GENDER-DIVERSE BOARDS

Female directors contribute to ethical corporate disclosures or gender diverse boards are an antecedent for the ethical redaction of proprietary information.

RESEARCH

Do female directors keep confidential information?

Opinion

Dharmendra Naidu

- Mr Naidu is an academic and currently a Lecturer at Monash University in Australia.

Opinion

Kumari Ranjeeni

- Ms Ranjeeni is an academic and currently a Teaching Associate at Monash University in Australia.

In a recent research publication, Dharmendra Naidu and Kumari Ranjeeni find results suggesting that "firms with gender-diverse boards, which initially experience higher adverse selection costs in a competitive environment, are rewarded with a net gain of about 10 per cent of their stock price in three years".

Their research specifically show that compared with firms with an all-male board, firms with gender diverse board experience higher adverse selection costs in the short term when they face high product market competition.

The authors attribute the results to gender diverse boards redacting proprietary information when their firm faces high competition.

However, in the long run they find that firms with gender diverse boards earn higher buy and hold abnormal stock returns.

Our research publication in FT50 journal

This paper is published in 2023 in *Journal of Business Ethics*, which is a *Financial Times 50* journal.

The full paper is available for free at: *https://doi.org/10.1007/s10551-023-05553-3*

If you use the findings from this research, Mr Naidu and Ms Ranjeeni would appreciate if you cite the paper as follows:

Naidu, D., Ranjeeni, K. *Shhh… Do Gender-Diverse Boards Prioritize Product Market Concerns Over Capital Market Incentives?.* J Bus Ethics (2023). *https://doi.org/10.1007/s10551-023-05553-3*

Our research inspiration

Ms Ranjeeni has been working in the area of board gender diversity since her Honours studies at Monash University where she was awarded the highest achieving student in Accounting Honours program (GPA 4.0/4.0) in 2015. After her PhD, she joined The University of the South Pacific but returned to Melbourne as COVID-19 started, when she collaborated with Mr Naidu on this research.

As a female, she was motivated to do this research because she has been experiencing stereotypes or incorrect perceptions from others.

Many times, she found that others were wrongly perceiving her either because they did not have complete information about her or because she ethically withheld proprietary information for confidentiality reasons.

Given her accounting and finance background, she was interested in learning whether female directors experience adverse perceptions from investors in capital markets.

Mr Naidu believes that many people tend to make judgement of others without understanding the context and history.

Hence, he was particularly interested in learning a potential reason why wrong perceptions may occur.

Given his background in accounting and interests in corporate governance, he was interested in finding what actions female directors take that leads to wrong perceptions by investors.

Interestingly, they find that female directors are doing something right (by keeping proprietary information confidential) and yet are adversely perceived because outsiders (that is investors) lack information to understand them better.

The following is an extract from their study:

"An important fiduciary duty of the board, which is related to loyalty, is the confidentiality of information (Kenton, 2023).

"We argue that corporate boards can benefit from female directors when proprietary costs are high because their personality traits are different from those of male directors.

"More specifically, women are more ethical (Arlow, 1991; Deshpande, 1997) and risk-averse (Riley Jr and Chow 1992; Sunden & Surette, 1998) than men. Thus, we argue based on the theory of groupthink (Janis, 1972) that gender-diverse boards limit groupthink in the decision-making processes of corporate boards (Kamalnath, 2017).

"We predict that gender-diverse boards ethically and carefully redact or reduce the disclosure of proprietary information when proprietary costs are high in the following ways: (1) they ethically use CT orders to redact proprietary information that must be disclosed and (2) voluntarily disclose lower levels of proprietary information than all-male boards.

"In the short term, this would result in higher adverse selection for firms with gender-diverse boards. Nevertheless, adverse selection problems will presumably be resolved in the longer run when nondisclosures report superior performance as a result of their enhanced competitive advantage." (Naidu and Ranjeeni, 2023)

Our Research Implications

They say that their findings support regulators in some countries that have and are considering mandating board gender quotas.

This is because although some firms and investors may not see the benefits of female directors in the short term, over the long term female directors contribute to firms and shareholder wealth.

Also, female directors contribute to ethical corporate disclosures or gender diverse boards are an antecedent for the ethical redaction of proprietary information.

Their findings also inform companies and shareholders that gender diverse boards create competitive advantage or preserve competitive edge by prioritising product market concerns over short-term capital market incentives.

Hence, "reducing board gender diversity will be counterproductive for firms in highly competitive settings" (Naidu and Ranjeeni, 2023).

Their results also inform regulators and firms on how gender-diverse boards can minimise the concern that firms may redact information to hide bad news.

Gender-diverse boards can ethically and carefully redact proprietary information.

Our Research Conclusion

In sum, Mr Naidu's and MsRanjeeni's research concludes as follows:

"The inferences that we draw from our analyses largely suggest that gender-diverse boards strategically prioritize product market concerns over short-term capital market incentives when proprietary costs are high.

"Collectively, our findings suggest that gender-diverse boards ethically and carefully maintain the confidentiality of proprietary information for proprietary cost reasons as opposed to opportunistic reasons.

"As such, firms experience short-term adverse selection costs in the capital markets.

"Nevertheless, firms benefit in the long run through shareholder wealth maximisation, as board gender diversity helps create and maintain competitive advantage.

"Our research, therefore, advocates the importance of board gender diversity in creating competitive advantage by prioritising product market concerns over short-term capital market incentives.

"This suggests that any reduction in board gender diversity will be counterproductive for firms in highly competitive settings."

Brief Bio about the authors:

Ms Ranjeeni is an academic and currently a Teaching Associate at Monash University in Australia. She is from a farming background in Nausori and has her paternal root from Vunidawa, Naitasiri.

After her father's death, Ms Ranjeeni has continued the farming business, which is dedicated to her parents, in Fiji. She went to Saraswati Primary School Manoca, Saraswati College in Nausori and continued her education at The University of the South Pacific in Accounting & Finance where she received a gold medal in Finance. Later, she pursued her Honours and PhD studies at Monash University in Melbourne, Australia.

Currently, she is engaging in research on board gender diversity, just-in-time inventory management, supply contracting and financial reporting.

Mr Naidu is an academic and currently a Lecturer at Monash University in Australia. He is from a farming background in Nuku Estate, around 60km inland from Savusavu town.

He went to Labasa Sangam Primary School till class 2, and returned to his village where he went to Vanuavou Primary School.

For secondary school education, he went to Naleba College and Labasa Sangam (SKM) College. He did Accounting & Information Systems from The University of the South Pacific and completed his PhD at Monash University in Melbourne, Australia.

His current research is in corporate governance, supply contracting and financial reporting.

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