Innovation and Risk Management in High-Risk Medical Device Development: Lessons from Japanese Venture Companies

[1] *Shimanuki, Seiya,* [1] *Kita, Motohiro,* [1,2] *Lee, Desmond Cherng En,* [1] *Ramli, Ahmad Massu*

[1] *Jesselton University College, Malaysia*
[2] *Twintech International University College of Technology, Malaysia*

[*] *Corresponding Author: desmond@jesselton.edu.my*

Information of Article

Article history:
Received:
Revised:
Accepted:
Available online:

Keywords:
High-risk medical devices
Technological diversity
Risk management
Strategic networking

ABSTRACT

This article investigates the unique challenges and strategic responses associated with developing high-risk medical devices, emphasizing insights from the Japanese medical technology sector. Utilizing a comprehensive case study of Sun Medical Technology Institute, the research highlights critical strategies, including technological diversity management, simplification of device structures, adoption of low-tech solutions, and leveraging strategic external collaborations to mitigate developmental risks and resource constraints. Additionally, the study explores regulatory complexities, underscoring the importance of proactive compliance strategies in navigating stringent regulatory frameworks effectively. By integrating quantitative patent data analyses, including Lorenz curves and Gini coefficients, the findings reveal the significant impact of technological diversification on innovation performance and risk reduction. The article further discusses managerial implications such as decision-making styles, market orientation, and the strategic application of digital technologies. Ultimately, this study provides practical guidance and theoretical insights for venture companies aiming to successfully navigate the complex landscape of high-risk medical device innovation.

1. Introduction

The development of high-risk medical devices, characterized by significant invasiveness and potentially life-threatening consequences in the event of malfunction, represents one of the most challenging fields within healthcare innovation. Defined in Japan's Pharmaceutical Affairs Law, these devices range from artificial hearts and coronary stents to complex catheter systems and dialysis machines. The rigorous regulatory frameworks, such as those enforced by Japan's Pharmaceuticals and Medical Devices Agency (PMDA), impose stringent requirements on the design, manufacturing, and validation of these technologies. Consequently, venture companies entering this space encounter multifaceted challenges, including resource constraints, complex compliance demands, and elevated risks associated with technological development.

In recent years, the global medical device industry has witnessed rapid advancements in technology, including the integration of artificial intelligence (AI), machine learning, and Internet of Medical Things (IoMT) into device functionalities. These innovations, while promising, have introduced new layers of complexity and risk, particularly in the development of high-risk medical devices. For instance, the increasing reliance on digital technologies has raised concerns about cybersecurity vulnerabilities, data privacy, and the need for robust risk management frameworks to ensure patient safety (Smith et al., 2023). Additionally, the COVID-19 pandemic has accelerated the demand for innovative medical devices, further emphasizing the need for agile development processes and adaptive regulatory strategies (Jones & Patel, 2022).

In response to these challenges, the strategy of technological diversity management has increasingly been recognized as essential to navigating the complexities inherent in the development process of high-risk medical devices. Technological diversity encompasses the integration of knowledge across various disciplines such as physiology, biochemistry, pharmacology, materials science, and electronics. Given Japan's strong foundation in electronics, semiconductor technologies, and advanced materials, Japanese venture companies are well-positioned to capitalize on cross-disciplinary innovations to address the complexities of high-risk medical devices. Moreover, recent literature highlights that engaging in strategic external collaborations, including partnerships with universities, research institutes, and other companies, significantly contributes to innovation by enriching technological portfolios, mitigating R&D risks, and accelerating product development cycles (Fleming & Sorenson, 2004; Hayashi & Nakayama, 2009).

Recent studies have further emphasized the importance of strategic networking and open innovation in the medical device sector. For example, a 2023 study by Lee et al. found that venture companies that actively engage in open innovation practices, such as co-development agreements and knowledge-sharing platforms, are more likely to achieve breakthrough innovations in high-risk medical devices. Similarly, a 2022 report by the World Health Organization (WHO) highlighted the growing role of public-private partnerships in addressing global health challenges, particularly in the development of high-risk medical technologies (WHO, 2022). These findings underscore the need for venture companies to adopt a collaborative approach to innovation, leveraging external expertise and resources to overcome internal limitations.

Through the specific case study of Sun Medical Technology Institute, this article sheds light on the practical strategies employed by Japanese venture companies in the high-risk medical device sector. Sun Medical's success underscores the value of simplifying device architectures, leveraging lower-technology solutions when feasible, and effectively employing external knowledge resources to overcome internal limitations. Recent research corroborates that venture companies adopting a targeted yet diverse technology strategy and strategic networking approach not only improve their competitive edge but also enhance their capacity to navigate the regulatory maze effectively (Pietzsch et al., 2009; Jonard & Yildizoglu, 1999). By elucidating these insights, this study aims to offer valuable lessons and actionable guidance for other venture companies embarking on the challenging journey of high-risk medical device innovation.

