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FACTORS AFFECTING THE COMPANIES' PREFERENCES ON INTEGRATED REPORTING

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Abstract

The aim of this study is to reveal the factors affecting the companies' preferences towards publishing integrated reports. By reviewing the literature, the factors are classified under two groups, namely; country-specific factors and firm-specific factors. The general results obtained from studies on integrated reporting shows that in countries where societal values prevail over individual values, where there is a high demand for information and where strong enforcement mechanisms exist, it is expected that companies are more likely to publish integrated reports. From a micro-level (firm specific) perspective, large and profitable companies with strong governance structure, whose Boards include diverse perspectives are accepted to be closer to integrated reporting.

Keywords: Sustainability, Integrated Reporting, Social Responsibility

Jel Codes: M41, M48, M14

1. Introduction

The current system of financial reporting was developed in 1930s. Later on, with rapidly changing complexity of business world and growing public sensitivity towards certain social and environmental problems, a need for a new reporting system, which focuses on 21th century issues, is realized (Daub, 2007; Ayoola and Olasanmi, 2013; Frias-Aceituno et al., 2013b). This new reporting requirement is enhanced through a patchwork of laws, regulations, standards, codes, guidelines and stock exchange listing requirements (Daub, 2007). As a result of these standards, laws and requirements information is presented in longer and more complex financial reports, while reporting on governance and remuneration and sustainability have gained attention.

Especially the sustainability concept is considered through "sustainability accounting" which provides four perspectives to reporting; societal influence, environmental impact, organizational culture, and finance. However, the researchers usually consider organizational culture as a part of societal influence (Crowther and Guler, 2010; Owen, 2013). The concept is then considered in a broader sense in "Triple Bottom Line (TBL)" approach by additionally covering economic and social context of doing business (Gurvitsh and Sidorava, 2012; James, 2013; Owen, 2013). According to TBL, organizations should prepare three bottom lines based on three Ps; a traditional "profit account", a "people account" presenting the degree of social responsibility, and a

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"planet account" presenting environmentally responsibility of an organization (Owen, 2013).

The reports prepared based on these Ps demonstrate the company's corporate behavior from economic, social and environmental perspectives (Manetti, 2011; Hassan and Ibrahim, 2012; Frias-Aceituno et al., 2013a). However, since these reports are drafted individually, as stand-alone reports, there is a possibility of overlapping information or in a worse case, a lack of coherence in the contents of these separate reports. To overcome these problems, some companies have started to integrate their reports into one single report and presented the information from all aspects in a composite and cohesive form, to reflect the commercial, social and environmental aspects of the company (Frias-Aceituno et. al., 2013a).

In this context, Eccles (2010) and Eccles and Krzus (2010) define integrated reporting as the process of combining the financial and narrative information in a company's annual report with the nonfinancial and narrative information (on environmental, social, and governance issues) presented in a company's "Corporate Social Responsibility" or "Sustainability report". Other definitions of an integrated report are much broader.

According to the International Integrated Reporting Council (IIRC, 2013) integrated reporting is: "a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time. An integrated report is concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term". In other words, integrated reports present the connectivity and interdependencies of all input variables and relationships that affect the organization in a material manner in its value creation process over time (IIRC, 2013).

The historical process proves the fact that the reporting system evolves considering the changing information needs of decision makers. As the insufficiency in fulfilling the information needs is realized, organizations adapt themselves to upgrade their reporting system. For the current situation, the most comprehensive and the most upgraded system seems to be the integrated reporting, which aims to fulfill the needs of all stakeholders, rather than preparing usage oriented stand-alone reports (such as sustainability report, financial reports, etc.). The reasons underpinning this evolution should be examined in more detail in order to understand the ongoing process of reporting.

Reviewing the literature, this study aims at revealing the relationships between the organizations' preferences towards publishing integrated reports and the factors affecting these preferences. In the frame of this study, the factors under question are classified as "country-specific factors" and "firm-specific factors". The next section presents the relationships between the country specific characteristics and their effect on integrated reporting behavior of organizations. In the third section firm specific characteristics are considered. And the last section concludes.

