

# The Study on Long Term Bank-Firm Relationships in Japan

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## 1. Introduction

The main bank of a particular industrial company is defined as the bank which has the largest share of loans to the company. This definition focuses on the fact that banks played a central role as financial intermediaries in the high growth period. In this period several things occurred: firstly a flow of funds was established which channelled the supply of money towards the demand for capital to finance equipment investment. Such demand was satisfied from the high level of private savings and transmitted to industrial enterprises via financial institutions. Secondly corporate firms have been highly dependent on outside financing, especially in the form of bank borrowing for equipment investment since they could not afford to finance all of their capital requirements from internal funds. Moreover, to cope with demand for money big banks relied on borrowing from Bank of Japan (BoJ) and other financial institutions such as local banks. This argument about the key role of financial intermediaries centering on City banks have been analyzed as Keiretsu-financing issue, assuming that Keiretsu-Groups have already been established.

A lot of studies have applied Information Economics to the analysis of

the role of the main bank, with many of them focusing on the long term bank-firm relationships. Banks are understood to be organisations which solve the problems associated with asymmetric information between lenders and borrowers.

Takeda • Schoenholtz (1985) summarized the characteristics of the Japanese main bank as follow, : a high share of total lending to client firms; high ratio of total stock owned by banks; personal relationship through bank's dispatching managers to corporate firms; existence of general transaction relationship between main banks and customer firms; long term transaction relation; and the existence of an objective to gain through a general relationship which caused the banks to be willing to shoulder a degree of insolvency risk. Takeda • Schoenholtz (1985), in observing these key features of the main bank system, pay attention to the main bank monitoring to its client firms and stress the bank's characteristics as a producer of information relevant to a profitable bank firm relationship. This approach to see the bank as a information producer has been the mainstream view of Japanese main bank study in subsequent studies. If we see the Japanese main bank in this way it appears that the main bank function has two roles: that of corporate finance and that of corporate governance. Our analysis then begin with examining the traditional role of the Japanese banking system in the high growth period.

## **2. The development of the Japanese main bank system in the high growth period**

Two events mark the turning points in the formation of long term bank-firm relationships. First loan syndication among banks started in 1930' and became prevalent after 1939. Secondly the Designated Financial Institu-

tion System for Munition Company Financing was introduced to allocate financial resources to military sector (Teranishi 1993, 1994). In the post-war reconstruction period, larger banks formed loan syndicates to cope with vigorous money demand from heavy industries, such as steel, coal and fertilizer. The distributions of corporate finance was skewed towards indirect finance (bank borrowing) because a capital market was so slow to develop in the initial post-war period. Under such circumstances, the main bank system which had its origins in the pre-war period matured rapidly and made remarkable progress in the high growth period.

### **(1) The development of long term bank-firm relationships**

Financing in the High growth period was characterized by bank finance which had a central place in Japanese economy because the shortage of stock market funds and public sector finance. A flow of funds from deposits at financial institutions to firms played a central role in financial transactions. The reason for it is that the deposit ratio of assets was high not only in the private sector but also in the corporate sector.

Table 1 shows comparison of the sources of corporate finance in Japan, U. S. A., U. K. and Germany. It can be seen that the share of internal funds is lower in Japan than in the other countries and the ratio of borrowing to external funds is significantly higher in Japan than in other countries.

Under the financial circumstances outlined above the bank lending had rapidly grew in the 1960s and early 1970s. The annual rate of growth of lending by all the banks between 1960 and 1975 varied between 11% to 27% (Economic Planning Agency, *Economic Whitepaper*, 1993, p. 75). Even in the bubble period (1986-90), an average annual change of lending by all the banks is 13.6% (Bank of Japan, *Economic Statistics Annual*, 1995, p. 65).

Table 1 International comparative structure of corporate finance of non-financial corporate firms (a flow of funds base) (%)

	Janpan				U. S. A.			
	Internal funds	External funds	Borrowing	Securities	Internal funds	External funds	Borrowing	Securities
1962-64	39.4	60.6	46.6	11.0	76.0	24.0	11.3	7.9
65-69	50.1	49.9	43.2	5.6	67.9	32.1	18.8	13.9
70-74	41.6	58.4	50.0	5.7	55.1	44.9	25.6	18.0
75-79	50.6	49.4	41.5	7.5	69.7	30.3	16.3	14.0
80-84	59.0	41.0	35.0	6.2	74.2	25.8	15.5	9.5
85-89	52.3	47.7	32.1	11.0	85.4	14.6	14.0	△1.3
	Germany				U. K.			
	Internal funds	External funds	Borrowing	Securities	Internal funds	External funds	Borrowing	Securities
1962-64	66.5	33.5	22.8	5.0	73.2	26.8	16.5	10.3
65-69	68.8	31.2	20.8	4.1	74.1	25.9	14.6	11.3
70-74	58.5	41.5	28.1	3.2	62.2	37.8	34.2	3.6
75-79	72.6	27.4	22.3	1.6	79.1	20.9	16.4	4.5
80-84	75.4	24.6	21.6	3.0	82.5	17.5	16.3	1.2
85-89	78.6	21.4	16.5	4.9	63.0	37.0	26.1	10.9

