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Aims and Scope

The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publishing undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The JARSYM aims to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high-quality and unique research papers.

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- Priority is given to novelty, originality, and the extent of contribution that would make to the particular field.

The journal welcomes and publishes original articles, literature review articles and perspectives and book reviews describing original research in the fields of business studies and finance. The core focus areas of the journal include;

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- Marketing management
- Operations management
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Impact of Corporate Governance Mechanisms on the Adoption of Integrated Reporting: Empirical Evidence from Sri Lanka

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ABSTRACT

This study builds on the Agency theory literature to analyze the impact of corporate governance mechanisms on adopting the Integrated Reporting (IR) framework in Sri Lankan listed firms. As this is explanatory research, the philosophy is positivism, and the approach used is deductive. The study is based on the results of a binary-logit regression run regarding a sample of 35 Sri Lankan listed companies that had adopted the IR framework and 35 Sri Lankan listed companies that had not adopted IR over the last three years (2019-2021). Altogether, 210 observations have been considered for the study. The analysis of two samples of Sri Lankan listed firms reveals that adhesion to IR framework is positively related to the size of the board. This study demonstrates that corporate governance partially explains the companies' adoption of integrated reporting in the Sri Lankan context. Further research is required with a larger sample and to study differences between listed and non-listed firms in terms of governance variables affecting the adoption of IR framework. Other than that, this study has evaluated only the impact of six corporate governance characteristics. Therefore, it would be interesting to include more variables that can impact the adoption of IR. This study adds value to the existing literature by showing the main governance characteristics that influence the adoption of the IR framework. And also, this study fills the contextual gap in the existing literature regarding the corporate governance impact on the adoption of IR related to the Sri Lankan context. Further, it is also important to the existing literature regarding the role played by the size of the board in corporate governance mechanisms and firm size and firm age.

Keywords: *Agency Theory, Corporate Governance Mechanisms, Integrated Reporting Framework, Sri Lanka*

1. INTRODUCTION

Generally, the financial statements of a company are the most important sources of information to get an idea regarding that company. If it is a public limited company, demand for information from the stakeholders, including shareholders, is extremely high. Commonly, traditional financial statements included in the company's Annual Report contain all the financial information. But from time to time, stakeholders' demand regarding non-financial information has increased rapidly, subsequently to the demand for financial reporting with the increasing complexity of financial markets. As the United

Kingdom Financial Reporting Council (FRC, 2009) noted, ‘concerns about the increasing complexity and decreasing relevance of corporate reports have been growing in recent years. Many people point to the increasing length and detail of annual reports and the regulations that govern them as evidence that we have a problem. Others are more worried that reports no longer reflect the reality of the underlying businesses, with key messages lost in the clutter of lengthy disclosures and regulatory jargon. In many research studies, there are several reasons for growing demand for non-financial reporting. One of the main reasons is the growing relevance of intangible assets, which are not properly captured by financial reporting but are constantly taking on the role of tangible assets in the total amount of a firm’s invested capital (Lev, 2001). Another reason is the increasing demand for information regarding the company’s environmental, social, governance and CSR performance and, in a broader sense, the necessity for a set of Key Performance Indicators (KPI) that are more useful in signaling the firm’s future performance, given that traditional financial statements are based on historical data (Fiori et al., 2016). Even though there were lot of standards and common rules for financial reporting (IFRS, GAAP), there were no common rules or standards for non-financial information. There was no regulatory body to formulate the reporting of non-financial information. Therefore, they were based on voluntary disclosure. It means organizations disclose non-financial information along with financial information according to their own will. Neither requirements, nor rules & regulations were there. In such kind of situation, the idea of combining both financial and non-financial information into one report came out and that is called as “Integrated Reporting”. The 2008 Annual Report of Philips was prepared as an integrated report.

Accordingly, the concept of integrated reporting has spread rapidly throughout many academic studies (Eccles & Krzus, 2010; Frias-Aceituno et al., 2012; Sierra-Garcı`a et al., 2013). As a result, in 2010, the International Integrated Reporting Council (IIRC) was founded as an organization in which regulators, investors, companies, standard setters, accounting professionals, and NGOs have the common mission ‘to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors’ (IIRC website) (Fiori et al., 2016). In 2011, the IIRC launched a Pilot Programme to encourage the development of Integrated Reporting and to create a common framework (IR Framework) for firms aiming to adopt this new form of corporate information. More than 90 corporations volunteered to join this programme. In their opinion, this was a relevant choice made by the boards of directors of those firms, signalling a board decision to put effort towards the improvement of external corporate information (Fiori et al., 2016). One study found that sustainability reporting is associated with board independence only, whilst the adoption of integrated reporting is influenced by board size and board independence (Girella et al., 2021). And also, one study found that the size of the board is positively associated with the decision to join the IR Pilot Programme; the presence of women serving on the board is also positively associated with the IR Pilot Programme, and this positive effect is higher in smaller companies, which are likely to be more openminded (Fiori et al., 2016).

