MANAGEMENT ATTITUDES TOWARD ADOPTING INTERNATIONAL ACCOUNTING STANDARDS: HOW JAPANESE MANAGEMENT ATTITUDES CHANGED IN THE PAST DECADES

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ABSTRACT

This research investigate Japanese managers' attitude toward the adoption of the IFRS in Japanese companies and the changes in attitude over the past ten years after the Accounting Big Bang. The results are as follows. (1) Japanese companies have still been great importance to the domestic stock market after 1997. (2) The difference between Japanese accounting standards and the IFRS has been clearly perceived by management. (3) There is growing consideration that the application of the IFRS for separate and for consolidated financial statements of parent companies should be dealt with separately. (4) Japanese companies have shown a negative attitude to adopting the IFRS. (5) Japanese managers expected that the costs would exceed the benefits for adoption of the IFRS.

INTRODUCTION

The year 2005 represented the beginning of a new era for financial reporting when EU countries required the use of International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS). In addition, during March 2005 in Japan, a joint project on the convergence of Japanese generally accepted accounting principles (GAAP) and IFRS was established to analyze and discuss their equivalencies (Koga & Rimmel, 2006). The same trend can also be observed in other countries with capital markets dealing with cross-border transactions (Godfrey & Chalmers, 2007). This proceeding convergence is assumed to have had a great impact on preparers (managers) and investors, as well as other market participants and the accounting profession. Amid the trend in accounting standards globalization, Japan faces important issues such as whether to adopt IFRS (unification option) or maintain Japanese standards (diversification option). The present study investigated Japanese managers' opinions on issues concerning IFRS adoption and attempted to provide evidence for setting future standards.

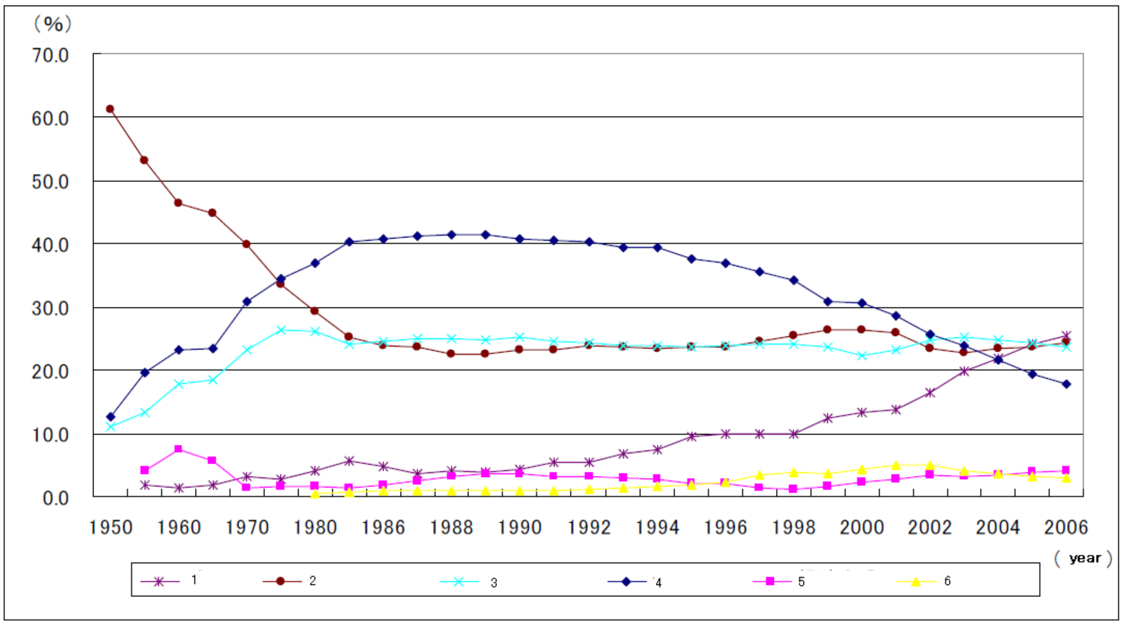
THE CHANGING CORPORATE GOVERNANCE STRUCTURE

During the past ten years, Japan has seen great changes in corporate governance structure, regarded as the promoter of accounting standards globalization. After the Financial Big

Bang, the change in the business environment caused Japanese companies to alter their corporate governance structures toward a global standard, as evidenced in the following three aspects.

