How Do Small Businesses Mitigate the Cost of Financial Distress?

Daisuke TSURUTA, (Nihon University College of Economics)

Abstract :

Financially distressed firms cannot obtain enough credit because the possibility of bankruptcy is high. Therefore, financially distressed firms lose potential profits from profitable investment opportunities, which is an indirect cost of financial distress. However, some small businesses in Japan during the late 1990s were not performing poorly and earned enough profit despite being in financial distress. Using small business data for Japan, we investigate how these small businesses mitigate the indirect cost of financial distress. First, banks and trade partners do not offer sufficient credit for financially distressed small businesses even if they have investment opportunities. Second, financially distressed small businesses convert more bills receivables into cash by selling them to finance companies to finance their growth opportunities. Third, financially distressed firms enjoy higher (not lower) performance (measured as firm sales growth or profitability) compared with nondistressed firms. These findings imply that small businesses have several ways of mitigating the indirect cost of financial distress.

鶴田 大輔　准教授　プロフィール

1999 年青山学院大学経済学部卒業、2001 年東京大学大学院経済学研究科修士課程修了。2003 年政策研究大学院大学助手、2004 年東京大学大学院経済学研究科博士課程単位取得退学、2006 年政策研究大学院大学助教授を経て、2010 年より現職および、政策研究大学院大学客員准教授。