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The Impact of Integrated Reporting Quality on the Cost of Equity and the Financial Performance: Empirical Evidence from the Diversified Financial Sector in Sri Lanka

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Abstract

Introduction: The aim of this research is to explore the correlation among financial performance, Cost of Equity (Ke), and Integrated Reporting Quality (IRQ) within the context of listed diversified financial institutions in Sri Lanka.

Methodology: Employing a quantitative approach grounded in positivism philosophy, this study utilizes a sample spanning from 2013 to 2022. The investigation involves a examination of the annual reports of diversified financial companies listed on the Colombo Stock Exchange to gather the necessary data. Additionally, the study employs panel regression analysis to scrutinize the relationship between IRQ, financial performance metrics, and the cost of equity in Sri Lankan diversified financial institutions.

Findings: The statistical analysis, conducted at a 1% significance level, reveals a significant negative correlation between IRQ and Ke. This implies that an increase in integrated reporting quality leads to a reduction in the cost of equity. Positive associations are also identified between IRQ and Return on Assets (ROA) at a 5% significance level and Return on Equity (ROE) at a 1% significance level, validating the reliability of the methodology.

Conclusion: These findings contribute to a more comprehensive understanding of how integrated reporting quality can influence the control of the cost of equity and enhance the financial performance of diversified financial institutions in Sri Lanka.

Keywords: Integrated Reporting; Diversified Financial Institutions; Cost of Equity (Ke); Financial Performance; Return on Assets (ROA); Return on Equity (ROE)