

## Accepted Manuscript

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PII: S0378-4266(14)00314-8

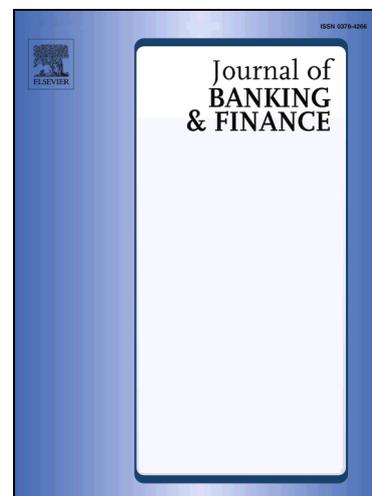
DOI: <http://dx.doi.org/10.1016/j.jbankfin.2014.09.014>

Reference: JBF 4567

To appear in: *Journal of Banking & Finance*

Received Date: 3 November 2013

Accepted Date: 20 September 2014



Please cite this article as: Radić, N., Shareholder value creation in Japanese banking, *Journal of Banking & Finance* (2014), doi: <http://dx.doi.org/10.1016/j.jbankfin.2014.09.014>

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### Abstract

This paper advances the study of Fiordelisi and Molyneux (2010) by examining the shareholder value efficiency and its determinants for a large sample of Japanese banks between 1999 and 2011. A new, specifically tailored measure of the Economic Value Added approach, based on the shadow price of equity, is developed in order to account for specific characteristics of the Japanese banking system. This new “shareholder value measure” is then used in a dynamic panel data model as a linear function of various bank-risk, bank-specific, and macroeconomic variables. This study finds that cost efficiency gains, credit risk and bank size are the most important factors in explaining the shareholder value creation in Japanese banking. Cost efficiency changes are also found to significantly influence cost of equity capital.

*JEL classification:* D24; G21; G32

*Keywords:* Shareholder value; Efficiency; Bank performance; Risk-taking; Japanese banks

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