

## Appendix

Table 1 presents the CEM panel logit analysis for H1. Model 1-1 presents control variables only and shows that, as expected, bankruptcy likelihood decreases with both revenue and employees. Model 1-2 adds the reform variable that is significant and positive ( $p < 0.001$ ). Models 1-3 and 1-4 add the further reform variables, including the interaction variable of interest, *post reform X elite alum* (Model 1-4 is without founding year fixed effects.) The positive and significant coefficient on the *post reform* variable ( $p < 0.001$ ) indicates that bankruptcy reform increased the likelihood of bankruptcy after reform. In turn, the positive and significant coefficient on the *post reform X elite alum* variable ( $p < 0.005$ ) confirms that this is especially true among elite-founded firms. In Models 1-5 and 1-6, we regress elite and non-elite population separately to directly compare their likelihood of bankruptcy. T-tests confirm that the coefficient of *post reform* for elite-founded firms (Model 1-5) is significantly greater than that for non-elite firms (Model 1-6) ( $p < 0.001$ ). Overall, these panel logit results add robust support to H1.

We add robustness to these piecewise results with a panel logit analysis (H2) in Appendix Table 2. Model 2-1 presents control variables while Model 2-2 adds the reform variable, *post reform*, which is significant and positive ( $p < 0.001$ ). Models 2-3 and 2-4 add the reform variables, including the interaction variable of interest, *post reform X elite alum* (Model 2-4 is without founding year fixed effects.) The positive and significant coefficient on the *post reform* variable ( $p < 0.001$ ) indicates that bankruptcy reform increased the likelihood of founding after reform. In turn, the positive and significant coefficient on the *post reform X elite alum* variable ( $p < 0.005$ ) confirms that this is especially true among elite-founded firms. In Models 2-5 and 2-6, we regress elite and non-elite populations separately to compare their likelihood of founding. T-tests confirm that the coefficient of *post reform* for elite firms (Model 2-5) is significantly greater than that for non-elites (Model 2-6) ( $p < 0.001$ ). Overall, these panel logit results add robust support to H2.

Table 3 reports our placebo bankruptcy and founding event tests. In this we ran placebo-reform panel logit tests by using 2002, 2001 and 2000 alternatively as main effect reform variables and interacted them with our elite variable. We confirmed that we have insignificant, or even opposite effects for

bankruptcy and founding (H1 and H2) in these “placebo-reform” years, as we expect, to establish the robustness of our reform year. Table 4 reports the result of our placebo tests of alternate reform years on firm growth. Again, we ran placebo-reform panel logit tests by using 2000, 2001 and 2002 alternatively as main effects and interacted them with our elite variable to find significantly smaller or insignificant effects. Finally, in Table 4, Model 7, we report the results of an alternate performance dependent variable, profit, and find results significantly smaller but consistent with our growth dependent variable.

Our data may also be subject to bias because there are multiple foundings in each prefecture during a given year and those foundings, being spatially proximate, may influence each other. One way to account for these unobserved effects and still account for multiple time periods on founding is to use a negative binomial estimator that controls for interdependence among founding events in the same prefecture in a given year (Stuart and Sorensen 2003). To add further robustness to our results in H2, we use a negative binomial model with fixed effects to estimate the likelihood of a founding by an elite individual in a particular prefecture in a given year. We employ fixed effects for both the year that a firm was founded and the prefecture of its founding. We also control for exiting local business counts (*density*) to account for the relative urban and network density of each prefecture because founding rates can differ between metropolitan regions such as Tokyo or less urban region such as Tottori. These results are presented in Table 5. In each model in Table 5, we present the results of two negative binomial regressions; first with the count of elite founding and then we estimate the number of non-elite foundings that are then compared with t-tests. Of interest to us is the effect of post-reform elite and non-elite founding given by the coefficient of the Post-Reform binary variable. Model 5-1 presents a composite of all industries and subsequent models (5-2 through 5-6) present results for single industry samples. In the composite model and each industry, the effect of post reform on the count of foundings is greater for elite founders than non-elites. Notably, the difference is significant at the  $p < 0.001$  level for the most populous industry sector, service (Model 5-3), and in the finance sector that is particularly friendly to college level skills (model 5-5). Taken together, these results are consistent with and add robust support to H2.

