SHAREHOLDERS REACTION ON CG PRACTICES OF LISTED MANUFACTURING COMPANIES IN SRI LANKA

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ABSTRACT

Empirical studies done on the shareholders reaction on corporate governance (CG) practices of companies have identified that investors try to invest in well governed firms than poorly governed companies. Though such studies have been mainly carried out in foreign counties, there is dearth of research in this respect in the Sri Lankan context. Due to lack of studies of this nature in Sri Lanka and incapability of generalizing the results of foreign studies to Sri Lankan context, a research gap exist as to whether Sri Lankan investors consider CG practices in making investment decisions. Therefore, this study examined the investors' reaction on CG practices of Listed Manufacturing Companies in Sri Lanka. To evaluate the degree of CG practices adopted in these companies, an index was developed based on the Code of Best Practice on CG of Sri Lanka 2013.The study finds that a gap exists between the level of CG practices in the listed manufacturing companies in Sri Lanka which is assessed based on the disclosures of CG in annual reports and the principal requirements defined in the Code of Best Practice on CG of Sri Lanka 2013. The highest gap exists in the disclosures relates to institutional investors and lower gap exists in the disclosures on accountability and audit, and directors' remuneration. Further the study finds that there is no relationship between investor reaction and CG practices which evidenced that investors do not consider CG when making investment decisions. However, when considered the investor reaction to the control variables; size, debt to equity, book value per share and EPS, there is a significant relationship between earning per share and investor reaction.

1. Introduction

CG is referred as a system by which the companies are directed and controlled in the first CG report; Report on the Financial Aspects of CG as Cadbury (1992). It essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. According to UK Combined Code 2010, the purpose of CG is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company.

When considering the practical scenarios, there are many practical limitations on investors' reactions on CG due to lack of knowledge, more concern on profitability and lack of independent decision making because investment is done by another entity (Stock Brokerage advisers) on behalf of the investors even though CG is important.

This study is conducted specially to address following research question which has been identified based on the gap in the existing literature to discover whether Sri Lankan investors consider CG practices when making investment decisions. Accordingly, the research question for the study is,

"Do investors respond to CG practices of listed manufacturing companies in Sri Lanka?"

CG has been established for protection of shareholders and other stakeholders. Bhutta and Shah (2013) investigated that there is an impact of CG on investors' reaction. They identified CG mechanism (Board size, Board independence, Audit Committee independence and Ownership structure) as the independent variable and investors' reaction as the dependent variable. For their research, data was obtained from non-financial Pakistani companies listed at KSE for 5 years period (2005 -2010). According to their research, they found that there was insignificantly negative relationship between the CG and investors' reaction. Lack of knowledge of the financial markets, investor does not behave rationally in the market and research conducted in an inefficient market are mentioned as the reasons for the negative relationship.

CG practices mainly affect to the performance of the companies and the financial success is one of the key factors that investors consider when making investments decisions. Shank, Hill and Stang (2013) emphasized the relationship between good CG practice and the financial success of the company. According to the findings of this study, small firms have stronger relationship between good CG practice and financial performance.

Foreign investors consider more about CG when making investment decisions. According to Bokpin and Isshaq (2011), investment decisions of foreign investors are mainly depended on CG practice. Therefore, they make less investment in developing countries where poor CG practices are used.

Research Question and Research Objectives

CG system and practices have obtained a greater attention during last two decades due to many corporate collapses taken place around the world as well as in Sri Lanka. As a result, a Code of Best Practice was issued jointly by The Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka in 2013, which is mostly influenced by the British Governance system.

Even though there is such code which investor can use to evaluate the level of CG practices, in Sri Lankan context, it is questionable whether the investors react on CG practices because there were some incidents which proved that investors have not reacted on companies' CG practices.
According to Senaratne & Gunaratne (2008), the corporate failures such as collapse of finance companies in 1980s, the bankruptcy of Pramuka Bank and collapse of Vanik Incorporation had serious consequences on depositors and investors of these organizations, which evidence that, tend to invest without considering the level of CG practices by investors.
If they have considered the CG practices of those companies, the impact of these scandals on investors would have been different. As per the evidence of corporate failures and scandals experienced in Sri Lanka, it indicated that CG as a factor that investors need to consider when taking investment decisions. Therefore, the intention of this research paper was to examine whether investors react on CG practices of Sri Lankan listed manufacturing companies.

Overall Objective

The main objective of the research is to investigate whether investors' react on CG practices of the listed manufacturing companies in Sri Lanka.

In order to mitigate the industry variances in statistic results, this study planned to focus on one sector by referring to Colombo Stock Exchange sector classification data. Accordingly, the study sorted all listed companies to identify significant segment based on number of companies listed in Colombo Stock Exchange under each segments. (*Refer Appendix 1 – Sector Classification*). The most significant segment as per their classification is Bank, Finance and Insurance sector, 71 out of 295 listed companies (as at 24^{th} April 2017). Even though it is the most significant sector, it was excluded since it has a closer supervision by the Central Bank of Sri Lanka on CG which makes an extreme situation. Therefore, manufacturing sector which is second significant sector that includes 41 out of 295 listed companies was selected.

Specific Objectives

Under the main objective, the following two specific objectives have been identified and examined in the study.

- Examine the level of CG practices of listed manufacturing companies in Sri Lanka.
- Examine the investors' reaction to level of CG practices of these companies.

Significance of the Study

Significance of the study can be viewed in two different aspects namely; Practical significance and Theoretical significance.

Practical Significance

Currently, CG makes a huge impact to the investors when making investment decisions. The greater concern for CG when making investment decisions justify the need for more effective, scenario changing reactions on CG. Also the concern on CG has been caused to increase the interest of investors gradually about the stock market.

This research provides a brief description about how investors react on CG practice of the companies in making investment decision. This leads companies to rethink about the importance of CG practices which they should implement in the company, in order to maintain their shareholder base. They need to see that all their policies and actions of the business are in lined with the good CG practices. Consequently more investors will attract to the company if they have executed good CG practices.

Theoretical Significance

When it comes to the theoretical significant, there are dearth of studies on the investor reaction to CG practices in the Sri Lankan context and there is a difficulty of generalizing the results of foreign studies to Sri Lankan context. Therefore, a research gap exists as to identify whether Sri Lankan investors consider CG practices in making investment decisions. Hence, this study attempts to address this identified research gap.

Moreover, this research uses a CG index to measure the various aspects of CG practices and disclosures in listed manufacturing companies of Sri Lanka which can be developed up to a rating system to evaluate the level of CG practices in companies by future researches.

2. Literature Review

It is necessary to identify whether there is a reaction of investors on CG practices when making investment decisions. Through that companies can identify the significance of CG practices on investor attraction. When evaluating the CG researches related to Sri Lanka, it can be noticed there is a very limited number of researches have been performed on this. However, there is a sufficient number of foreign researches can be identified on CG and relationships between CG with different variables. Main areas of such researches were relationships between CG and investors' reactions, factors affecting to investor reactions and the components of CG that affect reaction of investors.

Corporate governance

In Report of Financial Aspects of CG as Cadbury (1992), CG is defined as a system by which the companies are directed and controlled. It essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. The purpose of CG is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company (UK Combined Code 2010).CG has significant implications for the growth of an economy. Good CG practices are reducing the risk of investors, attract investment capital and help to improve the performance of companies. It is defined by corporate charter, by laws, formal policy and rule of law. According to Sheifer and Vishny (1997), has identified CG deals with the suppliers of finance assure themselves on getting a return on their investment.

Interactions between CG and investors' reactions

In order to identify the significance of CG practices on investor attraction, it is necessary to identify the reaction of investors on CG practices. Therefore, researchers have identified the reaction of investors' on CG practices as one of the research areas which has been a prominent fact for a longer period. They have identified many relationships and theoretical aspects related to this research area with practical impacts in social phenomena of investing and that have been described below.

