# Corporate Governance and Financial Distress: Evidence from Non-Financial Companies Listed in the Colombo Stock Exchange, Sri Lanka

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## ABSTRACT

Corporate governance is the system of rules and practices that guide how a company is directed and controlled, ensuring it operates ethically and in the best interests of its shareholders and stakeholders. Corporate governance (CG) is the relationships between corporate management, shareholders, boards, and other stakeholders. This relationship influences how the objectives of a business are set and achieved, how risks are monitored and assessed, and how internal performance is optimized. Finally, it signals that the organization is well-managed and that the interests of management are aligned with external stakeholders. The role of CG in times of financial difficulty is examined in this study to complement and contribute to the existing literature since many studies showed diverse findings This study sought to investigate the impact of corporate governance key considerations on the financial distress of non-financial companies listed on Colombo Stock Exchange (CSE). Institutional ownership, managerial ownership, board independence, board size, CEO duality, audit committee size, firm size, and firm age are variables for corporate governance while financial distress is measured by the Altman Z-score. Altman Z-score measures financial distress inversely and a smaller Z-score indicates the greater risk of financial distress. The study used secondary data between the years of 2018 and 2022. The data was collected by published annual reports of the respective non-financial listed companies. This study was aimed at 136 non-financial companies and used E-views to analyze the gathered data. Quantitative analysis was analyzed through descriptive statistics such as measures of mean, median, skewness standard deviation. To test for the association between the variables the study conducted a correlation analysis. From the regression model, the study found that institutional ownership, managerial ownership, board independence, and board size were significantly influencing the financial distress of non-financial companies listed in CSE. Institutional ownership and board size have a significant and positive impact on financial distress, also managerial ownership and board independence have a significant and negative impact on financial distress. However, CEO duality and audit committee size have a positive insignificant impact on financial distress. The results of this study give business managers and investors greater knowledge in formulating CG policies and predictions of future financial distress. Additionally, this study benefits in developing long-term corporate governance strategies for dealing with financial distress.

**Keywords: Agency theory, Corporate Governance, Financial Distress, Non-financial Listed Companies**

# 1. INTRODUCTION

Corporate governance and its impact on corporate financial distress is one of the most researched areas of modern corporate finance (Younas et al., 2021). The continuous attention on this area was a result of numerous financial scandals reported around the globe. Danat Bank in Germany, Medici Bank in Florence, HIH Insurance in Australia, Enron, Worldcom, Lehman brothers and Xerox cases are among them. The local context also experienced corporate failures of Golden key, Pramukha Bank, and ETI Finance Limited etc. Hence, a doubt emerges whether the current corporate governance mechanisms are effective in mitigating corporate scandals and failures. According to Chen, (2021), corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. According to Worokinasih and Zaini, (2020), corporate governance is a system for monitoring business management and reducing conflicts of interest. Companies that follow clear corporate governance guidelines are better able to manage efficient systems, regulate corporate behavior, provide more chances for growth, and have better access to resources, which improves overall performance and lowers risks (Bhagat and Bolton, 2019). Further, these practices protect companies from the risk of financial distress (Parker et al., 2002; Wang and Deng, 2006; Abdullah, 2006).

Financial distress is a condition that occurs when a business experiences financial issues before going bankrupt or liquidation (Mafiroh and Triyono, 2018). In this situation, a company cannot complete its obligations in paying its debts (Ahmad, 2019). According to Hayes (2020), financial distress occurs when a corporation or company fails to generate enough revenue or profit to meet and pay its financial obligations. Firms experiencing financial distress may be forced into bankruptcy or liquidation (Samanta and Johnston, 2019). The empirical studies on the impact of CG on financial distress is widely available in advanced countries (Younas et al., 2021). However, limited evidence is available on the Asian emerging markets (Awan et al., 2020).

