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Boardroom gender diversity and stock liquidity: Evidence from Australia ☆

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ABSTRACT

In this study, we investigate the relationship between gender-diverse boards and stock liquidity in Australia. We expect that the gender-diverse boards, with their efficient monitoring functions, lead to higher stock liquidity that has positive implications for market efficiency. Consistent with the notion, we find, using 944 Australian firms from 2008 to 2013, that boardroom gender diversity is significantly and positively associated with stock liquidity. Our findings are robust to a series of endogeneity checks and to alternative proxies for gender diversity and stock liquidity. Our results reject the assumption of women on the board as 'tokens' and also provide support to critical mass theory. We contribute to the global debate on the need for more women on corporate boards and provide comprehensive and robust evidence that suggests that having women on corporate boards is positively associated with one of the important characteristics of capital market efficiency, stock liquidity.

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1. Introduction

In this paper, we examine the effect of gender diverse boards on stock liquidity. During the last decade, boardroom gender diversity has received considerable attention from academic researchers. A large volume of empirical studies examines the 'business case' of gender diversity by focusing on the association between female directors and financial performance (Carter et al., 2010; Carter et al., 2003; Joecks et al., 2013; Liu et al., 2014; Wang and Clift, 2009); however, the results are mixed: some find evidence of beneficial effects while others report no effects, or even negative effects. Adams and Ferreira (2009) argue that female directors do not necessarily improve financial performance, but their presence may improve the monitor-

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ing function of the boards. They find that female directors are likely to serve on board monitoring committees and their presence improves overall board-meeting attendance. Their findings on the impact of female directors in exercising monitoring functions have given new dimension to the gender diversity literature and researchers are now providing empirical evidences beyond the financial performance such as agency cost (Jurkus et al., 2011), earnings quality (Srinidhi et al., 2011; Strydom et al., 2016), earnings management (Arun et al., 2015), informativeness of stock prices (Gul et al., 2011), and sustainability reporting quality (Al-Shaer and Zaman, 2016). The underlying objective of these studies is to classify female directors as one of the governance mechanisms which facilitate efficient capital market. However, when examining the effects of female directors on key financial decisions or parameters, the existing literature overlooks stock liquidity, one of the important characteristics of efficient markets.

Stock liquidity, which refers to the 'ease' of converting stock into cash or vice versa, has become a world-wide concern since the recent global financial crisis (GFC) and continues to be a prominent area of research. Handa and Schwartz (1996) stress that 'Investors want three things from the markets: liquidity, liquidity and liquidity' (p. 44). Investors require compensation for holding an illiquid stock (Amihud and Mendelson, 1986) that increases the firm's cost of equity (Butler et al., 2005), and that in turn affects the firm's value (Fang et al., 2009). Moreover, Chordia et al. (2008) suggest that poor stock liquidity is associated with a greater degree of market inefficiency. Consequently, firms strive to improve stock liquidity on account of its significant impact on the flow of capital and the development of the market, and seek to minimise conditions that impair stock liquidity (Levine and Zervos, 1996). Given the importance of stock liquidity in the financial markets for investors and firms, it is imperative to explore what determines stock liquidity. To the best of our knowledge, several studies explore other corporate governance mechanisms (e.g., board independence and ownership structure) as a determinant of stock liquidity (Ali et al., 2016; Attig et al., 2006; Chung et al., 2010) but none of them has exclusively examined the influence of female directors on stock liquidity. In this study, we fill this gap by investigating whether female directors affect stock liquidity.

Our study is further motivated by the recent regulatory upsurge in calls to include more women on corporate boards in various countries, including Australia, France, Netherlands, Norway, Sweden, and the U.K. (Lee et al., 2015).[1] Specifically, the *Australian Institute of Company Directors* (AICD) is calling on all boards to achieve at least 30 percent women directors, and urges the *Australian Securities Exchange* (ASX) 200 to meet this new target by the end of 2018 (AICD, 2015). The AICD's Managing Director and Chief Executive Officer (CEO), John Brogden, said that, "There is an undeniable case for gender diversity on boards. It is not only the right thing to do but the smart thing to do" (AICD, 2015). Moreover, in 2010, the *ASX Corporate Governance Council* amended the *ASX Corporate Governance Principles and Recommendations* (ACGPR) to include increased reporting on gender diversity for all listed entities. Since then, the interest in recruiting and advancing women on boards has been growing.[2] Overall, the role of female directors in enhancing monitoring quality of the board, the importance of stock liquidity in financial markets, and the recent calls for more female directors on boards provide an interesting setting to unveil debate on the impact of gender-diverse boards on stock liquidity in achieving vital objective of capital market efficiency.

Agency theory suggest that managers are opportunistic and are likely to conceal important information for their self-interest (Jensen and Meckling, 1976). Effective governance improves financial and operational transparency, thus reducing information asymmetry between insiders (e.g., managers and controlling shareholders) and outsiders (e.g., investors and liquidity providers) that in turn improves stock liquidity (Chung et al., 2010). Hillman et al. (2007) suggest that female directors bring novel perspectives and experiences to the boardroom, which improves board decision making and enhances a firm's legitimacy (Milliken and Martins, 1996). Moreover, women are risk averse and less overconfident than men, which makes them cautious in their decision making (Bajtelsmit et al., 1999; Barber and Odean, 2001; Dowling and Aribi, 2013). Jurkus et al. (2011) suggest that the representation of women on corporate boards reduces the information asymmetry between managers and shareholders and thus reduces agency conflict. Moreover, Gul et al. (2011) suggest that female directors improve stock price informativeness through increased public disclosures. Accordingly, we argue that female directors enhance board governance mechanisms (i.e. board strength) to mitigate information asymmetry problems and thus improve stock liquidity.

Our sample consists of 944 firms (4608 firm-year observations) listed on the ASX during the period from 2008 to 2013. Our main proxy for boardroom gender diversity is the percentage of women directors. We use three different proxies for measuring stock liquidity: Amihud illiquidity estimate, liquidity ratio, and stock turnover. While controlling for other governance- and firm- specific variables, we find that the female directors are positively associated with stock liquidity. Our main results are significantly robust to alternative proxies for gender diversity and stock liquidity, as well as to endogeneity bias. As prior literature argues that having women in the boardroom is socially desirable and that exclusion of

[1] The first country that legally initiated a gender quota in the boardroom was Norway. In 2003, Norway passed legislation which required 40 percent of female directors by 2008. Spain followed with the same regulation, mandating 40 percent of female directors by 2015. Other European countries which have imposed gender quotas include France (40 percent by 2016), Italy (33.3 percent by 2015), and the Netherlands (30 percent by 2016) (Lee et al., 2015).

[2] The ASX Corporate Governance Council adopted an "if not why not" approach in which companies are required to comply or explain with recommendations. Under the amendment, all listed companies are required to establish and disclose a diversity policy, measure the number of women in leadership positions, and set measurable objectives to achieve gender diversity. If the company does not comply with these recommendations, an explanation is required. According to the AICD real-time data, the percentage of women among new director appointments to ASX 200 boards increased from 5 percent in 2009 to an average of 43 percent as of January 2016. Women have made up 21.9 percent of ASX 200 board seats as of January 2016, compared with only 8.3 percent in 2009.

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