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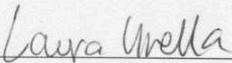
Coordinatore: Prof. Massimiliano Mazzanti

**Soft Regulating Intangibles Reporting
in Japan and Germany:
Rationales, Processes, and Consequences**

Settore Scientifico Disciplinare SECS/P-07

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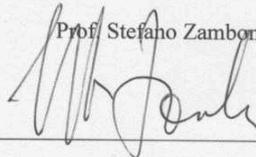
Dott. Laura Girella



(firma)

Tutore

Prof. Stefano Zambon



(firma)

Anni 2010-2012

Soft Regulating Intangibles Reporting: Rationales, Processes, and Consequences

Laura Girella

Abstract

The thesis aims to explore the economic, political and social premises according to which some governmental agencies have decided to promote Intellectual Capital (or Intangibles) Reporting in their countries. Firstly, it will examine the contextual premises and conditions that have encouraged (or inhibited) Intangibles reporting. Secondly, it will investigate the way these premises and conditions interact in different ways, through the actors involved, both within and outside countries, thus establishing (loosely) coupled relationships nationally and internationally. The relationship between IC recommendation for corporate reporting, governmental and contextual linkages will be analysed from different perspectives, namely political economy, legitimacy and institutional theory (Chapter 2) and in dis(similar) countries, namely Japan (Chapter 3) and Germany (Chapter 4). The investigation has been mainly centred on the examination of documents published by governmental agencies, and a number of interviews with high-level individuals, many of whom were directly involved in the development of the reporting practices in question. In light of the relationship that the thesis will establish between different regulatory theories and ways of conduct in (dis-)similar nations (Chapter 5), IC will be understood not as a merely corporate neutral technique but as an economic and socially constructed phenomenon aimed at re-launching the growth of a country. This way, it will be explored from both within – in terms of methods and their usefulness for its “supporters” – and also externally – in relation to how it is perceived and in turn communicated by politicians who are “delegates of different cognitive and social institutions” (Manninen, 1996). In other words, its potential to serve public interest will be here advocated.

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CHAPTER ONE

SOFT REGULATING INTANGIBLES, ENABLING ACCOUNTING, SERVING PUBLIC INTEREST: AN UNEXPLORED CONNECTION?

1.1. The enabling accounting project

The conceptualization of accounting as being imbued also in social and political dimensions, beyond its technical one, has made its entrance on the accounting research stage at the beginning of the 1980's (Burchell et al., 1980; Burchell et al. 1985). Interrelationships such as "accounting, organizations and society" have become widely acknowledge within the accounting research arena. Despite these developments, the efforts made towards a recognition of accounting as a theoretical and practical device able both to being shaped and to actively shape the reality it emerges from, have been minimal. In this respect, since the end of the 1900's, calls have started to be realized to face this deficiency. In particular, Gallhofer and Haslam (1997), launching several criticisms to the existing research within the critical accounting approach, delineate a new possibility, that is what they referred to as *enabling accounting*. Aim of this "project" is to expand the concept and prospects of accounting towards a notion and an implementation able to capture those dimensions of human reality often (more or less willingly) neglected. They state:

'our vision [...] is consistent with a questioning of accounting through and through in the name of the more meaningful role it can have in securing and enhancing well-being' (ibid, p. 83).

Concurrently, Broadbent et al. (1997), explore the tendency of critical accounting research to disenable existing accounting research and practices and call for set of more constructive perspectives that still have to be investigated and that should be addressed in

the name of the enabling accounting project. Roslender and Dillard, in a later work (2003), reframe the aim of the “enabling accounting project” in the following way:

‘The challenge of an enabling accounting is to move beyond providing insightful and incisive critiques of accounting to attempting to make accounting work as a positive force in the pursuit of democratic, in the sense of universally inclusive modes, social progress’ (ibid., p. 341).

What appears to be significantly explicated in the excerpts above reported is a failure occurring within the existing accounting research, especially in the critical one, to address in a more comprehensive way the needs of individuals and the community in its variety, towards their betterment. Over the last years, several papers have responded to this call. They have mainly addressed to oppressed and often silenced people (Broadbent and Laughlin, 1994; Broadbent, 1998; Cooper, 1992), research methodologies developed by them (McNicholas and Barrett, 2005) or communication mechanisms to voice them (Paisey and Paisey, 2006). If, however, the aim of enabling accounting is to extend the potential of accounting both in theoretical and practical terms, it is here advocated that an effort should also be done to extend the scope of enabling accounting to “oppressed” *concepts* and *resources*. In this respect, few contributions have been made and they have been limited to an acknowledgment of the neglected status of those *concepts* and *resources*. Nothing is said about their possibilities of *vengeance*. An example is provided by Roslender and Fincham. In two related works, they depict a relationship between accounting and Intellectual Capital (IC)¹. In particular, accounting is seen in “functional terms” in relation to IC. At first, (Roslender and Fincham, 2001) they recognize that accounting serves as a means through which IC is allowed to speak for itself. In a later work, they further develop these aspects in relation to accounting profession, detecting how the interest in IC practices is highly connected to their will to enlarge their jurisdictional power (Fincham and Roslender, 2003).

The rationale of the thesis lies on this paucity. It draws on IC and intangibles reporting being conceptualized as Non-Generally Accepted Accounting Principles (Non-GAAP)

¹ Intellectual Capital and intangibles will be here used as synonymous, in reference to the broader meaning of intangible resources. The differences between their notions are not topic at stake in the thesis.

and seeks to pave the way for their understanding as means adopted by governments² to enhance the competitiveness and “managerialisation” of companies in the national public interest.

The argument for the former course is here related to the underdevelopment in terms of technicalities these concepts and resources are facing and (consequently) whose link to practice is often questioned (Dumay, 2009; Guthrie et al., 2011). The related international accounting standards, IAS 38, maintains a very conservative attitude towards the definition and recognition of intangibles on the face of the balance sheet. Indeed, all the internally generated intangible assets – with the only exception of development expenses under certain circumstances – cannot be exposed in company accounts. In business combinations (IFRS 3) only intangibles can be recognized and measured as a consequence of the need for attributing economic sense to the difference between the acquisition price and the fair value of the net assets of the acquired entity. This recognition process of intangibles is the consequence of the opening up of the “goodwill box”.

Therefore, according to this condition of scarce representation in the traditional “accounting craft” (Hopwood), and using Miller’s words (1998), intangibles (reporting) could similarly represent a case of accounting “at the margins”. Like in the examples of cost accounting and discounting techniques, it embodies a device originated as a result of a *problematization* process of existing accounting practices, that is a lack of information at first in relation to companies’ personnel in traditional financial statements, that has been later extended also to other parts of the company. Interestingly to note, the agents that have initiate questioning the deficiencies of the accounting practices derive from a wide-range of professions, such as the academy, consultancy and other practices and are located all over the world (Appendix 1). In this respect, it has been pointed out that:

‘a use value for accounting that had been heroically invented for it in the 1930s (and was probably always suspect) was now in crisis. And with this crisis, so too was the jurisdiction of accountants newly threatened by brand valuers, human resource specialists, and anyone else who put the need to open the black box of

² Although it is here acknowledge that is the term “state” that better embraces the needs of society (Cooper and Morgan, 2012), the term “government” is adopted in the thesis, in that the key-actors in the Intangibles Reporting recommendation process are essentially Ministries.

Goodwill above any scruples about measurability and auditability' (Power, 2001, p. 691).

The acknowledgement and the belief of the existence of a pitfall in the accounting representation of economic and financial episodes within the company has shortly followed its genealogy. A broad consensus has been reached both at the academic and practitioners' levels, in terms of research and implementation.

It is right on this "marginalized" connotation that rely the reasons for the argument hold in the thesis, that is the exploration of the rationales, processes and consequences of new perspectives through which intangibles reporting can be investigated. As argued by Hopwood (1990), a decoupling between accounting concepts and practices enables possibilities for extending the margins of accounting. This way, the thesis will adopt an alternative point of view, that is the one of governments and analyse the ways they have been (more or less) directly involved in the recommendation of IC/intangibles related practices, especially its reporting one, for the public interest of their countries.

1.2. If Accounting goes public, what about non-accounting?

The second and main aspect that characterizes the thesis, beyond the recognition of intangibles reporting as marginalized *concepts* and *resources* as outlined in the above section, is the justification that they can found in the public interest sphere.

In the first editorial of *Advances in Public Interest Accounting*, Neimark (1986) recognizes that to identify the origins of public interest in accounting, it is necessary to go back to the 1960's and to rely on two different facets that constitute its connotation, namely public interest accounting and social accounting. The former refers to the foundation of a non-profit professional body which provides assistance towards the needs of disadvantaged people. Created in the 1970's by the hand of Morton Levy, it is an organization that despite the difficulties encountered (Skousen, 1982) still nowadays is maintaining its activities. On the website of the New York State Society of CPA it is possible to read:

‘Accountants for the Public Interest (API) is a national nonprofit organization through which volunteer accountants donate their time and expertise. API assists small and start-up businesses, nonprofit organizations, charities, and low-income individuals.’ (The New York State Society of CPA website, available at <http://www.nysscpa.org/cpajournal/1997/0597/newsviews/nv8.htm>)

The second relates to the inclusion of social issues in traditional financial statements. Despite these first attempts to site public interest in the accounting domain, over the years the tendency has been to marginalize such aspects and to create a dichotomy between a) public interest and social accounting b) public interest, social accounting and what is referred to as “proper accounting”. Evidence for this separation has been found for regulation, among others contextual factors, as the one, if not the principal, to be blamed (Benston, 1985). In more recent times, several efforts have been realized towards the reconciliation of this dichotomy. Neu and Graham (2005) try to unlock the black box of the interconnections between accounting and public interest, promoting research approaches able to capture their multi-faced nature. Dellaportas and Davenport (2008) subordinates the attainment of a public interest by the accounting profession and professionals to the pervasiveness of the concept. Although widely recognized, they point out that public interest is rarely well-defined and especially lacks of practical implications. This way, the authors, drawing on the typologies of public interest detected in political science (Cochran, 1974), propose a framework based on a correspondence noticed between those (theoretical) categories, pronouncements and announcements on public interest.

However the advances above reported, as stated by Cooper and Morgan (2012):

‘Despite several attempts over the years, there is no explicit and agreed view about the purposes of accounting or how we might identify and act on a public interest role.’ (ibid, p. 3)

In a similar vein, what can be said with reference to non-accounting aspects, such as Intellectual Capital and intangibles? Is it possible to state that these concepts and the related practices move in the public interest or not? And if so, where do their roots lie and which are the devices employed to conceive them as such?

1.3. Soft Regulatory Theories in Accounting (Public Interest)

The quest for regulatory theories able to capture the public interest nuances of accounting devices has been a topic long debated in the literature. As reported above, since the emergence of public interest as a field to be conceived of as highly interrelated with accounting, regulation has somehow represented an impediment towards the celebration of this junction. Consequently, several proposals have been offered to restore a positive image, even if, in the name of the *professional* connotation that characterizes the concept, most of them targeted professional bodies (Sikka et al. 1989; Parker, 1994; Lee, 1995; Canning and O'Dwyer, 2001; Baker, 2005). The premise of the thesis goes a bit further. It takes the view of regulation in the public interest in the original and traditional form of governmental actions in their own. In particular, reference is made to "soft regulation". Following the use that this term has acknowledged by constituencies, such as the European Commission that defines it as 'joint opinions, declarations, resolutions, recommendations, proposals, guide-lines, codes of conduct, agreement protocols and agreements proper' (European Commission, 2000, p. 17), it is here similarly conceived of. Indeed, the analysis here undertaken mainly refers to Guidelines formulated and published by the Ministry of Economy, Trade and Industry in Japan and the Federal Ministry of Economy and Labour (and Technology then) in Germany in relation to intangibles reporting. The advantages of adopting this term to investigate regulation in the public interest are better explicated in comparison to "hard regulation". Sisson and Marginson (2001) delineate the two dissimilar features as follows:

- "soft" regulation tends to deal with general principles, whereas 'hard' regulation is concerned with specific rights and obligations;
- 'soft' regulation, where it does deal with rights and obligations, tends to be concerned with minimum provisions, whereas the equivalent 'hard' regulation involves standard ones;
- 'soft' regulation often provides for further negotiation at lower levels, whereas 'hard' regulation tends to assume the process is finished - following French usage, 'hard' regulation might be described as *parfait* or *complete* and 'soft' regulation as *imparfait* or *incomplete* (for further details, see UIMM, 1968: 94);

- ‘soft’ regulation relies on *open-ended processes* such as bench marking and peer group audit, with monitoring and ‘moral-suasion’ for enforcement, whereas ‘hard’ regulation tends to rely on *sanctions*;
- ‘soft’ regulation, in as much as it takes the form of ‘recommendations’ or ‘opinions’ or ‘declarations’, might be described as *permissive*, whereas ‘hard’ regulation is almost invariably *compulsory*;
- ‘soft’ regulation tends to be concerned with *soft* issues such as equal opportunities or training and development, whereas ‘hard’ regulation deals with *hard* ones such as pay and working time” (ibid, pp. 4-5)

Put it differently, “soft regulation” embodies a flexible mechanism through which governments enact lines of actions articulated in concert with their audiences, concerning a betterment of their economic, political and social status and towards which, those impinged, possess an arbitrary degree of approval. Accordingly, the theories which form the framework for the analysis are those that in social sciences, mainly in accounting, allow an understanding of the macro dynamics of a Country, taking in consideration also the interrelationships with the micro context. In other words, the path towards the adoption of certain (business) practices have not to be conceived of as stemming from the coercive nature of the public authorities but from their capacity of making their proposals acceptable and relevant to the interests of their constituencies, especially at micro level. Drawing on the above observations, the theories chosen to analyse the two case studies are Political Economy, Legitimacy and Institutional. Indeed, firstly they all relate to the recommendation of certain attitudes whose origins derive from contingency situations. In general and simplistic terms, for Political Economy the origins are contextual (broadly intended as political, social and economic environment), for Legitimacy the origins derive from society and for Institutional from entities which are facing analogous situations.

Consequently, the actors that are bearers of the respective interests (in this case governments) do represent *vehicles* for the achievement of *supra* national objectives and not of their vested interests. Although this view could result naïve, it is recognized that governments’ interventions, whether in the name of the public interest, cannot always correspond as being ‘regulative and amenable to substantive justification’ (Laughlin, 2007). However, the thesis will be based on this assumption.

1.4. Objectives, contribution, and method of research

So far it has been pointed out the developments which accounting theories and practices went through over the last years to better encounter the needs of the context they emerge from. Notions such as “enabling accounting”, “public interest” and “soft regulation” have been identified as those key ones which allow an understanding of that path. However, insights into a possible parallelism with non-accounting issues, especially with intangibles and intangibles reporting, have also started to be depicted.

In keeping with the trend of these thoughts, the thesis intends to contribute both to the existing literature and practice of non-accounting in two ways. Firstly, by illustrating if and how intangibles (reporting) can be conceived of as a public interest device. Theoretically, it aims at taking the distance from the plethora of studies that investigated intangibles reporting at a merely micro (organizational) level and at demonstrating its micro validity as arising from a macro (governmental) perspective. In particular, the research questions that give birth to this analysis are:

- a) How come that a business reporting technique, i.e. intangibles reporting, has become of (policy) interest?
- b) What are the rationales, the processes, the actors, and the outcomes?

A second theoretical contribution relates to the choice of a comparative case study investigation, and more specifically to the two countries examined. Notwithstanding the adoption of comparative case studies vis-à-vis the analysis of individual national systems has been recognized as problematic (Arnold, 2009b; Power, 2009), the advantage of embracing a comparative method is twofold. First, it enables an investigation of the conditions of possibility for an application of ICR that exist in countries belonging to the same “variety of capitalism” (Hall and Soskice, 2001). In particular, it is linked to the participation of various sections of governments in the corporate reporting arena (e.g. the Ministry of Economy, Trade and Industry in Japan; firstly the Federal Ministry of Economy and Labour and then the Federal Ministry of Economy and Technology in Germany) and their efforts towards the recommendation of ICR. Second, this focus will allow us to shed light on the role of the State, which – in the judgment of Hancké (2009) – is overlooked in the varieties of capitalism approaches.

This way, it is here explored to what extent two countries, namely Japan and Germany, which undertook the same policy measure (intangibles reporting Guidelines), and which belong to the same “variety of capitalism” (Hall & Soskice, 2001), can differ in their policy actors, processes and outcomes towards a similar issue. More specifically, it is investigated how and to what extent two sovereign governments have entered in a new corporate reporting arena.

From a methodological point of view, the approach adopted is qualitative in nature. It employs a singular type of discourse analysis, namely Critical Discourse Analysis, to examine the Introductions of the Guidelines formulated and published by governmental agencies, together with other official documents (flyers, press releases and others), where available. This method has been accompanied and enhanced by semi-structured interviews hold with some of the actors involved in the preparation and recommendation’s processes. The same type of methodology, although with different declinations, is used in both the case studies. This is considered appropriate in the light of the investigation of the similarities and differences existing among countries that have been categorized in the “capitalism literature” as equals.

1.5. Organization of the Thesis

The thesis is structured as follows. In Chapter 2 a review of the existing “soft” regulatory theories that have been developed in social sciences in relation to accounting from the viewpoint of the interrelationship between macro and micro perspectives, that is Institutional Theory, Political Economy and Legitimacy Theory is offered. Amidst these theories no a specific one has been pre-selected in order to conduct the analysis of the case studies. On the contrary, the aim is to provide a comprehensive description, by means of a parallelism between the evidence found in accounting, non-accounting research. This way, it paves the way for “testing” the most appropriate one for understanding the rationales, processes and outcomes of the recommendation of intangibles reporting by Governments, beyond offering one of the first attempts of parallelism. Thus, the philosophical roots that explain the thesis are to be identified in the inductive approach. In Chapter 3 the Political Economy framework is applied as explanatory theory for the understanding of the underlying logics and processes

according to which the Japanese government decided to recommend intangibles reporting practice in the Country. In Chapter 4, a particular theory within the institutional arena, that is the “logic of appropriateness” is employed to elucidate the case of intangibles reporting recommendation in Germany. On the basis of the analysis conducted it is found that *soft* regulatory theories can be used as alternatives to organizational ones in order to understand intangibles reporting in those countries where there has been a governmental involvement. In other words, this type of reporting practice can also be conceived of as a public interest device.

In Chapter 5 the observations attained in the two case studies are reviewed in comparative terms. Firstly, the attitudes of Japan and Germany in relation to intangibles reporting are illustrated from the point of view of their capitalistic system. The similarities and differences existing in both countries are examined. Secondly, the theories that have been presented in Chapter 2 as isolated ones are found to enhance their exploratory and explanatory power when putted in convergence. Interestingly to note, the predominance that a theoretical framework encounters in elucidating a case study do not have to be conceived of in absolute terms. Other theories act on the background. Although this is an aspect acknowledged, especially within the non-accounting arena, few studies have provided empirical justification.

Finally, Chapter 6 describes the implications and most especially the prospects for intangibles reporting regulatory research.

APPENDIX

Time line of the origins of Intellectual Capital

1980	Itami publishes " <i>Mobilizing Invisible Assets</i> " in Japanese
1981	Hall establishes company to commercialize research on human values
1986	Sveiby publishes " <i>The Know-How Company</i> " on managing intangible assets
April 1986	Teece publishes seminal paper on extracting value from innovation
1988	Sveiby publishes " <i>The New Annual Report</i> " introducing "knowledge capital"
1989	Sveiby publishes " <i>The Invisible Balance Sheet</i> "
Summer 1989	Sullivan begins research into "commercializing innovation"
Fall 1990	Sveiby publishes " <i>Knowledge Management</i> "
Fall 1990	Term "Intellectual Capital" coined in Stewart's presence
Jan. 1991	Stewart publishes first "Brainpower" article in <i>Fortune</i>
Sept. 1991	Skandia organizes first corporate IC function, names Edvinsson VP
Spring 1992	Stewart publishes "Brainpower" article in <i>Fortune</i>
1993	St. Onge establishes concept of Customer Capital
July 1994	First meeting of Mill Valley Group
Oct. 1994	Stewart authors " <i>Intellectual Capital</i> " cover article in <i>Fortune</i>
Nov. 1994	Sullivan, Petrash, Edvinsson decide to host a gathering of IC managers
Jan. 1995	Second meeting Mill Valley Group
May 1995	First Skandia public report on IC
April 1996	SEC symposium on measuring intellectual/intangible assets
Sept. 1996	Sullivan and Parr's book, " <i>Licensing Strategies</i> ", is published
Oct. 1996	Lev founds intangibles research at New York University
Mar. 1997	Sveiby publishes " <i>The New Organizational Wealth</i> "
Mar. 1997	Edvinsson and Malone's book, " <i>Intellectual Capital</i> ", is published
April 1997	Stewart's book, " <i>Intellectual Capital</i> ", is published
June 1997	Hoover Institution Conference on measuring intellectual capital
March 1998	Sullivan's book, " <i>Profiting from Intellectual Capital</i> ", is published

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CHAPTER TWO

ON “SOFT” REGULATORY THEORIES: A LITERATURE REVIEW

2.1. Introduction

The need to extend the understanding of regulatory theories has been broadly claimed in accounting research literature over the past twenty years. Especially within the critical approach, the tendency has been to “trespass” the positivistic viewpoint delineated by Watts and Zimmerman (1979) and explore innovative approaches. Following this line of thought, Merino and Neimark (1982) offer a “socio-historical reappraisal” and contend that the perspective through which the securities acts have to be conceived of goes beyond the merely economic thought and lies on social and political roots. Indeed, the implicit aim of the SEC was to perpetuate, if not empowering, the “existing system and its institutions” (ibid, p. 49). Among others, Laughlin and Puxty (1983) in relation to the raise of importance of standard setters, propose an alternative framework for the understanding of accounting regulation centred on *worldviews*. According to this perspective, the base for the analysis is not more the individual as interest (self)-seeker but the individual as part of a society, who share values and who is able to change his or her position with reference to different values. Consequently, an agreement between dissimilar points of view is not that impossible, as advocated by writers so far. Willmott (1984) in commenting the paper, acknowledge the advantages deriving from their proposal but suggests a better explanation of the social structures that forms the bases of the emergence of dissimilar values. Puxty et al. (1987), drawing on the three organizing principles identified by Streeck and Schmitter (1985), namely Market, State and Community, analyse and try to locate the modes of accounting regulation of four countries. Evidence is provided for a conceptualization of accounting regulation as derived from the intersection of the principles.

Interestingly to note, the contributions above reported, although far from being comprehensive, cast light on first efforts spent by academics to bring into consideration

within the regulatory arena also the social and political dimensions. However, this trend has been residually followed, especially with reference to non-accounting issues. Accordingly, aim of this chapter is to offer a review of “soft” regulatory theories that can be embraced to elucidate the underlying reasons, processes and implications in relation to which governments have decided to directly (or indirectly) support and promote the adoption of intangibles reporting. The choice of three theories, namely Political Economy, Legitimacy and Institutional, follows from the justification that they also find at a “macro” point of view. Conversely, theories merely enlightening “micro” perspectives, such as Stewardship Theory are beyond the scope of the thesis. In an attempt to provide a more articulated review, the description of the developments occurred for each theory has been in turn subdivided into three sections, that are an introductory paragraph about the fundamentals, and evidence that the theoretical frameworks have found both in accounting and with reference to non-financial reporting (broadly understood as social, environmental and intangibles one). A conclusive table (Table 2.1.) synthesises the principal aspects that characterize each theory and their different declination in accounting and non-accounting. This way, a prompt comparison between them is allowed, before approaching the case studies.

2.2. Fundamentals of Political Economy

“In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of their material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the general process of social, political and intellectual life. It is not the consciousness of men that determines their existence, but their social existence that determines their consciousness.”
(A Contribution to the Critique of Political Economy, 1977, p.1)

This excerpt from the Preface to “A Contribution to the Critique of Political Economy” (1977) can represent the fundamentals of the Marxian perspective of political economy. Although it is acknowledge that this approach laid its original roots on the works of

Adam Smith and David Ricardo, the aim of this section is to briefly review the main principles on which the modern accounting and non-accounting research arena centred their developments. They are indeed, Marxian political economy as representing the classic approach and Mills' political economy as embodying the bourgeois perspective.

As illustrated above, the classic point of view relies on a materialistic perspective of men relations, that is they are based on the modes of production. In other words, the construction of the society, or what has been referred to as "superstructure" is based on economic activities. Given this association, the advancement, in terms of technological development, of the modes of production lead to an increase of the gap between social classes and as a consequence to class struggles.

In particular, two main conflicting social classes are identified, namely proletariat, represented by those performing the highly-productive mechanized and socialized production and the bourgeoisie, a minority embodied by those private owners who take the appropriation of the surplus value or profit produced.

Mills (1848), chronologically precedent to Marx, represents a particular facet of political economy, that is its bourgeois perspective. Conversely to traditional political economy, he advocates a "cost-of-production" conception of exchange value abandoning the dichotomy among use-value and exchange-value and proposing a study centred on price. This way, he maintains that wealth in and of bourgeois society has not to be understood, as it is given. Indeed, he rejects labour theory of value and recognizes all production factors a proportional share in the formation of value. Consequently, wages are considered as corresponding to amounts deserved by labourer.

2.2.1. Political Economy and Accounting

The approach to study accounting processes and problems "wearing political economy lenses", finds its roots in four pioneering works in this area (Tinker, 1980; Cooper, 1980; Cooper and Sherer, 1984, Arnold, 2009a). The intention here is to review them, with the aim to highlight its connotations, developments and shortcomings³. Tinker (1980), in

³ Although I am aware of the streams of research about "pure" political economy (Weingast and Wittman, 2006), the choice here is to limit the review to the political economy of accounting approach, in order to better examine its developments and shortcomings that can be highlighted by the adoption of this framework in relation to ICR.

illustrating an alternative approach to accounting, argues that neoclassical marginalist economics fails to fully explain how income is determined and distributed, as it focuses merely on one dimension of capital, such as production. In his thoughts, it is indeed relevant to shed light and take into consideration a further dimension, that is the “social relations of production”. By this term he identifies the “various social institutions” which “ensure that rights and obligations can be pursued and enforced” (Tinker, 1980, p.154). As a consequence, these relations are at the basis of an understanding of economics performance. He offers a comprehensive explanation of these pitfalls of neoclassical, marginalist economic theories in a later work (1984). Embarking the debate about the explanatory power of the economic perspective for financial disclosure regulation and the consequent need for a socio-political enlargement (Cooper and Keim, 1983), he reviews theories on State regulation and recognizes two main deficiencies to be addressed, that are “economic reductionism” and “political voluntarism”. The first term depicts the plethora of economics concepts used to elucidate different events. The second one refers to the lack of attention paid to the associative power of the society structure and the subsequent emergence of conflicting classes. In other words, not only individuals are moved by self-seeking interests but also the category they belong to in society. Following on this, the connotation of the neoclassical model can be derived from: a) the recognition of a mutual relationship between the economic and accounting realm but an univocal one from b) the political to the accounting dimensions and c) the economic to the political ones. Herein lies the difference with the radical (political economy) theory, that acknowledges on the one hand the reciprocal link among economy and policy on the other one the influence of social conflicts on them and (through them) on the lives of individuals.

Cooper (1980) in a review of the work by Tinker (1980) launches several criticisms to the way in which he outlines the relevance of a political economy approach to accounting. The most relevant one is that in describing the forms that constitute capital, the author fails to refer to a significant one, according to Cooper, such as “knowledge”. In fact “such an extension would open up the important dimension of where capital (e.g. knowledge) originates [...]. I suggest that a political economy approach to the construction of capital in an economy might be another means of illustrating the advantages of that approach” (Cooper, 1980, p. 162).

In a second paper, Cooper and Sherer (1984), in relation to the call for accounting research to investigate the organizational and social implications of accounting (Burchell et al., 1980) reconsider the topic to enlarge the domain of accounting, linking it to the context in which it operates. Specifically, they suggest that “a political economy of accounting [...] recognizes the institutional environment which supports the existing system of corporate reporting and subjects relating to critical scrutiny those issues [...] that are frequently taken for granted in current accounting research” (Cooper and Sherer, 1984, p. 208). In doing so, they widen and at the same time specify what is meant for the “political economy approach of accounting”, identifying three facets that constitute it. The first one, already referred to by Tinker (1980), is the relationship that exists between accounting and power and conflict in society, according to which interests and value are not equally distributed in society and of the consequence of accounting reporting operating in accordance to specific élites or classes. A second one refers to the relevance of the historical and institutional context in which accounting is located, recognizing particular attention to the central role of the state in “managing the economy” (Cooper, 1980, p. 218). Finally a third facet that is worthwhile to take into consideration is the capacity to conceive people as able to shape or limit accounting practices. In this general picture of the literature on the political economy of accounting a focal point is also played by dominant ideologies, able to influence accounting policies and as a consequence accounting practices. Arnold and Hammond (1994), examine the divestment debates that occurred in South Africa and the power that ideology has in perpetuating the view of opponents in relation to the use of corporate social disclosure. Hammond et al. (2009) demonstrate how racial ideologies can still be a determinant in establishing a professional closure in countries, such as South Africa, where political freedom is (formally) advocated.