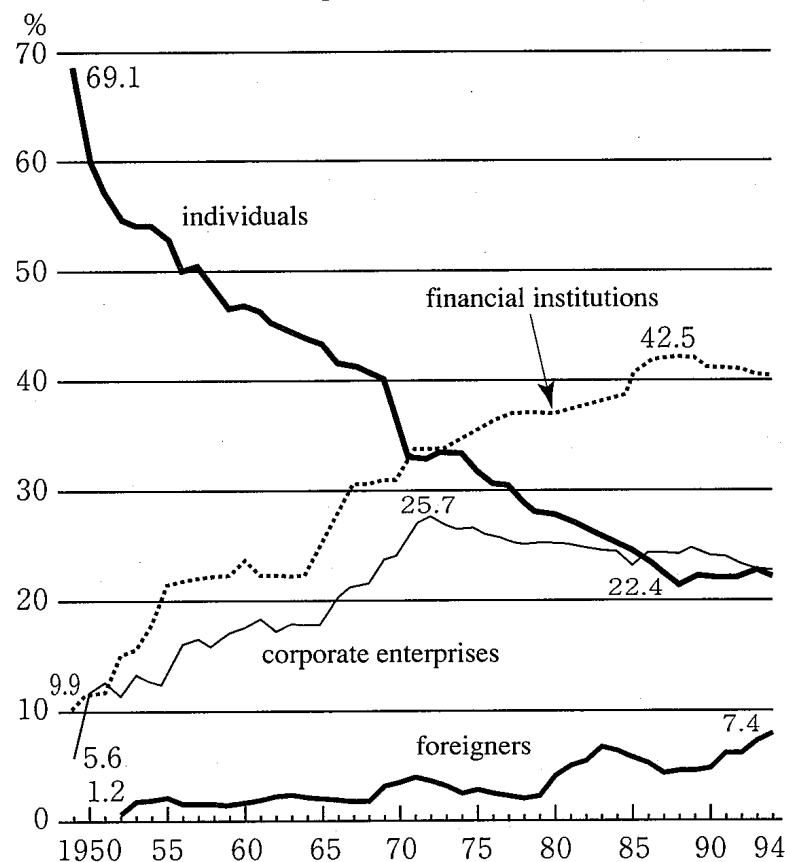
Note: Business credit is excluded. In case of Germany, Individual enterprises and Public enterprises are included.

Source: Economic Planning Agency, *Economic Whitepaper*, 1992. table. 3-2-1.

In addition to it, the bank-firm relationships were relatively fixed. According to the survey that studies changes in major main bank relationships in terms of lending, the share of firms which switch the main bank is 17% (84 among 479) from 1962-67, 15% (74 among 479) from 1967-72, 15% (98 among 653) from 1978-83 (Horiuchi, Y. and Fukuda, S. 1987). The stabilized supply of funds to firms based on long term bank-firm relationships was principal of the main bank system in the post-war period.

The main bank can directly collect information about borrowers by monitoring financial transaction through settlement accounts which bor-

Table 2 The component of stock owners



Source: *Kigyo Keiretsu Soran*, Toyo Keizai Shinposha, 1996, p. 96.

Note: Since 1985, unit number base.

Investment trust is excluded in financial institutions.

rowers have at banks. Records gained from settlement accounts are acknowledged to be very important sources of information from which to judge the business achievement (Aoki, M. and Patrick, H. 1994, p. 14).

Besides the bank lending, banks strengthen their ties with firms through holding stocks and by dispatching managers to firms. Table 2 shows that the share of stocks owned by financial institutions increased rapidly during the high growth period. The information gained by banks about client firms through loans, stock-holding and the dispatching of

managers, is the foundation of the main bank system.

## **(2) The main bank's role in monitoring firms**

Ikeo and Hirota (1991) discuss the function of the main banks. They suggest that in a capital market centred on a stock market larger stock owners play a key role in pressuring business managers to realize efficiency gains. However, in case of Japan, cross-share holding makes stock-owners' monitoring role rather vague because it is difficult to understand who is responsible for governing firms and hostile takeovers are extremely rare. Thus, the main bank replaced large stock owners as the principal monitor of firms.

The main bank's monitoring function is based on several hypotheses. Firstly the principal function of monitoring is a reduction in the agency costs which arises from asymmetry of information between owners of capital and managers. According to this hypothesis, since a reduction of the agency cost makes it possible for firms to be free from a limit of internal funds, equipment investment from bank borrowing is expected to be easy. A lot of empirical studies have tried to prove the existence of a relationship between the strength of main bank relationships and firms and the rate of equipment investment (see Horiuchi, Y, and Zui, 1992. July).

Second function of main banks is to organise loan syndicates among financial institutions. In fact, when firms raise funds by borrowing, they borrow funds not only from the main bank but also from some other financial institutions. The share of borrowing from the main bank to all the bank borrowing in case of 6 Keiretsu groups in the 1960s to the 80s is 8% to 23% (see: Horiuchi, Y, and Zui, table. 1. 1992. July). Horiuchi put the reason for it as follow. 'There also seem to be reciprocal incentives for

concerned parties to diversify loan relationship. On the firm's side, there may be the fear that reliance on a single bank for investment financing may encourage the bank to intervene in management. By diversifying loan sources, the firm's management may be able to retain the option of switching the main bank relationship to another bank if the incumbent main bank becomes too meddlesome. On the main bank side, an exclusive loan relationship may be difficult to terminate, even when it is more efficient to do so. By limiting its own loans to a minority share, the main bank may be able to avoid being completely captured by the interests of the firm and to leave open the abandoning failing firms if necessary' (Horiuchi and others, 1988).

