A Comparative Study on Regional Finance in Japan and Korea: Evidence from Three Questionnaires

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Abstract

In this paper, to analyze the similarities and differences between the regional finance of Japan and South Korea (hereinafter, "Korea"), we compared questionnaires to small to midsize companies located in Korea's Daegu/Gyeongbuk region with questionnaires to small to midsize companies located in Japan's Kansai and Tokai regions. From the results, we were able to confirm that regional finance systems in Japan and Korea are very similar. For example, in the US, there is an overwhelming amount of small to midsize companies with only one partner bank, however, in Japan and Korea, having multiple partner banks is the norm. Therefore, the practice of having multiple partner banks should not be considered as being unique to Japan, rather, it can be inferred that such a phenomenon is natural in certain social, economical, and legal systems. Contrastingly, we found various differences between Japan and Korea. For example, in response to the question on the assessment of financial institutions, Korea firms gave the most positive assessment for "provision of funds," whereas Japanese firms gave the most positive assessment for "knowledge on your companies." These differences can be understood as the causes of the discrepancy between Japan and Korea in the level of economic development.

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JEL Classification Codes: G21, G32.

1. Introduction

To discover what differences and similarities exist in terms of the financial aspects of small to midsize companies in Korea and Japan, we performed a "study on the status of corporate finance and financial needs of companies" targeting small to midsize companies in Korea's Daegu/Gyeongbuk region.[1] Here, preparing for the Korean questionnaire, we drew upon the questionnaire used in Japan's Kansai and Tokai regions. We believe that there has never been a similar study that used the same questionnaires to compare regional finance systems in Japan and Korea. Therefore, our study greatly contributes to the understanding of the characteristics of regional financial systems in Japan and Korea.

Summarizing the results of this study, it can be said that the regional financial systems of Japan and Korea are very similar. For example, in the US, there is an overwhelming amount of small to midsize companies with only one partner bank, however, in Japan and Korea, having multiple partner banks is the norm. Therefore, the practice of having multiple partner banks should not be considered as being unique to Japan, rather, it can be inferred that such a phenomenon is natural in certain social, economical, and legal systems.

Contrastingly, we found various differences between Japan and Korea. For example, regarding what functions that the companies expect a bank to offer, Japanese companies expect various types of information incidental to the provision of funds rather than the provision itself, while in Korea, the provision of funds in itself is the focus. The causes of this difference include the great damage due to the currency crisis of the late 1990s and the discrepancy in the level of economic development between the two countries. Namely, Korean companies have the abundant investment opportunities, while Japanese companies are mature and have accumulated retained earnings.

Moreover, in this study, we were able to confirm the general nature of regional finance. For

[1] Daegu, located north of Pusan in Central Gyeongbuk North Road, is the third largest city in South Korea. Traditionally, the region developed the textile industry, however, since the 1990s, its industrial base has diversified to include the electronics and machinery industries.

example, it has been indicated that the physical distance between financial institutions and companies in the US and Europe is extremely small even in this present era of great developments in information technology (Degryse and Ongena, 2004). This study confirmed that, both in Japan and Korea, small to midsize companies make nearby financial institutions their main partner banks. Because of the lack of previous studies, we cannot determine whether distances are widening compared to the past, but, at present, the separation of the financial markets of small to midsize companies in each region is a universal phenomenon globally.

In this paper, among the results of the questionnaires, we narrowed down our discussion into very interesting points arising in the comparison between Japan and Korea. After explaining the purpose and overview of the questionnaires in Section 2, we will introduce the attributes and current conditions of the respondent companies in Section 3, and analyze the responses in Section 4. Finally, we will summarize the results of this paper in Section 5.

2. Purpose and overview of the questionnaires

2.1 Overview of the Korean study

In August 2007, we conducted the study using questionnaires targeting small to midsize companies (i.e., including legal persons only) in the region of Daegu/Gyeongbuk. The population of companies that were located in the Daegu/Gyeongbuk region and whose data were held by a Korean credit evaluation company were 65,535 as of June 2007. From these population, 2,500 companies (Daegu: 1,250, Gyeongbuk: 1,250) were extracted by random sampling, and the questionnaires were sent out on August 8, 2007. By September 30, we received responses from 257 companies (Daegu:134, Gyeongbuk: 123).

