Debt Discipline and Shareholder Corporate Governance

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Abstract

We investigate whether shareholder corporate governance and debt discipline are mutually substitutable in improving corporate performance. Using listed non-financial Japanese firm data for 2004-2019, we adopt several indicators of shareholder corporate governance based on Japan's unique history of corporate ownership. For each indicator of shareholder corporate governance, we find that the higher the leverage, the lower the positive association between the strength of shareholder corporate governance and corporate performance. We also find a similar effect of debt on positive associations between the strength of shareholder corporate governance and the firm's intangible investment and research and development expense. Thus, both shareholder corporate governance and debt discipline improve corporate performance by facilitating firm investment in innovation. This result implies that the quiet life hypothesis that weak corporate governance makes managers inactive holds not only for weak shareholder corporate governance, but also for lack of debt discipline.