Insider trading: Another glass ceiling?

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(PhysOrg.com) -- Martha Stewart notwithstanding, female executives who legally trade on inside information make nice, tidy profits—but not as much as men in the same positions, say researchers at the University of Michigan's Ross School of Business.

In a new study, "Are Women Executives Disadvantaged?" U-M finance professors Sreedhar Bharath, M.P. Narayanan and H. Nejat Seyhun found that female top executives, board directors and other senior officers earn about half as much as their male counterparts when trading on inside information. Over a 50-day window after an insider purchase, male executives earned 19 percent on an annualized basis after adjusting for market movements whereas female executives earned 9 percent.

"The increased presence of females in executive suites has heightened the interest in understanding potential differences in decision-making styles of male and female executives and their implications to organizational effectiveness," Bharath said. "We use the context of insider trading to examine the role of dispositional factors to explain gender differences in executive behavior—and find that female executives have a real disadvantage relative to men in accessing inside information."

Using data from the Security and Exchange Commission and the Center for Research in Security Prices, the researchers examined all open market insider trades by individuals from 1975 to 2005. They report only the results of purchases—not sales—since purchases are most likely motivated by information, whereas sales may be driven by information exploitation, the desire for diversification, personal liquidity shocks or something else.

Their results are based on a population of nearly 700,000 transactions valued at more than $235 billion among some 17,600 listed firms. The female executives' share was 4.3 percent of the total transactions and 1 percent of the total dollar value. Nearly 6 percent of the insiders were female and the average size of their purchase was $80,000, compared to $350,000 for males.

The researchers explored three theories to explain their findings: information, overconfidence and risk-aversion. They ruled out the latter two dispositional theories as sole explanations. They also verified that the results were not driven by female executives' unwillingness to trade.

"The results indicate that females do not exhibit a lower propensity to trade on insider information," Narayanan said. "This leads us to suggest that female executives may have limited access to inside information compared to males."

"By inference, it appears that males possess an informational advantage over females sufficient to overwhelm their dispositional differences," Seyhun said. "Males' informational advantage derives from their overwhelming presence in more senior positions and presumably from being better connected."

Provided by University of Michigan