Has a Main Bank relationship proved beneficial for Japanese firms in the post-GFC period?

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Abstract

In this paper, we seek to understand whether firms have continued to benefit from the Main Bank relationship in the aftermath of the Global Financial Crisis (GFC). We recognise that the Main Banks influence has waned considerably from its zenith but the decline has not been homogenous, with some firms still wedded to Main Bank lenders while elsewhere they have disappeared entirely. This presents an opportunity to compare the enduring impact of Main Bank ownership on firm performance.

We test the impact of a Main Bank relationship on three separate measures of firm value, while controlling for other variables that may impact firm performance. We seek to improve inference by employing propensity score matching to replicate a randomised experiment with firms divided into those with a treatment group with a Main Bank relationship and those without. Using the matched dataset, we proceeded to conducted regression analysis using standard OLS techniques.

Our analysis indicates that Main Bank's relationship with firm performance is consistently negative and statistically significant across all specifications. The findings are inconsistent with the widely held belief that dual ownership can internalise and hence reduce conflicts between shareholders and creditors, know as the agency cost of debt. In addition, we fail to find evidence that supports the view that the Main Bank's special relationship with management allows it to act as 'delegated monitor' on behalf of others or serves to improve information production.

Instead, our results indicate that Main Banks acts in a manner consistent with the weight of their financial obligations. As such, a Main Bank subordinates its interests associated with holding of a firm's shares in favour of the proportionally larger weight of their claims as a creditor. The resulting shareholder absenteeism may serve to undermine risk-taking behaviour from managers and other large shareholders.

Our findings indicate that the unique arrangements of the Main Bank system such as cross shareholding and special relationship with management are not merited and should continue to be dismantled. Close attention should be given to what would fill the vacuum from withdrawing banks and maintain effective allocation of capital for long term firm growth.

1. Introduction

In this paper, we seek to shed light on the enduring role of the Main Bank relationship. We ask whether their special role in the Japanese system of corporate governance has continued to have an impact on firm performance in the post-GFC period.

The paper begins by setting out the framework by which contractual claimants on a firm's assets and cashflow come into conflict. We draw on corporate finance literature which states the optimal capital structure for a value maximizing firm is one that minimises agency costs (Jensen and Meckling, 1976). Of particular interest for our analysis is the role of agency costs between shareholders and creditors.

We then review the literature of Main Banks as a potential solution for agency problems, due to their role as dual shareholders and information producers on behalf of other stakeholders. We then consider a less favourable interpretation of Main Banks, where bank shareholdings have an adverse effect on firm performance. Having established our motivations for testing the impact of a Main Bank relationship on firm value we set out our hypothesis and empirical approach.

Our analysis replicates a randomised experiment by dividing our dataset into those firms with a Main Bank relationship (the treatment group) and those without through a propensity score matching process. Using the matched dataset, we proceeded to conducted regression analysis using standard OLS techniques.

Our main findings indicate that Main Bank's has a negative and statistically significant impact on firm performance across all specifications. We consider the channels by which Main Bank ownership may have an adverse effect on firm performance. We assert that rather than mitigating agency costs through an internalisation of the conflict of shareholders and creditors or a mitigation of information asymmetry problems, the unique characteristics of Main Banks serve to undermine standard governance measures. This is possible through the absentee ownership associated with shareholdings by main bank and a subsequent undermining of risk-taking behaviour from managers and other large shareholders.

This research contributes to our understanding of the corporate governance system in Japan. Our findings raise questions about the role attributed to Main Banks as a dual owner and as a delegated monitor, capable of information production for other stakeholders. The absence of evidence to support the subsistence of the Main Bank relationship augurs for more rapid reform to remove cross shareholders and improve standard monitoring by shareholders.

2. Literature review

The separation of corporate decision-making functions from risk-bearing functions can positively impact firm performance (Coase, 1937; Williamson, 1979). While decision-making power is enshrined with management, there are numerous financial stakeholders that bear the risk, and reap the rewards, of corporate performance.

A typical corporate capital hierarchy consists of bank loans, senior debt, subordinated debt, preferred equity and common equity, all of which will be held by financial backers with varying degrees of exposure to firm decision-making and risk-protection.