2.2 Details of the questionnaire

The questionnaire is composed of 51 questions in total. Q1 and Q2 concern the attributes of the respondents, Q3 to Q14 deal with their general current conditions, Q15 to Q34 are about financial institutions they deal with, and Q35 to Q42 refer to the industrial clusters in the Daegu/Gyeongbuk region. In addition, Q43 to Q51 concern the funds procurement and financial institution utilization in the region. Among these, this paper mainly analyzes the responses to Q15 to Q34.

2.3 Overview of questionnaires conducted in Japan's Kansai and Tokai regions

For the study performed in Korea, the questionnaire was drafted referring to the study by Tawada and Yamori (2008) targeting Japanese companies in Kansai and to the study by Tawada and Yamori (2005) targeting companies in Tokai.[2]

The study in the Kansai region was performed jointly with Resona Research Institute in October 2006 targeting companies in that region. The population included approximately 30,000 companies in Osaka, Hyogo, and Kyoto Prefectures. Among them, questionnaires were sent out to 9,996 companies on October 17, 2006 and an analysis was effected with respect to 1,176 companies which responded by November 20.

The study in the Tokai region was conducted in February 2004 with the cooperation of Nomura Securities. Questionnaires were sent out to 8,472 companies located in Aichi, Gifu, and Mie Prefectures with 684 companies responding (8.1% response rate).

3. Questions concerning general conditions of respondents

3.1 Scale of respondents

The average number of employees at respondents in the Daegu/Gyeongbuk region was 73 (minimum 1, maximum 1,050). As shown in Table 1, the group with the highest number of respondents is "50 employees or less (20 to 50)" representing approx. 40% of the total, or 102 companies. Second and third place groups were the "51 to 100 employees" and "500 or less (101 to 500)." Comparing with Japanese studies, there were fewer companies with 20 employees or less in this Korean study.

[2] For some questions, we also referred to the Study on Financial Utilization in the Jeju Region by the Bank of Korea (2006).

<Table 1> Number of respondents by their number of employees

	Daegu/Gyeongbuk		Kansai	Tokai
	Respondents	Ratio	Ratio	Ratio
1) 9 or less	11	4.3%	19.6%	
2) 20 or less	37	14.4%	11.7%	34.1%
3) 50 or less	102	39.7%	24.6%	
4) 100 or less	60	23.4%	23.4%	24.0%
5) 500 or less	45	17.5%	17.8%	30.2%
6) 1,000 or less	1	0.4%	2.1%	5.3%
7) Over 1,000	1	0.4%	0.9%	6.3%
Total	257	100.0%	100.0%	100.0%

3.2 Comparison of capital adequacy ratio

Of the 176 companies that provided specific figures in their responses to our questions regarding the capital adequacy ratio, 35 companies (or 19.9%) responded “less than 20%,” 63 companies (35.8%) “less than 40%,” 36 companies (20.5%) “less than 60%,” 25 companies (14.2%) “less than 80%,” and 17 companies (9.7%) “80% or more.” [3] In other words, 76.2% of all companies have a capital adequacy ratio of less than 60%. Among respondents in Japan’s Kansai and Tokai regions, 82.9% and 76.1% of them, respectively, had a capital adequacy ratio of less than 60%. Japanese results mirror those of their Korean counterparts.

[3] Note that there were 9 companies that responded “excessive debt,” 44 “unpublished,” and 28 “do not know.”

<Table 2> Capital adequacy ratio of respondents

	Daegu/Gyeongbuk		Kansai	Tokai
	Respondents	Ratio	Ratio	Ratio
1) Less than 20%	35	19.9%	34.4%	19.1%
2) Less than 40%	63	35.8%	32.0%	33.1%
3) Less than 60%	36	20.5%	16.6%	23.9%
4) Less than 80%	25	14.2%	9.6%	15.8%
5) 80% or more	17	9.7%	7.5%	8.1%
Total	176	100.0%	100.0%	100.0%

3.3 Status of dividend payments

A majority of them, 217 (or 84.4%), responded "no" to dividends, whereas only 40 (15.6%) responded "yes." As most companies in the Daegu/Gyeongbuk region are unlisted, nonpublic enterprises, high no-dividend ratios seem natural. On the other hand, in the Japanese questionnaires, regardless of the many nonpublic enterprises, Kansai reported 44.7% "yes" and 55.3% "no," while Tokai reported 59.9% "yes" and 40.1% "no," signifying that Japanese companies have a higher rate of dividend payments. This may be the result of the priority on accumulating retained earnings on the part of Korean companies as opposed to the propensity of returning profits to shareholders by the more mature Japanese companies.

