

TJAR EDITORIAL POLICY

ACCOUNTING ENCOUNTERS OF THE TJAR KIND

Accounting theory has taken two distinct approaches: one supports understanding of environment-specific local accounting institutions in various economies, while the other generalizes American and West European accounting institutions across the world. It is easy, albeit costly, to overlook this co-existence of two kinds of theory in the rush to world-wide convergence or integration of accounting. Consideration and comparison of the two may allow us to carefully explore the foundations of the arguments for convergence. However, such exploration requires accounting scholars to observe, examine, evaluate, and critique the proposed systems and alternatives of which convergence itself is a salient element.

Encounters among cultures since the medieval times have created some commonalities but have not yielded a universal culture. Whether economic encounters among disparate social systems will yield, or even benefit from, a single system of accounting remains open. It is our hope that *The Japanese Accounting Review* can serve as a forum for accounting scholars across the world to observe, analyze, reflect, and report on encounters between the Western and other system of accounting. The obvious, but far too often neglected, recognition of this duality is a central theme of *TJAR*. The *TJAR* website states:

This new English-language journal, *The Japanese Accounting Review*, aims to present the world with quality research on diverse themes relating to accounting, thereby helping improve the economic welfare of societies around the world through better accounting systems. We welcome submissions, which will be judged solely on the basis of quality of their contributions, not on the status of the hypothesis, methodology, or the author.

Even the so-called capitalist societies differ in their stage of development, and may take very different paths employing quite different institutions. If internationalization is interpreted to assume that all these societies and their paths converge, there is little evidence in support. Accounting scholarship could focus on seeking a critical understanding of the current diversity, and evaluating alternatives for the future, without becoming a prematurely prescriptive cheerleader for convergence. *TJAR* aims to help serve this function.

While the pages of *TJAR* are open to empirical examination of whether the theories originating in the West are robust enough to afford us a better understanding of other economies, they also welcome alternative theories, and their empirical scrutiny, that arise from institutions specific to the other economies. The current controversy in Japan about the adoption of IFRS is a good example of a subject for such studies. Development of theories, and analyses of data relevant to cross-economy encounters are important goals of *TJAR*.

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TJAR EDITORIAL NOTE

As I mentioned in the TJAR EDITORIAL POLICY, accounting theory has taken two distinct approaches: one supports the understanding of environment-specific local accounting institutions in various economies, while the other generalizes American and West European accounting institutions across the world. However, in Volume 2, we published only eminent papers that focus exclusively on Japanese accounting and financial problems. So, we expect that will *TJAR* publish many eminent papers based on the two kinds of approach noted above in Volume 3 or subsequent volumes.

In Volume 2, a number of accounting and financial problems associated with Japanese firms are examined, including earnings management, pension plans, relationships between banks and firms, securities analyst forecasts, and IFRS convergence.

The first paper demonstrates empirically that income smoothing behavior undertaken by the management of Japanese firms has information content, in that it indicates that management is confident that they can maintain stable earnings and dividends.

The second paper indicates that Japanese firms have a high likelihood of adopting a new defined-contribution (DC) pension plan with an increase in the size of the firm. It also has a low likelihood of adopting a DC pension plan with an increase in the extent of underfunding of the firm's existing DB pension plan. It is shown that the incidence of DC pensions in Japanese corporations sharply contrasts with the American situation.

The third paper shows that securities analysts' forecasts are less accurate and less in agreement for firms with long-established relationships with banks. The bank-firm relationship is part of the old-fashioned Japanese style of management, but it can still influence information environment for investors.

The fourth paper provides results of empirical tests, showing that firms with higher management ownership in financially distressed conditions may show a higher likelihood that their management will invest in risky projects, by which the management can shift risk concerning their wealth from themselves to creditors. This basic hypothesis, derived from the Jensen-Meckling paper, was tested empirically under the economic conditions of the former Japanese Corporate Reorganization Law, which provided a unique opportunity to test it.

The fifth paper shows that securities analysts' earnings forecasts issued after the announcements of management forecasts are more accurate than the management forecasts. In addition, he finds that investors tend to respond more strongly to analyst forecasts than to management forecasts only when the analysts provide more accurate forecasts than the managers, as if they realize in advance the bias in both forecasts. These results suggest that financial analysts play an important role as information intermediaries even in Japan where corporate managers disseminate future-oriented information.

A recent problem in accounting - the adoption of IFRS - is discussed by two Japanese researchers in the sixth and seventh papers. The two researchers indirectly oppose the introduction of IFRS to Japan. Under the ecological framework of accounting, we can recognize diversity of accounting development in different countries. Thus, the Japanese accounting system should not converge to IFRS, based on Anglo-American accounting thought. According to the seventh paper, the balance sheet approach does not enhance the usefulness of accounting information, so we should have more discussion about the introduction of IFRS to Japan.

Changes in members

Since the publication of Volume 1, Professor Theodore Mock has joined the Advisory Board and Professor Fumiko Takeda became one of the members of Associate Editors. Professor Suda contributed to the launch of *TJAR* and was a member of the Associate Editors' Board. Sadly, he passed away. We remember him with gratitude.

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