Koerniadi, Krishnamurti and Rad (2014) stated that investors react on the variability of stock returns to a greater extent. Well governed firms faced lower variability in stock returns compared with lower governed companies. Therefore, investors attempt to invest in better governed firms rather than poorly governed companies. Acording to Cormier et al. (2010) the companies with high CG index generate higher rate of return (Around 8.5%).The CG disclosures reducing the stock market asymmetry. Therefore it provides better information regarding the company to its shareholders and potential shareholders. Due to that investors consider about CG of companies and they react to the information on level of CG practices.

Many researchers argued that there was a positive relationship between CG practices and investors' reaction. A recent study (Elelish 2015) identified that CG disclosure has a significant positive impact on share price accuracy. Furthermore, CG disclosure plays a vital positive role on share price accuracy in UAE businesses. Similarly the study done by Klerk (2015)found that higher levels of CG disclosure are associated with higher share prices which provides evidence that CG disclosure by companies operating in environmentally sensitive industries, show a stronger association with share prices than CG disclosure by companies operating in other industries by using 100 largest UK companies and the share prices data three months after the year end 2007/2008.Bauer, Guenster and Otten (2003) also elaborated that how good CG leads to higher common stock returns and enhance firm value in Europe by analyzing the relationship between different governance standards and stock returns, firm value and operating performances for most firms which included in the FTSE Euro top 300 in 2000 and 2001. As per the results of this study, a stronger relationship was found between governance and firm value.

In addition to the evidences of positive relationship between CG practices and investors' reaction, researchers found another characteristic of this relationship. Typically investor expects more and more benefits and high returns for their investments. Hence they will react to level of CG practices only if CG of the entity is beneficial to investors. As per Mouselli, Abdulraouf and Jaafar (2012), investors are needed not to equally weight all the CG provisions in their investment decisions.

According to Shank, Hill and Stang (2013) the relationship between good corporate governance practices and the financial success of a company are the strongest bases for smaller firms and they are likely to be experienced in longer time horizons for most firms, for both small and large. The financial growth is one of the key factors that investors received benefit through their investments. They have described the relationships using the variables of time (Long and short period) and the size of the entity in comparing the CG effect. Their study utilized a comprehensive measure of governance as well as a risk adjusted measure of share price in comparisons between good governance firms and markets composed of similar sized firms.

Similarly Teixeira, Joaquim, Filho and Chambers (2000) pointed out the importance of CG in SMEs using a selected sample of 70 entrepreneurs whose annual returns greater than 160 million dollars per year. Accordingly CG will lead to access to the finance easily. In that way, different market sectors such as Manufacturing, Finance, Agriculture and etc. can also be analyzed by identifying the significance of the CG in financing the companies in the industry.

According to Bokpin and Isshaq (2011) foreign investors more consider about CG prior to their investment decisions and tend to avoid in investing in developing countries due to that. Further they identified that strong CG policy can have positive corporate liquidity policy at the company and always CG ensures wealth maximization of stakeholders. As a main stakeholder, if investors' are to be ensured with wealth maximization, they will invest in that firm sense that where the CG indirectly effects to the reaction of investors.

Provisions of CG which affect to investors' reaction

When analyzing the previous studies in relation to various countries, most of researchers have highlighted the common concepts including board composition, shareholder rights, Audit committee and corporate disclosures as the most important governance provisions of CG in investors' point of view which in return affect to the performance of an entity. The results of the study of Koerniadi, Krishnamurti and Rad (2014) using 88 entities of listed companies in New Zealand, reveal that CG aspect such as board composition, shareholder rights and disclosure practices are associated with lower level of risk in supporting to the main finding and investors react on the variability of stock returns. Further, their results indicate that CG aspect such as board composition, shareholder rights and disclosure practices associate with lower level of risk.

Infacts Ebaid (2005) has identified that the impact of CG practices on investors' perception of earning quality mainly focusing on two factors such as board of directors and audit committee. According to this research the quality of the financial reporting process is enhanced by the voluntary adoption of the CG and investors' decisions also affected in making investment decisions by most of the investors.As per Mouselli, Abdulraouf and Jaafar (2012), it was also elaborated that the audit provision is the main thing of governance that impact to stock returns in comparison to the other variables such as Board, leverage and Return on Equity.

All the governance practices may contribute to the over investments of the company. As per Huang, Liao and Chang (2015), certain governance structures, including higher block holdings and the presence of independent directors on boards, are effective in mitigating the negative impact of over-investment. According to the findings of a research done by Reddy and Locke(2014), it indicates an increase in number of independent directors, board member experience and size (measured by total annual sales) reduce agency costs in co-operatives and mutual in New Zealand. The borrowings from members rather than banks reduce agency cost and cause increase profitability in co-operatives and mutual. Therefore it seems that reduced agency cost will lead to increase in profitability which affects directly to the capital investments of most of the investors. Tompkins (2010) examines the market reaction to seasoned equity offering (SEO) announcements with a particular emphasis on the role of CG. As per the analysis, the firms with less powerful CEOs and more effective boards will give more favorable market reactions than others.

It is better to having a strong CG practice to attract more investors to the entity in the side of corporate level. Because as Saline (2014) explained, environmental, social and governance factors were considered holistically among other factors in making investment decisions by the investors and investors use different strategies to integrate environmental, social, and governance issues with investment process. Also the communication between investors and company representatives provide many valuable insights to investors which enable them to react on such information. This stressed the importance of disclosures of CG provided that investors consider the disclosures as the main way of evaluating the governance of the company.

Additional factors impacting on investors' decisions

Empirical researches evidence the investors' reaction on CG in different aspects. According to them, investors' reaction is directly or indirectly depends on CG practices of the company. However this is not the only factor that shapes the relationship between CG and investors' reaction. There are several other factors such as earning per share, size, debt to equity, risk level, profitability and book value per share of the company is affected to the reaction of investors.

When evaluating the said relationship by using 88 entities of listed companies in New Zealand, Koerniadi, Krishnamurti and Rad (2014) used number of control variables such as standard deviation of monthly market returns, ROA, leverage, Market to book value, size, and age because all these factors have been identified as factors to variability in stock returns.

According to Habib and Azim (2008), firm size, firm leverage, negative earnings and growth opportunities impacts to value relevance of financial information. Therefore, these variables have been identified as control variables when evaluating the CG and value relevance of financial information. In a similar study conducted by Fiador (2013) using evidence from Ghana stock exchange, earning per share and net asset value per share has been used as control variables.

When evaluating value relevance, earnings management and CG in China by Shan (2015), he has identified earnings per share, book value per share, return on asset, firm size and firm leverage as other variables which impacts to market prices of a listed company. Further, according to the study conducted by Wang (2014) on value relevance of Tobin's Q and CG for the Taiwanese tourism industry, book value per share, earnings per share, Tobbin's Q, firm size affects to value relevance of market price. Also book value per share and earnings per share impacts to value relevance of market price as per Jamaluddin, Mastuki and Ahmad (2009).

According to Shank, Hill and Stang (2013) the relationship between good CG practices and the financial success of a company are strongest bases for smaller firms and they are likely to be experienced in longer time horizons for most firms, for both small and large. The financial growth is one of the key factors that investors received benefit through their investments. These studies are evidences that the CG is not only the variable that shapes the investors positive and negative reactions.

