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Gender diversity, state control, and corporate risk-taking: Evidence from China☆

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ABSTRACT

Corporate risk-taking activities among Chinese corporations generally increase with the presence of male-only boards but are mitigated by state ownership. The positive relation between corporate risk-taking and male dominance in boardrooms became more prominent after the Government reduced its ownership control following the Non-Tradable Share (NTS) reform launched in 2005. The reduction in corporate risk-taking through state ownership tends to weaken after the NTS reform. Our results are robust to endogeneity issues and highlight the benefit of gender diversity in alleviating excess corporate risk-taking behavior, especially in countries with relatively weaker overall investor protection.

1. Introduction

Corporate risk-taking activities principally reflect the spirit of capitalism. While the determinants and consequences of these activities have been recently examined in the US and other developed markets worldwide (see for example, Bargeron et al., 2010; Faccio et al., 2011; John et al., 2008; Li et al., 2013; among others), little attention has been paid to these issues in emerging markets. We fill this gap in the literature by studying the inter-relationships between gender diversity in the boardroom, state ownership and corporate risk-taking in China.

There are two reasons why China provides a particularly interesting setting to examine the above issues in an emerging market. First, Chinese corporations represent a clear case of male dominance in the boardrooms. We report preliminary statistics that 39.17% of our sample firms have male-only boards. The average proportion of female directors is only 10.15%, and only one out of the 8903 firm-year observations has all female directors on the firm's board. Second, China is an example of an emerging market that still relies heavily on governmental intervention. State ownership has played a dominant role in how corporations behave in China (about 67% of our sample firms are state-owned enterprises (SOEs) or have state agencies as the largest shareholders). Whether these two aspects play an important role in corporate risk-taking behavior is the primary focus of our paper.

In addition, the inter-relationships of three major variables in our study are particularly worth noting due to a regime shift in governmental intervention that occurred in April 2005. In an attempt to liberalize its capital markets further, the China Securities Regulatory Commission (CSRC) launched the Non-Tradable Share (NTS) reform to convert non-tradable shares mainly held by SOEs or state agencies into tradable shares. While the NTS reform opened the gate for further reducing state ownership in

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Chinese-listed firms (Liao et al., 2014), its impact on the risk-taking variables studied in this paper is not clearly determined in prior research.

Utilizing a sample of 1361 non-financial listed firms in China for the period 1999 to 2010, we show that having male-only boards increases corporate risk-taking behavior significantly. We also confirm that state ownership is indeed an important indicator of corporate risk-taking.[1] Specifically, state-controlled firms are less willing to take risks. Our robustness tests also indicate that the impact of male dominance in boardrooms on excessive corporate risk-taking is significant in firms located in provinces with a higher level of marketization (i.e. where they are more exposed to the market economy).

Our study further shows that the positive relationship between male-only boards and risk-taking is more significant after the NTS reform. Through subsample analysis, we find that prior to the NTS reform, male-only boards have an insignificant effect on corporate risk-taking (male management aggressiveness may be tempered by state-ownership), but these firms become more risk-seeking after the NTS reform. On the other hand, the reduction in corporate risk-taking through state ownership tends to be dissipated after the NTS reform.

Our main contribution is twofold. First, while recent studies highlight the importance of gender diversity on boards in improving firms' corporate governance (Gul et al., 2011), as female directors are found to be more active in monitoring activities (Adams and Ferreira, 2009) and cautious in making important decisions compared to male directors (Huang and Kisgen, 2013; Levi et al., 2014),[2] there is an ongoing debate on whether promoting females in the boardrooms would ultimately contribute to greater corporate success. We offer new empirical evidence that the presence of female directors is beneficial in mitigating excessive risk-taking that may be harmful to firms,[3] specifically in an emerging market environment.

Second, the findings of this study offer important implications for policy makers. Although risk-taking is suggested as having a positive impact on firm long-term overall growth (Faccio et al., 2011), risk-taking in countries with weak investor protection may reflect potential expropriation (John et al., 2008). Investor protection in China is suggested as being weaker than in developed economies (Allen et al., 2005). In such an environment, state ownership can still be beneficial in alleviating excessive risk-taking. Having mentioned that, marketization is evident and essential for any emerging market in competing for capital flows from overseas.[4] These inter-relationships emphasize the importance of further promoting gender diversity in boardrooms in an effort to improve corporate practices, and thus firms' sustainable performance and survival. This evidence can be particularly critical for countries with relatively weaker overall investor protection, such as China.

The following section discusses the literature and develops hypotheses. The data and methodology are explained in Section 3, while the main results and robustness analysis are presented in Section 4. Section 5 concludes the study.

2. Hypothesis development

2.1. Male-only board and corporate risk-taking

Literature on behavioral considerations affirms the significance of gender differences in corporate decision making (Adams and Ferreira, 2009; Gul et al., 2011; Huang and Kisgen, 2013; Liu et al., 2014). For example, Adams and Ferreira (2009) report that female directors have better attendance records than male directors and are more likely to join monitoring committees. The market is also found to respond negatively to acquisitions made by male executives because of their tendency to undertake value-destroying acquisitions. A similar finding is reported for announcement returns following debt issuance (Huang and Kisgen, 2013).

Whether gender diversity in boardrooms ultimately benefits firms is still subject to on-going debate, with empirical evidence mostly drawn from developed markets. Carter et al. (2003) report that the positive relationship between gender diversity and firm value may be due to a better understanding of the diverse marketplace, as well as increasing creativity and innovation, brought onto a board by female directors. Moreover, gender diverse boards are more likely to produce effective problem solving. On the other hand, Rose (2007) finds a negative relationship between gender diversity and the performance of Danish firms, while Huse et al. (2009) do not find any particular association between the presence of females on the board and monitoring tasks, such as strategic and budget control.

The relation between gender diversity and corporate risk-taking has received limited attention in prior finance research.[5] We argue here that there are several channels that lead to the relationship between these two variables. Studying how culture influences corporate risk-taking in 35 countries (developed and emerging), Li et al. (2013) find that risk-taking increases (decreases) with cultures that are associated with individualism (uncertainty avoidance).[6] That is, certain characteristics such as individualism

[1] Following John et al. (2008) and Boubakri et al. (2013b), we use volatility of firm-level profitability to proxy for corporate risk-taking because performance volatility is a fundamental factor affecting long-term economic growth.

[2] Government agencies of some countries have recognized the importance of board gender diversity. For example, the Norwegian government mandates that public and state-owned firms must have 40% female directors on boards.

[3] Our results show that an increase in corporate risk-taking is associated with worse performance. The male-only board effect is also more prominent in firms located in regions with higher marketization levels.

[4] Marketization slows corporate risk-taking activities, but male dominance in the boardroom undermines this benefit.

[5] Faccio et al. (2016) document lower leverage, less volatile earnings and a higher survival rate among European firms that are led by female CEOs. However, their study covering the 1999–2009 period largely reflects developed markets in the region. Importantly, they note that risk-avoidance behavior among European firms with female CEOs is associated with sub-optimal capital allocation, implying that gender diversity may not necessarily be in the best interest of investors.

[6] We thank an anonymous referee for this insight.