<Table 3> Dividend payments

	Daegu/Gyeongbuk		Kansai	Tokai
	Respondents	Ratio	Ratio	Ratio
1) Yes	40	15.6%	44.7%	59.9%
2) No	217	84.4%	55.3%	40.1%
Total	257	100.0%	100.0%	100.0%

3.4 Important stakeholders

We asked companies to provide multiple responses (up to 2) concerning their important stakeholders. Respondents selected general customers (82 companies, or 31.9%), employees (110, 42.8%), partner banks (87, 33.9%), and partner companies (140, 54.5%) as important stakeholders.

Because a majority of respondents are unlisted, nonpublic enterprises, the above responses show that, rather than individual and institutional investors, these companies are greatly affected by partner companies, banks, and employees.

Comparing the above with the questionnaire for Japan's Tokai region, the ratio of Korean companies that selected partner banks as important stakeholders was nearly double.[4] This suggests that Daegu/Gyeongbuk region companies have closer ties with banks than Japan's Tokai region companies.

However, for the question asking to select two *future* important stakeholders, the ratio of responses indicating general customers, partner companies, and partner banks was lower and the ratio of responses indicating individual investors and institutional investors was higher. This is probably because of the desire of Daegu/Gyeongbuk region respondents to list their shares on the market in the future.[5]

[4] The Kansai questionnaire did not contain a corresponding question.

[5] Approximately 30% of Respondents answered that they seek to become a public company.

<Table 4> Current important stakeholders

	Daegu/Gyeongbuk		Tokai	
	Multiple responses	Ratio	Multiple responses	Ratio
1) General customers	82	31.9%	283	41.4%
2) Employees	110	42.8%	315	46.1%
3) Individual investors	14	5.5%	69	10.1%
4) Domestic institutional investors	6	2.3%	27	4.0%
5) Overseas institutional investors	3	1.2%	1	0.2%
6) Partner banks	87	33.9%	116	17.0%
7) Partner companies	140	54.5%	334	48.8%
8) Affiliated company group	24	9.3%	75	11.0%
9) Others	12	4.7%	13	1.9%
10) Don’t know	12	4.7%	34	5.0%
Total multiple responses	490	190.7%	1267	185.2%

Notes: Ratios represent multiple responses divided by the number of respondents (Daegu/Gyeongbuk: 257, Tokai: 684).

<Table 5> Future important stakeholders

	Daegu/Gyeongbuk		Tokai	
	Multiple responses	Ratio	Multiple responses	Ratio
1) General customers	75	29.2%	262	38.3%
2) Employees	109	42.4%	337	49.3%
3) Individual investors	21	8.2%	102	14.9%
4) Domestic institutional investors	15	5.8%	38	5.6%
5) Overseas institutional investors	5	2.0%	6	0.9%
6) Partner banks	75	29.2%	63	9.2%
7) Partner companies	130	50.6%	268	39.2%
8) Affiliates company group	19	7.4%	76	11.1%
9) Others	13	5.1%	15	2.2%
10) Don't know	11	4.3%	48	7.0%
Total multiple responses	473	184.1%	1215	177.6%

Note: Ratios represent multiple responses divided by the number of respondents (Daegu/Gyeongbuk: 257, Tokai: 684).

4. Questions concerning partner financial institutions

4.1 Existence of main partner banks

The main partner bank system has its origins in the financial system established by the South Korean government in July 1974. Its purpose was to have banks manage the corporate information, such as credit condition, of companies (especially large companies) and have them lead financial restructuring efforts in the event of an emergency. At present, this function is only in name. However, although the term "main partner bank" does not mean what it did in the past, it is used commonly even today under a concept close to Japan's "main bank."

There are 255 companies (99.2%) who responded that they have a main partner bank. This is higher than both Japan's Kansai and Tokai region companies, who showed a 94.3% and 93.1% response rate to this question, respectively. This result reflects the current situation in Korea that companies cannot survive without having a main bank.

<Table 6> Existence of main partner bank

	Daegu/Gyeongbuk		Kansai	Tokai
	Respondents	Ratio	Ratio	Ratio
1) Yes	255	99.2%	94.3%	93.1%
2) No	2	0.8%	5.7%	6.9%
Total	257	100.0%	100.0%	100.0%

4.2 Dealings with financial institutions

Where there are 66 companies (25.68%) who responded "dealing with one main partner bank," there are as many as 189 companies (73.54%) who responded "although we have a main partner bank, we deal with multiple banks."

