Aalto University
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THE COMPANY OWNERSHIP EFFECT ON RISK-TAKING

How different ownership structures affect the risk-taking of a company

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Abstract

This thesis comprehensively covers the research made regarding the effects of ownership structure on company's risk taking profile, since it has been shown to be an important factor regarding the decision making and strategic policies of companies.

This paper will divide the ownership structure into two different segments to better understand the individual effects that different factors have regarding the risk taking of firms. And show how different studies measure the risk-taking of companies with different preferences.

The current research has not come to a conclusion on the effects of ownership structure and different studies have shown varying results. Because of this I want to explore the different findings and try to better understand the different underlying factors that play a part in the decision-making process of different groups and how they are affected by the change of their equity owned.

Keywords Ownership, Corporate risk-taking, Agency theory

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1 Motivation

The effect of ownership structure to firm's risk-taking profile has fascinated me since it encompasses the business side of how companies are owned, and also the more psychological side of why and what kind of different motivations do various owners have. At a glance it may seem as everyone would have the main motive of profit maximization, but in the real world the motives of different groups can vary hugely.

There have been many previous empirical studies made regarding the topic, but almost all of these focus on a specific geographical area or a specific industry, especially in the banking sector. This thesis aims to highlight the different characteristics which affect the risk-taking profile and how they effect it.

One of the motivations for this research is to also find out how the rise of index funds have and will affect the ownership structure and the impacts on the risk-taking of companies. Since Index funds are a growing part of the investment sector and their ownership percentage is growing every year.

1.1 Research objectives and research questions

The research question for this paper is, how does the ownership structure affect the risk-taking profile of a company.

In this thesis I want to find out what the academic world has researched of the topic and if the many geologically and industrially differing studies all lead to the same conclusions or is there difference between the characteristics in different parts of the world and industries and if so, what are the underlying factors affecting that.

1.2 Method and limitations

The thesis has been made as a literature review to find out what past research has found out about the subject. This review was made using Google Scholar and the search for articles was made using keywords such as ownership structure and risk-taking, ownership concentration and risk, family ownership and risk-taking, shareholder diversification, impact of ownership structure, corporate risk-taking, corporate governance and risk-taking, effects of ownership concentration.

The limitations for this study are mainly due to my own unconscious biases when searching for and picking out the research papers, in which this literature review is based on. Because this paper is conducted as a literature review, there is no own data which could have errors in it, but it should be noted that the papers used, although they have gone through peer review, can have inaccuracies.

1.3 Structure of the research

This thesis will first discuss how studies have explained the ownership structure and the different types of owners it contains. After that I will cover how previous research has calculated the difference between firms' risk-taking

In the literature review section, I will discuss one by one the different types of owners, what research has said about their risk-taking characteristics and underlying motivations which affect these characteristics.

Lastly, I will talk about the ownership concentration, what the research has said about its effects on risk-taking and also the different reasons which affect these reasons.

2 Background

2.1 Ownership structure

In this paper the ownership structure will be discussed in the context of stock companies, as the available data and consequently research mainly focus on it. If some comment or sentence specifically refers to other types of companies, it will be mentioned.

In literature, ownership structure is mainly divided into two categories. The names of these categories vary depending on the writer and the paper, but this has no impact since all of the different names try to capture the same idea. In this paper I will be using the names used in Iannotta et al. (2007), the ownership concentration and the nature of the ownership.

Ownership concentration refers to the number of outstanding shares owned by the largest shareholders. There is no one way to measure the concentration of the ownership. However, the assessment is mostly done by looking at the few largest owners and their percentage owned of the outstanding shares. Typically, its understood that a person owning over 3 percentage of a large company's shares is considered a block holder.

Claessens and Djankov (1999), Demsetz and Lehn (1985) and Demsetz and Villalonga (2001) all look at the five largest shareholders to determine the concentration of the ownership. In the U.S. law a shareholder is considered to being a insider if it has 10% or more of the voting rights. It is also important to point out that it is not necessary to have 50% of the voting rights of a company to have absolute authority, since most of the small investor do not use their voting rights at the annual meeting (La Porta et al., 1999).

