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DP2018-17

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Nobuyoshi YAMORI

Kei TOMIMURA

July 6, 2018

Research Institute for Economics and Business Administration

Kobe University

2-1 Rokkodai, Nada, Kobe 657-8501 JAPAN

July 2018

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Nobuyoshi Yamori,
Professor, Research Institute for Economics and Business Administration,
Kobe University
and
Kei Tomimura
Associate Professor, Faculty of Management, Aichi University

[Abstract]
The authors conducted "Survey of Current Conditions and Challenges of Regional Finance in Relation to Regional Revitalization." We sent a questionnaire to 520 financial institution headquarters throughout Japan during January and February 2017 with the aim of shedding light on the status of regional revitalization-related measures by regional financial institutions and the challenges they face. Responses

This work was supported by JSPS KAKENHI Grant Numbers 15H03366, 16H02027, 17H02533. The authors received valuable comments from participants in a joint research team supported by the Research Institute of Economics, Trade, and Industry (RIETI).

were collected from 280 companies (a response rate of 53.8%). In this paper, we report the major results regarding challenges faced in regional revitalization, corporate restructuring support, startup support, and business matching measures.

Key words: Regional Finance, Regional Revitalization, Startup Support, Business Matching.

1. Introduction

The Financial Services Agency of Japan (FSA) claims that the exercise of active financial intermediary functions is necessary to support the growth of regional economy and industry and to stimulate their metabolism ("2014 Strategic Directions and Priorities"). Therefore, the exercise of active financial intermediary functions has been positioned as an important supervisory issue with respect to FSA's policy. However, as the FSA points out in its 2016 Strategic Directions and Priorities, "Despite the fact that many financial institutions include within their management philosophies a policy of exercising financial intermediary functions and providing financing and solutions based on the needs of their client companies in order to contribute to corporate growth, a considerable number are not putting this stated philosophy into actual action with respect to their customers." Because of this, the Financial Services Agency has indicated a policy of "engaging in dialogue aimed at improving the quality of financial intermediation, including governance conditions, business strategies and plans, branch quotas, business result targets and evaluations, personnel development and financial screening conditions, in order to achieve true customer-focused management."

The authors, with the cooperation of the Japan Financial News Company, conducted a questionnaire survey of 520 financial institution headquarters throughout Japan during January and February 2017 with the aim of shedding light on the status of regional revitalization-related measures by regional financial institutions and the challenges they face. Responses to this "Survey of Current Conditions and Challenges of

Regional Finance in Relation to Regional Revitalization" were collected from 280 companies (a response rate of 53.8%), as shown in Table 1.

This paper focuses on challenges faced in regional revitalization, corporate support, startup support, and business matching measures[1][2].

This paper consists of seven sections including this introduction. Section 2 discusses the challenges faced in regional revitalization. Section 3 deal with challenges faced in corporate support measures. Section 4 takes up challenges faced in startup support measures. Section 5 explains the results on business matching efforts. Section 6 discusses new employee retention. Finally, Section 7 concludes this paper.

Table 1. Business categories of responding financial institutions

	Responding company	Companies approached	Response rate
Major commercial bank, etc.	2	6	33.3%
Regional bank	27	64	42.2%
Second-tier regional bank	16	41	39.0%
Credit association (Shinkin Bank)	150	265	56.6%
Credit cooperative (Shinkumi Bank)	85	144	59.0%
Total	280	520	53.8%

2. Challenges faced in regional revitalization measures

2.1 Regional revitalization as a part of the management philosophy of financial institutions

The authors believe that it stands to reason that regional financial institutions engage in regional revitalization efforts, but whether regional financial institutions

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[1] Detailed analyses on the responses have already been developed in a paper written in Japanese (Yamori, Tomimura, Ojima and Shu (2018)).

[2] Yamori conducted an attitude survey of regional financial institution branch chiefs at roughly the same time as this survey. For details regarding the results, see Yamori, et al. (2017).

believe so is never confirmed. Then, we asked survey participants "Does your company's credo, management philosophy, management vision, etc., include the concept of 'contribution to local companies and/or the regional economy'?" (Question 5)[3]

Of the 280 responding financial institutions, 264 companies indicated that "contribution to local companies and/or the regional economy" was explicitly included. Together with eight companies that indicated that it was implicitly or indirectly included, 272 companies indicated that it was included. The only companies that responded that it was "not included" were three credit cooperatives, or "Shinkumi banks" (likely occupational or industry credit cooperatives). The other five companies either responded that they had no company credos or the like, or did not respond. Based on this, we were able to confirm that almost all regional financial institutions have positioned regional revitalization as important part of their management philosophy.

2.2 Attitude towards involvement in regional revitalization

Merely including regional revitalization in one's management philosophy is not sufficient to advance regional revitalization efforts. We therefore inquired into the status of involvement in regional revitalization efforts by responding financial institutions (Question 39). The question permitted multiple answers. 28 companies responded "We are in a position to lead municipalities (such as prefecture, city, town or village)," 134 responded, "We are actively collaborating with municipalities," and 149 responded, "We handle requests from municipalities."

