

**Financial Control through Japan's Main Bank System and the Japanese Accounting
System
-The Past and the Future-**

Ellie Okada
Yokohama National University
Faculty of Business Administration

December 20, 1997

The main part of this paper was written while the author was a Visiting Scholar at the Center on Japanese Economy and Business at Columbia University and the Graduate School of International Relations and Pacific Studies of University of California, San Diego. I thank Prof. Hugh Patrick, Prof. Takeo Hoshi and Dr. Hyung-Ki Kim for their useful comments.

Abstract

This paper aims to 1) compare financial controls through the main bank system to those of capital markets, 2) analyze the relationship between financial controls through the main bank system and the traditional Japanese accounting practices, and 3) analyze appropriate changes for financial controls and related accounting practices. This paper defines a main bank as an investor, which controls the management of a company by possessing the residual right of control. This paper shows that a main bank attaches the most importance to refundable earnings, as a creditor, and firm value, as a stockholder.

This paper argues that it is important to strengthen the power of stockholders in the financial control system in present day Japan where financial controls through the main bank system no longer functions effectively. For this purpose, the most desired reform in the accounting system is the disclosure of future cash flows and the attribution of accurate stockholder equity amounts. It is also desired that Japanese management should make more of an effort to show an accurate and fair reflection of performance and financial position to stockholders in the market. This change may lead to increased efficiency of management, and at the same time, restore the good name of Japanese enterprises that fell in international public's estimation because of corruption and window-dressing.

1. Introduction

Since the early 1990s, corruption from off-balance-sheet finance and window-dressing have become frequent in Japan. For example, Showa-Shell Oil Co. recorded a loss of 125 billion yen caused by an unsuccessful forward exchange contract in 1993. In 1996, Sumitomo Trading Co. recorded a huge loss caused by the failure of a forward transaction on copper. Because of the insufficient disclosure system in Japan, stakeholders could not recognize the risk of these losses. In 1997, Yamaichi Securities Co., the fourth biggest security companies in Japan, discontinued its business, as a result of an illegal transaction using an off-balance sheet associated company. In this case, even board members of Yamaichi did not know the correct amount of off-balanced liabilities. These incidents raised new questions about Japanese-style financial control in relation to corporate governance through the capital markets and the related Japanese accounting system.

To some extent, the Japanese-style financial control and its related accounting system supported the Japanese rapid economic growth in 1960s. Main banks controlled management by the residual right of control and monitored management in terms of whether or not management retained enough earnings to maintain production and facilities. However, the main banks' role in providing long-term funds has become less and less important since the mid-1970s (Aoki, M. 1988). As a result, the corporate governance of main banks over customers has been in name only.

At present in Japan, it is necessary to strengthen corporate governance through the capital markets, that is, financial control by stockholders. Generally speaking, present and potential investors need information on the value of future net cash inflows of a firm (Busse von Colbe, W., 1957, Copeland, T. et. al., 1994). However, the traditional Japanese accounting system and practices works best with main bank monitoring and not that of stockholders. The traditional Japanese accounting system and practices neglect to report future cash flows to stockholders and underestimate stockholders' equity. Furthermore, it is difficult for foreign investors to understand Japanese financial statements because Japanese corporations attach less importance to providing information to stockholders.

On the other hand, traditional Japanese accounting practices that attach importance to internal accumulated capital may be useful for the maintenance of on-going enterprises. This accounting practice may be more

useful, if the main part of company assets are tangible assets and the firm has no intention of raising funds internationally. These traditional accounting practices are useful for financial oversight by main banks and supported Japan's rapid economic growth in the past.

There are many papers which argue for Japanese-style financial control through the main bank system (for example, see Aoki, M. and H. Patrick, 1994). However, the Japanese accounting system, which is related to the main banks' monitoring has not been discussed. This research aims to 1) compare financial oversight through the main bank system with financial control through capital markets, 2) analyze the relationship between financial oversight through the main bank system and Japanese traditional accounting practices, and 3) analyze changes that should be made in the traditional Japanese financial oversight system and related accounting system changes.

