The Impact of Integrated Reporting on Organizational Financial Performance in Sri Lankan Listed Companies

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Abstract

Integrated Reporting (IR) explains how the organization creates value over time reflects a new reporting dimension in current financial reporting practice. Recently, it has been shown that in Sri Lankan reporting context exhibits a high rate of adopting IR. Extant studies have found that the adoption of IR impacts on the financial performance of companies. However, the findings of previous studies are debatable, and hence this study aims to examine the impact of IR on the financial performance of Sri Lankan listed companies. This study first developed IR Score (IRS) to assess the level of integrated reporting compliance, which is based upon the content element and guiding principle of the International Integrated Reporting Council. The IR scores are considered as the independent variable of the study and which is developed by the researcher focusing on content elements and guiding principles of the IR framework. Financial performance is considered as the dependent variable where Earnings per Share (EPS), Return on Assets (ROA), Return on Equity (ROE), and Tobin’s Q are used as the measures, and size of the firm is used as the control variable of the study. The sample of the study was 60 integrated reporting adopted companies and data over a period of three years from 2017 to 2019. Descriptive, correlation and panel regression analyses were used to analyse the data. It was found that the impact of content elements on EPS, ROA, ROE, and Tobin’s Q are insignificant. It further found that the impact of guiding principles on Tobin’s Q is significant while the impact on other variables (EPS, ROA, ROE) is insignificant. The findings imply that in the Sri Lankan context, still this new reporting dimension has not been generated benefits to the companies, but the market recognizes it well.

Keywords: Content element, financial performance, guiding principle, integrated reporting