Corporate Risk Management, Firms' Characteristics and Shareholders' Value Creation

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ABSTRACT

The current paper takes account of the existing status of risk management programs of Indian publicly listed companies, and establish the relationship of their risk management program with the firms' financial characteristics such as capital structure, assets' size, asset tangibility, profitability, and valuation multiples. To establish the relationship, a risk management score is constructed using publicly disclosed information for BSE SENSEX 30 companies. The sample was then split into two groups according to their risk management scores, putting those companies with at least 75 percent of the maximum score in to group A and those with lower score in Group B. Results suggests that companies with more extensive risk management programs tended to have lower average cost of debt, and have more intangible assets. These companies with more extensive risk management activities also show lower volatility of cash flow, sales and EBIT. It is also evident that companies with higher debt ratios place a higher value on risk management than companies with lower debt ratios.

Key Words: Corporate Risk Management, Hedging, Volatility, Value-at-risk, Shareholder's Value Creation.

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