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Subverting bank corporate governance: A tale of an interplay between sociocultural legacies and neo-patrimonialism in a developing country

Nishani Ekanayake^{a,*}, M. Karim Sorour^b, Teerooven Soobaroyen^c

^a Lincoln International Business School, University of Lincoln, United Kingdom

^b Newcastle Business School, Northumbria University, United Kingdom

^c Aston Business School, Aston University, Birmingham, United Kingdom

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ABSTRACT

This paper investigates corporate governance in developing countries by examining how formal and informal social relations shape governance practices in Sri Lanka's banking sector. Relying on a grounded theory approach and drawing upon interviews, focus groups and documentary analysis, we develop a substantive theory of *Subverting Bank Corporate Governance*. This theory depicts how formally enacted governance mechanisms primarily manages the uncertainties of a politicised economy rather than resolve presumed conflicts between financiers, regulators and executives. Power dynamics exercised through the state, alongside politically connected elites, foster reciprocal obligations to secure factional support. This leads to a context where board objectivity is undermined while covert conflicts of interest are managed. Empirically, we highlight the limitations of mainstream corporate governance principles in such contexts. Formal theory-wise, path dependency firstly illuminates the role of historical legacies in sustaining past economic, ownership and managerial arrangements within contemporary structures. Moreover, neo-patrimonialism highlights the role of clientelism, political entrepreneurship and discretionary exercise of state power. Methodologically, we demonstrate the value of grounded theory in uncovering distinctive governance systems and practices. We call for a more nuanced understanding of governance arrangements in developing countries and exhort policymakers to reflect on the design of conducive strategies and reforms.

1. Introduction

The last three decades have witnessed numerous attempts to instigate 'Western style' corporate governance reforms globally. However, beyond the ostensible declarations of commitment towards such reforms, concerns abound as to whether they have been substantively implemented and, if so, have they led to the intended outcomes? For example, some studies (e.g., Kimani et al., 2021) have outlined the inappropriate and ineffective transposition in developing countries of notions and practices such as board oversight, board committees, director independence, and transparency. Notably, there has been insufficient consideration of the historical, social, economic, political and sectoral circumstances within which these practices operate (Ahmad & Mahmood, 2024; Brennan et al.,

* Corresponding author.

E-mail addresses: nekanayake@lincoln.ac.uk (N. Ekanayake), karim.sorour@northumbria.ac.uk (M.K. Sorour), t.soobaroyen@aston.ac.uk (T. Soobaroyen).

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2024; Zattoni et al., 2020).

Specifically, we problematise mainstream corporate governance research for its narrow focus on social relations, often limited to interactions within *formal* structures e.g., privileging principal–agent or resource provider–organisation interactions. Instead, we argue that social relations within a corporate governance setting are multifaceted or even paradoxical owing to the often-ignored *informal* dimensions of these relations.¹ By informal, we point to the role of communality that arises from kinship, family, ethnic and religious affiliations and from common experiences/histories that bind individuals within groups, thereby shaping their attitudes, values, motivations and actions. Prior work mainly in developing countries (notably in Asia and Africa) has already taken an interest in some of these dynamics when confronted with mainstream corporate governance (Areneke et al., 2022; Kimani et al., 2021). Although insightful in highlighting these discrete elements, we contend that these studies do not yet offer a fuller understanding of the informal layer(s) underneath the (presumed) formal relations that are constitutive of mainstream corporate governance arrangements. Hence, our objective is to further reveal how corporate boards and actors make decisions and the circumstances underpinning these decisions.

We focus on the banking sector for two reasons. First, banks and financial institutions are a crucial plank in all economies, especially in developing ones (John et al., 2016). Despite this centrality, we know little about the social relations between the banks' stakeholders including managers, board members, auditors and regulators, which extends far beyond principal–agent conceptions. Second, the limited effectiveness of standard governance prescriptions in banks has already been alluded in a few qualitative studies and official reports in Western contexts (e.g., Hopt, 2013; G30, 2024; Walker, 2009).

Furthermore, the Sri Lankan case brings a facet of colonial history, involving governance and corporate reforms that were influenced by British economic and legal principles and market-based ideals (Senaratne & Gunaratne, 2012), with some attempt to retain indigenous customs (Kimani et al., 2021) that arose from a combination of pre-colonial, colonial and postcolonial factors (De Silva et al., 2022; Jayawardena, 2003). Governance issues have emerged in the country's banking sector, notably concentrated ownership, lack of independence by non-executive directors, absence of nomination committees (Edirisinghe, 2015; Nazliben et al., 2024; Senaratne & Gunaratne, 2008), scandals (Uddin et al., 2017), biased lending, auditor negligence, related-party transactions (Nanayakkara, 2021) and insider dealing (Abeyagoonasekera, 2023). More recently, there has been economic stagnation, consecutive weakening of the local currency and decline in foreign direct investment (De Silva et al., 2022).

These circumstances allow us to explore the dynamics underpinning this range of governance and accountability issues, leading to the following research questions: *How do formal corporate governance arrangements interplay with informal social relations in the Sri Lankan banking sector, and what are the likely outcomes thereof? What theoretical explanation could offer an understanding of bank corporate governance realities in this context?*

To address these questions, we adopt a grounded theory approach (Strauss & Corbin, 1997). This approach privileges a fluid, interactive and emergent design to the research that seeks to study corporate governance practices alongside its contextual complexities (Bryant & Charmaz, 2007b). Our qualitative research approach relies on 43 semi-structured interviews and four focus group discussions with key individuals (directors and chief executive officers) from several state- and privately-owned banks, regulators, rating agencies and auditors. Our empirical findings and grounded theory-led analysis uncover a central phenomenon (*subverting bank corporate governance*) in the Sri Lankan banking sector. By *subverting*, we mean that the enactment of formal governance policies and arrangements primarily serves to manage the discordance and uncertainties generated from a politicised economy, rather than addressing presumed conflicts of interests between financial providers, shareholders and executives. The actors' social, political and cultural instincts largely supersede rational economic and administrative considerations.

Our substantive theory shows how this (continuing) phenomenon arises from the interplay between informal elements – power dynamics, political connections, reciprocal obligations and evolving disruption – that exist alongside attempts to gain international recognition from the adoption of mainstream (formal) governance arrangements. A volatile macro-environment and sociocultural legacies conspire to maintain this subversion process, leading to an undermining of functional objectivity in boards. Occasionally, economic upheavals and pressures exerted by outside interest groups lead to resistance/change until some 'stability' is restored.

In line with Strauss and Corbin's (1990a) approach to grounded theory, we introduce formal theories - path dependency and neo-patrimonialism (Bach, 2012; Bebhuk & Roe, 1999; Eisenstadt, 1973; Medard, 1991) - to extend the scope of the substantive theory. While our substantive theory has emerged from following the grounded theory approach, these two theoretical perspectives serve the purpose of "... giving our materials greater meaning" (Glaser & Strauss, 1967, p. 95) in the following ways. First, path dependency helps to further articulate the persistence of foundational organisational, ownership and management practices in a country, which are often different from subsequent ones that were imported due to changes in thinking, circumstances, globalisation or legal requirements (Bebhuk & Roe, 1999). For example, corporate governance practices in Sri Lankan banks are loosely linked to the internationally developed market-based governance codes (Senaratne & Gunaratne, 2012) owing to conflicts with embedded institutional values (Zattoni & Cuomo, 2008). Second, neo-patrimonialism refers to the existence of hybrid institutions that mix formal and informal rules and where patrimonial power structures² rather than legal-rational systems are the basis of authority within society

¹ While a strand of the corporate governance literature does refer to the role of informal institutions (Dedoulis & Leventis, 2023), it tends to be based on a neo-institutional understanding of informal unwritten rules and codes (national culture, norms, beliefs, corruption) at the macro level. Instead, our work stems from an interest in the enactment of these informal institutions at the micro and individual levels. Hence, a crucial distinction we adopt is that individuals *choose* to emphasise the informal rather than being (merely) subject to institutional pressure.

² Patrimonialism refers to a governance system where "all political and administrative relations between the governing and the governed are private relations: there is no distinction between the public and private realms" (Bruhns, 2012, p. 11). Typically, this depicts political and administrative structures born out of, and fully subservient to, personal, household or traditional domination (e.g., monarchs; tribal chiefs).

(Eisenstadt, 1973). In this situation, “informality and formality are intimately linked to each other” (Erdmann & Engel, 2007, p. 105), with those in powerful positions being better served by, or serving others through, informal relations. Yet a neo-patrimonial exercise of power requires the existence of so-called modern state-ness (Erdmann & Engel, 2007, p. 105) for it to remain legitimate. Ostensibly adopting formal corporate governance arrangements is thus part and parcel of a neo-patrimonial regime (Hopper, 2017).

Although discrete elements of path dependency or neo-patrimonialism have emerged in the literature (Ahmad & Mahmood, 2024; Armitage et al., 2017; Kimani et al., 2021; Nakpodia & Adegbite, 2018), our contribution lies in proposing a bank corporate governance framework which relies more holistically on these theories. We reveal the hybrid arrangements that embed different corporate governance philosophies, which we argue is crucial to understand and implement practices that can realistically achieve impactful corporate governance in developing countries.

The remainder of the paper is organised as follows. Section 2 reviews the extant literature on bank governance and corporate governance in developing countries followed by a discussion of the path dependence and neo-patrimonial perspectives. Section 3 presents the research methods and methodology pertaining to the grounded theory approach. Section 4 presents the findings, including the emerging substantive theory and its core features. Section 5 discusses the findings based on the formal theories and prior literature. Section 6 concludes with contributions and directions for future research.

2. Literature review

2.1. Bank corporate governance

Banks have distinctive financing, regulatory and ownership characteristics, which tend to intensify governance problems (Hopt, 2013; Levine, 2004). For instance, banks have high leverage ratios, the quality of banking assets (e.g., loan book) is difficult to evaluate, and risk-taking behaviours are distinct and fast-changing (John et al., 2016). Major capital providers (depositors and debtholders) tend to focus on the bank’s risk profile while societal actors (including regulators) are concerned about the stability of the financial system. John et al. (2016) thus summarises three corporate governance issues: first, the traditional conflict within the equity side of governance (managers and shareholders) in terms of maximising shareholder value; second, a conflict between debtholders and shareholders since the latter may consider risky investments to maximise returns at the expense of the former; and, third, corporate governance should minimise the wider economic and societal impact of bank failures.

