A Definition of Relationship Lending in a Global Context: A Study of the Japanese Main Bank System in the USA

Kanji Kitamura
SOAS, University of London

This paper concerns the lending technologies with the focus on relationship lending in a global context. It examines the two paradigms of arm's-length lending and relationship lending as two extreme ends to capture the actual patterns of external finance. Establishing the nexus of social attributes, it concludes that relationship lending is based not only on soft qualitative information for SME financing but also on a collective trust between banks and large corporate borrowers in the Japanese main bank system. The findings suggest that the definition of relationship lending differs between economies on a global basis.

INTRODUCTION

In Japan, the main bank system ("MBS") signifies the nation's banking system (Hirota, 2009). The MBS is to begin with an "intense manifestation of relationship banking" (Aoki and Patrick, 1994, xxi). According to Berger and Udell (2006, p. 2946), relationship lending is a type of lending technology that is "based significantly on soft qualitative information" and typically used to finance small and medium-sized enterprises ("SMEs"). The international organizations, such as the BIS and the World Bank, distribute a wide range of publications on the theme of SME financing. Relationship lending can be an important element of bank financing with direct policy relevance at the national level.

While relationship lending is discussed worldwide, there appears to be a noticeable disparity in understanding of the terminology. The Western[1] literature (Berger and Udell, 2006) typically states that it pertains to SME financing: In other words, it is generally remote from corporate lending for large firms, whose debt is "diffusely held" (Hoshi, Kashyap and Scharfstein, 1990, p. 86). On the other hand, the argument presented from an Eastern perspective (Hirota, 2009; Aoki and Patrick, 1994) says that relationship lending characterizes the MBS regardless of borrower size in Japan. The discrepancy seems to suggest that, depending on the location, it may be inappropriate to refer to relationship banking as a type of lending technology solely for SME financing. It is not the case at least in Japan based on the MBS literature. It may not be so either potentially in other countries on a global basis.

This paper[2] will first offer a review and an update of the Japanese MBS. It will then explore the two paradigms of external finance, positioning them in the two corresponding patterns of wealth creation. To establish a hypothesis, it will examine the lending technologies as financial attributes of the paradigms. The findings show that relationship lending is based not only on soft qualitative information used for SME financing but also on a collective trust between banks and their large corporate borrowers in the Japanese MBS. This paper concludes that the terminology *relationship lending* calls for sensible handling in a global context.

THE JAPANESE MAIN BANK SYSTEM

The terminology *main bank* ("MB") in general refers to the closest relationship bank(s). In the context of Japan's MBS, a main bank typically means one within a corporate group between its affiliate and its MB. Large corporate groups are still often called keiretsu. While it is not always the case, this paper focuses on a keiretsu context for discussion purposes. Miyashita and Russell (1994, p 43) offer good explanations:

> Not surprisingly, a main bank is a financial institution that keeps money flowing to a group of industrial concerns. But if this were all a main bank did, the United States would be chock-full of bank-led keiretsu. A main bank in Japan does much more than simply make loans. It is also the central clearinghouse for information about group companies and the coordinator for group activities. It monitors the performance of its group, holds equity in most of the monitor companies, and provides management assistance when it deems necessary. In the worst case, if one of the group firms is in serious trouble, the main bank is expected to step in with both financial assistance and a whole new management team selected from among the bank's executives.

The central point of their argument can be that, while a MB has various functions, it exists for "a group of industry concerns", in which "a group" consists of keiretsu affiliates. The argument here is not to claim that a MB exists exclusively for it but that the MB functions takes it into account. Hoshi, Kashyap and Scharfstein (1991, p. 57) provide evidence that "comes from the fact that investment by firms with a close relationship to a bank - those firms that we a priori believe can minimize these (information and incentive) problems - is much less sensitive to their liquidity than firms raising their capital through more arm's-length transactions" in the capital markets. Those Japanese firms' investments are "less sensitive" because their MBs supply funds as necessary, according to their study.