All three of these answers can be considered to indicate their involvement in regional revitalization. As this is multiple -answer question, 216 financial institutions were confirmed to have selected at least one of these answers. In other words, these 216 financial institutions were involved in regional revitalization. Conversely, 46 financial institutions chose none of these answers.[4] Only six companies (one credit association

[3] "Question 5" refers to the number of the question on the survey form. Question numbers are included below as necessary.

[4] This does not include respondents that answered "I don't know," (13 companies), or which did not answer (5 companies), so the number of companies with valid responses

and five credit cooperatives) chose "We do not wish to become involved,". Among the remaining 40 companies, 29 companies answered "We wish to become involved but have not received requests from municipalities," and 19 companies answered "We wish to become involved but we do not have the capabilities/available resources."[5] The majority of financial institutions which are not currently involved do wish to be involved.

The management philosophies of almost all of the financial institutions tout regional revitalization, and the institutions either are or, at least, would like to be, involved in regional revitalization. However, the most frequently chosen answer, "We handle requests from municipalities," implies a very passive stance with respect to involvement, and it would be fair to state that the financial industry as a whole must take a more active approach to regional revitalization.

2.3 How to convey the resolve of top management

Are the management personnel in financial institution resolved to engage in regional revitalization efforts? The responses to this question (Question 40) were as follows: 67.5% of all respondents) answered "Management personnel are resolved to engage in regional revitalization efforts." Focusing on differences among business categories, 91.7% of regional banks, 75.0% of second-tier regional banks, 74.5% of credit associations (or "Shinkin bank"), and 45.0% of credit cooperatives answered so. Without preceding research, it is difficult to know how to evaluate this response, but given the fact that almost all of the financial institutions include regional revitalization in their management philosophies, and given the difficult conditions currently faced in regional areas, it would not be feasible to conclude that roughly 30% of all management personnel are not resolved to engage in regional revitalization. Even if top management have strong resolve to contribute to regional revitalization, it would appear that this resolve has not been conveyed even to the core departments of the headquarters that took part in this survey. Conveying the resolve of top management to sales branches

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was 262.

[5] Some chose both of these answers.

located far from headquarters would therefore be extremely difficult.

We considered this issue using a different question. This survey asked participants "Has the formulation of Regional Comprehensive Strategies led to your company engaging in concrete actions aimed at regional revitalization?" (Question 39). The results are summarized in Table 2. 88 respondents, or 32.7% of the 269 companies after excluding those that did not answer or that selected "I don't know," answered "We have started or expanded personnel exchanges with municipalities". "A new organization within your company was created." is the second. Unfortunately, we found that 73 respondents chose "No actions are taken," in spite that almost all financial institutions answered that regional revitalization is included in their corporate philosophy.

Now, we focused on the companies that answered "We have started or expanded personnel exchanges with municipalities." (abbreviated as "personnel exchanges with municipalities"). 43.4% of the financial institutions that answered "Management personnel are resolved to engage in regional revitalization efforts" (79 of the 182 companies) are engaging in personnel exchanges with municipalities, while this figure was just 9.6% for financial institutions that did not select this answer (8 of 83 companies). In other words, this indicates that for management personnel to thoroughly convey their resolve towards regional revitalization throughout their companies, they must create visible systems, implement rule changes, or the like.

Table 2. Concrete actions aimed at regional revitalization

	Major Banks	Regional Banks	Second-tier Regional Banks	Shinkin Bank (credit associations)	Shinkumi Bank (credit cooperatives)	Total
We have started or expanded personnel exchanges with municipalities	2	15	4	55	12	88
A new organization within your company was created.	2	21	5	50	4	82
We have dispatched people to new organizations (such as public-private funds) created for regional revitalization.	0	4	0	7	3	14
A loan menu was newly established.	0	15	4	38	15	72
Contribution to regional revitalization is newly incorporated in the internal personnel evaluation system.	0	4	0	6	0	10
Other actions are taken.	0	5	6	41	11	63
No actions are taken.	0	0	3	26	44	73
I don't know.	0	2	0	0	5	7
No response.	0	1	0	0	3	4
Total	2	27	16	150	85	280

3. Challenges faced in corporate support measures

3.1 Disparities in management improvement measures

Hopes are high for financial institutions' "measures aimed at increasing customer value through consulting and business turnaround support, etc., for companies requiring sweeping business turnarounds, such as loan condition changes" (the FSA's 2016 Strategic Directions and Priorities), but according to a study by the Financial Services Agency, actual support implementation is lacking.[4]

[4] For example, according to the Financial Services Agency's "Challenges Faced by Sweeping Business Turnarounds" (June 27, 2016), business improvement plans have

This survey asked participants “For what percentage of the companies for which, as a main bank, you have changed loan repayment conditions have you also provided management improvement support?” (Question 10). We call this ratio as “management improvement implementation rate” in this paper. The results (Table 3) show that even for companies for which the respondents changed loan repayment conditions as a main bank, there was a great disparity in the rates of management improvement support. While roughly 40% responded “30% or more,” over 20% responded “Less than 5%.” Differences were also evident between business categories. Of particular note, while there was not a single regional bank that responded “Less than 5%,” roughly 40% of the credit cooperatives chose this response.