In this light, many research studies attempt to suggest corporate governance attributes leading to the success or failure of a corporation (Parker, Peter, and Turetsky 2002; Gilson, 1990; Daily and Dalton, 1994). More agency issues typically arise in companies with weak corporate governance mechanisms (Nasir and Ali, 2018), which raises the potential for financial distress. Therefore, strong corporate governance mechanisms are required to improve performance and avoid financial distress. There are some previous researches, which have reported the relationship between corporate governance and financial distress considering the world's stage (Luqman et al., 2018; Indarti et al., 2020; Handayani et al., 2022; Manzaneque et al., 2016). When it comes to the context of the Sri Lankan financial system, there is a lack of relevant study materials, and defining such a relationship has proven more difficult in Sri Lanka. According to the literature that is currently available in the Sri Lankan context, Senaratne and Gunaratne (2007), Manawaduge, De Zoysa, and Rudkin (2009) stated that ownership structure and corporate governance compliance are closely related in Sri Lankan firms and that better governance seems to be associated with the higher financial performance of the firms. As a result, the

prior literature in the Sri Lankan context generally concentrated on the corporate governance structure and its relationship to the company's financial performance. In this context, it is noted that prior research in Sri Lanka has not fully addressed the application of the bankruptcy model for predicting the financial distress of Sri Lankan companies and the impact of corporate governance procedures on the probability and resolution of financial distress of a company (Sameera & Senaratne,2015).

Most of the studies conducted related to managerial ownership and financial distress mentioned that there is a negative and significant association between managerial ownership and financial distress status (Chutchinson et al., 2015; Indarti et al., 2021; Khurshid et al., 2018). Furthermore, there is a negative and significant association between board independence and financial distress (Indrati and Handayani, 2022; Dianova and Nahumury, 2019; Indarti et al., 2021). According to Balagobei and Keerthana, (2023), Nazir & Ali, (2018), Shahwan, (2015) and Manzaneque et al., (2016), board size negatively and significantly impacts the financial distress of non-financial companies. However, some recent research done locally said that there is a positive impact of CEO Duality on the financial distress of non-financial companies (Balagobei and Keerthana, 2023). Liquman et al., (2018), Irwandi et al., (2019), Pamungkas et al., (2018) concluded that audit committee size negatively and significantly impacts firm financial distress. This stresses that the association between corporate governance and financial distress is inconclusive within the Sri Lankan context. So, this study was used to fill this persistent knowledge gap.

Additionally, the country is undergoing severe issues due to the ongoing economic crisis and the present conditions are detrimental to the corporations. Collapses of businesses of different magnitudes due to financial issues are reported in mass media frequently. Hence, there exists a need to discover whether this financial distress situation can be addressed with the corporate governance mechanisms. Therefore, this study was conducted with the research question "In what way does corporate governance affect the financial distress of Non-Financial Companies Listed in Sri Lanka?"

## 2. LITERATURE REVIEW

This section reviewed the theoretical frameworks of the study, the determinants of financial distress, financial ratios, the previous studies related to corporate governance practices, the relationship between these two variables, and the prior studies in the Sri Lankan context. The first phase reviews the theoretical background and the second phase represents the empirical findings that are related to this study. This helped to identify the gap and justify the need to study the role of corporate governance practices on financial distress; evidence from non-financial listed companies of Sri Lanka in the Colombo Stock Exchange (CSE).

## 2.1 Theoretical Review

This section of the study provides an overview of the related theories and concepts of corporate governance practices and their impact on the financial distress of non-financial listed companies of Sri Lanka in the CSE. The theories that were adopted to inform the study were Agency Theory, Stewardship Theory, and Stakeholder Theory as discussed:

### 2.1.1 Agency Theory

Ross and Stephen (1973) established the concept of agency. According to the principle, any contract can only be successful if there are two parties involved. In their situation, an organization's long-term objectives are represented by the employer and employee. Any organization's performance in the dynamic business environment is always determined by the interaction between the principal and agent. The productivity of a business is increased by positive employee-employer relationships (Carell, 2006). The agency theory explains the contractual relationship between shareholders as principals and managers as agents (Jensen and Meckling, 1976). The problem that arises from this agency relationship is a conflict of interest because the agent does not always act in the interests of the principal. However, monitoring methods through good corporate governance, which results in aligned interests and, thus, a reduction in agency costs, mitigate this conflict. Additionally, effective corporate governance is used to reduce moral hazard and motivate managers to run the business effectively (Chabachib et al., 2020).

