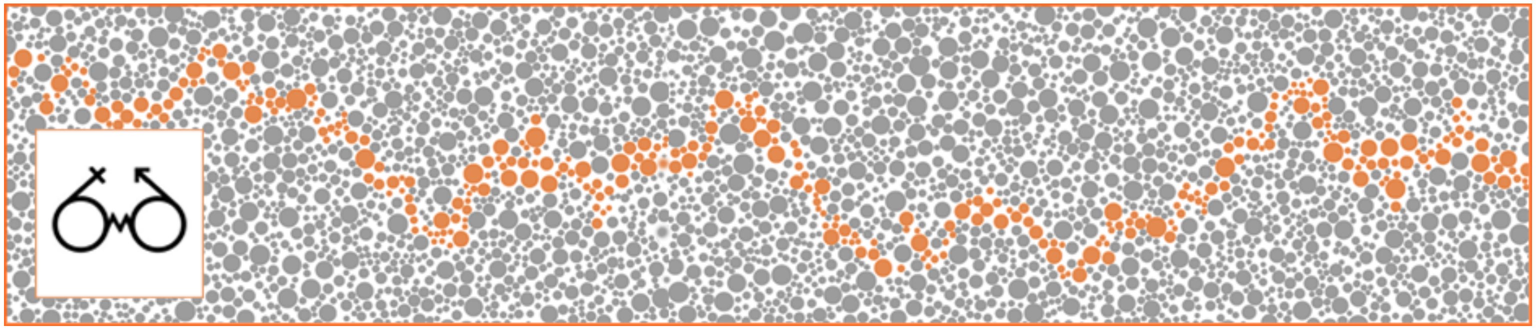
Gender & Finance Literature Review Series



Sameeksha Satpathy

Research Assistant for Gender and Finance Project

ESSEC Business School

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Gender & Finance Literature Review Series
Research presentation #6

Slides prepared by Sameeksha Satpathy
Member of the Gender & Finance project
ESSEC Business School

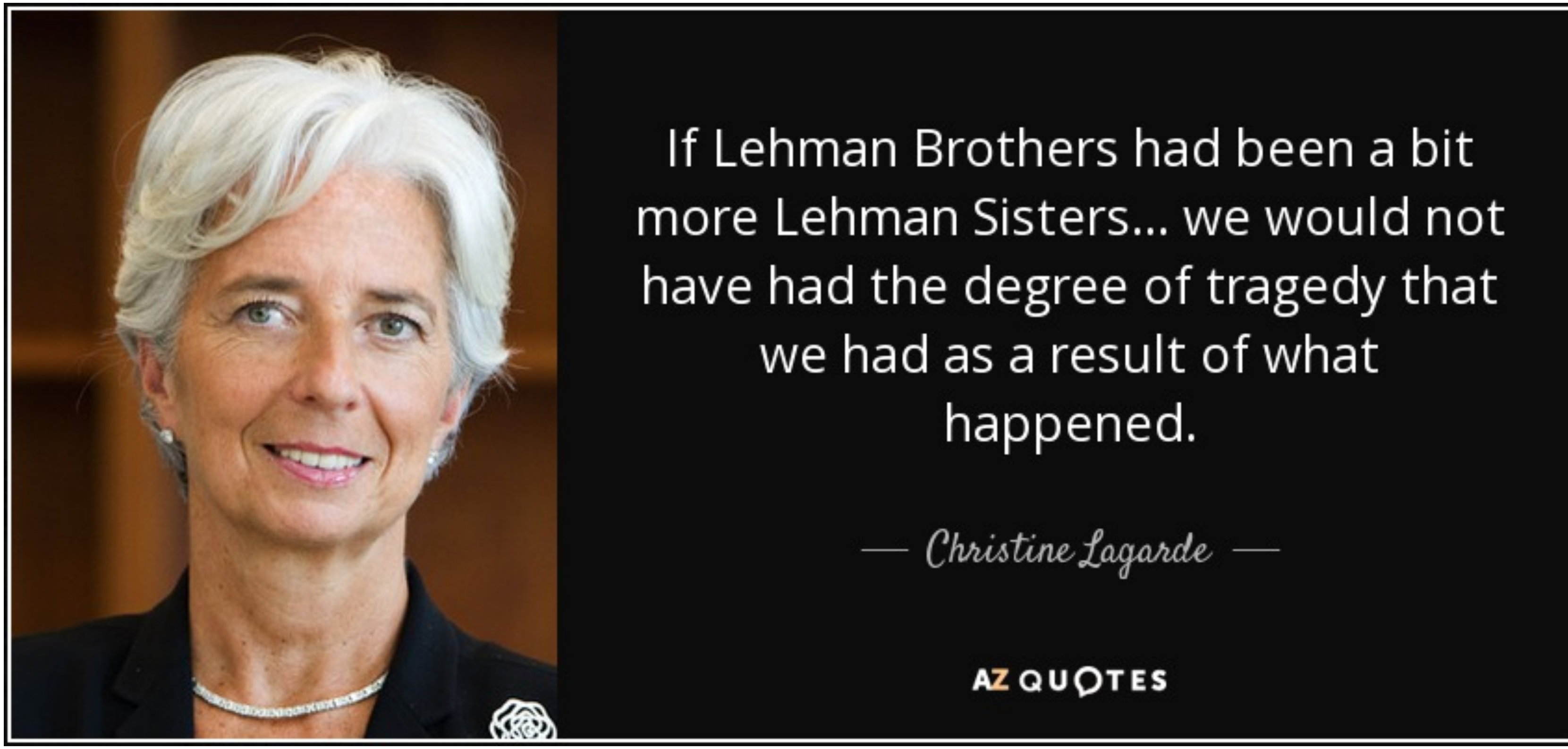
About the paper :

Renée B. Adams and Vanitha Ragunathan(2015)

"Lehman Sisters"

Motivation

Are women more risk averse than men?



http://www.azquotes.com/quote/827315

Literature Review

- What do we already know?

