

**“Corporate Restructuring, 1975-2007: From Main Banks to The Market”**

by

**Takeo Hoshi, Satoshi Koibuchi, and Ulrike Schaede<sup>†</sup>**

**ESRI Research Program: “Japan’s Bubble, Deflation and Long-Term Stagnation”**

**Progress Report No.2**

**February 2008**

---

<sup>†</sup>Graduate School of International Relations and Pacific Studies, University of California, San Diego, NBER, and TCER. E-mail: [thoshi@ucsd.edu](mailto:thoshi@ucsd.edu) (Hoshi); Faculty of Commerce and Economics, Chiba University of Commerce (CUC), Japan. E-mail: [koibuchi@gmail.com](mailto:koibuchi@gmail.com) (Koibuchi); Graduate School of International Relations and Pacific Studies, University of California, San Diego. E-mail: [uschaede@ucsd.edu](mailto:uschaede@ucsd.edu) (Schaede). We thank Noriyuki Yanagawa for helpful comments. We thank Emi Fukuda, Kanako Hotta, Masafumi Iino, Akifumi Irie, Yuichiro Kawai, Yoshikazu Kuki, Kuni Nemoto, Masashi Osakada, Mary Shiratori, Christopher Syling, Kunio Takeda, and Koki Yoshida for research assistance.

## **1. Executive Summary / Progress Report**

We have launched Phase 2 of our research, which involves the construction of a database from newspaper articles on restructuring episodes by listed firms. So far, research assistants have coded 8 years of information. We are in the process of merging this information with performance data from these companies.

## **2. Objectives of the Research**

Our research examines empirically the claim that one important contributor to Japan's stagnation in the 1990s was the slow pace of corporate restructuring. We do so by setting the 1990s in historical context of changing modes of corporate restructuring. In order to compare main bank-led restructuring events, which used to be the norm, with new, alternative restructuring procedures, we build and analyze a database of all major corporate restructuring episodes that we can identify in newspaper articles between 1975 and 2007. We examine changes in frequency, dominant mechanism, and effectiveness of corporate restructuring during this period, which is characterized by multiple economic booms and recessions, as well as significant legal and regulatory changes.

Our research will build on existing literature in four areas. First, there is a large literature on the main bank system, which was the primary mechanism for corporate restructuring of large firms in Japan until the 1980s. Sheard (1994), Hoshi, Kashyap and Scharfstein (1990), Hoshi and Kashyap (2001, Chapter 6), and Hirota and Miyajima (2001) focus especially on the role of main banks in restructuring troubled firms. Second, many researchers have pointed to the lack of restructuring as an important source of the 1990s stagnation. Well-known papers include Peek and Rosengren (2005), Sekine, Kobayashi, and Saita (2003), and Caballero, Hoshi, and Kashyap (2007). Third, our research adds to the growing number of case studies of corporate restructurings in the late 1990s and the early 2000s, including the four volumes published by Shōji Hōmu (2004), Konomi (2005), Iwaisako (2005), Koibuchi (2007) and Yanagawa (2006). Finally, our research relates to the study of corporate restructuring more broadly, including more proactive restructuring implemented by healthy companies, as discussed in Schaede (2008).

## **3. Progress to Date (as of February 2008)**

As the first step for building the database for, we have searched four newspapers published by Nihon Keizai Shinbun-sha (*Nihon Keizai Shinbun*, both morning and evening editions and including economic section of regional editions, *Nihon Kin'yū Shinbun*, *Nihon Sangyō Shinbun*, *Nihon Ryūtsū Shinbun*) from January 1975 to July 2007 for articles that include “*saiken*” (再建) as a keyword. “*Saiken*” literary means “reconstruction,” and is a common word to describe an

attempt to restructure a troubled company to regain profitability. We used Nikkei Telecom 21 to conduct the search electronically.

Table 1 reports the number of the articles that include “*saiken*” for each year from 1975 to 2007. So far, we have identified articles regarding listed, non-financial firms involved in restructuring for eight years (1983, 1989, 1991, 1995, 1997, 1999, 2001, 2005). We focus on listed companies because this will allow us to combine our database with accounting data from the Nikkei Financial Database. Table 1 also shows the number of listed firms that underwent restructuring in that year. We are in the process of repeating this process for other years, so that eventually our database will cover the period from 1975 to 2007.

