

## **Corporate Governance in Banking Industry: Comparative Studies in the Cases of Japan and Myanmar**

**Aye Thanda Soe<sup>1</sup>**

### **Abstract**

Corporate governance is a major contributing factor of the financial stability of the Japan and Myanmar banking industries. This study highlights comparison of corporate governance between Japan and Myanmar banking industries. The corporate governance of Japanese banking industry has been closely scrutinized as one of the most important causes for the currently prolonged stagnation of Japanese economy since the 1990s. With the deep root in the long established financial structure and the traditional components of the Japanese corporate system such as the main bank system, cross-shareholding, and lifetime employment, these practices are suspected to become unfashionable in the rapid globalization trend. Therefore, the increased awareness in weakness of corporate governance has led to a number of significant changes in the regulatory environment and business practices in the Japanese corporate sector that was aimed for improving financial sector stability. In Myanmar, banking crisis occurred in 2003 due to liquidity shortage. One of the main reasons behind this failure is the lack of effective corporate governance. For the creation of a stable financial system and efficient banking sector, corporate governance adjustments have been set as a high priority for the structural reform in Myanmar. As a result, the role of bank supervision becomes dominant for improvement of banking sector stability. Therefore, a sound and an efficient corporate governance practice is also the key to the health of the Japan and Myanmar banking industry.

Key words: corporate governance, main bank system, cross-shareholding, banking crisis, reforms

### **1. Introduction**

Corporate governance is essential to the success of firms in any industries. Also, the practice of good corporate governance has become a main requirement for any corporation to manage effectively in the globalization market. It consists of such elements as firm-size, management-style, financial structure, labor and other cultural aspects operating in a legal-framework component. Still, the banking sector deserves special attention.

Banking sector is mainly responsible for the allocation of financial resources to all other sectors of an economy, whose efficiency very much determines the performance of the economy.

---

<sup>1</sup> Assistant Lecturer, Department of Management Study, Yangon Institute of Economics.

This explosion of interest takes place with the recent magnificent increase in the concentration of shareholding in the hands of large institutional investors, for example insurance companies and pension funds, in many developed countries.

Also, by the nature of banking services, banks are inherently vulnerable to shocks and loss of public confidence. Deregulation and globalization, exposing banks to new and higher risks, call for strengthened financial safety nets and prudential regulation of financial institutions, which tend to weaken the incentives of market participants to monitor banks. All these give corporate governance of banks distinct features different from that of other firms.

In Japan, the corporate governance of Japanese banking industry has been closely scrutinized as one of the most important sources for the currently prolonged stagnation of Japanese economy since the 1990s. With the deep root in the long established financial structure and the traditional components of the Japanese corporate governance system such as the main bank system, cross-shareholding, and lifetime employment, these practices are suspected to become outmoded in the rapid globalization trend. Weak governance in banking sector can be seen as the major contribution for Japan's recession obviously.

Moreover, corporate governance becomes the major issue especially after the financial crisis took place in 1997 in Asia countries with the valuable lessons learnt regarding the healthy of corporate governance. Insufficient supervision, inadequate monitoring and lack of transparent information system are the major lessons from this financial crisis for those countries.

In 2003, Myanmar had experience with banking crisis in a form of liquidity problem in domestic private banks due to collapse of informal finance enterprises. These enterprises tried to attract people to deposit money with higher interest rate and making loans illegally and reinvest in other business firms. These enterprises have closed down because of their liquidity problems and they could not pay back money to investors and investors lost their money. The main lesson learned from this banking crisis is lack of soundness of corporate governance.

Therefore, this paper aims to evaluate all the major aspects of bank corporate governance in Japan and Myanmar including financial safeguards and regulation and banks' internal governance mechanisms as well as the unique features of bank management. In addition, this paper plans to review the causes and consequences of banking crisis in the perspective of corporate governance and analyze the reform efforts in Japan and Myanmar towards the sound corporate governance.

