Do initial financial conditions determine the fate of start-up firms?*

Yuji Honjo[†] **Masatoshi Kato**[‡]

Abstract

Using a survival analysis approach, this paper investigates the impact of initial financial conditions on the post-entry performance of firms. We examine whether initial financial conditions affect the duration of survival among start-up firms in Japan, distinguishing between failure and merger. We provide evidence that start-up firms that rely more on equity than debt financing are less likely to fail within a shorter period, but we find little evidence that initial equity size has a significant effect on the likelihood of failure. Moreover, we find the negative effect of equity financing on the likelihood of failure to be greater for start-up firms founded following the abolition of regulations governing a minimum paid-in capital requirement. Furthermore, the results reveal that start-up firms with larger initial equity are more likely to exit through merger. Overall, the findings suggest that initial capital structure is a critical determinant of exit route.

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[†]Y. Honjo (corresponding author)
Faculty of Commerce, Chuo University, Hachioji, Tokyo 192-0393, Japan
E-mail: yhonjo@tamacc.chuo-u.ac.jp

[‡]M. Kato
School of Economics, Kwansei Gakuin University, Nishinomiya, Hyogo 662-8501, Japan