Thirdly, Aoki (1994), Sheard (1986, 1994) and Corbett, J. (1987) pointed to ex post monitoring of the main bank, in addition to its ex ante monitoring. That is, the main bank plays an important role as a coordinator during periods when the firm is going through structural adjustments, rebuilding, or merger with etc. due to financial difficulties. By this function, banks can save client firms from bankruptcy resulting from temporary financial difficulty, leading to a reduction of bankruptcy and associated social costs. The bank's willingness to bear the risks associated with client firms' insolvency has been explained by 'implicit contract' hypothesis (Nakatani, I. 1983, Osano and Tsuji 1985). In fact, the main bank is willing to be a trust bank when client firms issue bonds, and buy bonds almost without exception when the clients face financial difficulty and their bonds fall into default. As Sheard pointed out, the main banks have frequently been involved with client firms' bankruptcies and rescued firm management in the 1960s and 1970s. This behavior seems to support the 'implicit contract'. However, the reality of the hypothesis has been ques-

tioned by Horiuchi & Fukuda because of the difficulty of identifying a significant empirical relationship (Horiuchi & Fukuda 1987).

To summarize the traditional role of the Japanese banking system : the main bank has supplied stable funds to corporate firms and has made it possible for firm managers to take a long term strategy which was free from stock owner's interests. The next section will examine how the role of the Japanese banking system has changed since the system was subject to the internal and external shocks of the late part of the 1980s.

### 3. The change of circumstances surrounding the main bank since the bubble period

#### (1) Corporate finance

From the point of view of the firms, self-finance has significantly

Table 3 Demand and supply of corporate funds of larger firms (a flow of funds base)  
(Fund raising) (%)

	1966-69	70-74	75-79	80-84	84-89
a . Depreciation expenses	28.1	22	35.7	38.4	47
b . Retained Profit	14.1	14.1	11.3	13.2	17.8
c . Stocks	3.6	2.9	7.8	9.6	17
d . Corporate bonds	5.3	5.1	10.2	7.9	17.7
e . Borrowing	35.3	41.7	20.4	15.2	3.3
a + b . internal funds	42.2	36.1	47	51.6	64.8
a + b + c . net worth	45.8	39	54.8	61.2	81.8
(Fund Operation)					
a . Investment	53.4	46.5	60.6	60.3	95.9
b . Inventory investment	13	20.7	1.1	5.8	-2.1
c . financial investment	9.3	12.9	9.4	10.5	18.8
d . Cash and Deposit	7.5	9.5	4.8	5	17.4
c + d .	16.8	22.4	14.2	1.5	35.9

Note : Business credit is excluded.

Source : Bank of Japan, *Financial Statement of Principal Enterprises*.



Table 4 Demand and Supply of Corporate Funds (flow base) (unit = %)

	Manufacturing		Non-Manufacturing	
	85~89	90~94	85~89	90~94
Fund raising				
(a) Depreciation Expenses	56.9	100.7	40.3	95.9
(b) Retained Profit	19.3	14.2	10.1	6.9
(c) Stocks	21.8	6.9	13.8	3.4
(d) Corporate Bonds	24.2	-8.3	15.8	17.3
(e) Borrowings	-16.9	5.9	17.3	-3.3
(a)+(b) internal funds	76.2	114.6	50.5	102.8
(a)+(b)+(c) net worth	98	121.5	64.3	106.2
Fund operation				
(f) Investment	70.78	110.68	65.4	138.9
(g) Inventory investment	-10.52	-6.9	4.7	1.7
(h) Financial investment	15.7	26.5	22.5	6.7
(g) Cash & deposit	20.42	-19.6	21.9	-33.8

Source: Bank of Japan, *Financial Statements of Principal Enterprises*.

improved because firms have had abundant internal funds and have had easy access to a capital market. Table 3 shows the breakdown of sources of corporate finance in the corporate sector since 1960s. It indicates that the share of internal funds in total financing requirements and net worth has increased remarkably in the 1980s. Table 4 shows the breakdown of corporate finance by type of firms. In case of manufacturing, the share of bank borrowing is much lower in the mid 1980s than in the 1960s and 1970s. Moreover, repayment exceeds borrowing in 1985-89. On the demand side, manufacturing firms were involved in speculation which involved them raising funds to invest in financial assets. Non-manufacturing firms tended to be dependent on borrowing as a source of finance in the 1980s, but have started to repay debts in the 90s. As a result, the share of self-financing and internal funds increased in the 90s to twice the rate seen in the late-1980s. These evidence suggests that larger firms have drifted

away from banks as sources of finance.