<Table 7> Dealings with financial institutions

	Responses	Ratio
1) Dealing with one main partner bank	66	25.7%
2) We have a main partner bank, but deal with multiple banks	189	73.5%
3) We have no main partner bank	2	0.8%
Total	257	100.0%

4.3 Number of lending financial institutions

The average number of lending financial institutions among respondents in the Daegu/Gyeongbuk region is 2.39. There were 13 (5.1%) with no loans which responded "0," 80 (31.1%) that responded "1," 70 (27.2%) that responded "2," 35 (13.6%) that responded "3," 33 (12.8%) that responded "4," and 26 (10.1%) that responded "5-8." We learned that approx. 64% of respondents have loans from two or more financial institutions.

Results from a study in Japan and the US are provided in Table 8. For Japan, companies dealing with only one bank number less than 20% in the group with 20 employees or less, while, in the US, for the same group, the percentage is 86%. Although this phenomenon is well known in the literature regarding small business finance, this questionnaire for Korean companies confirmed that the number of partner banks of small to midsize companies in Korea is very close to Japan.

<Table 8> Multiple banks and business conditions with respect to small to midsize companies
(1) Japan

(%)

Number of employees	1 bank	2 banks	3 banks	4 to 5 banks	6 to 10 banks	11 banks or more
20 or less	18.6	27.8	23.9	20.2	8.1	1.3
21 to 100	10.6	17.7	20.5	29.6	17.8	3.8
101 to 300	5.7	8.2	10.4	30.7	35.8	9.1
301 or more	3.6	4.3	4.5	19.0	34.1	34.6

Source: Small to Medium Size Enterprise Agency, "Study on the Corporate Fund Procurement Environment," December 2001.

(2) The U.S.

	1 bank	2 banks	3 banks	4 banks or more
1 to 19	86.2	11.2	1.8	0.8
20 to 49	93.9	5.1	1.0	0.0
50 to 99	91.4	5.8	2.9	0.0
100 to 499	82.2	14.5	2.4	1.0

Source: FRB '1998 Study of Small Business Finances.'

4.4 Time distance to the main branch of the main partner bank

Regarding the time distance to the main branch of the main partner bank, 107 companies (41.6%) responded "10 minutes or less," following 101 companies (39.3%) which responded "10 to 30 minutes" and 44 (17.1%) responding "30 minutes to 1 hour." In sum, 80.9% of all companies responded a time distance of 30 minutes or less, showing that the accessibility of main partner banks with respect to respondents is relatively easy. Although the study resembles those of Japan's Kansai and Tokai regions, in Japan, the rate of response of "10 to 30 minutes" was higher than "10 minutes or less." Such results demonstrated that 56.8% of respondents in Daegu/Gyeongbuk region have a regional bank as their main partner bank and these regional banks have a network of branches clustered in a limited geographic area.

These results show that the questionnaires conducted in Japan and Korea provide additional strength to the results indicated by Degryse and Ongena (2004), who said that physical distances between small to midsize companies and their banks are short in Europe and the U.S. (i.e., 2 km in Belgium, 8 km in the US). In other words, the fact that companies deal with close financial institutions can be concluded as a universal phenomenon in small business finance. However, note that, because such a study has almost never been conducted in the past, we cannot prove that distances were greater in the past.

<Table 9> Time distance with main partner banks

	Daegu/Gyeongbuk		Kansai	Tokai
	Responses	Ratio	Ratio	Ratio
1) 10 minutes or less	107	41.6%	34.9%	24.3%
2) 10 to 30 minutes	101	39.3%	50.5%	44.4%
3) 30 minutes to 1 hour	44	17.1%	13.5%	26.2%
4) 1 hour to 2 hours	4	1.6%	0.9%	3.3%
5) 2 hours or more	1	0.4%	0.2%	1.9%
Total	257	100.0%	100.0%	100.0%

4.5 Importance of proximity to business branch

227 companies (88.3%) responded “very important,” “important,” and “somewhat important” with respect to the importance of access to the business branches of main partner banks and, particularly, 24.1% responded “very important.” In Korea, about 90% of companies believe that the proximity of bank branches is important. This Korean result is similar to Kansai result.

