EFFECT OF THE CORPORATE GOVERNANCE ON STOCK RETURN IN NON-FINANCIAL FIRMS LISTED IN COLOMBO STOCK EXCHANGE

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1. Introduction

This study examines the impact of corporate governance (CG) on stock returns in non-financial firms listed on the Colombo Stock Exchange (CSE). Stock return reflects an asset's price change over time, expressed as a percentage or price change. Research on the relationship between corporate governance and stock returns shows mixed results, both locally and internationally. This inconsistency prompts an exploration of 'What is the impact of corporate governance on stock returns in non-financial firms listed on the Colombo Stock Exchange.

2. Research Methodology

Board size, board independence, CEO duality, financial acumen, nomination committee, remuneration committee, and audit committee are used as the independent variables. Firm size and leverage are used as control variables. The dependent variable stock return was proxy by dividend and capital gain. The sampling procedure involved careful selection from a population of 196 publicly traded non-financial companies, with those that showed anomalies in their yearly reporting procedures being systematically left out. The required data was gathered from the annual reports for the years 2018 through 2022. The analysis methods used in this study were descriptive, correlation, and regression on panel data. Fixed effects, random effects, and the Hausman test were also executed through the Panel Regression Analysis.

3. Findings and Discussion

The results indicated that the nominating committee had a statistically significant effect on stock returns, indicating that the committee's efficacy had an impact on stock returns. Remarkably, none of the other variables indicated a significant impact on stock returns.

4. Conclusion and Implications

The study concludes that compliance with CG best practices in Sri Lanka does not significantly impact stock returns. The minimal effect of remuneration and audit committees, combined with the lack of variation in governance compliance and the unique ownership structures, suggests that traditional CG practices may have limited influence on stock performance.

Keywords: Corporate governance, Non-financial listed firms, Stock returns