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Adapting integrated reporting through the stages of local rationalisation

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ABSTRACT

In 2013, the International Integrated Reporting Council (IIRC) released the integrated reporting (IR) framework to become the corporate reporting norm. Ten years later, IR has not been diffused globally, with two notable exceptions – South Africa and Japan. IR in South Africa has been the subject of comprehensive research, but we know little about IR's journey through the political and cultural dualism of Japan. We see adaptation as an essential step in institutionalising IR, and for this reason, we have examined the process of adapting IR in Japan by analysing the stages through which local actors have rationalised IR to solve local corporate governance and reporting problems. Our evidence from field observations, public documents, and interviews reveal five stages of political, cultural and professional rationalisations. These shape a mutual adaptation process. Through rationalisation, we unveil how the ambiguous global idea of IR has been transformed in Japan into a local solution and an institutionalised practice aligned with the local business culture. At the same time, local actors have adapted their reporting and communication practices to the ideology of IR. By embracing the notion of rationalisation, this study enriches the theory of how the powers and motivations of social actors mediate and shape adaptation. What emerges is compatibility between accounting innovation and the local context.

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1. Introduction

Integrated reporting (IR) was touted as the new holy grail of corporate reporting in 2009 (Milne & Gray, 2013). Initially, IR was to overcome the shortfalls of corporate governance and financial reporting to improve corporate accountability by integrating financial and non-financial information (Sonnerfeldt & Aggestam Pontoppidan, 2022). While IR practice was initially developed in a "laboratory setting" within some pioneering organisations and in the South African national context (Rowbottom & Locke, 2016), the IIRC aimed to promote IR globally as the new corporate reporting norm. IR is a

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controversial corporate reporting framework that has received criticism from academics and practitioners (Dumay et al., 2017) while, at the same time, being endorsed by calls to action in support of the IIRC's ideology (Adams, 2015). According to the IIRC (2019, pp. 6–7), IR was gaining momentum in Europe and Asia. Despite the IIRC's plan to make IR the global corporate reporting norm, its adoption is not as widespread as expected as it struggled to find momentum and engagement "in the key global markets of the USA and China" (IIRC, 2019, p. 4).

In June 2021, IR and the International Integrated Reporting Council (IIRC) succumbed to the pressure to harmonise the myriad of non-financial and sustainability reporting frameworks when it merged with the Sustainability Accounting Standards Board (SASB) to form the Value Reporting Foundation (VRF) (Cohn, 2021). Further, in June 2022, the VRF merged into the International Sustainability Standards Board (ISSB) under the auspices of the IFRS Foundation and other existing reporting frameworks, such as TCFD, SASB and CDSB. The ISSB is developing future international sustainability disclosure standards, where some ideas, such as linkages between governance, strategy, and business models, including inputs and outputs, resonate with the IR framework (IFRS Foundation, 2022). The intention is to tackle sustainability by assessing the "related opportunities and risks" and meet the need for comparable sustainability disclosures compatible with the financial statements (Bouvier & Rust, 2021).

While IR failed to become a global norm, there are two exceptions where IR became an institutionalised local reporting practice – South Africa and Japan. In "South Africa and Japan, integrated reporting is already mainstream" because it is "strongly aligned with enhanced corporate governance and improved decision-making among capital market participants" (IIRC, 2018, p. 5,19). Contemporary research thoroughly explores IR in South Africa (McNally & Maroun, 2018), with IR firmly embedded in the King IV corporate governance guidelines (IoDSA, 2016). However, the IR journey in Japan, where the economic, political, and cultural context is significantly different from that of South Africa, is largely unknown.

Understanding how IR became institutionalised in Japan is of interest to accounting researchers regarding lessons learned about the "Momentum Phase" of its strategy (IIRC, 2019, p. 4). However, this study is even more relevant today as we need to understand how the new ISSB develops and diffuses its standards. Will it incorporate some aspects of IR in different economic, political, and cultural contexts? Or will it promote a one-size-fits-all approach? Thus, our research examines how IR became institutionalised in Japan by exploring how business, government, and the accounting profession interpreted and promoted IR to foster its national diffusion.

Japan is historically known for "Japanising" foreign ideas and modifying them to fit the local context (Cooke, 1991; Westney, 1987). Despite Japanisation, not all global ideas have succeeded. For example, attempts to harmonise Japanese accounting with the IFRS or to align ISO 9000 with local quality management standards and processes did not initially succeed (Storz, 2007; Tsunogaya et al., 2015). The IR framework could have been an imported Western idea that forced Western colonial technology on Japanese firms. However, Japanese stakeholders, business leaders, and accountants welcomed IR (Oshika & Saka, 2017), making Japan one of the world's leading adopters of IR (Eccles, 2019).

By bringing theoretical insights from Meyer (1986), Caramanis (2005) and Contrafatto (2014) to analyse the stages of a local rationalisation process, we explore adaptation

(Westney, 1987) as a condition of IR institutionalisation. By investigating the rationales of a broader scope of actors (national regulators, investors, consultants, corporate managers, and reporting professionals), we contribute to research on IR adoption by extending the empirical knowledge on how its pragmatic ambiguity (Giroux, 2006, p. 1227) makes it malleable so that its meaning and purpose can be adapted and aligned to the local site (Higgins et al., 2019; Busco et al., 2019, Sonnerfeldt & Aggestam Pontoppidan, 2022).

Relying on the malleable and ambiguous nature of IR (Gibassier et al., 2018), this study extends empirical knowledge of how a global innovation in accounting practice characterised by pragmatic ambiguity can contribute to its institutionalisation in a local site. Our study also contributes to a larger body of research focusing on diffusion and adopting new innovative accounting practices internationally (Ax & Greve, 2017; Chiwamit et al., 2017). Yet, we demonstrate that pragmatic ambiguity is not enough to explain institutionalisation.

Inspired by research investigating the local adaptation of Western innovations (Westney, 1987), we find that local adaptation can make IR a solution to local problems that become institutionalised. We theorise about the stages of rationalisation that shape the local adaptation process and motivate institutionalisation in a national context (Contrafatto, 2014). Our findings illustrate how social actors act as mediators in this process as they rationalise a global idea into a national context. Thereby, we show the mutual influence in this journey where IR gets adapted by local actors, and local actors adapt their reporting and communication practices to the IR's ideology.

We find IR's pragmatic ambiguity allows different interpretations to fit into a context and, therefore, to manage conflicting interests and ideological conflicts (Baker & Schaltegger, 2015). Rationalisation allows us to unveil the complexities of these negotiations and adjustments that social actors perform in the local adaptation (Baudot, 2014; Sonnerfeldt & Aggestam Pontoppidan, 2022). The rationalisation process becomes the space where the social actors mediate and balance tensions and conflicting interests to turn the adaptation to their advantage. Thus, by embracing the notion of rationalisation, this study enriches the theory of how the motivations and power of social actors mediate adaptation (Chiwamit et al., 2017). We find compatibility at this nexus of accounting innovation and local culture (Ax & Greve, 2017).

The rest of this paper is structured as follows. Sections 2–3 present a literature review of the institutionalisation of IR and our theoretical frame relying on the adaptation and rationalisation of accounting innovations. Sections 4–7 present the research method, findings, and, finally, the discussion, conclusions and implications for research and practice with specific reference to the forthcoming ISSB standards incorporating integrated reporting. In addition, methodological and contextual details are available in the online Appendix.