This paper argues that it is important to strengthen the power of stockholders, reform the accounting system and to instill in management the importance of disclosure of future cash flow and the correct amount of stockholders equity.

2. Financial Control through the Main Bank System

Until the late 1970's, the main bank system was criticized for its backwardness and because it was thought to lack a financial control mechanism (Aoki, M. 1989). According to neoclassic economic theory, when one regards a firm as a nexus of contracts, it is efficient to have those who have residual rights create a blueprint of contracts. As stockholders have a claim to the residuals of a firm, it is reasonable that stockholders control the decision making to maximize present value of residuals (stock price), not only through a general meeting of stockholders but through the capital markets. If the stock price of the firm declines, it is possible that a firm will be merged and management will be dismissed producing a threat that controls management. It has been argued that the Japanese main bank system lacks this threat of dismissal (Aoki, M., 1989).

Since the late 1970s, many papers that focus on the efficiency of the main bank system have been published. The effects of the main bank system are discussed as follows (Aoki, M., 1994; Hoshi, T., 1993; Misumi, K., 1992; Patrick, H., 1994).

- 1) Monitoring and information production costs are eliminated due to the monitoring and information production by a main bank. Furthermore, the information search cost is reduced.
- 2) Since the main bank system acts as a substitute for the market, firms do not have to worry about being merged, and they do not have to pursue short-term earnings which are disclosed in a market system. For this reason, an accounting system in which relatively low accounting earnings are calculated is permitted and an industrial policy is implemented easily.
- 3) Because of internalization of fund raising, firms continuously provide the main bank with internal information. Thus, internalization of fund raising eliminates information asymmetry. Since external fund raising costs do not increase, a firm can invest aggressively without thinking of its liquidity and earning ratios. In addition, owing to the internalized relationship between a capital provider and a firm, disclosure costs for a firm decrease and an accounting system that produces relatively lower earnings is adopted.

These functions are derived from the idea that a main bank is an information producer. This idea is based on the economic theory of information that cannot explain the financial control by a main bank. Later theorists theorized that the financial control function of a main bank could be explained by the incomplete contract theory. This theory refuses an assumption of the agency theory which assumes that we can completely forecast what will happen in the future. A main issue of this theory is to whom the residual right of control is to be given for the purpose of efficiency (Misumi, T., 1992). According to this theory, financial contracts are to be classified according to who possesses the residual right of control (Misumi, T., 1992). In the main bank system, a main bank is a stockholder, a claimant of the residuals of a firm, as well as a creditor. Although management may be insulated from the discipline exercised through the market, it is placed under closer monitoring from a main bank when it has to rely on borrowing from the bank for financing investment (Aoki, M., 1988). Main banks control the business decisions of customers in their own interests in such a manner that, if the management's performance is good enough to keep the dividends constant, management keeps the right control. If the performance is bad and there is no distribution of the dividends to stockholders, control is transferred to the main bank. The right control of intercase is called the residual right of control. If the

management holds a dominant position against the main bank, the ranking of the firm and the prestige of the management will increase, then it is easier for the company to borrow from the bank for financial investment at lower capital cost. Thus, the ranking of performance works as an effective incentive for management and in this manner, the main bank controls management decisions in its own interests (Aoki, M. 1989).

In the period 1966-75, the accumulation of stockholder equity fell short of one-half of the investment in fixed assets. New stock issues provided funds covering only about 10 percent of new capital expenditures in fixed assets (Aoki, M. 1988). Firms relied deeply on the main banks for financing investment in this era. In this period, main banks demonstrated their financial control over customer firms. Other stockholders delegated monitoring of firms to the main banks and they followed the main banks' decision on financing.

