



Living through the Great Chinese Famine: Early-life experiences and managerial decisions[☆]

Xunan Feng^a, Anders C. Johansson^{b,*}

^a Shanghai University of Finance and Economics, China

^b Stockholm School of Economics, Sweden

ARTICLE INFO

Article history:

Received 11 August 2017

Received in revised form 6 November 2017

Accepted 25 November 2017

Available online 27 November 2017

JEL classification:

D03

D83

D84

G11

G31

G32

J24

Keywords:

Managers

Corporate decisions

Fraud

Corporate governance

China

ABSTRACT

Previous studies have linked personal characteristics of business leaders to corporate decisions and outcomes. We analyze if the traumatic experience of the Chinese Famine has an impact on managerial decisions. By exploiting the exogenous variation in local severity of the famine, we find that having lived through the famine during one's younger years is associated with more conservative financial, investment, and cash holding policies, a lower likelihood of unethical behavior, and better firm performance during economic downturns.

© 2017 Elsevier B.V. All rights reserved.

1. Introduction

Do personal early-life experiences affect business executives' corporate decisions? Recent studies have suggested that early-life experiences can have significant effects on people's decisions later in life, especially if those early-life experiences involve some form of extreme event (e.g. Graham and Narasimhan, 2004; Malmendier and Nagel, 2011; Malmendier et al., 2011). In this paper, we aim to answer this question by looking at how business leaders who lived through the Great Chinese Famine differ in their decision making compared to those who did not have to go through that devastating experience.

We base our analysis on a strand of literature within psychology that focuses on how personal experiences influence individuals' decision-making process (e.g., Barkan et al., 1998; Hertwig et al., 2004; Hertwig and Erev, 2009). Research on behavioral de-

[☆] Xunan Feng acknowledges financial support from National Natural Science Foundation of China (71672147). We thank Ying Wang, Qiaoli Chen and Xiaoxiang Hong for their excellent research assistances. Comments from Michael Funke, Johanna Rickne, Wenjiao Wang, Yang Yi and Tianyu Zhang as well as seminar participants from Southwestern University of Finance and Economics, Fudan University, Shanghai University of Finance and Economics, and Southwest Jiaotong University are greatly appreciated. All remaining errors are our own.

* Corresponding author at: Stockholm School of Economics, P.O. Box 6501, SE-113 83 Stockholm, Sweden.

E-mail address: anders.johansson@hhs.se (A.C. Johansson).

cision suggests that people tend to be oversensitive to rare events and that this can have a significant impact on their subsequent decisions (e.g., [Lichtenstein et al., 1978](#); [Yechiam et al., 2005](#)). In addition, people tend to remember their experience of a rare event at its absolute worst ([Redelmeier and Kahneman, 1996](#)), suggesting that rare events can have dramatic effects on people's decision behavior later in life. Moreover, [Barkan et al. \(1998\)](#) find that experiences can cause a previously risky decision-making behavior to change to a significantly safer behavior. Research has also shown that it is not only the event itself but how a person experiences it that matters. For example, [Bernile et al. \(2017\)](#) find that the intensity of the experience rather than the event itself influence subsequent risk behavior of CEOs. They show that there is a nonmonotonic relationship between intensity of early-life exposure to disasters and corporate risk-taking. Their findings indicate that those who experience a negative event such as a disaster in early life intensively will behave more conservatively as CEOs. Finally, studies on personal experiences within psychology and economics have shown that individuals are affected the most by severe events if they occur early on in life (e.g. [Elder, 1998](#); [Malmendier et al., 2011](#)).

Based on this previous research, we hypothesize that experiencing the Great Chinese Famine during a business leader's younger years is associated with his or her decision-making process later in life. More specifically, we hypothesize that those who were old enough to remember the experience but not yet adults at the time of the famine exhibit more conservative decisions later in life. To test this hypothesis, we use a data set comprised of board chairs in all listed A-share firms in China. We find that board chairs who were 6–18 years old at the time of the Great Chinese Famine are related to more conservative corporate financing policies, investment decisions, cash holding policies, and less unethical behavior.¹

While earlier studies such as those of [Malmendier and Nagel \(2011\)](#) and [Benmelech and Frydman \(2015\)](#) provide indicative proof of a positive relationship between personal experiences and decisions later in life, they do not pin down a causal transmission mechanism between them. To solve this, we exploit the exogenous variation in severity of the Great Famine across regions. We find that the variation of local severity of the famine affects the magnitude of the effect on managerial decisions later in life. Combining age cohorts and exogenous variation in local famine severity thus enables us to provide empirical evidence of transmission effects of early life experiences on managerial decisions. We then show that stronger control over the company proxied by CEO-chair duality or family ownership amplifies the effect of early-life experience of the famine on managerial decisions. These findings lend further support to our results on the causal link between traumatic early-life experiences and managerial decisions. Finally, we also show that experience of the famine is associated with better firm performance during economic downturns. Several robustness tests confirm our results.

