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Economic Policy Uncertainty, Cooperate Strategy, and Corporate Risk Taking

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Abstract:

In this paper, the dynamic panel model is used to examine the impact of the uncertainty of economic policy on corporate risk-taking by using the "economic policy uncertainty index" developed by the Baker team and the 2005~2018 A listed companies in China as samples. It is found that the increase of uncertainty of economic policy reduces the level of corporate risk-taking, and the inhibitory effect on state-owned enterprises is more serious. Further research has found that the radical corporate strategy weakens the negative effect of economic policy uncertainty on corporate risk-taking. This paper not only deepens the research on the influencing factors of corporate risk-taking, but also expands the interaction research between macroeconomic policy and micro enterprise behavior.

Keywords*: Economic policy uncertainty, Corporate risk-taking, Business strategy.*

I. INTRODUCTION

Enterprise decision-making behavior is inextricably linked to macroeconomic forecasting, and the uncertainty of economic policies will have a direct impact on microbusiness behavior. The COVID-19 plague has swept the globe in recent years. The trade war between China and the United States is heating up as a result of the United States' frequent policy adjustments, China's profound economic reform, and other political events across the world. China's average indicator of economic policy uncertainty continues to rise among them (see Figure 1). It surpassed 700 in 2020 and 363.8 in 2017, more than three times the average uncertainty index during the financial crises of 2008 and 2009. China's economic policy uncertainty, in particular, has been persistently high during the last five years. Major events such as comprehensive deepening reform, supply-side structural reform, housing price control, the major judgment of the new economic normal, and the adoption of the five new development concepts have all heightened the external environment's uncertainty for businesses. At the same time, global economic connectivity allows risk occurrences in one location to cause major fluctuations in the economies of other countries, making the peripheral environment in which businesses operate more volatile and unpredictable. The external environment, according to Shin and Park, has a significant impact on enterprises' investment decisions [1]. As economic policy uncertainty grows, the corporate investment environment will shift dramatically, putting management's ability to accurately predict future investment returns in jeopardy. As a result, increased economic policy uncertainty has the potential to lead to poor decisions or even worse losses than bad decisions [2]. Current research on the economic repercussions of economic policy

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uncertainty, on the other hand, is primarily concentrated on the macro level, looking at how it impacts economic growth, inflation, import and export commerce, and so on, with little literature on how it influences micro company behavior.

In its investment selections, a firm's level of corporate risk taking represents a proactive selection of those investment possibilities that are hazardous but have a positive predicted net present value (NPV) [3]. Although excessive risk taking can lead to a company's failure, nearly no company can prosper without it [4]. Higher levels of risk taking can provide significant returns to society, encourage technical advancement, expedite capital accumulation, and maintain high levels of social productivity [5-6]. For the companies themselves, high-risk initiatives are chosen as a consequence of managers' proper identification and utilization of investment possibilities, which can greatly improve the efficiency of corporate capital allocation and boost market competitiveness. Low risk taking indicates that managers are failing to discover and capitalize on investment possibilities, resulting in lower capital expenditures, increased diversification of corporate operations, and lower business performance [7]. It also shows a decrease in R&D and innovation spending [8]. Most studies on the factors influencing corporate risk taking currently focus on firm-level factors such as leverage, size, property rights traits, and corporate governance characteristics, with macro-level effects playing a less role.

Exploring the influence of increasing economic policy uncertainty on managers' risk appetites, and hence business risk taking, is not only worthwhile, but also an important topic worthy of consideration in combined macro and micro studies. Many scholars have begun to conduct study in this area, and this work will contribute to that effort. Furthermore, due to a lack of scientific measures, past studies have been unable to investigate risk taking in the context of economic policy uncertainty. The EPU index has been well recognized since it was created in 2013 by Professors Baker and Bloom of Stanford University and Davis of the University of Chicago to quantify the degree of uncertainty of economic policy. Its validity has been proven by a vast number of empirical tests, providing a solid foundation for the research presented in this paper.

Therefore, this paper adopts Economic Policy Uncertainty (EPU) index with annual data of China A-share non-financial listed companies from 2005 to 2018 as the sample, a dynamic panel model is used to evaluate the influence of economic policy uncertainty on corporate risk-taking, as well as the moderating effect of cooperate strategy. First, economic policy uncertainty has a large negative impact on firm risk taking, according to the findings. That is, the lower the firm's risk-taking, the higher the economic policy uncertainty, and this effect is especially pronounced in state-owned firms. Second, using corporate strategy as a moderating variable, this paper finds that under certain economic policy uncertainty, adopting an aggressive strategy that deviates more from the industry norm can increase firm risk taking, while this result is not significant in the state-owned group.

The following are some of the potential contributions of this paper: first, it adds to the understanding of the interplay between macroeconomic policy and micro-firm behavior. In academia, research on economic policy uncertainty is in full swing. The concept of "offering micro proof for macro research and giving

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macro value to micro study" is also used in this paper [9]. Second, it contributes to the field of corporate risk-taking research. Traditionally, risk taking factors have been studied mostly at the micro-firm level, and there has been little research on the macro level. Third, the study is based on China's unique institutional environment. This study examines the impact of economic policy uncertainty on risk taking from the standpoint of diverse firm features and differentiated corporate strategies, which can help to elucidate the various effects that economic policy uncertainty can have on a micro level. Also, this is a reference value for better understanding risk taking, establishing more scientific macroeconomic policies, realizing innovation inputs, boosting business competitiveness, and boosting economic growth.

The remainder of the paper is laid out as follows: Part II provides a review of relevant literature and research hypotheses, while Part III contains the research design, Part IV is the empirical analysis, Part V is further research, and Part VI is the conclusions.

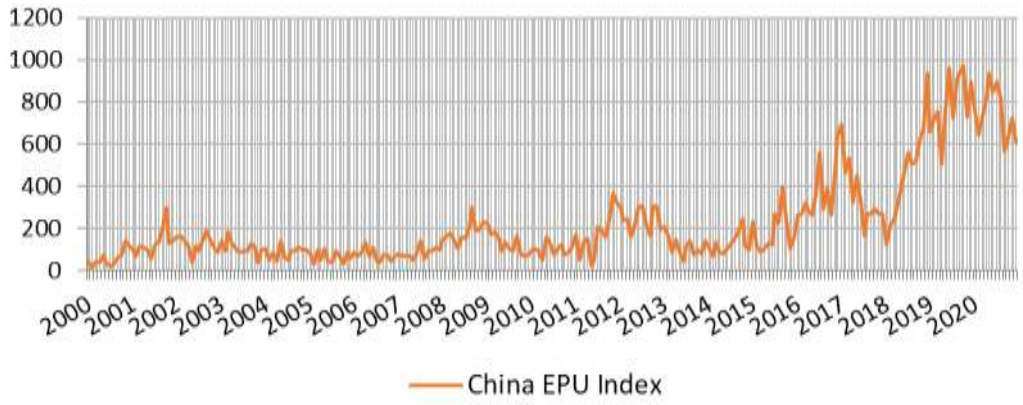

Fig 1: Trend of Global Economic Policy Uncertainty Index
(Source: http://www.policyuncertainty.com/global_monthly.html)

