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**FACTORS CONTRIBUTING TO PERFORMANCE AND
RISK-TAKING OF THE MALAYSIAN LISTED
COMPANIES**



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MALAYSIAN LISTED COMPANIES**



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ABSTRACT

The main objective of this thesis is to examine factors influencing risk-return of 531 non-financial Malaysian listed companies representing 4779 company-year observations from 2004 to 2012. Dynamic and static panel regressions are utilized to examine the impact of standard deviation (STD) and below-mean semi-deviation (BMSD) together with other determinants on performance. Similar methods are used to investigate the impact of performance and other determinants on risk-taking behavior represented by STD and BMSD. Dynamic models reveal a significant positive (negative) influence of lagged (contemporaneous) corporate risk-taking on accounting-based performance. An inverse relationship of contemporaneous corporate risk-taking ($RISK_{i,t}$) and performance ($PERF_{i,t}$) supports Bowman's paradox where risk preference among managers is not static but varies according to company's situation. Financial slack and leverage are also found to be important determinants of performance supporting the implication stated in the behavioural and agency cost theories respectively. Static models show a significant positive relationship of $RISK_{i,t}$ on market-based performance which highlights the disappearance of a negative contemporaneous risk-return relationship once market-based data is applied. A negative impact of leverage on performance supports the pecking order theory which maintains that well-performed company employs less amount of leverage. Dynamic models also report a significant positive (negative) effect of prior ROE on the STD (BMSD) of ROE supporting the implication stated in the house-money (framing) effect. Contemporaneous accounting performance, size, aspiration and leverage are also found to be influential determinants of risk-taking. Static models show a significant positive influence of $PERF_{i,t}$ on $RISK_{i,t}$, which appear to challenge the Bowman's paradox. Meanwhile, the positive impact of aspiration and leverage on $RISK_{i,t}$, supports threat-rigidity hypothesis and agency theory respectively. Generally, this study finds that investors are psychologically biased in making investment decision and that BMSD is more appropriate in measuring risks because the Malaysians are more concerned about downside losses.

Keywords: risk-return, downside risk, system-generalized method of moments, dynamic panel estimation, static panel estimation

ABSTRAK

Objektif utama tesis ini adalah untuk mengkaji faktor-faktor yang mempengaruhi risiko-pulangan bagi 531 syarikat bukan-kewangan Malaysia yang tersenarai menggunakan 4779 cerapan tahun-syarikat sepanjang tempoh 2004 hingga 2012. Kaedah regresi panel dinamik dan statik digunakan untuk mengkaji kesan sisihan piawai (STD) dan sisihan-separa di bawah-min (BMSD) serta beberapa penentu lain terhadap prestasi. Kaedah sama turut digunakan untuk meneliti kesan prestasi dan beberapa penentu lain terhadap gelagat pengambilan risiko yang juga diwakili oleh STD dan BMSD. Model dinamik mendedahkan pengambilan risiko korporat terlat (semasa) memberi pengaruh positif (negatif) signifikan kepada prestasi berasaskan perakaunan. Hubungan songsang antara pengambilan risiko korporat ($RISK_{i,t}$) dengan prestasi ($PERF_{i,t}$) semasa menyokong paradoks Bowman yang menyata keutamaan risiko dalam kalangan pengurus adalah tidak statik tetapi berubah mengikut kedudukan syarikat. *Financial slack* dan leveraj kewangan juga didapati menjadi penentu penting bagi prestasi yang mana masing-masing menyokong implikasi yang dinyatakan dalam teori tingkah-laku dan teori kos agensi. Model statik menunjukkan wujudnya hubungan positif yang signifikan antara $RISK_{i,t}$ dengan prestasi berasaskan pasaran, yang mana sekaligus menidakkan hubungan negatif risiko-pulangan semasa apabila data berasaskan pasaran digunakan. Kesan negatif leveraj terhadap prestasi menyokong teori *pecking order* yang menegaskan bahawa syarikat berprestasi baik menggunakan tahap leveraj yang rendah. Model dinamik juga melaporkan kesan positif (negatif) pra-ROE yang signifikan ke atas STD (BMSD), dan ini menyokong implikasi yang dinyatakan dalam *house-money (framing) effect*. Prestasi perakaunan semasa, saiz, aspirasi dan leveraj juga didapati menjadi penentu yang berpengaruh ke atas pengambilan risiko. Model statik menunjukkan pengaruh positif $PERF_{i,t}$ yang signifikan terhadap $RISK_{i,t}$ yang seolah-olah mencabar premis paradoks Bowman. Sementara itu, kesan positif aspirasi dan leveraj ke atas $RISK_{i,t}$, masing-masing menyokong hipotesis *threat-rigidity* dan teori agensi. Secara umumnya, kajian ini mendapati bahawa para pelabur adalah bias secara psikologi dalam membuat keputusan pelaburan dan BMSD adalah lebih sesuai sebagai ukuran risiko kerana pelabur Malaysia lebih bimbang kepada kerugian *downside*.

