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The Impact of Integrated Reporting Practices on Firm Value Evidence from Listed Companies in Sri Lanka

K THARUSHI SANDEEPANI & HIMAL MUTHUNAYAKE

ABSTRACT

This study examines the impact of Integrated Reporting (IR), specifically based on the content elements guided by the International IR Framework (IIRF), on the firm value of companies listed on the Colombo Stock Exchange, where the adoption of IR is a voluntary exercise. This study bridges the research gap on the impact of IR practices on firm value, particularly in the context of an emerging economy like Sri Lanka. The analysis spans 2022 to 2024, and utilizes secondary data from the annual reports of forty-one publicly listed companies (PLCs) on the Colombo Stock Exchange, with a total of 123 annual integrated reports examined and measured through content analysis using an IR index. Firm value was assessed using Tobin's Q. The regression analysis indicated that governance-related disclosures show a statistically significant positive association with firm value, while other IR content elements do not demonstrate significant effects. This research contributes to the understanding of IR's effectiveness in emerging economies such as Sri Lanka, and calls for stronger regulatory frameworks to enhance the adoption and impact of IR.

Keywords: IR framework; content elements; firm value; emerging economies; Sri Lanka; voluntary nature

INTRODUCTION

Following the impact of the financial crisis of 2008, business investors and other stakeholders could no longer be satisfied with corporate reporting using complicated and antiquated reporting methodologies. To address the limitations of fragmented reporting approaches, companies began publishing single integrated reports that provided a holistic view of a company's performance and its ability to create value over time by combining reports on financials, management, corporate governance, remuneration policy, and sustainability (García-Sánchez et al. 2013). This concept extends beyond traditional financial reporting to include corporate reporting, which encompasses how value is created, maintained, and communicated to investors and other stakeholders. The need for such comprehensive reporting has become increasingly important in mitigating information asymmetry and agency conflicts between managers and investors, and thereby supporting efficient capital markets (Healy & Palepu 2001).

Integrated reporting (IR) originated in South Africa, where the King Code of Corporate Governance Principles was released in 1994 (Dumay et al. 2016). The International Integrated Reporting Council (IIRC) then formalized the IR framework in 2013, providing a structured approach for companies to adopt. According to the IIRC (2013), an integrated report is defined as a 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 time. The primary objective of the IR framework is to ensure that the preparation and presentation of an integrated report is guided by a set of "guiding principles" that specify the information to be included in the report, and how it should be presented. This necessary information is presented in the form of eight "content elements" which are inherently connected. It is important to highlight the connections between these content elements when presenting such information. The guidelines and requirements in the IIRF are further supported and strengthened by the "fundamental concepts".

TABLE 1. IIRF guidelines based on the IIRC 2013

Guiding Principles	Content Elements	Fundamental Concepts
Strategic focus and future orientation	Organizational overview and external environment	Value creation for the organization and others
Connectivity of information	Governance	The six capitals:
Stakeholder relationships	Business model	- Financial capital
Materiality	Risks and opportunities	- Manufactured capital
Conciseness	Strategy and resource allocation	- Intellectual capital
Reliability and completeness	Performance	- Human capital
Consistency and comparability	Outlook	- Social and relationship capital
	Basis of preparation and presentation	- Natural capital

Content elements are fundamentally linked to each other and are not mutually exclusive. The content of an organization's integrated report will depend on the individual circumstances of the organization. The content elements are therefore stated in the form of questions rather than as checklists of specific disclosures (IIRC, 2013, section 4.2 and 4.3).

1. Organizational overview and external environment: *"What does the organization do and what are the circumstances under which it operates?"*
   An IR should identify the organization's mission and vision; its culture, ethics and values; ownership and operating

structure; principal activities and markets; competitive landscape and market positioning; and value chain.

2. Governance: "*How does the organization's governance structure support its ability to create value in the short, medium, and long term?"*
   An IR presents the organization's leadership structure, identifying the authorities charged with governance and regulatory requirements, specific processes used to make strategic decisions, and to establish and monitor the culture of the organization.
3. Business model: "*What is the organization's business model?"*
   The core concept of an IR, an organization's business model is its system of transforming inputs, through business activities, into outputs and outcomes, and aims to fulfil the organization's strategic purposes and create value over the short, medium, and long term.
4. Risks and opportunities: "*What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium, and long term, and how is the organization dealing with them?"*
   An IR identifies the key firm-specific risks and opportunities, including those that relate to the organization's effects on relevant capitals, and their continued availability, quality, and affordability, in the short, medium, and long term.
5. Strategy and resource allocation: "*Where does the organization want to go and how does it intend to get there?"*
   An IR generally identifies an organization's short-, medium-, and long-term strategic objectives. It also details the strategies and resource allocation plans designed to achieve these objectives.
6. Performance: "*To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?"*
   An IR contains both qualitative and quantitative information that captures an organization's overall performance, including quantitative indicators, effects on capitals, stakeholder relationships, and performance linkages.
7. Outlook: "*What challenges and uncertainties are the organization likely to meet in pursuing its strategy, and what are the potential implications for its business model and future performance?"*
   An integrated report ordinarily highlights anticipated changes over time. It provides critical information, based on sound and transparent analysis, about the expected effects of the external environment on the organization in the short, medium, and long term, and explicitly details how it intends to respond to the critical challenges and uncertainties likely to arise.
8. Basis of presentation: "*How does the organization decide what matters to include in the integrated report, and how are such matters quantified or evaluated"?*
   An IR elaborates its basis of preparation and presentation, including a summary of the organization's materiality determination process, a description of the reporting boundary, how it has been determined, and a summary of the significant frameworks and methods used to quantify or evaluate material matters.

