The Impact of Board Diversity on Corporate Performance: A Review of Current Literature

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Summary

This analysis synthesizes findings from all peer-reviewed academic studies (n=203) published between 2019 and 2024, focused on the relationship between board diversity and corporate performance, selected from a review of over 800 articles published in the same period. The study excludes research incorporating Environmental, Social, and Governance (ESG) factors or Corporate Social Responsibility (CSR) to isolate the direct financial impact of board diversity. Diversity is defined in various ways in the studies including gender, education background, race/ethnicity, culture, nationality, and age.

The findings suggest that board diversity positively influences corporate financial performance in a majority of the research articles, with some studies highlighting neutral, mixed, or negative results based on industry context, governance structures, and firm culture. Key findings related to the prevalence of research over the period and the impact on corporate performance are summarized in the chart below, demonstrating that the majority of the research supports the positive relationship between board diversity and corporate performance.

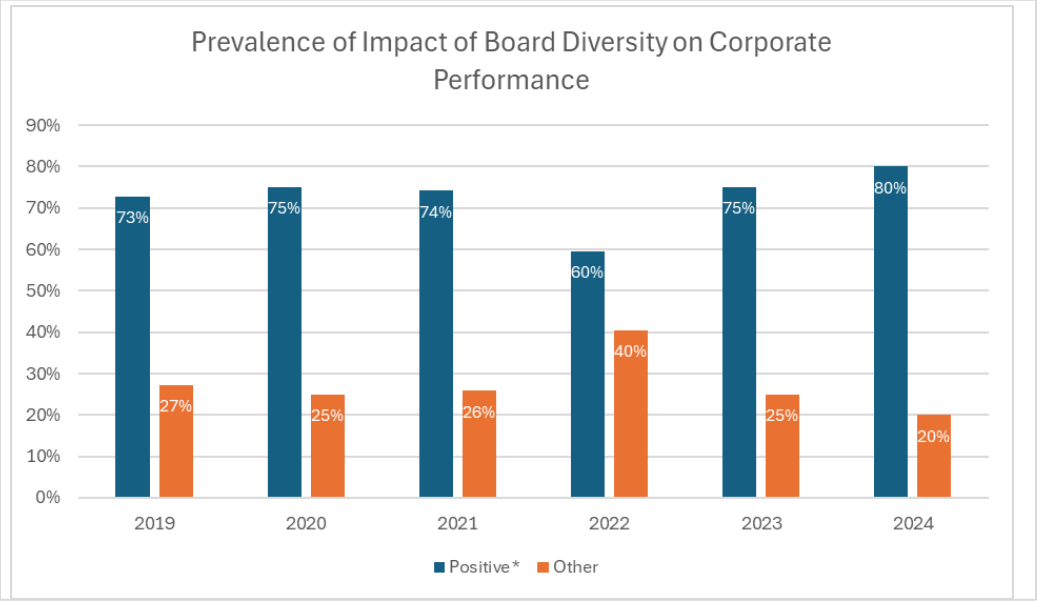

Chart 1: Prevalence of positive findings in studies over time, 2019-2024

The percentage of studies reporting positive impacts remained stable over the period evaluated (2019-2024), as indicated in Chart 1.

The articles represent that methodological diversity is expanding, incorporating quantitative, qualitative, and mixed-methods research across accounting, finance, economics, and governance fields.

Gender diversity is the most frequently studied board characteristic, appearing in 85% of articles globally. Regional differences exist, with Europe leading in educational background-based diversity research and the US focusing more on racial and cultural diversity. Nationality diversity is particularly relevant in studies of multinational corporations (MNCs).

The implications discussed in these research studies are summarized as follows:

- Board diversity has a predominantly positive financial impact but requires the right governance structures to be effective. Over 73% of the studies found a positive relationship between board diversity and corporate performance;
- Gender diversity is the most frequently studied diversity type and overall is positively associated with governance effectiveness and corporate performance;
- Industry-specific and regional factors play a significant role in determining outcomes;
- Integrating diversity, beyond token representation, maximizes the beneficial impact of diversity; and
- Future research should explore causal mechanisms, longitudinal effects, and cross-regional comparisons to strengthen empirical insights.

1. Introduction

The role of board diversity in corporate governance has been widely debated in academic and professional circles. This literature review synthesizes findings from 203 academic articles from 2019 to 2024 to analyze the relationship between board diversity, particularly gender diversity, and corporate performance. While many studies indicate a positive correlation, some findings reveal mixed or neutral outcomes, emphasizing the complexity of this issue. This paper categorizes the findings based on diversity dimensions, board characteristics, methodological approaches, and industry and country-specific differences.

