This paper investigates the impact of mandating board gender diversity on firm value. Exploiting the political events leading up to the passage of California Senate Bill 826 as an exogenous shock to board gender composition, we document significant positive abnormal returns for firms required to add additional female directors to their boards. We also find that the effect is largest for those firms required to add three female directors, consistent with investors perceiving a significant deficit in current diversity levels and suggesting that quotas are not overly aggressive. We examine whether recently amplified market-based incentives resulting from institutional and activist investor ultimatums ameliorate the benefits of regulation. We find positive abnormal returns for firms with high and low institutional investor holdings, suggesting benefits of the regulation accrue to firms regardless of the ownership structure. Inconsistent with concerns that labor market constraints may pose significant limitations to the appointment of qualified female candidates, we find that our positive effect manifests both for firms in geographical areas characterized by high and low labor market depth. Moreover, directly comparing the educational, professional and personal qualifications of female directors hired in California pre- and post-regulation, we find no evidence of a decline in quality. This finding is further strengthened by documenting that market
reacts similarly to the individual appointments of male and female directors post regulation. Finally, we examine market reaction to the legal challenges of the SB 826 and document that market reacts negatively to the lawsuits aiming to invalidate SB 826, while it reacts positively to the dismissal of one such lawsuit. Collectively, these results provide positive evidence on the value of mandating board gender diversity.