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The Effect of Board Diversity on Firm Performance: An Exploration through Human Capital Theory

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Abstract: A crucial element of corporate governance that could affect organizational results and strategic decision-making is board diversity. The diversity of human capital has been recognized as important in ensuring corporate governance effectiveness. Finding opportunities, coming up with ideas, and overcoming blind spots are all made easier for a company and CEO when a diverse group of directors contributes a range of skills, knowledge, and information. The Human Capital Theory explains the value of individual attributes, where individuals from different backgrounds possess unique knowledge and abilities that contribute to productivity. Despite the growing interest in this topic, empirical findings remain inconsistent, calling for more conceptual exploration. The purpose of writing this paper is to explore the effect of board diversity on firm performance. This conceptual paper will explore the relationship by utilizing Human Capital Theory. Specifically, this paper examines how diverse boards could contribute to firm performance and the quality of governance. This paper also highlights the different outcomes in existing literature on these issues and proposes a direction for future research. Through the perspective of the Human Capital Theory, this paper identifies diversity as a strategic asset, where a variety of professional experiences, educational backgrounds, and demographic profiles support innovative capacity, board-level decision-making, and the caliber of oversight.

Keywords: *Board Diversity, Firm Performance, Human Capital Theory*

1. Introduction

The board of directors' composition emerged as a crucial issue in the discussion of corporate governance in the current globalized world, particularly in the competitive business climate. Board diversity has been associated with improved decision-making and business effectiveness. Numerous studies have indicated that a more diverse board enhances decision-making and business performance, as different companies have varied board structures, which have diverse effects on organizational decisions (Onyekwere & Babangida, 2021). Regardless of structure, a business that practices sound corporate governance can better assist the management in tracking and managing the company's assets.

The important role of the board of directors is to maintain sound corporate governance as they supervise the company's management and ensure that financial reporting is accurate. Therefore, for directors to play significant roles in each of the several components of a firm, a diverse group is required. The company and CEO can discover opportunities, generate ideas, and address blind spots when a varied set of directors contributes a range of abilities, knowledge, and experience to the table. A diverse board can also provide new perspectives and insights, encourage innovation and creativity, and promote idea sharing (Wang, 2022). Not only that, but the diversity of the board also reflects equality (Puntaier et al., 2022), which can influence the functionality of the board.

However, this diversity can still lead to issues in coordination and communication that cause disputes, leading to delays in decision-making, particularly in situations where there is uncertainty. Research on the relationship between board diversity and company performance has also produced conflicting results where some studies have found a positive correlation, while others have found none at all or even a negative one (Dong et al., 2023). Despite its growing prominence, empirical findings remain inconclusive, calling for more theoretical exploration.

This conceptual paper uses the Human Capital Theory as a framework to investigate the impact of board diversity on business performance and integrates recent studies from academic journals, online databases, and government and organizational reports.

2. Literature Review

Human Capital Theory

Considering the significant challenges of achieving economic growth through conventional elements of production, economist Becker empirically developed the Human Capital Theory in the 1960s (Sarto et al., 2019), which posits that individuals possess unique knowledge and abilities that contribute to productivity. (Becker, 1964). This concept explains the value of individual attributes. Given that the Human Capital Theory is widely accepted to enhance organizational performance, a key idea in value creation is that an organization depends on the skills, knowledge, and abilities of its employees (Wuttaphan, 2017). In relation to corporate governance, this theory suggests that board members contribute diverse human capital that has a direct impact on firm outcomes and strategic decision-making.

According to Saha & Maji (2022)Education is the most widely used indicator of human capital since it considers not only the knowledge that a person has gained but also their intelligence and proficiency in carrying out their tasks. In the governance setting, directors' educational backgrounds, industry expertise, and tenure are critical components of board effectiveness. (T. Wang, 2022). Therefore, the diversity of the board is not just a symbol; instead, it has real implications on the direction and performance of a business.

Board Diversity

To cultivate a range of demographic traits and characteristics within the boardroom, the board should be diverse. According to ACCA Global, this is primarily done to utilize the advantages that come with diversifying the board, which include enhanced investor relations, enhanced business reputation, better decision-making, and greater utilization of the talent pool. Board diversity is a concept that includes a variety of traits like demographics (e.g., gender, age, nationality), human capital (e.g., education, tenure, professional expertise), and social and cultural diversity (e.g., affiliation, external networks). One of the most important criteria in hiring board members is educational qualification as the board needs to perform highly-skilled tasks, necessitating the need to possess a particular degree of cognitive capacity (EmadEldeen et al., 2021).