2. Literature review

Being primarily investor-oriented (Flower, 2015), IR is a pragmatic attempt to align value for investors and society (Adams, 2015). And, in being pragmatic, IR takes shape as a soft accounting framework that does not have rigid disclosure rules. This way, it is malleable toward different meanings and purposes (Chaidali & Jones, 2017). For example, according to Dumay et al. (2017, p. 465), two of IR's prime concepts, integrated thinking and value creation, are vague. Therefore, they can fit almost any organisation's needs. Yet, despite this ability to adapt, there is little evidence of IR's widespread use globally. Instead, despite the IIRC's aim of meeting practitioners' needs, companies and investors are sceptical of IR's ability to provide useful information (Chaidali & Jones, 2017).

Like any new accounting technology, institutionalising IR requires enablers to help overcome local cultural and political barriers. Dumay et al. (2017) outline this need in various contexts. Similarly, Rinaldi et al. (2018, p. 1297) emphasise how organisations adopt IR using the allegory of "journeying". They underline the need to understand the conditions influencing adaptation and engagement with IR in specific contexts (Rinaldi et al., 2018). Prior studies investigate how IR is adapted to fit an organisation's purpose and processes. For example, Higgins et al. (2019, p. 20) argue that IR is an adaptive toolbox that "has no set purpose or goal but adapts to fit the purpose of its user".

Similarly, Busco et al. (2019) assert there is no "one-size-fits-all" solution for implementing IR in practice, which requires a tailored approach. This flexibility allows companies to be aspirational and adapt it in practice function because IR allows for "an imaginary future which stimulates more tailored accounting practices" (Busco et al., 2018, p. 2222). Thus, there are persistent calls for research into how report preparers adapt IR.

Gibassier et al. (2018) demonstrate how the ambiguity of IR allows companies to embrace and reconceptualise it at the organisational level so that individuals can embrace IR as an ideal. Rinaldi et al. (2018, p. 1307) add to Gibassier et al. (2018) by arguing that realising the full potential of IR lies in aligning its aspirational features "with the company's foundational (or current) socio-economic vision". Thus, IR's ambiguity is an attribute that can help companies to adapt it in different contexts. The ambiguity also allows IR to travel beyond corporations. For example, Sonnerfeldt & Aggestam Pontoppidan (2022) analysed the travel of IR from a global private sector to a local public sector context, influenced by macro- and micro-level dynamics. Various local actors are involved in the translation process of adapting IR by re-embedding it in their local context (Sonnerfeldt & Aggestam Pontoppidan, 2022).

Rowbottom and Locke (2016) investigate the emergence of IR in South Africa, showing how IR developed by passing through organisational, national, and global contexts. They find that, in South Africa, IR is a way of complying with the King III corporate governance code as a "laboratory" for IR development, which was a national regulatory experiment where IR's early controversial traits appeared (Rowbottom & Locke, 2016). In highlighting the relationship between international standards and their use in local settings, the authors demonstrate the "power of national settings as experimental sites for international standards development" (Rowbottom & Locke, 2016, p. 109).

According to Dumay et al. (2016, p. 179), "there is still little comparative work that looks at the diversity in < IR > practice and the motivations for organisations to report in conjunction with existing reporting obligations and regulations". Thus, the Japanese context is a research opportunity because of the widespread interest in IR (IIRC, 2018, p. 5). Understanding how Japan's political and cultural dualism influences IR's local adaptation is particularly significant because IR is open to interpretation in different contexts. Yet, there is a research gap related to how various institutional environments influenced IR in practice and how professional groupings and specialists shaped IR's local interpretation (Humphrey et al., 2017). Focusing on IR's adaptation unveils the local economic, political and cultural factors influencing

IR's institutionalisation. Understanding adaptation also allows us to unveil how local actors reshaped and adapted an ambiguous global idea to fit national contexts and foster its diffusion.

In this study, we endeavour to understand IR adoption in Japan by answering the question:

> How was IR adapted in Japan to become an institutionalised practice?

3. Adaptation and rationalisation of accounting innovations

This section discusses the theory and literature on the adaptation and rationalisation of accounting innovations.

3.1. The adaptation of accounting innovations

Innovative ideas become fashions in organisations because they appear contemporary and legitimate. However, fashions at a local level can be "an institutional playing field: new fashions can be tried and disposed of, or they can be institutionalised, thus revitalizing the existing institutional order" (Czarniawska, 2009, p. 428). But why and how some innovations are widely accepted while others are not has been a question asked by researchers and practitioners.

Adoption describes institutionalisation when governments and organisations embrace and implement new ideas or policies that appear contemporary and legitimate (Busco et al., 2019). Another concept describing institutionalisation is diffusion, which means promoting and disseminating new ideas or policies from the side of the innovations' promoters (Walt et al., 2004). Despite these two research streams, both the *adoption*-stream and the *diffusion*-stream articulate the importance of a less investigated concept of *adaptation* in the process of institutionalisation (Ax & Bjørnenak, 2005; Baudot, 2014). Therefore, in this paper, we embrace both theoretical lenses of adaptation.

Prior literature explores how management and accounting innovations become diffused in practice and what factors enable or constrain the diffusion. Being a pioneer of this *diffusion stream*, Abrahamson (1996) theorised the diffusion of management fashions, defined as management techniques that appear rational and progressive. According to Abrahamson (1996, p. 255), management fashion results from the fashion setters' rhetorical ability to present, rationalise and disseminate specific ideas to make them progressive. Thus, rhetoric was essential to explain the diffusion of managerial innovations.

Sequences of rhetorical strategies sustain the diffusion of innovations (Green, 2004). However, it is not just the promoters' rhetoric or actions that can institutionalise a practice. Local actors and organisations are also involved. Fincham and Roslender (2004, p. 321) demonstrate that diffusion requires the careful introduction of management and accounting innovations in organisations and must be "adapted to existing constraints and sensibilities" to become an accepted fashion. This view moves from the early fashion setter's perspective to the user's perspective, focusing on the innovation's compatibility with the users' demands (Benders &

Van Veen, 2001). Compatibility is essential in diffusing accounting innovations, such as the Balanced Scorecard (e.g. Ax & Bjørnenak, 2005; Cooper et al., 2017). The evidence on the factors enabling and obstructing the spread of global innovations to local sites shows that innovations open to interpretation are attractive to users. Still, institutionalisation is challenging because of conceptual, cultural, linguistic, and mental distances (Ax & Bjørnenak, 2005). Thus, while articulating the problem of possible distances and mismatches between the innovation and what users want, diffusion studies increase interest in investigating how promoters and users adapt innovations to make them compatible and institutionalised in local practice.

Accounting academics, practitioners, and policymakers use the word "adoption" when discussing the institutionalisation of global accounting innovations in different countries (Busco et al., 2019). Nonetheless, in highlighting the complexity behind adoption, researchers of the *adoption-stream* outline the concept of adaptation. Studies on adopting global accounting innovations contribute to exploring the dynamics and complexities of the negotiations and adjustments that social actors perform in local adaptation (Baudot, 2014; Sonnerfeldt & Aggestam Pontoppidan, 2022). Adaptation is needed to make the innovation fit their local interests and agendas (Higgins et al., 2019), and therefore, it is crucial for local institutionalisation.

Adaptation is usually conceived as a unidirectional process and is studied as the process through which local actors adapt the innovation to their context (e.g. Sonnerfeldt & Aggestam Pontoppidan, 2022). However, this approach does not consider possible mutual relationships in the adaptation process. As Westney (1987) found in a study about adapting Western organisational models in Japan, actors do not merely adapt a Western idea to the local context, but they also adapt their practices in interacting with the idea. What is then interesting is the process used to understand the rationalisation of accounting innovations and to unveil the cultural, professional and political stages and interactions in a local context.

