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“When Gender Diversity is a Must: The Effect of Gender Quotas on Bank Performance”

Abstract

Advocates of gender diversity along with some scholars propose that board gender diversity increases firm value (Adams and Ferreira, 2009; Farrell and Hersch, 2005; Erhardt, Werbel and Shrader, 2003; Carter, Simkins and Simpson, 2003). In particular, female directors contribute to the improved problem-solving and decision making ability of the entire board, have to overcome gender-related hurdles making them more proficient and diligent directors (Pathan and Faff, 2013), and offer independent and new perspectives (Adams and Ferreira, 2009; Farrell and Hersch, 2005). As a result, gender quotas have been put in place across different countries. However, evidence supporting the positive relation between gender diversity and firm value is mixed and inconclusive. More importantly, the effect of mandatory gender quotas on firm value remains a poorly understood economic phenomenon. Using a sample of 1,451 European bank-year observations, we study the effect that mandatory gender quotas has on firm value. Our preliminary results show that while gender diversity has positive effect on bank performance, quotas are detrimental to firm value. However, quotas have a positive relationship with firm value when firms are located in countries where women are more active in the labor market.