1. For a sample of directors in Sweden, it was found that female directors are less risk averse than male directors(Adams and Funk, 2012).
2. In a sample of MBA students taken from the University of Chicago, it was found that women are less likely to choose a risky career in finance (like investment banking or trading) in comparison to men. While the percentage of females doing so was 36%, the percentage of males was 57% (Sapienza, Zingales and Maestripieri, 2009).
3. The onset of a crisis requires more innovative solutions and ways of thinking in the board room. It has been found that women directors are more stakeholder oriented than male directors (Adams, Licht and Sagiv, 2011). There is also evidence that firms with higher CSR activities performed better in a crisis due to higher loyalty of the shareholders (Lins, Servaes and Tamayo, 2015). Hence the authors

Literature Review

reached the conclusion that women CEOs perform better during crises by bringing innovative solutions to the table and having higher trust from the shareholders.

4. Firms with females in C-suite positions tend to make lower volume of acquisitions which can be attributed to the lower overconfidence character trait in women (Huang and Kisgen, 2013).
5. The authors come to the conclusion that imposing gender quotas on boards might not be a full-proof method to increase the risk averseness of the board as a whole. They base this on the research done which suggests that different teams have different methods of taking into account individual preferences and reaching a final decision (Aspetiguia, Azmat and Iriberri, 2012).

Research and policy questions

- What do they want to learn?

Adams and Ragunathan(2015) want to find out if women are systematically more risk averse than men. They concentrate on a specific indutry i.e. finance industry with focus on banking. They analyse if the presence of women as top executives, led the banks to perform better during the times of crises.

Research and policy questions

There is an increasing focus on recruiting women in finance by conducting specific diversity programs at banks and other financial institutions. There has been no conclusive evidence yet that women in, say trading, have a lower degree of risk taking ability than men.

https://www.israel21c.org/nyse-salutes-leading-israeli-women/

Methodology – How did they do it?

- The authors consider origin risk(risks measured on the date that banks first appear in CSRP) as an exogenous measure for banks to see if boardroom diversity responds to changes in risk (based on Cheng, Hong and Scheinkman, 2015). Secondly, they account for gender diversity in the risk regressions using a Blau index of gender balance in director connections.[1]
- In order to analyse whether more gender diverse boards have different responses which help to improve their performance, they consider the research done by Adams and Ferreira (2009)

1.'Lehman Sisters' - Renée B. Adams and Vanitha Ragunathan, 2015

Methodology – How did they do it?

- They try to find out if there is a difference between women who choose a career in finance and others who do not, especially with reference to the risk taking capabilities of these women. In order to analyse this further, they draw upon the research done by Sapienza, Zingales and Maestripieri (2009). The research considers the entire cohort of MBA students at the University of Chicago (including men). They run test on the responses of the sample to check if women have more risk taking abilities than men.
- They try to analyse the participation of women as board members in financial firms in comparison with non-financial firms. They do this by drawing upon the research done by Adams and Kirchmaier (2015b).

What are the findings of the paper?

1. There is no conclusive evidence suggesting that boardroom gender diversity is associated with more risk taking capabilities, especially in the event of a crisis.
2. Male directors are more punctual and there is less absenteeism on their side when there are more women directors in the board.
3. In the cohort of MBA students, women are more risk averse than men. Women who opt for a career in finance have lower risk aversion than other women who opt for careers in other industries. Whereas, this is not the case for the male students.
4. They found that fewer women were on the boards of financial firms as compared to industrial firms.

Based on the paper, we recommend

1. There could be a selection bias in academic studies when researchers talk about females working in the finance industry. This means that if researchers approach women who are already CEOs to gauge their risk taking ability, it might not be the best representation of the population.
2. The intervention to encourage women to pursue careers in the financial industry should be made earlier. There should be programs to inform them about career opportunities in finance and various diversity programs by banks which aim at solving the gender balance issue in financial institutions.

References

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3. Clark, Andrew (2010) “Lehman Brothers' golden girl, Erin Callan: through the glass ceiling – and off the glass cliff,” The Guardian, Friday 19 March 2010, Available at http://www.guardian.co.uk/business/2010/mar/19/lehmans-erin-callan-glass-cliff
4. Huang, Jiekun, and Darren J. Kisgen, “Gender and Corporate Finance: Are Male Executives Overconfident Relative to Female Executives,” *Journal of Financial Economics*, 108 (2013), 822-839.
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  Website: www.genderfinance.net

- François Longin

  E-mail: longin@essec.edu

  Website: www.longin.fr

- Estefania Santacreu-Vasut

  E-mail: santacreuvasut@essec.edu

  Website: santacreuvasut.com

Thank you !