There are conflicting effects of board diversity on company performance (Ooi et al., 2017), which come with their own set of advantages and disadvantages (Dong et al., 2023). According to the findings of Ali et al. (2023), a diverse board can improve group performance, increase decision-making, and lower business risk. It also successfully controls risk management operations. However, return on equity (ROE) and return on assets (ROA) are positively impacted by gender diversity on the board, according to Onyekwere & Babangida (2021). Meanwhile, a contrary finding reported that women on the board positively influence company performance whereas female executives negatively influence ROA, according to Simionescu et al. (2021). The result of the study by Lim et al. (2019) showed that greater gender diversity reduces firm performance, which may be due to tokenism and gender stereotypes.

Diversity can be categorized into demographics, human capital, social, and cultural dimensions (Li et al., 2025). These details of board composition affect governance outcomes in certain sectors, particularly in how risks are assessed, how the management is monitored, and how stakeholders are responded to by the board, which all play a role in increasing firm resilience and ethical conduct. Recent literature has also linked board diversity with improved stakeholder engagement and responsiveness to environmental, social, and governance (ESG) concerns (Kabir et al., 2023).

Firm Performance

In corporate governance research, firm performance, which includes both financial success and strategic effectiveness, is a key variable. According to the literature, firm performance encompasses both monetary and non-monetary metrics, such as strategic and operational success. Tobin's Q, ROE, ROA, and innovation output are often employed metrics to assess the performance of businesses (Dong et al., 2023; Kabir et al., 2023; Onyekwere & Babangida, 2021; Wang et al., 2024).

Performance and diversity of the board in Malaysian firms do not significantly correlate, according to Firew (2024), while Li et al. (2025) found that in multinational firms, diversity in education and nationality enhances risk management and innovation. Diversity by itself might not result in appreciable performance gains in the

absence of inclusive practices or active engagement, according to Firew (2024), who found no significant relationship. In the meantime, Li et al.'s (2025) study was in accordance with the Human Capital Theory, which highlights the strategic value of directors' unique backgrounds, abilities, and knowledge.

Based on the preceding discussion, there is a need for a more nuanced theoretical interpretation, as some studies indicate inconclusive or context-dependent findings, while others show positive relationships (K. Wang et al., 2024). Contradictory results point to the necessity of investigating how different types of human capital translate into decision-making value, going beyond diversity at the surface level.

3. Discussion

Even though the effect of board diversity on business performance has been thoroughly studied, its effects are frequently nuanced and situation-specific. According to the Human Capital Theory, board members' tenure, age, education, and experience add unique value. Several topics are covered in detail in this discussion, including the relationship between performance and board diversity, the dimensions of human capital, the integration of pertinent theories, the gaps in the literature, and pragmatic methods for reforming policies and corporate governance.

Board Diversity and Firm Performance

Positive Effects

An increasing amount of empirical evidence indicates that board diversity can enhance company performance by promoting wider viewpoints, lowering groupthink, and enhancing managerial oversight. For example, boards with gender diversity tend to be more attentive to stakeholder concerns and ESG priorities, which improves ethical governance and transparency (Kabir et al., 2023). Companies with diversified memberships' ROE and ROA have also shown improvement, particularly when inclusive board cultures are in place. In addition, nationality and educational diversity appear beneficial, driving innovation and adaptability in multinational corporations (Li et al., 2025). The following shows previous studies that found a favorable relationship between firm success and board diversity.

Author	Title	Research Objective	Findings
(Dong et al., 2023)	Board Diversity and Firm Performance: Impact of ESG Activities in China	to investigate the connection between firm success in relation to ESG activities and board diversity.	There is a strong and positive correlation between the company's success and the board's diversity, indicating that diverse boards are advantageous to companies. ESG initiatives are important, as is a favorable impact on the performance of businesses.
(Onyekwere & Babangida, 2021)	Board Diversity and Firm Performance: Panel Data Evidence from 12 Selected Commercial Banks in Nigeria	To investigate new data that will advance understanding of whether board diversity affects the financial performance of Nigerian listed banks.	Evaluating the study's findings, the ROA and ROE of banking institutions are significantly improved by a gender-diverse board.
(Puntaier et al., 2022)	Board Diversity as a Strategic Choice and Why It Should Matter to SMEs	To comprehend, from the standpoint of the top echelons, how the success of small and medium-sized firms (SMEs) is influenced by the diversity of nationalities and genders on their management boards.	Diversity in nationality and gender both improve company performance and are examples of upper-level traits that alter the mental and emotional dynamics of boards. While diverse boards help CEOs see things from a wider angle, larger boards may not necessarily result in improved performance.