## **2. Methodology**

With regards to the important role of corporate governance, this study is an attempt to make the comparative studies of corporate governance in Myanmar and Japanese banking industry and its impact on the healthy financial performance in each country. First, the theoretical concepts given in the literature are reviewed to understand the concepts of corporate governance, its unique characteristics and impact on Myanmar and Japanese banking industry. The study applied the descriptive and exploratory methods of analysis based on secondary data to facilitate study objectives. In order to analyze history of banking industry and the role of corporate governance in banking crisis in each country, previous studies were supported to this study.

### **3. Literature Review**

#### **3.1 The Concept of Corporate Governance in Banking Industry**

Organization for Economic Cooperation and Development (OECD) has defined “**corporate governance**” as the system by which business corporations are directed and controlled. Corporate governance involves the relationships between company’s management, boards, shareholders, and stakeholders. Therefore, good corporate governance should provide proper incentives for the board and management to attain those objectives from the interests of a company and shareholders.

OECD emphasized that good corporate governance indicates the proper incentives for the board and management to reach the objectives, which are in the interests of both shareholders and stakeholders. Moreover, it also helps them facilitate effective monitoring that encourages firm to use its resource more efficiently. Especially, with the changing environment of freely mobilized international flow of capital allow companies to access foreign financing.

The corporate governance of banks in developing economies is important for several reasons. First, banks have an overwhelmingly dominant position in developing economic financial systems, and are extremely important engines of economic growth. Second, banks in developing economies are typically the most important source of finance for the majority of firms. Third, as well as providing a generally accepted means of payment, banks in developing countries are usually the main store for the economy’s savings. Fourth, many developing economies have recently liberalized their banking systems through privatization/disinvestments and reducing the role of economic regulation. Consequently, managers of banks in these economies have obtained greater freedom in which how they run their banks.

### **4. Corporate Governance in Japanese Banking**

#### **4.1 Distinguished Features**

The corporate governance structure in Japan is uniquely different in two main aspects. First, most Japanese firms have a special tie with a main bank. Second, a significant fraction of the equity stakes in Japanese firms is held by other firms and financial institutions; so-called inter-corporate shareholdings. It has been argued that main banks and inter-corporate shareholdings perform an important monitoring function in Japanese firms. Other features of corporate governance in Japanese banking are yokonarabi, convoy methods of bank regulation and development of banking generalists. These notable features distinguish Japanese bank management traditions from those observable at banks in the US and Europe.

#### **4.2 The Main Bank System**

The heart of the Japanese corporate governance system is the main bank in the post-war Japan. Main bank is originally a term used by practitioners in Japanese financial institutions and

industrial firms. They call a particular bank the main bank when the firm obtains its largest share of borrowings from that institution. It also holds a certain amount of equity in the firm.<sup>2</sup>

A main bank is defined as one that meets all the following criteria. First, they maintain long-term, comprehensive transactional relationships with the corporate borrower. Second, they are the largest lender of funds to the corporate borrower. Third, they are a principal shareholder. Fourth, they provide not only capital, but also human resources. Fifth, they represent other lenders in closely monitoring the activities of the borrower to insure the costs to be minimized. And finally, they take the initiative in relief efforts when the borrower has financial difficulty.<sup>3</sup>

### 4.3 Cross Shareholding

A second important feature of corporate governance in Japanese banking is the practice of mutual shareholding among firms and financial institutions. Mutual cross-shareholdings are arrangements whereby institutions have reciprocal equity positions with the understanding that these shares will not be sold without prior consent of the other party. Such shareholders are referred to as stable shareholders and such arrangements are a cornerstone of the main bank system.

Consequently, a complex web of inter-corporate shareholding centered on the banks is a main characteristic of the modern corporate groups called financial *KEIRETSU*. Other large non financial firms like Toyota, Hitachi, and Toshiba have formed similar corporate groups called industrial *KEIRETSU*. The *KEIRETSU* are historically derived clusters of affiliated firms held together by stable cross-share ownership, interlocking directorates, extensive product market exchanges, and other linkages that enhance group identity and facilitate information exchanged.

