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The Role of Local Accounting Standard Setters in Institutional Complexity: 'Explosion' of Local Standards in Japan

Saori MATSUBARA
Takahiro ENDO

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Research Institute for Economics and Business Administration
Kobe University
2-1 Rokkodai, Nada, Kobe 657-8501 JAPAN

The role of local accounting standard setters in institutional complexity: 'Explosion' of local standards in Japan[1]

Saori Matsubara
Department of Business Administration
Tokai University
Saori.matsubara07@gmail.com

Takahiro Endo
Research Institute for Economics and Business Administration
Kobe University
Endo.takahiro@gmail.com

Purpose

The paper intends to locate the role of local standard setters in institutional complexity, where multiple sources of pressure for change and continuity coexist. The existing research does not fully explore this since it tends to illustrate the way in which a particular interpretation concerning certain accounting standards prevails over time (Archel et al., 2011; Murphy and O'Connell, 2013; Pelger, 2015; Young, 2014).

Design/methodology/approach

It empirically examines and critiques the Japanese experience through the concepts of institutional complexity and translation that specify the relationship between the *name* and types of *practice* of accounting standards in the local context (Czarniawska and Sevón, 1996, 2005; Erlingsdóttir and Lindberg, 2005; Røvik, 2016; Sahlin and Wedlin, 2008). Data sources are texts produced (between 2001-2015) by the local accounting standard setter and relevant organisations that represent firms, the certified public accountants and regulatory agency, respectively.

Findings

The local accounting standard setter in Japan was exposed to competing pressures

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between change and maintenance, which was translated by the standard setter in Japan. Consequently, the translation led to an ‘explosion’ of local accounting standards (‘pure’ IFRS, Japanese GAAP, modified IFRS and US GAAP).

Originality/value

This article is the first attempt to systematically examine the role of a local standard setter under institutional complexity. It illustrates how institutional complexity is turned into *divergent outcomes* against the assumption of previous research that indicates multiple interpretations of particular accounting standards finally merging into a specific one.

Key words: IFRS, local standard setter, translation, institutional perspective

Introduction

International Financial Reporting Standards (IFRS) has been adopted in many countries (Cascino and Gassen, 2015). However, the degree of adoption has varied to a great extent (Nobes, 2015; Nobes and Zeff, 2015; Tsunogaya, Hellman and Scagnelli, 2015; van Mourik and Katsuo, 2014; Walker, 2010). That is, some major economies including the US, China, Japan and Switzerland have not required mandatory adoption. Furthermore, many countries have carved out specific elements of IFRS. Yet, such variation concerning the status of accounting standards across the countries has not been fully examined in relation to the role of local accounting standard setters.

Previous research has not entirely ignored the role of local accounting standard setters (Archel et al., 2011; Hassan, 2008; Irvine, 2008; Mir and Rahaman, 2005; Murphy and O’Connell, 2013; Pelger, 2015; Young, 2014; Zeff, 2002). Nonetheless, it has not fully paid attention to institutional complexity where multiple sources of ‘prescriptions’ coexist (Greenwood et al., 2011) and its consequences. In relation to accounting standards, institutional complexity indicates competing pressures for change and continuity over ‘appropriate’ accounting standards. The previous research has limited its analytical focus to the issue that can be merged under a single interpretation of appropriate *practice* concerning certain accounting standards. Examples include the acceptable *practice* under the *name*s of sustainability accounting as well as stock options in financial reporting (Archel et al., 2011; Murphy and O’Connell, 2013; Pelger, 2015; Young, 2014). According to such studies, the due process plays an important part in giving credibility to particular actors’ interest(s), leading to the dominance of a particular interpretation of standards (Archel et al., 2011; Murphy and O'Connell, 2013;

Pelger, 2015). Importantly, the standard setter presents the due process as ‘apolitical' and a technical procedure rather than a political one (Young, 2014). This paper extends this notion by embracing sources of competing pressures toward the standard setter by recognising institutional complexity, which results in *divergent outcomes*.

A set of accounting standards can be conceptualised as a prescription concerning the method of reporting financial statements. Such a perception of accounting standards has been increasingly prominent in accounting studies (Archel et al., 2011; Baudot, 2014; Chua and Taylor, 2008; Fogarty, 1993; Georgiou and Jack, 2011; Giner and Arce, 2012; Guerreiro, Rodrigues and Craig, 2012; Holm and Zaman, 2012; Pelger, 2015). On the other hand, the existing literature has not fully explored the implication of institutional complexity in examining the role of local accounting standard setters. This paper aims to examine the following two issues: unpicking both competing pressures and local efforts at reconciling. These can be formulated into the following two research questions:

*RQ1.*What is the institutional complexity that local accounting standard setters face?

*RQ2.*How do local accounting standard setters translate those pressures?

