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The Leadership Quarterly

journal homepage: www.elsevier.com/locate/leaquaInvestor response to appointment of female CEOs and CFOs[☆]Eline Brinkhuis^a, Bert Scholtens^{a,b,*}^a Department of Economics, Econometrics and Finance, University of Groningen, PO Box 800, 9700 AV Groningen, The Netherlands^b School of Management, University of Saint Andrews, The Gateway, North Haugh, St Andrews, Fife KY16 9RJ, Scotland, UK

ARTICLE INFO

Keywords:

Gender diversity
Appointment
CEO
CFO
Shareholders

ABSTRACT

We study the impact of appointing women to top executive positions from an investor perspective. We analyze whether shareholders value announcement of appointment of women to top positions differently than they do appointment of men. This study uses an international sample of 100 announcements of top executive appointments of women who replace men and investigates how shareholders respond to such appointments. This research combines an event study with a matched pair analysis to compare the response from investors regarding appointment of female versus male CEOs and CFOs. We establish that investors do not seem to value appointment of women significantly differently from that of men. This finding suggests that, from the investor perspective, there appears to be no business case for a particular gender when it comes to appointing a CEO or CFO.

Introduction

The lack of women in top management positions is a frequently discussed and researched topic in the business community and in the academic literature (Adams, 2016). This literature is very diverse regarding theories and methods and the results are quite varying (see Post & Byron, 2015). Often, performance and quality differentials between men and women are assumed to be behind the lack of equal female representation; reducing inequality is also thought to come at a cost (Bohnet, van Geen, & Bazerman, 2016; Golding, 2014; Niederle, Segal, & Vesterlund, 2013). Others argue that a cultural gender bias causes the imbalance, thereby excluding talented people (Abdullah, Ismail, & Nachum, 2016; Adams & Funk, 2012; Hillman, Canella, & Harris, 2002). Until recently, the focus of most of this research was on the role of women on boards, but there has emerged a new strand of literature that studies gender at the executive level as well (Dezsö, Ross, & Uribe, 2016; Faccio, Marchica, & Mura, 2016; Huang & Kisgen, 2013; Khan & Vieito, 2013; Wang & Kelan, 2013). The majority of studies on gender and firm performance rely on accounting data and focus on how firms respond to the presence of female executives. However, these studies usually disregard the investor perspective. One problem with most of this literature is that it is endogeneity-plagued, meaning that the decision to appoint a female board member need not be independent of firm characteristics or that both may be determined by hidden or omitted variables (i.e., explanatory variables may correlate with error terms).

[☆] This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. Both authors declare that he/she has no conflict of interest.

We want to thank the editor and two anonymous reviewers of The Leadership Quarterly for their guidance and their very thoughtful and constructive comments. The manuscript as it is being accepted would not have come about without their suggestions which we included in the design and analysis of the paper. In addition, there was a very stimulating exchange of ideas that did increase our understanding of the theory and methods, but which does not show up in this paper. We are sure we will benefit from this exchange in our future work. We also want to thank our colleagues at the University of Groningen and the University of Saint Andrews for debating about the topic and our analysis. We especially want to thank Steffen Eriksen, Roberto Wessels and Ruth Woodfield. The usual disclaimer applies.

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<http://dx.doi.org/10.1016/j.leaqua.2017.08.002>

Received 18 October 2016; Received in revised form 21 August 2017; Accepted 21 August 2017

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This study adds to the literature by investigating the role of gender at the top executive level from a shareholder perspective. Shareholders have incentives to thoroughly assess the potential impact of all types of news on firm equity value. Stock price reactions summarize expected changes in firm performance for all future dates. In our view, the forward looking perspective of the shareholder provides a highly relevant framework to study the role of gender in firm stock-price performance. [Ahern and Dittmar \(2012\)](#) focus on the stock price response to mandatory increases in female board representation. Our study focuses on the leading executive positions on the board. Thus far, perception of perceived suitability of men and women has been studied mainly experimentally. For example, [Haslam and Ryan \(2008\)](#) report experimental investigations among management graduates, high school students, and business leaders. We investigate, on the basis of stock market data, investor perception regarding announcement of appointment of female top executives replacing males. We rely on the notion of market efficiency, which assumes that stock markets reflect the fundamental value of a listed firm, that is, the discounted sum of all expected future cash flows (i.e., the in-equilibrium perspective of markets, [Demsetz, 1983](#)). From this perspective, only unexpected information can impact firm value, but not all such information need be actually value relevant. This notion is at the heart of finance theory ([Demsetz, 1983](#); [Fama, 1970, 1991, 1995](#); [Jensen, 1978](#)).

