

Corporate Governance, Relationship Banking, and Firm Performance

Shiow-Ying Wen *

* Associate Professor, PhD
Department of Business Administration
Chang Gung University
259 Wen-Hwa 1st Road, Kwei-Shan, Tao-Yuan
TAIWAN

Tel: 886-3-211-8800 ext.5405

Fax: 886-3-211-8500

Email: wensy@mail.cgu.edu.tw

Corporate Governance, Relationship Banking, and Firm Performance

Abstract

The research aims to examine empirically the effect of corporate governance and relationship banking on firm performance in Taiwan. In the relationship banking literature, the bank-firm relationship is portrayed from many perspectives. Previous literatures consider one of the most critical factors in relationship banking is to solve the information asymmetry problem or reduce the monitoring cost (Diamond, 1984, 1989; Berger et al., 2001; Jimenez and Saurina, 2004). However, the bubble economy happened in Japan in the late 1980s seems to suggest that relationship banking, or the main bank system, lost its function and revealed its dark side (Arikawa and Miyajima, 2005). Hackethal et al. (2005) also point out that the German corporate governance system has long been regarded as an insider-controlled and stakeholder-oriented system, and it seems that Germany has seen a wave of innovations in corporate governance and financial system over the last decade. Meanwhile, internationalization is often argued that “good” corporate governance system usually means one that follows the capital market-based Anglo-Saxon model rather than the bank-based system.

Before the capital market of Taiwan ripened, the bank had been the main credit provider for the firms. Since 1990s, the financial liberalization policy conducted by Taiwan government has enhanced and progressed the enterprise’s financing channels. It shows that the indirect finance of corporate has dropped from 89.79% in 1989 to 72.29% in July 2005. (Central Banks of Taiwan, http://www.cbc.gov.tw/economic/statistics/total_index.asp). Enterprises raise more money from the capital market directly and less from financial institutions. Even so, it shows still that the bank is the main supplier of the credit to the firm. As shown in the literature, it is seldom to study the effect of the relationship banking and the corporate governance in the comparative financial systems, especially for the developing countries. Therefore, our research concentrates on whether the relationship banking and corporate governance influence the performance of the firm from the Taiwanese experiences.

In the paper, empirical study will be conducted by using the panel data approach. The proxies of corporate performance, relationship banking, and firm performance are collected from Taiwan Listed-company Database and the Information Disclosure and Transparency Rankings System (IDTRS), covering the period from 2003 to 2006. The plan of the paper is as follows. Section 1 gives the introduction and literature review. Section 2 depicts the methodology and empirical designs. Empirical results and applications will be presented in section 3. Section 4 is the concluding remarks.

Keywords: Corporate governance, Bank-firm relationship, Firm performance, Panel data model.