

THE THEORY-PERCEPTION GAP IN CORPORATE GOVERNANCE SYSTEM IN A DEVELOPING ECONOMY: EVIDENCE FROM SRI LANKA

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Abstract

The purpose of this research article is to identify whether there is any gap between corporate governance based on theoretical view point and stakeholders' perception on corporate governance practices, and identifying the factors impacting the gap between corporate governance theory and existing Sri Lankan corporate governance practices. This study has been carried out by examining the perception of selected stakeholders (i.e., directors, accountants, external auditors, academics and regulators) about the nature and role of corporate governance with the emphasis on board accountability. The study employs a structured questionnaire to obtain perception of selected stakeholder groups about corporate governance concepts and existing corporate governance practice. The results suggest that there is a gap between the corporate governance based on theory and perception by stakeholders on corporate governance practice. The findings of the study also identified micro factors as well as macro factors which widen the gap between theory and practice of corporate governance. Conflict of interest and non-compliance with laws and regulations were identified as most significant micro factors while high complexity of corporate governance regulation, political interference were identified as most significant macro factors impacting the gap between theory and practice of corporate governance in Sri Lanka.

Key Words: Accountability, Corporate Governance, Theory-Perception Gap, Stakeholder Theory

Introduction

Cadbury (1992, p.14) defines Corporate Governance as the '[s]ystem by which companies are directed and controlled'. Spanos (2005, p. 24) states that '[c]orporate governance is having significant implications for the growth prospects of an economy, because proper corporate governance practices reduce risk for investors, attract investment capital and improve performance of companies'. However, Wanyama et al. (2013, p. 22) state that it is difficult to define concept of corporate governance meaningfully without acknowledging a link between stakeholders and accountability.

According to Natarajan (2011, p.21) corporate governance has been perceived as an indirect mechanism which reduce the agency and transaction costs. Further, it is suggested that corporate governance system ensures that companies discharge their accountability to their entire stakeholders including the society. It has further perceived that accountability, transparency, responsibility and fairness to stakeholders as key elements of good corporate governance system.

Alleyne et al. (2014, p. 186) state that during the past decades major corporate failures like Enron, Lehman Brothers and Tyco were caused to increase the greatest attention of the world on corporate governance systems and practices. The financial crisis in 2008 even more encouraged to re think about corporate governance in the world.

However, it is not so long the discussion about Corporate Governance was started to taken place in Sri Lanka. Senaratne and Gunaratne (2008b, p. 80) point out that:

[t]here had been a few isolated incidents of corporate failures in the past such as the collapse of finance companies in 1980s, the bankruptcy of Pramuka Bank in late 1990s and the downfall of Vanik Incorporation, which was a mega company once.

Kalainathan and Vijayarani (2014, p. 7) state that recent corporate collapses like Golden Key and Ceylinco group were caused to enlighten Sri Lankans' eyes on extant corporate governance practices and issues in recent years.

Apart from corporate failures, Maher and Anderson (1993, p.14) observed that wide spread of shareholders, changing ownership structure, greater expectations of society of the corporate sector, hostile take overs, huge increase in top management and globalization have increased the need of corporate governance in today's context.

However, it was observed that most of entities are accountable for various stakeholders just to escape from fines due to non-compliance with corporate governance rules and regulations. According to Wanyama et al. (2013, p. 28) ‘accountability in Uganda is cosmetic in the sense that we reduce accountability to paperwork which may not reflect the reality of what has actually transpired’.

In real terms, corporate governance theory will not be applied as it is and will be affected by different perceptions of stakeholders. Stakeholders’ perceptions on corporate governance practices are affected by various cultural and institutional factors.

Kalainathan and Vijayarani (2014, p. 6) have identified number of factors which widen the theory and practice gap of corporate governance. Kalainathan and Vijayarani (2014, p. 6) perceived that regulatory corruptions, irregularities which happens in the public sector have vastly influenced against better corporate governance practice in Sri Lanka. Senarathne and Gunaratne (2008 b, p. 86) have also highlighted in their study that, problems in corporate governance mainly result from the non-availability of necessary conditions for the successful implementation of the Anglo-Saxon model of corporate governance in the Sri Lankan context.

The prevailing situation provides indications regarding the existence of a gap between corporate governance theory and perceptions on corporate governance practice in Sri Lankan context. Therefore, to investigate the theory and perception gap of corporate governance by different stakeholder’s views and factors impacting corporate governance in Sri Lanka is heavily applicable for today.

Further, as far as researches had observed, although there are plenty of researches have been carried out on corporate governance in Sri Lankan context, the existing literature does not adequately provide evidence on gap between theory and perception on corporate governance practice. Therefore, to investigate the gap between corporate governance theory and perception of corporate governance by different stakeholder’s viewpoints in Sri Lanka is heavily applicable for today. This study will receive perception from selected stakeholders namely directors, academics, accountants, external auditors and regulators who have prominent role in shaping the corporate governance of the country. The study will be a significant endeavor to examine the gap between theory and perception of corporate governance practice.

According to the above discussion, problem statement can be stated as whether there is any gap between corporate governance based on theoretical view point and stakeholders’ perception on

corporate governance practices and what are the factors impacting the gap between corporate governance theory and existing Sri Lankan corporate governance practices. The research objectives which have been derived based on the problem statement can be outlined as follows.

Research Objectives

Based on the problem statement, the overall objective of the study is to identify whether there is any gap between theoretical viewpoint of corporate governance and perception of stakeholders on corporate governance practices by examining the perception of selected stakeholders about nature and role of corporate governance with the emphasis on board accountability and identifying the factors impacting the gap between theory and practice of corporate governance in Sri Lanka.

The overall objective can be specifically indicated as follows.

I. Identify whether there is any gap between theoretical viewpoint of corporate governance and perception of stakeholders on corporate governance practices by examining perception of stakeholders about;

1. Applicability of stakeholder theory (Theoretical background of corporate governance focus on stakeholder theory, Most important stakeholders in relation to corporate governance)
2. Board accountability towards stakeholders (Board accountability to various stakeholder groups, Role and composition of board committees)
3. Relevancy of international corporate governance guidelines
4. Applicability of corporate governance guidelines to different forms of entities

II. Identifying the factors impacting the gap between theory and practice of corporate governance in Sri Lanka

The remainder of the paper is organized as follows. Section two of the study presents the literature review. Section three describes research design and method. Section four discusses research findings and their implications. The final section presents the conclusion of the study.

Literature Review

This section elaborates existing literature in the field of corporate governance. First part of the literature review deals with definitions and concepts and then it will elaborate broader theories on corporate governance and empirical research findings on gap between corporate governance

theory and perception on practice. Finally, it will describe the Factors outlined in the existing literatures which enhance the gap between corporate governance theory and practice.