Institutional complexity, in this article, will be conceptualised in terms of discourse, linguistic *practice*, giving meaning to ideas (Phillips and Hardy, 2002). By recognising institutional complexity, explicit attention is paid to competing sets of discourse, which either support or reject the prescription(s) concerning accounting *practice* that inform how accounting *practice* should be arranged. For that, it is crucial to leverage the insights from those studies focusing upon discursive processes of acquiring social credibility known as legitimacy. Such processes involve linguistic interactions concerning the social acceptance of accounting standards (Archel et al., 2011; Bamber and McMeeking, 2015; Ezzamel, Robson, Stapleton and McLean, 2007). In order to unpick the role of local standard setters, the article sheds light upon translation. The concept of translation captures how organisations, including local accounting standard setters, interpret such pressures and accord meaning in the local context that specify the *name* and actual *practice* of prescriptions (Czarniawska and Sevón, 1996, 2005; Erlingsdóttir and Lindberg, 2005; Røvik, 2016; Sahlin and Wedlin, 2008).

This article focuses on the Japanese accounting standard setter’s efforts to reconcile IFRS adoption pressure and maintain local Japanese GAAP (Generally Accepted Accounting Principles) by translating them in the local context. The angle of this paper intends to embrace not only pressure for change but also that for maintenance. That is, the Japanese Accounting standard setter, of the Accounting Standards Board of Japan (ASBJ) composed of 12 members of corporate executives, CPAs and academics, facing pressure from related parties. Competing pressures include those for IFRS adoption as well as to maintain the existing accounting standards widely adopted in Japan. The ASBJ translated such pressures by elaborating the relationship between *the name* and acceptable *practice* to be included under the *name* of particular accounting standards. Consequently, several options were provided for listed firms in Japan (i.e., 'pure' IFRS issued by the International Accounting Standards Board (IASB), Japanese GAAP that has witnessed chains of modification over the past decade or so, modified IFRS and US GAAP). Such a wide range of options can be summarised as an 'explosion' of local accounting standards.

This article firstly explains the theoretical background together with a key research gap. It justifies the importance of examining local accounting standard setters in relation to institutional complexity. Then, in the method section, the paper illustrates the detailed sources of data (textual data derived from the ASBJ, representatives of firms, accounting professionals and regulatory agency) and how they were analysed by drawing on the concepts of institutional complexity and translation. The empirical part analyses the ASBJ's translation efforts that aimed to balance competing pressures and resulted in an 'explosion' of accounting standards. Finally, the conclusion summarises the article and clarifies its contribution.

Theoretical background

'Adoption' of IFRS

As socio-economic interactions across the border become deeper and more frequent, there has been increasing need for standardisation in the domain of accounting (Brunsso, Rasche & Seidl, 2012). Consequently, IFRS has been widely adopted as a mandatory requirement of financial reporting for listed firms in Europe since 2005 and a similar move has been seen across the globe (Cascino and Gassen, 2015). However, the mandatory adoption here does not necessarily mean the adoption of the exact standards issued by the IASB. Rather, as the previous research indicates, many economies carve out specific elements of IFRS in the local context (Nobes, 2015; Nobes and Zeff, 2015; Tsunogaya et al., 2015; van Mourik and Katsuo, 2014; Walker, 2010). Furthermore, the largest three world economies (US, China, Japan) have not requested the mandatory adoption of IFRS (Nobes and Zeff, 2015). In summary, standardisation activities in accounting have not necessarily resulted in convergence, but, rather, in divergence.

However, the existing research has not provided insights into how such *variation* can be understood in relation to the role of local accounting standard setters.

That said, previous research has not entirely ignored the role of local accounting standard setters (Archel et al., 2011; Hassan, 2008; Irvine, 2008; Mir and Rahaman, 2005; Murphy and O'Connell, 2013; Pelger, 2015; Young, 2014; Zeff, 2002). These studies draw upon the institutional perspective in organisational analysis, which has highlighted the role of social acceptability or credibility, known as legitimacy, in the diffusion of a prescription that guides *practice* (Scott, 2014; Smet et al., 2012). Legitimacy concerning a particular prescription is accorded by certain arrangements of legal, normative and/or cognitive elements. Legal arrangements would be represented by 'visible' legislation or regulation, while normative and cognitive arrangements may be 'invisible', since these are often exemplified by social norms and values, respectively. By drawing from the institutional perspective, the accounting standard could be considered as a prescription or a set of principle ideas that inform how accounting *practice* should be arranged.

Previous research has provided useful insights into the role of legitimacy in relation to local standard setters. However, it predominantly examines the process that results in consensus between the *name* and appropriate *practice* of particular accounting standards (homogeneity) rather than exploring the process that produces variety (heterogeneity) (Archel et al., 2011; Murphy and O'Connell, 2013; Pelger, 2015; Young, 2014). For example, Archel et al. (2011) illustrate a particular version of 'sustainable accounting' prevailing over time in Spain. Similarly, Young's (2014) research on the US highlights how the competing interpretations of 'stock option' in relation to financial reporting (i.e., acceptable or not) are finally converged under a specific one. Regarding this, previous studies have indicated that *the due process*, allegedly an important process for creating, changing and abolishing accounting standards, actually plays a significant role in legitimating particular actors' interest(s) (Archel et al., 2011; Murphy and O'Connell, 2013; Pelger, 2015). The standard setter treats the due process as 'apolitical' and a technical process rather than a political one (Young, 2014).