To increase “management improvement implementation rate” is costly, but without such supports, weak companies are not expected to revitalize. Top managers of regional financial institutions should not say “it is costly and difficult.” but should consider how they can do it.

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not been formulated for roughly 40% of companies that have been under loan terms changes for more than five years.

Table 3. Percentage of the companies for which, as a main bank, respondents have changed loan repayment conditions and have also provided management improvement support (management improvement implementation rates)

	Regional bank	Second-tier regional bank	Credit association	Credit cooperative	Total
1. Less than 5%	0.0%	15.4%	13.9%	39.7%	21.9%
2. 5% to 9%	25.0%	0.0%	7.4%	14.7%	10.4%
3. 10% to 19%	25.0%	30.8%	20.4%	8.8%	17.4%
4. 20% to 29%	8.3%	7.7%	12.0%	10.3%	10.9%
5. 30% or more	41.7%	46.2%	46.3%	26.5%	39.3%
No. of valid responses	12	13	108	68	201

(Note) The column for major commercial banks, etc., from which responses were received for two banks, has been omitted from the table due to space considerations, but the response figures are included in the total. The number of valid responses does not include financial institutions which left this question blank (did not select any responses). This also applies to all later tables.

3.2 Problems faced in corporate turnaround measures

We found that management improvement implementation rates were not very high for quite a number of financial institutions, but what problems do financial institutions face in their corporate turnaround measures? Table 4 shows a summary of those results (Question 21).

Only 3% answered "We haven't encountered any notable problems," showing that almost all financial institutions face some problems. Of particular interest is the fact that "We have difficulty in changing the mentalities of management" was selected by more financial institutions (roughly 70%) than "The companies to which we provide turnaround support are in harsh business environments." Many respondents strongly feel that management is reluctant to modify its mentality. The third most commonly chosen response was "Our staff have insufficient experience and capabilities in providing support" (58.3%). Namely, roughly 60% of the financial institutions indicated the existence of problems on their own ends.

Many financial institutions encountered the problems of "We have difficulty in changing the mentalities of management" and "The companies to which we provide turnaround support are in harsh business environments," Looking at the results on an individual business category basis, there were also prominent differences between business categories. In particular, while 25% of regional banks and second-tier regional banks answered "Our staff have insufficient experience and capabilities in providing support," this answer was chosen by over 60% of credit associations and credit cooperatives, indicating that they experienced severer problems with staff experience and capabilities than regional banks. Regional banks also had higher rates of selecting "We would like to replace management, but cannot find appropriate management personnel with which to replace them" than other business categories. When the companies the regional banks are trying to turn around are large, and turnaround would be possible by replacing management, the banks appear to have difficulty in finding suitable candidates. Therefore, it is necessary that they use the nationwide pool of management personnel[5].

The number of companies selecting responses "There are few business turnaround experts with whom we can coordinate" and "The consulting tax accountants of the companies we provide support to do not cooperate with us" were low, but it is important to note the fact that both were chosen by some respondents. Although it is evident that improving coordination with outside experts and organizations is helpful, there are still problems on the side of outside experts and organizations for the cooperation to be effective.

[5] For example, the use of government measures such as coordination with Japan Human Resources, part of the Regional Economy Vitalization Corporation of Japan, and the Cabinet Office's Professional Personnel Project is believed to be effective.

Table 4. Problems faced by responding financial institutions in corporate turnaround measures (multiple answers allowed)

	Regional bank	Second-tier regional bank	Credit association	Credit cooperative	Total
1. The companies have motivation problems	25.0%	37.5%	50.3%	26.3%	39.9%
2. The companies lack sufficient capabilities	50.0%	25.0%	43.0%	27.5%	37.6%
3. We have difficulty in changing the mentalities of management	70.8%	75.0%	77.9%	61.3%	71.6%
4. We would like to replace management, but cannot find appropriate management personnel with which to replace them	45.8%	25.0%	24.8%	13.8%	23.2%
5. The companies to which we provide turnaround support are in harsh business environments	66.7%	75.0%	62.4%	61.3%	62.7%
6. Our staff have insufficient experience and capabilities in providing support	25.0%	25.0%	63.8%	66.3%	58.3%
9. There are few business turnaround experts with whom we can coordinate	8.3%	12.5%	14.8%	8.8%	12.2%
10. The consulting tax accountants of the companies we provide support to do not cooperate with us	0.0%	0.0%	5.4%	3.8%	4.1%
12. We haven't encountered any notable problems	4.2%	6.3%	0.7%	6.3%	3.0%
No. of valid responses	24	16	149	80	271

(Note) Due to space considerations some responses have been omitted.

