Corporate Governance and Corporate Risk Management: Evidence from Sri Lanka

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In response to the recent financial crisis and corporate failures at the beginning of the millennium, business community has shifted their attention towards internal control and risk management issues. In the recent past, Sri Lanka has also experienced several corporate failures. Such failures were the results of imprudent related party transactions and investments; weak risk management systems and unethical business practices. Many research studies have been carried out in the areas of corporate governance and financial performance related to financial structure in both local and global context. Most of them had been carried out to assess only the impact on performance focusing less on how governance practices are helpful in improving the risk management of firms. Therefore, this study aims to investigate the impact of corporate governance on the corporate risk of listed companies in Colombo Stock Exchange in Sri Lanka. A regression model was used to establish a negative relationship between the governance variables and the corporate risk. The findings of the study revealed that board independence has a significant negative impact on corporate risk. The board structure and board procedures was found to have no significant impact on corporate risk. Therefore, the study infers that the greater representation of non-executive directors of the board contributed to reducing the corporate risk by improving the controls and strategic functions of the board through close monitoring and taking effective decisions.

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