Given the above, various authors (Fernandes et al., 2018) have criticised the role of mainstream governance mechanisms. For example, independent directors could privilege shareholders, potentially increasing the bank’s risk profile and reducing financial performance. Pathan and Faff (2013) and Erkens et al. (2012) concur on the detrimental role of board independence, with Pathan and Faff (2013) finding independent directors may be chosen to symbolically conform to regulatory conditions. After the Global Financial Crisis, many non-executive directors in the UK and elsewhere were found to be lacking sufficient industry experience to challenge the executives (Walker, 2009). Contrastingly, audit and risk committees are seen to be beneficial (Lingel & Sheedy, 2012) while a body of evidence suggests that combining chief executive officer and board chair roles could paradoxically strengthen bank governance for the benefit of debtholders and society more generally (John et al., 2016). Finally, Goddard et al., 2016 report mixed results, with concentrated ownership (whether state or private) either improving or hindering performance and risk-taking internationally.

In conclusion, this brief review of bank corporate governance research highlights (a) the distinctive features of the sector and how these inherently challenge mainstream governance arrangements; and (b) the largely quantitative-led evidence about the outcomes of formal governance mechanisms, notably with respect to the role of boards. While this body of work highlights international differences, there is little in terms of deeper qualitative insights on bank corporate governance, and even less so when it comes to developing countries.

2.2. Corporate governance in developing countries

Corporate governance research in developing countries can be classified in two main categories. First, spurred by a widespread adoption of international corporate governance codes (Cuomo et al., 2016) many quantitative-led studies have examined the extent of implementation of these codes and the consequences thereof (Aguilera et al., 2019). For brevity, and whatever their results (positive, negative or no evidence), we argue that their research designs tend to conceive of governance and its outcomes in a relatively narrow way. As such, little is done to unpack the processes underlying corporate governance activities. We also contend that such studies generally adopt a relatively uncritical and acontextual outlook of corporate governance mechanisms (e.g., board diversity, executive compensation) (Areneke et al., 2022). At the same time, while the prominence of family or state ownership and strong affiliations to collectivist cultures (Dinh & Calabro, 2019) often emerge in large scale studies, there is little clarity about how and why they influence governance practices and/or board decisions. Furthermore, issues of compliance and regulatory enforcement of codes are often noted (Nakpodia & Adegbite, 2018) but the underlying reasons are not well understood.

A second stream of research seeks to understand how (and why) corporate governance is practised regardless of the existence or not of codes. Scholars from various disciplines argue that governance is historically, socially, politically and culturally determined (Mohamad-Yusof et al., 2018; Sorour & Howell, 2013). For instance, Uddin and Choudhury (2008) highlight the clash between the traditionalist culture and rational/legal corporate governance framework given the dominance of family businesses in Bangladesh. The authors find a culture of non-compliance with company laws/rules, while boards, auditors and regulators seem compromised. They suggest further research in traditional settings to understand how social structures may affect Western-led solutions. Further work in the same context (Ahmed & Uddin, 2018, 2024) reveals a general picture of resistance to, and decoupling from, reforms, leading the

authors to question the primacy of mainstream agency-monitoring mindsets and the ignoring of a wider set of micro-interests and macro-forces. Overall, many informal motivations such as the pursuit of inheritance benefits, family feuds, and religious values, appear to shape the mode of family governance in Bangladesh (Ahmed & Uddin, 2024).

Within an African context, Nakpodia and Adegbite (2018) focus on the role of elites (political, economic and cultural) in situations of an institutional void. Using the case of Nigeria, they bring to the fore the role of religious elites who draw on their power in the traditional realm to exercise (or expect) dominance over decision-making in the boardroom. Consequently, they argue, corruption is allowed to persist which further weakens attempts to embed formal processes. Similarly, Kimani et al. (2021) document how Kenyan board appointments are motivated by kinship, tribal loyalty and/or patronage, despite there being clear nomination processes in place.

Although these studies have identified a range of factors impeding the operation of mainstream governance arrangements, we argue there is an insufficient understanding of the hybridisation of corporate governance arrangements, notably how it arises from the informal social relations borne out of historical, cultural, political and economic circumstances. For example, Ahmad and Mahmood (2024) highlight how Pakistani political and business forces captured the development process of the national corporate governance code to ensure its contents did not threaten their interests, leading to a hybridised code that all firms could (easily) comply with. In line with Ahmed and Uddin's (2024) suggestions, we seek to further understand corporate governance practice beyond its mainstream conception of (a) a mechanism to manage principal-agent (or principal-principal) conflicts and (b) a symbolic (or substantive) compliance with international best practices. This underpins our research question to explore the interplay between the formal and informal relations in a specific setting (banks) and the wider implications and consequences thereof.

2.3. Formal theories: path dependency and neo-patrimonialism

Although an engagement with formal theories will be discussed at a later stage of this grounded theory study (after discussing the substantive theory), we present the key features of path dependency (Peters, 2012) and neo-patrimonialism (Bach, 2011; Eisenstadt, 1973; Medard, 1991) to align with the typical structure of an empirical article. Within the political science discipline and historical institutionalism perspective (Peters, 2012; Subrahmanyam, 2006), path dependency focuses on the influential role of initial policy choices made when forming or establishing organisational structures or national institutions. Typically, these policy choices tend to lead to an ossification of organisational routines and practices, which can persist until a key event occurs (Peters, 2012). In other words, path dependency is influenced by durable social structures within a substantive area (Suddaby et al., 2014), leading to entrenched arrangements that are difficult to unravel, even when they generate visible and largely agreed-upon detrimental outcomes. This makes it difficult for organisational actors to explore alternative arrangements (Bebchuk & Roe, 1999) or conceive of a change towards a new model. In a corporate governance setting, path dependency could help explain the persistence of organisational, ownership and management practices (Bebchuk & Roe, 1999). Historically rooted economic and legal practices, precolonial traditions, colonial power (and its legacies in the case of former colonies), cultural norms and attitudes, the type of businesses and owners, all shape a system of corporate governance (Subrahmanyam, 2006; Wong, 2008), which can impede efforts to promote reforms (Mohamad-Yusof et al., 2018; Yoshikawa & Rasheed, 2009). The corporate environment in most developing countries in their colonial and precolonial eras was dominated by state intervention and/or the presence of elite families in business (Young et al., 2008). Complex financial interlinkages, state ownership as a mechanism of economic development, elite family ownership, weak disclosures, and opacity have been regarded as the norm for Asian businesses and practised for hundreds of years (Dinh & Calabro, 2019; Wong, 2008). Furthermore, periods of colonialism, whether involving British or other powers, are characterised by varying levels of subordination of local people's representatives by executive (colonial) power that entrench state and elite domination. In a similar vein, Subrahmanyam (2006) contends that there was a continued fostering of "undemocratic institutional arrangements, particularly when deep social cleavages restricted groups' abilities to achieve democratic compromises and elites were untrained in democratic processes" (2006, pp. 86–87). In effect, the emphasis was not about the development of political, social and economic capacities for self-government but rather to ensure that colonial interests would be preserved after independence. Poor corporate governance practices persist, because of the "legacy they [had] built up" (Edwards, 2016, p. 89). To this extent, therefore, path dependency outlines the continually relevant features of a country's history and their links to contemporary practices.

Concerning the second theory, and in its original form, Max Weber's patrimonialism (Weber, 1922) referred to a form of traditional authority and power in small-scale societies (Hopper, 2017; Lassou et al., 2021), characterised by patronage, factionalism, nepotism, clientelism and personalised leadership (Erdmann & Engel, 2007). While reflecting some, or all, of these features, neo-patrimonialism is regarded as a mix of traditional patrimonial domination and rational-legal bureaucratic domination i.e., a sort of "hybrid post-Weberian invention" (Erdmann & Engel, 2007, p. 104; Hopper, 2017). Relationships of a broadly patrimonial type (e.g., organised around family, caste, tribal, region, race, political factions, religious affiliations, class and intersections thereof) pervade a political and administrative system that is formally constructed along rational-legal lines (Erdmann & Engel, 2007; Hopper, 2017). This does not mean that the legal-rational logic is altogether ignored. In fact, maintaining a *façade* of a Weberian bureaucratic state is an essential facet of neo-patrimonialism, so that administrative legal-rational structures and formal institutions can derive a modicum of legitimacy (*vis-à-vis* relevant audiences) (Bach, 2012). Patrimonial rationales continue in a less visible and informal way to exert a primary influence over decisions. The contemporary existence of neo-patrimonialism can be motivated by a need to maintain factional economic, political and other material privileges (Khan, 2005). Otherwise, attempts to instigate open and transparent competition in politics and business could challenge current resource allocation decisions and disempower existing factions. In a similar vein, Bach (2012) argues that regulated patrimonial regimes can address contradictory imperatives in a functional way while ensuring that the exercise of public impersonal rules does not upend the existing private social, ethno-regional, religious and political norms. Relatedly, Compagnon (2012) draws upon the business entrepreneur analogy to identify the strategies and techniques political entrepreneurs

might deploy to gain market share and defeat the competition. The pragmatic and somewhat amoral features of a realist form of political entrepreneurship are to: (a) secure and maintain political and bureaucratic power through informal relations and factional support (b) amass material and symbolic resources to reward loyal factions (and deny them to others); hence meeting social obligations and maintaining one's legitimacy, and (c) leverage formal and ostensibly democratic mechanisms (laws, elections international agreements, the civil service) to maintain credibility vis-à-vis neoliberal market-driven agents and supporters of transparent political competition (Khan, 2005), with a view to secure continued access to resources (Sindzingre, 2012). Overall, a neo-patrimonial regime is heavily dependent on the continuous award of favours and allocation of symbolic/material resources to different factions, while managing dissent. However, a change in economic conditions can often lead to the unravelling of clientelist relationships, the delegitimising of the current regime and of its political entrepreneur(s) (Bach, 2012; Compagnon, 2012).

Considering the above, we argue that a formal theory of neo-patrimonialism applies to a wide array of situations and contexts where there is a sustained co-habitation of formal democratic statecraft with personalised and informalised exercise(s) of power; whose aim is to achieve and maintain beneficial outcomes for specific networks while managing the demands/interests of non-client (opposing) groups. The emphasis laid on co-optation and redistribution, rather than coercion, contributes to promote a "culture of mutual accommodation" (Bach, 2012, p. 29). Although governance research adopting the neo-patrimonial perspective has tended to focus on state institutions (Hopper, 2017; Lassou et al., 2021), with a view to highlighting the resulting democratic deficits and stunted economic development (Khan, 2005), the implications for a country's private and/or productive sectors have been far less researched (Kimani et al., 2021). Yet, whoever privately owns and/or controls financial and other material resources tends to be part of a country's traditional and/or rational-legal power structures, often benefiting from similar sociocultural legacies and networks of relationships/interests. We now proceed to elaborate on Sri Lankan corporate and banking context.

