

Forensic Accounting in Japan

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To adequately understand current forensic accounting conditions in Japan it is essential to appreciate the context in which present circumstances developed. The situation that prompted reform efforts is strikingly summarized in the very first sentence of William Gordon's dissertation on Japanese corporate accounting practices since 1997: "The world," Gordon (1999:1) observed, "does not trust financial reports by Japanese companies."

INTRODUCTION

In the period before World War II, Japanese business was dominated by the *zaibatsu*, a relatively limited number of huge business conglomerates that were a world unto themselves (Bisson 1954). During the postwar period in Japan, these entities were deemed by the American occupiers as too powerful, too much in the mode of the trusts and cartels that had led to the Sherman Antitrust Act of 1899 in the United States. After considerable enforcement lassitude, the Sherman Act produced rulings by the U.S. Supreme Court that broke up railroad and other monopolies (Geis & Salinger 1998). In Japan, most of the *zaibatsu* were disassembled, though today, by accretion, the Japanese business world is characterized (though no longer so thoroughly dominated as before the war) by a coterie of corporate giants, such as Mitsubishi and Toyota (for an excellent case study see Yonekura (1985)).

The relationship among business, the political realm, and the administrative bureaucracy in Japan is much closer than in the United States. Bureaucrats often retire from government positions at age 55 and take up employment in the private sector with companies that they worked with while on the federal payroll. In their federal positions they typically adopt a supportive role rather than the adversarial posture that is common in United States (Usui & Colligon 1995).

Political leaders in Japan are generally recruited either from the business world or from the bureaucracy. Given the long-standing hold on political power in Japan by the Liberal