II. ANALYSIS OF THE RELEVANT LITERATURE AND PROPOSED HYPOTHESIS

2.1 Analysis of the Relevant Literature

2.1.1 Corporate risk taking

Corporate risk taking is a decision behavior orientation that is mostly manifested in the investment decision process as a risk preference of managers. That is, the evaluation and selection of investment projects that can provide expected returns and financial flows but are also fraught with risk [10-11]. Managers are more willing to take risks in picking hazardous initiatives, and businesses are more prepared to undertake projects that are risky but have a positive predicted net present value, the higher the level of risk taking represented in investment decisions. In order to maximize shareholder wealth and corporate value, corporations will not give up any advantageous chances, according to the perfect capital market

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theory. As a result, they will always choose investments with a positive net present value. However, the prerequisites of a perfect capital market are not met in the real world. As a result, macro and micro level issues will constantly impact managers' overall decision-making thinking and their diverse decision-making behavior.

The micro level of research on the elements influencing business risk taking has been highlighted by arguments from the perspectives of equity structure, board features, management incentives, and managers' personal qualities. According to research, stock concentration and equity balance degree have a considerable impact on business risk taking [12-14]. Corporate risk taking is also influenced by variances in ownership structure, foreign investors, and the level of institutional investors' shareholding [15-17]. Some literature examines corporate risk-taking research from the perspective of board characteristics, claiming that the combination of chairman and CEO positions, as well as an increase in board size, reduces corporate risk taking. An increase in the proportion of independent directors, on the other hand, will help to increase corporate risk taking. In terms of the impact of managerial incentives, the findings of the studies are rather consistent. Most people think that stock incentives and management compensation incentives can help companies take more risks [18-22]. Furthermore, both foreign scholars and domestic experts have conducted extensive research into the individual characteristics of managers. Faccio, Peltomaki, and He discover that the age of female CEOs and CFOs is negatively related to corporate risk taking [23-25]. Overconfident managers can lead to increased levels of risk-taking and improve the efficiency of corporate asset allocation, according to Li and Tang, Baker and Wurgler, Yu et al. [26-28].

The majority of the macro literature on corporate risk taking focuses on the impact of the macroeconomy or a specific policy. Arif and Lee and Mclean and Zhao, for example, claim that a country's economic growth affects enterprises' willingness to take risks. When a boom period occurs, it is accompanied by stronger growth expectations and an easy financing environment, as well as a high level of overall corporate investment. When there is a recession or a market downturn, funding limitations become more severe, investment decisions become more cautious, and risk-taking levels drop [29-30]. Wang et al. (2013) investigated the influence of China's 2007 corporate income tax change on corporate risk taking. Furthermore [31], He et al. investigated the impact of EVA performance evaluation on corporate risk taking, which was fully adopted in China's central businesses in 2010[32].

2.1.2 Economic policy uncertainty

Economic policy uncertainty, in general, refers to market agents' incapacity to forecast how economic policies will evolve in the future [33]. Specifically, economic policy uncertainty is caused by four factors: who will make economic policies, what policies will be made, when economic policies will be implemented, and how well economic policies will be implemented [34]. That is, it includes all policy uncertainties that have an impact on the economy, such as tight presidential elections, changes in government leaders, uncertainty about monetary policy, fiscal policy, taxation, and regulatory policies, when they will be implemented, and the difference between the implementation effect and the expected effect caused by the implementation process' instability, among other things, all of which are sources of

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economic policy uncertainty. Of course, non-economic political events such as the Gulf War and the "September 11 terrorist attacks" are included in the above uncertainty. They also include short- and long-term uncertainty, such as when the central government will change interest rates and how it will fund creative ventures in the future, and so on.

The study of economic policy uncertainty is still a relatively new discipline, and the 2008 global financial crisis, which affected many developed and emerging market economies severely, has prompted scientists to focus on its effects. As a result of this occurrence, academics have begun to focus on the influence of economic policy uncertainty. One of the more influential ones is the news-based economic policy uncertainty index constructed by Baker et al. in 2013, which evaluates whether such uncertainty aggravated the 2007-2009 recession and slowed the recovery. Since then, a rising number of papers, primarily at the macro level, have focused on the impact of economic policy uncertainty. Firms have been observed to decrease investment and, as a result, economic growth until new regulations or policies are in place [35-37]. Business hiring is also hampered by economic policy uncertainty [38]. According to Fernandez-Villaverde, fiscal policy uncertainty is a significant contributor to stagflation [39]. Additionally, the volatility of company share values is exacerbated by economic policy uncertainty [40-41]. Only a few studies have combined economic policy uncertainty with micro-firm decision-making behavior, the most notable of which are: The influence of economic policy uncertainty on enterprises' cash holding levels is researched by Wang, who discovers that the higher the economic policy uncertainty, the more firms increase their cash holding levels for precautionary reasons [42]. The economic policy uncertainty index is used by Li and Rao to see if higher policy uncertainty limits corporate investment and if this effect is more prominent following the financial crisis [43-44]. Other scholars suggest that uncertainty about the environment affects the cost of financing for businesses [45], and all of these studies find that policy uncertainty hurts businesses. Some academics claim, however, that economic policy uncertainty can encourage corporate risk taking, resulting in improved company performance [46]. In short, there are only a limited number of research looking into the link between economic policy uncertainty and corporate risk taking.

2.1.3 Economic policy uncertainty and corporate risk taking

When firms make decisions, their risk-taking level reflects their psychological risk preference. Corporate risk taking, according to Bargeron, is defined as managers' selection of hazardous investment projects during the investment decision process [47]. A higher level of risk-taking shows that company executives choose to invest in high-risk projects that are predicted to yield large returns [48-49]. Real options theory, net present value theory, and financing constraints theory can all be used to explain how economic policy uncertainty affects enterprises' risk-taking.

Real options theory focuses on the irreversibility of investments when analyzing enterprises' predisposition to choose hazardous investment projects in the face of uncertain economic policies. Selling, repurposing, or otherwise recovering the expenses of investments such as land, equipment, plants, technical expertise, markets, patents, and R&D is challenging. Thus, the choice of investment in risky

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projects is more precisely in evaluating their investment opportunities. Myers and Ross propose that possible investment opportunities in risky projects can be classified as genuine options and divide them into four categories: Awaiting investment options, cancelling project options, termination options, and growth options. Because the majority of a company's investment is a sunk cost, awaiting investment options are equal to call options. The firm will currently wait and defer the investment if it can receive additional and more reliable information before investing. This is the same as if the company had a call option that was exercised at the cost of the investment. Because firm managers prefer to "wait and see" rather than pay the high expense of "uncertainty," higher economic policy uncertainty increases the likelihood that a company will reject a risky or deferred initiative. In brief, managers will be less willing to invest in riskier ventures, lowering corporate risk taking. Managers will terminate or cancel additional investment in dangerous projects in the middle of the stage, when external information is not adequate or the external environment's uncertainty increases in the later stage. Growth choices will be implemented only when future knowledge becomes clear and market conditions improve, at which point the level of corporate risk taking will rise.