2.4. The context of Sri Lanka

In Sri Lanka, a colonial state under three European countries for over 300 years, the business of banking was initially confined to cronies and elites in society (Jayawardena, 2003; Kemp, 1985). Features such as centralised authority, the presence of controlling shareholders, nepotism and favouritism were visible from the formation of these institutions. Moreover, institutional organising principles in Sri Lanka (previously named Ceylon) can be traced back to the precolonial era, since the governance structure was based on the caste system with a clear hierarchy. "The labourers belonged to the lowest levels while the landowners belonged to the highest ranks. They had their own rules and regulations to govern them" (Wickramasinghe, 2018, p. 9). Controls were developed to institutionalise power distance between so-called superior people and inferior ones; a way of thinking implanted during the British rule (Ranasinghe, 2017). Financial and banking services were easily available to English-speaking affluent Ceylonese customers, while others were largely excluded from such services (Karunathilake, 1975).

Post-independence, the prominence of expatriate financial institutions declined while two state banks gained market control. Banks extensively financed state-owned enterprises in the 1970s i.e., the total credit given by all commercial banks to the state sector came to 30 % or more of the total loan portfolios. Excessive credit expansion supporting state-owned corporations, due to government pressure, pushed banks to lend funds well beyond their deposits. For instance, in 1975, the percentage of loans and advances to total deposits of all commercial banks exceeded 100 % (Karunathilake, 1975). These practices highlight a significant post-colonial feature of banking which persisted in contemporary periods.

Political interference and dynastic politics are visible in almost all economic areas (Devapriya, 2022). Over many decades, Sri Lanka experienced elite capture, with the exploitation of state resources for personal benefits (Abeyagoonasekera, 2023; Sattar & Gupta, 2022). For example it was revealed that former president Rajapaksha and his family controlled 70 % of the national budget in five ministries led by his four brothers (Al-Jazeera, 2010). Interference has not been limited to the Rajapaksha regime: elites associated with the next appointed president Wickremasinghe were involved in an infamous case of insider trading (the central bank bond scam of 2018) which cost the nation US\$11 million (Abeyagoonasekera, 2023). Government-led policy decisions, e.g., monetary board members are under the control of cabinet ministers, have undermined the central bank's independence (Colombage, 2017).

Moreover, several bank governance failures occurred e.g., the Seylan bank case. Previous studies have linked these failures to ownership concentration, political interferences, family affairs, weak transparency and questionable independence of directors, absence of influential nomination committees, and ineffective internal financial controls (Edirisinghe, 2015; Senaratne & Gunaratne, 2012). Unsurprisingly, Sri Lanka ranked 121th in the Corruption Perception Index, reflective of poor governance and ethics in private and public sectors (Transparency International, 2024).

In 2024, the banking sector represented 72.5 % of the total assets of the financial system (including the holdings of the Central Bank of Sri Lanka) (Central Bank of Sri Lanka, 2024), with nearly half claimed directly through government ownership. Through government-owned institutional shareholding, the ruling political party also owns many shares of private banks. This enables them to exert control on both private and state-owned banks by way of employee selection and loan disbursement (DailyFT, 2020). Although the design of bank corporate governance codes was influenced by British legal principles and market-based ideals (Senaratne & Gunaratne, 2008), Uddin et al. (2017) drew on two cases of bank failures to question the ability of Anglo-American corporate governance models to improve organisational outcomes; primarily due to strong traditional ties that connect the different parties on the island (shareholders, owners, regulators). Their Weberian-led analysis aptly sets out how traditional features 'clash' with rational (i.e., modern) governance prescriptions. Despite the observed instability of the banking sector, there has yet been no history of bank runs or major collapses in the sector (Central Bank of Sri Lanka, 2022). Even during the recent economic crisis in 2022, most private-sector banks retained high liquid asset levels and maintained adequate capital (Chandrasekera, 2022).

3. Research methods and methodology

3.1. Research methods

This study relies on three key data collection methods to address the research questions, namely 43 semi-structured interviews over two rounds from July to September 2018, four focus group discussions in June 2019, and documentary analysis. The study adopted the grounded theory methodology where data analysis and collection occur simultaneously, which in turn informs and guides further data collection (Howell, 2003; Strauss & Corbin, 1990a). This allows researchers to confirm theoretically relevant concepts and analyse the data for cues and hunches while guarding against missing “anything that may be salient” (Strauss & Corbin, 1990b, p. 6).

Moreover, this process ensures that every concept brought into the study or discovered in the research process is at first considered provisional. Each concept earns its way into the theory by repeatedly being present in interviews, documents and observations in one form or another – or by being significantly absent – grounding concepts in the reality of data thus gives this method “theory–observation congruence or compatibility” (Strauss & Corbin, 1990b, pp. 6–7). We elaborate on our data collection methods below.

3.1.1. Semi-structured interviews

Two rounds of interviews were carried out in this study. In the first round of interviews, 29 participants from 11 banking institutions were approached as the most knowledgeable people about bank corporate governance practice. These included senior leaders such as board chairpersons, CEOs, board members and board secretaries. While banks were the main research site, a few other research sites emerged as the data collection progressed and were deemed theoretically relevant, namely: regulatory bodies, credit rating agencies, media companies and audit firms. A further nine participants were selected from these research sites based on theoretical sampling to maximise opportunities for verifying the storyline and to achieve theoretical saturation (Strauss & Corbin, 1998), leading to a total of 38 participants for stage one. Table 1 shows the participants’ job titles and affiliations.

An interview guide was sent to participants ahead of the interviews. It comprised of 12 open-ended questions (Interview A in Table 2), which represented the study’s broad areas of interest; as such, these questions facilitated naturalistic qualitative interviewing (Goddard, 2004). The same set of questions was used in each interview. These questions tentatively probed the formal and cultural/informal aspects and their influence on banks’ corporate governance. It must be stressed these were a starting point for the inquiry. However, as interviews progressed, further prompts were used to fill conceptual gaps to construct a substantive theory grounded in reality; this also helped the researchers maintain flexibility and responsiveness to the context. Data collection and analysis occurred concurrently and contributed to open and axial coding. Concepts identified in the first few interviews were clustered into descriptive

Table 1

Semi-structured interview participants.

Job title	Participants (Interview A)	Participants (Interview B)
Banking sector		
Chairman (private banks)	2	
CEO/general manager (state-owned banks)	4	1
CEO/general manager (private banks)	2	1
Board member (state-owned bank)	1	
Board member (private bank)	1	
Secretary to the board (state-owned bank)	1	
Deputy general manager (state-owned banks)*	3	
Assistant general manager (private banks)	2	
Assistant vice president (private bank)	1	
Chief risk officer (state-owned bank)*	1	
Chief risk officer (private bank)	1	
Chief compliance officer (state-owned bank)	1	
Chief compliance officer (private bank)	1	
Chief internal auditor (state-owned bank)	1	
Treasury dealer (state-owned bank)	1	
Regional manager (state-owned bank)	1	
Assistant manager (state-owned bank)*	1	
Assistant manager (private bank)*	2	
Employee union officer (state-owned bank)	2	
Non-banking sector		^a
Governor (regulatory body)	1	
Deputy governor (regulatory body)	1	
Director (regulatory body)	2	1
Assistant director (regulatory body)	1	
Director (bankers’ association)	1	
Country head (international ratings agency)*	1	1
Senior financial journalist (media company)	1	
Independent economist*	1	1
Total number of participants	38	5

^a *Recorded interviews.

categories and re-evaluated for their interrelationships in subsequent interviews, which facilitated identifying their properties and dimensions through constant comparison of data.

The second round of semi-structured interviews (Interview B) facilitated developing higher-order categories (axial coding), which suggest an emergent theory along with its properties and dimensions. Interview statements were more developed in probing the formal and informal corporate governance arrangements. This helped to refine the developing substantive theory and to verify that it accurately represents the perspective of social actors and the relationships and interactions between categories that actively construct reality (Suddaby, 2006). This is aligned with the extant literature such as Goulding (2006) and Cullen and Brennan (2021): “the core category suggests an emergent theory. At this point, researchers may conduct a second round of field research to further validate or elaborate on the categories developed” (Cullen & Brennan, 2021, p. 8).

It should be noted that the data collection and analysis were undertaken iteratively rather than merely sequentially (Goddard, 2004). Theoretical sampling was employed to achieve the validity of the emergent categories, where a variety of sources – interviews, focus groups, documents – were used for data collection. The emergent categories and findings were fed back to participants for verification. Table 2 shows the questions/statements used in the two stages of interviews.

All interviews were conducted in English by the first author on several visits to Sri Lanka between 2018 and 2019. Each interview lasted between a minimum of 45 min and a maximum of 90 min. Recorded interviews were transcribed verbatim by the first author using Microsoft Word and these transcripts and field-notes were analysed line by line (Brennan, 2022; Corbin & Strauss, 2015; Cullen & Brennan, 2021). Only six participants permitted recording of the interview; the rest were not comfortable with this. Pragmatically, to ensure consistency and to truly reflect the participants’ perspectives, the researchers had to rely mainly on notetaking which was permitted during all interviews. After each interview the participants were given the opportunity to read and revise the field notes to ensure they accurately reflected their views and to validate the note-taking process with participants (Brennan, 2022) (Appendix A shows an example of field notes). Extant research shows that not recording interviews is ethical since participants do not give consent, but it is also culturally sensitive and facilitates trust building (Rutakumwa et al., 2020). The same authors assert that “[w]e found that the content of the scripts was generally comparable to that of verbatim transcripts in terms of how it depicted the key concepts in the interview” (p. 569), highlighting that detailed notetaking can have equivalent quality. This is aligned with previous grounded theory studies, which have relied mainly on notetaking e.g., Goddard (2021), Sorour and Howell (2013) and Jayasinghe and Soobaroyen (2009).

3.1.2. Focus groups

This research employed four focus groups in its final stage (selective coding) to help theory integration and refinement (Cullen & Brennan, 2021). Generally, the participants in the focus groups had a thorough understanding of actual bank governance practices. The

Table 2

Semi-structured interview questions.

(Interview A)
<ol style="list-style-type: none"> 1. To what extent do you think that corporate governance is important to the Sri Lankan banking sector? 2. How cultural factors affect bank corporate governance practices in Sri Lanka? 3. Do you think there is any political and government influence on Sri Lanka banks? Explain. 4. What kind of engagements do major shareholders have with the bank? Do they actively participate in bank affairs? 5. What is your view about external auditors’ independence and performance? Do they have the required understanding of the complicated banking procedures to conduct an effective audit? 6. Do you see a clear distinction between ‘executive’ and ‘non-executive’ board members of the bank? Explain. 7. What is your view on the independence of non-executive board members? 8. How effective are the board members in exercising their bank duties? 9. How effective are the bank’s specialised subcommittees (Audit, Nomination, Remuneration etc.) in exercising independent judgements? 10. What is your view on the empowerment given to you in exercising your duties more independently and objectively? 11. What external and internal barriers do the bank confront in exercising fair and objective credit granting and extension process? 12. Which areas do you think the bank needs further improvements in corporate governance practices?
(Interview B)
<ol style="list-style-type: none"> 1. Banks’ social obligation function and the country’s cultural values, beliefs, and attitudes obstruct banks from meeting the expected outcomes of corporate governance rules and regulations. Explain. 2. Pressure from controlling shareholders, government and/or politicians overpowers the pressure for compliance from international standards-setting organisations in bank corporate governance. Explain. 3. Bank employees tend to rely on powerful informal networks for personnel wellbeing and as a means for security in this politicised economic environment. Explain. 4. Board members strive to maintain a balance; comply with corporate governance code and meet the expectations of dominant shareholders and/or political leaders, with a minimum conflict in the business of banking. Explain. 5. The bank’s board of directors’ and senior executives’ extensive personal ties with political leaders bring serious implications for corporate transparency and fuel corruption in the bank. Explain. 6. The political culture that reinforces patronage, clientelism, nepotism, and corruption weakens banks’ regulatory control and market efficiency, thus undermining banking institutions’ good governance practices. Explain. 7. Chief executives’ accountability towards stakeholders of the bank(s) overlaps considerably with their accountability to particular groups whom they are connected informally (i.e. kinship groups, friendship groups and/or political groups). Explain. 8. Formal and informal political relationships are equally important for private and public banks in the absence of a reliable financial market with weak law enforcement. Explain.

two international audit firms that handle all Sri Lankan banks were included in the focus groups. Table 3 shows the profile of the four focus groups.