The nature of the ownership refers to the types of individuals or firms owning the shares. Past studies have used many different ways of dividing the ownership nature, depending on the industry, geographical area, the precision in which the studies were conducted and the intent of the research. For example, Barry et al. (2011) and Gürsoy and Aydoğan (2002) both use a five category structures which greatly differ from each other.

A comprehensive list of different ownership types, with relevant and separate characteristics, can be drawn from the research papers. This list, which will be used as the basis for this paper, comprises of the following ownership natures: family, government, bank, manager, institutional and conglomerate ownership. I will also include passive index funds as a separate type which neither of these two papers covers. Since are and will become an even greater part of the financial market in the future and will uncover, what are the consequences for companies risk-taking.

I have excluded non-financial company ownership used by Barry et al. (2011), since their main motivations and interests are in their own core business, thus they act as a normal investor with profit maximization intents. I have also excluded the foreign ownership category introduced by Gürsoy and Aydoğan (2002), since it covers all the other types of ownerships and does not bring any meaningful insights to this paper.

2.2 Risk-taking

Risk-taking is a vital part of our economy since, "if properly managed, is a source of growth, innovation, and prosperity" (Ding et al., 2015). However, sometimes these risks can materialize and cause substantial harm to companies and the economy. Because of these factors, it's important to understand how much risk is involved in a specific company, so there needs to be ways to measure risk.

In research there are many different methods of measuring companies risk-taking with emphasis on different aspects of firm's activities. In this paper, we will be focusing on the most prevalent approaches I found in my research regarding the risk-taking.

Firstly, many papers use companies investments in new projects and R&D to measure their risk-taking, since large projects can involve substantial risks, but can also create new streams of profit for the company. Wright et al. (1996) Evaluated corporate risk taking as "The analysis and selection of projects that have varying uncertainties associated with their expected outcomes and corresponding cashflows". Li et al. (2013) and Yung and Chen (2018)both use R&D by calculating the average ratio of R&D expenditures over total assets. With the approach of looking at company R&D projects there is a substantial amount of opinion based decision making that could hamper and discredit the research if not done right. These projects have a low likelihood of success with significant uncertainty surrounding the costs and the time involved with an uncertain outcome.

Secondly, many papers use some sort of accounting or performance based calculation to try and express firm risk. Adams et al. (2005) evaluated risk by using the "absolute deviation of the firm's performance, relative to its value". While studying Chinese firms risk-taking Ding et al. (2015) used "the variation in corporate earnings (EBITDA) scaled by total assets." These types of methods are easier to interpret and can be easily compared with other firms. Laeven and Levine (2009) measured the risk of banks with an equation of "return on assets plus the capital asset ratio divided by the standard deviation of asset returns." and for confirming the results they also use the volatility of the equity returns, also used by Esty (1998) and Saunders et al. (1990). While studying managerial ability on risk-taking Yung and Chen (2018) used the standard deviation of ROA and ROE as well as the capital expenditures to total assets and acquisitions value to total assets to capture the risk-taking effects.

These different methods try to capture the same underlying aspect, how risky is the company and their policies, to try and compare the results with other firms and gain valuable insights into the company's risk profile.

2.3 Agency problem

The agency problem refers to the lack of transparency and conflicts of interest between different parties, which leads to misalignment of interests and consequently objectives between the different parties. Panda and Leepsa (2017) and other research have divided this problem into three separate types of agency problems: Type I between the owners and managers of a company, type II between the majority and minority shareholders and type III between owners and creditors. Since this paper covers the ownership structures of companies, we will be focusing on the first two types of agency problems as they explain and give us an insight into why different owners, especially managerial ownership, differs from other types.

Normal, small investors typically value company growth, value maximization and profits and only receive benefits from the company in the forms of firm and share value increase and dividends. On the other side, managers are more interested in securing their employment and benefits attached to it and are afraid of losing them. They receive most of their benefits in the forms of employment, salary and power and authority within the company. This creates a misalignment of goals and motives which agency theory tries to solve.

