

Exogenous Shocks in Leadership and Management Research: Types, Challenges, and Opportunities

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Abstract

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Keywords: kw1, kw2, kw3.

1 Introduction

2 What is an exogenous shock?

2.1 Exogenous shocks in the literature on natural experiments

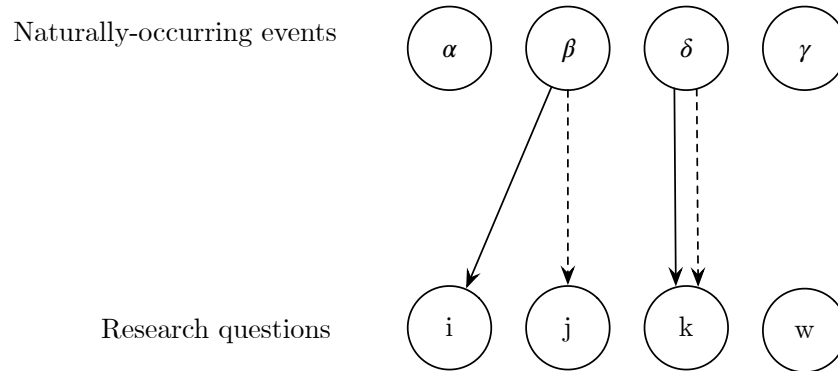


Fig. 1: Exogenous shocks map naturally-occurring events onto research questions via empirical and substantive relevance. Notes: \longrightarrow = empirical relevance; \dashrightarrow = substantive relevance.

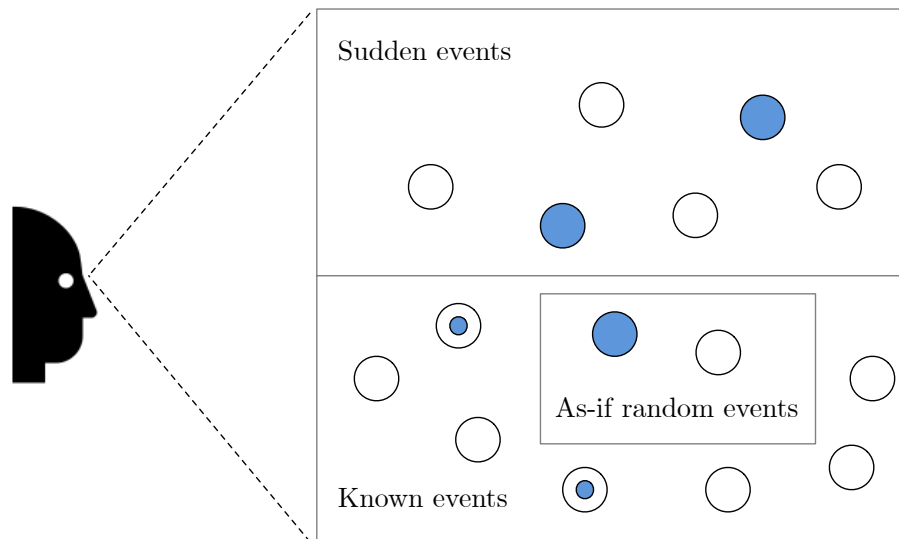


Fig. 2: Semantic representation of exogenous shocks in the natural experiment literature. Notes: \bullet = exogenous shocks; \odot = events that have substantive relevance but do not support causal inference; \circ = events that lack empirical and substantive relevance.

2.2 Exogenous shocks in leadership and management research



Fig. 3: Distribution of studies that claim to use an exogenous shock across management journals. Notes: $N = 32$; in the interest of consistency, we excluded ‘exogenous shock’ studies published in Management Science addressing finance or operations problems. The following journals do not have any ‘exogenous shock’ study: Administrative Science Quarterly, Entrepreneurship Theory and Practice, Journal of Business Venturing, Journal of Management, Leadership Quarterly, Research Policy.