Young (2014), by drawing upon Mary Douglas's (1966) work dealing with the boundary between 'clean' and 'dirty', examined the role of the FASB, the US local accounting standard setter, in relation to the domain of the political and the technical in accounting standard setting. Young's analysis focused on the testimony concerning share-based compensation in the US Congress. Most importantly, her study indicates that the FASB intended to present them predominantly guided by 'clean' and unbiased or technical motivations rather than 'dirty' and biased ones.

Our work is related to Young (2014) in that we also focus upon the standard setter’s ‘dirty’ motives in standard setting activities. However, our work takes this notion a step further by embracing multiple sources of pressure to the standard setter as well as how they respond to them.

Institutional complexity as competing sets of discourse

However, previous research has not fully paid attention to institutional complexity where multiple sources of ‘prescriptions’ coexist (Greenwood et al., 2011). Local accounting standard setters are exposed to competing pressures for change and maintenance concerning accounting standards.

In order to embrace institutional complexity, it would be necessary to pay attention to multiple sources of pressure. The competing pressures, *name*ly pressure for change and maintenance, is exerted *toward local accounting standard setters*. That is, while they exert pressure for change and maintenance to other organisations in the local context, they are exposed to a similar sort of pressure derived from both domestic and international organisations. As Fligstein and McAdam (2012) rightly point out, the organisation resides in multi-layered pressure for change and maintenance. For local accounting standard setters, they have pressure exerted either in international or local contexts. At an international level, international relationships play a vital part, while at a local level, inter-organizational relationships in the domestic setting do.

In order to embrace competing pressures, this article utilises the concept of discourse. Discourse is defined as structured sets of text that provide meanings to entities (Phillips and Hardy, 2002), including, importantly, prescriptions for accounting *practice*. In fact, in the accounting research that draws on the institutional perspective, it has been increasingly prominent that pressure for change as well as for maintenance can be conceptualized in terms of discourse (Archel et al., 2011; Bamber and McMeeking, 2015; Ezzamel et al., 2007; Laine, 2009; Suddaby and Greenwood, 2005). According to such study, pressure for maintenance is equivalent to particular discourse that highlights legitimacy of the existing prescription, while for change it is the necessity of transforming it.

Moreover, discourse analytic conceptualization of competing pressures has been applied at various levels, including at the organisational level (Laine, 2009) and inter-organizational level (Suddaby and Greenwood, 2005). In particular, the latter level of analysis justifies the attention of this article, *name*ly, to relationships between local accounting standard setters and relevant organisations, which will be further explicated in the following sections.

Translation

Local accounting standard setters interpret discourse that either supports or rejects the accounting standard(s). Such interpretation may be called translation (Czarniawska and Sevón, 1996, 2005; Erlingsdóttir and Lindberg, 2005; Røvik, 2016; Sahlin and Wedlin, 2008). This view has, in particular, been developed by a group of scholars often known as the Scandinavian School of institutionalism with its primary focus on the *process* of institutional dynamics. Most importantly, such translation may result in homogenization (isopraxism) as well as heterogenization (isonymism) (Erlingsdóttir and Lindberg, 2005). Erlingsdóttir and Lindberg (2005) exemplify such a process concerning medical practice. Their analysis pays attention to the *name* and appropriate *practice* of new prescriptions that emphasise efficiency, represented by 'quality assurance', 'accreditation of laboratories' and 'chain of care'. Their analysis reveals the importance of how the *name* and the *practice* are delivered to the organisation (i.e., at the same time or separately) as well as how the local organisation interprets the meaning of *practice*.

Translation of discourse concerning accounting standards such as IFRS by local accounting standard setters also involves meaning accordance that specifies the *name* and actual *practice* of standards. Compulsory adoption of 'pure' IFRS as well as carving out specific elements of IFRS may be contrasting the difference of translation by local accounting standard setters. The former and the latter might be under the same *name*, IFRS, but the actual *practice* would be significantly different (i.e., the former should be more or less identical to standards issued by the IASB, while the latter could be largely different from the 'original' ones).

Although the Scandinavian school would be useful in understanding the actual process and divergent consequences of pressure for change and continuity, they do not necessarily pay explicit attention to competing sets of discourse or institutional complexity. It should be noted that the primary focus of this article lies in *embracing multiple and competing sets of pressure for change and continuity (institutional complexity), and local accounting standard setters' responses to them*. The concept of translation would be particularly helpful to elaborate standard setters' responses to institutional complexity. However, again, the concept would be insufficient to adequately address institutional complexity.

To recap, this article adopts the institutional perspective in extending the existing understanding concerning the dynamics between accounting *practice* and socially accepted prescriptions. By drawing upon the concept of institutional complexity, this article embraces competing pressures. Furthermore, the concept of translation helps to capture the role of local standard setters under competing pressures that may result in not only homogeneity but also heterogeneity.

