Do board gender quotas reduce firm value?

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Abstract

The forced addition of new female directors on boards led to value losses of upwards of 20% for the firms with [no previous female members]...[The] value losses are persistent across time." Ahern and Dittmar **Quarterly Journal of Economics**, 2012

In 2005, Norway, as the first country in Europe, mandated gender-balanced boards, requiring each gender to have 40% representation on the boards of both listed and non-listed public companies. Using this natural experiment, we make several contributions to the debate over the effect of director independence in general, and to the likely valuation impact of a board gender quota in particular.

First, we revisit the surprising conclusion of Ahern and Dittmar (2012) that the quota law resulted in a large and persistent loss of market value of firms listed on the Oslo Stock Exchange (OSE). Implementing a robust instrumental variable approach, as well as a detailed study of quota-related news events, we fail to find evidence of a statistically significant change in the market values of domestic OSE-listed firms that may be attributable to the quota law. We also show that the Ahern-Dittmar conclusion of a value loss suffered by OSE-listed domestic companies is driven *not* by the gender quota law but by a superior ability of a small set of large government-owned firms to withstand the negative liquidity shock caused by the recent financial crisis. Since these government-owned firms had an above-average presence of female directors prior to the quota law, they also drive the Ahern-Dittmar instrument, creating the appearance of a quota-induced relative value decline for the privately owned OSE-listed firms.

Moreover, in our study of quota-related news events, we find no statistically significant difference in the market reaction to domestic and *foreign* OSE-listed firms, although only the former firms are subject to the quota law. We also show that the number of firms listed on the OSE increased somewhat after 2005, contradicting the notion that the gender quota deterred firms from remaining public.

Last, but not least, we document the rise of female director network power in the post-quota era using network centrality measures and a new and uniquely comprehensive director data set. Interestingly, our female director power index comes close to reaching that of male directors by 2009. This gives tentative support to the notion that the quota law and the director election process jointly restrict the supply of qualified directors to the point where a small set of "golden shirts" have been forced to share power with another small set of "golden skirts".

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