The two most prevalent ways ownership tries to mitigate the effects of agency problems are the independence of board members and management equity stakes.

The board's job is to monitor company management and to make sure their interests are in line with the ownership of the company and that no illicit or harmful policies or strategies are employed by the management to advance their own interests. They act as a narrator between the shareholders and the company management with the intent of helping all the shareholders. This, however, does not always happen, since large shareholders can place people on the board who are more inclined to their motives and not to the small investors' interests (Fama & Jensen, 1983).

Shareholders can also give management equity stakes of the company, so that they become owners and want to increase the company profits and growth to also benefit

themselves. This way the managements and shareholders interest more aligned (Fama & Jensen, 1983).

3 Literature review

The effects of ownership structure on a company's risk taking profile is a widely researched area which gives us a lot of papers with different results and explanations to draw conclusions from. I will firstly discuss the different natures of ownership, their incentives, and effects on the company risk-taking. After that I will go through the concentration of ownership and its effects.

3.1 Family ownership

Family ownership occurs when one or more family members own a meaningful portion of a company. This can occur due to the founding of the firm, large stock purchase or some other way, but in the end the family owns significant ownership and therefore power in the company.

Previous studies have shown conflicting results regarding the effects of family ownership on company risk-taking and have not yet given a clear and unambiguous answer to the underlying question. D'Este and Carabelli (2022) suggest that these findings can be associated with country specific investor protection, information, and large shareholder activism.

Firstly, many studies argue that family ownership reduces the risk of the company. Boubaker et al. (2016) found that in family-owned firms, located in France, are especially prone to decrease their risk-taking compared to other firms.
Gürsoy and Aydoğan (2002) Came to the conclusion, investigating Turkish Listed companies, that "Family-owned firms have lower risk". Also the findings of KIM (2021) suggests a negative correlation between family ownership and corporate risk-taking. When the ownership of a particular company increases, at a certain point, the desired amount of company risk decreases. There are also many other studies made with differing geographical or industrial context, regarding family ownership.

The above presented papers along with others also give reasonings and explanations for these findings. Anderson and Reeb (2003) and Barry et al. (2011) Suggest that large shareholders shy away from risk due to undiversified portfolios. This makes sense since other, smaller, investors can dilute their portfolios and thus decrease their risk. But with large family ownership in a single company this cannot be used efficiently. Barry et al. (2011) also found, studying banks, that “a higher involvement of either individuals/families or banking institutions implies a decrease in asset risk and default risk, which is not offset by lower profitability.”

Family owners can also have the desire to pass the holdings to the next generation as mentioned by Anderson et al. (2003) and Burkart et al. (2003). Family owners can view the company as a heritage or an achievement to pass on to the next generations to carry on with the firm. This decreases the need for value maximization and high risk-taking to assure the longevity of the firm, as it’s seen more as a trophy of the family’s success rather than a mere profit maker.

If family owners have a large ownership, they can influence the directors and board of the firm and even place family members in positions of power to align company and family goals, at the expense of other shareholders, which decreases the board’s ability to conduct corporate governance which creates agency problems (Morck et al., 2000).

Owners with large amounts of power can also choose, with the help of the board, family members or other people, they prefer to manage the company. This can lead to inadequate leadership, since the pool of which the candidates are chosen is smaller and emphasizes relationships over skill and leads to competitive disadvantages (Morck et al., 2000).

D'Este and Carabelli (2022) Points out that family ownership usually has a longer investment horizon compared to ordinary shareholders. This longevity means that families seek less risky investments in fear of default or large losses.

Boubaker et al. (2016) points out that, other types of private benefits deriving from the company can decrease the risk-taking of a company. Especially in countries with less

developed corporate laws and surveillance protecting the minority shareholders. Since there are then more legal loopholes to extract wealth from the company and not enough surveillance to stop the usage of illegal methods. The more non-monetary benefits family owners have, the less likely they are to desire increasing company risk, which would jeopardize their privileges.

