

Financial Development and Reallocation of Capital in Business Group during the Global Financial Crisis

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Abstract

This paper investigates the effects of that the development of the financial market and a firm's position in its business group jointly on the capital provision within the business group during the period of financial crisis. We hypothesize that the effect of group affiliation is profound in countries with highly developed financial markets because a financial crisis hits stock markets more severely than credit markets. We obtain the amplified effects of group affiliation on cash growth. Among group firms, cash-rich firms experience the decreasing in cash, whereas cash-poor firms experience the opposite. Growing firms belonging to the group with varied cash flow increase their cash holdings. Furthermore, firms belonging to cash-rich groups can obtain debt in well-developed financial markets, suggesting that group cash ease access to external debt markets. Firms attached to groups with large internal cash flows experience a decrease in equity growth, and this suggests that internal capital markets substitute severely damaged external capital markets. Our results indicate that group affiliation is valuable in well-developed markets, especially during a financial crisis.

Keywords: Internal Capital Markets; Business Groups; Financial Crisis

JEL Classification: G3

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