A Formation of Standard Setter to Transplant Global Standards into Domestic Institution

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Abstract
Japanese accounting standard setter, the ASBJ, developed lots of domestic accounting regulations to converge with the global standards in the period of 2005-2008, which substantially differs from the period of 2001-2004. A general organizations theory states that organizations make a change in their strategy and structure in order to change their performance. Based on this theory, we analyzed the change in organizational structure of the ASBJ using social network analysis. According to our result, the ASBJ formed a network in which accounting professions played a central role. The reason could be that the ASBJ made use of knowledge and wisdoms on the global standards Japanese big accounting firms has through their global networks.

Keywords: ASBJ, global convergence, standard setting process, social network analysis

1. Introduction
This paper aims to clarify how an accounting standard setter changes its organizational structure when it changes its standard setting behavior. The theoretical background is Strategy-Structure-Performance paradigm to be extensively studied in organizations theory. The ASBJ developed a lot of standards which mainly aimed at harmonizing with global standards produced by the International Accounting Standards Board (IASB) so as to reform the conventional ones, by means of adopting non-conventional techniques and/or narrowing down the ones to be previously accepted as options for four years after 2005. Under what type of organization did the ASBJ take such a standard setting behavior? To do so, this paper shows the organizational structure of ASBJ at that time using Social Network Analysis (SNA).

This paper is organized as follows. In the second section, we review the previous literature regarding to standard setting processes, and refer to the reason why we focus on the organizational structure of the standard setter and the effectiveness of network theory as an organizational structure analysis. In the third section, we confirm feature of standard setting activities of ASBJ in the period of 2005-2008. The fourth section conducts the organizational structure of ASBJ using SNA. Finally, we mention some reasons why the ASBJ formed that network at that time.

2. Studies on Accounting Standard Setting
2.1. Previous Literatures
It is said that accounting standard setting process is a political forum for various stakeholders who can be economically or socially influenced by creations, revisions or removals of specific standards, which can force to alter meanings and amounts of accounting figures (Zeit [1]). Since the early 1970s when researches on the process began in the USA, empirical researches to investigate activities or motivations of lobbyists in a formal process of inviting public comment letters have predominated. Though demonstrating the influence of certain political factors on standard setting process, such
researches cannot have a full picture of the process, cannot shed light on behavioral principle of accounting standard setter that has the greatest responsibility for making rules, and cannot explain the dynamics of power, interests and resources in the accounting standard setting process. In order to illustrate these points, a small number of studies on intra-board political activity and political activity regarding regulatory structures were carried out (Walker and Robinson [2]). Among them, some researches emphasized that the behavior of the setter could be affected by the strategies its chairpersons, its parent organizations, or its regulatory bodies adopted (e.g., Hope and Gray [3]). In addition, according to traditional organizations theorists, organization could in general change its organizational structure in order to execute a specific strategy. This is called to the strategy-structure-performance paradigm (e.g., Miles and Snow [4]). If we apply this paradigm to the behavior of accounting standard setter, it could (re)organize its own structure to carry a given strategy into effect (Mattli and Büthe [5]).

2.2. Clarifying Organizational Structure Using SNA

This paper employs SNA for the purpose of confirming the organizational feature of the standard setter. SNA seeks to model relationships among actors in the network to depict the network structure. The most basic feature of SNA is to quantify the relationships among actors in the network. Another feature of SNA is to describe the network structure using a graph in which the network relationship is drawn with nodes and edges (e.g., Wasserman and Faust [6]). In recent times, some researches which incorporated this analytical method made an appearance for the purpose of defining the organizational feature of standard setters (Perry and Nöelke [7]; Botzem [8]; Richardson [9], and Ogata [10]). Among a wide variety of analytical methods to capture the network structure in SNA, this paper adopts a continuous coreness analysis. This analytical method is used to identify a set of actors who have a high density of ties among themselves (the core) by having many events in common and another set of actors who have a low density of ties among themselves (the periphery) by having few events (Borgatti and Everett [11]). Here, “common” event refers the organizations, for example, companies, financial institutes, investment institutes, accounting firms, universities, governmental agencies, and other various organizations, which members of the standard setter and/or its related organizations belonged to and/or engaged with as constituencies before they became a member. It rests on an underlying idea that individual preferences and minds on accounting standards and techniques depend on their backgrounds or careers. Analysis based on this kind of data-set can highlight dominant actors in the standard setter in terms of human resources. As a result, we can understand on what value the standard setter has placed or would place much.