Corporate governance

Cadbury (1992, p.14) has broadly defined corporate governance as '[t]he systems by which companies are directed and controlled'. Moreover, OECD (1999) stated that corporate governance is a set of relationships between a company's management, its board, its shareholders and other stakeholders. In contrast to the Cadbury definition on Corporate Governance, OECD definition addresses a greater extent of multiple stake holder groups. Also, OECD specifies the corporate governance from holistic perceptive with reference to the rights of shareholders. There are several theories that explain the necessity of corporate governance practices which will elaborate next.

Theories on Corporate Governance

This section deals with the relevant theoretical perspectives on nature and role of corporate governance. Fundamental theories and philosophies explain the necessity of corporate governance. It is obvious that fundamental theories on corporate governance began with Agency Theory. Later these fundamental theories were expanded to more theories such as Stewardship Theory, Stakeholder Theory, Resource Dependency Theory and Transaction Cost Economics Theory.

Jensen and Meckling (1976, p. 45) state that the agency theory as a contract under which one or more persons engage with another person/s to act on behalf of them, delegating the power of decision making, if both parties are utility maximizes, then agents will act in their own interest and not in the best interest of principal. In order to minimize the agency cost, requirement of corporate governance mechanisms has been practiced. Though agency theory was dominating there are lots of limitations of agency theory. Essentially people cannot be trusted, people are self-interested and directors will act in their own interest than the interest of their shareholders.

In contrast to agency theory, Donaldson and Davis (1991, p.28) describe that the stewardship theory where directors and managers work for shareholders and they will act in the best interest of the owners. Stewardship theory will provide a safeguard for shareholders, where shareholder wealth is maximized.

While stewardship theory persists as the foundation for corporate regulation and companies' legislation, stakeholder theory emerged with a holistic perspective towards all the stakeholders. Stakeholder theory discusses organizations' responsibility to the wider society. Both agency theory and stakeholder theory are used to explain various types of relationships in an organization they can be considered as two contradictory theories.

As per Abdullah and Valentine (2009, p. 40) complexity and heterogeneity of corporate business cannot be fully explained by the current corporate governance theories. Governance of different countries may vary due to its cultural values, political and social and historical circumstances. Corporate governance can be explained in broader with the combination of various theories. Further it applies rules, legislations and corporate governance practices. Next section elaborates empirical findings relating to gap between corporate governance theory and practice and factors that could affect to enhance the gap between corporate governance theory and practice.

Identifying the gap between theory and perception of corporate governance

This section will outline results of empirical studies relating to gap between corporate governance theory and perception under three aspects; applicability of stakeholder theory, relevancy and applicability of corporate governance guideline in Sri Lanka and board accountability towards stakeholders. Further examines results of empirical studies relating to factors impacting the gap between theory and practice of corporate governance.

Applicability of stakeholder theory

By analysing perception from different stakeholder groups such as academics, accountants, shareholders, legislators, auditors, regulators and company employees; Wanyama et al. (2013, p. 26) identified that there is a strong opposition for the shareholder view, in fact the attention is moving to stakeholder view of corporate governance in Uganda. This confirms the supremacy of stakeholder theory.

Adam's observations in 2004 (cited in Young & Thyil 2008, p.102) assessed:

[i]n detail the “reporting-performance” gap, or the extent to which corporate reporting on ethical, social and environmental issues reflected corporate performance, which would indicate the extent to which an organization is accountable to its stakeholders, and concludes that there is a need for other measures to improve accountability including mandatory reporting guidelines, better developed audit guidelines, a mandatory audit requirement for MNCs, and a radical overhaul of corporate governance systems.

Further, Kooskora (2008, p.19) revealed that stakeholder interest and corporate relations with the society and environment in business have not yet been considered important issues in business organizations. It states that stakeholder thinking and stakeholder concepts have just recently become recognized as important. This reveals there is a gap between corporate governance theory and perception on practice of corporate governance.

Applicability of corporate governance guideline in Sri Lanka

Wanyama et al. (2013, p. 24) suggest that practical enforceability of any rules in Uganda would be a major problem. This situation will also be the same in Sri Lankan context as well since there are evidences of failures in practical enforceability of laws relating to corporate governance.

Senaratne and Gunaratne (2008b, p. 85) state that the development of corporate governance practices in Sri Lanka has been heavily influenced by British systems and corporate governance reforms in Sri Lanka have close allegiance with the Anglo-Saxon model. Senaratne and Gunaratne (2008b, p. 86) stated that '[t]he problems mainly result from the non-availability of necessary conditions for the successful implementation of the Anglo-Saxon model of corporate governance in the Sri Lankan context'. Koperunthevy and Vijayarani (2014, p. 7) found that '[t]he collapse of Golden Key Credit Card Company reveals that the failures of corporate governance system and existing corporate governance theories'.

Further, Senaratne and Gunaratne (2008b, p. 87) revealed that there is much room for further improvements in corporate governance system in Sri Lanka which implicate that there are indications of gap between corporate governance theory and practice in Sri Lanka.

Board accountability towards stakeholders

McLaren (2004, p. 191) identified that companies are accountable to a wide range of stakeholders, but few actively seek to make their business accountable to them. Wanyama et al. (2013, p. 31) found that '[w]idespread perception that Ugandan companies are not accountable to stakeholders in any meaningful sense, and just pay lip service to the notion of accountability'. Young and Thyil (2008, p. 102) states that:

[c]orporate governance is not limited to the legal controls established under legislation or the general law, but also includes accountability, not only in terms of legal restraint but also in terms of self-regulation and the norms of so-called best practice.

Wanyama et al. (2013, p. 28) illustrate how does a gap arise between the corporate governance theory and practice in relation to board accountability by stating '[a]ccountability in Uganda is cosmetic in the sense that we reduce accountability to paper work which may not reflect the reality of what has actually transpired'.

Senarathne and Gunarathne (2008 b, p. 86) identified that the lack of transparency procedure in the board appointment procedure and emerging business class with political power and patronage in Sri Lankan society may lead to mal practices.

Findings of literature indicate that there is a gap between theoretical view point of corporate governance and what is being perceived by the companies and corporate governance practice in terms of accountability towards stakeholders.

Factors affecting Corporate Governance practices

The results of the empirical studies, concerning the factors affecting corporate governance practices can be outlined as follows.

Wanyama et al. (2013, p. 28) have founded that many factors affecting to the practice of corporate governance in both private and public sector:

[i]t is notable that the respondents agreed that both types exhibit: a prevalence of conflicts of interest; corruption and bribery; insignificant fines; non-compliance with laws and regulation; inadequacy in infrastructure and resources among regulatory and enforcement agencies; sectarianism; and fear and respect for those in authority.

Adeoye (2015, p. 30) explored that political environment affect the corporate governance system, macro-economic policies seem to hinder good corporate governance practices, competent personnel in organizations play a vital role in promoting sound corporate governance system in Ghanaian and Nigerian firms, societal and cultural factors seem to deter corporate governance system in Ghanaian firms and corruption may likely affect corporate governance practice in South African firms.