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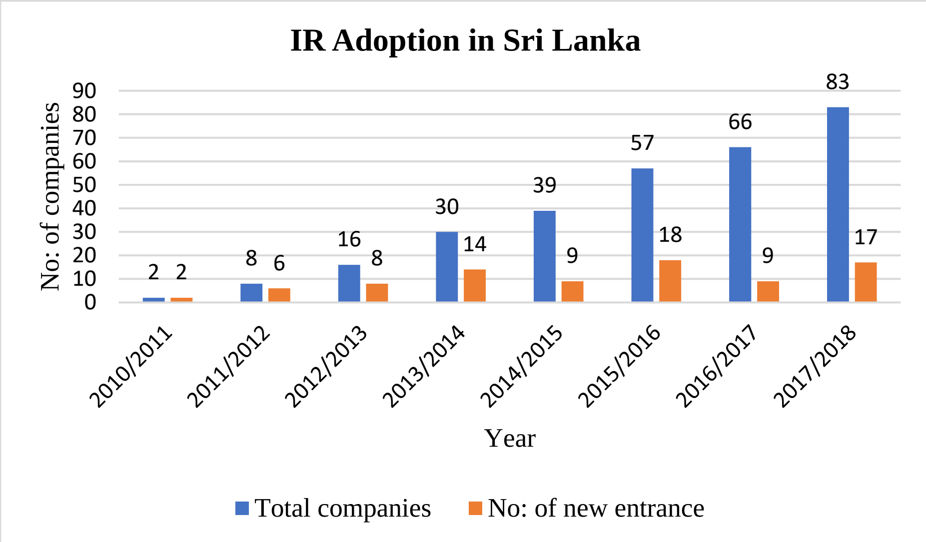
At the same time, according to Rediker & Seth (1995) and Zajac & Westphal (1994), it is possible to argue that firms, in order to reduce agency problems, may decide to use governance mechanisms not in combination but as substitutes and adhesion to the IR Pilot Programme is positively related to the gender diversity and size of the board and it says that non-financial information can take part in reducing agency cost and information asymmetries. (Fiori et al., 2016).

When it comes to Sri Lanka, there have been few organizations that have adopted IR from the beginning (since 2011). Over the past few years, Sri Lanka has become a global hub of professional accountants, who has facilitated the adoption of the latest features in accounting, like Integrated Reporting and Sustainability Reporting as our country's progressive accounting profession has been enhanced by national and international professional bodies and universities (Senaratne & Gunarathne, 2017). According to Senaratne & Gunarathne (2017) there were only two companies which adopted IR in 2011 and it had increased up to 83 companies when it came to 2018. The following chart clearly shows the continuous growing of adoption of IR in Sri Lanka among last few years.

Figure 1: IR adoption in Sri Lanka



Developed based on Herath et al., 2019

The above chart proves that a considerable number of Sri Lankan companies have adhered IR in spite of it is not being mandatory requirement. On the other hand, almost all the companies (in Sri Lanka) have given a considerable space in their annual reports for corporate governance. Accordingly, a relationship between IR and Corporate Governance can be existed. And also, it is verified through the previous research which have been done by many researchers. Even though IR adoption in Sri Lanka is like so, and it is practicing in Sri Lankan companies, it is difficult to find studies related to Governance Mechanisms and the Adoption of Integrated Reporting. Hence, this study has been done related to Sri Lankan companies to fill the contextual gap in the literature.