3. Standard Settings of the ASBJ

3.1. Overview of the ASBJ

In 2001, the ASBJ was created as the first Japanese private accounting standard setter, under mutual cooperation between the ten stock market-related stakeholders, including some industry groups of bank, insurance and investment, business leaders groups and accounting profession community and the regulatory agency, the Ministry of Finance and the subsequent Financial Service Agency of Japan. The ASBJ is an intra-organization of the Financial Accounting Standards Foundation (FASF). The FASF at the inception was comprised of four internal bodies: Board of Directors, Board of Councilors, ASBJ, and Theme Advisory Council. In 2004, the FASF built a newly organization, Advisors; and furthermore in 2007, the FASF compounded Theme Advisory Council and Advisors into Standards Advisory Council.

3.2. Standard Settings of the ASBJ from 2005 to 2008

As shown in Table 1, the ASBJ developed standards at slow pace until 2004. In 2005, it developed seven standards which had not been adopted ever, for example, accounting for business divestitures and share-based payment. Since 2006, it kept issuing standards to the same effect. These standards adopted non-conventional techniques and/or narrowed down the alternatives to be accepted for the global convergence. This triggered a major reform in Japanese financial reporting system. In the next section, this paper attempt to identify the organizational characteristics of the ASBJ at that time.
4. The Organizational Structure of the ASBJ

4.1. Using data

In conducting organizational structure analysis, this paper uses data based on organizations which provided members to intra-organizations of the FASF. As mentioned before, this assumes that individual preferences and opinions on the accounting standards or techniques should be determined by his/her background or career. Therefore, shedding light on the relations among the organizations in which the members have engaged before taking these seats in the network can give a full account of what actors dominate and what kinds of values are predominant in the standard setter.

This paper prepares a matrix data-set, composed of the organizations which provided human resources to the intra-organizations of the FASF from 2005 to 2008, on the basis of annual reports of the FASF, in rows, and the intra-organizations of the FASF every period in columns. In this case, the larger numbers of members or/and the longer period organizations supply, the higher scores these organizations obtain. This paper as the second step transform this original data-set into the organization-to-organization data-set by means of the affiliation process, contained in social network analysis software, UCINET VI (Borgatti, et al. [12]). We perform a coreness analysis and draw a graph using Net-Draw (Borgatti [13]), based on this affiliated data-set. An original matrix data-set in the period of 2005-2008 comprises 77 organizations. To relativize the standard setting process during this period, we make up another data-set in a period of 2001-2004, which include 69 organizations.

4.2. Features of Organizational Structure of the ASBJ

A result of the coreness score in this period is Table 2. This table shows the top four scorers left other organizations far behind. Included were Azusa (coreness score: 0.545, rank: #1), Tohmatsu (0.444, #2), ShinNihon (0.410, #3), and FASF (0.373, #4). The former three organizations are all big accounting firms in Japan that form alliances with the global big accounting firms1. In the second group, preparers of financial statements appeared. There were non-financial sectors such as Tokyo Electric Power (0.139, #6), Central JR (0.116, #10), and NEC (0.116, #10) as well as financial sectors such as Nomura Securities (0.127, #7), Mitsui Sumitomo Insurance (0.121, #8), and Meiji Yasuda Life (0.120, #9), on a similar level.

According to Graph 1, which shows a network graph of then-ASBJ, the above actors occupied central positions in this network. Especially, accounting profession actors which are plotted on the right center of this graph constituted the core position of this network. In this paper,
the line gets bigger on the five-scale level on the basis of the strength of relationships.
To emphasize the change of the ASBJ’s organization structure, this paper makes a comparison between this period and the previous four years. Table 3 which presents the proportion of the total coreness score acquired by each attribute group to the whole score in the network of the both periods and the difference can show the transition of central actors by attributes.\(^7\)

![Table 3: Difference of Coreness between Two Periods](image)

The results are as follows. The first is that accounting profession group sharply increased the prominence in the network (20.2% to 43.5%). The second is that other groups except for accounting profession and regulator reduced the importance, among them the decline of academic community by 15.9% was the most remarkable. Besides, the third is that financial statements preparers, including financial and non-financial, who might have the strongest influence in the previous four years, also reduced the importance (21.8% to 16.2% in the former case; 25.5% to 18.1% in the latter case). Thus, the ASBJ formed an accounting-profession-centric network.

5. Concluding Remarks

There are three assumed reasons that the ASBJ formed the accounting-profession-centric network in the period of 2005-2008 when conforming Japanese accounting standards to the global standards was needed. First is that, as evidenced by cases of IASB and the US standard setter, accounting standard setters is likely to rest on accounting professions when they should develop the standards being substantially different from the existing ones. Second is that the ASBJ could make use of global networks which some big Japanese accounting firms hold, with an aim to attain the knowledge and wisdoms of global standards. Third is that since the accounting profession organization was the strongest proponent of harmonizing Japanese standards with global standards in Japan, the ASBJ probably made use of its momentum.

Reference