One effective way of understanding the MBS is to examine what has changed and what has remained before and after the Big Bang, which was a major policy reform initiated in the late 1990s (Toya, 2006, p. 2). Having gone through many changes, the MB functions and roles seem to have changed from Japan's booming times. Hirota (2009: 1)[3] reports on the Big-Bang changes of the MB roles, making the following six points: 1) Company-MB relationships are stable, and most companies have not changed their MB, 2) in the 1980s and 1990s, the importance of bank borrowing and MB borrowing become less since the companies' debt ratios lowered, 3) since the 1990's however, the companies' dependency on MB borrowings has remained unchanged, 4) less cross-shareholdings (mutual holdings between the company and its MB) and yakuin haken (executive offer hired as a member of the company's board from its MB) observed since the 2000s, 5) in most cases, companies usually choose their MB to become the arranger of syndicated credit facilities extended to the companies, and 6) most companies choose their MB and its group security company to become the arranger of corporate bond issuance. Hirota's findings indicate the existence of the MBS, though the significance of lending, cross-shareholding and yakuin haken has become less. The significance of each MB function has changed over the last two decades.

While some of the MBS characteristics have changed, most of the large Japanese firms have retained its closest relationship bank(s) for decades (Hirota, 2009) in Japan. Hirota's findings are well summarized in his paper title: *Changing Japan's MBS from Monitoring to Risk Hedging*. The grounded element of his findings can be the continuity of the MBS with its representative feature: The MBs exist for a group of industrial concerns to a varying degree over time, despite the striking fact that there is no legally bind contract between the firm and the MB (Miyashita and Russell, 1994). The Japanese companies value and favor their MB, and in return, companies expect the MB to provide financial support when truly necessary and rescue in case of emergency.

With respect to MB rescues, Learmount (2002, p. 91) provides useful information with a good clarification: A high-level banking professional he interviewed "confirmed that the main bank would always attempt to help a core client to the best of its ability, irrespective of size (interviewees in all other banks corroborated this)". The degree of "the best of its ability" perhaps changes according to the bank's business results, the external business environments and so forth. Hoshi, Kashyap and Scharfstein (1990, p. 86) provide a parallel: "… group firms are helped in times of financial distress not because it is efficient to help them, but simply because the group is unwilling to let one of its members fail". Their view corresponds with the recent studies carried out after the Big Bang. This paper focuses on the grounded element of what has remained: the continuity of the MBS, in which relationship lending is employed at the level of bank financing for large corporations. The following section will situate the MBS in a global context.

FINANCIAL SYSTEMS IN A GLOBAL CONTEXT

The banking sector may be seen as a collection of financial institutions, an industry regulated by the bank supervisor, or collectively a large financial system. At the macro level, the financial sector in most industrialized countries has two major functions in the monetary system: "channeling the flow of funds from savers to investors" and "promoting the other function of money: use as a medium of exchange and as a store of value" (Prindl, 1981, p. 3). While the latter can be generally applicable as-is to most countries, the former may be categorized into two types: the market-based system and the banking-based system (Aoki and Patrick, 1994). These systems can be perceived as available options in regulating the growth of credit and money supply. Aoki and Patrick (1994, xxii) elaborate:

> A fundamental choice is between a securities market-based system of external finance, primarily for large businesses, through competitive issue of equity, bonds, and commercial paper; and a banking-based system of loans, short term and longer term. The securities market system, often termed Anglo-American model, has dominated much academic and policy thinking about financial systems. The banking-based system of corporate finance, monitoring, and governance - more recently termed by some the Japanese-German system - provides an alternative analytical model of direct policy relevance.

The actual system in most countries however stands somewhere between the two extreme types. According to Aoki and Patrick (Ibid.), "While the dichotomy between security market and bank systems of corporate finance is analytically important, the reality is that advanced industrial countries combine both so that differences are less extreme in practice than in theory". The literature suggests that developed countries use a mix of systems and possibly prefer one system over the other for the function of channeling the flow of funds. That is why large corporations' debt obligations tend to be diffusely held in the USA, while the MBS is still distinctive in Japan. The idea here is not to suggest one system is better than the other but is a matter of preference or possibly some sort of suitability. Neither type is inferior to the other.