Given this information, a main bank can be defined as follows: a main bank is an investor who is delegated the monitoring of customers by other stockholders and controls management by possessing the residual right of control. In sum, the financial control function of a main bank can be characterized as follows:

- 1) financial control by the main bank system without a market is implemented depending on allocation of the right of control between a management and a main bank;
- 2) through the delegated monitoring, a main bank makes decisions on how the right of control should be allocated for the efficiency purposes.

Thus, a main bank controls management by possessing the residual right of control for efficiency purposes, whereas stockholders control management by possessing the ownership right. Then, what kind of data does the main bank use when it makes decisions? Is the information the same as the information used by stockholders or not?

3. Information for Screening and Monitoring

The monitoring by a main bank can be divided into three stages: ex ante monitoring, interim monitoring and ex post monitoring. The ex ante monitoring refers to the investor's assessment of the credit-worthiness of a firm itself, investment projects proposed by the firm, and their screening. The company cannot borrow money from the main bank, if it cannot pass the screening process of the main bank. The monitoring in this stage has

the effect of solving problems associated with adverse selection. The interim monitoring refers to monitoring an on-going management behavior and the use of funds in particular after the funds are committed. The monitoring at this stage solves problems associated with moral hazard by management. Ex post monitoring refers to the verification of performance outcomes of the firm, judgment on the long-run viability of the firm in case of financial distress, and the use of that information for possible corrective or punitive action. If investors make a credible commitment to punish poor management performance, management would have an incentive to avoid ex ante and interim behavior that might result in poor performance (Aoki, M. 1994.)

Thus the index used in the three stages of monitoring has the effect of guiding firms. It is said that in the third stage of the monitoring, when a firm suffers from a financial distress, the main bank is expected to rescue the firm. However, the main bank rescues firms only in certain conditions. Since the main bank is a claimant of residual rights, the main bank decides to rescue a firm in financial distress if the value of the residual right of control of the firm exceeds the liquidation value. In addition, other investors who cannot get detailed information about the firm's performance rely upon the decision whether or not the main bank rescues the firm, because the claim of the main bank for residual right comes to have a value, only after all the other claims except for a claim of a residual right are satisfied (Misumi, K. 1992).

Then, what are the performance criteria of the monitors? Are they same as those used by stockholders in the capital markets? The kind of information used to monitor and screen companies is available from bank manuals (See Appendix). If a high ranking given by the main bank lowers the cost of capital of a firm, or the main bank punishes poor management performance, the monitoring criteria could have great effects on managerial behavior.

According to the manuals, the main bank attaches or should attach the significant importance to the entrepreneurial spirit of a manager. This qualitative data can be attained through face to face meetings with management. Thus information based on to whom the right of control is allocated cannot necessarily be acquired from public sources. Next, various financial ratios, net asset value, refundable earning and an investment plan, etc. are checked. Net asset value and refundable earning are especially important for ex ante monitoring of long-term lending. As the main bank controls management decisions for its own interest when

the firm relies deeply on its mid- and long- term funds for investment, it may be better to concentrate on monitoring for long-term lending. Since the right of control is allocated to management during problem free on-going behavior of management at interim monitoring, it is better to analyze the criteria for ex ante monitoring.

According to the manual, the main bank also attaches its primary importance to refundable earning and the net asset value at the monitoring for the ex ante long-term lending.

(1) Refundable Earning

This index is calculated as follows:

$$\text{Refundable earning} = \text{Before tax profit} + \text{Depreciation expenses} - \text{Corporate tax} - \text{Dividend} - \text{Bonus to board members.}$$

In this equation, before tax profit plus depreciation expenses refers to cash flows. The before tax profit minus the corporate tax minus the dividends minus the bonus to board members refers to the accumulated earning. This amount can be regarded as funds accumulated internally. If a firm is to increase the refundable profit to satisfy a main bank's monitoring criteria, the firm may increase depreciation expenses. Furthermore, the firm can maximize its refundable earning by minimizing corporate tax and dividends. Since bonuses to board members is not disclosed in Japan, we cannot investigate this amount and the effect on the refundable earning. However, we can investigate depreciation expenses, corporate tax, dividends and their effects on the refundable earnings in detail. This paper will now discuss each of these aspects.