If the board has a significant number of family members they can choose other members of the family to have important roles in the firm and also choose to have high salaries for those roles as mentioned by Barclay and Holderness (1989). The amount of private benefits large shareholders can extract from the company is directly linked to the level of investor protection of the country, the better the protection the less there is ways to accumulate private benefits (John et al., 2008). This would indicate that in countries where the investor protection is good, the average risk-taking should be higher, since large shareholders would also want to have better profits, due to the lack of ways they can extract private benefits from the company.

3.1.2 Positive relationship

On the other hand, Nguyen (2011) and Zahra (2005) have found the correlation between family ownership and risk-taking to be positive, indicating that family owners are not risk averse, but instead, seek out risk in the hopes of maximizing profits. Laeven and Levine (2009) show us that as the majority shareholders ownership increases, their risk-taking increases as well.

Zahra (2005) points out that one of the reasons for this is their willingness to seek out new investments “into new domestic and international markets in order to create new revenue streams that enrich family members”.
Study made by John et al. (2008) suggested that in countries with better corporate governance, the majority shareholders have harder time trying to reduce risk taking and to gather private benefits to themselves. This would suggest that in more developed countries the risk-taking should be higher since they usually have more sophisticated corporate governance laws.

Burkart et al. (2003) explains this by the alignment of goals. As an undiversified family owner your wealth maximation is in line with company value maximization. As a large owner with voting power and knowledge that the board and CEO will listen to your

opinion, so you can affect company risk-taking to being more aggressive and thus increase your profits.

As a large family-owner of a company, you also have power and motivation to monitor the management more closely and thus might want to increase the riskiness of the company for the hopes of better profits.

3.1.3 U-shaped relationship

Some studies have found the relationship between family ownership and risk-taking to being a U-shaped (Lee et al., 2018). This would suggest that the risk-taking of families also depends on their diversification and investment size to the specific company.

As the size of the ownership changes so does the motives and goals of the family owner. With smaller ownership and without large amounts of power, excluding the possible heritage and founder status which might bear some authority. These family owners can be largely viewed as normal small shareholders who want profit maximization and thus don't want to reduce the company risk compared to other small investors. But if the ownership of the company dramatically increases, they would most likely, in the light of previous studies, want to decrease the companies risk-taking.

3.2 Government ownership

Government ownership refers to companies in which shares are either fully or partially owned by government entities and have control over them. As the government is not a private person nor does it only want the maximization of profits, its risk-taking profile is quite different compared to an ordinary minority shareholder.

in many countries, the risk taking of government owned companies is high, for example, while studying Turkish listed firms, Gürsoy and Aydoğan (2002) found that government owned firms displayed higher risks, compared to other firms. This can, at least partially, be explained by the concept of soft budget constraint. This appears, when the concept of a firm using its own earnings to cover for its expenditures is not entirely relevant, as there is external payer for the surplus of expenses, such as the government (Kornai, 1986).

This means that management can take excessive amounts of risk, since they have the backing of the government and its treasury. This could be seen, for instance, during the 2008 banking crisis when governments funded large banks to avoid bankruptcy.

Government owned banks can be used as tools to gather financing to be used in socially beneficial projects that can include high risk (Clarke et al., 2005). Because the government has power regarding the bank's decisions, they can negotiate financing terms for highly risky projects, that have mostly social benefits and which normal profit seeking companies would not dare to do.

Government ownership can create agency problems since government investors are not investing their own money. Politicians often have conflicting interests with normal shareholders since their motives are mostly political, because the benefits of company ownership are not directly benefitting them (Iannotta et al., 2007).

In countries with corruption and weak legislation, the influence and leverage governmental ownership has, can be far greater due to the negative impact of not respecting governmental motivations and interests can have on the company. For example in China companies are listed into three political ranks with the first rank having easier access to more governmental support in the form of tax benefits and better access to bank loans (Ding et al., 2015). This consequently means that firms with better political rank are more likely to follow the governmental risk taking policy and are also enticed to take more risks thanks to the backing of the Chinese government.