When studying the intended relationship between CG and investors' reaction the other variables need to be held constant in order to eliminate its effect. This can be evidenced through the study of Jian, Tingting and Shengchao (2011). They have done a study to explore whether CG is the intermediary between the cross listing strategy and corporate performance. After identifying variables for the study, they did a factor analysis in order to reduce the variables for regression analysis. After doing that they have developed a regression model in accordance with identified hypothesis. They have used regression model to analyze the multiple number of variables with other constant variables. Elkelish (2015) used the same method to investigate the impact of CG disclosure on share price accuracy of listed companies in UAE. As the major variables CG disclosures were obtained from the financial statements of the listed companies and the share prices were taken based on each companies weekly share prices between 2008 and 2009 using generalized least squares regression analysis. The study was performed using multiple regression analysis.

CG in Sri Lanka

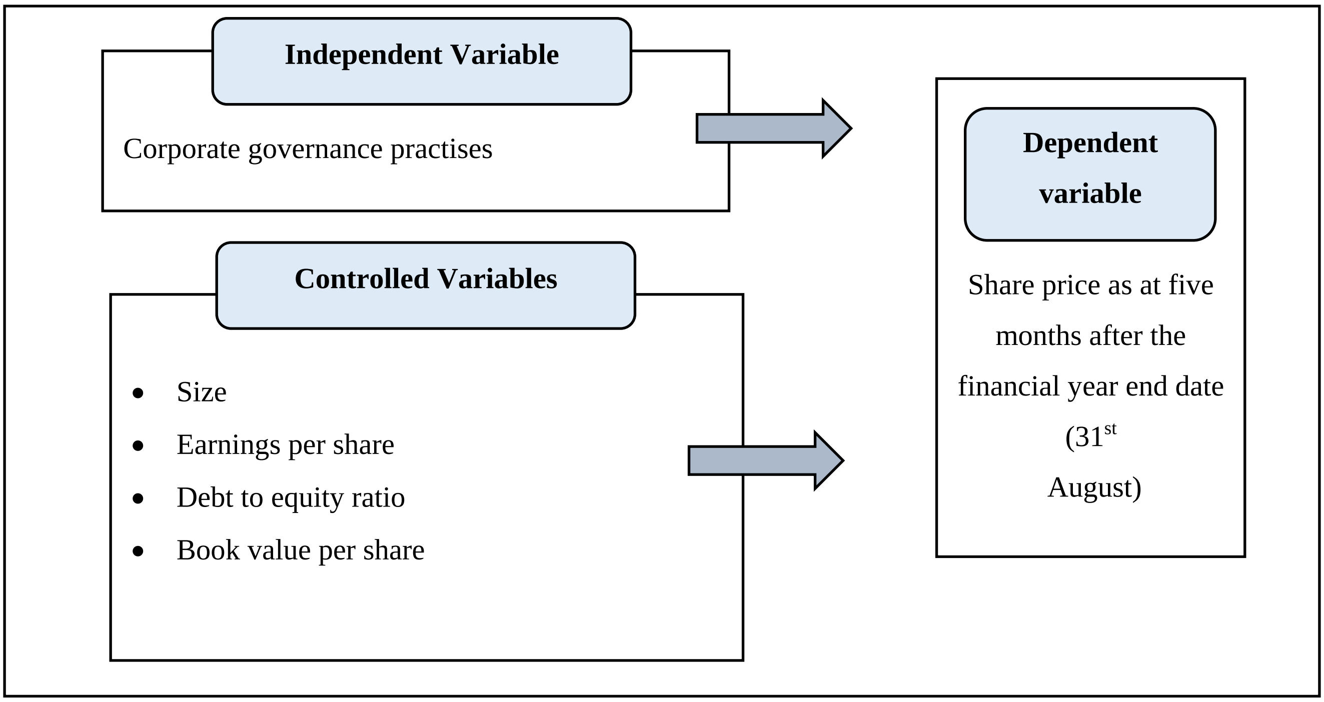
Heenetigala (2011) stated that good CG practices are important to the performance of firms operating in Sri Lanka, even in adverse economic and political conditions. This study emphasised that there were significant increase in CG practices during 2003 - 2007 relating board composition, board committees and corporate social responsibility reporting. According to Kalainathan and Vijayarani (2014), CG in part, is the mechanism to minimize the loss of foregone value from separation of ownership and control. At present the CG practices of Sri Lankan listed companies are governed by the mandatory CG rules included in the CSE Listing Rules (Senaratne & Gunaratne 2008).

Though there are many studies done on the relationship between level of CG and investors' reaction internationally; a research gap exists as to whether Sri Lankan investors react on CG practices since there is a lack of studies in Sri Lanka regarding this research area. Velnampy (2013) stated that even though various studies have been conducted on this area, no any detailed studies in Sri Lankan context. Due to dearth of researches in Sri Lanka and incapability of generalizing the results of foreign studies to Sri Lankan context, it implies a necessary to conduct a study to reveal the shareholders' reaction on CG in Sri Lankan context.

Conceptual Diagram

Based on the literature review the following conceptual diagram was developed to illustrate the relationship between the CG practices of the companies and the investors' reaction to CG.

Figure 1: Conceptual model of study



Source: Author constructed

When evaluating the investors' reaction of a company, have to consider many factors such as CG practices, debt to equity ratio, earnings per share, book value per share and size of the company. Investors' reaction may be positively or negatively affect by above factors. Share price of the companies differ according to the investors' reaction. As an example when investors positively react on above factors share prices will be increased and when investors negatively react on above factors share prices will be decreased.

For this study, investors' reaction is considered as the dependent variable and all other variables were considered as independent variables. In order to identify the relation between CG practices of the company and investors' reaction, assumed that all the independent variables except CG practices act as control variables. Debt to equity ratio, earnings per share, book value per share and size of the company has been identified as controlled variables which had been commonly used in many research papers (*Refer Appendix 5 – Control variables*). In this study, investors' reaction was measured by evaluating the value relevance for the market price of a share as at the date after five months from the financial year ending date of the selected listed manufacturing companies in Sri Lanka.

Table 1: Identified independent variables

Variable	Measurement	Reference
CG practices	CG Index	Appendix 4
Book value per share	Book value per share ratio	Appendix 5
Size of the company	Total assets	Appendix 5
Debt to equity	Debt to equity ratio	Appendix 5
Earnings per share	Earnings per share ratio	Appendix 5

Source: Author constructed

Hypotheses of the study

Based on the conceptual diagram of the study, the following hypotheses were identified to identify the relationship between level of CG practises and investors' reaction of listed manufacturing companies in Sri Lanka.

H0 = There is no relationship between level of CG practice and reaction of investors.

H1 = There is a relationship between level of CG practice and reaction of investors.

3. Methodology

Research Approach

In our study, the examination of reaction of investors was performed through evaluating the share prices and the level of CG practices of manufacturing companies. Quantitative approach was used to investigate the investors' reaction on CG which was examined by evaluating Companies Annual Reports. This index has been developed based on the Code of Best Practice on CG 2013 (Refer *Appendix 4 for the Index*).

Sample selection

The study focused on listed manufacturing companies on the Colombo Stock Exchange, which have year ended on 31st March (*Refer Appendix 2 –Manufacturing companies listed in CSE*).In order to mitigate the industry variances in statistic results, we have focused on one sector of the Colombo Stock Exchange(*Refer Appendix 1 – Number of companies according to Sector classification by Colombo Stock Exchange and market statics*).

Accordingly the segment which has the highest number of companies is Bank,Finance and Insurance sector including 71 out of 295 listed companies (as at 24th April 2017). Even though it is the sector with highest number of companies, it was excluded as the industry by nature has a closer supervision by the Central Bank of Sri Lanka on CG which makes an extreme situation. Therefore, we have selected manufacturing sector which is the sector with second highest number of companies that includes 41 out of 295 listed companies. Similarly according to the market statistics of all the listed companies as of May 5, 2017(*Refer Appendix 1 – Number of companies according to Sector classification by Colombo Stock Exchange and market statics*), manufacturing sector has the highest turnover with compared to other sectors amounts to Rs.159, 207,919.60. Also the share volume of manufacturing sector is the second highest share volume, which is 5,126,623.00. By considering all these statistics we have selected manufacturing sector to conduct our research.