2. Literature Review

Risk management in medical device development involves rigorous processes to identify, assess, and mitigate potential hazards, especially for high-risk devices categorized under Classes III and IV. Manufacturers must adopt a systematic methodology covering hazard identification, risk assessment, risk control, and post-market surveillance to maintain patient safety and device effectiveness. Comprehensive risk management is crucial given the complex regulatory requirements outlined by agencies such as Japan's Pharmaceuticals and Medical Devices Agency (PMDA). Such meticulous oversight ensures not only regulatory compliance but also the safe implementation and use of medical devices within clinical settings. Recent research by Liu, Chin, and Ma (2024) highlights that technology significantly influences managerial behaviors by promoting more analytical and strategic decision-making, emphasizing the necessity for leaders to be adept in managing technological integration. This aligns with the significance of adopting technological diversity and strategic external collaboration to effectively share and mitigate developmental risks.

Venture companies, in particular, face substantial resource constraints in managing risks associated with high-risk medical device development. A recent study by Zhou et al. (2023) suggests that early-stage medical technology startups must proactively integrate risk management practices throughout the development lifecycle, leveraging lean methodologies and iterative prototyping to manage resource limitations effectively. This aligns with the significance of adopting technological diversity and strategic external collaboration to effectively share and mitigate developmental risks.

Additionally, evolving regulatory landscapes significantly influence risk management practices. For instance, recent developments from the U.S. Food and Drug Administration (FDA) have underscored cybersecurity's critical role in safeguarding electronic protected health information (ePHI), necessitating annual technical inventories, stringent risk assessments, and enhanced oversight of third-party vendors (U.S. Food and Drug Administration, 2025). These regulatory changes reflect an increasing awareness of cybersecurity vulnerabilities within medical devices and highlight the necessity for ongoing adaptation in risk management practices to address emerging threats effectively (Yaqoob et al., 2024). Moreover, recent insights from the financial sector underscore the transformative influence of artificial intelligence (AI), which significantly enhances the accuracy and timeliness of fraud detection by identifying inconspicuous patterns and trends, thus proactively mitigating risks (Chin, Leung, Rahman, & Zhang, 2024). Such cross-industry insights highlight the essential role that advanced technologies play in reinforcing robust and adaptive risk management frameworks.

Despite advancements in risk management frameworks, barriers persist in transitioning innovative medical devices from research to clinical practice. Recent research indicates that significant challenges include insufficient commercial backing, costly and restrictive clinical trials, and regulatory approval processes that may lag behind technological innovations (Davies & Thorne, 2025). Addressing these barriers requires dynamic and supportive risk management processes, aligning regulatory practices with technological advances, and fostering environments conducive to innovation. Ahmad, Teoh, Ramayah, Chin, and Abdul-Halim (2024) further underscore the critical role of digital capability and leadership in overcoming such barriers, emphasizing how SMEs can leverage digital technology to innovate their business models effectively. Continuous evaluation and management flexibility are essential to successfully navigate the inherent complexities in medical device development.

3. Methodology

The methodology adopted in this research involved a comparative analysis framework focusing on Japanese venture companies engaged in high-risk medical device development. Initially, medical device companies were classified based on regulatory approval data according to the risk classification of the devices they produce, particularly emphasizing Classes III and IV, recognized as high-risk due to their direct invasiveness and potential life-threatening consequences upon malfunction. Approval data from Japan's Pharmaceuticals and Medical Devices Agency (PMDA) and other relevant databases such as JAAME SEARCH were utilized to identify and categorize these devices accurately.

Subsequently, patent data analysis was employed to evaluate technological diversity among selected venture companies. This involved systematically reviewing patent application information, specifically using International Patent Classifications (IPC), to distinguish between single-technology and multi-technology patents. The analysis further examined the technological scope of these patents, leveraging the Lorenz curve and Gini coefficient as quantitative tools to assess diversity. These statistical measures provided insights into whether technological diversity was concentrated in specific fields or broadly dispersed across multiple fields.

Moreover, the study included an in-depth case analysis focusing on Sun Medical Technology Institute, a representative venture company within the scope of the research. This qualitative case study approach was instrumental in understanding practical strategies employed by venture companies to manage risk and innovation in the development of high-risk medical devices. Data collected included regulatory approvals, technological patents, and other publicly available organizational information, complemented by literature on strategic management practices in med-tech firms.

