

## **'THE MARKET IS GENDERED': Lack of gender diversity in finance drives negative stock market reaction to women as CEOs**

Negative stock market reactions to the nomination of a female chief executive officer (CEO) reflects the lack of gender diversity in investment occupations, according to research by Professors **François Longin** and **Estefania Santacreu-Vasut**, to be presented at the annual congress of the European Economic Association in Manchester in August 2019. They conclude that undoing the negative market bias against female CEOs would require substantially diversifying the workforce in the financial services industry.

The novel experimental simulations in their study makes it possible to investigate participants' reaction to an otherwise identical female or male CEO as function of their own gender. They find that male participants sell stocks of companies that appoint female CEOs while female participants buy stocks of these same companies.

### **More...**

Previous studies have shown that when a female CEO is nominated, the stock market valuation of the company drops *relatively more* than when a male CEO is nominated. Understanding *why* is challenging because data are scarce: few female CEOs are nominated.

This study argues that existing explanations overlook one key factor: the lack of gender diversity among stock market participants. This is important especially because trading is a mostly male occupation. The authors make the hypothesis that the market reaction against female CEOs may reflect a mostly male stock market, which they summarise by saying that 'the market is gendered'.

To study the role of gender diversity among stock market participants in understanding the stock market reaction to a female or male CEO nomination, the research innovates in two respects.

First, the researchers build a simulation-based lab experiment where a departing CEO will be replaced by one of two candidates that are identical except for their gender.

Second, they draw attention to the role of investors' own gender to explain their reaction to the gender of the CEO.

Using experiments makes it possible to overcome two key empirical challenges in real data:

- Few female CEOs are nominated.
- No information is available regarding individual trading reactions to the nomination.

The researchers find that the male and female participants' reaction to a male or female CEO appointment is significantly different. The participants buy stocks of the company

when a CEO of their *own* gender is nominated and sell stocks when a CEO of a different gender is nominated.

The critical threshold of female market participants that makes the market reaction gender-neutral to the nomination of a female CEO equals 82%. This is substantially above the current level of female participation in the financial sector. For example, only 16% of CFA holders are female, according to Mattia (2018).

The main implication is that undoing the negative stock market reaction to female CEO appointments would require a complete transformation of the financial industry by substantially diversifying its workforce.

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