Out of the total number of companies in manufacturing sector, we have excluded six companies with financial year ending 31st December in order to alleviate the reflection of different markets conditions at different time periods. Five companies, which do not have traded shares at five months after the yearend were excluded as the model of study is based on the share prices at five months after the yearend, three companies which have been double counted in the CSE sector classification itself, two companies which have not published annual reports were also excluded due to inability to refer CG disclosures and other variables, and another one company is removed as the company was listed in 2016/17. Finally the sample was limited to 24 listed manufacturing companies. (*Refer Appendix 4 – Selected manufacturing companies listed in CSE*)

In order to make the sample statistically sufficient, the annual reports for two years period were examined from 2014/2015 as the revised Code of Best Practice on Corporate Governance has been introduced in 2013 and the CG disclosures that proposed in the revised code was incorporated from 2014/2015 annual reports. Accordingly the annual reports up to 2015/2016 were examined because the unavailability of annual reports of 2016/2017 for several companies.

Data Collection

This study based on secondary data due to accessibility and availability. Main source of data collection was corporate annual reports, and both financial data and non-financial data taken to consideration throughout this study. Corporate annual reports for financial years 2014/2015 and 2015/2016 of selected manufacturing companies were evaluated to identify the CG practices of the company.

An equally weighted index developed based oncriteria of the Code of Best Practice on CG 2013 which can be evaluated using secondary data of listed manufacturing companies in Sri Lanka by mainly focusing on five key variables *(Refer table 02- Key variable of the index).* Selected 24 manufacturing companies are scored according to their CGdisclosures in financial statements. When evaluating the CG disclosures, 1 score was given for fully compliance and 0 score for non-compliance. Non-disclosure and partly compliance of a particular disclosure requirement was considered as non-compliance *(Refer Appendix 3 - the CG index).*

The information on control variables used in the model namely; size of the company, debt to equity ratio, net book value per share and earnings per share were also examined using the disclosures in annual reports of companies.

Investors' reaction is considered based on the value relevance of the share prices. As the financial year end used to the study is year ending 31st March, market price after five months from 31st March was considered because according to the CSE Listing Rules 7.5, a in Sri Lanka a listed company shall ensure that the annual report to the shareholders within a period not exceeding five months from the close of the financial year. This approach is consistent with Lin and Chen (2005), Liu and Liu (2007), Ge,et al. (2010) and Shan (2015).

Testing Strategy

Data set for testing is contained 48 observations, which belong to 24 companies and from financial years; 2014/15 and 2015/16. Due to consideration of two years data, the dataset had to be classified as a panel data set. Stock price is regressed on size of the company, debt to equity ratio, net book value per share and earnings per share to be consistent with current value relevant research studies (*Refer Appendix5- Control variablesused in empirical studies).* Accordingly, the regression model is as follows.

$$P_{it}= \boldsymbol{\beta}_o+\boldsymbol{\beta}_1 CG + \boldsymbol{\beta}_2 Size + \boldsymbol{\beta}_3 DTE + \boldsymbol{\beta}_4 NBV + \boldsymbol{\beta}_5 EPS+\varepsilon_t \qquad (1)$$

***P**_it_* is the closing market price at 31st August of the particular financial year which is five month after the year end date (31st March). **CG** is the level of CG practices of the company which is measured based on the disclosures in the annual report by using the CG index. **Size** of the companies is the total asset value at yearend which was taken by using natural logarithm to make more accurate in relative terms for absolute values of that sizes. **DTE** is the debt to equity ratio which is computed by dividing total liability to total equity of the company as at yearend date. **NBV** is the net book value per share of the company which is derived by dividing net asset by number of shares outstanding and **EPS** is the earning per share which is the portion of companies profit for each outstanding shares.

With the purpose of identifying the isolate impact of each key variable in the CG index, the key CG variables were separately regressed with the share prices. Hence, the following regression model was developed.

$$\boldsymbol{P_{it}}= \boldsymbol{\beta}_o+ \boldsymbol{\beta}_1 DIRECTOR + \boldsymbol{\beta}_2 REMUNERATION + \boldsymbol{\beta}_3 SH\_RELATION + \boldsymbol{\beta}_4 ACCOUNTABILITY + \boldsymbol{\beta}_5 INS.\_INVESTORS +\boldsymbol{\beta}_6 Size + \boldsymbol{\beta}_7 DTE + \boldsymbol{\beta}_8 NBV + \boldsymbol{\beta}_9 EPS + \varepsilon_t \qquad (2)$$

4. Analysis and Discussion

Descriptive Statistics

Analysis of descriptive statistic was performed on the panel data set in order to get an idea about the nature of the data. Table 2 presents a descriptive statistics of independent variables including control variables while Table 3 presents descriptive statistics of CG variables.

To measure the central tendency of the data Mean and Median were used. According to 48 observations, 77 percent of the companies are adequately presented compliance with CG with 97 percent as the maximum level of highly compliance and 42 percent as lowest level of compliance. Standard deviation is the most important measure of dispersion. NBV reflects the highest standard deviation and CG reflects the lowest standard deviation. The lowest standard deviation of CG represents that there is no significant change to the level of compliance of CG adopted by the company and less impact on investors' reaction if there is a variation. To measure the distribution of the data, skewness and kurtosis are used because central tendency and dispersion are inadequately to characterize completely the distribution. CG and Size have negatively skewed distribution, and DTE, NBV and EPS have positively skewed distribution. When the distribution has heavier tails and kurtosis value is greater than zero called as leptokurtic distribution. Since kurtoses of all variables are positive, the data has leptokurtic distribution and among of them EPS has the most leptokurtic distribution.

Table 2 : Descriptive statistics on independent variables

	CG	SIZE	DTE	NBV	EPS
Mean	0.776875	21.10417	0.641667	51.55417	7.767708
Median	0.810000	21.00000	0.640000	27.82000	2.435000
Maximum	0.970000	24.00000	2.440000	218.6100	49.65000
Minimum	0.420000	14.00000	0.000000	0.640000	-4.080000
Std. Dev.	0.142965	2.354169	0.519834	53.14621	10.51489
Skewness	-0.552954	-1.708092	1.079915	1.211048	1.692008
Kurtosis	2.509506	5.843454	4.339191	3.818925	6.357833
Jarque-Bera	2.927236	39.51107	12.91660	13.07437	45.45321
Probability	0.231398	0.000000	0.001567	0.001449	0.000000
Sum	37.29000	1013.000	30.80000	2474.600	372.8500
Sum Sq. Dev.	0.960631	260.4792	12.70067	132752.4	5196.460
Observations	48	48	48	48	48

Source: Author Constructed

Table 3 : Descriptive statistics on independent variables

	CG	DIRECTOR	REMUNERA...	SH_RELATION	ACCOUNTA...	.INS_INVES...
Mean	0.776875	0.229583	0.162979	0.067500	0.284583	0.086957
Median	0.810000	0.250000	0.170000	0.080000	0.280000	0.110000
Maximum	0.970000	0.310000	0.170000	0.080000	0.310000	0.140000
Minimum	0.420000	0.060000	0.110000	0.030000	0.170000	0.030000
Std. Dev.	0.142965	0.063479	0.015592	0.016948	0.033131	0.034567
Skewnes s	-0.552954	-0.431660	-2.140155	-1.192570	-1.799687	-0.425732
Kurtos is	2.509506	2.399416	6.689506	3.311111	6.289807	2.075021
Jarque-Bera	2.927236	2.212042	62.53644	11.57136	47.55664	1.514719
Probability	0.231398	0.330873	0.000000	0.003071	0.000000	0.468903
Sum	37.29000	11.02000	7.660000	3.240000	13.66000	2.000000
Sum Sq. Dev.	0.960631	0.189392	0.011183	0.013500	0.051592	0.026287
Observations	48	48	47	48	48	23

Source: Author Constructed

To measure the CG practices of companies, scores were obtained from the self-constructed CG index. Scores of the index vary from zero (0) to one (1) and there are 5 types of main areas including Directors, Directors' Remuneration, Relations with Shareholders, Accountability and Audit, and Institutional Investors and other Investors. Out of the maximum score of 0.970000, the highest score has obtained by Directors related disclosures, and Accountability and Audit related disclosures equally which is 0.310000 scores *(Refer Table 3)*. Minimum scores of 0.300000 were obtained by Relations with Shareholders, and Institutional Investors and other Investors related disclosures. The mean score of CG disclosures as general is 0.776875 with a standard deviation of 0.142965. These statistics indicate that the Relations with Shareholders of listed manufacturing companies are relatively low compared to other independent variables. Accountability and Audit related disclosures of companies take higher average score with compared to other areas. Statistics of Table 1 shows negative skewness when considering total CG scores as general. It means independent variables are negatively distributed.

