

Impact of Corporate Governance Mechanisms on Risk of Insolvency in Listed Non-Financial Companies in Sri Lanka

W.P.G. Madhushani ^{a,*}, L.D. de Silva ^a

^a Department of Accountancy, Faculty of Management and Finance, University of Ruhuna

A B S T R A C T

Corporate governance (CG) has become a pressing need today as it is legal system that governs and controls a company. With the Covid 19 pandemic and the 2022 financial crisis, the listed non-financial corporate sector in Sri Lanka was exposed to high levels of volatility, profitability issues, liquidity problems and customer defaults, which led to the bankruptcy of many institutions. Accordingly, this study examines the impact of corporate governance mechanisms on the risk of insolvency by examining 250 observations from 50 listed non-financial companies in the Colombo Stock Exchange. Here, as independent variables such as board independence, board size, women on the board, audit committee independence, and audit committee meeting frequency are used as independent variables, while firm size and firm age are used as control variables and the Altman Emerging Markets Z-Score (EMZ-Score) model is used to measure the dependent variable. The Z-Score model inversely measures the risk of insolvency, with a higher z-score indicating a lower probability of insolvency. The data collected here are analyzed using E-Views software and panel regression models are used to obtain descriptive statistics and results. According to the panel regression analysis, board independence shows a significant negative effect on insolvency risk, while audit committee meetings show a significant positive effect on insolvency risk. Other variables such as board size, women on the board, audit committee independence do not have a significant effect on insolvency risk. Accordingly, it will be helpful for future investors, legislators, and regulators in understanding how to strengthen corporate governance mechanisms to reduce insolvency risk in a future crisis environment.

Keywords: Corporate Governance mechanisms, Emerging Market Z - score Model, Insolvency Risk

1. Introduction

1.1 Background of Study

In latest times, corporate governance has emerged as a central requirement for future decisions made by regulators, policymakers, investors, and stakeholders around the world. In essence, corporate governance is the set of guidelines and measures that direct and control a

* Corresponding author: gayanimadhushanio8@gmail.com

15th ICME at University of Ruhuna, Sri Lanka

08th October 2026

ISBN: 978-624-6923-00-6

corporation (OECD, 2015). CG includes decisions about how rights and responsibilities are distributed among the parties in an organization. Good governance has been widely used around the world as a key to aligning the needs of stakeholders in organizations and increasing financial stability while minimizing institutional conflicts (Hettiarachchi & Sameera, 2025).

The adoption of corporate governance in Sri Lanka has evolved significantly in recent times, however with the first code of best practices on corporate governance in the financial sector by the Institute of Chartered Accountants of Sri Lanka (ICASL) was issued in 1997 based on and the Cadbury report by the United Kingdom in 1992 (Senarathne & Gunarathna, 2022). Subsequently updates, Code of Best Practices introduced in 2008, 2013 and 2017 and 2023, focusing on the OECD Principles of corporate governance (OECD, 2015). However, despite developments in corporate governance regulations, such as codes of best practices for the corporate sector, institutional failure has emerged. For Example, in the period 2020- 2022, Corporate governance practices have deteriorated due to careless management decisions and fraudulent practices in the corporate sector after the Covid 19 Pandemic. As a result, the corporate Sector in Sri Lanka was unable to meet its financial obligations and was at risk of insolvency (Hettiarachchi & Sameera, 2025). Research has confirmed that the deterioration of corporate governance practices increases the risk of insolvency and leads to liquidation of a company (Erkens et al., 2012). Accordingly, despite the establishment of a strong corporate governance systems in Sri Lanka, there is a problem of why such insolvency disaster occurs, and as a solution to it, the Primary objective of this study is to study risk of insolvency based on corporate governance mechanisms in a timely manner.

1.2. Research Problem

The risk of insolvency is a major threat to the sustainability and stability of corporates in developing economies (Altman, 1968). Many financial and non-financial organizations are vulnerable to insolvency due to weak procedures and regulatory oversight (Senarathna & Gunarathne, 2022). Therefore, various research studies have shown that effective governance practices to some extent improve the economic worth of organizations, contribute to increasing productivity, and minimize insolvency risk (Claessens & Yurtoglu, 2013). Accordingly, studying how corporate governance practices affect the risk of insolvency can help prevent inefficiencies that arise from weak governance practices and lack of oversight (Sameera, 2020).