For the period from the end of World War II until the middle 1970s one would be hard pressed to find any significant difference in the management behavior from one city bank to the next. A major contributing factor to such behavior has been the need by banks for frequent consultation with the Ministry of Finance with regard to such matters as expansions into new markets or introduction of new financial products.<sup>4</sup> Excessive constraints of Ministry of Finance with regard to the introduction of new products led to a situation where banks were limited in their capacity to differentiate their products from the competitor's products and this caused banks to focus on the maximization of volume and market share rather than profitability.

### 4.4 Yokonarabi

The policy approach of Ministry of Finance's Banking Bureau is in many ways still the same as in the period of rapid growth until 1973. Ministry of Finance follows yokonarabi strategy which aims to maintain a stable ranking and hierarchy. Yokonarabi is a Japanese term which

---

<sup>2</sup> The development of corporate governance in Japan and Britain; Edited by Robert Fitzgerald and Etsuo Abe;p125

<sup>3</sup> Unique feature of Japan's Bank Management; Masaharu Kuhara

<sup>4</sup> KUHARA Masaharu, Financial institutions and markets; Graduate School of Management, Ritsumeikan Asia Pacific University, 2006

refers to parallel, stagnation movements.<sup>5</sup> For the period from the end of WWII until the middle 1970s one would be hard pressed to find any significant difference in the management behavior from one city bank to the next. A major contributing factor to such behavior has been the need by banks for frequent consultation with the Ministry of Finance with regard to such matters as expansions into new markets or introduction of new financial products.<sup>6</sup> Ministry of Finance's excessive constraints with regard to the introduction of new products led to a situation where banks were limited in their capacity to differentiate their products from the competitor's products and this caused banks to focus on the maximization of volume and market share rather than profitability.

Other adverse effects were that corporate cultures became almost indistinguishable from one bank to the next, and that there was no sense of urgency or responsibility among bank management. The fact that the problem of bad loans from the bubble era occurred at all major banks is evidence of this tendency among Japanese banks to mimic each other. Further evidence is that in this industry the most important task of strategic planners is to find out what other banks are doing, and through constant exchange of information ensure that no one breaks away from the pack.

#### 4.5 Convoy Methods of Bank Regulation

The Japanese financial convoy system is analogous to boats that group together to ensure that the slowest one does not become a straggle. This system discouraged competition within the financial sector. Under the system, even the most inefficient financial institutions were led to grow at the same speed, and protection was provided against failure. Discretionary regulatory oversight based on long-standing give-and-take relationships between the Ministry of Finance and individual financial sector and regulating the opening of new branches and the entering of new business areas.

When a financial institution encounters extreme difficulty, authorities directly intervene in operations and pressure selected banks to offer assistance and relief. In this way, by creating a structure in which banks can not fail, the Ministry of Finance was able to protect depositors, and provide low-cost monitoring based on trust. At the least until the early 1980s, such arrangements provided for stability and efficiency in Japanese banking. However, due to the sheer magnitude of bad loans stemming from imprudent lending and severe deflation in the real estate market and general economic stagnation, the propping up of weak banks is now beyond the discretionary, non-transparent powers of the Ministry of Finance and some banks will fail.

---

<sup>5</sup> The 1995 financial crisis in Japan, Schaede Ulrike, working paper 85, University of California, February 1996

<sup>6</sup> KUHARA Masaharu, Financial institutions and markets; Graduate School of Management, Ritsumeikan Asia Pacific University, 2006

#### 4.6 Development of Banking Generalists

A career at a bank provided high social status and credibility, relatively high salaries, stable employment, and the possibility to serve as advisor to the bank's client companies. According to Okazaki (1993), each year since the 1950s, approximately 10% of the graduates from the Economics Department of prestigious University of Tokyo have selected banking careers. Beginning in the latter half of the 1960s, the proportion rose to over 20%, equaling the percentage of such elites entering the entire manufacturing sector.