<Table 10> Importance of ease of access to business branches when selecting a main partner bank

	Daegu/Gyeongbuk		Kansai
	Responses	Ratio	Ratio

1) Very important	62	24.1%	14.2%
2) Important	91	35.4%	38.1%
3) Somewhat important	74	28.8%	37.3%
4) Not important	28	10.9%	8.6%
5) Absolutely no relation	2	0.8%	1.8%
Total	257	100.0%	100.0%

4.6 Difference between a financial institution whose headquarters is located in the region and one that locates its headquarters outside the region

53 companies (20.7%) responded "there are differences" and 117 companies (45.7%) responded "there are some differences." Adding both together results that 66.4% of respondents stated that there are differences or some differences. This is much higher than the 48.5% ratio from the study results in Japan's Kansai region.

We asked what kind of difference exists to those 170 companies who responded that there are differences, and 30% or more responded "the time to decide upon a loan" and "loan interest rates," followed by the "loan process." In Japan, "loan process" was the highest and less than 20% of companies said that there are differences in loan interest rates. Interestingly, about 20% of Japanese companies expect that their local financial institutions would support them when needed.

<Table 11> Existence of differences in lending circumstances between regional financial institutions and those located outside the region

Classifications in Korea	Daegu/Gyeongbuk		Classifications in Japan	Kansai
	Responses	Ratio		Ratio
1) There are differences	53	20.7%	There are differences	10.3%
2) There are some differences	117	45.7%	There are some differences	38.2%
3) There are no differences	86	33.6%	"There are almost no differences" or "There are no differences"	51.5%
Total	256	100.0%		100.0%

<Table 12> Differences in the lending stances between regional financial institutions and those outside a region

	Daegu/Gyeongbuk		Kansai
	Responses (multiple responses)	Ratio	Ratio
1) Loan interest rates	52 (52)	30.6% (26.9%)	19.0%
2) Loan process (types of documentation required for submission, etc.)	30 (33)	17.7% (19.4%)	23.2%
3) Loan amount	8 (13)	4.7% (7.7%)	9.9%
4) Time to decision on loan	51 (58)	30.0% (34.1%)	22.3%
5) Provision of credit and loans (such as collaterals)	16 (21)	9.4% (12.4%)	4.7%
6) Loans provided even when economy is unfavorable and business conditions are stringent. （support provided when necessary）	9 (11)	5.3% (6.5%)	17.0%
7) Other	4 (5)	2.4% (2.9%)	3.9%
Total	170 (193)	100.0% (100.0%)	100.0%

(Note) Although this question asked for a single response, because of the large number of companies that provided multiple responses, we presented ratios that reflected this in parentheses.

4.7 External fund procurement method considered important for the future

"Procurement from main partner companies," is the most popular choice as the future external fund procurement method among respondents (218 companies or 45.2%). Other popular responses included "procurement relating to the national government (Ministry of Industrial Resources[6], Small and Medium Business Administration, etc.), Industrial Bank (including Industrial Bank Capital), local governments, techno-parks and other types of support capital (venture support

[6] Korean ministries are equivalent to Japanese ones. Following the organizational reforms effected in the Korean government in March 2008, Ministry of Knowledge Economy was created from the integration of Ministry of Industrial Resources with a portion of Ministry of Information and Communication and a portion of Ministry of Science and Technology.

capital, etc.)," selected by 149 companies (30.9%), and "procurement from financial institutions other than main partner banks," selected by 89 companies (18.46%).

A look at the study on Japan's Kansai and Tokai regions shows that the selection of "procurement from main partner banks" was in the 40% level and "procurement from financial institutions other than main partner banks" was in the 20% level. These results are similar to those for the Daegu/Gyeongbuk region. However, there is a strong inclination among Korean companies to procure funds from the national government.

