



Do CEO Characteristics Matter in Product Recalls?

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ABSTRACT

This study examines the effect of CEO characteristics such as gender, age, tenure, functional background, stock ownership, compensation scheme and dual role on the stock market returns of automobile companies, around the announcement of product recalls. Using an event study, for a sample of 2,576 product recalls in the US automobile industry, between January 2010 and June 2021, we observe that the stock market's reaction to a product recall announcement is negative. However, the impacts on the cumulative abnormal returns around the announcement of product recalls of the company's CEO being female, the CEO tenure, the CEO having an operations or marketing background, the ratio of CEO long-term compensation to total compensation and the CEO and Chairperson being the same person are all positive and statistically significant, showing that these CEO characteristics mitigate the negative effects on a company's financial value caused by product recalls.

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KEYWORDS

Product recall; stock market reaction; event study; CEO characteristics; automobile industry

1. Introduction

The economics literature has highlighted the role of CEO characteristics in the company's decisions and performance (e.g. Bertrand and Schoar 2003; Adams and Ferreira 2009; Peni 2014). Moreover, although still scarce, there is some recent evidence that CEO characteristics influence product recall decisions (Wowak, Mannor, and Wowak 2015; Liu, Liu, and Luo 2016; Kashmiri, Nicol, and Arora 2017; Byun and Al-Shammari 2021; Mayo, Ball, and Mills 2022). Considering this, we conjecture that the stock market reaction to a product recall announcement is also influenced by CEO characteristics, an impact which has never been studied. Hence, the main aim of this article is to analyse the impact of CEOs' characteristics (gender, age, tenure, functional background, stock ownership, compensation scheme and dual role) on stock returns around the announcement of product recalls in the US automobile industry.

A product recall is an example of a product-harm crisis, which is defined as a "discrete, well-publicized occurrence wherein products are found to be defective or

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