

## Corporate governance and managerial risk taking: Theory and evidence



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Better investor protection could lead corporations to undertake riskier but value-enhancing investments. For example, better investor protection mitigates the taking of private benefits leading to excess risk-avoidance. Further, in better investor protection environments, stakeholders like creditors, labor groups, and the government are less effective in reducing corporate risk-taking for their self-interest. However, arguments can also be made for a negative relationship between investor protection and risk-taking. Using a cross-country panel and a U.S.-only sample, we find that corporate risk-taking and firm growth rates are positively related to the quality of investor protection.

