



**CORPORATE GOVERNANCE  
AND CORPORATE FAILURE:  
A SURVIVAL ANALYSIS**

BY

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## Abstract

Corporate governance provides the structure through which the objectives of the company are set, and means of attaining those objectives and monitoring performance are determined. With the introduction of corporate governance rules in 2008, awareness was created among the Sri Lankan organizations.

The research was carried out with the objective of identifying the relationship between survival likelihood of the distressed firms with certain corporate governance characteristics and financial indicators, to check the significance of these characters and to examine the nature of the relationship of these characters with the financial distress.

Outside directors, CEO change, creditor ownership, block holder ownership and board size were selected as the corporate governance characteristics. As financial variables financial risk, interest coverage ratio, operating risk, size, liquidity, profitability and market perception were selected. Analysis was carried out by using multiple regression. t-test and F test is used to identify the significance of the factors used for the study.

Conclusions of the research were that there is a relationship between the survival likelihood of financially distressed nature of firms and the corporate governance characteristics and the financial indicators. Board size and out side directors of the assets do not show significance even though these factors show relation ship with the financial distress.

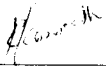
CEO change, creditor involvement, block holder ownership financial risk, interest coverage ratio, operating risk, size, liquidity, profitability and market perception show significance with survival likelihood of financially distressed firms.



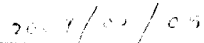
CEO change, financial risk, interest coverage ratio and market perception show positive relationship with financial distress. Liquidity, profitability, block holder ownership and creditor involvement are negatively associated with financial distress. Profitability shows the capability of predicting the financial distress of the firms. Use of hazard ratio is not confirmed in forecasting the magnitude of bankruptcy.

## Declaration

"I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any university to the best of my knowledge and believe it does not contain any material previously published, written or orally communicated by another person except where due reference is made in the text. I also hereby give consent for my dissertation, if accepted, to be made available for photocopying and for interlibrary loans, and for the title and summary to be made available to outsider organization"



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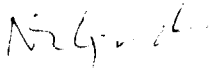


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\_\_\_\_\_  
Supervisor

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# Abbreviations

CEO	- Chief Executive Officer
ICASL	- Institute of Chartered Accountants in Sri Lanka
SEC	- Security & Exchange Commission
CSE	- Colombo Stock Exchange
EBIT	- Earnings Before Interest and Tax
OC	- Operating cash flow
CL	- Current liability
ICR	- Interest coverage ratio



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