

Reconstructing the Corporate Governance Framework: The Case for an Effective System of Governance for the Sri Lankan Corporate Sector

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This paper suggests the necessity to reconstruct existing corporate governance mechanisms of Sri Lankan companies by analyzing the collapse of Pramuka Savings and Development Bank Ltd. (PSDB) in Sri Lanka. Corporate governance is a subject of great current concern, not only in developed countries, but also in developing countries that are in the throes of economic reforms. In the context of prevailing governance issues, the argument that “Existing governance systems in the Sri Lankan corporate sector should be geared up to the requirements of the corporate stakeholders” is selected as the underlying theme of the study. Corporate governance is the system by which businesses are directed and controlled. Several financial collapses of companies in the country and around the world have created uncertainty in financial markets and have shaken investors’ confidence. Therefore, the issue that corporate ‘influence’ is disproportionate to ‘responsibility’ is considered as the main issue of the study.

The main objective of the research is to assess the relevance of findings of the study to enhance governance practices in Sri Lankan corporate sector by assessing the theme in multiple perspectives and by focusing on best practices and principles of corporate governance.

Methodologically, the research is more of a theoretical paper supported by empirical evidence. The theme of the study and the selected case (PSDB) were analyzed in three perspectives namely: Agency Perspective, Stakeholder Perspective and Institutional Theory Perspective. Selection of the three perspectives is supported by international cases the researcher has chosen from USA, Japan, and India.

After analyzing the case, it was found that major deficiencies in the Sri Lankan governance systems as not discharging the fiduciary responsibility by managers and directors satisfactorily, inadequate role played by the auditors and institutional investors, and unpaid attention to stakeholder and institutional theory perspectives. In essence, what Sri Lankan companies need to understand is that ‘Governing’ is a very different job from ‘Managing’.

Key Words: Governance; Perspectives; Agency; Stakeholders; Institutional theory

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