INSTITUTIONAL OWNERSHIP, GROWTH OPPORTUNITY AND CORPORATE RISK TAKING: EVIDENCE FROM MALAYSIA PUBLIC LISTED FIRMS

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ABSTRACT

This study investigates the effects of institutional ownership and growth opportunity on corporate risk taking. The relationships are examines using a sample of 522 non-financial firms from Bursa Malaysia with a 15 years timespan covering from the year 2000 until 2014. There is limited attention in the literature in regards to corporate risk taking. Volatility of corporate earnings is used to proxy for corporate risk taking. The main independent variables are institutional ownership and growth opportunity, while firm age, firm size, tangibility, leverage and profitability are included control variables. This study reports robust evidence that institutional ownership is negatively associated to corporate risk taking. This findings indicates that institutional shareholders that act as a monitoring mechanism have the capabilities to monitor and control the managerial activities to safeguard and to mitigate the excessive risk taking behaviour. However, the evidence on growth opportunity is not consistently significant, suggesting the need to further explore this relationship. Moreover, this study finds that firm age, firm size, leverage, tangibility and profitability are associated to corporate risk taking.

Keywords: institutional ownership, growth opportunity, risk taking

ABSTRAK

Kajian ini mengkaji kesan pemilikan institusi dan peluang pertumbuhan aktiviti pengambilan risiko korporat. Hubungan adalah meneliti menggunakan sampel 522 syarikat bukan kewangan daripada Bursa Malaysia dengan 15 tahun kitar masa meliputi dari tahun 2000 sehingga 2014. Terdapat perhatian terhad dalam kesusasteraan dalam hal pengambilan risiko korporat. Turun naik pendapatan korporat digunakan untuk proksi untuk pengambilan risiko korporat. Pembolehubah bebas utama ialah pemilikan institusi dan peluang pertumbuhan, manakala umur firma, saiz firma, aset ketara, hutang dan keuntungan termasuk pembolehubah kawalan. Kajian ini melaporkan bukti kukuh bahawa pemilikan institusi negatif yang dikaitkan dengan pengambilan risiko korporat. Dapatan ini menunjukkan bahawa pemegang saham institusi yang bertindak sebagai mekanisme pemantauan mempunyai keupayaan untuk memantau dan mengawal aktiviti-aktiviti pengurusan untuk melindungi dan mengurangkan risiko yang berlebihan mengambil tingkah laku. Walau bagaimanapun, bukti peluang pertumbuhan tidak konsisten ketara, menunjukkan keperluan untuk meneroka hubungan ini. Selain itu, kajian ini mendapati bahawa umur firma, saiz firma, hutang, aset ketara dan keuntungan adalah berkaitan dengan pengambilan risiko korporat.

Kata kunci: pemilikan institusi, peluang pertumbuhan, pengambilan risiko

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CHAPTER 1
INTRODUCTION

1.1 Background of the Study

Corporate risk taking could boost economic growth but risk taking is uncertain. It varies for every firm depending on the firm specific factor such as firm size, growth opportunity, leverage, profitability and industry specific factors such as diversity of business lines. Various individual decisions making with different motivations results in different risk taking preferences and beliefs (Santos, 2013). The differences in risk preferences are of certain empirical interest in corporate finance as different risk preference would have different effect on the capital structure and investment decisions of firms.

Risk taking is argued to be an important source of competitive advantages (Rumelt, 1974; Porter, 1980). Firms have to take higher risk to innovate and create economic value in competitive and complex global economy. For example, firms require technological change to drive the growth to improve the level of total output that would result in increasing firms' profitability. It is argued that high growth firms have potential in increasing future growth opportunity. The growth opportunities may arise from valuable resources or attractive locations (Barney, 1991; Lado, Boyd, and Wright, 1992; Wright, Ferris, Hiller and Kroll, 1995; Wright, Kroll and Parnell, 1996). Firms with higher growth opportunity have the incentives to take riskier investment projects that would increase the firms' value (John, Litov and Yeung, 2008). Prior studies also suggest that corporate structures may affect risk taking behaviour in firms' growth opportunities, but the absence of growth opportunities might not be associated to risk taking.

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