Similarly, Padachi (2016, p. 46) revealed weak law enforcement mechanisms, abuse of shareholders' rights, lack of commitment on the part of boards of directors, lack of adherence to the regulator was interrupting the implementation of corporate governance in Nigeria and further found that the extent of complying with corporate governance framework clearly shows that the companies apply corporate governance practices just for the sake of meeting the regulatory obligations to avoid regulatory costs or they have adopted the Code of Corporate Governance selectively and figuratively while pursuing to convey an image of 'good' compliance with the code.

On the other hand, Senaratne and Gunaratne (2008a, p. 87) have identified that emerging business class with political power in Sri Lankan society acts as an obstacle for implementation of the Anglo Saxon model in Sri Lanka. The limitations are associated with the unique socio-economic characteristics of developing countries which compared with Anglo-American countries where this model has been changed. The findings of the study revealed that most of the developing countries have unique cultural, social, economic and legal characteristics which do not stable with the system of dispersed ownership.

Observations of above empirical studies reveal that although there are several numbers of rules and regulations has been established to govern the corporate governance practices, there are indications for the gap between the theory and practice of corporate governance system and also there are factors which enchain the gap between corporate governance theory and practice. This study carried out to identify whether there is any gap between the theory and practice gap in corporate governance system in Sri Lanka by examining perceptions of selected stakeholders. Also to identify significant factors enhance the gap between corporate governance theory and practice. Next section will be dealing with research designs and methods.

Research Design and Methods

Overview

Design of the methodology was based on prior research into this area. This section describes the research approach, selection of population and sample, method of data collection and techniques employed to report the results.

Research Approach and Justification

Quantitative research approach has been used for the study to identify selected stakeholders' perceptions on nature and role of corporate governance in Sri Lanka and to measure if there is any gap between theory and perception in Sri Lankan corporate governance framework.

Population and Study Sample

The population considered for the study is all the stakeholders who can affect and or be affected by the Sri Lankan corporate governance system which includes academics, accountants, shareholders, legislators, auditors, regulators, company employees, civil servants, company executives, individual investors, institutional investors, company directors, customers etc. This study will focus on academics, accountants, auditors and regulators in Sri Lanka from Institute of Chartered Accountants of Sri Lanka, hence those parties are considered to have clear insight of both corporate governance theory and practice in Sri Lanka and also, they are considered to play key roles in terms of corporate governance implications in Sri Lanka, based on prior research into this area. Alleyne et al. (2014) had considered perceptions of professionals such as auditors, accountants, regulators, investors, bankers, lawyers and academics.

Sample Size and Selection of Sample

Selected sample was based on convenience sampling method which is easy to reach within the boundaries of time and resources available. In all, 200 questionnaires were distributed, out of which 103 were returned; the response rate of 51 per cent.

Sources of Data

Primary data source was considered for this study. Primary data collected through a self-administered structured questionnaire distributed among the participants of the research.

Collection of Data

Data collection was performed through an online structured questionnaire distributed among the participants.

Questionnaire Development

A structured questionnaire was initially developed based on the existing research article, Wanyama et al. (2013) which has been refined based on an expert's opinion for the purpose of this study. Senior Lecturer from University of Sri Jayewardenepura who is specialized in Corporate Governance discipline was consulted to obtain his opinion regarding the refining process of the questionnaire. A pilot survey was performed and questionnaire was further refined based on the results of the pilot run.

The questionnaire mainly consisted of questions focusing on areas such as;

1. General information of the respondents.
These questions covered demographic information of respondents such as stakeholder's designation, gender, age, industry experience years, academic and professional qualifications etc.
2. Relevancy and applicability of stakeholder theory and guideline in Sri Lanka.
Questions in this section tracked stakeholder perceptions on applicability of stakeholder theory, most important stakeholders, relevancy and applicability of international corporate governance guidelines etc.
3. Board accountability towards stakeholders
This set of questions focused on stakeholder perceptions towards board accountability to various stakeholder groups and role and composition of board committees.
4. Factors affecting governance practices in Sri Lanka.
Objective of this question was to identify stakeholder perceptions about the micro and macro factors that affect the practice of corporate governance in private sector.

A copy of the constructed questionnaire is attached in the Appendix 1.

Data Analysis Strategies with Justification

Statistical Package for Social Sciences (SPSS) used to analyse the collected quantitative data. Descriptive analysis such as measure of central tendency performed to identify the perceptions of the respondents on research questions. Statistical tools such as one sample t-test and One-way ANOVA were applied to examine whether there is any gap.

The next sections of this article present findings of the study, discussion and conclusion of the study.

1. Findings of the study

4.1 Descriptive Statistics

Following table presents demographic data of the respondents.

Table 1: Demographic Data

<i>Stake holder Groups</i>	<i>Frequency</i>	<i>Per cent</i>
i. Director	7	6.8
ii. External Auditor	38	36.9
iii. Academics of Accounting and Finance	4	3.9
iv. Accountant	48	46.6
v. ICASL	6	5.8
Total	103	100
<i>Industry Categories</i>	<i>Frequency</i>	<i>Per cent</i>
i. Audit	35	34
ii. Non-Audit –Manufacturing	10	9.7
iii. Non-Audit -Banking/ Finance/ Insurance	18	17.5
iv. Non-Audit –Agriculture	1	1
v. Non-Audit - Retail/ Wholesale	5	4.9
vi. Non-Audit –Hotels	1	1
vii. Non-Audit- Diversified	13	12.6
viii. Non-Audit-Others	10	9.7
ix. Academic	4	3.9
x. Regulatory Bodies	6	5.8
Total	103	100
<i>Gender</i>	<i>Frequency</i>	<i>Per cent</i>
i. Male	54	52.4
ii. Female	49	47.6
Total	103	100
<i>Age Analysis</i>	<i>Frequency</i>	<i>Per cent</i>
i. 20-25	15	14.6
ii. 26-30	28	27.2

iii. 31-35	36	35
iv. 36-40	14	13.6
v. 41-50	7	6.8
vi. 51-55	2	1.9
vii. More than 55	1	1
Total	103	100
<i>Number of Years in the Organization</i>	<i>Frequency</i>	<i>Per cent</i>
i. 0-5	51	49.5
ii. 6-10	39	37.9
iii. 11-15	9	8.7
iv. 16-20	3	2.9
v. More than 20	1	1
Total	103	100

The questionnaire sought to identify gender distribution of the respondents. Among the respondents, majority were male (52.4%) while 47.6% were female. This indicates that all genders were fully represented in the study. Findings presented in table 1 show that majority of respondents (76%) were from the age bracket of 20-35. From them most of the participants were in the age bucket of 31-35. The study went further to determine the number of years the respondents have held their current position in the organisation. Majority of the respondents (87%) held their current position for 0-10 years. It was noted that most of the participants were from non-audit sector (56.4%) while 34% were auditors. Rest of the participants were consisting of regulatory bodies (5.8%) and academics (3.9%). Even though it has been recorded relatively less participation from regulators, it is important to get the response from the people who are involved in implementing rules and regulations. As per the demographic details, the study has considered diversified range of respondents from various aspects and the study would get different perceptions on information sought by the study.