A corporation will invest in a project only if the present value of the project's future revenue cash flow is larger than the present value of the investment cost, according to the net present value hypothesis. Companies are prepared to take on high-risk ventures since the risk provides a higher return. As a result, before estimating the distribution of future revenue streams from risky initiatives, management must first predict present and future macroeconomic policies. The higher the uncertainty, the more difficult it is for management to make an accurate judgment, and the greater the danger of future project losses. Economic policy uncertainty, according to Lubos and Pietro's asset return model, directly raises the fraction of systematic risk, increasing the risk of total return (the sum of systematic risk and average unsystematic risk) [50]and the risk of future return streams of the project. Corporate management is typically a risk-averse group. Management becomes more cautious in making judgments and rejects high-risk projects in order to avoid failure as much as feasible [51]. At the same time, the increased risk of future returns makes evaluating the return on investment in a project more challenging for shareholders. Large shareholders will be wary in selecting high-risk ventures if the company is controlled by them. To summarize, the higher the level of environmental uncertainty, the greater the chance of a future profits stream being lost. Thus, to deal with future contingencies brought on by environmental uncertainty, businesses will have to minimize their risk taking and cut their investments in risky ventures.

Furthermore, the financing constraints theory may be utilized to investigate the impact of economic policy uncertainty on high-risk project decision-making. External capital and internal capital are perfectly substitutable in a perfect capital market, according to classical financial theory, but the reality is that the cost of external finance is higher than the cost of internal capital due to information asymmetry and agency difficulties. Because the borrower and the lender have an agency relationship, the objective function is often inconsistent, with the agent having more information than the principal. Due to adverse selection in the capital market when agents face internal capital limits, the cost of external financing is greater than the cost of internal capital, and the increase in the cost of external capital reduces the firm's current investment amount [52]. Higher corporate risk taking is usually followed by higher capital expenditures, and

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enterprises that are finance limited are forced to seek outside help. High external cost of capital due to economic policy uncertainty encourages higher external cost of capital and increases the cost of risky project investment [53], which hinders firms' choice of risky projects and hence reduces corporate risk taking.

Based on the above analysis, this paper proposes the following hypotheses to be tested:

Hypothesis 1: An increase in economic policy uncertainty will make managers less willing to take risks, which in turn will reduce the level of corporate risk taking.

2.2 Heterogeneity in the Nature of Property Rights

This is more typical in nations in transition, especially China, where government intervention is common. Because the heterogeneity of property rights has a direct impact on enterprise management and decision-making, it is vital to consider enterprise property rights when examining the impact of economic policy uncertainty on corporate risk taking. Due to government intervention and principal-agent difficulties, SOEs tend to make more cautious investment decisions and operate less efficiently than non-SOEs in periods of severe economic policy uncertainty.

The business objectives of SOEs are altered as a result of government interference. Rather than maximizing shareholder value, businesses are more likely to shoulder the state's policy burdens, such as ensuring social stability, lowering unemployment, and stabilizing tax income. Therefore, when economic policy uncertainty increases, SOEs will be more ready to wait for government arrangements to ensure the attainment of these political or social aims. The heads of SOEs do not act hastily unless they have a thorough understanding of economic policies. In addition, under the current administrative system in China, managers of SOEs have the implicit incentive of "political promotion" and the belief of "not seeking merit but seeking no fault", and they do not risk investing in risky projects in times of high uncertainty. This may result in erratic results and have an impact on their own advancement. So, they prefer to employ a sensible and conservative investment strategy, avoiding those investment projects with higher risks, based on the objective of stability.

The lack of owners in SOEs creates an agency problem that makes risk-taking more vulnerable to economic policy uncertainty. Insider control issues plague state-owned firms, with insiders abusing their positions for personal benefit and causing corrupt behavior. As a result, SOEs have higher agency costs than non-SOEs, and information asymmetry is considerably exacerbated by economic policy uncertainty. SOEs are more likely to make project decisions in accordance with national policy in order to maximize their personal interests, and they avoid risk and take less risks. According to Morck, state-owned banks are better at transmitting monetary policy and their lending is more responsive to policy reflections. The risk-taking levels of SOEs that are more reliant on SOB lending are more affected by policy uncertainty.

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Based on this, the paper proposes the following hypotheses to be tested:

Hypothesis 2: Compared to non-SOEs, SOEs' risk-taking level is more affected by economic policy uncertainty.

III. RESEARCH DESIGNS

3.1 Sample Selection and Data Sources

This paper's initial sample includes all A-share businesses listed on the Shanghai and Shenzhen exchanges between 2005 and 2018. The following sorts of companies are excluded on this basis in order to verify the comparability of the sample and the validity of the empirical results: (1) Financial and insurance companies that are publicly traded. Because these businesses operate differently from non-financial businesses and have various financial reporting obligations, the financial statement structure and principal accounting items differ from those in other industries. (2) ST-type companies. Most of these companies operate in abnormal conditions and are not comparable to general companies. (3) Companies with missing values. Companies that have been listed for less than 3 years and those that still have missing values after database and manual collection are excluded without compromising the validity of the sample. Except for the economic policy uncertainty index developed by Baker (2013), which is collected from the "Economic Policy Uncertainty" website (http://www.policyuncertainty.com), the data used in this paper are gathered from the CSMAR database, WIND, and provincial statistical yearbooks. The database's missing information was manually retrieved from annual reports. Finally, to eliminate anomalous effects produced by extreme values, all continuous variables are winsorized at the 1% level.

3.2 Measurement of Economic Policy Uncertainty

The EPU index, developed by Baker's team, is used to evaluate the degree of economic policy uncertainty in this article. Currently, the team frequently and timely updates the EPU indices of numerous nations on the website "http://www.policyuncertainty.com" to produce monthly data, including the United States, India, Canada, Korea, France, Germany, Italy, and China. The China Economic Policy Uncertainty Index, for example, is based on Hong Kong's South China Morning Post. The number of articles containing keywords such as "China" or "Chinese", "uncertain" or "uncertainty", "economic" or "economy" and "policy" is divided by the total number of articles published by the publication. Starting in January 1995, this time series is regularized into a monthly data series with a mean value of 100. The capacity to quantify and maintain consistency are the most significant advantages of this index above earlier assessments of economic policy uncertainty. Economic policy uncertainty encompasses all uncertainties that can affect the economy and is broader than a single uncertain policy. For example, a change in government leadership, fiscal policy uncertainty, monetary policy uncertainty, and tax and regulatory policy uncertainty. The event study approach was mostly employed in the previous research to address economic policy uncertainty. This approach has the advantage of being able to examine the impact of a specific policy in detail, but it has the disadvantage of lacking continuity, being unable to analyze the

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problem from a holistic perspective of environmental policy uncertainty and being unable to quantify the severity of uncertainty. The EPU index created by Baker's team, on the other hand, effectively addresses the quantitative flaws, and the lack of consistency is solved by the monthly series of data generated.

