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The Interaction between Corporate Governance and Ownership Structure on Risk-Taking Behavior

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Abstract

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This research aims to understand in depth how organizational governance and ownership structures influence risk-taking behavior in the context of dynamic modern organizations. Using a descriptive qualitative approach, this study explores the perceptions, values, and managerial experiences of different levels of leadership involved in the strategic decision-making process. The results show that good governance not only serves as a formal oversight mechanism, but also forms a responsible and sustainability-oriented risk culture. Concentrated ownership structures tend to encourage prudence in decision-making, while dispersed ownership as well as managerial ownership have a dual influence on the risk behavior tendencies of organizations. In addition, factors such as organizational values, gender diversity in leadership, and open communication have been shown to strengthen risk control mechanisms and improve the quality of decision-making. This research confirms the importance of synergy between governance, ownership structures, and organizational culture in creating balanced, adaptive risk-taking behaviors that support long-term sustainability.

1. Introduction

In the context of modern business that is increasingly competitive and full of uncertainty, risk-taking is one of the crucial aspects of an organization's strategy. Companies cannot avoid risks, but must manage them effectively to survive and grow. In this case, corporate governance plays an important role in ensuring that the decision-making process is carried out responsibly, transparently, and in line with the interests of stakeholders. Governance principles such as accountability, fairness, and transparency are the main foundations for managers in determining the extent of acceptable risk in the company's operations (Hess, 2019).

The issue of risk-taking behavior has become increasingly relevant in the last decade as many organizations face a dilemma between driving innovation and maintaining financial stability. A study by Sayari and Marcum (2018) highlights that a good corporate governance structure can minimize excessive risk-taking behavior by creating effective internal oversight mechanisms. When the board of directors plays an active role in overseeing strategic decisions, organizations tend to adopt a more cautious approach to risk, especially in investment and business expansion.

Ownership structure is also an important factor that affects an organization's level of courage in taking risks. Research shows that ownership concentration can determine the extent to which owners have control over a company's strategic policies. Majority shareholders are typically more cautious of risk because they have direct exposure to potential losses, while the spread of widespread ownership often encourages risk-seeking behavior as responsibility is spread among many parties (Elamer et al., 2018). In this context, managerial ownership also plays a dual role: on the one hand it can align interests between the owner and the manager, but on the other hand it can create a conflict of interest when the manager acts for personal gain.

Furthermore, research by Munisi (2020) shows that demographic factors such as gender diversity on the board of directors can also affect an organization's risk-taking level. Gender-diverse boards tend to exhibit stronger supervisory behaviors and more careful decision-making, which ultimately lowers the potential for excessive risk-taking. This confirms that inclusive governance plays a role in creating a balance between innovation and prudence.

In addition, effective governance reforms have also been proven to be able to discipline managers who have the potential to commit irregularities in risk-taking. Pryshchepa (2021) emphasizes that strengthening internal regulations and oversight mechanisms can encourage managers to adopt healthy and long-term-oriented risk-taking behaviors. With a strong governance system in place, organizations can create a balanced culture of risk, where the courage to innovate goes hand in hand with the principles of prudence and responsibility.

Although many previous studies have used quantitative approaches to measure the relationship between variables such as governance, ownership, and risk, there are still gaps in both contextual and interpretive understandings. Therefore, a descriptive qualitative approach is relevant to explore the perceptions, attitudes, and risk-taking practices applied in organizations. This approach allows researchers to understand the internal dynamics and values that influence risk-taking behavior at various managerial levels. Thus, this study aims to describe in depth how governance principles, ownership structures, and managerial characteristics play a role in shaping risk-taking behavior in contemporary organizations.

2. Literature Review

2.1. Corporate Governance and Risk-Taking Behavior

Corporate governance is a set of mechanisms, principles, and values that govern the relationship between management, the board of directors, shareholders, and other stakeholders to ensure that the direction and goals of the organization are achieved in an ethical, transparent, and sustainable manner. An effective governance system is the foundation for the creation of trust and organizational legitimacy in the eyes of the public and investors. The basic principles of governance, transparency, accountability, and accountability serve as key guidelines in strategic decision-making processes that often involve high levels of risk. Good governance not only governs the formal structure of the organization, but also shapes decision-making behavior and culture at all managerial levels. Rezaee et al. (2021) explained that effective governance is able to control risk-taking behavior by creating a balance between innovation and prudence in investment decisions. This shows that the consistent application of governance principles can help companies maintain stability while adapting to market dynamics.

