

Market Liquidity and Bank-dominated Corporate Governance: Evidence from Japan

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This paper investigates the relationship between market liquidity and bank-dominated corporate governance structure of Japanese listed firms, represented as main bank relationships and cross shareholdings. We find that (i) main bank lending relationships increase market liquidity and reduce asymmetric information in the Tokyo Stock Exchange and (ii) foreign shareholdings are positively related to market liquidity and negatively correlated with asymmetric information. This suggests that the bank monitoring mechanisms would take a substitute information production role for block holder monitoring role in the market-oriented corporate governance countries like US.

Keywords: Market liquidity; Main bank; Foreign shareholdings

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