<Table 13> Items considered as important for the future as an external fund procurement method

Classifications in Korea	Daegu/Gyeongbuk		Classifications in Japan	Kansai	Tozai
	Multiple responses	Ratio		Ratio	Ratio
1) Procurement from main partner banks	218	45.2%	Same as left	41.6%	39.6%
2) Procurement from financial institutions other than main partner banks	89	18.5%	Same as left	27.4%	21.2%
3) Procurement relating to the national government (Ministry of Industrial Resources, Small and Medium Business Administration, etc.), Industrial Bank (including Industrial Bank Capital)	149	30.9%	Procurement from public financial institutions	16.7%	11.8%
			Subsidized lending from local governments	3.8%	2.6%
4) Procurement from trading partners (trade credit)	10	2.1%	Same as left	0.7%	1.8%
5) Short-term CP	1	0.2%	Same as left	0.4%	0.9%
6) Long-term corporate bonds	2	0.4%	Same as left	4.3%	6.4%
7) Convertible bonds	4	0.8%	Same as left	0.3%	1.7%
8) Common shares	8	1.7%	Same as left	0.7%	5.0%
9) Subordinated bonds, preferred shares, redeemable preferred shares, etc.	0	0%	Same as left	0.1%	0.2%
			Leases, credit card, accounts receivable and other securitization	1.6%	2.8%
10) Others	1	0.2%	Same as left	2.4%	6.1%
Total	482	100.0%		100.0%	100.0%

(Note) Although the question asks for two responses from the selections in the table, not all companies responded with two selections.

4.8 Assessment of partner financial institutions

Respondents were asked to indicate an order of priority to assess partner financial institutions. Results showed that “provision of funds (loans, etc.)” was the No. 1 selection with 101 companies making this selection out of 256 respondents (39.4%). If multiplying 3 to the No. 1 selection, 2 to No. 2 and 1 to No. 3 and adding the total (weighted sum), the highest is 431 for “provision of funds (loans, etc.), followed by “knowledge on your companies” at 319 and “decision making speed” at 258.

On the other hand, according to the questionnaire for Japan, the highest was “knowledge of your companies” followed by “decision making speed.” “Provision of funds (loans, etc.)” was only the fourth. This is believed to reflect the difference in the strength of fund demand between at Korean and Japanese companies.

<Table 14> Positive assessment of partner financial institutions

	Daegu/Gyeongbuk				Kansai	Tokai
	No. 1	No. 2	No. 3	Weighted sum	Weighted sum	Weighted sum
1) Knowledge of your companies	73	27	46	319	1,940	942
2) Provision of management advisory services to businesses	15	22	17	106	514	304
3) Provision of funds (loans, etc.)	101	54	20	431	676	372
4) Continuity of loan coordinators	17	52	24	179	786	329
5) Knowledge of industrial field to which your companies belong	9	22	22	93	252	171
6) Decision making speed	32	56	50	258	1337	550
7) Provision of broad variety of services	6	17	37	89	576	538
8) Knowledge of regional market to which your companies belong	3	4	36	53	222	281
Total	256	254	252	1,528	6,303	3,487

Note: Weighted sum is calculated in the way that we multiply 3 to the No. 1 selection, 2 to No. 2 and 1 to No. 3 and add them. For example, regarding “1) Knowledge of your companies,” we calculated in the following way; 319=73*3+27*2+46*1.

4.9 Functions that regional financial institutions have to strengthen

Respondents were asked what lending functions that they thought regional financial institutions have to expand and strengthen. The highest was for "loans that does not depend excessively on physical collateral (real estate)," which was selected by 202 companies (81.5%), followed by "loans secured with items other than physical collateral (intellectual property rights, accounts receivables, etc.)," which was selected by 124 companies (50.0%). In addition, 123 companies (49.6%) and 120 companies (48.4%) selected "loans that do not depend excessively on joint and several guarantees" and "loans based on products, services, technology and other aspects of a company's business." In the questionnaire for Japan's Kansai/Tozai regions, the No. 1 selection was "loans that do not depend excessively on physical collateral (real estate)," which is the same as Daegu/Gyeongbuk. No. 2 for Japanese firms was "loans that do not depend excessively on guarantors."

The greatest difference between the two countries was the position of "loans secured with items other than physical collateral. It was ranked the second in Daegu/Gyeongbuk, while this selection took the No. 6 position in Japan's Kansai/Tozai region, staying at the 20% level. The reason for this is the social problems that arose in Korea due to the adverse effects of excessive joint and several guarantees in the wake of the IMF affair.[7] This led to strong criticism against joint and several guarantees and, recently, there is a rising trend to give loans based on individual credit assessments (differentiation of loan interest rates due to the level of creditworthiness of individual firms). Because of this, the ratio of responses for "loans that do not depend excessively on joint and several guarantees" was lower than generally expected. Meanwhile, in Korea, there are still few "loans secured with items other than physical collateral." The high selection ratio is believed to be the result of the progressively heightening necessity for developments such as the use of intellectual property rights as a substitute for collateral.