Any organization's primary objective is to enhance the value and wealth of its shareholders (Gharaibeh & Qader 2017). According to section 2.4 of the IIRF, "Value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs" (IIRC 2013). An organization can create value for itself by engaging in a wide range of material activities, interactions, and relationships (IIRC 2013). IIRF section 2.20 illustrates how the value creation process aligns with the content elements.

Despite the increasing global adoption of IR, empirical evidence on its impact on firm value remains inconclusive. Prior studies have produced mixed results, reporting positive, negative, and insignificant relationships between IR practices and firm performance. Moreover, existing literature is heavily concentrated on developed economies such as Europe and North America, and particularly South Africa, where IR adoption is mandatory. These regions dominate IR research due to stronger regulatory frameworks and longer reporting histories (Caraiani et al. 2018).

In contrast, there is a notable deficiency in research focusing on emerging economies, despite their distinct institutional, regulatory, and market conditions. Sri Lanka represents a particularly relevant context, as IR adoption remains voluntary and uneven across industries; however, a majority of local research has focused on the Banking and Finance sector (Fernando & Jeewanthi 2021).

Despite the increasing uptake of IR in Sri Lanka, a comprehensive understanding of its long-term impacts, stakeholder perspectives, and the specific challenges faced by various sectors is lacking. Prior studies have mainly provided a foundational understanding of the IR framework's components and their implications for reporting practices. For instance, researchers such as Vajra and Imthiyas (2024), Herath et al. (2019), and Sooriyaarachchi and Gamage (2019) have conducted comprehensive reviews of external reporting and sustainability reporting, while addressing the fundamental background of the IR framework.

However, the relationship between IR practices and financial performance remains ambiguous. Although several studies have examined aspects related to performance measurement, they have not significantly advanced the understanding of how IR practices influence firm value. Moreover, the lack of comparative and longitudinal studies further limits the ability to draw robust conclusions on the effectiveness of IR, particularly in emerging market contexts. Thus, this study is conducted to achieve the following research objectives:

1. Examine how IR practices affect the value of publicly listed companies in Sri Lanka.
2. Identify the key elements that contribute most significantly to firm value in Sri Lanka.

LITERATURE REVIEW

IR is a framework which aims to give stakeholders a comprehensive and holistic view of an organization's performance. IR aims to enhance current reporting methods by evaluating an organization's significance through collaboration, consultation, and experimentation (Baharudin et al. 2020). Extending beyond simple compliance and towards a more comprehensive understanding of performance, IR serves as a key driver in formalizing and improving current procedures.

The International Integrated Reporting Framework (IIRF) highlights that value creation is not an isolated process but the result of interactions between various "capitals" (financial, manufactured, intellectual, human, social and relationship, and natural). (International IR Council 2013). Section 2.20 of the IIRF evaluates the value creation process through interconnected Content Elements—ranging from the organizational overview to the future outlook—signalling long-term sustainability to investors. However, while the framework provides the "what" and "how" of reporting, its effectiveness is often dictated by the underlying organizational culture and "integrated thinking".

While the External Environment sets the context within which the organization operates, Governance provides an appropriate oversight structure to support the organization's ability to create value. As the core of the organization, the Business Model draws on various capitals as inputs and, through its business activities, converts them into outputs. Continuous monitoring and analysis of the external environment in the context of the organization's mission and vision identifies Risks and Opportunities relevant to the organization, its strategy, and its business model. The organization's Strategy identifies how it intends to mitigate or manage risks and maximize opportunities through Resource Allocation plans. Meanwhile, generating required information on the organization's Performance for decision-making purposes involves establishing measurement and monitoring systems. The value creation process is not static; it requires regular review of each component and its interactions with other components, and a focus on the organization's Outlook, leading to revisions and further refinement of all the components.

The adoption of IR is grounded in two primary theories: Stakeholder Theory and Signalling Theory. Stakeholder Theory emphasizes the interdependent relationships that exist between a company and its internal and external stakeholders. Vitolla and Raimo (2018) note that stakeholder pressure is typically a key factor in IR. This is particularly relevant in emerging economies with less developed corporate governance frameworks, where IR can guide ethical and sustainable operations.

From a Signalling Theory perspective, IR is a tool to reduce "information asymmetry" between managers and investors (Lee & Yeo 2016). The focus on management processes and strategy exchange within IR influences internal procedures like performance evaluation, thereby increasing organizational value. However, while Songini et al. (2023) argue that IR improves internal decision-making and performance evaluation, others suggest that in markets with weak enforcement, IR may be used as a "greenwashing" tool, where the form of the report is prioritized over the substance of actual value creation.

The implementation of IR varies significantly across different regulatory environments. South Africa stands out as a pioneer, being the first country to mandate IR for companies listed on the Johannesburg Stock Exchange to align with the King III Report on Corporate Governance. (Lee & Yeo 2016). While not mandatory in the United Kingdom, the regulatory environment there actively encourages its adoption, prompting research into early adopters (Akhter & Ishihara 2018). Other countries, including Japan, Brazil, Mexico, and Spain, have also observed significant increases in IR adoption (KPMG 2017).