Method

Overview

As seen above, the article aims to provide insights into the role of local accounting standard setters in the context of institutional complexity. For this purpose, the article focuses upon the ASBJ, which was exposed to both pressures for change and for maintenance. The data used for the analysis was textual data from the ASBJ and relevant organisations that were primary sources of competing pressures. Regarding translation by the ASBJ, textual data released by the ASBJ was examined. The ASBJ itself issued outline minutes of their meetings as well as reports that inform the trajectory of accounting standards in Japan. In terms of pressure for change and that for maintenance exercised toward the ASBJ, these were observable from textual data produced by relevant organisations (the regulatory agency, representative of accounting professionals, and representative of firms).

The actual process of analysis was two-fold. At the first stage, relevant textual data were explored and efforts were made to make sense of institutional complexity and the ASBJ's translation, which led to the 'explosion' of accounting standards in Japan. Consequently, it was found that institutional complexity could be elaborated by further examining sets of discourse for change and maintenance that either supported or rejected the new and existing accounting standards. On the other hand, the ASBJ's translation could be investigated by observing *name* and appropriate *practice* of particular accounting standards, including IFRS and Japanese GAAP. In terms of the role of the local accounting standard setter, the observed 'explosion' of accounting standards in the country was also found in the existing empirical investigation reporting the status of the IFRS adoption in Japan (Tsunogaya et al., 2015). Therefore, efforts were made to make sense of the ASBJ's involvement in this.

At the second stage, further relevant data were explored and examined and themes of *institutional complexity as pressure for change and maintenance and the ASBJ's translation* were fleshed out. For the systematic analysis of textual data, the data was analysed between July 2001 and July, 2015. This is because the ASBJ became an official standard setter in the Japanese accounting field at the beginning of the 2000s (July 2001). Furthermore, the analysis of data up to July 2015 would be appropriate since "Japan's Modified International Standards (JMIS): Accounting Standards

Comprising IFRSs and the ASBJ Modifications” (hereafter called ‘JMIS’) were released in June 2015. Moreover, 15 years of data would be reasonably long enough to embrace the above issues. In what follows, key textual data in each theme is explained.

Institutional complexity as pressure for change and maintenance

The local standard setter, the ASBJ, was exposed to both pressures for change and maintenance. In particular, competing pressures were locally observed in the country, from the regulatory agency, accounting professionals, and firms. As seen in Table 1, the textual data concerning competing pressures were classified into the following four categories: mutual authentication, modification, carve out and active acceptance. Mutual authentication and modification belong to pressure for maintenance, while carve out and active acceptance pressure for change.

TABLE 1 HERE

In terms of the regulatory agency, the Financial Services Agency of Japan (FSAJ) played a key part; before July 2001, the accounting standard setting was undertaken by FSAJ. In particular, the Business Accounting Council (*Kigyokaikei Shingikai*) of FSAJ was in charge of regulating accounting standards. Between 2000 and 2015, the Council held several meetings every year. Consequently, they produced the following reports, which are available via their website: “Toward the convergence of accounting standards” (2006), “Regarding the treatment of IFRS in Japan” (2009) and “Current policy concerning responses to IFRS” (2013).

For the representative of firms, this paper focuses upon *Keidanren* (Japan Business Federation). *Keidanren* represents over 1,000 member firms. These are basically large Japanese firms, including major manufacturers (Toyota, Nissan, Honda, Hitachi and Toshiba). Historically, Keidanren played an important part in the formation of the Japanese industrial policy (Fletcher III, 2012). With respect to accounting standards, Keidanren expressed their views occasionally between 2000 and 2014, which were available from their website.

Regarding accounting professionals, the JICPA (Japanese Institute of Certified Public Accountants) represents the interests of CPAs in Japan. The JICPA’s bulletin is published every month in printed format. Importantly, the January issue of this bulletin contained an article titled ’The review of the previous year and the outline of annual plans for the coming year’ written by the then president of the JICPA. It was assumed that these articles represented the views of JICPA and thus were examined between

2000 and 2014 in relation to IFRS.

ASBJ's translation

Throughout the analytical period, importantly, the background of ASBJ's 12 members included the following three different categories: executives of Keidanren member firms, CPAs and academics[2]. It is reasonable to argue that executives of Keidanren member firms represented Keidanren's interests, while CPAs the JICPA's. Furthermore, accounting scholars played the central part in the accounting standard setting process, appointed as the FSAJ's committee members before the ASBJ became an independent standard setter in the early 2000s (Hatta, 2016). Therefore, of these three categories of members, academics in accounting would be closest to the FSAJ in terms of the opinion they held regarding the change and continuity of accountings standards in Japan. Therefore, amid the above competing pressures, it was clear that ASBJ translated such pressure in three different ways. As summarised in Table 2, these were 'modification', 'optional adoption', and 'new standards':

> Modification
>
> 'Modification' indicates that the *name* of the Japanese GAAP should remain, while the existing *practice* specified under the *name* needs to be modified.
>
> Optional adoption
>
> 'Optional adoption' is about the relationship between IFRS (*name*) and the scope of application of it (*practice*) in the Japanese context.
>
> New standards
>
> 'New standards' involves new *name* and *practice*.