As the only financial stakeholder concerned with the residual value of the company, shareholders are deemed the ideal stewards of company and are afforded powerful control rights (Friedman, 1992; Grantham, 1998; Easterbrook and Fischel, 1983). This includes the ability to appoint the board of directors, who in turn appoints the managing directors and, if agency costs are mitigated, can successfully control the fortunes of the company.

In some circumstances, shareholders self-interests may conflict with the interests of other risk-bearing stakeholders, most noticeably creditors. If creditors believe that management with pursue a strategy that favours shareholders at their expense they may limit credit provision, increasing the firm's cost of capital.

This will result in a sub-optimal capital structure and undermine management efforts to maximise firm value. These conflicts are a special form of agency costs known as agency costs of debt (Jensen and Meckling, 1976; Myers, 1977, Kim et al, 2019).

2.1 Shareholder creditor conflicts

In the next section we consider two important sources of shareholder-creditor conflicts:

The risk-shifting problem

In principle, shareholders' claims on equity offer potentially unlimited rewards. On the other hand, shareholders' liability relates only to the share capital of the company rather than extending to its debt. Limited liability means the costs of a bad outcome are not fully borne by the risk-taking shareholder, but may instead fall, partially or fully, on other financial stakeholders. This results in a moral hazard problem known as the risk-shifting problem.

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We can observe this problem when considering the risk/return dynamic of a shareholder investment. Under the assumption of limited liability, the return on shareholder investment as a function of the profitability is flat when the company is close to bankruptcy or insolvent but slopes upwards when the company is doing well. The structure is similar to a call option and rewards shareholders if the company pursues a riskier strategy (Eisdorfer, 2010, Goodhart, 2020).

Consequently, shareholders seek to shift risk by allocating capital raised from creditors into risky projects, which offer unlimited upside but also raise the risk of the equity and the probability of bankruptcy, Masulis (1976) and Jensen and Meckling (1976).

The debt overhang problem

Another source of shareholder and creditor misalignment relates to the use of proceeds for newly raised finance. If a company is highly indebted or a firm faces high default risk, shareholders may refrain from pursuing new investment opportunities, even if they have a positive net present values, if the rewards are to be directed to servicing existing debt or the gains will accrue proportionally more highly to debtholders.

Debt overhang can be alleviated if the various creditors and shareholders manage to renegotiate their contracts and restructure the balance sheets. This renegotiations are costly because otherwise debt would not discipline managers or reduce risk shifting (Jensen and Meckling (1976), Hart and Moore(1995)).

Both risk-shifting and debt overhang may contribute to an increase in agency cost of debt.

Resolving these conflict

Since the misalignment of shareholders' and creditor incentives were uncovered, many studies have attempted to identify ways to mitigate this problem.

The most common approach is the adoption of covenants in debt contracts as monitoring devices which may include restrictions on key financial ratios or other critical management decisions such as dividend payments or M&A (Bradley, 2015). Other studies have looked at debt maturity (Barnea et al., 1980), convertible debt (Green, 1984), and managerial compensation (Brander and Poitevin, 1992; John and John, 1993).

In practice, the ability of creditors to enforce contractual provisions on debt contracts is not complete. Creditors may resort to litigation through lawsuits to represents the participation of creditors in corporate governance. As pointed out above, existing contractual obligations may serve to undermine future investment decisions if they are overly onerous.

Consequently, creditors have an intrinsic preference for financial prudence and a company's ability to not only repay its credit obligations on a timely basis, but also to maintain a stable and predictable credit risk profile.

2.2 Role of Corporate Governance

As well as documenting the inherent conflicts among financial stakeholders, Jensen and Meckling also offered a potential solution in the form of corporate governance.

Corporate governance architecture is not designed to resolve conflicts between stakeholders but rather to reduce information asymmetry that provides the opportunity for stakeholders to pursue selfish interests at the expense of other claimants.

Corporate governance mechanisms include information production tools such as effective and independent board of directors and management compensation. It may also include external governance such as the market for corporate control.

