



BUSINESS RESEARCH  
BRQ  
QUARTERLY

[www.elsevier.es/brq](http://www.elsevier.es/brq)



## ARTICLE

# Does gender diversity on corporate boards reduce information asymmetry in equity markets?☆

David Abad<sup>a</sup>, María Encarnación Lucas-Pérez<sup>b</sup>, Antonio Minguez-Vera<sup>b,\*</sup>, José Yagüe<sup>b</sup>

<sup>a</sup> University of Alicante, Department of Financial Economics and Accounting, Faculty of Economics and Business Sciences, Carretera San Vicente, San Vicente del Raspeig, 03690 Alicante, Spain

<sup>b</sup> University of Murcia, Department of Management and Finance, Faculty of Economics and Business, Campus Universitario de Espinardo, 30100 Murcia, Spain

Received 9 February 2016; accepted 7 April 2017

### JEL CLASSIFICATION

G10;  
G30;  
J16

### KEYWORDS

Corporate board;  
Female directors;  
Gender diversity;  
Information  
asymmetry;  
Market  
microstructure

**Abstract** We examine the relation between the gender diversity on boards of corporations and the levels of information asymmetry in the stock market. Prior evidence suggests that the presence of women on director boards increases the quantity and quality of public disclosure by firms, and we therefore expect firms with higher gender diversity on their boards to show lower levels of information asymmetry in the market. Using a Spanish sample, proxies for information asymmetry estimated from high-frequency data along with system GMM panel methodology, we find that the gender diversity on boards is negatively associated with the level of information asymmetry in the stock market. Our findings support the changes in the laws that have been introduced in several countries to increase the proportion of female company directors by providing evidence that gender diverse boards have beneficial effects on stock markets.  
© 2017 Published by Elsevier España, S.L.U. on behalf of ACEDE. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

☆ We thank two anonymous reviewers and the editor, Professor Pablo Arocena, for their useful comments and suggestions. We also appreciate the comments made by the participants at the 24th IAFFE Annual Conference. David Abad acknowledges financial support from the *Ministerio de Economía y Competitividad* through grants ECO2013-4409-P and ECO2014-58434-P. Antonio Minguez-Vera and José Yagüe acknowledge financial support from the *Ministerio de Economía y Competitividad* through grant FEM2013-40578-P. Encarnación Lucas-Pérez, Antonio Minguez-Vera, and José Yagüe acknowledge financial support from *Fundación Caja Murcia*.

\* Corresponding author.

E-mail addresses: [goliat@ua.es](mailto:goliat@ua.es) (D. Abad), [me.lucas@um.es](mailto:me.lucas@um.es) (M.E. Lucas-Pérez), [minver@um.es](mailto:minver@um.es) (A. Minguez-Vera), [ppyague@um.es](mailto:ppyague@um.es) (J. Yagüe).

<http://dx.doi.org/10.1016/j.brq.2017.04.001>

2340-9436/© 2017 Published by Elsevier España, S.L.U. on behalf of ACEDE. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Please cite this article in press as: Abad, D., et al., Does gender diversity on corporate boards reduce information asymmetry in equity markets? BRQ Bus. Res. Q. 2017, <http://dx.doi.org/10.1016/j.brq.2017.04.001>

## Introduction

In this paper we analyse whether gender diversity on the board of directors is related to the level of information asymmetry of listed firms in the equity market. Therefore, this paper links two crucial topics of corporate governance and market microstructure in the financial literature of recent decades. On the one hand, information asymmetry is a key point for financial markets and a cornerstone of modern finance. Informational asymmetries play a crucial role in company financing and investment decisions (Myers and Majluf, 1984), thereby affecting stock liquidity (Kyle, 1985), which in turn have an effect on asset pricing (Amihud and Mendelson, 1986) and the cost of capital (Easley and O'Hara, 2004). On the other hand, in recent years, gender diversity on corporate boards has become an important issue which has attracted the attention of policy makers, shareholders, and academics (Dezso and Ross, 2012). As a result, a great number of studies have analysed the impact of female presence on corporate boards on different aspects of management such as decision-making (e.g. Nielsen and Huse, 2010), risk-taking (e.g. Faccio et al., 2016), managing (e.g. Loden, 1985), general firm performance (e.g. Harel et al., 2003), value of the firm (e.g. Carter et al., 2003), transparency and disclosure (e.g. Adams and Ferreira, 2009). Nevertheless, little direct evidence exists on the relationships between gender diverse boards and information asymmetry across market participants.

