

**THE INSTITUTIONALIZATION
OF EMERGING TECHNOLOGY COMPANIES'
FINANCING IN JAPAN**

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Abstract

This thesis explores what will be the best funding source for emerging technology companies (“ETCs”) with solely or mainly intangible assets (i.e., patent, copyright or other intellectual property rights) in Japan, given that the future of Japanese economy will benefit from the institutionalization of the ETC’s financing mechanisms.

The institutionalization of the U.S. venture capital financing was achieved by market-oriented financing mechanisms. In this process the U.S. IPO market has provided entrepreneurs and financiers with strong incentives, and the decentralized information networks facilitated the adequate matching between entrepreneurs and financiers to pursue technology innovation. The bank financing and the *keiretsu* corporate grouping have played a crucial role in the development of major industries in Japan, and both the market-oriented incentives and decentralized information networks have not been developed in Japan.

To make equity financing more efficient to ETCs, the Japanese government should open IPO market to ETCs. More generous listing criteria in the IPO market, however, expose public investors to stock price fluctuations. The U.S. IPO market is based on risk-tolerable investment policies and on a judicial system protecting effectively public investors. Taking into account the difficulty in ensuring an adequate balance between ETCs’ IPO incentives and investors’ protection, one cannot expect a rapid reform in the IPO market. In parallel with the market reform, the Japanese public sector should find alternative funding mechanisms for ETCs in a relatively short term. For example, debt financing may be more suitable for ETCs under the current low level of stock liquidity. As opposed to the Japanese collateral-oriented loan system, the U.S. venture lenders provide possible debt financing models. Since the Japanese large technology companies have accumulated their technology expertise and have strong incentives to access new technology, alliances with the corporate venture capital can also be an alternative funding source for ETCs in Japan. By synergy with the development of entrepreneurship in ETCs, these alternative funding mechanisms may contribute to the institutionalization of ETC financing in Japan.

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