3.2. The rationalisation of innovations

A theoretical discussion on how a global accounting innovation, like IR, is adapted through rationalisation is timely and worthwhile (Caramanis, 2005; Meyer, 1986). Meyer (1986) advocated the idea of the mutual impact relationship between the local social environment and accounting. Thereby, he means to argue that organisational accounting practice is dependent on a much wider (macro) environment than just an organisational (micro) environment.

The influence also runs the other way: "accountings provide impetus to rationalized organizational and cultural settings" (Meyer, 1986, p. 348). Thus, we need to understand how rationalisation can be "channelled into patterns encouraging the development of accounting"? (Meyer, 1986, p. 346). The answer is found in Meyer's (1986, p. 347) work that highlights "cultural rationalisation", which in turn creates "the social meaning of the components of activity – actors, objects and actions". Thereby, Meyer (1986) helps us make sense of *what* the object is, *why* we need it, *whom* it involves, and *how* to act with it. Furthermore, rationalisation made by various actors, directly or indirectly interacting with each other, can be channelled into patterns enabling accounting change (Meyer, 1986). Thus, social actors' rationalisation forms a specific pattern of adaptation that has the power to shape the global idea's local institutionalisation.

While Meyer (1986) focuses on cultural rationalisation, rationalisation also occurs at macro-political, micro-political (within organisations), and professional levels (Caramanis, 2005). In a study of accounting professionalisation, Caramanis (2005) found that rationalisation by economic, social, and political actors with overlapping or differing interests plays a significant role in accounting change. This study further develops the notion of rationalisation by illuminating the actors' economic and ideological interests as initiators of social change (Caramanis, 2005, p. 197). The dynamics of the rationalisation process are complex, especially in the context of political and cultural dualism, which can manifest in ideological and power tensions between the actors involved (Caramanis, 2005).

In our study on IR in Japan, we illustrate the *stages* where the observed patterns of rationalisation of IR are exposed. Contrafatto (2014, p. 414) studied the process of institutionalisation of social and environmental reporting in Italy by theorising three stages ("construction of a common meanings system", "practicalisation", and "reinforcement") proceeding one after another in time sequences. At each stage, institutionalisation occurred at various hierarchical levels until social and environmental reporting became accepted (Contrafatto, 2014). Similarly, in the context of IR institutionalisation, exploring the different stages where various actors make the rationalisation of pragmatic accounting innovations allows us to unveil the process of its local adaptation (Caramanis, 2005; Meyer, 1986) and, therefore, how IR was adopted in a specific national context (Higgins et al., 2019). Thus, based on Meyer (1986) and Caramanis (2005), this study uses the concept of rationalisation, defined as the way local actors make sense of a specific accounting innovation in local political, cultural, professional, and organisational environments. To explore rationalisation, we investigate different stages, defined as spaces or arrangements for interactions where different actors rationalise it from a specific perspective, e.g. political, cultural, professional or organisational (micro-political).

Giroux (2006) highlights rationalisation when discussing the pragmatic ambiguity of global innovations. Pragmatic ambiguity implies the "equivocality of concepts that allows for different courses of action while maintaining a semblance of unity" (Giroux, 2006, p. 1232). To deal with pragmatic ambiguity, different actors pragmatically rationalise a global idea by adapting it to local interests and problems, thereby making it an accepted solution (Giroux, 2006). This idea adds substance to Meyer's (1986) *why* and *how* questions in the rationalisation process to adapt innovations. Here, it needs to be emphasised that adaptation results from rationalising the idea by different actors involved. Various adaptation patterns can be observed through the macro- and micro-political, cultural and professional rationalisations (Caramanis, 2005; Meyer, 1986). Thus, to answer our research question, this study embraces the adaptation process and investigates stages of IR rationalisation in the local socio-political context of Japan.

4. Research method

To explore how Japanese actors have adapted IR in their local context through several stages of rationalisation, we followed Swedberg's (2012) two-phase model during our

Table 1. Research process and theorisation.

Phases of research process inspired by Swedberg (2012)	Description of the process
Phase 1*: The early discovery phase*	
Observe and choose something interesting	2014–2015 followed the development of IR in Japan and found an interesting pattern of IR diffusion. To find out more, we went to Japan in Dec 2015 to attend the Conference 2015, identify and interview relevant actors (primary material collection)
Name and formulate the central concept	Formulated the concept of adaptation as a central working concept
Build out the Theory	In the process of developing categories emerging from the interviews, different patterns of rationales emerged as preliminary categories, depending on the type of actor, its perspective, and agenda
Complete the tentative theory	The tentative theory of stages of rationalisation was articulated in the abductive process of continuous interaction between the empirical material and the literature
Phase 2: *Main research analysis and justification*	
Draw up the research analysis design	In 2018, went to Japan for the second round of primary data collection, focusing on actors identified during phase 1 and their rationales for IR
Execute the research analysis	Conducted interviews and observations with these actors (primary data) and explored relevant documents (secondary data), followed by the analysis of the stages for IR local rationalisation
Structure the results	Aligning the structure of the material and theoretical development presented in Section 5

research process – "to see, to observe and contemplate", and combined three sources for data collection. We observed and penetrated the phenomenon of rationalising IR by actors in the Japanese socio-political context. From these observations (Czarniawska, 2014), qualitative interviews (Qu & Dumay, 2011), and a review of publicly available documents, we developed different stages of the rationalisation process. In line with Swedberg's (2012) steps for a theorising process in the social sciences, our research consisted of two main phases: (1) The early discovery phase and (2) The main research analysis and justification. These two steps are outlined in Table 1 and further detailed in the online Appendix, part 1.

5. Results: IR adaptation in the context of cultural and political dualism

This section presents how IR has been rationalised by local and international actors involved in its adaptation in Japan. Adapting the neoliberal Western concept of IR took place in the context of Japan's cultural and political dualism. Two dominant discourses – tradition and modernity – co-exist in Japanese society and simultaneously shape the Japanese accounting context. These two discourses help us to understand the diffusion of IR in Japan (see a detailed description of Japanese contextual background in the online Appendix, part 2). Table 2 outlines the adaptation process through the stages of rationalisation by highlighting the actors, the stages and related data sources. Section 5.1 discusses the stages for political (5.1.1), professional (5.1.2) and cultural (5.1.3) rationalisation of IR. Section 5.2 explores two stages where local actors adapted their reporting and communication practices to the neoliberal ideology of IR through micro-political (5.2.1) and practical rationalisation (5.2.2). It is worth noting that these stages operate in parallel rather than in chronological sequence. They co-exist over time and influence each other.

5.1. Rationalisation stages for adapting IR

Table 2, part I summarises Japan's political, professional and cultural rationalisation stages.

5.1.1. Political rationalisation (Stage 1)

The political rationalisation process underpinned by IR adaptation started in 2012 when the Ministry of Economy, Trade and Industry (METI) and Business Policy Forum Japan established the "Corporate Reporting Lab". The Business Policy Forum gathers company representatives, investors, academics and experts to discuss and search for more effective ways of communication between companies and investors to improve non-financial reporting for greater corporate value (D8). More specifically, there are two main objectives behind this initiative, one focusing on the investor perspective and one on a broader stakeholder perspective:

> (1) Bringing enterprises and investors together to exchange views, identify differences in perception and seek common ground and terminology to facilitate dialogues more constructively; and (2) Establishing a hub of communication and a network with a variety of stakeholders inside and outside Japan. (D8, p. 8)

IIRC became a discussion topic at the Corporate Reporting Lab's committee meeting in November 2012, before the IR framework was launched. The agenda in the Progress Report on the Corporate Reporting Lab 2012/2013 outlines the following statement by an expert from Fidelity Worldwide Investment:

> Why is sustainability an issue now, and why is value creation vital – to urge a crisis of access to capital and action points to lead to lower cost of capital. (D8, p. 11)

The agenda also reveals that the Lab members had an ongoing dialogue with the UK Financial Reporting Council and the IIRC in 2012 (ibid). Thus, while the IR framework was underway, some advocates of the capital market perspective in the Corporate Reporting Lab already promoted a market-oriented rationale behind the value creation concept.