The previous literature finds that gender diverse boards increase the quantity and quality of public disclosure by firms. Adams and Ferreira's (2009) findings suggest that women are more likely to join committees that have monitoring functions, such as audit, and corporate governance committees, which are directly involved in increasing transparency. Similarly, female participation on boards promotes more effective board communication to investors (Joy, 2008) and increases the diffusion and the quality of value-relevant firm-specific information (Nalikka, 2009; Srinidhi et al., 2011). In addition, empirical evidence has shown a negative relation between disclosure quality and information asymmetry (e.g. Brown and Hillegeist, 2007; Heflin et al., 2005). Therefore, if gender diversity leads to an improvement in the information disclosure of companies and greater transparency and disclosure reduces information risk for market participants, we would expect a negative link between the gender diversity on boards and the average level of information asymmetry in the market.

We examine the impact of board gender diversity on information asymmetry using a data panel of 531 firm-year observations of companies listed on the Spanish Stock Exchange in the period 2004–2009. To estimate the perception in the financial markets of the adverse selection that exists between informed and uninformed traders, we compute various market microstructure proxies for information asymmetry using high frequency data: the relative spread, intraday price impact, and the probability of informed trading (PIN). We use the system generalized method of moment (System GMM) and dynamic panel technique to control the endogeneity and heterogeneity effects. By controlling for corporate governance, company characteristics and the firm's information environment, we find a negative relationship

between gender diversity and the degree of information asymmetry in the market.

This paper contributes to the prior literature in several ways. First, it extends previous literature on the economic and market effects of board gender diversity by providing new empirical evidence on the association between female presence on corporate boards and the level of information asymmetry in the market. We could not identify any paper in the previous literature that specifically analyses this association. Only Gul et al. (2011, 2013) investigate the effects of the presence of women on director boards on the firm's information environment (by using as proxies the idiosyncratic volatility and analyst earnings forecasts, respectively). Although they do not explicitly analyse the association between gender diversity on boards and the information asymmetry among traders, they provide findings that may be considered contradictory regarding this relationship as seen in the next section. Consequently, we consider that it is still an open empirical question.

Second, we are also the first to examine the relationship between gender diverse boards and information asymmetry in the market by using microstructure proxies for adverse selection risk and conducting an association study. Previous papers have analysed the relationship between the quality of corporate governance and the information environment of firms in the stock market around different corporate events (e.g. Cai et al., 2006; Kanagaretnam et al., 2007). Unlike these studies, we examine how gender diversity on boards is related to the average level of information asymmetry over a year, which avoids the weaknesses of the short-run event study methodology (i.e. difficulty in clearly determining the correct event date and measuring the unanticipated component of an announcement).

Finally, this paper provides evidence from Spain, one of the pioneer countries in developing laws to encourage the presence of women on boards of directors. Following the example of Norwegian legislation, which required that 40% of board seats be taken by female directors by the end of 2008, the Spanish Gender Equality Act (*Ley de Igualdad*) encouraged companies to increase the share of female directors to 40% by 2015. Companies that achieved this target were to be given priority in the allocation of government contracts but there would be no formal sanctions. In a similar way, other European countries (e.g. France, Italy, the Netherlands, Belgium) have required listed companies to reach minimum quotas for female representation on boards of directors. These legislative advances, to prevent discrimination (Mateos de Cabo et al., 2011) and to promote diversity in management positions, may have a positive influence on the management of the firm. In this way CNMV (*Comisión Nacional del Mercado de Valores*) describes the inclusion of women on the board of directors as "an efficiency objective", representing "economically rational conduct", and not only social justice and ethics. Therefore, gender diversity on boards has become a key policy focus in many countries as well as having generated an intense debate on its effects on corporate governance and company performance in academic and professional literature.

In this context, it is important to consider the characteristics of corporate governance. In Spain, the separation between owners and managers is much less clear than in the US or UK. Directors are, in many cases, direct

Download English Version:

<https://daneshyari.com/en/article/7414835>

Download Persian Version:

<https://daneshyari.com/article/7414835>

[Daneshyari.com](https://daneshyari.com)