

THE IMPACT OF CORPORATE GOVERNANCE PRACTICES ON CORPORATE FAILURE IN LISTED NON-FINANCIAL COMPANIES IN SRI LANKA.

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ABSTRACT

The primary objective of this study is to examine the impact of corporate governance practices on corporate failure within Sri Lankan non-financial listed companies. The global financial crises and scandals involving high-profile firms such as Enron, WorldCom, Lehman Brothers, and Satyam, due to poor corporate governance, inconsistent policies, procedures, and false financial reporting techniques during 2008, highlight the need to examine the impact of corporate governance practices on the likelihood of business failure. This research bridges the gap in empirical studies on the impact of corporate governance on business failure in Sri Lanka, where the existing findings contradict those in both international and national contexts, and contribute valuable insights to a currently understudied area. By developing five research questions, this study seeks to identify the factors that significantly influence business failure in Sri Lanka. Adopting a quantitative approach under the positivistic paradigm, the study gathered data from the annual reports of 199 companies for three years, from 2019 to 2022. The Altman Z-Score model was used to assess corporate health and the Corporate Governance Index to measure governance strengths by considering board size, CEO duality, independent directors, ownership concentration, and board ownership as independent variables and corporate failure as a dependent variable. Board size, CEO duality, independent directors, and board ownership significantly impact corporate failure, excluding the impact of ownership concentration. These findings have important implications for improving decision-making among stakeholders, reducing coordination challenges, enhancing the effectiveness of governance practices, and promoting accountability among corporate directors. They also provide valuable insights into the role of corporate governance in corporate failure in Sri Lanka, thereby offering a foundation for future research and policy formulation.

Keywords: Corporate failure, corporate governance, non-financial listed companies