Conversely, regarding "functions *other than* the supply of funds" that regional financial institutions have to expand and strengthen, the most responses went to "appropriate assessments of

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[7] This term indicates the span of time when Korea was in a recession during the East Asian financial crisis of December 1997 and the Korean government received emergency loans from the IMF.

a business' marketability and technological capabilities" from 139 companies (54.7%), followed by "fostering regional industries," which was selected by 134 companies (52.8%), and "corporate support services such as management consulting, etc.," selected by 116 companies (45.7%). In addition, 81 companies (31.9%) selected "intercompany business matching."

A look at the questionnaire for Japan's Kansai/Tozai regions reveals the most responses going to "information provision," different from the Daegu/Gyeongbuk questionnaire, followed by "intercompany business matching."

<Table 15> Matters to be expanded and strengthened by regional financial institutions (fund provision function)

	Daegu/Gyeongbuk		Kansai	Tozai
	Multiple responses	Ratio	Ratio	Ratio
1) Loans that do not depend excessively on physical collateral (such as real estate)	202	81.5%	74.9%	73.1%
2) Loans secured with items other than physical collateral (intellectual property rights, accounts receivable, etc.)	124	50.0%	22.3%	22.2%
3) Loans based on products, services, technology and other aspects of a company's business	120	48.4%	40.8%	47.1%
4) Loans that do not depend excessively on joint and several guarantors	123	49.6%	57.2%	54.1%
5) Loans not secured by credit guarantees	82	33.1%	42.9%	25.1%
6) Quick loans (using databases, etc.)	71	28.6%	27.5%	27.1%
7) Loans from investment funds.	5	2.0%	4.2%	5.6%
8) Securitization of accounts receivable, etc.	11	4.4%	7.4%	10.8%
9) Others	3	1.2%	1.5%	2.0%
Total	741	298.8%	278.6%	267.0%

Note: Companies were asked to select three items. Ratios represent multiple responses divided by the number of respondents (Daegu/Gyeongbuk: 248, Kansai: 1034, Tozai: 558).

<Table 16> Matters to be expanded and strengthened by regional financial institutions (functions other than fund supply)

	Daegu/Gyeongbuk		Kansai	Tozai
	Multiple responses	Ratio	Ratio	Ratio
1) Corporate structure rearrangement	40	15.7%	15.7%	8.7%
2) New business support	61	24.0%	24.0%	20.8%
3) Intercompany business matching	81	31.9%	37.3%	27.7%
4) Industry-academia collaboration such as with universities	15	5.9%	6.1%	8.9%
5) Support for M&As and corporate partnerships	28	11.0%	14.0%	18.6%
6) Appropriate assessment of a business' marketability, technological capacity, etc.	139	54.7%	33.5%	22.3%
7) Information provision such as on breakfast meetings	22	8.7%	62.3%	62.2%
8) Provision of corporate support services such as management consulting	116	45.7%	25.6%	20.3%
9) Fostering regional industries	134	52.8%	13.9%	20.8%
10) Contributing to regional society and supporting the improvement of the regional environment	53	20.9%	11.6%	14.2%
11) Other	4	1.6%	1.1%	1.0%
12) We do not expect functions other than funds supply	29	11.4%	8.7%	9.6%
Total	722	284.3%	253.9%	235.1%

4.10 Assessment of "Zero-borrowing" management

Major Japanese companies, such as Toyota Motor Co., are said to keep their borrowings minimum or, in some cases, almost zero. This management attitude is called "Zero-borrowing" management or "Mushakkin Keiei" in Japanese.

We heard companies' opinions toward "Zero-borrowing management concept" and results showed that 33 firms (12.9%) "strongly agree" and 162 (63.5%) "somewhat agree," which makes roughly 80% of all companies agree with the concept. However, the questionnaire in Japan's Tokai region showed that 27.0% and 60.2% of respondents "strongly agree" and "somewhat agree," respectively, meaning that Japanese companies agree more than their Korean counterparts on the concept of “Zero-borrowing” management. The reason for this is believed to be that, compared with Korean companies, Japanese mature companies’ need for loans is declining.

