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Pushing a balloon: does corporate risk disclosure matter for investment efficiency?

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Abstract

Purpose – This study aims to examine the effect of corporate risk disclosure on investment efficiency. This study also seeks to contribute to existing literature of corporate risk disclosure by investigating voluntary and mandatory risk disclosure and its effect on the investment efficiency.

Design/methodology/approach – This study used two measures of corporate risk disclosure, level and quantity of corporate risk disclosure. A content analysis approach is adopted for non-financial Malaysian firms over the period 2010–2018.

Findings – The empirical results show that level of corporate risk disclosure leads toward efficient investment, whereas quantity of corporate risk disclosure causes inefficient investment when firms disclose more voluntary risks. Further, categorizing corporate risk disclosure into mandatory and voluntary risk disclosure, this study finds that voluntary risk disclosure tends to have higher investment inefficiency, while no evidence was found for mandatory risk disclosure.

Originality/value – This paper contributes to narrow stream of research investigating corporate risk disclosure through level and quantity contributing to the understanding of the level and quantity of risk disclosure in determining organizational investment efficiency.

Keywords Corporate risk disclosure, Overinvestment, Underinvestment, Investment efficiency, Malaysian firms, content analysis

Paper type Research paper

1. Introduction

Corporate information disclosure plays a critical role in the decision-making of investors and stakeholders. Conflicts exist between management and capital providers due to information asymmetry and agency problems. If managers provide detailed information about risk factors, this will help investors to better access the firm risk profile for investment

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