The final step of building the data base is to read each article and code important characteristics of each restructuring episode, such as timing, role of the main bank, involvement of the courts, financial assistance (such as debt forgiveness and/or interest concession), extent of labor force reduction and asset sales, and management turnover. We have collected this information for eight years, and expect to be able to produce summary data shortly. Table 2 shows the list of variables we use. The first column shows the variable (characteristic) in English and the second column shows the Japanese words (events) that we will be looking for in the newspaper articles. We can categorize these variables into eight groups as noted in the table. Coding these aspects enables us to identify patterns of restructuring at a highly detailed level, and in the next step will allow financial analysis of the expediency and effectiveness of different patterns of restructuring.

#### **4. Research Plan (April 2008 to August 2008)**

After we finish building the database for major restructuring events, we will combine these events with financial data for listed firms retrieved from the Nikkei Financial Database. This will allow us to analyze the financial condition of troubled firms in great detail. For example, we can examine how financial conditions (measured, for example, by interest coverage ratio, debt/equity ratio, dependence on the main bank) influence the occurrence and particular processes of a corporate restructuring event. We can also study post-restructuring financial performance, and whether some restructuring mechanisms yield better subsequent performance than others. For the overall sample, we are particularly interested in whether and how the decline of the main banks’ role and the turn to market-based processes affected post-restructuring performance.

The hypotheses we will examine about changes in Japanese corporate restructuring include:

1. Main bank intervention was the standard way to restructure troubled corporations until the

early 1980s.

2. Main bank intervention started to lose effectiveness with ongoing financial deregulation from the late 1980s and the 1990s.
3. Alternative processes of corporate restructuring were very slow to develop and did not emerge throughout the 1990s.
4. Changes in bankruptcy laws increased the importance of court-supervised restructuring after 2000.
5. Corporate restructuring led by turnaround funds, which rely entirely on market mechanism, has become frequent after 2002.

We aim to show that the period of this ESRI Project – namely, the 1990s – was characterized by a lack of clear, standardized or institutionalized modes of corporate restructuring in Japan. The qualitative aspect of our data search may also allow us to identify economic reasons why it took more than a decade for Japan to make the transition from a main-bank led to a market-based system of corporate restructuring. If so, our study will provide a foundation for the literature that emphasizes the lack of restructuring as an important source of stagnation in Japan during the 1990s.

## References

- Caballero, Ricardo, Takeo Hoshi, and Anil Kashyap (2007). “Zombie Lending and Depressed Restructuring in Japan.” NBER Working Paper No. 12129.
- Hirota, Shin-ichi, and Hideaki Miyajima (2001). “Mein Banku Kainyu-gata Gabanansu ha Henka Shitaka? (Has Main Bank-led Governance Changed?),” *Gendai Fainansu*, No.10, 35-61.
- Hoshi, Takeo, and Anil Kashyap (2001). *Corporate Financing and Governance in Japan: Road to the Future*. Cambridge, MA: MIT Press.
- Hoshi, Takeo, Anil Kashyap and David Scharfstein (1990). “The Role of Banks in Reducing the Costs of Financial Distress in Japan,” *Journal of Financial Economics*, 27, 67-88.
- Iwaisako, Tokuo (2005). “Corporate Investment and Restructuring,” in Takatoshi Ito, Hugh Patrick, and David Weinstein (Eds.) *Reviving Japan's Economy*. Cambridge, MA: MIT Press, 275-310.

- Koibuchi, Satoshi (2007). "Debt Forgiveness during the 'Lost Decade': Impacts of the Industrial Revitalization Corporation of Japan", Paper presented in 9<sup>th</sup> Macroeconomic Conference held at Keio University, Japan (December 1, 2007).
- Konomi, Yoshinobu (2005). *Case Book: Kigyō Saisei (Case Book: Turnaround)*. Tokyo, Japan: Chuo Keizai-sha.
- Peek, Joe and Eric S. Rosengren, (2005). "Unnatural Selection: Perverse Incentives and the Misallocation of Credit in Japan," *American Economic Review*, 95, 1144-1166.
- Schaede, Ulrike (2008). *Choose and Focus: Japanese Business Strategies for the 21<sup>st</sup> Century*. Ithaca, NY: Cornell University Press (forthcoming).
- Sekine, Toshitaka, Kobayashi, Keiichiro, and Yumi Saita (2003). "Forbearance Lending: The Case of Japanese Firms," *Monetary and Economic Studies*, 21, 69-91.
- Sheard, Paul (1994). "Main Banks and the Governance of Financial Distress," in Masahiko Aoki and Hugh Patrick (Eds.) *The Japanese Main Bank System*. Oxford, UK: Oxford University Press, pp.188-230.
- Shōji Hōmu (2004). *Saisei Saihen Jirei-shū (Revival and Restructuring Cases) Vols. 1-4*. Tokyo, Japan: Shōji Hōmu.
- Yanagawa, Noriyuki (2006). *Hō to Kigyō Kōdō no Keizai Bunseki (Economic Analysis of Law and Corporate Behavior)*. Tokyo, Japan: Nihon Keizai Shimbun-sha.

