The Impact of Corporate Governance on Financial Distress: Evidence from Colombo Stock Exchange

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Abstract

The study aims to analyze the effect of corporate governance on financial distress among companies listed on the Colombo Stock Exchange from 2018 to 2023. The research methodology involved the use of panel regression to investigate the impact between corporate governance factors and financial distress. The major findings of the study indicate that board size and audit committee significantly impact financial distress, while board independence and board meeting show a non-significant relationship with financially distressed companies. The implications of the study extend to stakeholders such as investors, creditors, policymakers, and shareholders, providing valuable insights for decision-making regarding financially distressed companies and their behavior. In conclusion, the research emphasizes the importance of good corporate governance practices in reducing the likelihood of financial distress by promoting accountability, openness, and smart decision-making. The study's empirical evidence contributes to a more informed understanding of the link between corporate governance and financial performance, offering valuable insights for regulatory bodies, investors, and academics.

Keywords: Corporate Governance, Financial Distress, Altman Z score model, Board Size, Audit Committee