Kata kunci: risiko-pulangan, risiko *downside*, sistem-kaedah momen umum, penganggaran panel dinamik, penganggaran panel statik

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TABLE OF CONTENTS

| | Page |
|--|---------------|
| TITLE PAGE..... | i |
| CERTIFICATION OF THESIS WORK..... | ii |
| PERMISSION TO USE..... | iv |
| ABSTRACT..... | v |
| ABSTRAK..... | vi |
| ACKNOWLEDGEMENTS..... | vii |
| TABLE OF CONTENTS..... | viii |
| LIST OF TABLES..... | xi |
| LIST OF FIGURES..... | xii |
| LIST OF ABBREVIATIONS..... | xiii |
| CHAPTER ONE: INTRODUCTION..... | 1 |
| 1.0 Introduction..... | 1 |
| 1.1 Background of the Research..... | 3 |
| 1.2 Problem Statement..... | 13 |
| 1.3 Research Questions..... | 17 |
| 1.4 Research Objectives..... | 17 |
| 1.5 Significance of the Study..... | 18 |
| 1.6 Organisation of the Thesis..... | 20 |
| CHAPTER TWO: LITERATURE REVIEW..... | 22 |
| 2.0 Introduction..... | 22 |
| 2.1 Underlying Theories..... | 22 |
| 2.1.1 Behavioural Models of Decision Making..... | 23 |
| 2.1.1.1 Behavioural Theory of the Firm..... | 24 |
| 2.1.1.2 Prospect Theory..... | 26 |
| 2.1.1.3 Other Relevant Behavioural Theories of Decision Making..... | 30 |
| 2.1.2 The Standard Agency Theory and Other Related Models..... | 31 |
| 2.1.3 Other Relevant Conception to the Study..... | 38 |
| 2.1.3.1 Size Effect..... | 38 |
| 2.1.3.2 Fisher's Effect..... | 42 |
| 2.2 Empirical Evidence Concerning Corporate Risk-taking Behaviour in Relation to Performance..... | 43 |
| 2.3 Market-Based and Accounting-Based Performance Measures..... | 51 |
| 2.4 Empirical Evidence Relating to the Standard Risk Measure..... | 53 |
| 2.5 Empirical Evidence Relating to the Downside Risk Measures..... | 54 |
| 2.6 Empirical Evidence Relating to the Influence of Firm-Specific Characteristics on Corporate Performance and Risk- Taking Behaviour..... | 57 |
| 2.6.1 Company Size..... | 57 |