Research on IR practices, however, has primarily focused on developed nations, leaving a gap in studies from emerging economies such as Bangladesh, China, Indonesia, and India. In the Asian region, voluntary disclosure is common, yet market participants often still rely heavily on traditional financial indicators and technical analysis (Alatawi & Daud 2022). This demonstrates that many Asian stakeholders have yet to embrace and adopt IR. As Abhishek and Divyashree (2019) concluded, while IR holds significant value as a tool for companies to gain a competitive advantage, regulatory frameworks are necessary to drive its adoption.

This is especially important in emerging economies with less developed corporate governance frameworks, as IR can be a useful guide for ethical and sustainable company operations (Sooriyaarachchi 2018). IR's focus towards management and facilitation of the development and exchange of strategies impacts internal procedures such as performance evaluation and adds value (Songini et al. 2023).

Despite the rapid implementation of IR practices in Sri Lanka, limited research has been conducted in this area (Gunarathne & Senaratne 2017). Existing studies have primarily focused on the banking and finance sectors. Cooray et al. (2020) specifically investigate the impact of IR on the value relevance of information. Further, Haleem et al. (2020) note that IR in banks affects and enhances the value relevance of organizational capital to a certain extent. These studies provide critical insights into the unique dynamics of the Sri Lankan banking sector and how IR practices may contribute to or impede the value-creation process.

However, the successful adoption of IR in Sri Lanka appears to be linked to existing organizational culture. Companies that have successfully integrated this contemporary practice are often those that had already prioritized non-financial disclosure and "integrated thinking" prior to formal IR adoption.

The relationship between IR and business performance remains complex and context-dependent, with no generally accepted global regulation governing this link; it varies depending on the cultural and economic context (Alatawi & Daud

2022). Some studies indicate a significant association between IR practices and corporate sustainability characteristics (Kılıç & Kuzey 2018). Furthermore, Salvi et al. (2020) found that the implementation of IR practices enhanced stakeholder engagement activities, improved external reporting quality, and increased document readability. Despite these qualitative benefits, the financial implications remain ambiguous in developing economies. Therefore, this study bridges this gap by explicitly examining whether the voluntary adoption of the eight IIRF content elements translates into measurable firm value (Tobin's Q) in a non-mandatory, emerging market context.

RESEARCH METHODOLOGY

This study adopted a quantitative approach due to the methodical examination of events. It used a descriptive research design, quantitative data collection, and analytical, statistical or computational methods (Fernando & Jeewanthi 2021).

OPERATIONALIZATION OF VARIABLES

The independent variable was measured using an IR scoring index based on the 38 disclosure items classified under the eight content elements of the IIRC Framework. Due to the lack of clear theoretical guidance, each of the eight content elements in the IR framework was assigned equal weight when calculating the overall index score (Lee & Yeo 2016). A checklist was used to examine the extent of adoption of the 38 disclosure items (Annexure 01). Each element was evaluated by examining the disclosures in the financial statements of selected companies from 2022 to 2024. Following Cooray et al. (2020), a non-weighted disclosure approach was adopted, and each company received a score ranging from 0 to 74, depending on its level of disclosure (Annexure 02).

The chosen dependent variable, Tobin's Q, provides an accurate measure of firm value, bridging financial market valuation with asset-based evaluation. Tobin's Q is a widely recognized market-based metric that effectively measures firm value, reflecting different aspects of investment opportunities and growth potential. Calculated as the ratio of the market value of a company's assets to their replacement cost, it indicates how well the market assesses a firm's assets in relation to their actual cost. A Tobin's Q value greater than one indicates that the market values the firm higher than its asset replacement cost, signalling growth potential and strong investor confidence.

To ensure the robustness of the regression model and isolate the impact of IR, this study incorporated sales growth (SG) and return on assets (ROA) as control variables. ROA captures a firm's operational efficiency and profitability, which are commonly associated with market valuation, while SG reflects a firm's growth potential and market expansion. Controlling these variables helps minimize omitted variable bias and ensures that the observed relationship between IR practices and firm value is not driven by underlying profitability or growth performance.

The conceptual framework was modelled on the IIRC Framework. The independent variable comprised IR Practices, and was evaluated using the eight content elements of the IIRF. The dependent variable, Firm Value, was evaluated based on key financial metrics that encompass various aspects of a company's market sentiment and financial performance.

HYPOTHESIS DEVELOPMENT

Based on the argument advanced in the above-mentioned literature, the hypotheses of this study were developed as follows:

H_1 There is a statistically significant impact of IR on Tobin's Q of the publicly listed companies in Sri Lanka.

H_{2a} There is a statistically significant impact of the Organizational overview and external environment element on the value of publicly listed companies in Sri Lanka.

H_{2b} There is a statistically significant impact of the Business model element on the value of publicly listed companies in Sri Lanka.

H_{2c} There is a statistically significant impact of the Risks and opportunities element on the value of publicly listed companies in Sri Lanka.

H_{2d} There is a statistically significant impact of the Strategy and resource allocation element on the value of publicly listed companies in Sri Lanka.

H_{2e} There is a statistically significant impact of the Governance element on the value of publicly listed companies in Sri Lanka.

