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The AI Startup Ecosystem in Japan: An Interview-Based Study

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Introduction

- AI ecosystem development has become a critical measure of national technological competitiveness.
- **Japan offers a compelling case study** by the interaction between startups and large companies, and its distinct cultural approach to innovation.
- This study investigates how **Japanese cultural values, institutional frameworks, and market dynamics** shape AI adoption and innovation patterns

Methodology

Mixed-methods approach:

- The study employs an **interview-based approach**, collecting **primary data** through semi-structured interviews with **five Japanese AI startups**.
- We then combined this with **systematic coding** and **thematic analysis**, supported by secondary data from industry reports and academic literature.

Six-Dimensional AI Ecosystem Analytical Framework

Six-dimensional analysis of AI startup ecosystem:

- 1. Access to Funding
- 2. Entrepreneurial Spirit
- 3. Talent Acquisition
- 4. Government Support
- 5. Infrastructure Resources
- 6. Collaboration with Large Companies

Outline of 5 Interviewed Companies & Data Collection

Company	Established	Capital	Employees	Revenue	Business Focus
J-A	2021	100M ¥	~150	1.5B ¥	AI-powered BX platform, chatbots, e-commerce solutions
J-B	2012	100M ¥	9 (+11 contractors)	200M ¥	Baby tech, AI cry analysis, parenting apps
J-C	2017	17.85B¥ (Funding Amount)	650	N/A	Legal tech, AI contract review, legal process automation
J-D	2020	182M ¥	~60	N/A	Sustainability solutions with AI, consulting
J-E	2005	378M ¥	200	2.3B ¥	AI/DX solutions, enterprise services (TSE listed)

Interview Questions

TABLE 3 *
Interview Questions

Dimension	Interview Questions
1. Access to Funding	- How would you compare the ease of obtaining funding from banks, venture capitalists, angel investors, or other financial institutions for your AI startup? - Were there any unique funding opportunities or challenges you faced as an AI startup in [Japan/UK]? - How does the funding landscape for AI startups in [Japan/UK] compared to what you know about other countries?
2. Entrepreneurial Spirit	- How would you describe the general perception of entrepreneurship in [Japan/UK], particularly in the AI sector? - How tolerant is the business environment in [Japan/UK] towards risk-taking and potential failure? - How supportive were your family, friends, and professional network when you decided to start an AI company?
3. Talent Acquisition	- What has been your experience in attracting and retaining talented management team members and engineers? - How easy or challenging is it to find individuals with the specific AI skills and expertise your company needs? - Have you faced any unique challenges or advantages in talent acquisition as an AI startup in [Japan/UK]?
4. Government Support	- What types of government support, if any, have you received for your AI startup in [Japan/UK]? - How would you evaluate the effectiveness and accessibility of government programs for supporting AI startups? - Are there any specific regulations or policies in [Japan/UK] that have significantly impacted your AI startup, either positively or negatively?
5. Infrastructure Resource	- How would you assess the availability and quality of necessary infrastructure resources (e.g., high-performance computing, data centers) for AI startups in [Japan/UK]? - Have you utilized any AI-specific coworking spaces, incubators, or accelerators in [Japan/UK]? If so, how impactful were they? - How has the digital infrastructure (e.g., 5G networks, cloud services) in [Japan/UK] supported or hindered your AI startup's development?
6. Collaboration with Large Companies	- Were large companies likely to engage in transactions (purchasing) with startups? - Were large companies likely to form alliances with startups? - Did large companies invest in startups? (How much CVC investment was there?)

Interview Data Analysis and Results

1. Access to Funding

- Early-stage AI startups benefit from accessible **bank loan** from public-private programs.
- A well-established environment for **equity financing**
- VCs tend to require **established services or products**
- **Japanese investors cannot meet the demand for large amounts,**
so later-stage AI startups must rely on U.S. investors.

Interview Data Analysis and Results

2. Entrepreneurial Spirit

- Traditionally, Japanese society has a risk-averse and conservative social culture
- With low tolerance for failure
- However, this is gradually shifting with the younger generations, as top graduates and professionals establish more startups.

