

The role of national standards setter in the global convergence era: the case of the Japanese setter from 2001 to 2008

Kensuke Ogata

*Economic Department, University of Nagasaki,
123 Kawashimo, Sasebo, Nagasaki, 858-8580, Japan
E-mail: ogata@sun.ac.jp*

Abstract

An aim of this paper is to explain that the change of standard-setting activities of ASBJ in the 2000s was caused by its own standard-setting development strategy. An analysis of organizational structure using graph theory showed that the ASBJ strategically alter its structure, and that the structure can trigger the change of setting activities.

Keywords: ASBJ, social network analysis, standards-setting process, accounting regulations

1. Introduction

Since International Accounting Standards Board (IASB) was founded in 2001, far more one hundred countries adopted International Financial Reporting Standards (IFRSs) which the IASB produced; currently both the Board and its standards should not be ignored. As accompanying with these increasing attentions, it is expected to draw a lot of interests in roles of national standard-setters as mediators between the IASB and wide ranges of stakeholders in the country (Büthe and Mattli [1]).

In Japan, although giving the listed companies permission to preparing their consolidated statements with IFRSs, the national setter, Accounting Standards Board of Japan (ASBJ), has kept producing its own standards; the great majority of companies furthermore use Japanese standards. When turning to the activities of ASBJ over times (shown in Table 1), we can see major difference in terms of volume and content of the standards according to time. In particular, its activities varied greatly before or after 2005. Based on traditional organizations theory (See Rumelt [2], Miles and Snow [3]), it is presumed that organizations change their structure to achieve their desired results. Following this presumption, the ASBJ might change its structure around then. In this paper, we focus on the activities of ASBJ in the first eight years, and determine what kinds of organiza-

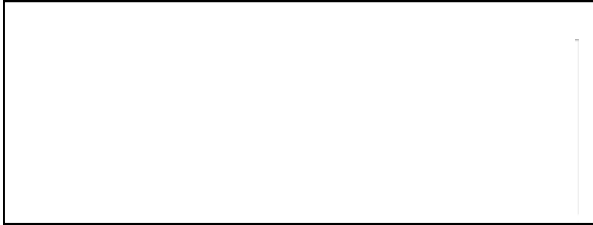
tional structure the IASB respectively constructed before or after 2005. This examination process is the first step to approach standard-setting motivations of ASBJ.

2. Overview of ASBJ

For getting over the long-term recession, Japanese government put efforts into huge economic structural reforms. Also, in order to respond to the appearance of IASB, standard-setting regime in Japan was transformed from a public body to a private in order to make the most of the private sector vitality. Subsequently, ASBJ was created as the first private setter for establishing accounting standards in Japanese history in September 2001. The creation was initiated by Japanese government, Financial Service Agency, with some stakeholders related to securities markets in private sector (ASBJ/FASF [4]).

The ASBJ has completed a total of fifty-seven standards from September 2001 to September 2014. Graph 1 shows the activities of ASBJ during this period with one polygonal line and two bars. The line indicates the number of standards the Board developed every year, while the two bars respectively denote the number of “Liberal” standards and of “Non-Liberal” ones. Herein, “Liberal” standards are synonymous with the term “investor-oriented,” including standards to include accounting techniques which have never been used in

practices, to reduce alternative accounting procedures, and to introduce the fair value measurement; “Non-Liberal” give the preparers their favorable consequences, for example, the increment of alternative procedures and the clarification of accounting procedures simply in response to changes of other standards or related laws.



According to this graph, we can separate the standard-setting activities of ASBJ into three parts. The first is period from 2001 to 2004; the second is from 2005 to 2008; and the third is since 2009. In the first period, the ASBJ set very little accounting standards. The Board made thirty standards public, which accounts for 52.6% of the total. In addition, the Board issued fifteen “Liberal” standards. It accounts for 68.2% of the total “Liberal” standards over the whole period. In the next four years, the Board actively developed standards from both quantitative and qualitative aspects. In the last period, the activities of ASBJ slowed down.

Due to space limitation, we focus on a big difference between the activities in the first four years and the second four in this paper. Therefore, we mention characteristics of standard-setting of ASBJ in two periods as follows: the ASBJ developed quite passive standard-setting attitude during the period of 2001-2004; the Board contrastingly exhibited the most positive behavior during the period of 2005-2008. In taking account for a reason of that difference, it seems effective to shed light on difference of organizational structure, based on the traditional organizations theory.

