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GENDER DIFFERENCES IN LEADERS' COMPLIANT BEHAVIOR

EXTENDED ABSTRACT

SELECTION INTO LEADERSHIP AND DISHONEST BEHAVIOR OF LEADERS:

A GENDER EXPERIMENT

Kerstin Grosch [1]
Josefstaedter Str. 39, 1080 Vienna (Austria)
E-mail: grosch@ihs.ac.at

Stephan Müller [2]
Platz der Göttinger Sieben 3, 37073 Göttingen (Germany)
E-mail: stephan.mueller@wiwi.uni-goettingen.de

Holger A. Rau [2]
Corresponding author
Platz der Göttinger Sieben 3, 37073 Göttingen (Germany)
E-mail: holger.rau@uni-goettingen.de

Lilia Zhurakhovska [3]
Lotharstr. 65, 47057 Duisburg (Germany)
E-mail: lilia.zhurakhovska@uni-due.de

[1] Institute for Advanced Studies

[2] University of Göttingen

[3] University of Duisburg-Essen

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LEADERS AND THEIR INCENTIVES TO BEHAVE NON-COMPLIANTLY

In recent years, news has reported extensively on the misbehavior of senior corporate officers who are out for their gain. For example, the car manufacturer Volkswagen manipulated their emissions to comply with US standards, the financial service provider Wirecard misreported 1.9 billion on the revenue side, and several large-scale tax frauds by managers were uncovered. This demonstrates the extent to which some managers violate compliance with ethical norms of honesty and integrity.

There are two key motivations for behaving non-compliantly as a leader. First, leaders benefit personally since they are typically compensated and promoted based on their performance. Thus, leaders have an incentive to misreport outcomes particularly to the entities relevant for their performance evaluation (Burns, 2006). Second, leaders' decisions impact the payoffs of different stakeholders, e.g., shareholders in the case of managers or politicians' staff members (Berman et al., 1999). Since a leader is, at least partially, evaluated based on the satisfaction of the stakeholders' needs and aspirations, his or her decisions are shaped by the beliefs about stakeholders' preferences. This indicates the potential role of social preferences or norms for decision-making.

THE RELEVANCE OF GENDER FOR LEADERS' COMPLIANCE

Women are still largely underrepresented in leadership positions (Flabbi et al., 2019; Zenger & Folkman, 2019). Besides historical gender-role attitudes (Alesina et al., 2013), gender differences in preferences are a potential explanation for why women partly sort out. That is, on average, they lack risk tolerance, confidence, or competitive preferences, as compared to men (e.g., Barber & Odean, 2001; Niederle & Vesterlund, 2007; Ertac & Gurdal, 2012; Alan et al., 2020). In the controlled environment of an economic laboratory, it has been shown that women behave less dishonestly than men when lying benefits themselves but nobody else (e.g., Dreber & Johannesson, 2008; Grosch & Rau, 2017). This behavior translates to real-life situations. Women are less likely to accept unethical business practices and academic dishonesty than men (Franke et al., 1997; Borkowski & Ugras, 1998). Since leadership decisions may require bending the rules at times when there are social, monetary, or other incentives in place, differences in dishonest behavior may be another piece of the puzzle explaining gender differences in leadership sorting and behavior. Empirical evidence suggests that a higher share of women can be beneficial for a company's performance. Moreover, empirical studies show that women in leadership positions contribute to ethical decision-making, e.g., reducing corruption and increasing the provision of public goods in the political domain (Swamy et al., 2001; Chattopadhyay & Duflo, 2004). The majority of the gender and leadership literature is based on empirical data which makes it difficult to identify cause-effect relations and underlying motives of behavior. Hence, research calls for more causal evidence between leadership and outcomes (Garretsen et al., 2020).

EXPERIMENTAL STUDY

To study dishonest behavior in individual and leadership decisions with a focus on gender differences, we conducted an economic laboratory experiment (Grosch et al., 2021). Economic laboratory experiments allow to draw causal inferences from observed behavior and to shed light on underlying motives of behavior. For designing the experiment, we abstract the described scenario above in which ethical misconduct pays off. We implement two stages whereas in the first stage, individual decisions are observed and in the second stage, leadership behavior is observed. To analyze the results from the

experiment, we compare individual and leadership behavior between men and women with statistical analyses tools. In the following, we describe the experimental design and the results in more detail.

