Omiai: Japanese Initial Private Offering

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Abstract: Japan has since ancient times had a custom called \textit{omiai} (loosely translated as “matchmaking” when searching for a marriage partner). The examples of the matching of large firms and start-ups at the Innovation Leaders Summit in Japan discussed in this paper can truly be called “omiai.” Unlike Western-style matching, in this summit, participating firms and managers alike have little experience with alliances, and matchmakers have no strong commitment, as noted by Holzmann, Sailer, and Katzy (2014). Instead, just as with omiai, matchmakers exchange profiles of large firms and start-ups new to alliances and simply create a place for them to meet and make matches.

Keywords: open innovation, start-ups, matching event

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Introduction

In recent years, open innovation (Chesbrough, 2003, 2006) efforts have been accelerating in Japan. In addition, there are progressively new types of partnerships triggered by this movement to co-opt various types of external knowledge (Kuwashima, 2018). However, technology marketization is imperfect (Arora, Fosfura, & Gambaradella, 2001). In open innovation, technologies and technology owners must be sought out. In outbound innovation, providing the technology and knowledge of one’s company as a resource is expected to develop technologies/products and solve problems. Therefore, it will create innovation. In inbound innovation, innovation is achieved by incorporating external technology and knowledge internally and tying them to existing technology and knowledge. Searches can be carried out employing various types of methods, such as a “complementary technology search” limited to a specific technology and an owner; a “needs and seeds open search” by a partner limited to a technology; an “agent-based search” by a proxy agent limited to a technology; and a search using a forum for seeking out technologies from members (Hoshino, 2015). There are many variations of this last type of search, including keiretsu, supply chains, and other existing business relationships; exhibiting in trade shows; participating in consortiums; participating in the management of a science park; and managing corporate venture capital.

However, only Holzmann, Sailer, and Katzy (2014), in their case study of Germany, provide actual examples of searches, while Bogers et al. (2017), in their review of open innovation research, for the most part, did not discuss search methods. Therefore, this paper provides the case of large firms acquiring partner start-ups at matching events, a type of forum-based search for open innovation in Japan.
Matching Event: Innovation Leaders Summit

This paper provides the example of the Innovation Leaders Summit (ILS), a matching event that is sponsored by the ILS Executive Committee (SEOU Kai, DREAM GATE, and PROJECT NIPPON Co., Ltd.) and held annually for large firms and start-ups.

The 6th ILS held in 2017 had 6,732 attendees, of whom 103 were from large firms (142 departments) and 481 were from start-ups. A total of 2,272 “power matching” discussions were held. In addition to power matching, 80 companies made venture pitches, 187 companies gave ventures shows, and there were 35 key presentations and two networking parties.

The power matching noted above is a place for large firms and start-ups to view specific information on the Internet in advance, place requests for matching, and decide whether to make a match or not, after which the companies can talk for 15 minutes during the actual matching event. The number of matching requests that can be entertained by large firms differs, depending on the type of participation chosen by the large firm, even though start-ups have no such restrictions.

Start-ups are able to participate in power matching on an invitation-only basis and are limited to companies that have been recommended by an “advisory board” comprising 100 venture capitalists from Japan and overseas.

The details posted on the matching site that are viewable by both sides differ somewhat by company, both for large firms and start-ups. The sites of large firms list what they want out of start-ups and what they would like to achieve through collaboration, while the sites of start-ups include company information such as their technologies, competitive advantage, profit model, and other elements of their business strategy, sales, and funding situation.

When matching, the ILS Executive Committee does not make any
matches on the basis of what firms want out of a partner. After start-ups and large firms search and analyze information, they place requests for one another, and if the other party recognizes the request, a match is made at the booth of the large firm on the day of the ILS event.

**A Case of Matching: Companies A and B**

The following is the case of large firm Company A and venture firm Company B, which actually formed an alliance at the matching event. Company A is a manufacturer of semiconductor process equipment and precision measurement equipment. Their reason for participating in the matching event was the sense of risk that they felt. At the time of participation, both of their businesses were doing well although they were subject to the fortunes of their customers,
automakers, and machine tool manufacturers. In the past, the financial crisis known as the Lehman Shock caused many order cancellations and drove the company’s sales into the red.

Further, their market was not expanding, and prices were falling. As their products became commoditized, Company A created a third, new business as part of their long-term management strategy and began to explore businesses. However, attempts by their internal R&D division and business units to realize a new business idea faltered. Then, they decided to participate in ILS after being introduced by an acquaintance there so that they might be able to conduct a search from a new angle.

Company A had not had many dealings with start-ups because of the nature of their business. Therefore, they chose to participate in the ILS matching event on the basis of two lines of thinking: (1) the notion to supplement the roadmap of their own designs and (2) the need to find whether something was being developed in a manner that was somewhat different from that of their own existing businesses, which they could then sell. They also wanted to know whether they could design and develop such a product if the latter option was not practicable. The business themes for matching that company had been disclosed to start-ups on their matching site and were all at the research stage within the company, and thus, from the perspective of (1), they hoped to get a request from a start-up.

