with the cooperation of private financing companies. In order to enrich the corporate venturing activities in Japan, more funds should be generated, supported by a mix of private and public sources.

(iii) Supporting activities

It seems necessary to establish organizations which help venturing as mentors or supporters, and such organizations or communicating spaces need to combine enterprises, private

persons and financing organizations, etc. Supporting activities by the government are needed to these frameworks.

(iv) Menu enhancement

Enrichment of a supporting menu to corporate venturing is expected, such as encouraging incubation activities, promoting MBA or MOT programs in the universities/graduates to change the minds of students, modifying public attitude toward procurement (products from ventures should be respected more) and developing formulae to evaluate the individual technology within companies devoted mainly to financial people and other related persons.

(v) Modification of the national policy on R&D

The public sector is expected to review and modify the current rules regarding R&D results propagation. That is, it needs to review licensing rules of national fund oriented R&D property to the private organizations, adopting licensing policy with priority to the ventures and introducing a system of evaluation of the technologies and products which originate from the venture companies in order to promote these technologies and products.