# PAID MATERNITY LEAVE AND FIRM VALUE

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## ABSTRACT

*Paid maternity leave is a voluntary corporate decision. Its Cost-Benefit Analysis is presented by Obonyo et al. (2021). "The benefit is to help retain competent employees, to increase corporate morale and to benefit employee and business operations. There is an obvious cost to employees taking off work with pay for delivering and caring for their newborns or newly adopted children. The question is whether investors consider the policy of paid maternity leave as a positive net present value investment for long-term shareholder wealth maximization or as an expense." This study is the first research to examine the stock price reaction to the announcement that a firm will initiate paid maternity leave benefits. We use a list of companies collected by the Fairygodboss.com website (2019) with data for companies that offer paid maternity leave. Using an event study model, the Day 0 abnormal return is a highly statistically significant negative -.51%. In addition, all the CARs around the event date are statistically significantly negative. By contrast, regression results indicate that voluntary paid maternity leave programs that are longer in length have better results for firm value. Thus, the findings of this research indicate that longer the term of the paid maternity leave policy (more investment in employees), the more positively it impacts firm value.*

***Keywords**: Maternity Leave; Event Study; Firm Value*

## 1. INTRODUCTION

Paid maternity leave is a voluntary corporate decision. Its Cost-Benefit Analysis is presented by Obonyo et al. (2021). "The benefit is to help retain competent employees, increase corporate morale and benefit employee and business operations. There is an obvious cost to employees taking off work with pay for delivering and caring for their newborns or newly adopted children.

The question is whether investors consider the policy of paid maternity leave as a positive net present value investment for long-term shareholder wealth maximization or as an expense. This research is the first study to examine the stock price reaction to the announcement that a firm will initiate paid maternity leave benefits" to evaluate whether there is a statistically significant positive or negative reaction to the announcement of the initiation of paid maternity leave benefits.

This study finds a significant negative reaction to the announcement of the initiation of paid maternity leave. Studies in human resources have investigated how offering paid maternity leave as a benefit impacts the choices made by employees, while the macroeconomic literature has investigated the effects of such commitments on broad economic outcomes such as wages and labor participation rates. The effect on the firms offering these benefits to employees has largely been overlooked in the literature and is the focus of this study.

Paid maternity leave has recently taken a prominent role in US national policy. In August 2019, the Business Roundtable, an influential organization that includes the Chief Executive Officers of many Fortune 500 firms, released a statement that formally attempted to redefine the purpose of a corporation. In addition to commitments to other stakeholders, the statement included an explicit commitment by firms to invest in their employees by offering them fair compensation, providing important benefits, for example paid maternity leave, and offering support through training and education to equip employees with new skills for a world that is changing rapidly.