

The impact of the corporate governance on stock performance of listed companies in Colombo Stock Exchange (CSE)

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Abstract

Good governance is recognized as the credibility of an organization as stakeholders look forward to this in their decision-making process, and therefore the organization's stock performance would be affected by this governance aspect. This study, therefore, aims to examine the impact of corporate governance on the stock performance of listed companies in the Colombo Stock Exchange (CSE). The study sample is one hundred and fifty-five (155) companies listed in the CSE where companies in the financial sector, companies with a financial year end of 31 December and companies with incomplete data were excluded when the final sample was drawn. Data over the period from 2017 to 2019 were collected from secondary sources, and the Descriptive Analysis, Correlation Analysis, Ordinary Least Square (OLS) Regression and Panel Regression Analysis were performed in the data analysis. Seven board characteristics namely Board size, Board Activity, Board Independence, Existence of Audit Committee, Existence of Remuneration Committee, Existence of Nomination Committee and Gender Diversity are considered as the independent variables of the study. The dependent variable, stock performance, is measured through Earnings per Share (EPS). Further, Return on Assets (ROA) and Leverage are included in the analysis as control variables. According to the OLS and Panel Regression Analysis, in the findings, it was found that none of the corporate governance variables namely Board size, Board Activity, Board Independence, Existence of Audit Committee, Existence of Remuneration Committee, Existence of Nomination Committee and Gender Diversity are significant in determining the stock performance in Sri Lankan listed companies. These findings are expected to have significant policy implications.

Keywords: *Corporate governance, Colombo stock exchange, listed companies, stock performance.*