While previous research has suggested that board diversity can enhance decision-making, innovation, and corporate reputation, skeptics argue that the empirical evidence remains inconclusive or inconsistent. This review aims to clarify these perspectives and offer insights that bridge the gap between academic research and practical governance strategies, specifically by analyzing a subset of academic articles that specifically focus on corporate financial performance as a variable in the research inquiry, while excluding any

academic articles that include Environmental, Social, Governance (ESG) or Corporate Social Responsibility (CSR) as elements in the research.

2. Study Methodology

To conduct this literature review, a systematic approach was taken to identify, analyze, and synthesize relevant academic research articles. The methodology included the following steps:

- A comprehensive search of peer-reviewed academic literature was conducted, reviewing more than 800 articles published between 2019 and 2024.
- Articles were selected through a systematic review of peer-reviewed academic publications, based on their relevance to board diversity and corporate financial performance, without regard to journal origin. The studies analyzed were conducted in various regions, including the United States (43%), Europe (18%), Asia (14%), India and the Subcontinent (11%), and other regions such as Latin America and Africa (14%).
- Practitioner research articles/reports, non-peer-reviewed research/reports, and opinion articles were intentionally omitted in order to maintain a high level of rigor and validity.
- Articles that included ESG or CSR as a variable in the model or a focus of the study were intentionally omitted to further isolate the impact of board diversity on financial outcomes and not conflate it with the impact of ESG and/or CSR.
- Articles that specifically addressed corporate financial performance in relation to board diversity made up the database and the focus on this research, narrowing the dataset to 203 academic research articles.
- The concept of "sustainability" was referenced in 23% of the articles. Sustainability for the majority of these articles is defined as the use of resources in a way that ensures they remain available indefinitely, aligning with the objective of maintaining vital functions of the organization. It was also described as a system state mediated by specific structures, requiring human systems to achieve business endurance over time.
- Each article selected for inclusion in the analysis was summarized and uploaded as meta data into a structured database, including the citation, abstract, and other key study details.

When analyzing the article, a summary of each article was created that addressed the following topics: snapshot of the study, key findings, objectives of the study, research methods used, results, and conclusions.

Five Key Impact Levels of Board Diversity on Corporate Performance

The analysis categorized findings into five impact levels as described in Table 1 below:

Impact	Definition
Positive Direct	These studies demonstrate a clear and measurable financial benefit from board diversity, such as increased profitability, enhanced shareholder value, or improved innovation performance. Firms with diverse boards often exhibit higher return on assets (ROA) and return on equity (ROE), reflecting the financial advantages of varied perspectives in governance.
Positive Indirect	Board diversity contributes to intermediary benefits, such as improved risk management or stronger corporate governance, which in turn positively influence financial outcomes over time.
Mixed	Research in this category presents conflicting results, with some firms benefiting from board diversity while others seeing no impact or even negative consequences. These mixed results often arise from industry-specific dynamics or the stage of diversity implementation or business maturity within a company.
Neutral	Some studies report no statistically significant relationship between board diversity and corporate financial performance, suggesting that other factors—such as firm size, industry type, or regulatory environment—may play a more substantial role in driving financial success in these contexts.
Negative	These studies indicated that board diversity can lead to inefficiencies, decision-making conflicts, or slower processes to respond to strategic issues, potentially harming financial performance indirectly. These cases are often associated with boards that lack cohesive integration of diverse perspectives or face challenges in governance adaptation.

Table 1: Description of Impact Category

This structured approach allowed for a systematic and unbiased synthesis of the selected academic literature, ensuring that the findings presented in this review are both rigorous and representative of global academic research.

3. Theoretical Framework

Academic research typically draws upon theoretical frameworks to help explain observed outcomes. In the context of governance studies, theories such as agency theory and

resource dependence theory help predict and explain how board diversity affects corporate performance. The theories represented in the research studies include:

Agency Theory: This theory examines the relationship between principals (shareholders) and agents (managers), focusing on potential conflicts of interest and the role of the board in aligning management behavior with shareholder interests. In the context of board diversity, agency theory can be used to explore how diverse boards may improve monitoring and decision-making by bringing a wider range of perspectives and reducing the risk of "groupthink". The presence of women and other non-majority individuals on the board may enhance oversight, improve corporate governance, and reduce the potential for managerial self-interest.

