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Corporate Governance and Financial Distress: Empirical Evidence from listed Consumer Services Firms in Sri Lanka

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ABSTRACT

Objective - COVID – 19 has created unique and very profound challenges for almost all listed firms in Sri Lanka. The purpose of the study is to examine the influence of corporate governance practices on the financial distress status of listed companies in the consumer services sector in Sri Lanka.

Methodology/Technique – To assess the level of corporate governance, the current study constructs six dimensions of corporate governance, such as board size, board composition, CEO duality, board meeting, director ownership, and audit committee size. The Altman Z-score is used as a proxy for financial distress and measures it inversely. The bigger the Z-score indicates the smaller the risk of financial distress. Using 108 individual observations of consumer services firms listed on the Colombo Stock Exchange for the period of 2019 to 2021 and employing the fixed effects model, the effect of corporate governance practices on financial distress is evaluated.

Findings - The results from panel data regression analysis reveal that firms having a large number of directors on the board have a low likelihood of financial distress of listed consumer services companies in Sri Lanka. Furthermore, when a chief executive officer serves as the chairman of the board at a company, the more likely it is that the company will experience financial distress. The current study also provides evidence that firm-specific characteristics, such as firm size, leverage, and profitability, could be useful in determining the likelihood of financial distress.

Novelty - This study extends the existing literature by investigating the association between corporate governance practices and financial distress in listed companies in the emerging markets during the period of the COVID 19 pandemic.

Type of Paper: Empirical.

JEL Classification: G30, G34

Keywords: Board size, CEO duality, corporate governance, financial distress

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1. Introduction

In the present, problems with corporate governance (CG) are a growing field in a globalized economy, especially among the listed corporations in stock exchange (Cadbury, 2000). Prediction of financial distress (FDIS) in recent years has been a major problem for businesses all over the world.

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Due to the COVID-19 pandemic as well as an increasing number of companies in FDIS, companies face a serious threat to their operations. CG is used as a controlling mechanism for a company's operations. In recent years, FDIS has piqued the interest of investors, policymakers, and researchers, prompting them to conduct extensive research on the implementation of CG practices. There is a conflict in current CG implementation on whether it is an effective mechanism to prevent organizations from FDIS (Alabede, 2016). According to Bilal et al. (2013), the probabilistic perspective defines FDIS. The possibility of FDIS is evaluated due to the inadequate liquidity of assets and the higher level of debt of a firm. Financial distressed companies need to face difficulties in paying their financial obligations to creditors. Several situations cause FDIS to companies, such as being unable to forecast the development of operations, being unable to predict the company's cash flows, and making effective financial decisions. Some studies found that CG significantly increased the strength of bankruptcy forecasts (Lajili & Zéghal, 2010; Platt & Platt, 2012).

Wruck (1990) stated that economic distress, poor management, and a decrease of performance led companies to fall into a FDIS situation. In addition, in the OECD, poor CG mechanisms plunge companies into FDIS situations. Another study by Manzaneque et al. (2016) on influence of good CG on FDIS reports a conflict between management and stakeholders during crisis time because managers prefer a short-term strategy not to lose their jobs.

COVID – 19 has generated distinctive and very profound challenges for almost all listed firms in Sri Lanka. The board of the directors, who is charged with overseeing the short-term and long-term health of the firms and its business prospects, navigating the COVID-19 crisis requires careful consideration of a range of concerns under these unprecedented situations. The board of directors should consider several CG issues as their corporations have to respond to the challenges and uncertainty caused by the COVID-19 pandemic.

Several researches have been conducted in developed nations, but in the emerging markets like Sri Lanka, insufficient studies have been conducted on CG and FDIS. Hence, this study investigates the impact of CG on FDIS of listed corporations in Sri Lanka. This research is mainly focused on consumer services companies to obtain a deeper understanding of the hotel industry regarding FDIS. Although COVID-19 has adversely affected each business sector in the world, and the hotel industry has suffered considerable losses and setbacks in Sri Lanka.

In Sri Lanka, some companies have failed due to a lack of consistency in policies, control procedures, guidelines, and mechanisms to ensure accountability and fiduciary duty. Moreover, in recent years, some listed companies faced difficulties in earning a profit as well as bankruptcy situations due to the COVID-19 pandemic and, new policies and regulations implemented by the government. Several studies have been conducted that concluded that CG is significantly associated with FDIS. Some other scholars have proved that there is no significant relationship between them. Therefore, there is an indecisive finding on CG and FDIS. Hence, the issue remains unsolved, giving scope for additional research.

