

The effect of physical collateral and personal guarantees on business start-ups

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Abstract

This study examines whether financial constraints discourage individuals from starting businesses by using individual-level micro data that identify nascent entrepreneurs and actual entrepreneurs in Japan. As proxies for financial constraints, we use regional variations in the use ratios of physical collateral and personal guarantees. We find that individuals are less likely to become nascent entrepreneurs if they live in regions where the use ratio of personal guarantees is higher. However, we do not find a negative relationship between the use ratio of physical collateral and the likelihood of becoming entrepreneurs. Our findings indicate that the low level of Japan's entrepreneurship is due to the lack of risk-taking by potential entrepreneurs, rather than a lack of collateralizable physical assets.

JEL classifications: G21, L26, M13

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