Also, although there are some studies linking corporate governance and insolvency risk, most of them have focused only on financial institutions. Their conclusions cannot be directly applied to non-financial institutions because financial institutions are exposed to more financial risks (La Porta et al., 1999). The listed non-financial corporate sector has been identified in the research literature as a limited area of research exploring the impact of CG mechanisms on insolvency in the Sri Lankan context, and this is the main research questions there. (Hettiarachchi & Sameera, 2025)

Moreover, Sri Lankan studies have still shown mixed results. Accordingly, some studies have shown inconsistent results on the risk of insolvency CG mechanisms such as board independence and board meetings, while factors such as corporate ownership, management ownership, board independence, and board size have shown mixed results on corporate governance (Sameera, 2020; Siriwardhana & Gunarathne, 2022). Therefore, due to limited variables and short study periods, there are some research gaps in understanding how governance mechanisms affect the insolvency risk of companies (Siriwardhana & Gunarathne, 2022). Therefore, this research, which studies the impact of corporate governance and insolvency risk in listed non-financial firms, aims to go beyond existing empirical research and

provide an opportunity for investors, policy makers, stakeholders and regulators to evaluate the effects on corporate governance policies (Sameera & Hettiarachchi, 2025)

1.3 Research Question and Objective

Given the empirical gaps discussed above, the primary research question leading this study on how corporate governance mechanism influence insolvency risk is as follows.

- Do corporate governance mechanisms of listed non-financial companies in Sri Lanka affect the risk of insolvency?

Based on the research problem, this study has following objectives.

- To investigate the impact of corporate governance mechanisms on the risk of insolvency of listed non-financial companies in Sri Lanka over the period 2020-2024.

2. Literature Review

2.1 Corporate Governance and Insolvency Risk

Corporate governance is clarified as the set of guidelines and regulations that govern and lead organizations (OECD, 2015). Corporate governance practices will help reduce agency conflicts, enhance the organization's performance, and increase investor confidence in an emerging economy (Claessens & Yurtoglu, 2013). Although Sri Lanka has a strong corporate governance regulatory framework, the risk of insolvency has arisen with the Covid 19 Pandemic (Hettiarachchi & Sameera, 2025). The superiority of governance mechanisms in the listed non-financial companies in Sri Lanka is measured by independent variables such as board independence, board size, and women on the board, and audit committee independence and audit committee meetings. In addition, the firm size and firm age are considered as control variables of this review.

2.1.1 Board independence

Some researchers argued that having more than 50% of the board composition as independent directors is considered a condition of strong governance. Moreover, according to the 2017 Code of Best Practices introduced by the ICASL, it is indicated that increasing the supervisory capacity of listed companies is more valuable if there is a majority of independent directors (CA Sri Lanka, 2017). Some research literature has shown that high independence facilitates the reduction of the risk of insolvency for companies (Erkens et al., 2012). As a result, higher independence leads to stronger internal controls and higher audit quality, which is related with lower risk in economy (Johnson et al., 1996). Moreover, Although the quantity of independent directors on the board has improved numerically, their ability to influence board decisions during times of crisis is minimal, and their contribution to mitigating the risk of insolvency depends on their effectiveness and ability to influence (Dalton et al., 1998).

H 1 = Board Independence has a significant impact on the risk of insolvency.

2.1.2 Board size

The 2017 and 2023 Codes of Best Practice identify board size as an important corporate governance measure. Accordingly, there is no numerical requirement for the board, and the organization is guided on how to structure the board for effective oversight and decision-making (CA Sri Lanka, 2017; CA Sri Lanka, 2023). Board often plays a substantial part in mitigating conflicts between directors and shareholders. In addition, corporations with large boards have a higher level of knowledge and expertise among directors, which can improve overall performance (Daily et al., 2003). However, some researchers have shown that larger board cause communication problems, slow decision-making, and create instability within the

organization (Jensen & Meckling, 1976). Some researchers have also shown that there is a negative association between board size and the firm's value, suggesting that smaller boards are more effective (Guo & Kumara, 2012). Accordingly, there is no numerical requirement for the board, and the organization is guided on how to structure the board for effective oversight and decision-making (CA Sri Lanka, 2017; CA Sri Lanka, 2023).