Correlation Analysis

Correlation measures the relationship between two variables. The results obtained from statistical analysis are presented in the following table.

Table 4: Correlation analysis

	DIRECTOR	REMUNERATION	SH_RELATION	ACCOUNTABILITY	INS._INVESTORS	SIZE	DTE	NBV	EPS	***P***
DIRECTOR	1.000000	-0.094765	0.488248	0.431411	-0.090496	-0.317753	-0.021085	0.245427	0.309083	0.176839
REMUNERATION	-0.094765	1.000000	-0.100715	-0.007539	-0.112423	0.249751	-0.073406	-0.324677	-0.020553	0.097309
SH_RELATION	0.488248	-0.100715	1.000000	0.745197	0.355124	-0.236078	-0.271684	0.198841	0.203800	0.087472
ACCOUNTABILITY	0.431411	-0.007539	0.745197	1.000000	0.127768	-0.065485	-0.159369	0.057245	0.095480	0.054250
INS._INVESTORS	-0.090496	-0.112423	0.355124	0.127768	1.000000	-0.275405	-0.437357	0.321534	0.266810	0.228069
Size	-0.317753	0.249751	-0.236978	-0.065485	-0.275405	1.000000	0.105578	-0.557262	-0.321842	-0.317434
DTE	-0.021085	-0.073406	-0.271684	-0.159369	-0.437357	0.105578	1.000000	-0.111345	-0.21838	-0.221531
NBV	0.245427	-0.324677	0.198841	0.057245	0.321534	-0.557262	-0.111345	1.000000	0.822234	0.762553
EPS	0.309083	-0.020553	0.2038	0.09548	0.26681	-0.321842	-0.218380	0.822234	1.000000	0.930847
P	0.176839	0.097309	0.087472	0.05425	0.228069	-0.317434	-0.221531	0.762553	0.930847	1.000000

Source: Author Constructed

According to the above table showing correlation, there is a positive but insignificant correlation between corporate governance practices and price variation of the share price. There was significant positive relationship with share price of the company and net book value of the company (0.762553) and earnings per share (0.930847). Share price of the company has negative relationship with size of the company and debt to equity ratio.

When the relation between alternative independent variables and CG measures are considered, it could be observed that negative correlation between CG practices related to remuneration and earnings per share ($p < -0.020553$). Further there is negative relationship between directors and debt to equity ratio ($p <= -0.021$) and negative relationship can also be seen between accountability and remuneration.

As correlation analysis was performed considering only two variables at a time and not considering the effect of the control variables, it is not possible to arrive at a conclusion on a multivariate basis. Because the results of this test not conclusive and may be affected by other variables, a panel regression analysis on a multivariate basis was carried out as further analysis. Panel regression analysis allows using more independent variables and controlling variables at a time, and therefore it is superior to the correlation analysis.

Level of CG

In order to identify the level of CG of listed manufacturing companies in Sri Lanka, Two Way ANOVA with repetition was performed and the test results are presented in the Table 5. According to the results, there is less variance exist in the CG practices followed by listed manufacturing companies, which are identified through CG disclosures in the annual reports of the companies. In the ANOVA table, both company (sample) and areas in CG (column) have resulted significant P values ($0.0181 < 0.05$ and $0.0000 < 0.05$ respectively) which indicate that the level of CG is varied by company wise and key variable wise among the listed companies in manufacturing sector. However, there is no evidence to say that the level of CG is constant across companies and key variables in CG as the p value in interaction is not significant ($0.1083 > 0.05$).

T-test analysis of the gap between the expectation and actual values

A gap analysis was conducted on the scores attain for each key aspect of CG which was rated by using the CG index developed based on the Code of Best Practice on CG 2013,to identify the level of CG followed by the listed manufacturing companies in Sri Lanka. For this purpose we have considered only the latest year CG disclosures (2015/2016) as it reflects the current organization practices.

Table 5: Anova Two-Factor with replication

SUMMARY	DIRECTOR	REMUNERATION	SH_RELATION	ACCOUNTABILITY	INS._INVESTORS	TOTAL
Group A - 2014/2015 CG disclosures						
Count	24	24	24	24	24	120
Sum	5.0278	3.8333	1.4722	6.6111	0.9444	17.888
Average	0.2095	0.1597	0.0613	0.2755	0.0394	0.1491
Variance	0.0043	0.0002	0.0005	0.001	0.0028	0.0097
Std. Deviation	0.0655	0.0148	0.0231	0.0316	0.053	0.0984
Group B - 2015/2016 CG disclosures						
Count	24	24	24	24	24	120
Sum	5.9444	3.6944	1.7778	6.9167	1.0556	19.388
Average	0.2477	0.1539	0.0741	0.2882	0.044	0.1616
Variance	0.0029	0.0013	0.0002	0.0009	0.0023	0.0106
Std. Deviation	0.0543	0.0357	0.0134	0.0304	0.0484	0.1027
Total						
Count	48	48	48	48	48	
Sum	10.972	7.5278	3.25	13.5278	2	
Average	0.2286	0.1568	0.0677	0.2818	0.0417	
Variance	0.0039	0.0007	0.0004	0.001	0.0025	
Std. Deviation	0.0626	0.0272	0.0198	0.0314	0.0503	

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Sample	0.0094	1	0.0094	5.6722	0.0181	3.8822
Columns	2.0145	4	0.5036	304.7033	0	2.4109
Interaction	0.0127	4	0.0032	1.918	0.1083	2.4109
Within	0.3801	230	0.0017			
Total	2.4167	239				

Source : Author Constructed

The average of individual company score was considered as the 'average perception' (P) and the average value which is allocated for each aspect in the CG index was used as 'average expectation' (E) by assuming the expectation of shareholders is to fully comply with the all disclosure requirements. The gap was calculated by subtracting the expectation from the actual values. The gap results are tabulated in Table 6.