1) Depreciation Expense

In the case of depreciation expenses, firms have an incentive to employ the accelerated depreciation method to increase refundable profit. This practice accelerates capital accumulation within the firm. It also assumes that a firm's physical capital remains constant. This method corresponds to the German theory of business entity and financial capital maintenance (Hax, K. 1957). The incentive to enterprises to accelerate depreciation can be supported by research (Tajika, E. et. al., 1996) showing that Japanese enterprises have been

depreciating fixed assets beyond their economic substance since 1970. Depreciation, which coincides with economic substance, is useful for maintaining physical producing capital at the end of the accounting period, because the depreciated amount is stored within the firm to replace fixed assets. The physical capital maintenance concept requires the adoption of the current cost basis of measurement (IASB, 1989). Though the present accounting system maintains nominal financial capital, Japanese enterprises have devised various means to make the depreciation large enough to maintain or increase the physical capacity of fixed assets.

Since 1977, Japanese enterprises have come to finance almost all of their investments with internal funds. Furthermore, two-thirds of the internal funds are affected by depreciation (Kunimura, M., 1986). Thus, depreciation has played an important role in investments since 1977, and the monitoring criteria by the main bank may have caused firms to accelerate depreciation.

However, depreciation beyond the economic substance is the point at issue. If an enterprise is regarded as belonging to stockholders, then it is not so easy to depreciate beyond the economic substance. Accelerated depreciation derives from the idea that the cost of investment by internal funds equals zero. If profits were considered as belonging to stockholders, the cost of capital of the invested internal funds would equal the opportunity cost to stockholders. If the accumulated funds were distributed to stockholders, the stockholders might get a certain return by investing the distributed dividends to other assets (Cf. Moroi, K., 1994). Then the cost of capital of investing internal funds equals the return. Thus, the idea of capital cost is currently spread less evenly throughout Japan than during the period of rapid economic growth.

2) Minimization of the Corporate Tax

If a firm minimizes its taxable income, the firm can minimize its cash outflow and maximize the refundable profit. The firm can also maximize its firm value, if the firm minimizes its cash outflow. By adopting the accelerated method of depreciation, the p-value of the total sum of periodical tax savings becomes larger.

In Japan, taxable income is determined on the basis of financial accounts as reported to stockholders'. This requirement is called the *approach of conformity* between tax and financial reporting, which aims to secure

conformity between tax accounting and commercial code accounting. However, the results work contrary to reality. When applying the *approach of conformity* between tax and financial reporting, accounting methods for reporting purposes must be made consistent with those for tax purposes. If firms want to receive special favors through the tax system, i.e. reduce taxable income, they choose, among the alternative accounting methods, the one which makes the largest deductions for tax purposes. Furthermore, they must follow this selected accounting method for tax purposes as well.

One good example of firm behavior is shown in the choice of depreciation methods. More than 90 percent of Japanese firms used the accelerated method in 1985, where as more than 70 percent of the US firms used the straight line method (Banba, K. 1986, Shohet, J. et. al., 1987).

This behavior of Japanese firms mentioned above leads to a lower accounting profit as well as a lower calculation of stockholders' equity, as shown in Okada (1989). To examine the effect of the different depreciation methods selected on earnings or net worth ratio, Okada assumed that firms in the USA and UK select alternatives conforming to the approach of conformity between tax and financial reporting. Based on this assumption, adjustments to the net worth ratio was made for sample firms in the USA and UK. From these adjustments, it was found that the net worth ratios of the sample firms in the USA and UK decreased. As for the USA, the decrease was statistically significant. After the adjustment, the net worth ratio of the US firms decreased from 40.01% to 32.93%, where the ratio of Japanese firms was 33.90%. This means that the net worth ratios of Japanese firms are underestimated relative to those of USA.

