

The Impact on Firm Valuation of Mandated Female Board Representation

Previously Entitled: The Changing of the Board



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Summary of Law: Gender Quotas in Norway

- December 2003: Parliament Passes Law – 40% gender quota
- July 2005: Voluntary compliance failed (13% compliance rate)
- January 2006: Law is mandatory: Two years to comply
- January 2008: 77 delinquent firms were given notice - Comply or be dissolved
- April 2008: All firms in compliance



Questions of Interest and Approach

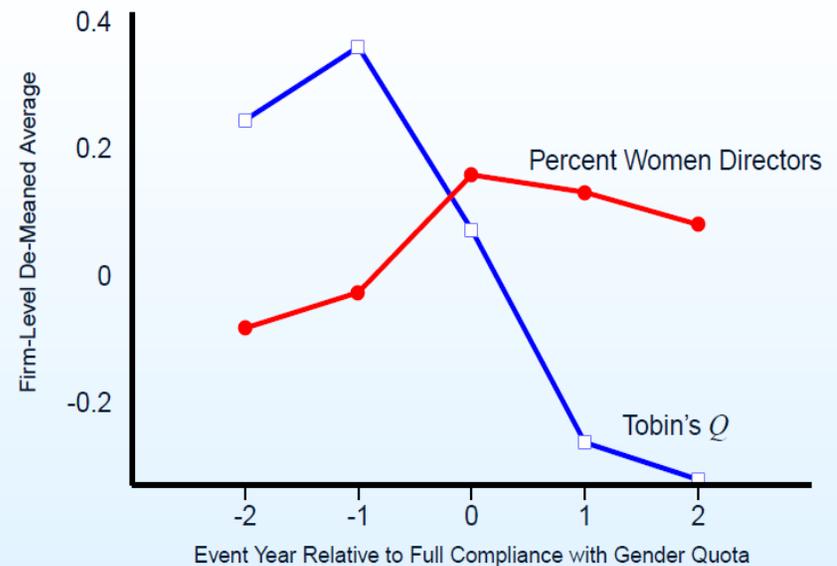
- Exogenous change provides natural experiment
 - Value relevance of boards of directors
 - Value impact of gender quotas
- Investigate all affected firms with data available:
 - Examine all affected listed on OSE in 2007 (*241 firms*)
 - Gather director and accounting data 2001-2008 (*166 firms*)
 - Final Sample: 7,773 person-year observations
- Use two methods to study change in value
 - Change in Q on dummy for year when added women
 - Tobin's $Q = (Total\ assets + market\ equity - book\ equity) / Total\ assets$
 - Stock return at announcement of the quota, Feb. 22nd, 2002

Change in Firm Value: year of board change

- Q declined 14.8% in year increased women on board by 10%.

- Staggered Compliance: Compare to firms not changing boards in that year
- Controlling for changes in firm's operations

Event Time



Change in Firm Value: announcement of law

- Stock prices dropped 3.7% more for firms with no women on board compared to firms with at least one woman on board
 - ~½ of firms had at least one woman on board prior to the law
 - Average board size is ~6.5 directors (before and after the law)
 - Firms with women on board prior to law have less constraints in complying with the law.

Changing Board Characteristics

- Why did gender quotas impact firm value?
- Women added to the board after quota relative to men and woman on the board prior to the quota:
 - Younger
 - Less CEO experience
 - Non-Executive managers
 - Do not hold an MBA but do hold a higher education degree
 - On more boards
 - Outsiders to the firm
 - Not from Norway

Why did gender quotas impact firm value?

- Relate change in Q to changing director characteristics
- Gender no longer explains the change in firm value
- Experience of board members explains change in value:
 - CEO experience (+, but diminishing)
 - Occupation listed as a Board Member (+)
 - Age (+)
 - Being an insider to the firm (+)

Implications of this Study

- Examines first of its kind gender quota for public companies in Norway
- Documents impact of gender quotas on firm value:
 - Imposing gender quotas has costs: decreases firm value
 - Costs result from directors not having (relevant) experience
 - Assuming choose ‘best’ directors, costs could be limited if pool of potential directors are nurtured to have experience.
- Limitations of studying firm value:
 - Focuses on the firm, not overall social welfare
 - Costs may dissipate as more women gain experience