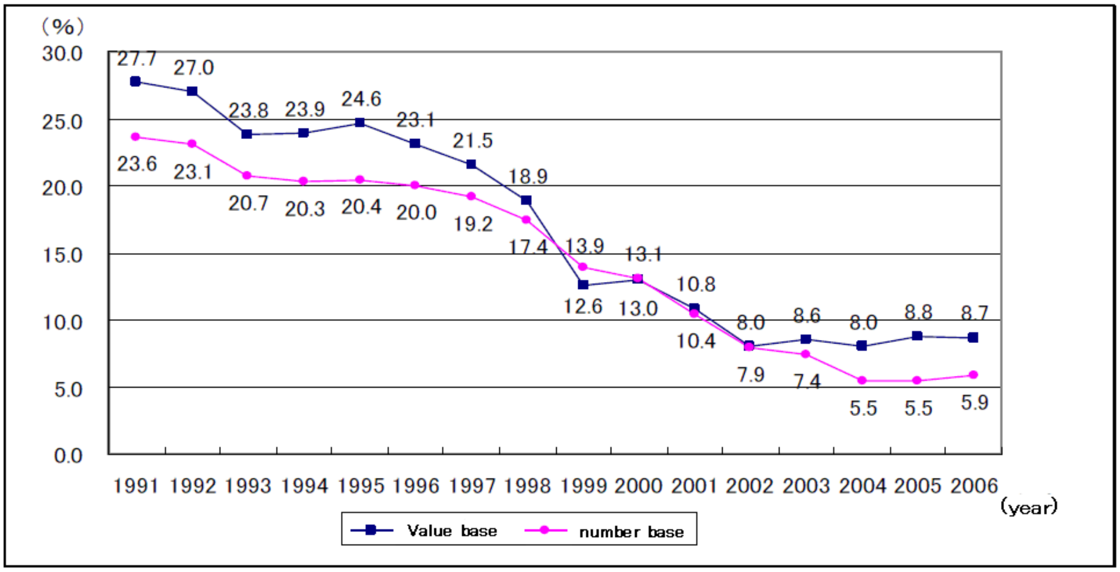
First, foreign ownership increased dramatically, whereas financial institutional ownership showed a decreasing trend. As shown in Figure 1, foreign ownership increased impressively since the end of the 1980s, especially during the most recent five years (2002, 16.5%; 2006, 25.4%) after the Big Bang. In contrast, financial institutional ownership, which increased before the end of the 1980s, began to decrease after the 1990s and declined by 8% from 25.7% in 2002 to 17.7% in 2006.

Figure 1 Change in Ownership



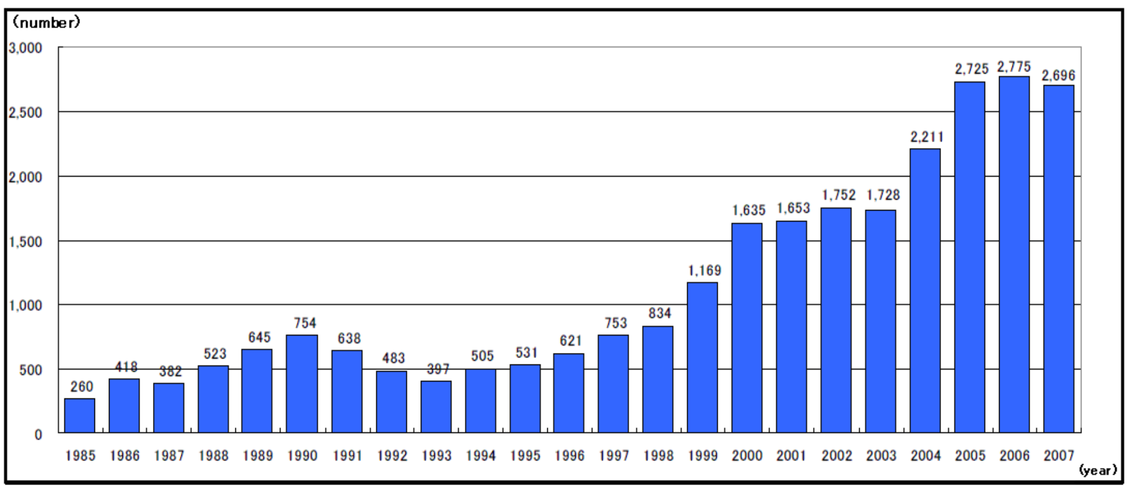
Note: (1) 1: foreign investor; 2: individual and other investor; 3: corporation; 4: financial institution; 5: investment trust; 6: pension fund
(2) The number of stocks is on a stock-trade unit base from 2001.
(3) Investment trusts and pension trusts were not included in financial institutions (however, before 1978, pension trusts were included).
(4) In 2004 and 2005, Livedoor Co., Ltd was excluded.
(Source) Cabinet Office, Government of Japan (2008), p.212.

Figure 2 Change in Cross-holdings



Note: (1) The rate of cross-holding is the rate of cross-holding of listed companies' (including banks) stock to the stock of the total market.
(2) The number of stock on a stock-trade unit base (stock value unit base before 2000).
(3) Livedoor Co., Ltd was excluded in 2004 and 2005.
(Source) Cabinet Office, Government of Japan (2008), p.214.

Figure 3 Change in M&A Activity



(Source) Cabinet Office, Government of Japan (2008), p.214.

Second, the rate of cross-holdings fell dramatically. Figure 2 illustrates that the rate of cross-holdings remained low after the bubble. As measured on a value base, the cross-holding rate declined from 12.6% in 1999 to 8.7% in 2006, and as measured on a stock number base, the rate declined significantly from 1999 (13.9%) to 2006 (5.9%). Moreover, recent years have seen a decrease in non-financial companies' holdings in bank stocks, while banks' holdings of non-financial companies' stock and cross-holdings of non-financial companies stock increased.

However, it should be noted that the cross-holding rate increased slightly from 5.5% in 2005 to 5.9% in 2006, in contrast with the continuous decrease during the nine years since 1997.

Third, M&A activity increased largely since 1999 (see Figure 3), led by an increase in the cross-holding of non-financial companies' stock as well as the start of attributing the responsibility of corporate governance to management.

