

TECHNICAL EFFICIENCY OF REGIONAL BANKS AND REGIONAL ECONOMIC CONDITIONS IN JAPAN

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〈SUMMARY〉

This paper measures pure technical efficiency of Japanese regional banks by using Non Discretionary Data Envelopment Analysis for the period 2002–2006. Regional banks located in wealthy areas can produce more financial services from given input, which indicates higher technical efficiency. Measured technical efficiency, however, reflects locational advantage that should be adjusted to estimate genuine managerial efficiency of the bank. This paper uses the Gross Prefectural Product of the area to adjust for differences in regional economic conditions. Adjusted measurement of pure technical efficiency shows that one third of regional banks improve their efficiency, and efficiency rises about 0.05 on average for their regional banks. In addition, we estimate the relationship between measured pure technical efficiency and three managerial factors: management innovation, corporate governance and customer orientation. We find that all three factors affect positively the technical efficiency of regional banks.