A STUDY OF BANK RELATIONSHIPS IN TAIWAN

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ABSTRACT

The paper aims to investigate the banking relationships in Taiwan. This paper employs the panel data approaches to uncover the close extent of relationships between banks and firms, using a panel data set of 325 listed firms in TSE (Taiwan Stock Exchange) from 1993 to 2002. Empirical results indicate that firms with lower number of related banks have better performance, and that firms with higher bank loan ratio have lower lending costs.

INTRODUCTION

The long-lasting and close relationship not only can increase the lending amount of firms [1] but also can reduce lending cost [2]. On the other hand, since firms and banks maintain approaching relationship, it is more likely that banks can acquire proprietary information more than public, and then reduce the problem of information asymmetry and monitoring cost [3] [4] [5] [6]. Furthermore, firms with stronger existing relationship with banks could have higher availability of funds [7] [8] [9] [10].

In our paper, the panel analysis model is conducted using a panel data set of 325 listed firms from January 1993 to December 2002. Two major issues are examined. First, the paper examines the effects of the banking relationship and the firm performance. Second, the paper examines the effects of the banking relationship and the lending cost. ROA and loan interest rate are shown as dependent variable. ROA represents firm performance, while interest rate represents lending cost. Nine independent variables are used to represent firm characteristics and banking relationships: borrowing firm size (ASSET), leverage (LEV), bank debt to total asset (BANK), long term bank debt (LONG), short term bank debt (SHORT), the number of banking relationships (NUM), loan interest rate (IR), multiple banking relationship dummy (MULTIPLE), and no guaranteed bond issue dummy (BOND).

EMPIRICAL RESULTS AND CONCLUDING REMARKS

Regarding the effects of the banking relationship and the firm performance, empirical results show that the number of banking relationship (NUM) and loan interest rate (IR) are significantly related to firm

performance. The number of banking relationship negatively affects firm performance, which is consistent with the view that firms tend to concentrate lending relationship to reduce monitoring cost and to strengthen banking relationship [1]. Moreover, [8] find that having concentrated relationships with banks, firms are offered better guaranteed conditions and better borrowing availability. Hence, firms with lower number of banking relationships perform better. However, the positive relation between loan interest rate and firm performance is not consistent with literature study. Regarding the effects between the relation between lending cost and banking relationship, empirical results indicate that firms with higher bank debt ratio have lower lending cost. The result is consistent with the view that firms with close banking relationship have lower lending cost [5] [8].

In the paper we analyze the sample of Taiwanese firms to examine how banking relationships affect firm performance and loan interest rate. Empirical results indicate firms that are tied to lower number of banks may perform better. Results also show that concentrated banking relationships may bring better loan conditions in which are benefit to firm performance.

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