(Saha & Maji, 2022)	Board Human Capital Diversity and Firm Performance: Evidence from Top Listed Indian Firms	to investigate the effects of board diversity in terms of gender and educational background on Indian companies' financial performance after adjusting for corporate governance and firm-specific factors.	Business financial performance is much enhanced when the gender and educational backgrounds of a board are diversified. There is a highly significant positive interaction effect between the gender and educational backgrounds of a company's board members and its financial performance.
(Ali et al., 2023)	Does Board Diversity Mitigate Firm Risk-Taking? Empirical Evidence from China	To explore the connection between board diversity and business risk as determined by cognitive-oriented factors (education, tenure, and expertise) and demographic factors (age, gender, and nationality).	Results indicate that a board with diversity improves the performance of the company and efficiently oversees risk management initiatives. Using the generalized method of moments, the results were found to be robust. A more diverse board can lower firm risk, enhance group performance, and facilitate better decision-making.

Mixed Evidence

Contrary to the above, the evidence from several studies shows that a positive relationship between board diversity and firm performance is not universally conclusive. In some cases, board diversity has shown neutral or negative correlations with firm performance, particularly when diversity is not matched with inclusion. For example, Firew (2024), in the Malaysian context, researchers found that gender diversity and firm efficiency have no significant effect and even noted negative effects in high sectors. K. Wang et al. (2024) Reported similar findings in Japan, attributing them to social norms and organizational culture that limit the influence of diverse members. These findings emphasize that diversity must be embedded within a supportive governance culture to realize its full potential. The following are studies that presented mixed evidence on the relationship between board diversity and firm performance:

Author	Title	Research Objective	Findings
(Kabir et al., 2023)	Board Gender Diversity and Firm Performance: New Evidence from Cultural Diversity in the Boardroom	In the context of European nations, this research contributes to the literature. By demonstrating that, despite numerous cultural constraints, a company's financial success can be enhanced by adding female board members.	Gender diversity's impact on boards on company performance is undermined by masculinity and high-power distance. ROE and ROA are statistically adversely affected by the gender-diverse board, although this effect is lessened by the strength of the distance index.
(T. Wang, 2022)	Board Human Capital Diversity and Corporate Innovation: A Longitudinal Study	To investigate how diversity affects board human capital on corporate innovation, and to examine the relationship between firm innovation and board diversity, as well as the moderating role of internal social capital.	Corporate innovation and board industry diversity have a curvilinear relationship. One important component of internal social capital is experience serving as a board co-tenure, which can improve corporate creativity and reduce the risk associated with board

			industry diversity.
(Simionescu et al., 2021)	Does Board Gender Diversity Affect Firm Performance? Empirical Evidence from Standard & Poor's 500 Information Technology Sector	to investigate how a company's financial and market success is impacted by gender diversity on boards.	Having a corporate board with women improves both business performance measures, aside from the ROA's proportion of female CEOs. The quantity and proportion of women on the board have a beneficial effect on the price-to-earnings ratio, according to the econometric results. Panel data is used to estimate the fixed effects and random effects. Nevertheless, ROA and board gender diversity did not statistically significantly correlate.
(EmadEldeen et al., 2021)	The Effect of Board Diversity on Firm Performance: An Empirical Study on the UK	To explore the effect of board composition, utilizing cross-sectional data from non-financial companies listed on the London Stock Exchange (FTSE 350), with a focus on the impact of board diversity on company performance, with a total of 3961 observations from 2000 to 2016.	Age diversity negatively affects business success; consequently, business performance is enhanced and improved by having young board members. Additionally, diversity in education has a detrimental impact on the performance of the business. On the other hand, gender diversity improves business performance, so if the board of directors has more female members, business performance will rise. Ultimately, diversity in nationality improves business performance.
(Ooi et al., 2017)	The Influence of Board Diversity in Human Capital and Social Capital in Crisis	To determine whether social and human capital diversity on boards can effectively mitigate the negative impact of crises on corporate performance.	Diversity on boards in terms of human and social capital does not substantially enhance business performance; however, it considerably lessens the detrimental consequences of crises that impact the performance of the company. The effects of having a varied board differ from those of abrupt and gradual crises. Board diversity has nonlinear impacts when handling unexpected emergencies. The only way to effectively handle a slow catastrophe is to have a diverse board with strong external connections.

(Lim et al., 2019)	Women Directors and Performance: Evidence from Malaysia	To investigate the relationship between Malaysian listed companies' financial results and the proportion of female board members.	Higher levels of gender diversity result in reduced company performance, possibly due to gender stereotypes and tokenism.

Human Capital Dimensions of Diversity

The Human Capital Theory emphasizes that individuals possess unique attributes, such as education, skills, and experience. Each of these unique attributes plays a crucial role in influencing productivity. The idea that board diversity enhances firm performance when diverse human capital is strategically utilized is supported by this theory.

Educational Background

One of the characteristics that significantly influences decisions made at the board level is educational background. Directors with a variety of academic backgrounds offer a range of strategic thinking and analytical techniques. Boards with interdisciplinary education are better at encouraging innovation, especially in technology-driven industries, according to Wang (2022). However, EmadEldeen et al. (2021) Warned that if not controlled, too much educational diversity can weaken cohesiveness.