For understanding the societies' preferences, it can be instructive to examine the different patterns of wealth creation. In the field of political economy, Hall and Soskice (2001) discusses the typology of capitalism, proposing two types of political economies: liberal market economies ("LMEs") and coordinated market economies ("CMEs"). Their book makes a highly positive contribution, but unfortunately it is often criticized for their oversimplified typologies. Campbell (2010, p. 102) writes:

> Many critics of the varieties of capitalism approach have argued that it oversimplifies institutional reality. Real-world national political economies are in varying degrees complex institutional hybrids. They consist of a variety of interrelated institutions, some typical of liberal market economies and some typical of coordinated market economies.

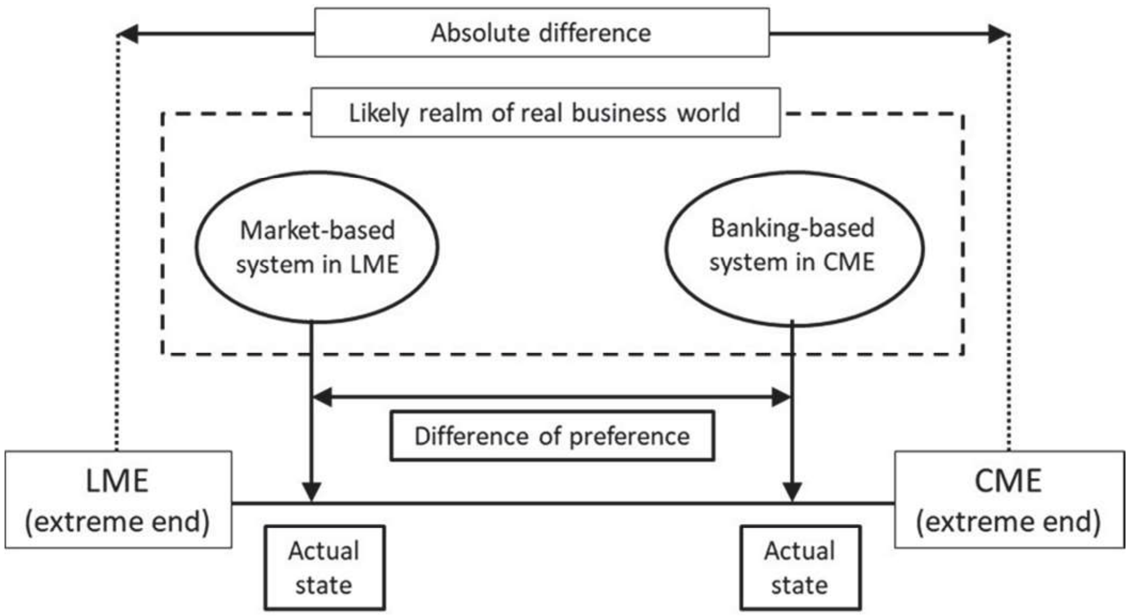
Nevertheless, the LME-CME typology is frequently cited in academia today because many scholars perceive it as relevant and useful. In discussing institutional change in financial systems, Deeg (2010, p. 313-314) explains why:

> There is… no simple correspondence between typologies of financial systems and typologies of capitalism. Comparative institutional theories of capitalism postulate anywhere from two to six types of capitalism, whereas institutional theories of finance typically postulate two or three types…. Thus for the purpose of simplifying discussion, we use the parsimonious Varieties of Capitalism typology to illustrate some of the key linkages between the financial system and firm behavior (financing patterns and market strategies) that are posited in the literature.

The discussions suggest that the LME-CME typology is still prevalent though has its weakness of being oversimplified. This weakness can be mitigated by treating each of the LME and CME typologies as the two extremes to capture a multi-dimensional spectrum of possible types of institutional theories. FIGURE 1 theoretically illustrates the discussions about financing for large companies. The LME-CME extremes may not capture all types of political economies around the world, but the mitigating treatment remedies their weakness. This paper attempts to make constructive use of such a prevalent idea like the LME-CME framework, rather than regarding it as a parsimonious type.

According to Hall and Soskice (2001, p. 20), the LMEs are defined as Australia, Canada, Ireland, New Zealand, the UK and the USA. The CMEs include Japan, and certain continental European and Scandinavian countries. This country classification supports the structure and the scope of this paper to compare the American and Japanese financial systems.

