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Integrated Reporting and Firm Value: Empirical Evidence from Sri Lankan Licensed Finance Companies

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Abstract

Integrated Reporting (IR) is promoted as a reporting practice that improves transparency, accountability, integrated thinking, and firm'value creation. Although the IR literature on developed contexts reveals a positive relationship between IR and firm value, the same is not true in less developed contexts. This study examines the relationship between IR disclosure and firm value among Sri Lankan licensed finance companies. Based on the Legitimacy Theory, this study supports the idea that, in weakly and voluntarily regulated reporting practices, IR adoption might be motivated more by concern with legitimacy than with substantive value creation. The study is based on data from ten licensed finance companies from 2016-2022. The IR disclosure is measured by an Integrated Reporting Disclosure Index, while Tobin Q and the Market-to-Book Ratio are used to measure firm value. Firm size has been used as a control variable. The findings indicate a statistically significant negative relationship between IR disclosure and firm value across both firm valuation measures. The evidence indicates that IR practices within the Sri Lankan finance sector are relatively standardized and not yet viewed by investors as value-relevant, suggesting a more legitimacy-oriented approach to IR.

Keywords: Integrated Reporting; Firm Value; Legitimacy Theory; Emerging Markets

1 Introduction

IR is a corporate reporting innovation that enhances transparency and accountability (De Villiers, Rinaldi, & Unerman, 2014) and the strategic relevance of disclosures through non-financial and financial information (Gunarathne & Priyadarshanie, 2022). The International Integrated Reporting Council (IIRC, 2021) asserts that IR improves firm value by fostering strategic thinking, facilitating long-term decision-making, and optimizing capital allocation. These improvements have gained the interest of academics and professionals, especially in industries such as banking and finance, where non-financial information and stakeholder

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networks are essential for performance (Doni, Larsen, Bianchi Martini, & Corvino, 2019; Vitolla, Raimo, Rubino, & Garzoni, 2020).

Despite these substantial improvements, the relationship between IR and firm value has contradictory findings in the literature. For example, international studies demonstrate that IR improves the firm value (Anifowose, Abang, & Zakari, 2020; Salvi, Vitolla, Giakoumelou, Raimo, & Rubino, 2020), while others reveal negative or weak impacts (Conway, 2019; Fernando & Jeewanthi, 2021). In developing nations in particular, IR is found to be voluntary, weakly regulated (Fernando & Jeewanthi, 2021), and legitimacy-seeking rather than strategic transformation-oriented (Elshandidy, Elmassri, & Elsayed, 2022; Nurkumalasari, Restuningdiah, & Sidharta, 2019; Priyadarshani, Yusoff, & Azam, 2023). These contradictory findings suggest that IR may not have a positive impact on firm value in all contexts. The success of IR adoption may depend on whether its adoption is merely symbolic or substantially meaningful. In this view, firms can adopt disclosure practices that are preferred to create a sense of conformity with societal norms and gain legitimacy, despite such practices not having a meaningful impact on sustainable practices and firm value (Maama & Mkhize, 2020).

In Sri Lanka, IR has been implemented through voluntary initiatives; evidence on its sustainable practices and impact on firm value is limited and fragmented. For example, several studies have explored IR quality and firm value creation (Cooray, Senaratne, Gunarathne, Herath, & Samudrage, 2020), the concept of integrated thinking (Abeywardana, Azam, & Kevin Low, 2024), IR and firm value (Fernando & Jeewanthi, 2021), and the diffusion of IR practices (Gunarathne & Senaratne, 2017). However, none of the studies investigates the relationship between IR and the firm value creation with firm size in the licensed financial companies. In addition, these studies fail to address the question of whether IR adoption in Sri Lanka is substantive, which entails a real integration of financial and non-financial thinking, or symbolic, adopted to reflect conformity and legitimacy rather than to alter internal decision-making. Furthermore, these empirical studies fail to garner significant attention within the finance industry, a domain where credibility, stakeholder confidence, and information transparency are paramount. To fill this gap, this study aims to examine the effects of IR on firm value in licensed finance firms, while accounting for firm size. Based on the Legitimacy Theory, it argues that adopting IR symbolically is primarily intended to convey a desire to conform to international expectations rather than to instill the concept of integrated thinking.