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2. Country Specific Factors Affecting the Integrated Reporting Preference

The subject of integrated reporting preference is usually analyzed by using institutional theory perspective, which states that the organizations are embedded in a comprehensive system of political, financial, educational, cultural and economic institutions that exert institutional pressure on them (Matten and Moon, 2008; Jensen and Berg, 2012; Dragu and Tiron-Tudor, 2013).

2.1. Political System

An important classification of political system is done by distinguishing between the economic and social dimensions of legal protection. These dimensions are the level of investor protection and the level of employee protection, respectively (Jackson and Apostolakou, 2010; Jensen and Berg, 2012).

Comparing the benefits and costs of disclosure, Baiman and Verrecchia (1996) suggest that managers face a dilemma on disclosing extensively the information on their companies. Because, on one hand, disclosure decreases the cost of capital, but on the other hand, it decreases the information asymmetry that the managers benefit from. In other words, companies focus on determining the optimum level for disclosure and in some cases this may cause decreases in the quality of reporting. This makes investment protection the main point of discussion. It is argued that since the primary objective of reporting in countries with high shareholder protection is to fulfill the shareholders' needs on financial information, these countries are expected to have lower tendency towards integrated reporting

On the other hand, the companies operating in countries with higher employee protection are assumed to be more likely to prepare integrated reports, because in those countries social needs are highly valued (Jackson and Apostolakou, 2010). However, in the study of Jensen and Berg (2012) there are contradicting results that shareholder protection increases, whereas employee protection decreases the likelihood of integrated reporting. They state that this might be the result of integrated reporting's not being driven by the market demands, but also of companies', which are located in traditional stakeholder markets, attempts to attract underemployed stakeholders by publishing to date less demanded information. Also financial information is supposed to be less valued in countries with strong employee protection laws and pronounced stakeholder orientation (Jensen and Berg, 2012).

The attitude of politicians on their relationships with the companies is another factor to consider in the frame of political structure. It is assumed that the reporting quality in companies with strong relationships with politics decreases, especially when they are under the protection of those politicians (Chaney et al., 2007). Chen et al. (2008) and Correia (2010) state that the political costs are relatively higher for those companies with lower reporting quality, and that these payments are directed towards the congress members especially in the periods the erroneous reports are prepared.

Another issue relevant to political system is that, to effectively protect the stakeholders' interests, it is also necessary to consider whether there exists a weak or strong enhancement mechanism. Two contradictory hypotheses have been proposed regarding the relationship between enforcement mechanisms and corporate transparency (Kolk and Perego, 2008). The first hypothesis stresses that companies in countries with strong control mechanisms have a higher tendency to publish integrated reports in order to facilitate contracting and stakeholder relations by reducing information asymmetry and increasing the monitoring of company performance, as a complementary to enhancing mechanisms (Ball, 2001; Kolk and Perego, 2008). According to the second hypothesis, on the other hand, the effect of disclosure on contracting is minimal in countries lacking strong legal infrastructure, because the legal mechanisms substitute reporting accuracy. In other words, corporate transparency can serve as a substitute for absent or weak country-level institutions that constrain the behavior of contracting parties (Choi and Wong, 2007; Chih et al., 2010). To decide on the way strength of enhancement system affects reporting preferences, it is also useful to consider the possibility and amount of litigation costs that the companies may face.

2.2. Legal System

As companies are subject to the rules and regulations of their country of origin, it is possible to suggest that they adopt the main characteristics of the political system, which has a major impact on those rules and regulations. Researchers generally classify political systems as "common law" and "code law" systems.

In common law countries, political influence is relatively weak and the point of focus is the shareholders' needs (Ball et al., 2000; Kolk and Perego, 2010; Jensen and Berg, 2012). The primary objective for the companies is to maximize revenue, as companies are considered to be an instrument for the creation of shareholder wealth. In these countries, the higher level of protection of shareholders over the other stakeholders gives rise to a greater emphasis given to published financial reports (Ali and Hwang, 2000; Ball et al., 2000; Leuz et al., 2003; Holthausen, 2009), rather than other types of reports such as sustainability reports and integrated reports that provide an ordered, coherent summary of diverse informative approaches (Jensen and Berg, 2012).

