

# Corporate Restructuring in Japan, 1975-2007

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ESRI Meeting New York City, March 22, 2008

# Main Bank System

- In the postwar period, banks played the leading role in corporate restructuring.
- As the largest creditor and one of the largest shareholders, the main bank played an important role in corporate governance.
- This was clearest when a bank client fell into financial distress: the main bank stepped in to “rescue” the firm.

# Stylized Rescue

The “rescue” package typically included:

- concessions on existing loans
- provision of new money if necessary
- replacement of managers
- bank personnel dispatched to help the new management
- sales of assets

# Changes

- Decline of the main bank system
  - Disintermediation
  - Growth and global finance: independence of large firms
  - Nonperforming loan crisis: banks less effective
- Japan's strategic inflection point
  - System change towards the market
  - New access to better corporate information (accounting reform)
  - New legal procedures for bankruptcy
- New investors
  - Equity funds, turnaround funds, etc.
  - Institutional investors
  - Market for corporate control

# Our Project

- Compare alternative restructuring procedures (bank-led, court-based, etc.)
- Identify shifts between 1975 and 2007
- Examine performance implications of alternative restructuring procedures
- Database and case studies

# Our Database

- Nikkei newspaper articles on corporate restructuring by listed firms, 1975-2007
- Code main measures of restructuring
  - governance, finance, management, assets, labor
- Tie this information to corporate accounting information
  - Nikkei Financial Database

# Dependent Variables

- Did companies restructure?
- Who led the restructuring?
  - Banks
  - Corporations
  - Courts
- Post-restructuring performance?
- Others

# Hypotheses

- Main bank intervention was the standard procedure to address mismanagement until the 1980s.
- Main bank intervention became less effective with ongoing financial deregulation.
- Effective alternatives to bank-led restructuring were slow to develop in the 1990s.
- Changes in bankruptcy laws made a positive difference.
- Restructuring through turnaround funds (the market for corporate control) became more frequent (and effective) in the 1990s.

# Case Studies:

## What we may find

- The 1990s lacked a clear, standardized, institutionalized menu for efficient restructuring.
- Why did it take a decade for Japan to develop such processes?
- Has the shift to market-based system brought an improvement?

# Progress

- So far:
  - Eight years (and counting) coded
    - 1983, 1989, 1991, 1995, 1997, 1999, 2001, 2005
  - Ten case studies under way
- Next steps:
  - Merge newspaper accounts with financial data
  - Statistical analysis