Although there is intense rivalry once these high-potential human resources enter the bank, the over-emphasis within the bank has prevented them from accumulating technical skills and knowledge. Instead, they developed into generalists. At Japanese major banks, innovation is not rewarded and considered risky. A mistake could end one's chance for senior management positions, so it was better to play it safe and build relationships.

#### 4.7 Role of Corporate Governance in Japanese Banking Crisis

As a result of a prolonged weak economy and the declining asset prices in the 1990s, the Japanese financial sector faced an enormous bad loan problem. In order to examine the origin of the Japanese asset price bubble in the 1980s, the stock prices started to rise in the mid-1980s and reached 140 percent by the end of 1989. After the crash of the bubble, this ratio fell to around the 50 to 80 percent range. In relation to nominal GDP, the residential land price almost doubled in the second half of 1980s and the commercial land price tripled in the same period.

After the bubble, the fall of the commercial land price index is extremely sharp, falling to less than 20 percent of the peak level relative to nominal GDP.<sup>7</sup> The asset price bubble was created by the following three factors; loose monetary policy, tax distortions, and financial deregulations. The banks actively participated in the exacerbation of asset bubble by credit creation. Large increase in lending to real estate is often viewed as a primary cause of the non-performing loans problems that emerged later in 1990s. Their very unusual lending practices can be linked to characteristics of the Japanese banking industry at that time.

First, partially due to the pressure from the US government, the Japanese authorities embarked on the protracted process of liberalizations of the country's financial system. By mid-1980s the process was only half finished with gradual removal of restrictions on access to the corporate bond market and creation of the commercial paper market. Second, the Japanese banking industry suffered from huge oversupply problems. The industry was designed to provide financing for the Japanese economy that was growing on average 9.7% between 1960 and 1973. At the same time the average growth in Europe and the USA was 4.8% and 3.9% respectively. Slowing growth (on average 4.4% between 1975 and 1985) and decreasing demand for funds in

---

<sup>7</sup> Designing Financial Systems in East Asia and Japan: Edited by Joseph P.H. Fan, Masaharu Hanazaki and Juro Teranishi; Financial deregulations, weakness of market discipline and market development; Japan's experience; Mitsuhiro Fukao;p122

the second half of 1970s and in 1980s was not accompanied by the reduction of the banking sector capacity.<sup>8</sup>

Finally, poor corporate governance of Japanese banks might have been one of the main factors behind the growing amount of non-performing loans. The weak corporate governance of Japanese banks originates from the fact that banks' major shareholders have little incentive to confront the management. Main groups of shareholders have been either dependent on management (banks' employees and banks' corporate borrowers) or had close relationship with management (other banks and insurance companies due to cross shareholding). Members of boards of directors are usually promoted from the ranks of employees at the end of their careers and resign after their terms expire in order to be replaced by junior employees. This, combined with weak internal and external audits, creates incentives for concealing problems rather than taking decisive steps during manager's tenure.

#### **4.8 Reform of Banking Sector towards Sound Corporate Governance**

The resolution of the Japanese banking crisis has been identified as a critical factor affecting the health of the Japanese economy. Substantive restructuring of the Japanese banking sector began to occur in 1998. Massive restructuring must be undertaken to improve the health of Japanese financial system. The seeming reforms, lack of oversight by regulators, finally forced the government to create new regulatory agencies to oversee financial institutions. The first new agency is the Financial Supervisory Agency (FSA), established in July 1998. The FSA took over regulatory responsibilities to the banks and securities firms when it was spun off from the Ministry of Finance in June 1998.

The Big Bang began in April 1998 when all remaining restrictions on foreign exchange transactions were removed. A wide range of financial deregulation measures will fall under the umbrella of the Big Bang.<sup>9</sup> Also, it should be on measures to strengthen corporate governance. Many aspects of the legal framework governing institutional investors in Japan have been changed or are already scheduled to be changed as part of the Big Bang. Restrictions on the asset allocation of corporate pension funds were removed in 1997.