The findings of this study will be helpful to the ongoing literature on IR by providing context-specific evidence for the Sri Lankan licensed finance sector, which lacks substantial scholarly research despite its institutional and economic significance. In contrast to much of the existing literature, which tends to assume that IR is a value-enhancing factor, this study reveals that the relationship between IR and firm value depends on the circumstances and can be negative in the context of voluntary reporting practices and weak institutional support. When the study uses the Legitimacy Theory as the analytical framework, it offers a consistent account of why IR in this context can be more of a legitimacy-driven or symbolic activity rather than a translated way of value creation. Besides, this study also contributes to the empirical literature in IR by using two market-based outcomes in terms of the firm value, as well as exposing the regression models to stringent diagnostic testing, thus increasing the trustworthiness of the results. Overall, the study findings contribute to understanding the implications of IR in emerging markets and emphasize the need to assess reporting innovations in the institutional contexts in which they are introduced.

The rest of this paper follows the following structure. Section 2 conducts a literature review of the relationship between IR and firm value, and Legitimacy Theory. Section 3 provides the research methodology of the study. Section 4 presents empirical results and discusses the findings. Section five ends with implications, limitations, and suggestions for future research.

2 Literature Review

2.1 Integrated Reporting: Conceptual and Practical Tensions

IR is a complex paradigm of reporting that has been developed as a result of financial and non-financial data integration into one integrated story of value creation to increase corporate transparency and accountability (De Villiers et al., 2014). Through encouraging integrative thinking, long-term strategic orientation, and better capital allocation, IR aims at communicating the relationship between various types of capital in order to develop sustainability in generating value. The interest of IR is especially relevant to financial institutions that use such intangible resources as the quality of governance, trust, and relational capital, which are vital factors in determining the outcome of the organization (Doni et al., 2019; Vitolla et al., 2020). However, the presence of the normative appeal of IR does not entirely clarify why there is a disconnect between the conceptual significance and its empirical application. According to empirical evidence, the implementation of IR often results in an increase in the number of disclosures with no significant changes in internal decision-making and strategy integration (Gunarathne & Priyadarshanie, 2022; Nishitani, Unerman, & Kokubu, 2021). Under these circumstances, IR is collusive of a better sustainability report, as opposed to an integration of thinking. This split becomes critical as to whether IR is a substantive managerial tool or a symbolic disclosure tool, especially given that it is voluntary in nature and lacks strong enforcement mechanisms.

2.2 Integrated Reporting and Firm Value: Conflicting Empirical Evidence

The study of the relationship between IR and firm value has significantly expanded over the last decade, although the empirical evidence remains quite mixed and highly contextual. There is substantial research indicating that IR can increase firm value by augmenting corporate disclosures through greater transparency, coherence, and utility. For example, Lee and Yeo (2016) reveal that the more robust IR practices firms display, the higher the market valuation is likely to be, especially in an environment where information asymmetry is minimized, and long-term value creation for investors is explained. There is some evidence that IR is linked to reduced uncertainty and other factors that could create investor confidence and stronger governance signals (Cruz, Dias, Varela, & Galvão, 2024; Velte, 2022). According to other studies, the six-capitals framework on which IR is based provides investors with an expanded informational foundation, comprising financial and non-financial data synthesized into a single narrative of value creation (Barth, Cahan, Chen, & Venter, 2017). In this view, it is assumed that capital markets, where investors actively consider non-financial reporting and incentivize reliable, forward-looking information, exist in well-regulated, developed contexts.