Table 6: Comparison of perceptions and expectations of CG disclosures

#	Compliance Requirement	Average Perception (P)	Average Expectation (E)	GAP (P-E)
Directors		**0.81**	**1.00**	**(0.19)**
1	Board meetings should be held at least once in every quarter of a financial year	0.88	1.00	(0.13)
2	All directors should have access to the advice and services of the company secretary	0.71	1.00	(0.29)
3	Every director should dedicate time and effort to matters of the board and the company	0.75	1.00	(0.25)
4	Every director should receive appropriate training when first appointed to the board of a company, and subsequently as necessary	0.46	1.00	(0.54)
5	There should be a clear division of responsibilities for conduct the business of the board and facilitating executive responsibility for management of the company's business (Chairman and CEO duality) & if Chairman and CEO one person, should be justified and highlighted in the annual report	0.96	1.00	(0.04)
6	Board should ensure the availability within it of those with sufficient financial acumen and knowledge	0.79	1.00	(0.21)
7	The board should have balance of executive and non-executive directors	0.96	1.00	(0.04)
8	If the board of directors includes only two non-executive directors, both such directors shall be ‘independent’ or Two or 1/3 of Non- Executive Directors appointed to the board of directors, whichever is higher, should be independent	0.83	1.00	(0.17)
9	Each non-executive director should submit a signed data declaration annually of his/her independence or non-independence against the specified criteria.	1.00	1.00	-
10	The board should make a determination annually as to the independence or non-independence of each non-executive director based on their information and other information available to the board. In the event a director does not qualify as ‘independent’ against any of the criteria set out below but if the board, taking account all the circumstances, is of the opinion that the director is nevertheless ‘independent’, the board shall specify the criteria not met and the basis for its determination	0.92	1.00	(0.08)
11	The performance of the CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets set by the Board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances.	0.67	1.00	(0.33)
Directors' remuneration		**0.92**	**1.00**	**(0.08)**
12	Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.	0.88	1.00	(0.13)
13	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, within agreed terms of reference, on the Company’s framework of remunerating executive directors.	0.96	1.00	(0.04)
14	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.	0.96	1.00	(0.04)
15	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.	0.88	1.00	(0.13)
16	The Company’s Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.	0.92	1.00	(0.08)
17	The Annual Report should set out the names of Directors (or persons in the parent company’s committee in the case of a group company) comprising the remuneration committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.	0.96	1.00	(0.04)
Relations with shareholders		**0.89**	**1.00**	**(0.11)**
18	Boards should use the AGM to communicate with shareholders and should encourage their participation.	1.00	1.00	-
19	Complying with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations	1.00	1.00	-
20	Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company’s net assets base or in the case of a Company with subsidiaries, the consolidated group net asset base.	0.67	1.00	(0.33)
Accountability and Audit		**0.94**	**1.00**	**(0.06)**
21	Board should present a balanced, understandable assessment of company’s’ financial position, performance & Prospects.	1.00	1.00	-
22	The Annual Report should contain a “Management Discussion & Analysis”	0.71	1.00	(0.29)
23	The Directors should report that the business is a going concern.	1.00	1.00	-

24	The Audit Committee should be comprised of a minimum of two independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.	0.96	1.00	(0.04)
25	The Chairman of the Committee should be a Non executives Director, appointed by the Board.	0.96	1.00	(0.04)
26	The names of Directors in the Audit committee should be disclosed in the Annual Report.	0.96	1.00	(0.04)
27	Make determination of the independence of the Auditors and should disclose the basis for such determination in Annual Report.	0.96	1.00	(0.04)
28	The Annual Report should contain a report by Audit Committee about compliance by the Company.	0.96	1.00	(0.04)
29	All Companies must disclose whether they have a Code of Business Conduct and Ethics for Directors and Key Management Personnel and if they have such a Code, make an affirmative declaration in the Annual Report, and if unable to make that declaration state why they are unable to make that declaration	0.88	1.00	(0.13)
30	The Chairman use affirms in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics.	1.00	1.00	-
31	The Directors should include in the Annual Report a CG Report, setting out the manner and extent to which the Company has complied with the principles and provisions.	1.00	1.00	-
Institutional Investors and other investors		**0.32**	**1.00**	**(0.68)**
32	Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated in to practice.	0.17	1.00	(0.83)
33	Should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.	0.38	1.00	(0.63)
34	When evaluating Companies' governance arrangements particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weights to all relevant factors drawn to their attention.	0.25	1.00	(0.75)
35	Individual shareholders investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decision.	0.42	1.00	(0.58)
36	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.	0.38	1.00	(0.63)

Source : Author Constructed

If the P-E > 0, the level of CG exists in companies is above than the required level. This cannot identify in the data set which is used by us as the scores are given for compliance (1) and non-compliance (0) and no scores was allocated for the compliance other than the required practices.

The level of CG is met the expectation if P-E = 0 which is evidenced that there is good CG exists in the manufacturing companies. All the manufacturing companies in the sample have fully complied with the requirements of independence declaration; comply with the laws, going concern indication by director, availability of CG report in the annual reports mainly.

There is a gap exist between the perception and the expectation (P-E < 0) if the level of CG practices which adopted by the company is below than the expected practices. There is a high gap exist in the disclosures on institutional investors. According to the companies selected, all the companies have institutional investors as per their disclosure in shareholder information. But 42% of companies only have disclosed the compliance of their institutional investors as per the Code of Best Practice on CG.*(Refer Appendix 6 - Disclosure of institutional Investors as per CG in Annual Report).* Almost all the companies have complied with the CG practices in the aspects of CEO duality, board balance, availability of remuneration committee and its composition solely from non-executive directors, audit committee report and its composition (higher of two independent Non-Executive Directors or exclusively by Non-Executive Directors, independent majority) and determination of independence of auditor and basis of such as there is less gap exist.

To test the statistical significance of the above identified gap a paired sample t-test was performed and the results are presented in the Table 7. The t statistic is smaller than the t critical statistic for all the dimensions which evidence that there is no significant difference between the two samples. That means even there is a gap exists between the actual level of CG practices and the required level of CG practices specified in the Code of Best Practice on CG 2013.

Table 7: T-Test Analysis

Criteria	t Stat	t Critical two-tail	P(T<=t) two-tail
Directors	-3.94	2.23	0
Directors' remuneration	-4.57	2.57	0.01
Relations with shareholders	-1	0.42	4.3
Accountability and Audit	-2.19	0.05	2.23
Institutional investors and other investors	-14.61	0	2.78

Source : Author Constructed

Level of CG and Investor Reaction

Panel Regression Analysis

In order to estimate the relationship between CG and investors' reaction, multiple regression analysis was used on the panel data set. It was decided to employ 'Random effect model' instead of 'fixed effect model' by considering the results of Hausman test. The results of the regression analysis are given in the Table 8.

Table 8: Regression Analysis

Variable	Coefficient	Std. Error	t- Statistic	Prob.
C	12.37844	39.44078	0.313049	0.7552
CG	12.92349	23.77037	0.543681	0.5895
SIZE	-0.199679	1.699494	-0.117493	0.9070
DTE	3.489332	6.303083	0.553591	0.5828
NBV	0.180244	0.115041	1.5666775	0.1247
EPS	3.692854	0.564730	6.539146	0.0000
Effects Specification				
			S.D	Rho
Cross - Section random			14.19906	0.4516
Idiosyncratic random			15.64562	0.5484

Weighted Statistics			
R- squared	0.768893	Mean dependent var	35.90605
Adjusted R- squared	0.741380	S.D. dependent var	35.52631
S.E. of regression	18.06679	Sum squared resid	13709.17
F- statistic	27.94679	Durbin - Watson stat	2.219704
Prob (F- statistic)	0.000000		
Unweighted Statistics			
R - squared	0.840400	Mean dependent var	58.42063
Sum squared resid	2337.96	Durbin - Watson stat	1.309509

Source: Author Constructed

The results of the multiple regression analysis of the 1st equation indicates that the model has 74% predictive power on the dependent variable and only EPS is significant ($p<0.05$) in deciding the share prices of the listed manufacturing companies in Sri Lanka. Since EPS is the only variable which has significant value in predicting share price value, it can be concluded that the investment decisions of the investors in listed manufacturing companies Sri Lanka, are more rely on information of financial performance rather than governance disclosures.

In order to assess the degree at which the key CG variables are regressed with the share prices, another regression was performed (Refer Equation 2) and the results of the analysis is summarized in the below table. The results evidenced that the remuneration committee is the only one factor which has impact on share prices as it has positive significant probability ($P>0.05$). This finding is supported by Brown & Caylor (2006) which found that one of the most important factor for value relevance of market price is remuneration.

