

# The Influence of Board Diversity on Firm Performance

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## **Abstract**

Shifting patterns of employment and corporate succession have created growing interest in understanding the impact of diversity within firms. Diversity provides multiple points of view to discussions and creates a more focused decision-making process. With policies stipulating that companies across the globe adhere to diversity quotas and anti-discriminatory practices, corporate boards have felt pressured to be more inclusive of various types of diversity. This study attempts to achieve its objective, which is to investigate the relationship between board diversity and firm performance, by drawing on Resource Dependency Theory, Human Capital Theory and Upper Echelon Theory. The study follows a mixed method design. The quantitative study samples 77 companies listed on the Colombo Stock Exchange during the period 2015 to 2016, forming a Blau index to assess demographic and functional diversity. Panel regression was used to identify the impact of the two forms of diversity on firm performance. The qualitative methodology follows a case study of two companies. Directors of both companies were interviewed to obtain data for qualitative analysis, which was conducted through a thematic analysis. Findings of the study indicate that demographic diversity is able to balance egos, create space for symbolic representation and bring a level of maturity to the board, which in turn would have a positive impact on firm performance. The results for functional diversity are mixed, where the quantitative analysis revealed a negative impact on firm performance, while the qualitative study revealed that boards recognised the importance of directors with varying specialisations, education and experience. The findings also provide an understanding of the factors that enable diversity to influence firm performance. The research relevance of the study extends to board directors, top management, policy makers and investors who are able to influence the composition of boards and ensure that diversity in the board is valued within the company.

**Keywords:** Diversity, Demographic diversity, Functional diversity, Board of directors, Firm performance

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