

Female company directors are better judges of longer-term company performance, research shows

June 7 2013



The stock market responds more positively to trades made by male directors.

Groundbreaking research by the University of Exeter Business School reveals that female company directors defy negative gender stereotyping by astutely valuing future company performance.

The [stock market](#) responds more positively to trades made by male directors in their own company stock than their female counterparts, new research reveals.

However, over the longer term (3 – 12 months), returns made by female directors' on trades in their own company stock are at least equal to, or exceed, those of their male counterparts.

The study by the University of Exeter Business School analysed over

80,000 legal trades made by directors of companies listed on the London and AIM [stock exchanges](#). It is commonly assumed that when a director buys shares in their own company, they believe it to be undervalued by the stock market and this frequently leads to investors buying more stocks in that company and pushing up the share price.

Researchers found that after the first 20 days following a trade by a company director, share price in that company increased by an average of 1.55 percent. However, if a male director made the trade, share price increased by an average of 1.57 percent at day 20 and for female directors this was 0.88 percent – a difference of 0.69 percent in share value based on the gender of the director.

The researchers went on to analyse the longer-term returns made by directors' on these trades and found that female directors consistently achieved better returns than their male counterparts. One year after a trade was made, monthly returns averaged 0.68 percent for [female executives](#) compared to 0.37 percent for male executives.

One of three authors of the study, Alan Gregory, Professor of [Corporate Finance](#) at the University of Exeter Business School says there is a gap between market perception of female directors and their actual performance. "The stock market price reaction to trades by male directors is both faster and larger than with female directors, suggesting the market believes male directors to be more skilled and knowledgeable about corporate value. However, returns on trades achieved over the longer term show that female directors are at least as informed, if not more so, than their male colleagues when it comes to valuing their companies."

When looking at non-executive directors, the study found that after the first 20 days following a trade by a male non-executive director, company stock price increased by 1.22 percent as opposed to 0.52

percent for female non-executive directors. When looking at returns over the longer term, the research found non-executives in general are less informed about corporate value with male non-executive trades earning 0.31 percent after 12 months compared to 0.26 percent for female non-executives.

Lecturer in Finance and study author, Dr Rajesh Tharyan, says it is important that firms and policy makers understand that over the longer term, female directors are equally informed as their male counterparts on corporate performance and [company](#) value. "It would be absolutely wrong for companies to conclude that short-term reaction to female directors' decisions are indicative of the markets' belief that having female directors on boards does not increase value or is even detrimental to firm value. Over the longer term we have shown that female directors are good judges of corporate value and there is a very strong case to be made for increasing gender diversity on boards."

Senior Lecturer in Organisation Studies and study author, Dr Emma Jeanes, says that if increasing numbers of women join the boards of UK companies, any negative perceptions by the stock market will hopefully dissipate. "As we see more women join boards and take up senior roles in business, we would hope, and expect, to see any negative market reaction reduce."

The average percentage of [female directors](#) of FTSE 100 companies is 12.5 percent and this figure drops to 7.8 percent for FTSE 250 companies. In the US, women hold 15.2 percent of board seats on Fortune 500 firms.

Provided by University of Exeter

Citation: Female company directors are better judges of longer-term company performance,

research shows (2013, June 7) retrieved 25 May 2024 from
<https://phys.org/news/2013-06-female-company-directors-longer-term.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.