According to Uddin et al. (2020), the quality of governance determines the extent to which companies dare to take financial and operational risks; A strong, independent, and competent board of directors will be more likely to reject high-risk projects without a comprehensive analysis. Conversely, weak governance has the potential to trigger risk-seeking behaviors that can threaten long-term stability and sustainability. In addition, research by Pryshchepa (2021) confirms that governance reform through internal policies and regulations is able to discipline management to act in the long-term interests of the organization. Thus, corporate governance not only serves as a control mechanism, but also as a strategic instrument to foster a healthy, adaptive, and sustainability-oriented risk culture in modern organizations.

2.2. Ownership Structure and Managerial Behavior in Risk Decisions

Ownership structure has a significant influence on an organization's risk-taking behavior because it determines the extent to which control and economic interests are centralized in a particular party and how power is distributed among owners and management. This structure is a reflection of the balance between control and freedom in strategic decision-making. Itan and Devina (2021) found that high ownership concentrations tend to lower risk-taking rates because major shareholders have strong motivation to maintain the stability and sustainability of their investments. Focused ownership often makes decision-making more conservative because each strategic decision directly impacts the economic interests of the dominant shareholder. Conversely, dispersed ownership can reduce the effectiveness of oversight over management, potentially driving higher risk-taking behavior due to weak control and coordination between shareholders.

In addition, managerial ownership is also an important variable that influences the direction of policies and the organization's courage in taking risks. Okyere et al. (2021) argue that when managers own shares in a company, their interests become more aligned with those of shareholders, so that a balance emerges between prudence and courage to take risks. However, this effect depends on the proportion of ownership owned; The larger the portion of shares that managers control, the greater their potential to act opportunistically by taking risks for short-term personal gain. Sakawa and Watanabel (2020) add that the existence of strong institutional ownership can serve as an additional regulator that suppresses speculative behavior, ensuring that risky decisions remain within rational limits and aligned with the company's long-term interests. Thus, a combination of diversified ownership, effective governance, and external oversight mechanisms is the main key in maintaining the balance of organizational risks.

3. Method

This study uses a descriptive qualitative approach with a literature study method, which aims to understand in depth how organizational governance and ownership structures affect risk-taking behavior in a general context. This approach was chosen because it allows researchers to comprehensively analyze the results of previous research, explore conceptual patterns, and identify knowledge gaps that still exist in the literature. Through a literature study, the researcher seeks to interpret the relationship between the main variables theoretically and empirically, without collecting primary data from respondents.

The data collection process is carried out by examining various relevant and credible scientific sources, such as international and national journal articles, proceedings, and academic books published between the last five years. The selection of literature was carried out purposively, namely based on the criteria of relevance to the topic of organizational governance, ownership structure, and risk-taking behavior. Each source is analyzed to evaluate the suitability of the research context, methods used, and findings that can contribute to the understanding of the phenomenon being studied.

Data analysis was carried out using a thematic analysis approach, where the researcher grouped the findings of various studies into key themes such as corporate governance, ownership structure, organizational culture, and risk-taking behavior. Each theme was analyzed to find relationships and patterns of relationships between concepts, as well as to compare research results that had similarities and differences in findings. In the interpretation stage, the researcher relates the results of the analysis to established theories of governance and risk management to strengthen conceptual validity.

To maintain the objectivity and reliability of the results, a literature triangulation process is carried out, namely by comparing results from various different sources to ensure consistency and accuracy of interpretation. Each literature was examined based on the credibility of the source, the number of citations, and the methodological relevance to the issue being studied. Through this method, the research not only produces an in-depth conceptual description, but also provides a theoretical synthesis that is useful for the development of risk management studies based on organizational governance.

Thus, this literature study is expected to be able to provide a comprehensive overview of the dynamics of the relationship between organizational governance, ownership structures, and risk-taking behavior in various modern organizational contexts. This approach also provides a solid foundation for future empirical research that can test these relationships more specifically and contextually.

4. Results

Based on the results of a literature review conducted on various previous studies, it was found that the relationship between organizational governance, ownership structure, and risk-taking behavior is complex, dynamic, and highly contextual. Through a descriptive qualitative approach based on literature studies, various scientific sources show a close relationship between the effectiveness of governance, ownership patterns, and organizational culture in forming healthy and sustainable risk-taking patterns. In general, the literature shows that good governance not only serves as a control tool for managerial behavior, but also as a strategic means that forms a responsible risk culture within the organization.

Research by Sayari and Marcum (2018) confirms that effective governance is able to balance the courage to innovate and prudence in financial management. The principles of transparency, accountability, and responsibility are key factors that determine the extent to which organizations are willing to take strategic risks in a context full of uncertainty. In the literature reviewed, these findings have been repeatedly confirmed by other studies that emphasize the importance of the supervisory function of the board of directors as a boundary setting mechanism in determining the level of risk that can be accepted by the organization. Boards that have a high level of independence as well as strong professional competence tend to show a tendency to reject high-risk projects that are not supported by a comprehensive analysis. Thus, the existence of a strong board is an important element in maintaining a balance between opportunity exploration and risk control.