At the meeting in May 2013, the focus was on corporate governance and the two newly established task forces – "Task Force on Corporate Awareness of Corporate Governance" and "Task Force on IR/Corporate Value" (D8, p. 12). The above meetings were followed by more discussions, resulting in METI's comment letter on the IIRC public draft (D9, METI, 2013). In its public comments, METI articulated general acceptance of IR but criticised its core concepts of value and the six capitals for being unclear and ambiguous in their implementation in reporting practice (D9). Later, in September 2014, IR was placed on the top of the meeting agenda, titled "Japan's Stewardship Code, ESG, and Integrated Reporting" (D10, METI, 2014/2015, p. 1). Here, the trend of IR was spotlighted concerning the newly introduced Japan's Stewardship Code and ESG, outlining "Japan's Stewardship Code, ESG and Integrated Reporting" (D10, p7).

Furthermore, written minutes from the December-2014 meeting included a Japanese investor presentation connecting "the Stewardship Code, trends in ESG, and the future of

Table 2. Adaptation of IR in Japan through the stages of its rationalisation.

Theoretical alignment	Actors**	Stages of rationalisation	Data source*
		I: INNOVATION ADAPTED: stages of local rationalisation of IR (section 5.2)	
Political rationalisation: Theoretical notion of political rationalisation at the macro-level (Caramanis, 2005)	Local regulators (LR) and Norm-setting organisations (NS)	**Stage 1:** In the early years of the task force Corporate Reporting Lab, capital market proponents argued for the integration of sustainability as a way to overcome the crisis of capital accessibility. At the same time, the Lab initiative articulated a two-edged focus – a capital market perspective and a broader stakeholder perspective. After the introduction of the Japan Revitalisation Strategy (2013), followed by the Stewardship Code (2014) and Corporate Governance Code (2015), IR was mainly appreciated as a framework addressing ESG-issues for asset management. Discussions articulated importance of IR in a corporate dialogue with shareholders, increasing competitiveness for Japanese businesses in capital markets.	D4, D5, D6, D7, D8, D9, D10, D11, D12, R29, R30, R31, O18
Professional rationalisation: Theoretical notion of professional rationalisation (Caramanis, 2005)	Investor relations managers (IRM), being influenced by consultants (C) and investors (I)	**Stage 2:** IRMs and EMs, inspired by Cs, rationalised IR as means of communication with investors. Influenced by the Investors' perspective, they rationalised IR as a solution that would overcome international investorś difficulties in understanding Japanese cross-holding structures ingrained in old keiretsu culture and related strategic decisions. IR is thus an opportunity for investors to participate in a more open dialogue with Japanese companieś managers about how they make strategic decisions. At the same time, IR is also rationalised as a tool for internal knowledge exchange between IRMs and EMs.	R1, R3, R4, R5, R6, R7, R8, R18, R19, R20, R21, R23, R24, R25, R27, R30, D3, O2, O4, O15
Cultural rationalisation: Theoretical concept of cultural rationalisation (Meyer, 1986)	CSR and corporate communications managers (CSR), but also investor relations managers (IRM)	**Stage 3:** CSR and corporate communications managers (CSR) and some investor relations managers rationalised IR from the culturally embedded perspective. Here, IR is a stakeholder-oriented communication tool to inform employees, business partners, and other stakeholders about the companýs value creation, an approach aligned with Japan's traditional stakeholder-oriented business culture and accounting tradition.	R2, R8, R11, R17, R22, R24, O6
		II: ACTORS ADAPTED: How the local actors adapted their practices to the IR (section 5.3)	
Micro-political rationalisation: Theoretical notion of political rationalisation at the micro-level (Caramanis, 2005)	Investor relations managers (IRM) strongly supported by executive managers (EM) & consultants (C); and CSR managers (CSR)	**Stage 4:** Among the local actors involved in the production of integrated reports, power and responsibility over the content of integrated reports are concentrated in IRM teams. These micro-political dynamics of rationalisation influenced the practice of deciding the content of local integrated reports. Here, investor relations teams, strongly supported by investors, executives, and consultants, gained power over CSR teams in producing content for the local integrated reports.	R5, R7, R11, R18, R19, R20, R21, R24, R25, R27, R28, R32, O2, O4, D2
Practical rationalisation (adaptation of communication culture): Theoretical concept of cultural rationalisation (Meyer, 1986)	Actors involved in local adaptation of IR in reporting practice: Corporate managers (IRM, CSR, EM) and local norm-setters (NS)	**Stage 5:** The rationalisation of IR as a tool for communication with investors started changing local actorś communication culture. Corporate managers and local norm-setting organisations, like JICPA, practically reconsidered their communication culture to interact directly with international investors and the members of global norm-setting organisations.	R25, R26, R29, R30, O6, O7, O18

*R – interview respondents, O – observed events, D – reviewed documents.

Actors: **IRM: investor relations team members, **CSR:** CSR and corporate communications team members, **EM**: executive managers, **C:** consultants and large accounting firms (Big 4) ´ specialists, **NS:** norm-setting organisationś members, **LR:** local regulators, **I:** investors.

integrated reporting and corporate reporting for asset management companies" (D10, p.8). This presentation outlined examples of Japanese companies using IR as a tool for the company-investor dialogue (D10, p.8-9). The best-practice examples were also highlighted at the 2015–2016 meetings. For example, a large-cap Japanese company representative outlined "a synchronizing model of invisible value and shareholder value" in the company's integrated report (D11, p.6). This presentation received positive comments from investors (guarding the capital market perspective), as the minutes from the meeting summarise:

> Investors consider that "invisible values" are factors that lead to the improvement of the company's profitability in the long term. (D11, p.6)
>
> It is important for investors that non-financial information is also included in the "Corporate Governance Report" prepared by companies based on the Corporate Governance Code… (D11, p.6)

Finally, consultants, involved as experts in the Corporate Reporting Lab, articulated the importance of making IR "highly flexible but also make it reader friendly", adding that "by having dialogues with investors, integrated reporting should be made more substantive" (D12, METI, 2016/2017, p. 5).

As part of the political agenda, Japanese regulators and norm-setting organisations also actively discussed IR with international norm-setting organisations (R29, R30, R31). The Corporate Governance Code (D5) and Stewardship Code (D6) alone were not able to change corporate practices (Nakagawa, 2017). A typical call at IIRC-ICGN'18 was the need to change Japan's corporate reporting norm to provide shareholders with more transparency about how Japanese companies create value (O18). Capital market regulators, such as the Tokyo Stock Exchange (TSE) and the Financial Services Agency, and norms-setting organisations like the JICPA and the IIRC advocated increased transparency. At the political stage of rationalisation, we observed an emerging consensus about IR's potential to enhance the CGC and Stewardship Code's effect and become the new reporting norm in Japan.