Despite such favourable indicators, increasing research evidence points to significant weaknesses in IR, especially in voluntary reporting contexts and in emerging economies. Findings in Asia and Africa often present insignificant or even negative results when instructing IR disclosure and firm value when regulations are poorly enforced, and reporting policies are not credible (Chouaibi, Belhouchet, Chouaibi, & Chouaibi, 2022; Cooray et al., 2020; Fernando & Jeewanthi, 2021; Nurkumalasari et al., 2019). These findings are consistent with the evidence in Sri Lanka. As Cooray et al. (2020) demonstrate, the adoption of IR is not significantly associated with improved firm value unless a beneficial traditional financial performance indicator accompanies it, and Fernando and Jeewanthi (2021) report an inverse relationship between IR disclosure and Tobin Q among licensed banks. The overall implications of these findings are that non-regulatory factors, including the strength of the regulators, the sophistication of investors, and the trust in non-financial reports, play an important role in shaping stock markets' interpretation of IR information. The IR might not affect firm value as conceptualized, particularly in environments where non-financial information is not highly enforced or demanded.

The firm size affects the nexus between IR and firm value because it weakens the disclosure behaviour and the imposition of legitimacy pressures. Large companies are often placed under a greater level of scrutiny and are anticipated to show an increase in transparency and accountability, and therefore are forced to adopt more exhaustive voluntary disclosure regimes. Empirical data reveal that there is a positive relationship between firm size and firm value in the context of the degree of disclosure, as bigger organizations are more complex and are developed under the influence of a more thorough scrutiny of the stakeholders (Fasan & Mio, 2017; Kansal, Joshi, & Batra, 2014). Nonetheless, the legitimacy-based disclosure is not always transformed into economic benefits. Large companies can, in voluntary reporting contexts, use comprehensive reporting such as IR to preserve a positive image, as well as be indicative of adherence to international standards when the marginal payoff to the shareholders is low (Lakshan, Wijekoon, & Herath, 2021). These results suggest that the firm size may not directly have a positive impact on the firm value through the application of IR, a symbolic adoption practice in the context of the Sri Lankan environment. Therefore, the firm size has been employed as the control variable to ensure variations in the legitimacy pressure and disclosure behaviour, contingent on the firm size, independent of inherent heterogeneity in performance.

2.3 Theoretical Framework

This paper is based on the Legitimacy Theory of corporate disclosure, which views corporate disclosure as an instrument to attain social acceptance and credibility rather than to enhance efficiency or reduce information asymmetry (Suchman, 1995). This point of view makes it especially applicable to analyzing the practice of IR in Sri Lanka, where IR is voluntary and operates in a lowly regulated reporting context (Fernando & Jeewanthi, 2021). The empirical research discussed above suggests that the relationship between IR and firm value is heterogeneous and is significantly influenced by institutional and market conditions, thereby rendering Legitimacy Theory a more explanatory framework than other theoretical frameworks.

Most international evidence on the positive effects of IR on the market implicitly relies on signalling theory, which presupposes that improved disclosure conveys plausible messages to investors and lessens information asymmetry (Barth et al., 2017; Lee & Yeo, 2016; Velte, 2022). This argument might be valid in developed capital markets that have mature investors and well-constructed enforcement laws, but not in emerging markets. Investigations of Sri Lankan contexts also demonstrate that investors remain heavily dependent on traditional financial signals and do not always value voluntary non-financial reports, which questions the signalling value of IR in a context (Cooray et al., 2020; Fernando & Jeewanthi, 2021). In addition, other theoretical approaches provide helpful explanations, though not comprehensive. The theory of stakeholders is the cornerstone of much of the normative popularity of IR, which emphasizes the responsibility towards a broad scope of stakeholders, as this theory is consistent with the multi-capital logic of value creation (Gunarathne & Priyadarshanie, 2022; Vitolla et al., 2020). It, however, fails to satisfactorily explain why extensive disclosure can be symbolic rather than substantive, and why the markets can fail to react positively. On the same note, the resource-based perspective presupposes that IR fosters internal strengths via integrated thinking, yet evidence of value creation is scarce in the context of voluntary reporting (Gunarathne & Priyadarshanie, 2022). The institutional theory can be used to understand the rationale of firms adopting internationally recognised reporting standards like IR, especially following normative and mimetic forces, but it does not shed much light on the economic impact of such adoption, especially where such adoption is mostly ceremonial (Chouaibi et al., 2022; Nurkumalasari et al., 2019).