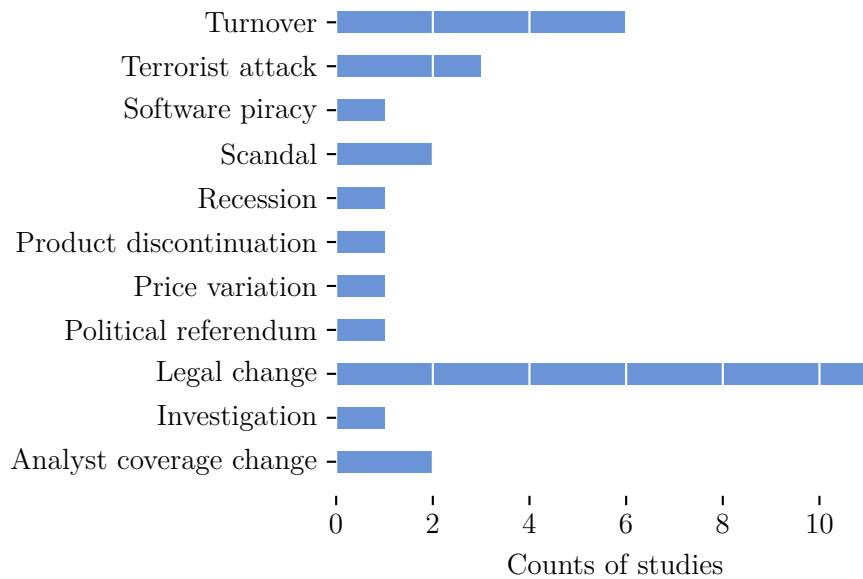


Fig. 4: Classes of naturally-occurring events presumed to create exogenous shocks.

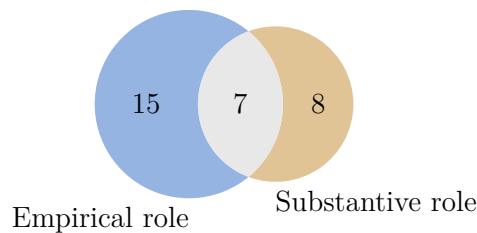


Fig. 5: Role of the naturally-occurring events presumed to create exogenous shocks.

TABLE I
Summary of study events, research questions, and exogenous shocks

Study	Event	Research question	Relevance of the event			Summary
			Empirical	Substantive		
Birhanu & Wezel (2020)	Government changes following Arab spring social movement.	How does group affiliation influence firm performance under weak market institutions?	✓	×		The use of sudden government change is presumed to affect executives' capacity to influence political leaders.
Byun et al. (2019)	Change in a politician's committee and/or committee chair assignments.	How do changes in an employee's relational capital influence mobility and entrepreneurship decisions?	×	✓		Lobbyists may experience a discontinuous shift in the value associated with a connection if there are changes to a politician's committee and/or committee chair assignments. Then, the authors can investigate empirically the consequences of social capital change on lobbyists' career.
Cabral et al. (2021)	Staggered passage of anti-takeover laws in U.S.	Does managerial job security affect the adoption of innovative practices and structures?	✓	✓		The adoption of an anti-takeover statute is a proxy of managerial job security, which changes across states and within individual states over time, and is supposed to affect the propensity to create a CVC program.
Cai & Shi (2019)	Revelation of the sex abuse of children by Catholic priests in U.S.	Does a firm's religious environment influence outside parties' perceptions in contracting with the firm?	✓	×		Revelation of the sex abuse of children by Catholic priests is an exogenous shock to the religiosity of a region, which can influence the capital structure, credit rating, cost of debt, and covenants of local firms.

TABLE I (cont'd)

Study	Event	Research question	Relevance of the event			Summary
			Empirical	Substantive		
Chatterji & Fabrizio (2016)	Department of Justice investigation against the five largest U.S. orthopedic device makers.	How does an open system of innovation affect the rate and direction of innovation?	✓	×		Department of Justice investigation increases the frictions in the market for ideas, by regulating the interactions between physicians and the medical device firms under investigation.
Chatterji & Toffel (2010)	Change in the scope of KLD Database, a prominent source of CSR ratings.	How do managers react to poor corporate environmental ratings?	✓	✓		The change in KLD's scope creates a subset of companies responding for the first time to a CSR rating, which allows the authors to deal with mutual causality issues regarding a firm's CSR rating and CSR strategy.
Chen & Garg (2018)	Injuries occurring to star NBA players.	Does a star's temporary absence help the organization overcome myopia?	×	✓		The absence of star players is presumed to impact the pattern of organizational routines at the team level.
Choudhury & Kim (2019)	Change in U.S. H1B employment visas.	How do migrant inventors influence knowledge production and reuse?	×	✓		The H1B quota change exempted universities and a selected list of other entities, creating heterogeneous effects in terms of supply of first-generation ethnic migrant inventors and the rate of codification of knowledge previously locked within migrant inventors' home countries.

