

The Moderating Impact of Financial Performance and Stock Returns on the Relationship Between Corporate Governance and Corporate Value. Evidence from Top-Rated Companies in Sri Lanka's S&P SL 20 Index.

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Abstract

Introduction: This research demonstrates how financial performance and stock returns moderate the link between corporate governance and corporate value. The study has been conducted on firms in the S&P SL 20 Index. It addresses how sound governance mechanisms affect firm value, and how stock returns and financial performance either enhance or suppress these impacts

Methodology: The study uses a quantitative research methodology where data from 20 listed firms in the S&P SL 20 index is analyzed over the period 2014 to 2024. To conduct this analysis secondary data from annual and quarterly reports were utilized. The diagnostic test used the Panel data analysis to assess the model's validity. Further, to analyze the moderate effect of stock return and financial performance regression models were developed.

Findings: This analysis shows a significant relationship between corporate governance and corporate value, a weakly positive relationship. Stock returns moderate the relationship between better corporate governance and corporate value. Financial performance, which is measured through ROA and ROE also enhances the link between good corporate governance and corporate value.

Conclusion: The study supports the importance of proper governance structures in the development of corporate values. The findings are informative for policymakers and investors, calling for efforts to build governance mechanisms in firms while relying on financial indicators and market conditions to increase firm value.

Keywords: Corporate governance, corporate value, Stock return, financial performance