A Ten-year Period of Moving toward Internationalization

I conducted three similar surveys, one in 1997, one in 2005 and one in 2008, on how Japanese companies regard the internationalization of accounting standards. The first survey was conducted right after the Japanese government made a decision on the basic policy following the Japanese Financial Big Bang, while attempting to eliminate the lack of transparency that has been said to characterize the Tokyo market and improve on globalization by making a commitment to global standards instead of focusing on domestic logic. During the following ten years, Japan implemented extensive reforms in its accounting system and commercial code, and moved toward adopting international standards, a process well known as the "Accounting Big Bang" (since 1999). Through these reforms, Japanese accounting has become quite similar to the IFRS. Notwithstanding, some differences remain in specific accounting standards. During 2002 and 2003, the Japanese Financial Services Agency, the Ministry of Justice, and Nippon Keidanren expressed a negative opinion toward the adoption of the IFRS, while on October 29, 2002, the International Accounting Standards Board and the U.S. Financial Accounting Standards Board jointly issued a memorandum of understanding formalizing their commitment to the convergence of U.S. and international accounting standards. Nippon Keidanren (Japan Business Federation) is a comprehensive economic organization initiated in May 2002 by the amalgamation of Keidanren (Japan Federation of Economic Organizations) and Nikkeiren (Japan Federation of Employers' Associations). Its 1,662 members are comprised of 1,343 companies, 130 industrial associations, and 47 regional economic organizations (as of June 22, 2007). In the meantime, the EU adopted the IFRS as of 2005. With this background, in 2005, I conducted the second survey.

Surprisingly, Nippon Keidanren changed its opinion in favor of convergence with the IFRS in 2006, three years after it expressed a negative opinion toward such an adoption. However, a lack of real progress remained. In 2007, the publication of the SEC's Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in accordance with International Financial Reporting Standards (the Concept Release) and its proposal, Acceptance from Foreign Private Issuers of Financial Statements, prepared in accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP, found that Japan was excluded from the global trend. After the Big Bang, Japan seemed to lag behind its European and U.S. counterparts in converging with the IFRS. What Japan should do next was a significant issue. With this background, in 2008, I conducted the third survey.

On the one hand, the increasing importance of international capital markets requires complete convergence with the IFRS. Particularly for multinational companies that operate globally, converged accounting standards are considered to be helpful in improving international finance and management operations. On the other hand, when it comes to the process of adopting the IFRS, many obstacles exist. For example, determinations must be made on how to adopt the IFRS, and whether to focus on overall adoption or an optional adoption, adoption only for consolidated financial statements or for both consolidated and non-consolidated financial statements, and how to deal with specific accounting standards such as R&D, depreciation of goodwill, fair value accounting, etc. Controversy exists among Japanese companies. The management of Japanese companies seems to be cautious about such an adoption. As providers of financial information and preparers of financial statements according to accounting standards in practice, their attitudes may influence the direction, process, and speed of accounting reform.

The decade after the Big Bang saw great changes in the Japanese economy and Japanese business practices, as well as a global trend of convergence of accounting standards. The following questions are interesting and important at a time when Japan is standing at a crossroads in determining the right way to approach the target of accounting globalization.

(1) How do managers of Japanese companies regard the adoption of the IFRS?
(2) Are there any significant differences in management's attitudes over the past ten years toward the adoption of the IFRS?
(3) How did management change their attitude, and what causes such changes, if any?

Exploring these issues helps us understand the specific problems related to globalization of accounting standards, and has implications for the future direction of the development of Japanese accounting standards.

RESEARCH METHOD

Through a postal questionnaire, the present research investigated Japanese managers' attitudes toward the adoption of the IFRS and the current status of the application of the IFRS in Japanese companies. Accounting rules as a kind of social institution should be analyzed and understood in social, legal, and economic contexts. Japan has a different social and legal system as well as different methods of financing as compared with other advanced countries. During the ten years that were significantly influenced by the Accounting Big Bang, Japanese managers' attitudes toward the IFRS may have changed given the changing environment. I conducted two similar investigations in 1997 and 2005 before conducting the 2008 investigation. By analyzing the data from the 2008 investigation and comparing the results with those of the two former investigations, I attempted to provide useful evidence for the future of standards setting.

The questionnaire consisted of three parts:

(1) Opinion on capital markets and users of financial statements;
(2) Attitude toward and opinion on the adoption of the IFRS; and
(3) The present situation regarding the IFRS adoption or application.

The sample selection and collection of responses of each investigation are summarized as follows.

(1) In the 1997 investigation, a questionnaire was forwarded to the CFO or another senior manager in the accounting or treasury department of 753 multinational non-financial companies in 11 countries. Among them were 200 Japanese companies. The selection was based on company size (as measured by sales) from Fortune Global 500 and other companies' lists. Two hundred and twenty-eight useful responses were received, among which were from 84 Japanese companies. The total response rate was 30% while the Japanese company response rate was 42%.

(2) In the 2005 investigation, the sample companies included the top 500 (as measured by sales) companies listed on the Tokyo Stock Exchange. One hundred and twenty-three useful responses were collected (response rate of 24.6%). Since the respondents were spread across a range of different industries and included the largest companies, the data offered a representative sample of the Japanese economy.

(3) The 2008 investigation selected 500 companies, of which 64 were Japanese companies based on sales rank from the Fortune Global 500 of 2006. The questionnaires were sent to the CFO or to senior managers. One hundred and twenty-one useful responses were received (response rate of 24.2%), of which 58 were Japanese companies (response rate of 90.6%).

In the present study, I only compared data on Japanese companies. Although the sample sizes for the 1997 investigation, the 2005 investigation, and the 2008 investigation were different, the subjects in all of these investigations were large companies. As almost all Japanese companies selected were large as measured by sales, there was an overlap in the selected companies for each investigation, even though the scale of each investigation differed. Furthermore, the questionnaires used were similar (the 2008 questionnaire included more questions), enabling a comparison on most of the items. It is worth noting that each investigation's background was quite different. The 1997 investigation was conducted at the start of the Big Bang and the convergence of accounting standards. The 2005 investigation was conducted when interested parties showed a passive stance toward adopting the IFRS, while the 2008 investigation was conducted after agreement with the IASB and Accounting Standards Board of Japan (ASBJ) was reached on overall convergence with the IFRS. The Kruskal-Wallis test was used as the data were not normally distributed.