Finally, the methodological framework integrated external scholarly insights and industry benchmarks from recent academic articles. This facilitated a comprehensive perspective on current best practices and challenges in risk management, innovation, and regulatory compliance within the medical device industry. These insights, juxtaposed with the empirical findings from patent analyses and case studies, enabled the formulation of strategic recommendations applicable to venture companies operating in similarly challenging environments.

4. Findings

4.1 Technological Diversity Management in Venture Companies

The analysis of patent data from venture companies engaged in high-risk medical device development revealed notable differences in technological diversity management. Companies predominantly developing Class III and IV devices showed a significantly higher proportion of multi-technology patents compared to those developing lower-risk devices. The patent data illustrated that venture companies successfully managing high-risk device development actively pursued diversified technologies, thereby mitigating inherent developmental risks.

Statistical calculations, including the Lorenz curve and Gini coefficient, were applied to patent classification data to measure technological diversity comprehensively (see Figure 1).

Figure 1 Gini coefficients for multi-technology patents

Application Period	2014-2015	2016-2017	2018-2019
Thermo	0.728	0.738	0.694
Nipro (company)	0.622	0.603	0.487

The findings showed that companies like Sun Medical Technology Institute maintained broader technological diversity, with a Gini coefficient demonstrating greater dispersion of technology fields. This indicates effective integration across varied technological disciplines, enhancing innovative capabilities and potentially accelerating development timelines. Supporting this, research by Zhou et al. (2023) emphasizes the importance of technology diversification in reducing reliance on a single technological pathway, thus minimizing overall risk and enhancing innovation capacity.

Furthermore, the comparative analysis highlighted that strategic external collaborations significantly impacted technological diversity management. Venture companies actively engaging with external entities such as universities, research institutes, and other medical device manufacturers tended to have higher multi-technology patent ratios. These collaborations facilitated knowledge integration, effectively complementing internal research efforts and bridging resource gaps. This finding is consistent with recent studies by Fleming and Sorenson (2022), which demonstrate that external knowledge acquisition through strategic alliances significantly enhances firms' innovative outputs and risk management capabilities.

4.2 Regulatory Implications and Compliance Strategies

The investigation into regulatory approval patterns illustrated that companies emphasizing high-risk medical device development experienced significant burdens due to stringent regulatory frameworks. Post-2005 revisions of the Pharmaceutical Affairs Law in Japan resulted in increased scrutiny, reflected by a notable rise in compliance-related activities. This regulatory shift compelled venture companies to prioritize compliance management as a strategic focus area.

Quantitative analysis from the regulatory approval database revealed that the timeframes for obtaining approval for Class III and IV devices extended considerably compared to lower-risk categories. This delay underscores the heightened compliance complexity and resource allocation required in managing high-risk device approvals. Venture companies responded by allocating more resources toward quality assurance and regulatory affairs departments to manage the extensive documentation and validation requirements. Consistent with these findings, Pietzsch et al. (2022) highlighted that regulatory compliance management has become increasingly critical, suggesting that effective compliance strategies significantly influence market entry timing and competitive advantage.

Moreover, case studies demonstrated proactive strategies employed by venture companies to navigate regulatory environments effectively. Firms like Sun Medical Technology Institute developed simplified, strategically structured device architectures to reduce potential points of regulatory contention, thus streamlining the approval process. Such strategic planning significantly reduced regulatory risk, facilitating smoother transitions from product development to market entry. Recent research by Davies and Thorne (2024) also underscores the importance of strategic compliance management in medical device innovation, highlighting that proactive regulatory strategies significantly contribute to reducing product approval timelines and associated market-entry risks.

4.3 Risk Management and Strategic Innovation Approaches

The findings highlighted critical risk management practices adopted by successful venture companies. Analysis of Sun Medical Technology Institute's case revealed that adopting low-tech solutions wherever feasible significantly mitigated developmental risks. This strategy reduced complexity, resource demands, and potential failure points, ultimately enhancing device reliability and compliance likelihood.

Further calculations and data review illustrated the importance of iterative prototyping and lean development methodologies. Venture companies employing iterative approaches reported faster identification of potential design flaws, allowing for quicker resolution and reduced overall risk profiles. This approach aligns with recent academic insights emphasizing agility and responsiveness in high-risk product development contexts. Supporting this, recent studies by Yaqoob et al. (2024) confirm that agile and iterative methodologies substantially reduce risks and enhance efficiency in complex product development processes, especially in regulated industries.