### 2.1.2 Stewardship Theory

Davis (1997) established this theory. According to the theory, stewards or organization representatives should always protect and increase shareholder wealth through business success. Businesses will be able to maximize earnings for the benefit of shareholders if managers have a variety of talents, including entrepreneurship, innovation, and risk management. Shareholders constantly demand that employees gain the necessary knowledge and skills to make the most of the company's limited resources and achieve long-term objectives more successfully and efficiently (Davis et al., 1997). Managers or stewards inside an organization are more likely to be motivated if there is good corporate governance, and vice versa. Hernandez (2012) defined stewardship theory as the degree to which a person voluntarily sacrifices his or her interests in favor of acting to promote the long-term benefit of others. According to Donaldson and Davis (1991), competitive firms should have governance structures that support organizational development and value the variety of individuals in terms of their abilities and cultural backgrounds. Managers ought to create an environment that encourages creativity and innovation, change management, and technological integration in the system to reduce operational costs and increase revenues (Davis et al., 1997). Daily et al. (2003) suggested that managers should create rules that advance the well-being of employees without discrimination to safeguard the company's reputation.

### 2.1.3 Stakeholder Theory

According to Edward Freeman (1984) stakeholder theory argues that organizational management is based on business ethics concepts that address the concerns of diverse stakeholders in the evolving business environment (Ongore and Kusa, 2013). Freeman (1984) defines stakeholders as any group or individual who can affect or is affected by the achievement of the firm's objectives while Donaldson and Preston (1995) define stakeholders as persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity (Shafiq et al. 2014). The stakeholder approach identifies behavioral models that should guide employee behavior to achieve business objectives. Companies create business codes of ethics to provide employees with guidance and the required standards of behavior at work. Stakeholders anticipate that company representatives will act ethically and make choices that will allow the company to maximize revenues while causing the least amount of harm to society.

## 2.2 Empirical Review

In a recent analysis, the level of corporate governance was examined by employing ownership structure, corporate ethics, board decision-making procedures, regulatory authority reactions, board leadership, and organizational systems adequacy. The study illustrates that since there is sufficient board monitoring, senior management oversight follows. One of the main drivers of board inadequacies discovered in this evaluation is the impact of power imbalance inside this board where the board chairman in the situation is executive and authority tends to be slanted in his favor. In a scenario when the organization moves too far from its original core, board shortcomings tend to appear through weak oversight. In all the situations in the study, the absence of a progressive approach through the regulatory bodies seems to have supported bad corporate governance standards. To a significant degree, certain boards appear to have authorized regulatory arbitraging when the strong board members provided individuals with personal loans, which have not been repaid (Zorono 2006).

Li, Wang, and Deng (2008) investigated based on a sample of Chinese stock exchange-listed companies, the effects of ownership structure, independent directors, managerial agency costs, and audit's judgment on financial hardship. The research's findings indicate a negative correlation between the likelihood of being in a financial crisis and significant shareholder ownership, state ownership, a higher number of independent directors, and auditors' opinions. From this, it can be shown that the Audit Committee is a crucial external governance instrument. However, the analysis finds a strong correlation between management agency costs and financial distress. It means that the firm's financial situation is harmed by issues with the managerial agency. Furthermore, it seems that financial difficulty is not related to managerial ownership.

Based on a sample of 86 non-financial enterprises listed on the Egyptian exchange in 2008, the current research was undertaken to investigate the quality

of corporate governance and its impact on company performance and financial distress of Egyptian listed companies (Shahwan 2015). This study found that Egyptian enterprises' corporate governance policies vary only significantly from one another. Despite the efforts made by the authorities, corporate governance is inadequately practiced within Egyptian enterprises. The significant differences between the industrial sectors were investigated using the Kruskal-Walli's test. The Wilcoxon test results provide clear evidence of the board of directors' poor corporate governance standards when compared to other variables. Furthermore, this research shows that there is a small negative correlation between corporate governance procedures and the financial distress of a corporation, as determined by logistic regression.

