

How Do Insiders Affect Start-up Financing?

Eriko Naiki[†] and Yuta Ogane[‡]

January 23, 2025

Abstract

This paper examines how support from entrepreneurs' insiders affects financial constraints for entrepreneurs using a survey of 2,644 new firms in Japan. The major findings of this paper are as follows. First, bank referrals from the insiders alleviate entrepreneurs' financial constraints, whereas there is no evidence that providing initial funds from the insiders alleviates the constraints. Second, the effect of the referrals can be more pronounced for financially constrained entrepreneurs. Third, such referrals are effective in alleviating entrepreneurs' financial constraints even if they do not receive initial funds from their insiders.

JEL classification: G21; L26; M13

Keywords: Insiders; Start-up financing; Entrepreneurs; Financial constraints; Banks

[†] Life Risk Research Center, Doshisha University, Karasuma-higashi-iru, Imadegawa-dori, Kamigyo-ku, Kyoto-shi, Kyoto, 602-8580, Japan. E-mail address: enaiki@mail.doshisha.ac.jp

[‡] Corresponding author: Faculty of Economics, Nanzan University, 18 Yamazato-cho, Showa-ku, Nagoya, Aichi, 466-8673, Japan. E-mail address: ogane@nanzan-u.ac.jp