<Table 17> Opinion towards “Zero-borrowing” management

	Daegu/Gyeongbuk		Kansai RIETI	Tozai
	Responses	Ratio	Ratio	Ratio
1) Strongly agree	33	12.9%	28.6%	27.0%
2) Somewhat agree	162	63.5%	60.1%	60.2%
3) Mostly disagrees	51	20.0%	9.9%	9.5%
4) Completely disagrees	9	3.5%	1.3%	1.6%
Total	255	100%	100.0%	100.0%

(Note) Kansai RIETI is a study conducted in June 2005 by the Research Institute of Economy, Trade and Industry (RIETI) targeting small to midsize companies in the three prefectures consisting the Kansai region. Yamori participated in the Kansai RIETI research.

5. Conclusion

In this paper, we used results obtained from three questionnaires sent to small to midsize companies in Japan and Korea to analyze similarities and differences between regional finance in the two countries. A summary of the study is as follows.

1) Daegu/Gyeongbuk region respondents indicated that general customers, employees, partner banks and partner companies are important stakeholders in their business. “Partner banks” was selected as an important stakeholder nearly twice as many times as respondents in Japan’s Tokai region. This suggests that companies in the Daegu/Gyeongbuk region have closer ties to banks than their Japanese counterparts.
2) 41.6% of respondents indicated that the time distance to the main branch of their main partner bank is 10 minutes or less, meaning that small to midsize companies deal with financial institutions that are nearby.
3) Regarding the question asking whether there is a difference between a financial institution whose headquarters is located in the region and one whose headquarters is located outside the region, 20.7% of Korean respondents answered “yes” compared with only 10.3% in Japan’s

Kansai region. In Korea, the rate of responses was high for differences in "loan decision time" and "loan interest rates." In Japan, the most indicated difference is "loan process (e.g., types of documents required for submission)," followed by "loan decision time." Comparing with Korean firms, more Japanese firms expected financial supports from nearby banks when needed.

4) Regarding the question asking to assess positive side of their current partner financial institution, respondents in Daegu/Gyeongbuk gave the most positive assessment to "provision of funds," whereas in Japan's Kansai and Tokai regions, the most positive assessment was "knowledge of your companies."

5) Regarding funds supply functions that regional financial institutions should expand and strengthen, all regions surveyed indicated "loans that do not depend excessively on physical collateral (real estate)" the most important. No. 2 was "loans secured with items other than physical collateral (intellectual property rights, accounts receivable, etc.)" in Korea, and "loans that do not depend excessively on joint and several guarantors" in Japan. Recently in Korea, there is a rising trend towards lending based on individual credit evaluations. However, we believe that it is not yet the norm and there is the increasing need to develop substitutes for collateral such as intellectual property rights, etc.

6) Regarding functions other than funds supply that regional financial institutions should expand and strengthen, respondents in Daegu/Gyeongbuk indicated a preference for "appropriate assessment of business marketability, technological capacity, etc.," "fostering local industries," and "providing corporate support services such as management consulting, etc.," whereas in Japan, the highest number of responses were for "providing information" and "intercompany business matching."

7) Regarding advice and information obtained from main partner banks, where many companies in Daegu/Gyeongbuk chose "public financial support measures by the national and local governments (credit guarantee system, subsidized lending, etc.)" and "information on the status of the economy," and many of Japan's Kansai companies indicated "new buyers" and "real estate (land for factories, etc.)."

As mentioned above, although many interesting facts came to light in this comparison of Korean and Japanese regional finance, we admit that there are several limitations in this paper.

First, only one region was targeted for the questionnaires in Korea. Therefore, it is not known if other Korean regions demonstrate the same trends as Daegu/Gyeongbuk, the target region of this study. It must never be said that Korean regional finance traits for small to midsize companies have been established here. It can be especially said that, in the aftermath of the Asian currency crisis when many regional banks either went bankrupt or merged with others, the Daegu/Gyeongbuk region, which boasts independent regional banks, is an exception to the norm.

Secondly, this study provides only one-shot information. In the Japanese questionnaires, there were more than a few questions where responses varied due to macroeconomic environments. In as such, it is necessary to clearly differentiate between structural responses with responses affected by economic cycles. We need continuous follow-ups.

Finally, questions asking detail of financial figures such as loan interest rates were avoided as much as possible in hopes of alleviating the burden on respondents and increasing the response rate. Because of this, this study has been criticized as having too many subjective responses and few objective figures. In addition, it was difficult to make statistical analyses by controlling multiple factors. It is necessary to make an additional study that would make possible statistical hypothesis testing similar to Uchida et al. (2008) that used questionnaire results obtained from Kansai companies.

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