TABLE I (cont'd)

Study	Event	Research question	Relevance of the event		
			Empirical	Substantive	Summary
Chown & Liu (2015)	Turnover within U.S. Senate and 'iconoclastic' senators deviating from the institutionalized seating arrangement.	How does one's location in an organizational forum affect the likelihood to receive support from peers?	✓	×	Turnover within U.S. Senate and 'iconoclastic' senior senators create opportunities for freshman senators not to seat at the margins of the chamber. These elements affect the dyadic distance between senators, a factor that is presumed to affect the likelihood of joint support.
Corbo et al. (2016)	9/11.	Does a major environmental shock affect the social structure of an organizational field?	×	✓	9/11 is supposed to affect the organization and functioning of civil aviation, which allows the authors to assess the extent with which network mechanisms shape the alliances connecting airline companies under different contingencies.
Drexler & Schoar (2014)	Sick leave episodes among loan officers	How (much) does employee turnover affect organizational performance?	✓	✓	Loan officers' sick leaves alter economic and social exchange between the firm and its clients.
Gupta et al. (2020)	Sarbanes-Oxley Act (SOX) & Global Financial Crisis	Does CFO gender influence the likelihood of financial misreporting?	✓	×	The authors expect: i) SOX to lead to a larger decrease in financial misreporting for male CFO firms than female-CFO firm; ii) firms to face greater pressure to report favorable earnings during crisis periods, which is more likely to influence male compared to female CFOs (based on the logic that female CFOs will be less likely to engage in fraud regardless of stakeholder pressure).

TABLE I (cont'd)

Study	Event	Research question	Relevance of the event			Summary
			Empirical	Substantive		
Haveman et al. (2019) . . .	California Legislature enactment of the nation's first comprehensive managed competition program, and Garn-St. Germain Act	How do organizations respond to discontinuous industry-level change?	×	✓		The authors use a series of regulatory changes to investigate how organizations respond to punctuated changes in the environment and with what performance consequences.
Hilary & Huang (2021) .	Revelation of the sex abuse of children by Catholic priests in U.S.	Does generalized trust affect the power of CEO contracts?	✓	×		Revelation of the sex abuse of children by Catholic priests reduces generalized trust for certain counties only, which helps to reveal the causal effect of generalized trust on the characteristics of executives' contracts.
Jie et al. (2020)	2005 Regulation SHO by which SEC removes the uptick restriction for a set of randomly selected pilot firms.	Do managers use CSR to insure against stock price risk?	✓	✓		SEC program changes stock risk price for pilot firms only, which helps to assess whether firms invest in CSR in response to greater stock price risk, and whether such investments provide intended insurance-like benefits.
Kang & Kim (2020)	Staggered changes in inheritance, gift, and estate taxes in U.S. & sudden deaths of business owners.	Do family-firms invest more in employee relations than non-family firms?	✓	×		Taxation changes provide family owners with incentives to continue their businesses, which helps to reveal the relationship between governance forms and investment in employee relations. Sudden death of family members alter a firm's status, a variation that attenuates the concerns time-invariant characteristics jointly affect performance and ability to implement employee-friendly policies.

TABLE I (cont'd)

Study	Event	Research question	Relevance of the event			Summary
			Empirical	Substantive		
Ke et al. (2018)	Sudden deaths and retirements of executives.	How do social connections among executive team members affect management forecast accuracy?	✓	×		Sudden turnover events alter the social connections within a team of executives, and, in turn, help to reveal the causal effect of social capital on decision-making quality.
Koh et al. (2018)	Staggered adoption of the Inevitable Disclosure Doctrine (IDD). in U.S.	Are confident CEOs more likely to report R&D expenditures than cautious CEOs?	✓	×		The staggered U.S. state courts' verdict on the IDD helps to reveal the relationship between CEO confidence and R&D disclosure by attenuating market competition.
Krishnan & Wang (2019)	1992 and 1998 Higher Education Amendments (HEA)	How does student debt influence the propensity to start a firm?	✓	×		1998 HEA alters the cost of discharging student debt through bankruptcy — which increases the cost of entrepreneurship, that is, new venture failure — while it is unlikely to affect financing availability to start a venture. Hence, the authors can assess the causal relationship linking student debt with propensity to create a new venture. 1992 HEA affects the volume of student loans thought the federal government. Students who spend more time in college during the post-1992 HEA regime will have more student loans. Hence, they will have lower likelihood to start a new venture.
Li & Tallman (2011)	9/11.	Does a sudden change in the environment influence the economic returns of international diversification?	×	✓		9/11 is a “reorienting disruptive change” that alters international business logics, particularly, the economic and final returns of international diversification.

