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Introduction

Japanese enterprises are facing a move to a knowledge economy and globalization. Since 2005, As policy for achieving durable and continuous growth, The Ministry of Economy, Trade and Industry promoted discussion of how to accurately understand unique strengths which enterprises have cultivated until today (intellectual assets) and effectively combine them to create value (intellectual asset-based management), in its Subcommittee on Management and Intellectual Assets, in the New Growth Policy Committee, Industrial Structure Council. This year, it published its “Guidelines for Disclosure of Intellectual Assets Based Management”.

In response, the Organization for Small & Medium Enterprises and Regional Innovation (below, “Small & Medium Organization”) established the “Small & Medium Enterprise Intellectual Asset-Based Management Study Group” in 2007, and made and distributed the “Intellectual Asset-Based Management Manual for Small & Medium Enterprises” in order to promote initiatives for intellectual asset-based management in small and medium enterprises.

In this way, it prepared the environment for intellectual asset-based management information disclosure in the framework of industrial policy and small & medium enterprise policy, while also promoting initiatives in the framework for government financial administration. For example, in the Financial Services Agency’s “Financial Inspection Manual” (1999) and “Financial Inspection Manual Supplement (Small & Medium Enterprise Finance Edition)” (2002), for small and medium enterprise debtor classification, it looked at considering characteristics and unique forms of finance for small and medium enterprises. Instead of deciding based only on obvious aspects of losses and excess debt, it considered the importance of technical and sales abilities and manager qualities, with decisions based on understanding the actual situation, comprehensively considering intellectual assets information such as growth potential (non-financial information).

Also, the Financial Services Agency’s “Comprehensive Guidelines for Supervision of Small & Medium Enterprises and Local Financial Institutions”, published in 2007, pointed out that an urgent issue for relationship banking is enhancing the intellectual assets evaluation abilities of financial institutions (appraisal ability), utilizing intellectual asset-based management reports as one funding provision technique which is suitable for small and medium enterprises.

In response, based on cooperation of the Ministry of Economy, Trade and Industry, the Small & Medium Organization established the Intellectual Asset-Based Management Finance Working Study Group, and did a survey on the actual status of the perspectives from which financial institutions evaluate non-financial information of small and medium enterprises such as intellectual assets, and make decisions when deciding on financing. This was published as the “Guidelines for Practices of

Intellectual Asset-Based Management for Small and Medium Enterprises” (October, 2008). These guidelines clearly show that financial institutions do not only focus on financial information when making financing decisions, also emphasizing non-financial information. This pointed out the importance of resolving the asymmetry of information with financial institutions, and as an initiative on the part of enterprises, the disclosure of intellectual asset-based management reports which include non-financial information which financial institutions focus on, in order to promote understanding of their own technical abilities and growth potential, and convincingly communicate the enterprise’s own business potential to financial institutions.

This also pointed out the issue that financial institutions which receive such information should work on enhancing their ability to properly evaluate enterprise intellectual assets information such as technical abilities and growth potential, in other words their appraisal ability.

Then the Ministry of Economy, Trade and Industry launched the “Intellectual Asset-Based Management Evaluation & Finance Study Group” (2009), which investigated policies to contribute to enhancing the appraisal abilities of financial institutions, and investigated ways of thinking for financing based on proper business potential evaluation and various support tools to this end. This was brought together in the “Keys to Intellectual Asset-Based Management Evaluation Finance”. It is hoped this will be utilized in financial institutions which further promote finance with strong local roots, as one perspective for understanding the actual situation of small and medium enterprises, and providing finance.

This handbook shows a perspective for understanding the intellectual assets of enterprises, as a means for enhancing appraisal in financial institutions. This is not the only perspective and technique for appraising enterprises, nor does it reject the techniques already developed in each financial institution for understanding the actual situation of enterprises.

Also, the goal of this handbook is not to propose use the proposed check sheet. The goal is for each financial institution to do proper appraisals, in compliance with the laws, regulations and guidelines including the “Financial Inspection Manual” and the “Financial Inspection Manual Supplement (Small & Medium Enterprise Finance Edition)” created by the Financial Services Agency. Please note that this handbook was brought together as one way of thinking to that end.

We hope this handbook will contribute to smoother finance for small and medium enterprises finance

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