1.1. Problem Statement

There are some studies related to IR and corporate governance mechanisms which have been done by foreign researchers in foreign countries (Healy & Palepu, 2001; Ricart et al., 2005; Fiori et al., 2016; Girella et al., 2021). And connection between these two factors (corporate governance and IR) related to Sri Lankan context and how significant it is to Sri Lankan companies has been explained earlier. But it is difficult to find empirical studies regarding Corporate Governance mechanisms and IR adoption in Sri Lankan context. Cooray, T., Gunarathne, A. N., & Senaratne, S. (2020) have done about the impact of corporate governance on the quality of integrated reporting. Cooray, T., Senaratne, S., Gunarathne, N., Herath, R., & Samudrage, D. N. (2021) have done a study regarding the "Adoption of integrated reporting in Sri Lanka: coverage and trend". But those studies were not focused on the impact of corporate governance mechanisms on the adoption of IR in Sri Lankan context. Accordingly, the impact of corporate governance mechanisms on IR adoption is still a questionable and researchable area in Sri Lanka. Therefore, this study has been done to test whether there is a relationship between corporate governance mechanisms and Adoption of IR or not in Sri Lankan listed companies (in CSE). In other words, this study is going to test how the voluntary adoption of IR, aligning with IIRC framework, varies with corporate governance mechanisms in CSE listed companies in Sri Lanka. In this study, the impact of board independence, gender diversity of the board, board size, cultural diversity of the board, board ownership and CEO duality on adopting of IR will be tested. Because the role played by corporate governance (CG) practices, specifically by the Board of Directors (BoD), appears to be crucial (Fiori et al., 2016). This research fills the **contextual gap** in the literature.

1.2. Research Question

- Is there any impact of corporate governance mechanisms on adoption of IR in Sri Lankan CSE listed companies?

1.3. Research Objective

- To test whether there is any impact of corporate governance mechanisms on the adoption of IR in Sri Lankan CSE listed companies.

1.4. Significance of the research

This study contributes to the existing literature by showing the impact of main corporate governance mechanisms on the adoption of IR in CSE listed companies in Sri Lanka. And I am trying to check whether there is a significant impact of the cultural diversity of the board on the adhesion of IR. As Sri Lanka is a multi-national country, it will be interesting to find the relationship between the cultural diversity of the board and IR if any.

A robust and strongly developed stream of literature has studied the link between a firm's corporate governance and its decisions on voluntary disclosure (Fiori et al., 2016). In this study, the impact of corporate governance mechanisms on the adoption of IR has been tested. This study specifically focuses this analysis on

Sri Lankan companies that have been quoted in Colombo Stock Exchange (CSE). For this, 210 annual reports of 70 companies (210 observations) covering three consecutive financial years from 2018/2019 to 2020/2021 have been considered to maintain comparability and consistency. The focus of this study is on the firm-level characteristics (especially board characteristics under corporate governance structure), which are likely to explain the adoption of IR. Firm-level characteristics refer to board independence, gender diversity, board size, cultural diversity, board ownership and CEO duality under independent variables and firm size and firm age as control variables.

1.5. Innovative Points

The ultimate objective of this study is to test the impact of corporate governance mechanisms on the adoption of IR. In the empirical literature, many authors have provided various kinds of conclusions regarding this, and many researchers have proved empirically that, there is an impact of corporate governance on adoption of IR in foreign contexts. But many of them are related to European companies and it is difficult to find such kind of research related to Sri Lanka. As I stated earlier, there is a contextual gap in the empirical literature regarding above two factors when it comes to Sri Lanka. Therefore, this research has been done in order to fill that contextual gap in the empirical literature. Through this study it will be evaluated relating to the Sri Lankan context using board independence, gender diversity, board size, cultural diversity, board ownership and CEO duality. Subsequently, this study demonstrates that corporate governance partially explains the companies' adoption of Integrated Reporting in Sri Lankan context.

2. LITERATURE REVIEW

2.1. Theoretical literature

As this study is about the relationship between corporate governance mechanisms and IR, the theory directly related to this is Agency Theory. Agency theory is a principle that is used to explain and resolve problems in the relationship between business principals and agents (Investopedia, 2022). In simply, it explains the logic behind the manager willingness to provide information voluntarily to its stakeholders (Firth, 1980; Chow & Wong-Boren, 1987; Cooke, 1989, 1992; Hossain et al., 1995). Through this study the relationship between board characteristics and IR has been evaluated. According to the Agency Theory (Fama & Jensen, 1983; Jensen & Meckling, 1976; Williamson, 1981), a company with high agency costs will try to reduce them by increasing (a) monitoring activity - through corporate governance mechanisms - and (b) the amount of voluntary disclosure. In fact, both corporate governance and voluntary disclosure can function as mechanisms for shareholders and other investors to oversee managers' activities and prevent opportunistic behavior (Lev, 1992; Richardson & Welker, 2001). How does the adoption of IR, vary according to the board independence, gender diversity of the board, cultural diversity of the board and board size in CSE listed companies in Sri Lanka?

