# Capital Market Opening and Enterprise Risk Taking

Jianan Zeng [1], Yutong Yao [1, *]

[1]School of Tianjin University of Finance and Economics, Tianjin, China

*Corresponding author: yyt0188297@163.com

**Abstract:** The level of risk-taking can affect the investment choices and market value of enterprises. The opening of the capital market can improve the company's information environment, optimize the company's governance structure, and then play an important role in the level of risk-taking of enterprises. Therefore, from the perspective of financing constraints, in the context of "Shanghai-Hong Kong Stock Connect", this paper explores the impact of capital market opening on corporate risk-taking. Theoretical research has found that "Shanghai-Hong Kong Stock Connect" can help alleviate financing constraints and improve the risk-taking level of enterprises. Therefore, the implementation of a higher level of opening up of the capital market in the future will help listed companies take appropriate risks and promote the improvement of corporate value.

**Keywords:** Risk taking, Shanghai-Hong Kong Stock Connect, Capital market opening, Financing constraints

## 1. Introduction

On November 17, 2014,the pilot program of "Shanghai-Hong Kong Stock Connect" was officially launched, which has become another milestone in the process of opening up my country's capital market. The opening of the capital market to the outside world is an important symbol of the development of a country's capital market, an important driving force for the healthy development of the capital market and the reform of the financial system.Therefore, my country continues to promote the opening of the capital market. However, unlike western countries,my country's securities market is still immature, and there are many problems, such as the low level of investor protection and the immature financial system. Under this realistic background, whether China has the conditions to open up the capital market and give full play to its economic effects still needs further exploration and research.

Regarding the research on the economic impact brought about by the opening of the capital market, academia has accumulated a large amount of literature, and scholars have carried out analysis from the macro level and the micro level. The macro level mainly discusses the economic growth (Wang Jinhui, 2008; Gupta, 2009), investment growth (Levchenko et al, 2009), financial stability (Yang Zhuqing et al., 2013; Wang Weian et al., 2017), monetary policy (Sun Yongqiang et al., 2013) At the micro level, it mainly discusses the impact on enterprise investment efficiency (Liu Cheng et al., 2019), information environment (Guo Yangsheng et al., 2018), and financing constraints (Chen Xueshen et al., 2012). The opening of the capital market can have a positive impact on the level of corporate governance of enterprises, and risk-taking is an important issue in corporate governance, and there are few relevant literatures discussing the relationship between the opening of the capital market and corporate risk-taking.

In recent years, academic discussions on corporate risk taking have become more and more mature, focusing on construct definition (Su Kun, 2015), antecedent tracing (Wang Dong et al., 2016), and influence mechanism (Gu Haifeng et al., 2020). Among them, the research on antecedent traceability mainly discusses the nature of ownership in the internal characteristics of enterprises (Li Wengui et al., 2012), management characteristics (Zhang Sanbao et al., 2012; Yu Minggui, 2013) and other aspects, as well as the regional system in the external environment of enterprises (Zhang Sanbao et al., 2013). Sanbao et al., 2012), exchange supervision (Deng Yilu, 2020), and policy uncertainty (Luo Danglun et al., 2016; Liu Zhiyuan et al., 2017). Active risk-taking contributes to the enhancement of enterprise value, thereby promoting long-term economic growth (Cao Zhipeng, 2021), so it is of great significance to study how to improve the problem of insufficient enterprise risk-taking.

## 2. Literature Review

Exploring the economic impact of capital market opening systems such as "Shanghai-Hong Kong Stock Connect" is an important proposition in the academic world, but there are still many issues in the research from a macro perspective that have not reached a consensus. In the existing studies that believe that the opening of the capital market will bring positive effects, some scholars have proposed that an open capital market can have a positive impact on a country's GDP growth , and this effect is more developed in the financial system and market. Countries with better institutions can better reflect. On the other hand, some scholars believe that the opening of the capital market will have a negative impact on some countries. For countries with a medium level of financial development, the full opening of the capital account will reduce the security of the financial system; with the opening of the capital market, my country's base money supply and money multiplier are affected by foreign capital, and the money supply will increase. The volatility and uncertainty of monetary policy output effects have risen[1]. The reasons for the different conclusions of the above literature may include the selection of quantitative indicators of capital market opening, statistical methods, and different sample quality. At the micro level, Chinese enterprises have obvious external financing constraints, which are manifested in that corporate investment is highly dependent on internal cash flow. However, with the opening of the capital market, the quality of information disclosure of enterprises has been enhanced, foreign capital has flowed in, and corporate financing constraints have been effectively alleviated (Chen Xueshen et al.,2012). The implementation of the "Shanghai-Hong Kong Stock Connect" trading system can improve the company's information environment on the one hand, and optimize the company's governance structure on the other hand, reducing the company's tendency to violate regulations through these two channels [2]. The innovation level of enterprises is significantly improved through the optimization of the information environment and the improvement of corporate governance [3]. Further, the "Shanghai-Hong Kong Stock Connect" has promoted the company's investment efficiency[4], and at the same time optimized the company's audit quality[5]. However, capital market opening policies such as the “Shanghai-Hong Kong Stock Connect” will also increase speculation and increase the volatility risk in the capital market, which in turn affects the risk-taking level of enterprises. Therefore, it is of great significance to explore the influence of the exogenous variable of "Shanghai-Hong Kong Stock Connect" on the level of corporate risk-taking.