H_2 = Board Size has a significant impact on the risk of insolvency

2.1.3 Women on the board

Female directors are argued to enhance the overall independence of boards by reducing group stereotypes, encouraging debate, and challenging dominant coalitions (Nielsen & Huse, 2010). The corporate governance literature suggests that women contribute to greater ethical awareness and transparency, which in turn reduces fraud and relieves financial pressures on companies (Bernardi & Threadgill, 2011). Moreover, empirical research further emphasizes that the women directors on corporate boards has a positive impact on corporate governance practices, as women work towards earnings management (Gull et al., 2018). Particularly when female directors are energetically engaging in corporate governance through membership in board committees (Green & Homroy, 2018).

H_3 = Women on the board has a significant impact on the risk of insolvency.

2.1.4 Audit committee independence

Empirical research literature has emphasized that greater audit committee independence, through most independent non-executive directors, increases the transparency of financial reporting processes and reduces the probability of companies incurring financial risks (Madi et al., 2014). Therefore, taking these findings into account, a causal association between audit committee independence and risk of insolvency is suggested.

H_4 = Audit Committee independence has a significant impact on the risk of insolvency.

2.1.5 Audit committee meetings

More audit committee meetings allow for the assessment of audit plans, the resolution of corporate accounting issues, and the clear identification and response to financial difficulties (Jensen & Meckling, 1976). Also, audit committees that meet frequently provide an opportunity for committee members to monitor early signs of profitability, leverage, and liquidity issues, and operational inefficiencies (Vafeas, 1999).

H_5 = Audit Committee Meetings have a significant impact on the risk of insolvency.

2.1.6 Firm size and firm age

Some scholarly has shown that large firms are more likely to face inefficiencies due to organizational complexity, which weakens their supervisory effectiveness (Jensen & Meckling, 1976). Also, research conducted in an emerging market economy like Sri Lanka shows that the size of companies ensures financial stability and that the non-financial corporate sector builds better external relations with foreign investors and operates with transparency (Siriwardhana & Gunarathne, 2022). Empirical research in international and Sri Lankan contexts recommends that grownup firms are less expected to experience low earnings volatility and financial distress due to their established operating systems (Platt & Platt, 2002). In contrast, newer firms are more probable to experience high stages of distress due to the high levels of uncertainty they face (Carr et al., 2010). Thus, previous evidence suggests that firm age is a fundamental determinant of resilience.

2.2 Theoretical Framework

2.2.1 Agency theory

This learning is based on agency theory, which offers a basis for exploring the impact on corporate governance mechanisms on insolvency risk (Nodeh et al., 2018). This theory, developed by, is a widely used theoretical framework for exploring corporate governance and organizational failures. However, managers and shareholders do not always share the same preferences, and agency conflicts will arise over the departure of ownership and control (Fama & Jensen, 1983). In addition, this concept proposes that independent directors on the board safeguard the right of shareholders, reduce conflicts and contribute to reducing financial risk. In addition, large boards also monitor managers and contribute to financial stability (Jensen & Meckling, 1976). Accordingly, this relationship relies on the ability of independent directors to influence the board with their expertise. Audit committees should also maintain a high level of oversight by continuously ensuring compliance and identifying patterns of earnings behavior to improve financial transparency (Kent et al., 2010).

2.2.2 Stakeholder theory

This theory explains that the sustainability of companies can be improved by meeting the expectations of not only shareholders but also multiple stakeholder groups. According to Freeman (2010), if the necessities of all stakeholders, counting workers, creditors, shareholders, and customers, are not met, the long-term performance of companies may be impaired. The board of directors strengthens the supervisory function and balances the interests of shareholders in the decision-making procedure of organizations (Fama & Jensen, 1983). Female directors are highly probable to be committed to the interests of shareholders, as they are associated with greater ethical behavior, transparency, improved oversight, and higher commitment (Adams & Ferreira, 2009). The independence of audit committees is a fundamental component of CG mechanisms that greatly assist in the protection of stakeholders and minimizes the risk of corporate insolvency (Freeman, 2010).

