

Effects of Main Bank Switch on Small Business Bankruptcy

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Abstract

This paper uses a unique firm-level panel data set of more than 3,000 small and medium-sized enterprises (SMEs) in Japan to clarify the following four points. First, switching of main banks reduces the probability of SME bankruptcy. Second, the switching also reduces the probability of bankruptcy even if the switch is a transfer or new transaction. Third, the effects of switching on reducing the probability of bankruptcy differ depending on the strength of the firm–bank relationship. Finally, we find that the reduction of the SME bankruptcy probability is observed only when young firms are targeted.

JEL classification: G21; G33; M13; M21

Keywords: Main bank switch; Bankruptcy; Small business; Firm–bank relationship;

Young firms