The characteristic of such an approach in emphasizing the role of the “infrastructure” of an economic system in relation to the adoption of business practices at the international level, is further demonstrated by Bryer (1999b), Perry and Nölke (2006) and Arnold (2012). Originated in a proposal of a Marxist critique of the FASB’s conceptual framework (Bryer, 1999a), which has been highly debated (Macve, 1999; Robson, 1999; Samuelson, 1999; Tinker, 1999; Whittington, 1999), accounting is found to be explained also through political economy lenses (Bryer, 1999b).

Perry and Nölke (2006), addressing the adoption of fair value accounting in different countries argue that such an implementation is not an “easy going process”, as it depends on its economic, social, and political circumstances. Proposing the example of Anglo-Saxon countries and Germany, the authors demonstrate this statement. While on the one hand in Anglo-Saxon countries, belonging to a Liberal Market Economy (Albert, 1991; Hall and Soskice, 2001) “the introduction of the FVA paradigm is compatible with, and complementary to, existing political-economic arrangements” (Perry and Nölke, 2006, p. 569), on the other hand in Germany, which belongs to Coordinated Market Economy (Albert, 1991; Hall and Soskice, 2001), “the rise of FVA has more disruptive consequences” (Perry and Nölke, 2006, p. 569). Arnold (2012) goes back to the east financial crises occurred at the end of the 1990’s and examines the processes that lead to the subsequent rise of international accounting bodies, standards and the predominant role of financial capital. She maintains that the choice undertaken by western nations to recover financial instability with financial improvements relies on an attempt to enlarge the US financial-based type of capitalism. In other words to enlarge accounting harmonization.

At a national level, in the analysis of the conditions that underlined the emergence of the value added in the UK, Burchell et al. (1985) attempt to establish a coupled link not only between the context and accounting, but also amongst the actors at stake within the process and their role in it.

“Instead we have attempted to outline a network of social relations throughout which there may be found in the process of their emergence and functioning a certain class of statements - value added statements, company reports, employee reports, financial statements, statements concerning financial statements, etc. Within this network accounting can be found providing the conditions of existence of certain social relations, such as helping to define the rights, duties and field of act in of certain agents and playing a role in the specification of both organizational boundaries and intra-organizational segments. Accounting, thus seen, is intimately implicated in the construction and facilitation of the contexts in which it operates” (ibid., p. 402)

At a company level, the approach has been adopted for the understanding of the underlying reasons that lead companies to their decision to disclose (or not) corporate accounting report and embrace certain types of management control systems. Tinker and

Neimark (1987), employ a longitudinal analysis of the annual reports of General Motors over a period of sixty years, revealing how the relationships with women have been used from time to time used in functionalist terms in order to avoid or recover threats and continue guaranteeing the profitability of the company. Specular to this, Adams et al. (1995) demonstrate how firms are not willing to disclose information about equal opportunities, despite law recommendations. The external communication of such sensitive information may cause a negative effect, in attracting attention by those authoritative constituencies, that is pressure groups, trade unions and the Commission for Racial Equality itself and implicitly allow them to perpetuate their control.

Similarly to Berry et al. (1985), through an analysis of General Motors' annual reports, Neimark and Tinker (1986) suggest that management control systems are to be conceived in active junction with the political, social and environmental context in which corporations are embedded. In particular, they advocate for a dialectical approach to organizational analysis that "examines the dynamic and interactive relations through which organizations, society and science are mutually produced and determined, one by the other." (ibid., p. 378). By means of this approach, the internationalisation strategies undertaken by GM are found to be seen as a "resolution and impediments" relationship, able to bring to the destruction not only of the initiator company but of the whole system of accumulation.

Although it has been above demonstrated that the political economy approach has found support at different levels of analysis within accounting research arena, its use is not yet widely acknowledge. Arnold (2009a) advocates for this framework to warrant further investigations, especially after the occurrence of the financial crisis. She particularly suggests to adopt PE to examine the raise of the accounting system to a financial one. Three aspects are mainly identified, that is the power relations that underline IFRS processes, the role played by accounting firms in undermining the financial stability and ideology as basic determinant of transparency and its expected function in the destabilized financial environment.

2.2.2. Political Economy and non-financial reporting

Relevance of the political economy approach has been identified also with regard to non-financial information reporting, that is corporate social and/or environmental disclosure and Intellectual Capital.

In relation to corporate social disclosure, Ramanathan (1976), recognizes the narrow legalistic notion of firm and advocates for a broader one, able to capture its social performance. This way, he identifies a macro and a micro contexts in relation to which social accounting is defined as

“the process of selecting firm-level social performance variables, measures and measurements procedures; systematically developing information useful for evaluating the firm’s social performance; and communicating such information to concerned social groups, both within and outside the firm” (ibid, p. 519)

and accordingly performance objectives and concepts are developed. Among the objectives of corporate social accounting rely firstly the identification and measurement of the net social contribution of a firm, secondly the accordance between corporate strategies and practices, society’s priorities and individuals’ aspirations and finally an adequate communication of relevant information (ibid., 527). On the concepts’ side he formulates social transactions, returns, income, constituents, equity and net social assets. The combination of these objectives and concepts represent a framework for accounting for the social performance. In a similar vein, Tinker and Lowe (1980), propose a framework capable to better illustrate the common terrain that link the social interest and the indicators of corporate performance. They acknowledge human beings as taking decision centred on satisficing terms and consequently advocate for a system based on the choice by the organization for participants and their ability to successfully deal with a “jumpy F-set”, that is the feasible alternatives acceptable to all participants. Beyond the foundation of “appropriate” frameworks to investigate the field of corporate social and environmental disclosures, several authors embarked on the “test” of existing theories, sometimes also proposing adjustments.

In an attempt to test which theory, among User Utility and Political Economy, has an explanatory power for Corporate Social Disclosure, Guthrie and Parker (1990) find

support for the latter. In their thought, its proactive role enables “to identify social and political determinants of meanings attributed to social disclosure, recognizes the nonneutrality of the annual report, elucidates the role of social disclosure in legitimizing private sectional interests and existing ecopolitical arrangements, and critique social disclosures that represent pacification responses to social information demands” (p. 173). To a similar extent, Williams (1999), supports the view proposed by Gray et al. (1996) for the adoption of political economy as a theoretical framework able to illustrate the voluntary economic and social accounting disclosure scenario. He finds that the explanatory variables for this type of disclosure are mainly related to cultural and political civil determinants, while economic ones are not.

In this respect, a difference between classic and bourgeois political economy is explicitly depicted in the literature. Arnold (1990) in commenting Guthrie and Parker (1990) points out that their analysis of corporate social disclosure (regulation) through political economy lenses, suffers from the lack of an examination of the political dimension. Without the acknowledgment of the existence of a variety of theories able to explain the roles and functions of the State, they implicitly agree a pluralist perspective of the political economy approach in relation to CSR. This way, they results are myopic. Similarly, Tinker et al. (1991) contests the view of CSR literature as relying on a static conception of “middle-ground” and demonstrate how its emergence and development are contingent upon social conflicts that from time to time have changed. Gray et al. (1995) summarise the differences between the two approaches in the following way:

“The distinction is crucial because Marxian political economy places sectional (class) interests, structural inequity, conflict and the role of the State at the heart of its analysis. Bourgeois political economy largely ignores these elements and, as a result, is content to perceive the world as essentially pluralistic.” (Gray et al., 1995)

As for IC reporting, a first attempt to link it to the political economy approach has already been carried out by Abeysekera and Guthrie (2005) and Spence and Carter (2011). In their work such an approach that “views that accounting is a means of sustaining and legitimising the current social, economic, and political arrangements” [...] “appears to be more applicable to intellectual capital reporting”, as they recognize a “proactive role” in this type of reporting (Abeysekera and Guthrie, 2005, p. 155). This is particularly true in emphasizing the self-interest of a company. Spence and Carter (2011),

in a Marxist perspective, advocate a conceptualization of intellectual capital accounting as a device that on the one hand permits a “colonisation of the General Intellect”, while on the other one enables socialization and as a consequence an escape from the capitalist control.

However, although pioneering, the perspectives adopted in their work represents one side of the coin (how micro-practices make sense of the “infrastructure”). It could be worthwhile, to take this into consideration in a broader point of view, according to which it is of interest to analyse the contextual linkages of Intellectual Capital discourse and practice in their (coupled) process of legitimisation and support by means of governmental actions.

2.3. Fundamentals of Legitimacy Theory

The roots of legitimacy theory rely on a social contract. At the micro-level the contract is established between society and organizations. Shocker and Sethi (1973), recognize that the relationship between “business rewards” and the “delivery of socially desirable goods” (ibid, p. 98) is not an automatic one. Aspects as the change of societal needs can affect the ability of companies to effectively responds to them. Consequently, an attempt to develop a first method capable to identify and monitor the preferences of society and their inclusion in the process of the corporation’s decision-making is proposed and further research aimed at its expansion is suggested.

According to this contract, organizations are expected to exist until they will adapt their societal values underlying the processes of value creation towards the needs and interests of the society. Conversely, their existence will be threatened (Dowling and Pfeffer, 1975). This way, strategies towards the achievement and maintenance of a legitimacy (status quo) have been deeply developed in the literature. Before approaching the tracks towards the review of the related literature, it is worthy to point out the conceptual difference between two terms, that are legitimation and legitimacy. The first notion relies on a “process perspective”, in that it embodies the dissimilar points in time through which the “status” of legitimacy is achieved. The second term connotes a situation (Lindblom, 1994). Lindblom (1994), as cited by Gray et al. 1995, identifies four strategies through which legitimacy can be achieved. The first one relates to the

acknowledgment by the organization that a performance failure has created a legitimacy gap. In order to restore this gap, an information strategy targeted to “relevant publics” about the changes that are occurring within the company’s activities is undertaken. The second strategy relies on a misunderstanding from the viewpoint of the “relevant publics” about the organization’s activities. Conversely to the first strategy, the one here employed by the company aims at changing the perception without adopting any modification in substantial terms. Thirdly, a re-orientation from what constitute concerns to positive aspects, or *emotive symbols* is used by the organization. Finally, a mistake with reference to the expectations of the “relevant publics” are assumed and actions are adopted in order to change them.

Once attained, legitimacy has to be maintained. Accordingly, Suchman (1995) develops three frameworks for managing organizational legitimacy, that are pragmatic, moral and cognitive. Pragmatic legitimacy is centred on the “self-interested calculations of the organization’s most immediate audiences” (ibid., p. 578). In other words, the organization proactively “enquiries” the needs of its stakeholders and only after that employs certain activities. On the contrary to pragmatic legitimacy, moral legitimacy rests on the evaluation about the rightness or not of the activities undertaken by the organization. In this case, the evaluators are not the *subjective* constituencies but relate to *supra* positive normative. As in the previous case, it is formed by different sub-categories, such as consequential, procedural, structural and personal. The first (consequential) is based on the evaluations of the outcomes of the organization, even if it is acknowledged the impossibility and/or difficulty to achieve some of them. At the heart of the second (procedural) and the third (structural) rely a moral judgement of the social acceptability of the procedures carried out by the organization to attain the activities taken relatively singularly and in their systemic dimension. Finally, the core of the personal legitimacy rests on the ability of the leaders of the organization. Cognitive legitimacy can be considered as the subtlest among the previous two, as in being highly “cerebral”, an organization derives its formation and continuity from being perceived as “inevitable” and “necessary”. Elsbach and Eloffson (2000), focus on a particular aspect of the perception of legitimacy, that is the decision maker's competency-based trustworthiness. They suggest that the use of an easy to understand language and of legitimating labels for the decision processes positively affect the organizational audience.

Concurrently with the maintenance of the legitimacy status quo, organizations need to be prompt to put in place lines of actions able to defend, if not repairing it. This way, Elsbach (1994), analysing three controversial episodes occurred within the California cattle industry, demonstrate how their spokespersons put in action strategies constituted by verbal accounts centred on acknowledgments and denials in order to face and in particular repair the negative perceptions of the audience. In this respect, a further effort has been spent by Sutton and Callahan (1987), who propose five strategies to repair a decrease of legitimacy lead by bankruptcy, namely concealing, defining, denying responsibility, accepting responsibility, and withdrawing. Concealing strategy can be both active and passive. The former relates to deceptive public statements made by managers, while the latter the avoidance of any actions by the organization to face the ignorance of the audience. Defining is based on an acknowledgment by managers that something has happened but the source of the episode lies on a misunderstanding among the audience's members or has to be conceived of as different from those occurred within other firms. Accepting and denying responsibility are quite clear in terms, even if it has to be pointed out that the latter particularly refers to a denial of the responsibility *within* the organization. The cause of the legitimacy decrease lies on external sources, in general terms on the environment in which the firm is embedded. The last strategy proposed by the authors advocates for a more or less extended withdrawing of the organization from a specific audience.

Beyond the organizational conceptualization, implications and concerns of legitimacy theory, it is worthy of note for the sake of the argument here proposed that a peripheral number of studies also examined the relevance of legitimacy in relation to a macro evidence. Evidence that can be originally related to political aspects. Drawing on Rousseau (1762), the fundamentals of the legitimising power of the State relies on its representation of general will:

“Je veux chercher si dans l'ordre civil il peut y avoir quelques règles d'administration légitimes et sûres, en prenant les hommes tels qu'ils sont, et les lois telles qu'elles peuvent être” (ibid, p. 1762)

In more recent years, Stillman (1974) offers a schema in which legitimacy definitions referred to governments can be placed

“A rulership is legitimate if and only if:

1. it is based on the beliefs of (one or more of the following groups; the first and second evaluative decisions in the above argument)

a) (all or some) other nations, states, or persons

b) the people unanimous

c) a majority of the people

d) a majority of some portion of the people

e) the king, dictator, etc.

f) tradition, ancestors, prescription, etc.

g) God

h) other

i) none or irrelevant

2. it has (any one or more of the following classes of norms; the third evaluative decision above)

a) possession of a certain quality (or qualities)

b) pursuit of a certain value (or set of values)

c) none or irrelevant” (p. 37)

and proposes its own definition of legitimacy, that is “legitimacy is the compatibility of the results of governmental output with the value patterns of the relevant system” (p.42). Compared to previous definitions of legitimacy (mainly Frierich-like ones) it benefits from several characteristics. The first one rests on the “compatibility” aspect, able to confer objectivity. Indeed, it is not based on the feelings of those impinged but on a criteria, that spaces in a range of possibilities. Secondly, its broad enough to be referred to “relevant systems”, without falling on a pluralistic bias. The “relevant systems” concern society, groups and individuals and their dissimilar “value patterns”. This way, different results can be achieved in terms of legitimacy, In other words, legitimacy more often can be reached with reference to some of them and not to all of them.

2.3.1. Legitimacy Theory and Accounting

Beyond its organizational and State implications, legitimacy theory has been adopted also for the understanding of the potential of accounting practices. In other words, accounting can be seen as a device actively able to confer legitimation. Richardson (1987), in a review of the major contributions in this area, recognizes legitimation as “an attempt to establish a semiotic relation between action and values” (ibid, p. 342) and identifies three main streams of research originating the legitimation role of accounting, namely structural-functionalist, social and hegemonic. All of them, although acknowledging the common denominator of the link between action and values, differ with reference to the sources of values and as a consequence the ways they are linked to actions. The structural-functionalist view perceives the relationship among values and actions on the one hand and the society on the other one in functionalist terms. Put it differently, the social structure is pre-given and dictates the values and actions to be performed. According to the social perspective, values emerges from social relationships. Their convergence into actions occurs through guiding discourse by legitimizing experts. Finally, the hegemonic perspective allocates values within the ideologies of elite groups. In this sense, values represent a portion of ideologies and actions their dissemination. The resultant is a “false” association, nonetheless accepted by those impinged. As a result,

“Accounting may be seen as a legitimating institution to the extent that it mediates the mapping between action and values. In particular, accounting fills this role by structuring relations among actors and acting as the medium through which organizational control is exercised; serving as a sanctioning basis for action; and/or, defining or constraining the perception of action in a given situation.” (ibid., p.343)

In relation to the evidence that the conceptualization that accounting as legitimating institution has found, it is worthy of note that most of the work produced so far has been related to the profession. Carnegie and O’Connell (2012) employ an historical analysis to examine the ways two rival accounting bodies in Australia, such as The Institute of Chartered Accountants and the Australian Society of Accountants face the legitimacy of professional occupation after the occurrence of the 1960’s crisis. They particularly adopt

the tripartite categorization of legitimacy (pragmatic, moral and cognitive) advocated by Suchman (1995) and find support for the argument of a possible coordination among rivalry professional groups, especially by means of pragmatic legitimacy. In a similar vein, the role of auditing procedures have been investigated in their legitimacy nuance, especially after the Enron episode. Among others, Pentland (1993), explores the concept of auditing as a ritual and contends that the recognition of this professional practice as respecting its requirements and of consequence, conferring legitimacy to its work, derives from the construction of a micro-level social and emotional interactions among the team members engaged in the auditing procedure. In particular, the creation of a comfortable environment between the team members, within the auditing company and among the auditing company and the public represents the focal point of the whole process. Indeed, none of these units are able to conduct the whole procedure in isolation. Power (2003), recognizes the role of auditing and of its practices as ingrained in a mechanism of legitimation *import and export* (ibid., p.392), from and to economic, social and political realities that warrant for changes to be continuously implemented. Drawing on these studies, Pasewark, et al. (1995), explore the legitimation crisis that affected the accounting profession and especially the auditing one, with reference to the objectivity requirement that is expected from their social obligation. Their analysis finds evidence for an “objectivity pitfall” that characterizes the relationship between in-charge auditors and powerful clients. In the name of the influence that the client organization can exert, auditors are available to diminish the objectivity aspect that their conduct request for.

The relationship between legitimacy theory and accounting found explanation also in relation to distinctive type of organizations and industries. Goddard and Assad (2006), in a nexus among the legitimizing (process) and legitimacy (status), coined the notion “navigating legitimacy”. It aims at demonstrating the strategies employed in NGOs through which *ex-ante* resources are attained and *ex-post* their use is explicated. Walker and Llewellyn (2000) demonstrate how accounting is deeply embedded within the domestic environment of the house and renders visible the power relationship between the spouses and among gender relations. Breton and Côté (2006) acknowledge a role of legitimacy for the explanation of the public perception of the profit level by the Canadian bank industry but avoid any type of generalization. However, the legitimizing power of accounting has also encountered “negative” connotations, if not unsuccessful ones. Davie (2000) supports the former view, demonstrating accounting devices fostering the

domination of the British imperialism. Ogden and Clarke (2005) show the shortcomings of the existing framework of legitimacy theory, in its form of communication through annual reports, as able to persuade the customers about the appropriateness of the activities undertaken. In the specific case of the water privatization industry in UK, although the efforts spent by the management to support the performance of the industry and their acknowledgement and apologies for the shortfalls occurred, the responses of the customers have been adverse.

2.3.2. Legitimacy Theory and non-financial reporting

As pointed out above, one side of the coin of legitimacy theory rests on the connection that is established between organizations and society. By means of this association, it is widely acknowledged that legitimacy is one of the theories that gained prominence within the social and environmental reporting discourse at the firm level. In this respect, one of the first pioneering works has probably been the one by Hogner (1982). In more recent years, Robert Gray and Craig Deegan probably represents the main contributors in this field. They explored the theoretical (Deegan et al. 2000; Deegan, 2002a; Deegan et al. 2002b) implications of adopting this framework for understanding the dynamics that motivate companies to publish social and environmental reporting. However, the review cannot be limited to these contributions. A number of studies extended the explanatory power of legitimacy theory to dissimilar types of contextual events in which the company can be embedded. Cho and Patten (2007), drawing on previous studies that contrast environmental performance and environmental disclosure, focus on non-legitimation, non-monetary environmental disclosure and find support for the adoption of legitimacy theory as explanatory variable. Brown and Deegan (1998) and Aerts and Cormier (2009) find additional support for the adoption of this theory also with respect to the role of the media. In particular, the reactive role of the press results to largely impinges on the public perception about the company. Answering the call by Sikka (2010) to warrant further investigation on the consequences of tax aggressiveness in relation to CSR disclosure, Lanis and Richardson (2013), advocate a positive association. Indeed, actions undertaken by companies to minimize or avoid taxes impinges on the public perception, depicting the company as socially irresponsible. Along with the theoretical nuances that

this framework offers, in terms of dissimilar strategies adoptable (gain, maintain, repair and defence), O'Donovan (2002), explores their practical implications associated to environmental disclosure. Additional measures to assess legitimacy, such as the resource flows, have also been developed (Tilling and Tilt, 2010).

Although the broad adoption, legitimacy theory does not lack of criticisms. Guthrie and Parker (1989) find evidence that legitimacy theory cannot always represent an explanatory variable of the behaviour of companies towards the disclosure of societal and environmental information. An equivalent hypothesis is one of those contended by Campbell (2000) and Campbell et al. (2003). In the first work, an analysis of a thirty year time span of CSR disclosure by Marks and Spencer Plc reveals a lack of legitimacy power in elucidating its adoption. Rather, managerial perceptions and "construction of reality" are advocated as possible explanations. In the second one its deficiency relate to a dissimilar behaviour of companies belonging to the tobacco, retailing and brewing sectors. In a more detailed analysis, O'Dwyer, (2002) distinguishes the relationship between corporate social disclosure (CSD) and legitimation/legitimacy. He suggests that while CSD is part of the legitimation process, its "ability" to confer the status of legitimacy cannot be confirmed. The quest for increasing environmental and/or social information and actions can lead companies to perceive this reporting practice as futile and abandon its adoption.

To a similar extent, 'protesting too much' by means of the adoption of both substantial and symbolic strategies can lead the organization to enter vicious circles that will decrease its legitimacy (Ashfort and Gibbs, 1990). This way, legitimacy can be also seen as a problematic device. Milne and Patten (2002) demonstrate that additional environmental disclosure is rewarded by investors' decisions only in the long-term. Conversely, expenditures for the preparation of environmental reports exacerbates the organizational performance perception. Neu et al., (1998), attempt to unlock the reasons that lead to the adoption of legitimacy theory to environmental disclosure and suggest that further efforts have to be done in order to investigate the micro-legitimizing strategies putted in place by managers. At the present level of analysis, it results to mainly affect the dominant relevant publics, neglecting the marginal ones. More strongly, Bebbington et al. (2008) describe their concerns about the connotation and the related use of legitimacy as a theory. Their suggestion privileges the adoption of reputation risk management in order to explain the underlying logics of social disclosure.

With respect to the role of the State as legitimizing institution towards the disclosure of social and environmental reporting, pioneering efforts have been realized. Patten (1992b) provides support for the argument that sees social disclosure as a means in order to influence public policy (changes). The lack of quantitative methods in relation to social disclosure leads society to influence public policy in order to be voiced. As a consequence, companies can act as first movers publishing social reports in order to avoid public policy shifts. In a more reactive analysis, companies belonging to four industry are found to positively respond in terms of quantity to environmental public and policy pressure (Walden and Schwartz, 1997). Similarly, support is provided for public policy variables, such as size and industry classification rather than profitability as explaining the tendency of companies to disclose environmental information (Patten, 1991). Archel et al. (2009) examine the interplay between organizations and the State pointing out how strategies towards legitimation are employed by companies and enrolled by the State through a bi-univocal process that lead to their own well-being, beyond that of society..

Reconciling these contrasting interpretations, Criado-Jiménez et al. (2008) maintain that a positive association can be established between the volume and quality of social, ethical and environmental disclosure and the enforcement of standards. An elucidation of those companies that persist in a partial disclosure attitude can be explained by the adoption of the impressive management perspective and the related strategies.

It is worthy of note how the adoption of legitimacy theory has been predominantly employed within corporate social and environmental disclosure but no traces are found in the Intellectual Capital/intangibles' realms.

2.4. Fundamentals of Institutional Theory

In a similar way to Legitimacy theory, Institutionalism advocates for an organizational survival if societal norms of *acceptable practices* are encountered and respected. In fact, Institutionalism deals with the active interaction between institutions and how they

contribute to shape the life and behaviour of social agents⁴. Its theoretical fundamentals date back to the late 1890's arising from the works of Thorstein Veblen, John R. Commons and John Dewey, who in the substantial changes that were affecting the American context, recognized the necessity to move on from the neoclassical economic thought. The passage to an industrialized world as accompanied by socio-economics changes rendered the reliance of economic theories on beliefs of natural laws as guiding the human behaviour and society quite futile. Drawing on social sciences, and in particular on anthropology and Darwinian evolutionism, the acknowledgment of ongoing change and human diversity paved the way for culture, cultural evolution and cultural relativity to be considered as the innovative ideas central to economics (Mayhew, 1987). Put it differently, humans were conceived of as integrated components of their culture and their cultural changes in that "instincts", "emulation" and "habitual" characterize their conduct. Accordingly, institutional change is conceived of as stemming from social and political volatility.

However, these original lines of argument were shortly abandoned. The conceptualization of human beings as passive actors or as "cultural puppets" has been followed (but not necessarily replaced, Rutherford, 1989⁵) by the one which emphasized the awareness with which humans consciously choose among maximizing and inferior options. Accordingly, what has been referred to as the "new institutionalism" (DiMaggio and Powell, 1991; Hirsch and Lounsbury 1997, Stinchcombe 1997), is denoted by endogenous institutions, so that microtheory, and in general economics, "can serve as the grammar of all of the social sciences" (Mayhew, 1989, p. 331). As clearly maintained:

"Organizational forms, structural components, and rules not specific organizations, are institutionalized [...] not norms and values but taken-for-granted scripts, rules and classifications are the stuff of which institutions are made" (DiMaggio and Powell, 1991, p.14-15)

It follows that organizations, as constituted by "chosen-focus" members, in order to survive tend to resemble other entities that face the same institutional pressures

⁴ Although acknowledged the dissimilar sub-fields of institutionalism will not be here described, nor they will be subject to analysis.

⁵ The debate about the (non-)possibilities of interactions among "old" and "new" institutionalism are still alive (Hodgson, 1989; Langlois, 1989; Hodgson, 1993; Selznick, 1996).

(DiMaggio and Powell, 1983). In other words, legitimacy also assumes relevance (Deephouse and Suchman, 2008).

This organizational change, or better this convergence towards “templates for organizing” (DiMaggio and Powell, 1991, p, 27) has been pervasively conceived of as driven by rules, norms and other frameworks in two ways, respectively maximizing benefits (what is well-known as regulative or Rational Choice Institutionalism) and presuming actors to know what to do in certain situations (that corresponds to normative or Historical Institutionalism). The latter has been later defined and investigated as “logic of appropriateness” (March, 1994).

In particular, it has been maintained that organizational change can take the form of three logics, namely coercion, mimetic and normative (DiMaggio and Powell, 1983). According to the first, a pressure is exerted by organizations upon which there is a status of dependency or by cultural expectations of the society in which activities are embedded. “Parent organizations” have to be conceived of both as other organizations at the micro level and public authorities (State or the government). *Mimetic* processes generated, in a more subtle way, by uncertainties within organizations or stemming from the external environment. To face these ambiguous conditions, organizations tend to *model* others more successful and legitimated through information acquired by former employees or by consulting firms. This way, they demonstrate they are trying to improve, adopting structures and operations by means of convenient mechanisms. The third process of isomorphic change primary originated in professionalization. The reliance on formal education provided by university specialists and the networks created and rapidly diffused among professionals produce *normative* rules to which all professional members (or at least those belonging to the same industry) have to adopt. Indeed, filters are consequently established for hiring processes and also those who are able to escape from them can be subject to occupational socialization carried out by trade associations rather than others “standardizing” professional networks.

In a more detailed manner, Scott (2008) proposes three differentiating elements that underline the institutional order, namely regulative, in their form of rule-setting, monitoring and sanctioning, normative in the form of prescription and cultural-cognitive ones as modes on conceptualization and sense-making. On the basis of the institutional order desired, each of them will find subsequent justification.

Along with the above positions, it has to be considered that formal organizational structure generates not only from societal interactions but also, if not principally, from highly institutionalized contexts whose influence render them as *rational myths*. As such, they confer legitimation and more or less consciously compel organizations to *ceremonially* conform, even if in this way their ability to adequately respond to practical work activities can be undermined. In other words, in the name of the institutional legitimation that surrounds organizations, the tendency is found to preserve a loosely coupled gap between formal structures and actual work activities (Meyer and Rowan, 1977).

2.4.1. Institutional Theory and accounting

Within the accounting field, institutionalism have been mainly deployed at the empirical level to investigate public organizations, such as the State and governmental agencies. However, also those mainly involved in micro-organizational studies, took the view of institutionalism to better understand decisions, practices and activities undertaken. Indeed, organizations can be better appreciated in juncture with the constituencies surrounding them (Mezias, 1990). Among others, Covalleski et al. (1993) address the criticisms that institutional theory encountered over its development, in relation to an inattentiveness of power and group interests issues and a decoupling that occur over time between the external simplistic image an organization portrays and the internal complex nature of the underlying processes. Thus, moving on from these deficiencies, they adopt the institutional framework to analyse the use of case-mix accounting systems, based on diagnostic-related groups in hospitals. Support is provided for power to be conceived of as integral part in the adoption and maintenance of similar accounting practices. Always in extending the perspective, Bealing (1994) demonstrates the applicability of institutionalism for the understanding of the funding patterns of a governmental agency, like the Security and Exchange Commission (SEC). Enforcement actions and economic and political aspects are found to highly influence resource allocation.