Code / Civil law countries, on the other hand, present a higher level of government involvement in economic activities compared to common law countries. The national accounting standards are usually issued and enforced by the government (Ball et al., 2000; Kolk and Perego, 2010; Jensen and Berg, 2012; Dragu and Tiron-

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Tudor, 2013). In code law countries, more emphasis is given to satisfying the needs of a broader group of stakeholders in order to mitigate any asymmetric information problem (or a possible agency problem) between management and stakeholders, which leads to a high degree of corporate transparency (Ball et al., 2000; Jensen and Berg, 2012). Thus, code law countries are supposed to be more stakeholder oriented compared to common law countries. Smith et al. (2005) also provide evidence that companies from countries with a stakeholder orientation issued more and higher quality corporate environmental and social reports than firms from countries with a weaker emphasis on social issues and a greater orientation towards shareholders.

Additionally, because code law countries have a communitarian perspective and are characterized by having laws aimed at protecting the rights of workers and other stakeholders (Frias-Aceituno et al., 2013b), the companies in these countries are expected to issue more comprehensive information (Ball et al., 2000; Frias-Aceituno et al., 2013b), in other words, the reports go beyond financial aspects in these countries. In summary, companies from code / civil law countries are more expected to publish integrated reports compared to companies from common law countries.

In a study, Frias-Aceituno et al. (2013a) separate their sample to three different classes as Anglo-Saxon, Latin and German depending on the legal systems applied in those countries. It is assumed that the Anglo-Saxon system mostly built on shareholder protection, rather than the stakeholders as a whole. As opposite, German system considers the company as an economic entity constituting a coalition of various participants striving for the continuity of the firm. Compared to Anglo-Saxon model, German model is completely stakeholder-oriented. In Latin countries, the concept of company is closer to German model (stakeholder-oriented), except for the employee involvement in decision taking. The stakeholders most able to exert influence on managerial decision-making are financial-holdings and cross-holdings, families and government.

2.3. Financial System

The financial system of the country that companies operate in is another important determinant of organizations' preferences on publishing integrated reports. Financial system is generally analyzed using the degree of market orientation as a basis; whether it is a primarily bank-based or a primarily market-based economy. In bank-based economies (such as Japan and Germany), close relationships exist between banks and organizations. With the help of these close relationships, banks have access to the information systems of companies and can gather information that they need, directly from the company system. In other words, banks can intensively monitor the corporate behavior of companies. Because there is a long-term relationship between banks and companies, monitoring costs less for banks than it would be for individual investors. There is relatively low demand for external reporting in these countries (Ali and Hwang, 2000).

In market based economies, reports are prepared primarily for informing market participants. Companies in these countries have a larger number of stakeholders with smaller stakes and base their investment decisions on self-analyzed information, gathered from reports the companies present. Therefore stakeholders are more powerful, although control is dispersed. This requires companies to disclose not only financial aspects, but all relevant aspects of their operations. Gurvitsh and Sidorova (2012) also suggest in their study that listed companies have higher tendency to present all possible information about the company's performance to stakeholders. Additionally, as they rely on stakeholder goodwill, they have an incentive to distinguish themselves by using innovative forms of reporting (Ali and Hwang, 2000; Jensen and Berg, 2012).

2.4. Education and Labor Systems

The level of investment a country makes in education is an important factor affecting the reporting attitudes of companies (Matten and Moon, 2008; Jensen and Berg, 2012). Because, investment in education allows companies to customize processes and contents of education as related to their needs (Salmi, 2000). It is argued by researchers that companies that operate in countries with high involvement in tertiary education show a strong interest in new research findings and academic knowledge and thus adopted new management techniques more rapidly. Therefore, these companies may decide for integrated reporting earlier than companies in countries with low company involvement in tertiary education.

In terms of labor systems, the degree of employee involvement in employment-related decisions is considered as an important determinant of labor system in a country. Involvement of employees is frequently associated with trade unions collectively representing the interests of employees. It is accepted that a high density of trade unions in a country is often an indicator of a socio-political progress (De Geer et al., 2010). As corporate reports are meant to reflect the company and its value system, it is to be assumed that integrated reporting is of greater relevance in countries with high trade union density (Jensen and Berg, 2012).