Several other reforms important for Japanese banks include the ability to trade in over-the-counter derivatives and asset-backed securities. Furthermore, the Foreign Exchange and Foreign Trade Control Act was amended in 1998 breaking the monopoly banks and securities firms had on the foreign exchange market. Other reforms involve transparency and accountability for Japanese banks. The lack of transparency helped them hide the extent of bad loans for Japanese banks. Periodic self-assessment by banks of the quality of assets on the basis of established loan classification schemes. These loan classification schemes enabled the banks to assess the quality of their assets in terms of the borrower's ability to pay and the possibility of recovery of the loans thus urged them to set up adequate loan-loss provisions and assess the soundness of their asset performance.

---

<sup>8</sup> Change and Crisis in the Japanese Banking Industry; Mariusz K. Krawczyk; Hamburgisches Welt-Wirtschafts-Archiv(HWWA) discussion paper;

<sup>9</sup> Big Bang deregulation and Japanese corporate governance: A survey of the issues; Michael S. Gibson

With respect to corporate governance arrangements, although the improvements made to date are to be warmly welcomed, further developments are desirable. As the International Monetary Fund (IMF) notes, the system is still characterized by a low level of shareholder activism and few outside directors, and lacks transparency. And the relatively- small corporate bond market and remaining high degree of cross-shareholding also deter structural changes.

## **5. Corporate governance in Myanmar Banking**

### **5.1 The Banking Structure in Myanmar**

Myanmar banking industry is mainly organized by central bank of Myanmar, four state-owned banks, fifteen domestic private banks and fifteen foreign representative offices. Central bank of Myanmar plays as a major role in banking industry in Myanmar. Banking activities are operated by commercial banks and investment banks. Commercial banks conduct short term credit operations lasting not more than one year and investment banks concern long-term for working capital with more than one year credit term.

State-owned banks include the Myanmar Economic Bank, Myanmar Foreign Trade Bank and Myanmar Investment and Commercial Bank. The Myanmar Agriculture and Rural Development Bank was transferred to the Ministry of Agriculture and Irrigation in 1996 and it becomes focusing on agricultural development. Foreign banks have been permitted to open only representative offices in Myanmar and the activities of the representative office are to confirm and collect business information and data about the performance of liaison offices.

As a result of gradual liberalization of economy, many private banks join to the banking industry in order to contribute in the development of Myanmar economy. The fifteen domestic private banks and their branches provide commercial banking services and introduce new banking products such as hire purchase, leasing, trusts, auto pay and safe deposit lockers as well as payment instruments such as traveller's cheque, gift cheques, credit cards, and on- line banking. In addition to state- owned banks, domestic private banks participate as the major key players in development of Myanmar banking industry.

### **5.2 Ownership Structure**

In Myanmar banking industry, government plays as a significant role in ownership and controlling of banking activities. Among the fifteen domestic private banks, five of them are public companies and the rest are private companies. The public bank corporations such as Myanmar citizen bank and Myanmar co-operative bank sell their shares to public. In semi-government banks such as Myanmar Industrial Development Bank, the government possesses the majority of shares in these bank corporations and the power of control is in the hand of the government. In these corporations, shares are normally divided into two types; type "A" and type "B". Type "A" share is the portion of government and type "B" share is sold to general public.

Most of private banks are fully controlled by individual shareholders, not family members. Very few are owned by their family members such as KBZ bank. Generally, the stakeholders of private banks are board of directors of the bank, chief executive officials of the bank and staff of the banking supervision department.



### 5.3 Bank Supervision

In Myanmar, after adopting a market-oriented economy, the government enacted new banking laws, and the Central Bank of Myanmar has been empowered by these laws to regulate and supervise the banking system, including the conduct of monetary policy in 1989-90.<sup>10</sup> Under Central Bank guidelines, the bank supervision department is the only entity charged with inspecting, examining and monitoring the banks as a stakeholder that ensures financial safety.

