

Abstracts

Consideration about the Internal Control in the Japanese Version SOX Method

Hong Hounghyeob

Japan's version of the US Sarbanes-Oxley Act, or J-SOX, will take effect in April 2009. J-SOX addresses the construction, assessment, and operation of internal controls. The internal controls that are the focus of J-SOX are those related to financial reporting, and the purpose of J-SOX is to protect shareholders.

Various provisions concerning internal controls have been announced, and companies are working to implement (document) and assess the effectiveness of internal controls. However, the lack of a clear direction with regard to internal controls has resulted in confusion at many companies.

In examining this problem, this paper sheds light on the following points: 1) Classification of internal control definitions, and international trends with regard to internal controls; 2) Provisions related to internal controls; 3) Approaches and problems in implementing internal controls; and 4) Approaches and problems in assessing internal control effectiveness.

Internal controls are defined differently depending on the target of their application. In general, there are internal controls targeting overall company management and operations, internal controls for management oversight and supervision of employees, and internal controls addressing the management of financial reporting and the preparation of financial reports. Internal controls were adopted in the UK, France, Canada, South Korea, and numerous other countries following the release of the COSO Financial Controls Framework in 1992 and the passage of the Public Company Accounting Reform and Investor Protection Act of 2002 (SOX) in the US.

The adoption and assessment of internal controls involves the designation of an assessment scope for internal controls, and the implementation of companywide controls, financial closing and process controls, operational process controls, overall IT controls, and IT operational controls. Assessment processes involve the performance of risk assessments and documentation work that includes the designing of control activities for reducing risk. As tools for this process, operation flowcharts, operation descriptions, and RCMs are prepared. At the same time, related provisions and rules are laid out.

Once documentation is completed, effectiveness assessments are performed. Effectiveness assessments are largely divided into those addressing the question of whether controls exist, and others targeting their implementation. The former is an assessment of internal control design. The latter involves the

performance of sample-based control implementation assessments by a third-party with no connection to operations. Remedial actions are taken when deficiencies are discovered, and material defects are identified and corrected. Lastly, management announces the results of internal control effectiveness assessments at the end of each fiscal year.

This paper uses case studies to shed light on the items mentioned above. It must be noted, however, that because internal controls differ by industry, business type, business size, and company characteristics, the findings of this paper cannot be considered universal.

Employee Satisfaction and Positive Enterprise Risk Management

Hiroshi Iwade

In the past, risks were generally held to be a factor that imparts a negative influence on the achievement of business objectives, and risk management has traditionally referred to actions taken to control business losses by avoiding or suppressing risks, and, thereby, preventing downturns in earnings. Now, however, risks have come to include not only the threat of loss, but also the chance of favorable impacts on earnings – a “positive risk” like that which could accompany an initiative like entering a new business. And risk management, as “Enterprise Risk Management,” is now defined as activities aimed at increasing corporate value by managing risks through rational, optimal approaches exercised from a companywide perspective to maximize returns. Risk management, therefore, has been redefined as integrating two subsystems – “defensive risk management,” in which risks that threaten corporate value are avoided or controlled, and “positive risk management,” in which risks consisting of opportunities to increase corporate value are actively accepted.

Starting from that perception of risk management, this paper focuses on responses to operational “human risks” to the performance of business activities and examines two aspects thereof – “defensive human risk management” and “positive human risk management” – from the perspective of human resource management theory. The key concept in this examination is “employee satisfaction” – the idea that if employee dissatisfaction increases, human risk increases, and, conversely, if employee satisfaction increases, it becomes possible to expect positive contributions to corporate earnings through enhanced employee performance.

The Role of the Summary Information Return and Current Issues Regarding Reforms in the Financial Reporting System for UK Charities

Osamu Furusho

This article focuses on the Summary Information Return (SIR), which has been newly added to the Annual Return, which itself is intended to supplement, and promote the public's use of, the Annual Report and Accounts in the UK's financial reporting system for charities. The purpose of this article is to provide an overview of: 1) The significance and role of the SIR as a disclosure medium; 2) Developments resulting in the SIR's implementation; and 3) SIR disclosure content. In researching performance reporting by not-for-profit organizations, this article examines, as an early example of performance reporting improvement, SIR disclosures by UK charities, which were adopted to allow charities to tell their own stories in their own words, and considers issues regarding the status of performance reporting by not-for-profit organizations.

The primary purpose of SIR disclosures is to make information on activities and achievements of charities instantly available to the public, and to promote broad public understanding by improving the quality of information. These new developments in the reform of financial reporting in the UK are a hint that directors and managers of not-for-profit organizations have begun to focus on not only traditional budget and forecast, but also measuring and disclosing organizational performance related to financial inputs – in other words, outputs, outcomes, and impacts on what charities are trying to achieve. The SIR shines a light on how charities measure their performance, the kinds of improvements they plan, and the impacts of charities have. In so doing, it provides a framework for disclosing to the public qualitative and quantitative summary information on the activities of charities.

The Meaning and Significance of Toilet Cleaning Activities in New Employee Training

Shin Ohmori

This research focuses on companies that have made toilet cleaning into a significant training activity, and, using survey data on new-employee training, aims to elucidate the meaning and significance of having new employees clean toilets. More specifically, this research explores the necessity of toilet cleaning in particular among the cleaning activities companies devote so much attention to. It focuses on the meaning and significance of having new employees, in particular, clean toilets. In terms of the meaning of cleaning, it examines the behavioral characteristics cleaning nurtures within young employees, and, turning to the significance of cleaning activities, it looks at the effectiveness these behavioral characteristics engender for companies and employees.

The results of this research show that continued toilet cleaning, in particular, develops certain behavioral characteristics in new employees. These characteristics consist of heteronomy, or abiding by rules, and autonomy, or acting on one's own initiative. Results also showed that the rapid development of these two behavioral characteristics, which seem at first glance to be contradictory, has effectiveness for both companies and individuals. Specifically, for companies, it makes less likely the development of dysfunction of bureaucracy, highlighted by Merton, and makes possible the lowering of management costs, including those for human resource development and supervision. In terms of effectiveness for individuals, results revealed the development of confidence and a sense of fulfillment, and easier adaptation to a new environment.

This paper argues that autonomy and heteronomy, rather than being contradictory behavioral characteristics, must, in fact, accompany one another to permit the realization of the benefits of each.

An Examination of the Concept of Human Resources in Drucker's Theory

Tetsuya Takahashi

A review of changes in management theory shows that individual theories are based on perspectives on organizations and people that differ depending on the theory. These perspectives function not only as premises for theories, but also as yardsticks in comparative research. As theoretical premises, these perspectives are abstract concepts that extract the recognition of organizations and people from management as a research focus. These concepts form the bases for the development of logical constructs, one example of which is human resource management. To date, very little if any research addressing perspectives on people within human resource management theory has been performed.

Human resource management theory is a field in which subjects, objects, purposes, systems, etc. within worker management are researched, but most of human resource management theories have been developed as extensions of personnel management. The concept of human resource management can be seen to have been introduced into personnel management and to have been transformed into a theory. It is thought, however, that perspectives on people, which underpin the concept of human resources, should be debated.

This paper examines Peter F. Drucker's view of human resources, which played a critical role in the initial development of the concept of human resources. The concept of human resources is thought to have emerged as an academic focus in the 1950s. At about the same time, Drucker was carrying out research on human resources. This paper, then, looks at how Drucker interpreted human resources and structured human resources as a concept. It also examines the modern significance of Drucker's concept of human resources in light of human resources in their current form.

