Institutional Affiliation and the Role of Venture Capital: Evidence from Initial Public Offerings in Japan

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Yasushi Hamao (corresponding author)
Marshall School of Business
University of Southern California
Los Angeles, CA 90089-1427
Phone/Fax 213-740-0822/310-450-5875
E-Mail: hamao@usc.edu

Frank Packer
Federal Reserve Bank of New York
33 Liberty Street, New York, NY 10045
Phone/Fax 212-720-6320/212-720-1582
E-Mail: frank.packer@ny.frb.org

Jay R. Ritter
Warrington College of Business Administration
University of Florida
Gainesville, FL 32611-7168
Phone/Fax 352-846-2837/352-392-0301
E-Mail: jay.ritter@warrington.ufl.edu
Website: https://site.warrington.ufl.edu/ritter/

Abstract

The presence of venture capital in the ownership structure of U.S. firms going public has been associated with both improved long-term performance and superior "certification" at the time of the IPOs. Many of the major venture capital firms in Japan are subsidiaries of securities firms that may face a conflict of interest when underwriting the venture capital-backed issue. In Japan, we find the long-run performance of venture capital-backed IPOs to be no better than that of other IPOs, with the exception of firms backed by foreign owned or independent venture capitalists. When venture capital holdings are broken down by their institutional affiliation, we find that firms with venture backing from securities company subsidiaries do not perform significantly worse over a three-year time horizon than other IPOs. On the other hand, we find

that IPOs in which the lead venture capitalist is also the lead underwriter have higher first-day returns than other venture capital-backed IPOs. The latter result suggests that conflicts of interest influence the initial pricing, but not the long-term performance, of initial public offerings in Japan.

Jay R. Ritter
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