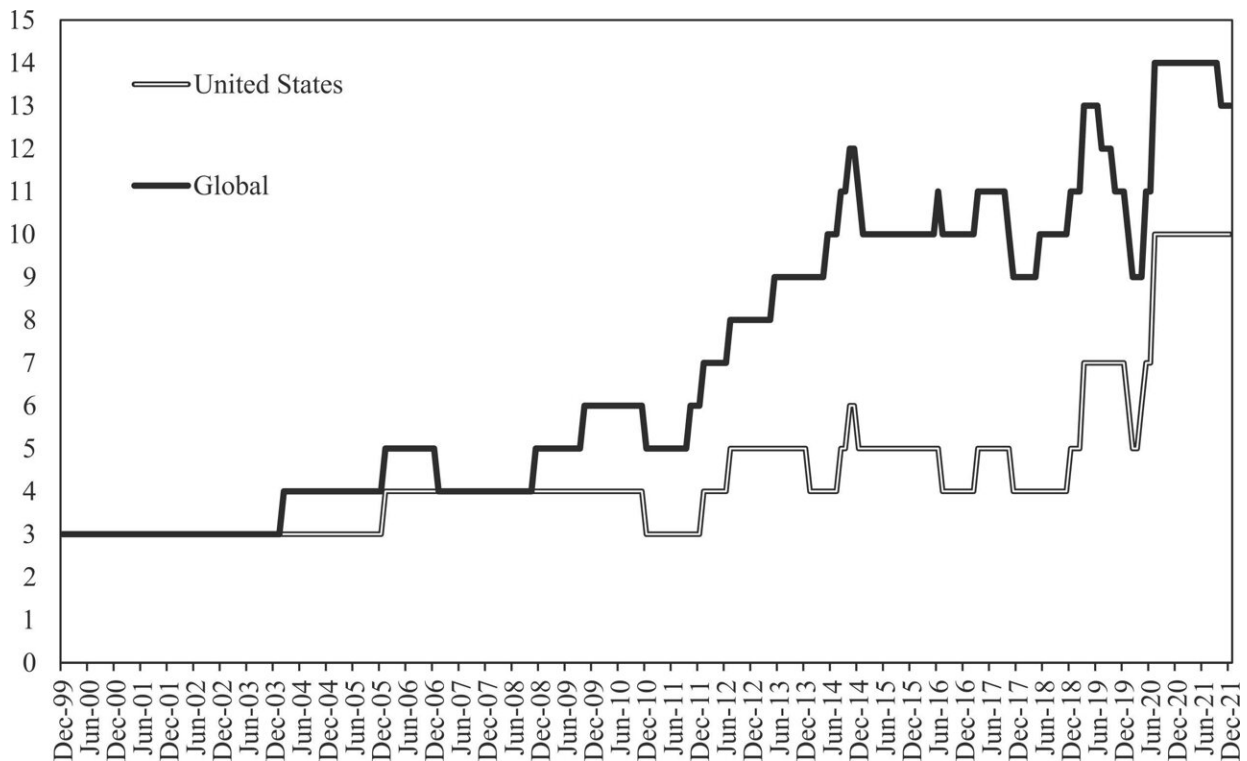


# Underappreciation of LGBT executives creates investment opportunity, says study

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Number of LGBT CEO portfolio companies. Credit: *Research in International Business and Finance* (2023). DOI: 10.1016/j.ribaf.2023.102063

Academics from Northumbria University have uncovered an "extreme underappreciation" of firms with CEOs who are openly gay, lesbian, trans or bisexual—and they say it's driven by discrimination.

According to the recently published study, "LGBT CEOs and [stock returns](#): Diagnosing rainbow ceilings and cliffs," conscious and unconscious biases against LGBT executives lead to [stock market](#) participants and investors failing to appreciate the [financial performance](#) and potential of LGBT-led firms.

As a result, such companies are reportedly substantially underestimated and undervalued on the stock market. This discrimination-driven effect, academics say, is leading to stocks of companies with LGBT leaders significantly outperforming the market by 0.69%-1.08% per month—a finding uncovered for the first time in the study.

Research lead Dr. Savva Shanaev—Lecturer in Finance in the Accounting and Financial Management department of the university's Newcastle Business School—describes this outperformance as a "hidden gem" of an investment opportunity, saying: "What's powerful about this is that you could see an investment do well, and you can also do good at the same time."

"That's the golden grail of socially responsible investing and it's very rare to find."

By highlighting this unexplored facet of the socially responsible investment industry, the academics hope to generate publicity and boost the market value of LGBT-led companies, meaning they may be able to attract funding more easily in the future. Dr. Shanaev hopes any such 'rainbow rush' would ultimately bring about a leveling of the market and a positive step towards equality and better representation at a senior level.

Focusing on dozens of LGBT-led companies, Dr. Shanaev and his colleagues—Northumbria University masters' graduate Arina Skorochedova and lecturer Dr. Mikhail Vasenin—documented "alphas,"

a measure of risk-adjusted return that tells investors if an asset has performed better or worse than predicted.

In doing so, they found that the companies significantly outperformed the market, with those outperformances persisting even when adjusted for several factors. In the first study of its kind, the academics also found that portfolios formed from stocks with LGBT CEOs also robustly outperformed market indices.

"Once we'd discovered this," explains Dr. Shanaev, "we shifted our focus to look at why this was happening."

"We wanted to know, if this kind of opportunity exists, why has it not been exhausted yet? In finance research, this is one of the most important questions—is there really a free lunch here or is there some risk we haven't accounted for that means it's not the deal we thought it was?"

After carrying out robust eliminatory tests, the academics concluded that—in line with similar gender-based research—the consistent outperformance suggests "substantial" discrimination.

Generally, they suggest, investors and stock market participants do not see LGBT CEOs as equal to others and consequently, underestimate and undervalue their performance. This contributes to a "rainbow ceiling" effect that impacts upon LGBT people in business and is analogous to the glass ceiling hypothesis illustrating similar discrimination against women.

Dr. Shanaev believes more awareness of the undervaluing of LGBT-led stocks will eventually see the income-boosting effect of discrimination vanish as the market levels out.

"If there is a flow of capital to these stocks in light of this research," he explains, "the values will increase and the discrimination effect will eventually vanish."

"But that's no bad thing, because ultimately the objective is to prove to the market that companies led by the LGBT community are, in essence, no different to any other."

The full paper is available to read in the journal [\*Research in International Business and Finance\*](#).

**More information:** Savva Shanaev et al, LGBT CEOs and stock returns: Diagnosing rainbow ceilings and cliffs, *Research in International Business and Finance* (2023). [DOI: 10.1016/j.ribaf.2023.102063](https://doi.org/10.1016/j.ribaf.2023.102063)

Provided by Northumbria University

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