Legitimacy Theory, on the other hand, directly reflects the driving force behind the adoption of the IR and its possible lack of value in emerging markets with weak enforcement, low investor demand for non-financial information, and high reputational pressures. Firms in such markets may adopt IR innovations to serve the purpose of appearance, alongside transparency and sustainability norms of international firms, rather than integrating such thinking into their strategic decision-making processes. Symbolic adoption in line with this can further promote disclosure, but not necessarily enhance the quality of information or credibility, whereby investors would discount IR or regard it as standard compliance (Elshandidy et al., 2022; Maama & Mkhize, 2020). In such a case, IR can create additional reporting costs without visible market returns, providing substantial theoretical grounds for anticipating a negative relationship between IR disclosure and firm value.

The choice and interpretation of variables in this study are also based on the Legitimacy Theory. IR disclosure displays observable legitimacy-seeking behaviour, which encompasses firms' attempts to adjust to social and professional requirements. The firm value calculated through market indicators, which reflects how investors should perceive such disclosures, is the firm value. The symbolic adoption of IR forecasts a weak or negative market response, according to the legitimacy theory. The firm size of a is another control variable since the pressure on legitimacy increases with the visibility of an organisation; large companies are more open to critique as well as expectations of transparency and therefore tend to adopt a complete reporting framework although such disclosures might not be optimal to the interests of the firm (Fasan & Mio, 2017; Kansal, Joshi, & Batra, 2014; Lakshan et al., 2021). As such, the Legitimacy Theory would offer a cohesive and contextually contextualized analysis of the IR-firm value relationship in this study.

In sum, the literature review confirms that the relationship between IR and firm value is not uniform but is heavily influenced by contextual factors. Although research has reported positive effects of IR in developed economies, these effects are primarily associated with the presence of a strong regulatory regime, effective enforcement systems, and investors actively incorporating non-financial information into their decision-making. Conversely, as indicated by emerging markets and Sri Lanka specifically, voluntary adoption of IR occurs in a context of weaker enforcement, reduced reliance of investors on non-financial disclosures, and more attenuated incentive to report based on legitimacy. In these circumstances, the IR can increase disclosure, not by increasing the quality of information or market confidence, leading to a low or even negative relevance of the firm value. The literature suggests that understanding the relationship between IR and firm value should be based on a context-dependent, theory-driven analysis, which explains the choice of licensed finance firms in Sri Lanka as the current study's focus and the subsequent use of legitimacy theory as the leading explanatory theory.

3 Methodology

The study employed a quantitative approach based on a positivist paradigm to investigate the influence of IR on the firm value in Sri Lankan licensed finance companies. The data were collected from ten firms over a span of seven years (2016–2022). All observations were derived from publicly accessible secondary sources. Data from licensed financial firms were obtained from the Central Bank of Sri Lanka database, annual reports of publicly listed companies were sourced from the Colombo Stock Exchange (CSE), and annual reports of privately listed companies were retrieved from their respective corporate websites.

The study comprised 32 licensed finance firms in Sri Lanka during the period of the study. Ten firms were then selected by using a simple random sampling. First, a list of licensed finance firms was generated, and the firms were randomly chosen with the help of a random number generator in order to reduce selection bias. The sample was not limited only to the availability of data; however, a balanced dataset required uniform financial and disclosure data that would go through the complete seven-year period. A number of firms had inconsistent IR reports, especially in the early years of IR reporting. They did not prove to be suitable for longitudinal use. The resultant ten-firm sample gives a sufficient firm-year observation of 70, which is considered adequate to perform multiple regression analysis. Though it is possible to argue that a larger sample size would have offered a greater extent of external validity to the results, the chosen sample is sufficient to guarantee the statistical credibility and the internal validity of the estimates.