**Table 1 Bankruptcy Effects**

Panel Logit Regressions	(1)	(2)	(3)	(4)	(5)	(6)
<i>DV = bankruptcy</i>						
CEM Matching – Industry, Capital, Region	Control Variables	Reform Variable	Reform Interaction	Reform Interaction	Elite Founded Firms	Non-Elite Founded Firms
GDP Growth	-57.637*** (2.203)	-5.085*** (0.733)	-5.662*** (0.866)	-7.801*** (0.871)	-4.763 (4.907)	-15.298*** (0.714)
Comp. Density	0.000*** (0.000)	0.000* (0.000)	0.000* (0.000)	0.000* (0.000)	0.000 (0.000)	0.000* (0.000)
Employees	-0.114*** (0.001)	-0.013*** (0.001)	-0.014*** (0.001)	-0.027* (0.013)	-0.003 (0.003)	-0.016*** (0.001)
Revenue	-0.000** (0.000)	-0.000** (0.000)	-0.000** (0.000)	-0.000* (0.000)	-0.000 (0.000)	-0.000* (0.000)
Firm Age	0.595*** (0.019)	0.382*** (0.006)	0.401*** (0.007)	0.384*** (0.012)	0.721*** (0.062)	0.377*** (0.006)
Colocated	1.362*** (0.038)	1.278*** (0.023)	1.225*** (0.023)	1.268*** (0.023)	0.768*** (0.171)	1.295*** (0.024)
Years_count	0.194*** (0.010)	0.010*** (0.006)	0.091*** (0.013)	0.051*** (0.006)	0.256*** (0.062)	0.046*** (0.007)
Post Reform		1.571*** (0.040)	1.517*** (0.042)	1.502*** (0.043)	3.990** (1.681)	1.574*** (0.041)
Elite Alum			0.345*** (0.133)	0.563*** (0.134)		
Elite Alum X Post Reform			0.281* (0.142)	0.265* (0.142)		
Constant	-7.235*** (0.135)	-6.102*** (0.042)	-6.424*** (0.083)	-5.601*** (0.064)	-10.036*** (1.092)	-6.189*** (0.055)
Observations	467,856	467,856	467,856	467,856	17,860	449,996
Firms	23,684	23,684	23,684	23,684	948	23,684
Chi <sup>2</sup>	3,671***	17,591**	17,629***	7,213.3***	111.46***	16,763**
Founding Year Fixed Effects	Yes	Yes	Yes	No	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Region Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

\*p < 0.05, \*\* p < 0.01, and \*\*\* p < 0.001, Two-sided tests.

Model 4 is w/o founding year fixed effects,

Difference in Post Reform coefficients for Models 5 and 6 are significant p<0.001.

**Table 2 Founding Effects**

Panel Logit Regressions	(1)	(2)	(3)	(4)	(5)	(6)
<i>DV = founding</i>						
CEM Matching – Industry, Capital, Region	Control Variables	Reform Variable	Reform Interaction	Reform Interaction	Elite Founded Firms	Non-Elite Founded Firms
GDP Growth	-0.173*** (0.022)	-0.169*** (0.005)	-0.168*** (0.025)	-0.462*** (0.005)	-0.177 (0.179)	-0.168*** (0.026)
Comp. Density	0.003 (0.005)	0.004 (0.005)	0.004 (0.005)	0.000 (0.000)	0.010 (0.026)	0.005 (0.005)
Colocated	0.008 (0.016)	-0.072*** (0.017)	-0.071*** (0.017)	-0.069*** (0.016)	0.003 (0.088)	-0.074*** (0.018)
Years_count	-0.071*** (0.003)	-0.141*** (0.003)	-0.141*** (0.003)	-0.139*** (0.003)	-0.183*** (0.019)	-0.139*** (0.003)
Post Reform		4.436*** (0.035)	4.415*** (0.036)	4.198*** (0.032)	5.777*** (0.213)	4.394*** (0.036)
Elite Alum			-0.074 (0.039)	-0.073 (0.039)		
Post Reform X Elite Alum			0.648*** (0.189)	0.681*** (0.174)		
Constant	-4.284*** (0.032)	-4.432*** (0.127)	-4.431*** (0.127)	-4.641*** (0.034)	-4.946*** (0.845)	-4.417*** (0.129)
Observations	347,659	347,659	347,659	347,659	14,205	334,279
Firms	24,624	24,624	25,624	25,624	947	23,684
Wald Chi <sup>2</sup>	14,913***	25,419***	25,396***	24,820***	1124***	24,225***
Founding Year Fixed Effects	Yes	Yes	Yes	No	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Region Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

\* p < 0.05, \*\* p < 0.01, and \*\*\* p < 0.001, Two-sided tests.

Model 4 is w/o founding year fixed effects.

Difference in Post Reform coefficient in Models 5 and 6 is significant, p<0.001.