TABLE I (cont'd)

Study	Event	Research question	Relevance of the event			Summary
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Li & Zhan (2019)	Reductions in import tariffs initiated by U.S. authorities.	How does product market threats affect stock crash risk?	✓	×		Reduction in import tariffs increases competitive pressure, which aggravates executives' incentive to withhold negative information and increases and make firms more prone to stock crashes.
Mahmood et al. (2017)	Global Financial Crisis.	How does centralization of intragroup equity ties affects the performance of group affiliates?	✓	✓		Global Financial Crisis creates environmental turbulence exogenously for Taiwanese firms, and, in turn, helps to appreciate the contingent role of equity tie centralization.
Natarajan et al. (2019) ..	Indian Government's demonetization measure.	How do middle managers influence resource allocation choices?	✓	×		The decision to withdraw almost 85% of bank notes in circulation (all 500-rupee and 1,000-rupee bills, the most common units of circulating currency) increased bank headquarters' control over ATM deployment, which resulted in tighter monitoring of middle managers' allocation decisions.
Qian et al. (2019)	Brokerage house mergers and closures in U.S.	How do financial analysts influence managers' choice to invest in CSR?	✓	✓		The closure or merger regarding a brokerage house reduces financial analyst coverage for some firms only, which allow the authors to assess the causal relationship between the (change in the) extent of analyst coverage and CSR.

TABLE I (cont'd)

Study	Event	Research question	Relevance of the event			Summary
			Empirical	Substantive		
Ramirez & (2018)	Price variation in the global copper industry.	How does the value appropriated by employees varies in response to an exogenous shock to the price of the firm's product?	✓	✓		Copper mines' size is homogeneous. Hence, price fluctuations in the global copper industry are exogenous variations for individual mines and can reveal the mechanisms behind value distribution within organizations.
Seebeck & Vetter (2021)	Brexit Referendum.	Does board gender diversity affect corporate risk disclosure?	×	✓		The outcome of Brexit Referendum increases the amount of risk environment for all UK-based companies, which attenuates reverse causality concerns regarding board gender diversity on corporate and risk disclosure.
Tan & Netessine (2014) .	Adoption of a new staffing system.	How does workload impact worker productivity?	✓	×		The staggered adoption of a new computer-based scheduling system prescribes different staffing levels from those that managers might suggest because it uses more historical sales data than a manager can handle. Hence, authors can make cross-restaurant comparisons involving similar servers experiencing different workload levels.

TABLE I (cont'd)

Study	Event	Research question	Relevance of the event			Summary
			Empirical	Substantive		
Vergne (2012).....	9/11.	Does straddling multiple product-market categories dilute stakeholder attention to the stigma of operating in the global army industry?	×	✓		Since attackers used commercial airlines hijacked by terrorists armed with kitchen knives, the definition of the weapons category was questioned in the post-9/11 period.” Hence, 9/11 allows the author to test whether the salience of the category ‘weapons’ weakens ‘the negative relationship between stigma dilution (i.e., the situation in which a diversified business operates also in a stigmatized sector, such as ‘arms’) and media disapproval.
Wang et al. (2016).....	Delaware’s 1996 ruling against hostile takeovers.	Do takeover threats affect a firm’s knowledge structure?	✓	×		A series of law cases make takeover less favorable for target firms incorporated in Delaware, allowing the authors to assess the impact of (an increase in) takeover protection on firm-level knowledge production.
Zhang et al. (2020).....	iOS 7 jailbreak.	Does a lapse in gatekeeping reduces knowledge sharing among developers?	✓	✓		The event is an exogenous shock to Apple’s gatekeeping policy, aiming to orchestrate developers’ value creation activities in the AppStore. That allows scholars to appreciate the impact of platform governance on knowledge sharing among developers.
Zheng & Wang (2020) ..	2014 Google blockade in China.	How does Google’s search engine influence the search process of inventors?	×	✓		The blockade of Google affects inventor’s information processing and, in turn, innovation output.