In a nexus between institutional and legitimacy theories (Deephouse, 1996), myth making, ritual ceremonies and dramaturgy of exchange form the fundamentals of the analysis (Ritti and Silver, 1986). Accordingly, SEC is also found to establish relationships with regulatees and others external constituencies at first through the

development of an “appropriate and ritualized language of regulation and pattern of interacting with regulatees” (ibid., p. 334) but more interestingly by means of mechanisms of social control inserted in professional and reporting bodies. In other words, SEC gained legitimacy by decentralizing its power and delegating accounting bodies with part of its responsibilities (Bealing et al., 1996). Employing a particular facet of institutional theory, namely “regulatory capture”, that conceives of regulations as being profoundly influenced by those impinged, analogous observations are attained. In fact, in analysing the regulation of insider trading, SEC adopts forms of discourse through which a strong connection with regulates is established, as it becomes “endogenized” by them (Bozanic et al., 2012).

Hines et al. (2001) investigate the emergence of the Financial reporting Review Panel (FRRP), a subsidiary of Financial reporting Council in UK. Aim of the Panel was to guarantee compliance with accounting regulation. This way, the authors explore if and to which extent the legitimacy of this constituency has been gained through “myth making”, interviewing company directors and audit firms partner directly involved with the Panel. The results support the argument for the attaining of a legitimacy status by means of a “myth building” strategy, in particular employing more discrete actions compared to those explicated in public statements. In a similar vein, the peer review programs that characterize the profession in US and its self-regulation is perpetuated through a decoupling between the “real” quality of professionals and professional’s procedures and those advocated (Fogarty, 1996; Fogarty et al. 1997). Johnson and Solomons (1984), dismiss the impossibility theorem advocated by Demski (1973) according to which accounting standards cannot encounter the consensus of those affected by them, demonstrating that Arrow’s conditions (1962) do not represent the only explanatory variables. Drawing on the “individualistic institutional calculus” that relate the legitimacy of an institution to its capacity to persist to credibility crisis, they observe that the FASB can be recognized as a legitimate institution. Similar observations are achieved by Fogarty (1992). In addition, the capacity to retain legitimacy can also be attained through the (more or less) isomorphic adoption of certain business practices or standard (Carpenter and Feroz, 1992).

However, although possibilities of integration with the sociology of professions have been delineated (Dirsmith et al., 1997), the decoupling among technical and institutional factors still remain largely unexplored (Carruthers, 1995). In addition, how demonstrated

by Rahaman et al. (2004), whether institutionalised, some practices cannot be considered directly legitimated, but a crisis of legitimation can occur. Furthermore, “voices” of the social and institutional context (Cooper et al., 2008) rather than questions and problems related to regulation (Potter, 2002) are not yet appropriately taken into consideration. Generally speaking, institutionalism whether acknowledged as moving on from its adolescence (Scott, 1987) and reached an young adulthood (Scott, 2008), still manifests problematics aspects which largely remained to be addressed.

2.4.2. Institutional Theory and non-financial reporting

It has been recently acknowledged that institutionalism and corporate social responsibility have been streams of research studied as isolated ones (Walsh et al., 2003, p. 877). However, few attempts have been carried out to let them converge.

Campbell (2006) recognizes that CSR activities are employed by those organizations that are imbued in *normative* institutional environments, that is where there are mechanisms of monitoring. In particular, organizations that adopt this new management practice are those which belong to broader networks, such as business associations and actively engage dialogues with their stakeholders. Indeed, the normative feature that connotes CSR adoption does not correspond to a mere compliance with imperatives or environmental contingencies. It travels through processes of negotiations and power relations. In an international perspective, institutionalism is identified as one of the explanatory variables of the existing dissimilar behaviour of US and European companies towards the embracing of CSR (Matten and Moon, 2008). In fact, national business systems “will play out a rebalancing of corporations’ relationships with societal institutions, which we expect to be revealed in changing balances of their implicit and explicit responsibilities” (ibid., p. 420).

Despite the above arguments, it is worthy of note that generalizing exercises cannot be conducted without encountering difficulties. Larringa et al. (2002) demonstrate how institutional reforms cannot represent an explanatory variable and as a consequence guarantee a compliance towards the disclosure of environmental reporting.

As for intangibles, to the best of the writer’s knowledge, no studies have adopted institutionalism as crucial theoretical framework to elucidate their implementation and dissemination (Moeller, 2009).

Table 2.1.

Summary of the major contributions of Political Economy, Legitimacy and Institutional Theories

Author (in chronological order)	Theories	
	Fundamentals of Political Economy (PE)	
	Classic	Bourgeoise
Mills (1909)		<ul style="list-style-type: none"> ✓ “cost-of-production” conception of exchange value ✓ Wealth is given ✓ Rejection of labour theory → all production factors proportionally contribute to the formation value ✓ Wages correspond to amounts labourer deserve
Marx (1977)	<ul style="list-style-type: none"> ✓ Construction of society centred on economic activities (or “modes of production”) ✓ Technological developments of modes of production lead to class struggles between proletariat and bourgeoisie 	
	Political Economy and Accounting	
Tinker (1980)	<ul style="list-style-type: none"> ✓ Shortcomings of Neoclassical marginalist economics (how income generated and distributed) ✓ Shed light on “social production” 	
Cooper (1980)	<ul style="list-style-type: none"> ✓ Importance also of “knowledge” as capital element 	
Cooper and Sherer (1984)	3 facets of PE: <ul style="list-style-type: none"> ✓ Power distribution and conflicts in society ✓ Historical and institutional environment ✓ People as able to shape accounting 	
Tinker (1984)	<ul style="list-style-type: none"> ✓ Neoclassical marginalist economic model affected by: ✓ “economic reductionism” (psychological, institutional etc. events predominantly explained by economic concepts) ✓ “political voluntarism” (acknowledgement of individuals interests but not of class’ ones) 	
Bryer (1999)	<ul style="list-style-type: none"> ✓ Accounting as explained by political economy lenses 	
Arnold (2009a)	<ul style="list-style-type: none"> ✓ Current accounting research showed pitfalls in anticipating and responding to financial crisis ✓ PE to investigate financialization of accounting system: 	

	<ul style="list-style-type: none"> ✓ IFRS processes and power relations ✓ Accounting firms ✓ Ideology and transparency 	
	Evidence of Political Economy and Accounting at International Level	
Perry and Nolke (2006)	✓ Adoption of Fair Value Accounting highly depends on the contextual linkages of a Country	
Arnold (2012)	<ul style="list-style-type: none"> ✓ Raise of International Accounting Bodies and Standards as attempt to spread the US financial-based type of capitalism ✓ Accounting harmonization 	
	Evidence of Political Economy and Accounting at National Level	
Burchell et al. (1985)	<ul style="list-style-type: none"> ✓ Emergence of value added in UK ✓ Relationship between accounting, context and actors at stake ✓ Accounting Constellation 	
	Evidence of Political Economy and Accounting at Company Level	
Neimark and Tinker (1986)	✓ Management control systems to be conceived of through a dialectic approach (“society, organization and science as mutually influenced”)	
Tinker and Neimark (1987)	✓ Relationship with women used in functionalist terms in annual corporate reports to warrant capital accumulation	
Adams et al. (1995)	✓ Non-disclosure trends of equal opportunities information by companies to avoid pressures by dominant constituencies	
	Political Economy and non-financial information	
Tinker and Lowe (1980)	CSR	
	✓ Framework to better link social interest and corporate performance indicators: “jumpy F-set”	
Guthrie and Parker (1990)		Corporate Social Disclosure Proactive role of PE
Williams (1999)		Voluntary and social disclosure Main explicated by cultural and political civil variables, rather than economic ones
Arnold (1990)	✓ Guthrie and Parker analysis (1990) lack of examination of political dimension of PE (role of the State and dissimilar theories developed)	

	✓ Pluralist perspective of PE	
Tinker (1991)	✓ Gray et al. (1988) ✓ CSR to be analysed as contingent upon social conflicts' change	
Abeysekera and Guthrie (2005)		Intellectual Capital Reporting Proactive role of PE
Spence and Carter (2011)	Intellectual Capital Reporting ✓ Intellectual Capital accounting allows to escape from capitalist control (lack of measurement)	
Author (in chronological order)	Theories	
	Fundamentals of Legitimacy Theory	
	Micro Level (society and organization)	
Shocker and Sethi (1973)	<ul style="list-style-type: none"> ✓ Relationship between “delivery of socially desirable goods” and business rewards is not automatic ✓ Need to identify, monitor social preferences and include them within the decision processes 	
Dowling and Pfeffer (1975)	✓ “Non-compliance” with societal needs yields to threaten organizational survival	
Lindblom (1994)	4 strategies to achieve legitimacy: <ul style="list-style-type: none"> ✓ Acknowledgment of legitimacy gap → organizational audience is kept informed about changes occurring within the company ✓ Legitimacy gap as misunderstanding by organizational audience → efforts by the organization to change the external perspective formally but no substantially (change in and of activities) ✓ Re-orientation from organizational concerns to positive aspects ✓ Legitimacy gap as mistake → actions to change external perception 	
Suchman (1995)	3 strategies to maintain legitimacy: <ul style="list-style-type: none"> ✓ Pragmatic: organizations enquires stakeholders about their needs and act consequently ✓ Moral: organizational activities are evaluated by supra positive norms not by subjective actors ✓ Cognitive: organizations are perceived as “inevitable” and “necessary” 	
Sutton and Callahan (1987)	5 strategies to repair legitimacy: <ul style="list-style-type: none"> ✓ Concealing ✓ Defining ✓ Denying Responsibility ✓ Accepting Responsibility 	

	✓ Withdrawing
	Fundamentals of Legitimacy Theory
	Macro Level (society and the State)
Rousseau (1762)	Legitimacy of the State as it embodies general will
Stillman (1974)	Legitimacy as stemming from a compatibility among governmental outputs and value patters of relevant systems
	Legitimacy Theory and Accounting
Richardson (1987)	Accounting as legitimating institution inasmuch it mediates actions and values
Pentland (1993)	✓ Auditing as a ritual ✓ Legitimation attained by the construction of micro-level social and emotional interactions
Pasewark et al. (1995)	✓ Legitimizing crisis within auditing originated in “objectivity pitfalls”
Power (2003)	✓ Auditing as ingrained in mechanism of import/export that warrant for changes to be continuously implemented
Ogden and Clark (2005)	✓ Legitimacy as failing to elucidate the activities undertaken by organizations
Goddard and Assad (2006)	✓ “navigating legitimacy” as explaining the processes through which NGOs acquire and employ resources
Carnegie and O’Connell (2012)	✓ Coordination among rivalry professions is allowed by legitimacy
	Legitimacy Theory and non-financial reporting
Guthrie and Parker (1989)	✓ Legitimacy theory does not generally explain the disclosure of social and environmental disclosures
Patten (1991)	✓ Public policy variables explicate CSR disclosure
Patten (1992)	✓ Social disclosure influences public policy
Brown and Deegan (1998)	✓ Proactive role of the press influences public perception of companies legitimacy
Neu (1998)	✓ Legitimacy theory neglects marginal publics
O’Dwyer (2002)	✓ Corporate social disclosure as part of legitimating processes but does not necessarily confers legitimacy
Cho and Patten (2007)	✓ Legitimacy theory explains non-legitimizing and non-monetary environmental disclosure
Archel et al. (2009)	✓ Interplay between organizations and State strategies of legitimization
Author (in chronological order)	Theories
	Fundamentals of Institutional Theory
	<i>Old Institutionalism</i>
Veblen and Commons	✓ Ongoing change and humans diversity are explained by culture

	<i>New Institutionalism</i>
DiMaggio and Powell (1991)	✓ Humans are consciously choosing among maximizing and inferior options
Meyer and Rowan (1977)	<ul style="list-style-type: none"> ✓ Formal organizational structures generate from highly institutionalized contexts that render them as rational myths ✓ Organizations ceremonially conform to these rational myths ✓ A loosely coupled gap between formal structures and actual work activities is generated
DiMaggio and Powell (1983)	<ul style="list-style-type: none"> ✓ 3 logics of organizational change: <ul style="list-style-type: none"> ✓ Coercion: “parent organizations” and society exert pressures towards the adoption of certain organizational structures and activities ✓ Mimetic: to face uncertainties, organizations tend to model others more successful and legitimated ✓ Normative: professionalization processes create rules to which all members have to adapt → hiring filters are established
Scott (2008)	<p>3 elements underline institutionalism:</p> <ul style="list-style-type: none"> ✓ Regulative: rule-setting, monitoring and sanctioning ✓ Normative: prescription ✓ Cultural-cognitive: modes of conceptualization and sense-making
	Institutionalism and Accounting
Ritti and Silver (1986)	✓ Relationships between regulator and regulates are established through the adoption of ritualized language
Johnson and Solomons (1984)	✓ Legitimation of standard setting as attained through the capability to overcome credibility crisis
Covaleski et al. (1993)	✓ Power is an integral part of adoption and maintenance of similar accounting practices
Carruthers (1995)	✓ The decoupling among technical and institutional factors are still unexplored
Hines et al. (2001)	✓ Legitimacy of regulators is gained through “myth making”
Cooper et al. (2008)	✓ “Voices” of social and institutional contexts are not taken into consideration
	Institutionalism and non-financial reporting
Campbell (2006)	✓ CSR activities are employed by organizations imbued in normative institutional environment
Matten and Moon (2006)	<ul style="list-style-type: none"> ✓ Institutionalism internationally explains dissimilar attitudes of companies towards CSR ✓ National business systems are recognized to play a major role

2.5. Some Final Observations

Main aim of this chapter has been to offer an illustration of the state of the art of three “soft” regulatory theories, namely Political Economy, Legitimacy and Institutional Theory. As explicated in the introductory paragraph, the motivation underlying this choice finds support in the explanatory power that these conceptual frameworks have at the “macro” level, that is at a governmental level. Political Economy is almost by definition connected with theories that examine the role of the State and more generally of contextual factors as shaping organizational activities, Legitimacy is recognized to governments in the name of the general will they embody, and finally, Institutional theory has been mainly employed to analyse how regulators and standard setters attain legitimacy. These public authorities are found to adopt “myth making”, rather than “ritualized language” to establish benevolent relationships with those regulated. Additionally to this, initial evidence has been provided for the employment of these theoretical frameworks not only in depicting accounting practices but also with reference to non-accounting ones. In this respect, Political Economy and Legitimacy Theory have found to be particularly prone to elucidate the rationales according to which these devices are adopted. However in most cases the processes and outcomes are not examined in details and attention has been polarized on corporate social responsibilities disclosure attitudes and mechanisms. Conversely, intangibles reporting is a topic whose analysis is still in an embryonic condition in terms of regulatory theory. Accordingly, the thesis attempts to fill this void, firstly “testing” the potential of Political Economy, Legitimacy and Institutional theories in explaining the underlying logics and processes through which governmental agencies recommend intangibles reporting. Secondly, advocating possibilities of combination among the theories, addressing this way the shortcomings that affect them.

For the sake of the argument here proposed, it is interestingly to note, that the regulatory support here highlighted pertaining non-accounting reporting profoundly differs from the one maintained by Laughlin and Broadbent. In several works they propose the notion of “accounting logic”. According to it, regulation is guided by the need to establish a direct and clear process between financial inputs and outputs. In particular, Laughlin (2007) defines it as follows:

“Accounting logic assumes that it is possible to evaluate each and every financial flow in terms of the outputs, and preferably outcomes, that come from these flows, the majority of which, it is assumed, can be expressed in measurable form” (ibid, p. 280)

Further observations based on the above lines of argument will follow in Chapter 5, after the analysis of the case studies.

CHAPTER THREE

A POLITICAL ECONOMY OF INTANGIBLES REPORTING: THE CASE OF JAPAN⁶

3.1. Introduction

In the era of the “knowledge economy”, knowledge and intangibles are assumed to play an increasingly important role. As early as 1908 Thorstein Veblen had already realized the importance of intangible resources and the difficulty not only for organizations, but that the whole accounting systems faced in grasping their value, and over the last decades we have witnessed a polarization of interest towards the company level and the change of the bases for the creation of corporate value.

Indeed, the notion of “conceptual company” has been coined. This type of organization is characterized by the low quantitative relevance of physical *assets* (machinery, stock, fixtures and fittings, etc.) in favor of *intangible-intensive* activities, which are based not only on the creation and development of brands, patents, etc., but also on their legal protection and negotiation on the market. This “conceptual company” implements flexible business models, simultaneously delocalizing low-knowledge activities (manufacturing, distribution) (Zambon, 2009).

This context has led to the emergence of a concept of Intellectual Capital/intangibles⁷ predominantly focused on organizational aspects. Among others pioneers (Edvinsson and Malone, 1997; Sveiby, 1997), Zambon (2001) defines it as “internal (competencies, skills, leadership, procedures, know-how, etc.) and external (image, brands, alliances, customer satisfaction, etc.) stock of intangibles “available” to an organization”. In this overall picture, it must be acknowledge that if on the one hand, the intangible nature on which these resources rely represents a challenge towards the recognition of the drivers on which the creation of value is based (Zambon and Marzo, 2007, IASB’s Management Commentary, 2010), on the other one, it has not recently stated:

⁶ A shorter version of this chapter is going to be published in the Special Issue IFKAD-KCWS 2012 for the Journal of Intellectual Capital.

“although issues of intangibles have been played out extensively in the accounting field, the problems are not so much *within* this field as *of* it. The much publicized gap between book value and market value increasingly posed the question about the relevance of accounting numbers to economic decision making. A use value for accounting that had been heroically invented for it in the 1930s (and was probably always suspect) was now in crisis. And with this crisis, so too was the jurisdiction of accountants newly threatened by brand valuers, human resource specialists and anyone else who put the need to open the black box of Goodwill above any scruples about measurability and auditability” (Power, 2001)

Whether it is still under debate the claim that intangibles represent a gap in the accounting system (Johnson and Kaplan, 1987; Upton, 2001) the intention here is not to investigate their genealogy. The purpose of this paper finds its roots in the second part of the statement, in relation to the convergence of the attention that has been paid, within academic discourse, towards techniques in terms of measurement and auditability. It has in fact been recognized that since the emergence of Intellectual Capital discourse, consideration has been mainly drawn upon the development of models able to capture the value of these kinds of resources and the way in which they contribute to the value creation process inside the company (Martensson, 2008). Andriessen (2004) makes this shortfall explicit in affirming that “In the past ten years the intellectual capital (IC) community has produced an overwhelming amount of new methods for the valuation or measurement of intangibles”. In particular he identifies over 30 methods and analyses 25 of them. Conversely a peripheral number of studies have proposed alternative perspectives in order to investigate it. Mouritsen (2006) calls for research able to conceive IC not only in terms of the elements that constitute it and the ways through which they can be applied and measured at organizational level. He advocates to think of IC as a boundary object, that is as a concept which can be subject to theoretical and practical variations in view of the boundaries that characterize it. To a similar extent, Dumay (2009) further challenges the existing literature on IC and proposes an investigation based on alternative research methods, able to support a major communication between academics and practitioners.

Giving the gap in our understanding of the different perceptions that intangibles reporting discourse and practice can assume, this paper will seek to contribute both to the present literature and practice in two ways. Firstly, proposing an alternative way, namely

political economy, to investigate how the phenomenon of IC, intangibles and their reporting can also be conceived of adopting a macro (institutional) perspective. In particular the direct role of the Government in formulating policies in relation to intangibles reporting will be explored. Secondly, demonstrating to which extent intangibles reporting, conceived of as a non-financial device, can be better elucidated through a classic political economy or a “bourgeois” political economy theoretical framework (this way, joining the corporate social and environmental debate). On the basis of this framework, two main research questions have been developed, that is a) how come that a business reporting technique, i.e. Intellectual Capital reporting (ICR), has become of policy interest? and b) which have been the rationales, the processes, the actors and the outcomes? In order to address these research questions, the case of Japan from the end of the 90’s will be used as example. In particular, the Introduction of the Guidelines published by the Ministry of Economy Trade and Industry and others governmental agencies will be examined by means of Critical Discourse Analysis (CDA) and supported by interviews with key-actors.

The paper is organized as follows. Firstly the reasons that led to the choice of Japan as the case study undertaken will be explored. Secondly, methodological insights about Critical Discourse Analysis (CDA) are illustrated. Then, I examine the “intangibles background” in Japan. The way IC, intangibles and their reporting practices have become a political economy issue is explored. These sections will provide support for the argument purposed and the possibilities for future research.

3.2. Why Japan?

The choice of Japan as the case study undertaken, relies on two “intangibles-related aspects” to be conceived of as profoundly intertwined with the economic, social and political background on the Nation. Firstly it refers to the development stage that ICR reached in this Country, where the recommendation and adoption of this type of business reporting is still an ongoing process. As opposed to other countries where it stopped (Denmark, UK), this state of the art allows the researcher to explore the case through the voices of those who experienced it. Secondly, the importance of the political-institutional side of the policy carried out is underlined by the players *directly* involved in this

process, which are the Ministry of Economy, Trade and Industry (METI) as the main policy-maker, large companies and SMEs as users, and financial agencies as professional practitioners. As shown in Table 3.1., there are two other Nations, such as Austria and France, which present similar features of Japan, that is where the government took part directly in this process (and not as a support or for a mandate, as occurred with Australia and China) and ICR as a reporting practice still in action. However these two countries differ in terms of users (the former) and the development stage (the latter). Austria represents a single case as this business reporting practice is based on mandatory disclosure and is addressed to universities. France is at a premature stage, in order to be investigated. No official documents have in fact been published as yet.

Table 3.1.

Countries in which ICR is/was recommended

	Government involvement	Development Stage
Australia	YES Society for Knowledge Economics Results of a mandate from the Australian Government Consultative Committee on Knowledge Capital and the Australian Government Information Management Office	On-going
Austria*	YES Ministry for Education, Science and Culture	On-going
	NO Austrian Research Centres	
Belgium	NO Areopa (Consultancy Company)	
Brazil	NO Brazilian Development Bank (BNDES)	
Canada	NO Canadian Institute of Chartered Accountants (CICA)	
China	NO Asia Pacific Intellectual Capital Centre (APICC) supported by Intellectual Property Department, HKSAR Government	On-going
Denmark	YES Danish Ministry of Science Technology and Innovation	Stopped
France	NO	
	YES Observatoire de l'immatériel	On-going (gestational stage)
Germany	YES	On-going

	Federal Ministry of Economics and Labour	
Japan	YES	On-going
	Ministry of Economy Trade and Industry	
New Zealand^o	Local Government Stakeholder Panel	
Norway	NO	
	(Norwegian Association of Financial Analysts)	
Spain	NO	
	(University Institute Euroforum Escorial)	
Sweden	NO	
	Intellectual Capital Sweden (Consultancy Company)	
United Kingdom	YES	Stopped at an early stage
	Department of Economy, Trade and Industry	
USA	NO	
	Jenkins Committee Enhanced Business Reporting Consortium	

*Notes: *Mandatory disclosure and aimed at universities; ^oaimed at local authorities*

Source: Own contribution, based on RICARDIS (European Commission), "The overlapping of national IC and innovation systems" (Hervas-Oliver, 2011) and personal knowledge

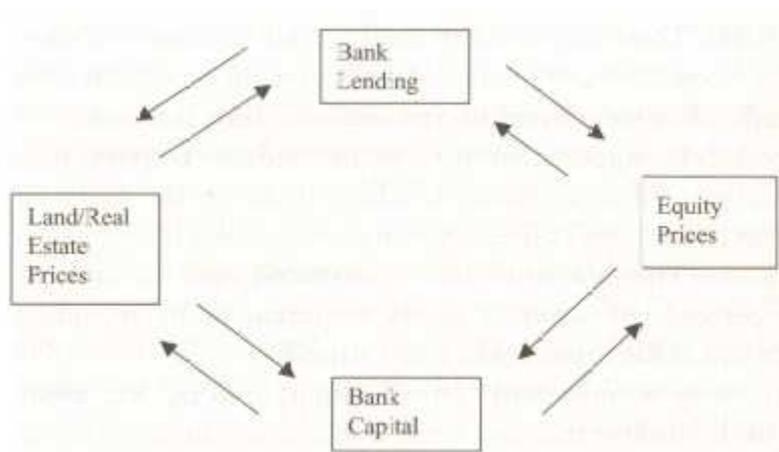
At an aggregated level, MERITUM (Measuring intangibles to Understand and Improve Innovation Management) (2001) e InCaS (Intellectual Capital Statements for Europe) (2009), developed guidelines for the measurement and reporting of Intellectual Capital. The former has been developed by research groups from Spain, France, Norway, Sweden, Finland and Denmark. The latter is mainly addressed to SMEs in five countries (Poland, Slovenia, Germany, Spain and France). Nonetheless, what is at stake here is to analyse the single national system. This way, these guidelines, whether acknowledged, will not be taken into consideration in this paper.

As stated above, the features that connote the singular intangibles path of Japan did not originate in a vacuum but they have to be conceived of as highly interrelated with its economic, social and political history, especially since the 1990's⁸. Indeed, it is well known that since then the Country is living what is referred to as "lost decade". After the fast and extraordinary growth that it experienced during the 1970's and the 1980's, the belief that land-intensive sectors would guarantee high profits started to be shared at a national level. Concurrently, the Plaza Accord that the Country signed in 1985, lead to an

⁸ The description that will follow is not intended to provide a comprehensive and detailed image. The main episodes will be reported to allow a general understanding

appreciation of yen against foreign currencies, especially the US dollar. Consequently, it became easier for companies to obtain loans and credit to invest in real estates. The price of lands dramatically increased and firms embarked in land investments through a zero-sum relationship with banks. In a vicious circle, on the one hand, firms were purchasing lands with money borrowed by banks and on the other one banks were allowing more than 100% collateral values (in the name of high profits expectations) (Figure 3.1.).

Figure 3.1. Relationship between Bank Lending, Land/Real Estate Prices, Equity Prices, and Bank Capital

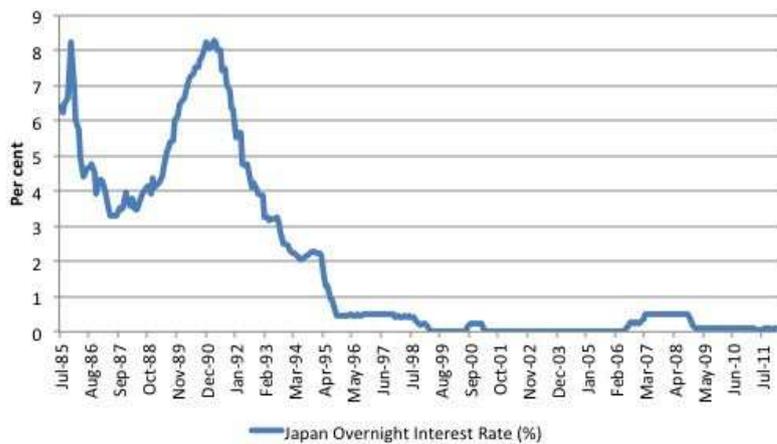


Source: Cargill and Sakamoto, 2008

Recognizing that this bubble was unsustainable, the Ministry of Finance increased interests rates. This way, assets prices collapsed, together with investments (Yoshikawa, 2007) and the bubble bursted.

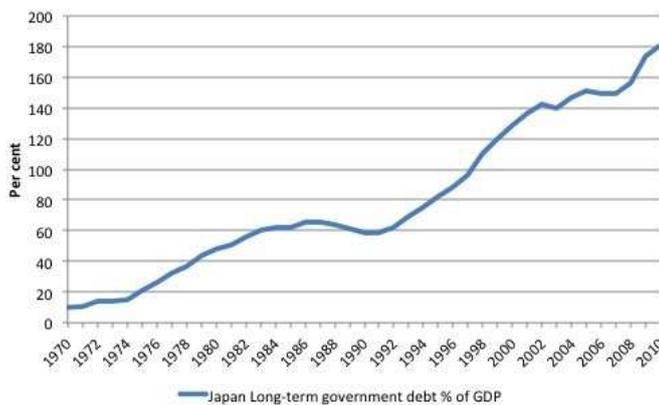
To cope with this stagnation, several measures were undertaken. After the sharp increase of interests rate, Bank of Japan was witnessing one of the lowest levels ever faced and continued to be kept low for years (Figure 3.2.) and the government infused financial institutions with capital. As a result, public debt of Japan continued to increase (Figure 3.3.).

Figure 3.2. - Basic loan rate in Japan, July 1985 to July 2011



Source: Bank of Japan (http://www.stat-search.boj.or.jp/index_en.html)

Figure 3.3. - Long-term government debt as a percent of GDP, Japan, 1971 to 2010, per cent per annum



Source: Japanese Ministry of Finance (<http://www.mof.go.jp/english/budget/statistics/201006/index.html>)

In this context, those mechanisms such as target costing, lean accounting, just-in-time (JIS) and kaizen that have determined the competitive success of companies within and abroad the Country, demised their potential. As will be later explained, similar lines of action, able to restore the specificity of the intellectual craft of Japan were required in order to recover the technological edge that manufacturing firms lost over the decade.

