



A Strategic Overview of the Silicon Valley Ecosystem: Towards Effectively “Harnessing” the Ecosystem

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9. Key Experiences and Observations by Japanese Firms: Challenges and Opportunities – Initial Early Insights

The following section is an initial distillation of observations by Japanese firms, large and small, that have all attempted to make use of the Silicon Valley ecosystem. Many of these issues are not specific to a single company, but are common to many. Most of the issues stem from challenges in managing Silicon Valley operations, which is in a context that operates vastly differently from the global headquarters in Japan.

9.1. Support from Headquarters and Local Autonomy

A key issue facing almost all large companies operating in Silicon Valley is the degree of local autonomy given to the Silicon Valley office. What is the mandate? How closely is it integrated into the company’s headquarters? How much financial autonomy does it have? These are some of the questions that must be asked seriously.

The first point of difficulty that many large Japanese firms have faced initially was in the “*information gathering*” activities. Initial outposts often used to have a small number of employees (1-3) based in Silicon Valley to gather information about the latest emerging technology trends. Here, they usually discovered two challenges.

First, there was no strong incentive for promising new startups to talk to them. Large firms tended to not make it obvious what the merit was to the startups in question. The most promising startups were naturally more interested in collaborating or being bought by Silicon Valley firms or other firms with a strong track record of working well with companies or buying them. The Japanese large firms did not fit into this category, so the most promising startups were the ones least interested in talking to them.

Second, if the information the Silicon Valley employee sent to headquarters were too cutting-edge—so far so that the strategy and management departments did not get a good sense of what the potential was—the Silicon Valley reports were not acted upon. Some Silicon Valley

employees even reported that in conversations among themselves, some would find that sending slightly older information that was already common knowledge was received better by the Japanese headquarters because it seemed more familiar to them; despite having information about earlier developments of trends that would later become important, headquarters wouldn't respond to information that they were not already somewhat familiar with—therefore rendering the entire exercise of Silicon Valley information gathering not very valuable.

One theme that this alludes to is a challenge that faces multinational corporations in many circumstances: they need to sell the importance of Silicon Valley to the company's headquarters, while also appealing the importance of the company to Silicon Valley. Employees in Silicon Valley therefore find themselves having to “market” themselves and their activities in both directions—headquarters and Silicon Valley. Since the function of the Silicon Valley office is usually not simply a sales operation, it holds a special position within the company, and its performance cannot be measured as directly as other offices whose function is to generate sales to the local markets.

This is actually the same for government initiatives. Silicon Valley is the recipient of attention from governments around the world, many of which like to roll out programs and hold events. Countries as divergent as Finland, Denmark, Sweden, Israel, Poland, Mexico, and all manner of Asian countries have various policies to encourage entrepreneurs from their respective countries to come to Silicon Valley for short trips and training sessions, and they tend to have a variety of incentives to bring companies to their own countries while building bridges for their companies to come to Silicon Valley. Silicon Valley is therefore full of events held by various governments around the world that are all aiming at the same thing—getting access to insiders in Silicon Valley ecosystem. The problem, of course, just like firms, is that each country's government must clearly present the merit to Silicon Valley actors to attend such events beyond the fact that they are holding it. Every program tends to want participants from their own country to cultivate meaningful ties with Silicon Valley ecosystem players, but they must appeal to those Silicon Valley actors. At the same time, Silicon Valley branch offices must appeal to their home government the importance of their activities in Silicon Valley. Very often, such office promise the home government that various access can be facilitated, therefore attracting attention at home, but there is insufficient capacity to do the work to attract the interest of relevant actors in Silicon Valley. Programs held in Silicon Valley therefore suffer the danger of being “home-country facing” rather than appealing to Silicon Valley.

Internal company ties when sending people to Silicon Valley are important. Historically, many Japanese companies have sent R&D people to Silicon Valley to find new technology seeds—but the R&D people did not have sufficiently strong ties to the strategic development divisions. Therefore, even if the R&D employees find interesting technologies, and even move to license the technologies or even propose to buy a company, if the strategic development efforts of the company are not engaged, these efforts are not reflected in the company's actions or strategies.

9.2. Employment

One of the strengths of Silicon Valley is the abundance of high quality talent, but it is often a significant challenge for Japanese companies to access and make use of that talent. A mismatch between the Japanese large corporate model of strong personnel departments who control human resources in a centralized manner over long time periods is the almost the opposite of Silicon Valley personnel practices, particularly in small firms.

Pay scale differences between Silicon Valley talent and Japanese headquarters' payscale is an obvious problem. For example, a large Japanese IT firm had an algorithm that had potentially valuable commercial applications, and decided to set up a Silicon Valley office to try to commercialize it. The problem was that in order to hire someone at Silicon Valley wages, initially the personnel department in Tokyo was unable offer anything other than the standard firm pay-scale for new employees.

For firms who are able to offer competitive wages, the next problem is selecting employees, since large Japanese firms do not have experience evaluating top talent. As several firms trying to recruit talent in Silicon Valley noted—if the Japanese firm is not well known, then many of the candidates will not be top quality talent. There is a market for firms and individual consultants that provide recruiting services, but in the end, the actual business team often needs to spend a great deal of time evaluating talent.

Then, once a team is put together, a potential challenge is managing cross-border teams in which pay disparities are extreme. For Japanese who are sent to Silicon Valley, the stability of employment and subsidies for housing and living expenses can make differences in compensation not a morale problem. However, as globalization deepens with more teams with very different pay levels, this is poised to be a challenge moving forward. An interesting anecdote from a Google engineer is that in the normal course of work, it is often impossible to distinguish who is a newcomer, and who has been at Google a long time—as well as pay scales. It is not unusual for certain team members to be paid far more than the project leader, but the company culture makes this issue relatively unimportant.