In Italy's 'male gerontocracy', gender quotas induced the restructuring of company boards

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Women are underrepresented among top leadership positions everywhere. Gender quotas have been proposed to accelerate the process towards economic gender equality and to promote women's empowerment. Norway pioneered the introduction of gender quotas for boards of directors in 2005, followed by Italy in 2011 and, more recently, by France and Germany.

However, board gender quotas are controversial. On one side, they have been widely advocated for achieving a gender-balanced representation in the top of economic positions. On the other side, they may have costly consequences, as they risk promoting less-qualified individuals, who are likely to perform poorly, with negative effects on the performance of companies and negative stock market reactions. In Norway, Ahern and Dittmar (2012) document a reduction of firms' value (measured by Tobin's Q) due to the quotas.

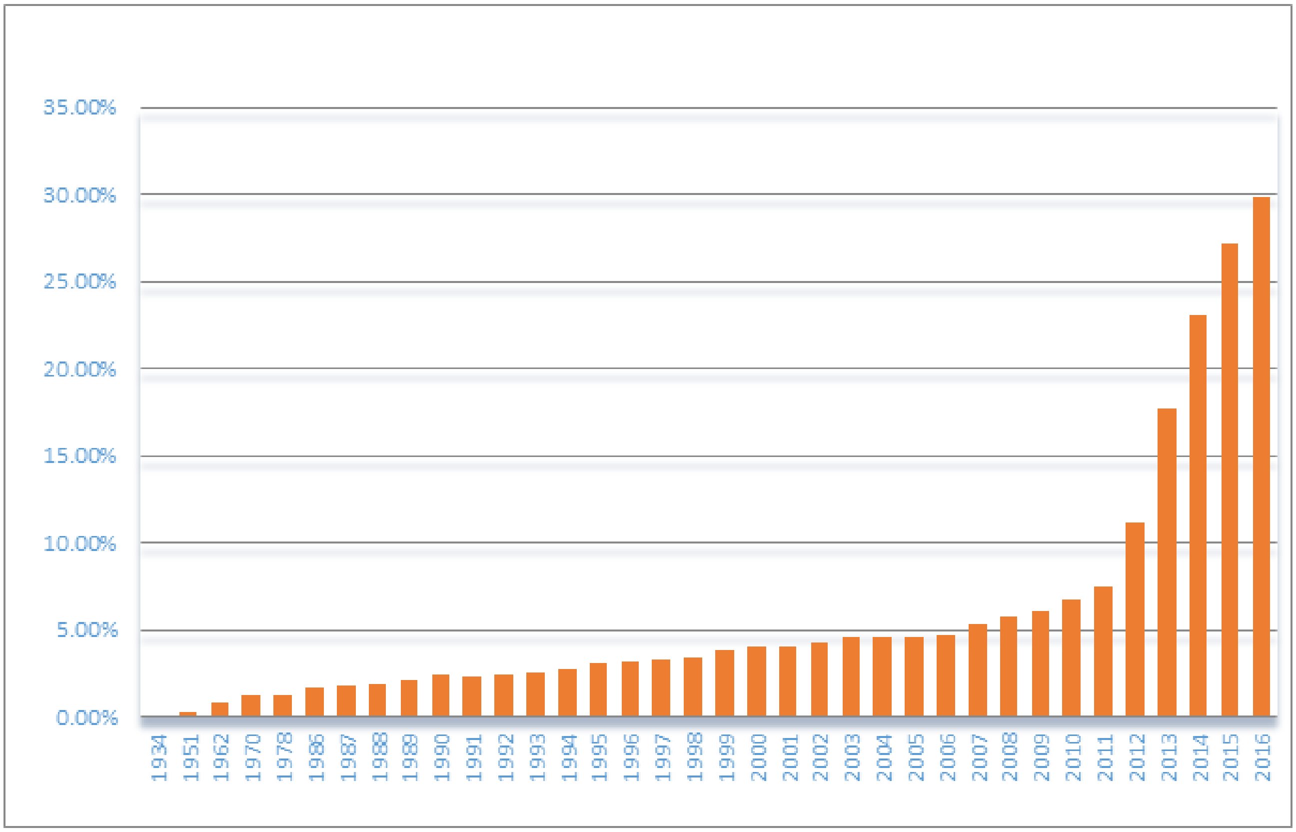
A recent working paper based on research which started in 2013 provides new and different evidence for Italy.

In July 2011, Italy introduced gender quotas for boards of directors and statutory auditors of companies listed on the stock market. The so-called "Golfo-Mosca" law (by the names of the two authors) mandates that either gender should be represented at 1/5 for the first election after August 2012, and 1/3 for the following two board elections. Unlike in Norway, the Italian quotas are temporary and gradual. In fact, the measure will be in place only for three consecutive board elections, i.e. 9 years for each company (boards are elected every 3 years). The law was approved in July 2011 and was implemented the year after, i.e., there is a phase-in period between approval and implementation (see Profeta et al., 2014).