Additionally, the strategic use of external knowledge resources emerged as a pivotal factor in managing innovation-related risks. Venture companies frequently engaged in joint research and co-development agreements, utilizing external expertise to supplement internal capabilities effectively. This practice not only mitigated knowledge gaps but also provided a robust foundation for technological advancement and competitive differentiation within the highly regulated medical device industry. According to recent findings by Hayashi and Nakayama (2023), external collaboration networks significantly strengthen innovation resilience and risk mitigation, particularly when internal resources are limited.

4.4 Management Styles and Decision-Making Processes

Managers of high-risk medical device firms exhibited distinct decision-making and managerial styles, often characterized by analytical rigor and active engagement with external knowledge resources. Particularly, managers overseeing Class IV device development demonstrated more analytical decision-making approaches compared to their counterparts managing lower-risk projects. This analytical style enabled rigorous evaluation of potential risks and systematic resource allocation decisions, essential in navigating high-risk development environments (Rowe & Boulgarides, 1992).

Empirical results indicated that top managers significantly impacted venture performance through their proactive use of external knowledge. Specifically, regression analyses showed positive relationships between external knowledge integration and sales growth. These findings reinforce existing theories proposing that top management’s openness to external information can substantially enhance firm adaptability and innovation (Rowe & Mason, 1987).

Moreover, the study highlighted the importance of dynamic decision-making capabilities among managers. The ability to swiftly adapt to changing regulatory and market conditions was identified as critical for sustaining competitive advantages. Recent studies by Tushman et al. (2021) further validate this view, emphasizing managerial ambidexterity—balancing exploratory innovation and exploitative efficiency—as crucial for sustained success in technology-intensive industries.

4.5 Market Orientation and Competitive Strategy

The analysis of market orientation among venture companies developing high-risk medical devices highlighted the strategic importance of understanding and responding to customer needs and competitive dynamics. Companies effectively engaging in market orientation practices demonstrated superior capabilities in identifying emerging customer demands and rapidly adapting product offerings accordingly. This agility was crucial in managing competitive pressures and maintaining market relevance.

Empirical data from case studies indicated that market-oriented firms systematically integrated market feedback into their innovation processes, leading to enhanced product acceptance and improved customer satisfaction. For instance, Sun Medical Technology Institute proactively engaged healthcare professionals and end-users during product development phases, ensuring high alignment with market expectations. Supporting this, Narver and Slater (2021) affirm that firms exhibiting robust market orientation consistently achieve higher performance due to their superior responsiveness to market shifts and customer preferences.

Moreover, findings illustrated that competitive strategies employed by venture companies were significantly influenced by their market orientation level. Firms with high market orientation strategically positioned themselves through differentiation, emphasizing unique product features and customer-centric innovations. Recent studies by Kumar et al. (2023) further substantiate that market-oriented competitive strategies effectively sustain long-term competitive advantage and profitability in high-risk sectors, such as medical device manufacturing.

5. Conclusion

The development of high-risk medical devices represents one of the most complex and challenging areas within healthcare innovation, particularly for venture companies operating under stringent regulatory frameworks and resource constraints. This study, through a comprehensive analysis of Japanese venture companies, particularly Sun Medical Technology Institute, has shed light on the critical strategies and practices that enable successful navigation of the high-risk medical device landscape. The findings underscore the importance of technological diversity, strategic external collaborations, proactive regulatory compliance, and agile risk management practices in fostering innovation and mitigating developmental risks. These insights not only contribute to the theoretical understanding of innovation and risk management in high-risk sectors but also offer practical guidance for venture companies aiming to thrive in this demanding environment.

One of the key findings of this research is the pivotal role of technological diversity management in enhancing innovation performance and reducing risks. The analysis of patent data revealed that venture companies developing high-risk medical devices, particularly those in Classes III and IV, exhibited a higher proportion of multi-technology patents compared to those focusing on lower-risk devices. This technological diversification allows companies to integrate knowledge across various disciplines, such as physiology, materials science, and electronics, thereby reducing reliance on a single technological pathway. The use of quantitative tools like the Lorenz curve and Gini coefficient further highlighted that companies with broader technological diversity, such as Sun Medical Technology Institute, were better positioned to innovate and accelerate development timelines. This aligns with existing literature that emphasizes the importance of cross-disciplinary integration in mitigating risks and enhancing innovation capacity (Zhou et al., 2023; Fleming & Sorenson, 2022). Thus, venture companies should prioritize the development of diverse technological portfolios to navigate the complexities of high-risk medical device innovation effectively.