4.2 Applicability of stakeholder theory

The questionnaire aimed at finding whether there's any gap between corporate governance based on theoretical view point and stakeholders' perception on corporate governance practices. First, it was intended to get perception about theoretical background of corporate governance focused on stakeholder theory and then to identify most important stakeholders.

Theoretical background of corporate governance

Table 2 - Concept of corporate governance

	Statement	Mean	p- value
i.	The term “corporate governance” refers to an organizations’ relationship only with its owners.	1.8020	0.000**
ii.	The term “corporate governance” refers to an organizations’ relationship with all its stakeholders.	4.0600	0.000**
iii.	The term “corporate governance” refers to an organizations’ relationship with the entire society.	4.0800	0.000**

Notes: The p-values relate to a one sample *t*-test of the hypothesis that the (i) mean response =1, (ii) & (iii) mean response= 5. ** Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating the notion of corporate governance to alternative classes of stakeholder; a 5 = “strongly agree” while a 1 = “strongly disagree”.

The above table indicates the all respondents’ perception of corporate governance in terms of an organization’s relationship with stakeholder levels; owners, all stakeholders, entire society. As per the results in table 2, a significant disagreement is notable for shareholders view (Mean=1.81). According to corporate governance theory based on stakeholder theory, ideally the respondent should have been disagreed with the statement that the term “corporate governance” refers to an organizations’ relationship only with its owners. Results indicate a slight gap between corporate governance theory and perception of stakeholders on corporate governance practice as respondents do not perceived a total disagreement for the shareholder view. It is observed that there is a significant support for the statement that the term “corporate governance” refers to an organizations’ relationship with all its stakeholders (Mean=4.08) and the term “corporate governance” refers to an organizations’ relationship with the entire society (Mean=4.06). Though the respondents perceived a significance support for legitimacy theory and the stakeholder theory it does not indicate total agreement for the theory of corporate governance. This indicates a gap between corporate governance based on theory and perception of stakeholders on corporate governance practice.

Table 2.1 – Perception Differences between groups about the term “corporate governance refers to an organizations’ relationship with all its stakeholders”.

Primary Category		Mean	Std. Deviation	p - value
i.	Director	3.6000	1.34164	.001*
ii.	External Auditor	4.6216	.72078	
iii.	Academics of Accounting and Finance	4.2500	.95743	
iv.	Accountant	3.7292	1.12495	
v.	ICASL	3.5000	1.22474	
No. of years in current position		Mean	Std. Deviation	p - value
i.	0-5	3.8600	1.10675	.141
ii.	6-10	4.2632	1.00497	
iii.	11-15	4.4444	1.01379	
iv.	16-20	3.0000	1.41421	
v.	More than 20	5.0000	.	

Notes: ANOVA test was used to find out the significance of difference between two variables.* Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating the notion of corporate governance to alternative classes of stakeholder; a 5 = “strongly agree” while a 1 = “strongly disagree”.

As per the results indicate in table 2.1, there is a significant difference between primary categories of stakeholders and perception held about concept of stakeholder theory in corporate governance. Even though It is expected to be ideally agreed to statement (ii) presented in table 2, none of the respondents have totally agreed. However, the external auditors and academics of accounting and finance have greatly supported for the stakeholder theory compared to the other respondent categories. In addition, the respondents of ICASL have viewed a lowest supportiveness for the term “corporate governance refers to an organizations’ relationship with all its stakeholders”.

Further, it is observed that there is no significant difference between the perceptions held by the respondents and the experience category that they belong.

Most important stakeholder in relation to corporate governance

The questionnaire sought to identify most important stakeholders in relation to corporate governance. According to the stakeholder theory, stakeholders are defined as any identifiable party who can affect the achievement of an organization’s objectives, or is affected by the achievement of an organization’s objectives. Table 3 indicates the term “stakeholder” includes all the suggested stakeholders. In all the cases, the respondents were identified that all stakeholders have significant and relevance. Shareholders were considered as most important stakeholder category where shareholders are at the top of the list (Mean Value = 4.6214) and “members of parliament” has been given less importance (Mean Value = 3.0588). Further, there is no statistically significant difference for the perception on members of parliament.

Table 3 – Stakeholder Groups

Stakeholder	Mean	p-value
Shareholders	4.6214	0.000**
Financial Institutions	4.5146	0.000**
Customers	4.5146	0.000**
Institutional shareholders-Local	4.4951	0.000**
Environmental groups	4.4118	0.000**
Institutional shareholders-Foreign	4.3960	0.000**
All persons who affect or are affected by the company's activities	4.3922	0.000**
The government	4.3333	0.000**
Regulatory and enforcement agencies	4.2136	0.000**
Society as a whole.	4.1683	0.000**
The Judiciary	3.9706	0.000**
Suppliers	3.4660	0.000**
Members of Parliament	3.0588	0.674

Notes: The p-values relate to a one sample *t*-test of the hypothesis that the mean response = 3. ** Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating the notion of corporate governance to alternative classes of stakeholder; a 5 = “strongly agree” while a 1 = “strongly disagree”.

4.3 Board accountability towards stakeholders

The research was aimed at finding whether there is any gap between corporate governance theoretical viewpoint and stakeholders’ perception on corporate governance practices and also to identify the gap between corporate governance theory and existing Sri Lankan corporate governance practice held by the practitioners on board accountability to various stakeholder groups and role and composition of board committees.

Board accountability to various stakeholder groups

Table 4: The board and accountability to stakeholder groups

Stakeholder	Mean	p-value
i. The Board is accountable to Shareholders	4.6733	0.000**
ii. The Boards are accountable to Institutional Shareholders-Foreign	4.3400	0.000**
iii. The Boards are accountable to Institutional Shareholders-Local	4.3200	0.000**
iv. The Boards are accountable to Regulatory and enforcement agencies	4.2700	0.000**
v. The Boards are accountable to the government	4.2121	0.000**
vi. The Boards are accountable to Financial Institutions	4.2079	0.000**
vii. The Boards are accountable to Customers	4.0693	0.000**
viii. The Boards are accountable to The Judiciary	4.0500	0.000**
ix. The Boards are accountable to All persons who affect or are affected by the company's activities	4.0100	0.000**
x. The Boards are accountable to Environmental groups	3.9900	0.000**
xi. The Boards are accountable to Society as a whole.	3.9400	0.000**
xii. The Boards are accountable to Suppliers	3.4653	0.000**
xiii. The Boards are accountable to Members of Parliament	3.2020	0.154

Notes: The p-values relate to a *t*-test of the hypothesis that the mean response = 3. * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating to various statements regarding board and sub-committee structure and function; a 5 = "strongly agree" while a 1 = "strongly disagree".

