CORPORATE GOVERNANCE AND SRI LANKA

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Abstract

Corporate governance is important for the economic health of a country. It is primarily concerned with ensuring that those who control and manage corporate entities focus more on compliance with legal, regulatory and other risks than on short term benefits for its stakeholders such as share holders, employees, suppliers, customers, creditors etc. Although it is an ambiguous phrase, it encompasses the processes of managing the business affairs of a company, adhering to transparency, accountability and efficiency, enhancing business prosperity and corporate accountability, realizing long term shareholder value through due processes. The elements subsumed in corporate governance have succeeded in attracting the attention of all due to the massive corporate collapses such as Enron and Worldcom., In order to avoid organizational collapses of this magnitude in the future, developed countries, such as the United States of America have commenced regulating the area of corporate governance. The paper examines the impact and importance of corporate governance as a mechanism to provide legitimacy to activities of corporate bodies, reduce their vulnerability to financial crisis and broaden access to capital by gaining public confidence. Also it examines the need for regulation of corporate sector and the potential issues in Sri Lanka as a country which is dependent on foreign funds for development and where foreign investors urge companies to adopt good corporate governance practices and also the need to avoid corporate failures such as Pramuka Bank and Golden Key. The reform process in Sri Lanka and commonly accepted principles and practices of corporate governance are also looked into in the paper.

Key Words: corporate governance, stakeholder, regulation, corporate collapses

Introduction

"Good Corporate Governance is essential to the effective operation of a free market, which enables wealth creation and freedom from poverty"[1] The need and the interest in corporate governance has been substantially increased and more pressing in recent years for the stability and integrity of country's financial system as during last three decades, Sri Lanka witnesses many number of cases of large corporate failures, especially in finance companies. Such failures can have huge impact on the economy which can set a country several years back in its path to development. The paper is based on the hypothesis that good corporate governance mechanism is an important determinant of commercial viability and business success which deliver benefits and effective protection to stakeholders of a company, would facilitate the enhancement of investor confidence and thereby strengthen the integrity and efficiency of the capital market and promote economic growth of a country.
The paper covers the historical background of the concept of corporate governance, its legal framework, its current status and how to protect

[1] Financial Reporting Council of the UK.