3.3 Personnel evaluations affecting support stances

We investigated our hypothesis that personnel evaluation had an impact on financial institutions' corporate support stances. The survey asked respondents whether the personnel evaluation systems in their workplaces were primarily demerit-based or merit-based (Question 28). We also checked whether respondents selected "Our stance is to provide support until the very end" as one of their financial institution's strengths (Question 4).

We used these responses to investigate whether there were differences in stances towards providing support to the very end between demerit-based financial institutions and merit-based financial institutions. For the 31 financial institutions that replied "We are strongly demerit-based" the selection rate for "Our stance is to provide support until the very end" was 45.2%, while for the 75 financial institutions that replied "We are strongly merit-based," the selection rate was 58.7%. Furthermore, looking at the 18 demerit-based financial institutions that answered "This demerit-based tendency is growing stronger" or "No change," the selection rate for "Our stance is to provide support until the very end" was low, at 27.8%.

These results indicate that it is difficult for a financial institution to have its employees take a stance of offering support until the very end while at the same time maintaining a demerit-based personnel evaluation system. A financial institution wishing to make "the providing of support to weak customers until the very end" one of its strengths must implement reforms to its personnel evaluation system that encourages employees to conduct challenging tasks.

4. Challenges faced in startup support measures

4.1 Track record of financing startup companies with low credit worthiness

The Financial Services Agency released its "Financial Intermediary Function Benchmarks" in September 2016. The Benchmark consists of "Common benchmark" and "Selective benchmark." As made clear by the inclusion of "Common benchmark: 3. Number of startups and secondary startups in which financial institutions were involved" and "Selective benchmark: 16. Number of companies receiving startup support," the Financial Services Agency is highly concerned, from a financial supervisory standpoint, about startup support offered by financial institutions[6].

The survey asked participants what percentage of their current viable clients were

[6] In June 2017, revisions were made to laws such as the Small Business Credit Insurance Act. The revised act expands the startup guarantee framework, showing that the government is concentrating on startup support from an SME policy perspective as well. The new act is effective since April 2018.

started up within the past five years (Question 22). In this paper, we call this ratio as "startup company transaction rate." Looking at the results in Table 5, almost 70% of the responding financial institutions indicated startup company transaction rates of less than 5% (i.e., answer choices 1, 2 and 3)

There are no official estimates of historical development of startup company transaction rates regarding Japanese financial institutions, but according to the "2017 Small and Medium-Sized Enterprise White Paper" published by the Small and Medium Enterprise Agency of Japan, the annual startup rate from 2012 to 2014 was 4.6%, so a rough calculation would indicate that 20% or more of existing companies have been started up within the past five years. Closure rates for new startup companies are high, so the 20% startup company transaction rate estimate is likely too high, but given that the majority of the financial institutions had startup company transaction rates of less than 5%, many regional financial institutions cannot avoid criticism for insufficient efforts to finance startup companies.

Comparing the ratios of respondents answering "Less than 3%" by business category, 14.3% of regional banks and 8.3% of second-tier regional banks selected this answer, while 40.8% of credit associations and 61.1% of credit cooperatives did, indicating low startup company transaction rates among cooperative financial institutions. By rights, these cooperative financial institutions are supposed to cultivate these fledgling companies with low credit worthiness, but in reality they do little business with fledgling companies, and do not fulfill the function of cultivating them.

Table 5. Percentage of companies in business for five years or less (startup company transaction rate)

	Regional bank	Second-tier regional bank	Credit association	Credit cooperative	Total
1. Zero to less than 1%	0.0%	8.3%	13.6%	24.1%	15.3%
2. 1% to less than 3%	14.3%	0.0%	27.2%	37.0%	27.3%
3. 3% to less than 5%	28.6%	25.0%	26.2%	20.4%	24.6%
4. 5% to less than 10%	57.1%	50.0%	29.1%	14.8%	28.4%
5. 10% or more	0.0%	16.7%	3.9%	3.7%	4.4%
No. of valid responses	14	12	103	54	183

4.2 Difficulties in providing funding to startup companies

As these results show, for many financial institutions, transactions with startup companies have not expanded to the degree hoped for. The survey asked participants what difficulties they had encountered in providing funding to startup companies (Question 23). Table 6 shows the results.

80% of financial institutions answered, “Evaluation of business contents,” showing the difficulty involved in evaluating the business viability of startup companies. There also appears to be a great deal of difficulty with “Evaluation of the founder of the company.” On the other hand, although a lack of collateral is frequently pointed out as a factor making startup financing difficult, only a small number of responding financial institutions answered “Insufficient collateral.” If this result is taken at face value then, provided that business feasibility evaluation is possible, a lack of collateral is not an impediment to startup financing.