## **(2) The internationalization and liberalization of financing**

The deregulation and liberalization of international and domestic financial transactions has remarkably improved since the foreign exchange was reformed in the 1980s. This movement undermined the financial regulatory and administrative framework of the main bank system. Government financial regulation and administrative measures previously act to substantially reduce the risk of bankruptcy. For example, the measures imply the regulation of market-entry and choice of business field, and the regulation of competition in such things as smaller deposit interest rates and the regulation of various fees. These regulations increased bank profits and decreased the possibility of bank bankruptcies. They did this by guaranteeing a certain market share and by helping banks to maintain interest margins and fee incomes (Ikeo, k. 1991).

However, the decrease in interest rates due to the financial liberalization reduced the rent of the banks (*Economic Whitepaper*, 1993, p. 76, Table. 1-5-7). In addition, due to financial liberalization and internationalization the number of options for sources of finance for firms has increased and firms have had easy access to overseas financial markets. Therefore corporate firms have gradually gained increased bargaining power in their negotiations with the banks.

## **(3) Accumulation of bad debts in the wake of bursting of assets bubble**

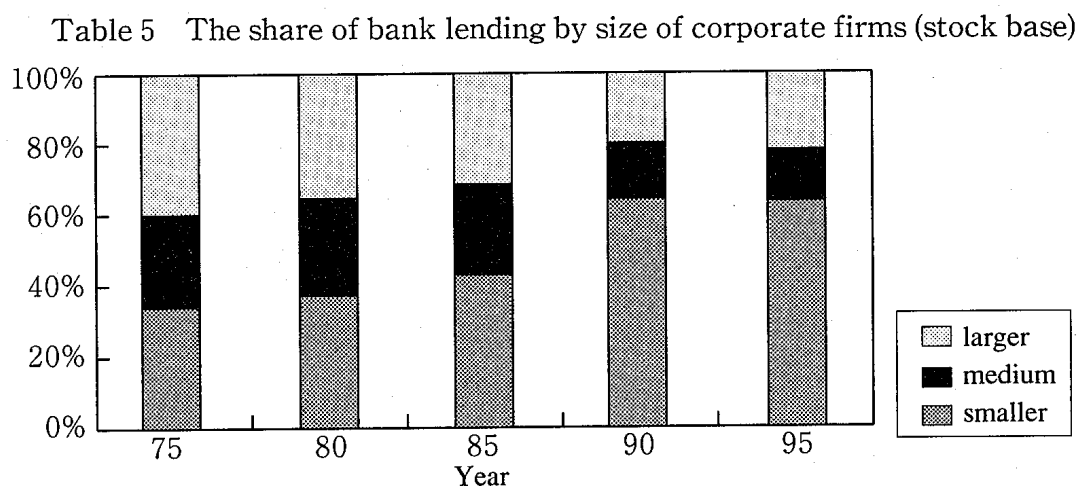
The number of firm bankruptcies has dramatically increased since the collapse of the bubble and a large accumulation of bad debts of financial

institutions has become a serious issue. An annual rate of change in the number of insolvencies is 10% to 20% in the late 1980s but is 65.8% in 1991, 32.1% in 1992 (*Comparative Economics and Financial Statistics*, 1995, p. 138). Officially announced bad debts, that is debts of insolvent firms and overdue debts of city banks, long term credit banks and trust banks were about 14 trillion yen in 1995. Add this figure to an estimate of the value of both overdue debts of local banks and debts of interest reduction or exemption incurred by non-banks, all the bad debts were about 38 trillion yen (*Economist*, Toyo Keizai Shinposha, 1995. 5. 8). Under such circumstances the banks tend to be sensitive about lending to firms for fear that the loan should become uncollectable.

#### 4. A change in long term bank-firm relationships

##### (1) The bank lending

Bank lending increased sharply in the bubble of the late-1980s and



Source: Economic Planning Agency, *Economic Whitepaper*, 1996, p. 300

Note: larger firms mean having more than 1 billion yen capital, medium firms means more than 0.1 billion yen and less than 1 billion yen capital, smaller firms mean less than 0.1 billion yen capital.

decreased rapidly in its aftermath. The average annual change of bank lending is 11.8% between 1981 and 1985, 13.6% between 1986 and 1990 and 1.8% between 1991 and 1995 (Bank of Japan, *Economic Statistics Annual*, 1995, p. 65). Table 5 shows the distribution of bank lending by size of firms. It can be seen that larger and medium sized firms' share decreases, while smaller firms' share rises. This trend can be clearly seen especially following the late-1980s bubble.

The rate of change of bank lending by size of firms shows differences between firms and size. Larger firms have not relied on bank borrowing because self-finance has improved so much (however, the ratio of loans between Keiretsu groups tends to rise slightly (*Industrial Grouping in Japan* 11th edition 1994/95 Dowell Marketing Consultant, p.13)). However, smaller firms continue to be dependent on bank borrowing since they have difficulties in developing self-finance in part due to their difficulty in accessing to the capital market.

Balance sheets of smaller firms show their bank borrowing to be as follow. The share of borrowing in both manufacturing and non-manufacturing has increased during the 1980s and the 1990s. Compare 1980 to 1994, the share of bank borrowing in total financing in manufacturing increases from 30.3% to 41.1% (within this figure the share of long term borrowing increases from 16.5% to 25.7%), and the share in non-manufacturing increases from 32.4% to 43% (within this figure the share of long term borrowing increases from 15.2% to 24.9%) (Bank of Japan, *Economic Statistics Monthly*, July. 1996, pp. 74-75 ).

