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**Effectiveness of the Sri Lankan corporate governance system: a stakeholder perspective**

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## Effectiveness of the Sri Lankan corporate governance system: a stakeholder perspective

### Abstract

Poor corporate governance is often viewed as one of the main factors contributing to the weak company performances and failures in emerging markets (Johnson, 2000). Most of studies which have examined various aspects of corporate governance systems in emerging markets have assessed such practices from the point of view of companies and have paid little attention to examine how such practices are viewed by various stakeholders of the companies in these markets. To fill the gap in accounting literature, this study aims to examine the perceptions of various stakeholder groups in relation to the current status, issues, strategies and practices of corporate governance system in Sri Lanka-an emerging market in Asia. Using data collected from 277 responses on a questionnaire survey covering seven stakeholder groups, these study analyses stakeholder perceptions on eight aspects of the corporate governance system in Sri Lanka. Kruskal-Wallis test is used to examine whether there are significant differences between opinions of stakeholder groups. The findings of this study reveal that while the majority of stakeholders consider governance codes, the financial reporting framework, the regulatory framework, and codes of conduct and ethics as the important components of the corporate governance system, they have not considered some important aspects such as judiciary system, corporate ownership structure, and culture and value systems of the society as important components of the system. Also, although there have been wider agreement on the fact that better corporate governance improves corporate performance and company's ability to access new capital, stakeholders views varied considerably in relation to issues such as the impact of corporate governance on reducing share price volatility, political intervention and cost of capital. The study also identified a number of aspects of corporate governance system in Sri Lanka that are perceived to be poorly designed and enforced and provides suggestions for improvements.

### Keywords

effectiveness, sri, governance, stakeholder, perspective, lankan, corporate, system

### Disciplines

Business

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# **Effectiveness of the Sri Lankan Corporate Governance System: A Stakeholder Perspective**

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## **ABSTRACT**

Poor corporate governance is often viewed as one of the main factors contributing to the weak company performances and failures in emerging markets (Johnson, 2000). Most of studies which have examined various aspects of corporate governance systems in emerging markets have assessed such practices from the point of view of companies and have paid little attention to examine how such practices are viewed by various stakeholders of the companies in these markets. To fill the gap in accounting literature, this study aims to examine the perceptions of various stakeholder groups in relation to the current status, issues, strategies and practices of corporate governance system in Sri Lanka—an emerging market in Asia. Using data collected from 277 responses on a questionnaire survey covering seven stakeholder groups, these study analyses stakeholder perceptions on eight aspects of the corporate governance system in Sri Lanka. Kruskal-Wallis test is used to examine whether there are significant differences between opinions of stakeholder groups. The findings of this study reveal that while the majority of stakeholders consider governance codes, the financial reporting framework, the regulatory framework, and codes of conduct and ethics as the important components of the corporate governance system, they have not considered some important aspects such as judiciary system, corporate ownership structure, and culture and value systems of the society as important components of the system. Also, although there have been wider agreement on the fact that better corporate governance improves corporate performance and company's ability to access new capital, stakeholders views varied considerably in relation to issues such as the impact of corporate governance on reducing share price volatility, political intervention and cost of capital. The study also identified a number of aspects of corporate governance system in Sri Lanka that are perceived to be poorly designed and enforced and provides suggestions for improvements.