FIGURE 1
DIFFERENT PREFERENCES FOR EXTERNAL FINANCE



The LME-CME framework is structured to capture the function of channeling the flow of funds between actors. In terms of the flow of funds, Hall and Soskice (2001) classify it into two types, namely fluid capital and patient capital. In the case of Japan, the MBs' continuous financial support, or the aggregate bank loans at the national level, is referred to as patient capital (Ibid., p. 22). In the CMEs, companies have access to finance "that is not entirely dependent on publicly available financial data or current returns" (Ibid.). Fluid capital can be described as the opposite: In the LMEs, the financial system provides capital sensitive to current profitability. In other words, bank loans are fluid because the banks stop lending to borrowers losing money and move funds to those profitable. This discussion suggests that, if the majority of decision-makers in a society's financial system prefer bank loans that are not entirely dependent on borrowers' current returns, the banking-based system may be suitable for their shared preference. The following section will examine the lending technologies, focusing on relationship lending in a global context.

LENDING TECHNOLOGIES

The literature distinguishes two types of lending technologies, namely transaction lending and relationship lending (OECD, 2015, p. 14). Berger and Udell (2006, p. 2946) write that transactions lending is "based primarily on hard quantitative data" and relationship lending is "based significantly on soft qualitative information". Transaction lending is alternatively called arm's-length lending, "which relies on hard (verifiable) information and assets" (Beck et al., 2014, p. 2). Aside from somewhat different terminologies defined and used in circulation, the literature generally supports the basic distinction of transaction lending and relationship lending as traditional lending technologies (OECD, 2015, p. 14). The mainstream idea appears twofold: 1) banks employ broadly speaking the two types of lending technologies, and 2) these two are not mutually exclusive (OECD, 2015, p. 15). Banks use a mix of technologies, though one technology or mechanism may be prioritized for credit decision-making over the other (OECD, 2015, p. 15).

One important point here is that the concept of lending technology is in practice a description of decision-making for lending at financial institutions. In the extreme sense, arm's-length lending and relationship lending are likely to produce fluid capital and patient capital, respectively. With respect to the CME banks' lending decision-making, Hall and Soskice (2001, p. 23) describe it as "the presence of dense networks linking the managers and technical personnel inside a company to their counterparts in other firms on terms that provide for the sharing of reliable information about the progress of the firm". In simple terms, a CME makes use of interfirm networks as the primary tool for channeling the flow of funds. Their description of the CME financial system is synonymous to that of the relationship lending technology. This interfirm network is "a group of industrial concerns" in Miyashita and Russell's words (1994, p 43) as discussed earlier.

There is a useful work that explains the interfirm network in the CME. Sako (1992) conducted a comparative study between British and Japanese business practices in the electronics industry, focusing on British trading relationships and Japanese trading relationships. It is worth examining her work at least for three reasons: First, Sako offers a good explanation of a group of industrial concerns. Second, a group of industrial concerns go beyond the industrial boundaries and are shared between the Japanese professionals. Finally, the UK and the USA are considered the LMEs, thereby making theoretical relevance. Based on her findings, Sako (1992) provides a conceptual framework entitled Arm's-Length Contractual Relation ("ACR") and Obligational Business Relation ("OCR") to represent the British and Japanese patterns, respectively. Regarding OCR, Sako (1992, p. 10) explicates what is the shared between the Japanese professionals:

> What underpins heavy mutual dependence as an acceptable, even preferred, state of affairs is the existence of 'goodwill trust'. 'Goodwill trust' is a sure feeling that trading partners possess a moral commitment to maintaining a trading relationship. It may manifest itself in not taking unfair advantage of one's circumstances (for which shared principles of fairness exist) and in offering preferential treatment or help whenever the need arises.

Goodwill trust is a "sure feeling" because it is a shared way of thinking beyond the corporate boundaries among the Japanese that Sako interviewed during her research. Firms have preferred styles or patterns, such as ACR and OCR. In the respective patterns, professionals (or individuals) make the decisions that become the corporate decisions. Perhaps more precisely, firms are the reflections of individuals' business decisions (Ketkar et al., 2012), some of which are driven by their individual beliefs that possibly pertain to Sako's grounded findings, which substantiate the extreme patterns.