2.2.3 Resourced dependency theory

Resource dependency theory explains that we depend on external factors for resources such as capital, information, proficiency, and legitimacy (Pfeffer & Salancik, 1978). No company in the world can claim a self-sufficient economy and having to rely on external dependencies create a certain degree of uncertainty. Board members act as a check on the flow of information, which strengthens the continuity of the corporate development process (Pfeffer & Salancik, 1978). Carter et al. (2010), they were found that boards provide stronger governance mechanisms and better access to external opportunities, thereby improving organizational resilience, minimizing financial distress and responding more quickly to liquidity pressures.

According to Hillman et al. (2009), well-structured boards further enhance legitimacy and foster strong stakeholder relationships. It is therefore clear that independent directors of companies contribute to reducing information asymmetry and limiting excessive risk-taking (Kesnar & Johnson, 1990). Female directors are highly probable to be committed to the interests of shareholders, as they are associated with greater ethical behavior, transparency, improved oversight, and higher commitment (Adams & Ferreira, 2009). This subdivision explains the theoretical and empirical literature related to corporate governance and insolvency risk, focusing on board independence, board size, and women on the board, audit committee independence, audit committee meetings. It is built on agency theory, stakeholder theory, and resource dependence theory, and it was clear that minimizing conflict, improving stakeholder trust, and focusing on critical resources would reduce the risk of insolvency.

3. Methodology

This study explores the impact of corporate governance mechanisms on the risk of insolvency of the listed non-financial companies in the Sri Lankan context. Existing literature suggests that a quantitative approach is more appropriate (Hettiarachchi & Sameera, 2025). The research uses panel data for the period 2020-2024 (Bougie & Sekaran, 2020). For this study, the purposive sampling methods are for expected to be used to select approximately 50 companies in the listed non-financial companies on the Colombo Stock Exchange across the period of 2020-2024 (Bougie & Sekaran, 2020). The purposive sampling technique is more suitable than random selection for selecting samples in panel data studies, subject to specific criteria (Saunders et al., as cited in Arbale & Mutisya, 2024). The institutional sectors considered in this study are energy, material, capital goods, commercial and professional service, consumer durable and apparel, transportation, consumer service, retail, food and staples retailing, food and beverage and tobacco, according to the GICS industries.

Conceptual framework is developed based on prior empirical and theoretical literature on corporate governance and insolvency risk. In this study, the corporate governance mechanisms such as board independence, board size, women on the board, Audit committee independence, and Audit committee meetings were measured as independent variable (Hettiarachchi & Sameera, 2025). Additionally, control variables such as firm size and firm age are used to isolate insolvency risk (Siriwardhana & Gunarathne, 2022). Also, EMZ score is used to measure the risk of insolvency in an emerging economy like Sri Lanka (Altman & Hotchkiss, 2006). Compared with traditional measurement methods, EMZ score model is suitable for measuring the risk of insolvency for listed non-financial corporate sectors operating in an unstable economic environment due to variations in accounting standards, market conditions, and other factors (Altman & Hotchkiss, 2006). The above variables are measured as follows.

Table 3.1: Variable and Measurements

Variable	Measurement of Variable	References
Altman's Emerging Market Z-score Model (EMZ-Score)	$Z = 3.25 + 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$ $X_1 = \text{Working capital/Total Asset}$ $X_2 = \text{Retained Earnings/Total Assets}$ $X_3 = \text{EBIT/Total Asset}$ $X_4 = \text{Book Value of Equity/Total Liabilities}$	(Altman & Hotchkis, 2006)
Corporate Governance Mechanisms (CG)		
Board Independence (BI)	Independent non-executive directors on the board are divided by entire number of boards Members	(Maier & Yurtoglu, 2022)
Board Size (BS)	The entire number of directors on the board in a financial year	(Sallemi et al., 2023)
Women on the Board (WOB)	Female directors on the board divided by entire board members	(Kumara & Walakumbura, 2023)
Audit Committee Independence (ACI)	Independent non-executive directors on audit committee divided by whole number of audit Committee members	(Klein, 2002)
Audit Committee Meetings (ACM)	The whole number of audit committee meetings held by a firm during a financial year.	(Vafeas, 1999)
Control Variables		
Firm Size	Natural logarithm of total assets	(Fama & French, 1992).
Firm Age	Number of years since the founding of the firm.	(Loderer & Waelchli, 2010).