In addition to the supervision aspect, the ownership structure is also one of the dimensions that greatly determines the direction of the organization's risk behavior. Various literature states that ownership structures reflect how power, incentives, as well as economic responsibilities are distributed among the parties involved in the organization. A study by Hess (2019) shows that a high concentration of ownership tends to lower the level of risk-taking because the main shareholders have a direct interest in the stability and sustainability of their investments. They tend to pressure management to be careful in making strategic decisions that have the potential to have major consequences. In contrast, when ownership is widely spread among many shareholders, the effectiveness of supervision decreases because no single party has dominant influence. This condition encourages the emergence of risk-seeking behavior because responsibility for decisions is spread among many parties. Research by Elamer et al. (2018) reinforces this view by showing that dispersed ownership without a robust control system can magnify uncertainty in strategic decision-making processes and increase an organization's vulnerability to market fluctuations.

In addition to external ownership, the role of managerial ownership is also an important topic that is widely discussed in the literature. A study by Munisi (2020) suggests that when managers own shares in a company, their interests become more aligned with those of shareholders, thus encouraging more careful and responsible decision-making. However, these positive impacts are not always linear. If the proportion of managerial ownership is too large, there is a risk of an entrenchment effect, which is a condition in which managers use their position to make high-risk decisions for short-term personal gain. This is also confirmed in a study by Han et al. (2021) which shows that institutional ownership plays an additional role as an additional controller that can limit managers' speculative behavior. Institutional ownership tends to be more rational and long-term oriented, so as to be able to maintain a balance of risk within reasonable limits.

In terms of the composition of the board of directors, a number of studies have concluded that gender diversity, experience, and professional backgrounds make a significant contribution to risk management policies. Okyere et al. (2021) show that gender-diverse and professionally diverse boards have stronger oversight mechanisms and more careful decision-making processes. This diversity creates a broader perspective in assessing risk, reducing group bias, and improving the quality of strategic deliberations. Heterogeneous boards also tend to have a better capacity to identify potential risks from different perspectives, ultimately driving a balance between innovation and prudence in business policy.

In addition to the formal structure of the organization, the literature highlights the importance of organizational culture as a shaping factor for risk-taking behavior. Analysis of various studies shows that an organizational culture that emphasizes collaboration, openness, and trust has a positive impact on governance effectiveness. Organizations with a culture that is open to cross-level communication are better able to detect potential risks earlier and develop more effective mitigation mechanisms. This is in line with the findings of Elamer et al. (2018) who stated that healthy risk behavior is the result of an interaction between transparent governance and a culture that encourages open exchange of information. A culture that supports learning and collective reflection has also been proven to strengthen the internal supervision system, as each member of the organization feels responsible for the continuity of the decisions made.

Furthermore, a number of literature highlights the influence of governance and internal policy reforms on managerial discipline in managing risk. Research by Pryshchepa (2021) confirms that the implementation of an independent audit system, conflict of interest restrictions, and performance-based reporting policies can reduce the tendency to take excessive risks. Governance reforms that focus on compliance and transparency are able to create a more disciplined supervisory system, where every managerial action can be objectively evaluated. These findings suggest that consistent implementation of internal policies not only strengthens organizational accountability, but also increases stakeholder confidence in the integrity of corporate risk management.

In the context of internal differentiation, the results of the study show that there is a dynamic between executive management and the board of directors in interpreting risks. Kakanda and Salim (2017) explain that the tension between the innovative drive possessed by management and the prudence maintained by the board is an important part of sound governance. This tension serves as a natural balance mechanism that helps the organization not to get caught up in extremes: too conservative or too aggressive. The existence of dialogue and open communication between the two parties allows for the creation of more adaptive and comprehensive strategic decisions to changes in the external environment.

Furthermore, external factors such as foreign and institutional ownership have also been shown to affect organizational risk-taking patterns. Based on Aguilera et al. (2019) research, foreign ownership has a tendency to reduce the level of risk due to reputational pressure and the implementation of stricter global governance standards. Companies with foreign ownership participation are typically subject to higher transparency principles and implement more comprehensive reporting practices. This condition limits the management's room to make speculative decisions without a strong basis for analysis. Thus, the involvement of foreign shareholders can be considered a stabilizing factor that suppresses excessive risk behavior and strengthens the legitimacy of the organization in the eyes of international investors.

