

Pitcher's Name	Searat Ali	Purpose	AFAANZ Grant Application
(A) Working Title	Women in the boardroom and their impact on default risk		
(B) Basic Research Question	Does the boardroom gender diversity reduce default risk?		
(C) Key paper(s)	<p>Sila, V., Gonzalez, A., Hagedorff, J. (2016). Women on board: Does boardroom gender diversity affect firm risk?. Journal of Corporate Finance. 36, 26-53 (A* journal).</p> <p>Chen, S., Ni, X., Tong, J. Y. (2015). Gender Diversity in the Boardroom and Risk Management: A Case of R&D Investment. Journal of Business Ethics. 1-23 (A journal).</p> <p>Adams, R. B., Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. Journal of Financial Economics. 94, 291-309 (A* journal)</p>		
(D) Motivation / Puzzle	<p>On the one hand, default is among the most abrasive events in the life of a corporation, and on the other hand, gender diversity in the boardroom has received considerable attention from regulators (e.g., ASX, 2010) and researchers in the past few decades. Here the empirical question of interest is "Can women on board reduce the firm's default risk?" To date, no empirical study has examined such a relationship. Furthermore, the addition of women on board and its impact on corporate outcomes is still under discussion due to inconclusive findings. Interestingly, despite the theoretical work supports for women being risk averse, Sila et al. (2016) find no relationship (due to endogeneity) between gender diversity and risk taking. In contrast, Chen et al. (2015) find that gender diversity plays an important role in managing the firm's risk. Therefore, this project is motivated by the importance of managing default risk, the recent calls for more participation of women on board, and the gap in the boardroom gender diversity literature.</p>		
THREE	Three core aspects of any empirical research project i.e. the "IDioTs" guide		
(E) Idea	<p>Boardroom gender diversity is likely to have a significant impact on default risk due to the monitoring ability of the women. Specifically, women on board may improve the effectiveness of the board in monitoring the opportunistic behaviour of management and mitigating the information asymmetry between management and shareholders, and are thus likely to reduce the default risk (Agency theory). To examine if information asymmetry is a channel through which boardroom gender diversity affect default risk. Tension: Women on board are considered substitute monitoring mechanism to weak corporate governance in the literature, however, the proxy of corporate governance (e.g., G-index) used in the literature is external but not internal. The idea is to examine if the gender diversity is the substitute to internal monitoring mechanisms (independence of board and audit committee) or external monitoring mechanisms (ownership structure and product market competition) or both.</p> <p>The main hypothesis: Women on board reduce default risk.</p>		

(F) Data	<p>SAMPLE: Australia's non-financial firms (because of recent gender reforms (2010), and 'If not, why not' approach as opposed to quota-based approach), annual data from 2008 to 2015 (eight years), 800 unique firms, almost 6400 firm-year observations.</p> <p>PROXIES FOR DEFAULT RISK (3): Merton (1974) Distance to Default (DD), Credit Default Spread (CDS), and actual credit default events. PROXIES FOR GENDER DIVERSITY (3): Percentage of women on board, a presence of at least one woman on board (dummy variable), and Blau index. PROXIES FOR INFORMATION ASYMMETRY (3): Time-weighted quoted spread (trading cost), Amihud illiquidity estimate (price impact), and turnover adjusted zero volume days (immediacy). PROXY FOR INTERNAL GOVERNANCE (1): Self-constructed corporate governance index based on 17 objective criteria of the Horwath report. PROXIES FOR EXTERNAL GOVERNANCE (3): Top20 shareholdings, block holder, product market competition. DATA SOURCES: SIRCA for gender diversity, corporate governance, and stock liquidity data; Morningstar DatAnalysis premium for firm-specific variables, Bloomberg for the calculation of default risk. Databases available at Griffith University. An application for AFAANZ research grant of \$9,013 will cover the cost of a research assistant.</p> <p>DATA HANDLING: Name changes while merging data from different sources and outliers etc. VARIATION: Yes, due to gender reforms in 2010/11, a good variation within firm over time is expected. GENERALIZABILITY: The findings will be generalizable to the countries (e.g., New Zealand) where adopting gender diversity is voluntary.</p>
(G) Tools	<ul style="list-style-type: none"> -Baseline regression model: Pooled OLS, Fixed effect (FE) and between effect. -Endogeneity: Lagged FE, 2SLS, GMM and propensity matching score. Difference in difference (DID) using the gender reforms (2010) as a natural experiment. -Split sample regression: To examine the substitution effect of gender vs internal and external monitoring mechanisms. -Additional testing: Alternative sample specifications (e.g., balanced data, excluding GFC period (2008 and 2009)) -STATA 13 (available through Griffith University) -A research assistant is required for the collection of data, calculation of variables, and data testing and analysis.
TWO	Two key questions
(H) What's New?	<p>This is the first study to examine the influence of boardroom gender diversity on default risk. Moreover, novelty is around investigating information asymmetry as a channel between boardroom gender diversity and default risk and is around examining substitution effects - most notably gender vs. internal and external monitoring mechanisms. The novelty is in the idea, whereas data and tool are the passengers.</p>
(I) So What?	<p>FOR REGULATORS AND RESEARCHERS: Since the benefits of adding more women on board is under discussion, knowing the relationship between gender diversity and default risk will enrich the regulatory and research debate. One may criticize the risk aversion of the women based on the principle of 'no risk, no gain'. However, if gender diversity is associated with the reduction of default risk (as we conjecture so), these findings would be very useful to advocate the positive outcome of the women risk aversion i.e., lower default risk. Moreover, while studying the substitution effect between gender and other internal and external governance mechanisms, the findings would be useful for the regulators to advocate appropriate design of gender diversity in the boardroom. FOR INVESTORS: If gender diversity is related to the default risk, investment communities may benefit in designing investment strategies toward selecting stocks of firms with more women on board to reduce the default risk of their portfolios. FOR FIRMS: The findings would be beneficial for firms (by appointing more women on board) to lower their cost of capital</p>

	through reducing the risk premium originated from the default risk. FOR AUTHORS: Overall, these implications of the project will enhance the profile of accounting and finance discipline in general, and authors in particular.
ONE	One bottom line
(J) Contribution?	Value addition to the literature that investigates the linkage between boardroom gender diversity and risk by providing the first comprehensive and robust evidence on the relationship between women on board and default risk.
(K) Other Considerations	<p>Collaboration: Yes, either internal or external collaboration is desired to address endogeneity bias.</p> <p>Target journal: Accounting and Finance (AF), and Journal of Corporate Finance (JCF).</p> <p>Risk assessment: 'No result risk' is high because boardroom gender diversity is still very low. Similarly, 'Competition risk' is high because many researchers are following gender diversity research. However, 'risk of obsolescence' is low because gender diversity is receiving wide attention from regulators in the recent decade, and is expected to remain as a 'hot topic'.</p> <p>Scope: The scope seems appropriate. Pipeline: Examining the effect of boardroom gender diversity on default risk using international data.</p>

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