“Japanese economy is based on manufactory industry. Those responsible to reestablish the competitiveness decided to focus on tacit knowledge to recover it” (Interviewee A, Vice

Chairman, SMEs Intellectual Asset-based Management Forum and Professor, Graduate School of Asia-Pacific Studies, Waseda University)

In order to better appreciate the policies that were undertaken towards an intangibles reporting recommendation, later described, it is also necessary to bear in mind the political shift that was occurring over those years, when Prime Minister Jun'ichiro Koizumi started his mandate that lasted from 2001 until 2006. A period that was mainly referred to as "koso kaikaku" (structural reforms) led by "minkatsu" (the utilization of market mechanisms). Indeed, they principally regarded privatization, the promotion of competition and decentralization.

"The top priority that I must address is to rebuild our economy and reconstruct our society into ones full of pride and confidence. Moreover, Japan must fulfill a constructive role as a member of the global community. In the belief that 'without structural reform there can be no rebirth for Japan,' I am resolved to ceaselessly advance structural reforms, including economic reforms, fiscal reforms, administrative reforms, social reforms and political reforms." (Policy Speech by Prime Minister Junichiro Koizumi at 151st Session of the Diet, Monday 7th May, 2001)

As clearly explicated by Cargill and Sakamoto (2008)

"the central themes of Koizumi's reform programs were small government, deregulation, liberalization, privatisation, and devolution. These reforms would transform the Japanese economy into a more open and flexible market economy with less government intervention and regulation, in which free-acting economic actors drive innovation, investment, and economic growth through market competition. Typical of conservative or neoliberal policy makers in other industrial democracies (not necessarily conservatives), Koizumi wanted to reduce government intervention and the amount of resources the government took from private economy" (Cargill and Sakamoto, 2008, p.202)

This way, his attitude resulted an extremely debated one, especially by those politicians belonging to his own party. Indeed, the decrease of the governmental intervention was "striking at the heart of the LPD's organized clientele groups and vested interests" (Hiwatari, 2006, p.31). Put it differently, a system constituted by an "iron triangle" among the Liberal Democratic Party, bureaucracy and business and that was recognized

by Prime Minister Tanaka (1972-1974) as “a breeding ground for political corruption” was now going to be (finally) “smashed” (Kabashima and Steel, 2007)

3.3. Methodological Insights

Within the accounting arena, it has been shown that the practical implications do not emerge from a vacuum but derive from the existence of vocabularies that are developed in different fields and that can “make up” the set of concepts that characterize it (Hines, 1988). On the one hand, these sets of notions are representative of a particular context and of a relationship that is established between the different actors at stake (Miller, 1986; Miller and O’Leary, 1989; Zeff, 1978). On the other, concepts and relationships are created in order to justify practices (Young, 2006). Following this line of thought, the introduction of the documents that have been published by several governmental organizations in relation to intangibles reporting in Japan have been analysed by means of Critical Discourse Analysis (CDA). The choice to focus on the Introduction of the Guidelines relies on the influence that this part of the document can form in relation to, and between, readers and protagonists. On the one hand it orientates the reader and on the other it identifies, contextualises and characterises the protagonists. This way a relationship is established between the way the reader conceives protagonists and in more general terms the story that is told (Hastings, 1998).

Critical Discourse Analysis (CDA) relies on the conjoint examination of the way the structure of discourse reflects and, at the same time, influences the social, economic and political context it emerges from (Chouliaraki, and Fairclough, 1999; Fairclough, 2003) in terms for example of social change and inequalities (KhosraviNik, 2010), globalization and capitalism (Fairclough, 2006; Chiappello and Fairclough, 2002) and power relations (Fairclough, 1989). In particular, its “critical dimension”, compared to others methods of investigating discourse, refers to the exploration of the social processes and structures through which the text is generated and the relationships that are established ex-post its production (Wodak and Meyer, 2001).

In relation to policy analysis, its relevance has been acknowledge over the past years. Since then it has been a method mainly employed with reference to the understanding of social policies recommended by governments not as pre-given, but as contingent on the

context from which they emerge. (Marston, 2000). To a similar extent, the intention here is to use this methodological practice to explore how the characterization of intangibles reporting in the Guidelines published by METI can be considered which arose from the economic, social and political situation of the Country. The devices adopted in order to conduct the investigation mainly relate to the concepts of “word meaning”, that is the choice to use certain words and the underlying reasons and “grammar”, in its declination in logical connectors used to link sentences, relational values (use of pronouns *you* and *we*, modes – declarative, imperative etc.) and experiential values (agency clear or unclear) (Fairclough, 1989).

Although CDA is nowadays a well-established methods (for example the foundation of the journal *Discourse & Society* in 1990s by one of its major representative scholar can witness it), it does not however have lack of criticisms. Many of its disadvantages have been discussed in the literature and refers to the absence of examination firstly in the ways texts are interpreted by readers, and secondly in the context from which they derive (Ferguson, 2007). Most of these limits have been in turn criticized for example in the name of the scope that underpins the research undertaken and of the size limitation of academic papers (see Gallhofer et al., 2007). In a similar vein, the focus will be therefore addressed in the scope of this paper, which is to understand how IC reporting discourse emerged and how it has been *institutionalized*.

The way this recommendation has been perceived by its addressees will be investigated in following papers. However, there is a particular limitation that has not been addressed here and that the reader should keep in mind in interpreting the results, such as the language used in order to conduct the analysis. The adoption of the English language, instead of Japanese could have in fact caused translation and understanding problems.

Although IC and ICR have been already investigated through the adoption of discourse analysis, especially content analysis, (Beattie and Thomson, 2007; Cuganesan et al., 2007; Guthrie et al., 2004; Striukova et al. 2008; Unerman et al. 2007), it is worthy of note that from a content point of view, their focal point is represented (once again) by the organization and its processes and from a methodological perspective, in order to conduct content analysis, a framework or a list of words, that is “pre-conditions” have to be developed, whilst with CDA the text is “allowed to speak without constraints”. The analysis of the foreword of the Guidelines has been followed by interviews. Two semi-structured interviews involving a set of open questions have been conducted over the

period May 2005-November 2012 both in person, written form and via Skype communication. The questionnaires have been prepared and pre-sent to interviewees. The interviewees included persons directly responsible for the formulation and preparation of the Guidelines. The choice for the interviewees focused on those members representing the main constituencies involved in the project, namely the Ministry of Economy, Trade and Industry, academics and consultants. Details about interviewees are provided in Appendix B. The topics covered throughout discussion with them concerned the economic, political and social context that generated the idea to prepare a Guideline, the actors participating (Government; Professional Bodies), the processes that characterized the preparation of the Guidelines (“due process” vis-à-vis public consultation) and the outcomes achieved (outcomes expected vis-à-vis outcomes realized; feedbacks from companies). The interviews each lasted 60-120 minutes each and were all recorded and transcribed. The transcriptions formed the basis of the analysis.

3.5. The “intangibles background” of Japan

As briefly mentioned in previous sections, Japan has been one of the main, if not the principal contributor in terms of innovative knowledge-based approaches in management and management accounting. A sensibility towards concepts related to knowledge, intellectual and intangibles resources have been developed since decades and have spread worldwide, so that import-export conceptual and practical relations have established in this respect, especially with Anglo-American countries (Hopper, 1999). Among others, probably the two most influential thinkers have been Hiroyuki Itami and Ikujiro Nonaka. Especially over the 1980’s, their works offered pioneering considerations for improving the competitiveness of companies, recognizing knowledge and *invisible assets* as the key value-drivers for management and the organization as a whole. As stated by Itami

“Invisible assets are the real source of competitive power and the key factor in corporate adaptability for three reasons: they are hard to accumulate, they are capable of simultaneous multiple uses, and they are both inputs and outputs of business activities.”
(Itami, 1987, p. 12-13)

“Takao Ikawa, executive vice president of the Taio Paper Company, discussed how his firm developed such a strategy and prospered in an industry that has been in very bad straits since the oil crisis of 1973. "We have been working hard at modernizing what is visible as well as what is invisible. Plant and machinery can all be bought with borrowed money, but you can't buy invisible assets. Management means just one thing: creating invisible assets. We have spent a great deal of effort in constructing an organization, developing human resources, rules, and a cost accounting system, not to mention technology and brand name (Nomura Management School, 1981) [...] I want to stress that they (human resources) are important because of their role in the development and maintenance of the firm's invisible assets.” (Itami, 1987, p. 14)

Despite these theoretical advances, in practical terms, in comparison to other countries (e.g. Denmark, UK), progress toward the intangibles' field in Japan gained ground at a late stage at a voluntary level⁹. This “delay” has been recognized by one of the key-actors involved in the process as

“arising from a difficulty in the implementation of knowledge-based management issues, which is mainly based on human capital and orientated towards internal organisational aspects and not from a lack of attention towards intangibles resources” (Interviewee B, Senior Manager for the Intellectual Property Services Division, KPMG AZSA & Co.)

This way, in March 2002 in the flow of reforms that constituted his administration, the Koizumi Cabinet established the “Strategic Council on Intellectual Property” whose part were all the Ministries of the Government. Aim of the Council was to enhance the international competitiveness of the Country by means of policies that allowed the enhancement of intellectual properties.

“Japan already possesses some of the best patents and other intellectual properties in the world. I will set as one of our national goals that the results of research activities and creative endeavours are translated into intellectual properties that are strategically protected and utilized so that we can enhance the international competitiveness of Japanese industries. With that in mind, I will establish the Strategic Council on Intellectual Properties, and powerfully advance the relevant necessary policies.” (Policy Speech by

⁹ At a mandatory level, similar disclosure practices are already required by the Security and Exchange Law and the Annual Securities Report.

Prime Minister Junichiro Koizumi to the 154th Session of the Diet, Monday, 4 February 2002)

“In order to enhance the international competitiveness of Japanese industries and revitalize the economy, it is important to strategically protect and utilize the results of research and creative activity as intellectual property. To this end, the Strategic Council is being convened in order to establish a national strategy for intellectual property and to powerfully advance the necessary policies.” (Prime Minister of Japan and His Cabinet, http://www.kantei.go.jp/foreign/policy/titeki/index_e.html)

Accordingly, several documents and guidelines addressing this topic have been published since 2002 (Intellectual Property Policy Outline, 2002; Pilot Model for Disclosing Patent and Technical Information, METI, 2003; Guidelines for Intellectual Property Information Disclosure, METI, 2004), with the aim to “recognize the intellectual property strategy as the center of the management strategy, called “intellectual property-backed management”, in the trinity of business strategy, R&D strategy, and intellectual property strategy” (Johanson et al., 2006, p. 475). Indeed,

“due to the increased competitiveness of nations such as those in other parts of Asia through low labour costs and improved production techniques and global advances in the field of information technology, Japan must move away from the economic model that brought it past success. It is necessary to seek a new model for growth in which an economy also suited to the creation of high-value added intangible assets replaces an economy oriented toward manufacturing and assembly. In the fields of manufacturing and assembly, harmonious teamwork is an important element, but in the fields of inventive and artistic creativity, the free thinking of individuals becomes the key. In order to open the way to a bright future for Japan, it is indispensable to carry out reform with a view to attaching importance to creativeness in all its aspects. This reform is a national undertaking with a view to the construction of a 21st century Japan. While making efforts toward international cooperation, it is indispensable to implement the Intellectual Property Policy Outline and strengthen the international competitiveness of Japanese industry based on the above perspectives.” (Intellectual Property Policy Outline, Strategic Council of Intellectual Property, July 2002)

However, the efforts that were made towards a recommendation and an implementation of an economic policy based on intellectual properties, shortly showed two significant pitfalls. At first, an asymmetry between the inputs and outputs of such a policy. In other words, although Japan is able to create a large number of patents, they were neither used in an effective manner (OECD, 2005; 2006) nor adequately protected. In two excerpts published in the Japanese press after the recommendation and adoption of IP policies, it was stated

“It’s not that society as a whole has become aware how important protection of intellectual properties is and started (demanding) legislation, but rather the government took the initiative to develop legislation addressing the issue. So there’s a void in the human infrastructure for dealing with the issue”, Komatsu said” (The Daily Yomiuri, 2005)

“Unless the government does more to protect patents on advanced research by Japanese firms and other organizations, they will likely have difficulty fending off the fierce challenge of American companies.” (Nikkei Weekly, 2004)

A second deficiency related to a well-known difficulty faced in recording the value of patents and IP on the face of the balance sheets in traditional annual reports, due to stringent accounting rules (Nobes and Parker, 2002). It has been advocated that the two legal system regulating company disclosure, the Securities and Exchange Law and the Commercial Code, primarily focus on the recognition and disclosure of traditional accounting information, respectively on “accounting information needed for equity transactions, notably earnings information as indicators of corporate performance and [...] accounting measurement to be geared to capital maintenance and the determination of distributable income” (Oguri and Hara, 1990).

It is of interest to note, the limitations of IP policies have been also identified by the Government. An awareness that the (narrow) focus on R&D investments and on patents is accompanied by several concerns, such as a “limited contribution to actual business or corporate profits”, “shorter-term research”, the lack of dynamism of inventions and a “sectionalism or compartmentalization in companies”, that lead to increase the “Non Invented Here” syndrome which has been recognized (Sumita, 2008, pp. 211-213). As a consequence the emphasis has been reoriented towards an Intellectual Assets-based Management:

“In the era of innovation, corporate managers have no other ways than fundamentally reforming their management through introducing IAbM which put more on creating the origin of differentiation by utilizing their own resources and available outside ones in their own ways and appealing the outcome to the market. Certainly, it is important to spend money in R&D or IT related infrastructure and in hiring highly-educated people, however, it would be meaningless as long as it is technical response to the changes in sight. Only the above-mentioned intellectual management would raise the corporate value.” (Sumita, 2008, p. 209)

In particular, it was in 2004 that METI has turned its attention to Intellectual Assets, initially referred to in the “White Paper on International Economy and Trade”. In May 2004, it was possible to read in the Japanese press:

“The Japanese government hopes to use intellectual capital to improve labor productivity and create new markets. It also aims to tackle domestic problems such as job creation in an aging society and the brain drain overseas.” (Jiji Press, 2004)

In addition to this, several articles focused on the White Paper on International Trade released by METI, titled “Towards a ‘new value creation economy’”, according to which Intellectual Assets and their management represent the source of competitiveness of the Country were also published.

As introduced in previous sections and reminded by the press excerpt, the underlying logics to introduce this concept within the Japanese context relied on reasons identified both at the macro and at the micro level crisis’ situation of the Country. At the macro level it referred to the possibilities of the international dissemination of the financial bubble that invested the Nation over the last decade. In this respect, one the person responsible for the preparation of the White Paper has stated:

“If we would be able to develop a framework that could be used for assessment of the value of the firm based on the long-term perspective such as intellectual asset valuation, that could contribute to avoid another financial bubble caused by short-term valuation of market participants” (Interviewee C, Deputy Director-General, Economic and Social Policy, METI)

At the micro level it related to the solutions identified by the Industrial Revitalization Corporation of Japan (IRCJ) to solve the burst of the financial bubble and the non-performing loan assets held by the banks. IRCJ was an organization led by the government but also independent in nature which began its operations in 2003 and that had the aim to promote lines of action in both the private and public sectors, in relation to bad loans (Interviewee A, 2012; Okina, 2009). It identified the origin of the bad loans problems in the request by banks of (short-term) physical assets as collaterals. This way, in order to face “short-termism” the organization proposed a solution based on evaluation mechanisms based on the use of Discounted Cash Flows (DCF). This method relies on the need for long-term information and value assets which were neither disclosed nor well-known within companies.

“The banks focused heavily on the value of collaterals that borrowers provided rather than value inherent to the companies. Alternatively, IRCJ employed DCF (discounted cash flow) approach when it evaluated both viability and value of the firm. DCF approach, by definition, needs projection of the future stream line of cash income of the firm. But future stream line of the company can only be evaluated after considering business strategy of the firm and intangible assets the companies can employ in order to realize its strategy.

Although turnaround investors such as IRCJ normally demands such information from the targeted companies and make their own assessments, this kind of information is not disclosed in the financial reporting. Moreover, company management themselves were not sufficiently prepared to produce such strategy based on the assessment of their assets including intangibles.” (Interviewee C, Deputy Director-General, Economic and Social Policy, METI)

Consequently, it became important for the government to find a *technique/gatekeeper* able to interrelate “profitably”, that is the growth of the country (at a macro-level) and the way business, especially enterprises, were run (at the micro-level). In the light of the business context that characterizes Japan, this link between macro and micro has been identified in the role played by management. As stated by McKinnon and Harrison (1985) corporate management embodies, together with bureaucracy, the most powerful body in terms of influence, of public and policy determination. However, it was not possible to rely on the type of management that was fashionable during the 1990’s, as the contextual situation was completely transformed. As Numagami et al. (2010) stated,

those managerial characteristics at the basis of the knowledge-creating company that have determined the success of Japanese companies within the Country and abroad, such as consensus-building and “strategic connoisseurship”, lead them over the 1990’s to suffer from an “organizational deadweight”. Indeed, the costs and time spent to build internal consensus at the expenses of customers satisfaction and in-time responses are well-suited in rapid growth periods but not in latent ones, such as the one experienced over the “lost decade”. In addition to this, an organizational rigidity in terms of long-term employment and in general to hierarchical mechanisms can result in a decrease of “strategic connoisseurship”. As emphasized by Makino and Roehl (2010)

“the Japanese management system worked well in the growth periods in the Japanese economy throughout the 1980s and early 1990s. However, it became a source of organizational deadweight in the matured business environments in the late 1990s and onwards.” (ibid., p.43)

The intention to identify a “new” type of management, able to capture the value of intangibles and to appropriately adapt to the contextual situation was further recognized and promoted in the first document that has been published by METI in 2005. According to this document, namely the Interim Report by the Subcommittee on Management & Intellectual Assets, it was necessary for Japanese companies to adopt a “new” type of management, able to conceive of alternative ways in dealing with intangibles and competing within the global market.

Such alternative ways were based on three particular aspects, such as Intellectual Assets-based Management, the concept of Intellectual Assets (IA) and finally the methods to measure them. The first aspect relates to the shift from a (western) type of management based on short-term profits to a new one, able to identify the competitive “internal” resources of companies and to control them, in order to avoid an unintentional flow-out.

“The idea of management to identify intellectual assets and to use them effectively is different from management based on the principle of assigning first priority to short-range profit. Especially since the change to the profitable structure has been argued in the structural reform in corporate management after the bubble burst and with “Japanese management” disappearing in the process of becoming leaner and meaner in order to obtain short-term profits, such management emphasizing intellectual assets might be

evaluated through reassessing the elements which could have been assessed by cool insight.” (Interim Report on Intellectual Assets-based Management, 2005)

The need to clearly distinguish a management system centred on intellectual assets from the one based on short-termism stems from the international relations that the Country was facing with the US since twenty years in relation to corporate governance models. As described by Yonekura et al. (2012), in the wake of globalization, the US started to be the economic, social and political model that better embodied the neo-liberalism features. Accordingly, its hegemonic power was hitting not only others Anglo-American countries but also the doors of Japan. A corporate governance model mainly focused on short-termism and providing information to shareholders became the new reference point.

“Good corporate governance will lead to improvements in the performance of companies, as management strives to maximize shareholder value through increased productivity and sound commercial decisions. Ensuring that management is accountable to shareholders, through disclosure of information necessary for intelligent voting of proxies and encouragement of active shareholders voting; is one of the fundamental aspects of good corporate governance system” (Annual Reform Recommendations, 2002, Annex-33)

However, after years of negotiations and despite the amendments that finally were made in this respect to the Commercial Code (thus allowing companies to adopt the Anglo-American model), just few organizations have decided to espouse it, demonstrating a preference and predominance for the Japanese one.

In a similar way, that is in terms of international relations that characterized Japan over the 1990's, has to be understood the second facet that connote the focus on a “new” type of management. The label “Intellectual Assets-based Management” highlights the fact that, in the creation of value, the way in which values are identified, managed and incorporated in the managerial strategies is fundamental. In particular, this type of management must clarify the *raison d'être* of the enterprise, as it must allow the so-called “selection and concentration”, i.e. the withdrawal from businesses where the enterprise has lost its “strengths” and the subsequent concentration of resources where such strengths can be exploited. In this respect, the management must be able not only to

identify and estimate the strengths, but also to carry out a risk analysis and, if any risk comes into play, to face it either by renovating the strengths; by re-evaluating IA; by thinking a new mode of use; or otherwise by creating new IA. Indeed, weaknesses are due both to the lack of certain IA, and to the *mishandling* of existing ones.

As explicated by Schaede (2012), globalization manifested in relation to manufacturing, finance and import-export relations. However, as opposite to the trend that saw over the 1980's Japanese companies moving abroad in the name of a concept of globalization according to which "the location of manufacturing elsewhere affected domestic industries (ibid, p. 173) and a flow of import-export, the 1990's experienced its counterpart. Within manufacturing, the import ratio of goods doubled and in financial markets, the replacement of the 'Foreign Exchange and Foreign Trade Control Law' by the 'Foreign Exchange Law' opened investments barriers, leading to an extraordinary increase in foreign ownerships of domestic companies.

In this context,

"The only way for Japanese manufacturers to earn profits in competition with Asian countries is through technology leadership and constant innovation. This insight has led competitive companies to change their human resource management practices: rewards had to shift from working hard to working efficiently and effectively; people had to be selected for individual talent as opposed to not making mistakes; and culture had to change to speed and risk-taking." (Schaede, 2012, p. 181)

Therefore, the third aspect that characterizes the "new" type of management, relies on the importance for companies to identify resources, within or outside the company, based on the presence of an "intellectual activity". In a study conducted by METI in 2004, aiming at the recognition of those resources able to create a sustainable value, it in fact emerged that the key ones are the "capacity to solve problems", the "innovation ability", "human resources" and "customer networking". The third aspect derives directly from this and refers to the difficulty for traditional annual reports to entirely represent the value of companies.

To recapitulate, the reliance on the above described aspects is of particular significance for two main reasons. The first one refers to the possibility for Japan to open up an internationalisation process that will allow the nation to adequate itself to a *fair disclosure trend* in relation to which strategic information on corporate value will be

provided in an equal way to stakeholders. The second one relates to the possibility to disseminate the important values within corporate management and disclosure fields, for the country, with the further intention to incorporate them in global standards. The advanced stage is one in which other countries could, in relation to this topic, be able lead to an “imposition” of their standards.

3.6. From micro to macro and back: a political economy of IC/Intangibles Reporting

The ways through which a micro practice as intangibles reporting can be understood by means of its relations with a macro economic and social context have been underlined by the semiotic of the Introductions of Guidelines for the disclosure of IAbM. For the reader not familiar with the Guidelines, excerpts of the Introduction of the Guidelines are reported in Appendix C (C.1, C.2 and C.3).

Towards an “adequate” management method for traditional and innovative corporate value creation

The first document on IAbM, published in 2005, namely the Guideline for Disclosure of Intellectual Assets-based Management, had the aim to introduce a corporate management approach based on intangibles resources. Of particular relevance is the way in which IAbM is addressed. Although this is the first official Guideline (the Interim Report has been published in August the same year), IAbM is firstly characterised here in a general manner as “a management method”, addressed to “many stakeholders”. In a second stance the aim of this type of management method is made somehow (but not completely) clearer. The “shy” attempt to explain it is first of all underlined by the connection used, that is “based on the pursuit of interest”, even if no addressee is referred to. The choice to let it be opened up could be intentionally made, creating attention not only towards a specific audience but to a broad one, so that everyone could be involved in the adoption of this management method both within and outside companies. Secondly, mention is made to positive terms such as, “to enhance corporate value”, “sustainable profits and growth” in making the “best use of corporation’s own ability”. Although a link between the macro and the micro levels is established, by referring to

this management method as a positive, almost adequate way to face those problems that affected the whole Country (such as the “Non Invented Here” syndrome and the bad loans problems), it is blurred and it mainly refers at the company level as no contextualisation is provided. Of consequence the “real aim” of IAbM seems not to be revealed. It is in the last two sentences that it is possible to discover a part of it. It is stated:

“In that context, this guideline would also be a great help in preparing and appreciating reports on CSR and sustainability reports.” (Guideline for Disclosure of Intellectual Assets-based Management, 2005)

This way, it seems that not only corporate traditional ways of value creation and disclosure but also innovative ones, such as CSR and sustainability reports would benefit from the role of IAbM, almost showing a deficiency in their disclosure potential. This established association is made clear through the use of the connection “in that context”, as to say that only once that IAbM has been implemented it would be also possible to prepare and also to appreciate reports linked to CSR and sustainability. In this respect it has been posited that

“CSR and sustainability reports are the results of pressures by society but they are not substantial, not even structured” (Interviewee D, Technology Promotion Division, Industrial Science and Technology Policy and Environment Bureau, METI)

Another possible explanation could be conceived of in relation to the actors promoting the two initiatives and the existing relationships among them. Indeed, CSR has been a project mainly endorsed by Nippon Keindaren (The Federation of Economic Organizations) and Keizai Doyukai (Japanese Association of Corporate Executives). As explained by Fletcher (2012), since the experience of the “lost decade” the former has remained a formidable representative ‘lobby’ in the complex web of government-business relations. Most of the proposals advanced, have been implemented over the years by the government.

Moving from this standpoint, the scope of the 2005 Guidelines, as derived from the Introduction, is to start familiarising the readers with a management method based on

intangibles reporting that could be useful both in relation to traditional and innovative, such as CSR, value creation processes and disclosures.

Globalization and SMEs: an Intangibles Reporting connection

The document just described has been followed by others two, namely the “Intellectual Assets-based Management Manual for SMEs”, published in 2007 and “Keys to Intellectual Assets-based Management Evaluation Finance”, published in 2009.

The first one has the aim to help SMEs to base their competitiveness on intellectual assets. In reading the manual, the difficulty for SMEs to credit’s access is accompanied by the social and economic context that characterized Japan in the past years. As a consequence, the growing role played by IA within the economic system has led financial institutions to base their decisions on qualitative information of the company, such as technological capacity and the enthusiasm of top management.

In order to facilitate the management’s ability to recognize the “hidden assets”, the committees responsible for the abovementioned manual have identified the required structure of the resulting report as a kind of “history of the creation of value”, according to which, by following a past – present – future sequence, it is first necessary to identify the strengths or origins of the creation of value; secondly, to recognize how *corporate value* can be increased and/or improved from both a quantitative and a qualitative point of view through their use and combination; and thirdly, to manage the company, orientating it towards a future vision based on the most significant IA.

By means of a detailed examination of the Introduction of the Manual, the situation that characterizes Japan and the underlying logics for the recommendation of this type of practice, appear much more articulated.

“The Japanese economy has shown signs of recovery in recent years, but the trend of dwindling childbearing rate and aging population has hindered expansion of the nation’s domestic economy, while the accelerated tide of globalization has made simple cost-based competition meaningless. In the given situation, the emphasis is on how small and medium enterprises, which bolster the Japanese economy, can enhance their added values.”
(“Intellectual Assets-based Management Manual for SMEs”, 2007)

In this first paragraph it is possible to identify the macro and the micro contexts that characterizes Japan and the relationship among them. The macro level is represented by

the presence of three actors, such as the Japanese economy, society and globalization. These actors are in contrast to each other, as it could be noted by the use of the connection, such as *but* and *while*. This contrast, especially the one between society and globalization, is strengthened by the presence of antonymous verbs that relate to them, such as *hinder* and *accelerated*. The contraposition among economy and society could find justification in the fiscal lines of actions undertaken by Prime Minister Koizumi. Indeed, as explained by Kaihara (2008) Koizumi decided not to increase consumption taxes. This choice in the short-term benefited the already difficult situation of the country but in the long run exacerbated it, as more money for pension and health care were needed.

“He unequivocally pledged not to raise the consumption tax during his tenure, and he stuck to his pledge until he left office. His decision was reasonable since the economy was in depression, but Japanese society continues aging. It is said that due to aging, social security costs (including pension, health and other welfare programs) increase by 800 billion yen (U.S. \$ 8 billion) every year (Yomiuri, 7 October 2007, p. 3). (Kaihara, 2008, p.399)

The element according to which these actors can be associated to each other is the lack of agency. All of them, although abstract, are in fact subject to personification, through the attribution of actions to them “the Japanese economy has shown”, “the trend [...] has hindered”, “tide of globalization has made”. In a sort of climax, this process “explode” in relation to globalization, that is also referred to as a “tide”. As explained by Fairclough (1989; 2003), the realization of agents as inanimate or abstract nouns, is motivated by the will to obfuscate such agency and of consequence causality and responsibility of specific people. This lack of agency is particularly true, when addressed to *globalization* (Fairclough, 2006) and makes it appear as a matter of fact, that is a “given situation”. However it is through this connector that is possible to recognize the association with the Japanese national situation.

At a micro level, the reasons that led to the preparation of the Manual rely on the fact that is the guidelines previously published on the disclosure of Intellectual Assets-based Management, although settled up by METI, were not tailored on SMEs. Even though this distinction is explicitly stated “such discussions did not suit the reality or objectives of small and medium enterprises” and through the use of connectors, such as “in response to”, “however”, “in view of past developments”, it is underlined by the way it refers to

IA. According to the guidelines, IA are defined “as non-tangible assets that generate active returns or corporate values”. Whether it is of interest the equality that is established between *returns* and *corporate values*, in emphasizing the relevance that also values have in creating growth, this definition is not considered enough, when referred to SMEs and no connotation is given to IAbM. As opposed to the guidelines, where the forum gives them a “clear recognition”. IA are referred to as “driving force”, and “source of unique corporate values” in relation to “SMEs’ growth and development”. IAbM plays a major role not only for SMEs but for business in general. It is a “technique” that allows an *intentional* use of such assets in achieving a “sustainable business growth”, “further business growth and development” and in giving relevance to SMEs (it is not important that readers understand IA or IAbM per se but of SMEs adopting them). The justification of this choice, that is to focus on SMEs, relies on the difficulty that listed companies (addressed in the previous Guideline) have in grasping the value which management processes create within the entire organization. In this respect, Sumita (2008) affirms that “this is because it is difficult to summarize an IAbM report in an existing specific section of a company, whereas IP reports can be handled by the IP section, and CSR Reports by the CSR section.”