The variable used as an independent variable was IR and measured on an Integrated Reporting Disclosure Index (IRDIN). Eight elements of content outlined in the International Integrated Reporting Framework have been used to compute the index: organisational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook, and basis of preparation and presentation. Each of the elements had a dichotomous attribute featuring one as the value in the case of the disclosure being performed in the annual report and zero as the value in the case of non-disclosure. The individual binary scores are added and advanced by division by the total number of elements, yielding a standardised Disclosure index. The binary coding scheme was considered because of the nature of the disclosure (voluntary) and the infancy of the IR adoption in Sri Lanka, since subjectivity was lessened in the degree of disclosure. Inasmuch as the weighted scoring systems are able to capture the degree of disclosure, they rely on subjective interpretation to a great extent. Measurement reliability was, therefore, considered important, and in the future, the more subtle scoring measures can be used as the IR practices evolve.

The firm's value was measured with consideration of two market-based ratios: the Market-to-Book Ratio (MBR) and the Tobin Q. The Tobin Q is representative of future growth and non-book intangible assets as compared to what the market values; however, it is not reflected by the book value as is in the MBR. These measures are especially appropriate in that situation as IR is hypothesized to have an effect on investor opinions, not on immediate accounting performance. Other measures, like returns on assets or price to earnings ratios, often do not provide useful information to financial institutions, because they rely on balance sheet information. The use of complementary market measures makes the analysis very strong. The firm size was also taken as a control variable, measured through total assets, as it was realised that larger firms may receive more scrutiny, which may, on its own, impact both the adoption of IR and the firm value.

The relationships between IR and firm value were examined through the application of multiple regression analysis. Two regression equation models were developed. The first model assesses the impact of IR disclosure on firm value using Tobin's Q, while the second model examines the relationship with the MBR as the dependent variable. The firm's size was also incorporated as a control variable in both models. The assumptions underlying the regression are articulated as follows:

Model 1 $\quad$ $\text{Tobin's Q}_{it} = \beta_0 + \beta_1\text{IRDIN}_{it} + \beta_2\text{FS}_{it} + \varepsilon_{it}$

Model 2 $\quad$ $\text{MBR}_{it} = \beta_0 + \beta_1\text{IRDIN}_{it} + \beta_2\text{FS}_{it} + \varepsilon_{it}$

where $\beta_0$denotes the intercept, $\beta_1$and $\beta_2$represent the coefficients of IR disclosure and firm size, respectively, and $\varepsilon$is the error term.

4 Results and Discussion

4.1 Descriptive Statistics

This study examines the relationship between IR and firm value in licensed finance companies in Sri Lanka over the period 2016–2022, with firm size included as a control variable. Table 1 summarizes the descriptive statistics for the IRDIN, Tobin's Q, MBR, and firm size.

Table 1: Descriptive Statistics

Variable	Observations	Mean	Std. Deviation	Minimum	Maximum
IRDIN	60	1.53	0.04	1.45	1.60
Tobin's Q	60	0.93	0.08	0.72	1.07
MBR	60	0.72	0.47	0.00	2.62
Firm Size	60	10.32	0.58	8.83	11.07

The IRDIN records a mean value of 1.53, with scores ranging from 1.45 to 1.60 and a very low standard deviation of 0.04. This narrow range indicates that IR disclosure practices among Sri Lankan licensed finance companies are highly uniform. Most firms disclose a similar set of IR content elements, with only marginal differences across firms and years. This pattern suggests convergence towards a broadly standardized reporting structure rather than wide variation in disclosure practices.

With respect to firm value, the mean Tobin's Q of 0.93 indicates that, on average, firms are valued below replacement cost, although the observed range shows that some firms are marginally overvalued while others remain clearly undervalued. Similarly, the mean MBR of 0.72 suggests that market valuations are generally below book values, while the wide range (0.00 to 2.62) reflects considerable variation in market perceptions over time. Firm size exhibits moderate dispersion, indicating that the sample consists largely of medium- to large-sized finance companies operating under a common regulatory framework.