In 2017, the METI released a normative "Guidance for integrated corporate disclosure and company-investor dialogue for collaborative value creation" (D7). Aimed at supporting Japanese companies in implementing the CGC and IR, the guidance reflected the dualistic Japanese approach to accounting. It amalgamated the capital market-based approach to fit the neoliberal perspective pushing the traditional Japanese corporate governance to reform towards the Anglo-American model and the multi-stakeholder inclusive approach recommended in the 2015 version of the CGC (D7).

> *Capital market-based approach:*
>
> […] the need to grow companies' earning power and capital efficiency, along with the importance of collaborative value creation by companies and investors through constructive dialogue and engagement. (D7, p. 3)
>
> *Stakeholder-inclusive approach:*
>
> For companies to maintain competitive advantages and execute their business models, it is essential to develop good relationships with various stakeholders, including suppliers, business partners, customers, local communities and public organizations. (D7, p. 12)

However, while embracing different stakeholders, the guidance focused on the investors. The quote below illustrates how the interests of both stakeholders and shareholders were reconciled while, at the same time, placing the capital market perspective in centrum:

> If a company is to maintain the sustainability of its business, it is necessary to maintain and strengthen its relationships with stakeholders […]. In particular, from a long-term perspective, if companies design business models that minimize conflicts of interest with stakeholders while supporting their shared interests, their social value will increase. Investors believe that creating value for non-investor stakeholders also leads to the sustainable and stable provision of value to investors, so they are interested in how companies engage with key stakeholders and how they reflect the results of that engagement in their business. (D7, p.15)

The business model (central to IR) and its definition in the guidance also illustrate the domination of the capital market perspective.

> A business model can be seen as a "model" because it describes the systems and methods whereby the company establishes and maintains its competitive advantage as a blueprint for realising its values. Therefore, if companies have created clear business models, they will likely have higher growth, profit margins, or capital efficiency over the long term than their competitors. (D7, p. 9)

Moreover, IR closely aligns with investor criteria for socially responsible investment, specifically related to environmental, social and governance (ESG) issues, as implemented in the guidance document. However, the local guidance document emphasises the governance aspect of ESG to improve the probability of long-term survival for Japanese companies in the capital market. Hence, at the political stage of rationalisation, IR was introduced as a relevant adaptable tool as early as the concept emerged. It was then rationalised as a convenient capital-market-oriented framework that aligned well with Japan's revitalisation strategy (D4, The Japanese government). Even if the guidance includes the stakeholder perspective, the focus is displaced towards the shareholder perspective to serve political interests – in this case, competitiveness for Japanese businesses in capital markets. The earlier mentioned economic and political circumstances shaped this rationalisation in which survival in the capital market needed priority. Thus, the pragmatic ambiguity of IR (Giroux, 2006) allowed METI to direct its rationalisation toward delivering higher growth and investor returns.

5.1.2. Professional rationalisation (Stage 2)

Soon after the two codes were introduced in 2014 and 2015, the need to rationalise IR in professional practice emerged. The need was felt in terms of investor relations, represented by JIRA, and by accounting and auditing professionals, as represented by JICPA. Here, Japanese practitioners rationalised IR in discussions, and JIRA and JICPA drove knowledge exchanges between various actors. These political changes imposed significant pressure on Japanese companies. They needed a guide on how to put the political recommendations of embracing IR into practice. Consequently, participating in professional events and conferences organised by the norm-setting organisations JIRA and JICPA was a way for local professionals, such as investor relations managers and executives, to learn more about IR.

In 2015, all respondents involved in reporting practices referred to the new Stewardship Code and CGC as driving forces for taking up integrated reporting (R1–R10). A company that was already producing integrated reports confirmed (R8, 2015-12-17):

> […] we were doing it since before, and we always believed that this was the right way to go […] and now when we have the Stewardship Code and Corporate Governance Code, it makes us especially motivated to get more inspiration from the framework suggested by the IIRC.

At this stage, consultants actively led discussions at JIRA’15 (O15). All five parallel sessions in the morning and several afternoon sessions related to one or both of the new codes and IR (D3, 2015-12-16), as evidenced by the titles, such as “*Corporate governance codes and IR – Increasing importance of ESG-issues for investors*”, “*Stewardship Code and Corporate Governance Code from the perspective of institutional investors*”, and “*Communicating consciousness of corporate management by using IR*”. At this stage, consultants promoted IR as a means for communicating with investors and providing investors with the knowledge needed to understand the Japanese corporation better. Observations at a JIRA’15 discussion (O2) and interviews with the consultants between the sessions (R18, R19, R20, R21) testify to this. The consultant’s investor- and capital-market-focused rationalisation influenced the way investor relations managers (IRMs) and corporate executive managers made sense of IR, as observed at the panel discussion involving accounting consultants, IRMs, and executive managers of Japanese companies (O2). Yet the difference between this discussion of Stage 2 and the political rationalisation of Stage 1 was that a broader stakeholder perspective was not even mentioned. The focus was entirely on IR as a useful investor-oriented capital market tool.

Even investors participated in these discussions with corporate practitioners. IR was rationalised as a potential solution for investors to communicate with Japanese companies. The quotes by the two IRMs below confirm that both consultants and investors were involved in the process of IR adaptation.

> We have a consulting firm helping us with the content and design of the integrated report. We also have a dialogue with our investors; sometimes, we receive their feedback and may adapt the content. (R1, 2015-12-14)

> We have some consulting agencies that propose how we should shape the story and then discuss this proposal within our team and do some improvements. (R25, 2018-03-01)

During one of the sessions at IIRC-ICGN’18, an international investor articulated that IR improved the basis for face-to-face discussions with Japanese companies, which led to a better understanding of corporate business models and the principal value drivers (O4). Another international investor articulated that IR is a solution for overcoming international investor’s difficulties in understanding Japanese cross-holding structures ingrained in old keiretsu culture and strategic decision-making processes related to these structures (R23).

In addition, it was emphasised that the content of the integrated reports opened up possibilities for critical discussions on how to ensure more diverse corporate boards in the future (R23). A JICPA representative (R30), an auditing consultant (R27) and two IR managers at TSE-listed companies (R24, R25) highlighted that IR strengthens discussions with senior executives and company directors at internal meetings and presentations. As articulated in a quote below, IR managers and executives are learning about their company's strategy and value creation at these discussions.

> I see investor relations teams as key in IR's adoption. Investor relations people are those who take the main responsibility for producing the content. In a Japanese company, investor relations people are far from the CEO and executives in the hierarchy, but both levels need to understand the strategic part of the value creation story. That is why producing an integrated report is a good exercise for them to communicate with the top level and learn about the company's strategy and value creation. (R27, 2018-02-27)

Thus, at the professional level, IR was rationalised as a communication tool on the global capital market to improve international investorś understanding of the Japanese corporation, but also as a tool for the internal communication between two managerial levels – investor relations and executive managers. Ostensibly, actors involved in IR adaptation found new meanings and roles for IR in the professional rationalisation process. Gibassier et al. (2018) and Rinaldi et al. (2018) discussed the aspirational nature of IR, enabling the actors to invent new meanings and align IR with the socio-economic circumstances of a specific time and place. Our evidence shows that even new roles can be attached to IR to achieve new meanings. Moreover, the new roles are empowered by their pragmatic ambiguity (Giroux, 2006), allowing managers to use it as a promising tool for external communication with investors and a convenient tool for internal communications.

In addition to stage 2, we found that a cultural rationalisation occurred parallel to the professional one. At this stage, the arguments about the need for IR and its adaptation veered toward a stakeholder-centred version of IR. The version fits the traditional Japanese corporate culture offering, thus becoming a cultural rationalisation (Meyer, 1986), as we illustrate next.

