The Glass Cliff: Are Women Disproportionately Appointed to Run Troubled Firms?

Discussion

Glass Cliff?

- Does pre-appointment firm performance predict gender when appointing a new CEO?
- 1992-2013 all US public companies
  - In contrast to prior literature
    - Many measures of pre-appointment performance
  - Large sample, many appointments
  - 93 Female CEOs, 2691 Male CEOs; 2560 firms
    - 1yr+ Change in: Stock prices; Market value; Sales growth; Earnings per share, Market to Book, Gross Profit, R&D, Debt, Dividends
    - Many contemporaneous controls: firm size, common shares outstanding, 2-digit industry, assets, sales growth
  - **Null Result**

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  - **Null Result – let's think about specification / priors / literature**
    - **<u>Specification</u>: Is there endogenous response to treatment included on RHS? Any misspecification in functional form or with standard errors?**
    - **<u>Priors</u>: What should we expect? What sub-samples? What does the prior**
    - **<u>Literature</u> tell us?**

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    - Many contemporaneous controls: firm size, common shares outstanding, 2-digit industry, assets, sales growth – **endogenous?**

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    - **<u>Literature</u> tell us?**

- Visualize results
  - 1992-2004, 61 women CEOs
  - 1000 firms
    - Adams, Gupta, Leeth (*British Journal of Management* 2009)

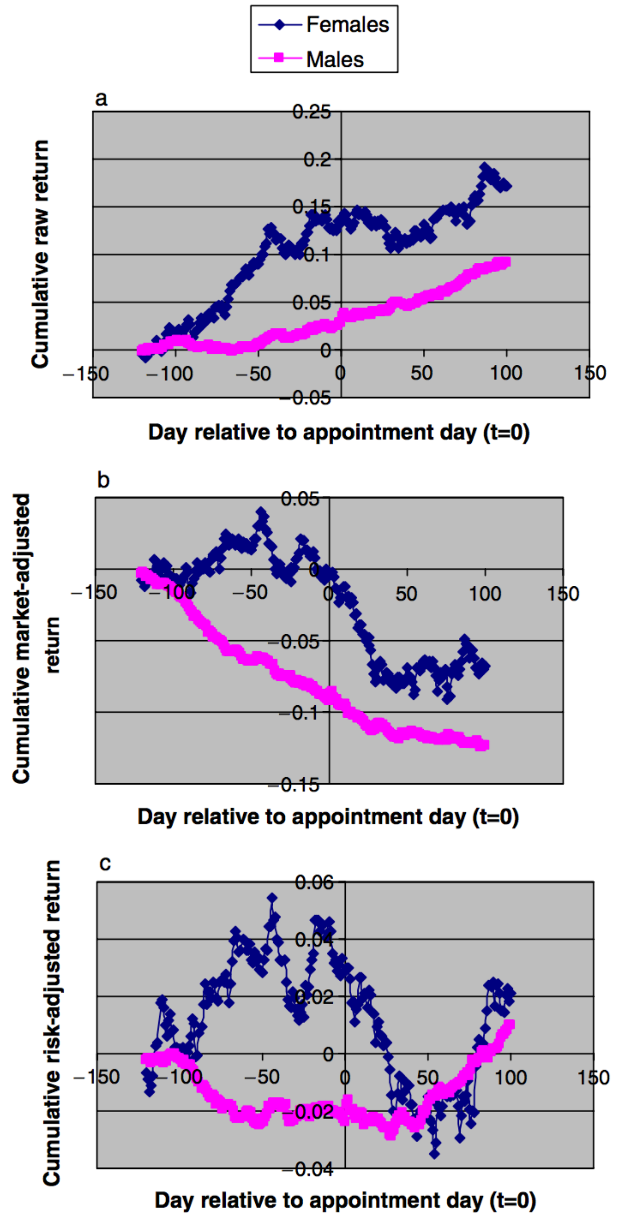
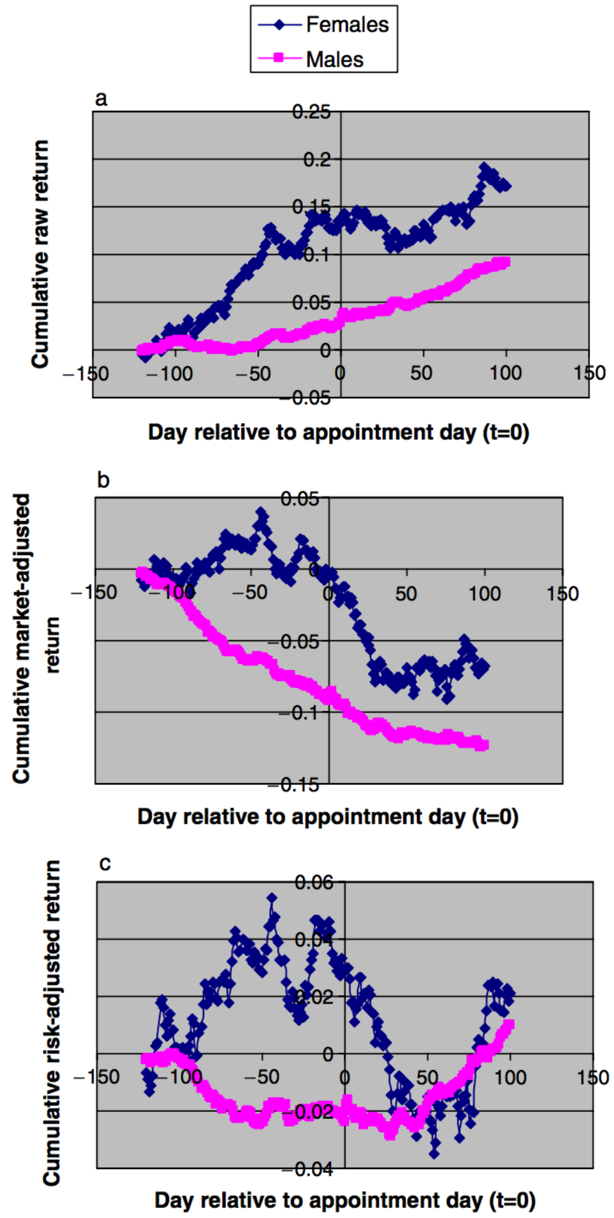


