Spotlight
by CeFEO

Can having more women on the board improve financial outcomes for family businesses?

Women on Board. How gender diversity lowers the cost of capital in family firms

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In today's competitive business landscape, family firms face unique challenges in balancing their long-term socioemotional wealth (SEW) goals with financial performance. Strategy disclosure—publicly sharing a company's strategic plans—can be a double-edged sword. While it builds transparency and trust, it may also expose the firm to scrutiny, increasing its cost of capital. This article investigates how gender diversity on the board, particularly the presence of women directors, influences the relationship between strategy disclosure and the cost of capital in family businesses.

WHAT WE STUDIED

This research focused on a sample of 93 Italian small and medium-sized enterprises (SMEs), both family and non-family firms, listed on the Euronext Growth Milan stock exchange. The study measured strategy disclosure through a comprehensive Strategy Disclosure Index (SDI) and analyzed how the involvement of women directors impacted the firms' cost of capital. The researchers applied social construction theory and the socioemotional wealth perspective to understand how financial stakeholders perceive family firm governance and the role of women in leadership positions.

KEY INSIGHTS

1. Strategy Disclosure and Increased Cost of Capital

Family firms that disclose more strategic information tend to face higher costs of capital. This increase occurs because financial stakeholders may view family businesses as more focused on non-financial goals, such as preserving family control and SEW, which they see as riskier investments.

2. Women Directors as Mitigators

The presence of women on the board helps counterbalance the negative effects of strategy disclosure on the cost of capital in family firms. Women directors are often perceived as improving governance and decision-making processes, which reassures investors and creditors.

3. The Critical Mass Effect

When a critical mass of women directors (three or more) is present on the board, the strategy disclosure leads to a reduction in the cost of capital for family firms. This effect suggests that gender diversity significantly enhances board dynamics and the firm's professionalization, which financial stakeholders recognize as a sign of strength.

TAKEAWAYS

1. For Family Business Owners

Family firms should consider increasing the representation of women on their boards, as gender diversity not only improves governance but also reduces the financial risks associated with strategy disclosure.

2. For Women in Leadership

Women directors can play a pivotal role in improving family firm governance. Their presence on the board contributes to more transparent and effective strategic

decision-making, which can enhance the firm's financial reputation.

3. For Investors and Policymakers

Recognizing the value of gender diversity in family firms can lead to better investment decisions and the creation of policies that encourage more women to take leadership roles in family businesses.

IMPACT

This study provides empirical evidence that gender diversity on family firm boards plays a crucial role in reducing the financial risks associated with strategy disclosure. By having more women in leadership positions, family firms can not only enhance their internal governance but also improve their financial standing in the eyes of investors.

RECOMMENDATIONS

Family businesses should aim to increase the number of women directors on their boards, reaching at least three to realize the full financial benefits of strategy disclosure. Additionally, more research is needed to explore how the professional background of women directors influences their impact on firm governance.

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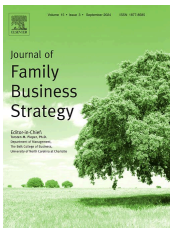
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