Two main approaches of bank supervision are on-site examination and off-site monitoring. To assist with regular on-site examination, the Central Bank of Myanmar also monitors the banks through daily contact. The on-site examination teams usually inspect the banks on annually basis and examiners use the capital adequacy, asset and liability structure, management of risk, earnings performance, liquidity and sensitivity to market risk for measuring bank strength. An internal control system is also an essential part of supervision.

### 5.4 Prudential Regulations

Mishkin (2006) identified that prudential regulation is an important key factors of policy instrument to reduce adverse selection and moral hazard in the banking business. There are two essential purposes for bank regulation and supervision: the protection of small depositors by limiting the frequency and cost of individual bank failure, known as micro prudential regulation, and the protection of the banking system as a whole by limiting the frequency and cost of systemic banking crises, referred to as macro prudential regulation.<sup>11</sup> The Central Bank of Myanmar is taking action on bank operations by applying the prudential provisions for minimum reserve requirements, liquidity control, capital adequacy requirement, legal lending limit, credit control, interest rate, and regulations on anti-money laundering and combating the financing of terrorism.

### 5.5 Role of Corporate Governance in Myanmar Banking Crisis

Basically the banking crisis of Myanmar in 2003 was originated by some general services enterprises or private financial firms (A-kyo-saung), which practiced illegal financial services without the proper licensing of the Central Bank of Myanmar. At the beginning, they attracted the general public by offering much higher interest rates on their deposit at monthly basis. As the interest rates offered by such financial firms higher than the realistic rates, a few months later they could not finally conform to their contractual terms, upon which the general public lost their confidence on such financial firms. Around the beginning of February 2003, as a consequence, some people who are not knowledgeable enough to be able to distinguish such illegal financial services companies from the legal private commercial banks and some other people who misunderstood that one of the largest private banks is a prime back-up of such illegal services

---

<sup>10</sup> Stabilizing the banking sector in Myanmar, Nang Htay Htay, Policy proposal paper, National Graduate Institute for Policy Studies, July 2007

<sup>11</sup> F.S. Mishkin 2006 "The Economics of Money, Banking and Financial Markets", Addison Wesley, Pg 171

companies, rushed to that large private bank in a long queue to withdraw all their money deposited one after another.

In such circumstances that large private bank which had made out large loans with non-performing ones, faced great difficulties of paying back to its customers to the full amount in a short period. That large bank finally made a compromise to its customers to withdraw a certain amounts only for a specified period, which in fact made to decrease the confidence of the customers. Therefore, during the banking crisis, the Central Bank of Myanmar makes available liquidity support to troubled banks with the dual aims of preventing the collapse of the banking system and maintaining the payments system but some private banks fell down.

Two factors are responsible for irresponsible corporate governance. Lack of proper supervision of companies and infectious greed of board of directors and depositors resulted in the proliferation of non-financial companies. The non-financial companies even assumed the role of banks accepted deposits. These companies generally engaged in speculative activities driving up the prices of assets to unrealistic levels. Non-financial companies' irresponsible management and speculative activities ended up in liquidation and triggered the liquidity problems of private banks.

Lack supervision of non-financial companies and the financial sector expedites the liquidity and confidence crisis of companies and banks. Responsible authorities failed to take preventive measures in spite of repeated warnings from experienced professionals. They ignored the early warning signals and advice. Some private banks were openly overstepping rules and instructions issued by the Central Bank, but the Central Bank failed to take action. Some banks even indulged in over-lending practices to gain competitive advantage and to win over customers. To some banks, they do not follow business ethics. Rule breakers were tolerated. The consequence is towards the crisis.