Resource Dependence Theory: This theory posits that organizations rely on external resources, and the board of directors plays a critical role in securing those resources. Diverse boards may have access to a broader network of resources, including talent, capital, and information. This can lead to improved organizational performance by providing access to a more varied set of external contacts, increasing the company's legitimacy, and helping the firm better navigate complex environments.

Social Identity Theory: This framework explains how individuals categorize themselves and others into social groups, and how these categorizations affect attitudes and behaviors. Within a corporate board context, social identity theory suggests that diverse boards may lead to more creative solutions and better understanding of the broader marketplace by incorporating a wider range of perspectives and ideas.

Human Capital Theory: This theory emphasizes that the skills, knowledge, and experience of individuals are valuable assets that contribute to an organization's success. Diverse boards bring a wider range of “human capital”, leading to increased innovation, improved decision-making, and enhanced firm performance. This theory emphasizes that the combination of diverse skills and experience leads to better strategic direction and oversight, as well as better representing the employees of the organization as well as customer demographics.

Critical Mass Theory: This theory posits that the presence of a small number of underrepresented individuals (such as women or minority group members) on a board may not be sufficient to influence decision-making or organizational culture. A "critical mass" — typically three or more individuals — is needed before the perspectives of these members are heard, legitimized, and incorporated into group discussions and governance practices. In the context of board diversity, critical mass theory helps explain why token representation may have limited impact, while reaching a threshold can empower diverse directors to participate meaningfully, shift group dynamics, and enhance board

effectiveness. This theory underscores the importance of moving beyond symbolic inclusion to structural representation that enables real influence.

4. The Prevalence and Definition of Diversity

Articles that focus on board director diversity identify various dimensions of diversity. The types of diversity identified include gender, educational background, racial/ethnic, cultural, and nationality. The most prevalent identification of diversity was gender, measured in over 85% of the articles. The table below provides a summary of the different types of diversity studied in the research studies making up the database.

Region	Gender	Educational Background	Racial/Ethnic	Cultural	Nationality	Age
US	84%	31%	22%	20%	12%	2%
Europe	92%	38%	11%	3%	14%	5%
Asia	82%	32%	14%	7%	14%	7%
India/Subcontinent	96%	30%	0%	17%	26%	4%
Other Regions	71%	14%	7%	4%	32%	7%

Table 2: Prevalence of Diversity Type Studied by Region

Table 2 provides a summary of the percentage of articles studying each type of diversity across different regions. Note that percentages add to more than 100% because many articles examined multiple types of diversity.

Other Diversity Dimensions

In addition to gender, nationality, age, and racial/ethnic diversity which are straightforward in their operationalization, other types of diverse attributes were included in many of the studies as summarized above. These include:

Culture: Among the studies selected, the definition of culture includes:

- Societal culture, which refers to the broader social norms and values that influence how gender diversity is received, implemented and interpreted in different regions. The studies highlight how traditional or patriarchal cultures can shape board appointment patterns, receptiveness to diversity mandates, and behavioral expectations of women in leadership;
- Organizational or boardroom culture, which refers to internal corporate norms and dynamics, such as openness to dissent, shared values, or historical leadership patterns which affect the ability of diverse board members to contribute meaningfully. In this context, culture refers to power dynamics within the board, willingness to engage diverse perspectives, and inclusion of minority voices;
- Cross-cultural national and global contexts, which refers to studies involving multinational corporations (MNCs) or cross-border governance. In this context,

culture is framed as a management challenge, requiring adaptability across culturally distinct business environments. While culturally diverse boards can broaden strategic perspectives and improve decision-making, some studies find that having too many members from vastly different cultural backgrounds can make it harder for boards to work efficiently. In particular, research on multinational corporations (MNCs) shows that differences in language, communication styles, and decision-making norms may slow down board discussions or make it harder to reach agreement.

These findings highlight the importance of building shared understanding and strong leadership to ensure that cultural diversity contributes to—not complicates—effective governance.

Educational Background: Boards with a higher proportion of members with engineering or science degrees are associated with improved sustainability and performance. Conversely, firms with finance- or law-dominated boards tend to emphasize regulatory compliance and risk mitigation over innovation.

5. Diversity Impact on Corporate Performance

Based on the types of impacts discussed in the research studies, the prevalence of the impact is provided in Charts 1 and 2 and the summary of findings is discussed below.

Positive Direct and Indirect Impact: Gender diversity remains the most frequently studied board characteristic, with 149 out of 203 articles (73%) explicitly referencing either a positive direct or a positive indirect impact on corporate financial outcomes. Among those, approximately 57% report a direct positive impact and 16% report an indirect positive impact of gender-diverse boards on corporate governance and financial performance.