When considering the Sri Lankan context, Sameera and Senaratne (2015) in their study on "Impact of Corporate Governance (CG) Practices on Probability and Resolution of financial distress of listed companies in Sri Lanka" analyzed the effect of compliance with corporate governance practices on the probability and resolution of financial distress of the company. Altman Z-score was used to identify distressed and non-distressed enterprises, and an index based on the Code of Best Practice on Corporate Governance was created to assess the corporate governance practices of those organizations. It suggests that increasing compliance will assist in reducing financial distress. The resolution of the company's financial difficulties is significantly impacted by the various governance variables, including board independence, board procedures, relationships with shareholders, and internal control systems. The other governance factors, in particular the board structure, the directors' compensation policy, and the audit committee policy have been found to have a negative but not extremely significant impact on the firm's financial distress.

Silva et al. (2018) studied "The impact of Corporate Governance on the Financial Distress of Listed Financial Companies in Sri Lanka" in previous research on the Sri Lankan context. Financial distress is the dependent variable, and Corporate Governance (CG) is the independent variable. They employed spread, diversification, market share, capital, collateral, and condition as the control variables. They obtained financial data and CG information from the annual reports of publicly traded financial companies and those that have CG practices. Measure of financial distress using the Altman Z Score model. They concluded that there was a negative relationship between CG and the possibility of financial distress in Sri Lanka's listed financial companies.

Previous research has shown a connection between financial distress and corporate governance in international financial organizations. The challenge of determining such a link has been made more difficult by the lack of suitable research resources relevant to the Sri Lankan financial system environment. This study was conducted to solve the issue since regulatory organizations actively monitor Sri Lanka's non-financial sector for corporate governance compliance.

## 3. METHODOLOGY

This section explains the methodology of the present study. The study was designed as a quantitative study following the deductive approach within the positivist philosophical stance. Institutional ownership (Handriani et al., 2021; Pamungkas et al., 2021), managerial ownership (Pamungkas et al.,2018), board independence (Handriani et al.,2021), board size, CEO duality and audit committee size (Balagobei and Keerthana, 2023) were used as independent variables. And, firm size (Handriani et al., 2021), leverage (Irshad et al., 2018), and firm age (Bhatt and Bhattacharya, 2015) were employed as control variables. Figure 01 illustrates the expected relationship among independent and dependent variables.