Sako (1992) begins her book with an important clarification: "It cannot be presumed that there is one single characteristic pattern of buyer-supplier relations in Japan and another in Britain" (1992, p. 2). ACR is not intended to assert that all British buyers and suppliers, without exception, equally exhibit all the ACR characteristics. By the same token, OCR never represents all Japanese buyer-supplier relations. ACR and OCR are "constructed to capture complex variations in buyer-supplier relations" and "best thought of as lying at the ends of a continuum" (Ibid.). Both Britain and Japan have "a range of actual trading patterns which lie on the ACR-OCR continuum" and in practice "the modal Japanese inter-company relationship is more OCR than the modal British one" (1992, p. 15). ACR and OCR are the extreme ends to capture complex corporate variations sitting somewhere between the ACR/OCR ends in the real business world. This paper treats all the dichotomies examined herein as feasible frameworks with two extreme ends to capture the social realities.

Sako's description of goodwill trust may be adjusted to discuss the finance sector: Goodwill trust is a sure feeling that banking partners possess a moral commitment to maintaining a banking relationship. This amended description explains why the Japanese retain the MBS, even though there is no legally binding contract between the MB and their clients. With the concept of lending technologies, the idea may be developed as follows: In the CME, the terminology *relationship lending* is based on a collective trust between banks and their corporate borrowers. This paper treats this statement as its hypothesis. The hypothesis is not to argue that it captures all banking relations in Japan with no exception but to represent the extreme state of relationship banking in the CME.

METHODOLOGIES AND DATA COLLECTION

This research adopted the qualitative method of interview as its primary tool for inquiry. The ontological orientation of the research aim is constructivism, which required a qualitative approach (Bryman, 2004, p. 20). The method can be particularly effective for the banking sector, which is highly regulated with the duty of confidentiality. Because of the constraints, most of the MBS activities, other than generally publishable end results of the banking activities, are usually invisible to the public. To probe it, the 20 in-depth interviews were conducted[5] as part of the researcher's PhD research project. The top three largest Japanese banks were selected on the assumption that they would have more cross-national activities taking place than smaller banks with modest foreign operations. All the interviewees have resided and/or worked for banks in the USA. Interviews were conducted in English with US nationals and in Japanese[6] with Japanese nationals. All interviews started with a very generic topic about working for a Japanese bank in the USA (i.e. in a cross-national setting), and a simple yet broad question: Are there cross-national differences in banking today? The word *differences* became concrete at various points of time during research. All interview conversations were open-ended to maximize research opportunities and avoid leading questions. As the result, the field research collected a dozen of cross-national topics shared among the interview data. This paper reports on one of the grounded categories that achieved theoretical saturation.

This research chose interviewees who had a cross-national professional experience, defined as 1) serving outside the country where the interviewee was raised or 2) serving an employer whose management and employees consisted predominantly of nationals different from the interviewee. This ensured that the interviewee was empirically exposed to foreigners and foreign practices on a daily basis. All interviewees had a seven-year banking experience or more, and most had a management-level corporate title, such as Vice President, at the time of interview. Over the course of their career, 95% of them worked for two or more companies or offices by either changing the employers or being transferred within the employer network, making the interview results more general without bias, rather than specific to their current employer. The subjects had reasonable "requisite knowledge" (Bryman, 2004, p. 156) on banking expertise and cross-national matters that were compared between the countries. They were able to articulate their ways of thinking and the business practices, making comparisons between the Japanese and Americans at the individual level and between Japanese and American business practices at the organization level. Their requisite knowledge indeed aided the researcher in detecting the cross-national differences effectively, without posing any leading questions.

FINDINGS

The in-depth interviews collected voluminous data. This section does not introduce every relevant finding but examines the grounded elements shared among the interviewees. An experienced American banking professional, who was an in-house auditor in charge of the Japanese credits at a US operation of a Japanese megabank, maintained:

> Japanese banking is more relationship based (than US banking): The Japanese have a high level of faith to borrowers. Financially weak companies (Japanese borrowers) draw loan continuously or more frequently, and the (Japanese) bank provides continued support. The bank owns stocks of the parent company (of the financially weak borrower). Very different (from US practice).