In addition, the index's authenticity has been verified. Baker, Bloom, and Davis used a lot of evidence to prove that the US economic policy uncertainty index is accurate. With considerable results, the consequences of stock price volatility, investment, hiring, and sales were investigated. Baker et al. examined the efficiency of the Chinese Economic Policy Uncertainty Index measure from January 1995 to February 2012 and discovered that it was accurate to 98.4%. Since its inception, the index has become increasingly extensively utilized; for example, Gulen and Ion used it to investigate the impact on business investment. Rao and Li investigated the influence of the index on Chinese business investment and CEO change, while Hao studied the impact on corporate innovation. In addition, this paper finds a basic agreement between the time trend of China's economic policy uncertainty index and major events in China in Figure 2. During the financial crisis that swept the world and the adoption of China's 4 trillion economic stimulus initiatives, the average value of the index reached 200 and 350, respectively, from late 2008 to early 2009 and late 2015 to late 2017. The major judgment of the new normal of economic development after 2015, which foreshadowed a slowdown in economic growth, the new development concept, which prioritizes green development, and the supply-side structural reform "cutting overcapacity, reducing excess inventory, deleveraging, lowering costs, and strengthening areas of weakness," all of which have a significant impact on the Chinese economy. The COVID-19 swept the globe between late 2019 and early 2020, and China was no exception. All companies' production processes were interrupted by the outbreak, and indicators soared past 900. The indicator can be a decent reflection of the uncertainty of China's economic policy based on the examination of various indicators and events against each other.

Based on the above analysis, this paper obtains LnEPU by first taking the arithmetic mean and then the natural logarithm of the EPU for 12 months per year.

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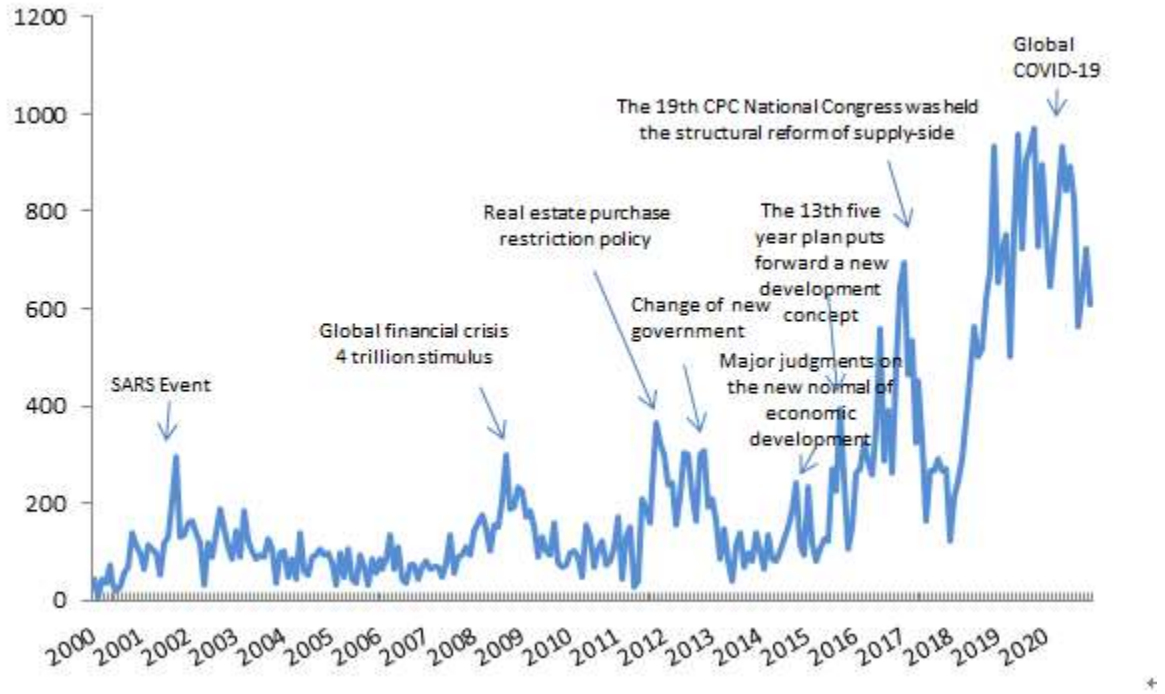

Fig 2. EPU time trend and important events

3.3 Measurement of Corporate Risk Taking

Because a firm's decision to pursue a riskier investment project entails a higher risk, which would eventually reflect a larger fluctuation in earnings, scholars typically utilize earnings fluctuation to assess corporate risk taking. For the measure of corporate risk taking, this research uses Jone et al. and Boubakri et al., which creates a total of two indicators based on the degree of earnings volatility to measure the level of corporate risk-taking: (1) RISK1 is based on yearly industry-adjusted return on assets volatility. (2) RISK2, calculated as the difference between the company's maximum and minimum return on assets over the observation period. Table I shows the specific computations.

TABLE I Measurement of Corporate Risk Taking

Corporate Risk Taking	Measure
RISK1	$RISK1_{it} = \sqrt{\frac{1}{T-1}\sum_{t=1}^{T}(ADJ\_ROA_{it} - \frac{1}{T}\sum_{t=1}^{T}ADJ\_ROA_{it})^2}$ （T=3） （1） $ADJ\_ROA_{it} = \frac{EBITDA_{it}}{ASSET_{it}} - \frac{1}{x}\sum_{k=1}^{x}\frac{EBITDA_{kt}}{ASSET_{kt}}$ （2）

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	$$ROA_{i,t} = \frac{EBITDA_{i,t}}{ASSETS_{i,t}} \quad (3)$$ RISK1 denotes the level of risk-taking of a firm. i represents the firm, T represents the period, and takes the value 3, using a rolling year method, such as 2005~2007, 2006~2008, 2007~2009 ..., and so on. $ROA_{i,t}$ is the ratio of firm i's earnings before taxes, interest, depreciation and amortization (EBITDA) in year t to its total assets (ASSET) at the end of that year. x represents the total number of firms in an industry, k denotes the kth listed firm in an industry, and $ADJ\_ROA_{i,t}$ is the industry average adjusted $ROA_{i,t}$ according to the firm's annual ROAi,t. Finally, the standard deviation of ROAi,t is calculated, as in equation (1).
RISK2	$$RISK2_{it} = Max(ROA_{i,t}) - Min(ROA_{i,t}) \quad (4)$$ $$ROA_{i,t} = \frac{EBITDA_{i,t}}{ASSETS_{i,t}} \quad (5)$$ RISK2 denotes the level of corporate risk taking. i represents the firm, T represents the time period, and takes the value 3, using a rolling year method, such as 2005~2007, 2006~2008, 2007~2009 ..., and so on. $Max(ROA_{i,t})$ and $Min(ROA_{i,t})$ are the maximum and minimum values of $ROA_{i,t}$ of firm's return on assets in observation period T, respectively. $ROA_{i,t}$ is the ratio of earnings before taxes, interest, depreciation and amortization (EBITDA) of firm i in year t to total assets (ASSET) at the end of that year.

