

Discussion of the paper:

When in Rome: Local social norms  
and turnaround incentives

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# Main interesting points of the paper

- Two important economic points (\$\$\$)
  - Top management structure of compensation (tournaments)
  - Firm performance
- Study of the impact of “social capital”
  - Social capital of the area where the firm has its headquarters
  - Areas in the US with low and high social capital
  - Natural experiments (e.g., when a firm moves its headquarters)
- Main results
  - Pay differentials between the CEO and other executives are lower in U.S. counties with higher social capital and higher in U.S. counties with lower social capital.
  - Better firm performance in counties with higher social capital.

# Link between social capital and firm management

- Putman's social capital index
  - Most of the variables are estimated from large-scale, representative survey data.
  - Same population? Individuals, employees, top management

# Natural experiments

- Legalization of medical and recreational use of marijuana
  - Change in social capital due to a decrease in the crime rate and more coordination across ethnic lines (P 12)
  - Link with firm management?
- Moving corporate headquarters
  - Importance/stability of corporate culture?
  - Corporate culture vs Local culture

# Other comments

- A gender effect could also explain the results
  - Number of male/female CEOs in the data set?
  - Female style of management: communal ( $\approx$  high social capital)
  - Male style of management: agentic ( $\approx$  low social capital)
  - Reference: Eagly AH, Carli LL. 2003. The female leadership advantage: An evaluation of the evidence. *The Leadership Quarterly* 14(6): 807–834.
- About the Putnam social capital index
  - Questioning/Variants (results in the first page when I googled) / Robustness of the results
  - Methodology of the 1990s. LinkedIn?
  - Update of the index? Variable 14: Turnout in presidential elections 1988 and 1992 (Appendix B)
- About tournaments
  - Percentage of insider/outsider CEOs in the data set

# Recommendation for my students and participants

- I always like to share academic research results with my undergraduate students and participants in executive programs (working in medium and large firms in France).
- What can I tell them?
  - Importance of the management style (linked to social capital)
  - Coherence between the management style and the structure of compensation