2. Literature Review and Hypothesis Development

2.1 Theoretical review

CG is significant in cutting-edge groups because of the separation of control and possession manipulated within the organizations. The pursuits of shareholders conflict with the pursuits of managers. The most important agent hassle is reflected within the control and route associated troubles because of the differential

pursuits of the firm's stakeholders. CG is defined as "the gadget with the aid of which commercial enterprise groups are directed and controlled" (OECD, 1999). The firm's governance framework specifies the rights and obligations amongst unique individuals within the company such as the board of directors, owners, managers and other stakeholders, and spells out the procedures and techniques for making selection in corporate affairs. By doing this, it additionally offers the shape through which the organization's targets are set and the method of achieving the targets and tracking performance. CG is defined as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer & Vishny, 1997). Caramanolis Cötelli (1995) is also suggested that "CG as being determined by the equity allocation among insiders (including executives, CEOs, directors, or other individual, corporate, or institutional investors who are affiliated with management) and outside investors".

Ehab, Rahim and Ananth (2011) define FDIS as "a borrower is unable to meet payment obligation to lenders and creditors due to reputation, leverage, volatility of earnings, collateral, economic condition or interest rates". According to Andrade and Kaplan (1997), FDIS is a situation where a company is unable to meet its debt obligations which may lead to either bankruptcy or corporate restructuring. Ray (2011) states that FDIS occurs when there is a violation of loan contracts and a corporation experiences continuous losses and fails to fulfil debt obligation. As stated by Wesa and Otinga (2018), there are two possible key issues in financially distressed businesses; they face cash shortage in the assets side or overdue obligations on the liabilities side of the statement of financial position. FDIS adversely affect the survival of the companies.

Samarakoon and Hasan (2003) reveals that third version of Z-score model offers the high level of overall success rate after assessing the Altman's Z-score models in Sri Lanka. Using these models the firms predict FDIS in emerging markets, but with a falling overall accuracy at the 2 subsequent years prior to distress. The current study confirms that Altman's Z-score model is a suitable analytical technique for Sri Lankan companies in predicting FDIS.

2.2 Empirical evidence

CG researches have inconclusive evidences on the association between CG and FDIS of the firms. After many businesses have collapsed, the relationship between CG and FDIS has been the most researched topic in both developed and developing countries (Udin, Khan, & Javid, 2017). Some previous studies show that CG practices have an impact on FDIS.

Cardoso et al. (2019) revealed that board size and FDIS has U shaped relationship, indicating an optimal number of directors of six during the period. Even so, board characteristics are insufficient to reducing the FDIS of firm and not enough to align shareholders interest when other factors are neglected. Mariano et al. (2021) suggested that low degree of concentrated ownership and a low level of independence are more possible to experience FDIS. Even a large board size reduces the possibility of FDIS. Similarly, Younas et al. (2021) investigated the influence of the CG index on firm performance of listed non-financial corporations on the Pakistan Stock Exchange and indicate a positive relationship between the CG index and FDIS. Even though Li et al. (2021) stated that CG alone is inadequate to predict FDIS, it can increase the predictive power of financial indicators as well as macroeconomic variables.

Luqman et al. (2018) analyzed that CG best practices mitigate the likelihood of FDIS and found an inverse relationship of FDIS with managerial ownership, block holder ownership, and audit committee size. Elloumi and Gueyle (2001) examined the association between CG attributes and FDIS in Canadian firms and revealed that the board composition describes FDIS beyond exclusive reliance on financial indicators. Furthermore, segmenting financially distressed corporations based on Chief executive officer's change as an indicator for turnaround strategies offers valuable insights into CG attributes in FDIS. A leading CEO as a poor CG attribute is more likely to be related with business insolvency (Hambrick & D'Aveni, 1992). Daily and

Dalton (1994) also confirmed that a direct relationship between the possibility of impoverishment and poor CG attributes as measured by CEO duality and low degree of independence on the board.