RESULTS AND ANALYSIS

The respondent percentages reported in this paper were based on the total number of responses to the questions. The design of the questionnaire allowed multiple answers for some questions. Consequently, the combined response percentages for some questions may exceed 100%.

(1) Opinions on capital markets and users of financial statements

The first question sought to establish managers' views on the importance of domestic and overseas stock markets to their companies, as well as the importance of the stock market and the bond market. In the 2005 and 2008 questionnaire, a five-point Likert scale was used as a measurement tool (with 1 = not important at all, 3 = not so important, and 5= very important). In the 1997 questionnaire, a three-point Likert scale was used (1 = very important, 2 = important, 3 = not important). When the 1997, 2005, and 2008 data were compared, the 2005 and 2008 data have been modified to be comparable with the 1997 data.

As shown in Figure 4, the domestic market was regarded by 65% of respondents as being very important to their business activities, while 53% of respondents indicated that the domestic bond market was very important. Overseas markets were not considered to have the same importance as domestic markets, as only 29% of respondent rated overseas stock markets as either important or very important. The majority of the respondents rated overseas markets as being not as important relative to domestic markets. Generally, the domestic stock market was regarded as the most important market compared with other markets.

When the 1997, 2005, and 2008 data were compared, the following two points became clear (see Table 5). First, Japanese companies have still been great importance to the domestic stock market (see the first line of Panel A). Second, it is quite clear that compared with the 2005 data and the 2008 data, Japanese companies attached greater importance to overseas markets in 2008 (see the two lines on the bottom-right corner of Panel B).

Figure 4 Importance of Markets to Japanese Business Operations (2008)

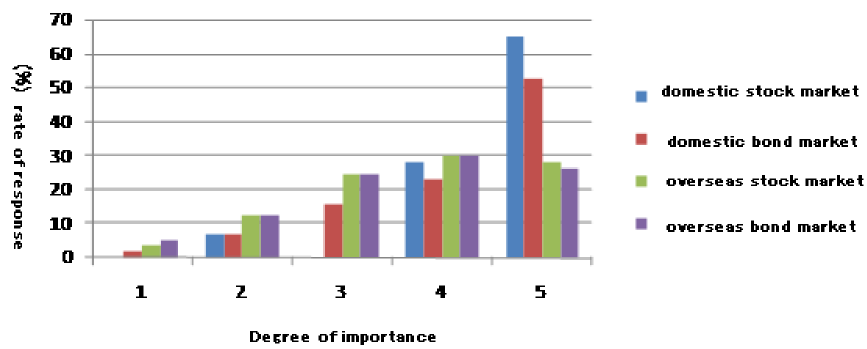
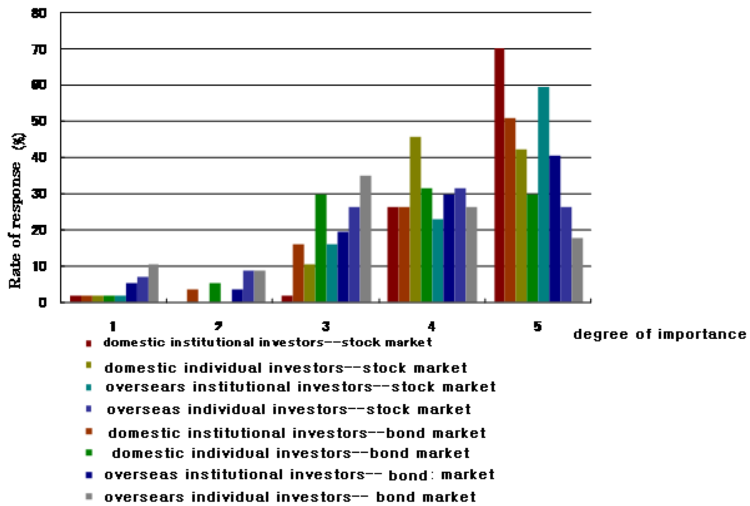


Table 5 Comparison on Importance of Markets					
Panel A: One-way ANOVA					
	1997 average	2005 average	2008 average	Kruskal-Wallis test (two-tailed)	
Domestic stock market	1.4524 (n = 84)	1.3902 (n = 123)	1.4211 (n = 57)	0.6091	
Domestic bond market	1.5432 (n = 81)	1.9187 (n = 123)	1.7193 (n = 57)	0.0036	***
Overseas stock market	2.0370 (n = 81)	2.5935 (n = 123)	2.1250 (n = 56)	0.0001	***
Overseas bond market	1.7654 (n = 81)	2.5366 (n = 123)	2.1607 (n = 56)	0.0001	***

Table 5 Comparison on Importance of Markets						
Panel B: Multiple comparison (modified with Bonferroni's correction)						
	1997–2005		1997–2008		2005–2008	
Domestic bond market	0.0007	***	0.3488		0.0975	
Overseas stock market	0.0000	***	0.4294		0.0001	***
Overseas bond market	0.0000	***	0.0038	**	0.0019	***
Note: (1)*, **, and *** denote significance levels of 10%, 5%, and 1%, respectively. (2) In the 1997 questionnaire, a three-point Likert scale was used (1 = very important, 2 = important, 3= not important). The 2005 and 2008 data have been modified to be comparable with the 1997 data.						

