
Contents

Preface	vii
Part I: Methods	1
1. Institutional Accounting Research: An Introduction <i>Norio Sawabe and Hidetoshi Yamaji</i>	3
2. Classical, Stewardship, and Market Perspectives on Accounting: A Synthesis <i>Shyam Sunder</i>	17
Part II: Data	33
3. Interaction between Japanese Accounting and Economic Structures <i>Hidetoshi Yamaji</i>	35
4. The Functions of Consolidated Financial Statements in Japan <i>Akira Kajiwara</i>	55
5. Corporate Groups and Their Auditors <i>Kazumi Suzuki</i>	69
6. The Countervailing Power of Japanese Auditors <i>Yoshinao Matsumoto</i>	97
7. Management Forecasts of Accounting Numbers in Japan and Daily Stock Returns Behavior <i>Masatoshi Gotoh</i>	119

Library of Congress Cataloging-in-Publication Data

The Japanese style of business accounting / edited by Shyam Sunder,
Hidetoshi Yamaji.

p. cm.

Includes bibliographical references and index.

ISBN 1-56720-219-5 (alk. paper)

1. Accounting—Japan. I. Shyam Sunder, 1944— . II. Yamaji,

Hidetoshi.

HF5616.J3J37 1999

657'.0952—dc21 99-27824

British Library Cataloguing in Publication Data is available.

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reproduced, by any process or technique, without the
express written consent of the publisher.

Library of Congress Catalog Card Number: 99-27824

ISBN: 1-56720-219-5

First published in 1999

Quorum Books, 88 Post Road West, Westport, CT 06881

An imprint of Greenwood Publishing Group, Inc.

www.quorumbooks.com

Printed in the United States of America



The paper used in this book complies with the
Permanent Paper Standard issued by the National
Information Standards Organization (Z39.48-1984).

10 9 8 7 6 5 4 3 2 1

8. Dividend Stabilization and Earnings Management through Accounting and Real Discretion in Japanese Firms <i>Takayoshi Okabe</i>	137
9. A Game Theoretic Approach to Corporate Social Activities and Their Information Disclosure <i>Isao Nakano</i>	161
Part III: Theories	175
10. The Cost Principle and the Labor Theory of Value in Relation to the Role of Accounting Theories and Their Depth <i>Yuji Ijiri</i>	177
11. Measurement, Disclosure, and Economics <i>Tsunehiro Tsumori</i>	191
Part IV: Comparisons	207
12. Design and Implementation of Contracts: A Comparison of Factor Markets Relevant to Financial Reporting in Japan and the United States <i>Shyam Sunder</i>	209
13. Evidence on Determinants of Accounting Policy for Research and Development Costs in Korea <i>Seong-Pyo Cho</i>	221
14. Main Features of Financial Reporting in Germany: An Institutional Consideration <i>Masatoshi Kuroda</i>	233
Glossary of Japanese Accounting Terms	257
Index	259
About the Contributors	267

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 Marxian 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. Marxian 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.