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Director gender and mergers and acquisitions☆

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ABSTRACT

Does director gender influence CEO empire building? Does it affect the bid premium paid for target firms? Less overconfident female directors less overestimate merger gains. As a result, firms with female directors are less likely to make acquisitions and if they do, pay lower bid premia. Using acquisition bids by S&P 1500 companies during 1997–2009 we find that each additional female director is associated with 7.6% fewer bids, and each additional female director on a bidder board reduces the bid premium paid by 15.4%. Our findings support the notion that female directors help create shareholder value through their influence on acquisition decisions. We also discuss other possible interpretations of our findings.

1. Introduction

There is a new and growing body of literature documenting gender differences in corporate leadership. For example, Adams and Ferreira (2009) show that female directors have better board attendance records than male directors, and are more likely to join monitoring committees. Haslam et al. (2010) find that female directors among the FTSE 100 companies in the UK are not significantly associated with accounting performance, but are negatively associated with stock market performance. Using responses to mandated changes in Norwegian boards, Ahern and Dittmar (2012) find that the quota requiring greater female representation on corporate boards is negatively associated with firm performance. Matsa and Miller (2013) further show that the presence of more female directors on Norwegian corporate boards is associated with fewer employee layoffs, higher labor costs, and lower profits. Similarly, using plant-level data in the US, Tate and Yang (2012) find that female CEOs help cultivate more female-friendly corporate environments, with smaller wage gaps between genders.

In this paper, we examine whether the presence of female directors on corporate boards is associated with firms' tendencies to make acquisitions and with the bid premium paid. We then consider whether these associations are consistent with women

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being less overconfident than men (see the survey by Croson and Gneezy (2009) and earlier work by Lichtenstein et al. (1982) and Beyer (1990)). We also consider other gender-related behavioral traits, such as women being more effective monitors, that might explain the observed associations.

Mergers and acquisitions (M&As) are an ideal setting for investigating the implications of male versus female behavioral traits in the boardroom. First, takeovers are highly significant economic activities that often do not add shareholder value (see the survey by Andrade et al. (2001) and the recent evidence from Chen et al. (2007)). It is important to understand why so many deals fail, especially given their size and scope. For example, could bidder male CEOs' and directors' overconfidence result in too many acquisitions or in paying too much? Second, according to Lenney (1977), gender differences in overconfidence depend on the lack of clear and unambiguous feedback. Specifically, when feedback is "unequivocal and immediately available, women do not make lower ability estimates than men. However, when such feedback is absent or ambiguous, women seem to have lower opinions of their abilities and often do underestimate relative to men." M&A successes and failures are not easily or immediately identifiable due to their uniqueness, complexity, scale, and other factors that influence overall acquirer performance. It is thus expected that men will be more confident than women of their ability to make acquisitions. Third, unlike day-to-day operating decisions, M&As invariably involve intense board-level discussion requiring final approval, where individual directors can make a difference to the eventual decision. These arguments make M&As an excellent platform for asking the following: is there any association between female representation on corporate boards and (1) the acquisitiveness of such boards, and (2) the financial terms of acquisition, and are any such associations consistent with women being less overconfident than men?

Using close to 20,000 firm-year observations for the period 1997–2009, we show a negative and significant association between the fraction of female directors on a corporate board and the number of acquisition bids: companies with more women directors are less acquisitive than those with fewer women directors. In terms of economic significance, each ten percent of female directors on a board, corresponding to approximately one female director, is associated with a reduction in the number of acquisition bids by 7.6%. In addition to evidence on acquisitiveness, using data from over 450 acquisition bids for which information on the bidder and target firm and board characteristics is available, we find that female directors on a bidder board are negatively and significantly associated with the size of the bid premium. In terms of economic significance, each ten percent of female directors on a bidder board is associated with a lower bid premium of 15.4%.

We argue that the associations we uncover between director gender and initiation of M&As and between director gender and the bid premium are both consistent with bidder female directors having relatively lower overconfidence in the precision of their estimates of an acquisition and/or in their expected value of an acquisition. We cannot, however, go beyond demonstrating the associations and the consistency of these findings with women being less overconfident, and with other gender-based behavioral characteristics identified in other contexts. This is because our investigation shares similar endogeneity concerns to those faced in the majority of investigations relating to corporate boards (Adams et al., 2010; Hermalin and Weisbach, 1988, 1998). For example, one could argue that an entrenched CEO prefers a "quiet life" and thus chooses women board members whom they believe will be less acquisitive. Alternatively, perhaps a particular CEO is by nature an empire-builder and thus does not appeal to women board members who are less overconfident.[1] In these cases, the significant associations between the presence of female directors and bid initiations and between the presence of female directors and the bid premium are due to the omission of unobservable variables in the regressions. We take a three-pronged approach to addressing endogeneity in our empirical investigation: firm fixed effects, instrumental variables, and propensity-score matching. Our main findings are robust to the last two approaches, and become weaker after controlling for firm fixed effects because of small within-firm variations among the fraction of female directors.

In addition to relating our findings to lower female overconfidence, we also consider other possible interpretations. For example, could the associations we identify be caused by female directors being more effective monitors than male directors (Adams and Ferreira, 2009) and as such, being associated with fewer and better deals? Could the associations be due to diverse boards taking a longer time to deliberate and reach decisions (Milliken and Martins, 1996), leading to fewer and better deals? Our findings could also be driven by unobservable corporate cultures or CEO styles (Fiordelisi and Ricci, (2014–in this issue); Graham et al., 2013; Tate and Yang, 2012). After further investigation, we conclude that our findings of significant associations between the presence of female directors and bid initiations and bid premiums are consistent with some, but not all, of the above interpretations.

Our paper contributes to several strands of literature. First, our paper provides new evidence on whether and how personal or behavioral traits of corporate executives are related to corporate decisions, adding to the findings by Malmendier and Tate (2005, 2008), Adams and Ferreira (2009), Malmendier et al. (2011), Graham et al. (2013), Huang and Kisgen (2013), and Berger et al. (2014–in this issue). Second, our paper offers new perspectives on why and how mergers take place, as compared to earlier studies surveyed by Andrade et al. (2001) and Betton et al. (2008). Finally, our paper points out the possible consequences of social and political forces pressuring corporations to appoint a larger proportion of female directors, as examined by Agrawal and Knoeber (2001), Ahern and Dittmar (2012), and Matsa and Miller (2013).

The outline of the paper is as follows. The next section reviews the related literature on gender-based behavioral differences and develops our hypotheses. Despite an absence of prior work on the association between board gender diversity and M&As,

[1] Acquisitiveness due to CEO overconfidence differs from the conventional view of empire building (Jensen, 1986, 1988) in that CEOs may well believe they are acting in the shareholders' interest, and as such there may be no agency problems (see Malmendier and Tate, 2008).