Figure 6 Perceived Importance of Financial Statements to Users (2008)



The perceived lower importance of overseas markets may suggest that Japanese companies pay relatively little attention to overseas users of financial statements, which may create little incentive to adopt international accounting standards. To confirm this, the second question in the questionnaire used a similar five-point Likert scale (with 1 = not important at all, 3 = not so important, and 5= very important) to determine how CFOs or senior managers viewed the importance of financial statements to various users (see Figure 6).

Figure 6 shows that respondents believe financial statements to be important to most users. Generally, respondents expressed their assessment that financial statements are more important to domestic investors than to overseas investors. However, they do believe that financial statements are important even for overseas investors. For investor in the domestic stock market, 42% of respondents believe that financial statements are very important to individual investors in the stock market, while 70% believe that financial statements are very important to institutional investors. However, for investors in the overseas stock market, 60% of respondents believe that financial statements are important to institutional investors while only 26% regard them to be very important to individual investors.

Interestingly, panel B (Table 7) demonstrates that Japanese managers' views on the importance of financial statements to users changed dynamically during the ten years between 1997 and 2008. However, managers' perception that financial statements are most important to domestic institutional investors compared with other users remained unchanged during the past decade, which is illustrated in the first line of Panel A of Table 7.

Table 7 Comparison on Perceived Importance of Financial Statements to Users

Panel A: One-way ANOVA

	1997 average	2005 average	2008 average	Kruskal-Wallis test (two-tailed)	
Domestic institutional investors: stock market	1.4217 (n = 83)	1.4146 (n = 123)	1.3333 (n = 57)	0.5823	
Domestic institutional investors: bond market	1.5125 (n = 80)	1.9512 (n = 123)	1.6964 (n = 56)	0.0012	***
Domestic individual investors: stock market	2.0000 (n = 82)	1.7073 (n = 123)	1.7018 (n = 57)	0.0023	***
Domestic individual investors: bond market	2.1250 (n = 80)	2.2049 (n = 123)	2.0714 (n = 56)	0.4613	
Overseas institutional investors: stock market	1.4578 (n = 83)	1.8293 (n = 123)	1.5789 (n = 57)	0.0023	***
Overseas institutional investors: bond market	1.5625 (n = 80)	2.2276 (n = 123)	1.8750 (n = 56)	0.0001	***
Overseas individual investors: stock market	1.9268 (n = 82)	2.1739 (n = 115)	2.1579 (n = 57)	0.0353	**
Overseas individual investors: bond market	2.0000 (n = 80)	2.4696 (n = 123)	2.3750 (n = 56)	0.0001	***

Panel B: Multiple comparison (modified with Bonferroni's correction)

	1997–2005		1997–2008		2005–2008	
Domestic institutional investors: bond market	0.0003	***	0.2771		0.0603	
Domestic individual investors: stock market	0.0012	***	0.0052	**	0.9799	
Overseas institutional investors: stock market	0.0008	***	0.5946		0.0350	
Overseas institutional investors: bond market	0.0000	***	0.0322	*	0.0097	**
Overseas individual investors: stock market	0.0132	*	0.0533		0.9335	
Overseas individual investors: bond market	0.0000	***	0.0016	***	0.4001	

Note: (1) *, **, and *** denote significance levels of 10%, 5%, and 1%, respectively.
(2) In the 1997 questionnaire, a three-point Likert scale was used (1 = very important, 2 = important, 3 = not important). The 2005 and 2008 data have been modified to be comparable with the 1997 data.

I also investigated foreign ownership of each company. Only 10% of respondents stated that they had no overseas investments, while 48% of respondents, the largest group, stated that their foreign ownership was within "1–10%," 12% of respondents chose "11%–20%," 20% of respondents chose "21%–40%," and 10% chose "over 40%."

(2) Attitude toward and opinion on the adoption of IFRS

The survey asked respondents to select one of three options on the proper approach to adopt international accounting standards. The three options were the following: (1) only adopt the IFRS or U.S. GAAP, (2) use both the IFRS (for overseas use) and Japanese GAAP (for domestic use), and (3) use international accounting standards as a supplementation to Japanese GAAP. In 2008, forty-one percent of respondents preferred to adopt only the IFRS as the basic financial statements standard and 29% of respondents preferred to use Japanese GAAP as a supplementation to IFRS. Only 11% chose using both IFRS and Japanese GAAP, which was likely a result of the high cost of using two standards and the complication of practices.

Figure 8 shows the importance of IFRS and Japanese GAAP difference by area in 2008. It seems that the areas of "Goodwill", "Comprehensive income" are the very important differences between IFRS and Japanese GAAP. Since the 1997 questionnaire included only standards for financial instruments and foreign exchange, the comparison among 1997, 2005, and 2008 can only be performed within these two areas. The results, shown in Table 9 demonstrate that the difference between Japanese GAAP and IFRS are thought to be less important in 2008 than in 2005.

I also asked respondents to state their opinions on the change in the application of international accounting standards five years from now. Most respondents expected that the use of the IFRS would increase for both consolidated and separate parent company financial statements, and only in consolidated financial statements as well as supplementary disclosures. The minority of the respondents considered that the IFRS would be adopted only for parent company accounts. If the expectation of these respondents is correct, they will need to plan to transition to the IFRS.