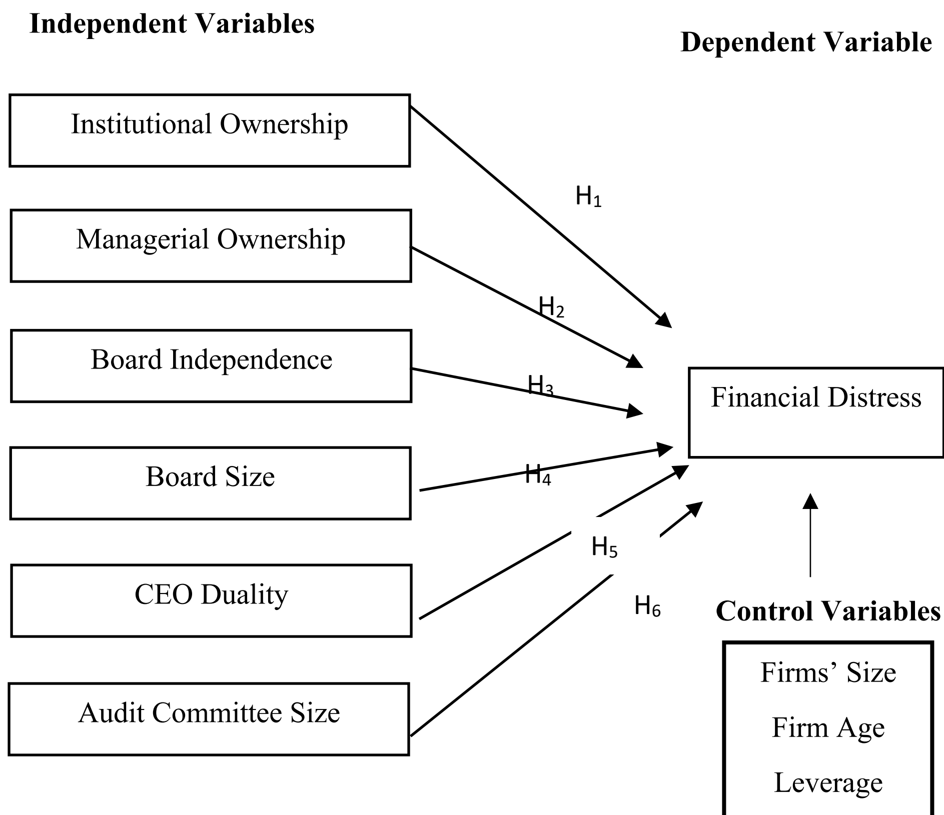


**Figure 1: Conceptual Framework**

*Source: Researcher Constructed, 2023*

As per the conceptual framework of the study following hypotheses were identified and tested.

*$H_1$: Institutional ownership has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE).*

*$H_2$: Managerial ownership has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE).*

*$H_3$: Board Independence has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE).*

*$H_4$: Board Size has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE).*

*$H_5$: CEO Duality has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE).*

*$H_6$: Audit Committee Size has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE).*

According to the listed company directory, the Colombo Stock Exchange (CSE) has 208 non-financial listed companies representing 20 Global Industry Classification Standard (GICS) industry groups as of 31st May 2023, with a Market Capitalization of Rs.3, 598.30 Bn. Since the regulations and governance principles are specific in the financial sector, non-financial listed companies were considered as the target population of this study. According to Morgan's table, a sample of 136 companies was selected by considering 208 non-financial listed companies as the population on a 95% confidence level and 5% margin of error (Sekaran & Bougie, 2016). Secondary data was collected covering a sample period of five (05) years period 2018 to 2022 based on prior research (Indrati and Handayani, 2022; Balagobei and Keerthana, 2023c; Handriania et al., 2020; Luqman et al., 2018; Younas et al., 2021). Collected data were analyzed using panel data regression analysis and correlation analysis.

## 4. RESULTS AND DISCUSSION

Descriptive statistics, correlation, and Panel Regression Model specification tests have been tested to generate the results. The statistical tool of correlation analysis is used to describe the degree to which one variable is linearly related to another. These values lie between -1 to +1. The correlation analysis results in Table 1 show that there is a weak significant and positive relationship between the CEO, ACS with FD. However, IO and BS have a strong significant, and positive relationship with FD, while MO and BI have a negative correlation with FD.

### Table 01: Correlation Analysis

| Correlation Probability | IO | MO | BI | BS | CEO | ACS | FD |
|---|---|---|---|---|---|---|---|
| **IO** | 1.000000 | | | | | | |
| | - | | | | | | |
| **MO** | -0.780806 | 1.000000 | | | | | |
| | (0.0000) | - | | | | | |
| **BI** | -0.030399 | 0.007298 | 1.000000 | | | | |
| | (0.4287) | (0.8493) | - | | | | |
| **BS** | 0.095810 | 0.029001 | -0.134661 | 1.000000 | | | |
| | 0.0124 | 0.4502 | 0.0004 | - | | | |
| **CEO** | -0.001270 | 0.011698 | -0.002473 | 0.200711 | 1.000000 | | |
| | 0.9736 | 0.7607 | 0.9487 | 0.0000 | - | | |
| **ACS** | 0.095550 | -0.075254 | 0.144017 | 0.244761 | 0.010882 | 1.000000 | |
| | 0.0127 | 0.0498 | 0.0002 | 0.0000 | 0.7770 | - | |
| **FD** | 0.718411 | -0.537384 | -0.033592 | 0.595590 | 0.114307 | 0.175978 | 1.000000 |
| | 0.0000 | 0.0000 | 0.3818 | 0.0000 | 0.0028 | 0.0000 | - |

*Source: Researchers constructed, 2023*

Note: FD (Financial Distress), IO (Institutional Ownership), MO (Managerial Ownership), BI (Board Independence), BS (Board Size), CEO (CEO Duality), ACS (Audit Committee Size).