4.2 Testing the Validity and Reliability of the Results

The validity and reliability of the estimated regression models were evaluated prior to interpreting the regression results by examining the key assumptions underlying multiple regression analysis. The tests confirm that the coefficients reported have not been artificially inflated by linearity, normality, independence, homoscedasticity, or multicollinearity. To confirm the independence of observations, Durbin-Watson (DW) statistics were employed, as autocorrelation of residuals can introduce bias into coefficient estimates. A widely accepted range for the DW statistic is between 1.5 and 2.5. The DW statistic for Model 1 is 1.501, while the corresponding measure for Model 2 is 1.828. The two values fall within the permissible benchmark range. The latter suggests that the residuals are independent and that no autocorrelation affects the regression estimates.

Second, the guidelines of homoscedasticity and linearity were assessed with the help of scatterplots that represented standardized residuals and predicted values. The results of the residuals did not show any visible curvature or funnel shapes, and the residual values were randomly distributed on both sides of the zero line, which implies that the linear regression model was suitable, and the error variability is the same across observations. Third, the normality of the residuals was checked using histograms of the standardization of the residual values. Both models were exhibiting distributions that were nearly bell-shaped curves centered at zero. It was found that minor departures exist from the ideal normality; nevertheless, the differences are not large and are in line with the general procedures in related financial studies. The t-tests and F-tests used are considered appropriate in this respect. Lastly, the diagnostics of collinearity were performed to analyse whether there was a possibility of multicollinearity. Because all the models have utilized one explanatory variable (IRDIN) and one control variable (firm size), the risk of multicollinearity is minimal. Tolerance and the Variance Inflation Factor (VIF) values were all reported to be within acceptable levels, confirming reliable estimates of the coefficients, which are also interpreted. On the whole, the diagnosis findings confirm the validity of multiple regression analysis assumptions. As a result, the regression models were valid and reliable to study the relationship between IR disclosure and firm value.

4.3 Regression Results

Following confirmation of model validity, regression analysis was conducted to examine the relationship between IR disclosure and firm value. Two models were estimated. Model 1 uses Tobin's Q as the dependent variable, while Model 2 employs the MBR. Firm size is included as a control variable in both models.

4.4 Integrated Reporting and Firm Value

Table 2: Model 1- Regression Results

Variable	Unstandardised β	Std. Error	Standardised β	t-value	Sig.
Constant	3.356	0.256	–	13.118	0.000
IRDIN	-1.367	0.183	-0.658	-7.477	0.000
Firm Size	-0.032	0.015	-0.232	-2.092	0.041
R^2	0.660				
F-statistic	36.186				0.000
Durbin–Watson	1.501				

As shown in Table 2, the regression coefficient for IRDIN is −0.658**,** and this coefficient is statistically significant at the 1% level. This indicates a meaningful inverse relationship between IR disclosure and firm value measured by Tobin's Q. In practical terms, lower levels of IR disclosure are associated with higher Tobin's Q values within the sampled finance companies. Firm size also exhibits a negative and statistically significant coefficient ($\beta = -0.232$, $p < 0.05$), indicating that larger finance companies tend to record lower Tobin's Q ratios. The R-squared value of 0.660 shows that approximately 66% of the variation in Tobin's Q is explained by IR disclosure and firm size. Statistically significant F-statistics confirm that the model provides a strong fit to the data.

Table 3: Model 2 -Regression Results

Variable	Unstandardised β	Std. Error	Standardised β	t-value	Sig.
Constant	11.048	1.530	–	7.219	0.000
IRDIN	-5.305	1.094	-0.522	-4.849	0.000
Firm Size	-0.218	0.094	-0.317	-2.332	0.023
R^2	0.502				
F-statistic	18.488				0.000
Durbin–Watson	1.828				

Table 3 presents the results of the estimates of Model 2. The coefficient of IRDIN is estimated to be 0.522, which is statistically significant at 1% and thus suggests that the relationship between the IR disclosure and firm value is negative. The firm size coefficient is also negative and significant ($\beta = -0.317$, $p < 0.05$ The R-squared value of 0.502 indicates that 50.2% of the variation in MBR values is explained by the model. The validity of the regression model is supported by the overall importance of the F-statistic. The consistency of coefficient signs and significance across both firm-value measures enhances the belief in the strength of the relationships that have been established.