Also national level regulation (Shleifer & Vishny, 1986) and different more universal motives affect the risk-taking willingness of governmental ownership (Iannotta et al., 2007), since government's sole purpose is not to generate profits, but rather handle, among other things, the welfare, economic growth and safety of people and property.

While studying United Arab Emirate companies' risk-taking Uddin (2016) found out that "The firm is conservative in risk taking if the government as an insider owner actively seeks to achieve its social and political objectives, whereas the firm liberally takes risk if the government gives priority to the economic objectives and provides active support to the firm." This would suggest, at least in the context of United Arab Emirates, that firms are not private entities whose only motivation is to seek out profits for the shareholders but are rather controlled by the government and seek to benefit the administration, its motives, and interests first and secondly the shareholders and their motives. This is of course very country specific as the laws and legislation differ from country to country.

Also, in the context of United Arab Emirates the research showed the correlation between governmental ownership and risk taking to U shaped, non linear pattern (Uddin, 2016). The same kind, found by other studies made regarding the effects of family ownership. This could suggest the ownership to being quite concentrated with undiversified portfolios in which case many of the same explanations, stated in the family ownership part of the text, can also apply to them.

A study regarding banks in Russia by Fungáčová and Solanko (2009) found out that state owned banks possess less risk, compared to other types of banks. This can be linked to the high level of corruption which helps in the gathering of private benefits. As the inflow of private benefits is not tightly linked to corporate profit, corrupt owners can reduce the risk level of company to secure the inflow of benefits without any major drawbacks.

3.3 Manager ownership

Manager ownership refers to the shareholdings of the company management. These are the people with insight into the company and its operations. Many times, the salary of a company manager is partially paid in shares of the company, which is because of the effects of the agency problem explained in the background section of this review. Manager ownership increases their risk-taking and aligns their motives with regular shareholders who want to increase growth and risk of the firm (Saunders et al., 1990).

Wright et al. (1996) states that "association between insider ownership and corporate risk-taking is positive when insiders hold low equity stakes but negative when they hold high equity claims." So, when managers are part of the small shareholders, their risk-taking can be seen as aggressive as other small investors who want value and profit maximization of the firm. But as managers' ownership increases, their values align more with family ownership and other large shareholders, who view the continuation of the company and the benefits it provides, for instance employment, power, and influence more important than just the profits the company creates in terms of dividends and firm value growth.

Managerial entrenchment refers to the variety of acts by which the management of a company tries to keep their employment and avoid the corporate governance and control mechanisms. Even in times when they are no longer qualified or competent at the position, with the intention of receiving the benefits and salary of the employment (Shleifer & Vishny, 1989). This entrenchment affects the company's risk-taking by reducing it, since the management values their employment and the private benefits it provides and thus, they want to keep the company away from too risky projects to secure them.

career concerns of company default and the fear of losing employment, by diversifying their firms portfolio to different sectors and industries (Hirshleifer & Thakor, 1992). By acquiring or building new businesses lines for different industries with no seeming synergies, they have better chances so that the bad global economy in one industry does not destroy the entire firm.

There are different ways to minimize the effects of management entrenchment and the consequent reduction of risk taking. Laeven and Levine (2009) found that managers with equity ownership have a tendency to take more risks compared to non-shareholding managers, this is also part of the agency problem and an explanation why managers so often own shareholdings of the companies they manage.

3.4 Passive fund ownership

Index funds and ETFs are types of diversified, cost-effective investments which follow a specific index, for example S&P 500 index which has the 500 largest U.S companies, adjusts according to the weights and changes in the group. Investors do not directly buy shares of the company, rather the investment is made to an asset management firm, which buys and holds the shares.

The passive investment market has grown vastly in last few decades. Bogle (2016) tells us that between the years of 2008 and 2015 investors sold approximately 800 billion dollar's worth of actively managed funds and in the same period bought around 1 trillion dollar's worth of passive funds. This has not stopped, and investors are still pouring money into these passive funds because of their small fees and steady growth, compared to actively managed funds which have higher managing fees with most of them losing to the index.