Figure 1. Mean cumulative returns over 120 days preceding and 100 days following the appointment of female CEOs and male CEOs in the same two-digit SIC industries: (a) mean cumulative raw return; (b) mean cumulative market-adjusted return; (c) mean cumulative risk-adjusted return

- No glass ceiling
  - 1992-2004, 61 women CEOs
  - 1000 firms
    - Adams, Gupta, Leeth (*British Journal of Management* 2009)
- ‘set priors’
  - CEO turnover significantly more likely after poor performance
    - Jenter and Kanaan JOF 2015



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- **“without conditioning, allows me to test the board’s decision not to replace the CEO at all”**
  - but shouldn’t downturns predict appointment of new CEO (male or female)

- Board’s decision to appoint... but the original study found declining stock performance preceded appointment of female board members
  - How should we think about multiple margins of response?
  - Probably more data on board members; potentially more elastic response
  - Should we think about the hypothesis as conditional on the board composition? Or is board composition endogenous?
  - Is it male-heavy boards that put female CEOs on a glass cliff?

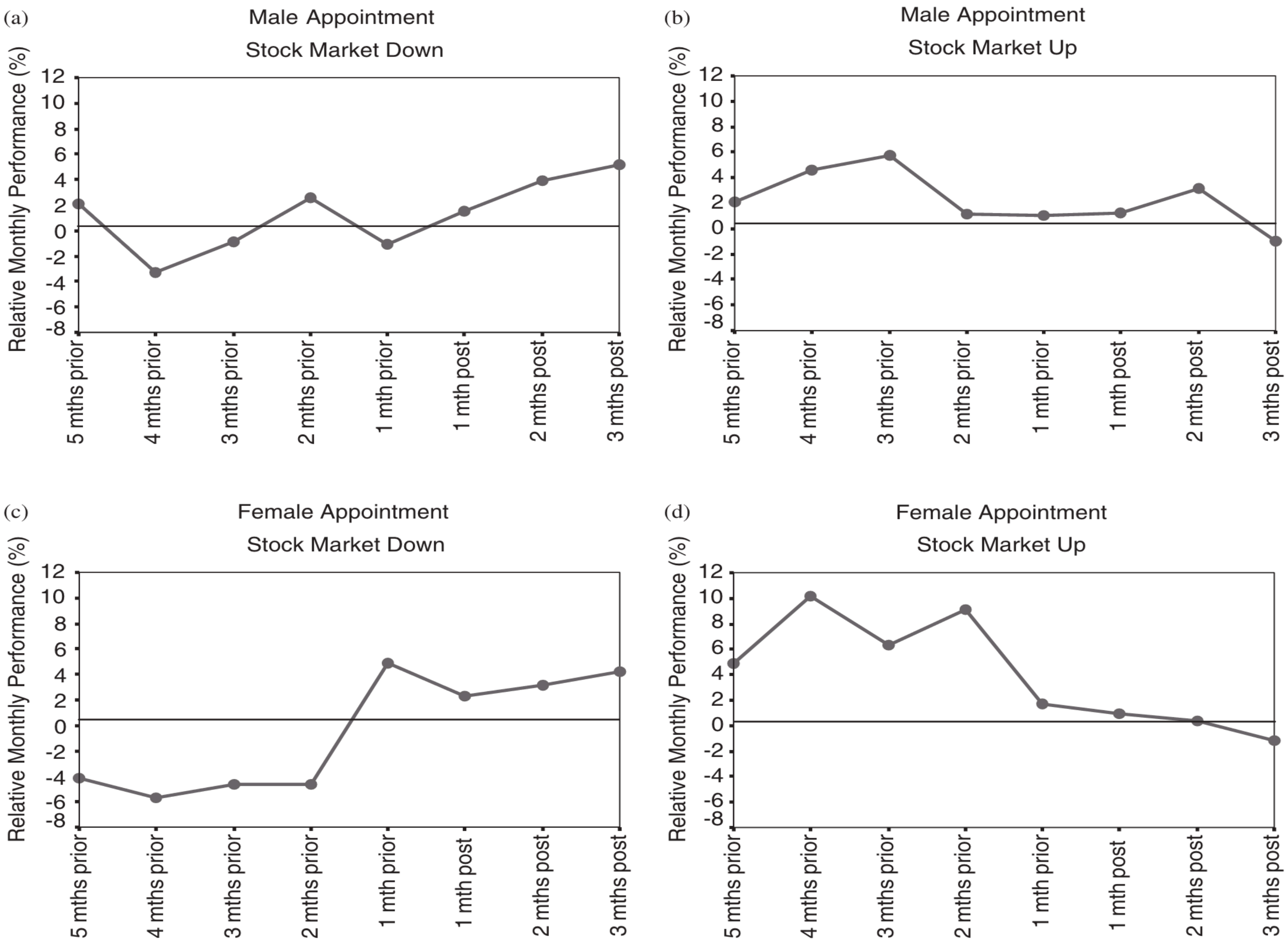
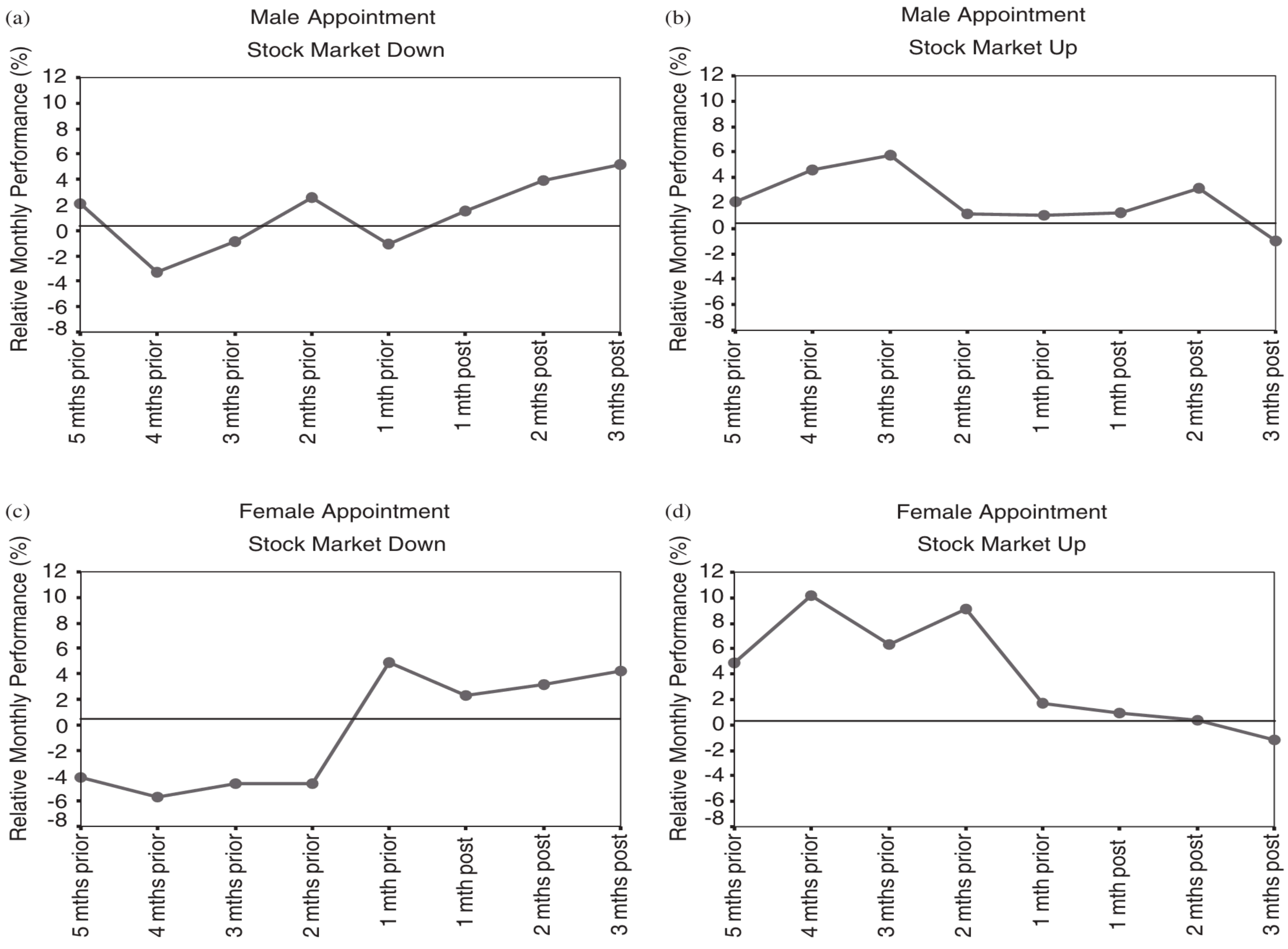