3) Dividend and Capital Accumulation

There are many differences in accounting standards among countries, but the diversity is thought to result from deviation in emphasis on fundamental accounting concepts in these countries. When attention is focused on these fundamental concepts, we can safely attribute the cause of accounting standard differences to the degree of emphasis on the accrual of expenses.

Under accrual accounting, the effects of transactions and other events are recognized when they occur and not as payments are received or made and the transactions are recorded in the accounting records and reported

in the financial statements for the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving payments and receipts but also of obligations to make payments in the future and resources to be received in the future (IASB, 1989). When the emphasis is on accruals, it is reasonable to keep an eye on assets. The country that has the most rigorous rules for assets is Germany, where the concept of an asset is derived from proprietary rights in civil law. Therefore, the possibility of capitalization depends on whether the item can be interpreted logically according to the theory of property. That is capitalization of expenses that, effect payment or the confirmation of obligation of payment in the future is extremely limited. As a result, the amount of equity capital in Germany is understated.

Japan has a similar foundation with respect to fundamental accounting concepts. In Japan, deferred assets on the balance sheets are limited by commercial code to eight items. (This is based on modern accounting theory investors' interests must be protected in the first hand and future benefits are to be capitalized.) Some deferred assets are accompanied by a limitation of payments of dividends because they originally cannot be capitalized. The limitation of payment of dividends is one of the policies for maintaining capital and protecting creditors. This limitation is a legal measure to protect creditors by preventing a firm's distribution of dividends to stockholders based on assets that cannot be converted to cash.

Even if capitalization of such expenses is permitted, firms with good performance tend not to capitalize the expenses due to the requirement of conformity between reporting and taxable income. Under this requirement, if a firm wants to minimize taxable income and selects a method which makes expenses larger, the firm must select the same accounting method when it calculates taxable income. Since firms want to minimize cash outflow and maximize their value firms tend to minimize taxable income when other things are equal. This tendency is convenient for both main bank monitoring, which puts importance on law-based stability, and for capital accumulation within a firm (Okada, 1993).

The USA and UK are two countries with very different accounting concepts from those of Germany and Japan. In the USA, assets are defined as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events (FASB, 1985). The future economic benefits embodied in an asset mean the potential to contribute, directly or indirectly, to the flow of cash and cash

equivalents to the enterprise (IASB, 1989). The common characteristic possessed by all assets is “service potential” or “future economic benefit,” the scarce capacity to provide services or benefits to the entities that use them (FASB, 1985).

According to this definition, one must capitalize costs when cash or cash equivalents flow into an enterprise with a high possibility of future benefit, whereas costs must not be capitalized when cash or cash equivalents do not flow into the enterprise with a high possibility of future benefit. Thus, the concept of an asset is derived from the concept of future cash flow. In the USA and UK, the amount of equity capital is not understated as it is in Japan and Germany. It is thought that the amount of equity capital represents the stockholder’s value as fairly as possible.

(2) Net Asset Value

Analyses of net asset value are especially important for the monitoring of mid- and long-term lending. Analysis of the net asset value means analysis of the firm value. According to the manual, a main bank calculates firm value as follows:

$$\text{Net asset value} = \text{Value of assets} - \text{Nominal value of liabilities} \text{-----(1)}$$

In the above equation, only assets which are associated with business operation are included in the equation measured by current costs. At present, in the USA, firm value is regarded as the most important index of management performance. In the USA, firm value is calculated by discounting cash flows:

$$\text{Value} = \text{Value of operations} - \text{Value of liabilities} \text{----- (2)}$$

The value of operations equals the discounted value of expected future free cash flows. Free cash flows are equal to the after-tax operating earnings of the company, plus non-cash charges such as depreciation, less investments in operating working capital, property, plant and equipment, and other assets (Copeland, T. et. al., 1994). In the above equation, the value of liabilities equals the present value of the cash flows to the debt holders, discounted at a rate that reflects the risk of that flow.