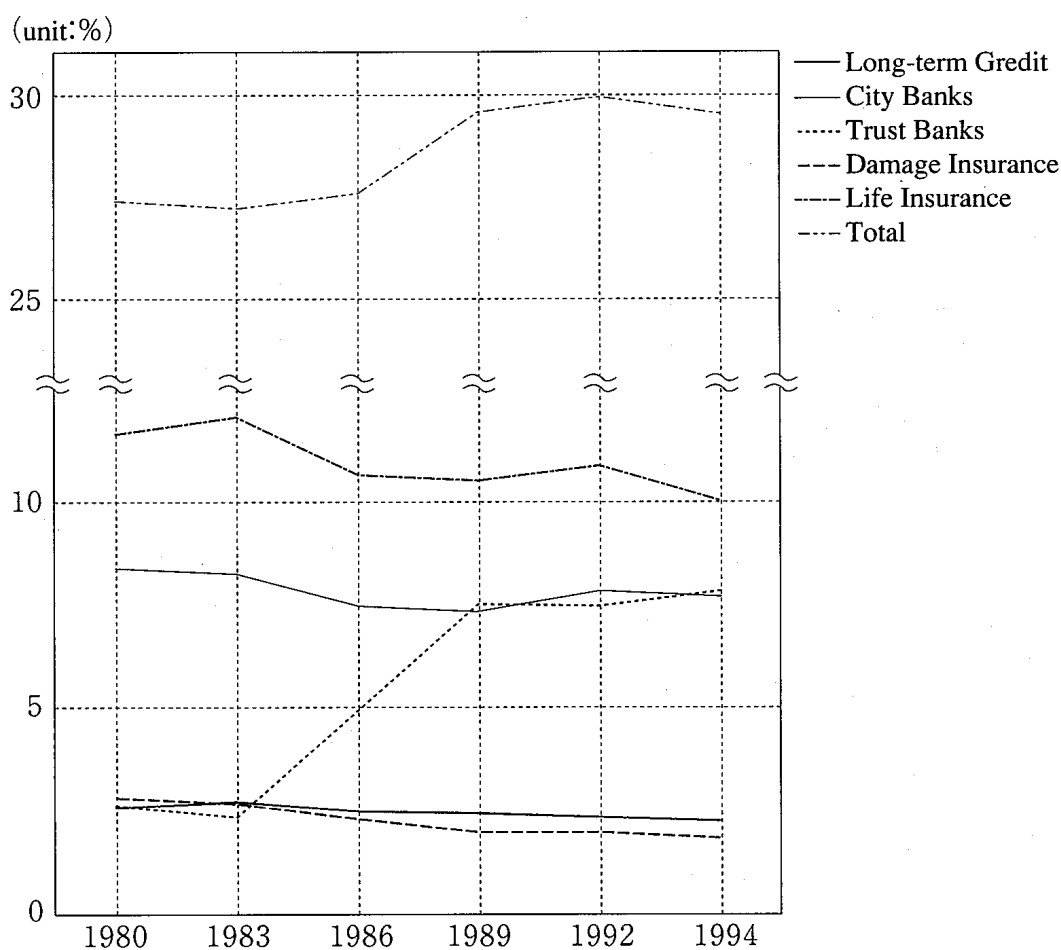
*Economics Statistics Monthly* by Bank of Japan (July. 1996) also shows the features of all the bank lending since the late-1980s as follow. The share of non-manufacturing loan to all the loan increases; loans to real

estate, construction and non-bank financial institutions increased sharply in the late-1980s. The bank loan to these sectors responded to money demand mainly for land and stock speculation which were not related to real economy growth. In fact, banks provided client firms with a large sums of speculative funds by way of its financial subsidiaries. This behavior led to deterioration of bank control in the face of an outbreak of bad debts in the wake of the bubble collapse.

## (2) Stockholding of financial institutions

Table 6 shows the change of the ratio owned by financial institutions.

Table 6 Ratio of stocks owned by financial institutions



Source: *Kigyo Keiretsu Soran*, Toyo Keizai Shinposha.

Table 7 The change of the number of firms associated with the Main Bank in term of owned-stocks

	Long-term credit Banks and City Banks (A)	Trust Banks (B)
88 Main firm Number	-6	117
Sub firm Number	88	57
Total	82	174
89 Main firm Number	-29	108
Sub firm Number	116	169
Total	87	277
90 Main firm Number	82	18
Sub firm Number	141	39
Total	223	57
91 Main firm Number	29	15
Sub firm Number	92	-15
Total	121	0
92 Main firm Number	10	-10
Sub firm Number	5	24
Total	15	14
93 Main firm Number	51	-28
Sub firm Number	-33	-23
Total	18	-51
94 Main firm Number	14	-4
Sub firm Number	7	37
Total	21	33

Notes: Main firm: main bank owns more than 3% of the firms and is the biggest stock owner among the banks. The firms are excluded from the object in case that the number of stocks owned is the same.

Sub-firm: the main bank owns more than 3% of the firms and is the second biggest stock owner among banks. Corporates are excluded from the object in case that the number of stocks owned is the same.

