Empirical Analysis of the Hold-Up Problem in Debt Financing: Evidence from Japanese Listed Firms

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We provide causal empirical evidence that, even among publicly traded firms that seemingly suffer less severe information asymmetries, some firms experience hold-up problems in debt financing. Based on the prediction in Rajan (1992), we examine how changes in the ratio of short-term bank loans affect firm leverage and investment behavior. We confirm that, while bank-dependent firms face reduced leverage and investment as the ratio of short-term loans increases, firms with access to the public debt market can mitigate or offset these adverse effects. This finding, consistent with Rajan (1992), suggests that, as many Japanese firms lack access to the public market because of the absence of public debt issuance under the BBB rating, even publicly traded firms, no matter how large or well known, face potential hold-up problems in their relationships with banks. This paper's results help explain why firms without access to public debt consistently have lower leverage than do firms with such access and provide possible reasons for the phenomenon documented in the previous studies.