Nobuyoshi Yamori, *Graduate School of Economics, Nagoya University;*
Kozo Harimaya, *Faculty of Economics, Faculty of Business Administration, Ritsumeikan University, Nojihigashi, Kusatsu, Shiga;*
Kei Tomimura, *Faculty of Business Administration, Aichi University, Japan*

ROLES OF OUTSIDE DIRECTORS IN COOPERATIVE FINANCIAL INSTITUTIONS: THE CASE OF JAPAN

As the governance of financial institutions is becoming an important issue, there are many papers empirically investigating the governance issues of banks, which are stock companies. However, cooperative structured financial institutions (coops), which have a unique governance structure different from stock companies, play a substantial role in the Japanese banking markets. For example, cooperative banks hold as much as a 25 % share of household deposits. On the other hand, many cooperative banks failed due to non-performing loans after the collapse of the bubble in the in the early 1990s. Japan's financial regulator, the Financial Services Agency (FSA), has reviewed that one of the main causes of such co-ops failures as inadequate corporate governance. Therefore, it is worth examining whether some governance schemes developed for stock companies are effective at cooperative financial institutions. Concretely, we investigate the role of outside directors. In many countries, listed companies including banks are required to appoint some outside directors, while Japanese banks are not required but only encouraged to do so.

This paper examines whether the existence of outside directors in credit associations (Shinkin banks) – a kind of co-ops that carry substantial weight in the Japanese financial market – have an impact on management performance, and compares the results of regional banks and credit cooperatives (also a kind of co-ops). All regional banks have a stock-based capital structure. Our analysis consists of two stages. At the first stage, we estimate a stochastic frontier cost function and examine the differences in cost structures and efficiency measures between credit associations, credit cooperatives and regional banks. The Japanese FSA introduced the action program which requires these three types of financial institutions to shift from transaction banking to region-based relationship lending from FY 2003. In the second stage of the analysis, we seek to clarify the relationship between governance structure and efficiency by estimating a regression model.

Results in this paper confirmed that governance-related variables have a significant effect on cost efficiency for credit associations. In contrast to this, such governance variables have no significant effect on cost efficiency for both regional banks and credit cooperatives. These results suggest the distinctive features of governance structure for each type of bank, and highlight differences in governance structures between three types of financial institutions. In particular, results showing that the existence of outside directors contributes to improvement in efficiency for credit associations are interesting outcomes. Because, the findings support the recent Japanese government guidelines for improving governance with regard to co-ops, also imply that mandatory appointment of outside directors at cooperative banks recently considered by the government advisory committee is desirable.

Nobuyoshi, Y. Roles of outside directors in cooperative financial institutions: the case of japan [Text] / Yamori Nobuyoshi, Kozo Harimaya, Kei Tomimura // Міжнародна банківська конкуренція: теорія і практика. Збірник тез доповідей VII міжнародної науково-практичної конференції (24–25 травня 2012 р.) : у 2 томах. Державний вищий навчальний заклад "Українська академія банківської справи Національного банку України". – Суми, 2012. – Т. 1. – С. 20-21.