Source: *Kigyo Keiretsu Soran*, Toyo Keizai Shinposha.

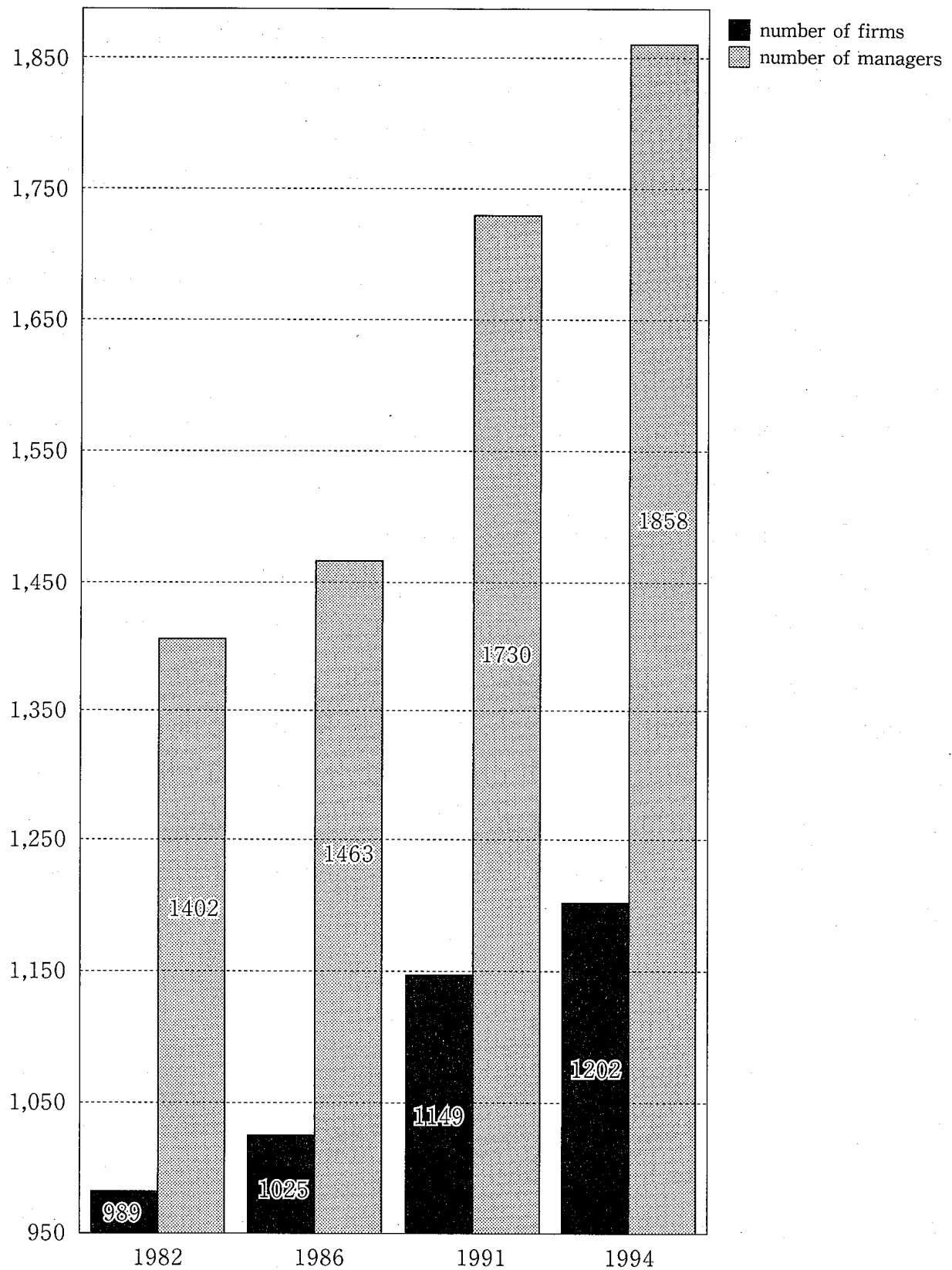
In the table, stockholders included represent only the largest 20 holdings in the company. The share of city banks decreased very slightly during the 1980s and the 1990s, but that of trust banks increased sharply. The share of city banks as a percentage of all stocks among the total stockholding of financial institutions is gradually decreasing, showing that the share is 27.1% in 1984, 24.8% in 1987, 24.1% in 1992, 24.1% in 1994. However, to add that of trust banks to the figure, the share is increasing, showing that the share is 35.8% in 1984, 44.1% in 1987, 47.5% in 1992, 47.5% in 1994 (*Kigyo Keiretsu Soran*, Toyo Keizai Shinposha).

Table 7 shows that the breakdown of the change of firm numbers associated with the main bank in terms of owned stock. It can be seen that the numbers of both main corporate firms and sub-main firms associated with main banks (A and B) increased sharply in the late 1980s. Roughly speaking, the numbers of main corporate firms and sub-corporate firms associated with trust banks decreases after the bubble collapse, but the numbers associated with LTC banks and city banks continue to increase slightly. This evidence indicates that LTC and city bank-firm relationships in terms of stockholding qualitatively and quantitatively expanded sharply in the bubble economy and went on expanding after the collapse of the bubble.

