Old Boy Network, Capital Injection and Banks' Returns: Evidence from Japanese Banks

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We present a novel analysis of the relation between board's network structure and mandatory reorganization in the context of Japanese banks. Using a unique data set on individual board member characteristics, we estimate two affiliated networks based on alma mater and hometown. Furthermore, we identify the fraction of former employees of Bank of Japan (BOJ) and Minister of Finance (MOF) for each bank's board. First, we are able to determine the effect of the capital injections on different aspect of each bank's network (both based on alma mater and hometown) such as size and average number of connections. Second, using the fraction of former employees from BOJ and MOF we are able to instrument for capital injections and determine the effect of injections on banks' returns.

Our findings suggest that network size and mean degree (the number of connections for an average board member) for capital injected banks decreased compared to the network size and mean degree of banks that receive no injection.

We add to different strings of the literature bank rescue operations, corporate network structure, and network connectedness and firm's return. In the context of Japanese banks rescue operations, Hoshi and Kashyap(2005) and Onji, et al. (2012) found that injected banks were somewhat reluctant to carry some aspects of the mandated restructuring. Our findings suggest that the injection of capital may have disrupted the structure of board networks. We also add to the literature on board network structure and firms returns, Khanna et al. (2015),

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