Table 4 indicates the results of mean ranking and one sample *t*-test. Table 4 indicates in most cases board is accountable to all the suggested stakeholders where the shareholders are at the top of the list (Mean value = 4.6733), and parliament members has been given less importance (Mean value = 3.2020). There is no statically significant difference detected for Members of Parliament (Mean Value = 3.2020). The evidence from table 3 and 4 concludes that all the respondents perceived that the shareholder as the most important stakeholder group but it doesn't mean that they are the only one.

Role and composition of board committees

Table 5 indicates responses relating to set of statements in relation to composition of the board. It sought to identify that there is a statistically significant difference between perceptions of the respondents about the role and composition of board committees and corporate governance theory. Though the respondent should have been perceived that the majority of the members of the board should be independent non-executive directors, Chairman of the board should be an independent non-executive director and the Chief Executive should not at the same time be the Chairman of the board, the respondents have not totally agreed with the above theories of

corporate governance. Hence, it indicates that there is a gap between the on corporate governance theory and the respondents' perception on corporate governance practice.

Table 5 reveals respondents' perceptions regarding the composition of board sub committees. There was a statistically significant difference between respondents' views on composition of board committees.

Table 5: Role and composition of board committees

	Statement	Mean	p - value
<i>Composition of the Board</i>			
i.	The majority of the members of the board should be independent non-executive directors.	3.9515	0.000**
ii.	Chairman of the board should be an independent non-executive director.	3.7961	0.000**
iii.	The Chief Executive should not at the same time be the Chairman of the board.	4.0097	0.000**
<i>Composition of Board Committees</i>			
i.	Audit Committees should be composed of only non-executive directors who are independent of the company.	3.9320	0.000**
ii.	Remuneration Committees should be composed of only non-executive directors who are independent of the company.	3.9806	0.000**
iii.	Nomination Committee - the majority of members of the nomination committee should be independent non-executive directors.	4.2136	0.000**
<i>The Role of board committees</i>			
i.	Main role of Audit Committee is to oversee the accounting and financial reporting policies and processes and to liaise with internal and external auditors.	4.3689	0.000**
ii.	Main role of Remuneration Committee is to assist in determining the company's policy on executive remuneration.	4.2427	0.000**
iii.	Main role of Nomination Committee is to lead the process for board appointments, make recommendations to the board and succession planning.	4.3107	0.000**
iv.	Main role of Governance Committee is to scrutinize all matters relating to corporate governance in the company.	4.3107	0.000**
v.	Main role of Risk Committee is to assess and monitor the risks that the company is facing, especially financial risks.	4.1262	0.000**

Notes: The p-values relate to a two-tailed test of the hypothesis that the mean response = 5.** Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating to various statements regarding board and sub-committee structure and function; a 5 = "strongly agree" while a 1 = "strongly disagree".

Though the respondents should have been agreed to the view that Audit Committee should be composed of only non-executive directors who are independent of the company, Remuneration Committee should only be composed of non-executive directors who are independent of the company and the majority of members on the Nomination Committee

should be independent non-executive directors, the results indicated that there are significant deviations about the composition of board committees and theory of corporate governance.

In this way the results indicate that there is a gap between corporate governance theory and perception of different stakeholder groups on corporate governance practice.

Table 5 reports questionnaire responses to series of propositions about the main role of board committees including Audit Committee, Remuneration Committee, Nomination Committee, Governance Committee and Risk Committee. The results in the Table 5 summarize responses regarding a series of statements about the main role of board committees. There is a statistically significance difference between respondents' perception on role of board committees and what has specified in corporate governance theory as role of board committees. Though the respondents' have agreed on above statements on role of board committees, the results do not present total agreement for the roles defined in corporate governance theory. It indicates that there's a gap between perception and theory of corporate governance.

Relevancy of international corporate governance guidelines

The study aimed at finding whether there is any gap between corporate governance theory and perception on corporate governance practice by selected stakeholders about relevancy of international corporate governance guideline in Sri Lanka and applicability of corporate governance guidelines to different forms of entities.

Table 6 – Corporate governance guideline in Sri Lanka

	Statement	Mean	p-value
i.	International guidelines of corporate governance that have been developed by the Western World are relevant to Sri Lanka.	2.9216	0.000**
ii.	International guidelines can be adopted by developing countries (including Sri Lanka) without modifications to the individual circumstances of these countries.	2.8447	0.000**

Notes: The p-values relate to a one sample *t-test* of the hypothesis that the mean response = 2. ** Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating the notion of corporate governance to alternative classes of stakeholder; a 5 = "strongly agree" while a 1 = "strongly disagree".

As per the results of one sample *t* -test presented in table 6, there is a statistically significance difference between respondents' perception on relevancy of international guidelines of corporate governance that have been developed by Western World to Sri Lanka. The results suggests that the perception of stakeholders are more towards in assuming the international guidelines as relevant to Sri Lanka (Mean = 2.92) whereas the corporate governance theoretical view point suggests that international guidelines of corporate governance are not ideally relevant to developing countries including Sri Lanka as they should be modified according to the cultural and institutional factors specific to the context of those countries, prior to adopt. Accordingly, evidence confirms that there is a gap between corporate governance theory and perception of stakeholders about the corporate governance practices, when considering the relevancy of international corporate governance guidelines in Sri Lanka.

Even though the respondents perceived that international guidelines cannot be adopted by developing countries without modifications to the individual circumstances of those countries, they do not totally disagree with the statement; international guidelines can be adopted by developing countries without modifications to the individual circumstances of these countries. (Mean = 2.84). The results suggest that respondents has not considered the requirement for modification to international guidelines, when they response to the questionnaire. As per the evidences, there is a gap between corporate governance theory and perception of stakeholders on corporate governance practices when considering the adoptability of international corporate governance guidelines in Sri Lanka.

Applicability of corporate governance guidelines to different forms of entities

Table 7: Applicability of Corporate Governance Guidelines

	Statements	Mean	p-value
i.	Companies that are listed and publicly traded on the Colombo Stock Exchange (CSE).	4.6893	0.000**
ii.	All private sector companies irrespective of whether they are listed or not.	3.2816	0.000**
iii.	All state-owned corporations	3.1650	0.000**
iv.	Partnerships	2.7843	0.000**
v.	Family-owned Businesses	3.1176	0.000**
vi.	Sole proprietorships	2.8529	0.000**

Notes: The p-values relate to a one sample test of the hypothesis that the mean response = 5. *Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating to various statements regarding board and sub-committee structure and function; a 5 = "strongly agree" while a 1 = "strongly disagree".

