Critical Perspectives on Accounting 23 (2012) 312–331

Contents lists available at SciVerse ScienceDirect

Critical Perspectives on Accounting

journal homepage: www.elsevier.com/locate/cpa

Accounting disclosure, corporate governance and the battle for markets: The case of trade negotiations between Japan and the U.S.

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ARTICLE INFO

Article history:
Received 10 November 2009
Received in revised form 8 December 2011
Accepted 11 January 2012

Keywords:
Public Interest
Corporate governance
Globalisation
Japan

Mots clés :
Intérêt public

Keywords:
关键词
公共利益

Palabras clave:
Interés Público

ABSTRACT

Developments in the socio-economic and political spheres impact upon accounting disclosure and corporate governance. In the context of globalisation, moves have been made ostensibly to converge practices towards global standards, which on the face of it equate to Anglo-American ways. Here, we focus on Japan in this context. We give particular attention to pressure apparently placed upon Japan by the U.S. vis-à-vis bilateral state-level trade negotiations – an under researched area – from the late 1980s. We critically interpret how the Japanese Government has responded to such apparent pressure.

1. Introduction

Socio-economic and political developments have an impact on accounting and corporate governance. In the context of globalisation, moves have been made ostensibly to converge practices towards global standards, which on the face of it equate to Anglo-American ways. Here, we focus on Japan, giving particular attention to pressure ostensibly placed upon Japan, vis-à-vis bilateral trade negotiations with the U.S. between 1989 and 2008, to change its accounting and corporate governance practices towards U.S.-orientated global standards.[1] Recognising the embeddedness of accounting and corporate governance practices, we seek to gain insights into how the Japanese government in the context of external and internal pressures responded to the apparent U.S. demands. In doing this, we gain insights into the roles and positions of accounting and corporate governance in the negotiations, enhancing understanding of the location of accounting and corporate governance in macro-level debates.

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[1] The period is especially worthy of attention. As we elaborate, 1989 witnessed the first negotiations after Japan had been labelled an unfair trader by the U.S. administration. The period 1989–2008 takes in the revision and implementation of Japan's Commercial Code, which contained important corporate governance provisions. The year 2008 is the last year of our empirical focus here, which concerned negotiations prior to the Obama administration in the U.S. between 1989 and 2008, the U.S. and Japan were ranked in conventional terms the largest economies in the world.

1045-2354/$ – see front matter
doi:10.1016/j.cpa.2012.01.001

Few studies have critically focused on Japanese accounting and corporate governance in relation to globalisation. Further, trade negotiations in this context are an important aspect of international relations with potentially significant local and global repercussions. Yet there has been a paucity of research focusing on accounting and corporate governance as areas or issues addressed in these negotiations. This study here aims to begin to fill the gap by offering critical, contextual and interdisciplinary analysis of key documents of the bilateral trade negotiations between the U.S. and Japan. We explore U.S. Government efforts to ostensibly pressurise Japan towards an Anglo-American mode of corporate governance (including accounting), how these efforts have translated into less than straightforward processes of change in Japan and we endeavour to gain insights into the actual and potential character and impact of the developments. The structure of our paper is as follows: some theoretical considerations; historical analysis of the role of the Japanese state in relation to socio-economic development and the development of Japanese corporate structures and corporate governance practices; historical overview of the U.S.–Japan relationship since World War II; analysis of documents, issued during the bilateral trade negotiations, which address accounting and corporate governance issues; summary of insights and potentialities.

2. Globalisation, nation states and accounting and corporate governance practices: some theoretical considerations

Accounting and corporate governance practices are embedded practices, which interrelate with their context. Analysis of the bilateral trade negotiations between the U.S. and Japanese administrations thus needs to consider the complexities of this interrelationship and context.[2] A key aspect of context here is the social, political, economic and cultural phenomenon of globalisation (Held and McGrew, 2000), which has significantly shaped national accounting and corporate governance systems (Gallhofer and Haslam, 2006). Globalisation became a key characteristic of the contextual landscape especially during the last few decades of the twentieth century (Held and McGrew, 2000; Nederveen Pieterse, 2004; Gallhofer and Haslam, 2006). Significant in globalisation were advances in information and communications technology, which made it possible to speedily and widely distribute and receive information with virtually no time or space constraints. This change in information dissemination significantly impacted on markets, further facilitating financial capitalistic development globally. Nederveen Pieterse (2004, p. 1) summarises key characteristics of globalisation in recent times:

> Contemporary globalization can be described as a package deal that includes informatization (applications of information technology), flexibilization (de-standardisation in the organization of production and labour), and various changes such as regionalization and the reconfiguration of states.

Commentators suggest that national borders and nation states have become less significant in the context (Held and McGrew, 2000). A significant change in the global power constellation between nation states occurred with the Cold War's end in 1989. The dismantling of the communist system, symbolised by the Berlin Wall's fall, ended division of the global political landscape into two socio-economic and political power blocks, dominated by two strong nation states, the U.S. and U.S.S.R. – states that had coerced other nation states into membership. The U.S.S.R.'s demise opened up the possibility for the U.S. to expand its power base from being a hegemonic power within the Western capitalistic bloc to a global hegemonic power (Dumenil and Levy, 2004; Konings, 2009; Mabee, 2004). In the context of globalisation, this had implications for the international regulation of practices, including accounting and corporate governance.[3]

The 1980s were especially significant for shaping globalisation as neoliberal. During this period the neo-liberalist policies initially pursued by Reagan and Thatcher spread to other developed capitalistic countries and came to be adopted by former communist countries. For Nederveen Pieterse (2004, p. 1), neoliberal globalisation became a 'global regime' transforming globalisation's character:

> Since the 1980s, the growing impact of neoliberal policies add to the globalization package, deregulation (liberalization, privatization), marketization (unleashing market forces), financialization and securitization (conversion of assets into tradable financial instruments), and the ideology of lean government. . .Studies generally explain the onset of neoliberalism as the confluence of the economic ideas of the Chicago school and the policies of Ronald Reagan and Margaret Thatcher. A further strand is the Washington consensus, the economic orthodoxy that guided the IMF and World Bank in their policies through the 1990s and turned neoliberalism into global policy.

Globalisation has become an important focus in the social sciences with studies seeking insights into the interrelationship of globalisation with social practices. The accounting literature has given some attention to globalisation's impact on accounting, the accountancy profession and corporate governance. Studies have critically explored the impact of institutions like the IMF and the World Bank on accounting practices of especially emerging economies in Africa and Latin America. These

[2] In analysing context, we aim to reflect awareness of pitfalls of crude, excessive ethnocentrism as well as those of an acritical relativism. We should reflect on how our own contextual embeddedness shapes how we construct social reality in research and make sense of phenomena we observe (Gallhofer and Haslam, 2008; Lowe et al., 1991).

[3] Beyond direct pressure, the U.S. in the current global context can indirectly pressurise other states to change accounting and corporate governance systems through influencing activities of international bodies like the World Bank, IMF and the World Trade Organisation (WTO). And, in the global market, U.S. institutional investors have become powerful in influencing nation states to change accounting and corporate governance practices (e.g., the activities of CalPers; Jacoby, 2007). Here, we focus on U.S. influence vis-à-vis international trade regulation, an area scarcely considered in the literature.