Chapter 1
Literature Review

ABSTRACT

Within the current chapter, we present the most relevant (and recent) literature review in the fields of integrated reporting, corporate disclosure, accounting theories, etc. This section incorporates previous studies on our topic. We explain the integrated reporting (IR) origins from corporate social responsibility (CSR) and sustainability perspectives. In addition, we set the coordinates for the 'integration' process as new disclosure mechanism of corporate reports, in the form of economic, social, and financial mix integration. Finally, the chapter deepens the understanding upon corporate reporting theories that can explain the integrated reporting trend: institutional theory, legitimacy theory and positive accounting theory.

INTRODUCTION

Previous studies in the IR field make reference to the non-financial information from the European Directive requirements (Janek et al., 2016), or the paradigms of financial, social, and economic integration (Barker & Kasim, 2016, Dumay et al., 2016; de Villiers et al., 2014; Perego et al., 2016). Further on, scholars and academics underline the relevance of social investors (Adams et al., 2016) or firm valuation in the context of IR (Lee & Yeo, 2016). Further on, there has been a strong interest for the research on IR frameworks (Cheng et al., 2014; Abeysekera, 2013). What defines this book as a relevant contributor to corporate reporting, in general, and IR in particular, is the fact that, in addition to what other scholars investigated, we present an accumulation

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of theories, methods, and studies, that convey practical insights. This is the first work that seeks to determine what information should be included in an integrated report, how this information has to be organized and structured, and how can companies adopt IR more efficiently. Only accountancy profession could provide relevant answers to these questions, so we set up a survey study targeting the accountancy environment: accountants, experts, auditors, professionals, academics, etc. Their answered served for the second part of our investigation, in which we develop a framework prototype for IR and we test this framework internationally, on a large sample of companies. Thus, this is the first work covering such an extensive and original study on IR, in which we use a software for measuring the disclosure level in companies' corporate reports.

As integrated reporting has evolved from sustainability (Janek et al., 2016) and CSR reporting, we can deduce that it incorporates some common elements. Thereof, IR should depend on the same organizational characteristics as CSR and sustainability, such as size and profitability of the company, activity area, as well as on national, or country-level indicators (Gray et al., 1995; Artiachet al., 2010). In addition, country-level indicator, such as HDI, CPI, and BPI (Vaiman et al., 2011; Cornachione et al., 2008; Lee & Carter, 2011; Jensen & Berg, 2012), as well as the country origin of law (Dragu & Tudor-Tiron, 2014; Jensen & Berg, 2012), or GDP (Jensen & Berg, 2012), and not least market capitalization (Jamali et al., 2008), are often correlated with sustainability and CSR disclosure in corporate literature.

Both institutional theory and legitimacy theory show presumption of certain impact that external factors have on corporate disclosure. Further on, the political factors (represented by the variables of country and law of origin) can represent the coercive side of the institutional theory and be completed by the legitimate of the state, or legitimacy theory (Jensen & Berg, 2011). There are other indicators that maintain external influence on the organizations and the level of disclosure from their annual reports. CPI (Corruption Perception Index) is a national level indicator ranking the states according to the degree of corruption from the public sector[1].

The introduction of financial indicators in our model as influencing variables is based on the positive accounting theory (Guidry & Patten, 2012; Ohlson, 1980; Setyorini & Ishak, 2012). This relates to one of the principles stipulated in the PAT- positive accounting theory that suggests non-financial disclosure means increase in firm performance and profitability, and automatically- high bonuses for managers (Banwarie, 2011; Robert, 1992; Chan, 2003; Barako

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