The underlying idea is that a temporary shock measure is needed to change the *status quo* and increase women's representation on boards in a very conservative country such as Italy. Figure 1 shows the slow evolution of the share of women on boards in the last decades, which, thanks to the quotas, shifts from 6 per cent up to the current

30 per cent.

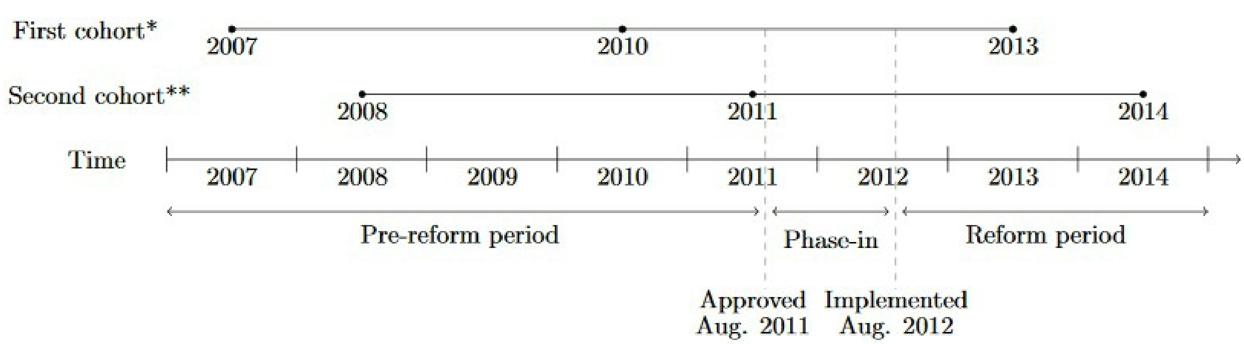
Figure 1: Share of women on boards, Italian listed companies (1934-today)



Our study shows that there is more than a simple numerical increase of women's representation.

We first manually collect 4627 resumés of board members (males and females) in the period 2007-2014 of the 245 companies that are listed on the Italian stock market and subject to the law, according to CONSOB (the regulatory body of the Italian stock exchange authority). We compare within firm before and after reform changes in board members characteristics, such as gender, age, level and field of education. More precisely, we follow the same firm over two consecutive board elections, the first one before the implementation of the quota law and the second one with the quotas, as shown by Figure 2.

Figure 2 Timeline of board elections



Notes: The figure represents the timeline of the implementation of the law (on the time axis) and the timing of board elections. *Board elections in years 2007, 2010 and 2013, from April

to June. **Board elections in years 2008, 2011 and 2014, from April to June.

Our analysis identifies that, when gender quotas are enforced, firms show a higher share of women directors (well above the required threshold), higher average education levels of all members of the board, and lower ages than before the quotas. We do not find an increase in board members belonging to the same family, nor a clear increase in the average number of positions held by each board member. Moreover, by comparing the characteristics of new, retained and exiting members, we show that gender quotas trigger a process of better selection of the entire board: after the quotas, new members are more qualified than exiting ones, while this did not happen before the quotas.

Second, we collect firm-level data for the period 2010-2014 on several outcomes of each company, including the number of employees, production, profits, share of short-term and long-term debts, ROA, Tobin's Q, and asset. Sources of information are Orbis-AIDA, Bankscope, Datastream and, in case of missing data (which are numerous), we hand collect the corporate documents available on the website of the Milan Stock Exchange or on the official budget balance sheets published on each company's website. We also download from Bloomberg the daily closing price of the FTSE MIB for the years 2009-2014.

To assess the causal effect of women's empowerment on firms' performance, we use the reform period, which is exogenous to firms' decisions, as an instrument for the share of female directors. Although the short time period (two years) after the introduction of gender quotas does not allow us to assess the long-term effects, our analysis shows that so far quotas in Italy have not been associated with different (for instance, worse, as in Norway) firm performance. Moreover, consistent with the existing evidence that women are more risk-averse than men (see a review in Bertrand, 2011), we show that women's empowerment reduces the variability of companies' stock prices.

Finally, we use data on the stock market prices to run event studies at both the day of announcement of the law and at the date of the board elections. We find that the stock market welcomes the introduction of quotas at the board elections. We also show that the election of younger and more educated members is associated with better stock market returns, which suggests that the new after-quotas boards are judged by the market itself of a better "quality".

Overall our results support the idea that not only gender quotas contribute to women's empowerment, they may also encourage a better selection mechanism through the entry of qualified women. In countries such as Italy, dominated by a male gerontocracy, where boards of directors were not necessarily populated by the most competent and most qualified people for the job (Bianco et al., 2015), the introduction of gender quotas induces a beneficial restructuring of the boards, which is positively received by the market.

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- *This article is based on the author's paper Gender quotas: Challenging the Boards, Performance and the Stock Market, co-written with Valeria Ferraro, Giulia Ferrari and Chiara Pronzato, W.P. IZA 10239, 2016, Dondena 92 e CEsifo 6084*
- *The post gives the views of its author, not the position of LSE Business Review or the London School of Economics.*
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