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Hormones and gender can influence M&A, UBC studies find

Testosterone of younger male CEOs adds likelihood of failed mergers and acquisitions

Richard Chu

A combination of merger premiums, earnings and other financial metrics are often cited as key elements of any corporate merger and acquisition.

But new studies by the UBC Sauder School of Business have found that hormone levels and gender of corporate leaders also influence the outcome of any deal.

“It’s just fascinating that biological characteristics also manifest themselves in corporate decision-making,” said Sauder finance professor Kai Li. “You’d think that a corporate takeover would be a sophisticated, well-thought-out decision, but human characteristics still carry through.”

An as-yet unpublished working paper authored by Li, Sauder finance professor Maurice Levi and PhD student Feng Zhang, obtained by BIV, found that age and corresponding testosterone levels of male CEOs influenced the chances of failure of an M&A deal.

“There was a 6% increased chance of failure if the bidder CEO was young, and a 6% chance of failure if the target CEO is young,” said Levi.

The study, which looked at more than 300 M&A deals between 1997 and 2007 also found that with male CEOs under 50 years of age, there was an increased likelihood that any announced deals would turn into a hostile takeover bid instead of a friendly deal with management.

“It turns out that testosterone is very closely related to age and it plays a role whether offers are withdrawn, whether they’re classified as unfriendly, whether they’re unsolicited or whether they become hostile,” Levi said. “The younger the CEO, the higher the testosterone.”

The study expands the impact of a 2007 study by Terence Burnham, which found that testosterone influences the outcome of the ultimatum game, a game where two players interact to decide how to divide up a sum of money given to them.

Burnham played the game with male students whose saliva was swabbed to test their levels of testosterone. His experiment found that players with above-average levels of testosterone were far more likely to reject a low offer than those with low levels of testosterone.

Levi noted that younger CEOs were more likely to reject a low value deal because they see the low offer as a challenge to their authority “and they’re not going to take that challenge.”

A second study conducted by Li, Levi and Zhang might find a way to help counteract the effects of high testosterone in M&A transactions. A study exploring the impacts of women on corporate boards found that women not only affect the bid premium of a deal but also influence whether a deal will be friendly or hostile.

The study of 442 M&As between 1997 and 2007 found that M&A bid premiums fell by approximately 9% for each independent woman director on a board of nine or 10 members. This finding was true for both bidding companies and target companies. “They’re paying less [as bidders], but the other side of it is they’re accepting less [as targets],” said Levi.

One of the main reasons for this is that studies have found women to be more risk-averse than men. In the M&A context, women are factoring a bigger discount on the future value of any merger or acquisition. “They pay less for a given income stream associated with a target company and they’d accept less because they view it as being worth less,” said Levi.

The study also found that with each woman on a corporate board, the likelihood of an M&A deal turning into a hostile tender offer falls by 2%. One reason for this, said Levi, is that women are more likely to discuss a deal and continue any negotiations than say, ““To hell with you, you’re not going to sell to us, we’re just going to go to the shareholders.””

Li suggested that the gender study findings demonstrate that women bring a different dimension to corporate decision-making that improves corporate governance and protects shareholder interests. “Sometimes mergers are driven by CEO hubris. They have a huge ego, empire-building incentives. This can serve as a check on that.” •

rchu@biv.com