Focus groups are a powerful tool to collect data that uncovers the shared informal rules as revealed by participants' interactions (Nicholson & Shrives, 2024); understandably, this is a key advantage of focus groups over other data collection methods such as interviews. Researchers have been increasingly using focus groups as a data collection method in grounded theory research to obtain detailed and varied descriptions of a phenomenon (Lawrence & Tar, 2013; Lichtman, 2014; Nicholson & Shrives, 2024) and ensure it resonates with participants (Cullen & Brennan, 2021). As such, this method was relevant to the research as it directly contributed to achieving theoretical saturation of all identified categories and assessing the accuracy of the generated theory by way of presenting the initial findings to focus group participants. All focus group discussions were conducted in English and lasted for approximately 2 h. Respondents' views were taken down as notes without recording, as agreed.

3.1.3. Documents

Finally, our study consulted published documents to improve our understanding of the context and to triangulate the insights gained from interviews and focus groups; hence it improved our theoretical sensitivity, which is a common strategy in grounded theory studies (Goddard, Assad, et al., 2016). This included annual reports of banking institutions, websites and internet blogs, corporate governance codes issued by various regulatory organisations, press releases on bank misconduct, and allegations and press releases published by related international agencies. Researchers have valued document analysis in grounded theory studies owing to its availability and objectivity (Charmaz, 2014) and used it in combination with other data sources such as interviews, observations and focus group discussions (Corbin & Strauss, 2015). The data gathered from these documents complemented and supported the validation of emerging concepts and categories (Charmaz, 2014). For example, an analysis of banks' annual reports provided information on the identity of the largest shareholders and ownership percentages, which assisted with validating the category, ownership concentration. Information on corporate executives, provided on banks' websites, press releases and other media sources, exposed the extent of cross-directorships, which validated certain aspects of the open category e.g., *forging affiliations*.

3.2. Data analysis using grounded theory

In line with extant accounting literature that has used grounded theory, we emphasise that “[i]t is beyond the length constraints of this paper to detail each individual step taken” (Cullen & Brennan, 2017, p. 1873) within our grounded theory approach, since the work involved is virtually impossible to discuss in detail within the scope of a research paper (Goddard, 2004). Fig. 1 shows the theory-building process we followed, in accordance with Strauss and Corbin (1990a).

Moreover, answering the research questions required an in-depth investigation of bank corporate governance phenomenon within the Sri Lankan banking sector. As such, a grounded theory approach was adopted owing to its fluid, interactive and emergent nature faithful to the social phenomenon and its contextual complexities (Bryant & Charmaz, 2007a). The data was analysed following Strauss and Corbin's (1990a, 1997) three coding stages: open, axial and selective coding techniques and subscribes to a relativist ontology and contextualist epistemology (Cullen & Brennan, 2021). These philosophical assumptions are appropriate in investigating formal and informal corporate governance practices as a context-based (Clarke, 2016), socially constructed phenomenon (Aguilera et al., 2015; Sorour et al., 2012).

The accounting literature shows two approaches for theoretical development, summarised by Goddard (2021, 2004): (a) primarily relying on empirical data alone to generate theory (b) using other schools of thought, that is, formal theories, in a way that offers a clear perspective to the study and “enable[s] an iterative approach between field data and prior theory to be adopted” (Goddard, 2021, p. 8). Our paper is more aligned with the second type as our study is fully grounded in data and follows Strauss and Corbin's (1990, 1997) approach, but the findings of the study – i.e., the substantive theory of subverting bank corporate governance – is given further theoretical scope and depth by engaging with and exploring path dependency and neo-patrimonial perspectives. Yet, our grounded theory approach adopts a stricter approach for using the existing schools of thought. As such, we did not start the study with the preconceived idea that the data would necessarily exhibit path dependency and neo-patrimonialism. It was only at the axial/selective coding stages that links between emergent categories such as volatile macro-environment, gaining legitimacy, social and cultural legacies, undermining objectivity, covert conflicts of interest and neo-patrimonialism/path dependency started to manifest. This is

Table 3
Composition of focus groups.

Group	Participants	Organisation type
Group 01	Chairman CEO/managing director Members of the board of directors	Private bank
Group 02	Chief compliance officer Deputy general manager – credit Chief legal officer	Public bank
Group 03	Principal – bank audit Two audit partners	International audit firm 1
Group 04	Principal – bank audit Two partners – audit and assurance	International audit firm 2

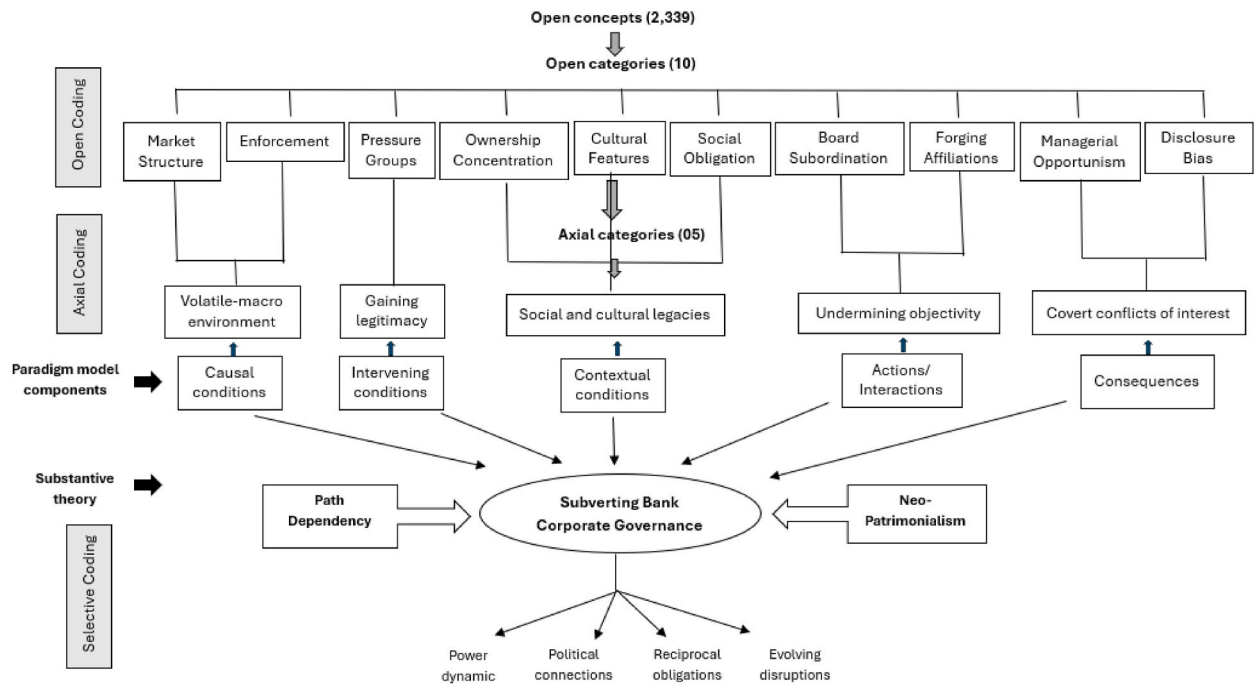


Fig. 1. Theory building process through open, axial and selective coding stages (Please refer to Section 3.2 for further explanations).
Source: The Authors' (2024)

aligned with Glaser and Strauss (1967)'s thoughts "to apply several formal theories to a substantive area [...], in an effort to give his materials greater meaning" (p. 95). In grounded theory theorizing is not linear, and, while we must avoid forcing any preconceived ideas about the substantive area, reading and consulting the extant literature including theories would be acceptable (Strauss and Corbin, 1997). This is an important feature of this version of grounded theory as it allows flexibility and pragmatism in the investigation; reflecting an *open mind* rather than an *empty head* (Dey, 2007) approach for investigating the phenomenon.

Following Strauss and Corbin (1990, 1998), developing our substantive theory of subverting bank corporate governance followed three distinct coding stages, as shown in Fig. 1. First, at the open coding stage 2339 open concepts were identified through line-by-line analysis. By employing constant comparison, these open concepts were abstracted into 10 open coding categories: pressure groups, cultural features, social obligations, ownership concentration, market structure, enforcement, board subordination, forging affiliations, managerial opportunism and disclosure bias as shown in Table 4.

Table 4
Open categories, properties and dimensions in the open coding stage.

Open categories	Properties	Dimensions	
Pressure groups	Sources of pressure	External	Internal
	Ownership types	Private banks	Public banks
Cultural features	Respect and recognition	Low	High
	Uncertainty avoidance	Low	High
	Power distance	Small	Large
Social obligation	Discretionary power	Fair use of power	Abuse of power
Ownership concentration	Corporate ownership identity	Private	Public
	Corporate control	Low	High
	State capitalism	Low	High
Market structure	Market competition	Weak	Strong
	Market ambiguity	Low	High
Enforcement	Competency	Low	High
	Implementation	Weak	Strong
Board subordination	Contribution	Weak	Strong
	Independence	Low	High
Forging affiliations	Loyalty	Not expected	Expected
	Relationships	Not valued	Highly valued
Managerial opportunism	Exploitation	Low	High
	Whistle-blowing	Encouraged	Discouraged
Disclosure bias	Compliances	Low	High
	Monitoring	Effective	Ineffective

Second, axial coding focused on discovering the interrelationships between the 10 categories identified in open coding. Accordingly, these categories were theoretically subsumed into five main categories by employing Strauss and Corbin's (1998) paradigm model. This is an "analytic tool devised to help analysts integrate the structure with the process" (Strauss & Corbin, 1998, p. 123). The paradigm model is central to the data analysis at the axial coding stage in Strauss and Corbin's grounded theory approach. The 10 open categories which were developed in the open coding stage were subsumed into five main categories using the paradigm model components in the axial coding stage: volatile macro-environment (causal condition), gaining legitimacy (intervening condition), social and cultural legacies (contextual condition), undermining objectivity (actions/interactions) and fuelling covert conflicts (consequences). Categories were developed from data and informed by theory, a common grounded theory practice (Goddard, Assad, et al., 2016; Sorour & Howell, 2013).