According to Deegan (2014), the relationship involves the delegation of decision making from one party to another party is called as *Agency relationship* and any potential loss of profit arises because of manager's under-performing is considered as a cost that results from delegation of decision making under agency relationship is called as *Agency cost*. Further, Deegan (2014) says when agency cost arising because of delegating decision-making authority from the owner to the manager, is referred to as *agency costs of equity* in Positive Accounting Theory (PAT). Other than that, the mismatch or conflict of interests between the owners (principals or shareholders) and managers(agents) is called as *Agency Problem*.

Therefore, as a solution a way to reduce agency conflicts and minimize agency costs is represented by the definition of formal contracts useful to mitigate conflicts between shareholders and managers and to harmonize their objectives (Healy & Palepu, 2001; Barako et al., 2006). However, this solution is difficult for companies to apply because the contracts are generally incomplete. Therefore, in this perspective, a solution that is easier to apply for companies to reduce agency conflicts and Information Asymmetry (IA) is represented by disclosure (Healy & Palepu, 2001; Watson et al., 2002). But it was proved that financial disclosure and non-financial disclosure separately were not sufficient to link information asymmetries between shareholders and managers (Garcia-Sanchez et al., 2020). Therefore, IR concept became a capable solution to reduce informational asymmetries between shareholders and managers and mitigating the limits of financial and non-financial disclosures (Adams & Simnett, 2011).

According to the Jensen & Meckling (1976) framework, the relationship between the disclosure policies of the organization and its corporate governance mechanisms has two opposite behavioral patterns. Those are as complimentary or substitutive. Accordingly, if it is complementary, an effective corporate governance system would improve the company's internal control and, therefore, the company would be more interested in disclosing information to reduce the consequences of opportunistic behavior and the costs related to the existence of asymmetric information (Leftwich et al., 1981). Therefore obviously, if the relationship is substitutive, no point of investing to improve both mechanisms at the same time. Because of that, it will carefully and rationally select the best one to invest (Cheng & Courtenay, 2006; Rediker & Seth, 1995). However, one suggests that because stakeholders and financial markets today are ever more strongly demanding clear and complete disclosure about performance, risk and value creation process, firms seek to satisfy this demand by disclosing value-relevant information, such as what is required from the IIRC, even if it is not mandatory (Fiori et al., 2016). Therefore, they did the study by assuming the existence of complimentary relationship between corporate governance and corporate disclosure.

2.2. Empirical literature

A study has been done to explore that extent to which companies around the world are using the framework to prepare their reports and whether country-to-country differences exist in the content and quality of integrated reports (Eccles et al., 2019). As the sample, they have taken five companies from each country. Their selected countries were Brazil, France, Germany, Italy, Japan, The Netherlands, South Africa, South Korea, United Kingdom, and the United States. At the end of the study, they have categorized those ten countries based on the quality of disclosure: High (Germany, the Netherlands, and South Africa), Medium (France, Italy, South Korea, and the United Kingdom), and Low (Brazil, Japan, and the United States) (Eccles et al., 2019). Further, they have given reasons for those differences in their study. They simply add that South Africa is the only country where integrated is mandated on a "comply or explain" basis in a much more principles-based and less litigious reporting regime and clearly suggests that legislation and regulation is not a necessary pre-requisite for integrated reporting (Eccles et al., 2019).

Garcia-Sanchez, Raimo and Vitolla (2020) have done a study about CEO power and Integrated Reporting (IR). The purpose doing that research was to analyze the role that the chief executive officer (CEO) has on integrated reporting (IR) adoption and to evaluate whether this role is moderated by incentives to promote corporate transparency, including information asymmetry problems and financial constraints. For that, they have taken 10819 firm observations (an unbalanced data panel of 1,588 firms for the period 2009–2017) into consideration. The results have been taken through logistic regression model. According to Garcia-Sanchez et al., (2020), there is an opposite connection between the CEO's who has greater power within the organization and their willingness to adhere IR. Further, the above-mentioned behavior is not affected by firms' incentives and greater growth opportunities increase CEO unwillingness to disclose integrated information on the creation of value, perhaps as a consequence of the possible use of it by competitors (Garcia-Sanchez et al., 2020). So, it has extremely considered only the impact of CEO power on adoption of IR, while this study is focusing the impact of few more characteristics along with CEO duality. Let us see whether the impact is same or not in Sri Lankan context.

