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Executive gender, competitive pressures, and corporate performance☆

Mario Daniele Amore[a], Orsola Garofalo[b,*]

[a] Bocconi University, Department of Management & Technology and CRIOS, Via Roentgen 1, 20136, Milan, Italy
[b] Copenhagen Business School, Department of Innovation & Organizational Economics, Kilevej 14A, 2000 Frederiksberg, Denmark

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ABSTRACT

We investigate whether the gender of top executives influences a firm's reaction to competitive pressures. Our empirical approach is based on policy changes that varied the exposure of US banks to competition during the late 1990s. Results suggest that while banks with female executives experience significantly higher financial performance under low competition, they tend to underperform when competition increases. At the same time, we find that the presence of female leaders improves the capital stability of banks subject to greater competition. Overall, our study highlights strong interactions between executive gender and market structures in the determination of business outcomes.

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1. Introduction

An established strand of research in experimental economics has analyzed gender differences in economic behavior (see Croson and Gneezy, 2009 for a review). Whether men and women display differences in risk-taking (e.g. Charness and Gneezy, 2012) and competitiveness (e.g. Gneezy et al., 2003; Gneezy and Rustichini, 2004; Niederle and Vesterlund, 2007) is particularly relevant to academic scholars and policy-makers, given the potentially strong implications of leaders' gender for corporate strategies and, more generally, for the functioning of financial and political institutions.

Yet, it has been recently pointed out (e.g. Adams and Funk, 2012) that existing gender differences in economic behavior have been established primarily using samples of students or individuals from the general population, and this makes it difficult to extend experimental results to real-world contexts. Indeed, because women at the top of organizations have self-selected into performance-oriented environments and have successfully gone through highly competitive recruiting

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* Corresponding author.
E-mail addresses: mario.amore@unibocconi.it (M.D. Amore), og.ino@cbs.dk (O. Garofalo).

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processes, they are expected to differ from women from the general population in terms of attitudes toward competition and risk, whereas the differences with men could weaken or even disappear (Croson and Gneezy, 2009).[1] A number of empirical findings are consistent with this notion. For instance, Adams and Ragunathan (2013) show that women who choose finance careers are less risk averse than other women (and thus more similar to men). Other works, however, suggest that even at the top of corporate ladders women significantly differ from men, and these differences may translate into different corporate policies and financial returns (see e.g. Faccio et al., 2016; Huang and Kisgen, 2013; Tate and Yang, 2015).

We study how the gender of top executives affects a firm's reaction to variations in competition. These variations come from regulatory changes passed in the late 20th century in the US banking industry, which represents an ideal laboratory for our study. While historical regulations severely limited the geographic expansion of banks, US states gradually lifted these restrictions starting from the 1970s.[2] Our analysis draws on the legal roadblocks passed by US states to limit the nationwide deregulation of branching activities introduced by the Interstate Banking and Branching Efficiency Act (IBBEA) in 1994. The staggered introduction and removal of these roadblocks determined temporal and geographic variations in competition during the late 1990s, variations that are useful for mitigating endogeneity concerns (e.g. Cornaggia et al., 2015; Johnson and Rice, 2008; Rice and Strahan, 2010).

Using longitudinal data on listed US banking institutions from 1994 to 2006, we document a double-edged effect of female leadership on accounting performance depending on the strength of competitive pressures: banks with female executives significantly overperform all-male banks in times of low competition, but they tend to underperform when competition increases. This finding holds adopting different measures of performance, as well as conducting a host of checks to alleviate various empirical concerns. In particular, we verify that results remain largely significant to controlling for biases from entry/exit at the bank and executive level, to rule out concerns of diverging trends, to using an instrumental variable approach to mitigate endogeneity in the presence of female top executives, and to controlling for several confounding bank characteristics and other policies implemented during the sample period.

In conclusion, we go beyond performance results and provide some insights into how executive gender influences the response of banks to competition in terms of financial strength. Our results indicate that banks with female executives exhibit significantly better capital stability when competition increases. In parallel with the previous findings on performance, this result suggests that under strong competitive pressures female leadership may bring about a more conservative risk-return combination.

Our study relates to a literature that analyzes how the personal traits of key decision-makers impact on organizational outcomes (e.g. Bertrand and Schoar, 2003; Malmendier et al., 2011). Within this research domain, we contribute to a rich literature on the association between the gender of directors/top executives and corporate policies (e.g. Adams and Ferreira, 2009; Amore et al., 2014; Berger et al., 2014; Ahern and Dittmar, 2012; Huang and Kisgen, 2013; Levi et al., 2014; Matsa and Miller, 2013; Sila et al., 2016; Tate and Yang, 2015 Berger et al., 2014; Ahern and Dittmar, 2012; Huang and Kisgen, 2013; Levi et al., 2014; Matsa and Miller, 2013; Sila et al., 2016; Tate and Yang, 2015).

Moreover, our investigation is close to recent works that employ real-world data to analyze gender differences in response to changing competition. For instance, Delfgaauw et al. (2013) find that the introduction of tournament competition affects firm sales depending on the gender composition of work teams. Morin (2015) and Ors et al. (2013) use educational data to show that male students respond more effectively than female students to a higher level of competition. While these works analyze reactions to competition in a non-corporate context or in small and young organizations (in Delfgaauw et al., 2013 firms have, on average, 11 employees that are 25 years old), we focus on listed US banking institutions.

The banking context is especially interesting to study because of the negative externalities that excessive risk-taking may generate for the whole economy. Adams and Ragunathan (2013) analyze the role of female directorship in banks during the financial crisis. We complement this research by investigating how executive gender affects the banks' response to a competitive shock. The geographic expansion of banks allowed by the deregulation of interstate banking in the 1980s has been shown to decrease bank risk (Goetz et al., 2016). However, analyzing the later deregulation of interstate branching activities, i.e. the setting we use in this study, it has been argued that the opportunity to expand geographically provided banks with greater risk-return combinations (Dick, 2006), and that taking advantage of expansion opportunities and coping with greater competitive pressures induced banks to undertake aggressive and risky investments (Dick, 2006; Bushman et al., 2016). By contrast, banks that performed better during the financial crisis were those that engaged in more conservative financing choices (Beltratti and Stulz, 2012).

2. Deregulation of the US banking industry

A number of historical regulations such as the McFadden Act of 1927 severely limited the geographic expansion of US banks. However, starting in the late 1960s, states started deregulating within-state branching, allowing the creation of new

[1] See also Cárdenas et al., (2016) and Gneezy et al. (2009) for evidence on how context characteristics shape gender differences, and Gill and Prowse (2014) for evidence on gender differences in the response to losses.

[2] A rich literature has exploited banking deregulation passages to analyze the effect of banking structure on such outcomes as economic growth (Jayaratne and Strahan, 1996), entrepreneurship (Black and Strahan, 2002), industry structure (Cetorelli and Strahan, 2006), access to finance (Rice and Strahan, 2010), and innovation (Amore et al., 2013; Chava et al., 2013; Cornaggia et al. 2015).

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