H_{2f} There is a statistically significant impact of the Performance element on the value of publicly listed companies in Sri Lanka.

H_{2g} There is a statistically significant impact of the Outlook element on the value of publicly listed companies in Sri Lanka.

H_{2h} There is a statistically significant impact of the Basis of presentation element on the value of publicly listed companies in Sri Lanka.

The population for this study was drawn from listed companies on the Colombo Stock Exchange (CSE). This approach was inspired by Cooray et al. (2020), and tailored to meet the specific objectives of the current study. The purposive

sampling method ensured the selection of companies that consistently prepared integrated reports compliant with the IIRF over the specified period.

The final sample comprised 41 companies from different industries (Annexure 03) which prepared integrated reports according to the IIRF over three consecutive years, from 2022 to 2024. The sample represented diverse sectors, such as manufacturing, consumer services, food and beverage, and diversified financials. The banking, insurance and telecommunication industries were deliberately excluded from the sample due to their unique characteristics and high regulatory alignment.

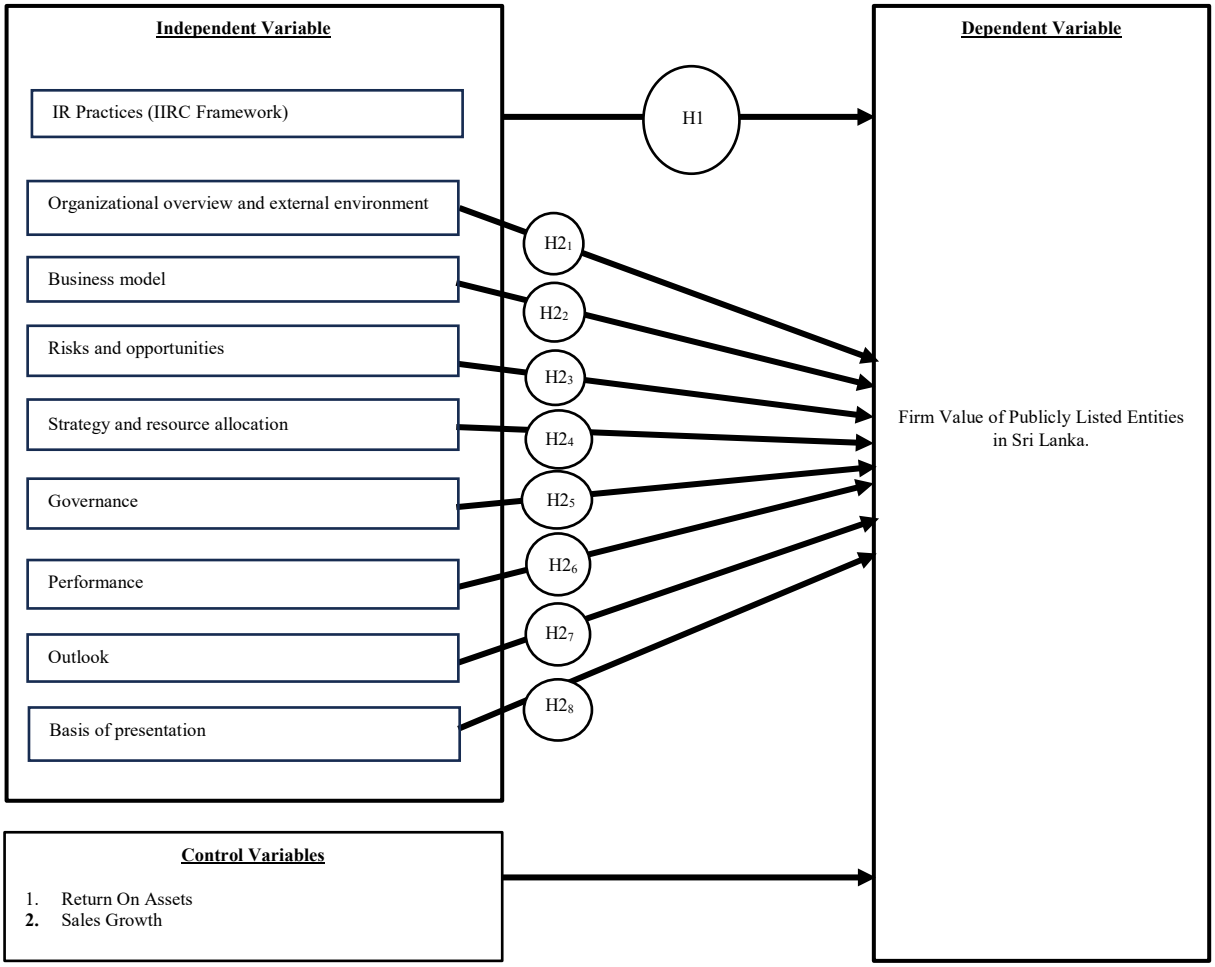


FIGURE 1. Conceptual framework

MODEL SPECIFICATION

There is a statistically significant relationship between IR and Tobin's Q of the publicly listed companies in Sri Lanka— this relationship was explored using regression analysis with the following model:

$$Tobin\ Q_{it} = \alpha + \beta_1 IR_{it} + \beta_2 ROA_{it} + \beta_3 SG_{it} + \varepsilon_{it}$$

Tobin Q: Tobin's Q Ratio
IR: IR Disclosure Score
ROA: Return on Assets
SG: Sales Growth
i = individual company
t = time period
α: Constant Value
β: Regression coefficient
ε: Random Error

RESULTS & DISCUSSION

Value-relevant information disclosed by firms may require time to be incorporated into market valuations due to reporting and market reaction lags (Cooray et al. 2020). Accordingly, the study considers the timing of IR disclosures and firm value to account for potential delays in the market's incorporation of reporting information into share prices. This approach allows sufficient time for investors to process the disclosed information and for its potential effects to be reflected in firm valuation.