As in the case of the previous guideline, it is not until the last paragraph that the aim of the manual is clarified, that is to enhance collaboration between consultants that work with SMEs in the view of an international context that is in all ways becoming more challenging. Cooperation allows in fact an “extension of fresh recognition” of IA (instead of a “clear” one provided by the Manual). The use of the pronoun “we”, though “exclusive”, as opposed to “they” when relating to SMEs, underlines this need, almost in making thinking of the writers as part of the consultants. Following this line of thought, the connection between SMEs and consultants, especially academics, can also be appreciated in light of two lines of actions undertaken at the national level. Firstly, it can be referred to as the de-regulation that occurred within the university system. Over the late 1900’s, beginning of the 2000’s a law prohibiting the exchange of personnel between universities and industry has been amended allowing this exchange (OECD, 2005b; 2006). In later years, Koizumi reinforced this exchange by identifying the cooperation among industries, SMEs and universities as one of the key aspects to revitalize the employment possibilities in Japan.

In his own words,

“In order to create employment through new markets and industries, I will promote the advancement of science and technology through enhancing the functions of universities and through cooperation among industry, universities and government in local regions. [...]In order to expand employment and create industrial vitality, we will implement appropriate measures to seek to promote business start-up and the management reorganization of SMEs across Japan. In addition to diversifying the means by which SMEs can procure capital, we will enhance support measures for such areas as human resources and technology development. At the same time, we will strengthen measures aimed at avoiding chain reaction collapses of SMEs that have high aspirations.” (Policy Speech by Prime Minister Junichiro Koizumi to the 153rd Session of the Diet, September 27, 2001)

Secondly, it relates to the author of the manual, no longer METI itself but the Organization for Small and Medium Enterprises and Regional Innovation, Japan (OSMERI), an independent administrative agency under the Ministry of Economy, Trade and Industry, which was launched on 1st July 2004 with “the aim to support SMEs and regional communities in solving their problems and realizing their dreams, by providing targeted and personalized support measures” (OSMERI website). In January 2006, the organization set up a “Research Group of Intellectual Assets-based Management for SMEs” and in 2007 it published the guidelines. Interestingly, the head offices representatives of the nine regions which constitute Japan are placed in close relationship with the so-called SME Universities.

In the name of an Intangibles Reporting Policy: Financial Institutions and the Credit Access of SME's

“Of course there are limited number of people who are aware of the problems of valuation of the firms, particularly SME and start-ups without sizable tangible assets.” (Interviewee C, Deputy Director-General, Economic and Social Policy, METI)

Using the words of one of the initial promoters of intangibles reporting movement in Japan, it can be recognized that the logics that lead the third document have be related to financial institutions and how these can support credit's access by companies, especially

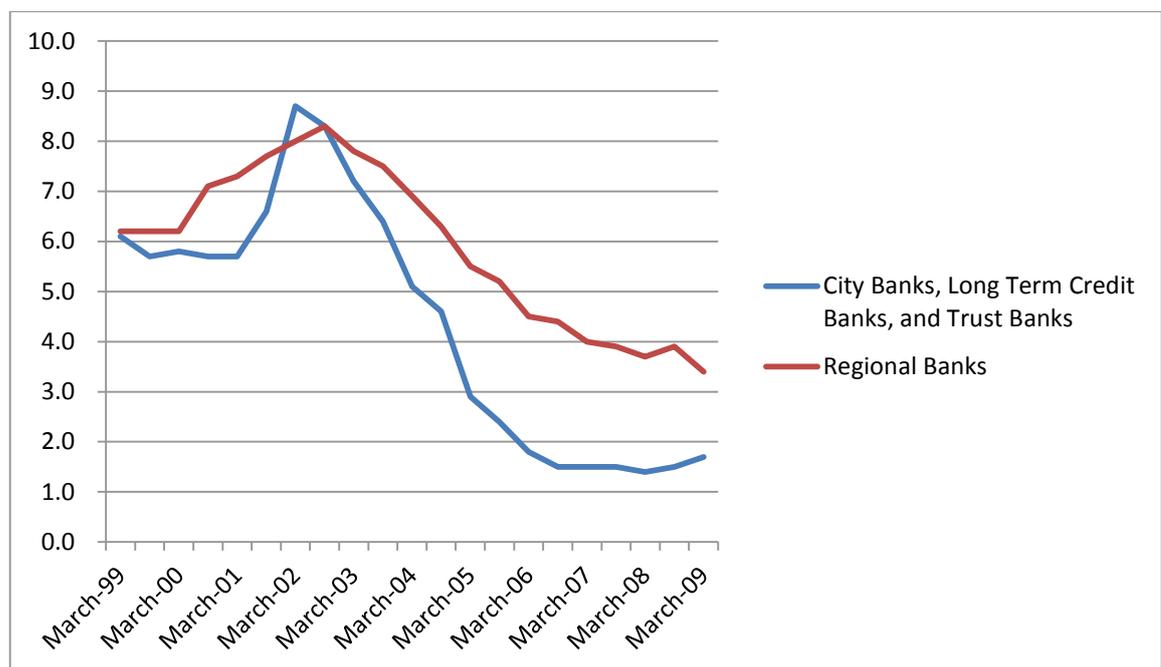
by SMEs. According to the “financialization” trend that affected capitalism in the late 20th Century (Arrighi, 1994) and consequently the governmental (Krippner, 2005; 2011) and accounting systems’ decisions (Arnold, 2012), in several surveys, conducted since 2007 in Japan by the Organization for Small and Medium Enterprises and Regional Innovation, it has been pointed out a difficulty for financial institutions to gather useful information to value in an appropriate way the economic-financial situation of a company and, of consequence, to take appropriate decisions. Thus it is suggested to financial institutions, both to base their valuation on an Intellectual Assets-based Management Report and further to adopt this type of management. Similar observations were attained by the Financial Services Agency, the major authority of financial institutions (it is in charge of supervision of most financial institutions in Japan) that in July 2008 reported in a Guideline on “General Supervisory guidance for small/medium sized and regional financial institutions” the need for financial institutions to evaluate the importance of intellectual capital when considering credit access to SMEs. Concurrently, a working group for financing based on the intellectual capital of small and medium-sized enterprises constituted by the Organization for SMEs and Regional Innovation first (2008) and Yosano and Koga then (2008), provided empirical evidence of this necessity that for several financial institutions already found implementation. Over half of them in Japan are found to daily use check sheets to collect non-financial information within financing processes and positive relations are established between non-financial items and credit conditions.

However, despite a collective sensibility, further efforts were felt to be required. Despite the authority covered by the Financial Services Agency, its attitude has been recognized to be more cautious towards insolvent financial institutions, compared to its previous version (Financial Supervisory Agency). Indeed, the convergence of planning and supervisory functions in its organization, as well as the appointment of politicians as the head of the Agency, undermined its independence (Hoshi and Ito, 2004). This tendency is clearly demonstrated analyzing the trend that non-performing loans experienced from 1999 and 2009. A sharp decrease of non-performing loans both by city, long term credit, trust banks and regional banks has been recorded from September 2001 and September 2006 (Figure 3.4). Over that period the Financial Services Agency was not headed by a politician but by Heizō Takenaka, an economist that Prime Minister Koizumi appointed at first as Minister of State for Economic and Fiscal Policy (2001) and then as Minister of

State for Financial Services (2002). The decision for appointing a head of FSA with no political connections followed from the astounding statement of the former head, Hakuo Yanagisawa, who argued that banks were solvent and reasonably capitalized, although the official statistics were manifesting the exact opposite situation (Cargill and Sakamoto, 2008).

Figure 3.4.

Large Banks and Regional Banks, Nonperforming loans, March 1999 to March 2009.



Source: FSA, Transition of Non-Performing Loans based on the Financial Reconstruction Law, March 2009, <http://www.fsa.go.jp/en/regulated/npl/20090807.html>

From September 2006, when Prime Minister Koizumi finished his administration, the decrease of non-performing loans concurrently stopped and since then their total value is stagnating, if not increasing (an exception is represented by regional banks that are slightly decreasing). Financial Services Agency returned to be headed by politicians, who although part in former years of Koizumi Cabinet (the present one, Taro Aso was Minister for Public Management, Home Affairs, Posts and Telecommunications in his first Cabinet (September 22, 2003 - November 19, 2003), Minister of Internal Affairs and Communications in his second Cabinet (September 27, 2004 - September 21, 2005) and Minister for Foreign Affairs in his third and last Cabinet (October 31, 2005 - September

26, 2006), apparently confirmed their role in hindering the conflict of this financial problem that since the 1990's is affecting Japan (a list of Minister of State for Financial Services that covered the role of since 2006 onwards is reported in Appendix D).

Another aspect that is worthy of note to understand why intangibles were identified as a reaction to the non-performing loans situation is that the Minister of State for Financial Services of Japan in those years (2008-2009) was Shōichi Nakagawa, the one who as Minister of Economy, Trade and Industry during the period from 2003 until 2005, proposed over the 43rd OECD Ministerial Council Meeting the project on “value creation and intellectual assets”.

“Minister Nakagawa observed that it was vital to create markets and jobs that make use of intellectual assets, such as highly skilled and experienced older workers, other human resources and technologies. From this perspective, he proposed an OECD project on “value creation and intellectual assets” that Japan work with five countries, Denmark, Finland, the Netherlands, Sweden and the United Kingdom, with the aim to analyze the correlation between intellectual assets and its contribution to economic performance, as well as improving understanding, evaluating and reporting those assets. The project was noted in the Chair’s Summary, with the proposal referred to the OECD Council for further consideration” (IIST World Forum, Institute for International Studies and Training website, http://www.iist.or.jp/wf/magazine/0265/0265_E.html)

According to the above observations, the way financial institutions and their methods for credit decision making are referred to in the Introduction of the Guidelines, seems in fact to underline that they do not take into consideration that the world has changed and that this change, in accordance to the writers, has brought Intellectual Assets and the IAbM Report to be further taken into consideration. The “globalization-intangibles” connection is firstly evoked by the reference not only to globalization (as it was in the other two Guidelines), but also to the knowledge economy. Secondly, they have been linked and made equal with each others by the connector “and”. In a more subtle way, an association is established and stressed throughout the whole Introduction. “Actual situation”, “actual status” are both located in a close relationship with intellectual assets (“intellectual assets information”, “non-financial information”). Along a similar vein, the verb “understand” refers to both of them. Although it is stated that IA and IAbM represent a perspective for appraising and they are not a denial of the previous approaches, a contrast between them

and the way of acting for financial institutions is established. IA and IAbM are connoted in a positive way, relatively as “unique strengths”, “growth potential”, “unique forms of finance”, “technical abilities” and “initiative on the part of enterprises”, “funding provision technique”, and are accompanied by adjectives such as “accurately”, “comprehensively”, “effectively”, “proper”, “suitable” and “convincingly”. On the contrary the approach implemented by financial institutions, such as losses and excess debt is referred to as “obviously aspects”, “only” and “instead of”. The more significant demarcation of this distinction is the use of the word “non-financial”, which appears in this document for the first time.

In this divergent situation between globalization, the knowledge economy and IA/IAbM approach on the one hand, and financial institutions on the other one hand, the role of METI, governmental agencies and organizations recognize themselves to act as mediators, and to clarify (“clearly show”) the way to be followed. The mode that is adopted in the text is in fact not declarative, neither imperative, the verbs that denote their actions are “promote”, “propose”, “contribute” and “prepare”, the handbook that they have published is presented as “a perspective”. This way, the approach they recommend appears on a first sight not to be imposed, but as a suggestion. In a more detailed analysis, such a role of the Government is shortly demystified. Twice IA and IAbM are referred to as, or in relation to, policy and in the last two paragraphs those dedicated to the aim, the addressees are no longer the financial institutions of Japan as a whole, but *each* of them, as in directing in a clear way the attention towards them and expecting the same level of attention by them about this recommendation. This is reinforced on the one hand by the allusion to “compliance to laws, regulation and guidelines” and on the other, by the use of an “exclusive we” as opposed to enterprises and financial institutions (addressed to as “they”, “their”). It is worth of note that similar words are used by the “Program for Strengthening Relationship Banking Functions” that has been released by the Financial Services Agency in March 2003, where among the measures to ensure soundness and improve profitability it is stated “disclosure of information on contributions to local communities by each financial institution”. In addition, it is worthy of note that it has been recently stated that

“the Financial Service Agencies are going to recommend the publication of an Intellectual Assets-based Management Report for listed SME’s” (Interviewee D, Technology

Promotion Division, Industrial Science and Technology Policy and Environment Bureau, METI)

The publication of the documents described above has been translated into practice by several companies. At present, two hundred of companies have already compiled an *Intellectual Assets-based Management Report*. Moreover, from as early as 2005, the tendency has been to publish the report not as an integral part of the financial statement or of other statements (e.g. social reports), but independently, as shown by the table below.

Table 3.2
Organizations that publish an IAbM Report since 2005

Number of companies 271 (330 reports)						
2005-2006	2007	2008	2009	2010	2011	2012
14 companies	19 companies	31 companies	40 Companies s	73 companies	87 companies	64 companies

Source: <http://www.jiam.or.jp/CCP013.html>

3.7. Discussion and Conclusion

On the basis of the illustrative analysis presented in the paper, it has been attempted to show how the rationales and the recommendation actions that intangibles reporting found in Japan have to be understood through the institutional environment that characterizes it. In particular, it has been advocated that the process taking place in Japan in relation to the adoption of a new business reporting based on intangibles can be analysed using the “political economy lenses”. The choice for this approach firstly relies on the fact that whilst the significance of Intellectual Capital has been mainly investigated on a micro-level, and it is not clear what the process is according to which these dimensions can be intertwined with a macro level. In this respect, the political economy has been here

shown to offer several insights into the manners through which, on the one hand, micro-practices, especially reporting ones, can be understood in relation to the institutional environment in which they are located, and on the other hand how such a context can “benefit” from them, in order to be “re-established”. In particular, the case of Japan represents a singular case as it points out how an “intangibles problem” that at first has been mainly depicted as affecting the company level (the ability to use intellectual property in an efficient way and the bad loans problems) has found support and legitimacy also as a macro economic issue and then as a policy one. Such support and legitimacy are not “neutral” but they relate firstly to the discernment of intangibles and IC reporting as a means in order to disentangle the (more or less transitory) mismatch that the Country was witnessing between governmental institutions, globalization and the needs of the business environment, especially SMEs, on the one side, and the accounting information supply and credit access on the other, and secondly as a manner to restore them. It is in fact to be kept in mind that the Japanese business context is highly connoted by an informal relational power among companies and the State. As argued by Dore (1997), Japanese companies belong to the so-called “Entity/community view”, according to which the actors who participate in the business system constitute a community, in the sense that they are “tied together by bonds of mutual interest in the community’s fate, obligations of cooperation and trust, the sharing of similar risk” (Dore, 1997, p. 19). Accordingly, it is easier for companies and, in general for associations, to cooperate towards a common interest, as “social relations in which Japanese economic transactions are embedded are achieved” (Dore, 1997, p. 25). This connotation enables the identification of intellectual assets both within and outside the company. In this overall picture also the State plays an important role in this sense. Although the meaningful influence that American model played at the beginning of the 1900’s in reorganizing the institutional system, several criticisms have been moved towards their type of Government. These criticisms rely in particular on the lack, in the American thought, of an “organic, comparative, or coherent idea of national policy”. In fact “Japanese have a “sense of the state” of the immense importance of collective and civilized action, of wise organization, of social discipline” (Droppers, 1907, pp. 111-112). To a similar extent, the role of the Japanese government in relation to business is identified as a relevant one, although it presents here another aspect. Throughout all the Guidelines analyzed, and especially in the last one, it has to be conceived of in view of the reforms that have been

implemented since 2000. In that period, characterized by a considerable number of reforms, public procurement has been a catalyst in implementing innovative activities on a national level and to understand its degree of response in applying these reforms (OECD, 2005a). This way, it is here advocated that the political economy approach that better enlightens the features of the intangibles reporting travel from the micro to the macro perspective is the “classical” one, which emphasizes the presence and the influence of the State towards the possibilities of adoption of business reporting practices. In these terms, the analysis can contribute to the existing literature on political economy, by showing one of the first cases in which the use of non-financial devices are not explicated by “pluralistic”, if not “bourgeoisie” lines of thought as the plethora of studies maintain (see Chapter 2).

As stated by Arnold (2009a) “accounting (and it is argued hereafter intangibles/IC reporting) both shapes and is shaped by relations of power within the political economy in which operates. Accounting is, thus, seen as essentially political; accounting policies are influenced by ruling elites and dominant ideologies, and accounting practices, in turn, affect the distribution of income, wealth and power within society.” (ibid, p. 805). Therefore, the episode described in the paper propose to policy makers one of the few case studies about the underlying logics and the manners through which Governments undertook intangibles reporting recommendations and it cautions academics to start taking closer look at alternative approaches, such as the “political economy of intangibles” one, that could be adopted as able to outline (if not retain) the (public) interest of a county. In other words, it is possible to state that the IC concepts and practices as explored until nowadays do not offer a comprehensive examination of their potential but they can also be understood also with reference to public interest.

APPENDIX B

B.1. Interviews conducted

No.	Name*	Position	Interview date
1	A	Vice Chairman, SMEs Intellectual Assets-based Management Forum, and Professor, Graduate School of Asia-Pacific Studies, Waseda University	June 2012 via skype
2	B	Senior Manager for the Intellectual Property Services Division, KPMG AZSA & Co.	May 2005
3	C	Deputy Director-General, Economic and Social Policy, METI	November 2012
4	D	Technology Promotion Division, Industrial Science and Technology Policy and Environment Bureau, METI	May 2012

*Interviewee names have been replaced with codes to preserve anonymity

APPENDICES C

C.1. Introduction of the “Guidelines for Disclosure of Intellectual Assets Based Management”, METI, October 2005

“This guideline, compiled by METI, aims to help corporations (managers) that prepare intellectual assets based management report and those who assess it. Based on the examination of Subcommittee on Management & Intellectual Assets, New Growth Policy Committee, Industrial Structure Council, it provides a guide for information disclosure concerning intellectual assets based management.

Intellectual assets based management is a management itself rather than an aspect of management. It is a management method to enhance corporate value with an eye to many stakeholders. Based on the pursuit of interest, this method intends to make sustainable profits and growth through making the best use of the corporation’s own ability. In that context, this guideline would also be a great help in preparing and appreciating reports on CSR and sustainability reports.”

C.2. Introduction of the “Intellectual Asset-based Management Manual for Small and Medium Enterprises”, Organization for Small & Medium Enterprises and Regional Innovation, Japan, March 2007

The Japanese economy has shown signs of recovery in recent years, but the trend of dwindling childbearing rate and aging population has hindered expansion of the nation’s domestic economy, while the accelerated tide of globalization has made simple cost-based competition meaningless. In the given situation, the emphasis is on how small and medium enterprises, which bolster the Japanese economy, can enhance their added values.

In response to the interim report by the Subcommittee on Management & Intellectual Assets, New Growth Policy Committee, Industrial Structure Council, released in August 2005, the Ministry of the Economy, Trade and Industry announced the guidelines on the disclosure of intellectual asset-based management in October of the same year. The guidelines defined “intellectual assets” as non-tangible assets that generate active returns or corporate values. Active discussions have taken place on a range of areas regarding the use of such assets. However, such discussions have mainly targeted large corporations, and did not suit the reality or objectives of small and medium enterprises. This is why the SME Intellectual Asset-Based Management Forum of experts (chaired by SMRJ President Tsutomu Muramoto) was established in January 2006 at the Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ), releasing an interim report in March of the same year.

In view of past developments, the Forum has given clear recognition to “intellectual assets” as the driving force of SME growth and development (source of values), examined “intellectual asset-based management”, which uses such assets intentionally to achieve sustainable business growth, and compiled this manual to help SMEs implement the technique.

In the [Knolwedge] section, Chapter 1 and Chapter 2 explain what “intellectual assets” are, to help readers understand the significance of SMEs implementing “intellectual asset-based management”.

Chapter 3 introduces examples of intellectual asset-based management at 17 companies.

In the [Implementation] section, Chapter 4 explains four steps for implementing “intellectual asset-based management” in the first half, and provides a workbook in the

second half, in which readers can follow the four steps to experience the process of compiling an Intellectual Asset-Based Management Report.

In the [Examples of Model Companies] section, Chapter 5 introduces the cases of four companies whereby the proprietors (senior managers) worked with consultants in extending fresh recognition to their “intellectual assets”, drawing up a value creation scenario based on the use of such assets, and compiling the information into an Intellectual Asset-Based Management Report.

This manual also features the “SME Supporters’ Guide for Compiling an Intellectual Asset-Based Management Report” for use by experts who provide direct on-site support to SMEs. We hope this Manual proves to be an effective reference for enhancing assistance among SME supporters including specialists such as SME management consultants, accountants, patent attorneys and solicitors, as well as management mentors at the Chambers of Commerce and Industry and other consultants directly assisting SMEs.

It is our hope that many SMEs utilize this Manual to take advantage of “intellectual assets”, the source of their unique corporate values that others cannot simply imitate, put “intellectual asset-based management” into practice, and disclose the details to stakeholders in the form of Intellectual Asset-Based Management Report, thereby achieving further business growth and development.

March 2007

Tsutomu Muramoto, President

Organization for Small & Medium Enterprises and Regional Innovation, Japan

C.3. Introduction of “Keys to Intellectual Asset-Based Management Evaluation Finance”, METI, Property Policy Office, March 2009

Japanese enterprises are facing a move to a knowledge economy and globalization. Since 2005, As policy for achieving durable and continuous growth, The Ministry of Economy, Trade and Industry promoted discussion of how to accurately understand unique strengths which enterprises have cultivated until today (intellectual assets) and effectively combine them to create value (intellectual asset-based management), in its Subcommittee on Management and Intellectual Assets, in the New Growth Policy Committee, Industrial Structure Council. This year, it published its “Guidelines for Disclosure of Intellectual Assets Based Management”.

In response, the Organization for Small & Medium Enterprises and Regional Innovation (below, “Small & Medium Organization”) established the “Small & Medium Enterprise Intellectual Asset-Based Management Study Group” in 2007, and made and distributed the “Intellectual Asset-Based Management Manual for Small & Medium Enterprises” in order to promote initiatives for intellectual asset-based management in small and medium enterprises.

In this way, it prepared the environment for intellectual asset-based management information disclosure in the framework of industrial policy and small & medium enterprise policy, while also promoting initiatives in the framework for government financial administration. For example, in the Financial Services Agency’s “Financial Inspection Manual” (1999) and “Financial Inspection Manual Supplement (Small & Medium Enterprise Finance Edition)” (2002), for small and medium enterprise debtor classification, it looked at considering characteristics and unique forms of finance for small and medium enterprises. Instead of deciding based only on obvious aspects of losses and excess debt, it considered the importance of technical and sales abilities and manager qualities, with decisions based on understanding the actual situation, comprehensively considering intellectual assets information such as growth potential (non-financial information).

Also, the Financial Services Agency’s “Comprehensive Guidelines for Supervision of Small & Medium Enterprises and Local Financial Institutions”, published in 2007, pointed out that an urgent issue for relationship banking is enhancing the intellectual assets evaluation abilities of financial institutions (appraisal ability), utilizing intellectual

asset-based management reports as one funding provision technique which is suitable for small and medium enterprises.

In response, based on cooperation of the Ministry of Economy, Trade and Industry, the Small & Medium Organization established the Intellectual Asset-Based Management Finance Working Study Group, and did a survey on the actual status of the perspectives from which financial institutions evaluate non-financial information of small and medium enterprises such as intellectual assets, and make decisions when deciding on financing. This was published as the “Guidelines for Practices of Intellectual Asset-Based Management for Small and Medium Enterprises” (October, 2008). These guidelines clearly show that financial institutions do not only focus on financial information when making financing decisions, also emphasizing non-financial information. This pointed out the importance of resolving the asymmetry of information with financial institutions, and as an initiative on the part of enterprises, the disclosure of intellectual asset-based management reports which include non-financial information which financial institutions focus on, in order to promote understanding of their own technical abilities and growth potential, and convincingly communicate the enterprise’s own business potential to financial institutions. This also pointed out the issue that financial institutions which receive such information should work on enhancing their ability to properly evaluate enterprise intellectual assets information such as technical abilities and growth potential, in other words their appraisal ability.

Then the Ministry of Economy, Trade and Industry launched the “Intellectual Asset-Based Management Evaluation & Finance Study Group” (2009), which investigated policies to contribute to enhancing the appraisal abilities of financial institutions, and investigated ways of thinking for financing based on proper business potential evaluation and various support tools to this end. This was brought together in the “Keys to Intellectual Asset-Based Management Evaluation Finance”. It is hoped this will be utilized in financial institutions which further promote finance with strong local roots, as one perspective for understanding the actual situation of small and medium enterprises, and providing finance.

This handbook shows a perspective for understanding the intellectual assets of enterprises, as a means for enhancing appraisal in financial institutions. This is not the only perspective and technique for appraising enterprises, nor does it reject the

techniques already developed in each financial institution for understanding the actual situation of enterprises.

Also, the goal of this handbook is not to propose use the proposed check sheet. The goal is for each financial institution to do proper appraisals, in compliance with the laws, regulations and guidelines including the “Financial Inspection Manual” and the “Financial Inspection Manual Supplement (Small & Medium Enterprise Finance Edition)” created by the Financial Services Agency. Please note that this handbook was brought together as one way of thinking to that end.

We hope this handbook will contribute to smoother finance for small and medium enterprises finance

March 2009

Organization for Small & Medium Enterprises and Regional Innovation
Intellectual Property Policy Office, Economic and Industrial Policy Bureau
Ministry of Economy, Trade and Industry

APPENDIX D

D.1. List of Minister of State for Financial Services from 2006 onwards

Name	Surname	Background	Period
Taro	Aso	Politician since 1979	2013
Shozaburu	Jimi	Politician since 1983	2012
Shozaburu	Jimi	Politician since 1983	2011
Shozaburu	Jimi	Politician since 1983	2010
Kaoru	Yosano	Politician since	2009
Toshimitsu	Motegi	Politician since 1993	2008
Yoshimi	Watanabe	Politician since 1986	2007
Yuji	Yamamoto	Politician since 1985	2006

Source: Prime Minister of Japan and his Cabinet website, <http://www.kantei.go.jp/foreign/index-e.html>

CHAPTER FOUR

REGULATING THROUGH THE “LOGIC OF APPROPRIATENESS” AND THE “RHETORIC OF THE EXPERT”: THE CASE OF INTANGIBLES REPORTING IN GERMANY

4.1. Introduction

Who is responsible for intangibles and their related practices? In other words, which is the profession (if any) in charge of intangibles in particular of their reporting and regulation? Although this is apparently a simple question, this is not the case. Since the first article published on Fortune by Thomas Stewart in 1997, attention at the academic and practitioners level has been polarized on the methods for managing and measuring these resources, and there has been limited research on the actors involved in these processes, although from them can depend the applicability of practices. As argued by Cooper and Robson (2006), the outcomes and legitimacy of the rules and practices produced is highly contingent upon the constituency guiding the regulatory process as “changes in regulatory organizations [...] affect opportunities for democratic control and legitimacy” (ibid, p. 416). And the sites in which professionalization and regulation occur are not always to be located in the ones identified by the accounting literature, because the relationship between regulator and regulated has changed. In relation to non-financial information as generally conceived of (corporate social, environmental and intangibles disclosure) these sites have been located in the role of experts. Malsch (2012) recognizes how the expertise of the accounting industry plays a mediating role in infusing the business logics that lead to the implementation of corporate social responsibilities practices with profitability sensibleness. Cooper et al. (2011), refer to specific experts – consultants – as representing the “obligatory passage point” for the dissemination and employment of the Balanced Scorecard. As for intangibles, Napier and Power (1992), in critically examine the technicalities and the underlying logics of the Arthur Andersen Report on the valuation of intangibles, recognize the efforts spent by the auditing company to create a consensus and promote a “professional jurisdiction”

(ibid., p. 91) upon the accounting treatment of these resources. In a later work, Power (2006) further demonstrates how the accounting debate on brands' valuation in the UK has to be seen beyond its technicalities, as a way in which the credibility and the consensus of the practices promoted are dependent upon the trust in the valuation experts. Following this line of thought, the aim of the paper is to further investigate how the regulation of intangibles reporting (IR) occurred in Germany since the beginning of the 2000's, in particular identifying to what extent experts have been involved and how they have been involved in the processes of recommendation.

In this respect, a singular aspect of (normative) institutional theory, that is the "logic of appropriateness" as combined with the "rhetoric of the expert" are used as theoretical frameworks in order to understand the courses according to which "qualified characters" have been recognized and promoted in order to guide the preparation of IR within companies. In particular, by means of Critical Discourse Analysis (CDA) the two Guideline and other documents (flyers) that have been published in Germany in relation to IR are examined.