## **5.6 Reform of Banking Sector towards Sound Corporate Governance**

Banking system is at the core of the financial system and is the most important part of monetary policy. The financial system in Myanmar has been restructured since 1989-90 at the dawn of the market oriented economic system of the country. In order to establish a sound and efficient financial system, the financial sector has been liberalized, granting private sector participation in the financial activities. Necessary amendments of the existing laws were made and new laws were promulgated in banking, customs, taxation and insurance areas. Simultaneously, the government lay down the foundations for a capital market through the issue of treasury bonds and organizing a joint venture firm, the Myanmar Securities Exchange Centre. The institutional framework of the banking institutions, along with the Central Bank of Myanmar, constitutes the monetary system in Myanmar. The basic principle of the banks is to cause the effective mobilization and allocation of fund resources in the economy in order to help promote economic growth, safeguard stability and raise the living standard of the people.

To strengthen liquidity position of banks and to restore public confidence in the banking system, all the banks are required to conformity with sound regulatory framework. In order to maintain the stability of banking industry, all banks are followed with the regulatory measures such as reserve requirements, liquidity control, capital adequacy ratio and single customer's

lending limits. All banks should make loans with collaterals in order to reduce default rate by guidance of respective authorities.

## **6. Comparison between Two Countries**

From the lesson learnt based on the above corporate governance of Japan and Myanmar banking industry, similarities between two countries can be summarized as follows:

### **6.1 Similarities**

- Both countries have similar type of financial system: bank- based financial system.
- Financial institutions of both countries are under control of Ministry of Finance or Ministry of Finance and Revenue.
- One of the main reasons of banking crisis in both countries is unhealthy corporate governance: inadequate financial disclosure, insufficient monitoring control.
- Reforms made by both countries towards healthy and stability of financial system.

### **Differences**

The differences between corporate governance of Japan and Myanmar banking industry are summarized in the following table (1).

Table (1)

**Differences between corporate governance of Japan and Myanmar banking industry**

	Japan	Myanmar
Ownership structure	Family-owned structure is significant.	Individual shareholders and business associates are more significant in ownership structure.
Controlling power	The Main Bank as a principal shareholder was powerful before financial crisis. Since 1998, all financial deregulations have made under the control of the Big Bang.	Government is a dominant player to control banking activities.
Bank supervision	Financial Supervisory Agency (FSA), took over supervision responsibilities to the banks and securities firms.	Supervision department of the Central Bank is the only entity headed with inspecting, examining and monitoring the state and private banks.
Reforms in corporate governance issues	Old fashion of corporate governance does not serve with the globalization and they had already faded away after the financial crisis. Necessary reforms are made according to market needs.	All banks are required to comply with sound regulatory framework, close supervision and perfect internal control to strengthen banking industry.

**7. Conclusion and Recommendations**

This study has mainly focused on the evidence of corporate governance problem that caused Japan into the prolonged recession and Myanmar into the banking crisis. Japanese banking industry is one of the main pillars of Japanese economy and financial operations of Banks tend to be more interrelated with various sectors of the Japanese economy. The particular feature of corporate governance in Japan was based on main bank system, cross-shareholdings and long-term relationships among a group of firms or *KEIRETSU*.

Increased awareness of problems in the main bank system of corporate governance came to be clear during the bubble burst economy. Japan has taken too long time to be awakened to seriousness of banking crisis without remarkable success. The key factor behind this failure is the lack of effective corporate governance. Therefore, malfunctioning of the Japanese banking system had been noticed associated with the limitations of the old-fashioned corporate governance.

As reforms, Big Bang deregulation could push the Japanese financial system in the right direction by focusing on strengthening corporate governance. Changes such as stock option plans,

independent directors and share buybacks could help managers focus on shareholders' interests. The deregulation was most substantial in expanding the fund-raising options available for large firms. Given the opportunity, many large firms moved from bank financing to capital-market financing. These structural changes are in turn exerting pressure on banks and large companies to lose their interlocking shareholding relationships.

The majority of the Big Bang reforms, aimed at financial modernization, will help the financial sector to be more efficient. But financial sector efficiency will give only an indirect boost to economic performance. To date, only a minority of Big Bang reforms have been aimed at corporate governance, despite the fact that reforming corporate governance presents a promising opportunity for Japan to improve its future economic performance.

