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Communication instead of conflict – why are female CEOs so interesting for hedge funds

The value of female-led firms is enhanced more by the intervention of activist investors than that of firms with male CEOs. This is the result of a recent paper by Iftekhar Hasan (Fordham University and IWH) and Qiang Wu (Rensselaer Polytechnic Institute, RPI) at the Halle Institute for Economic Research (IWH). "The results show that female CEOs particularly benefit from the intervention of hedge fund activists due to their strong communication and interpersonal skills," explains Iftekhar Hasan. This is because, on average, the intervention of an activist hedge fund increases the value of the firm ex post. To achieve this, activist hedge funds such as Carl Icahn, Trian Fundmanagement or Elliott prefer to rely on communication and cooperation with the management.

For the study, a sample of 42,831 U.S. firm data and 2,410 hedge fund activism events from 2003 to 2018 were analysed. During this period, the economic importance of activist hedge funds also increased significantly. While they managed \$12 billion in the U.S. in 2003, by 2018 the figure had risen to more than \$100 billion. For the survey, the researchers explored the following questions: Is there a systematic association between female CEOs and the probability of activist hedge funds targeting their firms, and if so, why? Do these investors approach female firm leaders differently than male firm leaders? Do female-led target firms perform differently after targeting compared to male-led target firms?

As the study also indicates, activist hedge funds target female-led firms more often. The likelihood of attracting the interest of an activist hedge fund is 52% higher for a firm with a female CEO (see figure). "This study doesn't just highlight gender differences, but also provides an indication of the link between soft skills and profitability," comments IWH President Reint Gropp. This is because activist hedge funds rely on communication and collaboration with CEOs: The average share of activist hedge funds in the firms they invest in is less than 9%, which is far from a controlling stake. The most common goal of hedge fund activism – almost half of all hedge fund activism events – is to increase shareholder value through communication with management. Only when the management does not want to cooperate with the activist investors the latter drive campaigns to bring other shareholders on board.

[no press embargo](#)

Press contact:
Stefanie Müller-Dreißigacker
Tel +49 345 7753 720
presse@iwh-halle.de

Scientific contact:
Reint Gropp
Tel +49 345 7753 700
reint.gropp@iwh-halle.de

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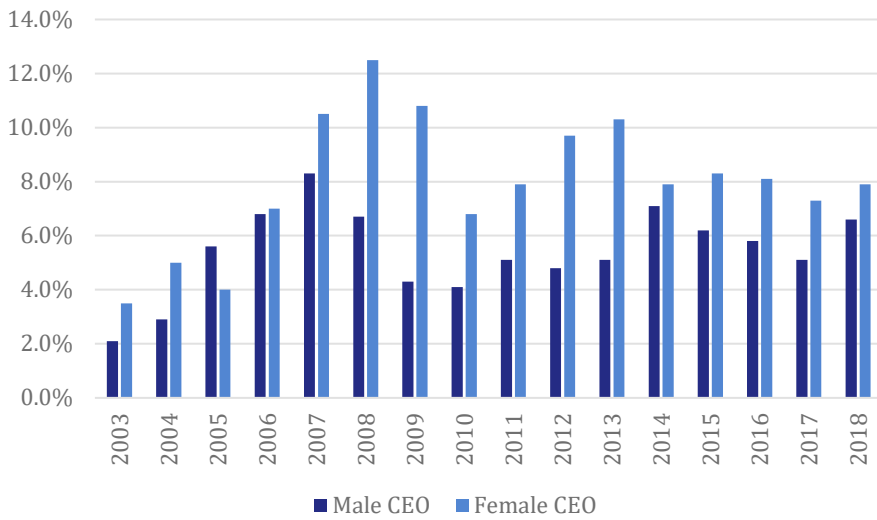
Halle Institute for Economic
Research (IWH) – Member of the
Leibniz Association
Tel +49 345 7753 60
Fax +49 345 7753 820
Kleine Maerkerstrasse 8
D-06108 Halle (Saale)
Germany

P.O. Box 11 03 61
D-06017 Halle (Saale)
Germany

www.iwh-halle.de/en/

Figure

Probability of being targeted by year
Male vs. female CEOs



Source: Own calculations and presentation.

The transformational leadership style of female CEOs has a significant impact on how activism campaigns transform target firms and improve share price. Female CEOs are more likely to communicate and cooperate with hedge fund activists rather than attacking them. This lowers implementation costs and increases success rates. As a result, expected returns to the hedge fund increase. Possessing strong soft skills, female CEOs are more likely to accept hedge fund activists' advice and expertise, thereby improving operational performance.

Male CEOs, on the other hand, tend to be more aggressive in negotiations, more self-centered and more power-oriented. Accordingly, they are more likely to resist hedge fund activists' suggestions, resulting in campaigns that are costly for both parties. Those campaigns reduce rather than increase the value of the firm. As the data show, female CEOs are significantly more likely to settle such power struggles than male business leaders. "This proves that communication and collaboration during activism campaigns are more likely with female CEOs," Hasan sais.

A counterfactual test confirms the result. If activist hedge funds' need for communication drops because they don't seek active participation, then the gender effect also disappears. To examine this possibility, they compared the applications of the U.S. Securities and Exchange Commission (SEC) for an acquisition of more than 5% of the shares. There are two groups in the U.S.: Schedule 13D and Schedule 13G. The latter can be applied for by investors if, among other things, they do not wish to become actively involved in the firm. There is no preference for female CEOs when activist hedge funds file 13G, where they act as quasi-passive investors in firms and therefore do not need to cooperate with firm management.

The study also analysed dynamic changes in target firms two years before and up to two years after hedge fund engagement. "After adjusting for industry and year effects, both female- and male-led target firms increase their operating profitability in the two years after entry, but the increase is significantly larger for

female-led target firms," Gropp summarises. This finding is consistent with hedge fund activists' goals of increasing dividend payout and performance.

Publication

Bill Francis, Iftekhar Hasan, Yinjie (Victor) Shen, Qiang Wu: Do Activist Hedge Funds Target Female CEOs? The Role of CEO Gender in Hedge Fund Activism, in: Journal of Financial Economics, Vol. 141 (1), 2021, 372-393.

Scientific contact

Professor Reint Gropp, PhD
Tel +49 345 7753 700
Reint.Gropp@iwh-halle.de

Press contact

Stefanie Müller-Dreißigacker
Tel +49 345 7753 720
presse@iwh-halle.de

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