TABLE 2. Summary of descriptive statistics

No. of Observations: 123					
	Mean	Median	SD	Maximum	Minimum
IR	45.93	46.00	8.36	65.00	28.00
TOBIN Q	0.515	0.413	0.440	1.961	0.013
SG	0.094	0.193	0.607	3.791	-0.86
ROA	0.294	0.03	0.206	1.763	-0.17

Table 2 presents the descriptive statistics for the study variables based on 41 publicly listed companies. The mean IR disclosure is 45.9268, with a median of 46.0000 indicating that the average level of IR is moderate and relatively symmetrically distributed. The range of scores spans from a minimum of 28.000 to a maximum of 65.0000, demonstrating notable variability in IR practices across different companies. With a standard deviation of 8.3560, the dispersion is moderate, implying that while scores vary, they do not significantly deviate from the mean.

Regarding the dependent variable, Tobin's Q ratio, the average market valuation relative to assets was 0.5158, with values ranging from 0.0135 to 1.9613. This variation reflects differences in market perceptions of firm value across the sample. This may reflect macroeconomic instability, investor uncertainty, and weakened market confidence during the study period, particularly in the Sri Lankan context.

As shown in Table 2, the mean ROA of 0.2948 indicates that, on average, companies generate a return on their total assets. This moderate level of profitability reflects the economic challenges faced by many companies, particularly in the aftermath of the pandemic, which were further compounded by the ensuing economic downturn in Sri Lanka. This diversity in ROA underscores the differing capacities of companies to generate returns from their assets in a challenging economic environment. The average SG of 0.0941 demonstrates robust growth across the sample companies.

TABLE 3. Coverage of disclosures

Content Element	2022				2023				2024			
	Max.	Actual	%	Rank	Max.	Actual	%	Rank	Max.	Actual	%	Rank
ORG	574	334	58%	6	574	346	60%	5	574	364	63%	4
GOV	492	360	73%	2	492	364	74%	2	492	379	77%	2
BM	410	346	84%	1	410	347	85%	1	410	334	81%	1
R_O	328	200	61%	5	328	201	61%	4	328	197	60%	6
S_RA	246	111	45%	8	246	100	41%	8	246	101	41%	8
PFM	492	302	61%	4	492	294	60%	6	492	303	62%	5
OL	164	108	66%	3	164	108	66%	3	164	107	65%	3
BPP	205	115	56%	7	205	110	54%	7	205	114	56%	7

Note. Maximum Score = Maximum score of each content element * 41 companies.
Maximum Score of each content element has been shown in Annexure 02.

Table 3 presents the coverage of IR content elements over a three-year period (2022–2024). Among the eight content elements, business model (BM) and governance (GOV) consistently demonstrate the highest levels of disclosure across all three years. The prominence of these elements underscores their importance in corporate communication, as they address the core aspects of a company's value creation mechanisms and governance structures, which are crucial for stakeholders to assess organizational resilience and long-term sustainability.

GOV disclosures are likely driven by mandatory regulatory requirements, including the CSE Listing Rules and the Code of Best Practice on Corporate Governance, whereas BM disclosures reflect firms' efforts to communicate strategic positioning and operational logic. In contrast, strategy and resource allocation (S_RA) and basis of presentation (BPP) exhibit the lowest disclosure levels, suggesting weaker attention to stakeholder engagement and reporting transparency.

TABLE 4. Correlation matrix

Correlation Probability	ORG	GOV	BM	BPP	OL	PFM	R_O	S_RA	TOBIN Q
ORG	1								
GOV	0.33	1							
BM	0.26	0.373	1						
BPP	0.2	0.102	0.432	1					
OL	0.3	0.227	0.393	0.43	1				
PFM	0.09	0.483	0.328	0.22	0.353	1			
R_O	0.2	0.275	0.316	0.25	0.453	0.27	1		
S_RA	0.28	0.301	0.405	0.52	0.55	0.47	0.28	1	
TOBIN Q	0.01	-0.02	-0.04	0.16	-0.05	0.13	0.04	0.108	1

The correlation matrix presented in Table 4 reveals substantial positive associations between the integrated reporting components (0.102 to 0.550), but weak correlations with Tobin's Q (-0.048 to 0.157). All correlation coefficients are below 0.80, indicating that the independent variables are not highly correlated with one another. This, together with the VIF results, suggests that multicollinearity is not a significant concern in the regression model

TABLE 5. Regression analysis

Variable	Coefficient	Std. Error	*t*	*p*
Intercept	0.375	0.299	1.253	0.213
IR	0.003	0.006	0.483	0.629
ROA	0.138	0.164	0.842	0.402
SG	-0.062	0.034	-1.794	0.076

Table 5 presents the regression analysis examining the impact of IR practices on firm value (Tobin's Q). The results indicate that the coefficient for IR practices is 0.0031 with a *p*-value of 0.6299, denoting a statistically insignificant relationship. Accordingly, IR practices do not exert a significant impact on firm value during the sample period.

