

# **The impact of earnings management on stock performance of Sri Lankan listed companies**

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## **Abstract**

Stakeholders are looking forward to obtain financial statements of business organisations in their decision-making process. Accordingly, accounting information plays a major role in determining the stock performance and therefore manipulations occur in the financial statements which are directly connected to the stock performance. When doing manipulations to the organization, it can be misled the investor's decision-making. Thus, this study aims at examining the impact of earnings management on the stock performance of listed companies on the Colombo Stock Exchange in Sri Lanka. One hundred forty (140) companies were selected as the sample of the study where companies in financial sectors, companies with a financial year end of 31st December, and companies with incomplete data were excluded in arriving the final sample. Data were gathered through secondary data sources for the period from 2017 to 2019, and 420 firm-year observations were considered accordingly for the analysis purpose. Earnings management measured through Jones Modified Model (1995) is the independent variable of the study, and the dependent variable is stock performance which is measured through stock return and stock price. Firm size measured through the average asset of the company is considered as the control variable of the model. Descriptive statistics, correlation analysis, Ordinary Least Square (OLS), and panel regression analyses were performed in the analysis. The analysis was done by using two models based on two dependent variables. Results found that the impact of earnings management on stock return is significant. However, it further found that the impact of earnings management on stock price is not significant in the sample companies. It implies that in the Sri Lankan context, earnings management is not price-sensitive. However, the stock return is sensitive to earnings management as per the findings of this study. These findings are expected to have significant policy implications.

**Keywords:** *Earnings management, listed companies in Sri Lanka, stock price, stock return*