

## **THE IMPACT OF CORPORATE GOVERNANCE ON THE FINANCIAL DISTRESS EVIDENCE FROM LISTED NON-FINANCIAL COMPANIES IN SRI LANKA.**

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### **Abstract**

Corporate governance (CG) is the relationships between corporate management, shareholders, boards, and other stakeholders. This relationship influences how the objectives of a business are set and achieved, how risks are monitored and assessed, and how internal performance is optimized. Finally, it signals that the organization is well-managed and that the interests of management are aligned with external stakeholders. The role of CG in times of financial difficulty is examined in this study to complement and contribute to the existing literature since many studies showed diverse findings. The objective of this study is to determine how corporate governance characteristics affect the financial distress of non-financial listed companies in Sri Lanka. The study considered 50 listed companies as the sample over the period of fifteen years starting from 2007 to 2021. Block holder ownership, board independence, CEO duality and Audit quality measure the CG while the Altman Z score model measures the financial distress. The results concluded that good CG characteristics lead to better financial status with a reduced likelihood of financial distress. In particular, the result shows a significant negative impact of block holders on financial distress because monopolistic decisions are made by block ownership to further their interests. Audit quality plays a significant negative impact on the likelihood of financial distress, While the board independence and the CEO duality both had a positive and significant impact on the likelihood of financial distress. The results of this study give business managers and investors greater knowledge in formulating CG policies and predictions of future financial distress. Additionally, this study benefits in developing long-term corporate governance strategies for dealing with financial distress.

**Keywords:** *Financial Distress, Corporate Governance, Agency theory, listed companies in Sri Lanka.*