Interview Data Analysis and Results

3. Talent Acquisition

- Difficulty in recruiting talent, particularly engineers
- If companies have a top talent , it tends to attract others
- Hiring **foreign staff** actively
- **Nurturing AI engineers internally**

Interview Data Analysis and Results

4. Government Support

- Most successful startups grow independently without relying on government support and operate within market mechanisms
- International market access support through JETRO

Interview Data Analysis and Results

5. Infrastructure Resources

- Heavy reliance on major U.S. IT companies
- The cloud services of U.S. IT companies are the global standard
- Japanese startups can't choose an alternative.
- This dependency risk is a fundamental dilemma.

Interview Data Analysis and Results

6. Collaboration with Large Companies

- Japanese large companies want to make active relationships with startups.
- Transactions and corporate alliances between Japanese large companies and startups are becoming more common
- Investments from Japanese large companies namely CVC investment are also active.

Findings and Discussion-1-

Value Creation

- Value creation has pragmatic focus with emphasis on practical business applications and incremental innovation over revolutionary technological breakthroughs.
- The limited focus on deep-tech research and core AI technology development could impede Japan's competitive position.
- The constraints of Japan's domestic market size impact the scalability of innovations, making crucial international expansion.

Findings and Discussion-2-

Value Capture

- Japanese AI startups excel through **swift commercialization**.
- Japan's **conservative investment culture tends to favor startups showing immediate revenue potential**.
- There is an **increasing trend towards equity financing**, primarily through venture capital.

Findings and Discussion-3-

Value Capture (Continued)

- Japanese investment scales remain modest, which may impede the rapid scaling needed for global competitiveness.
- The conservative funding environment limits the ability to expand aggressively into the international markets.

Findings and Discussion-4-

Value Distribution

- Japan's AI startup ecosystem exhibits distinctive characteristics, marked by **an approach to both talent management and geographical concentration**.
- The ecosystem reveals two primary talent development paths. The first is **international recruitment**, and the second is **internal talent development**.

Findings and Discussion-5-

Governance

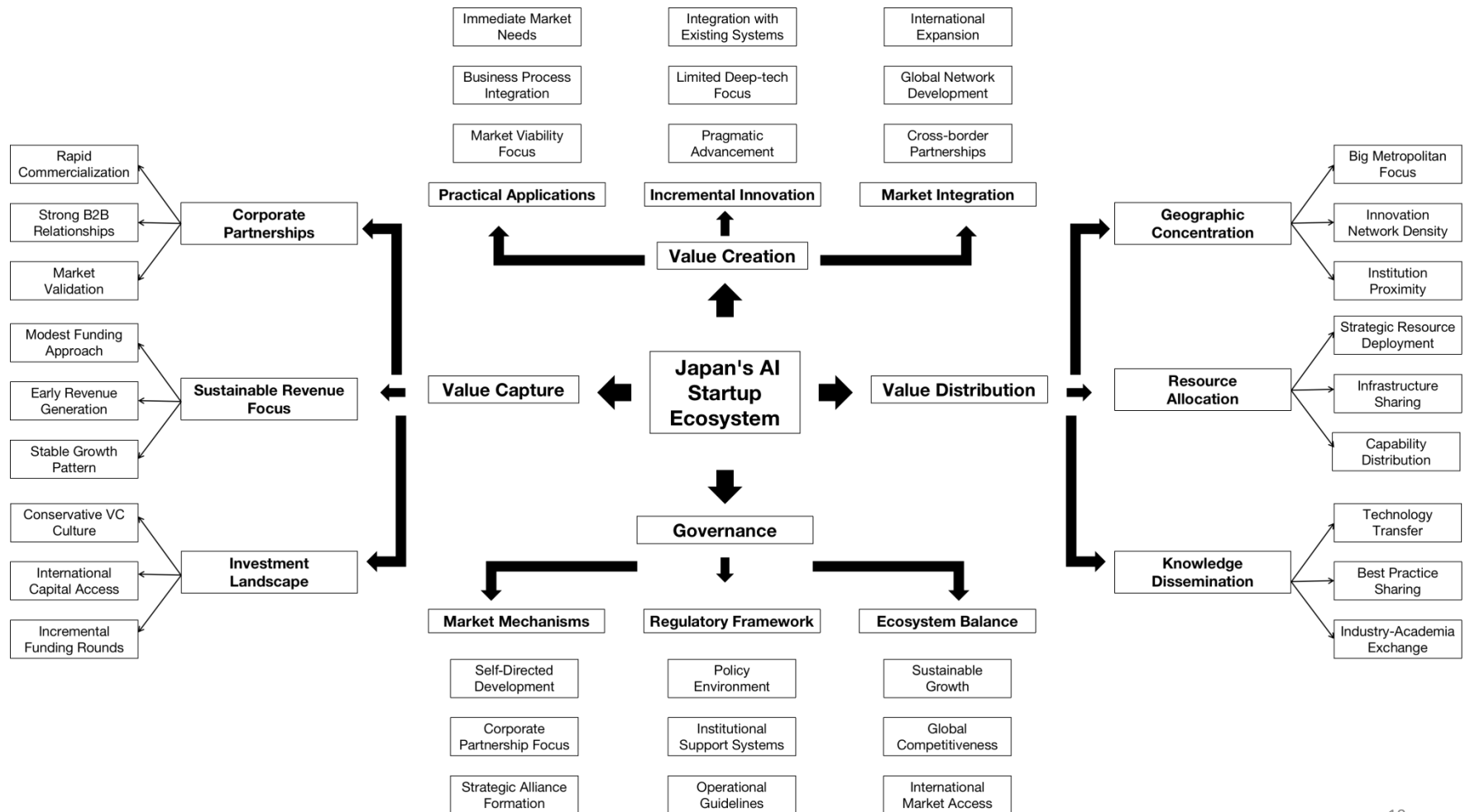
- The governance reflects a complex interaction between market forces, corporate engagement, and institutional frameworks.
- It is largely market-driven, with minimal direct government intervention.
- They show strong tendencies toward self-sufficiency, actively pursuing market-based partnerships.