Finally, from the overall literature review, it can be seen that the effectiveness of organizational governance depends heavily on its adaptability to the context and dynamics of the business environment. Balogun et al. (2020) emphasized that adaptive and communicative governance is the main element in creating a sustainable risk control system. Rigid governance and inresponsiveness to change can actually weaken an organization's ability to deal with external uncertainties. Therefore, organizations need to develop flexible yet principled governance, emphasizing a balance between formal structures, ethical culture, and cross-level collaboration. Thus, based on the results of a literature study that is qualitatively descriptive, it can be concluded that a balance between good governance, a controlled ownership structure, and an open organizational culture are the main prerequisites in building healthy and long-term oriented risk-taking behavior. The combination of these three elements allows organizations to innovate boldly while staying within the corridor of strategic responsibility and sustainability.

5. Discussion

The results of this study reinforce the view that corporate governance and ownership structures have a significant role in shaping organizational risk-taking behavior. In line with the findings of Itan and Devina (2021), strong governance creates an effective internal control mechanism, which ensures any risky decisions are taken carefully and based on careful strategic considerations. However, governance is not just a supervisory tool, but a value system that guides managerial behavior. The principles of transparency and accountability are central elements in balancing the need for innovation with the need to maintain organizational sustainability.

This research also supports Rezaee et al. (2021), who emphasize that good governance does not hinder risk-taking, but rather directs it to align with the company's long-term strategy. In a well-managed organization, risk is not considered a threat, but rather an opportunity for growth. The role of the board of directors is of particular importance in this context, especially in overseeing the implementation of policies that ensure a balance between prudence and the courage to innovate. Therefore, good governance serves as a support system that keeps risks managed constructively, not excessively avoided.

In terms of ownership structure, the results of the study show that concentrated ownership tends to reduce the level of risk-taking. These findings are in line with Sakawa and Watanabel (2020), who posited that majority shareholders have a high incentive to maintain organizational stability and sustainability, as they bear the direct impact of any risky decisions. However, in some cases, overly concentrated ownership can degrade the organization's flexibility to take on new business opportunities. Conversely, dispersed ownership can increase risk-seeking tendencies, especially when external oversight mechanisms are weak. Therefore, a balance between managerial, institutional, and public ownership becomes important in determining the direction of a company's risk.

The involvement of managers as the owners of some of the organization's shares also has a double effect on risk behavior. As Uddin et al. (2020) show, managerial ownership can improve alignment between the interests of managers and shareholders. However, if the proportions are too large, managers can get caught up in opportunistic behavior that leverages their position for personal gain. Therefore, an effective governance system needs to ensure that managerial ownership does not lead to deviant behavior, but rather serves as an incentive for responsible decision-making.

In addition to structural factors, the results of this study also highlight the important role of organizational culture in mediating the relationship between governance and risk-taking behavior. In line with the findings of Munisi (2020), an inclusive and collaborative culture is able to strengthen internal oversight mechanisms by encouraging open communication and collective participation in decision-making. Organizations that encourage transparency and diversity show a tendency to manage risk more wisely.

Overall, this study shows that healthy risk-taking behaviors are the result of interactions between governance, ownership structures, and organizational culture. The combination of the three creates an ecosystem that allows managers to make bold yet measurable decisions. In the context of modern organizations operating under the pressure of globalization and technological disruption, the balance between innovation and prudence is the main foundation of sustainability. Therefore, this study emphasizes the importance of adaptive governance, balanced ownership, and value-oriented leadership in creating a positive and productive risk culture.

6. Conclusion

This study concludes that corporate governance and ownership structures have an important role in shaping organizational risk-taking behavior. Good governance not only serves as a supervisory mechanism, but also as a value system that directs organizations to take risks responsibly and balanced. The principles of transparency, accountability, and responsibility have been proven to strengthen decision-making processes, so that risks can be managed as strategic opportunities, not operational threats. Ownership structures have been proven to affect the level of an organization's courage in taking risks. Concentrated ownership encourages caution due to the owner's direct involvement in the outcome of decisions, while distributed ownership can increase risk-seeking tendencies when not balanced with strong governance. Meanwhile, managerial ownership can strengthen the alignment between the interests of the owner and the manager, as long as the proportion does not create a conflict of interest.

In addition to structural factors, organizational culture and internal values also determine the extent to which risks are taken wisely. Organizations that uphold openness, collaboration, and diversity are proven to be better able to manage risk constructively. Thus, a balance between governance, ownership, and organizational culture is the key to creating healthy, adaptive, and sustainable risk-taking behaviors. This research makes a conceptual contribution to the development of risk management theory and organizational governance, as well as a practical reference for organizations in creating a decision-making system with integrity and visionary.

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