3. Organizational Structure of ASBJ

3.1 Social network analysis and using data

We extract structural feature of ASBJ with social network analysis¹. We particularly use continuous coreness analysis to identify a set of actors who have a high density of ties among themselves (the core) and another set

of actors who have a low density of ties among themselves (the periphery) by having few events in common (Borgatti and Everett [8]). Herein, the term “coreness” refers to who has a high density of ties in the network by many common events.

In analyzing the structure of ASBJ, we use data associated with existing organizations to which members of some bodies inside Financial Accounting Standards Foundation (FASF), which is a parent organization of ASBJ, belong. An underlying idea to use such data is that individual preferences and opinions on the accounting standards or techniques should be depended upon his/her background or career. In sum, shedding light on the relations based on the career of members who engaged in the accounting standard-setting process can demonstrate what kinds of actors dominate and what values are prevailing in the setter.

To do so, first of all, we prepare a matrix data-set, composed of both the existing organization of members shown in FASF’s annual reports and the bodies inside FASF² by period. This data-set tells us that the more and the longer the organizations send their members to the bodies inside FASF, the higher the coreness scores of the organizations get. Second, we transform each data-set to the organization-to-organization data-set through the affiliation process, included in the software of social network analysis, UCINET 6 (Borgatti, Everett and Freeman [9]). Third, we conduct coreness analysis using the organization-to-organization data-set and, at once, draw a graph on the basis of degree centrality analysis performed over the same data-set, using Net-Draw (Borgatti [10]).

We prepare two original matrix data: one is the data pertain to the first half, a period of 2001-2004; another is the data related to the second half, a period of 2005-2008. We confirm that 69 organizations engaged in the standard-setting process of ASBJ in the first period; and 77 organizations in the second period.

3.2 Analytical results

3.2.1 Analytical results in Period 1

A result of the coreness analysis on the first period is shown in Table 1. The top 30 organizations are shown in this table. This result tells us some interesting facts.

¹ Some recent studies on accounting standard setters applied social network analysis. See Perry and Noëlke [5], Richardson [6], Ogata [7].

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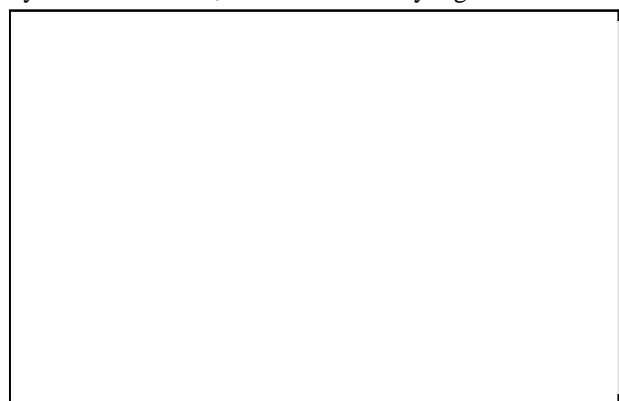
² Included are Board of Directors, Board of Councilors, Board, Theme Advisory Council, Advisors, and Standards Advisory Council.

First of all, the top four actors, that is, Tokyo Stock Exchange, University of Tokyo, Chuo-Aoyama, and Japanese

1 period 1	
ite	Coreness
-	0.392
-	0.343
-	0.336
-	0.302
-	0.248
in	0.203
in	0.172
-	0.163
-	0.152
-	0.151
-	0.149
in	0.147
-	0.141
-	0.138
-	0.122
in	0.120
-	0.120
-	0.104
-	0.104
-	0.104
in	0.104
-	0.104
r	0.101
-	0.096
-	0.096
in	0.096
in	0.094
-	0.088
in	0.077
in	0.077

Bankers Association, got strikingly high coreness scores among a total of 69 organizations. It is an unprecedented feature that organizations from stock markets and academic community played central roles in the standard-setter. Although very few user actors existed in this network, some academic

actors appeared, for example, Waseda University, Hitotsubashi University, and University of Shizuoka. Second, prepare of financial statements, including both financial community and non-financial community, belonged to half of the top 30 organizations. Among these organizations, non-financial community, for example, Hitachi, Panasonic, Sumitomo Electric, and Tokyo Electric Power, obtained relatively high marks.