Ain, Yuan, Javaid, Usman and Haris (2019) have taken quite large sample of 23,340 firm-year observations of Chinese listed companies during 2004–2017 into their consideration and analyzed the data using Ordinary Least Square (OLS) regression method with a wide range of methods to control for endogeneity and to check robustness, including the fixed-effect method, instrumental variable approach, lagged gender diversity measures, propensity score matching, Blau index, Shannon index and industry-adjusted measures of agency costs. Then, they found that, boards with female directors reduce agency cost (Ain et al., 2019).

On the other hand, Girella, Zambon and Rossi (2021) reveal that sustainability reporting is associated with board independence only, whilst the adoption of integrated reporting is influenced by board size and board independence and further, the results provide evidence that information asymmetry and financial constraints influence the decision of companies to publish the integrated report, sustainability report or both, whilst growth opportunities do not. It was Meditari

Accountancy Research. Objective of the study was, to examine if and to what extent board characteristics may influence the choice of companies to voluntarily publish a sustainability report, an integrated report or both, and if moderating variables, relating to incentives towards corporate transparency, may have an influence (Girella et al., 2021). They have considered quite large sample for the study as, companies listed on the Eurostoxx600 that adopt integrated or sustainability reporting or both for the period 2015–2018 for a total of 2,103 firm-years observations. Data analysis method was multi-nomial regression analysis. As limitations, study is exclusively focused on larger European listed firms, and therefore, the findings may not be valid for small and medium firms and for companies operating outside Europe (Girella et al., 2021). Husted & de Sousa-Filho (2019) also stated a negative effect of CEO duality on the level of information disclosed. On the other hand, Cheng & Courtenay (2006), Al-Shammari & Al-Sultan (2010) and Ho & Wong (2001) highlighted the absence of a relationship between CEO duality and voluntary disclosure.

Giovanni Fiori, Francesca di Donato, and Maria Federica Izzo (2016) state that adhesion to the IR Pilot Programme is positively related to the gender diversity and size of the board. Their objective was to analyze the corporate governance factors associated with the voluntary decision to prepare an Integrated Report according to the integrated reporting International Framework promoted by the IIRC (Fiori et al., 2016). They selected 35 companies that joined the Pilot Programme in 2011 and 137 similar companies that did not as the sample. They have given their suggestions based on the results of a pro-bit regression run with regards to the sample. This study is also related to Europe. In this study they have considered BoD characteristics as corporate governance mechanisms. Those are Board size, Board independence, Gender Diversity, Activity of the Board, and the presence of Block holders (Large controlling shareholders). In particular, the only two characteristics with significant relation are the size of the board and gender diversity, with reference to small companies and they showed that, if women serve on the board there is a positive and statistically significant effect on the probability of joining the Pilot Programme, independently of the number of women, and that this effect is greater for smaller firms. Further, companies with medium and large board size have a greater probability of joining the Programme compared to those with smaller board size (Fiori et al., 2016). In this study, they have mentioned some limitations related to their study. Small sample size, considering only listed companies, taking only European companies are some of them. At the end of the research, the analysis of two samples of European companies reveals that adhesion to the IR Pilot Programme is positively related to the gender diversity and size of the board (Fiori et al., 2016).

3. METHODOLOGY

This study has examined the impact of corporate governance mechanisms on the adoption of IR in Sri Lankan listed firms for the period of three years (2019-2021). This has been performed under deductive approach. As this is based on the historical data, this is archival research. As this study contains causal relationships, the purpose of this study can be stated as Explanatory. Dependent variable of the study is adoption of integrated reporting (AIR). Independent variable is the corporate governance which comprises with board characteristics. They are represented by board cultural diversity (BDCD), board gender diversity (BDGD), board independence (BDIN), board ownership (BDON), board size (BDSZ) and CEO duality (CD). Further, study includes two control variables (CV) that can probably influence the adoption of IR. They are firm size (FMSZ) and firm age (FMAG).