This shows that developing personnel capable of evaluating business viability will be a priority issue in advancing startup financing.

Table 6. Difficulties in providing funding to startup companies (multiple answers allowed)

	Total
1. Evaluation of the founder of the company	54.2%
2. Evaluation of business contents	80.1%
3. Insufficient collateral	14.0%
4. Insufficient public financial support, such as local government loans and credit guarantees	12.5%
5. Insufficient public support in non-financial areas, such as technology support	15.9%
6. High rate of bankruptcy compared to existing companies	28.4%
7. Insufficient screening expertise at the sales level	37.6%
8. Sales takes a passive stance regarding transactions with startup companies	2.2%
9. No notable problems	6.6%
No. of valid responses	271

4.3 Support for would-be startup founders

The survey asked about the implementation status of support programs for would-be startup founders, and found that roughly 90% of the responding financial institutions were implementing some form of would-be startup founder support program (Question 24).

As we believed there was some likelihood of disparity in the effects of these support programs, we calculated the startup company transaction rates of the financial institutions with each type of support program. This is because if a support program is effective, it is likely that there would be a large amount of transactions with startup companies for financial institutions that employ that program.

Specifically, as the startup company transaction rates in the responses are not concrete figures, such as 5.0%, but range answers such as "1% to less than 3%," we converted the responses to assumed numbers and calculated the average value[7]. Table 7 shows the results. The table lists the support program types in order of startup

[7] Specifically, a value of 0.5% was used for "Zero to less than 1%" responses, 2% for "1% to less than 3%" responses, 4% for "3% to less than 5%" responses, 7.5% for "5% to less than 10%" responses, and "12.5%" for "10% or more" responses. "I don't know" responses were excluded from calculations.

company transaction rate, from high to low.

Only 11 financial institutions answered “6. We have support programs coordinated with tax accountants,” and the average startup company transaction rate for these 11 companies was high, at 6.45%. The next selected response was “4. We introduce successful startup founders.” The average startup company transaction rate only exceeded 6% for these two program types. These support program types may have a major impact on support for would-be startup founders.

Needless to say, the average startup company transaction rate was extremely low, at 3.5%, for financial institutions that answered “10. We do not have any corresponding support programs.” Apparently, in today’s economic environment, passive stances will not produce a significant increase in the number of transactions with startup companies.

Table 7. Startup company transaction rates by support program type

	Startup company transaction rate (%)	Number of selecting companies
6. We have support programs coordinated with tax accountants	6.45	11
4. We introduce successful startup founders	6.04	24
3. We invest in a fund for startup companies	5.36	28
2. We hold seminars such as entrepreneurial seminars for would-be startup founders	5.07	75
1. We have financing options that are exclusively available to would-be startup founders	4.97	104
9. We have other support programs	4.90	36
7. We have support programs coordinated with credit guarantee associations	4.75	63
8. We have support programs coordinated with the Japan Finance Corporation	4.74	99
5. We have support programs coordinated with local governments	4.52	83
10. We do not have any corresponding support programs	3.53	16

Note) “Startup company transaction rates” were calculated based on the percentage of respondents’ current viable clients that were started up within the past five years.

4.4 Business viability evaluation strength and startup support strength

In order to look at the characteristics of financial institutions with high startup company transaction rates, we used the responses to the question that asked each financial institution what its strengths were (Question 4). These organized results are shown in Table 8. In this table, there were few respondents with startup company transaction rates of 10% or higher, so this category was combined with the "5% to less than 10%" category in the form of a "5% or more" category.

What stands out is that financial institutions with high startup company transaction rates of 5% or more were more likely to choose "High staff morale" than financial institutions with low startup company transaction rates. Financial institutions with high startup company transaction rates also had a high likelihood of answering "Our stance is to provide support until the very end" and "Our closely community-tied stance."

As discussed earlier, engaging in transactions with startup companies requires the ability to gain a deep understanding of business viability, which was also necessary to provide support to existing companies. Supporting startup companies, therefore, does not involve neglecting existing companies, rather, the two are complementary. Conversely, financial institutions unable to provide sufficient support to existing companies are believed to encounter difficulty in producing achievements through startup financing.

Table 8. Recognition of strengths of respondents' own financial institutions by startup company transaction rate (multiple answers allowed)

	1. Zero to less than 1%	2. 1% to less than 3%	3. 3% to less than 5%	4. 5% or more
1. Brand strength	7.1%	4.0%	11.4%	6.7%
3. Financing decision speed	42.9%	34.0%	20.5%	30.0%
6. Staff capabilities	3.6%	6.0%	6.8%	13.3%
7. Kindness of staff	71.4%	86.0%	81.8%	75.0%
8. High staff morale	10.7%	12.0%	6.8%	26.7%
9. Our stance is to provide support until the very end	46.4%	58.0%	52.3%	63.3%
10. Our closely community-tied stance	85.7%	92.0%	93.2%	93.3%
11. Financial soundness	46.4%	50.0%	47.7%	40.0%
12. Management team capabilities	10.7%	10.0%	6.8%	16.7%
No. of valid responses	28	50	44	60

Note) Due to space considerations, strengths with selection rates under 10% have been omitted.