This study adopts a deductive approach, where hypotheses are developed using theories based on empirical evidence (Stadtlander, 2009). To achieve research objectives, the secondary data is collected through the annual reports of the listed non-financial companies in Colombo Stock Exchange. Various data analysis methods will then be used to achieve the objectives of this thesis using EViews. First, descriptive statistics are used to summarize the measurements of corporate governance and insolvency risk (Siriwardhana & Gunarathne, 2022). Additionally, panel regression is employed to inspect the influence of corporate governance practices on insolvency risk (Hettiarachchi & Sameera, 2025). In addition, the panel regression analysis allows for a more detailed study of the impact of these independent and dependent variables while considering the individual firm fixed effects and random effect.

$$IR_i = \beta_0 + \beta_1 BI_i + \beta_2 BS_i + \beta_3 WOB_i + \beta_4 ACI_i + \beta_5 ACM_i + \beta_6 FS_i + \beta_7 FS_i + \varepsilon$$

4. Data Analysis and Findings

4.1 Panel Regression Analysis

Panel Regression analysis is a statistical method predicting the effect of one or more independent variables on a dependent variable across the time period. This chapter discusses the effect of corporate governance mechanism on the insolvency risk of the listed non-financial companies in Sri Lanka. In this study, there are 250 observations from a dataset of 50 cross sections and 5 periods analyzed. Panel regression analysis, depending on the data, can be explained by introducing different approaches. The most of commonly used methods are pooled ordinary least square method, fixed effect model and random effect model (Gujarati & Porter, 2009). For a panel data estimation, it would be appropriate to choose either fixed effect or random effect.

4.1.1 Hausman Test

Table 4.1: Hausman Test

Test Summary	Chi. Squ. Statistics	Chi.Sq. of	Prob
Cross Section	5.302	7	0.623
Random			

Observe the effect on independent variable of the dependent variable, a fixed model and a random effect model are used through the panel regression model, and Hausman test results are obtained to select the appropriate model. According to the Hausman test results indicates “Random effect model” is appropriate. Hence the P value of Hausman test greater than 0.05 significant level ($Prob > Chi2 = 0.623$).

This indicates, the random effect model of ($R^2 = 0.112$). This is a low power model. This is because, according to this model, internal control mechanism and structural factors affect the risk of insolvency, but external factors such as regulatory changes, macroeconomic conditions, and firm specific strategies not included, which accounts for remaining 88.8 percent of the variations. This result indicates that this model overall is highly statistically significant ($F=4.379, P=0.000$).

This suggests that independent variable provides important information about the dependent variable. The intercept coefficient ($\beta = -18.834$) indicates negative significant effect ($P = 0.016$) for the dependent variable. The results demonstrated that when the independent variables (BI, BS, WOB, ACI ACM) are held constant at zero, the dependent variable (IR) is minimized by 18.834 units.

Table 4.2: Random Effect Model

Variable	Coefficient	St. Error	t- Statistics	Prob.
C	-18.834	7.775	-2.422	0.016
BI	-4.853	2.161	-2.245	0.026
BS	0.198	0.122	1.611	0.108
WOB	0.433	1.766	0.245	0.806
ACI	-1.063	1.094	-0.0971	0.332
ACM	0.256	0.118	2.165	0.031
FS	1.119	0.351	3.181	0.001
FA	-0.020	0.020	-1.024	0.306
R – Squared	0.112		F Statistics	4.379
Adj. R- Squared	0.087		Prob. F Statistics	0.0001
			Durbin Watson St.	1.556

Note: Board Independence (BI), Board Size (BS), Women on the Board (WOB), Audit Committee Independence (ACI), Audit Committee meetings (ACM), Insolvency Risk (IR)

