

## **THE EFFECTS OF CORPORATE GOVERNANCE ON FIRMS' CREDIT RATINGS**

R.M.H.L.Karunaratne passaralakmal@gmail.com

Department of Accountancy, University of Kelaniya

### **Abstract**

We investigate whether firms that possess strong corporate governance benefit from higher credit ratings relative to firms with weak governance. A firm's credit rating reflects a rating agency's opinion of an entity's overall creditworthiness and its capacity to satisfy its financial obligations. Credit agencies are concerned with governance because weak governance can impair a firm's financial position and leave debt stakeholders vulnerable to losses. To structure our analysis, we adopt a framework developed by Standard & Poor's for assessing firms' corporate governance structures and practices. In the case of Sri Lanka that have thoroughly validity because of investors will not be satisfy with the week financial position to invest of the firms. Therefor this has a practical validity to the firm to maintain their financial stability in order to satisfy investor's preference.

So as I develop this to exhibit what kind of validity that the firm has to the corporate governance on firm's credit ratings. Rather I try to come up with the sensible area of this topic in order to give a clear and feasible view of the topic.

**Key words:** Corporate governance; Credit rating; Executive compensation