The paper seeks to contribute both to the present literature on intangibles reporting and on (accounting) regulation in the following ways: a) in introducing regulation as a topic to be further studied in the arena of intangibles reporting. Although since the late of the 1990's several countries decided to adopt this type of reporting practice and in most of them there is a direct participation of governments and professional bodies, attention has been paid to the methods through which these resources are measured and evaluated; b) pointing out that the actor guiding the process of regulation is not always the "typical one" to be found among public authorities (government or professional bodies), and the processes in which regulation is created and perpetuated has sometimes to be disentangled from the ones created by the accounting craft.

On the basis of this background, the remainder of the paper is organized as follows. Firstly a review of the literature about the "logic of appropriateness" and the way in which it can be combined with "the rhetoric of the expert" is conducted, in order to identify how this approach has emerged and how it has developed, in making clear the general framework through which the analysis will be realized. Secondly, methodological insights about Critical Discourse Analysis (CDA), the particular perspective adopted for the analysis of the Guidelines and the way interviews have been dealt are illustrated. Thirdly, the intangibles background that characterized Germany

since the beginning of the 2000's is explored, in order to give an overview of the regulatory context. Then I examine the way intangibles and their reporting practices have been regulated by means of the identification and professionalization of 'appropriate actors'. These sections will provide support for the argument purposed, as to how they can be conceived also in regulatory terms, beyond the ones proposed by the accounting craft , as illustrated in the conclusions.

4.2. The logic of appropriateness and the "rhetoric of the expert": a review

The theoretical framework that informs this paper is firstly based on the concept of the "logic of appropriateness". The seminal work launching this approach dates back to the late of 1980's, when March and Olsen in investigating the dynamics underlying the functions, roles and ways of changing of institutions, recognize that politics works according to a correspondence that is created between situations and roles. In particular, a definition is established for the situation, the roles and duties of the roles that are expected to be accomplished in relation to a situation. This way, behavior, although intentional, is not calculated but is the one supposed on the basis of the congruence with the identity/social role that the person covers (March and Olsen, 1992, pp. 232-233). According to this conceptualization, the authors recognize three interconnected facets, that are identities, rules and institutions, to form the fundamentals in guiding human behavior.

"Human actors are imagined to follow rules that associate particular identities to particular situations, approaching individual opportunities for action by assessing similarities between current identities and choice dilemmas and more general concepts of self and situations. Action involves evoking an identity or role and matching the obligations of that identity or role to a specific situation. The pursuit of purpose is associated with identities more than with interests, and with the selection of rules more than with individual rational expectations." (March, J.G. and Olsen, J.P., 1998, p.451)

The relevance that identity covers has been further highlighted in *Democratic Governance* (1997) where the notion is translated for describing the way in which the government of democracies is run, with an emphasis this time on how identities represent a key issue in understanding the perspectives adopted in accomplishing certain actions (ibid, p. 47). It follows that the focal point of the interconnections between situations and roles is embodied by experiences and their representatives, that are experts. It is in fact on these two aspects that appropriateness is assessed.

“Rules of appropriateness are seen as carriers of lessons from experience as those lessons are encoded either by individuals and collectivities drawing inferences from their own and others’ experiences, or by differential survival and reproduction of institutions, roles and identities based on particular rules. Rule-driven behavior associated with successes or survival is likely to be repeated. Rules associated with failures are not.” (March, J.G. and Olsen, J.P., 2004, p.12)

Consequently, the “logic of appropriateness” cannot transcend from an understanding of the role played by the experts. However, as argued by Mouritsen (1994), March and Olsen’s work lack of a social interpretation of the way through which ‘appropriate identities’ are constructed and maintained. In this respect, possible solutions have been extensively proposed in the literature. Topics, such as experts and the role they cover in technical decision-making have been long debated ones.

Among others, Collins and Evans (2002) recognize that a problem that was originally linked to “legitimacy” (the extent to which decisions within the political arena are grounded in legitimate knowledge and experience) has now been replaced by a problem of “extension”, that corresponds to a “dissolve” of the boundaries among experts and the public, so that anyone can indistinctively feel to be involved in technical decision-making. They argue that, what they referred to as the First Wave of Science Studies, in which expertise and experts were unchallenged in their authoritarian position has now turned into a Third Wave. A recognition of the existence of a legitimate expertise on technical issues and a clear delineation between experts and non-experts have to be reestablished. Accordingly, they propose categories of expertise, experts abilities and science through which it is possible to detect possibilities of public (non-)inclusion in technical debates. Although relevant, their analysis is found to be reductionist in that it

does not investigate the manners through which claims of expertise come into being and are perpetuated (Jasanoff, 2003). Consequently, in order to assess how the ‘appropriateness’ of the identities has been created, the investigation has been enriched by what Czarniawska (1997) refers to as the “rhetoric of the expert” based on a “objective truth” in relation to which the “proof” and the “confirmation” are at the basis of the argumentation and a link with material objects, instead of abstract ones, seems to be established (p. 200). The choice for rhetoric as enriching device of the analysis stems from the potential that it manifested in social sciences (Latour, 1987), economics (McCloskey, 1998) and accounting research (Arrington and Schweiker, 1992) studies to elucidate the persuading strategies employed by standard-setter (Young, 2009) or by the promoters of new technical mechanisms (Berland and Chiappello, 2009) to gain institutional legitimacy (Nahapiet, 1988).

As for the “rhetoric of the expert”, it is interestingly to note, how its conceptualization as suggested by Czarniawska can benefit from a resemblance to the original conceptualization of rhetoric as advocated by Aristotle. As student of Plato, he conceived of rhetoric as the counterpart (literally the antistrophe) of dialectic, inasmuch its core features include *practical* decision making in civic affairs, such as the adjudication of guilt or innocence in a court law and not the search of the truth in theoretical matters.

With reference to previous studies, similar investigations have been already carried out. Nørreklit (2003) analyses how the rhetorical device has conducted Balanced Scorecard to become a fashionable management tool. In examining the Chapter One of the thoughtful book *The Balanced Scorecard* (Kaplan and Norton, 1996), she concludes that rhetoric is an integral part of management activities but it cannot correspond to the most relevant one. If combined with mistaken theories, its influence cannot be sufficient in order to solve concrete difficulties.

Within the accounting literature, the “logic of appropriateness” has been adopted in order to investigate how actors (mainly accounting bodies) justify their constitution and practices, shaping in this way their regulatory space. In this respect, MacDonald and Richardson (2004) and Young (1994) respectively refer to the processes that lead to the creation of the Public Accountant’s Council in Ontario and the construction of the FASB agenda.

However, previous studies, although useful in this regard, neither is considered by itself sufficient and attempts to combine the two perspectives have been scarce. Accordingly,

in comparison to these previous studies, the paper diverges with respect to the perspective undertaken in adopting the logic of appropriateness, that is not here taken as a whole framework, but attention is paid to the facet of *appropriateness*, that is expertise, and the way in which it has been constructed with reference to identities.

The manners through which appropriate identities have been identified and promoted in shaping a regulatory space for intangibles reporting will be investigated by means of the Critical Discourse Analysis (CDA) of the foreword of the first Guidelines and other documents (information flyers, training materials) issued as results of this project, supported by the interview held with one of the authors of the documents.

4.3. Methodological insights

Within the broad field of discourse analysis, Critical Discourse Analysis (CDA) relies on the conjoint examination of the way the structure of discourse reflects and, at the same time, influences the social, economic and political context it emerges from (Chouliaraki, and Fairclough, 1999; Fairclough, 2003) in terms for example of social change and inequalities (KhosraviNik, 2010), globalization and capitalism (Fairclough, 2006; Chiappello and Fairclough, 2002), power relations and ideology (Fairclough, 1989). In particular, its “critical dimension”, compared to others methods of investigating discourse, refers to the exploration of the social processes and structures through which the text is generated and the relations that are established ex-post its production (Wodak and Meyer, 2001). Although it is nowadays a well-established methods (for example the foundation of the journal *Discourse & Society* in 1990s by one of its major representative scholar can witness it), it does not however have a lack of criticisms. Many of its disadvantages have been discussed in the literature and refers to the absence of examination firstly of the ways texts are interpreted by readers, and secondly of the context they derive from (Ferguson, 2007). Most of these limits have been in turn criticized for example in the name of the scope that underpins the research undertaken and of the size limitation of academic papers (see Gallhofer et al., 2007).

This paper can represent a further criticism of the above mentioned limits, in demonstrating how language can be both the result and precondition of the construction of identities and rules within the intangibles reporting arena. In this respect, in order to

assess how identities were created it is here firstly referred, in the broad field of CDA, to the concept of *modality* and *evaluation* described by Fairclough as “what authors *commit* themselves to, with respect to what is true and what is necessary (modality), and with respect to what is desirable or undesirable, good or bad (evaluation). My assumption is that what people commit themselves to in texts is an important part of how they identify themselves, the texturing of identities” (2003, p. 164). This way, following Fairclough’s line of thought (2003), commitment to truth was investigated firstly in distinguishing what has been identified as “epistemic modality”, that is the manners through which knowledge exchange occurs and “deontic modality” that involves the exchange of activities and secondly by means of different markers, such as verbs (both modal ones – can, would, will should - and of appearance – appear, seem), adverbs (certainly, in fact, obviously, always, often etc.) and adjectives (e.g. possible, probable). In a similar vein, desirability (or alternatively undesirability) has been explored through the use of adjectives (for example good, bad, useful), nouns and verbs.

The analysis of the first Guidelines, together with the examination of the Introduction of the second Guideline and associated flyers has been followed by interviews. Five semi-structured interviews involving a set of open questions have been conducted over the period May-November 2012 both in person, written form and via skype. The questionnaires have been prepared and pre-sent to interviewees. The interviewees included two of the three authors of the Guidelines, and three moderators listed on the website of the Wissensbilanz initiative (www.akwissensbilanz.org). The choice for the interviewees focused on those members representing the main constituency involved in the project, that is experts (the latter has to be subdivided in the two different categories of authors of the Guidelines and moderators). Details about interviewees are provided in the Appendix E. The topics covered over the talk with the authors concerned the economic, political and social context that generated the idea to prepare a Guideline, the actors participating (Government; Professional Bodies), the processes that characterized the preparation of the Guidelines (“due process” vis-à-vis public consultation) and the outcomes achieved (outcomes expected vis-à-vis outcomes realized; feedbacks from companies), while the one with the moderators their experience over the “professionalization” process, from training to the constitution of the IR Association. The interviews lasted 60-120 minutes each and were all recorded and transcribed. The transcriptions formed the basis of the analysis.

4.4. The “intangibles background” of Germany

The German accounting system has been broadly defined in the literature as a conservative and prudent one (Nobes, 2002; Walton et al., 2003). In relation to accounting regulation, Puxty et al. (1987), on the basis of the three organizing principles embodied by the State, Market and Community (Streeck and Schmitter, 1985) identified the Federal Republic of Germany as been predominantly regulated by means of the legalistic mode, in which the State covers the main role. Although this characterization, it has demonstrated an ability to adapt to the different needs of the business environment, so that it has been identified as a “contingent model” (Eierle, 2005).

One of the major developments in this respect has occurred at the beginning of 2000, when the German Government started several initiatives in the corporate reporting arena, both at a voluntary and mandatory level, in order to face the dissimilar challenges that globalization was posing. Interestingly, the aspect that putted in common these lines of actions relied on the intangible nature of company resources. On the background of a conjoint effort between the Ministry of Justice Brigitte Zypries and the Ministry of Finance Hans Eichel that in 2003 released a ten-point programme with the aim to foster the integrity of companies and the protection of investors, through a transparency increase, the German government was implementing in its accounting regulation systems the European “Modernisation Directive” by means of *Bilanzrechts-reformgesetz (BilReG* - Reform Act on Accounting Regulations), according to which “to the extent necessary for an understanding of the development, performance or position of the business, the analysis (of annual reports) shall include both financial and non-financial key performance indicators.” (Buchheim and Beiersdorf, 2005).

Few months after (26 February 2005), the Ministry of Justice issued the German Accounting Standards (GAS) 15 on Management Report which clearly recommended the disclosure of intangible assets, that were defined of “immense importance to a company” by the German Accounting Standards Boards (GASB) in relation to the changes that were occurring in the business environment. Despite these efforts by the Government, 99% of German companies were perceiving Management Reporting as a pain (Interviewee B, Founder and CEO, Wissenskapital Edvinsson & Kivikas GmbH and “core member” of the Arbeitskreis Wissensbilanz). Over the same years, the intangibles background of Germany was witnessing another initiative that addressed the relevance of

the type of resources, that was “Fit für den Wissenswettbewerb” (“Fit to compete with knowledge”), launched by the same Ministry and aimed at testing the applicability of knowledge management concepts and practices in SMEs. The project had the aim to enhance knowledge management in SMEs. In particular, in selected pilot projects chosen among SMEs and manufacturing enterprises, the aim was to explore the possibilities of use related (knowledge management) concepts and systems.

As a response to this project, the actions that led to the regulatory nature of ICR in Germany started to be seen as “a story of connected people” (Interviewee A, Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz). Its *genealogy* has in fact been marked by the combination of common interests towards managerial perspectives on intangible resources by a group of two German and an Austrian consultants. Following the international experience occurred in other countries, such as Denmark, Scandinavia, Austria and Europe in establishing a national practice on IC management and reporting, in a meeting on the 3rd of September 2003 experts on the topic launched a *prototyping idea* of a project that had the aim to “create something that is of direct benefit in the organization itself, something that can provide information to external stakeholders and funding” (Interviewee A, Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz). This way, the aspect of interest is represented by how identities within organizations have been modeled, in order to be able to draw an ICR.

4.4.1. The establishment of the regulatory space - The identification of appropriate id-entities

The aim and at the same time one of the constrains of the project was “to create something that companies use themselves without any pressure from the outside, as it started from the very low level of the Ministry. No money were given to pilot companies to take part in the project.” (Interviewee A, Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz). According to one of the responsible of the project, these were the premises of their project. Put it differently, company members will be free of choosing to draw an ICR and in particular they will be put in the conditions to be able to do it by themselves. In other words, after having read the 1st Guidelines, the organizational members will become “governable person” (Miller,

1987). At a first look, in reading the introduction of the document, this appear to be fairly true (For the reader not familiar with the Guidelines, excerpts of the Introduction of the Guidelines are reported in Appendices E (E.1, E.2).

At a first sight, it is possible to identify the presence of several actors, although none of them can be clearly characterized and assessed in terms of *appropriateness*.

Even though in the title there is no reference to the type of companies this guideline is addressed to, in analyzing the foreword, it clearly refers to SMEs and to the trade sector too. However, relevance is mainly related to companies, as the trade sector is represented by one organization, that is here referred to, in order to give representation of a “best practice” user of the Guidelines, which has been awarded as “Wissensmanager des Jahres 2005” (Interviewee A, Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz). Since the first sentences the importance that knowledge represents for SMEs is stressed through the use of the evaluative adverb “vital”. This choice relies on the attention that the Federal Ministry of Economics and Labour started to pay towards this type of companies since 2003 (Interviewee A, Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz).

This relevance is stressed throughout all the paragraph. The reason of this attention seems to rely on the fact that until the release of this document, the accounts and evaluation of immaterial resources has been narrow. Knowledge is accompanied by evaluative adjective, such as “the best possible use”, intellectual capital statement (ICS) and intangibles by “comprehensive” and in addressing to the implementation of this report, it refers to a “broad” one. The characterization that is given in this way to knowledge, ICS, intangible assets is actually the only manner in which the addressee can have an understanding of them. In fact no definition is provided but a connection is established. In particular in the last sentences ICS is linked to knowledge management by means of the connector “and”. Such a basic representation of the key-elements at the basis of the document has been the result of the need to combine the different nature of the actors that have been involved in the project, that is the political aspect related to the presence of the Federal Ministry of Economics and Labour and the organizational one, in the person of the consultants that prepared and wrote it, so that it has been defined by one of them “as a framework, not really a Guideline” (Interviewee A, Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz).

This ambiguity/uncertainty can be further confirmed by the fact that, as for the structure of the Guideline, most of the title of the chapters and some of the different paragraphs constituting them, are formulated in terms of dialogicality, that is questions, in establishing a sort of communication, probably with the readers.

This way, the role of the government and especially of the Federal Ministry of Economics and Labour, is clearly recognized but not easily definable. Although it is initially referred to as a “support”, in making clear its detachment from the project, it is then “reinforced”. In describing the process that has been followed in order to set up the guideline, in a climax, it refers to “experience, lessons and recommendations for action”. This is then emphasized by the use of the pronoun “I” by the Ministry and the words “sustained impetus”. In relation to the pronoun “I”, it is worthwhile to note that if on the one hand it strengthens the relevance of this project, so that it can be felt as a personal issue by the government (indeed, as stated by Czarniawska “the rhetoric of the expert usually avoids the use of the first person “I” and subjectivity as “I think” (p. 205)), on the other hand it creates a separation between the government and companies. This division is underlined by the use (probably as a mistake) of the pronoun “its” in referring to the guideline, emphasizing that the underpinnings of this project belong to an external agent and that they are not a necessity identified nor by the government neither by companies. The duality about the role of the government (through the use of the guideline) between the supporting (declarative) and the mandatory (imperative), is also expressed by antinomy. “The intellectual capital statement (or report) *offers a strong foundation* for this, *providing the means to achieve* [...] its publication *will provide a sustained impetus*” (emphasis added). On the one hand, the Ministry through affective evaluations, such as the verbs “offers” and “provides” help, as in leaving companies discretionarily decide if to adopt this reporting practice or not and in interpreting the worthiness of the results. On the other one, it is making clear that the methods that it is supplying will surely bring to good quality results, by means of evaluative adjectives, as “strong”, “sustained” and modal verbs, as “achieve” and “will”. This firmness can be also noted by the use of verbs at present and at simple future. This ambiguous connotation can find justification in the fact that on the one hand the role of the Federal Ministry has been the one of the funder and it does not correspond to the authors of the document but on the other one, the real authors seem unwilling to be explicitly recognized. The recommendation attitude of the government towards the disclosure of intangibles resources is not a new one, as since the

origination of the R&D debate, it has not been perceived as an issue for the Nation (Willmott et al., 1992).

Any doubts in relation to the characterization and the role of the government and the authors is made clear in analyzing the document. It is in fact stated:

“For this reason, the project *supported* by the Federal Ministry of Economics and Labour entitled “Intellectual Capital Statement – Made in Germany” [...] “This Guideline for the preparation of intellectual capital statements was developed in the framework of “Fit to compete with knowledge” *initiated* by the Federal Ministry of Economics and Labour.” (Intellectual capital statement – Made in Germany, 2004, p. 9, emphasis added)

“This Guideline was drafted by a project consortium consisting of the Knowledge Management Competence Center of the Fraunhofer Institute for Production Systems and Design Technology (IPK), Wissenskapital Edvinsson und Kivikas Entwicklungsunternehmen GmbH and Intangible Asset Management Consulting. *Building on* the methods of the Scandinavian intellectual capital statement *pioneers* and *all available experience*, the consortium *implemented* a pilot project to *adjust* the preparation of intellectual capital statements to the German situation and to *test it in reality* as it is faced by small and medium-sized enterprises. To this end, prototype intellectual capital statements were drafted *together with* 14 *representative* German SMEs. This Guideline 1.0 is the result of this *cooperation* and summarizes the project to draft an *organization-specific* intellectual capital statement.” (Intellectual capital statement – Made in Germany, 2004, p. 9, emphasis added)

The Federal Ministry is explicated in its marginal role with reference to the project under study, by means of the verb “support”. This is further highlighted by the lack of any reference among those who drafted the document and, in relation to the broader initiative it belongs to (that is “Fit to compete with knowledge”) it is connoted by the use of the verb “initiate”. This way there is no claims of expertise are constructed and perpetuated by the State (Gendron et al., 2007). On the contrary, as opposed to it (namely stated, if it is considered that the presentation of the actors involved in the project is offered in the same page of the document), the real authors of the Guideline are recognized in the aura of the experts, for the names of the organizations they represent (Fraunhofer Institute for Production Systems and Design Technology (IPK), Wissenskapital Edvinsson und Kivikas Entwicklungsunternehmen GmbH and Intangible Asset Management Consulting) and the

concrete efforts they realized. It is in fact possible to observe how the lexicon used is mainly portrayed in “material terms”, starting from the description of the origins of the project and moving on until its realization. They have “built on” previous methods coming from the Scandinavian practice and enhanced it with “all available experience”, the pilot project has been “implemented” and “tested in reality” “together with 14 representative” German SMEs, with which a “cooperation” has been established.

Within this “concretization process”, it is also possible to acknowledge a latent endeavor to establish a line of what is a desirable ICR in the German context and that does not necessarily correspond to the previous experience. The demarcation is firstly established by the depiction of the Scandinavian intellectual capital statements as “pioneers”, that on the one hand can deliver a positive image but on the other one can also be seen in terms of the “immaturity” that connote the initiation course. In a second stance, this feeling is remarked by the use (in the same sentence) of the verbs to “adjust” and “test in reality”, almost in criticizing – in particular with the latter one – the abstractness of the reporting formerly generated.

As a consequence, the *appropriateness* that characterizes the actors responsible to draw an ICR still relies in the hands of the authors of the document, the expert-consultants. This identification is clearly delineated by the distinguished voices of the text that first of all are opposed by the use of an exclusive “we” compared to “you” and “your own” and, in a second stance juxtapose verbs, such as the affective one “suggest” and the imperative ones “go...look...take...follow”. In addition, it is worthy of note how the progression of these verbs simulates material actions, almost in physically accompanying the reader through the process of drawing an ICR. In this respect it is claimed by Czarniawska (2000) that the impression that the argumentation involves material objects is typical of the “rhetoric of the expert” (p. 200). The relevance that the authors and their expertise still cover is further underlined by the characterization of the documents they provide, that are *helpful* and *up-to-date* and the indications provided about the construction of the team responsible for the project.

“In using the Guideline, we *suggest* that *you* go through the individual questions contained in the chapters, *look* for partial answers, *take* suggestions from the examples and *follow* the tips when you draw up your own statement. In addition to this document, *helpful* documents and *up-to-date* forms *can* be obtained on the Web at

www.akwissensbilanz.org.” (Intellectual capital statement – Made in Germany, 2004, p.5, emphasis added)

“The *right* composition of the project team and the employees involved is *vital* to the process of drafting intellectual capital statements. *Ensure* that everyone who wants to take part *also* receives the *opportunity* to do so and that the *important* opinion-leaders are *supportive*. This *ensures* a holistic view and promotes acceptance of the results by those members of staff who are not involved.” (Intellectual capital statement – Made in Germany, 2004, p. 13, emphasis added)

The *appropriate* (“right”) composition of the team in charge of drawing an ICR is illustrated as the core of the process, being described by means of evaluative adjective “vital” and the affective formula “promotes acceptance”. Its composition is not free of choice but the members are clearly identified. The firmness is supported by the imperatives and present modalities of the verb “ensure” and its meaning, whose strength is reiterated twice. On the one hand there are members of the organization willing to take part to the project, whose participation is not however confirmed (“also receive”), as it is an “opportunity” that is given to them. On the other one the presence of opinion-leaders is certain as they are “important”, the only task of the readers is to be sure that they are *supportive*. The characteristics of the members of the team are further delineated in an ad-hoc section, titled “putting the team together”, where the appropriateness of the actions and the actors still highly belong to the authors, (“should therefore”, “you should”, “ensure”, “will ensure”, “however important”,

“Putting the team together - The view of the organization as perceived by the team members will be reflected later in the intellectual capital statement, and *should therefore* be *representative*. Where possible, *you should* hence integrate into the intellectual capital statement project team *representatives* of all parts of the enterprise and levels of the hierarchy. *Ensure* that *operative* employees are also involved, and *not only* managers. This *will ensure* that the discussion has its *feet on the ground*, and does not reflect *only* the management team’s self-perception.

Depending on the size of the organization, the work may be done by one or more teams. It is then *however important* for those teams to *regularly* exchange information on new knowledge and the status of their work. Over and above this, *sufficient* time *should* be

planned for combining the results since there will be considerable potential for discussion. *On principle*, the involvement of management in the team has *proven* to be *decisive to success*, *although* the intellectual capital statement project leadership itself does not *necessarily* have to come from management.

Project management - Coordination of a heterogeneous and team which spans the different levels of the hierarchy is *not an easy task*. Allot sufficient time to find appointments and to coordinate employees and work packages. Professional project management makes a *significant* contribution to the *success* of the project.” (Intellectual capital statement – Made in Germany, 2004, p. 17, emphasis added)

On the background of the team construction, it is interesting to observe that the leadership is not assigned to the management. Although a relevant role is recognized to managers, whose participation has “*proven to be decisive to success*”, a critical connotation highly prevail in their respects. It is in fact worthy of note the contrapositions in the same sentence between the material verb “prove” and the adverb “on principle”, and the material formula “*feet on the ground*” compared to “*only* the management team’s self-perception” and the double recurrence of the adverb “only” This way a simplistic, if not abstract, connotation is conveyed. The management cannot represent the “appropriate” figure able to lead the project, but in its place a third role is identified, that is the *moderator*. The role is here launched by the authors themselves and its belonging to their experts group, by means of the respect of their rules, is highly recommended. Its identity is in fact created through the use of modal verbs (“should”, “will”, “can”), often accompanied by adverbs and propositions that reinforce and render almost mandatory its sense of belonging (“these principles in detail”, “accordingly”, “well”). By means of the expertise that has been transferred to the moderator, a supremacy is conferred to him/her, among the other members of the team, being recognized as the one able to guide their action, at first through socialization (as expressed by the verbs “coordinate”, “moderate” and “familiarize”) and then through leadership. The verbs that delineate its actions became active ones embedded in material facts (“see”, “lead”) and a determinant position is expected to be taken by him/her in transforming a negative situation caused by the “deviating values” expressed (by the non-experts) in a positive harmonious one due to its presence (“consensus is reached”).

“is *important* that the person responsible for the project *should* deal with *these* principles in *detail*. His/her function *will* be to *coordinate* and *moderate* intellectual capital statements. He/she *should accordingly* have understood the overall approach *well* and be able to *familiarise* the other people involved with the methods and aims.” (Intellectual capital statement – Made in Germany, 2004, p. 16)

“Tip: [...] The *moderator sees immediately* how the group assesses the factor and *can lead* a discussion of the *deviating values* discussed until a *consensus is reached*.” (Intellectual capital statement – Made in Germany, 2004, p. 25)

“Tip: The moderator *should ensure* that no individuals dominate, but that a balanced perspective is created from all areas of the organisation.” (Intellectual capital statement – Made in Germany, 2004, p. 27)

The desirability for this role is emphasized not only by the linguistic choice that connote its identity but also by its strategic position in the text. In fact it is worthy of note that most of the characteristics that the moderator embodies (or should embody) are illustrated in the “tip” that is introduced at the beginning of the Guideline as referring to “*extremely important experience* which has been gathered in the *implementation* of the intellectual capital statement to date.” (Intellectual capital statement – Made in Germany, 2004, p. 5).

The second guideline published in 2008, namely “Wissensbilanz – Made in Germany”, is much more directed to companies and their internal resources and it is presented as the substitute of the one released in 2004. This internal focus is clearly stated throughout the Introduction but it is also deduced from its semiotic. Companies are addressed to by means of the definite article “a”/“an” (“ein”, “eigen”) and their internal resources as specific ones or that require a precise type of development (“individuelle”, “gezielt”).

The reasons of the attention paid to internal resources relies on the assumed lack of a chance that is left to companies towards global competition and the external environment in general. As in the previous guidelines, the former is in fact represented as a given situation through the use of the adverb “in front of” (“gegenüber dem (globalen) Wettbewerb”), while the latter is here for the first time introduced in a reductionist way, by the connector “not only” (“nicht nur”), in referring to the opportunities and risks that derive from the environment.

The solution that is provided, aimed at enabling companies to face these circumstances, is firstly based on the “on-going” concept that accompanies their success and secondly on the decreased role of material resources. Namely, the word “success” (“Erfolg”) is associated with adverbs that relates to a long time span, that is continuous (“nachhaltig”) and always more (“immer wieder”). Then material resources are presented through the use of decreasing adverbs and adjectives, such as “surely” (“sicher”), “right” (“richtigen”) and “good” (“gute”), ending up in symbolizing a reduced role, underlined by the use of the connector “also” (“auch”), the definite article “a” (“ein”) and “no more only” (“nicht mehr nur”). Compared to material resources, immaterial ones and their Report (namely “Wissensbilanz”) are illustrated by means of adjectives with a positive connotation, as “special” (“spezielles”), “optimized” (“schlanke”), “good” (“gute”), “right measures” (“richtigen Maßnahmen”), “the precise and systematic collection” (“die gezielte und systematische Entwicklung”), and “a precise company evaluation” (“eine präzisere Unternehmenseinschätzung”). Although, as noted in the previous guideline, the focus is not on the creation of resources, but on their *use* aimed at achieving “visibility” both internally the company and externally. The reference is in fact on the one hand to measure and control (“messen und steuern”), to win transparency (“Transparenz zu gewinnen”) and on the other, to show (“aufzuzeigen”) as a communication instrument (“Kommunikationsinstrument”). The way this *solution* is illustrated to join its main expression through the description of the success achieved, underlined by its continuity (“kontinuierlich”, “weiterhin”) in terms of requests by companies and in a climax by the attention and acceptance received (“Fahrt, Aufmerksamkeit und Akzeptanz gewonnen”). Interestingly to note, the role of the Government is no more ambiguous as in the first guideline but it is clarified. Although a separation with companies is since the beginning established and then maintained throughout the whole Introduction, as they are referred to by means of the pronoun “your” (ihre), it is in the penultimate paragraph that it is identifiable. Indeed, it is clearly stated that the Guideline is the result of an “Intangibles Reporting working team” (the expert group) and the government had (merely) provided to distribute it, together with the related “toolbox”.