Sample for the study have been selected from all the companies listed in Colombo Stock Exchange (CSE). It was included 35 companies which have adopted IR and 35 companies which have not adopted IR to see the differences of corporate governance mechanisms in between IR adopted firms and not adopted firms. Previous researchers (Fiori et al., 2016) have also used two types of samples to test CG impact on IR adoption. Then the differences and similarities between IR adopted and not adopted categories could be clearly identified. To maintain the consistency and comparability, annual reports throughout three consecutive years which were prepared by 70 companies, have been considered for the analysis.

The sample has been selected using convenience sampling method. Because there is no accurate source to take the whole list of firms which have adopted IR in Sri Lanka. On the other hand, some companies adopted IR in some years and suddenly deviated from adopting IR. Such firms have been removed from the sample as they were neither suitable for IR adopted firms nor for not adopted IR. When selecting the sample under two categories, the industry wise balance between IR adopted companies and companies which had not adopted IR have been maintained to some extent. The secondary data related to above mentioned variables have been collected through annual reports of respective companies. The analysis of data has been done using E-views software.

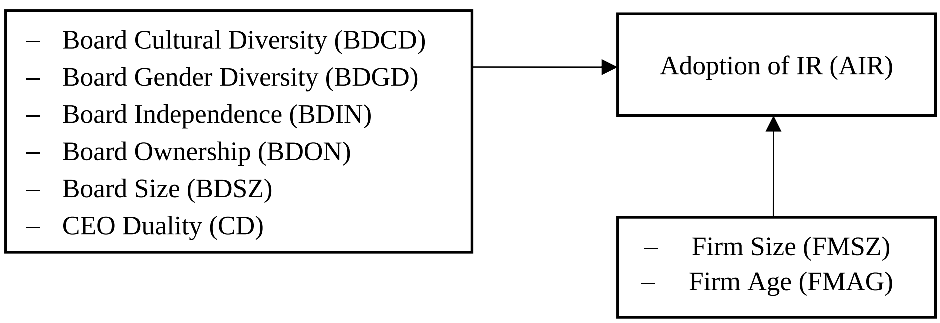


Figure 2. Conceptual diagram

Operationalization

Table 1: Operationalization table

Variable	Definition	Indicator and Measurement	Previous Researchers
Y - Adoption of IR (AIR)	To what extent the company has adopted IR.	IR Adopted = 1 Not Adopted IR = 0	Garcia-Sanchez et al., 2020
X_1 - Cultural Diversity (BDCD)	Culture wise representation of directors in the board. Culture wise composition of the board.	If all the directors belong to more than one culture = 1 If all the directors belong to one culture = 0	
X_2 - Gender Diversity (BDGD)	Representation of women directors in the board.	Proportion or percentage of women directors in the board. $= \frac{\text{No: of women in the board}}{\text{Board size}}$	Adams & Ferreira, 2004
X_3 - Board Independence (BDIN)	Representation of independent non-executive directors in the board.	Proportion or percentage of independent non-executive directors in the board. $= \frac{\text{No: of non executive directors}}{Board\ Size}$	Girella et al., 2021
X_4 - Board Ownership (BDON)	No: of shares owned by BoD, out of total shares.	Proportion or percentage of shareholding by BoD out of total shares. $= \frac{\text{No: of shares owned by BoD}}{\text{Total shares oustanding}} * 100$	Leuz & Wysocki, 2008
X_5- Board Size (BDSZ)	Total number of members in the director board.	Total number of directors in the board.	Fiori et al., 2016; Girella et al., 2021
X_6 - CEO Duality (CD)	Holding both CEO and chairperson positions by one person.	If, CEO Duality is there = 1 CEO Duality is not there = 0	Garcia-Sanchez et al., 2020
CV_1 - Firm Size (FMSZ)	Size of the firm in terms of total assets.	Natural logarithm of total assets.	Fiori et al., 2016
CV_2 - Firm Age (FMAG)	Age of the firm, after listing in the CSE.	No: of listing years.	Deegan et al. (2002)

Research Model

$$AIR_{it} = \beta_0 + \beta_1 BDCD_{it} + \beta_2 BDGD_{it} + \beta_3 BDIN_{it} + \beta_4 BDON_{it} + \beta_5 BDSZ_{it} + \beta_6 CD_{it} + \beta_7 FMSZ_{it} + \beta_8 FMAG_{it} + \varepsilon_{it}$$

For AIR, BDCD and CD, dummy variables (1,0) have been used. BDGD has been calculated as a proportion of women directors in the board. BDIN has been calculated as a proportion of independent non-executive directors in the board. BDON has been taken as a percentage of shareholding by Board of Directors out of total shares. Total number of members in the director board is considered as BDSZ (Fiori et al., 2016). Further, FMSZ and FMAG has been measured based on the natural logarithm of total assets (Fiori et al., 2016) and number of listing years (Deegan et al., 2002) respectively. All the required data for the calculations have been taken from the annual reports of the selected companies. Descriptive statistics, correlation matrix and logistic regression model are used to analyze the data.