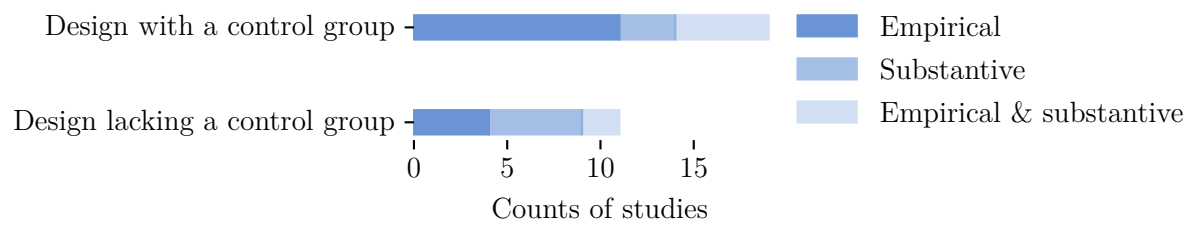


Fig. 6: Distribution of ‘exogenous shock’ studies across research design types and by role of the naturally-occurring event. A design lacking a control group has pret-test and post-test datapoints for one group only; a design with a control group has pre-test and post-test both for units that are affected by the exogenous shock and those that are not.

3 How do exogenous shock differ?



Fig. 7: A typology of exogenous shocks.

4 Harnessing exogenous shocks: opportunities and challenges

5 Coda

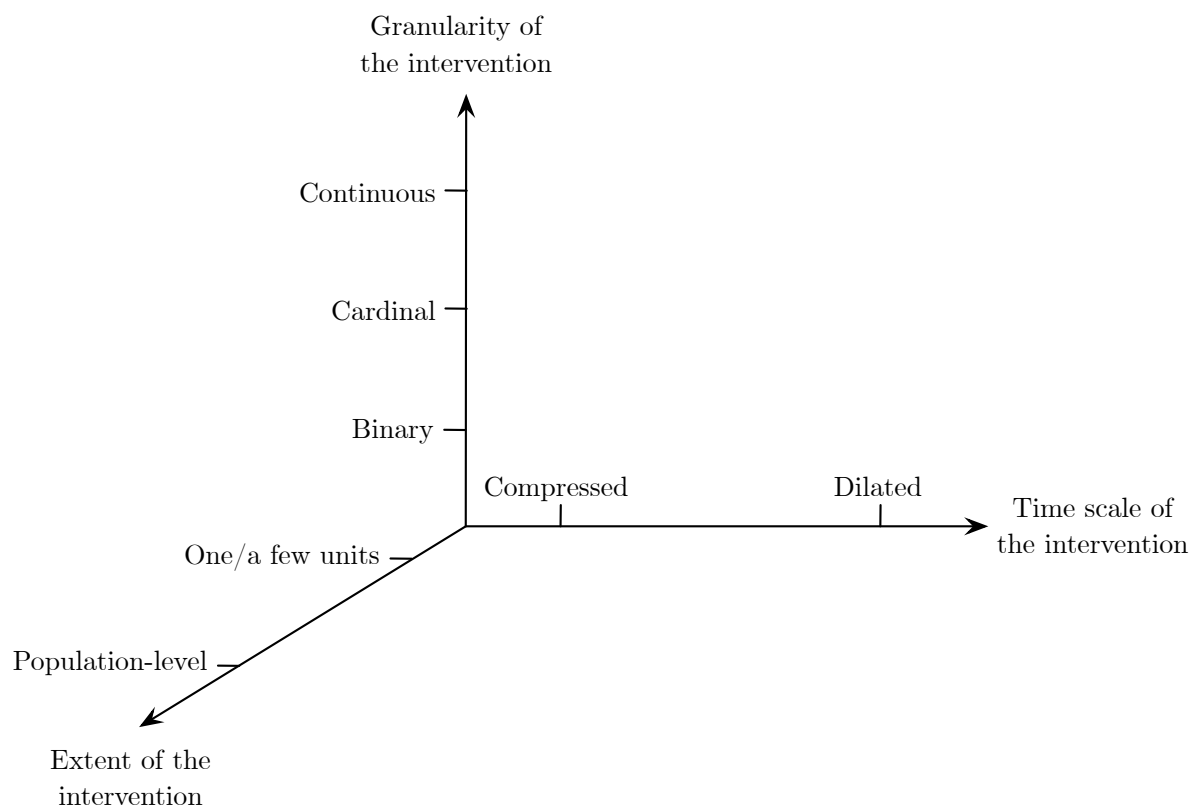


Fig. 8



Fig. 9: A decision tree to harnessing exogenous shocks.

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