These development, in terms of recognition of the different roles, have to be conceived of in light of the ‘professionalization’ advances realized by the expert group, as explained in the following sections.

4.5. The affirmation of the regulatory space

“*Each relevant professional body* in the UK *should* consider whether it wishes its members to be *eligible* to prepare or report on intangible assets valuation for published accounts purposes. To the extent that it does, it *should*...introduce the *necessary professional education requirements* into its training curriculum.” (The Valuation of Intangible Assets, Arthur Andersen Report, 1992, p.12, emphasis added)

“not only should further pilot users be made “fit”, but above all *multipliers* such as corporate consultants *or* specialists from Chambers of Commerce and other associations *should also* be *specifically* trained to *place the movement on a broader footing* and give it an *even greater* impetus.” (Intellectual capital statement – Made in Germany, 2004, p. 36, emphasis added)

In comparing these excerpts from two documents published with a time span of twelve years, it seems to watch one of the scenes of “Back to the Future”. Intangibles and their related practices are still a topic on which none of the “typical” professional bodies have established a “jurisdiction” but claims of expertise by different actors are still there. However, it is interesting to note how the perspective has shifted from being intra-professional into inter-professional. In the first quote the debate remains *within* the accounting domain, as the professional expertise required in order to value intangible assets is exclusively provided by the auditing company to professional bodies. In the second one, the reference is to various constituencies, such as consultants, the Chamber of Commerce and not even all of them are well-defined (“other associations”). This change is accompanied by, if not a consequence of, a different assessment of the relevance of intangibles practices. At the time in which the Andersen Report was written, it was a new and arising topic (or at least illustrated as such). Accordingly, it was made mandatory (to note the double recurrence of the modal verb “should”) for accounting professional bodies (in particular for *each* of the *relevant* ones) to deal with it. After twelve years, the constituencies which is referred to are seen as a *vehicle* towards the promotion of ICR and nothing more. In this respect, it has been stated: “Chartered Accountants (Wirtschaftsprüfer) are too much conservative. Banks and analysts then. Investors will be potentially of interest but they do not represent a strong constituency in

Germany. (personal opinion: better to leave professional bodies out, as otherwise it becomes very bureaucratic)” (Interviewee A, Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz, 2012). In this way, the boundaries of the territory (Miller, 1998) of intangibles are constructed and what has appeared elsewhere to be a topic upon which questions of disciplinary legitimacy have been raised (Zambon, 2006) and of consequence an intrusion of “external” specialists into the accounting domain (Power, 2001), is presented here to be counter-intuitive and demonstrating the failure of accounting professional bodies’ claims of expertise and jurisdictional power (Shafer and Gendron, 2005), if not conceiving of the claims a strategic manoeuvre to provide themselves legitimacy (Hines, 1989).

Although the differences above described, it is worthy of note how training is still the way to claim for expertise. However this is not surprising. It represents in fact one of the main devices through which professionalization and especially trust between experts and non-experts is attained. In Giddens’ terms it is an ‘access point’ (Giddens, 1990) in relation to which trust in abstract systems, such as the expert one, is created in modern times by means of face-to-face meetings between lay actors and ‘those responsible for them’ (p. 83). As argued by Gendron (2004) the ability to maintain alive the jurisdictional boundaries can also be affected by the feeling of trust (or distrust) both externally and internally the experts system. Therefore, this section will provide insights into the training process of moderators, conceiving it as such.

a. The training of identities, the code of ethics and the construction of a trust system

The initiative to train the moderators grew out of the second phase of the Intellectual Capital Reporting Initiative started in January 2005. On the basis of the interest reached by SMEs in the previous stage (“at the Conference at the end of the 1st phase of the project 50 people were expected but 200 people, mainly SMEs members, not consultants or academics, participated”, Interviewee A, Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz), the government decided to continuing fund the project and consequently, one of the aim of this phase was to extend the community of the moderators by means of ad-hoc seminars. In particular, they consisted in three stages seminars organized in two-days each where the illustration of the main concepts, potential and case studies of an ICR (Stage 1) is accompanied and

followed always more from practical case studies drawn by the participants (Stage 2) until their examination occurs (Stage 3) (Figure 1).

Figure 4.1.: Sequence of the three steps needed to become an ICR Moderator



Source: Wissensbilanz Flyer

These seminars started to be promoted by the end of October 2005 through the presence of information flyers published on the website of the expert team (www.akwissensbilanz.org), that consisted in one page document where the context, aims, target group, topics, expected learning and contact information, such as location, date and price were described. If on the one hand the choice of the distributional means further established in this way a closure with reference to the other constituencies, it did not in relation to the identities and characteristics of target group. No entry-criteria are in fact depicted but it refers to managers, consultants and all those interested that has or are willing to deal with the valuation and preparation of an ICR. To a similar extent, the objectives are expressed in a familiar way, without presupposing specific requirements, in terms of capabilities and/or competencies. They can be summarized as follows:

“to be able to prepare an ICR by themselves and in particular how successfully moderate and organize an ICR-Workshop. On the basis of a concrete example, the preparation process will be simulated and the participants will take part to it (play in it). The solutions will be discussed and practical suggestions for the implementation and moderation will be provided. The basis is the “Leitfaden zur Erstellung einer Wissensbilanz” by the Federal Ministry of Economy and Labour, that illustrates the experiences of more than 20 innovative organizations.” (Flyer Wissensbilanz-Intensivseminar, personal translation)

Although it is possible to note that the repository of expertise is still the expert (as demonstrated by the overwording of the adjectives conferring practicalities, such as concrete (“konkreten”) and practical (“praktische”)), an informal situation of exchange and discussion is created with the lay actors, seemingly to the one of a brainstorming. In this respect particularly interesting is the use of the verb “durchspielen”, that is “to play”, in emphasizing the relaxed attitude of the training. As argued by Giddens (1990), the business-as-usual attitude is typical of access points, as it creates a feeling of reassurance both towards the individual involved (the expert/trainer) and the knowledge system to which the lay person would not have an effective access (p. 85). In other words, “the face-to-face mode of the relationship helps to humanize and ‘re-embed’ a system in interpersonal interaction, thus rendering it trust-worthy” (Knights et al., 2001). Accordingly, the training has been perceived and experienced by the moderators not only as an educational means but much more as a “networking one”:

“I want to learn the model and see, what the environment is. And I too want to meet new contact-persons.” (Interviewee C, MSc, CMC, Data Centauri Projektdesign & Realisierung GmbH and Moderator)

“Over the training you receive not only information about the process but more experiences about Wissensbilanz. Fundamental is the role of the experts as you have training from people that implemented it.” (Interviewee D, proTransfer AG, Moderator and Member, Federal Association of Small and Medium sized Businesses and Intellectual Capital Association (Bundeverband Wissensbilanzierung).

This intent to create a trust system beyond the educational purpose is advocated also by the training materials distributed to the participants that consist of four articles/chapters of books and the Guideline published in 2008, documents that are written by the experts and that of consequence can be considered as an imposition of their perspective on the topic but that consist of general information about Wissensbilanz, as how to conceive it as a control and strategy instrument or about its state of the art.

In the name of the trust system that has been created over the first seminar, the participants are left to continue their practical and theoretical experience by their own. Indeed, the “consolidation” of theoretical concepts can be achieved both through seminars presence and self-study and the practical phases consisted in the formulation of four ICR in SMEs (with less than 25 employees). However, the monitoring mechanism for the evaluation of the ICR formulated is still employed by the “training providers”.

The final stage, the examination one, allows participants to become independent. They reach a status through which they can face *most* of the theoretical and practical *challenges* pertaining ICR in a *variety of companies* and provide a *high-quality level* of moderation for the formulation of an ICR. Indeed, they overcome *the* proof.

A second aspect that characterizes the trust system construction in the creation of *appropriate* identities, beyond their training, is the establishment of a “code of ethic”. The code of ethics is referred to the ICR Moderators, that have been participated in the first phase of the training seminars (Stage 1) and that have voluntarily decided to sign it and to be listed on the ICR expert-dedicated website page (<http://www.akwissensbilanz.org/Arbeitskreis/moderatorennetzwerk.htm>).

It mainly consists of one page section, that express the six principles that the Moderators are meant to follow. They are:

- 1) Principle of methods’ consistency;
- 2) Principle of improving;
- 3) Principle of the “exchange”;
- 4) Principle of confidentiality;
- 5) Principle of preparation and training;

6) Principle of publicity.

Interestingly to note, most of the principles listed in the code are referred to a character sphere, based on the existing trust among the moderators. In particular, it pertains to their networking ability. Indeed, it is often stressed the importance for moderators to exchange the information that they acquire by means of experience and learning to the others moderators and experts' group in periodical meetings. On the basis of this exchange, the enduring professional development of moderators is guaranteed.

Within the accounting and social literature, the code of ethics has been acknowledge as one of the main devices for professional bodies to gain legitimacy (Preston et al. 1995). Nonetheless, in the present case it does not represent a quest for legitimacy in relation to other professional bodies or the state and its agencies, but it is a means in order to enhance the collaboration between the experts and the new-experts (the moderators) and among the new-experts. This way it looks like what is defined as an “informal code”. The moderators that agreed to signed to code as a result of the accomplishment of the first stage of the training process (for the time being they are almost 150, vis-à-vis the 3 that attained the second stage and the 10 that terminated the whole process that corresponds to the *experts*), confirmed the relevance of this “informality value” inasmuch, although confident with the core values described in the code, they do not think that it can improve the professional commitment on ICR, neither its legitimation. “No additional awareness” in the surrounding professional environment is attained through it (Interviewee D, proTransfer AG, Moderator and Member, Federal Association of Small and Medium sized Businesses and Intellectual Capital Association (Bundeverband Wissensbilanzierung)).

4.6. The promotion of the regulatory space – the ICR Association

Along with the training process, and the establishment of a code of ethics, on 11th May 2012, the expert team on ICR, captained by the Fraunhofer-Institut, the Europe's largest application-oriented research organization, established the ICR Association (“Bundesverband Wissensbilanzierung”). Aim of the Association is to

“promote the cooperation and exchange of experiences among members and other interested parties as well as the practice to learn about the intellectual capital” (Newsletter WissensWert, Ausgabe 15, p.1)

Interestingly to note, the Association does not only represent its members and the more directly related constituencies, such as universities and scientific institutions, but it expands its boundaries through the representation, as an “institution”, of the “interests of the intellectual capital community over the economy, politics and the public.” (Newsletter WissensWert, Ausgabe 15, p.1)

Indeed, the participation in the ICR Association is open both to private persons, private and public companies, associations and commercial partnership. They are however classified in four categories (active participants, passive participants, sustaining members and honorary members), on the basis of their legal personality and voting right, as summarized in the following table.

Table 4.1.

Classification of the participations’ level in the ICR Association

Active participants	Adult individuals with voting right
Passive participants	Adult individuals without voting right
Sustaining members	Legal entities, unincorporated associations and commercial partnerships, without voting right
Honorary members	Adult, physical or legal persons, unincorporated associations and commercial partnerships, without voting right

Source: Modes of participation, ICR Association website (<http://www.bvwb.org/index.php?id=520>)

It is worthy of note that what is apparently an open-access systems, this is not the substantial reality. For the time being, the Association consists of 28 participants, included those part of the board of directors. The Board of Directors includes seven members, the President, the Vice President, the Chief Financial Officer, the Board of Quality Assurance, the Board of Practices and Training, the Board of Public Relations

and finally the Board of “experience”, all “chosen” among those moderators that attained the second or the third training stage. Along with the Board of Directors, the Advisory Council is also constituted by the Founder and CEO of one of the SMEs that more successfully implemented ICR.

In terms of sustaining members, nine organizations have manifested their (vested) interest. Most of the representatives are directly involved in the Association as participants, if not in the moderators. As for the participants at regional level, it counts four regions in the north side of Germany (Schleswig-Holstein, Niedersachsen, Hamburg, Bremen), one in the western (Nord-Rhein-Westfalen), four in the south-western (Baden-Württemberg, Hessen, Saarland, Rheinland-Pfalz), six in the eastern (Mecklenburg-Vorpommern, Brandenburg, Berlin, Sachsen, Sachsen-Anhalt, Thüringen) and two in the south-east (Bayern, Österreich).

It must be acknowledge that although far from being an open-access system, the efforts employed to meet the initial conditions of establishment have been remarkable. Among the benefits deriving from its constitution it was stated that:

“In the continuing education and training programs, members will assist with the application of the method. Experts on all topics related to the ICR will be available for questions from the members available. As part of its activities, the Association will conduct regional and sector specific events, discussions and meetings. The Association supports both the organization of events to members on the acquisition of potential customers through a unified public relations. At the same time, members have instant access to all the latest information and materials.”

(Arbeitskreis

Wissensbilanz,

<http://www.akwissensbilanz.org/Infoservice/bvwb.htm>)

Since its establishment, fifteen workshops relating to the “Roadshow Wissensbilanz” have been held throughout the whole Country.

4.7. The “yellow brick road”¹⁰ towards Intangibles Reporting recommendation

Over the past years, the role that consultants have covered in promoting and introducing innovative accounting concepts and mechanisms in both private and public companies has become prominent. Accordingly, this topic has started to be examined within accounting research networks, especially in the critical field (Hopwood, 2007; Humphrey, 1994; Jones and Dugdale, 2002; Malmi, 1999; Robson et al, 2007; Skærbæk, 2009). In addition, as conceiving of consultants as experts, their ability to render successful accounting devices through “fact-building” (Briers and Chua, 2001; Preston et al. 1992) has been recognized as a fundamental.

Despite this trend, a few number of studies have investigated the degrees and the manners through which experts – consultants – have been involved in promoting, rather than, in implementing accounting ideas and devices. Gendron et al. (2007), recognized that past studies of accounting expertise have needed to:

“look both at the ways in which proponents promote their claims of expertise and the way in which target audiences have reacted to them” (ibid., p. 103)

Pertaining this aspect, a first answer has been provided by Christensen and Skærbæk (2010). They suggest that consultancy activities can *purify* the introduction and implementation of innovative accounting devices, by providing “faith” and resolve conflicts towards their adoption.

However, such benevolent efforts have not to be naively considered as generalizable ones *in toto*. The promotion of accounting technologies towards their acceptability, can indeed respond to the vested interests of consultants (Qu and Cooper, 2011). Consequently, research has been also called for

“studies that address knowledge creation and dissemination strategies within consulting firms and the extent to which issues of inter-professional competition and norms impact the construction of specific accounting technologies” (ibid. p. 360)

¹⁰ Drawn by the book “Wizard of Oz”

Drawing on these observations, the Chapter has sought to provide a second, confluent, attempt for understanding how the recommendation of such an innovative reporting practice, as the one based on intangibles resources, can be considered as stemming from the claims of expertise of a group of consultants (vis-à-vis the traditional role played by professional bodies or governmental agencies) and the “promotional” course of actions that they undertook not only in relation to a single company but at a national level (in its entirety of companies and professional associations).

As informed by normative institutional theory in its original and fundamental conceptualization of the “logic of appropriateness” and enriched by the linguistic dimension of the “rhetoric of the expert”, support is provided. A group of three consultants, as experts, have made their entrance on the national stage to recommend the adoption of ICR in a country connoted as conservative and prudent in its regulative accounting system.

Similar to what maintained by Christensen and Skærbæk (2010), they have putted in action a purification process by which

“ideas or things that were considered ‘impure’, in that they were controversial or devalued, are turned into acceptable and unchallenged concepts of some standing and worth” (ibid., p.526-527).

In this respect, the manners through which they captured the attention not only of the Ministry but also of SMEs can be considered as distinctive ones.

Answering to the call of the Federal Ministry of Economy and Labour, they launched was has been initially referred to as a “prototyping idea”, aimed at supporting companies in their formulation of ICR. By means of an in-house preparation of the processes through which an ICR can be constructed in SMEs that manifested their interest in adopting such a practice, they formulated a first Guideline. The document has been subjected to revisions of the Federal Ministry and it has been consequently published under its collaboration. Interestingly to note, in reading and analyzing the document the expectations that could have make thought of the governmental agency as main promoter and actor in the process of recommendation and implementation of ICR in companies have resulted to be mistaken.

Indeed, what has been elsewhere referred to as the “disciplining of scientific experts to conform to bureaucratic modes of action” (Thorpe, 2002, p. 552) did not find here justification. Conversely, the State has to some extent been disciplined by the consultants – experts in that its involvement in the processes of formulation and promotion of the Guidelines have been minimal. In adopting a rhetorical device centred on “facts-building” or “concrete” actions, the experts – consultants – have identified and created an ad-hoc and *appropriate* figure for the formulation of ICR – the moderator. Such an identity is characterized by the realization of tangible actions and is highly dependent on its architect, in that their “professionalization” is contingent upon the experts. In other words, as maintained elsewhere the experts have created themselves a status in which they represent an ‘obligatory passage point’. They have generated a process that resembles the professionalization one, constituted by a training program, a final examination, a code of ethics and the foundation of a related Association.

In this way, a trust system, essential for the perpetuation of a “professional body” is also established, even if a controlling mechanism by the “original expert” is always present. In addition, such a trust system creates a closure towards other associations.

In the words of one of the moderators that successfully attended both the training program and the examination:

“I heard from some consultants that there are a few specialists who cover the majority of client requests. It was extremely difficult to enter this special field of consulting.”
(Interviewee E, Step Process Management, and Moderator)

To conclude, the German episode here described suggests that in analysing the possibilities of existence of Intangibles Reporting, researchers need to open up the black box of regulation and investigate all the potential routes, even if disentangled from the most traditional ones.

Appendix E

E.1. Interviews conducted

No.	Name*	Position	Interview date
1	A	Owner and general manager, alwert GmbH & Co. KG and “core member” of the Arbeitskreis Wissensbilanz	May and June 2012
2	B	Founder and CEO, Wissenskapital Edvinsson & Kivikas GmbH and “core member” of the Arbeitskreis Wissensbilanz	June 2012
3	C	MSc, CMC, Data Centauri Projektdesign & Realisierung GmbH and Moderator	November 2012 – written form
4	D	proTransfer AG, Moderator and Member, Federal Association of Small and Medium sized Businesses and Intellectual Capital Association (Bundeverband Wissensbilanzierung)	November 2012
5	E	Step Process Management and Moderator	November 2012

*Interviewee names have been replaced with codes to preserve anonymity

Appendices F

F.1. Introduction of the “Intellectual Capital Statement – Made in Germany”, August 2004

“The ability to make the best possible use of both internal and external knowledge is vital to small and medium-sized enterprises. The intellectual capital statement (or report) offers a strong foundation for this, providing the means to achieve a comprehensive inventory and evaluation of an enterprise’s intangible assets.

Such intellectual capital statements have been drawn up in recent months with the support of the Federal Ministry of Economics and Labour in a number of small and medium-sized enterprises. The experience, lessons and recommendations for action gleaned from these pilot projects have been used to compile this Guideline. I hope that its publication will provide a sustained impetus for the broad implementation of the intellectual capital statement and of knowledge management in both small and medium-sized enterprises, and in the trades sector.”

F.2. Introduction of the “Intellectual Capital Statement – Made in Germany”, October 2008

“Um nachhaltig erfolgreich zu bleiben, müssen Unternehmen ihre individuellen Erfolgsfaktoren kennen und gezielt entwickeln. Denn aus diesen internen Faktoren entstehen die entscheidenden Wettbewerbsvorteile, die ein Unternehmen auch langfristig am Markt positionieren. Gerade kleine und mittlere Unternehmen (KMU) in Deutschland sind gezwungen auf Differenzierung zu setzen, weil Kosten- und Preisvorteile gegenüber dem (globalen) Wettbewerb meist nicht zum Tragen kommen. Vielmehr müssen Firmenleitungen den Nutzen für ihre Kunden immer wieder überprüfen und die Leistungserstellung daraufhin optimieren. Dabei stehen die verantwortlichen Manager vor der Herausforderung, nicht nur Chancen und Risiken im Umfeld genau zu kennen, sondern auch die Stärken und Schwächen im eigenen Unternehmen im Blick zu haben. Welches sind nun aber die wichtigen internen Erfolgsfaktoren? Sicher spielen moderne Technologien, die richtigen Anlagen und Maschinen oder eine gute Betriebsausstattung auch weiterhin eine Rolle. Doch die wesentlichen Wettbewerbsvorteile werden heute nicht mehr nur über diese materiellen Faktoren generiert. Zunehmend ergibt sich der eigentliche Vorsprung am Markt aus den nicht greifbaren Faktoren, den immateriellen Werten eines Unternehmens.

Um solche „weichen“ Erfolgsfaktoren, wie spezielles Fachwissen der Mitarbeiter, schlanke Prozesse oder gute Kundenbeziehungen, messen und steuern zu können, wurde die Wissensbilanz entwickelt. Dieses Managementinstrument unterstützt Führungskräfte und Mitarbeiter dabei, Transparenz über die immateriellen Werte zu gewinnen, ihre Wirkung auf die Leistungserstellung zu bewerten und daraus die richtigen Maßnahmen abzuleiten. So wird einerseits die gezielte und systematische Entwicklung der wichtigsten Erfolgsfaktoren im Unternehmen ermöglicht. Andererseits kann die Wissensbilanz als Kommunikationsinstrument genutzt werden, um auch externen Zielgruppen den „wahren“ Wert des Unternehmens aufzuzeigen. Wird das Berichtswesen um eine Wissensbilanz ergänzt, können Banken beispielsweise eine präzisere Unternehmens einschätzung im Rahmen von Kreditverhandlungen vornehmen.

Das Projekt „Wissensbilanz – Made in Germany“ hat seit 2004 kontinuierlich an Fahrt, Aufmerksamkeit und Akzeptanz gewonnen. Die im Rahmen des Pilotprojekts entwickelte Methode und die unterstützende Software „Wissensbilanz-Toolbox“ erfreuen sich einer weiterhin hohen Nachfrage unter deutschen Unternehmen.

Der Wissensbilanz Leitfaden 2.0 ersetzt den vergriffenen Leitfaden 1.0. Er wurde vollständig überarbeitet und um wichtige Erkenntnisse und neue Kapitel ergänzt. Insbesondere wurde er an die Vorgehensweise der Wissensbilanz-Toolbox angepasst, die ebenfalls vom Arbeitskreis Wissensbilanz entwickelt und kostenfrei durch das Bundesministerium für Wirtschaft und Technologie (BMWi) zur Verfügung gestellt wird. Wir wünschen Ihnen eine aufschlussreiche Lektüre und nachhaltigen Erfolg bei der Entwicklung Ihres Unternehmens!

Ihr

Bundesministerium für

Wirtschaft und Technologie”

CHAPTER FIVE

VARIETIES OF CAPITALISM, VARIETIES OF ‘SOFT REGULATORY’ THEORIES? A DISCUSSION OF THE CASE OF INTANGIBLES REPORTING

5.1. Introduction

In the previous chapters it has been sought to elucidate the determinants, the processes and the outcomes according to which the State recommends the adoption of intangibles reporting within companies. In Chapter 2 three theories, namely Political Economy, Legitimacy and Institutional, are outlined with reference to their application to accounting and non-accounting devices. On the basis of this review, Chapter 3 and Chapter 4 formed the basis of the analysis. In other words, a “test” of the theory(ies) able to better explicate the recommendation actions undertaken by the State in two countries, Japan and Germany, is conducted. As explicated in the Introduction, the reasons that motivate the choice of a comparative method are twofold. It enables an investigation of the conditions of possibility that exist in countries belonging to the same “varieties of capitalism” (Hall and Soskice, 2001). In particular, it relates to the participation of various parts of the State in the corporate reporting arena (e.g. the Ministry of Economy, Trade and Industry (METI) in Japan; firstly the Federal Ministry of Economy and Labour and then the Federal Ministry of Economy and Technology in Germany) and their dissimilar efforts towards the recommendation of ICR. Secondly, this focus will also allow us to shed light on the role of the State, which in the judgment of Hancké (2009), is overlooked in the varieties of capitalism approach. The two case studies, taken in isolation, offer insights into the adoption of regulatory theories to illuminate the different efforts spent by the State towards intangibles reporting. Thus, the research contributes to the existing literature and practice providing support for an understanding of intangibles reporting as a public interest device. However, the episodes described still suffer from a lack of a comprehensive perspective about the extent to which countries belonging to the

same variety of capitalism can differ (or not) in their regulatory behaviour. Consequently, aim of this chapter is to summarize the observations reached so far and make visible the possibilities of interactions in terms of regulation and varieties of capitalism. This Chapter is subdivided in three sections. In section 5.2. the varieties of capitalism approach is firstly reviewed and the evidence found in the case studies is enlightened from this angle. Section 5.3. elucidates the interactive nature of Political Economy, Legitimacy and Institutional Theories both in theoretical and practical (IR) terms. Finally, Section 5.4. outlines the synergies among regulation and varieties of capitalism in relation to intangibles reporting.

5.2. Varieties of Capitalism

The approach to study the dissimilar nation-state systems of economy, policy and society in comparative terms is relatively old. However, it is in the name of the internationalization process that occurred at the beginning of the twentieth century, that several approaches have been proposed and tested to shed light on the interactions, similarities and differences existing among Nations.

In their influential contribution, Hall and Soskice (2001; 2004), drawing on Albert (1991), propose an analysis centred on the behaviour of firms and especially on their ability to undertake efficient coordination relations with those actors that constitute the political economy sphere of a Country, such as trade unions, the educational system, customer associations and others. Thus, fundamental to their argument is the acceptance of the resource-based view of the firm that conceives firms as relational actors, aimed at “develop and exploit core competencies or dynamic capabilities understood as capacities for developing, producing, and distributing goods and services profitably” (Hall and Soskice, 2001, p. 6). Put it differently, firms have to *effectively* engage in various relationships within the economic, political and social environments to face transactions costs and principal-agents relationships and to be capable to prosper. Five spheres of activity have to be principally targeted by effective coordination efforts. With reference to internal activities and actors, *vocational training and education* aims at the continuous development of employees’ skills. Dependent on this, the coordination with and within the *employees’* sphere becomes crucial for the sake of the firm’s survival and

profitability. Good relationships among employees and between employees and managers can guarantee competencies, skills and information to be constantly provided and maintained within the “organizational walls”. Towards the external environment surrounding the organization, *corporate governance* affects the possibility to financial access and for investors to pursue investments (returns). In *industrial relations*, firms have to coordinate with employees and in general with their representing association to secure acceptable levels of wage and productivity and to face unemployment and inflation problems. Finally, *inter-firm relations* relate to a coordination with other customers, other companies and to an entrance in processes of technological transfer, R&D developments and more broadly to standard-settings. Interestingly to note, the outcomes derived from the five spheres above described do not affect only the success of the firms but of the whole economy. However, coordination within the five spheres is not sufficient by itself for explaining the divergent attitudes of countries. The *institutional complementarities* embedded in a system or created from time to time also guide the behaviour of firms and of the economy largely taken. As Hall and Soskice (2001) put it “two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other” (ibid, p. 17). Consequently “nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well” (ibid, p.18)

On the basis of the nature of the coordination relationships they engage and of the *institutional complementarities* developed, two distinctive “varieties of capitalism” are advocated. On the one hand, coordination is established through competitive markets’ forces, on the other one, by synergic interactions. The *equilibrium outcomes* (Hall and Gingerich, 2009, p. 452) are consequently driven and secured by the presence of market fluidity, connote by relative prices and market signals in the first case, and by an institutional structure able to provide credible commitments in the second case. This way, although the occurrence of both types of coordination is acknowledge in every Country, the predominance of one above the other highly depends on the characterization of the market and the institutional setting. If the market guarantees fluidity and institutions do not support enough credible commitments, coordination would be engaged through competitive markets. This form of capitalism has been named, Liberal Market Economy (LME). In contrast, in those Nations where the market is deficient and institutions support forms of commitments, coordination would be achieved through synergic

interactions. In this case, the label used to indicate that form of capitalism is Coordinated Market Economy (CME). Examples of countries belonging to the former have been recognized in the literature to be Britain, the US and in general, most of those characterized by Anglo-Saxon origins. The fluidity and weaknesses that connote, among others, their employment and industry constituencies, render the relationships within and between organizations and economic, political and social actors almost formal, generally based on contractual forms, if not on price systems. Regulation allows hostile takeovers, managers are highly authoritarian, technological transfer is achieved through external personnel as industry associations are unable to provide ad-hoc training and in general those unemployed invest in wide-ranging skills.