### **(3) Dispatching of managers**

The main bank does more than supervise the firms as an arm's length monitor in the capital market. Frequently, the main bank dispatches executives into senior managerial positions in the firm, often into important decision making posts such as president, vice-president, or senior executive director in charge of finance or corporate planning (Sheard 1994,

Table 8 Dispatching of managers



Source: *Kigyo Keiretsu Soran*, Toyo Keizai Shinposha.



p. 197).

Table 8 shows the number of managers which 14 city banks dispatched to client firms and the number of firms to which banks dispatch managers. It can be seen that these numbers increase sharply in the late 1980s and keep increasing afterwards though at a slower rate. One of the reasons why the number of managers dispatched by banks does not decrease in the depression is that banks tried to rebuild financially distressed firms by dispatching managers.

To summarize the change of bank-firm relationships since the mid-1980s, on the one hand larger firms have become independent on bank borrowing. This should reduce quality and quantity of the information which banks obtain from their clients. However, on the other hand banks have strengthened ties with firms through increased stock-holding and dispatching of managers to firms.

## **5. Evaluation of the Japanese main bank's function**

### **(1) Monitoring function in the bubble period**

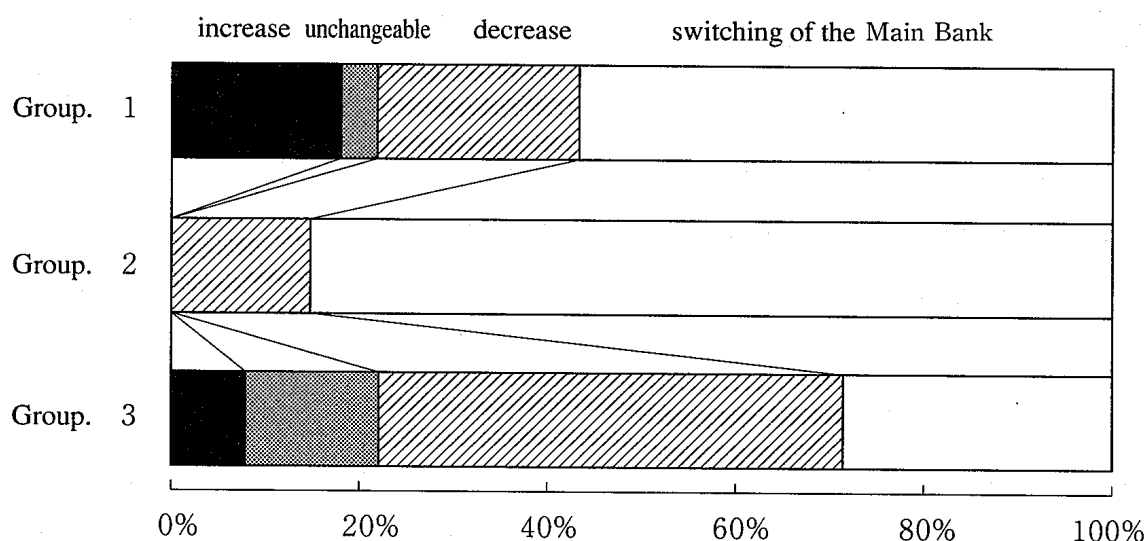
Judging from the actual state of financial economy in the bubble and its aftermath, the effectiveness of the main bank's function has deteriorated significantly.

As it is discussed earlier, money demand from larger firms decreased substantially after the 1980s, but bank lending was increasingly demanded by small and medium size firms which were relatively inferior to larger firms in terms of management ability. Banks responded to increasing competition among financial institutions with offer of easy monitoring that relied on the collateral value of its assets rather than the prospects of firms.

Table 9 shows that firms which sharply increased bank borrowing in

Table 9 The Main Bank' lending to corporate firms which increased the borrowing (1985-90)

The Main Bank' share

Note 1. Date: Toyo Keizai Shinposha, *Kigyo Keiretsu Soran*.

2. The Main Bank means the first Rank Bank of Lending.

3. Group 1: among 116 firms that are selected from ones listed on Second Tokyo Securities Exchange, the borrowing outstanding increased by more than 2 billion yen.

