DOI: 10.24191/ijsms.v8i2.24186

CFO Attributes and Corporate Risk Management: Evidence from Top 100 Firms in Malaysia

Azra Tilai[1*], Josephine Yau Tan Hwang[2], and Audrey Liwan[3]

[1]Faculty of Business and Management, Universiti Teknologi MARA, 94300 Kota Samarahan, Sarawak, Malaysia.
[2,3] Faculty of Economics and Business, University Malaysia Sarawak, 94300 Kota Samarahan, Sarawak, Malaysia

[1]azratilai@uitm.edu.my; [2]thjosephine@unimas.my; [3]laudrey@unimas.my

**Corresponding Author*

Received: 6 June 2023
Accepted: 20 August 2023
Published: 30 September 2023

ABSTRACT

The research aims to investigate the relationship between Chief Financial Officer (CFO) attributes and corporate risk management of the Top 100 Firms in Malaysia. A sample of 8 years from 2012 to 2019 with 704 observations excluding financial firms is used. Corporate risk management is measured by two proxies: hedging decisions and the usage of financial derivatives. The independent variables are CFO attributes (age, gender, education level, professional qualification, tenure, and nationality). This study is controlled with leverage, firm size, profitability, cost of financial distress, and capital expenditure. Panel logistic regression is conducted to analyse the relationship between the CFO attributes and hedging decisions. Based on the main findings, CFO age, gender, education level, and nationality significantly impact corporate risk management. In contrast, CFO professional qualification and tenure do not impact corporate risk management in this study. This research makes a *valuable contribution to policymakers by enhancing their understanding of risk management regulations. The study provides crucial insights for Malaysian firms, helping them make informed decisions regarding capital raising, investments, and risk management. Moreover, the findings empower CFOs with valuable knowledge about the relevance of their attributes in effectively managing corporate risk through hedging activities.*

Keywords: *Chief Financial Officer; Corporate Risk Management; Hedging Decision; Financial Derivatives*

INTRODUCTION

Sophisticated economic conditions have led to a massive range of risks organisations face that lead to significant impacts. As a result, corporate risk management has increased significantly over the last decade. The economic crisis and uncertainty's negative effects require companies worldwide to manage risk effectively. Consequently, corporate risk management is an important part of the business strategy. It is introduced as a risk reduction and mitigation approach to the lowest risk level for the organisation's survival (Ramlee & Ahmad, 2020).

It is assumed that using derivatives efficiently can decrease the degree of risk, raise the rate of return, and thus increase the company's financial stability (Rao, 2012). The role of corporate risk management is generally seen as the methods and practices by which managers define the types and levels of risk exposure faced by their companies. Thus, it equips the companies with the appropriate tools to better identify and deal with potential risks. It is believed that the practices of risk management can assist the firm in value creation, reduce the risk of going bankrupt (Servaes et al., 2009), increase the ability to identify, manage, and mitigate risks (Fraser & Simkins, 2016) and good governance practices (Kaen, 2005). These benefits attract firms to use derivatives as a tool to mitigate their firms' risks.

The Chief Financial Officer (CFO) 's role in risk management has rapidly expanded recently. ACCA Global (2012) survey revealed that 72% of financial executives had adopted organisational risk management