The ETF market is today mainly dominated by the Big three, BlackRock, Vanguard and State Street who together in 2020 owned 17 % of the U.S equity market, hold shares in 81 % of the U.S listed companies and of which they were the largest institutional investor in 40 % of the companies (Gibadullina, 2023). Fichtner et al. (2017) Mentions that in 2016 they managed "over 90 % of assets under management (AuM) in passive index funds."

When private minority investors invest into these ETF's, in the process they give away their voting power to the asset management company. This, of course, will decrease the amount of small share who can vote at the annual meeting and thus weakens their voice for opinions and decisions.

Davis (2008) tells us that in the early 21st century, these management companies would not actively use their voting power and would rather sell their shares of the company if dissatisfied. This means that as the block holder owner of the company is passive, other shareholders can more easily obtain legitimate voting power, because of the smaller portion of shares used for voting and typically small investors favor a more risk-taking strategy for a company.

The high concentration of funds also creates a dilemma for the big three and for other large asset management companies. Because they have significant ownership and voting power in different firms competing in the same industry, they do not greatly benefit from one company's success at the expense of others (Fichtner et al., 2017). This diminishes motivation for profit maximization, and the risks with it, that the investors who buy these passive funds want.

This increase of passive funds also means that the average investment horizon of investors with voting rights increases as these passive funds don't have any limit on how long they will hold the shares and as the active investors are increasingly using these index funds as trading commodities (Fichtner et al., 2017).

4 Ownership concentration

The effects of ownership concentration have been widely studied and there is strong evidence for its effects on company risk-taking, although these results are contradicting.

with evidence for both decrease and increase of risk-taking (Iannotta et al., 2007). As stated by Wright et al. (1996), "the structure of ownership may affect corporate risk-taking in the presence of growth opportunities but may not be significantly associated with risk-taking in the absence of growth opportunities." This makes sense, since when a company has no choices to make regarding new possible projects, they have no ability to change their risk-taking characteristics, and when there are many different projects with different levels of risk to decide from, companies can make these decisions and stand out from each other.

Larger shareholders with more voting power also have more incentives to shape the firms to their desire than smaller shareholders (Shleifer & Vishny, 1986). Because these large shareholders have invested more in the company, they want to make sure their investment is handled correctly, and they don't have many different firms to look after. Compared to small and diversified shareholders who would have to manage many separate companies with little to no meaningful power.

Laeven and Levine (2009) found that the concentration of ownership has a positive correlation with risk-taking. And also, while studying Japanese family owned firms, Nguyen (2011) found that concentrated ownership is positively correlated with company's risk-taking with same results deriving from study made in the Vietnamese listed firms (Tran & Le, 2020). It is argued that in countries with weak shareholder protection, the concentration of ownership can act as substitute for the protection and increase firm growth and thus the risk (Shleifer & Vishny, 1997). Also, as the protection of investors increase, the less there is fear of managerial expropriation and as a consequence less need for concentrated ownership (Burkart et al., 2003).

Furthermore, "in poorer investor protection locations firms have dominant owners who may control a pyramid of firms"(Morck et al., 2005). This means that the primary owner can direct lower-level units to assume additional risks and channel profits to upper level units, while lower level units bear the responsibility for potential losses. So, in countries with weak investor protection, ownership concentration can create additional risks to the lower-level firms of a conglomerate, to the benefit of the parent company and its owners.

While the ability to extract private benefits can increase the risk taking in a conglomerates, an owner with an undiversified portfolio and one large shareholding of a company is shown to increase their risk aversion (Faccio et al., 2011). This, as with family owners, is due to their desire to maintain the flow of private benefits and to

decrease the risk of default, since their investment horizon is probably longer than with minority shareholders.

The concentration of ownership has also been found to decrease the risk taking of firms, especially when the owners own portfolio is not diversified (Faccio et al., 2011). This has many of the same characteristics as mentioned in the family ownership section, since many undiversified large shareholders are family owners. So, they naturally share many of the same explanations and reasonings for the decrease in risk-taking.