Conversely, a network tendency within organizations (employees and managers) and between organizations and trade unions, industrial associations and regulators delineate the Coordinated Market Economy scenario. Decision-making processes within organization permeate all the working levels, thus managers do not act in isolation. Externally, the strong relations with industrial associations allow both employees and unemployed people to benefit from specific training schemes and eventually to take part into technological transfer through inter-firm collaboration. Industrial associations play a role also in standard setting processes. Broadly speaking, the informal exchange of personnel and information among companies permits them to create a reputational aura, also towards credit access. Japan and Germany, accompanied by Sweden, Norway, South Korea and others, have been identified in the literature to belong to this type of capitalism.

A divergent behaviour of the two varieties of capitalism is noticed also with reference to public policy (-making). For the sake of the inquiry here proposed, the description will focus merely on the CME system. It has been pointed out above that coordinated market economies heavily rely on business coordination based on informal networking. However, although predominant, this attitude cannot be generalized. For example, evidence has been found that firms are not always willing to share sensitive information with governments. Governments are (still) conceived as powerful actors capable to undermine the survival and profitability of firms by using the information acquired against them. Consequently, to face this problem, they take advantage (by encouraging and not creating *ex novo*) of the presence of social organizations, such as trade unions and business associations to recommend or more strongly implement their policies.

Indeed, those social organization benefit on the one hand from an independency attitude with respect to the government, and on the other one they are responsible towards their members. This way, firms are more willing to share with them private information. In addition, the possibilities for monitoring, and in case sanction, their members can guarantee a coordination with lower transactions costs.

Accordingly, the final scenario displays “producer-group organizations enter into 'implicit contracts' with the government to administer the policy, drawing some benefits of their own in the form of enhanced resources and authority” (Hall and Soskice, 2001, p. 47)

Put it differently, public policy becomes a central device for the maintenance of *incentive-compatibility* of the organization of production inputs without which its survival and profitability will be undermined. The incentive-compatibility can take two forms: framework legislation and supporting incentives. The former attempts to guarantee the protection of those principal networks of business coordination. In other words, the State decentralizes its power and delegates it to private bodies, who represent the “new” authorities and secure a protection from State’s inference. The latter allows companies to enhance the reliance of their activities and performance upon distinctive institutional comparatives advantages.

In the literature, the argument offered by Hall and Soskice (2001) have launched the case for several deepening and sometimes also criticisms. Almost concurrently with its emergence, Dore et al. (1999), challenged the possibilities of existence and perpetuation of this approach. In analysing the developments through which the main representing of the LME and CME systems, namely Britain and the USA on the one hand and Germany and Japan on the other one, have travelled, they point out an admiration that the latter ones are feeling towards the former. Conversely, Hall and Gingerich (2009), provide support for the adoption of concepts of market-oriented and strategic co-ordination to elucidate the ways the economy performs in dissimilar Nations.

With reference to accounting, Walker (2010), sets the case of international accounting standards and argues that an imposition of accounting standards which mainly derived from stock market mechanisms could be counterproductive towards an accounting integration. He suggests the formation of a double set of accounting standards, able to capture the differences embedded in the varieties of capitalism and especially able to

respect them. A first set will be mainly ingrained on the information needs of stock markets actors, such as investors and shareholders. A second set will privilege the information requirements of stakeholders.

Drawing on the general observations above reported and on the business-government relationships (Wood, 2004) that can foster the recommendation of certain public policies, the reflections reached through the Japanese and German case studies, will be here enriched. Table 5 summarizes the main findings in terms of actors involved in the process of formulation and recommendation of IR and their role, the context that originates the intangibles reporting recommendation process, the features that the Guidelines delineate with reference to intangibles reporting and the effects, conceived of as number of companies adopting an intangibles reporting both for internal and external (communication) purposes.

Table 5.1.

Components of Intangibles Reporting recommendation in the two case studies

Guidelines' Year	Actors	IR context of origin	IR features	Effects
Japan				
2005	Ministry of Economy Trade and Industry (METI)	“Lost decade”	IAbM as “growth potential”	Few disclosures
2007	Organization for SMEs and Regional Innovation (OSMERI)	“Lost decade” + Globalization		271 companies disclose an IAbM Report
2009	METI + OSMERI	“Lost decade” + globalization + financialization		
Germany				
2004	Group of three consultants + Federal Ministry of Economy & Labour	Globalization		16 pilot companies
2008	Group of three consultants + Federal Ministry of Economy and Technology	Globalization + financialization		Direct contact with 350 companies, indirectly (through moderators) more than 1,000 companies

5.2.1. Similarities

Already at a first glance, it is possible to note that some common denominators associate the actions undertaken in Japan and Germany with reference to intangibles reporting recommendation. Firstly, the time span over which the Guidelines have started to be formulated and then promoted. In both cases the initial efforts concentrate on the mid of the 2000s. This tendency can be explained, in conventional terms, by the fact that it was the period of major proliferation of globalization. In other words, Intellectual Capital, intangibles and Knowledge Management were the “hot topic” at that time. After the initial OECD International Symposium held in Amsterdam in 1999, academics and practitioners started to be interested in the topic. Also the European Commission called for research in this field (RICARDIS). However, this is only a partial elucidation. The reasons rely more on “operational issues”, embodied by the presence of countries, or better governments, that initiated to recommend this reporting practice at a national level. Denmark, Norway are only two of those group of countries. Accordingly, a recurrence of the promoters of the recommendation process in Japan and Germany to experiences already existing in other countries represents the main explanatory variable. As stated by the Director of Research and Strategy Division of International Trade Policy Bureau in Japan in charge in 2003

“Around that time, I happened to encounter the concept of ‘intellectual capital’ originally invented in the Nordic countries. I travelled to Sweden, Denmark and UK in 2003. I had a meeting with Leif Edvinsson who is one of the originator of this concept. I also learned that Government of Denmark introduced the bill that encouraged the companies to produce intellectual capital reports and publish a guideline for preparing such reports. In UK, I was informed that debate on the revision of the Company Code was in process. [...] Having studied all of these, I decided to take up the concept of intellectual asset as the key concept in the coming White Paper”

To the same extent, one of the members of the Arbeitskreis Wissensbilanz (AK-WB) pointed out that

“It was a bottom-up approach, it didn’t start from the scratched, but it was informed by the international experience and we were aware of the problems they encountered.”

Interestingly to note, whether casually or not, most of the Nations that formed the basis of analysis, such as Denmark, Sweden and Norway, were those belonging to their same Coordinated Market Economies’ category.

A second aspect that is worthy to highlight relates to the actors that promoted the adoption of intangibles reporting practices and their roles. Accordingly to the business-governments relationships that connote the CMEs systems, both the Japanese Ministry of Economy, Trade and Industry and the Federal Ministry of Economy and Labour first and the Federal Ministry of Economy and Technology then, relied on “agencies” to perpetuate their “regulatory efforts”, even if with a dissimilar weight. In the former case, METI, after a first attempt to formulate and recommend the adoption of intangibles reporting within listed companies, aim of the 2005 Guidelines, “decentralized” this function to an “external” organization focussed on SMEs. As reported in Chapter 3, the Organization for SMEs and Regional Innovation was founded in 2004 and is an independent administrative agency under the Ministry of Economy, Trade and Industry aimed at “supporting SMEs and regional communities in solving their problems and realizing their dreams, by providing targeted and personalized support measures” (OSMERI website).

A possible explication for this shift, could be represented by the scarce level of disclosure attained when listed companies were targeted, as reported in Table 5.1. Indeed, as soon as the Ministry turned its focus on SMEs and its “intangibles regulatory power” to OSMERI (2007) and OSMERI and the Intellectual Property Policy Office (2009) the number of companies that adopted the Intellectual Assets-based Management Report sharply increased (by the end of 2012 they amounted to 271).

As for the case of Germany, the “decentralization” from the government towards external agencies took place since the beginning of the recommendation process. Indeed, as emphasized in Chapter 4, its role has been the one of the funder and most generally of the “legitimizing entity”. No explicit involvement in the procedural aspects has been played and as soon as the start-up phase ended and the IR movement reached its maturity status, the government retired its support. The continuous promotion and expansion efforts

towards the adoption of Intangibles Reporting has been covered by a group of expert – consultants – and their creation of an ad-hoc, appropriate figure for helping companies in the preparation of the report. These efforts have been shortly translated into successful results in terms of adopters. Until 2012, the number of companies that adopted an IR amounted to 350 through direct contact with the experts and indirectly (via moderators) more than 1000. As pointed out elsewhere (Wood, 2004), the German government has constrained power and limited autonomy. Conversely, the business environment surrounding it is extremely coordinated through a high level of information sharing among companies and between companies and those authority associations delegated by the government.

Interestingly to note, the close relationship among the government and the business environment did not encompass also the others professional bodies and associations. In the Japanese case, although the major involvement of the State, the process has been mainly supported by Chartered Accountants, but not for examples by the Federation of Economic Organizations (Nippon Keindaren) and the Japanese Association of Corporate Executives (Keizay Doyukai). This attitude can be explicated in the light of the Prime Minister's approach that accompanied the birth and the evolution of the recommendation process. Although prone to the re-launch of the Japanese nation internationally, most of its decisions were oriented towards the recovering of the Japanese style, even if adjustments were required. On the contrary, the associations above mentioned were more inclined in following the Anglo-American lines of actions where CSR was the issue. In Germany the case was similar. Nonetheless the State was the “legitimating” institution and the recommendation process derived from the “substrate” of companies' consultants, no allies were providing support (with an exception over the last years for the “German Association for Small and Medium-sized Businesses” - Bundesverband Mittelständische Wirtschaft) but an individual association was created by the promoters themselves.

In this respect, it has also to be noted that in the two countries this “closure” that affected other professional bodies manifested at odds. In Japan it stemmed *exogenously* (from the external environment towards the promoter), whilst in Germany originated *endogenously* (from the initiators towards the external environment).

Following these lines of argument, it is possible to generally state that the networking aspect that characterized the CME economies, did not here find justification.

In general terms, it is worthy of note that in both countries intangibles and IC reporting have been conceived of as a means in order to improve the relationships between the government and SMEs on the one hand, and companies and the financial system on the other one. Put it differently, its adoption aimed at filling a mismatch that occurred between governmental institutions, the business environment, accounting information supply and the credit access. These deficiencies were represented in both cases as a cause of globalization and the “financialization” trend that characterized the new capitalistic system.

In conclusions, two countries belonging to a “coordinated market economic” system according to which “firms depend more heavily on non-market relationships to coordinate their endeavours with other actors and to construct their core competencies” (Hall and Soskice, 2001, p. 8), have shown pitfalls in their main feature, the relational power. Accordingly, also their Welfare-based States manifested a difficulty in conceiving the “welfare necessities” of the business environment.

5.2.2. Differences

In the previous section, it has been noted that one of the differences existing among Japan and Germany in the recommendation process of Intangibles Reporting relies on the “closure mechanisms” that the promoters of the “intangibles project” undertook. In Japan it originated *exogenously*, while in Germany *endogenously*. In addition, it is worthy of note that also the few allies involved in the processes were dissimilar in nature. In Japan, the only professional body included were the Chartered Accountants. As well-known, they

Conversely, in Germany a constituency “interested in supporting Intellectual Capital Statement (or Reporting) in Germany and promote its application also in Europe” is the German Association for Small and Medium-sized Businesses, an independent association in which the needs and opinions of SMEs business converge and able to influence, if not lobbying, the political decision-making process.

“The BVMW is a politically independent association which caters for all commercial branches and professions, and represents the interests of small and medium-sized

businesses in politics, with administrative authorities, with trade unions and with major companies. Medium-sized businesses – around 3.3 million individual enterprises in all – are the backbone and impulse of the German economy. [...] Influence on political decisions affecting economic conditions can only be achieved through the activities of a pressure group. Consequently, the BVMW works hard on a broad spectrum of political levels, starting with local, regional and national levels, and ending with the European Commission in Brussels.

The basis for the political work of the BVMW is the policy statement “small and medium-sized businesses are a mobile force”, which combines the most important statements and demands of our association. Together with our co-operation partner associations, we represent more than 150,000 businesses with about 4.3 million employees.”

(<http://www.bvmw.de/service/sprachen/gb.html>)

This diverse trends can be justified by a symptomatic awareness of the economic actors that constitute the networks of the business environment of their (changed) capitalistic features. Indeed, in Germany, the industry-based economic system, although hit by the occurrence of globalization and “financialization”, appears – at least in the area here investigated – still well-functioning, showing the existence of good communication and interactions channels within it and with the government.

In Japan, this is not the case. The group-based (keiretsu) and “convoy” system, in which business is respectively related to the banking system and the State seems to be, if not dead, at least under serious reconsideration. The recognition of the determinant role that this system, among others, covered in locating the country in the “lost decade” has led to its collapse. With it, the relationships on which the State could count to influence and to determinate the conduct disappeared.

Accordingly, it is not surprising that the (theoretical) approaches that enlighten the recommendation process of a “new” reporting practice respond to a “top-down” logic for the case of Japan and to a “bottom-up” one for the case of Germany. In these terms, have also to be considered the different results that the Guidelines’ publication and diffusion attained.

5.3. Varieties of ‘Soft Regulatory’ Theories?

In Chapter 2, the “soft” regulatory theories applicable to the recommendation of Intangibles Reporting have been reviewed in isolation. However it is worthy of note that possibilities of interconnections have also been depicted.

Especially among non-financial reporting trends, after the raise of interest that has been paid towards CSR, several attempts have been realized in the academic arena to test theories applicable to it (Cho et al. 2012, Mäkelä and Näsi, 2010). This analysis has brought, over the years, to dissimilar results, some of which providing evidence for supporting the adoption of legitimacy theory (Hogner, 1982; Deegan et al. 2002b; Lanis and Richardson, 2013), some others neglecting its fully applicability (Wilmshurst, and Frost, 2000) and advocating alternative theoretical frameworks, such as stakeholder theory (Roberts, 1992; Ullmann, 1985, Van der Laan Smith et al., 2005a, 2005b). Interestingly to note, a third stream of research started to include in its literature review, not only the historical and conceptual development within these fields, as being isolated ones, but appreciating their validity in juncture among them and with other regulatory theories, namely political economy and institutional theory.

In a chronological perspective, Gray et al. (1995) analyse the data in relation to CSR disclosure in UK from 1970’s onwards, pointing out that political economy, legitimacy and stakeholders theories have to be seen in complementary terms and not in competitive ones. Indeed, the existing interconnections at the theoretical grounds enable a better understanding of the nuances of CSR reports’ trends.

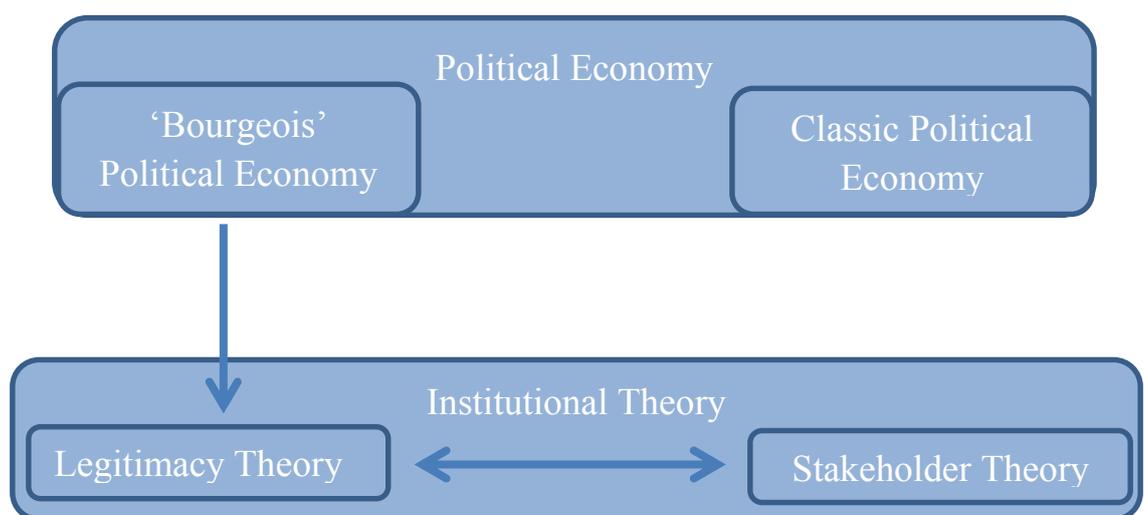
According to Deegan (2002a), Political Economy, Legitimacy and Institutional theories are not to be conceived of as distinct ones. In particular, Political Economy is seen as giving birth to legitimacy theory in the name of the connection between society and organizations it emerges from. Similarly, legitimacy theory is also seen as part of institutional theory. According to the latter, organizations are expected to conform with external pressures about what is “acceptable” behaviour. Concurrently, O’Donovan (2002) recognizes the overlapping nature of the bourgeois political economy, stakeholder and legitimacy theories and calls for further research in order to shed light on their differences. Deegan and Blomquist (2006) maintain:

“whilst legitimacy theory discusses the expectations of society in general (as encapsulated within the “social contract”), stakeholder theory provides a more refined resolution by referring to particular groups within society (stakeholder groups)” (ibid., pp.349-350)

In a later work, Deegan (2007) offers a comprehensive reconstruction of the theoretical path through which legitimacy theory has travelled through and he points out a specific schema according to which these connections can be conceived of. Political economy, especially the bourgeois perspective suggested by Gray et al. (1996), has to be considered as giving birth to legitimacy theory, in the name of its pluralistic connotation. In Deegan’s words (2007) “It assumes that the views of a reasonably unified and pluralistic society shape the activities of organizations”. As illustrated above, legitimacy theory in turns represents the “recipient” of stakeholder theory. Within the broad concept of society, stakeholders theory refers to a specific group of individuals, that is those directly interested in the life of an organization. Both legitimacy and stakeholders theories rest on institutionalism, by means of the efforts spent by organizations to adapt to social and institutional pressures. The interconnections existing among the theories are represented in Figure 5.1.

Figure 5.1.

Interconnections between Political Economy, Institutional, Stakeholders and Legitimacy theories as proposed by CSR literature



According to this, the questions arising from this background are “what about the other side of the coin of non-financial information reporting, namely IC/intangibles

reporting?”, “which theory, if any, is able to better capture the multi-faced nature of its recommendation processes?”, if yes, “is it possible to capture interconnections with the other theories?”. As shortly elucidated in the previous sections, the approaches that describe the recommendation actions undertaken by governments in Japan and Germany rely on opposite sides. In the former case, a “top-down” logic, mainly directed by the State dominates the scenes, in the second one, a “bottom-up” logic governed by companies’ consultants finds prominence.

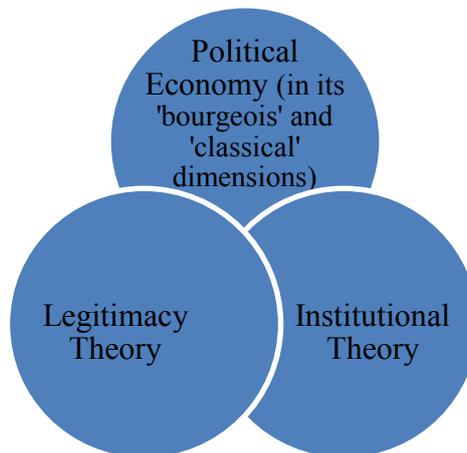
However, scratching the surface of the theoretical appearance, the glitter and gold of the singular, isolated theories leave space for substantial interconnections. The political economy justification found in the Japanese case cannot transcend from a legitimacy and an institutional dimension. Even if it is considered that the facet of the political economy that better enlighten the Japanese episode resembles much more the ‘classical’ one, possibilities of interconnections can still take place (beyond what advocated by the literature). Indeed, as explained in the previous sections, the course that was followed by, the actors that played a major role in, and the results of the recommendation of IR were accompanied, if not determined, by a (lack of) legitimacy of the traditional economic system to run the nation-state and consequently an awareness that the institutional environment surrounding the initiative was changed.

Similarly, Germany, whose attitude has been examined in terms of institutional theory does not transcend from the legitimation that the architects – both the Federal Ministry and the experts’ group – and consequently their creature – the moderator – found in the promotion of IR. Without the legitimacy conferred firstly from the Federal Ministry to the experts’ group by means of the funding support provided and secondly, from the experts to the moderator through a knowledge exchange, based on the construction of a ‘professionalization’ and a trust systems, the project could have not find a similar company acceptance. Accordingly, the project launched by the State can also be conceived in terms of political economy, in that it benefited (even if in marginal ways) from the support of governmental agencies but especially from its contextual intertwinement.

To conclude, it is possible to advocate that the varieties of capitalism do not have to be conceived of as isolated islands in relation to regulatory theories. What at a first look appears to be a monolithic block, in reality hides possibilities of contributory interrelations (Figure 5.2.)

Figure 5.2.

Interconnections between Political Economy, Institutional, and Legitimacy theories as revised by the Intangibles Reporting case studies analysed



5.4. Varieties of Capitalism, Varieties of ‘Soft’ Regulatory Theories and Intangibles Reporting

To synthesise the observations reached in the previous paragraphs, the analysis of Intangibles Reporting recommendation pose several (contributory) challenges. At first, in terms of regulatory theories able to better elucidate the underlying reasons for which governments decide to promote such an innovative practice. As noted both in Chapter 2 and in Chapter 5, in non-accounting research a void in terms of ad-hoc theoretical frameworks capable to capture the nuances of this reporting practice is existing. Accordingly, the ways though which it is possible to conduct a similar investigation rely on the employment of accounting theories. In particular, those regulatory theories that emphasize the macro dimension as intertwined with the micro one have been adopted for the analysis of the case studies. It goes without saying that not all the regulatory theories employed will find equal justification in elucidating the case studies. If then the case studies are comparative in nature, the regulatory theories that find application will expected to be highly dissimilar. In a similar vein it is possible to conceive of the attitudes through which IR has been recommended. Being the case studies belonging to

the same “variety of capitalism”, the expectations will advocate for an existence of a plethora of similarities vis-à-vis differences.

However, the case of Intangibles Reporting here examined can be said to (partly) dissolve such beliefs. The regulatory frameworks adopted in the case studies, although different in nature, manifest possibilities of confluence. Conversely, in terms of (dis-)similarities despite the “number” of similarities overcame the “number” of differences, the substantial terms turn the situation to the opposite. Indeed, in the name of the (few) existing differences can be explained the diverse attitude that connote the two countries.

In light of the regulatory and capitalistic similarities and differences that occurred in Japan and Germany in relation to the recommendation process of Intangibles Reporting, it is possible to conclude that, as contended by Wood (2004), an effective “soft” (added) policy-making is not secured by incentives/sanctions’ mechanisms and an imposition of certain firms’ behaviour. In contrast, it centres on the formulation and recommendation of firms’ attitudes that respect and enhance the institutional settings underlying business coordination. In his words, an effective policy-making is the one “that complements the institutional comparative advantage of their respective market economies” (ibid, p.274)

CHAPTER SIX

CONCLUDING REMARKS

6.1. Introduction

The thesis has sought to investigate Intangibles Reporting in terms of regulatory practices. As was mentioned in Chapter 1, such an innovative reporting practice has been mainly examined at a micro organisational level, in terms of management and measurement's techniques and few studies have investigated its macro (governmental) potential. This 'vacuum' was considered even more glaring given the recommendations' actions that Intangibles Reporting practice found at a governmental level in many countries world-wide since the 1990's for re-launching their economic, social and political situations. Indeed, in those years, along with globalization and "financialization", the world was witnessing the rise of importance of knowledge-related-aspects, such as technological developments, knowledge intensive services, new business models etc. In this respect, the possibilities of investigation of Intangibles Reporting as enabling accounting and specifically, as a public interest device resulted consistent. The purpose of this thesis therefore has been to attend to both these observations. First, it is hoped that it would in some way contribute to expand the debate of Intangibles Reporting towards political and social dimensions, which are deemed to be insightful, revealing then the mere technical perspective. Secondly, it is hoped that the findings here attained could pave the way for a possible enrichment of accounting regulatory studies, especially those critical in nature, in demonstrating if, and to what extent, accounting regulatory theories could be adopted, adjusted or confuted in terms of intangibles (reporting). In meeting its objectives, the thesis has interrogated the possibilities of existence of Intangibles Reporting in terms of rationales, processes and consequences. This path was selected as being closely related to the decision-making mechanisms of governments towards the recommendation of 'new' business practices. In addition, such a path has been investigated in two countries belonging to the same "variety of capitalism", namely Japan and Germany. These countries were choose (among others) because of the

participation of various sections of the governments (e.g. the Ministry of Economy, Trade and Industry in Japan and firstly the Federal Ministry of Economy and Labour, then the Federal Ministry of Economy and Technology in Germany) in the corporate reporting arena and their on-going efforts towards the recommendation of ICR.

In examining these themes and countries, a 'soft regulatory' approach has been adopted. Inherent in this approach is the view that regulation can be conceived of as a flexible mechanism through which governments realize lines of action in interaction with their 'audiences' towards their betterment and possibilities of non-adherence can take place. In other words, regulation cannot be merely considered as a coercive mechanism but its rules can stem from implicit, non-written contextual factors. Accordingly, three theories centred on the (silent) interrelationships among the macro (governmental) and micro (company) dimensions have been selected and tested, namely Political Economy, Legitimacy and Institutional Theory. Therefore, each case study has attempted to situate Intangibles Reporting within the realm of regulation so as to shed light on the interrelationships among economy, policy, social dimensions and the public interest. Thus, the first case study of the thesis (Chapter 3) investigates the political economy justification that the recommendation of Intangibles Reporting find in the Japanese context. As the chapter revealed, the government and its agencies covered a prominent role in the process. In this respect, it resembles the 'classical' political economy approach with its emphasis on State theories. Accordingly, the manners through which the State has formulated and promoted this reporting practice mirrored the institutional changes that affected the country during the occurrence of the 'lost decade', in terms of a lack of legitimacy in the business environment-government-financial sectors (vicious) network and the always more relevant importance to respond to an international- financial-based capitalism. Put it differently, Intangibles Reporting as a political economy device has illuminated the deficiencies that characterized the origins and the perpetuation of the 'lost decade' (until nowadays) and it has represented a way through which those problems could have been addressed to.

The second case study of the thesis (Chapter 4) has been better enlightened by a normative facet of institutional theory, such as the 'logic of appropriateness'. Indeed, the underlying logics that motivated the choice to introduce Intangibles Reporting among companies' practices, although generated from the government, have been perpetuated and intensified at first by an expert group of consultants and consequently by an

appropriate figure created by them, named the ‘moderator’. In this new identity the intangibles-related knowledge (claims) of the experts have been infused and reposted through the establishment of a ‘professionalization’ path and a trust system. This way, it is possible to maintain that, conversely to the Japanese case, for the recommendation of IR, Germany relied on its on-going ‘traditional’ economic, social and political system. Chapter 5 synthesises the (isolated) observations attained in the two case studies in comparative terms. Pertaining the regulatory framework, possibilities of interference have been depicted among the three theories. More strongly than for the studies related to CSR’s issues, political economy, also in its traditional dimension, can give birth to, as well as is reinforced by, legitimacy theory as imbued in institutional theory. Indeed bi-univocal directions can be drawn among the theories. As for those ‘capitalistic features’ that characterize the two countries, it is worthy of note that, although apparently less relevant (in that they represent few aspects), the differences that connote the Intangibles Reporting recommendation determined their dissimilar behaviour towards the achievement of the same objective (the adoption by companies of such a reporting practice). This way, it is also here suggested that the ‘varieties of capitalism’ approach have to be taken as a ‘guideline’ in examining comparative case studies, and not as a rigid interpretive scheme.

To conclude, it can be said that the aspects investigated in the thesis, while on the one hand have served to illuminate relevant aspects about Intangibles Reporting as regulatory device, on the other hand have also contributed deeper insights into the nature and practice of regulation in the public interest as (comparatively) internationally conceived of.

6.2. Limitations

The thesis is subject to limitations at three different levels: methodological, conceptual and evidence. As for the methodological level, the analysis presented in the case studies investigated lacks of objectivity, derived from the use of a type of discourse analysis “framework-free”. If on the one hand this device has enabled an examination of the different possibilities of interpretation of the documents, on the other one it plausibly offers room for too personal viewpoints. However, it has been try to face these

limitations undertaking interviews with those on the “backstage”, responsible for thinking about, drafting and predispose the documents. In other words, the choice of the interviewees has been focused on those who have been directly involved in the processes of formulation, recommendation and implementation of the Guidelines. This way, they represent fully informed actor.

At a conceptual level, it is worthy of note that in taking the view of governments, the thesis do not analyse the other side of the coin, what has been defined by Laughlin as “accounting regulation” (2007). The ways in which organizations have been affected by the regulatory lines of actions implemented and have in turn reacted in terms of ICR adoption have been beyond the scope of the thesis. Nonetheless, this will pave the way for future research in this area.

Finally, in terms of evidence, is highly-dependent on the particular situations Japan and Germany reversed into, so that generalization exercises could be difficult to adopt.

6.3. Implications and Future Research Prospects

According to the above observations and limitations, it is therefore hoped that the thesis has in some way served the illuminate the possibilities to study Intangibles Reporting in its regulatory and more generally, its public interest dimensions by presenting potentially useful material for the development of a less micro level approach based on technical issues. Finally, it is also hoped that the thesis has paved the way for carrying out further research on others countries connoted by ‘friendly-intangibles governments’, which could expand the debate with new (regulatory accounting) theories and in conceiving of Intangibles Reporting as an alternative public interest device, in evolving non-accounting and (probably also) accounting thought, practice, and education.

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