2.5. Cultural System

National cultural dimensions explain general similarities and differences in cultures around the world and specific relationships exist between these dimensions and stakeholders' preferences and actions (Garcia-Sanchez, et al., 2013). Gray (1998) states in this well-known study that different cultural dimensions (such as gender equality, institutional collectivism or a humanistic orientation) reflect important differences in accounting practices or in the publication of different types of reports (Fernandez-Feijoo et al., 2012; Garcia-Sanchez et al., 2013).

The degree to which companies are accepted as responsibility bearing components of a society in a country is an important aspect of country's culture. In some countries the priority in responsibility is given to financial well-being, whereas in other countries corporate responsibility involves a broader set of environmental and social values (Jensen and Berg, 2012). Cultural variation between countries with regard to Corporate Social and Environmental Responsibility (CSER) is captured by The National Corporate Responsibility Index (NCRI). It assesses whether countries have an accurate enabling environment for corporate responsibility at national level, as well as resulting practices on corporate responsibility (Zadek et al., 2003; Kolk and Perego, 2010; Jensen and Berg, 2012). It is supported that companies from a country with a higher NCRI rating are more likely to publish integrated reports, as the degree of national corporate responsibility impacts the companies' likelihood to act responsibly and to disclose information about their social and environmental activities (Sotorrio and Sanchez, 2008; Kolk and Perego, 2010; Jensen and Berg, 2012; Dragu and Tiron-Tudor, 2013).

Countries are also diverged according to their value of human concerns. Depending on the results of World Values Survey (1990), Inglehart and Baker (2000) state that cultural diversity can be described by two dimensions: "survival versus self-expression values" and "traditional versus secular-rational values".

In countries which endorse self-expression values also give high priority to environmental protection, tolerance of diversity and value broad-based participation in decision making in economic and political life. On the other hand, countries with survival values emphasize more materialist values, show relatively low levels of subjective well-being and report relatively poor health, are relatively intolerant toward outgroups, low on interpersonal trust. Those with self-expression values are more sensitive to human rights compared to survival values oriented companies (Inglehart and Oyserman, 2004; Inglehart, 2011). For the latter financial objectives prevail. In this respect, it is possible to suggest that the companies operating in self-expression oriented countries present more information to its stakeholders, and publish integrated reports (Jensen and Berg, 2012).

As the second dimension under cultural differences, countries differ in their orientation towards traditional values or secular values. In countries with traditional values orientation religion is important, as well as family values and national pride. On the other hand, countries with secular-rational values consider abortion or divorce more acceptable and show higher interest in politics (Inglehart and Oyserman, 2004; Inglehart, 2011). In these countries responsibility is an important value, therefore the likelihood of publishing integrated reporting is expected to be higher in countries with secular-rational values (Jensen and Berg, 2012).

The cultural features/dimensions proposed by Hofstede (2001) also help to explain the effect of culture on reporting preferences. Hofstede (2001) proposed four specific cultural features to highlight the similarities and differences between countries: "individualism versus collectivism", "masculinity versus femininity", "tolerance versus aversion to uncertainty", and "power distance". More recently, Hofstede and Hofstede (2005) proposed a fifth dimension; "orientation towards the long versus the short term orientation".

Collectivism increases the likelihood of integrated reporting compared to individualism, because collective thinking requires a higher level of commitment to society, and behaving as a group member, rather than an individual economic unit.

As the second dimension, femininity is suggested to be positively related to the likelihood of integrated reporting preference. Studies on culture reveal that masculinity is more correlated with assertiveness and aspiration towards achievement, whereas female orientation focuses primarily on quality of life. In other words, male oriented cultures value success and earnings, recognition, advances and challenge more, thus economic disclosures prevail under masculinity, opposed to female oriented cultures (femininity).

The tolerance/uncertainty dimension suggests that because of their uncertainty avoidance, some societies are closed to new approaches and practices and need rules and formality to structure life and living (De Mooij and Hofstede, 2010; Garcia-Sanchez et al., 2013). Companies in countries with a higher level of tolerance to uncertainty are more likely to publish integrated reports.

According to power distance dimension, on the other hand, individuals with less power expect and accept the unequal distribution of power and show less interest in social rights, making it unnecessary for companies to present all information in these countries. Therefore in hierarchically organized countries, the information to present is decided by those in power. This makes researchers support the proposition that as power distance increases, likelihood of integrated reporting decreases.