4.5 Discussion of the Findings

This paper examined the issue of whether IR leads to firm value among the licensed Sri Lankan finance companies. Empirical findings indicate that the IR disclosure, which is an operational measure using the IRDIN index, has a statistically significant negative relationship with firm value, which is measured in terms of both the Tobin Q and the MBR. The fact that this negative relationship prevails in two independent, market-based measures of value supports the existence of a strong relationship and indicates that the impact is not a result of a specific measure of performance. Although this result contradicts most of the evidence in developed economies where the stronger association of IR with increased value is expected to exist (e.g., Barth et al., 2017, or Salvi et al., 2020), it finds support in the empirical evidence of developing and emerging markets. The previous studies conducted in Sri Lanka and similar contexts prove that the introduction of IR does not always have a positive effect on the firm value (Conway, 2019; Fernando & Jeewanthi, 2021; Ranaweera & Jayawardhana, 2022).

Importantly, these findings do not imply that IR is inherently value-destroying. Instead, they underscore the critical role of institutional and contextual factors in shaping the economic consequences of IR adoption. In the Sri Lankan setting, IR appears to operate primarily as a legitimacy-oriented reporting practice, rather than as a substantive mechanism for value creation, as revealed by Fernando and Jeewanthi (2021) and Ranaweera and Jayawardhana (2022). To begin with, IR disclosure levels have a very low standard deviation, as the values of IRDIN are concentrated within a small range. This suggests that the majority of firms present similar elements of IR content, meaning that such firms have a uniform reporting strategy as opposed to the disclosure being deeper or higher.

Second, although this deviation is small, the disclosure of IR is still greatly related to firm value, indicating that even a small increment in disclosure is not rewarded by investors. Third, this negative relationship remains similar through the Tobin Q and the MBR, which supports the opinion that the market has not perceived the IR disclosures as value-enhancing in this regard. This finding can be discussed with references to the Legitimacy Theory. In this view, firms implement IR with the main reason of showing compliance with the international norms, where the reporting practices are voluntary, and the enforcement mechanism is feeble (Fasan & Mio, 2017; Kansal et al., 2014; Lakshan et al., 2021). IR in the Sri Lankan finance industry seems more of a legitimising potential than a decision-useful communication tool. Even when the concept of integrated thinking is not wholly entrenched in the inner processes and top-tier decisions, firms can use IR to look transparent, up-to-date, and close to international conditions of reporting.

Additional explanatory power is given by the larger institutional environment in Sri Lanka. The adoption of IR is still on a voluntary basis, regulating performance has not been strong, and investor recognition and dependency on non-financial reports are still in the process. According to the previous research conducted in Sri Lanka, it is perceived that capital market stakeholders are still more inclined to rely on conventional financial measures and in terms of short-period performance indicators, whereas the non-financial disclosures are often viewed with scepticism because of the perception of a lack of credibility, comparability, and assurance (Conway, 2019; Lakshan et al., 2021). In turn, the IR disclosure can be viewed as being compliance-based or symbolic, as opposed to being a reliable indication of value-creation in the long term. Organisational restructuring, employee training, and the decision to include the financial and non-financial reporting systems in the IR are some of the costs that outweigh the perceived value of the IR, resulting in a net decrease in the valuation.

This interpretation is further supported by the negative relationship between the firm size and firm value. Poorer, better, more licensed finance firms are normally more prone to the gaze of the entire community and are more circumspect, and hence it mounts legitimacy pressures and encourages fuller reporting systems like IR. Nevertheless, the associated organisational change or greater stakeholder involvement, however, is not what is required to convert higher levels of disclosure to greater firm value when these are not accompanied by such adoption. Rather, it can become an indicator of increased compliance costs, organisational inflexibility, and bureaucracy, especially in the financial sector, where the minimal disclosure demands are already great. This result can be compared to previous evidence of Sri Lankan firms that indicates that the adoption of IRs among larger companies is usually driven by concerns of visibility and reputation, instead of an actual dedication to integrated value creation (Fernando & Jeewanthi, 2021).