Third, selective coding, as the final coding stage, focused on discovering the core category that connects the five categories identified in axial coding. It identified strategies participants used to manage this core category, i.e., the central phenomenon. At this stage, participants were approached again (Table 1), and five semi-structured interviews (B) were undertaken. Key documents validated the storyline and the substantive theory. Here "validation does not imply testing hypotheses but refers to researchers assessing interpretations both with participants and against emerging data as the research progresses" (Cullen & Brennan, 2021, p. 5). This validation of theory against the data "completes its grounding" (Strauss & Corbin, 1997, p. 133). Notably, in line with Glaser and Strauss (1967), the core category was data derived but we were aware of the links between our substantive theory and existing schools of thought, i.e., neo-patrimonialism and path dependency.

3.3. Memo writing and diagramming

Memo writing and diagramming were carried out at the early stage of the analysis. Memos - "theorizing write-up of ideas about codes and their relationship as they strike the analyst while coding" (Glaser, 1978, p. 83) - provide an immediate grounding illustration when an idea occurs. These *open memos* did not fit theory initially at the beginning but grew with further analysis, allowing powerful concepts to emerge. Thus, *memo-ing* moved the analysis forward by way of abstraction or ideation in grounded theory and assisted in identifying future codes (Corbin & Strauss, 2015). Charmaz notes that "[m]emos catch researcher's thoughts, capture the comparisons and connections and crystallize questions and directions for researchers to pursue" (Charmaz, 2014, p. 162). These memos captured interrelated concepts in the data, led to 75 visual diagrams: "visual devices that depict relationships between analytic concepts" (Corbin & Strauss, 2015, p. 105). These diagrams assisted in generating a clear vision on the emerging categories, properties and dimensions. They were numbered and labelled with headings and brief explanatory notes. Although coding is a distinct feature of grounded theory methodology, memos and diagrams are labelled as critical products that increase conceptual details and explanations (Bryant, 2017). An example of a memo and a diagram developed in this study is given in Appendix B. The accumulation of 75 diagrams based on memos led to an integrative story of bank corporate governance and related practices with a clear demonstration of the relationships between concepts, subcategories and core categories around the phenomenon. Memos and diagrams complexity has evolved and stimulated the emergence of each other. In axial coding, diagrams became much elaborative, which led the researcher to do integrative diagrams to define early relationships between categories and subcategories.

4. Findings

This section presents the key categories that emerged from the grounded theory analytical coding procedures. The core category, *subverting bank corporate governance* is presented, and how it manifested within the Sri Lankan banking sector. This is followed by the substantive theory, which links the core category with other key categories comprising both the structure in which subverting bank corporate governance is embedded and the key strategies adopted by relevant actors and parties to manage, participate and contribute to the prevailing regime of bank corporate governance. In doing so, we address the research question on the interplay between formal governance arrangements and informal social relations.

4.1. Subverting bank corporate governance

The core category *subverting bank corporate governance* can be explained in terms of its key features: *power dynamics*, *political connections*, *reciprocal obligations* and *evolving disruption*. *Power dynamics* explains the role of informal arrangements and state dominance in driving banks to rely on *political connections* as a coping mechanism. Subverting bank corporate governance is sustained through *reciprocal obligations* between banks' stakeholders. Lastly, *evolving disruptions* are not yet significant enough to destabilise the subverted governance arrangements, but given their evolving nature, further disruptions would continue to occur in the future. The following sections elaborates on these four features.

4.1.1. Power dynamics

Subverting bank corporate governance can be understood from the perspective of the state being the most powerful actor in the banking sector and the whole economy. A participant noted that the "Sri Lankan economy is run by the state". As such, through the actions and decisions of elected politicians and government officials the state can exercise its power to coerce banking institutions to give primacy to the interests of state actors and politicians instead of the formal constituencies of bank depositors and smaller shareholders. This also means that bank corporate governance reforms are enacted on a ceremonial or selective basis to avoid threatening these interests. A manager of a private bank highlighted this point by commenting on the heavy dependence of businesses

on the state sector. He argued that, without strong state support, banks could struggle to survive in the market. Another manager added that even private banks had lost their independence due to overt and covert government influence.

State influence partially emanates from the substantial state ownership of banks, which represents nearly 50 % of the banking sector's assets. This makes it difficult to observe mainstream governance principles given the challenges boards face to practice formal objective-led leadership that conflict with state and politicians' imperatives. An international rating agency participant highlighted the massive concentration of state-owned banks in the industry: "Bank of Ceylon and Peoples Bank [state-owned banks] are the two largest banks. Even if you put all the private banks together, they are not as big as Bank of Ceylon. The contrast is huge." State-owned banks boards have limited independence. Similarly, private banks are compromised by political pressures, e.g., appointing acquaintances of politicians or of the state to senior leadership positions. According to a chief risk officer, government acquaintances act as directors even in private banks. Similarly, a private bank chief compliance officer mentioned that their board included a few political appointees who were retired state-affiliated bankers, government auditors and central bank officials. Besides these political appointments, the government actively buys private banks' shares to exert further influence on them.

Further examples of state interference include significant control over state-owned banks' income streams and cashflows. A financial journalist opined that the government took 75 % of the dividends of a major state-owned bank, which is not a rare occurrence in other state-owned banks, mentioning that this type of profit extraction has led banks to become undercapitalized. Another bank manager stated that banks were often pressured to extend loans to other state-owned entities such as Sri Lankan Airlines and the Ceylon Petroleum Corporation on a non-commercial basis. Moreover, since the state is the largest customer in the country (accounting for 25 % of GDP) it has made it more difficult for businesses to operate independently. Another participant emphasised the need to have a good relationship with the government to secure business. This shows that in such an environment, the boundaries between banks and the state are blurred. State influence would not allow bank boards to use their formal power in strategic or meaningful business decisions. This power imbalance leads to a subverting bank corporate governance phenomenon, fuelled by cronyism and favouritism and where decisions are largely made to serve those who are in power. This situation inevitably influences the choice of the banking institutions' governance mechanisms and policies to maintain the status quo.

4.1.2. Political connections

Subverting bank corporate governance is intimately shaped by political connections, given the state's powerful position within the banking sector, through direct/indirect ownership, regulatory policy/intervention and control over market conditions. Hence, being part of, or connected to, the political apparatus is an important feature of local corporate governance. According to participants, political connections enable employees to secure and keep their jobs, customers to access loans, directors to be appointed to boards and banking institutions to survive and flourish. According to a state bank manager, connections matter in the banking industry, whether that is political connections, business connections or friendly ties; all these connections are important. Another participant highlighted that such political connections are for employees' job security, as well as avoiding sanctions due to misconduct. Hence, political connections greatly inhibit accountability at all levels in banks.

Similarly, dominant shareholders and senior bank leaders only trust *their* connected people. A chairperson emphasised the influence of major shareholders and politicians in appointing their friends to boards as non-executive directors. Finally, another board member commented that "[h]e and his friends own the bank. That is their clique." Political connections also play an important role in banks' lending decisions. Apparently, doling out money to customers who have access to powerful networks became the banks' strategy to gain political, and hence economic, benefits in return. A vice-president of a private bank shared one incident where several banks lent money to a particular company that had strong political ties. Despite defaulting on its loan, the company was able to successfully reschedule the loans by leveraging its political connections to exert pressure on banks. Another strategy that banks adopt to navigate uncertainties in this highly politicised regulatory environment is the appointment of retired government officials to the bank boards to secure preferential treatment from the government. A former central bank deputy governor highlighted he was approached to join a private bank's board soon after his retirement, to facilitate forming ties with regulator.

4.1.3. Reciprocal obligations

A notable facet of the *subverting bank corporate governance* phenomenon is the commitment to reciprocal obligations. While this governance model gives primacy to protect and further the state's interests as a powerful player within the banking sector, it also acknowledges obligations towards a selective range of actors, notably employees, depositors, customers and the public. This is primarily to retain the legitimacy of the political leaders. Political leaders exchange favours with selected groups in return for their loyalty, obedience and resources. A state-owned bank manager highlights that each time a new government comes to power, it typically pardons outstanding agricultural loans. These loan waivers have now become an entitlement for the agricultural community. A CEO also stressed that state-owned banks are also expected to play a leading role in national emergencies such as droughts or floods. The government expects these banks to waive loan repayments from affected customers. Moreover, participants revealed that, under the guise of the national interest, this type of government intervention secures their political position with a strong network of supporters. Such patronage practices aimed at giving out collective benefits is akin to a form of populism, whereby the interests of political parties strongly violate basic principles of democracy, private ownership and the rules-based order (i.e., legal contracts) but "these are embraced by the culture and normalised in the banking industry" (deputy general manager).

Findings show that even though boards do recognise these issues to be against the formal interests of shareholders and other stakeholders, they do not believe they have the power to intervene. Thus, a subverted bank corporate governance model gradually becomes more strongly entrenched and socially accepted, to the point that it barely faces any questioning. Not only does such reciprocity involve the public at large or certain sectors of society but it also applies to the banks themselves. If one bank is failing, the

regulator normally expects another bank to handle the bailout. This view was widely shared among participants: a bank manager mentioned an instance where a state bank rescued a private bank that was on the verge of bankruptcy. If this had not happened, the entire banking system would have collapsed.

Finally, the ownership rule set out in the 2009 corporate governance code (which prohibits any individual investor from holding more than 10 % of material interest in public listed banks) is frequently violated but remains unquestioned. A deputy governor of the central bank knew of a shareholder who controls a private bank based on shareholdings that far exceeded the legal limit. However, no action was taken against this bank because it was performing well, complying with tax obligations and operationally stable. This reflects a broader pattern in which regulatory breaches are tolerated.

4.1.4. Evolving disruptions

Our findings show that a subverted bank corporate governance regime can be threatened by other forces seeking to oppose these well-established norms in the sector. Essentially this is the case of powerful political actors seeking to exercise informal controls while other bank stakeholders seek to uphold international standards such as the Basel principles. In a typical understanding of corporate governance, the board of directors monitors and challenges bank executives to mitigate the actual and potential principal-agent conflicts of interest by relying on the principles and processes set out in the corporate governance code. Contrastingly, in response to the prevailing subversion of the bank corporate governance environment, it is the banks' managers who invoke the code's requirements to resist undue political diktats that are emanating from the board of directors. During Focus Group 2, participants described this evolving dynamic in the relationship between the board and management. The discussion explained how management teams frequently exert pressure on board members to comply with corporate governance regulations. This led to tensions and one participant shared that conflicts with the board were common, particularly when management refused to action politicised requests. In such situations, some managers reportedly relied on trade union support to counteract these pressures, framing regulations as a protective mechanism to maintain institutional independence.

