



**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.

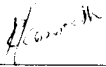
CEO change, creditor involvement, block holder ownership financial risk, interest coverage ratio, operating risk, size, liquidity, profitability and market perception show significance with survival likelihood of financially distressed firms.



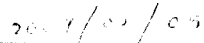
CEO change, financial risk, interest coverage ratio and market perception show positive relationship with financial distress. Liquidity, profitability, block holder ownership and creditor involvement are negatively associated with financial distress. Profitability shows the capability of predicting the 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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Table of contents

<i>Abstract</i>	<i>i</i>
<i>Acknowledgements</i>	<i>ii</i>
<i>Table of Contents</i>	<i>ii</i>
<i>List of Tables</i>	<i>vii</i>
<i>Abbreviations</i>	<i>viii</i>

CHAPTER 1 INTRODUCTION

1.1 Background of the Study.....	1
1.2 Statement of Problem.....	2
1.3 Objectives of the Study.....	2
1.4 Methodology.....	3
1.5 Previous Studies.....	3
1.6 Importance of the Study.....	4
1.7 Limitations of the Study.....	5



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CHAPTER 2 LITRATURE REVIEW

2.1 Corporate Governance.....	6
2.1.1 Definitions of Corporate Governance.....	6
2.1.2 Principles of Corporate governance.....	7
2.1.3 Elements of Corporate Governance.....	9
2.1.3.1 Board Size.....	9
2.1.3.2 Board Composition & Control.....	9
2.1.3.3 Ownership Structure.....	10
2.1.3.4 Outside Block Ownership.....	10
2.1.3.5 Remuneration/Compensation.....	10
2.1.3.6 Insider Turnover.....	11
2.1.3.7 Creditor Involvement.....	11

2.1.4 Corporate Governance Models.....	12
2.1.4.1 Corporate Governance Models in Variety of Capitalism.....	12
2.1.4.1.1 Anglo American Models.....	12
2.1.4.1.2 Non-Anglo American Model.....	12
2.1.4.2 Governance Models in Currency & Attendant Implications.....	13
2.1.4.2.1 Market Centric Model.....	13
2.1.4.2.2 Relationship based Governance Model.....	13
2.1.4.2.3 Transition Governance Model.....	14
2.1.4.2.4 Emerging Governance Model.....	14
2.1.5 Corporate Governance Mechanisms.....	16
2.1.5.1 Legal & Regulatory Mechanisms.....	16
2.1.5.2 Internal Control.....	16
2.1.5.3 External Control.....	16
2.1.5.4 Product & Market Competition.....	17
2.1.6 Corporate Governance in Sri Lanka.....	17
2.1.6.1 Key Findings.....	17
2.2. Financial Characteristics.....	20
2.2.1 Financial Risk.....	21
2.2.2 Interest Coverage Ratio.....	21
2.2.3 Operating Risk.....	21
2.2.4 Size.....	22
2.2.5 Liquidity.....	22
2.2.6 Profitability.....	22
2.2.7 Market Perception.....	23
2.3 Corporate Failure.....	24
2.3.1 Survival Analysis Technique.....	24
2.3.2 Hazard Ratio.....	25
2.4 Corporate Failure & Corporate Governance Attributes.....	25
2.5 Corporate Failure & Financial Characteristics.....	26

CHAPTER 3 METHODOLOGY & COLLECTION OF DATA

3.1	Sample Selection	27
3.2	Data Collection	30
3.2.1	Corporate Governance Characteristics	30
3.2.2	Financial Characteristics	31
3.3	Data Analysis	31
3.3.1	Model of the Study	32
3.4	Conceptual Framework	34

CHAPTER 4 ANALYSIS AND DISCUSSION

4.1	Descriptive Statistics for Corporate Governance Attributes	35
4.2	Descriptive Statistics for Financial Characteristics	36
4.3	Results of Multiple Regression	38
4.3.1	Results of ANOVA Table and F Test	39
4.3.2	Results of t-test	39
4.3.3	Significance of Independent Variables	41
4.3.3.1	Corporate Governance Variables	41
4.3.3.2	Financial Characteristics	43
4.4	Hazard Ratio	45
4.5	Multiple Regression Results of Corporate Governance Characteristics	46
4.5.1	Results of ANOVA Table and F Test	47
4.5.2	Results of t-test	47
4.5.3	Significance of Corporate Governance Attributes	48
4.5.4	Hazard Ratio for Corporate Governance Characteristics	49
4.6	Results of Multiple Regression with Financial Characteristics	50
4.6.1	Results of ANOVA Table and F Test	51
4.6.2	Results of t-test	51
4.6.3	Significance of Financial Characteristics	53
4.6.4	Hazard Ratio for Corporate Governance Characteristics	55
4.7	Limitations to the Study	56

CHAPTER 5 CONCLUSIONS & RECOMMENDATIONS

5.1 conclusions.....	57
5.1.1 Multiple Regression Analysis 1.....	58
5.1.2 Multiple Regression Analysis 2.....	58
5.1.3 Multiple Regression Analysis 3.....	58
5.1.4 Overview of Findings.....	59
5.2 Recommendations.....	60
References.....	63
Appendix.....	68
Appendix 1.....	68
Appendix 2.....	69
Appendix 3.....	71
Appendix 4.....	72



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List of Tables

	Pages
Table 3.1 Companies Selected as the Sample for the Study	28
Table 4.1 Descriptive Statistics	37
Table 4.2 The level of Significance in Independent Variables	40
Table 4.3 Hazard Ratios	45
Table 4.4 The Level of Significance in Corporate Governance Attributes	48
Table 4.5 Hazard Ratios for Corporate Governance Variables	50
Table 4.6 The Level of Significance in Financial Indicators	52
Table 4.7 Hazard Ratios for Financial Indicators	55



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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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