In a nutshell, ASBJ's translation resulted in the 'explosion' of accounting standards since they initially put emphasis on modifying the Japanese GAAP, then started to add options for optional adoption of IFRS as well as the modified version of IFRS known as JMIS. For this examination, we relied on documents obtained from ASBJ's websites that list outlines of minutes of meetings held at least once per month (316 meetings were held during the analytical period between July 2001 and July

[2] In 2014, for example, then the ASBJ's members were four CPAs, seven executives of Keidanren firms and one academic.

2015)[3], together with key documents, including press releases, concerning JMIS. We carefully read through these and learnt that ASBJ's meeting spent most of the time discussing the modification of the Japanese GAAP interpreted as maintaining the Japanese GAAP, and spent some time on developing JMIS[4], which contributed to increasing the variety of accounting standards in the country.

TABLE 2 HERE

Based on these thematic classifications and data mentioned above, we further fleshed out the empirical part. The analysis will be shown in detail in the next section.

Analysis: 'Explosion' of accounting standards

Competing pressures

The IASB's pressure for adopting IFRS has been constantly observed. That is, the scrutinised documents referred to the importance of IFRS in terms of socio-economic issues such as an increasingly internationalised world economy. In addition to this, pressure derived from the US cannot be ignored (i.e., the FSAJ and Keidanren, in particular, was significantly influenced by the US, which was explicitly mentioned in the relevant textual data we analysed). Against the backdrop of these international relationships, domestic pressure for change and maintenance was analysed by examining sets of discourse, which will be illustrated next.

FSAJ

The FSAJ's discourse embraced modification, carve out and active acceptance, which is summarised in Table 3. Initially, the FSAJ's discourse concerning accounting standards emphasised 'modification' or the necessity to modify the Japanese GAAP. However, the discourse was significantly changed and shifted toward 'active acceptance', after the FASB in the US indicated the possibility to formally adopt IFRS in the country in 2008, which, according to them, would be later clarified with specific details such as the exact date to launch the adoption. The FSAJ in 2009 clearly mentioned the possibility to compulsorily require Japanese firms to adopt IFRS in the future. Again, the FASB refrained from further pursuing compulsory IFRS adoption for a while, which became clear around 2010. Consequently, the FSAJ's discourse also refrained from actively promoting the compulsory adoption of IFRS and was more inclined to 'carve out' and

[3] https://www.asb.or.jp/asb/asb_j/minutes
[4] The purpose built committee under the ASBJ started to develop JMIS in August 2013. 22 meetings were held before the release of JMIS in June 2015.

‘modify’. These, respectively, indicated the necessity to modify the Japanese GAAP as well as hedge risks by holding various options of accounting standards, including one that carves out and modifies some parts of ‘pure’ IFRS.

TABLE 3 HERE

Keidanren

Keidanren’s discourse, in the early 2000s, was actively emphasising ‘mutual authentication’ with other accounting standards such as IFRS and US GAAP (Table 4). That is, Keidanren took a position that intended to justify the significance of the Japanese GAAP. In particular, Keidanren pointed to Japanese ways of economic activities, which, according to them, prioritise long-term perspectives. That is, Keidanren argued that ‘pure' IFRS tends to emphasise the ‘asset-liability’ approach that is primarily based on balance sheets, which allegedly accelerates short-term perspectives. In contrast, the Japanese GAAP adopts an ‘income-expense' approach, which, they argued, would be suitable for shareholders with intentions to own stocks on a long-term basis.

However, similar to the FSAJ, Keidanren’s discourse drastically changed to ‘active acceptance’ as the FASB indicated an IFRS adoption possibility. Keidaren’s discourse started to be inclined toward ‘carve out’ and ‘modification’, which intended to maintain a couple of crucial elements in the Japanese GAAP as the FASB indicated their disinterest in immediately adopting IFRS for the American firms. Specifically, Keidanren’s discourse emphasised the necessity to maintain the existing treatment of current net income in the Japanese GAAP. According to Keidanren, the existing treatment of the current net income was significantly different between IFRS and the Japanese GAAP. Keidanren justified the existing treatment of ‘current net income’ in terms of local business custom, which, according to them, was appropriately reflected in the Japanese GAAP, but not in IFRS. Regarding this, there existed, at least, two crucial elements, including the treatment of ‘reclassification adjustment’ and ’goodwill’ although the former was explicitly referred to by Keidanren, while the latter was mentioned implicitly. Keidanren pointed to the importance of maintaining the existing way of ‘reclassification adjustment’ of comprehensive income, which was not allowed in IFRS. Historically, Japanese management practices tended to be associated with preference for long-term investment such as adherence to stable growth rather than maximising profits (Endo et al., 2015). For this purpose, it could be considered that ‘reclassification adjustment’ provided opportunities for firms to equalise profit (Shuto, 2007). Furthermore, while the Japanese GAAP maintained the amortisation of goodwill at a fixed rate, IFRS did not (but required to do impairment under certain conditions). Again, for the long-term investment, amortisation of ‘goodwill’ at a fixed rate was helpful. In brief, these contrasts result in different ‘current net income’ between the Japanese GAAP and IFRS.