According to Copeland, T. et. al., increasing stockholder value does not conflict with the long-run interests of other stakeholders, because stockholders are the only stakeholders of a corporation who simultaneously

maximize everyone's claim by seeking to maximize their own. Stockholders are claimants to the residual assets of the firm after deducting all its liabilities.

The firm value is originally the sales price of the firm in the market (Muenstermann, 1939). According to Copeland, T, et. al., the empirical evidence shows that firm value calculated according to Equation 2 is most closely related to the movement of share price (Copeland, et. al, 1994). Firm value calculated according to Equation 1 is only an approximate value compared to the value calculated by Equation 2.

4. Summary

In summary, this paper looks at the financial control mechanism of the main bank system and the main index it uses for monitoring mid-and long-term finance. This paper points out that the main bank possesses the residual right of control over management, and attaches considerable importance to the refundable earnings and the firm's value as determined by the monitoring of mid-and long-term finance.

It is interesting that the main bank uses indices similar to those used by USA investors to determine the importance of a firm's value, though the value calculated by the main bank does not take cash flow and present value of liabilities into account. This evidence shows that, as Aoki, M. pointed out, a main bank is both a stockholder and a creditor (Aoki, M., 1987). As a stockholder, the main bank attaches importance to indices such as the firm value. As a creditor, the main bank attaches importance to refundable earnings.

The ratio of stocks held by banks was 40.1 percent in 1990, as compared to 23.1 percent in 1960 and 23.4 percent in 1965. The main bank system reached its pinnacle in the 1960s and it was during this period, that it functioned most appropriately. During the 1960s, the main bank controlled a firm's management not through the possession of ownership rights, but of the residual right of control.

In present day Japan, empirical evidence indicates that firms that have a high ratio of stocks held by foreigners, board members and banks have a better performance than those for which a high ratio of stock is held by Japanese corporations and individuals (Yonezawa, Y., et al., 1996). Considering that foreigners control management according to neoclassic economic theory, this evidence shows that Japanese banks now control management by holding equity interest in firms, not by holding the residual right of control.

Individual investors are not mature in Japan, as the evidence shows. This is partly because the Japanese accounting system does not present the inflow of future economic benefits and outflow from the enterprise of resources embodying economic benefits (Cf. IASC, 1989). Earnings and stockholders' equity are understated under the present accounting system. It is important to strengthen the power of stockholders to restore efficiency to the management of firms in Japan. For this purpose, it is desirable to reform the accounting system to take into account the future cash flows and the correct amount of stockholder equity. Furthermore, Japanese firms should make efforts to disclose true and fair appraisals of their performance and financial position to stockholders and the market. This may also be an effective way for Japanese firms to restore their good name in the international economy.

References

1. Aghion, P. and P. Bolton, "An Incomplete Contracts Approach to Financial Contracting," *Review of Economic Studies*, Vol. 59, No. 3, 1992.
2. Aoki, Masahiko, *Information, Incentives, and Bargaining in the Japanese Economy*, Oxford: Cambridge University Press, 1988.
3. ____ *Organization and Information of Japanese Enterprises*, Toyokeizi Shinposha, 1989 (in Japanese).
4. ____ "Monitoring Characteristics of the Main Bank System: An Analytical and Developmental View," in idem. and Hugh Patrick eds., *The Japanese Main Bank System- Its Relevance for Developing and Transforming Economies*, Oxford: Clarendon Press Oxford, 1994.
5. ____, Hugh Patrick and Paul Sheard, "The Japanese Main Bank System: An Introductory Overview," in *ibid.*
6. Banba, Kaichiro (chief editor) and Eiwa Auditing Co. eds., *Accounting and Disclosure of Japanese Enterprises*, Chuo Keizaisha, 1989 (in Japanese) .