Figure 8 The Importance of IFRS and Japanese GAAP Differences by Area (2008)

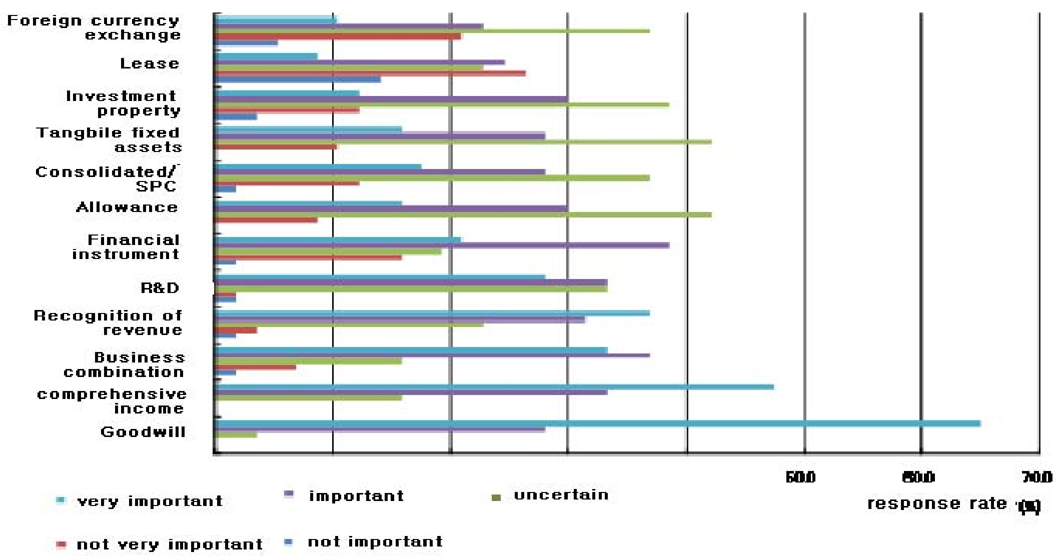


Table 9: Comparison on the Importance of IFRS versus Japanese GAAP Differences by Area					
Panel A: One-way ANOVA					
	1997 average	2005 average	2008 average	Kruskal-Wallis test (two-tailed)	
Financial instruments	1.7073 (n = 82)	2.5785 (n = 121)	2.1636 (n = 55)	0.0001	***
Foreign currency exchange	1.9500 (n = 80)	2.6116 (n = 121)	2.5455 (n = 55)	0.0001	***

Table 9: Comparison on the Importance of IFRS versus Japanese GAAP Differences by Area						
Panel B Multiple comparison (modified with Bonferroni's correction)						
	1997–2005		1997–2008		2005–2008	
Financial instrument	0.0000	***	0.0003	***	0.0003	***
Foreign currency exchange	0.0000	***	0.0000	***	0.5640	

Note : (1) *, **, and *** denote significance levels of 10%, 5%, and 1%, respectively.
(2) In the 1997 questionnaire, a three-point Likert scale was used (1 = very important, 2 = important, 3 = not important). The 2005 and 2008 data were modified to be comparable with the 1997 data.

Table 10 Comparison on Expectations of Future Application of IFRS

Panel A: One-way ANOVA

	1997 average	2005 average	2008 average	Kruskal-Wallis test (two-tailed)	
(1) Application only in consolidated financial statements	1.7195 (n = 82)	2.1186 (n = 118)	1.5818 (n = 55)	0.0001	***
(2) Application only in parent company's separate financial statements	2.9494 (n = 79)	2.4661 (n = 118)	2.3208 (n = 53)	0.0011	***
(3) Application in both consolidated and parent financial statements	2.4051 (n = 79)	2.2500 (n = 120)	1.8545 (n = 55)	0.0001	***
(4) Application only in supplementary disclosure	2.3026 (n = 76)	2.1345 (n = 119)	2.4717 (n = 53)	0.0028	***

Panel B: Multiple comparison (modified with Bonferroni's correction)

	1997–2005		1997–2008		2005–2008	
(1) Application only in consolidated financial statements	0.0000	***	0.1279		0.0000	***
(2) Application only in parent company's separate financial statements	0.0002	***	0.0001	***	0.2777	
(3) Application in both consolidated and parent financial statements	0.1939		0.0000	***	0.0008	***
(4) Application only in supplementary disclosure	0.3356		0.0141	**	0.0008	***

Note: (1) *, **, and *** denote significance levels of 10%, 5%, and 1%, respectively.
(2) A three-point Likert scale was used (1= considerably increase, 2= increase, 3= no change).

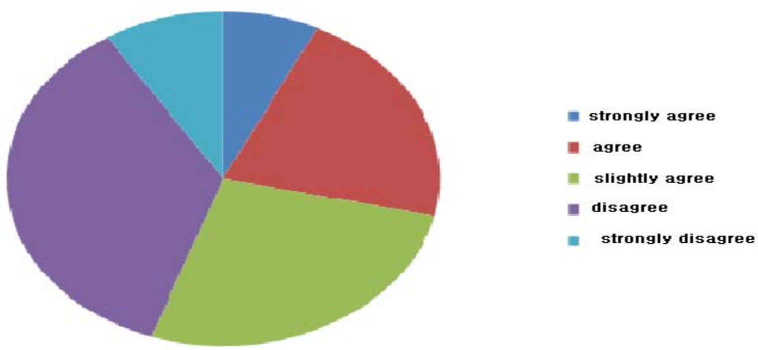
As shown in Panel A of Table 10, an increase in the number of respondents with two expectations occurred from 1997 to 2008 (2.95>2.47>2.32; 2.41>2.25>1.85). The two expectations are (2) Application only in parent company's separate financial statements and (3) Application in both consolidated and parent financial statements (see Table 10). It appears that an increasing number of respondents considered adopting IFRS in a parent company's separate accounts and consolidated financial statements.