These studies consistently find that boards with higher female representation contribute to:

- Improved oversight and accountability;
- Enhanced decision-making and risk mitigation;
- Greater alignment with stakeholder interests;
- Stronger long-term performance outcomes.

Notably, many studies associate female board presence with better strategic direction, capital allocation, and risk management, particularly in complex business environments.

No Impact: A smaller set of studies (40 or 16%) reported no statistically significant relationship between gender diversity and financial performance. These findings often point to the influence of contextual factors such as organizational culture, industry sector, and national regulatory environments.

Mixed Results: Some research (3 studies or 1%) presents a more nuanced picture, highlighting the role of tokenism, critical mass, and inclusion dynamics. For example, studies in male-dominated fields—such as Architecture, Engineering, and Construction (AEC)—note that female board members may face challenges like shorter tenures and limited participation, which can undermine their influence. These structural barriers suggest that representation alone is insufficient without supportive cultural and institutional mechanisms.

Negative Results: A small subset of studies (11 articles or 5%) identified a negative relationship between gender diversity and corporate performance. These studies suggest that under certain conditions, increasing female board representation may introduce short-term inefficiencies or unintended consequences.

Commonly cited factors include:

- Misalignment between board composition and organizational strategy;
- Internal resistance to change or entrenched board dynamics;
- Symbolic appointments lacking real influence or integration;
- Disruptions in consensus-building during early stages of board diversification.

These findings often reflect early-phase adoption of diversity initiatives or implementation in environments unprepared to fully support inclusive governance practices. The studies show that companies who pair representation with structural support, role clarity, and organizational readiness generate positive outcomes.

6. Trends in Research Findings

A review of articles from 2019 to 2024 shows a consistent finding of a positive relationship between board diversity and financial performance, as summarized below:

2019: 73% of the studies found a positive relationship (17 direct, 7 indirect).

2020: 75% of the studies found a positive relationship (20 direct, 5 indirect).

2021: 74% of the studies found a positive relationship (17 direct, 6 indirect).

2022: 60% of the studies found a positive relationship (22 direct, 4 indirect).

2023: 75% of the studies found a positive relationship (19 direct, 8 indirect).

2024 (Jan-Sept): 80% of the studies found a positive relationship (21 direct, 3 indirect).

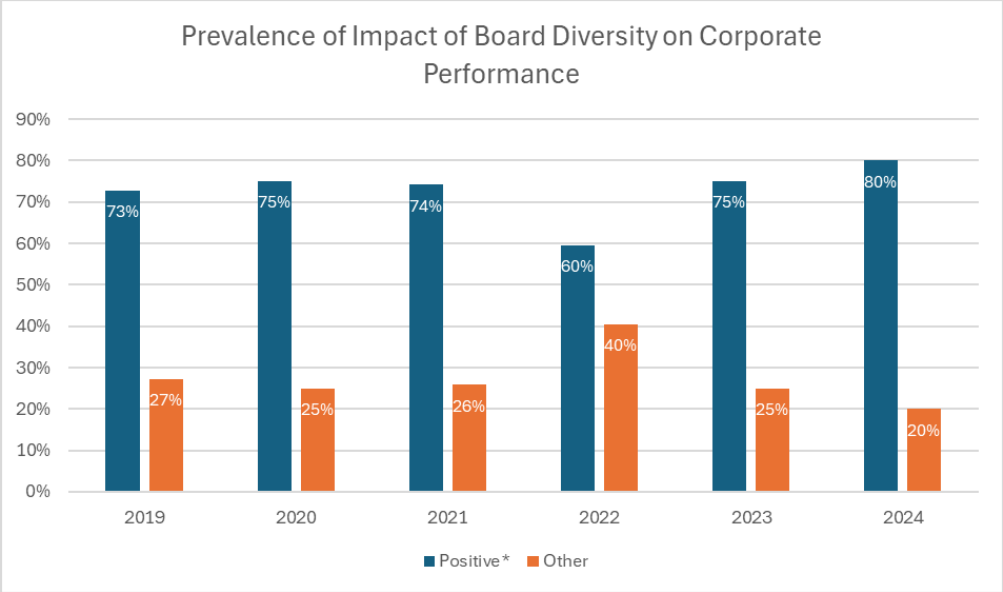

Chart 1: Prevalence of positive findings in studies over time, 2019-2024

Over the 5 years of research, these are the findings:

- **116 studies** (57%) reported a direct positive correlation between board diversity and financial outcomes.
- **33 studies** (16%) indicated an indirect positive impact through governance enhancements.
- **40 studies** (20%) found no correlation or neutral impact.
- **11 studies** (5%) reported negative effects.
- **3 studies** (2%) showed mixed results.