4.2 Findings

The coefficient of Board independence ($\beta = -4.853$) demonstrates negative association between insolvency risk. This suggests when all other factors remain constant, an increase in board independence by one unit decreases the z score, which measures the risk of insolvency, by 4.853. Also, ($P = 0.026$, $t = -2.245$) indicates that board independence has a statistically significant impact on insolvency risk. Based on that H_1 was supported. Accordingly, it is pointed out that independent directors of companies have less opportunity to influence the organization's valuable strategic decisions and in some cases their effectiveness is minimal during times of crisis due to limited internal access (Dalton et al., 1998). Board size ($\beta = 0.198$), demonstrates positive association between Insolvency Risk. This suggests when all other factors held constant, an increase in board size by one unit increases the z- score, which measures the risk of insolvency, by 0.198. Accordingly, ($P = 0.108$, $t = 1.611$) indicates that this board size is not statistically significant impact on Insolvency risk. Based on that, H_2 was not supported. This demonstrates same results related to this study. Agency theory suggests that large boards effectively monitor managers and reduce conflicts between managers and shareholders. Some research proposes that board members are more operative in managing the organization, thereby reducing financial risk (Jensen & Meckling, 1976)

The coefficient of Women on the board ($\beta = 0.433$), demonstrates positive association between Insolvency Risk. This suggests when all other factors held constant, an increase in women on the board by one unit increase the z-score, which measure the risk of insolvency by 0.433. Also, ($P = 0.806$, $t = 0.245$) indicates that this women on the board are not statistically significant impact on Insolvency risk. Based on that H_3 was not supported. However, agency theory suggest that the effectiveness of CG mechanism is not resolute by the percentage of women on the board, but rather than women on board's ability to oversee management (Jensen & Meckling, 1976).

The coefficient of Audit committee independence ($\beta = -1.063$) demonstrates negative association between Insolvency Risk. This suggests when all other factors remain constant, an increase in audit committee independence by one unit decreases the z-score, which measures the risk of insolvency, by 1.063. Accordingly, ($p = 0.332$, $t = -0.0971$) indicates the audit committee independence is not statistically significant impact on Insolvency risk. Based on that H_4 is not supported. According to Jensen and Meckling (1976), agency theory, he points out that a single quality such as audit committee independence does not lead to board effectiveness and stability. Hence, theoretical evidence confirms that audit committee independence does not impact on the focus of insolvency. The Audit committee meetings ($\beta = 0.256$), demonstrate positive association between insolvency risk. This suggests when all other factors are held constant, an increase in

Audit committee meetings by one unit increases the z-score, which measures the risk of insolvency, by 0.256. Also, ($p = 0.031$, $t = 2.165$) indicates that audit committee meetings have a statistically significant impact on insolvency risk. Based on that H_5 was supported.

Here only two independent variables, when all other factors are held constant, make dependent variable predictors. That is board independence and Audit committee meetings statistically significant on the risk on insolvency. Another corporate governance variables do not statically significant impact on the insolvency risk. According to the random effect model, Durbin Watson value is 1.556. This is close to the 2. The value of generally acceptable in research, indicating no serial autocorrelation in the residual of the model. Accordingly, panel regression conditions are satisfied.

$$IR_i = \beta_0 + \beta_1 BI_i + \beta_2 BS_i + \beta_3 WOB_i + \beta_4 ACI_i + \beta_5 ACM_i + \beta_6 FS_i + \beta_7 FA_i + \mu + \varepsilon$$

$$IR = -18.833 - 4.853 BI + 0.256 ACM + 1.119 FS + \mu + \varepsilon$$

5. Discussion and Conclusion

Accordingly, the key objective of this study is to study the impact of corporate governance practices on the risk of insolvency in the non-financial corporate sector in Sri Lanka over the period 2020-2024. It was found that Board Independence (BI) has a significant negative effect on the risk of insolvency, while the frequency of Audit Committee Meetings (ACM) has a significant positive effect on the risk of insolvency risk. It is also shown that other variables do not have a significant impact on the risk of insolvency. As shown here, board independence has a significant negative effect on the risk of insolvency, which means that as the ratio of board independence increases, the z-score decreases and a higher insolvency probability is indicated. Also, the audit committee meetings show a significant positive impact on the risk of insolvency, and as the frequency of audit committee meetings increases, the z-score value increases, indicating a lower probability of insolvency. Accordingly, these findings will be significantly important for investors, policymakers, and regulators in the non-financial corporate sector to improve future decisions.