**Table 1.**

Year	Number of articles with keyword "再建"	Number of firms
1975	490	
1976	1,078	
1977	1,055	
1978	1,609	
1979	1,479	
1980	1,266	
1981	2,175	
1982	4,168	
1983	3,440	86
1984	3,406	
1985	3,186	
1986	3,063	
1987	2,370	
1988	1,988	
1989	2,031	78
1990	2,514	
1991	3,499	72
1992	3,628	
1993	3,781	
1994	2,930	
1995	3,466	198
1996	3,933	
1997	5,230	126
1998	5,378	
1999	5,059	203
2000	4,990	
2001	5,545	76
2002	5,923	
2003	5,493	
2004	5,902	
2005	5,534	57
2006	4,489	
2007	4,016	

**Table 2.**

<b>A. Firm's characteristics</b>	<b>A. 企業属性</b>
Name of Company	会社名
Name of Company (Kana)	カタカナ
Industry	業種分類
Name of Stock Exchange where the company is listed in	上場
Stock identification#	株式コード（証券コード）
Nikkei identification #	日経コード
<b>B. Articles</b>	<b>B. 記事属性</b>
Year	暦年
Newspaper article identifier	記事番号のリスト
Date of first article (Y-M-D)	最初の記事の年月日
<b>C. Governance and management</b>	<b>C. ガバナンス・経営計画関連</b>
Type of leadership	再建を主導する主体（銀行単独、事業会社単独、銀行団、事業会社団、銀行・事業会社協同）
Companies and banks leading the reorganization	再建を主導する企業・銀行のリスト
Dispatchment of executives from those (y/n)	再建を主導する企業・銀行からの役員派遣の有無
Highest position of the dispatched directors	派遣役員の最高職（社長・会長、副社長・副会長、専務取締役、常務取締役、取締役、その他）
Replacement of main executives (with representation rights)	代表権を有する役員の異動
Reduction in executive compensation	役員報酬のカット
Shift in main shareholders	大株主の異動
Formal announcement of reorganization plan	再建計画の策定・発表
Revisions of reorganization plan	再建計画の変更
Support from RCC	整理回収機構の支援
Support from IRCJ	産業再生機構の支援
Legal reorganization procedures	法的整理の形態（会社更生、破産法、特別清算、和議、民事再生、内整理）
Informal workout turning into court procedure	私的整理から法的整理への移行
Date of legal reorganization	法的整理の年月日（申し立て、開始決定、計画認可、整理終了）
Merger	合併
Acquisition	吸収
Others	その他のガバナンス・経営計画関連
<b>D. Financial restructuring of the asset side</b>	<b>D. 資産側のリストラ</b>
Sale of assets	資産売却
Liquidation of shareholding	株式売却
Exit from a business line	営業譲渡・事業分野からの撤退
Entry into new business	新規参入
Spin-offs (and other structural change)	分社化（およびその他の組織再編）
Liquidation of affiliated companies	関係会社の処理
Others	その他の資産側のリストラ

**Table 2. (continued)**

<b><i>E. Financial restructuring of the liability side</i></b>	<b><i>E. 負債側のリストラ</i></b>
Additional (new) loans or credit line	新規融資（含コミットメントラインの設定）
Interest rate reduction (discount)	金利減免
Debt forgiveness	債権放棄（債務免除）
Debt-equity swap	債務の株式化
Others	その他の負債側のリストラ
<b><i>F. Financial restructuring of the equity</i></b>	<b><i>F. 資本側のリストラ</i></b>
Capital increase	増資
Reduction of equity	減資
Others	その他の資本側のリストラ
<b><i>G. Sales promotion and cost cutting</i></b>	<b><i>G. 収益・費用関連のリストラ</i></b>
Reduction of production scale	規模の縮小
Production cost cutting measures	生産コストの削減
Sales promotions	販売増加策
Others	その他の収益・費用のリストラ
<b><i>H. Reduction of wage bills</i></b>	<b><i>H. 従業員関係のリストラ</i></b>
Relocation of workers within the company	配置転換
Involuntary furlough	一時帰休
Suspension of new recruitment	新規採用の抑制・停止
Encouraging early retirement	希望退職の募集
Layoffs	解雇
Temporary assignment to other companies	出向（移籍）
Other employment adjustment	その他の雇用調整
Wage reduction	賃上げの抑制・賃下げ
Bonus cut	ボーナスカット
Others	その他の従業員関連のリストラ