The interview data appears to be a concise description of patient capital, which is concrete evidence of the CME pattern. The interviewee described patient capital as "a high level of faith to borrowers". All interviewees, who mentioned the topic, with other megabanks commonly testified the notion of "a high level of faith", using an alternative phrases, such as the bottom line of the main bank relationship, and a mutual trust between the entities established over a long history. All of these can be synonymous to a collective trust between the banks and their borrowers.

In relation to the LME banking system, an experienced Japanese credit analyst, who had worked for both American and Japanese banks for more than 15 years altogether, recounted:

> From my observation, customer relationships in US banking are dry, transactional or business-like compared to Japanese banking. Once the borrower's business stops generating good profits acceptable to the bank, the bank ends the lending relationship. Offering a continued service of extending a loan to poorly performing clients is much discouraged. Highly keen on own profitability. Quickly exit poorly performing borrowers.

The above interview data describes the opposite, fluid capital in the LME. The interviewee offered one realistic reason why bank loans were fluid in the LME: Supporting poorly performing borrowers was costly[7]. At the LME banks, decision-making employees prioritize maximizing the bank's profits, which can be financially sensible, over offering continued financial support. Similarly, an experienced Japanese manager with a Japanese corporate section at an American bank candidly explained:

> American banks say "Please come back after you begin making money again" to borrowers who have started losing money. Then the bank terminates the lending relationship. It can be surprising and problematic in Japan but not in the USA, because borrowers in the USA know how American banks act.

Similar to patient capital in the CME, fluid capital seems to be linked with the normative ways of reginal banking practices. The local American businesses know how the American banks act, because it is based on the shared knowledge formulated by various social practice patterns. For example, the bank employees in the USA are generally not "psychologically bound for life to their firm" (Tsurumi, 1978, p. 111) in the "fluid labor markets" (Halls and Soskice, 2001p. 16), in which the employers can terminate poorly performing employees relatively more easily than the CME. In the fluid labor markets, the LME banking professionals are generally targeted to obtain satisfactory results as quickly as possible, which is why they must actively seek profitable relationships, terminating unprofitable ones, "optimizing" their credit portfolios as quickly or frequently as possible, making their loans 'fluid'. These LME activities are ascribed to the regional norms that make individuals believe that a good outcome must be gained within a relatively short-period of time, driving the banking professionals to be short-term oriented (Jacobs, 1991), making patient capital impossible. The decision-making professionals prioritize various forms of individualistic interest at different angles that together supersedes the collectivistic interest of "a group of industrial concerns".

The interview research has uncovered the banks' lending decision rationale, which is one evidence for the ABR-OBR pattern. Lending decision rationale and the resultant decisions differ between the ABR and OBR patterns because they hinge on the banks' missions. As presented earlier, the interviewees described the ABR banks' mission as maximizing bank's current profits, while the OBR banks' ultimate mission was to provide financial support for their borrowers based on long-term MB relationship. All the interview results concerning banks' decision rationale pointed it out. An experienced Japanese credit manager with years of experiences in underwriting Japanese corporate loans in the USA maintained:

> Rationale for credit decisions is radically different between Japanese banking and US banking. The Japanese relationship managers come to me (Japanese credit underwriter) and say “We will extend this new loan to the borrower because we are the main bank to them, thank you for your work”. The lending decisions are often made without analysing the borrower’s financial performance in detail, when we are the main bank to the borrower. Being the main bank is the decision determinant. In the US however, borrower performance is absolutely critical for the American credit committee members. Main-bank relationship supersedes anything for the Japanese professionals but it normally means nothing to American professionals. This gap is highly problematic in the credit committee meeting with American credit officers about poorly performing Japanese borrowers.

The interviewee says “problematic” because the Japanese decision rationale, which is perfectly reasonable to the Japanese bankers, is irrational to the American bankers. Borrower performance is certainly a critical factor as the banking supervisors oversee the Japanese banks, yet the MB relationship can also be the decision base. Another interviewee elaborated the difference of lending styles:

> One reason why long-term relationship (in the sense of MB relationship in the CME) is not critical in US banking is that relationship is easily overthrown. Long-term relationship-based banking does not work in the US. Business relationships (including banking relationships) are money-based.