This study eliminates the financial institutional sector and small and medium-sized enterprises, and therefore the findings cannot be generalized to these institutional sectors. Given the limitations of this study, suitable directions for forthcoming research are indicated. That is, exploring the risk of insolvency in the listed non-financial corporate sector in Sri Lanka by focusing on corporate governance mechanisms that were not considered in this study, such as risk management committee disclosures, remuneration committee disclosures, related party transaction policies, and internal control policies, may indicate a good future research direction. Also, this research does not emphasize multiple forms of insolvency and suggests that an analytical method such as multinomial logistic regression, considering risk categories such as distress, grey and safe zone, would be suitable for this contextual research.

6. References

- Altman, E. I. (1968). Financial ratios, discriminant analysis and the prediction of corporate bankruptcy. *The Journal of Finance*, 23(4), 589–609. <https://doi.org/10.1111/j.1540-6261.1968.tb00843.x>
- Altman, E. I., & Hotchkiss, E. (2006). *Corporate financial distress and bankruptcy: Predict and avoid bankruptcy, analyze and invest in distressed debt* (3rd ed.). Wiley. <https://doi.org/10.1002/9781118267806>
- Bougie, R., & Sekaran, U. (2020). *Research methods for business: A skill-building approach* (8th ed.). John Wiley & Sons.
- Central Bank of Sri Lanka. (2024). *Annual economic review 2023*. Central Bank of Sri Lanka.

- Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1–33. <https://doi.org/10.1016/j.ememar.2012.03.002>
- Daily, C. M., & Dalton, D. R. (1994). Corporate governance and the bankrupt firm: An empirical assessment. *Strategic Management Journal*, 15(8), 643–654. <https://doi.org/10.1002/smj.4250150806>
- Erkens, D. H., Hung, M., & Matos, P. (2012). Corporate governance in the 2007–2008 financial crisis: Evidence from financial institutions worldwide. *Journal of Corporate Finance*, 18(2), 389–411. <https://doi.org/10.1016/j.jcorpfin.2012.01.005>
- Fama, E. F., & Jensen, M. C. (1983). Agency problems and residual claims. *The Journal of Law and Economics*, 26(2), 327–349. <https://doi.org/10.1086/467038>
- Gujarati, D. N., & Porter, D. C. (2010). *Essentials of econometrics* (4th ed.). McGraw-Hill/Irwin.
- Hermalin, B. E., & Weisbach, M. S. (Eds.). (2017). *The handbook of the economics of corporate governance* (Vol. 1). Elsevier.
- Hettiarachchi, N. B., & Sameera, T. K. G. (2025). The role of corporate governance in managing insolvency risk in the post-pandemic era: An empirical study of licensed finance companies in Sri Lanka. *South Asian Journal of Business Insights*, 4(2), 25–44. <https://doi.org/10.4038/sajbi.v4i2.68>
- Institute of Chartered Accountants of Sri Lanka. (2023). *Code of best practice on corporate governance 2023*.
- Maier, F., & Yurtoglu, B. B. (2022). Board characteristics and the insolvency risk of non-financial firms. *Journal of Risk and Financial Management*, 15(7), Article 303. <https://doi.org/10.3390/jrfm15070303>
- Nodeh, F. M., Ahmadimousaabad, A., & Nodeh, A. M. (2018). Firm size as a moderator between corporate governance and risk-taking in Malaysian banks.
- Organisation for Economic Co-operation and Development. (2015). *G20/OECD principles of corporate governance*. OECD Publishing. <https://doi.org/10.1787/9789264236882-en>
- Siriwardhana, A. P. M. C., & Gunarathne, U. G. V. D. D. (2022). Corporate governance and financial distress: Evidence from non-financial companies listed in the Colombo Stock Exchange, Sri Lanka.