

The Impact of Financial Reporting Quality on Investment Efficiency in Sri Lanka: Evidence from Listed Firms in Colombo Stock Exchange

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Abstract

One of the most essential functions of financial reporting is to help organizations make better investment decisions. The relationship between the financial reporting quality and investment efficiency, overinvestment, and underinvestment is complex and diverse. Financial reporting quality relates to a company's financial information's accuracy, openness, and dependability. The primary goal of this research is to determine the relationship between financial reporting quality and investment efficiency, overinvestment, and underinvestment in a sample of 30 companies with 270 firm-year data between 2014 and 2022. This study is based on secondary data gathered from published annual reports of listed companies in the Consumer Service Industry, Diversified Financial Industry, and Food, Beverage, and Tobacco Industry. The data in this study was analyzed using descriptive statistics, correlation analysis, and regression analysis. The study's findings revealed that in Sri Lanka, there is a positive relationship between financial reporting quality and investment efficiency, as well as a negative relationship between financial reporting quality and overinvestment and underinvestment.

Keywords: Financial Reporting Quality, Overinvestment, Underinvestment, Investment Efficiency