3.4 Model Construction and Variables Description

Considering that the level of corporate risk taking in the current period has an impact on the level of corporate risk taking in future periods, this paper uses a dynamic panel data estimation model with a lagged term of corporate risk-taking to test Hypothesis 1 and Hypothesis 2. The specific model is shown in (1):

$$RISK_{i,t} = \alpha_0 + \alpha_1 RISK_{i,t-1} + \beta_1 LnEPU_t + \beta_2 Control_{i,t} + \lambda_i + \varepsilon_{i,t} \quad (1)$$

Among them, i denotes different firms, t denotes different years, and RISK is the firm's risk-taking level, which is measured using RISK1 and RISK2, respectively. In this paper, the natural logarithm of EPU is used to represent economic policy uncertainty (Baker et al., 2013). Control is the micro- and macro-level variables that affect firm risk-taking. Micro-level variables are mainly firm-level variables (refer to Jone et al. 2008; Faccio et al. 2011a, 2011b; Yu et al. 2013), such as leverage, growth, size, first-largest shareholder ownership (First), age, and nature of firm ownership (State). The producer price index (PPI) is the major macro-level variable. Table II shows the exact definitions and measures.

The lagged ordering of the explanatory variables in the models are set to avoid second-order

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autocorrelation in the residual terms under differential generalized distance estimation. For all the above models, generalized method of moments (GMM) is utilized to guarantee that the estimation results are consistent. In addition, seasonal and industry individual effects λi are controlled for in both models (1) and (2), and robust standard errors are used for the coefficient tests.

TABLE II. Definition and Measures of Variables

Variables	Implication	Measures
RISK1	Corporate Risk Taking	Fluctuations in return on assets based on annual industry adjustments, as shown in Table I
RISK2	Corporate Risk Taking	Based on the difference between the maximum and minimum return on assets for the company's observation period, as shown in Table I
LnEPU	Economic Policy Uncertainty	The arithmetic mean is obtained by dividing the monthly EPU data by 12 and taking the natural logarithm
Growth	Corporate Growth	Annual growth rate of enterprise operating income
leverage	Leverage	Ratio of total liabilities to total assets
Size	Enterprise size	Natural logarithm of total assets

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First	Controlling shareholders' shareholding	The shareholding ratio of the first largest shareholder at the end of the year, less than 20% of the value are assigned to 0
Age	Corporate age	The natural logarithm is taken after adding 1 to the number of years of enterprise establishment
State	Nature of ownership	If the nature of the shares held by the first largest shareholder is state-owned, the value is 1, otherwise it is 0
PPI	Producer price index	Producer price index

3.5 Descriptive Statistics and Correlation Analysis

Table III shows descriptive data for the most important macro- and firm-level variables, respectively. The mean (median) values of RISK1 and RISK2 estimated using the two techniques are 0.276 (0.042) and 0.246 (0.031), respectively, in the observed sample, and they are not substantially different. Furthermore, RISK1 has a maximum value of 7.161, a minimum value of 0.002, and a standard deviation of 0.841; RISK2 has a maximum value of 7.159, a minimum value of 0, and a standard deviation of 0.811, indicating that there is a significant difference in corporate risk-taking among listed companies.

The macroeconomic policy uncertainty index (LnEPU) has a mean value of 4.614 and a maximum value of 4.672. The minimum value of 4.55 correlates to the minimum and maximum values of PPI, i.e., when LnEPU is bigger, PPI is smaller, and vice versa. This result is consistent with the graph of the relationship between economic policy uncertainty and economic growth plotted by Baker et al.

TABLE III Descriptive statistical characteristics of the main variables

A- Firm-level Variables								
Variables	**N**	**Mean**	**SD**	**Median**	**Min**	**Max**	**p25**	**p75**
RISK1	15792	0.276	0.841	0.042	0.002	7.161	0.02	0.073
RISK2	15792	0.246	0.811	0.031	0	7.159	0.015	0.058
Growth	15792	0.214	0.588	0.116	-0.669	6.817	-0.029	0.29

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Leverage	15792	0.469	0.23	0.466	0.047	1.233	0.295	0.628
Size	15792	21.788	1.238	21.666	18.963	25.7	20.929	22.505
First	15792	33.055	18.936	33.28	0	90	23.33	46.09
Age	15792	2.953	0.31	2.996	0.693	4.29	2.833	3.178

B-Macro-level Variables

Variables	N	Mean	SD	Median	Min	Max	p25	p75
LnEPU	14	4.614	0.044	4.613	4.55	4.672	4.586	4.655
PPI	14	101.024	4.412	100.85	94.6	106.9	98.1	105.1

The Pearson correlation coefficient matrix for the important variables is shown in Table IV. The matrix reveals a substantial negative association between LnEPU, the paper's main explanatory variable, and RISK1, the corporate's risk-taking level. This suggests that when economic policy uncertainty is high, enterprises' willingness to take risks declines. Furthermore, the amount of corporate risk taking, and the macro control variables have a positive link. Except for the negative association between firm size and corporate risk taking level, all of the micro firm-level control variables are positively associated. The VIF test was run for all variables at the same time, and the variance inflation factor was less than 3.5. The table is not shown due to a lack of space, indicating that there is no multicollinearity between variables.

TABLE IV Pearson Correlation Coefficients of the Main Variables

	RISK1	$LnEPU_{t-1}$	First	Size	Leverage	Growth	Age	RGDP	PPI
RISK1	1								
$LnEPU_{t-1}$	-0.268***	1							
First	0.045***	-0.017	1						
Size	-0.129***	0.139***	0.052***	1					
Leverage	0.092***	-0.122***	0.015***	0.261***	1				
Growth	0.020***	-0.024***	-0.001***	0.062***	0.031***	1			
Age	0.093***	-0.170***	-0.087***	0.057***	0.264***	0.002***	1		
PPI	0.170***	-0.595***	0.052***	-0.158***	0.105***	0.058***	0.154***	0.632***	1

Notes: ***, **, and * indicate significant at the 1%, 5%, and 10% levels, respectively.

IV. EMPIRICAL ANALYSIS

The regular OLS least squares method produces biased and inconsistent parameter estimations in this paper because it uses a dynamic panel model. As a result, GMM is used in this research to investigate the impact of economic policy uncertainty on corporate risk taking. The RISK1 and RISK2 determined under the two measures for the complete sample, state-owned group, and non-state-owned group are estimated using differential GMM, and the results are displayed in Table V. The differential GMM is based on the assumption that {Ɛit} has neither first or second difference autocorrelation, hence the autocorrelation tests of the first and second difference of the nuisance components are performed independently for the regression results. The first difference of the nuisance term rejects the original hypothesis of "no autocorrelation of the first difference of the nuisance term" at the 1% significance level, as shown in Table VI, but the second difference of the nuisance term under the differential GMM cannot reject "no

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autocorrelation of the second-order difference of the nuisance term," so the differential GMM is applicable. The results of the over-identification test of the instrumental variables are shown in the Sargan column of Table VI, and it can be seen that the original hypothesis of "all instrumental variables are valid" cannot be rejected in columns (1) to (6) of the differential GMM, i.e., the generalized method of moments 's instrumental variables are valid.

