Accepted Manuscript

Title: The efficiency of Japanese financial cooperatives: An application of parametric distance functions

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PII: S0148-6195(17)30224-2
DOI: https://doi.org/10.1016/j.jeconbus.2017.09.001
Reference: JEB 5790

To appear in: *Journal of Economics and Business*

Received date: 19-2-2015
Revised date: 19-9-2017
Accepted date: 24-9-2017

Please cite this article as: Yamori, Nobuyoshi., Harimaya, Kozo., & Tomimura, Kei., The efficiency of Japanese financial cooperatives: An application of parametric distance functions.*Journal of Economics and Business* https://doi.org/10.1016/j.jeconbus.2017.09.001

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ACCEPTED MANUSCRIPT

The efficiency of Japanese financial cooperatives: An application of parametric distance functions

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HIGHLIGHTS

- This study investigates the efficiency of Japanese credit cooperatives.
- It uses a stochastic frontier method based on distance functions.
- Ethnic minority-owned cooperatives are more efficient than the other three groups.
- No clear relationship between corporate governance structure and efficiency has been found so far.
- The results are robust to the use of an alternative empirical approach.

Abstract

This study investigates the efficiency of Japanese credit cooperatives by using a stochastic frontier method based on distance functions. We use a single-step estimation procedure where the parameters of the stochastic frontier and the inefficiency model are estimated simultaneously. Moreover, we focus on the differences in four groups classified by the type of membership. The findings reveal that ethnic minority-owned cooperatives, which have experienced drastic consolidation over the past two decades and increased size, are more efficient than the other groups. The main results are robust to the use of an alternative estimation procedure. This study emphasizes the potential merger effects of small financial cooperatives, but the sustainability of small institutions is not strongly supported.

Keywords: Efficiency, Distance functions, Cooperative financial institution.
JEL Classification Codes: C67; G21; G34.

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