(3) The present situation on IFRS adoption or application

The survey then asked whether respondents agreed with the statement that it would be difficult to transition from Japanese GAAP to the IFRS. The Table 11 shows the results in 2008. As illustrated in Table 11, 29% of respondents believed that it would be difficult to transition from Japanese GAAP to the IFRS in 2008. Only two out of 58 usable respondents reported that they are currently adopting the IFRS. Only two other Japanese companies responded that they planned to adopt the IFRS although they were not using it at that moment. However, the vast majority (93.1%) of the respondents noted that the IFRS was not being adopted and they were unsure whether they would adopt it in the future.

I asked respondents who indicated that they had not yet adopted the IFRS to explore the main reason for not adopting it. The reasons suggested by respondents were as follows: (1) the cost was too high (six respondents), (2) there was inadequate staff training system (14 respondents), (3) the international accounting standards are inconsistent with Japanese accounting standards (22 respondents), (4) there is little benefit in adopting international accounting standards (13 respondents), (5) adopting IFRS was not legally required (30 respondents), and (6) other (8 respondents). Multiple choices were allowed, and respondents could cite other reasons. It became clear that lack of a legal requirement was the main reason for the uncertainty in the future adoption of the IFRS.

Table 11 Difficulty of Transitioning from Japanese GAAP to IFRS (2008)



I then used the five-point Likert scale to measure respondents' perceived importance concerning the benefits of adopting IFRS. The expected benefits are as follows: (1) improve the trust and understanding of securities investors, (2) improve the trust and understanding of bond investors, (3) make it easier to issue securities in international markets, (4) reduce the cost of raising bond capital, (5) improve the international image of the company, (6) reduce the barriers to listing on overseas stock markets, and (7) reduce the cost of creating financial statements.

The majority of the respondents perceived that the most important benefits of adopting the IFRS were to "make it easier to issue securities in international markets" (61%), "improve the trust and understanding of securities investors" (58%), and "reduce the barriers to listing on overseas stock markets" (51%) in 2008. It is obvious that the greatest benefit in adopting the IFRS is related to international markets, international status, and international fundraising. Only 9% of respondents believe that "reduce the cost of making financial statements" was an important or very important factor.

Table 12 Comparison on Benefits of IFRS Adoption

Panel A: One-way ANOVA

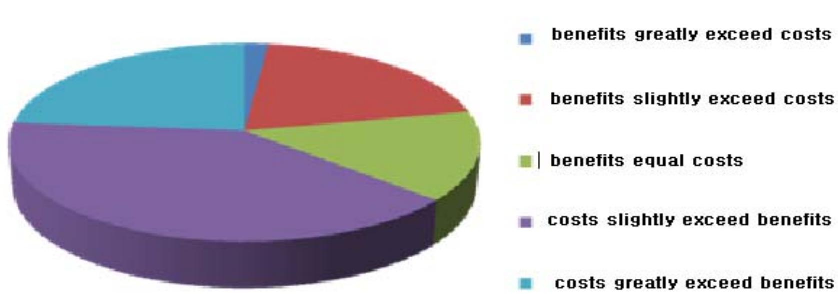
	1997 average	2005 average	2008 average	Kruskal-Wallis test (two-tailed)	
(1) Improve the trust and understanding of stock investors	1.6552 (n = 29)	2.4333 (n = 120)	2.1754 (n = 57)	0.0001	***
(2) Improve the trust and understanding of bond investors	1.6207 (n = 29)	2.5167 (n = 120)	2.2105 (n = 57)	0.0001	***
(3) Make it easier to issue securities in international markets	1.7667 (n = 30)	2.1833 (n = 120)	2.0702 (n = 57)	0.0367	*
(4) Reduce the cost of raising bond capital	2.1667 (n = 30)	2.7059 (n = 119)	2.5965 (n = 57)	0.0001	***
(5) Improve the international image of the company	1.8000 (n = 30)	2.2975 (n = 121)	2.4035 (n = 57)	0.0003	***
(6) Reduce the barriers to list on overseas markets	1.9667 (n = 30)	2.2479 (n = 121)	2.1228 (n = 57)	0.1864	
(7) Reduce the cost of creating financial statements	2.6897 (n = 29)	2.9339 (n = 121)	2.8772 (n = 57)	0.0010	***

Panel B: Multiple Comparison (modified with Bonferroni's correction)

	1997–2005		1997–2008		2005–2008	
(1) Improve the trust and understanding of stock investors	0.0000	***	0.0035	***	0.0462	
(2) Improve the trust and understanding of bond investors	0.0000	***	0.0008	***	0.0126	**
(3) Make it easier to issue securities in international markets	0.0087	***	0.1062		0.4266	
(4) Reduce the cost of raising bond capital	0.0000	***	0.0030	***	0.2821	
(5) Improve the international image of the company	0.0004	***	0.0001	***	0.4414	
(7) Reduce the cost of creating financial statements	0.0002	***	0.0276	*	0.3222	

Note: (1) *, **, and *** denote significance levels of 10%, 5%, and 1%, respectively.
(2) In the 1997 questionnaire, a three-point Likert scale was used (1 = very important, 2 = important, 3 = not important). The 2005 and 2008 data were modified to be comparable with the 1997 data.

Figure 13 Cost-benefit Analysis of IFRS Adoption (2008)



Interestingly, the perceived benefits from adopting the IFRS changed over the years. To be specific, respondents from the 2008 investigation had more negative beliefs about adopting the IFRS and perceived fewer benefit than did respondents in 1997. For example, in 1997, Japanese managers regarded “improve the trust and understanding of stock investors” as a very important benefit, while in 2008, they did not attach great importance to it. One reason for this may be that managers after 1997 fully realized the achievement of accounting convergence toward the IFRS through the Accounting Big Bang. This trend may also be observed in the expected benefits items (1)–(5) and (7), as shown in panel B of Table 12.