Wang and Deng (2006) showed an inverse association between FDIS status and CG attributes such as ownership concentration, government ownership and the independent directors whereas CEO's dual role, number of the directors on the board, director's ownership and level of balanced ownership do not affect the possibility of FDIS in China. Likewise, Abdullah (2006) confirmed an inverse relationship between the FDIS and ownership, as measured by the proportion of shares held by executive directors, non-executive directors and outside block-holders. Furthermore, Li et al. (2008) found that concentrated ownership, government ownership, ultimate owners, board independence and auditors' opinion are adversely related to the possibility of FDIS. Furthermore, managerial ownership doesn't influence FDIS. Ciampi (2015) identified that CEO's dual role, concentrated ownership and control and reduced independent directors are inversely related to small corporations default, and that CG attributes improve the default possibility of small corporations.

However, Al-Tamimi (2012) indicated a direct association between FDIS and the CG attributes of national banks in UAE. Moreover, Pramudena (2017) investigated the impact of good CG on FDIS using a sample of 10 corporations in Sri Lanka and concludes a direct association between board size and FDIS as measured by Altman Z score.

Accordingly, the following hypotheses have been constructed to analyze the influence of CG on FDIS:

H1: *Board size significantly influences the FDIS*
H2: *Board composition significantly influences the FDIS*
H3: *CEO duality significantly influences the FDIS*
H4: *Board meeting significantly influences the FDIS*
H5: *Director's ownership significantly influences the FDIS*
H6: *Audit committee size significantly influences the FDIS*

3. Methodology

It focuses on research methodology and methods adopted in this study. Deductive approach and quantitative method are adopted as this study analyse empirically the association between the CG practices and the FDIS.

3.1 Population and Data collection

The study of CG and FDIS in Sri Lanka, takes a population of 36 consumer service corporations listed in Colombo stock exchange. The financial statements and the websites of listed corporations were used as the important secondary sources of the collected data in this study. The data for the three years from 2019 to 2021 was considered to enhance the data quality and reliability. This study consists of 108 individual observations and employs a panel data collected from the audited annual reports of consumer service corporations listed in Sri Lanka.

3.2 Measurement of variables

3.2.1 Corporate governance Practices

The CG is the very crucial element in the emerging economy. In this study, six proxies are used to measure the CG. BCOM represents the proportion of independent non-executive directors to the total number of directors on the board while BSIZ is measured by number of directors on the board. When the chief executive officer is functioning as board chairperson in the board, CEOD is equal to one; otherwise zero. ACSIZ denotes the number of members in audit committee. BMEE is evaluated that number of meetings held per year. DOWN is the number of shared held by the directors in the firm.

3.2.2 Financial distress

To evaluate the impact of CG on FDIS, the Altman Z-score is employed as a proxy of the converse of FDIS, where the Z-score model becomes one of the most frequently used early warning models of the risk of FDIS (Yi, 2012). Altman (1968) introduced the Z-score model as a good predictor of bankruptcy and the score is computed as follows:

$$\boldsymbol{Z - Score = 1.2\,X_1 + 1.4\,X_2 + 3.3\,X_3 + 0.6\,X_4 + 1.0\,X_5}$$

Where

X_1 - Working capital / total assets.
X_2 - Retained earnings / total assets.
X_3 - Earnings before interest and taxes / total assets.
X_4 - Market value equity / book value of total debt.
X_5 - Sales / total assets.

If the Z-Score value is 1.81 or above, then it can be regarded that the firm is financially sound, and if the Z-Score value is less 1.81, then it can be regarded that the firm is in financially distressed (Udin et al., 2017).

3.2.3 Control Variables

In the most of the previous literature, certain firm specific variables namely FSIZ, FAGE, LEVE and PROF were derived as control variables to eliminate any specification errors in the estimated model (Wang & Deng, 2006; Coles et al., 2008; Ehikioya, 2009). FSIZ is the natural logarithm of total asset in a firm. LEVE refers to the long term debt to total assets. PROF is measured by net income to total assets. FAGE is indicated by natural logarithm of FAGE since incorporation.

3.3 Model Specification

Panel data regression model is employed to estimate the relationship between CG practices and FDIS. It is useful to overcome the limitations of the pooled least square (PLS) method. The following econometric model is specified to examine the impact of CG on FDIS.

FDIS= β0 +β1 BSIZ+β2BCOM+β3CEOD+β4BMEE+β5DOWN+β6ACSIZ +β7FSIZ+β8 LEV+β9 PROF+β10 FAGE+ε

Where: β0, β1,β2,β3 ,β4,β5,β6,β7,β8, and β9- Regression coefficient; BSIZ- Board size; BCOM- Board composition; CEOD- CEO duality; BMEE- Board meeting; DOWN- Director ownership; ACSIZ- Audit committee size; FSIZ- Firm size; LEVE - Leverage; PROF-Profitability; FAGE- Firm Age; FDIS- FDIS.