The formula for firm value can be forecasted as below:

$$Tobin\ Q_{it} = 0.3755 + 0.0031IR_{it} + 0.1382ROA_{it} - 0.0622SG_{it} + \varepsilon_{it}$$

As control variables, neither ROA nor SG significantly impacted firm value. ROA has a coefficient of 0.1382, suggesting a positive, albeit statistically insignificant, relationship with firm value (*p*-value: 0.4021). SG shows a negative coefficient of 0.0622 with a *p*-value of 0.0767, indicating that SG contributes negatively to firm value and lacks statistical significance. According to Pathiraja and Priyadarshanie (2018), ROA exhibited a negative insignificant relationship with firm value, while sales showed a positive significant relationship.

TABLE 6. R-Squared & F-statistic analysis

Cross-Section fixed (dummy variables)	
R-squared	0.8911
Adjusted R-squared	0.8318
F Statistics	15.0274
Prob (F-Statistic)	0.0000
Durbin-Watson stat	2.3568

Table 6 reports the model's goodness-of-fit statistics. The R-squared value of 0.8911 indicates that approximately 89.11% of the variation in firm value is explained by the independent variables and firm fixed effects.

The adjusted R-squared value of 0.8318 further reinforces this finding, because it accounts for the number of predictors in the model and the potential for R-squared inflation caused by the inclusion of multiple variables. The F-statistic value of 15.0274 and its associated *p*-value of 0.0000 highlight the overall significance of the regression model. This indicates that the model is a good fit for the data, and the explanatory variables included in the model contribute meaningfully to explaining the variations in firm value.

TABLE 7. Regression analysis for content elements

Variable	Coefficient	Std. Error	t-Statistic	*p*
ORG	0.0384	0.0181	2.1244	0.057
GOV	0.1217	0.0434	2.7993	0.006
BM	-0.0197	0.0183	-1.0804	0.283
BPP	-0.0056	0.0534	-0.1060	0.915
OL	0.0378	0.0491	0.7689	0.444
PFM	-0.016	0.0225	-0.723	0.471
R_O	0.0608	0.0365	1.6650	0.100
S_RA	-0.0637	0.0347	-1.8345	0.070

As shown in Table 7, the majority of individual content elements fail to exert a statistically significant impact on firm value at the 5% significance level, whereas GOV demonstrates statistical significance (p = 0.0066), suggesting that governance-related disclosures play a more influential role in shaping investor perceptions.

Examining the coefficients of the content elements revealed mixed impacts on firm value. Content elements such as BM, BPP, S_RA, and PFM (performance) are largely statistically insignificant, indicating that investors may not yet fully incorporate non-financial disclosures into valuation decisions.

HYPOTHESIS TESTING

TABLE 8. Summary of hypothesis testing

	Hypothesis	Status
H_1	There is a statistically significant impact of IR on Tobin's Q of the publicly listed companies in Sri Lanka	Rejected
H_{2a}	There is a statistically significant impact of the Organizational overview and external environment element on the value of publicly listed companies in Sri Lanka	Rejected
H_{2b}	There is a statistically significant impact of the Business model element on the value of publicly listed companies in Sri Lanka	Rejected
H_{2c}	There is a statistically significant impact of the Risks and opportunities element on the value of publicly listed companies in Sri Lanka	Rejected
H_{2d}	There is a statistically significant impact of the Strategy and resource allocation element on the value of publicly listed companies in Sri Lanka	Rejected
H_{2e}	There is a statistically significant impact of the Governance element on the value of publicly listed companies in Sri Lanka	Accepted

H_{2f}	There is a statistically significant impact of the Performance element on the value of publicly listed companies in Sri Lanka	Rejected
H_{2g}	There is a statistically significant impact of the Outlook element on the value of publicly listed companies in Sri Lanka	Rejected
H_{2h}	There is a statistically significant impact of the Basis of presentation element on the value of publicly listed companies in Sri Lanka	Rejected

Table 5 reveals that the *p*-value for the independent variable, IR Practices, exceeded the threshold of 0.05, indicating a lack of statistical significance at the 95% confidence level. Consequently, the first hypothesis (H_1) is rejected, and it is concluded that IR Practices do not have a significant impact on Tobin's Q, the proxy used for firm value in this study.

Table 7 examined the impact of individual content elements of IR on firm value, measured using Tobin's Q. The results indicated that except for GOV, none of the content elements individually exert a statistically significant impact on Tobin's Q. Consequently, excepting one, all first hypotheses were rejected. This suggests that governance-related disclosures hold a unique and significant role in influencing firm value, whereas other disclosure elements may not exert a measurable effect within the Sri Lankan corporate context.

DISCUSSION

The findings of this study provide important insights into the impact of IR practices on firm value within the Sri Lankan context, revealing both challenges and opportunities for future research. The study reveals that IR practices do not have a statistically significant impact on firm value, as measured by Tobin's Q. This finding contrasts with the conclusions of other global studies, which often suggest that IR enhances firm valuation through improved corporate communication and transparency (Cooray et al. 2020; Lee & Yeo 2016). Although IR aims to provide integrated insights and enhance transparency, these benefits have not yet translated into measurable improvements in firm value in Sri Lanka.