Table 7 identifies respondent's perception on whether corporate governance guidelines are applicable to different entities consisting of different ownership structures. Based on results of one sample *t*-test, Table 7 reveals that, there is statistically significant difference between relevance of corporate governance guidelines and perception for family-owned businesses, sole proprietorships, all private sector companies irrespective of whether they are listed or not, state-owned corporations, partnerships, companies that are listed and publicly traded on the Colombo Stock Exchange (CSE). Table 7 indicates that there is a gap between theoretical viewpoint of corporate governance practice and perception as respondents perceived that in practice, compliance with corporate governance guidelines are required when there is separation between ownership and control. The results do not present total agreement for the corporate governance guidelines are applicable to different entities in corporate governance theory. This indicates that there is a gap between corporate governance theory and practice in relation to stakeholder theory

Factors impacting the gap between theory and practice of corporate governance in Sri Lanka

Table 8 identifies results of mean ranking and one sample *t*- test and it identifies number of factors that adversely affect to the Corporate Governance practices in private sector according to the perceptions of research respondents. All the micro factors and macro factors are adversely affecting to the corporate governance practices in Sri Lanka, ranking the conflicts of interest (Mean = 4.4078) to the top of micro factors and high complexity of corporate governance regulations (Mean = 3.9903) as the top of macro factors. In addition, it is evident from the table that the significance of micro factors to Corporate Governance practices is greater than the significance of macro factors. It can be stated as the below factors have caused to create a gap between corporate governance theory and practice.

Table 7.1: Perception Differences between groups about Compliance with Corporate Governance Guidelines

Primary Category		Mean	Std. Deviation	p - value
i.	Academic Senior Lecturer	5.000	.0000.	.0000*
ii.	ICASL	5.000	.0000	.0000*

Notes: * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating the notion of corporate governance to alternative classes of stakeholder; a 5 = "strongly agree" while a 1 = "strongly disagree". ANOVA (*Post hoc*) test was used to find out the significance of difference between two variables.

As per the results of table 7.1, further it is revealed that there is a strong agreement of academics and the regulators in relation to compliance with corporate governance guidelines in listed and publicly traded on the Colombo stock Exchange.

Table 8: Factors affecting corporate governance practice

Micro Factors	Mean	p- value
i. Conflicts of interest	4.4078	0.000*
ii. Non-compliance with laws and regulations	4.3398	0.000*
iii. Lack of Proper Internal Controls	4.2330	0.000*
iv. Lack of top management will to enforce compliance	4.1942	0.000*
v. Lack of Board Independence	4.1553	0.000*
vi. Incentives not aligned with Compliance	4.1078	0.000*
vii. Lack of Management Awareness in Corporate Governance Regulations & Directives	4.0971	0.000*
viii. Lack of Strategic Direction & Leadership	4.0777	0.000*
ix. Incompetent personnel	4.0097	0.000*
x. Lack of Self-Regulation and self-discipline	3.9223	0.000*
xi. Incompetent External Audit	3.9029	0.000*
xii. High Work Pressure	3.8350	0.000*
xiii. Sectarianism	3.8058	0.000*
xiv. Fear and respect for the authority of elders	3.6311	0.000*
xv. Corruption and bribery	3.5243	0.000*
Macro Factors		
i. High Complexity of Corporate Governance Regulations	3.9903	0.000*
ii. Political interference	3.9706	0.000*
iii. Insignificant fines which do not encourage compliance with laws	3.8058	0.000*
iv. Inadequate infrastructure and resources for regulatory and enforcement agencies	3.7157	0.000*

Notes: The micro and macro factors are organized based on mean ranking. *Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements regarding factors that affect the practice of corporate governance in Uganda; a 5 = “strongly agree” while a 1 = “strongly disagree”. The p-values relate to a two-tailed test of the hypothesis that the mean response = 3.

As per the result of paired sample *t*-test, table 8.1 identifies that there is a statistically significant different in perception of respondents by considering the average of each factors in broader terms as micro factors and macro factors. Further it is revealed that the perception of respondents for macro factors (Mean=3.8722) is lessor than for micro factors (4.0161).

Table 8.1: Comparison of Micro Factors & Macro Factors

Factors	Mean	p- value
Micro Factors	4.0616	0.000*
Macro Factors	3.8772	

Notes: * Indicates a significant difference at the 5 per cent level; this table reports the mean questionnaire responses to statements relating the notion of corporate governance to alternative classes of stakeholder; a 5 = “strongly agree” while a 1 = “strongly disagree”. Paired sample *t*-test was used to find out the significance of difference between two variables

Discussion

The findings of the study reveal that there is a gap between theoretical viewpoint of corporate governance and perception of stakeholders on corporate governance practice. Though a significant disagreement was perceived by the stakeholders for the shareholder view, there is a slight gap between corporate governance based on stakeholder theory and perception of stakeholders about corporate governance practices based on stakeholder theory. Also further evidence obtained confirms the gap by not viewing an absolute agreement for the stakeholder view. This evidence confirms stakeholders' lack of awareness on corporate governance theory. Natarajan (2011, p.244) reveals that [t]he awareness about the corporate governance practices of Wipro, TCS HCL was moderate and Satyam was low.

In relation to identification of perception about theoretical background of corporate governance focused on stakeholder theory, the study concludes the respondents have agreed that the term stakeholder refers to a wider range of stakeholders such as shareholders, financial institutions, customers, institutional shareholders, environmental groups, the government, regulatory and enforcement agencies and society as a whole, while shareholders are still imperious among the other stakeholders. Even though shareholders are considered to be the most important stakeholder category, findings indicates that other stakeholders are also important.

Senaratne and Gunaratne (2008b) reveals that the development of corporate governance practices in Sri Lanka has heavily influenced by British systems and corporate governance reforms in Sri Lanka have close allegiance with the Anglo-Saxon model. The findings of the study suggests that stakeholders' perception is more towards accepting relevancy of International guideline of corporate governance to Sri Lanka, even though theoretically International guidelines may not entirely relevant to developing countries since contextual and institutional differences. Moreover, Sri Lankan organizational and economical background is significantly deviated from western economic and structural aspects. Therefore, amendment in corporate governance guidelines will be required prior to adopt directly in Sri Lankan context. However findings revealed that there is a gap between theory and perception of stakeholders as they do not entirely disagree with the adoptability of international corporate governance guidelines without modifications. Further, It was stated that '[t]he problems mainly result from the non-availability of necessary conditions for the successful implementation of the Anglo-Saxon model of corporate governance in the Sri Lankan context'. (Senaratne & Gunaratne 2008b, p. 86)

Corporate Governance is desired to be applied in any type of corporations. However, the perception on whether the corporate governance guidelines are applicable to different entities, findings reveal that compliance with corporate governance guidelines is vary according to the entity's ownership and control structure. Further, respondents are in the view that companies which are listed and publicly traded on the Colombo Stock Exchange (CSE) should firstly be complied with corporate governance guidelines excepts for sole proprietorships and partnerships and other entities have been perceived as less important. However, Senaratne and Gunaratne (2008b, p.87) argue that another main weakness of Sri Lankan corporate governance model is lack of presence of several code of compliance which leads to lack of uniformity for direction for listed companies.

