

# Value Relevance of Integrated Reporting: Perception of Stock Market Investors

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## INTRODUCTION

As a newly emerged concept, Integrated Reporting (IR) has been diffused among the corporate world in various scales. However, IR is still an immature concept in Sri Lanka. For instance, adoption of integrated reporting is not yet compulsory for the companies listed in Colombo Stock Exchange (CSE) and companies tend to adopt IR on voluntary basis. Voluntarily adoption implies that there are some kinds of value addition from the IR practices otherwise those entities may not adopt IR. Lee et al., (2015) have investigated the association between IR and firm valuation. This study has explored the association between cross-sectional variation in IR disclosures and firm valuation in the period after the implementation of IR within the listed firms in South Africa. As the conclusion, it suggests that the firm valuation is positively associated with IR disclosures. Martinez (2016) has investigated the effects of IR on the firm's value by considering the voluntary adopters of the IIRC's framework. The results indicated that IR is positively associated with market value of the entity. Thus, IR can be depicted as a value creation momentum as evident by the previous studies. Nevertheless, some practitioners viewed that IR is one of most disruptive innovations in corporate reporting (Simnett and Huggins, 2015; Deloitte, 2015). Even though many in depth case studies and researches relating to IR are available, the day-to-day reality of IR remains elusive (Gibassier et al., 2018). These kind of findings from previous researches bring light to create new research avenues in investigating the value relevance of IR in relation to the investors rather emphasizing the value relevance of IR that directly perceived by the entity. Thus, the purpose of this study is to examine the perceived value relevance of IR by stock market investors in Sri Lanka. Previously, many researchers focused to examine the basis of IR concept (Aceituno et al., 2013; Lai et al., 2016; Arrubla and Grima, 2016; Villiers et al., 2017; Rensburg and Botha, 2013; Serafeim, 2014), difference

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between sustainability reporting and IR while emphasizing the superiority of IR concept (Jensen and Berg, 2012; Soyka, 2013; Makiwane and Padia, 2013; Dragu and Tudor, 2013; Zyl, 2013; James, 2013; Aceituno et al., 2014), value relevance of IR concept and its association with firms characteristics (Kosovix and Patel, 2013; Yeo et al., 2014; Lee et al., 2015; Martinez, 2016). But, studies relevant to the value relevance of IR in the investor's perspective is rare and this study attempts to fill that empirical gap.

### **AIM**

Ultimate objective of corporate reporting is to provide necessary information for the stakeholders who seek information for making investment and other financing decisions. The improvements of reporting aspects ultimately should enhance the efficiency and effectiveness of decision making process of investors. Hence, IR as a new reporting aspect must have the capability to add value for investors. Thus, the aim of this study is to examine whether stock market investors perceived additional value due to referring integrated report of a particular company when the investor is going to invest in that particular company.

### **METHODS**

A qualitative approach has been employed to reach research aim through semi structured interviews with stock market investors. At the first instance, the study employed convenience sampling method to select the sample, and thereafter some interviewees nominated other investors whom they know personally (i.e., snowball sampling method). Hence, this study employed mixed purposeful sampling method for collecting data for the study. Six semi structured interviews have been conducted with investors who have invested in multiple companies through the CSE. Further, a qualitative thematic analysis has been performed for summarizing and organizing collected data.

### **RESULTS AND DISCUSSION**

In examining the responses it was evident that all responders have a sound knowledge regarding IR except one whom has just only heard about the phrase. However, it appears that some respondents' investment decisions do not depend on the adoption of IR. For example, one respondent stated that,

*“IR is a kind of reporting method. Mostly, I consider company's financial strength when I'm going to invest.... and the directors' long term strategies also. Despite what the company reports we should concern how does the company deal in the practical world”*

Nevertheless, some investors mentioned that IR does not directly influence on the investment decisions but it does indirectly. They are aware of the holistic view of IR, for instance, one respondent emphasizes that by examining integrated report all relevant information can be obtained through a single report. Further, another respondent in support of this view said;

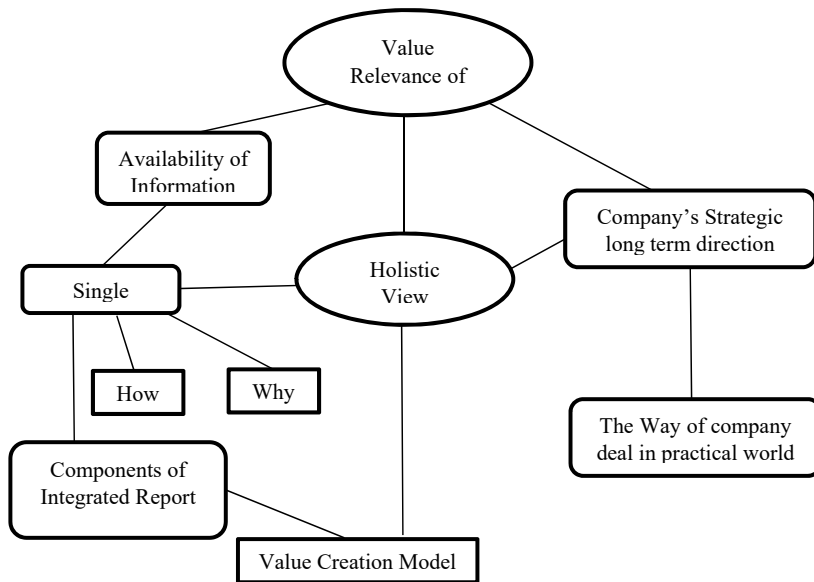
*“When I am going to choose a company to invest I will not concern about IR adoption as the first criteria. But when I analyse the company performances and its future direction to check whether this company is suitable to invest, then IR adoption would be a huge convenience, because all necessary information can be obtained under one roof.”*

Some investors are aware about the highlighting points of IR. By referring the value creation model of an entity, for example, an investor is able to get a thorough knowledge regarding how the entity adds value to its internal parties as well as external parties. In support of this view, one respondent expressed his views as, *“Mostly I look value creation model, because it gives a strong picture of the company.”*

Investors tend to believe that investment decisions, based on the integrated reports, are highly deviated from the decisions which make without having the integrated reports. This implies that IR adds value to the decision making process of investors. Respondents often emphasized that a company’s long term strategic direction is demonstrated through the combination of financial information and non-financial information. One respondent stated that,

*“When we refer integrated report we can collect so many hints regarding its future existence. And also we can predict its long term direction up to some extent.....this is because of IR integrate all relevant information nicely.”*

After summarizing data, researcher identified main themes and sub themes. Figure 01 demonstrates the thematic map that illustrates the relationships between themes.



**Figure 01: Thematic Map**

## IMPLICATIONS

The findings of this study bring a light to existing theory as well as practice by emphasizing the value addition for the investors through IR. Majority of previous research studies have investigated the value relevance of IR from the entity's point of view. On the other hand, this study manifests a new research avenue that focuses more towards the investors' value relevance by the IR practices. Entities should ensure that their IR practices add value to its stakeholders.

This research was conducted employing thematic analysis as the data analysis method with a limited number of data. Future research can be undertaken by using content analysis method with a larger sample. Also, there may be some demographic factors that affect the investors' perception of value relevance of IR. For instance, an investor with accounting or finance background may have more familiarity with reporting aspects rather than other investors. Such differences can be investigated through content analysis.

## KEYWORDS

Integrated Reporting, Investors, Thematic Analysis, Value Relevance

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