We investigate whether the announcement of appointment of a female CEO or CFO is followed by a response that is significantly different from announcement of appointment of a male top executive. Efficient market theory posits that if shareholders deem female representation beneficial, they will place a higher value on the firm. However, if shareholders believe that female representation worsens firm performance, which would reflect the view that the current situation of underrepresentation is optimal, they will lower firm valuation. Given these contrasting perspectives, the issue of which view actually holds is an empirical matter. Ideally, we could also establish what drives any such differential. Unfortunately, the sample does not contain enough observations to allow for a more structural approach (see [Athey & Imbens, 2017](#)).

This study investigates the positions of CEO and CFO, as they are the most important positions in a firm in that they are responsible for overall strategy and performance and usually are the “face” of the firm in relation to stakeholders and society. While the impact of the CEO on firm performance is substantial, it is also contingent on other key executives (see [Carpenter & Sanders, 2002](#); [Hambrick, 1995](#)); CFOs are critical in this respect, especially following introduction of the Sarbanes–Oxley Act of 2002 ([Chava & Purnanandam, 2010](#); [Gore, Matsunaga, & Yeung, 2011](#)).

Our empirical strategy is to combine the event study methodology with a matched pair analysis to determine whether investors indeed respond differently to a female top executive appointment than to a male appointment. The results are of particular interest to investors, existing boards, and to recruiters for corporate boards, since this study is an empirical test of the notion that female CEOs and CFOs are “costly” (or not) from an investor perspective. From a societal perspective, the study is relevant in that it sheds light on the value relevance of gender in top executive positions.

The remainder of this paper proceeds as follows: First, we review the literature and present our hypotheses. We then detail methods to test our hypotheses and introduce the data. Next, we present and discuss our results. Finally, we summarize our findings and set forth our conclusions.

Background and hypotheses

This section discusses the study background and introduces the hypotheses. The focus is on the literature regarding financial market performance and CEO turnover, then the literature on gender and boards, and finally on the literature on gender of top management and firm stock market performance. Then, our hypotheses are articulated.

One strand of the literature addresses CEO turnover and stock market response. Investor reaction to CEO or management changes in general are widely investigated, but the results are mixed. [Weisbach \(1988\)](#), [Denis and Denis \(1995\)](#), [Huson, Malatesta, and Parrino \(2004\)](#), and [Pessarossi and Weill \(2012\)](#) find positive market reactions to (forced) CEO turnover announcements. However, [Reinganum \(1985\)](#), [Beatty and Zajac \(1987\)](#), [Warner, Watts, and Wruck \(1988\)](#), and [Niño and Romero \(2007\)](#) find no significant response. Further, [Dedman and Lin \(2002\)](#) establish that markets react negatively to CEO turnover announcements. A widely acknowledged problem is that the event of the announcement of a new CEO is usually confounded by that of the withdrawal of the old CEO. Financial market analysis is not suitable to disentangling the impact on firm equity value of this type of news. As such, it is not possible to separate investor response regarding these two aspects. There is a closely related literature on the background of the new CEO. In this respect, the distinction between insider and outsider is highlighted (e.g., [Furtado & Rozeff, 1987](#); [Johnson, 1996](#)); usually, appointment of an insider as new CEO is more highly valued than appointment of an outsider.

The gender differences literature relies predominantly on the governance perspective, is usually concerned about fairness issues, and investigates the role of gender mainly at the board level ([Adams, 2016](#); [Adams & Ferreira, 2009](#); [Adams & Funk, 2012](#); [Bernardi, Bosco, & Vassill, 2006](#); [Haslam & Ryan, 2008](#); [Post & Byron, 2015](#); [Terjesen, Sealy, & Singh, 2009](#)). The key notion here is that female directors bring different skills to the board. Board diversity may improve skill complementarities of the board as a whole ([Anderson, Reeb, Upadhyay, & Zhao, 2011](#)). In particular, women are regarded as being more risk-averse, less overconfident, and more sensitive to social signals in determining appropriate behavior ([Croson & Gneezy, 2009](#)). Differences in talents, perspectives, and behavior between men and women, among many other factors, can affect the ability to monitor and discipline corporate managers ([Hillman et al., 2002](#)). [Post and Byron \(2015\)](#) perform a meta-analysis of the literature on women on boards and firm performance. These authors review 140 studies and find that female board representation is positively associated with accounting returns, especially in countries with strong shareholder protection. One concern with this research is that the identification strategy does not clearly rule

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