The long-term orientation is more associated with the propensity to save for the future, which is an approach very close to that of integrated reporting, rather than consuming immediately. Also those with short-term orientation are assumed to have a normative concern for the absolute truth (Garcia-Sanchez et al., 2013). In this respect, it is possible to suggest that companies from countries with long-term orientation are more likely to prefer integrated reporting system over traditional reporting system.

In sum, it is expected that the companies located in societies with strong values of collectivism, feminism, tolerance of uncertainty and long-term orientation have a higher tendency towards publishing integrated reports.

2.6. Economic System

The level of development of a country is also a determinant in companies' preferences of corporate reporting system. The studies find that voluntary disclosure is more common in developed than developing countries (Belal, 2000; Islam and Deegan, 2008; Jensen and Berg, 2012; Dragu and Tiron-Tudor, 2013). Developed countries have usually higher capital buildups, thus have higher chance to recover if it fails. This makes innovations more likely to appear in developed countries. Companies from these countries have also higher probability to apply new management instruments earlier than those in less developed countries. It is accepted in the literature that the level of economic development has a positive effect on integrated reporting.

3. Firm Specific Factors Affecting the Integrated Reporting Preference

The preference of a company to prepare integrative reports is not only determined by outside/country specific factors. The social, political and economic priorities and perspectives of the organizations producing corporate reports also shape the process of stakeholder mapping or prioritizing (Owen, 2013).

3.1. Ownership Structure

The extent of ownership concentration influences the company's preferences for information disclosure. As the degree of concentration increases, the tendency of companies to provide more information decreases. Because with a controlling owner, there is possibility to face governance problem associated with the separation of ownership and control. Dominating shareholders are able to pursue their own goals over the minority shareholders'. At the same time, dominating shareholders usually have access to the corporate information and get desired information directly from the system. This decreases the demand for external reporting in these companies.

Moreover, these companies are more risk-averse in disclosing extensively about the running of business to outsiders because of the risk of losing the competitive advantage by revealing the proper information on the firms' rent seeking activities (Jensen and Berg, 2012). In summary, it is expected that the companies with less ownership concentration are more likely to publish integrated reports.

3.2. Characteristics of the Board

Since it is the Board of Directors' responsibility to safeguard the interest of stakeholders by mitigating the information asymmetry and reduce information related problems, the characteristics of Board are important determinants in integrated reporting preference.

3.2.1. Board Size

Empirical research presents contradicting results on the effect of Board size on the volume of information disclosed. Prado-Lorenzo and Garcia-Sanchez (2010) observed a negative relationship, whereas Karamanou and Vafeas (2005) and Cheng and Courtenay (2006) reported no such relation. On the other hand, Dalton et al. (1999) and Frias-Aceituno et al. (2013a) find that as the number of directors in Board increases, the breadth and integration of corporate information provided also increase, as a result of more diversified expertise (on accounting and finance, on sustainability, etc.) in the Board.

3.2.2. Board Independence

As another characteristic of Board, independence is analyzed in the literature using the presence of non-executive directors as indicator. The existence of non-executive directors in the Board is supposed to assure objectivity and independence in management and control functions (Prado-Lorenzo et al., 2009; Prado-Lorenzo and Garcia-Sanchez, 2010), thus both the quality and quantity of information is enhanced. They are also assumed to be more receptive to new information demands (Garcia-Sanchez et al., 2013), because their actions are less affected by the actions of competitors compared to executive directors (Prado-Lorenzo and Garcia-Sanchez, 2010).

While some studies find a direct relationship between the presence of non-executive directors and the volume of information published (Karamanou and Vafeas, 2005; Cheng and Courtenay, 2006; Prado-Lorenzo et al., 2009), some others detect inverse relationship (Prado-Lorenzo and Garcia-Sanchez, 2010; Frias-Aceituno, 2013a) and some report no relationship (Garcia-Sanchez et al., 2011; Frias-Aceituno et al., 2013a).