**Table 3. Placebo-Reform Bankruptcy and Founding Effects**

Panel Logit Regressions CEM Matching	(1)	(2)	(3)	(4)	(5)	(6)
DV	<i>bankruptcy</i>	<i>bankruptcy</i>	<i>bankruptcy</i>	<i>founding</i>	<i>founding</i>	<i>founding</i>
Pseudo-Reform year	2002	2001	2000	2002	2001	2000
Post Reform	0.337*** (0.045)	0.286*** (0.037)	0.224*** (0.033)	0.237*** (0.005)	0.389*** (0.005)	0.237*** (0.022)
Elite Alum	0.625*** (0.060)	0.657*** (0.069)	0.664*** (0.095)	0.000 (0.076)	-0.001 (0.055)	-0.000 (0.076)
Elite Alum X Post Reform	-0.082 (0.098)	-0.117 (0.095)	-0.094 (0.109)	-0.020 (0.086)	-0.021 (0.072)	-0.020 (0.086)
Constant	-6.592*** (0.061)	-6.665*** (0.061)	-6.740*** (0.063)	-4.384*** (0.061)	-4.300*** (0.061)	-4.383*** (0.062)
Observations	467,856	467,856	467,856	347,659	347,659	347,659
Firms	23,684	23,684	23,684	24,624	24,624	24,624
Chi <sup>2</sup>	16,806.76***	16,800.31***	16,813.22***	6,842.03***	6,782.24***	6,674.06***
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Region Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes

\*  $p < 0.05$ , \*\*  $p < 0.01$ , and \*\*\*  $p < 0.001$ , Two-sided tests.

We re-ran our placebo-reform panel logit tests by using 2000, 2001 and 2002 as main effects and interacted them with our elite variable. We confirmed that we have insignificant, or even opposite effects for bankruptcy and founding (H1 and H2) in these “placebo-reform” years as we expect.

**Table 4. Placebo-Reform Growth Effects**

GLM diff-in-diffs	(1)	(2)	(3)	(4)	(5)	(6)	(7)
DV =	<i>growth</i>	<i>growth</i>	<i>growth</i>	<i>growth</i>	<i>growth</i>	<i>growth</i>	<i>profit</i>
CEM Matching – Industry, Capital, Region	2000	2001	2002	2000	2001	2002	2003
Consulting Industry	-0.121 (0.154)	-0.131 (0.017)	-0.048 (-0.046)				-0.030 (0.054)
Primary Industry				0.060 (0.325)	0.055 (0.320)	0.051 (0.314)	
Post Reform Founding	1.309*** (0.245)	1.311*** (0.244)	0.563*** (0.050)	1.283*** (0.245)	1.282*** (0.244)	1.280*** (0.244)	0.515*** (0.114)
Elite Alum	0.065 (0.248)	0.041 (0.232)	0.034 (0.206)	0.068 (0.249)	0.042 (0.232)	0.037 (0.205)	0.109 (0.077)
Post Reform X Consulting	-0.372 (0.198)	-0.418*** (0.197)	-0.539** (0.204)				-0.102 (0.112)
Post Reform X Primary				-0.360 (0.484)	-0.359 (0.485)	-0.726** (0.269)	
Post Reform X Elite Alum	0.626* (0.311)	0.724** (0.304)	0.794*** (0.170)	0.547 (0.310)	0.644** (0.302)	0.821** (0.299)	0.331** (0.130)
Constant	4.399*** (0.391)	4.398*** (0.391)	4.402*** (0.391)	4.417*** (0.207)	4.415*** (2.241)	4.419*** (0.365)	1.667*** (0.171)
Observations	21,544	21,544	21,544	21,544	21,544	21,554	21,554
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Founding year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Region Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ , Two-sided tests.

We re-ran our performance general linear models with placebo-reform years. While we confirmed our previous positive and significant effect for the pseudo reform years of 2002 and 2001, t-tests show the interaction is significantly smaller than the 2003 effect. Moreover, the elite interaction with growth is insignificant with the 2000 pseudo reform year. We also re-ran our regressions using profit as a DV and found results consistent with our growth dependent variable.

**Table 5. Prefecture-Year Industry Summary Analyses**

Negative Binomial Regressions	(1)	(2)	(3)	(4)	(5)	(6)
DV	<i>Founding</i>	<i>Founding</i>	<i>Founding</i>	<i>Founding</i>	<i>Founding</i>	<i>Founding</i>
Pseudo-Reform year	All Industries	Sales	Service	Manufact.	Finance	Technology
<i>Elite Founding</i>						
Post Reform	1.457** (0.523)	1.189** (0.468)	13.603*** (0.733)	1.832 (1.641)	1.981*** (0.403)	1.153 (1.195)
<i>Non-Elite Founding</i>						
Post Reform	0.703*** (0.215)	0.661*** (0.221)	0.864*** (0.241)	0.438 (0.328)	-0.449* (0.232)	0.693 (0.479)
<i>t-statistic</i>						
Elite vs non-elite	1.333 (0.565)	1.020 (0.518)	16.509*** (0.772)	0.833 (1.673)	2.430*** (0.465)	0.357 (1.287)
Observations	162	162	162	162	162	162
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Prefecture Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Prefecture Controls	Yes	Yes	Yes	Yes	Yes	Yes

\* p < 0.05, \*\* p < 0.01, and \*\*\* p < 0.001, Two-sided tests.