It was viewed that companies which are listed and publicly traded on the Colombo Stock Exchange (CSE) should firstly be complied with corporate governance guidelines whereas others have given less importance. The perception on whether the corporate governance guidelines are applicable to different entities, findings conclude that, the compliance with corporate governance guidelines is vary according to the entity's ownership and control structure.

Further, the respondents have accepted that the boards are accountable towards range of stakeholders including shareholders, financial institutions, government, customers, regulatory and enforcement agencies, suppliers etc. The board was held accountable for all the parties which are affected by the activities of the organization. Nevertheless the accountability of board towards stakeholders and rights of stakeholders are identified, the later results of this study reveal that there are number of factors affect the enforcement of stakeholder rights and board accountability.

It was perceived that 'majority of board members should be independent non-executive' is vary from the theory as the mean does not portray a strong agreement. Further, respondents do not totally agree with the view that Chairman of the board should be an independent non-executive director even though the theory requires same. On the other hand respondents perception gives that they are not robustly agree to the CEO- Duality concept. Therefore, these findings indicate a gap between corporate governance theory and the perceptions of selected stakeholders in terms of composition of the board. Further, Senaratne and Gunaratne (2008b, p. 85) stated that the most of the non-executive directors are not independent as a result of representing a substantial shareholder or holding cross directorship because of the

substantial influence of the ultimate owner on appointment and independence of directors and therefore revealed that appointment of non-executive directors is a challenging task in Sri Lankan context.

The study reveals that the respondents do not comply with the view that the Audit Committee and Remuneration Committee should be composed of only independent Non-Executive Directors as the average mean deviated from the corporate governance theory. Further, they are not strongly agreed that the majority of members of the nomination committee should be independent Non-Executive Directors. Therefore, findings suggest there is a gap between corporate governance theory and the respondents' perceptions in terms of composition of board committees.

Stakeholders' perceptions on the role of board committees' are deviated from the guidelines specified in the corporate governance theory. Thus, findings show that there is a gap between the respondents' perceptions and theoretical view point on corporate governance practice which is based on Corporate Governance Code in terms of the role of the board committee.

Wanyama et al. (2013, p. 28) have founded that there are many factors affecting the practice of corporate governance in both private and public sector in Uganda. Findings of the study support to this view by giving that there are number of micro factors as well as macro factors impacting on the corporate governance practice of Sri Lanka. From the point of the respondents' view on micro factors, conflicts of interest has been identified as the main micro factor which have an adversely affect the practice of corporate governance. The other factors such as, non-compliance with laws and regulations, lack of proper internal controls, lack of board independence, incentives not aligned with compliance, lack of management awareness in corporate governance regulations & directives, lack of strategic direction & leadership, incompetent personnel, high work pressure and sectarianism have also been identified as influential factors affecting the practice of corporate governance. As Padachi (2016, p. 46) revealed that weak law enforcement mechanisms, abuse of shareholders' rights, lack of adherence to the regulator was interrupting the implementation of corporate governance in Nigeria, the respondents have also perceived that high complexity of corporate governance regulations, political interference and insignificant fines which do not encourage compliance with laws and inadequate infrastructure and resources for regulatory and enforcement agencies as macro factors which could have impact the practice of corporate governance in Sri Lanka.

Conclusion

The objective of this study was to identify whether there is any gap between corporate governance based on theoretical view point and stakeholders' perception on corporate governance practices and what are the factors impacting the gap between corporate governance theory and existing Sri Lankan corporate governance practices. The research has been carried out by developing a structured questionnaire to obtain the perception of selected stakeholders i.e., directors, accountants, external auditors, academics and regulators. Results of one sample *t*-test which has been carried out to examine the view of corporate governance concept, respondents have perceived that concept of corporate governance should serve for the entire society beyond the stakeholder view. One sample *t*-test outcomes regarding the composition of the board, board committees and the role of the board committees reveal that there is a gap between the perceptions of respondents on the theory of corporate governance. Moreover, the findings of the study indicates that international corporate governance guidelines are less applicable in Sri Lankan context and international guidelines cannot be directly adopted without any modification, due to various contextual and institutional differences. Similarly, respondents have perceived that the extent to which corporate governance guidelines applicable to different forms of entities vary based on control structure and ownership of those entities. Further, paired sample *t*-test was performed to identify the factors cause to widen the gap between corporate governance theory and existing Sri Lankan corporate governance practices. The study revealed that several micro and macro factors such as conflict of interest, non-compliance with laws and regulations, lack of proper internal controls, lack of top management etc. affecting the corporate governance practice.

The study is subjected to certain limitations in terms of scope. Though the study addresses the stakeholder theory, the selected sample was restricted 103 respondents and it has been considered only key stakeholder groups such as directors, accountants, academics, auditors and regulators. Future work could usefully take place by considering more stakeholder groups and widen the sample.

In conclusion, this study confirms that there is a gap between theory, perception and practice of the corporate governance.

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Appendix 1

Questionnaire Survey

THE THEORY-PRACTICE GAP IN CORPORATE GOVERNANCE SYSTEM IN A DEVELOPING ECONOMY: EVIDENCE FROM SRI LANKA

Dear Sir/ Madam,

We are undergraduates of Department of Accounting, University of Sri Jayewardenepura.

Purpose of the survey

The main purpose of this study is to identify whether there is any gap between theory and practice in Sri Lankan corporate governance system by examining the perception of selected stakeholders about nature and role of corporate governance with the emphasis on board accountability.

Eligible participants

Please fill this questionnaire only if you are a **director**, an **accountant** (Professionals above executive level), an **external auditor**, an **academic** in Accounting & Finance field and a **regulator** from ICASL or SEC.

With much respect, we invite you to participate in our research carried out for the above purpose. Your participation in this survey is completely voluntary and anonymous and confidentiality will be ensured. It would be appreciated, if you allocate few minutes of your precious time to complete the questionnaire attached herewith.

This research is performed with the guidance of Dr. Roshan Adjward (PhD, MBA, BSc. Accountancy (Special) FCA, Senior Lecturer / Deputy Coordinator- MPAcc Programme / Internship Coordinator- Year III Department of Accounting)

If you have any clarification in this regard please don't hesitate to contact Mayurika Silva (Contact No: 071-5460764)

Section I - Biographic Data

Q. 1) Please indicate the primary category that you belong to by ticking the appropriate box (please tick only one box).

a) Director		b) External Auditor		c) Academics of Accounting or Finance field	
d) Accountant		e) ICASL		f) Regulator: SEC	

Q. 2) Demographic Data

2.1) Your Current Position in the Organisation

2.2) Number of Years in the Organisation (in current position)

a) 0-5		b) 6-10		c) 11-15		d) 16-20		e) More than 20	
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2.3) Industry Category
(e.g.: Manufacturing, Banking & Insurance and Travel etc.)