4. Results and Discussions

4.1 Descriptive Analysis

Table 1 shows the descriptive statistics for CG practices and the FDIS of listed corporations in consumer service sector in Sri Lanka. It is observed that the mean of BSIZ is eight and the standard deviation is 2.06 which show that there is a substantial variation among the listed corporations. Furthermore, 40.2% of the directors on the board represent independent non-executive directors. Accordingly, it is above the minimum recommended by Code of best practice on CG issued in 2017 by the Institute of Charted Accountants of Sri Lanka (ICASL).

Table 1: Descriptive Statistics

Variables	Mean	Max	Min	Std. dev.
BSIZ	8.194	14.000	4.000	2.062
BCOM	0.402	0.667	0.222	0.010
CEOD	0.389	1.000	0.00	0.490
BMEE	4.056	13.000	1.000	1.918
ACSIZ	3.287	5.000	2.000	0.762
DOWN	2.796	15.137	0.000	4.436
FDIS	1.963	16.650	-1.340	3.006
FAGE	1.398	2.000	0.000	0.579
FSIZ	9.000	10.000	6.000	1.144
LEVE	0.142	0.817	0.000	0.158
PROF	-0.012	0.137	-0.278	0.066

Source: Survey data

In the table 1, CEOD is observed in 38.9 per cent of the organizations in the target population. The firms in this study have conducted averagely four BMEEs which are to the standard recommended by the CG best practices. On average, audit committee consists of three members in consumer service firms. Directors averagely hold 2.796% of shares in the selected listed companies. Mean value of FDIS is 1.963 with the standard deviation of 3.006 which shows a substantial variation in FDIS status among consumer service companies.

4.2 Correlation Matrix

Table 2 illustrates the output of the Pearson's correlation analysis for the variables of CG and FDIS. It is observed that the CEOD (r= -0.302, P<0.05) and LEVE (r= -0.195, P<0.05) are negatively correlated with FDIS at a significant level of 5%. BSIZ, BCOM, ACSIZ, DOWN and BMEE have not shown any significant relationship with FDIS at the significant level of 5%. The control variables of FSIZ, FAGE, and PROF are not correlated with FDIS at significant level of 5%.

Table 2: Correlation Matrix

	BSIZ	BCOM	CEOD	ACSIZ	BMEE	DOWN	FAGE	FSIZ	LEVE	PROF
BSIZ	1.000									

BCOM	-0.030	1.000								
	0.758	-----								
CEOD	-0.168	0.236	1.000							
	0.082	0.014	-----							
ACSIZ	-0.084	-0.174	-0.127	1.000						
	0.391	0.071	0.192	-----						
BMEE	-0.078	0.011	-0.143	0.552	1.000					
	0.420	0.907	0.141	0.000	-----					
DOWN	0.331	0.241	0.047	-0.284	-0.187	1.000				
	0.001	0.012	0.630	0.003	0.053	-----				
FAGE	0.052	-0.208	0.141	0.268	-0.062	-0.155	1.000			
	0.593	0.031	0.146	0.005	0.523	0.109	-----			
FSIZ	-0.091	-0.014	0.150	-0.021	0.077	0.222	-0.169	1.000		
	0.348	0.882	0.121	0.826	0.430	0.021	0.080	-----		
LEVE	0.006	-0.030	-0.115	0.123	0.037	-0.239	0.196	-0.001	1.000	
	0.955	0.754	0.238	0.181	0.707	0.013	0.042	0.921	-----	
PROF	-0.143	0.137	0.113	-0.003	0.124	0.007	-0.119	0.156	-0.456	1.00
	0.141	0.157	0.242	0.971	0.199	0.942	0.216	0.106	0.000	-----
FDIS	0.131	-0.015	-0.302	-0.091	-0.043	-0.094	-0.155	-0.051	-0.195	0.11
	0.176	0.874	0.001	0.351	0.662	0.334	0.110	0.599	0.043	0.24

4.3 Multicollinearity

Table 3: Variance Inflation Factor (VIF)