Separately, a bank manager highlighted the growing influence of executive unions within private banks as distinct from politically affiliated trade unions, who actively monitor practices and hold management accountable for unfair decisions. The participant noted that such scrutiny led to greater caution in decision-making processes, since banks find it challenging to dismiss the executive union's concerns.

Furthermore, the gradual professionalisation of the human resources function in banks has disrupted the subversion of bank corporate governance. Promotion and career progression are, in many cases, no longer a matter of years of service and political connections, because there have been serious attempts to manage human resources on merit and against specific performance criteria. Participants noted that this fuelled conflict between management, board of directors, trade unions and shareholders. According to a board member, the government's attempt to change their board was fiercely opposed by shareholders who have collectively opposed this move. This shows that the disruption of the subverting bank corporate governance process is contingent on who is involved and whether they can prevail during power struggles. This evolving disruption reflects an undercurrent of conflicts that in some cases becomes public or visible, and where factions vying for influence have sufficient power to force a certain outcome. For example, members of a focus group highlighted that a politically appointed chairman was forced to step down following a union-led strike. Yet in most cases this conflict is not always visible or does not lead to change owing to the dominance of political actors and their ability to offer favours/benefits; hence the evolving (i.e., ebbing and flowing) of such disruption.

4.2. Substantive theory

In this section we present the findings in relation to how the core category can be further understood by linking it to other categories comprising both the structure in which it is embedded, and the key strategies adopted by relevant stakeholders to manage and contribute to (or in some cases resist) the prevailing status of bank corporate governance. *Subverting bank corporate governance* will be discussed in relation to the components of the paradigm model (Fig. 1): *volatile macro-environment* (causal condition), *gaining legitimacy* (intervening condition), *social and cultural legacies* (contextual condition), *undermining objectivity* (actions/interactions) and *covert conflicts of interest* (consequences).

4.2.1. Volatile macro-environment

Interview participants agreed that the macro-environment in which Sri Lankan banks operate is volatile and is conducive to the subverting of bank corporate governance practices, hence leading to the emergence of one axial category: volatile macro-environment (Fig. 1). Concerns were raised in relation to the country's bank-based financial market, excessive bureaucracy, high uncertainties and ambiguities, selective monitoring and enforcement, which exacerbated the subversion of bank corporate governance. While there is a raft of rules, codes and a legal framework, it is their inconsistent implementation and enforcement by regulatory authorities that proves to be problematic. A bank manager indicated that "[i]n my view, the law should be equally practiced by every bank. Some bankers have a view that a different set of rules are favourably applicable to state banks. This should not happen, and all banking organisations must follow an accepted form of governance and conduct."

The volatility evidenced in the banking sector seems to emerge from different sources, including an imported set of corporate governance rules that are not customised to the local realities. A CEO noted that bank monitoring standards are imported from developed countries and when these standards encounter the country's cultural and historical context, conflicts arise. In addition, financial sanctions imposed by monitoring authorities seem ineffective. Legal action is rarely taken against banks. Moreover, a chief risk officer indicated that, compared to other countries, there is a limited history of penalties imposed for regulatory breaches. Focus

group participants also expressed dissatisfaction with the country's legal system, due to its ineffectiveness and significantly delayed enforcement. Court cases can drag on for years to reach a conclusion; a fact well known to offenders. There was a clear sentiment that such delays significantly undermine the governance infrastructure within the broader banking environment, further exacerbating volatility. In addition, the government heavily relies on state-owned banks' funding and as such any sanctioning imposed on banks could affect the country's own credit rating. Since such events could affect government stability, a lenient regulatory approach is preferred when dealing with instances of non-compliance by these banks.

Participants have expressed concerns regarding poor accounting practices and window dressing. For example, an economist mentioned that "major state banks are undercapitalized. The government takes almost all profits ... accountants do window dress financial reports to be in line with standard requirements." The participants also highlighted that the lack of a transparent and independent media reporting is linked to their dependence on government advertising. Any attempts to disclose bank malpractice would jeopardise their income streams from the government. A financial journalist questioned the willingness of newspapers to report bad governance practices in banks: "Newspapers are watchdogs. But are these watchdogs barking?" Many participants also highlighted the auditors' limited knowledge to carry out audits. The following statement is from a bank's annual general meeting minutes: "External auditors send junior recruits who have minimal knowledge of bank audit. Quality of external audits is a concern." In conclusion, while the factors discussed above are not solely responsible for the emergence of the process of subverting bank corporate governance in Sri Lanka, they are instrumental in maintaining a conducive and fertile environment for it to survive and flourish.

4.2.2. Gaining legitimacy

This category highlights what participants have identified as factors challenging the subversion of bank corporate governance, i.e., altering or mitigating its unquestioned prevalence within the Sri Lankan banking sector. Gaining legitimacy is driven by the pressure that key stakeholders (pressure groups) create to express their discontent with the prevalent governance practices. This includes some voices within regulatory bodies, government, shareholders, employees, politicians, auditors and ratings agencies. Evident in participants' accounts is considerable pressure to adhere to so-called *better* corporate governance practice, especially those from international organisations such as the World Bank and the International Monetary Fund (IMF). Simply not satisfying their governance requirements implies to many that the country's financial system has lost its credibility. Focus Group 02 emphasised that adhering to corporate governance codes was merely to project legitimacy to foreign investors and international organisations, even though governance regulations were not necessarily suitable to local realities. Focus Group 02 as well as a governor of the central bank emphasised the importance of adopting and enforcing corporate governance codes in banks lest it could have an adverse impact to the country's credit ratings and consequently jeopardise its ability to secure international financing. A CEO of a state-owned bank also confirmed the need to adhere to international banking frameworks to avoid sanctions in case of non-compliance. Despite the political pressures, compliance with rules and regulations was thus regarded as a necessity to maintain legitimacy. This was maintained through the high pressure from the central bank's compliance division over adhering to corporate governance codes, as noted during Focus Group 1 and by many other participants.

4.2.3. Social and cultural legacies

This category represents the roots of the subverting bank corporate governance phenomenon in Sri Lanka. The participants' responses confirmed the contextual role of the country's social and cultural legacies. Being a former colonial state under three European countries for over 300 years has affected the country's cultural attitudes, values and norms. Traditional cultural features continue to influence banks' corporate governance practices and actors' behaviour. Moreover, banks' ownership patterns with centralised authority and controlling shareholders date back to their early formation in Sri Lanka. The business of banking was initially confined to powerful politicians, social elites and their connections (Jayawardena, 2003). Since the main objective was to offer services to elite Ceylonese customers and not to the wider population (Karunathilake, 1975), banking primarily served businesses and the political class. Following structural and government policy changes in the 1960s, commercial banks started to become social as well as economic institutions. A CEO of a state-owned bank noted that banks had to perform their social obligations as expected by the government and the wider society.

This led to higher expectations from banks to address institutional voids, for example in the case of emergencies (natural disasters such as droughts or floods), as discussed earlier in Section 4.1.3 (*reciprocal obligations*). Among the variety of social objectives imposed by the government is to provide employment opportunities. According to a deputy general manager, overstaffing, especially in state banks, results from the government's discretionary powers. He has seen overstaffed banks, with employees without a job per se but with decent salaries. Moreover, this is reflected in how actors within the banking sector manage the subverting bank corporate governance phenomenon. For example, under this phenomenon the objective is to further the interests of the state and politicians as discussed in Section 4.1.1. (*power dynamics*). Hence, bankers are more likely to act in a way that serves this purpose instead of maximising bank profitability and shareholders' value. These legacies persist through cultural and historical norms of submission to authority through patronage, deference and job protection. Effectively, any challenge to how the bank is governed could jeopardise careers. A central bank director noted that employees must show respect to their superior's decisions and challenging their bosses in meetings. Hence, it becomes difficult to break this vicious cycle and introduce new formal rules that challenge the status quo. A private bank chairman reflected on the difficulty they faced in introducing new procedures since new employees' mindset are shaped by senior staff and union guidance. Their survival is dependent on conformance to informal rather formal expectations. Even in private banks supposed to operate on a more commercial basis, similar controls are maintained over new employees to ensure their loyalty. A private bank chief executive officer mentioned that they prefer to train school leavers and invest in their training and development from a young age with the aim of fostering loyalty to the bank and to its superiors. The detrimental consequences of this authoritarian

approach were observed by another participant in terms of dissatisfied employees.

Other types of personal relationship have been noted by participants. A central bank deputy governor gave examples of informal relationships between managers, internal auditors and external audit partners. While these relationships could compromise auditors' objectivity, they are unavoidable in the current environment. These types of friendship are even seen with customers. A manager noted that the banker's attendance at a customer's family functions is expected for certain occasions (e.g., weddings). This suggests how the subverting bank corporate governance regime is rooted in these social and cultural legacies of personal ties and relationships.

The public's faith in a subverted bank corporate governance regime potentially reinforces the government's interference in the banking sector. A credit ratings agency country head, commented on the immense public confidence in the government as follows: "A few years back in an official ceremony, [the] country's president at that time publicised that a major state bank is insolvent. Even after this statement was telecasted in the media, not a single Rupee was withdrawn by depositors. The public has great faith in the government. They are not worried as long as the bank belongs to the government." This outlines a fascinating example of how a subverted bank corporate governance regime is rarely questioned even in situations that would normally instigate a bank run. Similarly, a central bank assistant director, observed that the public are not concerned about weak governance in banks largely because of the faith they have in the central bank and in the government.

Furthermore, power is concentrated among a few well-established high-caste families and their acquaintances who comprise the political elites and whose historical roots in the politics are widely accepted in the society. As noted by a private bank assistant vice president, the current chairman of this bank is a cousin of the prime minister, whose family has a long political history. Consequently, the board's objectivity is compromised by the government influence through the chairman. A trade union secretary also noted that the chairman's influence reflects government interference since he is a political appointee. The bank chairman is typically aligned with the government objectives leaving no choice to directors but to accommodate politically connected clients.

