

Operational Responses to Extreme Uncertainty: International Evidence on Corporate Risk-Taking

Md Ismail Haidar

PhD Candidate in Business Administration
University of Texas Rio Grande Valley
1201 W. University Dr.
Edinburg, TX 78539-2999, USA
mdismail.haidar01@utrgv.edu

Md Showaib Rahman Sarker, PhD

Assistant Professor of Finance
Department of Finance and Business Law
University of Wisconsin-Whitewater
800 W Main Street
Whitewater, WI 53190, USA
sarkerm@uww.edu

Bakhtear Talukdar, PhD

Associate Professor of Finance
Department of Finance and Business Law
University of Wisconsin-Whitewater
800 W Main Street
Whitewater, WI 53190, USA
talukdam@uww.edu

Abstract

This study examines how an extreme event such as COVID-19 induced uncertainty affects corporate risk-taking behavior. Using a comprehensive dataset comprising 181,173 firm-quarter observations and 25,940 distinct firms across 71 countries from January 2020 to June 2022, we find that corporate risk-taking *increases* as COVID-19 uncertainty *rises*. Further evidence reveals that the effect is stronger for firms with better internal and external governance mechanisms, while the effect is weaker for firms with financial constraints. Our results are robust to using the Oster test, propensity score matching, entropy balancing and other robustness checks. Our research suggests an economic consequence of extreme uncertainty not examined by prior literature.

Keywords

COVID-19 uncertainty; COVID-19 Stringency policy; risk-taking; governance; financial constraint