One possible explanation for the lack of significance is the voluntary nature of IR adoption in Sri Lanka. Voluntary reporting often leads to inconsistent and fragmented practices, which dilute the potential impact of IR on firm value. This differs from contexts such as South Africa, where IR adoption is mandatory and supported by strong regulatory frameworks. Prior studies conducted in South Africa report a positive association between IR and firm value, largely attributed to the structured and consistent implementation of IR practices (Lee & Yeo 2016; Barth et al. 2017). These findings underscore the importance of regulatory frameworks in maximizing the potential benefits of IR.

Additionally, the limited impact of IR on firm value may be linked to the relatively short sample period considered in this study. This is consistent with Cooray et al. (2020), who also found an insignificant impact in studying a three-year period. In contrast, Fernando and Jeewanthi (2021) found a significant relationship between IR practices and firm value over a longer, six-year period. Considering the short-term period, this analysis does not provide a realistic view of IR adoption. IR aims to enhance corporate communication and support value creation over the short, medium, and long term; however, this objective often does not align with the priorities of short-term stakeholders. Caraiani et al. (2018) agree that IR disclosures may not necessarily be more effective in communicating company performance to those focused on immediate returns, indicating a potential mismatch between IR goals and stakeholder expectations in the short term.

Another critical observation is the lack of disclosure on material issues, key risk indicators, and competitive landscape by some companies. These omissions weaken the communication value of IR and hinder its effectiveness in addressing stakeholder expectations. Prior research emphasizes that the effectiveness of IR largely depends on stakeholder engagement and the relevance of disclosed information (Caraiani et al. 2018). Without adequately addressing material matters, IR practices risk becoming symbolic rather than decision-useful.

From a Sri Lankan institutional perspective, the CMA (Institute of Certified Management Accountants) has been conducting the "CMA Excellence in Integrated Reporting Awards" annually to evaluate the disclosures of IR and promote "integrated thinking" among companies. The recognition of companies such as Diesel & Motor Engineering PLC, Softlogic Life Insurance PLC, National Development Bank, L B Finance PLC, and John Keells Holdings PLC reflects growing awareness and adoption of IR best practices. Notably, several of these firms also emerged as top performers within their respective industries in this study, lending partial support to the credibility of the findings. However, despite these initiatives, the overall impact of IR on firm value remains mixed.

Investor behaviour may also contribute to the limited value relevance of IR in Sri Lanka. Evidence from prior studies suggests that investors in emerging markets tend to rely more heavily on traditional financial information and quantitative indicators, while placing less emphasis on non-financial disclosures (Hsiao & Kelly 2018; Campbell & Slack 2011). This limited recognition of non-financial information may reduce the perceived usefulness of IR disclosures in investment decision-making.

Furthermore, disparities in the maturity of reporting frameworks pose challenges to effective IR implementation. While financial reporting in Sri Lanka is governed by well-established accounting standards, governance and sustainability reporting operate under different levels of regulatory enforcement. Sustainability reporting remains largely voluntary and transitional. This imbalance undermines the integrated nature of IR, as its effectiveness depends on the coherent integration of finance, governance, and sustainability information.

CONCLUSION

The findings of this study indicate that, while IR is increasingly adopted globally, its overall impact on the firm value of Sri Lankan companies remains statistically insignificant. Although the estimated coffient is positive, the lack of statistical significance suggests that Sri Lankan investors may not yet fully integrate or value IR disclosures within their valuation models (Fernando & Jeewanthi 2021).

The limited impact can be attributed to the nascent stage of IR adoption in Sri Lanka. As a voluntary exercise, IR adoption currently suffers from inconsistencies in reporting quality, which complicates cross-firm comparisons. As noted in Pathiraja and Priyadarshanie (2018) many Sri Lankan companies focus more on the form of IR reports rather than the content, a conclusion that is confirmed by the findings of this study. Rajapaksha and Kehelwalatenna (2022) point out that the process of embedding IR into the corporate culture of Sri Lankan firms is still underway. Furthermore, the findings indicate that IR in Sri Lanka does not yet align with the theoretical frameworks of Stakeholder Theory or Signalling Theory (Cooray et al. 2020). Rather than signalling strategic value creation, companies often use IR as a platform to display existing activities in a visually appealing format (Rinaldi et al. 2018), lacking the depth required to influence investor decision-making.

The core contribution of this research is the empirical evidence that governance remains the most critical driver of firm value within the IR framework in Sri Lanka. This is most likely driven by regulatory requirements and the critical role of transparency in corporate practices. For Sri Lankan firms, the Code of Best Practice on Corporate Governance (2017) has been a cornerstone document, guiding companies on best practices. Approximately 60% of publicly listed and larger companies actively adopt this framework, recognizing its value in maintaining investor trust and operational integrity. Moreover, since April 2008, the CSE Listing Rules have mandated corporate governance reporting for listed companies, ensuring compliance and alignment with broader stakeholder expectations (Senaratne 2011). Beyond IR, companies are required to submit dedicated Corporate Governance Reports under this framework, reflecting the importance placed on governance as a key pillar of organizational success. This mandatory focus on governance underscores its prominence within integrated reports, ensuring companies demonstrate accountability, ethical practices, and risk management strategies effectively.