The estimation results for RISK1 and RISK2 are shown in Table V (1)(2), with coefficients of -0.112 and -0.115 for LnEPU, the key explanatory variable of interest in this research, respectively, both of which are negatively significant at the 1% level. This suggests that as economic policy uncertainty increases, corporate risk taking decreases, which is in line with the findings of Hypothesis 1 of this research. Increased economic policy uncertainty makes investment projects riskier in terms of future return streams and impairs management's capacity to appropriately estimate projected future returns of investment projects, resulting in a strong negative link between the two. Companies become more hesitant to invest in riskier projects as a result of this, weakening their investment intentions and adopting a more wait-and-see attitude, resulting in the execution of call options.

Table V's four columns (3), (4), (5), and (6) show the regression findings after grouping by the type of property rights, i.e., the influence of economic policy uncertainty on corporate risk taking is investigated separately for state-owned and non-state-owned firms. The coefficient of LnEPU under the RISK1 method is significant for both groups, -0.197 for the state-owned group, which is smaller than -0.066 for the non-state-owned group. The coefficient of LnEPU under the RISK2 method is also negatively significant, -0.151 for the state-owned group, which is also smaller than -0.106 for the non-state-owned group. This indicates that economic policy uncertainty affects the risk-taking of state-owned enterprises to a much greater extent than that of non-state-owned enterprises. This conclusion is not just in line with the paper's Hypothesis 2, but also with China's national background. SOEs, in comparison to non-SOEs, are more reliant on policies, or, to put it another way, the government intervenes more in SOEs. To maintain social stability, boost employment, and assure stable tax revenue for macroeconomic control, the state tends to intervene more with SOEs. When policy uncertainty increases, SOEs are more likely to wait for policy clarification before making choices, which reduces investment in currently hazardous initiatives. Non-SOEs, on the other hand, are more market-oriented and less reliant on government programs. Many of its decisions are based on market-oriented operations, allowing it to concentrate more on the company's survival and growth. Despite the fact that economic policy uncertainty has increased, corporations continue to spend in R&D and market development when their products have high market competitiveness. Furthermore, under specific economic policy uncertainty, the larger the firm, the higher the industrial production index, and the lower the level of corporate risk-taking, according to the whole sample group's control factors. Firms, in other words, are less likely to take on high-risk initiatives. Beyond that, the level of corporate risk-taking is considerably and positively connected with the firm's growth, i.e., the better the firm's capacity to choose projects that are more hazardous, the better the firm's ability to choose projects that are riskier.

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TABLE V Economic Policy Uncertainty and Corporate Risk Taking

	Differential GMM					
	Samples		SOEs		**Non-SOEs**	
	(1)	(2)	(3)	(4)	(5)	(6)
	RISK1	RISK2	RISK1	RISK2	RISK1	RISK2
$RISK_{t-1}$	0.686***	0.236***	0.678***	0.178***	0.629***	0.310***
	(46.76)	(14.99)	(49.25)	(10.84)	(20.03)	(11.27)
LnEPU	-0.112***	-0.115***	-0.197***	-0.151***	-0.066***	-0.106***
	(-9.83)	(-6.29)	(-11.69)	(-5.22)	(-4.18)	(-3.78)
First	-0.002	0.002	-0.002	0.003	0.000	0.001
	(-1.49)	(0.92)	(-0.89)	(1.06)	(0.19)	(0.46)
Size	-0.200***	-0.308***	-0.189***	-0.335***	-0.054	-0.165***
	(-5.75)	(-7.85)	(-3.60)	(-6.58)	(-1.25)	(-2.73)
Leverage	0.223*	0.158	0.117*	0.125	0.244**	0.226
	(1.83)	(1.25)	(1.72)	(0.66)	(2.24)	(1.09)
Growth	0.042**	0.076***	-0.028	0.064***	0.026	-0.149
	(2.47)	(3.70)	(-1.24)	(2.28)	(1.33)	(-0.67)
Age	-14.98	194.473**	-107.851	-53.662	1.389***	1.794***
	(-0.36)	(2.00)	(-1.09)	(-0.30)	(9.43)	(4.42)
State	-0.014***	-0.011***				
	(-6.04)	(-5.35)				
PPI	-0.015***	-0.008***	-0.018***	-0.008***	-0.013***	-0.009***
	(-13.31)	(-10.19)	(-12.92)	(-7.07)	(-7.60)	(-6.09)
cons	50.759	-577.423**	335.268	172.110	-1.175	-0.093
	(0.42)	(-1.96)	(1.12)	(0.31)	(-1.04)	(-0.05)
N	15792	15792	7913	7913	7879	7879
Chi2	2464.12***	489.23***	6201.91***	274.80***	637.24***	197.66***

Notes: z-values are in parentheses. ***, **, and * indicate significant at the 1%, 5%, and 10% levels, respectively.

TABLE VI Second Difference Autocorrelation of Differential GMM Disturbance Terms with Instrumental Variables over Identification Test

	Differential GMM					
	Samples		**SOEs**		**Non-SOEs**	
	(1)	(2)	(3)	(4)	(5)	(6)
	RISK1	RISK2	RISK1	RISK2	RISK1	RISK2
AR(1)	-9.115	-7.144	-7.128	-5.857	-5.590	-5.121
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AR(2)	0.273	-1.469	-0.550	-1.184	-0.266	-1.483
	(0.784)	(0.142)	(0.582)	(0.236)	(0.790)	(0.138)
Sargan	24.765	24.876	31.656	37.231	48.665	48.223

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	(0.205)	(0.206)	(0.332)	(0.344)	(0.121)	(0.145)

Notes: AR (1) and AR (2) denote the first difference autocorrelation and second difference autocorrelation tests for the disturbance terms, respectively, with p-values in parentheses

In order to test the robustness of the above research results, the following robustness analysis is done in this paper.

Two approaches are used to assess corporate risk taking in this paper. The RISK1 calculation approach, according to John, is the most representative and extensively utilized. For empirical testing, this work uses the RISK2 metric, which is based on the robustness consideration. Tables 5 and 6 present the findings. Increased economic policy uncertainty lowers firm risk-taking, and this result is consistent with RISK1 regressions after grouping by company nature.

Furthermore, the dynamic panel model can partially ease the problem of model endogeneity produced by omitted variables. This is the primary reason why the dynamic panel model is taken into account in this study. The disturbance term autocorrelation test and the instrumental variable validity test are both passed in Tables 6 and 8, indicating that the parameter estimate using the GMM approach is effective and the result is trustworthy.

This research uses the method of weighted mean to calculate the economic uncertainty index, which is based on Gulen and Ion. The results reveal that neither the method of weighted mean nor the annual average method produce significant differences. Also, the risk taking level is assessed using 4-year and 5-year windows in this study, and the results shows no significant difference.