While some of these tools are designed to limit agency costs between owners and managers, i.e. stock options are designed to align decisions to shareholders interests. Others such as effective corporate boards can serve to reduce agency cost of debt if boards improve firm performance in the way that both shareholders and debtholders jointly gain their benefits.

An improvement in the effectiveness of corporate boards would lead to a reduction in required rate of return of debtholders, and thereby lowering the cost of corporate debt.

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2.3 Corporate Governance in Japan

Japan's 'lost decades' coincided with a period of relatively poor shareholder returns. The most common explanation is that Japan suffered from acute agency costs; that company solvency and employee stability were prioritized at the expense of shareholders.

Why were shareholder interests not prioritised in Japan? Numerous studies have examined how corporate governance failed to mitigate agency costs between management and owners, entrenching management teams and undermining shareholder value.

However, fewer researchers have looked at the agency costs between shareholders and creditors. This despite, or possibly because of, the unique role relationship banks, or Main Banks, play in the firm's corporate governance (Ogawa, 2012).

2.4 The Main Bank model

A Main Bank is typically the firm's largest lender and offers standard services of relationship banking including the provision of credit and liquidity through the cycle, risk-sharing and assistance in times of corporate distress (Sang).

https://www.adb.org/sites/default/files/publication/157231/adbi-rp56.pdf

The Main Bank relationship in Japan has several supplementary linkages that serve to deepen the firm-bank relationship (Sheard, 1989, Aoki, 1990, Aoki et al., 1994, Ueda, 1994, Kawai et al., 1996, Hoshi and Kashyap, 2001). For example, a Main Bank is frequently a major shareholder in the borrowing firm. It may also monitor and participate in firm management through board representation, and rescues and restructures firms when firms fall into a financial distress (Kang, Shivdasani, and Yamada (2000).

Before we proceed to our analysis, we consider the motivation of the Main Bank relationship as characterised above in more detail.

2.5 Main Bank as dual owner and information producer

The price of agency cost between shareholders and creditors is higher costs of capital and credit rationing. (Mayer, 2013). One novel way to protect creditor interests is to internalise the conflict of interest between shareholders and creditors by simultaneously holding equity and debt (Dewatripont and Tirole 1994, John et al. 1994, Chu et al., 2019).

Shareholders who are also creditors have an incentive to monitor and prevent managers and/or other large shareholders from taking actions that expropriate creditors because they internalize (at least partially) the cost to creditors arising from the opportunistic behaviour of shareholders.

Numerous studies find that dual owners are effective in internalising conflict and aligning incentives between shareholders and bondholders, (Jiang, Li and Shao, 2010). While Main Banks have reduced their shareholdings of client firms considerably since their peak, most Main Bank relationships are still characterised by dual creditor-shareholder ownership.

If shareholder-creditor conflicts are significant enough to affect the value of the firm, we would expect to see an improvement in firm performance when Main Banks are present.

Another way to reduce agency cost of debt is to improve information generation capabilities for financial stakeholders. Main Banks closeness to a borrowing firm is a source of unrecorded information capable of overcoming asymmetric information problems that non-relationship lenders cannot secure (Watanabe, 2005).

Furthermore, Aoki (2001) points to a role for Main Banks to act as a delegated monitor of management, with monitoring obligations carried out on behalf of other financial stakeholders. According to Fukumitsu (2001), main banks act in concert with other shareholders to exercise corporate governance, and they reduce agency costs generated by the asymmetric information. If Main Banks were indeed capable of altruistic monitoring then we would expect such action to lower agency costs between financial stakeholders.

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2.6 An ambiguous influence

Since the Main Bank system had been largely dismantled before our period of interest, any enduring influence on firm performance is likely to be by default rather than design.

Unsurprisingly, the literature has evolved over time with the evidence far from unanimous regarding the role the Main Bank system plays on agency costs of debt. A particularly controversial aspect of the Main Bank relationship relates to the dual credit-shareholder relationship. Hiraki (2003) finds evidence to suggest that shareholdings of main banks and client firms have a negative effect on firm valuation.