In the European banking industry research made by García-Kuhnert et al. (2015) indicates that "banks with more diversified shareholders tend to undertake riskier decisions." This is specifically the same as we have pointed out previously, with more diversification, shareholders do not need to fear the downfall of their wealth due to a single company default.

Then there are some studies that have found the relationship between ownership concentration and risk-taking to being U-shaped (Gorton & Rosen, 1995), which can be explained also by the shift of motives and desires depending on the level of concentration. Laeven and Levine (2009) point out that the effects of governmental regulation on banks has different effects on their risk-taking, depending on the structure of their ownership.

The effects of manager entrenchment are also large factor regarding ownership concentration, since when the manager ownership increases, their motivations to stay at the firm increase. This is directly the same topic as discussed previously in the segments regarding family and managerial ownership and thus it has the same characteristics and motives underlying the decisions.

5 Discussion

The current research regarding ownership structure on company risk-taking has not come to a clear conclusion and the different studies and research regarding the subject are far apart from each other and in my opinion, there are few factors explaining why that is.

While the risk-taking profile is mostly discussed with the ownership structure in mind, I find the country specific laws and regulations and culture to being a big part

of the risk-taking profile. Since these laws and regulations create the legal boundaries in which owners can operate in. With strict laws and close tracking of them, reduces the opportunities owners have to extract private benefits out of companies, so they must resolve to the increase of risk and thus profit. The same applies to the corruption levels in different countries because the more corruption there is, the more there are possibilities to extract private benefits.

The role of psychology is also an explaining factor of company risk-taking as companies are organizations comprising of people with different values and motives and as shown these do not always align. Because some people naturally have higher risk tolerance and thus take more risks, which affects the firm's risk-taking profile.

It can be hard for one study to come up with a clear-cut reasoning and conclusion to how company risk-taking profile changes regarding the ownership structure. Because of the number of countries with different laws and firms with different goals, ownerships and all the different factors which all play a crucial role in the decision-making process of the management and the shareholders. In my view these studies all try to capture the effects on a small, closely squared of geographical area and industry in which they can work,

Also, a large factor for the risk-taking profile is the concentration or dilution of ownership, because many different natures of ownership have the same psychological tendencies, and motives which also change with different levels of equity. This makes sense as all these different natures are all led by humans.

Company risk-taking is also influenced by the portfolio diversification of their largest shareholders, especially in countries with poor investor protection. This is because large shareholders usually have a decreasing effect of risk taking and with poor investor protection, they can more easily demand the management to listen to them, for the loss of the small shareholders and their desire for more risk-taking.

The continuing increase of investments in passive funds will significantly affect the ownership structure of firms around the world. As voting power increasingly centralizes to a few large corporations who have large holdings in the largest companies in the same industry. Compared to small investors who value profit maximization, these large passive funds do not have the same motives as high risk-taking and thus better profits affect their other owned companies' profits negatively.

6 Conclusions

The findings regarding the effects of ownership structure on company risk-taking profile in different research papers has been divided with differing results and conclusions. With some studies finding the different natures of ownership to negatively affect risk-taking of companies' due to factors as management entrenchment and private benefits. At the same time other studies suggest that relationship is positive or U-shaped because of the owner's desire of profit maximization and changes in preferences depending on the diversification of the owner's portfolio, with all these different findings having reasonable explanations to back up the findings.

The theories of agency problems and soft budget constraint help us to understand the thinking and reasons why different owners act in different ways and what motivations and interests drive their decision making.

The effects of ownership concentration also play a crucial role in the decision making of individuals as their risk-taking changes depending on their ownership amount and risk preferences, with many different natures of ownership having same kind of preferences with same amount of equity ownership.

There is still room for future research to investigate the changes in risk taking ownership structure has on company risk-taking. Especially in the context of how passive funds affect risk-taking because the percentage of companies owned by these funds, and the three largest companies in the industry could have a changing impact on the strategies and risk-taking of companies.

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