Therefore, financial sector reforms should be targeted towards the healthy corporate governance of banking sector. The effective monitoring by the outsiders is the most noticeable feature of governance in Japanese bank management. Therefore, corporate governance system in Japan should shift from the insider control system (inner friendly closed circle) toward the outsider control system. On the other hand, the accountability enhancement, openness and disclosure of bank performance are also essential factors for building shareholders' power and interests of the outside investors.

The Myanmar banking sector is consisted of state-owned banks and domestic private banks and they are still operating within the normal banking system. After strengthening the domestic banking sector, domestic private banks are dealing with foreign currency and government allows for the opening of foreign bank branches. As a result, domestic banks become more actively participate in Myanmar banking sector through competition with foreign bank branches.

In 2003, Myanmar had suffered in banking crisis due to the fall down of informal finance firms which had accepted deposits with high interest rate and making loans illegally. During the period, most of people lost their money deposited in informal finance firms and they felt lack of confidence upon those firms. These negative effects spread over to the banks and they faced with the loss of public confidence. As a result, some of private banks closed down and some banks struggled to escape from the pitfall.

To recover from banking crisis, reinforcing supervisory capacity and competently implementing laws and regulations will support the long-term development of Myanmar banking industry. In addition, sound prudential regulations, independent supervision, and healthy corporate governance should be reinforced. Therefore, supervision department of Central bank occupies as a major role in order to scrutinize the financial transactions relation to state banks and private banks. All the banks are required to comply regulatory measures such as reserve requirements, liquidity control, capital adequacy ratio and single customer's lending limits, which are important to maintaining stability in banking operation.

The banking sector in both countries should refocus on the failure resolution away from preservation of the weakness and in favor of promotion of the strong by doing more to remove excess capacity in the banking industry that helps banks to be healthier. Both of banking industries should emphasize on diversifying their existing investment portfolio. They should

Akihiro Kanaya and David Woo (2000), “*The Japanese Banking Crisis of the 1990s: Sources and Lessons*”; IMF Working Paper.

Bank of Japan web site; <http://www.boj.or.jp/en/index.htm>

Bank for international settlements web site; <http://www.bis.org>

Financial Services Agency web site; <http://www.fsa.go.jp/en/index.html>

Htay Htay, Nang (2007), “*Stabilizing the banking sector in Myanmar*” National Graduate Institute for Policy Studies, A Policy Proposal Paper, 2007 Japanese Banker Association web site; <http://www.zenginkyo.or.jp/en/index.html>

Khin Maung Swe (2005), “*Banking situation in Myanmar*” MBA project paper.

Mitsuhiro Fukao (1998), “*Japanese Financial Instability and Weaknesses in the Corporate Governance Structure*”; International Symposium on the role of markets and governments, Conference Paper.

Nyo Myint (2006), “*A Private Commercial Bank in Myanmar*”; EMBA project paper.

Pablo de Andres Alonso and Eleuterio Vallelado Gonzalez (2006), “*Corporate Governance in Banking: The Role of Board of Directors*”; Department of Financial Economics and Accounting, University of Valladolid.

Soichiro Kozuka (2005), “Reform of Banking Regulation in Japan in the 1990s: Has the Market become competitive?”, *The Japanese Economy*, Vol.33, No.1( Spring).

Takeo Hoshi and Anil K Kashyap(2001), “*Corporate Financing and Governance in Japan*”, The Road to the Future, The MIT Press, London, England.

Takeo Hoshi, Hugh Patrick(2000), “*Crisis and Change in the Japanese Financial System*”, Kluwer Academic Publishers, USA.

Tun Myn Latt (1999), “*Role of Central Bank in Myanmar Financial System*”; MBA project paper,

Yuji Suzuki (1998), “*Strategy towards the Big Bang: The Industrial Bank of Japan's approach*”; Columbia University, Center on Japanese Economy and Business, Occasional Papers, 1998