5. Business matching efforts and issues

5.1 Business matching beneficial to both customers and financial institutions

If financial institutions are able to introduce customers to new sellers and suppliers (i.e., business matching), the customer companies should be able to increase sales, cut expenses, and successfully develop new products. Because of these merits, many financial institutions have positioned business matching as a key strategic area.

We asked how each financial institution evaluated business matching (Question 32). Table 9 shows the results. As expected, many respondents evaluated business matching as producing positive results for client companies. Looking at answer choices 1 through 3 that are closely related to positive results for client companies, roughly 60% of respondents selected "2. Management attitudes improved" and just under 50% of respondents selected "1. Client company business results improved." As management mentality was often pointed out as one of the biggest obstacles to management turnaround and smooth business succession, business matching can be evaluated as producing significant positive results.

On the other hand, there were also answers showing benefits for financial institutions as well, with roughly 50% of respondents answering “7. Our staff’s mentality changed” and roughly 40% answering “6. Our consulting capabilities improved.”

In sum, business matching measures can therefore be said to be mutually beneficial for both client companies and financial institutions. Financial institutions that are lagging behind in this aspect should make efforts to build an ability to carry successful business matching.

Table 9. Results of business matching (multiple answers allowed)

1. Business results of client companies improved	45.4%
2. Management attitudes improved	59.7%
3. Business succession was achieved	19.4%
4. The amount of uncollectible debt fell	5.5%
5. The regional economy was vitalized	14.3%
6. Our consulting capabilities improved	39.9%
7. Our staff’s mentality changed	48.4%
8. We were able to provide reports to the Financial Services Agency/Bureau of Financial Affairs	23.8%
9. Nothing in particular/I don’t know	18.7%
No. of valid responses	273

5.2 Challenges faced in business matching efforts

This survey asked about what challenges were faced regarding business matching efforts (Question 33). Table 10 shows the results. The most commonly chosen answer was “4. Staff do not possess the knowledge or know-how to engage in successful business matching.” This also shows that staff capability development is an issue. The second most commonly chosen answer was “3. We don’t have sufficient information about clients.” Credit associations and credit cooperatives pride themselves on having close relationships with customers, yet over 30% answered “3. We don’t have sufficient information about clients.” We believe they should see this as a major problem that threatens the very basis of their existence.

These top two choices clearly show that financial institutions face issues in developing their internal systems. The third most commonly chosen answer was "2. There are few clients with technologies or features that merit introduction." This might appear at first glance to be a company-side problem, but one must also note the possibility that this is the result of financial institutions being unable to identify the strengths and features of their clients.

Lastly, as the percentage of respondents selecting "Nothing in particular" shows, roughly 60% of regional banks responded that they do not face challenges in promoting business matching, while, in contrast, over 80% of credit associations and credit cooperatives stated that they face some challenges. Credit associations and credit cooperatives appear to be improving their business matching capabilities, but, in many cases, not enough.

Table 10. Challenges faced when promoting business matching (multiple answers allowed)

	Regional bank	Second-tier regional bank	Credit association	Credit cooperative	Total
1. We have no enthusiastic clients	0.0%	6.7%	21.6%	17.3%	17.3%
2. There are few clients with technologies or features that merit introduction	11.5%	20.0%	25.0%	34.6%	26.1%
3. We don't have sufficient information about clients	15.4%	33.3%	35.1%	33.3%	32.4%
4. Staff do not possess the knowledge or know-how to engage in successful business matching	15.4%	46.7%	53.4%	58.0%	50.4%
5. Business matching does not produce sufficient returns given the amount of effort it involves	15.4%	6.7%	25.0%	8.6%	18.0%
6. We do not get enough effective information from our head office	0.0%	6.7%	10.8%	17.3%	11.4%
7. Local governments and other related institutions have low capabilities and/or are uncooperative	7.7%	13.3%	4.1%	3.7%	4.8%
8. Nothing in particular/I don't know	57.7%	33.3%	14.2%	18.5%	21.3%
No. of valid responses	26	15	148	81	272

5.3 Personnel evaluation methods

The survey asked respondents about weight placed on successful business matching within performance evaluations of general staff. It is possible that personnel evaluations about business matching results may differ between financial institutions that place importance on business matching and those that do not. Table 11 shows the main results.

For the 30 financial institutions for which business matching is “1. Extremely important,” roughly 70% of evaluations were positive, such as “1. Client company business results improved,” “6. Our consulting capabilities improved,” and “7. Our staff's mentality changed.” Of the 54 financial institutions that indicated “4. Almost zero weight was placed on business matching”, only roughly 20% positively evaluated business matchings.