Table 14 Comparison on Cost-Benefit Analysis of IFRS Adoption

Panel A: One-way ANOVA						
	1997 average	2005 average	2008 average	Kruskal-Wallis test (two-tailed)		
	2.8571 (n = 28)	3.8983 (n = 118)	3.6364 (n = 55)	0.0001	***	
Panel B: Multiple comparisons (modified with Bonferroni’s correction)						
	1997–2005		1997–2008		2005–2008	
	0.0000	***	0.0026	***	0.2203	

Note: (1) *, **, ***denote significance levels of 10%, 5%, and 1%, respectively.
(2) A five-point Likert scale was used (1= benefit is much more than cost, 3= the same,5= cost is much more than the benefit

The questionnaire then asked accounting managers to state their perception of the relationship between costs and benefits. Figure 13 illustrates the results. The respondents showed skepticism over the benefits of IFRS adoption. Indeed, 63% of respondents thought that the costs would exceed the benefits, while 15% indicate that the costs would almost equal the benefits, and only 1.8% expected that the benefits would greatly exceed the costs of IFRS adoption.

A comparison of 2008 data with 1997 data showed a stronger expectation of Japanese managers that costs would exceed benefits (see Table 14).

Furthermore, as for a principle-based approach or a rule-based approach to adopting international accounting standards, a higher number of respondents regarded a principle-based approach as more appropriate.

CONCLUSION

The present research investigated Japanese managers’ attitude toward the adoption of the IFRS in Japanese companies and the changes in attitude over the past ten years after the Accounting Big Bang. By comparing 2008 data with 1997 and 2005 data, I found the following five results.

(1) Japanese companies have still been great importance to the domestic stock market after 1997 (see Figure 4 and Table 5). Interestingly, it is conflict with the globalization trend in the Japanese economy, as illustrated by an increase in local manufacturing and sales, overseas manufacturing, and exportation to third-world countries after 1997.

(2) The difference between Japanese accounting standards and the IFRS has been clearly perceived by management. This perception changes over time (Figure 8 and Table 9); in

particular, the difference in the standards for financial instruments and foreign currency exchange is regarded as insignificant, as in the past.

(3) There is growing consideration that the application of the IFRS for separate and for consolidated financial statements of parent companies should be dealt with separately (Table 10).

(4) Japanese companies have shown a negative attitude to adopting the IFRS, with the main reason being that there is no legal requirement for such adoption (Table 11). The reason why Japanese companies did not positively adopt the IFRS may be that Japanese managers expect that such an adoption would be difficult. Furthermore, with the convergence of Japanese standards and the IFRS, Japanese companies in 2008 were more confident about preparing their financial statements under domestic standards than they were in 1997. Even without adopting the IFRS, they assumed that they could gain the trust and understanding of investors (Table 12).

(5) Japanese managers expected that the costs would exceed the benefits for adoption of the IFRS. This expectation was stronger in 2008 than earlier (Figure 13 and Table 14).

Although the globalization of the Japanese economy, as demonstrated through globalized manufacturing, marketing, investing, financing (increases in foreign ownership and M&A activity), and a filtering global standard (accounting standards, corporate governance), made steady progress, Japanese companies remained prudent and passive with respect to the adoption of the IFRS. One main reason is that Japan is promoting the accounting standards convergence project. It is expected that Japanese standards will be regarded as equivalent to the IFRS when the project is completed. The accounting standards resulting from the convergence project are a kind of "reinvention" according to Roger's innovation theory (Koga and Rimmel 2007).

On the other hand, there is a continuous increase in the number of countries adopting the IFRS as their domestic standard (Hu 2005). All listed companies in the EU were required to adopt the IFRS as of 2005. Korea and Canada, after Australia, New Zealand, and South Africa, decided to adopt the IFRS as of 2011 (Yano 2008). Australia is a special case, as it experienced a two-stage approach to globalization. The initial approach, commencing in 1996, was to selectively harmonize and converge. However, Australia surprised the world's standards-setting community when its standard-setting oversight body unexpectedly announced in 2002 that it would adopt the IFRS as of 2005. Australia was long perceived as having high accounting standards. However, the country adopted globally consistent accounting standards at the risk of sacrificing some degree of high-quality financial reporting that resulted from its own national standards, as some of the Australian accounting standards are much stricter and are regarded as more relevant. The initial reaction of the Australia Accounting Standards Board and the business community was shock, then denial and anger, and then finally acceptance.

The IFRS, as an innovation of institution, is relatively new to Japanese managers familiar with domestic standards. Results of the present study indicate an important reason for managers' refusing to adopt the IFRS—they believe that the costs related to adoption would exceed the benefits. Moreover, this perception is much stronger that that shown in the 2008 investigation. In fact, the "it is not legally required" (52%) reason is more critical than the "the cost is too high"

(10%) reason. This demonstrates a passive but acceptable attitude of Japanese companies toward the adoption of the IFRS.

Whether or not I like it, the Japanese accounting environment is advancing toward globalization. Financial Services Agency of Japan demanded the Japanese companies to comply IFRS voluntarily as from 2010 (Hu 2011). With this background, the adoption of the IFRS is the expected next step after the completion of the convergence. To continue the globalization trend, constructing an accounting institution and training system based on IFRS becomes critical.

AUTHOR'S NOTE

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