5.1.3. Cultural rationalisation (Stage 3)

The pragmatic ambiguity of IR is an equivocal concept allowing for different courses of action (Giroux, 2006). We argue that IR's pragmatic ambiguity helps maintain the different rationalisation courses as a united strategy (Giroux, 2006). Managing shareholder vs stakeholder interests in Japan is an example of the diverging rationalisation courses in the IR context. In Stage 2, Japanese IRMs and consultants rationalised IR in such a way as to embrace the capital market perspective. However, at the same time, we found some rationalisation of IR from the cultural tradition of the Japanese corporation as led by the CSR managers, with some involvement by the IRMs. Thus, the cultural rationalisation stage (Stage 3) was identified as being at a different stage from the shareholder-oriented rationalisation of Stage 2.

The stakeholder perspective from traditional culture and values was another strong driver for IR implementation. IR was a solution that suited Japanese accounting culture and reflected what corporations were already executing – reporting relevant information to future employees and other stakeholders. IR reinforced the traditional stakeholder focus since most Japanese companies print their annual reports for *shūshoku katsudō* events (job hunting activities) when students in their final year at university visit companies to choose what company they want to "belong to". As a CSR manager articulated it:

> Most of our printed annual reports get distributed to students, our potential future employees. That is why an integrated report becomes a very good format for presenting a concise story about how we create value for our stakeholders. (R2, 2015-12-14)

The day of the IRM's interview (R24) was a *shūshoku katsudō* day, and the company's lobby was overwhelmed with students waiting for meetings with corporate managers. That day, this manager (R24) and their colleagues were to personally meet with these potential employees and tell them how the corporation was building value for society. A formal presentation included information from their most recent integrated reports, and students received hard copies of the reports during the meetings. Here, managers use IR to support communication with a particular stakeholder, future employees.

In this context, IR practice fits the culture of the Japanese corporation where long-term relationships with employees and other stakeholders are essential value drivers of the corporation (Hammond & Preston, 1992), as illustrated below:

> […] it is not about shareholder value anymore. And in fact, we have historically been very much concerned about employees and society; it is just important to start communicating these old aspects as important future value creators. (R17, 2015-12-16)

> Since long ago, we have considered social aspects a part of our business. I think integrated thinking has existed in our company for a long time, so it is now to find a better way to display it in the report. (R2, 2015-12-14)

Another example comes from the keiretsu networks, in which Japanese companies do not disclose why they chose a specific supplier for a project. As explained by an international fund manager investing in Japanese companies, this choice is based on the long-term relationships within the keiretsu, not on a rational cost model as investors normally might expect (R22). By adopting IR, Japanese companies could frame their long-term supplier relationships as valuable relational capital, turning the relationship into a more positive value creation story in investors and other stakeholder's eyes (O6, IRM). The ability to justify existing questionable relationships and business was not an original intention of IR but became a meaningful Japanese reporting practice solution.

Given the ingrained stakeholder focus of traditional Japanese accounting (Yonekura et al., 2012), managers pragmatically rationalised IR as an attractive solution for negotiating and adapting practices that are considered neoliberal (shareholder-oriented) at Stage 2 and a traditional (stakeholder-oriented) perspectives at Stage 3. Thus, Stages 2 and 3 occurred in parallel, balancing between the shareholder- vs stakeholder-oriented perspectives in a dualistic cultural and political paradigm (Caramanis, 2005).

5.2. Rationalisation stages for adapting local actorś practices

While the previous rationalisation stages contribute to adapting IR in the context of cultural and political dualism, we find evidence of how rationalisation also influenced local actors at the level of reporting and communication practice (Table 2, part II).

5.2.1. Micro-political rationalisation (Stage 4)

At the local reporting level, we observed micro-politics in the collaborations between the IRM and CSR teams. There was no collaboration before adopting IR because investor relations teams were responsible for financial reports, and CSR teams took care of sustainability reports. However, after adoption, we observed a concentration of power and responsibility in the IRM teams' hands over the content of integrated reports. The IRMs decide what to include in the integrated reports and delegate selected sustainability content to the CSR managers. As an IRM (R7) articulated, the IRMs then revise the final report before publication to ensure it fits the overall narrative.

Overall, the dialogue between investor relations and the CSR teams had significantly increased in practice since implementing IR compared to when the two teams produced separate reports (R5, R7, R11, R25). Yet, we find that the CSR teams did not have the power to influence how a company's value creation models were presented when producing an integrated report (R7, R25). These examples demonstrate the power and increased responsibility of the capital market-oriented investor relations teams that belong to the corporate communications department. These dynamics resulted from how the actors rationalised IR at the micro-level of reporting practice. The two excerpts below illustrate the distance and power dynamics between the two teams.

> We incorporate communications, together with the CSR group, to develop the content of the integrated report. However, it is everywhere like this. It is not easy to collaborate with the CSR team. It is often not a good experience. CSR people do not seem to be so engaged in the process of integrated report production, and also, we seem to talk in different languages. They cańt understand the needs of investors. Their target audience is all stakeholders, and it is difficult for them to understand the investor perspective, so it is not easy for them to know what to include and how to make a story. (R25, 2018-03-01)

> We have several meetings with the CSR team during the process. Sometimes, we must communicate our (Investor Relations) perspective to our colleagues (CSR team) concerning what needs to be included in the integrated report to get the main story done. (R7, 2015-12-17)

The distinction between "we" and "them" is clear: the investor relations team ("we") has the primary responsibility for the overall content of the integrated report, while the CSR team ("them") is an information supplier. The investor relations team outsources parts of the content to the CSR team. Thus, we interpret the statements about "developing IR content together" and "increased communication between the two teams" as the communication between a producer (IRM) and a supplier (CSR). This relationship results from micro-politics, where the power for implementing IR practice rests with the investor relations teams.

We found that, often, consulting firms play a crucial role in this power dynamic. Many consultants we interviewed, R18-R21 (see 5.2.2), seemed to act as a normative force shaping their clients' practices. Overwhelmingly, our interviews and observations indicate that the consulting firms rationalised IR as a tool for communicating with investors (aligned with the investor relations team's view) and used their normative force to steer those communications toward a neoliberal capital market perspective (R27, R28, O2, O4). The capital market was also a recurring sentiment in conversations with the consultants (R19, R20, R32), the associate partners of auditing firms (R27, R28), and during the conference sessions (O2, O4) where consultants and executive managers supported the investor relations perspective. One of the sessions at IIRC-ICGN'18, themed "Corporate governance and integrated reporting in Japan", was a panel discussion moderated by an associate partner of a Big Four auditing firm (R27). The moderator and investors on the panel spoke of IR as a suitable communication format between firms and investors. The statement below illustrates how the moderator (R27) presented IR as relevant to investors, convincing Japanese companies about why they need it:

> Japanese companies seem to be unsure about whether investors would use an integrated report or not. Our survey shows that 70% of investors appreciate and use integrated reports. So, investors have to persuade companies and show them the relevance of IR. For non-Japanese investors, it can be even more important to know how Japanese companies create value due to the differences in business cultures. (O4, 2018-02-28)

Representing the accounting and finance perspective, the Big Four's consultants supported the investor relation teams, which legitimised their increased responsibility. Thus, IRMs became the main decision-makers about what content to include in the integrated reports. Supported by the Big Four accounting firms, IRMs rationalised IR as a useful communication channel for investors. This rationalisation influenced power dynamics at the micro-level, and the power of the CSR teams got lost.