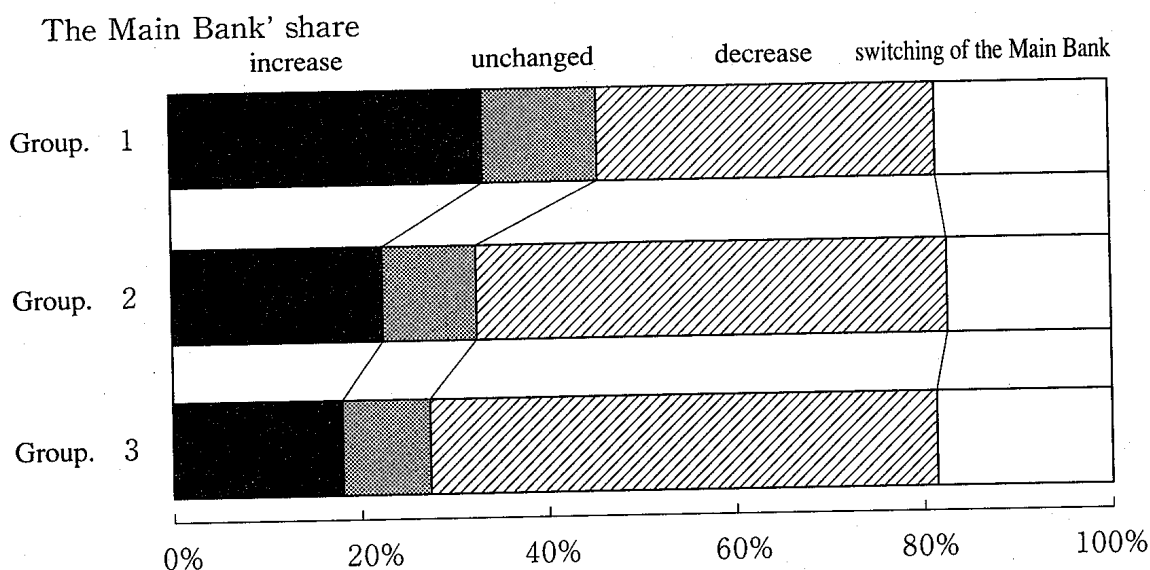
4. Group 2: Among group 1, the borrowing outstanding increased by more than 5 billion yen.

5. Group 3: Among 24 real estate firms listed on Securites Exchange, the borrowing outstanding increased by more than 2 billion yen.

Source: *Economic Whitepaper*, 1996, p. 304.

the bubble were largely dependent on other banks but not on the main bank. This suggests that banks enlarged their lending to companies without the sufficient risk management. Assuming that the main bank has a role as a centre of corporate governance, the main bank played a very limited role in monitoring new loans because the main bank didn't check or allowed its client firms' behavior of borrowing from other banks (*Economic Whitepaper*, 1996, p. 305).

Table 10 The Main Bank' lending to corporate firms which were in financially distress (1990-95)



Note 1. Data: Toyo Keizai Shinposha, *Kigyo Keiretsu Soran*.

2. The Main Bank means the first Rank Bank of Lending.

3. Group 1: among 116 firms that are selected from ones listed on Second Tokyo Securities Exchange, the firms borrowed both in 90 and in 95.

4. Group 2: Among group 1, the firms recorded deficit settlement accounts more than 2 terms between 90 and 95.

5. Group 3: Among group 1, the firms experienced less than 1 interest coverage ratio more than 2 terms between 90 and 95.

Source: *Economic Whitepaper*, 1996, p. 306.

## (2) The rescue activity of the main bank

Sheard argues that it is an important role of the Japanese main bank system when client firms fall into default, main banks undertake more burden than their original loan share (Sheard 1994).

Have main banks rescued client firms when they experienced financial distress following the collapse of the bubble? *Economic Whitepaper* (1996) analyses this issue. Table 10 shows the main bank lending to a sub-sample of corporate firms whose profits deteriorated in comparison with a full sample of firms. First, comparing the full sample to firms that record

deficit settlement accounts more than twice between 1990 and 1995, there is no difference in the frequency of switching of main banks between full sample and the deficit firms. However, in case of deficit firms there are fewer cases where the share of borrowing from the main bank increases, and more cases where the share of borrowing from the main bank decreases. Secondly, in case of firms that record an interest coverage ratio  $((\text{business profit and loss} + \text{finance profit}) / \text{interest payment} \cdot \text{discount fee})$  of less than 1 more than two terms between 90 and 95, only 20% of firms switch the main bank and 60% of firms reduce the share of borrowing from the main bank.

This evidence implies that the main bank took a passive stance to financially distressed firms by reducing its share of loan to firms rather than being involved in positive rescue loan. This means that the main bank select client firms in the process of monitoring.

## 6. Conclusion

We have discussed the role of the Japanese Main Bank from a view point of corporate finance and corporate governance. The main bank's role as corporate financier to larger firms has been undermined because of the change in circumstances facing the banks. But this doesn't mean that firms do not need the banks. There are two reasons for this. Firstly, firms recognise that the bank is the only financial institution which can create credit money. Secondly, firms cannot help being dependent on the settlement account at the bank when they do business with other firms. Moreover, smaller firms still need to be dependent on the bank borrowing due to the difficulty in accessing to stock and bond markets. Though larger firm have become independent of bank borrowing, the banks have

strengthened ties with firms through stock-holding and dispatching managers to firms during the mid-1980s and the 1990s.

However, this point did not contributed to improve the main bank's ability by monitoring. In fact, the function of its mointoring was deteriorated baddly and the main bank played a very limited role as a centre of corporate governance.

Since the bursting of the assets price bubble, the accumulation of bad debts by financial institutions has been a serious issue. There have been significant numbers of bankruptcies of financial institutions: 3 commercial banks, 13 Credit Cooperatives and 4 Shinyoukinko banks have gone bankrupt. In addition to this, financial scandals involving bureaucrats of the Ministry of Finance took place. This financial consequences of the bubble suggest a failure of the bank's monitoring function. Of course, finacial distress is not just a function of the failure of the bank monitoring. However, had the bank's monitoring functioned been carried out more effectively, the chaos of the early 90s would perhaps have been avoided to a large extent.

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