4.2.4. Undermining objectivity

This category presents the strategies used by key players within the banking sector to manage the phenomenon of *subverting bank corporate governance*, which they do mainly by undermining objectivity. The board of directors and executives tend to deliberately alter or tone down their objective mindset in decision-making to please salient parties. Many instances were identified in participants' statements where board members purposefully compromised their stated independence to meet the government's and major shareholders' expectations. A director observed that their board avoided conflicts and tried to be aligned with the majority to protect their self-interests. From the data analysis, non-executive board members in most state-owned banks choose to remain silent during board meetings as a strategy to avoid confrontation, particularly in the presence of the representatives of controlling shareholders. A CEO highlighted that block holders have significant influence over certain decisions, which the executives cannot fully ignore, and hence undermine their independence. A president of a bank employee union remarked that directors are normally inactive in board meetings and do not show interest in the discussions. Their motivation is only tied to the financial compensation they get for attending board meetings. Hence, board members often rubber-stamp decisions without question or challenge. In addition, employees in banking institutions have developed affiliations with powerful actors and groups as a response to, or a strategy of being part of, the subverting bank corporate governance regime, thereby sacrificing their professional objectivity. Focus Group 4 members emphasised the importance of the social norm of being related to someone in power, and commonly for employees to overcome fear/challenges. They often resort to their trade union to take collective action while maintaining their anonymity and enabling the union to ask for reciprocity. A participant in the employee union highlighted that employees tend to approach the union to raise concerns owing to the fear of retaliation.

4.2.5. Covert conflicts of interest

The consequences of *undermining objectivity* strategies lead to a distinctive outcome: the entrenchment of covert conflicts of interest amongst politicians, government officials, bank executives, board members, employees and selected groups of depositors, loan customers and controlling shareholders. Interestingly, one might safely expect that stakeholders to disapprove of the subversion of bank corporate governance in the banking sector. However, stakeholders appear to undermine professional, financial and economic objectivity, as they navigate a heavily politicised setting. A subverted bank corporate governance regime does not address or mitigate (formal) conflicts of interest as intended. It seeks instead to manage existing and different covert (informal) conflicts of interest between specific groups, albeit that such conflicts occasionally publicly emerge when challenged by evolving disruptive forces and sometimes arising because of specific events (bank collapse, economic upheavals).

Hence, most stakeholders would favour a subverting bank corporate governance process since it gives them more certainty. A regulatory body director highlighted that even private banks become susceptible to, and implicated in, public scandals owing to internal loyalties. He had witnessed how banks' senior management teams compromised objective decision-making because of the undue loyalty they owe to political leaders. Given the outcome of managing conflicts covertly, mechanisms of public accountability are not enacted. This was further witnessed when a chief compliance officer mentioned the inability of the central bank to impose sanctions on financial institutions for non-compliance or breach of contracts and the lack of public awareness on poor banking practices. For example, whistle-blowing is widely discouraged since it could potentially reveal the covert web of relationships and challenge the legitimacy of the sector vis-à-vis international audiences and regulatory circles. Focus Group 4 participants emphasised the absence of strong legal protection for whistle-blowers, which blocks transparency and accountability in banks.

The adoption of formal standards of corporate governance practice becomes difficult and results in biased or limited disclosures. Transparency is avoided if it could impair and question the reliability of banking processes. However, in certain instances, bankers consider that this opaqueness is required for banking even though it is seen to contradict mainstream corporate governance principles.

For example, an internal auditor of a state bank might find it difficult to reject a loan application by a politically affiliated customer, especially when they know that leveraging such political networks is proven to be beneficial in this politicised economy. In doing so, banks compromise their standard practices. In effect, such opportunistic behaviour and opaqueness instil further uncertainties among bank stakeholders. Consequently, stakeholders also leverage informal networks, further instigating covert conflicts of interest between various parties.

4.3. The substantive theory of subverting bank corporate governance

Subverting bank corporate governance depicts the substantive theory as the culmination of the coding processes, as shown in Fig. 2. The phenomenon captures the distinctive nature, processes and strategies of bank corporate governance. In a subverted bank corporate governance process, *power dynamics* denote the dominant role of the state; *political connections* act as a coping mechanism within the banking sector; *reciprocal obligations* are where the government seeks to balance its salient stakeholders interests by offering unconditional benefits with the aim of gaining support and legitimacy; and *evolving disruptions* denotes an undercurrent of opposition to the subverting governance practices when there is a perceived consequential risk. The country's *volatile macro-environment* has been identified as a leading condition for maintaining subverting bank corporate governance, fuelled through a heritage of social and cultural legacies. Yet a subverting bank corporate governance phenomenon is challenged by an intervening factor, *gaining legitimacy*, which alters and mitigates its unquestioned prevalence. The bank corporate governance actors' key strategy for managing the subverting bank corporate governance phenomenon is *undermining objectivity*. Finally, *covert conflicts of interest* explain the consequences of the subverting bank corporate governance phenomena in the Sri Lankan banking context. The developed substantive theory suggests that a subverting bank corporate governance regime could persist for the foreseeable future if it can continue to withstand the *evolving disruption* from opposing forces and is reinforced by the emergence of more substantive (rather than symbolic) *legitimacy*.

5. Discussion and links to formal theories

The empirical findings leading to the core phenomenon of *subverting bank corporate governance* and to the substantive theory can be analysed from path dependency and neo-patrimonialism perspectives. As discussed earlier, the initial policies adopted during the

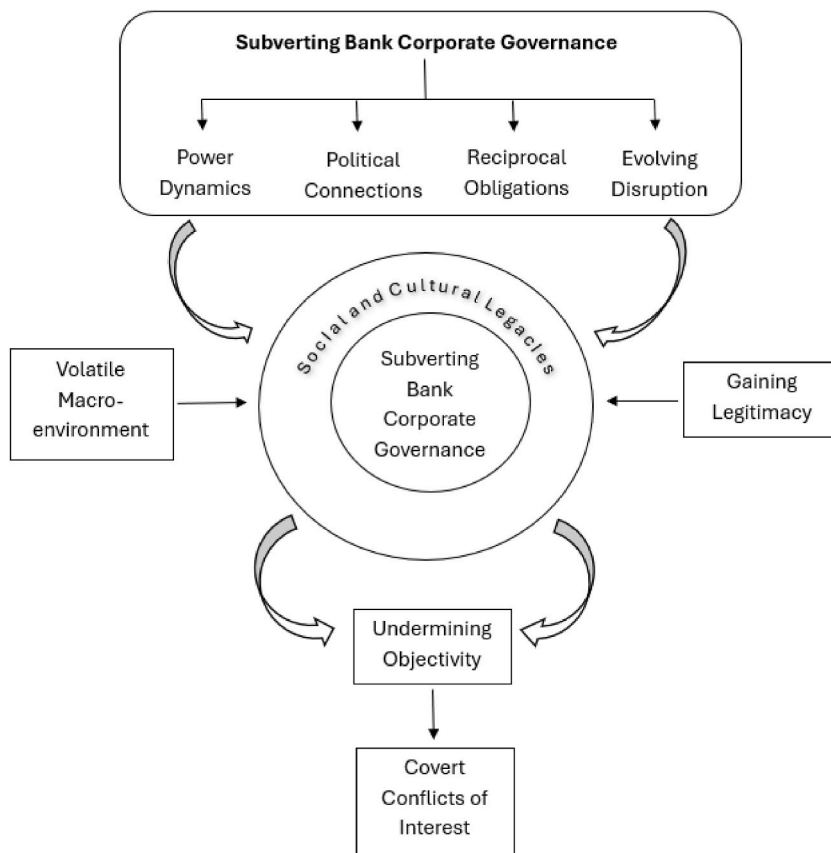


Fig. 2. Subverting bank corporate governance.
Source: The Authors' (2024)

colonial periods can be mainly traced to the establishment of branches of British banks and their focus on financing local elites and expatriate businesses that were supportive of the British regime. These institutions were established to empower local elites to extract resources in colonial periods (Beck et al., 2003). Local elites were themselves affiliated to the traditional caste-based and land-owning communities, and there was therefore little interest from them and the colonial administration to provide banking services to the wider local population. Bank ownership and control were closely concentrated, reflecting a preference for centralised management, crony capitalism and staff recruitment based on personal recommendations. Banking was largely thus seen to be an exclusive and high-class business activity that was adequately managed by elite groups.

Hence, consistent with the path dependency perspective (Bebchuk & Roe, 1999; Wong, 2008), these governance routines from this period did not materially change after independence, even when state-owned banks became more prominent locally. Although politicised priorities took centre stage, notably in terms of funding public enterprises and clientelist projects, the reliance on closed networks, personal relationships, kinship and loyalties, and seeking connections to access finance remained (Mohamad-Yusof et al., 2018) after independence and in contemporary periods. The presence of these historical paths in the banking sector was abundantly highlighted by the participants through their references to legacies such as: the government being the biggest consumer in the country; state banks owning the highest share of the banking industry; loyalty being expected by senior management; employee unions playing a role in socialising new members into the already established values; members from elite families being appointed to top positions; banks being expected to perform non-profit-oriented social obligations; banks' formation being influenced by old norms and practices; and government being the controlling business partner.

Drawing on Subrahmanyam (2006), it seems there has been little in the way of significant reforms in the banking sector to genuinely support its development post-independence. Instead, we argue that the classification of ownership and managerial arrangements (what Subrahmanyam (2006, p. 84) refers to as "ruling continuities") in the banking sector could adequately serve – as was the case during British rule – the new political class and business elite. In such interrelated economic systems, capital markets, labour markets, regulations, and corporate norms are unlikely to co-evolve from this set of initial conditions (Clarke, 2016).

While such social and cultural legacies have been documented in prior corporate governance studies (e.g., Ahmed & Uddin, 2024; Nakpodia & Adegbite, 2018), we emphasise the path-dependent nature of these arrangements, in terms of being originally established to favour an undemocratic form of colonial rule and selected client–patron relationships, with the British colonisers being the ultimate beneficiary. Notwithstanding independence and the enactment of democratic principles, many of the colonial-era arrangements (e.g., land rights; officials leading civil service/administrations; individuals appointed to legislatures; policies to manage religious/ethnic pluralism) largely stayed in place. This reflected an inability and/or unwillingness of incoming political and economic elites to consider other options that could be detrimental to their status/position (Bebchuk & Roe, 1999; Campbell, 2004). This could also explain the concentrated ownership patterns of banking institutions and owners' monopolistic control, which were established and maintained in the early stages of the formation of the banking sector. Thus, when considering the aforementioned studies, this finding certainly illuminates the *historicity* behind the continued dominance of specific banking groups and elites.

However, the above does not imply that Sri Lankan banking sector practices have remained unchanged since colonial times. Faced with a new political and economic order, the sector experienced a range of legal, regulatory and business-led reforms, ostensibly to modernise its activities, respond to banking crises, and contribute to national economic and social objectives, while also being subject to international banking standards. Arguably, protecting and maintaining the legitimacy of a country's banking system is paramount and has profound implications for virtually all economic and financial activities, such as trade, export, investment and the stock markets. Therefore, visibly, and sometimes deeply, complying with formal rules and regulatory requirements in the banking sector is an essential condition that was often repeated by participants. Yet, at the same time, a political and economic elite seeks to continue deriving benefits for themselves and their supporters, mainly through the exercise of state power and, if/where necessary, overriding rules and regulations. It is this principal characteristic of a system that combines (and accommodates) the formal and informal arenas of social relations that are symptomatic of a regulated neo-patrimonial regime (Bach, 2012).

