



THE RELATIONSHIP BETWEEN SELECTED CORPORATE GOVERNANCE MECHANISMS AND LEVEL OF FIRM RISK WITH THE MODERATING IMPACT OF THE LEVEL OF CORPORATE SOCIAL RESPONSIBILITY IN SRI LANKAN LISTED COMPANIES

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Abstract

The main aim of this research is to investigate the relationship between selected board characteristics and the level of firm risk with the moderating impact of the level of corporate social responsibility in Sri Lankan listed companies during the period 2016 to 2019. Based on extant literature, ten vital board characteristics, i.e., the board size, non-executive independent directors, duality, board meetings, audit meetings, audit committee size, presence of a nomination committee, presence of a remuneration committee, diversity, and total skill base of the board were considered; and for firm risk, alternative measures of the standard deviation of monthly stock returns *and* the idiosyncratic risk - firm-specific risk - *beta* were utilized. Further, three control variables, i.e., growth, leverage, and return on assets (ROA) of firms *and* corporate social responsibility (CSR) index as the moderator, were used. This study first assessed the level of chosen board-related corporate governance mechanisms and level of firm risk; and then examined how these selected characteristics impacted such firms' risk level. Finally, the study examined the moderating effect of corporate social responsibility on the relationship between corporate governance mechanisms in terms of board characteristics and firms' risk level. In terms of findings, it was noted that the majority of the listed companies had adhered to the baseline requirements of best practices of corporate governance; and the risk measures indicated lower levels compared to countries such as the United Kingdom and the United States of America. In terms of relationships, the board size indicated a negative relationship (under correlation analysis) with firms' risk level, while the existence of audit meetings, CEO-Chair duality, and total skills base of the board of directors showed an unexpected positive association (under correlation and OLS multivariate regression analyses) with firms' risk level, indicating an increased level of firms' risk. However, it was noted that other selected board characteristics did not impact to the level of firms' risk level. Finally, the findings indicated no moderation (i.e., interaction) effect of corporate social responsibility (CSR) on the relationship between selected board characteristics and firms' risk level. These findings are anticipated to have substantial policy implications.

Keywords: Board Characteristics, Colombo Stock Exchange, Corporate Social Responsibility (CSR), Firm's Risk