| | |
|--|------------|
| 2.6.2 Company Age..... | 60 |
| 2.6.3 Aspiration Level..... | 62 |
| 2.6.4 Financial Slack..... | 65 |
| 2.6.5 Leverage..... | 67 |
| 2.7 Empirical Evidence Concerning the Influence of Macroeconomic Variables on Equity Markets..... | 71 |
| 2.8 Chapter Summary..... | 79 |
| CHAPTER THREE: RESEARCH METHODOLOGY..... | 88 |
| 3.0 Introduction..... | 88 |
| 3.1 Data..... | 88 |
| 3.1.1 Data Sources..... | 88 |
| 3.1.2 Sample Selection..... | 89 |
| 3.2 Research Framework..... | 90 |
| 3.2.1 Dependent Variables..... | 93 |
| 3.2.1.1 Corporate Performance..... | 93 |
| 3.2.1.2 Corporate Risk..... | 94 |
| 3.2.2 Dependent Variable and Hypotheses Development..... | 96 |
| 3.2.3 Independent Variable Measures and Hypotheses Development..... | 99 |
| 3.2.3.1 Company Size..... | 99 |
| 3.2.3.2 Age of the Company..... | 106 |
| 3.2.3.3 Aspirations Level..... | 107 |
| 3.2.3.4 Financial Slack..... | 108 |
| 3.2.3.5 Leverage..... | 109 |
| 3.2.3.6 Inflation Rate..... | 110 |
| 3.2.3.7 Money Supply..... | 111 |
| 3.2.3.8 GDP Growth..... | 112 |
| 3.2.4 Control Variable..... | 113 |
| 3.3 Research Design..... | 113 |
| 3.3.1 Data Structure..... | 113 |
| 3.3.2 Basic Model Specification and Statistical Method..... | 114 |
| 3.3.3 Model to Answer Objective One and Objective Two..... | 124 |
| 3.3.4 Model to Answer Objective Three and Objective Four..... | 125 |
| 3.4 Chapter Summary..... | 126 |
| CHAPTER FOUR: ANALYSIS OF RESULTS AND DISCUSSIONS | 128 |
| 4.0 Introduction..... | 128 |
| 4.1 Descriptive Statistic of Variables..... | 128 |
| 4.2 Multicollinearity Test between Independent Variables..... | 134 |
| 4.3 Regression Results and Interpretation..... | 135 |
| 4.3.1 Results of Diagnostic Test..... | 138 |
| 4.3.2 Discussion on the First and Second Research Objectives... | 145 |
| 4.3.2.1 Discussion of Results for Hypotheses H1a and H2a..... | 146 |
| 4.3.2.2 Discussion of Results for the Remaining Hypotheses Designed for Model 1 and Model 2.. | 153 |
| 4.3.3 Discussion on the Third and Fourth Research Objectives.. | 164 |
| 4.3.3.1 Discussion of Results for Hypotheses H1b and | |

| | |
|---|------------|
| H2b..... | 165 |
| 4.3.3.2 Discussion of Results for the Remaining Hypotheses Designed for Model 3 and Model 4.. | 172 |
| 4.4 Chapter Summary..... | 181 |
| CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS | 184 |
| 5.0 Introduction..... | 184 |
| 5.1 Overview of the Study..... | 184 |
| 5.2 Summary of Findings..... | 185 |
| 5.2.1 Summary of Findings for Research Objectives One and Two based on Dynamic Panel Regressions..... | 186 |
| 5.2.2 Summary of Findings for Research Objectives One and Two based on Static Panel Regressions..... | 188 |
| 5.2.3 Summary of Findings for Research Objectives Three and Four based on Dynamic Panel Regressions..... | 189 |
| 5.2.4 Summary of Findings for Research Objectives Three and Four based on Static Panel Regressions..... | 192 |
| 5.3 Implications of Findings..... | 193 |
| 5.4 Limitations of the Study and Suggestions for Future Research..... | 196 |
| REFERENCES..... | 198 |
| APPENDICES..... | 266 |