Table 9: Regression Analysis - with key variables of CG

Variable	Coefficient	Std. Error	t- Statistic	Prob.
C	27.02377	85.7057	0.315309	0.7575
DIRECTOR	0.774836	101.5598	0.007629	0.994
REMUNERATION	629.7086	241.901	2.60757	0.0216
SH_RELATION	486.0967	448.4078	1.08405	0.298
ACCOUNTABILITY	-324.873	244.8963	-1.326574	0.2075
INS_INVESTORS	-34.96874	117.8005	-0.296847	0.7713
SIZE	-1.873097	2.971867	-0.630276	0.5394
DTE	-1.455989	7.540129	-0.193099	0.8499
NBV	0.408864	0.201529	2.028808	0.0064
EPS	1.480519	0.859558	1.722419	0.1087
Effects Specification				
			S.D	Rho
Cross - Section random			20.3549	0.9151
Idiosyncratic random			6.19999	0.0849

Weighted Statistics			
R- squared	0.592802	Mean dependent var	12.44136
Adjusted R- squared	0.310897	S.D. dependent var	11.46784
S.E. of regression	9.19359	Sum squared resid	1098.787
F- statistic	2.102838	Durbin - Watson stat	1.615957
Prob (F- statistic)	0.108323		
Unweighted Statistics			
R - squared	0.74569	Mean dependent var	55.39348
Sum squared resid	12535.67	Durbin - Watson stat	0.141643

Source: Author Constructed

5. Conclusion, Limitations and Future Directions

Summary and Conclusions of the Study

This study empirically investigates whether investors react on CG practices of the listed manufacturing companies in Sri Lanka. The reaction of the investors was evaluated based on value relevance on share prices.

When evaluating the results of the study regarding level of CG practices, generally there is less variance exist in the CG practices followed by listed manufacturing companies. Further, a high gap has been identified regarding the institutional investors and low gap has been identified in the accountability and audit, and directors' remuneration.

When evaluating reaction of investors to the level of CG practices size, EPS, NBV and debt to equity ratio were considered as independent variables. The independent variables except CG practices were treated as controlled variables.CG practices were evaluated by using equally weighted index developed based on the Code of Best Practice on CG 2013. This study was conducted based on secondary data analysis using corporate annual reports for two financial years – 2014/15 and 2015/16 to capture the impact of revised Code of Best Practice on CG, which was introduced in 2013.

To evaluate the hypothesis of the study; whether there is a relationship between level of CG and investor reaction, panel regression analysis was performed. According to panel regression analysis, investor's reaction was affected by earning per share rather than CG practices of the company. This finding is supported by Melgarejo, Montiel Sanz (2016) who found that mainly earnings announcements influence to stock abnormal trading volumes. CG practices, size of the company, debt to equity ratio and net book value were not significant variables for investors in their decision making process.

When analysing the main five areas of CG, there is a positive significant probability between remuneration committee disclosures with share prices. This was also concluded by Brown & Caylor (2006) who found that remuneration is a factor that affects to value relevance of market price. It implies that investors consider about disclosures of directors' remuneration committee rather than disclosures on directors, accountability and audit, relationship with shareholders, and institutional investors and other investors.

Limitations of Study and Future Directions for Research

This study empirically evaluates the shareholders reaction on CG practices of listed manufacturing companies in Sri Lanka. As with any research, limitations are inevitable and the limitations of this research are as follows.

The main limitation is, this study only consider listed manufacturing companies in Sri Lanka which have year ended 31st March due to time and resources limitation, and market variations. Therefore, our research findings may not be applicable to investors' reactions in other industries. Hence, this study can be extended to cover other sectors of the CSE. Data was obtained through annual reports published in the CSE website and financial information related to two years 2014/2015 and 2015/2016. Therefore, there may be some drawbacks due to working with secondary data such as lack of control over data quality and inappropriateness of the data. Finally, this study only considersCG practices, size of the company ,earning per share, book value per share and debt to equity as independent variables where except CG practices, all others were used as control variables. However, many other variables may impact on the decision making of investors. In future studies, impact of CG on investor reaction can be investigated by incorporating these variables.

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Appendices

Appendix 1: Number of companies according to Sector classification by Colombo Stock Exchange and market statics

Serial No.	Sector	No. Of companies	Shere Volume	Turnover
1	Bank Finance and Insurance	71		
2	Beverage Food and Tobacco	23	661,715.00	22,119,961.60
3	Chemicals and Pharmaceuticals	12		635,258.60
4	Construction and Engineering	4	2,005,007.00	57,621,036.90
5	Diversified holding	19	4,646,562.00	64,836,080.80
6	Footwear and Textile	3	426,390.00	7,462,022.70
7	Health Care	7	101,787.00	1,540,883.00
8	Hotels and Travels	38	735,434.00	2,362,898.60
9	Information Technology	2	240,321.00	65,663.20
10	Investment Trusts	10	240,321.00	65,663.20
11	Land and Property	19	395,438.00	6,918,668.90
12	Manufacturing	41	5,126,623.00	159,207,919.60
13	Motors	6	18,233.00	1,698,053.60
14	Oil Palms	5	221.00	88,895.40
15	Plantations	19	1,023,037.00	7,292,888.30
16	Power and Energy	9	6,019,125.00	28,664,520.60
17	Services	8	532,326.00	1,195,777.30
18	Stores Supplies	4	103.00	92,548.00
19	Telecommunication	2	222,146.00	2,787,262.30
20	Trading	9	649,747.00	7,979,732.60

Appendix 2: Manufacturing Companies Listed in CSE

No.	Company Name	No.	Company Name
1.	Abans Electricals PLC	2.	ACL Cables PLC
3.	ACL Plastics PLC	4.	ACME Printing & Packaging PLC
5.	Agstar PLC	6.	Alufab PLC
7.	Alumex PLC	8.	Blue Diamonds Jewellry Worldwide PLC
9.	Central Industries PLC	10.	Dankotuwa Porcelain PLC
11.	Dipped Product PLC	12.	Hayleys Fiber PLC
13.	Kelani Cables PLC	14.	KelaniTyres PLC
15.	Lanka Aluminium Industries PLC	16.	Lanka Ceramic PLC
17.	Lanka Tiles PLC	18.	Lanka Walltiles PLC
19.	Laxapana Batteries PLC	20.	Piramal Glass Ceylon PLC
21.	Print Care PLC	22.	Richard Pieris Exports PLC
23.	Royal Ceramics Lanka PLC	24.	Samson International PLC
25.	Sierra Cables PLC	26.	Swadeshi Industrial Works PLC
27.	Swisstek (Ceylon) PLC	28.	Teejay Lanka PLC
29.	Tokyo Cement Company (Lanka) PLC		

Appendix 3: CG index

#	Compliance Requirement
Directors	
1	Board meetings should be held at least once in every quarter of a financial year
2	All directors should have access to the advice and services of the company secretary
3	Every director should dedicate time and effort to matters of the board and the company
4	Every director should receive appropriate training when first appointed to the board of a company, and subsequently as necessary
5	There should be a clear division of responsibilities for conduct the business of the board and facilitating executive responsibility for management of the company's business (Chairman and CEO duality) & if Chairman and CEO one person, should be justified and highlighted in the annual report
6	Board should ensure the availability within it of those with sufficient financial acumen and knowledge
7	The board should have balance of executive and non-executive directors
8	If the board of directors includes only two non-executive directors, both such directors shall be 'independent' or Two or 1/3 of Non- Executive Directors appointed to the board of directors, whichever is higher, should be independent
9	Each non-executive director should submit a signed data declaration annually of his/her independence or non-independence against the specified criteria.
10	The board should make a determination annually as to the independence or non-independence of each non-executive director based on their information and other information available to the board. In the event a director does not qualify as 'independent' against any of the criteria set out below but if the board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the board shall specify the criteria not met and the basis for its determination in the annual report.
11	The performance of the CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets set by the Board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances.
Directors' remuneration	
12	Companies should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.
13	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, within agreed terms of reference, on the Company's framework of remunerating executive directors.
14	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.
15	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.
16	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.
17	The Annual Report should set out the names of Directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.
Relations with shareholders	
18	Boards should use the AGM to communicate with shareholders and should encourage their participation.
19	Complying with the requirements under the Companies Act, Securities and Exchange Commission law and Colombo Stock Exchange regulations

