HOW SHOULD JAPAN REFORM

ITS CORPORATE LEGAL STRUCTURE AND PRACTICE

TO MORE EFFECTIVELY NURTURE START-UPS?

A THESIS

SUBMITTED TO THE

STANFORD PROGRAM IN INTERNATIONAL LEGAL STUDIES

AT THE STANFORD LAW SCHOOL

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS

FOR THE DEGREE OF

MASTER OF THE SCIENCE OF LAW

By

Hiromi Furushima

May 2001

Abstract

For the Japanese economy, nurturing start-ups is one of the key solutions to the problem of adjusting to rapid change in technological development. In the U.S., economic and legal structures are decidedly market-oriented and encourage competition. This competition has played an important role in successfully nurturing start-ups. In Japan, although there have been legal reforms to create and nurture start-ups, some barriers to the growth of start-ups still exist. This article analyzes those areas of Japanese law, using the U.S. system as a comparative model.

Furushima's research examines the U.S. model of venture capital financing, which is formed to decrease risk and increase incentive, and the U.S. corporate law which supports this model. Furushima also examines the Japanese model of venture capital financing, and explores possible reform of Japanese corporate law for effective venture capital financing as well as lessons from current U.S. downturn of venture capital industries.

Preface

In writing this thesis, I draw heavily upon the previous academic work of Bernard S. Black and Ronald J. Gilson and my research and course paper for Venture Capital in Spring 2001 for Joseph A. Grundfest and for Capital Markets & Securities Regulation in Spring 2001 for Grundfest. I would like to express my great appreciation to the advice of a substantial number of individuals, including Nobuyuki Hata, Zenichi Shishido, Kazutaka Muraguchi, Tatsuaki Kitachi, Shingo Igarashi, and Hiroshi Shibata. I also with to appreciate the cooperation of Steven E. Bochner, Max Woon, Peter Kuo, Kenji Uchida, Hidenori Mitsui, Masaki Taniguchi, Tatsuhiro Takahara, Tsutomu Araki, Kensuke Shibazaki, and Satoshi Ogishi, the editorial help of Beverley J McChesney, Laura Lin, Daniel Lenerz, Stan Brenner, and Brad Patch. Finally, I would like to express my sincere acknowledgment of the instruction of the faculty of Stanford Law School, David Mills, Thomas C. Heller, and Jonathan Greenberg.

Table of Contents

Figures

Table of Contents