Financial institutions that do not expect business matching to produce favorable results cannot switch to personnel systems that emphasize business matching. However, continuing to place little weight on business matching in personnel evaluations will prevent staff in bank branches from actively engaging in business matching, so they will never develop corresponding capabilities.

The bottom of Table 11, on the other hand, shows the relationship between recognition of business matching obstacles and personnel evaluations. There was a prominent difference in selection rates for “3. We don’t have sufficient information about clients,” which was often selected by financial institutions that emphasize business matching. This, we believe, is not because financial institutions which don’t emphasize business matching have sufficient information, but because they have not even noticed the problem. Financial institutions which do not emphasize business matching had high selection rates for “1. We have no enthusiastic clients,” but it is highly likely that this is the result of their not being able to identify enthusiastic clients.

As the results show, there are major differences between financial institutions with respect to the status of their business matching efforts. Financial institutions which produce strong business matching results have adopted corresponding personnel evaluation systems, resulting in the development of bank staffs and improvement in their business matching capabilities. Conversely, there are many financial institutions which have stalled without being capable of engaging in business matching.

Table 11. Evaluations of business matching results by weight placed on business matching within performance evaluations of general staff

		Weight placed on business matching within performance evaluations of general staff			
		1. Extremely important	2. Somewhat important	3. Taken into consideration, but only for reference	4. Almost zero
Evaluation of results	1. Client company business results improved	76.7%	58.6%	37.8%	18.5%
	6. Our consulting capabilities improved	70.0%	44.8%	33.8%	20.4%
	7. Our staff's mentality changed	70.0%	50.6%	54.1%	25.9%
	9. Nothing in particular/I don't know	0.0%	11.5%	14.9%	44.4%
Awareness of obstacles	1. We have no enthusiastic clients	13.3%	12.6%	17.8%	24.1%
	2. There are few clients with technologies or features that merit introduction	23.3%	20.7%	34.2%	24.1%
	3. We don't have sufficient information about clients	43.3%	37.9%	30.1%	31.5%
	4. Staff do not possess the knowledge or know-how to engage in successful business matching	53.3%	48.3%	53.4%	57.4%
No. of valid responses		30	87	74	54

(Note) Due to page width limitations, only the main items are displayed.

6. New employee retention and challenges

6.1 New employee retention

As we have seen, the fundamental cause of failures of regional revitalization and turnaround/startup support appears to be a lack of personnel development. The survey asked participants, "What percentage of full-time staff hired by your company shortly after graduating from university in April 2013 have since left your company?" (Question 14). The study was administered in January and February 2017, so responses would indicate attrition rates within a four-year period after initial hiring.

This new hire attrition rate can serve as a proxy variable that elucidates personnel development conditions. Table 12 shows a summary of new hire attrition rates. The most common new hire attrition rate response was “10% to 24%,” followed by “25% to 39%.” What is important to note is that while roughly 30% of the financial institutions had low attrition rate (i.e., “0% to 4%” and “Almost zero”), or high retention rates, over 10% had high attrition rate of “40% or more” (or low retention rates). In other words, there is a great deal of disparity in new hire retention rates between financial institutions.

Table 12 New hire attrition rate within a four-year period

	Total
1. Almost 0	14.6%
2. 0% to 4%	17.0%
3. 5% to 9%	8.5%
4. 10% to 24%	28.3%
5. 25% to 39%	19.4%
6. 40% or more	12.1%
No. of valid responses	247

6.2 Personnel evaluation affecting new hire attrition rates

The results made it clear that there were major differences in new hire attrition rates between financial institutions, but what were the deciding factors behind them? As mentioned earlier, this survey asked respondents “How would you evaluate your company’s conditions, from the perspective of merit-based or demerit-based approaches to personnel evaluation?” (Question 28). We used the results to investigate what differences there were in new hire attrition rates between demerit-based and merit-based financial institutions.

Table 13 shows the results. Let’s look at new hire attrition rates of financial institutions choosing “Almost zero.” 3.4% of financial institutions with demerit-based systems chose “Almost zero”, while 16.9% of financial institutions with merit-based systems chose “Almost zero.” Surely, there is a significant gap between them. In other words, merit-based financial institutions had higher junior staff retention rates. This suggests that merit-based personnel evaluation tends to make bank staff work comfortably.

Table 13. New hire attrition rates at merit-based and demerit-based financial institutions

	Demerit-based	Merit-based
1. Almost 0	3.4%	16.9%
2. 0% to 4%	27.6%	16.9%
3. 5% to 9%	6.9%	8.5%
4. 10% to 24%	24.1%	29.6%
5. 25% to 39%	31.0%	21.1%
6. 40% or more	6.9%	7.0%
No. of valid responses	29	71

6.3 New hire attrition rates and insufficient corporate support personnel

We investigated our hypothesis that financial institutions with high new hire attrition rates failed to develop personnel and faced serious personnel shortages. Specifically, for each new hire attrition rate bracket we compared the ratios of companies that selected “6. Our staff have insufficient experience and capabilities in providing support” (referred to as “insufficient staff capabilities”) as a financial institution-side problem faced in corporate turnarounds.