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LIST OF TABLES

| Table | | Page |
|------------|---|------|
| Table 2.1 | Risk and Return Relationship: Studies by Financial Economics Researchers..... | 81 |
| Table 2.2 | Risk and Return Relationship: Studies by Industrial Organisation Economics and Strategic Management Researchers..... | 83 |
| Table 2.3 | Previous Studies on Causal Interaction between Risk and Return..... | 84 |
| Table 2.4 | Related Empirical Evidence on the Standard Deviation Risk Measures..... | 85 |
| Table 2.5 | Related Empirical Evidence on the Downside Risk Measures | 86 |
| Table 3.1 | Previous Studies on the Impact of Risk-taking Behaviour and Other Factors on Performance and Related Theories..... | 100 |
| Table 3.2 | Previous Studies on the Impact of Performance and Other Factors on Risk-taking Behaviour and Related Theories..... | 103 |
| Table 3.3 | Definitions, Measurements and References for All Variables | 117 |
| Table 4.1 | Descriptive Statistics of Continuous Variables over the Period 2004-2012..... | 130 |
| Table 4.2 | Pearson Correlation Tests between Independent Variables of Study in Model 1a and Model 2a..... | 136 |
| Table 4.3 | Variance Inflation Factor (VIF) for Multicollinearity Assumption of Model 1a and Model 2a..... | 137 |
| Table 4.4 | Diagnostic Test for Model 1-Model 4..... | 139 |
| Table 4.5 | Dynamic Model: The Impact of Corporate Risk-Taking (measured by STD and BMSD) and Other Determining Factors on Performance based on Two-Step S-GMM with Time Dummies and p Lags of Dependent Variable..... | 148 |
| Table 4.6 | Static Model: Contemporaneous Impact of Corporate Risk-Taking (measured by STD and BMSD) and Other Determining Factors on Performance..... | 154 |
| Table 4.7 | Hypotheses Testing Results based on the Final Model 1 and Model 2..... | 155 |
| Table 4.8 | Dynamic Model: The Impact of Corporate Performance and Other Determining Factors on Corporate Risk-Taking (Represented by STD and BMSD) based on Two-Step S-GMM with Time Dummies and p Lags of Dependent Variable..... | 167 |
| Table 4.9 | Static Model: Contemporaneous Impact of Corporate performance and Other Determining Factors on Corporate Risk-Taking (measured by STD and BMSD)..... | 168 |
| Table 4.10 | Hypotheses Testing Results based on the Final Model 3 and Model 4..... | 182 |

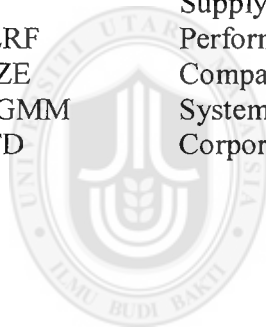
LIST OF FIGURES

| Figure | | Page |
|------------|--------------------------|------|
| Figure 3.1 | Research Framework | 91 |



LIST OF ABBREVIATIONS/NOTATIONS/GLOSSARY OF TERMS

| Terms | Definition |
|---------|---|
| AGE | Company Age |
| ASP | Aspiration |
| BMSD | Below-Mean Semi-Deviation |
| FSlack | Financial Slack |
| GDPg | Nominal Gross Domestic Product growth |
| GMM | Generalized Method of Moments |
| INDBMSD | Average risks of all companies in the same industry as the sample company (measured by using below-mean semi-deviation) |
| INDPERF | Average performance of all companies in the same industry as the sampled company |
| INDSTD | Average risks of all companies in the same industry as the sample company (measured by using standard deviation) |
| INFLR | Annual Inflation Rate |
| LEV | Leverage |
| M2g | Money Supply Growth: A broader definition of Annual Money Supply |
| PERF | Performance of company i |
| SIZE | Company Size |
| S-GMM | System-Generalized Method of Moments |
| STD | Corporate risk as measured by standard deviation |



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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Determinants of organisational risk-taking and their impacts on the performance of corporations are critical issues in financial economics (Fletcher, 2000; Hodoshima, Garza-Gomez & Kunimura, 2000; Blitz & Van Vliet, 2007; Huang & Hueng, 2008; Campbell, Polk & Vuolteenaho, 2010; Rossi & Timmerman, 2012) and strategic management fields (McNamara & Bromiley, 1999; Shimizu, 2007; Andersen, Denrell & Bettis, 2007; Henkel, 2009; Chou, Chou & Ko, 2009; Li, Yang & Zhang, 2014). In the wake of a series of high profile corporate scandals, such as Arthur Anderson, Enron, World Com and Tyco, organisational decision makers are forced to recognise the source of risk in a wider context. One of the critical issues is how an organisation as a complex entity acquires accurate as well as comprehensive information and uses it to identify, perceive and manage risk. Having clear information about sources of risk allows an organisation to find the best way to manage the risk. Implementing effective risk management is not only limited to identifying, analysing and mitigating risk. Organisational decision makers should communicate and share risk-related information with shareholders as well as other stakeholders. This effort will promote a better market transparency. Making related information available in the market will induce markets' efficiency. Ultimately, this communication process will enhance shareholders' wealth.

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