TABLE 4 HERE

JICPA

The JICPA’s discourse can be classified by ‘active acceptance’, which illustrated the necessity to change the status quo over the period (Table 5). This can be understood in terms of their business opportunities. That is, changes in the status quo concerning the accounting *practice* brought business opportunities for CPAs. In the early 2000s, following US legislation of the SOx act, Japan amended the Financial Instruments and Exchange Act, which let Japanese CPAs witness an economic boom. The amendment required Japanese firms to adopt a new internal control system. Importantly, CPAs played a vital part in adopting the new system. The adoption of the new system was more or less completed in the mid-2000s, which provided an important context for understanding the JICPA’s statements (Shibata, 2011). The JICPA needed to seek new business opportunities since the booming demand was gone. Therefore, it would be reasonable to interpret that JICPA’s statements concerning active acceptance of IFRS reflected their economic interests.

TABLE 5 HERE

ASBJ’s translation and ‘explosion’ of accounting standards

The competing pressures are summarised in Table 6. Throughout the 2000s, the competing pressures were derived from discourse supporting the Japanese GAAP as well as the adoption of ‘pure’ IFRS. In more detail, the adoption of ‘pure’ IFRS pressure was enhanced in the late 2000s, since Keidanren’s and FSAJ’s discourse also supported the adoption due to the American pressure. However, Keidanren’s and FSAJ’s discourse, since the US blurred the adoption policy, started to keep their distance from adopting ‘pure’ IFRS. Consequently, in the early 2010s, the adoption of ‘pure’ IFRS pressure was associated with JICPA, while Keidanren and FSAJ exerted pressure on modifying the Japanese GAAP as well as selective elements of ‘pure’ IFRS.

TABLE 6 HERE

Importantly, the competing pressures were balanced by ASBJ's translation, which ultimately led to the explosion of accounting standards as seen in Table 7. In the early 2000s, the ASBJ was exposed to two opposing pressures that supported the adoption of 'pure' IFRS (the JICPA) and modification of Japanese GAAP (Keidanren and the FSAJ). Consequently, they started to launch modification of the Japanese GAAP from those elements that would face little resistance in the country. This modification could be understood as translation efforts to maintain the *name* of Japanese GAAP while changing certain *practice* under the *name* such as the inclusion of comprehensive income.

In the late 2000s, the ASBJ was subject to pressure derived from discourse supporting the adoption of 'pure' IFRS as well as the modification of Japanese GAAP. Importantly, at this time, in addition to the JICPA, FSAJ's and Keidanren's discourse partly supported the adoption of 'pure' IFRS. In turn, the ASBJ translated the pressure by further progressing with the modification of Japanese GAAP and allowing for optional adoption of 'pure' IFRS[5]. To recap, in terms of translation, the latter (i.e. allowing for the optional adoption of 'pure' IFRS) could be understood as retaining the *name* of IFRS, while changing the existing *practice* from an excluded option to a possible alternative. However, pressure on adopting 'pure' IFRS was, more or less, weakened around the early 2010s and related parties, particularly FSAJ's and Keidanren's discourse, emphasised modification of IFRS as well as Japanese GAAP. In effect, ASBJ translated such pressure by examining elements of IFRS to be carved out and modified. In a nutshell, ASBJ's translation adopted the *name* of JMIS, released in June 2015, which, as *practice*, held certain elements that were significantly different from 'pure' IFRS. Such elements included the perception of current net income, which was strongly associated with treatments that allowed for adjustment reclassification and amortisation of goodwill at a fixed rate. In summary, as a result of translation, at least three options were enabled for Japanese firms concerning accounting standards, including the Japanese GAAP, 'pure' IFRS, and JMIS. Furthermore, although it was not addressed in this article, the ASBJ allowed the usage of the US GAAP for Japanese listed firms[6]. Consequently, Japanese firms had four possible options for their financial

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[5] More specifically, it was officially approved in March 2010.

[6]. It was confirmed that international pressures were exerted from the US to the ASBJ and hence several Japanese firms actually adopted the US GAAP (Eng, Sun and Vichitsarawong, 2013; Tsunogaya et al., 2015). However, this article, as an initial step to provide insights into the role of local standard setters, put primary emphasis on examining discourse concerning *domestic pressures*, which were exerted by the

reporting standards.

TABLE 7 HERE

Conclusion

To recap, the key research gap that this paper aimed to address was that the existing research had not provided insights into the role of standard setters under institutional complexity that result in *divergent outcomes*. That is, the existing research assumes a single interpretation, out of competing and often conflicting ones, concerning accounting standards prevailing (Archel et al., 2011; Murphy and O'Connell, 2013; Pelger, 2015; Young, 2014). In order to address this shortcoming, the paper has identified two distinctive issues of unpicking competing pressures (RQ1) and local standard setters' efforts to reconcile such pressure by translation (i.e., elaborating the relationship between *name* and *practice* of accounting standards) (RQ2). Competing pressures are addressed by leveraging the insights from those studies focusing upon discursive processes (Archel et al., 2011; Bamber and McMeeking, 2015; Ezzamel et al., 2007). On the other hand, the role of local accounting standards is addressed by drawing upon the concept of translation (Czarniawska and Sevón, 1996, 2005; Erlingsdóttir and Lindberg, 2005; Røvik, 2016; Sahlin and Wedlin, 2008).