Hypotheses Development

Based on the previous studies in the existing literature (Fiori et al., 2016; Garcia-Sanchez et al., 2020; Leuz & Wysocki, 2008), the following hypotheses were developed relevant to the research question and objective.

H1: There is a positive impact of board cultural diversity on adoption of IR.

H2: There is a positive impact of board gender diversity on adoption of IR.

H3: There is a positive impact of board independence on adoption of IR.

H4: There is a negative impact of board ownership on adoption of IR.

H5: There is a positive impact of board size on adoption of IR.

H6: There is a negative impact of CEO duality on adoption of IR.

4. FINDINGS

Table 2. Descriptive statistics for the full sample

	Mean	Median	Maximum	Minimum	Standard Deviation
BDCD	0.719	1	1	0	0.45
BDGD	0.118	0.111	0.5	0	0.111
BDIN	0.437	0.4	1	0.181	0.146
BDON	8.989	0.587	67.626	0	16.68
BDSZ	8.652	9	14	3	2.499
CD	0.057	0	1	0	0.232
FMSZ	10.121	10.044	12.58	7.865	0.981
FMAG	29.554	27	93	5	19.126

According to the descriptive statistics, the presence of women in board of IR adopted companies are less than the companies which had not adopted IR. On the other hand, BDIN have given two contradictory ideas in relation to AIR. Based on mean values, BDIN in IR adopted companies is higher than in the companies which had not adopted IR. But when it comes to median values, opposite idea has been given. BDON of the IR adopted companies are less than the BDON of the companies which had not adopted IR. Other than that, FMSZ

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of IR adopted companies are larger than the FMSZ of companies which had not adopted IR while FMAG of IR adopted companies are less than the FMAG of the companies which had not adopted IR according to descriptive statistics.

Table 3. Descriptive statistics for IR adopted companies

	Mean	Median	Maximum	Minimum	Standard Deviation
BDCD	0.761	1	1	0	0.427
BDGD	0.11	0.1	0.4	0	0.105
BDIN	0.452	0.4	1	0.181	0.182
BDON	6.429	0.379	50.014	0	12.472
BDSZ	9.609	10	14	5	2.229
CD	0.057	0	1	0	0.233
FMSZ	10.682	10.533	12.58	9.181	0.805
FMAG	25.771	21	75	7	18.058

Table 4. Descriptive statistics for companies without IR adoption

	Mean	Median	Maximum	Minimum	Standard Deviation
BDCD	0.676	1	1	0	0.47
BDGD	0.126	0.125	0.5	0	0.116
BDIN	0.422	0.416	0.666	0.285	0.095
BDON	11.548	0.78	67.626	0	19.757
BDSZ	7.695	7	14	3	2.394
CD	0.057	0	1	0	0.233
FMSZ	9.56	9.515	11.277	7.865	0.808
FMAG	33.342	36	93	5	19.496

When considering about the **correlation** between dependent and independent variables, there is a positive relationship between AIR and BDCD. The correlation between AIR and BDGD is negative, while it is positive between AIR and BDIN. The association among AIR and BDON is negative, whereas AIR and BDSZ have positive correlation. Further, the correlation between AIR and CD is negative. On the other hand, correlation between AIR and FMSZ is positive and correlation among AIR and FMAG is negative. Apart from that there is a strong correlation between the AIR and FMSZ. There is a moderate correlation between AIR and BDSZ. The correlations between AIR and BDIN, AIR and BDCD, AIR and BDGD, AIR and CD, AIR and BDON and AIR and FMAG are weak.

Table 5. Correlation matrix.