This is corroborated by Miyajima 2005, which points out that Main Bank shareholdings was consistent with a loss of management discipline and poor firm performance. Furthermore, this work find that banks with dual ownership used their ownership stake to encourage client firms to take on projects with low profitability instead of preventing asset substitution.

Main Bank shareholdings were also deemed problematic as they reduce the portion of shares traded in public markets, serving to limit the market for control and facilitating managers to seek private benefits (Arikawa, 2004).

Based on these findings, we also consider the possibility that the existence of Main Banks relationships may increase agency costs of debt by undermining the effectiveness of financial claimants through absenteeism or a neglect of ownership rights.

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3. Hypothesis development

Before we turn to our main analytical question, it is worth reminding ourselves that the influence of Main Banks in Japan have waned considerably in recent decades. Initially, this was a consequence of a period of deregulation that began at the end of the 1970s, allowing firms to access greater capital market funding at the expense of bank loans. More recently, it has reflected more stringent standard for bank capital requirements in light of the bad debt problem through the 1990s and a need to reduce cross-shareholdings because of changing accounting requirements.

The declining in relationship banking in firms financing patterns in Japan has not been homogenous, with some types of firms still wedded to past Main Bank relations while elsewhere they have disappeared entirely (Hori, 2002). This presents an opportunity to compare the impact of Main Bank ownership on firm performance, if we are able to control for other variables that may impact firm performance.

Hypothesis 1

Our null hypothesis states that Main Bank relationships have no impact on firm performance. We would expect there to be a positive and statistically significant if Main Banks serve to alleviate agency costs of debt through internalisation of conflicts.

The mechanism for the positive inference relates to the interest alignment problem. Shareholders who are also creditors have an incentive to monitor management and prevent large shareholders from expropriating wealth from bondholders through excessive risk taking or opportunistic behaviour.

An internalisation of incentive alignment should lower the chance of risk-shifting, and the company should benefit from a reduction in cost of debt. Importantly, for an internalisation of conflicts by MB to be effective the relationship should not exacerbate conflicts by overly stating the credit constraint and preventing profitable risk-taking.

We also consider the possibility that MB relationships have a negative and statistically significant impact on firm performance. In this instance, the MB is not considered a fiduciary of firm value. Instead, the holding of shares is simply a mechanism to limit the influence of shareholders and add proportional weight to the standard claims of a creditor. This in turn serves to undermine risk-taking behaviour from managers and other large shareholders.

4. Data

The sample consisted of publicly-listed firms of the TOPIX 500, excluding financial firms, from 2008-2021. Firm performance data for this study were obtained from Bloomberg Markets (BM).

We introduce three alternative variables of firm performance. ROA is relatively straightforward to calculate by dividing net income by total assets. ROE is net income divided by the number of shares of common stock issued. Tobin Q is calculated by dividing the market value of equity, preferred shares as well as publicly traded debt and book value of remaining liabilities by the book value of assets and liabilities, where book value is the same as the balance sheet figure.

Data related to ownership structure were obtained from the Nikkei NEEDS CGES. To investigate the effect of corporate governance structure, we divide the sample into companies with Main Bank relationship and those without.

As for other financial data, it was obtained from Bloomberg Markets and Nikkei NEEDS CGES databases.

Table 1 shows the summary statistics or firm performance, ownership and governance characteristics for the period 2008-2021. The data includes the median, mean, standard error, confidence interval for the arithmetic mean, variance, standard deviation, and coefficient of variation.

Table 1 – Summary statistics

	ROA	ROE	AVEQ	FCFASS	DETASS	IDRAT	LTOTASS	ANAT
median	3.92	8.14	1.72	0.04028	14.21	0.1429	311000000000.0	5.00
mean	4.38	9.31	1.74	0.04668	14.14	0.1472	246544293777.8	6.11
SE.mean	0.73	1.46	0.22	0.00685	2.31	0.0328	49107684307.6	1.17
CI.mean.0.95	1.69	3.36	0.50	0.01581	5.32	0.0756	113242523083.6	2.70
var	4.86	19.10	0.42	0.00042	47.87	0.0097	217040819224927482682 20.0	12.36
std.dev	2.20	4.37	0.65	0.02056	6.92	0.0983	147323052922.8	3.52
coef.var	0.50	0.47	0.37	0.44057	0.49	0.6676	0.6	0.58

5. Methodology

Our main research question is whether Main Bank relationships has a positive or negative impact on firm performance. To assess the magnitude of MB relationship effects we replicate a randomised experiment, which can provide a reliable basis for inferring causation.