The colloquial expression “money-based” can be one way of describing the healthy LME, which consists of individual parties with the primacy of the arm’s-length principle (“ALP”) over the collective trust. This discussion is not to deface the ALP but to give shape to the market-based system. The triangulation of research data appears to suggest that there are different types of trusts: The LME individuals show a generally high level of trust in the ALP, while the CME individuals exhibit a distinct level of the collective trust.

DISCUSSION

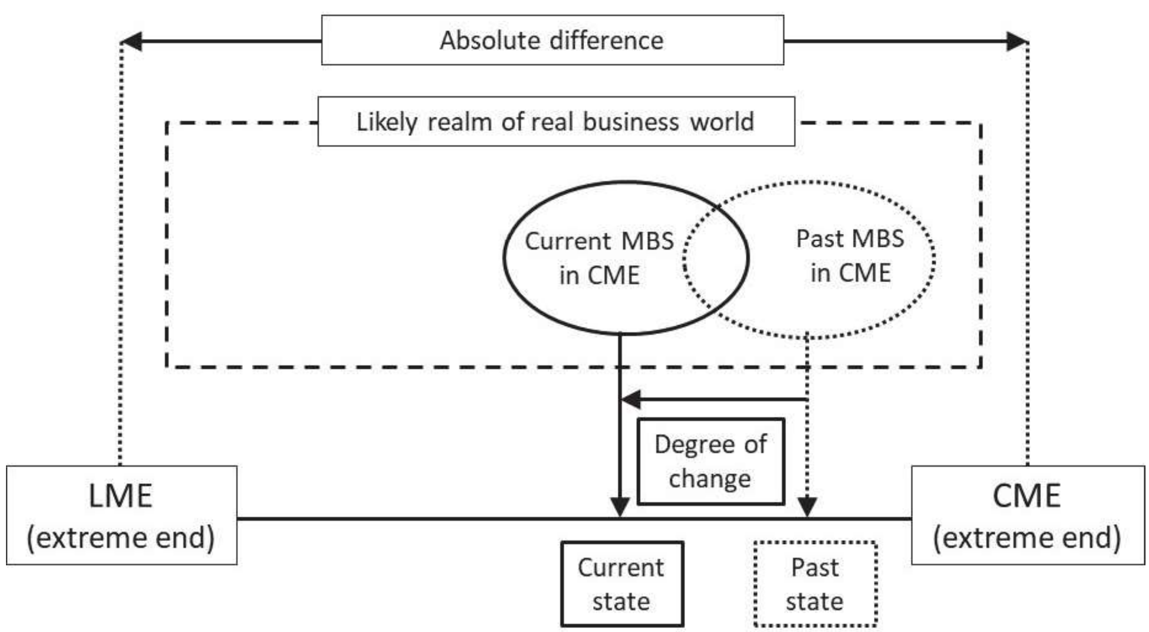
The empirical findings have supported the hypothesis: In the CME, the terminology *relationship lending* is based on a collective trust between banks and their corporate borrowers. TABLE 1 summarizes the findings presented in the form of two extremes to capture the social realities sitting in between. This research has developed the categories through the grounded theory approach (Strauss and Corbin, 1998) by constantly making theoretical comparisons with the original findings and literature arguments. This interplay helped satisfy the need to condense all the findings into the grounded element: Relationship lending appears to be an attribute in the nexus of categories in the CME. As for arm’s-length lending, the findings corroborated the literature arguments. The actual state of each of the categories is not as binary as the extremes presented, but the findings indicate that the extremes generally represent the modal patterns in the respective societies.

The findings seem to elaborate the Western paradigm of relationship lending, which is “based significantly on soft qualitative information” for SME financing. In a global context, “soft qualitative information” can be a set of qualitative factors, which include the collective trust for corporate finance involving large firms in the case of the Japanese CME. Relationship lending is not only for SME financing but also is used regardless of borrower size in the CME context.

