The Impact on Firm Valuation of Mandated Female Board Representation

Previously Entitled: The Changing of the Board

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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 = \((\text{Total assets} + \text{market equity} - \text{book equity}) / \text{Total assets}\)
  • Stock return at announcement of the quota, Feb. 22\textsuperscript{nd}, 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
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