Within the present study, there were five (05) cross-sections and a total of 680 observations were subjected to the analysis. The panel regression analysis was employed and the selection of the suitable model out of the random effects and fixed effects models was done based on the results of the Hausman test carried out.

### Table 02: Hausman Test

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 33.005729 | 9 | 0.0001 |

*Source: Researchers constructed, 2023*

As per the results of the Hausman test, the null hypothesis of the "random effect model is appropriate". was rejected (p-value <0.05). Hence, the regression output generated by the fixed effects model is presented in Table 3. The outcomes of the regression analysis uncovered a significant positive impact of IO (8.121) (Handriania, Ghozalib, and Hersugodo, 2021; Hutchinson et al., 2015; Mathew et al., 2016; Khurshid et al., 2018) and a significant negative impact of MO (-2.30) on the FD (Donker, Santen, and Zahir, 2009; Lee & Yeh, 2004; Li et al., 2008; Miglani et al., 2015) respectively. Furthermore, BI has a negative impact on FD (Fathonah, 2017; Helena and Saifi, 2017) and it is statistically significant as well, which is confirmed by the negative coefficient

of -1.008 and the probability value of 0.0381. As per Table 3, BS has a significant positive impact on FD (Dissanayake et al., 2017; Elloumi et al.,2001; Din et al.,2020) and it is statistically significant. However, the effect of the CEO and ACS on the FD was noted as insignificant. Further, the positive coefficient of 0.0829 states that there is a positive effect of FS on FD but it is not statistically significant since the probability value is higher than 0.05 (0.5321>0.05). The positive coefficient of 8.648 and the p-value of 0.000 shows that there is a positive significant impact of LEV on FD. However, according to the results of panel data analysis, FA has a positive and insignificant impact on FD, which is proved by the positive coefficient of 0.0204 and probability value of 0.3039.

In addition, the $R^2$ was reported as 97.56%. This indicates that the independent variables identified were explaining 97.56% of the variation of the dependent variable. Moreover, the F value was statistically significant ($p < 0.05$) reflecting the significance of the overall model.

**Table 3: Regression Analysis**

| Variable | Coefficient | Std Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -7.219317 | 1.924928 | -3.750434 | 0.0002 |
| IO | 8.121139 | 0.491185 | 16. 53376 | 0 0000 |
| MO | -2.300526 | 0.718266 | -3.202889 | 0.0014 |
| Bl | -1.008632 | 0.485120 | -2 079141 | 0 0381 |
| BS | 0.611173 | 0.032611 | 18.74114 | 0.0000 |
| CEO | 0 327484 | 0 474775 | 0.689767 | 0 4906 |
| ACS | 0.096728 | 0.080593 | 1.200195 | 0.2306 |
| FS | 0.082956 | 0.13267 | 0.625278 | 0.5321 |
| LEV | 8.648496 | 1.401743 | 6.169815 | 0.0000 |
| FA | 0.020479 | 0.019898 | 1.029173 | 0.3039 |
| $R^2$ | 0.975629 | | | |
| Adjusted $R^2$ | 0.969069 | | | |
| Durbin Watson Stat. | 2.193198 | | | |
| F-statistic | 148.7315 | | | |
| Prob.(F-statistic) | 0.00000 | | | |

*Source: Researchers constructed, 2023*

Ultimately, by using regression analysis results research model for the study can be derived as follows.

$$FD_i = \beta_0 + \beta_1 IO_i + \beta_2 MO_i + \beta_3 BI_i + \beta_4 BS_i + +\beta_5 CEO_i + \beta_6 ACS_i + \beta_7 FS_i + \beta_8 LEV_i + \beta_9 FA_i + \varepsilon$$

$$FD_i = -7.219 + 8.121IO_i - 2.301MO_i - 1.0086BI_i + 0.6111BS_i + 8.648LEV_i + \varepsilon$$

The researchers concluded the acceptance of the developed hypotheses as follows.