3.2.3. Activity of Board

There are two contradicting suggestions on the relationship between the activity of board and corporate reporting preferences. The frequency of Board meetings, as the indicator of Board activity, is associated with the efficacy of Board members as well as directors' exceeding their functions; both affecting the business performance adversely (Vafeas, 1999; Frias-Aceituno et al., 2013a). The opposite suggestion states, on the other hand, that as the number of meetings increase, effectiveness of the Board increases too. With more frequent meetings, Board members can better monitor the ongoing business processes and thus, show greater interest in disclosing information on their activities. These studies conclude that the more frequently meeting of Board increases the efficiency of Board and decreases the information asymmetry (Lipton and Lorsch, 1992; Xie et al., 2003; Kanagaretnam et al., 2007). However some other studies as of Karamanou and Vafeas (2005) and Frias-Aceituno et al. (2013a), it is concluded that no relationship existed between the activity of Board and the quality of information disclosed. The suggestion of positive relationship between activity of Board and disclosure volume seems relatively more reasonable considering the fact that information needs of Board, on all aspects of the company, are already prepared for the Board meeting and therefore no additional costs are expected to incur in collection of data.

3.2.4. Diversity in the Board

Diversity included in the Board is another factor that is examined in the literature. It is supported that increased diversity leads to promoted problem solving with the help of more diversified experiences the Board includes (Frias-Aceituno, 2013a). Diversity is usually analyzed by focusing on either nationality or gender of directors (Prado-Lorenzo and Garcia-Sanchez, 2010).

Inclusion of foreign directors on the Board increases the variety of cultural values represented on the Board, depending on the cultural characteristics of each members' country. This, in return, influences the corporate reporting behavior. Thus, presence of foreigners on the Board is assumed to be an important factor in analyzing corporate behavior on reporting. Andrews et al. (1989) and Guthrie and Parker (1990) concluded that as the foreigners are included in the group of majority shareholders, companies have higher tendency to disclose information (Frias-Aceituno et al., 2013a). On the other hand, there are some researchers, such as Haniffa and Cooke (2005), who concluded that information disclosure tendency has a positive relationship with including native directors, rather than foreigners (Frias-Aceituno, 2013a).

Focusing on the gender diversity, it is supported that as the women are included in senior management level of companies, transparency is enhanced (Prado-Lorenzo and Garcia-Sanchez, 2010; Frias-Aceituno et al., 2013a). The reason is that

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women are expected to incorporate their mother/wife roles into the business (Betz et al., 1989), providing a more ethical and philanthropic approaches to business which are usually associated with higher level of disclosures. Also women care more about sustainability issues compared to men.

In summary, considering the diversity in terms of both nationality and gender together, it is supported that there is a positive relation between the diversity of Board members and integrated reporting (Frias-Aceituno et al., 2013a).

3.3. Corporate Governance

It is a well-known fact that the effectiveness of corporate governance system applied in companies enhances the internal controls and therefore more information is disclosed to mitigate information asymmetry. However, it is also possible that strength of corporate governance may prevent or limit the disclosure of information for security and reliability reasons (Frias-Aceituno et al., 2013a).

3.4. Firm Size

Company size is analyzed in the literature as an influential factor on integrated reporting preferences of companies. It is generally supported in the studies that as the company size increases, tendency to disclose information also increases (Gul and Leung, 2004; Garcia-Sanchez et al., 2011; Frias-Aceituno et al., 2013a, 2013b). Some studies have limited this relationship for the companies over a certain level of company size (Pirchegger and Wagenhofer, 1999), whereas some studies find no relation at all (Khanna et al, 2004).

3.5. Profitability and Growth Opportunities

Most of the relevant studies have failed to detect a statistically significant relationship between the degree of voluntary disclosure and the level of profitability (Larran and Giner, 2002; Frias-Aceituno et al., 2013a, 2013b). According to the researchers that reached a conclusion, it is worth devoting more resources for those companies with high profitability to use the information as a marketing tool. Therefore it is expected that more profitable companies are more likely to publish integrated reports (Hackston and Milne, 1996; Garcia-Sanchez et al., 2013).

