

ABSTRACT

Shifting patterns of employment and corporate succession creates growing interest in understanding the impact of diversity within firms. Diversity is attributed to providing different insights to discussions and creating a more focused decision-making process. With policies stipulating companies across the globe to adhere to diversity quotas and anti-discriminatory practices corporate boards have felt pressure to be more inclusive of various types of diversity.

The objectives of the study are to identify the impact of the demographic and functional diversity on firm performance and to explore how demographic and functional diversity can influence the performance of the company. Drawing on Resource Dependency Theory, Human Capital Theory and Upper Echelon Theory the study achieves these objectives the study follows a mixed method design. The quantitative study samples 77 companies for the period 2015 to 2016 in the Colombo Stock Exchange 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 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. Results for functional diversity indicate mixed where the quantitative analysis revealed a negative impact on firm performance however the qualitative study revealed 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 create its influence on firm performance. The research relevance of the study expands to board directors, top management, policy makers and investors who are able to influence the composition of boards and ensure diversity among the board is valued within the company.

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