

Board gender-balancing and insider trading performance

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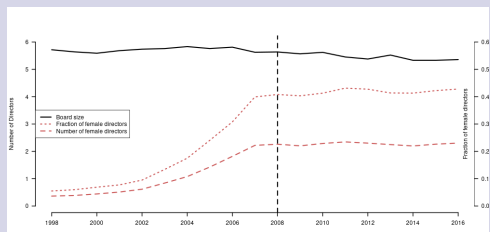
Abstract

The market reaction to nonroutine trades by executives and directors is conventionally viewed as increasing in the market's assessment of insider informativeness about firm value. Using the market reaction as our instrument, we test the proposition that female directors appointed after Norway's pioneering board gender-balancing quota law exhibit a degree of informativeness similar to that of male directors. Consistent with this proposition, we first show that the average market reaction to female director purchases jumps from a prequota value of zero to a level similar to that of male directors. Second, the market reaction is increasing in the board's director network connectivity (but not in director busyness). Third, regardless of gender, the positive post-quota market reaction to insider purchases does not translate into holding-period adjusted abnormal performance. Fourth, insider purchase activity by both male and female directors increases significantly during the year following the 2008 financial crisis (when boards were already gender-balanced). This gender-neutral increase in insider purchases caused by the exogenous market-wide stock price drop further suggests that female directors are as informed as their male counterparts about firm value.

Norway's Board Reform

2007 Board reform – 40% minimum female representation on boards of OSE listed companies.

Fraction females on board



Research Issue

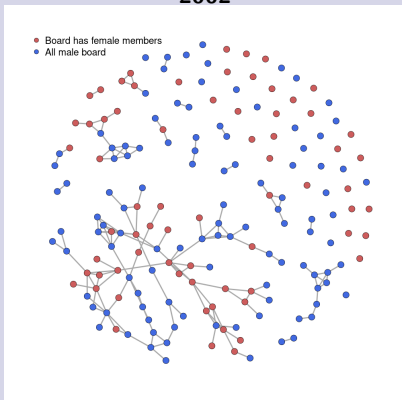
Did the reform hurt affected company values?
 What could affect value?

Quality of board deliberations deteriorating.
 Quality depends on

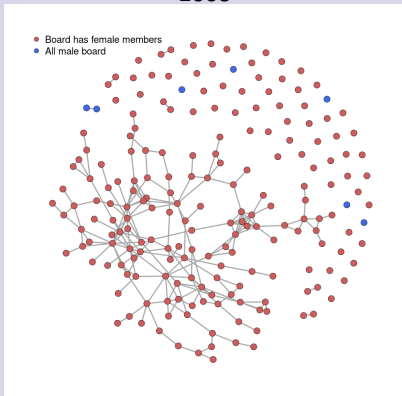
- Education and experience of directors
- Network of directors/boards

Evolving connectedness of board networks

2002



2008



Blue: All male boards;
 Red: Boards with at least one female director

How to measure director "quality"?

Our suggestion: By the market reaction to directors' equity trades.

Primary Insider trades

Trades by executives or directors in own company stock.

Source of trading profit

Trades reflect knowledge/understanding/experience of

- Own company
- Industry in which company operates

This investigation

Norway: All reported inside trades 1997–2016.

Measure gender differences in

- Short term market *reaction* when insiders trade.

Short term reaction

Short term price movements when insiders trade

- Timing by insiders (insider knowledge)
- Market's evaluation of the fact that an insider traded.
 Evaluation of "Quality" of trader.

Method: Event study

Market reaction (CAR): Coefficient Γ in

$$r_{it}^e = a_i + b_i r_{mt}^e + \Gamma D_{it}^{event} + \varepsilon_{it}$$

Event windows: (-1, 1) (-1, 5) (-1, 25) (-1, 50)

	(-1, 1)	(-1, 5)	(-1, 25)	(-1, 50)
A: Female Insiders 1997–2007				
CAR	0.0039 (0.002)	-0.0008 (0.001)	-0.0150 (0.001)	-0.0151 (0.0005)
B: Male Insiders 1997–2007				
CAR	0.0163*** (0.001)	0.0148*** (0.001)	0.0117 (0.0003)	0.0104 (0.0003)
C: Female Insiders 2008–2016				
CAR	0.0154*** (0.002)	0.0212*** (0.001)	0.0172 (0.001)	0.0161 (0.0004)
D: Male Insiders 2008–2016				
CAR	0.0167** (0.002)	0.0083 (0.002)	-0.0141 (0.001)	-0.0429 (0.001)

Market reaction to trades by female directors match that of male directors post-reform.

→ The market reactions do not show a "quality" difference.

Long term performance comparison

No gender differences.

Risk aversion and gender - the '08 crisis

Alternative way to investigate gender:
 Insider reactions to '08 fall in equity values

- buy stocks to rebalance portfolios?
- higher potential for inside view to differ from consensus view (increase inside holdings if positive view).

Risk aversion's influence on this decision
 More risk averse:

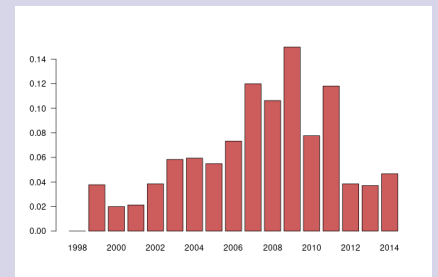
- Less equity in optimal portfolio
- Less willing to lower diversification to concentrate holdings in own company stocks.

Prediction More risk averse individuals will buy less equity following the fall in stock values.

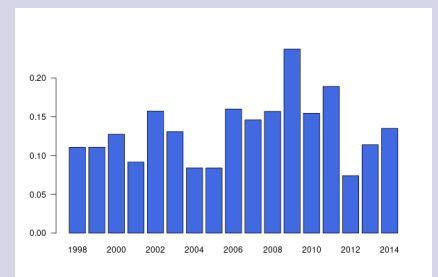
Specifically: If females are more risk averse, trade less.

Propensity to trade by directors

Females



Males



No sign of gender differences in propensity to buy equity following crisis.

Key takeaways

Board reform: influx of female directors
 → Market reacts *as positively* to inside trades by females after board reform.

Financial crisis and risk aversion
 → Female insiders increase equity buying during crisis.

→ Not consistent with female executives/directors being more risk averse.