The start-ups requested by Company A were selected as follows: Company A began by having all members of the department responsible for the internal new business quickly review start-ups noted on the matching list. Then, the internal development group offered to explore the actions of several start-ups that had good technologies capable of competing with their own. Thus, the company decided to first meet with these firms. Apart from those companies, members of the new business department each surveyed all the public patents of those companies in advance, discussed the
results of their surveys, and narrowed down the list of companies to be met with. For each of the companies they chose to meet, Company A listed on a single sheet the things they wanted to discuss: the purpose for meeting, the title of their request, collaboration details, alliance method, partner merits, internal merits, main technology and patents of the other party, and questions to be asked.

The ILS event was held over three days; on the first and the last days, there were meetings, and on the second day, Company A listened to venture pitches. In discussions, two people from the company’s New Business Promotion Office participated, with other team members rotating in and out for each meeting. In the 15-minute matching sessions, they asked their prepared questions. In the case of AI, these questions might be: How is your performance? Can you make something with faster throughput? Are you able to form an operational alliance? Having clarified the strengths and weaknesses of the companies with which they actually met, they could determine whether they would form a business in ten years. Company A then gave their proposals to the start-ups.

Company A made the decision to accept all requests from start-ups and did not have enough time in the section allotted for power matching. Thus, using an ILS app that day, they invited companies to a reception held outside of the power matching time. In the end, Company A met and had discussions with approximately 60 start-ups.

After the ILS event, Company A officials visited several companies that participated in the matching event, for further meetings about an actual alliance, and in the first part of the following year, Company A made a decision to invest in venture Company B. Company A had an employee who had attempted to create a start-up in the same field as Company B. Because of that, they encountered Company B at the ILS matching event just as they were searching for a company that had already developed a product in the
same field. However, consulting firms and others had negatively evaluated Company B’s technology in technology references and elsewhere. However, as Company A officials determined that Company B’s patents could not be easily imitated by other firms, the company’s board of directors approved the alliance, making it a reality.

**Discussion**

Holzmann, et al. (2014) suggested that the activities of the intermediaries need a high level of commitment on the demand and supply sides. In order to avoid problems caused by information asymmetry between the two sides in such matching events, it is necessary to conduct in-depth interviews, to create a portfolio and research a market, to understand the needs and seeds so as to find an appropriate partner, to select and rank of candidates, and to negotiate and form an alliance in close involvement.

However, in the example of matching between Company A and Company B, an advisory board merely created a list of venture companies participating in the event, and the role of intermediates was limited, with no commitment to discussion between large firms and start-ups. Of course, the intermediaries had developed a website to disclose information to participants only at the time of a matching request, but they did not control anything in particular up until that disclosure. Despite this, matchings actually occurred, and alliances were formed. Why was an alliance formed at the matching event in this case?

First, there was a list of companies with quality that was to a certain extent ensured. In actuality, despite being a large firm, Company A had almost no dealings with start-ups or small- and medium-sized enterprises and had no place in which to meet them. What firms such as Company A need is not technical and
market knowledge, which have traditionally required a major commitment to intermediaries, but rather a place to meet. Actually, Company A evaluated unique patents and the market on their own prior to forming an alliance. For the participating start-ups as well, the large firms are a group that wants to form an alliance with the start-ups that were sought out by the ILS organization. This list of large firms is a precious resource for the start-ups that normally find it difficult to meet the relevant parties in large firms even when they approach them through regular sales routes.

Second, many large firms in Japan tend not to like making commitments to intermediaries. In the case of large firms with no experience in alliances with start-ups in particular, many companies want to reject the idea of disclosing their technology to other companies or being researched by other companies. In this regard, the ILS Executive Committee, as an intermediary, has almost no dealings with the participating companies and does not really interfere during matching events. They have nothing at all to do with the subsequent alliance process. While there is some distance between this type of intermediary and participating companies, this relationship is likely to be necessary for the participation of large firms.

Conclusion

ILS matching events are places for those new to alliances to meet, and one of their major characteristics is the fact that intermediaries have only a limited role in setting up a place for companies to meet. This characteristic has been a factor in their success and is similar to the role of matchmakers for marriage partners in Japanese omiai. Omiai is not for those who have a great deal of experience in love and romance but rather for those who are amateurs with regard to love and romance. Omiai is for a man and a woman who are both
looking for worthy marriage partners, who meet through a matchmaking intermediary, whose role is only to provide a place for a couple, and who have already selected one or more people from photographs and profiles—to meet. After bringing two people together, a matchmaker normally leaves the two to themselves, making omiai similar in many ways to the matching event discussed in this paper.

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