Figure 1. Relative monthly performance in the five months prior to and three months post appointment of a board member as a function of gender of appointee and the time of year of the appointment.

- **In a time of a general financial downturn**, companies that appointed a woman to their board had experienced consistently poorer performance **in the five months** preceding the appointment



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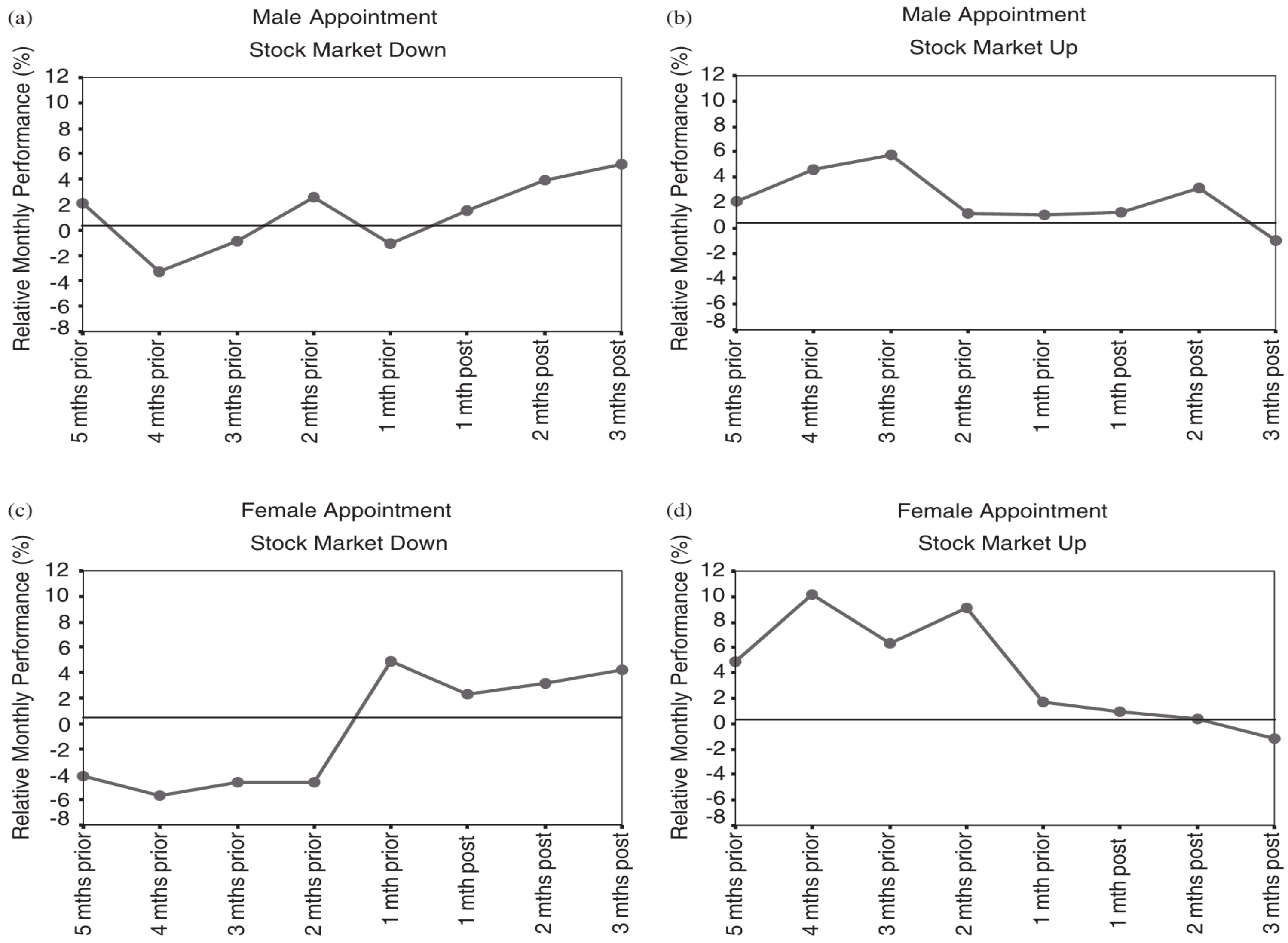
- In contrast, when the stock market was more stable, companies that appointed a woman had experienced positive performance

86 *M. K. Ryan and S. A. Haslam*



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- Whatever the psychology may be for this heterogeneity
  - Perhaps begin with this specification to replicate glass ceiling or not; Ryan and Haslam (*British Journal of Management* 2005)

Specification comments

- How much panel exit is there?
  - Balanced panel?
  - Appoint female in downturn, firm drops from sample
- Logit/Probit, FE, and Incidental Parameters Problem
  - Demean
  - Nonlinear probability models may be an important robustness check because it's a rare outcome
    - 93 vs. 2691
- Industry clusters or robust standard errors
  - 2-Digit Industry fixed effects (=100? out of 1800 obs.. 18 obs per industry?) may make any two Δs to be negatively correlated
  - Clustering may yield more significance

Specification comments

- What frequency data should drive glass ceiling?
  - Should we expect an immediately precipitating event to drive glass ceiling
  - Prior studies seem to use 5 months or less, not 1 yr+

- Whether the turnover was forced or voluntary?
- Exclude CEO turnovers associated with mergers & spin-offs?
- Summary statistics – is this only for appointments or for entire panel
- Dummy out for missing data?