This study contributes to existing literature by extending empirical evidence on IR from a developing economic context where IR adoption remains voluntary and uneven across industries. Unlike prior studies that predominantly focused on developed markets or highly regulated environments, this research provides sector-diversified evidence from Sri Lanka, thereby addressing a significant contextual and empirical gap. The findings offer nuanced insights into why IR has not yet translated into firm value enhancement, emphasizing the importance of regulatory maturity, disclosure quality, and investor awareness in realizing the intended benefits of IR.

While IR presents a promising framework for enhancing corporate transparency and value creation, its current impact on firm value in Sri Lanka remains limited. Although IR has the potential to foster greater stakeholder engagement and long-term value creation, its current implementation in Sri Lanka appears to fall short of expectations, primarily due to the quality and comprehensiveness of disclosures. Therefore, it is crucial for Sri Lankan companies to refine their IR practices by focusing not only on compliance with form but also on the substance of disclosures, ensuring that the framework aligns with the needs of both stakeholders and the broader market. Moving forward, a more structured approach, supported by stronger regulatory frameworks and a deeper institutional commitment to IR, is essential for realizing the full potential of IR in enhancing firm value.

From a broader national perspective, the findings suggest that Sri Lanka is currently in a transitional phase of IR adoption, where awareness and symbolic compliance outweigh substantive value-oriented reporting. While initiatives by professional bodies such as the Institute of Chartered Accountants of Sri Lanka (CA) and the CMA Institute have played a vital role in promoting IR awareness, the absence of binding regulatory enforcement limits its effectiveness as a value-relevant reporting mechanism. Strengthening institutional support and harmonizing IR with emerging sustainability standards could position Sri Lanka to better leverage IR as a strategic tool for long-term value creation.

IMPLICATIONS OF THE STUDY

The findings of this study offer several vital implications for practitioners, policymakers, and future researchers demonstrating that the adoption of IR requires careful execution to successfully impact firm value. For practitioners, the study emphasizes the importance of focusing on the quality and relevance of disclosures rather than merely adhering to the formal requirements of the IR framework. Companies should ensure that the content of their reports aligns with both stakeholder expectations and the minimum requirements set by reporting bodies like the IIRF. Policymakers should consider implementing mandatory guidelines or a regulatory framework for IR practices, akin to South Africa. Standardized requirements would minimize variability in disclosures and improve comparability across industries, making it easier for stakeholders to assess the value generated by companies.

There is insufficient awareness among investors and equity analysts; consequently, IR information is not yet being prioritized over traditional financial indicators, third-party information, and technical analysis in corporate reporting practices (Nurkumalasari et al. 2019). This highlights the need for the Securities and Exchange Commission (SEC) and the

Colombo Stock Exchange to refine their guidelines and encourage greater adoption of IR as promoted by the CMA Institute. The lack of widespread adoption and investor engagement with IR may be contributing to the statistically insignificant impact observed in this study, where IR practices have not yet demonstrated a significant positive effect on firm value in the Sri Lankan context. Policymakers should consider providing clear guidelines and incentives to help organizations improve the depth, quality, and relevance of their disclosures. This would help mitigate the risks of greenwashing and incomplete reporting while ensuring that IR frameworks effectively capture the full scope of value creation.

In particular, the newly adopted sustainability frameworks, such as the GRI (Global Reporting Initiatives) Standards, and the mandatory SLFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and SLFRS S2 (Climate-related Disclosures), are instrumental in aligning corporate environmental, social, and governance (ESG) practices with global sustainability objectives. By aligning the IR practices in Sri Lanka with these globally recognized standards, the study suggests that businesses will be better equipped to meet both local and international sustainability expectations. Building on these efforts, in 2016, CA Sri Lanka established the IR Council of Sri Lanka under the guidance of the International Integrated Reporting Council (IIRC). This initiative aimed to provide a local platform to support the adoption of IR, facilitate knowledge sharing, and align Sri Lanka with global best practices. These strategic efforts have positioned CA Sri Lanka as a key advocate for embedding integrated thinking and reporting within corporate practices, further driving sustainable and transparent business operations.

LIMITATIONS

This study has several limitations that require acknowledgement. First, the study was conducted using a limited sample size, focusing on a subset of publicly listed companies in Sri Lanka. Banks, insurance, and telecommunication companies were excluded from the analysis, potentially narrowing the applicability of findings to other sectors. Additionally, the research covered a relatively short period from 2022 to 2024, which may not adequately capture the long-term trends or evolution of IR practices. The lack of mandatory guidelines results in variability and inconsistent disclosure quality across companies, making it challenging to establish uniform comparisons. Furthermore, the study relied primarily on Tobin's Q, a quantitative measure, as a proxy for firm value, leaving a gap in understanding how different stakeholders perceive and respond to IR practices. This omission restricts a more comprehensive evaluation of the impact of IR.

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K Tharushi Sandeepani*
Faculty of Commerce and Management Studies
University of Kelaniya
No. 218, Kandy Road, Dalugama, Kelaniya, SRI LANKA - 11600
Email: tharushi.sandeepani75@gmail.com

Himal Muthunayake
Faculty of Commerce and Management Studies
University of Kelaniya
No. 218, Kandy Road, Dalugama, Kelaniya, SRI LANKA - 11600
Email: himalm@kln.ac.lk

*Corresponding author