We seek to replicate a randomised experiment by divided the dataset into those firms with a Main Bank relationship (the treatment group) and those without. In principle, the process of dividing the sample between the treatment and control group should be random. The status of a Main Bank relationship has to be independent of the underlying characteristics of the firms.

Propensity score matching allows to apply some quasi-randomness as to whether the Main Bank relationship exists or not. In this way, treatment selection bias is eliminated.

Our analytical process follows a number of clear steps. First, we pre-process our panel of observational data through propensity score matching. The matching process reduces imbalance in the empirical distribution of both observed or unobserved confounding factors (Stuart, 2010, p.13). We used the R package *MatchIt* to generate the balanced treatment and control groups (Ho, et al. 2011).

The second step of our analysis was to determine the propensity score matching method. The process of grouping observations with similar values can vary based on a range of settings. These include the ratio of treated observations matched to untreated observations, the identifying algorithm for matches, whether replacements are used for matches and whether matches are based solely on propensity scores or also uses covariate values.

We conducted analysis using numerous methods including exact, nearest matching and coarsened exact matching (cem) approaches. The results of our analysis are published in the results section.

Matching to the nearest neighbour simply consists of finding the untreated observation with the closet propensity score to the propensity score of each treated observation. Matching is done using a logistic regression model to estimate the propensity score, defined as the probability of receiving treatment, conditional on the covariates.

The third step was to check the balance of covariates between treatment and control groups. To evaluate covariate balance we compare the mean of the treatment group to the sample group across all covariates.

Finally, using the matched dataset, we proceeded to conducted regression analysis using standard OLS techniques. We measure the fit of our results through a standard error framework.

We specify our model as below:

Equation

$$\delta_{i,t} = \alpha + \beta_1.MBO + \beta_2.FCFASS + +\beta_3.ANA + \beta_4.DETASS + \beta_5.ID\_RAT + \beta_6.LTOTASS + \varepsilon_{it}^{*}$$

Firm perfromance is the dependent variable represented by three competing proxy variables ROA, ROE and Tobin's Q. ROA and ROE are accounting-based representations of firm performance, while Tobin's Q represents the market value of a firm's assets.

Main Bank relationship is our independent variables, which is derived from the Nikkei NEEDS Corporate Governance Evaluation Systems (CGES) database. In line with previous studies, we control for firm characteristics such as firm size, financial leverage, free cash flow. Firm size was measured as the logarithm of firm assets. Financial leverage was used to control for firm capital structure.

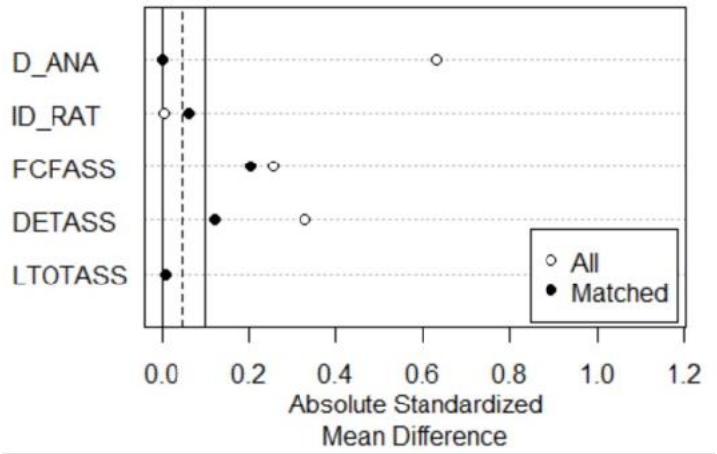
We also control for some corporate governance variables such as independent director ratio and the number of analysts (Sakawa and Watanabel, 2020).