The influence can also be seen in the gaps found in the early integrated reports. For example, one Japanese industrial company excluded natural capital from its corporate value creation model (D2) while mentioning all other capitals from the IR framework – financial, manufactured, intellectual, human, and social capital. Thus, the company did not rationalise natural capital, and our evidence shows how this occurs. In the interviews, respondents talk about how they struggle to grasp the meaning of natural capital:

> But if you look at natural capital, well, originally, the definition of natural capital is much wider than what is meant by the IIRC. So since we are in the natural resource business, oil and gas, iron, and coal, I can understand it as an input. Because we do business, people need it. Suppose you look at what natural capital means in general. In that case, I see natural capital as like nature itself, as an ecosystem, as a wider concept, like the environment itself. Then, we are talking about our business here in the report. We are still digesting what that means. (R24, 2018-03-02)

IR's pragmatic ambiguity with the vague definitions of multiple capitals might confuse IRMs in integrated reports that present a company's business to investors. The company does not mention natural capital because the investor relations team, who is dominant over the CSR team, does not see natural capital as relevant. Therefore, the team rationalised that natural capital did not need to be in the business and value creation model and thus adapted IR to their local micro-political context. Not recognising natural capital is not unique to Japan. A KPMG (2018) survey of integrated reports in Japan finds that only 43% of Japanese companies disclosed natural capital in 2017.

Another example of elements lost in local rationalisation is when Japanese companies only use labels from the IR framework, such as "human capital" and "intellectual capital", but do not describe the specific knowledge, skills, motivations, and experiences that contribute to creating value (KPMG, 2018). The lack of description does not mean that environmental, human, and intellectual capital are absent in Japanese companies or cannot be connected to value creation. The problem is that the IRMs, with their concentrated power and responsibility over the content of integrated reports, focused mainly on capital markets and economic value creation – the shareholder-oriented capitals. Connecting our evidence and the KPMG (2018) findings, we can assume that the stakeholder-oriented capital categories were rationalised away, either excluded or used as labels in the content of integrated reports. Hence, by analysing the micro-political stage, we witness how actors adapting their practices (such as IRMs taking being in charge of the integrated reports over CSR managers) lead to further rationalisation and adaptation of IR itself, resulting in mutual adaptation, in which both the actor's practices and the IR change.

5.2.2. Practical rationalisation – adaptation of communication culture (Stage 5)

In the IR rationalisation process, we find that IRMs started adapting their communication culture to global capital markets by developing their English skills and gaining work experience in Europe and the US. For example, in the 2018 interviews, the two managers (R25, R26) outlined how they had undertaken work experience in Western countries. Further evidence of internationalisation comes from a contrast between the 2015 and 2018 conferences. In 2018, the local discussions about IR occurred at the international conference organised by the international norm-setting organisations IIRC and ICGN and by local JICPA members (R29, R30), where the conference language was Japanese and English (O18). Synchronous translations powered all discussions and presentations, but there were English language discussions between the Japanese and Western professional groups (018).

The presence of international investors in the discussions was a driver of this development because they argued that changing the communication culture could make Japanese companies more attractive to international investors. As one of the main speakers, who was also an investor from a European bank (O6), articulated (O18):

> Corporate governance is always an important part of the investment process. We always check if a company takes society, corporate governance, and NGOs seriously. Integrated reporting helps in this process and dialogue. Companies realise that the quality of discussions with investors also increased. Data is in our IT system that we can always check. We use this data in discussions with the companies and check what the report says and how the company explains it. We do not only focus on fundamentals. We need more info and insights, and this engagement takes place daily and informs our expectation as to whether the company will need to deliver more information in the next period. (O6, 2018-02-28)

The English translation of IR was useful for communicating with international investors, which helped involve them in local discussions about IR. At another conference session (O7), a Japanese executive manager of a sizeable TSE-listed company presented his view of the role of IR in the context of internationalisation. He spoke in English:

> The central question from our foreign investors is, what direction is the company heading? How does the company think in terms of the future? Here, the integrated story can be useful for communication between companies and foreign investors, and this is very much needed in Japan. IR format suits this purpose very well. It is not the output of an integrated report that is important to our investors but the communication process itself. Here, the information and the story presented in the integrated report can be a good starting point for discussions. (O7, 2018-02-28)

The IR-related conference became significantly internationalised in 2018 through the direct involvement of international organisations like the IIRC and ICGN and international investors. At this event, the international actors involved in the rationalisation of IR motivated the local actors to adapt their communication culture to the global capital market perspective by showcasing its advantages, such as its global attractiveness to investors and its competitiveness.

By our observations, Japan, historically characterised by a cultural and political dualism, pragmatically adapts Western ideologies when it suits and finds ways for them to co-exist with their local traditions. In this context, IR became a key instrument through which the Japanese government and businesses could demonstrate that they could conform to a Western capitalistic ideology, but only after they had adapted it to their socio-political context. Thus, the case of Japan is not a case of problematic enforcement of Western ideologies as, for example, argued in accounting studies of colonisation in non-Western countries (e.g. Davie & McLean, 2017). In Japan, adapting Western management practices and accounting innovations was voluntary and never enforced. Here, the actors' rationales and motives for adapting ambiguous Western frameworks, like IR, became drivers within a local need to increase Western investor confidence to revitalise Japanese business and the economy.

6. Discussion

In response to our research question, *How was IR adapted in Japan to become an institutionalised practice?* we explored and theorised the adaptation of a global accounting innovation like IR by unfolding the political, professional, and cultural stages of IR rationalisation. We argue that these stages are spaces and arrangements for interactions in which different actors make sense of IR depending on their agendas and interests. These stages are continuously operating in parallel (rather than in a clear chronological order), influencing each other over time and shaping the local adaption of an ambiguous idea of IR. For example, in the political rationalisation stage, regulators and norm-setters argued for IR from a macro-political perspective of Japan. The professional rationalisation stage was where corporate management, accounting and audit firms, and investors rationalised IR from a neoliberal market-focused perspective. The cultural rationalisation stage was a space where CSR managers rationalised IR as a relevant means of communication with a broader group of stakeholders in line with Japanese cultural traditions. At the same time, we also found two stages where the ideology of IR influenced (1) the actors' practices and responsibilities in creating content for integrated reports and (2) their communication culture.

The characteristic of pragmatic ambiguity made IR relevant for several reasons. First, it fits with the political agenda of Abenomics[1], which aimed to achieve long-term economic growth for Japan. Second, it fits with the professional agenda, which aims to improve the image of Japanese corporate governance in the global capital market. And third, it fits with the cultural agenda, as IR aligns well with the traditional culture of Japanese business and reporting. While previous research mainly discusses the mediating role of IR by local actors from a macro-political and professional instrumental perspective (Sonnerfeldt & Aggestam Pontoppidan, 2022), our study shows how a cultural perspective influenced the adaption of IR in a local context. By analysing this process through Meyer's (1986) theoretical lens of rationalisation, this study illuminates how various actors can create local meanings and roles for IR and develop their practices for using it. Our findings also extend previous research by arguing that IR is not only an "adaptive toolbox"

[1]Abenomics is the name given by economists and policymakers to the economic and social policies followed by the Japanese government under Prime Minister Shinzo Abe. Source: https://corporatefinanceinstitute.com

(Higgins et al., 2019) but also an ideology that can shape reporting and communications practice. In the adaptation process, IR's neoliberal ideology changed the power dynamics between actors at the micro-political level and Japanese professionals' communication culture. Thus, we conceptualise adaptation as a two-directional process of interaction (Westney, 1987) between the ideology of IR and the local actors.

