TJAR EDITORIAL POLICY

Accounting Encounters of the TJAR Kind

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

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

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

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

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

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TJAR EDITORIAL NOTE

Four outstanding papers are presented in this volume. The first is authored by S. Penman and deals with conservatism. In the second paper, coauthored by S. Mingzi, N. Oshiro and A. Shuto, the issue of accounting fraud is addressed. The third is by Ge Bai and R. Krishnan's and examines labor contracts under two kinds of common uncertainty. The fourth is written by Y. Yoshinaga. His paper analyzes the impact of accounting information on the macro-economy. It is fair to say that all four papers are in some way related to uncertainty.

Penman argues that conservatism has a role in accounting, but not as a qualitative characteristic. It serves as a defining principle that helps to clarify how accounting should be undertaken.

Song, Oshiro and Shuto develop a predictive model for identifying accounting fraud by analyzing the accounting information of Japanese firms. They found that five out of eight factors derived from 38 variables could reliably predict fraud in an accounting fraud prediction model. The five factors are: accrual quality, market-related incentives, real-activities manipulation, conservatism, and Japanese-specific factors.

Ge Bai and Krishnan explore how unmeasurable uncertainty (i.e., ambiguity) affects employees' preferences for relative performance contracts. Based on the results of a controlled experiment, they argue that when the probability distribution of the state of nature is unknown, employees exhibit distaste for relative performance contracts as opposed to the situation where the probability distribution is known.

Yoshinaga aims to clarify the mechanism underlying the relationship between earnings and returns observed at the aggregate level by presenting evidence based on Japanese data. Unlike individual company-level evidence, recent macro-accounting research has shown that when earnings changes and stock returns of individual companies are cross-sectionally aggregated, a significantly positive relationship is not observed in the U.S. market. To explain this puzzling finding, American researchers have proposed a hypothesis that posits that the negative effects of changes in the market-wide cost of capital cancel the positive effects of aggregate earnings changes on aggregate stock returns. Yoshinaga tested the hypothesis and found that the Japanese data robustly supported it.

Finally, I wish to report that the Japanese Accounting Review has been registered in the database of Web of Science. The impact factor of our journal is 0.169.

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