All these findings imply that IR within the Sri Lankan licensed finance firms can be interpreted as more of a practice based on legitimacy and early stages of development rather than a well-developed value-creation process. Although IR can lead to increased transparency and contribute to the creation of long-term value, these advantages seem to be conditional on the increased stricter regulatory enforcement, the increased maturity of reporting, and the increased dependence on non-financial information among investors. Such conditions have yet to be established and, therefore, until this happens, the adoption of IR in Sri Lanka is set to be mostly symbolic with limited/or even negative consequences for firm value.

5 Conclusions and Implications

In this study, the relationship between the disclosure of IR and firm value among Sri Lankan licensed finance firms, while accounting for firm size, has been considered. Using market-based measures, namely Tobin Q and MBR, the findings have shown that the relationship between IR disclosure and firm value has been found to be significantly negative. These results do not correlate with those found predominantly in developed markets but are parallel to previous studies conducted in Sri Lanka and other similar emerging markets.

These findings should not be interpreted to mean that IR is always a dilutive of firm value, but they demonstrate the situational contingency of the applications of IR and the economic resultant outcomes. IR acts more as a legitimacy-based reporting instrument, situated in the Sri Lankan licensed finance market, than as an overall value creation agenda. This conceptualization is also supported by the empirical evidence, where the narrowing of IR disclosures is seen, and also a significant negative valuation impact that remains even when this method is compared to other firm-valuation measures. With degraded regulatory oversight and immature investor perceptions, the IR disclosures are not yet likely to be considered credible and to offer decision support to the firms, which limits the enhancement of the firm's value.

Although this study has been limited in its empirical scope, there are a few practical implications of the study. Empirically, to the policymakers and regulators, it is clear that merely promoting the use of IR will not be able to bring capital-market gains without measures that seek to enhance the quality of reporting, comprehensiveness in stakeholder knowledge, and institutional reinforcements. Instead of imposing the need to enact adoption due to the current evidence, the findings provide the urgency to strengthen the reporting ecosystem, such as the delivery of implementation advice, professional growth, and the mechanisms that contribute to the credibility of non-financial reporting. As implied by the findings, to corporate managers, the effects of IR on the firm value depend on a synergistic combination of substantive operational changes, analytical critical capacity, and strategic decision-making.

The current research is limited in many ways that should be taken into consideration when analyzing the results of the study. To begin with, the sample itself only represents a subset of licensed finance companies and, therefore, may not be applicable to other industries or institutional settings. Second, IR disclosure is evaluated through a content-based index, which documents the existence of IR elements but might be inadequate in terms of reflecting disclosure quality or depth. Third, the use of secondary data and a quantitative design limits the ability to investigate the intent behind the actions of the manager or the way a stakeholder views the practices of IR. Such limitations outline definite directions of investigation in the future. How the managers, investors, and regulators have encountered IR in practice and how they have identified whether disclosures are symbolic or substantive may be explained by qualitative or mixed-method research. In addition, further research can operationalise more subtle measures of IR quality to get a better chance of capturing changes in disclosure depth and credibility. Such comparative studies across sectors or nations would shed more light on the institutional contingencies in terms of which IR may be able to gain value relevance. Lastly, longitudinal studies that follow companies across the long run would evaluate the effects of valuation changes of IR as reporting practices get more mature and stakeholder familiarity is gained.

Overall, this paper contributes to the growing body of research on IR by highlighting the fact that the effects of valuation differ beyond the contextual boundaries. The Sri Lankan financial licensed industry seems to be at an early stage of adopting IR, as there is little indication of an increase in market value. The need to fill the gap between a legitimacy-based reporting practice and a value-generating tool, therefore, becomes one of the critical issues that must be faced by both scholars and practitioners.

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