

The Effect of Corporate Governance on Equity Finance of Sri Lankan Listed Companies

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Abstract

The concept of corporate governance (CG) is a common concept that must be used by every listed company in the world. Further, better CG results in increasing investors trust towards the corporation and on the other hand, it helps corporations to access more equity finance in their capital market. This study aims to investigate the type of relationship that exists between CG and equity finance in Sri Lankan listed companies. In the context of Sri Lanka, to the researcher's best knowledge, there is no any published study available in terms of firm-level CG and equity financing patterns. This study attempts bridge this gap and to enhance the existing literatures. This study aims to examine the relationship between firm-level Corporate Governance (CG) and firm equity finance as the primary objective. Subsequently, the study aims to investigate the relationships between individual organizational factors (Firm size, Profitability, Leverage, Age and Growth rate) and equity finance while identifying the variable that has a highest impact on firm's equity finance. To measure the firm-level CG Index (CGI), this study uses 59 dichotomous CG practices under five sub-indices (Ownership concentration, Board structure and procedures, Shareholder rights, Internal controls and Disclosures and Corporate social responsibilities). Further, this study uses secondary data from published annual reports. Sample size is 76 list companies and data collected for 4 years from 2016 to 2019. Ordinary Least Squared (OLS) multiple regression model is used in SPSS to identify the relationships. The findings of this study are highlighted the need for Sri Lankan companies to formulate an optimal CG structure, which in turn would lead to the eradication of possible malpractices such as corruption, fraud and misappropriation of resources to ensure higher financial performance and long-term sustainability. Hence, policy makers and regulators such as SEC, CA Sri Lanka, and the Central Bank of Sri Lanka can draw insights from the findings of this study in making CG reforms in relation to minority protection and other related areas in developing an appropriate CG structure for public listed companies.

Keywords – Equity Finance, Firm-level Corporate Governance Index, performance