Impact of Board Practices of Corporate Governance on Corporate Risk of the Companies Listed in Colombo Stock Exchange

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In reaction to recent financial crisis and corporate failures at the beginning of the millennium, the business community has shifted their attention towards internal control and risk management issues. Recent past, Sri Lanka has also experienced a number of corporate failures. Such failures were results of imprudent related party transactions and investments; weak risk management systems and unethical business practices. Cost of failure of a single corporate has a fatal effect over the economy as a whole than in the past. Good governance ensure that all directors and senior executives have a shared understanding of risk, which effect on uncertainty of an entity in achieving its strategic objectives and maintaining its long-term viability. Management is responsible for developing and implementing a sound system of risk management and internal control. As a result, discussion on the impact of corporate governance practices on risk has reached an unprecedented level for academics and practitioners. Therefore, the objective of this study is to investigate the impact of board practices of corporate governance on corporate risk of listed companies in Colombo Stock Exchange in Sri Lanka. Study was based on secondary data. 64 listed companies were selected during the period of 2012 to 2016. The Board structure, Board Independence and Board procedures were considered as independent variables, whereas, corporate risk as dependent variable. Corporate risk was represented the financial risk, operating risk and market risk faced by the listed companies. A regression model was used to establish the negative relationship between board practices and corporate risk. The overall results and findings statistically confirmed that the board independence was significantly and negatively impact over the corporate risk. The board structure and board procedures have no significant impact on corporate risk. Therefore, study infers that higher the representation of non-executive and independent directors of the board is contributed to reduce the corporate risk. The greater representation of non-executive directors improves the controls and strategic functions of the board through close monitoring and taking effective decisions. In this context this study recommended to strengthen the effectiveness of corporate boards and their committees by increasing the number of independent non-executive directors to reduce excessive risk-taking by the company.

Keywords: Corporate governance, Corporate risk