This study ties into several different strands of research. First, it relates to a wider literature on how the personal characteristics of a manager in charge of a company affects corporate decisions and performance (e.g. [Hambrick and Mason, 1984](#); [Rotemberg and Saloner, 2000](#); [Bertrand and Schoar, 2003](#); [Malmendier and Tate, 2005](#); [Van den Steen, 2005](#); [Bennedsen et al., 2006](#); [Pérez-González, 2006](#); [Hirshleifer et al., 2012](#); [Kaplan et al., 2012](#); [Quigley and Hambrick, 2015](#); [Ou et al., 2017](#)). In this literature, there is a small but growing number of studies that examine the importance of personal experiences for economic and managerial decisions. For example, [Malmendier and Tate \(2009\)](#) show that CEOs' elevation to superstar status is associated with weaker firm performance, more time spent on activities outside the firm, and an increase in earnings management. [Schoar and Zuo \(2011\)](#) find that CEOs who begin their careers during economic recessions are more conservative in their managerial decisions. In a similar study, [Malmendier and Nagel \(2011\)](#) analyze the generation that experienced the Great Depression and show that such individuals tend to exhibit a lower willingness to take on financial risk and invest in financial markets. Similarly, [Malmendier et al. \(2011\)](#) demonstrate that CEOs who grew up during the Great Depression are more averse to letting firms under their management take on debt and instead rely more on internal finance and that CEOs with military backgrounds tend to pursue more aggressive corporate policies. Their findings are supported by research within psychology which has shown that the presence of weapons is conducive to aggression and that exposure to combat is followed by higher levels of risk taking ([Berkowitz and Lepage, 1967](#); [Killgore et al., 2008](#); [Kelley et al., 2012](#)). In addition, having experienced combat is linked to a sense of personal growth and being able to cope with adversity ([Elder, 1986](#); [Elder and Clipp, 1989](#)), which to some extent support the argument that people with military experience are more likely to exhibit lower risk aversion. However, contrary to this reasoning, [Benmelech and Frydman \(2015\)](#) find that military service is associated with more conservative managerial decisions, financial policies, corporate outcomes and more ethical behavior. Thus, existing evidence does not provide clear-cut predictions on how the experience of military service affects individual decision-making and corporate policies later in life. We add to this literature on personal experiences by analyzing how an unusually extreme early-life event in the form of a nation-wide famine affects managerial decisions later in life. As opposed to other types of personal experiences such as military service which may be affected by self-selection, the Great Chinese Famine constitutes a strictly exogenous event. The devastating famine was largely unexpected, which significantly alleviates the risk of endogeneity. More importantly, by combining variation across regions with age cohorts, we can shed light on the causal impact of early-childhood trauma on managerial decisions, something earlier studies on U.S. data have had difficulty doing.

This study also relates to the literature on long-term effects of famine. For example, [Stein et al. \(1975\)](#), [Ravelli et al. \(1999\)](#), and [Brown et al. \(2000\)](#) analyze the effects of the Dutch famine in 1944–1945. [Stanner et al. \(1997\)](#) study survivors of the Leningrad siege in 1941–1944. [Chen and Zhou \(2007\)](#), [Luo et al. \(2006\)](#), [Chen and Zhou \(2007\)](#), [Mu and Zhang \(2008\)](#), [Meng and Qian \(2009\)](#), [Almond et al. \(2010\)](#), and [Shi \(2011\)](#) analyze different effects of the Great Chinese Famine. While a few previous studies look at economic effects of famine,² to the best of our knowledge, this study is the first that links early-life experience of famine to managerial decisions later in life.

¹ Consistent with research in psychology, the formation of lasting early-life experiences tends to be concentrated in this age group.

² For a more detailed discussion on economics and famines, see [Ravallion \(1997\)](#).

Download English Version:

<https://daneshyari.com/en/article/7357348>

Download Persian Version:

<https://daneshyari.com/article/7357348>

[Daneshyari.com](https://daneshyari.com)