TABLE 1
SUMMARY OF THE FINDINGS

Grounded finding		Arm's-length lending	Relationship lending
LME-CME patterns of wealth creation			
	Business relationships	Market relationships	Non-market relationships accepted
	Transaction	Formal contracting	Non-formal contracting accepted
	Corporate form	Strategic alliance	Keiretsu
Market-based vs. banking based systems			
	Financial system	Arm's-length system	Main bank system
	Lending orientation	Fluid capital	Patient capital
	Cross-shareholdings	Irrelevant	Important
Underlying beliefs			
	Cardinal rule	Arm's-length principle	Collective trust
	Social orientation	Freedom	Interdependency
	Short-term oriented	Long-term oriented	Time orientation

FIGURE 2
CHANGE OF THE MBS



This paper has adopted the theoretical models with two extreme ends to capture the social realities. The models seem to be capable of capturing changes as well. For example, the Japanese MBS has been changing over the last two decades as examined earlier. Hirota (2009) writes about the existence of the MBS but points out that the significance of lending, cross-shareholding and yakuin haken has become less. FIGURE 2 is an attempt to describe the changes.

The Western literature typically argues that relationship lending can be viewed as a risk-mitigating strategy to deal specifically with SMEs, or “opaque borrowers”, as opposed to “informationally transparent borrowers” (Berger and Udell 2006, p. 2946). While so in the LMEs, relationship lending signifies a credit relationship in the CME between a megabank and a large listed company that publicly and regularly releases its financial information in detail (Hirota, 2009; Aoki and Patrick, 1994). In a global context, relationship lending is not just a tool to deal with informationally opaque borrowers, but it can be a representation of various social elements as summarized in TABLE 1. This study has supported the idea that the two extreme ends of relationship lending and arm's-length lending will capture the realities and the dynamics in the finance sector.

CONCLUDING REMARKS

The findings suggest that the definition of relationship lending may vary across the countries. While this paper has only discussed the Japanese MBS, the findings may be useful for policy making for the financial systems in the CMEs. Future research will help with the application of this research to other CMEs than Japan.

The findings support the existence of various dichotomies with two extreme ends and consequently the idea that the world is not homogeneous. Babbie (2004, p. 12) stresses the point:

> Today, social theory has to do with what is, not with what should be…. This means that scientific theory - and, more broadly, science itself - cannot settle debates about values. Science cannot determine whether capitalism is better or worse than socialism…. We could determine scientifically whether capitalism or socialism most supports human dignity and freedom only if we first agreed on some measurable definitions of dignity and freedom. Our conclusions would then be limited to the meanings specified in our definitions, and they would have no general meaning beyond that.

Having written many books about social research, Babbie concludes that science cannot settle conflicts between values. He suggests that in the first place the definition or understanding of *human dignity* or *freedom* is not identical across the world. Naturally one scientific conclusion can hold for certain societies but cannot for others, to which the definition of *human dignity* or *freedom* employed for the tool *science* is incongruous. This means that one scientific theory can be meaningful to certain societies but not to others. One of the findings in this research is the dichotomy of freedom and interdependency. In the extreme sense, the LME actors have the freedom of choice for financing, and the CME ones exhibit the interdependency between the MBs and their borrowers. Also revealed are the different definitions of a quality bank loan: Fluid capital is a good loan in the LME, and patient capital is generally so for the Japanese. The findings suggest that the societies have character and preference that should not be disregarded in a global context.

ENDNOTES

1. The terminologies *Western* or *West* and *Eastern* or *East* are used for discussion purposes only, as they can be further subcategorized in many ways. Refer to the J-system (the Japanese corporate system) vs. the W-system (the corporate system found in the West) in Aoki and Dore (1994) for similar use.
2. This paper evolved from the author's PhD research. Some of the discussion contents overlap the author's past works for explanatory purposes.
3. Available only in Japanese. The present author translated all quotes from his work into English.
4. All figures are created by the author unless otherwise specified.
5. Kitamura (2016) reports a summary of the interviewee profile in detail.
6. The researcher transcribed and translated the Japanese data into English.
7. Banks' financial support for poorly performing companies is costly to banks because it reduces banks' profits, as banks need to establish higher amounts of loss provision for poorly performing borrowers than better performing ones (Cortavarria et al., 2000). From the banks' standpoint, supporting poorly performing borrowers negatively affects profits, and as a result, minimizing loans for such borrowers is one way of reducing lending cost in general.

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