Our core category (*subverting bank corporate governance*) thus reveals how the formal practices of bank governance are selectively reinterpreted, partially implemented or altogether ignored to suit the interests of specific groups, and consists of the following key features. First, *power dynamics* address the discretionary exercise of state power (Bruhns, 2012) that is vested in its elected and administrative/regulatory officials, which then translates into directives to bank boards, directors and controlling shareholders. However, underneath this exercise of rational-legal power (Erdmann & Engel, 2007), the decision or determination is largely motivated by the need to satisfy private/political interests or serves to re-enact traditional structures. For example, the appointment of the board chairperson based on political or traditional/informal affiliations (e.g., caste, ethnicity, family), as documented in prior studies (e.g., Kimani et al., 2021; Uddin & Choudhury, 2008), illustrates Bruhns's (2012) point that client–patron relationships and other exercise of traditional power undermine the "legal-rational system and twists its logic, functions and output" (Bruhns, 2012, p. 11).

Second, *political connections* resonate with the neo-patrimonial lens given the centrality of relationships among state institutions, regulators, officials, board members, executives and leaders of political factions. Whether in the African or Asian contexts (Lassou et al., 2021; Sindzingre, 2012), where businesses are respectively dominated by, or control, administrative and political classes, *knowing who matters* and is able to intercede for them, is a crucial part of political entrepreneurship (Compagnon, 2012). Although Compagnon (2012) conceives of political entrepreneurship from the viewpoint of a powerful political leader, our findings suggest that many board members and executives in the banking sector display political entrepreneurship skills. Notably, they seek power through connections with informal factional support (e.g., family/kin relations) and rely on such connections to offer material and symbolic resources (e.g., awarding of jobs and titles). When considering prior literature (e.g., Hopper, 2017; Kimani et al., 2021; Lassou et al., 2021), the notion of political entrepreneurship is either implicit or attributed only to politicians in general.

Third, *reciprocal obligations* represent key motivations underlying a neo-patrimonial regime, namely the exchange of symbolic

(positions) and material resources (bribes; awards of public contracts; political donations; loans) between different elites, classes and groupings operating in political, societal and economic circles (Bach, 2012; Khan, 2005). These different networks represent the substantive stakeholders in Sri Lanka, and the role of a subverted bank corporate governance regime is to foster the interests of these stakeholders. For instance, from our findings, reciprocity is at the heart of the politicians' practice of directing bank boards to write off loans in the agricultural sector to reward customers for their vote, at the expense of the company's financial position and shareholders' interests. In return, the bank would expect to receive contracts or benefits from the state. Bach (2012) aptly points out that such a system, born out of social and historical legacies, places much emphasis on marshalling resources to "alleviate the imprint of social, ethno-regional and religious identities while promoting loyalty and intra-elite cohesion" (2012, p. 29), fostering co-optation and mutual accommodation. Therefore, as several participants narrated, there is limited incentive to challenge such arrangements given the uncertainty of operating in an impersonal neoliberal market-driven environment (Sindzingre, 2012). Instead, most directors, executives and other governance professionals (e.g., auditors) have the ambition of joining (and remaining within) the network of reciprocal obligations to secure their share of benefits.

Fourth, however, various authors (Erdmann & Engel, 2007; Khan, 2005; Sindzingre, 2012) have provided examples about the impermanent nature of the neo-patrimonial regime in various countries, hence linking to the notion of *evolving disruption*. At one level, the financial conditions that sustain the reciprocity of obligations may deteriorate, thereby putting pressure on the client-patron networks and potentially calling into question the legitimacy of the current leadership. At another level, our findings reveal the resistance by an alliance of executives and employees in facing down board decisions that are deemed to be neo-patrimonial minded, by relying, for instance, on legal-rational interpretations of the governance code. This suggests that the balance between the informal traditional imperatives and exercise of formal legal-rational principles is often tested and, arguably, is reflective of the hybrid nature of neo-patrimonial arrangements (Erdmann & Engel, 2007).

Fifth, and compared to prior studies (e.g., Kimani et al., 2021), there has been less consideration of the implications of neo-patrimonial governance. Our findings reveal the core category of *undermining objectivity* as a strategy that directors and executives adopt in response to a subverting bank corporate governance regime - notably in terms of being passive and rubber-stamping decisions. While various authors do note this lack of participation and an apparent disinterest in board deliberations (Uddin & Choudhury, 2008; Areneke et al., 2022), our study points to these being the result of a neo-patrimonial exercise of governance.

Finally, our findings assert that the outcome of the subverting bank corporate governance phenomenon is the privileging of covert conflicts of interest between different parties, albeit that the conflicts have less to do with addressing competing (principal-agent) interests and more about maintaining the status-quo and an opaque form of governance. This resonates with Ahmed and Uddin's (2024) findings about conflicts in family boards.

6. Conclusion, contributions and future research

In response to our first research question, the notion of subverting bank corporate governance captures how formal corporate governance arrangements continually interplay within formal social relations pertaining to the Sri Lankan banking context. The substantive theory brings together the elements of this subversion, namely: power dynamics exercised through the state, political connections linking the different groups and factions, the reciprocal obligations these relationships entail to secure factional support and an undercurrent of frail opposition from some stakeholders (evolving disruption). The enabling wider ecosystem brings together *social and cultural legacies* that imprint the social, ethno-regional and religious identities and historical ownership/power structures; the *volatile macro-environment* facing the Sri Lankan economy; and the *gaining of legitimacy* from adopting international pronouncements. Such a system leads to a situation where board objectivity is undermined while enabling the management of *covert conflicts of interest*. This situation would persist for the foreseeable future if it can address the occasional *evolving disruptions*.

Considering our second research question, we draw on the formal theories of path dependency and neo-patrimonialism to further conceptualise a notion of corporate governance that does not largely conform with the formal principles of accountability and transparency. Rather than emphasise the failure to adopt such principles, we reveal how a corporate governance system operates, that is, involving the protection of certain interests and embedding informal political, social and historical relations. A path-dependent and neo-patrimonial regime is heavily dependent on the continuous award of favours and allocation of symbolic/material resources to the different factions, while managing dissent.

Our contributions are fourfold. First, empirically, our findings highlight the peculiarities of bank governance and contribute to debates about the inappropriateness of mainstream corporate governance practices (Fernandes et al., 2018; John et al., 2016; Uddin et al., 2017) in this sector. In our case, controlling shareholders, led or backed by politicians, and the state itself, as a shareholder, appear to steer most of the banking sector's efforts towards supporting client-patron relationships, financing state spending/deficits and fostering other party-political objectives (e.g., loans amnesty). Boards (including some executives) appear largely powerless (if not willing) collaborators, while regulatory bodies, fearful of state power, seem to be primarily concerned with projecting an image of compliance to international agencies. This calls into question John et al.'s (2016) three-pronged bank corporate governance model (equity, debt and societal governance) in that the conflation of these institutions and the primacy of informal relations do not enable the espoused formal relations (and its consequences) to emerge. We also respond to calls from Zattoni et al. (2020) to identify processes and structures that produce such outcomes. To this extent, our paper reveals how companies are truly "directed and controlled" (Cadbury Report, 1992, p. 15) - but in a largely (subverted) way.

Second, theoretically, path dependency serves to better understand the links to the past in reflecting how particular economic, political and social arrangements and policies developed during colonial (and sometimes precolonial) times have persisted despite the changing circumstances since independence. Similar to Lassou et al.'s (2021) view, many former colonies may experience visible

changes in the political order (i.e., a move to democratic rule). However, other central aspects remain private but unequitable ownership of business and property; personalised rule of public administrations; and satisfying ethnic, racial, religious and/or family relations). The stickiness of such arrangements, and the severe risks for politicians and business elites alike should they unravel (e.g., in response to formal rules and corporate governance requirements), are such that existing inequalities and social, cultural and ethnic divisions are privileged. This therefore contributes to the persistence of “undemocratic institutional arrangements” (Subrahmanyam, 2006, pp. 86–87) at the expense of genuine progress and change in corporate ownership and control in developing countries.

Third, we draw upon ideas from the regulated neo-patrimonialism perspective (Bach, 2012) to outline what we interpret as the development of a contemporary hybrid form of governance that combines these informal arrangements of the past together with the need to display an affiliation to a formal legal-rational set of arrangements of the present. Based on our reading of neo-patrimonial authors and experiences in Africa, Asia and beyond (e.g., Bach & Gazibo, 2012; Compagnon, 2012; Sindzingre, 2012), our framework identifies the common elements of a neo-patrimonial regime and its incarnation in bank corporate governance. Notably, more could be made of the role of the *political entrepreneur* in future corporate governance research.

As a fourth contribution, this study used Strauss and Corbin’s (1997) version of grounded theory in uncovering an under-explored corporate governance phenomenon in a distinctive social, political and historical context. This study has developed a substantive theory by employing the core tenets of grounded theory methodology such as coding, theoretical sampling, constant comparison, theoretical saturation and integration (Corbin & Strauss, 2015; Cullen & Brennan, 2021) along with the use of the paradigm model. Few studies have used grounded theory in uncovering the black box of corporate governance (Zattoni et al., 2020). As an evolving, complex and multilevel phenomenon, corporate governance requires an inquiry that can explore, describe and compare its real occurrences with due sensitivity to the context in which they are embedded (Armitage et al., 2017; McNulty et al., 2013). We would encourage further grounded theory studies in developing country contexts and notably in regions/sectoral settings that have not (visibly) adopted mainstream prescriptions.

In terms of practical implications, we offer a nuanced picture for policymakers and practitioners as they design strategies to support the country out of the current economic crisis. A key implication of our paper lies in questioning the worth of mainstream governance models, in terms of how they seek to bring independent challenge, mitigate conflicts of interests and enable genuine/inclusive deliberation in the context of developing countries. Rather than seeking to replace or modernise neo-patrimonial forms of corporate governance, more opportunities should be given to excluded constituencies, and we should outline how consensus-driven, purpose-led objectives could be devised to benefit all groups. We neither expect national models, historical paths and legacies to be swept aside nor see mainstream governance prescriptions being resisted or ritualistically adopted. We should instead be asking how selected principles of governance (traditional and contemporary) could be implemented to foster an amicable and hybrid form of neo-patrimonial governance.

Future studies could consider a broader scope of corporate governance with diverse participants representing different industries. The findings also offer a promising line of future research on the factors and actors behind *evolving disruption* and how it could be sustained and become path transformative. Finally, we acknowledge the limitations of this study, most importantly that, while it is based on the views of the participants involved, we by no means seek generalisation but rather transferability in similar contexts. Hence, we encourage other researchers to engage with different research designs and settings. Similarly, only six interviews were recorded due to participants’ preference as explained in section 3 of this paper.

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Appendix A. Supplementary data

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.bar.2025.101780>.

Data availability

Data will be made available on request.

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