Variable	Coefficient Variance	Centered VIF
C	12.076	NA
BSIZ	0.021	1.234
BCOM	9.753	1.293
BMEE	0.0317	1.613
CEOD	0.380	1.261
ACSIZ	0.218	1.750
DOWN	0.005	1.533
FAGE	0.291	1.351
FSIZ	0.068	1.243
LEVE	4.334	1.486
PROF	23.838	1.412

Table 3 represents the summary of variance inflation factor for the explanatory and control variables of this study. VIF test is conducted to detect the multicollinearity issues in the regression models of the study. The multicollinearity issues exist when the VIF is greater than 10 (Hair et al., 1995). In this study there was the absence of multicollinearity issues among the CG and control variables as all VIFs are less than 10.

4.4 Unit Root Test

Table 4: Augmented Dickey-Fuller (ADF) Test

Variables	ADF (t statistic)	Probability
BSIZ	-4.214002	0.0010
BCOM	-4.156391	0.0012
BMEE	-6.727305	0.0000
CEOD	-3.247950	0.0200
ACSIZ	-4.052831	0.0017
DOWN	-5.876038	0.0000
FAGE	-7.852103	0.0000
FSIZ	-2.945821	0.0437
LEVE	-7.306993	0.0000
PROF	-5.678620	0.0000
FDIS	-4.805351	0.0001

Table 4 shows ADF statistical test adopted for checking the stationary of the data. The p- values for all variables are less than 0.05 levels. It implies that all the variables of this study are stationary and are not dependent over time. Hence, the collected data doesn't have any unit root at zero lag with no time and no drift trend.

4.5 Panel Regression Analysis

As seen in table 5, the output of panel regression analysis demonstrates that the FDIS is regressed on CG practices. An absolute value of Z-score, measure of the possibility of FDIS, determines inversely the FDIS. The high value of Z-score implies the low degree of risk of FDIS.

Table 5: Panel Regression Analysis

Variable	Pooled Least Squares (PLS)			Random effects			Fixed effects		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
C	3.603	0.577	0.566	3.603	0.577	0.566	2.927	0.725	0.470
BSIZ	0.953	3.334	0.001	0.953	3.334	0.001	0.388	2.192	0.031
BCOM	4.848	1.077	0.286	4.848	1.077	0.286	5.940	1.853	0.067
CEOD	-2.112	-3.424	0.001	-1.650	-2.642	0.009	-1.882	-1.916	0.050
ACSIZ	0.597	0.705	0.483	0.597	0.705	0.483	-0.146	-0.286	0.776
BMEE	-0.172	-1.843	0.070	-0.172	-1.843	0.070	-0.153	-1.741	0.085
DOWN	0.086	0.841	0.404	0.086	0.841	0.404	0.009	0.127	0.899
FAGE	4.966	3.939	0.000	4.966	3.939	0.000	0.643	0.931	0.354
FSIZ	-2.236	-3.879	0.000	-2.236	-3.879	0.000	-0.657	-2.000	0.048
LEVE	2.839	1.788	0.078	2.831	1.788	0.078	2.798	2.084	0.039
PROF	9.591	3.886	0.000	9.591	3.886	0.000	8.533	3.772	0.000
R-squared			0.9367	0.9367			0.2073		
Adjusted R-squared			0.8925	0.8925			0.1256		
F-statistic			21.2071 (0.000)	21.2071 (0.000)			2.5375 (0.0092)		
Durbin-Watson	2.6013			2.6013			1.8908		
Hausman Test - Chi-Sq. Statistic									39.9817 (0.000)

Table 5 represents the results of PLS and panel data regression with fixed effects and random effects models. To choose the best model between the fixed effects and random effects, the Hausman test is

employed. In this research, fixed effects model is effective than random effects model as the p value is less than 0.05 levels (Chi-Sq. Statistic 39.9817, p <0.05). The fixed effects model is useful to assess the effects of individuals' intrinsic characteristics in the panel data set. Accordingly, adjusted R squared value of 0.1256 indicates that 12.56% of variance in FDIS of listed consumer service companies is demonstrated by CG variables and remaining 87.44% of variation is explained by other factors not shown in this model.