On the other hand, companies with higher market to book value (MTB), as the proxy for growth opportunities, are expected to disclose more information in order to reduce information asymmetry problems (Prado-Lorenzo and Garcia-Sanchez, 2010; Frias-Aceituno et al., 2013a). However, some studies such as the studies of Debreceny et al. (2002) and Larran and Giner (2002) don't seem validate this assumption (Frias-Aceituno, 2013b).

3.6. Industry

Another factor which affects the amount of voluntary information disclosed is the industry that the company operates in (Gul and Leung, 2004; Hassan and Ibrahim, 2012), because companies operating in the same industry, especially as in the case of information technology or chemical industries, are expected to adapt similar patterns of behavior regarding the information disclosures (Frias-Aceituno et al., 2013b). Moreover, some industries may also be politically vulnerable in nature and companies operating in these industries may prefer disclosing higher volume of information to minimize possible political costs (Cowen et al., 1987; Garcia-Sanchez et al., 2013; Frias-Aceituno et al., 2013b).

Verrecchia (1983) states that reports of companies in more competitive industries include less information, because competitiveness negatively affects the disclosure tendencies of companies. In competitive markets, managers try to avoid reporting to competitors in order to protect themselves against proprietary costs. In industries with high barriers, companies face relatively less proprietary expenses. Additionally, according to Cohen (2003) accounting information presented by companies in capital intensive industries (accepted to have high barriers to entrance) better predict the future cash flows.

4. Conclusion

Especially in recent decades, reporting has shown an ongoing evolution as a result of rapidly changing business environment and changing information needs of decision makers. The last phase of this evolution, for now, is integrated reporting, which covers and combines both financial and non-financial narrative information with financial and strategic aspects of companies. By publishing integrated reports, companies may enable information users gather information from more concise and clear reports representing only material information on all aspects of company together in one report.

Integrated reports include information on resources (capitals) that the company uses in creating value, the business model that explains the way company creates value, and outputs and outcomes that are the created values. The main objective in integrated reporting is providing transparency through disclosure of information from all aspects. Since its application is legally enforced only in South Africa, and voluntary in other countries, this study aims to explain the factors affecting the companies' disclosure preferences via reviewing the literature. In other words, the study aims at answering the questions of why companies desire to publish integrated reports and why they don't.

It is possible to classify the factors as "country specific" factors and "firm specific" factors. Political system, financial system, culture, education system and economic system are the main country specific factors, whereas companies' characteristics related to ownership structure, Board characteristics, corporate governance effectiveness, firm size, profitability, existence of growth opportunities and the industry that the company operates in are firm specific factors.

Although the literature includes contradicting results on some factors, researchers have reached a common conclusion on many others. For example, all relevant studies provide evidence that companies operating in countries, in which information disclosure is supported for all stakeholders rather than only banks or shareholders, have a higher tendency towards publishing integrated reports.

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Companies in countries with market orientation, strong employee protection, higher propensity to tertiary education and higher employee involvement in decision taking are thought to be more likely to publish integrated reports than others with opposite structures. it is also expected that the companies located in societies with strong values of collectivism, feminism, tolerance of uncertainty and long-term orientation have a higher tendency towards publishing integrated reports.

Although some studies suggest higher investor protection to cause a decline in probability of integrated reporting, it is also worth analyzing if opposite is true for companies in countries with strong enforcement mechanisms, considering the litigation risk they may face.

In terms of firm specific factors, it is found in the literature that companies with dispersed ownership structure and a large Board which includes non-executive directors with different expertise and different cultures are more likely to publish integrated reports. Additionally, larger companies with strong corporate governance systems and higher market to book values reflecting growth opportunities are also supposed to be closer to imply integrated reporting approach in order to mitigate information asymmetry.

In summary, in countries where societal values prevail over individual values, where there is a high demand for information and where strong enforcement mechanisms exist, it is expected that companies are more likely to publish integrated reports. From a micro-level (firm specific) perspective, large and profitable companies with strong governance structure, whose Boards include diverse perspectives are accepted to be closer to integrated reporting.

After revealing the factors affecting the tendencies of companies towards integrated reporting, this study suggests it to be an important contribution to analyze the companies' reporting preferences in relation to specific time periods such as economic recession periods, periods just before the initial public offerings (IPOs), or in times auditors / managers / CFOs change, because during the literature review no study is found covering these issues.

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