**Table 4: Conclusion of Acceptance of Hypotheses**

| **Hypotheses** | **Result of the analysis** | **Hypothesis Accepted or Rejected** |
|---|---|---|
| $H_1$: Institutional ownership has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE). | Positive and significant | Accepted |
| $H_2$: Managerial ownership has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE). | Negative and significant | Accepted |
| $H_3$: Board independence has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE). | Negative and significant | Accepted |
| $H_4$: Board size has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE). | Positive and significant | Accepted |
| $H_5$: CEO duality has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE). | Positive and insignificant | Rejected |
| $H_6$: Audit committee size has a significant impact on the financial distress of non-financial companies listed in the Colombo Stock Exchange (CSE). | Positive and insignificant | Rejected |

*Source: Researchers constructed, 2023*

It is concluded that IO has a significant positive association with financial distress. It suggests that, if a company has a large number of shares owned by institutions, the possibility of financial distress will be high. Furthermore, MO is significantly negatively associated with the financial distress of non-financial

listed companies in Sri Lanka. It indicated that the ownership of a board of directors affects the financial success of a corporation. The board of directors will be more likely to act in the company's best interest since they hold stock in the company. As a result, the company is experiencing less financial distress. Board independence has been shown to negative impact on financial distress. This suggests that their existence in the board of commissioners' structure of the corporation reduces the likelihood of financial distress and, in line with agency theory, also ensures adequate oversight over the management. Also, it is concluded that board size has a significant and positive correlation with the financial distress of non-financial listed companies. It suggests that if a company has a large number of directors on board, the possibility of the FDIS will be high. Other variables of CG such as CEO Duality, and audit committee size do not affect the financial distress. Further leverage has a significant positive association with financial distress, while the firm size and firm age have insignificant positive impacts on financial distress.

## 5. CONCLUSION

This study examined the impact of corporate governance on financial distress by selecting a random sample of companies listed in the CSE, Sri Lanka. The study established that institutional ownership, managerial ownership, board independence, and board size have a significant impact on the financial distress of non-financial companies listed in CSE. CEO Duality and audit committee size have an insignificant impact on the financial distress of non-financial companies listed in CSE. As controlled variables firm size and firm age have insignificant and significant impacts on the financial distress of non-financial companies listed in CSE respectively, while leverage has a significant impact on the financial distress status of non-financial companies listed in CSE.

This study tried to understand the relationship between corporate governance and financial distress by considering 136 firms out of 208 listed companies in Sri Lanka. Because it is based on only 136 out of 208 firms, it is not entirely accurate. Also, here used only secondary data like published financial reports and the company’s web pages to collect data. This study only considered only five years of the period from 2018 to 2022 and it is a short period. There are various methods and models that the dataset could be analyzed but only a few models are used for this analysis. Most importantly the unavailability of all needed data was a major limitation when conducting this research. In addition to that here, only a few factors related to corporate governance that cause the financial distress of an organization were considered.

The results indicate that corporate governance (CG) procedures are inadequate to align the interests of shareholders and inappropriate to reduce financial distress in enterprises when other considerations are neglected. Future studies may take into account additional governance factors including director compensation, compensation or other board committees, the participation of female directors, director qualifications, and director age when evaluating CG practices. Future researchers can be encouraged to look into the connection between risk management and CG characteristics. Examining the impact of CG

on business intellectual capital performance might be another productive expansion of this research.

As an implication, a significant number of shares owned by directors should be promoted to reduce FD, more members of independent directors should be encouraged to reduce the FD, policymakers should determine the board size that fits their firm size and two separate persons should be there for the CEO and Chairman.

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