Based on the output of the fixed effects model, BSIZ has a positive association with Z-Score model (ß=0.388, p=0.031) at 0.05 significant levels. This finding is collaborated with previous studies of (Dissanayke et al., 2017) (Elloumi & Gueyié, 2001), Din et al. (2020), and (Handriani et al., 2021). Therefore, H1 is supported with finding. The significant positive association between BSIZ and FDIS indicator indicates that if a company has the large number of directors on board, the likelihood of the FDIS will be low. It suggests that by appointing a large number of directors on the board, it supports to the effective decision making process. Diverse board of directors with various skills, knowledge and experiences will be able to scrutinize the issues from the different perspectives, to raise challenging questions and to debate more vigorously among the top level managements. But, BCOM has not shown any significant impact on FDIS at 0.05 significant levels. Hence, Therefore, H2 isn't supported with finding. This finding collaborates with previous researches (Berthelot et al., 2012) (Acero Fraile & Alcalde Fradejas, 2014) (Dal Vesco & Beuren, 2016). Furthermore, CEOD is negatively associated with FDIS indicator (ß=-1.882, p=0.050) at 0.05 significant levels. This finding is collaborated with prior study such as (H. Li et al., 2008). Therefore, H3 is supported with finding of the study. The negative association between CEOD and FDIS implies that firms adopting the practice of CEOD are likely to expect the likelihood of FDIS. CEO's dual role in firms may lead to raise the possibility of entrenchment and the agency conflicts (Fama & Jensen, 1983) (Jensen, 1993). This finding is in line with prior study of (Ali & Nasir, 2018). According to the table 5, ACSIZ (ß=-0.146, p=0.776), BMEE (ß=-0.153, p=0.085) and DOWN (ß=0.009, p=0.899) have not shown any significant impact on FDIS of listed companies in consumer service sector at 0.05 significant levels. Hence, H4, H5 and H6 are not supported with findings of the study. Moreover, FAGE has not shown any significant influence on FDIS. But, LEVE and PROF positively influence the FDIS whereas FSIZ has a negative impact on FDIS at 5% significant levels. Durbin Watson test is 1.8908, which is close 2 indicating a very low level of autocorrelation.

5. Conclusion

The study explores the influence of CG on the FDIS of listed corporations in the consumer service sector in Sri Lanka from 2019 to 2021. According to the fixed effects model, it is concluded that BSIZ has a positive association with the FDIS indicator. It recommends that if a company has a large number of directors on board, the possibility of the FDIS will be low. Furthermore, CEOD is negatively associated with the FDIS of listed companies in the consumer service sector in Sri Lanka. It implies that firms adopting the practice of CEOD are likely to experience the possibility of FDIS. Other variables of CG such as ACSIZ, BMEE, and DOWN do not affect the FDIS. Furthermore, LEVE and PROF positively influence the FDIS while FSIZ has a negative influence on the possibility of FDIS. Furthermore, the results show that few CG practices are not much suitable to reduce FDIS when BSIZ is a more prominent factor to mitigate the FDIS. Thus, it can be concluded that companies should position themselves by strengthening their governance structures to improve their attractiveness and, hence, access to financial markets.

6. Recommendations and Future Direction

As per the findings of the study, when appointing the directors to the board, their skills, knowledge, and experience should be considered for conducting the business of the board. Hence, the possibility of FDIS can be reduced in the firms. Moreover, it can be recommended that the chairman, as well as the chief executive officer, should be a different person in the company. Therefore, the agency and other related issues would be mitigated, and it can help alleviate the FDIS of the listed companies.

Overall, the empirical results of the present study extend the understanding of CG and its effects on FDIS in Sri Lanka. Researchers, owners, and practitioners are more interested in the findings of the study for various reasons. This study provides the contribution to the existing body of knowledge on the impact of CG practices on FDIS. Furthermore, this study provides a contribution to future research on the FDIS and the recognition of the distress prediction model. It signifies the necessity to develop other instruments to ensure the safeguard of the interests of minority shareholders since the board's independence and composition are shown to be insufficient.

The findings of the study are subjects to shortcomings. The sample size needs to be extended and more attributes of CG will be incorporated to improve the validity and generalizability of the findings. The findings show that CG practices are not sufficient to align the shareholders' interests and unsuitable for mitigating FDIS in companies when other variables are neglected. Future studies may incorporate other CG attributes to assess the CG practices like director remuneration, remuneration or other board committees, board diversity, and directors' age and qualification. Moreover, future investigators can be inspired to explore the association between risk management and CG attributes. Another productive extension of this study would be to examine the influence of CG on firm intellectual capital performance.

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