

Feature Articles

This month's focus: **Startup and Venture Finance**

Venture Finance Market Trends and Current Situation – Looking Back on the Past 20 Years

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Venture investment in Japan has recovered from the past slump and is at a record high level, but major countries have achieved growth exceeding that of Japan. Nevertheless, positive structural changes have progressed in Japan due to generational changes in venture capital, changes in investment styles, the rise of CVC, the development of financial information, and the evolution of investment practices. Future challenges include expanding institutional investor funds, disclosing information on VC funds, diversifying exits, and producing companies that continue to grow after the initial public offering.

Venture Investing for Global and Domestic Institutional Investors, and Venture Capital Performance

Atsunori Yamaura, CMA / Haruto Fujii

The Japanese government saw 2022 as the first year to promote startups. Institutional investors play a key role as the ultimate funding source for large venture companies. This paper examines several models of venture capital ("VC") investment by global institutional investors and the historical performance of VCs, then compares them with those of Japanese investors/VCs to provide our view on issues and outlook for the industry.

Startups Tackling Social Problems and their Financing

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Social problems used to be out of reach of business and were mainly attended to by the government as well as volunteers and NGOs/NPOs. In recent years, however, startups have been entering this field, making use of digital tools to solve various social issues while at the same time trying to be highly profitable. Some have even become unicorns, with valuations of over \$1 billion. One common aspect of the startups that have succeeded in this field is that they have clearly defined both who the target customers are and how to maximize profits. In this respect, startups that tackle social issues are not much different from startups in general. No matter how noble the cause is or how effective the product is in solving social issues, the customer will not purchase it if it does not solve his/her pain points or, even if it does, the price does not match its value. (continue to Next Page)

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Startups in the social issue field in the U.S. are now being funded by various sources. In addition to traditional venture capital funds, social impact funds and philanthropy organizations have increasingly been seen in funding rounds. Meanwhile, alternative investment methods such as revenue-based financing are being applied for startups where VC funding is either not suitable or not available. Startups can choose from diverse options for funding according to their characteristics and growth stages. However, Japan still lacks such variety in startup finance. More funding options are necessary to support startups so they can grow and contribute to solving the many social problems our country faces today.

Article

Labor Cost and Payout Policy: Empirical Evidence from Japanese Listed Companies

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Several policymakers and academic scholars are currently claiming that Japanese firms increase the payout for shareholders while reducing labor costs. Based on such an assumption, they advocate the importance of a "new capitalism." However, as far as I know, no empirical evidence supports such a negative relationship. Therefore, this paper attempts to verify the evidence of a substitution relationship between payout policy and labor cost using the data of Japanese listed firms from 2001 to 2019. Various types of estimations are conducted, but none of them show any such negative relationship. Instead, some show a positive relationship between the payout ratio and labor costs.