2.4) Gender:

a) Male		b) Female	
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2.5) Age (in years)

a) 20-25		b) 26-30		c) 31-35		d) 36-40		e) 41-50		f) 51-55		g) More than 55	
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2.6) Academic qualifications (Please tick the appropriate category)

Highest Academic qualification		Reading	Completed
a.	Bachelors Degree		
b	Bachelors Honors Degree		
c	Postgraduate Certificate		
d	Postgraduate Diploma		
e	Masters Degree by course work		
f	Masters Degree by course work and a research component		
g	Master of Philosophy Degree		
h	Doctoral Degree		

2.7) Professional qualifications (Please tick the appropriate category)

Professional qualifications		Foundation level	Intermediate level	Final level	Member	
					Fellow	Associate
a	AATSL					
b	ICASL					
c	ICMA					
d	CIMA					
e	ACCA					
f	Any other (please specify)					

The following section should be completed by respondents who work in companies. Non-company respondents, please go to Section III.

Section II - Company Related Information

Q. 3) Details of the company

3.1) Please indicate the most recent total annual sales (turnover) of your company in LKR.....

3.2) Accounting Standards

3.2.1) Please indicate which accounting standards your company uses by ticking the appropriate box.

a) LKAS	&	b) IFRS	
d) Other	(please specify)		

3.2.2) Does your company have an annual audit conducted by an independent, competent and qualified, auditor?

a) Yes		b) No		c) I do not know	
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3.2.3) Are the external auditors accountable to the **stakeholders** (e.g. Shareholders, Suppliers, Environmental groups)

a) Yes		b) No		c) I do not know	
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In the remainder of the questionnaire, please note the extent of your agreement with the following statements on a scale of 1 to 5 by ticking the appropriate box, where a 1 indicates strong disagreement and a 5 strong agreement; please do not tick any box if you do not know the answer to the question.

Section III – Aspects of Corporate Governance

Please specify your perception on following statements in relating to Sri Lankan context

Q. 4) Concept of Corporate Governance

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) The term “corporate governance” refers to an organisation’s relationship only with its owners.					
(b) The term “corporate governance” refers to an organisation’s relationship with all its stakeholders.					
(c) The term “corporate governance” refers to an organisation’s relationship with the entire society.					

Q. 5) International Corporate Governance Guidelines

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) International guidelines of corporate governance that have been developed by the Western World are relevant to Sri Lanka.					
(b) International guidelines can be adopted by developing countries (including Sri Lanka) without modifications to the individual circumstances of these countries.					

Q. 6) Compliance with Corporate Governance Guidelines

Do you believe that the following entities should comply with the principles of corporate governance code? (I.e. issued by ICASL and SEC)

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) Companies that are listed and publicly traded on the Colombo Stock Exchange (CSE).					
(b) All private sector companies irrespective of whether they are listed or not.					
(c) All state-owned corporations					
(d) Partnerships					
(e) Family-owned Businesses					
(f) Sole proprietorships					

Q.7) Please indicate the extent of your agreement as to whether the following factors affect the practice of corporate governance in private sector

1 = Strongly Disagree

5 = Strongly Agree

Statement	1	2	3	4	5
Micro Factors					
(a) Corruption and bribery					
(b) Conflicts of interest					
(c) Non-compliance with laws and regulations					
(d) Lack of top management will to enforce compliance					
(e) Incompetent personnel					
(f) Sectarianism					
(g) Fear and respect for the authority of elders					
(h) Lack of Board Independence					
(i) Lack of Strategic Direction & Leadership					
(j) Lack of Management Awareness in Corporate Governance Regulations & Directives					
(k) Lack of Proper Internal Controls					
(l) Incompetent External Audit					
(m) Lack of Self-Regulation and self-discipline					
(n) High Work Pressure					
(o) Incentives not aligned with Compliance					
Macro Factors					
(p) Political interference					
(q) Inadequate infrastructure and resources for regulatory and enforcement agencies					
(r) Insignificant fines which do not encourage compliance with laws					
(s) High Complexity of Corporate Governance Regulations					
(t) Please Specify.....					
(u) Please Specify.....					
(v) Please Specify.....					

Q.8) Composition of the Board

Please state your opinion about composition of the board.

1 = Strongly Disagree

5 = Strongly Agree

Statement	1	2	3	4	5
(a) The majority of the members of the board should be independent non-executive directors.					
(b) The Chairman of the board should be an independent non-executive director.					
(c) The Chief Executive should not at the same time be the Chairman of the board.					

Q. 9) Composition of Board Committees

Please state your opinion about composition of board committees.

1 = Strongly Disagree

5 = Strongly Agree

Statement	1	2	3	4	5
(a) Audit Committees should be composed of only non-executive directors who are independent of the company.					
(b) Remuneration Committees should be composed of only non-executive directors who are independent of the company.					
(c) Nomination Committee - the majority of members of the nomination committee should be independent non-executive directors.					

Q. 10) Role of Board Committees

State your opinion regarding following roles of board committees.

1 = Strongly Disagree 5 = Strongly Agree

Statement	1	2	3	4	5
(a) Main role of Audit Committee is to oversee the accounting and financial reporting policies and processes and to liaise with internal and external auditors.					
(b) Main role of Remuneration Committee is to assist in determining the company's policy on executive remuneration.					
(c) Main role of Nomination Committee is to lead the process for board appointments, make recommendations to the board and succession planning.					
(d) Main role of Governance Committee is to scrutinize all matters relating to corporate governance in the company.					
(e) Main role of Risk Committee is to assess and monitor the risks that the company is facing, especially financial risks.					

Q. 11) Stakeholders

Please note your agreement with the following statements.

(i) The term “stakeholder” includes the following:

1 = Strongly Disagree 5 = Strongly Agree

	1	2	3	4	5
(a) Shareholders					
(b) Suppliers					
(c) Customers					
(d) Financial Institutions					
(e) Environmental groups					
(f) Regulatory and enforcement agencies					
(g) Members of Parliament					
(h) The Judiciary					
(i) The government					
(j) Institutional shareholders-Local					
(k) Institutional shareholders-Foreign					
(j) All persons who affect or are affected by the company's activities					
(k) Society as a whole.					

(ii) The Boards are accountable to the following: 1 = Strongly Disagree 5 = Strongly Agree

	1	2	3	4	5
(a) Shareholders					
(b) Suppliers					
(c) Customers					
(d) Financial Institutions					
(e) Environmental groups					
(f) Regulatory and enforcement agencies					
(g) Members of Parliament					
(h) The Judiciary					
(i) The government					
(j) Institutional shareholders-Local					
(k) Institutional shareholders-Foreign					
(j) All persons who affect or are affected by the company's activities					
(k) Society as a whole.					

Thank you for taking time to respond to this questionnaire.