	AIR	BDCD	BDGD	BDIN	BDON	BDSZ	CD	FMSZ	FMAG
AIR	1								
BDCD	0.095	1							
BDGD	-0.073	-0.099	1						
BDIN	0.101	-0.139	0.218	1					
BDON	-0.153	-0.098	0.044	-0.182	1				
BDSZ	0.383	0.218	-0.151	-0.137	0.012	1			
CD	-5.69E-	-0.119	-0.023	0.137	0.006	-0.146	1		
FMSZ	0.572	0.009	0.084	0.343	-0.163	0.385	-0.169	1	
FMAG	-0.198	0.054	0.171	0.095	0.141	0.149	-0.042	-0.085	1

As per the regression results, there is a statistically significant ($P < 0.05$) impact of Board Size (BDSZ) on AIR. The regression coefficient of BDSZ was +0.278. It means, an increase in BDSZ by one member is associated with an increase of nearly 32% in possibility of adopting IR (AIR). This positive impact is empirically proved by many researchers before related to foreign contexts (Fiori et al., 2016; Pearce & Zahra, 1992; Dalton et al., 1999). However, other independent variables have no significant impact on adoption of IR. Because the p-values of those independent variables are greater than 5% significant level ($P>0.05$).

On the other hand, both firm size and firm age which are control variables in the study have statistically significant impact on AIR.

Table 6. Logistic regression results

Variable	Coefficient	e^{β} Value	Prob.
C	-19.209	-	0
BDCD	0.5370	1.7109	0.2132
BDGD	-0.2717	0.7621	0.8969
BDIN	-1.2733	0.2799	0.3946
BDON	-0.0109	0.9891	0.3596
BDSZ	0.2782**	1.3207	0.0017**
CD	1.4173	4.1259	0.202
FMSZ	1.7591**	5.8075	0.000**
FMAG	-0.0260**	0.9743	0.0109**
McFadden R-squared	0.374		

***Significant at 5% level*
Source: Authors' Own 2022

The following equation is derived based on the regression results, according to the research model.

$$AIR_{it} = -19.20903 + 0.537029BDCD - 0.271693BDGD - 1.273273BDIN - 0.010924BDON + 0.278187BDSZ + 1.417307CD + 1.759155FMSZ - 0.026005FMAG$$

Based on the regression results, fifth hypothesis (H5) is accepted while other five hypotheses are rejected.

The results of hypotheses testing are in the following table.

Table 7. Hypotheses Testing

Hypotheses	P-value	Accepted/Rejected
H1	0.2132	Rejected
H2	0.8969	Rejected
H3	0.3946	Rejected
H4	0.3596	Rejected
H5	0.0017	Accepted
H6	0.202	Rejected

Source: Authors' Own 2022

5. CONCLUSION

The objective of the study was to evaluate whether there is any impact of corporate governance mechanisms on the adoption of Integrated Reporting in Sri Lankan listed companies. Accordingly, board size (BDSZ) is significant, which has a statistically significant positive impact on the adoption of IR. Many previous researchers (Fiori et al., 2016; Pearce & Zahra, 1992; Dalton et al., 1999) have also found that board size impacts on firms adoption of IR. Therefore, the most important result of this study is the number of members in the board (board size) is influencing the decision whether to adhere the IR framework or not. This finding has contributed to the empirical literature in confirming the importance of the size of the board in good corporate governance practices and, it confirms the importance of the size of the board in maintaining better relationship between the board and firm's stakeholders. Accordingly, I suppose the firms to have about ten members in their director boards to maintain good corporate governance practice, to maintain better relationships with stakeholders, and to make better decisions. Furthermore, firm size is positively impacts on the adoption of IR, while firm age is negatively impacting on the adoption of IR. It can be identified as comparatively larger firms have a higher possibility to adhere IR than smaller firms in terms of total assets and the possibility of adhering IR framework by new firms is higher than the older firms. However, the result of this study also shows that further analysis is needed for all the other corporate governance characteristics, showed relationship which was not statistically significant. The reason for that could be the small size of the selected sample.

This study provides empirical proof to the professionals who are practicing in the firms to understand the impact of corporate governance mechanisms on their decisions regarding IR and how to implement those mechanisms to have good impact on firm's decisions. Apart from that, this is useful for the academics who are interested on the impact of corporate governance on the firm's adoption of IR and also important for the theory developers to understand theoretical background of Agency Theory related to practical world as well as for future researchers. Because Agency Theory simply says, how much of information do managers (agents) disclose to their stakeholders voluntarily and willingly.

However, there are limitations as well like small sample, considering only listed firms and only Sri Lankan firms, considering only six corporate governance characteristics etc. Therefore, I recommend future researchers to conduct further studies by eliminating them as much as possible.

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