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Preface

In the decades of the 1980s and the 1990s, the influence of Marxian economics in Japanese academe finally began to wane. While this influence is likely to remain dominant for many more years, institutional economics has been receiving increasing attention. This influence of institutional economics shows up in accounting research in the form of agency or contract theoretic analyses of accounting problems.

Institutionalism itself has many a thread. The accounting research methodology developed in the United States is characterized by rationalism of the institutional tradition. Japanese scholarship, on the other hand, tends to adapt institutional economics by considering the Marxian tradition. The Japanese tradition has some U.S. parallels in the work of Thorstein Veblen and John R. Commons and neoinstitutionalists such as Douglass C. North and Oliver Williamson. The adaptation in Japan is sometimes characterized as the cognitive approach because it does not emphasize statistical support for our understanding of, or assumptions about, economic, business, and accounting behavior. Instead, apparently irrational business behavior, when encountered, is simply labeled as a special Japanese institution, even as efforts are made to identify some rational foundations for such behavior.

Not surprisingly, even when they start their analyses from a common point, the rationalist and the cognitive approaches do not always yield the same results. For example, accounting rules and techniques are not always under the control of individuals who use them; some of them must be taken by the individuals as given—a kind of institution—which, in turn, influence how managers, investors, and the public think about, and address the problems of business and finance. Whether we accept the institutions of accounting as given or think of them as
consequences of rational individual action explains a good part of the difference between the rationalistic and cognitive approaches.

Contributions to this volume are written from diverse perspectives of Asian and U.S. authors. They reveal a tension between the nation-specific features of the business environments and accounting traditions of individual countries, on one hand, and the harmonization imperative of international flows of capital, on the other. In a sense, each country’s accounting and business environment could be defined by its location on the spectrum between its own traditions and international practice.

We may return to links between the analysis of the Japanese style of business accounting and place it in the context of accounting in the United States, Germany, and Korea. Some studies are based on rationalist thinking, while others are closely related to the cognitive approach. In particular, some chapters follow directly from Marxist theories. All these approaches are now subsumed in various threads of institutionalism—the common method behind this work.

Fourteen chapters of this book are organized into four parts: methods, data, theories, and comparison. Chapter 1 addresses the methodological issues in accounting from an institutional point of view. Chapter 2 uses the contract model of accounting that arose from rationalist thinking in the United States to trace the correspondence between the forms of business organizations and the forms of accounting systems engineered to serve their respective needs.

Part II on data and evidence opens with a chapter on the process of assimilating accounting measurement structures imported from the United States into Japan after World War II. Chapter 4 explores how the consequences of introducing U.S.-style consolidated financial statements into Japanese industrial organization have been quite different from their U.S. consequences. Chapters 5 and 6 analyze problems of auditing in Japan. In Chapter 5, the implications of the received theory of Japanese industrial organization for the audit market are found lacking in support from the data. Chapter 6 analyzes the development of, and complex interactions between, the two Japanese audit institutions—statutory and independent auditors—that operate in corporations. Chapters 7 and 8 address some problems familiar to U.S. readers in the Japanese context—the impact of management forecasts on stock prices, and the relationship between dividend stabilization policies of corporations and their accounting choices. The last chapter of this part is an ambitious attempt to model as well as estimate the relationship between the financial performances and social contributions of Japanese firms.

The theory part of the book includes two chapters to bring a perspective to which many readers of this book may not have been exposed. Chapters 10 and 11 present the relationship between the cost principle and the labor theory of value and how the shift in emphasis from classical to decision usefulness approach led the push toward balance sheets and current values in financial statements. Marxist roots of much of Japanese social science scholarship often surprises American visitors. With the end of the cold war, the struggle between capitalism and Marxism supposedly

settled, perhaps it is time again to explore the ideas and their historic links on which our discipline rests.

The analytical approach of this book can be extended to comparative analysis of accounting across countries. We do so in the final three chapters that constitute Part IV. Chapter 12 presents comparative analysis of the factor market conditions and financial reporting practices in the United States and Japan. Chapter 13 analyzes the policies of Korean corporations with respect to accounting for research and development costs. Chapter 14 offers descriptive analysis of German accounting systems from a Japanese perspective.

This book is the result of two research projects on which the editors have collaborated. An international symposium on “Economic Analysis of Business Accounting” was held at Kobe University in 1995. In 1996–97, the Japan Accounting Association organized a special project task force on “Institutional Accounting Analysis of Accounting Gap between Japan and the Rest of the World.” We thank the scholars who contributed to these projects and this volume and many others who generously supported both. We are grateful to Professor Yuji Ijiri for his support and advice and to Greenwood Press for making the publication of this volume possible.