Empirically, the Japanese local standard setter, the ASBJ, was exposed to competing pressures since their members included CPAs, executives of firms and academics. Importantly, ASBJ balanced these by translating such pressure and elaborating the relationship between the *name* and appropriate *practice* of particular accounting standards. Consequently, ASBJ increased the options of accounting standards for Japanese listed firms, which could be summarised as an ‘explosion’ of local accounting standards.

To our knowledge, this paper is the first article systematically examining the role of local standard setters under institutional complexity that witnessed *divergent outcomes*. The existing research sheds light on the role of local accounting standard setters but does not fully explore the implication of competing pressures (Archel et al., 2011; Hassan, 2008; Irvine, 2008; Mir and Rahaman, 2005; Murphy and O’Connell, 2013; Pelger, 2015; Young, 2014). The article has illustrated the limitation of such a conceptualization and placed the local accounting standard setters under competing pressures. The findings of this paper suggest that competing pressures are not necessarily merged under a convergent outcome, where consensus is made regarding the

regulatory agency, representatives of firms and accounting professionals.

appropriate *practice* of the particular accounting standards (*name*). Rather, multiple sources of pressure coexist long-term and result in divergence regarding *name* and *practice* as seen in this article. Therefore, the role of the local standard setter should be contextualised in the competing pressures derived from local as well as international contexts.

This article also has certain limitations. Most importantly, although this article made the most of the available data, the translation process by the ASBJ may be more nuanced. Furthermore, in contextualising the role of local accounting standard setters in institutional complexity, this article has put primary emphasis on domestic pressure. However, there exist clear missing links with international pressures. This interplay between domestic and international pressures needs to be further elaborated in future studies. Additionally, this paper did not fully shed light upon the interaction at a country level. That is, member countries contribute to the IASB in several ways, including financially. Therefore, the amount of financial contribution, for example, would potentially influence the degree of freedom concerning translation of member countries. These issues may need to be further considered.

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Table 1 Types of discourse

Types	Explanation
Mutual authentication	Illustrating the necessity to achieve mutual authentication of the Japanese accounting standards with other countries
Modification	Emphasising the importance of modifying certain elements of the Japanese accounting standards
Carve out	Advocating the necessity of carving out and modifying some elements of IFRS
Active acceptance	Arguing for the acceptance of ‘pure’ IFRS

Table 2 Types of translation

Types	Explanation
Modification	Modifying the Japanese accounting standards
Optional adoption	Allowing for optional adoption of IFRS for Japanese firms
New standards	Developing JMIS as new standards that carve out and modify unacceptable elements of IFRS

Table 3 Financial Services Agency of Japan’s discourse concerning IFRS

Modification	**Carve Out**	**Active acceptance**
‘It would be necessary to prevent the Japanese accounting standard from being incommensurable from other accounting standards adopted in the rest of the world. Therefore, Japan needs to actively accelerate the ‘convergence’ of the accounting standard by modifying certain elements of the Japanese GAAP’ (2006, “Toward the convergence of accounting standards”)	‘There are certain elements in IFRS that do not properly reflect the business activities of Japanese firms, which would incur an unreasonable cost for firms to adopt…this matter should take into account uncertainty regarding the trajectory of IFRS adoption across the globe, which is exemplified by the US attitude…so, at this stage, it would be useful to seek possibilities of endorsement, where certain elements are modified and/or removed…[There are already some	‘It would be desirable to specify exact processes to be followed in case the compulsory adoption of IFRS is decided for certain Japanese firms...which would be applied to consolidated financial statements, not individual financial statements’ (2009, “Regarding the

‘It is needless to say that the Japanese accounting standards should be modified in order to maintain the competitive quality as well as making them more adaptive to international environments’ (2013, “Current policy concerning responses to IFRS”)	Japanese firms that adopt ‘pure’ IFRS, so it would be reasonable to secure options for adopting ‘pure’ IFRS…which would be useful for those firms that already adopted and increase another option for other firms by customising IFRS, which would be also useful in showing the ideal IFRS from the Japanese perspectives’ (2013, “Current policy concerning responses to IFRS”)	treatment of IFRS in Japan”)