The results of all of the foregoing studies suggest that the conclusions of this research are fairly reliable.

V. FURTHER RESEARCH

What type of moderating effect does the adoption of differentiated corporate strategies have on corporate risk taking when firms encounter high uncertainty in the economic environment, given that economic policy uncertainty can have a significant impact on the degree of corporate risk taking? This paper adds to the discussion.

From the results of the analysis of the full sample above, it is clear that uncertainty in economic policy inhibits risky investments by firms, reduces the level of risk taking by firms, and slows down economic growth. However, uncertainty is the only source of corporate profits, which disappear if future changes are predictable (Knight, 1921) [54]. Liu (2017) shares this viewpoint, describing alternative representations of economic policy uncertainty before and after a change of central government and examining the impact of risk and opportunity elements in uncertainty on enterprises of various types. He discovers that state-owned businesses are more vulnerable to risk factors, whereas private businesses are more vulnerable to

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opportunities [46]. Without uncertainty, according to Brouwer (2000), new activity would be stifled. Thus, while uncertainty entails risk, it also entails potential [55].

True opportunities are always reserved for those who can completely identify and exploit the opportunities given by environmental changes, as well as develop methods that are compatible with the conditions. Appropriately increasing the amount of corporate risk taking gives the company a long-term competitive edge and leads to better results (Oosthuizen, 1997) [56]. As a result, different business strategies can have varying moderating impacts on economic policy uncertainty, which affects corporate risk taking.

The relationship between economic policy uncertainty, company strategy, and corporate risk taking is further verified in this research using model (2). Considering that the choice of corporate strategy tends to produce effects only in the next period, the interaction term STRAi, t-1×LnEPUt between the lagged period of corporate strategy and economic policy uncertainty is introduced on the basis of model (1) in analyzing the moderating role of corporate strategy differences in economic policy uncertainty on corporate risk-taking, as shown in (2).

$$RISK_{i,t} = \alpha_0 + \alpha_1 RISK_{i,t-1} + \beta_1 LnEPU_t + \beta_2 Stra_{i,t-1} + \beta_3 Stra_{i,t-1} \times LnEPU_t + \beta_4 Control_{i,t} + \lambda_i + \varepsilon_{i,t} \quad (2)$$

In this research, the model's measure for the firm's strategic Stra is based on Tang et al., Ye, and other studies to indicate the amount to which the firm's strategy deviates from the industry norm by calculating the firm's resource allocation in six important areas. The distribution of resources depending on the company's available resources represents the strategic model of the company [57].

The following are the six important strategic dimensions: 1. advertising and promotion investment: cost of sales/operating revenue, reflecting the allocation of marketing and market expansion resources. 2. R&D investment: (net intangible assets + development expenditures)/operating revenue, which reflects the company's investment in innovation projects. 3. capital intensity: the ratio of fixed assets to employee numbers, which reflects the firm's human resource intensity. 4. degree of fixed asset renewal: net fixed asset value / original fixed asset value, reflecting the company's capital density. 5. management expenses / operating income: management expenses / operating income, reflecting the company's expense structure. 6. corporate financial leverage: book value of equity / (short-term borrowing + long-term borrowing + bonds payable), reflecting the company's capital operation mode. The six indicators listed above each reflect the company's strategy on one hand, and when added together, they represent the company's overall approach.

In this study, it subtracts the mean value of the aforementioned six indicators from the mean value of the same industry in the same year, divides by the indicator's standard deviation, and normalize the result to get the absolute value. In this method, it can determine how much each of the six strategic characteristics deviates from the industry average. Finally, Stra is obtained by summing the six deviations and taking the arithmetic mean. The higher the divergence from the industry average and the more aggressive the strategic model, the larger the Stra. On the contrary, the smaller the Stra, the more

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conservative the strategy and the closer it is to the industry average.

TABLE VII Economic Policy Uncertainty, Corporate Strategy and Corporate Risk Taking

	Differential GMM					
	Samples		SOEs		Non-SOEs	
	(1)	(2)	(3)	(4)	(5)	(6)
	RISK1	RISK2	RISK1	RISK2	RISK1	RISK2
$RISK_{t-1}$	0.649***	0.362***	0.693***	0.312***	0.548***	0.372***
	(149.02)	(21.24)	(48.13)	(20.22)	(11.27)	(11.66)
LnEPU	-0.013***	-0.096***	-0.120***	-0.071***	-0.122***	-0.015***
	(-11.74)	(-5.92)	(-3.20)	(-3.60)	(-4.04)	(-3.96)
$Stra_{t-1}$	0.648***	0.954***	0.505	0.778	0.391***	0.029***
	(6.56)	(3.09)	(1.36)	(1.60)	(3.53)	(3.52)
LnEPU*$Stra_{t-1}$	0.115***	0.201***	0.117	0.175*	0.074***	0.043***
	(6.25)	(3.15)	(1.49)	(1.76)	(4.57)	(4.57)
First	0.001	-0.001	0.001	0.002	0.000	0.002
	(1.51)	(-1.14)	(0.28)	(0.83)	(0.42)	(1.61)
Size	-0.143***	-0.153***	-0.024	-0.068	0.125***	0.058***
	(-10.01)	(-3.18)	(-0.45)	(-1.21)	(2.58)	(2.53)
Lever	0.148***	0.136	0.112***	0.124	0.266***	0.243
	(3.18)	(1.00)	(2.87)	(1.66)	(2.36)	(1.21)
Growth	0.028***	0.013	0.019***	0.008	0.008***	0.021
	(3.62)	(0.66)	(3.91)	(0.35)	(2.32)	(0.59)
Age	-4.458	-19.95	-12.75	-16.604	1.445***	0.488***
	(-0.34)	(-0.55)	(-0.65)	(1.05)	(5.57)	(4.06)
State	-0.007***	-0.004***				
	(-3.15)	(-3.09)				
PPI	-0.029***	-0.012***	-0.028***	-0.017***	-0.028***	-0.013***
	(-60.67)	(-5.21)	(-14.34)	(-5.34)	(-11.97)	(-3.49)
cons	11.031	63.252	37.973	31.293	-5.996***	-0.097
	(0.28)	(0.58)	(0.66)	(1.05)	(-4.43)	(-0.05)
N	15792	15792	7913	7913	7879	7879
Chi2	3799.55***	4017.19***	685.04***	869.55***	890.71***	1337.56***

Notes: z-values are in parentheses. ***, **, and * indicate significant at the 1%, 5%, and 10% levels, respectively.