In the experiment, participants roll a die and receive a payoff that increases in the reported number. This method is known as the die-rolling game by (Fischbacher & Föllmi-Heusi, 2013). Although the experiment is stylized, it encompasses characteristics that may model dishonest/non-compliant behavior in business situations. For instance, the reporting set-up resembles situations in which managers know the real outcome and may intentionally misreport to increase company returns (e.g., Burns & Kedia, 2006; Bollen & Pool, 2009), by misreporting sale figures of teams (Church et al., 2012), or figures to evade taxes (Joulfaian, 2000). The die-rolling paradigm measures honesty in a setting with practically no chance of being publicly exposed misreporting. This is a relevant simplification as many real-life situations are characterized by a relatively low chance of getting caught and punished. The focus of this study is on changes in behavior across contexts (individual vs. group) while keeping incentives and the chance of being caught constant. Decisions in the die-rolling paradigm are associated with real-life behavior in the fields of corrupt behavior (Hanna & Wang, 2017), free riding in public transportation (Potters, 2016), and refraining from reporting over-payments (Dai et al., 2018).

In our experiment, the same participants report the outcome of a die roll twice. First, subjects only report for themselves, which serves as a proxy for individual honesty preferences. Subsequently, we measure dishonest behavior when assuming responsibility for a group as a leader. That is, subjects report the outcome of a die roll in the role of a potential group leader, which may determine their payoff and the payoff of two group members. Before they make this decision, we analyze subjects' willingness to take up leadership by asking them whether they want to become a leader or not. They learn that if more than one person says "yes", a random draw will select one of the applicants. Measuring these leadership preferences allows us two things. First, we can study whether individual honesty preferences affect the decision to become a leader. Second, we can analyze whether the willingness to take up leadership affects dishonest behavior for groups. To isolate the effects of endogenous leadership, we ran a control treatment without the possibility to apply for leadership. In all treatments, we take existing evidence of gender differences in preferences into account and control for competitive, social, and risk preferences.

Our results demonstrate that women behave less dishonestly than men when deciding on individual payoffs. This is in line with lab experimental evidence that predominantly demonstrates that women behave more ethically than men, e.g., in lying situations when lying only benefits the person who lies and hurts somebody else (e.g., Dreber & Johannesson, 2008). This gender difference vanishes when subjects make their second reporting decision in the role of a group leader. It can be explained by women increasing dishonesty as leaders, particularly those who want to assume responsibility as a leader. We find that men with a preference for dishonesty self-select into leadership and show similar misreporting behavior in the group domain as in the individual domain. By contrast, women's willingness to take over leadership is not related to their individual honesty preferences. Our control treatment reveals that women only increase dishonest behavior for groups when they can apply for leadership, but not when there is an external appointment. These results demonstrate that women's increase in dishonesty is not driven by the group context *per se*. It is induced by a combination of the explicit decision to act as a leader *and* making decisions on behalf of others.

To further investigate the underlying mechanisms of women increasing dishonesty as leaders, we

conducted a follow-up (Grosch et al., 2021). The design is similar to the first study but we additionally elicit leaders' beliefs on individual honesty preferences of group members. We interpret this measure as the leader's perceived group norm when reporting joint payoffs. The study also controls for social value orientation to account for a possible relation between prosociality and misreporting for groups. Perceived norms seem to be the key driver for female leaders to increase misreporting for groups; particularly for women who want to become a leader. By contrast, for women who did not apply for leadership, we do not observe this finding.

CONCLUSION

Our study (Grosch et al., 2021) improves the understanding of women's (and men's) motivation to apply for leadership. We also shed light on gender differences in dishonest behavior when deciding for groups. We showed that women's decision to apply for leadership is not correlated to their honesty preferences. This highlights that the gender gap in the application to leadership positions may not be associated with women's more pronounced preference for honesty. This may imply that there is no need to address differing honesty preferences of men and women in workplace policies. Interestingly, we show that although women may not behave dishonestly for themselves, actively assuming responsibility motivates them to behave dishonestly for others. This highlights the importance of promotion mechanisms since the opportunity to apply for leadership may lead to a behavioral change for women who decide for a group. (Adams & Funk, 2012) demonstrate for Sweden's top directors that women are more benevolent, care less about achievement and power than their male counterparts consistent with character trait distribution for the general population. This suggests that women's traits are not always malleable to expectations or stereotypical thinking. However, when leadership demands women to implicitly change their preferences due to others' expectations as in our context, it could have a range of consequences. For instance, affirmative action policies in the form of a women's quota may not result in higher ethical standards at the management level per se. Decision-makers should keep in mind that the procedural design of the hiring process might matter, i.e., whether women actively apply for a promotion or whether the company/institution commends their promotion which may be essential for the leader's ethical behavior. Moreover, if female executives have to adapt to a leadership style that is not in line with their individual preferences, then this may result in higher perceived mental stress (Gardiner & Tiggemann, 1999). This may ultimately make women give up the leadership position or work part-time in the long term (Manning & Petrongolo, 2008).

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