Risk taking reflects the choice of investment projects by enterprise management when making investment decisions [6]. A higher level of risk taking means that management is more inclined to abandon those projects with higher certainty and allocate funds to high-risk but high-risk projects. Moderate risk-taking can improve corporate performance and increase corporate value, but excessive risk-taking will bring vicious economic consequences to the company.In terms of internal characteristics, the state-owned nature has an inhibitory effect on the level of enterprise risk-taking, but it mainly occurs in small and medium-sized enterprises; the equity incentive system of enterprises can make the interests of management and shareholders tend to be consistent, alleviate the principal-agent problem of enterprises, and thus affect the level of risk taking [7]. In addition, the greater the CEO's management autonomy [8], or the overconfidence of enterprise managers[9], will lead to an increase in the level of enterprise risk taking. In terms of external characteristics, the risk-taking level of non-state-owned enterprises is significantly affected by economic policy uncertainty[10], and the replacement of local officials will also increase policy uncertainty and thus affect the level of enterprise risk-taking[11].The non-punitive regulatory actions of stock exchanges have improved the risk-taking level of enterprises by alleviating the principal-agent problem[12].Therefore, it is necessary to investigate the impact of capital market opening policies such as the "Shanghai-Hong Kong Stock Connect" trading system on the level of corporate risk-taking to explore the economic consequences of capital market opening.

## 3. Theoretical Basis

Compared with the previous system, the "Shanghai-Hong Kong Stock Connect" has fewer constraints on foreign investors investing in domestic enterprises, which promotes transaction facilitation, helps enterprises to finance funds, and can greatly ease the financing constraints of enterprises ( Xin Yingying et al., 2019), and financing constraints will affect the attitude of corporate management to risk. The further opening of the capital market has expanded the financing channels and the total amount of funds, providing a good financing environment for enterprises (Tao Xiaohui et al., 2021). On the other hand, an enterprise's risk-taking behavior requires a solid capital base. A stable and abundant capital flow can enhance the enterprise's ability to grasp investment opportunities, stimulate the enterprise's willingness to take risks (Zhang Fubao et al., 2020), and improve the enterprise's ability to carry out high-risk projects. The possibility of investment increases the risk-taking ability of the enterprise.

Foreign investors are more inclined to invest in safer and higher-value companies (Sun Zeyu et al., 2021), and the attention of foreign investors may lead to the following of other investors. Therefore, for the purpose of attracting capital injection from domestic and foreign investors (Yang Shenggang et al., 2020), the target companies of "Shanghai-Hong Kong Stock Connect" will actively provide more transparent earnings information (Fang et al., 2015), improve the quality of information disclosure, maintain Higher accounting conservatism. The improvement of the quality of corporate information disclosure can reduce the risk of corporate debt default (Yang Jie et al., 2020) and the prediction risk of investors, so that the degree of risk compensation required by investors is reduced, and the reduction of debt financing costs can effectively alleviate corporate financing pressure. Enterprises can have more abundant funds to invest in risky projects. Foreign institutional investors with rich investment experience can force the continuous improvement of the regulatory system (Chen Yue et al., 2017). At the same time, foreign investors have more professionalism and independence than domestic investors, and can detect and take advantage of errors in financial statements in a timely manner (Zhang Guangting, 2020), thereby limiting the opportunistic behavior of management (Zhao Dong, 2020), thereby Reduce debt agency costs between companies and investors, and reduce corporate financing costs. In addition, the target companies of the "Shanghai-Hong Kong Stock Connect" will attract more attention from analysts (Tang Jianxin, 2021). Information intermediaries can explore private information within the company at a lower cost. Analysts can use their professional knowledge to analyze useful information. Systematic analysis and provide analysis reports to market participants (Tang Jianxin et al., 2021). The increase of market attention represented by analysts can significantly reduce the degree of information asymmetry, ease the financing constraints faced by enterprises, and help improve the level of enterprise risk taking.

## 4. Conclusion

This paper provides micro-evidence for the research on the impact of capital market opening in my country from a new perspective on the impact of capital market opening on corporate risk-taking, and also provides certain policy implications:

(1)Steadily promote the gradual opening of the capital market.Foreign investors have a variety of information acquisition channels and professional investment capabilities. They represent the interests of small and medium shareholders to a certain extent, and can play a certain supervisory role in the company's governance and improve the company's information environment. Therefore, under the principle of gradual opening up, the opening level of the capital market can be further improved. Specifically, it is possible to expand the scope of the "Shanghai-Hong Kong Stock Connect" pilot companies and release institutional dividends to more listed companies.

(2)Strengthen the supervision of overseas capital and prevent financial market risks. The opening of the capital market will attracts overseas speculative capital. These capitals aim to obtain short-term benefits. Their rapid inflows and exits aggravate market volatility. Therefore, effective supervision of overseas capital is a necessary measure. Exchanges should communicate information, clarify penalties for non-performing capital, and establish a more complete market system while achieving capital exchange.

(3)For listed companies, with the gradual opening of the capital market, they should seek a more reasonable level of risk-taking. Enterprises are faced with great uncertainty at different stages of development. This uncertainty is even more pronounced for enterprises with limited funds. Too aggressive business strategies will bring extremely high risks to the enterprise. Therefore, enterprises should use a variety of financial tools to reasonably carry out non-productive investments and diversify risks according to their own risk-taking level; at the same time, they should make full use of the advanced management experience and technology of overseas capital to improve their ability to resist risks.

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