Professional Experience

Through industry-specific knowledge and external networks, professional experience enhances a company's performance. Diverse directors improve strategic oversight by contributing risk perspectives and insights into the border market. Li et al. (2025) showed that, when in line with company strategy, career diversity among board members has a positive impact on governance outcomes in multinational corporations.

Age and Tenure

The benefits of age and tenure diversity are complementary. While younger members contribute new perspectives and digital fluency, senior directors frequently have institutional memory and stability. A dynamic governance environment is created by tenure diversity, which guarantees a blend of fresh perspectives and seasoned knowledge. Although balanced age diversity is typically linked to better board performance, (Gardiner, 2024) noted that both the financial and non-financial performance of a firm can yield different outcomes when it comes to generational differences.

Theoretical Integration and Gaps

Related theories

Although Human Capital Theory offers a solid basis for comprehending the benefits of board diversity, incorporating additional theories aids in the explanation of inconsistent results. According to the Agency Theory, companies with diverse boards are more capable of monitoring executive behavior and reducing agency costs because different perspectives deter managerial opportunism (Adams & Ferreira, 2009). Diversity strengthens adaptability by increasing a firm's access to strategic resources and external networks, according to Resource Dependency Theory (Hillman et al., 2000). However, if boards lack inclusive cultures, diversity may result in subgroup formation and cognitive conflict, according to the Social Identity Theory (Tajfel & Turner, 1986).

Research Gaps

Significant research gaps are noted in existing literature. A large portion of the published literature is based on cross-sectional data, which restricts the understanding of causality. Intersectional analyses are seldom examined, such as the joint influence of gender and professional experience on governance. Diversity in social capital and culture is also understudied despite being essential to comprehending board dynamics. Because of their concentrated ownership and diverse regulations, emerging markets like Malaysia pose particular governance challenges, necessitating region-specific research.

Implications for Practice and Policy

Corporate strategy

Companies must match recruitment and retention tactics with overarching business goals to optimize the benefits of having a diverse board. This entails creating inclusive governance cultures, encouraging underrepresented groups to pursue leadership roles, and assessing board performance using both demographic and cognitive contributions. Diversity ought to be seen as a source of strategic advantage instead of a list of requirements for compliance.

Policy Development

The role of policymakers is also crucial. Although they allow for contextual flexibility, soft regulatory frameworks such as Malaysia's Corporate Governance Code (MCCG) can encourage businesses to implement voluntary diversity practices. Requirements for board composition disclosure can improve stakeholder trust and transparency. Supporting programs that help diverse candidates—especially women and minorities—develop their leadership abilities will guarantee that businesses can access skilled talent without resorting to restrictive definitions of qualification.

4. Conclusion and Recommendations

Diversity on the board has become a dynamic aspect of corporate governance and is directly tied to the performance of the business. From the perspective of Human Capital Theory, this paper identifies diversity as a strategic asset, where a variety of professional backgrounds, educational backgrounds, and demographic profiles support innovative capacity, board-level decision-making, and the caliber of oversight. The empirical data reviewed revealed a complex and sometimes contradictory relationship. Some studies showed neutral or negative results, particularly in settings without inclusive governance cultures, while others emphasized the advantages of gender, nationality, and diversity in human capital on performance. Because of this, the relationship between performance and diversity is not always linear; rather, it depends on contextual factors such as organizational procedures and cultural beliefs.

Companies must align the composition of their boards with their strategic goals and create inclusive cultures that allow a variety of directors to contribute significantly if they want to move beyond superficial diversity. Those who sit at the table and their level of decision-making power determine effective governance. Policymakers and regulators complement each other by promoting transparency, giving underrepresented groups leadership opportunities, and presenting diversity as a business need rather than a compliance exercise. To fully reap the benefits of board diversity, strategic action is required in the academic, corporate, and policy domains. Beyond demographic representation, companies should prioritize inclusive board environments that create cultures where different viewpoints can influence how decisions are made.

In the meantime, policymakers are essential in guiding this change in the interim. By adding specific requirements for board diversity to soft law frameworks like the MCCG, accountability can be increased while preserving flexibility. Compulsory disclosures regarding the composition of the board encourage transparency and encourage companies to set measurable diversity targets. Additionally, financing governance education that develops pipelines for minority leadership will support sustainable diversification.

Lastly, researchers are encouraged to continue the discussion by conducting longitudinal studies that show how diversity evolves and affects performance over time. Examining intersectional dimensions, such as the combined effects of gender, age, and professional experience, can reveal subtle patterns in board behavior. Therefore, research needs to be increased to develop inclusive, globally relevant governance models.

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