Findings and Discussion-6-

Governance (Continued)

- Japan's AI startups leverage **deep corporate relationships** to accelerate market entry and aggressive growth.
- Clearer and more **explicit regulatory guidance is needed** on the usage of AI.

Value and Governance Framework in Japan's AI Startup Ecosystem



The Six Paradoxes from our Analysis

- This study reveals **six paradoxes** at the heart of Japan's AI startup ecosystem. These paradoxes challenge long-held stereotypes about Japan's innovation landscape.
- We found the following six paradoxes as a result of our research.

Paradox① Access to Funding

【Before this survey: stereotype】

Japan is known for relying on
indirect financing (bank loans)



【After this survey: the fact】

Presently many successful startups
are adequately fund raising by equity financing

Paradox② Entrepreneurial Spirit

【Before this survey: stereotype】

Japan is often seen as **lacking entrepreneurial spirit.**



【After this survey: the fact】

Recently, more and more talented individuals have been **starting their own startups.**

Paradox③ Talent Acquisition

【Before this survey: stereotype】

Japan's labor market is seen as rigid.



【After this survey: the fact】

Job mobility is rising,
so startups tend to attract talented persons.

Paradox④ Government Support

【Before this survey: stereotype】

The Japanese government has been known
for heavily supporting SMEs.



【After this survey: the fact】

Startups are now growing **autonomously**
in the market without government
support.

Paradox⑤ Infrastructure Resources

【Before this survey: stereotype】

We believe that Japan is one of the global tech leaders.



【After this survey: the fact】

The Japanese startups rely heavily on
cloud services of major U.S. IT companies

Paradox⑥ Collaboration with Large Companies

【Before this survey: stereotype】

Japanese large companies have been perceived
as **conservative and risk-averse, reluctant to
engage with startups.**



【After this survey: the fact】

**They are increasingly seeking relationships with
startups (e.g. transaction, corporate alliance,
CVC investment)**

Conclusions

- **Comprehensive analysis of Japan's AI startup ecosystem:** beyond the dominant US-China axis.
- **Corporate-centric model:** Japan's startups achieve rapid commercialization via strong enterprise partnerships.
- **Startups and large companies** collaborate to drive tech transfer and market access.
- Emphasis **on practicality and solutions** reflects **commitment to commercial viability**

Future Work

- **Clear limitations** should be acknowledged.
- Current sample size of five companies presents potential **selection bias**.
- **A larger sample size** —ideally twenty or more companies
- Including **more diverse startup profiles**; particularly **university-affiliated startups**
- **Systematic sampling methods** could reduce selection bias.