Of the 36 financial institutions that answered that their attrition rate was “Almost zero,” 55.6% indicated insufficient staff capabilities, while of the 30 financial institutions with high new hire attrition rates of “40% or more,” a notably high 80.0% indicated insufficient staff capabilities. That is, the higher the new hire attrition rate of the financial institution, the more severe personnel shortages it faces. There is a high likelihood that the high attrition rates for junior staff is a reflection of the lack of personnel development within the financial institutions.

6.4 Disparities in efforts to address attrition rates

The results of this survey show that new hire attrition rates are affected by personnel evaluation systems, and that high new hire attrition rates accelerate personnel shortages. Given this, we were interested in what kinds of personnel policies were being implemented by the financial institutions with high new hire attrition rates.

The survey asked respondents about the contents of personnel evaluations conducted during the past three years (Question 31). We then cross-tabulated answers to this question and new hire attrition rates. Specifically, in Table 14, we organized the status of changes in personnel evaluations and policies by new hire attrition rate. For example, 30% of the 33 financial institutions with "Almost zero" attrition rates answered "Evaluations were conducted by multiple evaluators."

New hires leave companies in large numbers, resulting in the lack of personnel development. Therefore, we expect that the higher the attrition rates in a financial institution, the more the company can be expected to recognize this danger and revise its personnel policies. However, according to Table 14, only 57.6% of the financial institutions with attrition rates of "Almost zero" chose "There have been no major changes," while 82.8% of financial institutions with "40% or more" attrition rate chose "There have been no major changes." In other words, regrettably, we found that financial institutions which should have a sense of crisis are not sufficiently addressing the problem.

Table 14. Changes in personnel evaluations and policies by new hire attrition rate (multiple answers allowed)

	1. Almost 0	2. 0% to 4%	3. 5% to 9%	4. 10% to 24%	5. 25% to 39%	6. 40% or more
1. More weight has been placed on process evaluation, rather than result evaluation (including addition of new evaluation)	12.1%	17.5%	33.3%	15.7%	23.9%	3.4%
2. More weight has been placed on qualitative evaluation (including addition of new evaluation)	15.2%	12.5%	28.6%	14.3%	8.7%	10.3%
3. Evaluations were conducted by multiple evaluators	30.3%	7.5%	19.0%	17.1%	17.4%	17.2%
4. A system was introduced for reflecting customer evaluations	0.0%	0.0%	4.8%	0.0%	0.0%	0.0%
5. A system was introduced for evaluating long-term efforts instead of short-term efforts	0.0%	2.5%	19.0%	2.9%	6.5%	0.0%
6. There have been no other major changes besides the above	3.0%	10.0%	0.0%	7.1%	6.5%	6.9%
7. There have been no major changes	57.6%	72.5%	61.9%	75.7%	67.4%	82.8%
No. of valid responses	33	40	21	70	46	29

7. Conclusions

This paper analyzed the current state of regional revitalization efforts by regional financial institutions, and the challenges faced therein, based on the results of the "Survey of Current Conditions and Challenges of Regional Finance in Relation to Regional Revitalization," conducted in January and February 2017 with the collaboration of the Japan Financial News Company.

Almost all of the financial institutions shared a desire to actively take on regional revitalization, but in actuality some were implementing effective measures, while some were not. Furthermore, the study showed that financial institutions that were producing strong results had transitioned to appropriate personnel evaluation systems and have established a positive feedback cycle that makes it even easier to produce desirable results. Financial institutions which were not producing strong results, on the other hand, were merely issuing commands, without working on personnel evaluation reforms, leading to no meaningful outcomes.

The success or failure of regional revitalization and turnaround/startup support efforts is dependent on business viability evaluation capabilities. To improve their business viability evaluation capabilities, financial institutions must build personnel systems which motivate staff to build their own ability. However, financial institutions with lower capabilities also had a lower likelihood of revising their personnel systems, creating a widening gap between the slogan of "regional revitalization" and the actual situation.

This will lead to further gaps within the financial industry. This is an extremely unfortunate situation for companies that work with financial institutions which remain unable to perform business viability evaluation. In this regard, there are hopes for two positive outcomes of the financial intermediary function benchmarks advocated by the Financial Services Agency. The first is that they will provide an opportunity for stagnating financial institutions to recognize their own situations and make changes. The second is that they will provide an opportunity for companies dealing with these financial institutions to realize their problems and switch to other better financial institutions. This pressure from customers will prompt underperforming financial institutions to change of their own attitude, or to be pull out of the market if they refuse to do so. We hope that an across-the-board rise in the quality of financial intermediation is realized soon.

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