

The Number of Bank Relationships and Small Business Bankruptcies

Yuta Ogane

Graduate School of Economics, Nagoya University

January 12, 2015

Abstract

In this study, we analyze the effect that the number of firms' correspondent financial institutions has on the probability of firm bankruptcy using unique microdata from small and medium-sized enterprises incorporated in Japan between April 2003 and January 2012. The result shows that an increase in the number of correspondent financial institutions increases the probability of firm bankruptcy, which implies that the free rider problem occurs in the financial sector; that is, an increase in the number of correspondent financial institutions of a firm accelerates the free ride of other financial institutions in supporting the firm. Ultimately, this decreases the level of firm support received from financial institutions and, therefore, increases the probability of firm bankruptcy.

JEL classification: C72; D71; G21; G33; M21

Keywords: Multiple bank relationships; Bankruptcy; Small business; Free rider problem; Collective action