6. Results

Our analysis considers whether firms continue to benefit from the Main Bank relationship in 2008-2021. If so, what effect does Main Banks relationship have on firm performance in this period?

We pre-processed the data using a propensity score matching technique. Propensity score matching is used for inferring casual impact. It attempts to balance treatment groups on confounding factors to make them comparable to control group and reduces treatment selection bias. The balance statistics for the matching process are plotted in Table 1.

Table 1 – Balance statistics (TBC)



Values greater than 0 indicate deviations between the groups in some part of the empirical distributions. However, a mean differences below 0.1 ensured our threshold for analysis was met.

Using our new matched dataset, we proceeded to test the impact of a main bank relationship on three separate measures of firm performance and improve inference using robust standard errors. We find evidence that our null hypothesis of no causality is false, with a statistically significant coefficient for Main Banks across all three measures of firm performance.

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With also find consistent evidence across all models of a negative coefficient for the presence of a Main Bank relationship (see Table 1,2,3).

Table 1 – Main Bank Ownership and Return on Asset

```
> coeftest(roa.out, vcov. = vcovCL, cluster = ~ weights)

t test of coefficients:

             Estimate Std. Error  t value  Pr(>|t|)
(Intercept) 10.634586   2.369606   4.4879 7.384e-06 ***
MBO         -0.656110   0.128894  -5.0903 3.730e-07 ***
D_ANA        0.424093   0.165797   2.5579  0.010565 *
ID_RAT       0.281518   0.249925   1.1264  0.260056
FCFASS      36.358277   1.246982  29.1570 < 2.2e-16 ***
DETASS      -0.051963   0.002131 -24.3837 < 2.2e-16 ***
LTOTASS     -0.247195   0.086986  -2.8418  0.004508 **
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Signif. codes:  0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1
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Table 2 – Main Bank Ownership and Return on Equity

```
> coeftest(roe.out, vcov. = vcovCL, cluster = ~ weights)

t test of coefficients:

             Estimate Std. Error t value  Pr(>|t|)
(Intercept)  0.214757   5.254945  0.0409  0.967403
MBO         -1.991557   0.242494 -8.2128 2.843e-16 ***
D_ANA       -0.044633   0.253070 -0.1764  0.860015
ID_RAT      -1.757659   0.614075 -2.8623  0.004227 **
FCFASS      80.632202   2.561990 31.4725 < 2.2e-16 ***
DETASS      -0.023948   0.011260 -2.1269  0.033489 *
LTOTASS      0.254694   0.195661  1.3017  0.193087
---
Signif. codes:  0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1
```

Table 3 – Main Bank Ownership and Tobin’s Q

```
> coeftest(aveq.out, vcov. = vcovCL, cluster = ~ weights)

t test of coefficients:

