ABSTRACT

This paper seeks to examine how Bank Debt and Number of Banking Relationships a firm maintains relate to firm performance as measured by the Tobin's Q. After controlling the effect of exogenous variables, the results reveal that both the banking relationship variables considered in this study positively enhance the performance of the firm. This indicates the role of Banks as disciplinary agents who seek to improve the corporate governance of the firm. Additionally, firm valuation is found to exert significant influence of the banking relationships. While it positively exerts influence on the number of bankers that a firm maintains, the impact on bank debt is negative. This is owing to the fact that firms that have low growth opportunities tend to be more leveraged in order to prevent over investment problems. Alternatively, firms with high growth opportunities reduce the amount of debt it incurs in order to prevent the transfer of funds from shareholders to creditors. While Firms that are more profitable find lesser adverse selection problems and find it is easier to establish relationship with many banks.