ON BOARD COMPOSITION AND GOVERNANCE: DOES DIVERSITY IMPROVE THE FIRM'S PERFORMANCE?

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Abstract

This paper investigates the role of the board composition in the strategic choices and the company's performance. The focus is in terms of the economic benefits of diversity at the managerial level in a sample made of 114 companies listed on Borsa Italiana — Italian Stock Exchange (Ciavarella, 2017; Gordini & Rancati, 2017). The study takes into account two-time frames: pre-COVID-19 and post-COVID-19. Therefore, we study the effect of an external shock on the board composition and governance over the performance of companies. We found that COVID-19 forced companies to adopt a more pragmatic approach for the recovery period, making them more selective and focused on the operation. Our paper contributes to the literature striking out that although literature suggests a positive economic impact of diversity (Erhardt et al., 2003; Miller & Del Carmen Triana, 2009), cultural contexts have a role in limiting this advantage. The conclusion is that COVID-19 has presented an opportunity to select a more efficient board and to do in a more effective and inclusive manner, thus opening doors to better diversity and the benefits that come from this.

Our research identifies diversity as a multifaceted construct encompassing demographic and cognitive dimensions, with a specific

focus on gender, nationality, age, and tenure. Pre-COVID-19 period evidence reveals a complex landscape, with board diversity showing mixed and often context-dependent relationships with firm performance indicators. In contrast, the post-COVID-19 period illuminates a clearer narrative: firms with diverse boards consistently outperform their less heterogeneous counterparts in operational efficiency and financial performance, particularly in environments demanding rapid adaptation and innovative responses.

A noticeable finding relates to gender diversity, a cornerstone of contemporary governance discourse. Before the pandemic, our analysis agrees with prior literature suggesting that gender-balanced boards foster innovation and enhance shareholder value, particularly through improved equity attraction (Arzu & Mantovani, 2020). However, when board composition deviates significantly from normative thresholds — such as an overrepresentation of women — the market response turns negative (Nguyen et al., 2015). This paradox reflects the enduring influence of cultural perceptions and regulatory compliance, underscoring the importance of balancing diversity with functional integration (Arzu & Mantovani, 2020). Post-COVID-19, gender heterogeneity continues to exhibit positive effects on performance, though its impact is nuanced by the heightened risk aversion typically associated with female board members.

Diversity of nationality demonstrates a similarly complex trajectory. Pre-pandemic results did not show a significant advantage; on the contrary, it could highlight some disadvantages, such as reduced access to local debt markets and limited trust from domestic stakeholders, aligning with network theory perspectives (Estelyi & Nisar, 2016). Yet, in the post-COVID-19 environment, these dynamic shifts. This transition underscores the role of external shocks in amplifying the value of cross-cultural competencies, especially in markets like Italy, where domestic-oriented governance models traditionally dominate.

Age and tenure heterogeneity, often overlooked in mainstream governance studies, reveal critical insights into the interplay between experience and innovation. Pre-COVID-19, tenure diversity exhibited dual effects: while longer average tenures correlated with strategic stability and operational depth, excessive heterogeneity undermined decision-making cohesion, creating inefficiencies (Ji et al., 2021). Post-pandemic analysis suggests a recalibration of these dynamics. Firms prioritized recovery strategies leveraging the deep institutional knowledge of tenured board members, minimizing the disruptive effects of tenure heterogeneity. Similarly, age diversity emerged as a double-edged sword: while generational breadth enhanced cognitive diversity, excessive disparities hindered collaborative decision-making, particularly in crisis contexts.

From a methodological perspective, this study uses statistical models to quantify board diversity and employs measures such as Blau indices, dummy variables (Ciavarella, 2017), and standard deviations to capture the nuances of heterogeneity. Our approach integrates both qualitative and quantitative variables, ensuring a comprehensive assessment of diversity's multifaceted impact. Moreover, we control for firm-specific factors — such as size, sector, and age — to isolate the effects of board composition from broader corporate characteristics (Ciavarella, 2017). This methodological rigor strengthens the validity of our findings, providing actionable insights for practitioners and policymakers.

Our analysis also delves into the broader implications of diversity for innovation and capital structure policies. Pre-pandemic, diverse boards influenced debt capital intensity, with gender and nationality heterogeneity playing pivotal roles. While diverse boards face initial challenges in accessing traditional credit markets, their emphasis on equity financing and conservative debt strategies aligns with shareholder interests, particularly in high-uncertainty scenarios.

The role of external shocks, such as COVID-19, emerges as a central theme in our analysis. The pandemic not only tested the resilience of corporate governance structures but also highlighted the adaptive potential of diverse boards (Miller & Del Carmen Triana, 2009). Firms with heterogeneous governance demonstrated superior agility in aligning strategic priorities with emergent challenges, reinforcing the contingency theory assertion that context shapes the efficacy of governance practices. This finding holds profound implications for policymakers, particularly in regions where regulatory frameworks oblige board diversity. While such regulations aim to promote inclusivity, our study underscores the need for context-sensitive implementation strategies that align diversity mandates with cultural and market realities.

Furthermore, our results contribute to the ongoing debate on the economic versus social utility of diversity. While ethical arguments for inclusivity are compelling, our findings emphasize the tangible economic/financial benefits of board heterogeneity, particularly in environments characterized by volatility and complexity. For instance, gender-diverse boards not only enhance social representation but also drive measurable performance gains through improved risk management and decision-making quality. Similarly, nationality and age diversity extend firms' strategic horizons, fostering innovation and resilience in turbulent times.

The cultural context of Italy adds another layer of complexity to our findings. Despite regulatory initiatives, such as gender quotas, the practical implementation of diversity policies often could result in compliance-driven appointments rather than merit-based selection. This phenomenon reduces the potential performance benefits of diversity, highlighting the need for governance frameworks that prioritize substantive over symbolic representation. Additionally, the Italian market's traditional orientation towards homogeneity underscores the importance of educating stakeholders on the long-term value of diverse governance structures.

In conclusion, this study sheds light on the complex relationship between board diversity, corporate governance, and firm performance, particularly in the face of external shocks. By bridging theoretical perspectives with empirical evidence, we provide a nuanced understanding of how diversity could influence strategic and financial outcomes. Our findings advocate for a balanced approach to governance, emphasizing the importance of integrating demographic and cognitive diversity with functional alignment and cultural sensitivity.

Looking ahead, expanding the scope of analysis to include qualitative dimensions — such as board dynamics and decision-making processes — could enrich our understanding of diversity's impact.

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