

CORPORATE GOVERNANCE PRACTICES AND FINANCIAL DISTRESS: EVIDENCE FROM INDIA

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ABSTRACT

Corporate governance is a set of mechanisms that regulate the actions of corporate insiders this paper identifies the close relationship between poor corporate governance practices of firms in India and how it affects the basic structure of firm's performance and ultimately leads to financial distress. The study compares the performance of 30 healthy firms that are forming part of the BSE Sensex and NSE Nifty with 28 firms that are registered themselves as sick companies under BIFR through comparing various ratio analysis and financial distress Z score. The evidence suggests that the variables taken for ratio analysis are positively related to the risk for financial distress in the following year. Generally speaking, firms with weak corporate governance are vulnerable to economic downturns and the probability of falling into financial distress increases.

Keywords: Corporate governance, financial distress, Altman Z score.