             Estimate Std. Error t value  Pr(>|t|)
(Intercept)  9.5584190  2.3626827  4.0456 5.313e-05 ***
MBO         -0.3281438  0.0411237 -7.9794 1.878e-15 ***
D_ANA        0.4633387  0.0646408  7.1679 8.946e-13 ***
ID_RAT       0.9662379  0.1356961  7.1206 1.257e-12 ***
FCFASS       6.8756737  2.0164346  3.4098 0.0006562 ***
DETASS       0.0052862  0.0014508  3.6437 0.0002720 ***
LTOTASS     -0.3130109  0.0909741 -3.4407 0.0005859 ***
---
Signif. codes:  0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1
```

7. Discussion

Our results have meaningful implications for our understanding of the influence of Main Banks on firm performance in Japan.

Firstly, we find no evidence that relationship banks' position as dual owners have a positive effect on firm performance. One possible explanation is that the intensity of shareholder-creditor conflicts depends on the financial health of the company.

For companies with relatively healthy balance sheets and in the mid/upper investment grade spectrum both creditors and shareholders want management to maintain sustainable financial performance to generate cash flows for debt service, as well as earnings growth, dividend payments, capital retention and capital appreciation.

On the other hand, when a company is in, or approaching bankruptcy the interests of creditors and shareholders may have little alignment; in extremis they can be at odds with one another (Keswani et al, 2020; Ayotte et al., 2013).

Numerous studies have pointed to a weakening of market discipline in Japan during the lost decades period, which propped up inefficient zombie firms through evergreen lending (Peek and Rosengren (2005) and Caballero, Hoshi, and Kashyap(2008). There is certainly observational evidence that bankruptcy rates fell consistently during our period of analysis.

The softening of the budget constraint may partly explain why the incentives to internalise conflicts between shareholder and creditors may be weaker in Japan than elsewhere (Hosono).

https://web.econ.keio.ac.jp/staff/masaya/dl/forthcomingpaper/sbc.pdf

Another possible explanation for the ineffectiveness of Main Banks in reducing agency costs is the diminished importance of a Main Bank close relationship with management.

In Aoki's benevolent view of the Main Bank system, Main Bank's act as the 'delegated monitor' of management acting on behalf of other stakeholders (Aoki, 2001). Other financial stakeholders defer to the main bank because they are "well equipped to assess the organisation and managerial ability of firms". Proponents of main banks still point out "the main bank has a leadership function, serving as a "compass" for the other banks serving the client" Goto, 2023.

https://asia.nikkei.com/Opinion/Japan-s-main-bank-system-has-unique-merits-and-strengths

The question of whether Main Banks responsibilities extend in someway beyond their financial obligations is critical to interpreting our results. Within the Main Bank framework described above the Main Bank has some duty to act on behalf of those stakeholders whom have delegated the role of monitoring to them.

Our results are inconsistent with the idea that Main Bank relationships are a powerful tool for reducing information asymmetry. results are also consistent with Sakawa 2014 that information production of Main Banks has no benefits for outside shareholders.

This may not necessarily just reflect inadequacy on the part of Main Banks but an improvement in information provision by firms as a result of new reporting obligations. It is also possible that improving information efficiency and an alignment of interests among institutional investors served to dimmish the role of Main Banks in reducing information asymmetry. Nozawa (2019) argues that, "large institutional creditors can play an important role; by mitigating the problem of information production, they can facilitate capital reallocation."

While we can speculate on why Main Banks are less effective at reducing agency cost of debt in Japan, the fact that there was no positive relationship between Main Banks and firm performance was not the most striking result from our analysis. A more telling result was the statistically significant and negative relationship between Main Banks and firm performance across multiple models.

This result suggests that Main Banks have a corrosive effect on firm performance, when we control for other firm specific and governance variables. We interpret our findings as an indication that Main Banks

are primarily driven by their financial obligations. Rather than internalising conflicts between their position as shareholder and creditor they simple weigh up the stakes of firm action on their competing incentives.

This may have two consequences. Firstly, since in most cases the financial liabilities are higher for their debt holdings than for their equity holdings the Main Bank sides with management action that protects creditor interests. Secondly, in incidences where Main Banks become absentee shareholders choosing not to fully pursue their interests as shareholder it may results in a loss of management discipline and poor firm performance.

For those firms where the Main Bank relationship is absent, the lack of absentee shareholders serves to improve capital allocation and firm performance.

https://www.sciencedirect.com/science/article/abs/pii/S1059056013001238

https://www.cirje.e.u-tokyo.ac.jp/research/dp/2001/2001cf131.pdf

8. Conclusion

Our analysis sheds light on the impact of Main Banks relationship on the competing claims from financial stakeholders on a firm's assets and cashflow. We find that the supplementary characteristics of shareholder ownership and close relationships with management that distinguish Main Banks from other lenders are not effective in reducing agency costs in the post-GFC period.

Instead, we find evidence that the firm's with a Main Bank relationship are less valuable. We point to shareholder absenteeism as a cause of value hinderance either through an proportional shift in creditor influence or through a loss of management discipline and the pursuit of private benefits.

Our results augurs for further reforms to prise Main Banks away from the privileged position they enjoy in influencing a firm's capital policy. This includes a further unwinding of cross shareholders as well as continued improvements in monitoring from competing financial stakeholders, including shareholders and creditors.

In terms of future work, we would like to extend the research to include earnings quality, where there is evidence that the Main Banks relationship has had a positive impact in the post-GFC period (Kojima, 2017).

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