Table 4 Keidanren’s discourse concerning IFRS

Mutual authentication	Modification	Carve Out	Active acceptance
‘It would be necessary to actively communicate Japan’s viewpoint concerning the accounting standard, not simply following the global trend…the reality of management practices varies and forcing a single accounting standard on them may be likely to result in nonsense, where the financial statements do not reflect what firms are doing’ (2001, Official Announcement) ‘The crucial thing is that Japan, US and Europe have to achieve mutual authentication…for example, IASB is against the reclassification adjustment, while Japan should propose to maintain the existing realisation concept [that allows the reclassification adjustment]’ (2003, Official Announcement)	‘[IFRS] emphasises asset-liability…[the Japanese accounting standard prioritises income-expense that] let firms hold long-term perspectives, which, consequently, result in greater benefits for shareholders’ (2006, Official Announcement) ‘While FASB and IASB participate in mutual authentication concerning accounting standards…Japan also needs to take an active part in this process and make efforts in promoting the significance of Japanese GAAP, while modifying the Japanese GAAP’ (2007, Official Announcement) ‘It would be necessary to modify the Japanese accounting standard in order to achieve ‘convergence’ with other countries [where the	‘In case IFRS is adopted in Japan, it would be crucial to put primary emphasis on how to reflect the reality of Japanese firms’ management practices on financial statements’ (2009, Official Announcement) ‘In terms of management of firms [in Japan], the vital thing is to appropriately make sense of current net income, income and expense, which are obviously not separable from the issue of reclassification adjustment…importantly, these are lacking in IFRS, which partly explains why Japanese firms have not adopted IFRS since it was formally introduced	‘The US maintained the American accounting standard, similar to Japan in the sense both countries hold their own standards…but the US newly included an option to adopt IFRS for US firms…Japan should immediately specify a process to allow Japanese firms to optionally adopt IFRS’ (2008 (March), Official Announcement) ‘In case IFRS is to be adopted on a compulsory basis, it would be necessary to hold three years, at least, for the preparation…it would be vital to keep an eye on the US’(2008 (October), Official

	comparability of accounting standards is secured to a great extent], but that has to adhere to high-quality [that could reflect the reality of Japanese firms' management practices]' (2013, Official Announcement)	as a possible option in the country'(2011, Official Announcement)	Announcement)

Table 5 JICPA 's discourse concerning IFRS

Active acceptance
'The accounting standard provides a universal rule that measures activities of firms, which should be the same across the globe and thus be trustworthy.' (2001, JICPA Journal) 'JICPA supports Japanese firms to adopt IFRS for Japanese firms…IFRS would be increasingly important in the future, so JICPA would also make every possible efforts to strategically educate CPAs with good understanding of IFRS' (2008, JICPA Journal) 'The introduction of IFRS would be an unprecedented large-scale reformation of accounting practices, which further provides conditions where CPAs play bigger and more important roles. JICPA actively supports Japanese firms adopting IFRS.' (2009, JICPA Journal) 'JICPA actively introduces relevant information concerning IFRS adoption that includes both domestic and foreign examples, together with proposing various projects to examine the nature of IFRS' (2010, JICPA Journal) 'Member organisations of JICPA have established the supporting system to provide relevant firms with insights into the adoption of IFRS…it may appear that the IFRS is not that rapidly adopted by Japanese firms…but it should be noted that the process is surely on its way' (2011, JICPA Journal) 'JICPA has made every possible effort to support IFRS adoption for Japanese firms…It is obvious that Japanese and Japanese firms cannot survive in international society without adopting IFRS' (2012, JICPA Journal)

‘JICPA is clear about accelerating the adoption of IFRS by Japanese firms…for this purpose, JICPA would be willing to disseminate information concerning the adoption of IFRS and seek ways to generate further environments that encourage the adoption' (2013, JICPA Journal)

Table 6 Trajectory of competing pressure

Period	Status of pressure (parties that advocated)
The early 2000s	Modify Japanese GAAP (Keidanren, FSAJ) Adopt ‘pure’ IFRS (JICPA)
The late 2000s	Modify Japanese GAAP (Keidanren, FSAJ) Adopt ‘pure’ IFRS (JICPA, FSAJ, Keidanren)
The early 2010s	Modify ‘pure’ IFRS (Keidanren, (FSAJ)) Modify Japanese GAAP (Keidanren, FSAJ) Adopt ‘pure’ IFRS (JICPA)

Table 7 Translation: ‘Explosion’ of standards and ASBJ

Modification	‘As a result of discussion, it would be necessary to begin [modification of the Japanese accounting standards] from those considered to be relatively easy [due to little resistance from stakeholders]…such as valuation basis of inventory, segment information, disclosure of related party, unification of accounting standards of foreign subsidiaries, investment property’ (2005, March, Official Announcement)
Optional adoption	‘It would be certainly true that IFRS adoption would be beneficial for certain related parties, including some investors, some of those people producing consolidated financial statements and some auditors…in this sense, ASBJ agrees with the optional adoption of [‘pure'] IFRS as soon as possible.’ (2009, April, Official Announcement)
New standards	‘It would be necessary to maintain optional adoption of ‘pure' IFRS since certain firms already adopted…but it would be equally important to ‘carve out and modify' certain elements of IFRS, which would be helpful in adopting IFRS and showing Japanese attitude toward IFRS…there exist certain elements that should be carved out and modified, which include amortization of goodwill…adjustment reclassification and current net income’ (2015, June, Official Announcement)