

"A man is
great by
deeds, not by
birth"
-Chanakya

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Working Paper

IIMK/WPS/688/FIN/2026/06

March 2026

**Mandated risk management committees and their effect on stock volatility and firm value:
Evidence from a quasi-natural experiment**

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Mandated risk management committees and their effect on stock volatility and firm value: Evidence from a quasi-natural experiment

Abstract:

This study investigates the establishment of risk management committees (RMCs) and their effect on stock return volatility and firm valuation. Utilizing India's 2013 regulation making RMCs mandatory, we conduct a quasi-natural experiment utilizing a Difference-in-Differences (DiD) approach. We find that the presence of an RMC lowers total risk, measured by stock return volatility. Decomposing total risk, we find that the reduction in risk is driven by the volatility attributable to idiosyncratic or firm-specific decisions. Furthermore, RMCs are found to decrease firm valuations, as measured by Tobin's Q. This result suggests that committees are proficient in lowering firm risk but in the process may at times overshoot their risk-management objective by eliminating high-risk but valuable projects. Our results remain consistent across various model specifications, including propensity score and entropy matching. The study is the first to investigate mandatory, non-bank, RMCs and highlights RMCs as effective in reducing risk-taking within corporations while also documenting a previously unexplored, and unintended, consequence of RMCs: risk-reduction at the expense of firm value.



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