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Diversity among Norwegian Boards of Directors: Does a Quota for Women Improve Firm Performance?

Harald Dale-Olsen, Pål Schøne and Mette Verner

At the end of 2002 women comprised only 10 percent of the boards of directors of public limited companies (PLCs) in Norway. By April 2008, roughly 40 percent of directors of such firms were women. This leap in representation was the result of Norwegian laws that set a 40 percent quota for women on boards of PLCs. Harald Dale-Olsen, Pål Schøne, and Mette Verner examine this rather controversial reform in order to determine the effect of board structure on company performance in general and evaluate the economic consequences of gender-equalization strategies.

New evidence. Quota reform of this magnitude provides a massive shock to boards' structures, thereby providing new empirical evidence on how board diversity and use of quotas affects firm performance. The Norwegian reform is important as an example of government intervention to improve gender equality in both corporate management and in general. It is also the forerunner of similar reforms in Spain, Iceland, France, the Netherlands, Belgium, Italy, and Malaysia. The authors treat the reform as a natural experiment (that is, determined by events or forces beyond the control of researchers – in this case, the Norwegian legislation). For the 2003–07 period they identify changes in returns on assets (ROA) – a measure of how profitable a company is in relation to its total assets – for firms affected by the reform and compare the change in ROA with the change in ROA for Norwegian ordinary limited firms, which were not subject to the quota reform and could therefore serve as a control group. PLCs, a subgroup of limited firms, face stricter rules with regard to capital stock and board composition and size, their board members are not personally liable for debt, and only PLCs can be listed on Oslo Stock Exchange. As a major owner of PLCs, the state could not endorse the gender imbalance on PLC boards, thus legitimizing the quota reform.

Initial impact is small. The main results show that the impact of the reform on firm performance is negligible. Neither ROA nor operating revenues changed, and operating costs can be attributed to the increase in women's representation. These findings imply either that the short-run influence of boards is small, or that the newly recruited women did not contribute markedly different resources and perspectives than the men they replaced, at least in this initial period.

Other measures of success. However, the authors infer that the reform may be important from a gender-equality perspective. It has increased women's representation on Norwegian boards. This success may have positive long-term effects on women's opportunities and willingness to seek other high-ranked positions in the labor market, which is an important and more wide ranging "second round" effect on gender equality. The reform also appears to have inspired similar reforms in several other countries, improving gender equality in the corporate world. Thus, at this stage, given the negligible economic-performance effects but clearly improved gender equality, the overall impression is that the reform has been a success.

Can Norway's experience be generalized? The authors think the results can be generalized to other countries, but offer the following contextual caveats:

- Norway has a tradition of using quotas in gender-equality policies, which may have helped smooth implementation.
- Norway has a very high labor force participation rate among women, and Norwegian women are on average well educated, factors that help in the recruitment of women into board rooms.
- Norway's political environment, characterized by a relatively friendly atmosphere between politicians and the public, also aids in the development and implementation of such a controversial reform. Even in Norway, major business representatives publicly opposed the reform arguing that it was an infringement of owners' right to determine their board representatives.

Finally, although the Norwegian reform was controversial at the time, as the years have passed and most concerns have not been realized, critics of the board legislation are few and far between. For the foreseeable future, Norwegian PLC boards will comprise 40 percent women.

Read the article in full at
http://www.tandfonline.com/doi/full/10.1080/13545701.2013.830188#.U19jkfldX_M