7. Busse von Colbe, Walther, *Der Zukunfterfolg*, Wiesbaden: Betriebswirtschaftlicher Verlag Dr. Th. Gabler, 1957.
8. Copeland, Tom Tim Koller and Jack Murrin, *Valuation: Measuring and Managing the Value of Companies*, 2nd ed., New York: John Wiley & Sons, Inc., 1994.
9. Financial Accounting Standards Board, *Statement of Financial Accounting Concepts No. 6: Elements of Financial Statements of Business Enterprises*, Stamford: FASB, 1985.
10. Hax, Karl, *Die Substanzerhaltung der Betrieb*, Koeln: Westdeutscher Verlag, 1957.
11. Hoshi, Takeo, "Evolution of the Main Bank System in Japan," Working Paper Series No. 93-4, Centre for Japanese Economic Studies, Macquarie University, 1993.
12. International Accounting Standards Committee, *Framework for Preparation and Presentation of Financial Statements*, London: IASC, 1989.
13. Kagono, Tadao, Ikujiro, Nonaka, Kiyonori, Sakakibara and Akihiro, Okumura, *Comparative Analysis of U.S. and Japanese Management*, Nihon Keizai Shinbun-sha, 1985 (in Japanese).
14. Kinoshita, Katsuichi, *Theory for Lease Accounting*, Moriyama Shoten, 1985 (in Japanese).
15. Kunimura, Michio, *Analysis of the Current Capital Market*, Toyokeizai Shinposha, 1986 (in Japanese).
16. Misumi, Koji, "Main Bank as Control Mechanism," *Business Review*, Vol. 40, 1992 (in Japanese).
17. Moroi, Katsunosuke, "Conversion of Way of Thinking in Distribution Policy in Japan," in Wakasugi, Akira ed., *Trends in Internationalization of Accounting*, Business Education Publishing Co., 1994 (in Japanese).
18. Muenstermann, Hans, "Der Veroeuserungspreis des Betriebs," *Schweizerische Zeitschrift fuer Kaufmaenisches Bildungswesen*, 4 Jg., 1953.
19. Okada, Ellie, "Issues in the International Comparison of the Net Worth Ratio", Working Paper Series No. 103, Yokohama National University, Faculty of Business Administration, 1989.
20. ____ "The Accounting Environment and Accounting Structure which contributed to the Japanese Rapid Economic Growth," *Administrative Behavior*, Vol. 8, No. 2, 1993 (in Japanese).
21. Patrick, Hugh T., *The Relevance of Japanese Finance and its Main Bank System*, in Aoki, M. and P.

Hugh eds. *op. cit.*, 1994.

22. Sheard, Paul, "Main Bank System and Structural Adjustment," Pacific Economic Paper, Canberra, 1985.
23. Shohet, Jack and Richard Rikert eds., *Accounting Trends & Techniques*, New York: AICPA, 1987, 1989.
24. Tajika, Eiji and Yuji Yui, "Comparative Analysis of Taxable Income between Japan and the US- Analysis using the Concept of Economic Income-," *Zeikeitsushin*, Vol. 51, No. 9 (July 1996) (in Japanese).
25. Yonezawa, Yasuhiro and Seiji Miyazaki, "Corporate Governance Productivity of Enterprises in Japan," in: Tachibanaki, Toshinori and Yoshiro Tsutsui, *Capital Market in Japan*, Nihon Hyoronsha, 1996 (in Japanese).

Appendix

Manuals for Banks' Monitoring and Screening

1. Ikeuchi, Tokuji, *Analysis of Investment Plans and Techniques for Monitoring*, Ginko Kenshu-sha, 1976 (in Japanese).
2. Imai, Isamu, *Techniques for Management Analysis*, Ginko Kenshu-sha, 1990 (in Japanese).
3. Nashiki, Juji, *Comprehensive Analysis of Company's Credit*, Kinyu Zaisei Jijo Kenkyu-kai, 1972 (in Japanese).