Also, we see the organizational structure of ASBJ at that time (see Graph 2). As is the case with the above coreness result, we can tell that the four main organizations (Tokyo Stock Exchange, University of Tokyo, Chuo-

Aoyama, and Japanese Bankers Association) were dominant actors. In addition to that, more organizations from preparers appeared on this graph, compare to other kinds of groups.

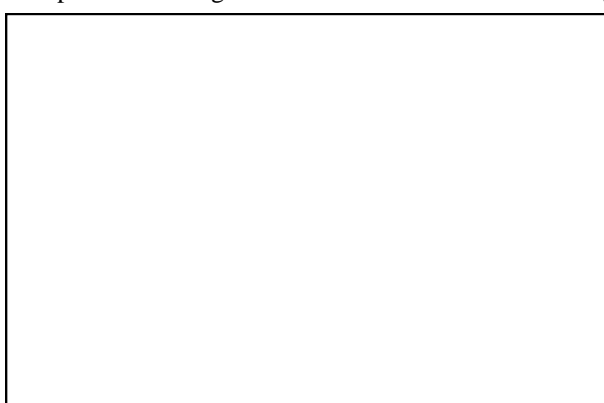
3.2.2 Analytical results in Period 2

We confirm the coreness result of ASBJ in the following four years:

2005-2008 (see Table 2). According to this Table, we can see that there was a considerable difference in coreness scores between the top four organizations and the others. With regard to the top four, included were Azusa, Tohmatsu, ShinNihon, and FASF. These three accounting



firms are member firms of the Big Four³. Also, the FASF has gotten staffs on the payroll; as a result, the coreness score of FASF sharply increased. Secondary, prepares of financial statements occupied a half of the top 30 organizations alike the first period. However, its composition changed as financial sectors including



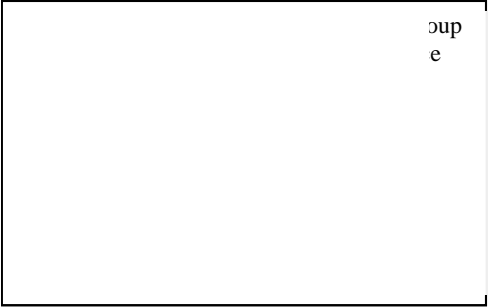
³ Azusa belongs to KPMG group; Tohmatsu to Deloitte; and ShinNihon to Ernst & Young.

Nomura Securities, Mitsui Sumitomo Insurance, and Meiji Yasuda Life, had relatively high scores.

Then, we make sure of a network graph of ASBJ during the same period (*see* Graph 3). According to this Graph, we can point out that the actors as described below existed at the heart of this network: Tohmatsu, Azusa, ShinNihon, FASF, Tokyo Stock Exchange, and several financial and non-financial companies. Among others, accounting profession group occupied a central position in this network, in terms of the strength of connection shown by line thickness.

4. Discussion

To emphasize the change of the ASBJ's organization structure between the first period and the second, we show the transition of central actors by attributes in Table 3. This table presents the proportions of each attribute group to all groups between the both periods on the basis of coreness scores and the difference. Herein, attribute group are divided into seven groups as follows: academic community (Aca); financial community (Fin); non-financial community (Non-Fin); accounting professions (Pro); regulators (Reg); the users of financial statements (User); and the others (Other).

	<p>In the first period, the preparer group (47.3%) obtained the highest rank. Among this group, non-financial community group (25.5%) had superiority over financial group (21.8%) to a small extent. Academic community group (21.1%) and accounting profession group (20.2%) followed these groups. The ASBJ thus orchestrated the various powers of Japanese actors, including preparer group, academic community, accounting profession community, at that time. Among them, preparer group was a pillar to the ASBJ. On the other hand, the accounting profession group (43.5%) became the most powerful player in the second period. Preparer group (34.3%), composed of non-</p>
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financial community (18.1%) and financial community (16.2%), followed this group. To focus attention on the difference between the both periods, the profession group significantly increased the proportion (+23.3%), and the regulators came next (+11.0%); but all other groups, for example, the academic group (-15.9%), the non-financial group (-7.5%), and the financial group (-5.6%), lowered their importance.

5. Conclusions

Thus, it seems that the ASBJ, during the first period, constructed the organization, in which the preparer group was the most central player, although orchestrating the various powers of Japanese actors, for the purpose of setting very few standards. On the other hand, the Board formed an accounting profession-centric organization to develop the standards, which contained new accounting techniques to have never been used in Japanese practices, in an active attitude.

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