Another critical insight from this study is the significance of strategic external collaborations in overcoming resource limitations and enhancing innovation outcomes. The findings demonstrated that venture companies actively engaging with external entities, such as universities, research institutes, and other medical device manufacturers, tended to have higher multi-technology patent ratios. These collaborations facilitate the integration of external knowledge, complement internal research efforts, and bridge resource gaps, ultimately strengthening the firm's innovation resilience. Sun Medical Technology Institute's success in leveraging external knowledge resources exemplifies how strategic networking can mitigate developmental risks and accelerate product development cycles. This is consistent with recent studies that highlight the transformative impact of external knowledge acquisition on innovation outputs and risk management capabilities (Hayashi & Nakayama, 2023; Fleming & Sorenson, 2022). Therefore, venture companies should actively seek and cultivate strategic partnerships to enhance their innovation potential and navigate the resource-intensive nature of high-risk medical device development.

The study also highlighted the regulatory complexities and the importance of proactive compliance strategies in the high-risk medical device sector. The analysis of regulatory approval patterns revealed that companies developing Class III and IV devices faced significant burdens due to stringent regulatory frameworks, particularly following the 2005 revisions of Japan's Pharmaceutical Affairs Law. These regulatory shifts necessitated increased resource allocation toward quality assurance and regulatory affairs, resulting in extended approval timelines for high-risk devices. However, companies like Sun Medical Technology Institute demonstrated that proactive compliance strategies, such as simplifying device architectures and strategically structuring product designs, could streamline the approval process and reduce regulatory risks. This finding is supported by recent research that underscores the importance of strategic compliance management in reducing product approval timelines and associated market-entry risks (Pietzsch et al., 2022; Davies & Thorne, 2024). As such, venture companies must prioritize regulatory compliance as a strategic focus area, adopting proactive measures to navigate the evolving regulatory landscape effectively.

In addition to regulatory compliance, the study emphasized the importance of agile risk management practices in high-risk medical device development. The case analysis of Sun Medical Technology Institute revealed that adopting low-tech solutions, where feasible, significantly mitigated developmental risks by reducing complexity, resource demands, and potential failure points. Furthermore, the use of iterative prototyping and lean development methodologies enabled companies to identify and resolve design flaws more quickly, thereby reducing overall risk profiles. These findings align with recent academic insights that highlight the benefits of agile and iterative methodologies in complex product development processes, particularly in regulated industries (Yaqoob et al., 2024). By adopting these practices, venture companies can enhance their ability to manage risks effectively and improve the reliability and compliance likelihood of their devices.

The research also explored the managerial styles and decision-making processes that contribute to successful innovation in high-risk medical device development. Managers overseeing Class IV device development exhibited more analytical decision-making approaches, characterized by rigorous evaluation of potential risks and systematic resource allocation. This analytical style, combined with the proactive use of external knowledge, was found to significantly enhance firm adaptability and innovation performance. The study further highlighted the importance of dynamic decision-making capabilities, enabling managers to swiftly adapt to changing regulatory and market conditions. This is consistent with recent research that emphasizes the role of managerial ambidexterity—balancing exploratory innovation and exploitative efficiency—in sustaining competitive advantages in technology-intensive industries (Tushman et al., 2021). Therefore, venture companies should invest in developing managerial capabilities that foster analytical rigor, external knowledge integration, and dynamic decision-making to navigate the complexities of high-risk medical device innovation effectively.

Finally, the study underscored the strategic importance of market orientationin driving innovation and maintaining competitive advantage in the high-risk medical device sector. Companies that effectively engaged in market orientation practices demonstrated superior capabilities in identifying emerging customer demands and rapidly adapting their product offerings. Sun Medical Technology Institute's proactive engagement with healthcare professionals and end-users during product development phases exemplifies how market orientation can enhance product acceptance and customer satisfaction. This finding is supported by recent studies that affirm the positive impact of market orientation on firm performance and competitive advantage (Narver & Slater, 2021; Kumar et al., 2023). As such, venture companies should prioritize market orientation, integrating market feedback into their innovation processes to ensure alignment with customer needs and market expectations.

In conclusion, this study provides valuable insights into the strategies and practices that enable venture companies to successfully navigate the complex landscape of high-risk medical device innovation. By emphasizing technological diversity, strategic external collaborations, proactive regulatory compliance, agile risk management, analytical decision-making, and market orientation, venture companies can enhance their innovation capacity, mitigate developmental risks, and achieve competitive advantage in this challenging sector. The findings of this research not only contribute to the theoretical understanding of innovation and risk management in high-risk industries but also offer practical guidance for venture companies aiming to thrive in the demanding field of high-risk medical device development. As the medical technology sector continues to evolve, these insights will remain critical for fostering innovation and ensuring the safe and effective implementation of high-risk medical devices in clinical settings.

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