Resonating with Sonnerfeldt & Aggestam Pontoppidan (2022), we find challenges in the process of IR adaptation. For example, micro-political power dynamics marginalised CSR managers, which ostensibly constrains how well integrated the financial and non-financial aspects of the reports are. As in Sonnerfeldt & Aggestam Pontoppidan's (2022) case of implementing IR in the public sector, such micro-political marginalisation is limiting because original concepts relating to society and the environment, such as natural capital, can become entirely lost in local integrated reports. That said, organisations that privilege financial capital over all other forms of capital, especially natural capital, tend to have the most voluntary disclosures to maintain their corporate image (Busco et al., 2019). This ideological contradiction with the multi-stakeholder perspective of sustainability means IR has largely failed to integrate sustainability into local reporting practice (Flower, 2015).

This paper illustrates that Japanese companies have adapted IR to solve other local problems pragmatically. Yet, suppose a company focuses on perceived local problems but does not properly disclose the inputs and outputs of its various types of capital. In that case, it may destroy financial capital instead of enhancing it. In the long run, it negates the effort of using IR to achieve a better corporate governance image to gain and maintain investor trust.

Reflecting on Japan's IR adaptation process, we can generalise our findings to other political, economic, and cultural contexts. At its various stages of rationalisation, we argue that IR (even when being merged with the IFRS foundation as part of the upcoming ISSB standards) may ostensibly lose its original elements and meanings in other countries. Even if ambiguity is an enabling characteristic in the diffusion of innovation (Benders & Van Veen, 2001), we argue that in the adaptation process, some professional groups dominate over others, and crucial elements of this global innovation risk getting lost.

7. Conclusion

By bringing in theoretical insights from Meyer (1986), Caramanis (2005) and Contrafatto (2014), our research extends previous knowledge on the complexity of the adaptation process. Our evidence reveals how an accounting innovation and the actors involved in its adaptation face various stages of rationalisation. This greater understanding of how IR is adapted to become a perceived solution to local problems enriches our insights into how a global accounting innovation adapts to national socio-political factors through local rationalisation. In turn, the innovation and the actor's practices are modified. Hence, this research enriches theoretical knowledge of the relationship between a global idea and a local context in the institutionalisation process (Ax & Bjørnenak, 2005; Cooper et al., 2017).

Additionally, this study provides novel empirical insights into a global accounting innovation characterised by pragmatic ambiguity. Our findings demonstrate that the pragmatic ambiguity that permits more than one course of action (Giroux, 2006) allows social actors to shape IR in a way that solves socio-political problems and overcomes the cultural distance that can obstruct institutionalisation (Ax & Bjørnenak, 2005). Social actors can take advantage of the momentum of IR to rationalise the original concept as a new solution to local problems.

The pragmatism and ambiguity of IR mean it is malleable and can be shaped to fit any need; it can be adapted to a local context and can become institutionalised. Its pragmatism allows different interpretations to fit into a context and manages the conflicting interests and cultural and political dualism between neoliberalism and tradition (Baker & Schaltegger, 2015). However, this study also demonstrates that the pragmatic ambiguity of innovation alone is not enough to explain its institutionalisation, and, on this note, this research contributes to the literature on the adoption and diffusion of global innovations.

The evidence also demonstrates that the adaption and subsequent institutionalisation of an ambiguous global artefact or idea, like IR, depends on different stages. The pragmatic ambiguity of IR helps to make it malleable to different needs. Yet, through rationalisation, actors negotiate tensions and material and ideal interests and balance the dualism between neoliberalism and local corporate culture. Rationalisation allows unveiling of the dynamics and complexities of the negotiations and adjustments that social actors perform in the process of local adaptation (Baudot, 2014; Sonnerfeldt & Aggestam Pontoppidan, 2022). The rationalisation process becomes the space where the social actors mediate and balance tensions and conflicting interests to turn the adaptation to their advantage.

Our finding on the rationalisation of IR in Japan demonstrates the crucial role of local actors in meditating between the global idea and local needs and contributing to its global diffusion (Chiwamit et al., 2017). We show that regulators are not the only critical mediators in diffusing accounting innovations. There is a plethora of actors at different levels of power whose rationalisations shape IR's practice and use at a local level. Yet, embracing the interpretive view of institutionalisation enriches our understanding of how motivations and power can mediate the adaptation of global innovations. As previous research on the institutionalisation of Western organisational models in Japan shows, it is not only Western ideas that become locally adapted and culturally rationalised, but the local actors also adapt their practices to the ideology that the Western idea represents (Westney, 1987).

This study enriches practical knowledge of IR adoption with new empirical insights into IR's local adaptation. Compared to prior research, much of which examines IR's adoption by a single organisation (e.g. Busco et al., 2018; Gibassier et al., 2018), this study extends our understanding of how IR becomes rationalised in a national context. To this end, we examined how many different actors are involved in local adaptation (Humphrey et al., 2017; Rowbottom & Locke, 2016) and the socio-political factors influencing the process. As a policy implication, we advocate that accounting regulators pay attention to adaptation guidance to avoid the risk that essential elements of the framework will get lost. Even though IR (or any other accounting framework) can be flexible enough to suit different contexts, which may help it to spread, doing so may increase the possibility of meaningful outcomes in its local rationalisation. Due to its ambiguity, IR has various meanings at its stages of rationalisation. Therefore, the ways IR materialises in local reports might not be comparable across different contexts, confirming that there is no "one-size-fits-all" solution to adapting IR (Busco et al., 2019).

IR can gain a unique local purpose when rationalised into a solution that solves local problems. In South Africa, IR was institutionalised as a reporting framework because it helped companies comply with King III and IV (IoDSA, 2016). Indeed, IR was part of a broader political agenda addressing corporate governance weaknesses (Higgins et al., 2019). Similarly, IR in Japan can not only be an "adaptive toolbox" without purpose (Higgins et al., 2019) but, more broadly, as a purposeful part of a long political and social journey of governance change. Thus, we suggest researchers should further explore social and environmental reporting adaptation in other socio-political contexts.

We acknowledge that our research is not without limitations, as it is based on a limited number of qualitative interviews and conference observations, which may not fully represent the entire IR landscape in Japan. However, combining various data sources (intreviews, conference observations and documents) was an attempt to deal with this limitation. The three data sources allowed us to triangulate and test data for relevance and consistency. Using more than one research method strengthens accounting studies that explore power dynamics and motivations. In our analysis, these dynamics and motivations shaped the rationalisation of IR in Japan. The formulated tentative theory of IR adaptation outlines a framework for analysing different stages for IR rationalisation and, hopefully, can inspire future research to refine or test it.

Our last point is especially important considering the IIRC's merger into the VRF and then into the ISSB. The merger means that the IR framework should harmonise with other frameworks. Thus, a significant unanswered question is: How much of the IR framework and principles will remain in Japan once the new ISSB standards are available? One outcome is that IR will continue as it is today as a standalone framework because the IFRS (2022) declares that "ISSB's standards will build on existing frameworks and guidance, so companies should continue using the CDSB and VRF's frameworks and guidance as appropriate", meaning that IR in Japan can continue in a business-as-usual manner. Another outcome is that the new ISSB standards will place institutional pressure on Japanese companies to adopt them, especially if they continue to appeal to Western investors by showing that Japanese companies are complying with Western economic ideologies. Thus, future research into adapting the ISSB standards by Japanese businesses and managers is needed.

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