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TABLE VIII. Second Difference Autocorrelation of Differential GMM Disturbance Terms with Instrumental Variables over Identification Test

	GMM Differential GMM					
	Samples		SOEs		Non-SOEs	
	(1)	(2)	(3)	(4)	(5)	(6)
	RISK1	RISK2	RISK1	RISK2	RISK1	RISK2
AR(1)	-7.877	-8.892	-6.928	-6.531	-4.425	-5.124
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AR(2)	-0.02878	-2.006	0.575	-0.738	0.115	-1.486
	(0.977)	(0.044)	(0.564)	(0.460)	(0.908)	(0.137)
Sargan	27.877	29.090	34.657	37.656	49.090	48.211
	(0.255)	(0.241)	(0.154)	(0.190)	(0.384)	(0.326)

Notes: AR (1) and AR (2) denote the first difference autocorrelation and second difference autocorrelation tests for the disturbance terms, respectively, with p-values in parentheses

Table VII shows the regression results of model (2). Table VIII shows the results of the second-order autocorrelation of the nuisance terms and the over-identification test of the instrumental variables, which are still calculated using differential GMM. The prerequisites for the applicability of the differential GMM method are satisfied. Furthermore, the results of the over-identification test for instrumental variables show that all of the instrumental variables in the model are valid. Because the implementation effect of a firm's strategic decisions is typically only visible in the next period, this paper uses a one-period lag between the firm's strategy and economic policy uncertainty to analyze the firm's strategy's moderating influence. Table VIII shows the regression findings of RISK1 and RISK2 under the two measures in columns (1) and (2), respectively. The interaction terms have coefficients of 0.115 and 0.201, respectively, which are both substantially positive at the 1% level. The above regression results are since diverse corporate strategies can represent the firm's risk preference to some extent. Moreover, the more unpredictable the external environment is and the higher the investment risk, the more corporations continue to pursue aggressive tactics that depart from industry norms and invest in higher risk, higher return initiatives. This also represents management's recognition and assessment of risk opportunities. Defensive strategies that converge with industry norms tend to follow industry regulations and strive to comply with regulatory requirements in order to better address industry-specific risks. Specifically, the impact of the two different strategic models on risk taking is reflected in four main areas: investment decisions, financing decisions, R&D investment and sales spending, and risk opportunities: in terms of investment decisions, aggressive strategies constantly look for opportunities to develop new products and markets. As a result, these companies are more willing to take risks when making investment decisions to expand into new areas. Companies that adopt a conventional strategy are more stable in their business operations and are more risk-averse in their investment decisions. In terms of financing decisions, the aggressive strategy model usually involves significant expenditures on research and development, market expansion, etc., compared to the defensive strategy. Therefore, its cash flow level is relatively low and its financing needs are usually high, and it is more likely to fall into financial difficulties due to insufficient cash flow, so the

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corresponding risks in financing decisions are also higher. In terms of R&D investment and sales spending, companies with an aggressive strategy have fewer substitutes for their products in the market, resulting in a fragmented product market. Simultaneously, they place a greater emphasis on research and development and marketing, and hence spend a significant amount of money on both. Companies that pursue a defensive strategy, on the other hand, have more product substitutes, concentrate on a fixed product market, maintain competitiveness primarily via pricing, service, and product quality, and spend less on R&D and sales. In terms of risk opportunities, the bigger the divergence from the industry norm, the greater the danger of failure, however the higher the risk, the greater the rewards of success. With less risk and more moderate profits, a more conservative corporation is more comparable to its competitors.

As a result of the empirical findings, it appears that firms' adoption of aggressive corporate strategies has a positive moderating influence on their risk-taking levels in a peripheral environment with significant economic policy uncertainty. In other words, the degree of differentiation in corporate strategy can mitigate the detrimental impact of economic policy uncertainty on firm risk-taking. The lower the amount of corporate risk taking among conformist and inadequately inventive firms, the higher the level of economic policy uncertainty.

We find that the coefficient of the interaction term is not significant in the group of state-owned firms when we examine the moderating influence of corporate strategy again by dividing into state-owned and non-state-owned groups. That is, there is no moderating influence of corporate strategy, and the results are reported in Table VII columns (3) and (4). This suggests that in the face of uncertain economic policies, SOEs are more likely to pick a stable company strategy and fewer hazardous investment projects. As indicated in columns (5) and (6) of Table VII, the coefficients of the interaction terms in the non-SOEs are 0.074 and 0.043, respectively, which are significantly positive at the 1% level. This suggests that in non-state-owned businesses, the moderating influence of corporate strategy is more prominent. According to earlier research, the lack of originality in SOE business objectives, insider control, and the implicit motive of "political promotion" encourage SOE managers to use a moderate strategy when making strategic decisions. As a result, when the external environment is uncertain, policies are unclear, and information is insufficient, SOEs' management prefers to maintain a stable business strategy in order to avoid personal losses due to the huge risks associated with strategic changes, based on the priority of robustness. Non-SOEs, on the other hand, have a single business aim, significantly fewer insider control issues than SOEs, and a strong motivation to manage the business well. Furthermore, in conjunction with internal and external market supervision, they will pursue aggressive strategies based on a strong desire to survive, and they will be more prepared to take on hazardous projects in order to improve their competitiveness when the external environment is uncertain. Also, non-state firms are less reliant on government intervention and are better equipped to tailor their corporate strategy to changes in the external environment, allowing them to focus more on the aim of maximizing corporate value. They thoroughly recognize investment opportunities and implement aggressive business strategies at the appropriate moment, selecting initiatives with higher risks but positive predicted net present value to boost the company's future earnings. In short, the non-state-owned group exhibits a stronger moderating effect of corporate strategy.

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VI. CONCLUSIONS

Company decision-making is inextricably linked to macroeconomic forecasting, and the unpredictability of economic policies directly affects the challenge for enterprise management to effectively anticipate future investment returns, making managers wary of hazardous investment initiatives. Therefore, macroeconomic policy uncertainty can have a significant impact on micro-firm behavior. By using the EPU index developed by Baker's team to measure the degree of economic policy uncertainty, this paper examines the impact of economic policy uncertainty on corporate risk-taking and the moderating effect of its corporate strategy using a dynamic panel model with annual data of Chinese A-share non-financial listed companies from 2005 to 2018 as a sample. The findings show that, first, the lower the amount of corporate risk taking, the higher the level of economic policy uncertainty, which is particularly obvious in state-owned firms. Second, an aggressive company strategy that deviates more from the industry norm can mitigate the detrimental impact of economic policy uncertainty on corporate risk taking. In SOEs, however, this weakening effect is minimal.

According to the findings, economic policy uncertainty has a significant impact on business micro behavior. Increased uncertainty makes corporations less likely to invest in hazardous initiatives and more eager to "wait and see," whether based on real options theory or net present value theory. The positive moderating effect of corporate strategy substantiates Knight's assertion that "uncertainty is the only source of corporate profit, and if the future can be foreseen, profit vanishes." As a result, choosing an uncommon strategy in an uncertain market requires a thorough assessment of risks and projects, but it can also result in significant losses. Marketization can help mitigate the detrimental effects of economic policy uncertainty on company risk-taking to some extent. The research presented in this paper contributes to a better understanding of the microeconomic consequences of macroeconomic policy uncertainty, namely, that excessive uncertainty can harm both enterprises and the economy. Based on it, keeping as stable an environment for economic policies as feasible, supporting market-oriented procedures, and implementing context-appropriate tactics can successfully raise corporate risk-taking levels, boosting their competitiveness and driving economic growth.

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