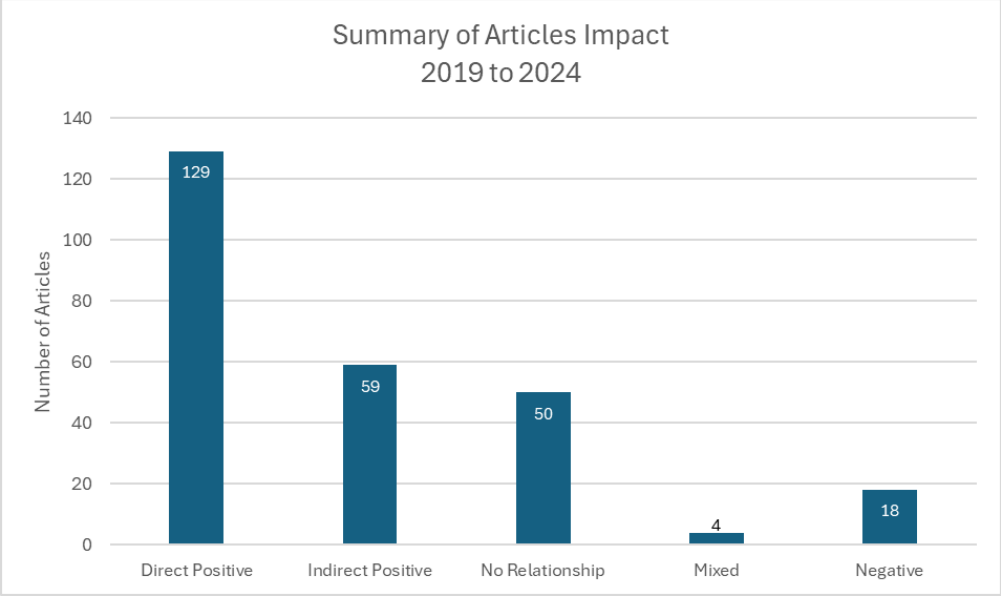

Chart 2: Summary of Article Impact, 2019-2024

7. Observations

Predominantly Positive Impact: The analysis found that 73.4% of the studies reviewed reported a positive impact of board diversity on corporate financial performance. This includes studies identifying both direct and indirect positive effects.

Consistent Positive Findings Over Time: From 2019 to 2024, the percentage of studies reporting positive findings remained relatively stable. This consistency across multiple years highlights the sustained relevance of board diversity in governance and performance research. Both the volume of research and the nature of board diversity's reported benefits remained consistent over time.

Methodological Diversity: The body of reviewed research reflects a variety of methodological approaches, including quantitative analyses, qualitative case studies, and mixed-methods research. Studies come from diverse disciplines such as accounting, finance, management, and governance, enriching the evidence base and providing a comprehensive view of how board diversity influences firm outcomes.

Regional Differences: The prevalence of positive findings varies across regions, emphasizing that the relationship between diversity and performance is influenced by national governance structures, cultural norms, and market dynamics. While board diversity is broadly associated with better corporate outcomes, some studies suggest that governance frameworks, investor expectations, and regulatory environments moderate these effects in different ways.

Context-Dependent Impact: Although the majority of research finds a positive relationship, some studies highlight that the effectiveness of board diversity depends on factors such as:

- The type of diversity examined (e.g., gender, nationality, educational background);
- The industry in which the firm operates (e.g., finance vs. manufacturing);
- The presence of inclusion mechanisms (e.g., critical mass, board culture, leadership support).

These findings discussed in the articles emphasize that board diversity is not a universal solution but a strategic advantage that requires the right governance conditions to maximize its impact.

8. Conclusion

This review of 203 peer-reviewed academic studies published between 2019 and 2024 finds a predominantly positive relationship between board diversity and corporate financial performance. Approximately 73.4% of the studies report either a direct or indirect positive impact.

While the majority of research links board diversity to improved financial and governance outcomes, the results are not uniform. A smaller proportion of studies found neutral, mixed, or negative outcomes, underscoring the importance of contextual factors in shaping diversity's effects. Industry sector, firm culture, governance structures, and regional norms all play a role in moderating the relationship between board diversity and performance.

9. References

See database for included articles, currently hosted at https://gaskination.com/ia/

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