20	Directors should disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company’s net assets base or in the case of a Company with subsidiaries, the consolidated group net asset base.
Accountability and Audit	
21	Board should present a balanced, understandable assessment of company’s’ financial position, performance & Prospects.
22	The Annual Report should contain a “Management Discussion & Analysis” discussing, among other issues.
23	The Directors should report that the business is a going concern.
24	The Audit Committee should be comprised of a minimum of two independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher.
25	The Chairman of the Committee should be a Non executives Director, appointed by the Board.
26	The names of Directors in the Audit committee should be disclosed in the Annual Report.
27	Make determination of the independence of the Auditors and should disclose the basis for such determination in Annual Report.
28	The Annual Report should contain a report by Audit Committee about compliance by the Company.
29	All Companies must disclose whether they have a Code of Business Conduct and Ethics for Directors and Key Management Personnel and if they have such a Code, make an affirmative declaration in the Annual Report, and if unable to make that declaration state why they are unable to make that declaration
30	The Chairman, use affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct and Ethics.
31	The Directors should include in the Annual Report a CG Report, setting out the manner and extent to which the Company has complied with the principles and provisions of the Code
Institutional Investors and other investors	
32	Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated in to practice.
33	Should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives.
34	When evaluating Companies' governance arrangements particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weights to all relevant factors drawn to their attention.
35	Individual shareholders investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decision.
36	Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.

Appendix 4: Selected manufacturing companies listed in CSE

No	Company	Kept / Excluded	Reason for Exclusion
1	Abans Electricals PLC	Kept	
2	ACL cables PLC	Kept	
3	ACL Plastics PLC	Kept	
4	Acme Printing & Packaging PLC	Kept	
5	Agstar PLC	Kept	
6	Agstar PLC	Excluded	Double Counted in CSE Data base
7	ALUFAB PLC	Kept	
8	Alumex PLC	Kept	
9	BPPL Holdings PLC	Excluded	Listed in 2016/17.
10	Blue Diamonds Jewellery Worldwide PLC	Kept	
11	Blue Diamonds Worldwide PLC	Excluded	Double Counted in CSE Data base
12	BogalaGraphite PLC	Excluded	Financial Year ending date is 31st December
13	Central Industries PLC	Kept	
14	Chevorn Lubricant Lanka PLC	Excluded	Financial Year ending date is 31st December
15	Cyloan Grain Elevator PLC	Excluded	Financial Year ending date is 31st December
16	Dankotuwa Porcelain PLC	Kept	
17	Dipped Products PLC	Excluded	Share prices on 31st August is not available
18	HayleysFiber	Kept	
19	Kelani Cables PLC	Kept	
20	Kelani Tyres PLC	Kept	
21	Lanka Aluminium Industries PLC	Kept	
22	Lanka Cement PLC	Excluded	Financial Year ending date is 31st December
23	Lanka Ceramic PLC	Excluded	Share prices on 31st August is not available
24	Lanka Tiles PLC	Kept	
25	Lanka Walltiles PLC	Kept	
26	Laxapana Batteries PLC	Kept	
27	Orient Garments PLC	Excluded	Financial Statements Not Available
28	Piramal Glass Ceylon PLC	Kept	
29	PelwattaSugar Industries PLC	Excluded	Financial Statements Not Available
30	Printcare PLC	Excluded	Share prices on 31st

			August is not available
31	Regnis (Lanka) PLC	Excluded	Financial Year ending date is 31st December
32	Richard Pieris Exports PLC	Kept	
33	Royal Ceramic	Kept	
34	Samson International PLC	Excluded	Share prices on 31st August is not available
35	Singer Industries Ceylon PLC	Excluded	Financial Year ending date is 31st December
36	Sierra Cables PLC	Kept	
37	Swadeshi Industrial Works PLC	Excluded	Share prices on 31st August is not available
38	Swisstech Ceylon PLC	Kept	
39	Textured Jersey Lanka PLC	Kept	
40	Tokyo Cement Company (Lanka) PLC	Excluded	Double Counted in CSE Data base
41	Tokyo Cement Company (Lanka) PLC	Kept	

Total Number of Manufacturing Companies	**41**
Double Counted in CSE Data base	**3**
Financial Year ending date is 31st December	**6**
Financial Statements Not Available	**2**
Listed in2016/17	**1**
Share prices are not available at 31st August	**5**
Sample Size	**24**

Appendix 5: Control variables used in empirical studies

Research	Researcher	Control variables used
CG and value relevance of financial information: evidence: from Australia	Ahsan Habib, Istiaq Azim, (2008)	Negative earnings Firm leverage Firm size Growth opportunities available to the firm
CG and value relevance of financial information: evidence from Ghana stock exchange	Vera OgehFiador, (2013)	EPS NAV per share
Value relevance, earnings management and CG in China	Yuan George Shan, (2015)	EPS Book value per share ROA Firm size Firm leverage
Value relevance on intellectual capital valuation methods: the role of CG	Mao-ChangWang (2012)	Firm size Firm age Debt EPS
CG reform and value relevance equity book value and earnings in Malayasia.	Adibah Jamaluddin, Nor'AzamMastuki, AsyaariElmiza Ahmad, (2009)	Book value per share EPS
Value Relevance of Tobin's Q and CGfor the Taiwanese Tourism Industry	Mao-ChangWang (2014)	Book value per share EPS Tobbin's Q Firm size

Variable		Number of researches used
Firm size		5
EPS		4

Firm leverage		3
Book value per share		3
Negative earnings		1
Growth opportunities available to the firm		1
NAV per share		1
ROA		1
Firm age		1
Tobbin's Q		1

\- Frequently used control variables

Appendix 6: Disclosure of institutional Investors as per CG in Annual Report

Company	Institutional Investors in shareholder information	Disclosure of institutional Investors as per CG in Annual Report
Abans Electricals PLC	Yes	No
ACL Cables PLC	Yes	No
ACL Plastic PLC	Yes	No
ACME Printings& Packaging PLC	Yes	No
Agastar PLC	Yes	Yes
Alufab PLC	Yes	No
Alumex PLC	Yes	Yes
Blue Diamonds Jewelry Worldwide PLC	Yes	No
Central Industries PLC	Yes	No
Dankotuwa Porcelain PLC	Yes	Yes
Hayles Fiber PLC	Yes	No
Kalani Cables PLC	Yes	Yes
Kelani Tyres PLC	Yes	No
Lanka Aluminium Industries PLC	Yes	No
Lanka Tiles PLC	Yes	Yes
Lanka Waltiles PLC	Yes	Yes
Laxapana Batteries PLC	Yes	No
Piramal Glass Ceylon PLC	Yes	No
Richard Pieries Exports PLC	Yes	No
Royal Ceramic PLC	Yes	No
Siera Cables PLC	Yes	Yes
Swissteck Ceylon PLC	Yes	Yes
Teejey Lanka PLC	Yes	Yes
Tokoyo Cement Company (Lanka) PLC	Yes	Yes

	No of companies
Institutional Investors in shareholder information	24
Disclosure of institutional Investors as per CG in Annual Report	10
As a percentage	**42%**