

# ***Keiretsu*-Style Main Bank Governance, Influential Power and Cash Holdings: Quantile Regression Analysis**

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## Abstract

We examine whether the *Keiretsu* style (J-style) main bank governance in which bank serves both of a shareholder and a creditor, has a mitigating effect on the degree of conflict between debt-holders and shareholders. Since corporate inefficiencies with excess cash reserves are often a direct manifestation of this conflict. We specifically examine the impact of J-style governance on clients' excess cash, and find that firms with *Keiretsu* main bank governance hold significantly leaner cash than their counterparts, they are more efficient. However, high leverage can reverse this effect. Our evidence shows that when firms are highly-leveraged, their *Keiretsu* main banks turn out to be a liquidity provider that a positive relation is shown. The former *Keiretsu* behavior likes a stockholder, while the latter the debt-holder. Our results also indicate that firm's quantile membership is a substantial factor in influencing the relationship of Keiretsu on firms' cash holdings. We find that firms at higher quantiles memberships significantly gain from the effects of *Keiretsu* main bank, growth opportunity, size, interactions of R&D with main bank, and leverage with main bank, and hold less cash; while mostly lower quantiles firms suffer from these. The greater importance of R&D relative to capital expenditures also has a permanent positive impact on cash holdings. I find the monitoring efficiency of the larger, better performing, and Keiretsu clients significantly improve after the shock of Asian Financial Crisis. This size effect also becomes pronounced during the volatile period. Although earnings volatility increases after the Crisis, firms' cash holding is decreasing, implying another evidence of stronger bank monitoring after the Crisis. I also find that firm with the closest influential power with its *Keiretsu* hold the leanest cash. Results of this work provide relevant implications for policy makers.

Keywords: J-type Corporate Governance, *Keiretsu*, Cash Holdings, Main Bank, Bank Monitoring, Financial Crisis.

JEL Codes: G32, G34, G30.